

The Real Reasons Why Germany Is Demanding that the U.S. Return Its Gold

By [Washington's Blog](#)

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The German's are demanding that the U.S. return all of the 374 tons of gold held by the Bank of France, and 300 tons of the 1500 tons of bullion held by the New York Federal Reserve.

Some say that Germany is only demanding repatriation of its gold due to internal political pressures, and that no other countries will do so.

But Pimco co-CEO El Erian [says](#):

In the first instance, it could translate into pressures on other countries to also repatriate part of their gold holdings. After all, if you can safely store your gold at home — a big if for some countries — no government would wish to be seen as one of the last to outsource all of this activity to foreign central banks.

As we [noted](#) last November:

Romania has [demanded](#) for many years that Russia return its gold.

Last year, Venezuela [demanded the return](#) of 90 tons of gold from the Bank of England.

As Zero Hedge [notes](#) (quoting Bloomberg):

Ecuador's government wants the nation's banks to repatriate about one third of their foreign holdings to support national growth, the head of the country's tax agency said.

Carlos Carrasco, director of the tax agency known as the SRI, said today that Ecuador's [lenders](#) could repatriate about \$1.7 billion and still fulfill obligations to international clients. Carrasco spoke at a congressional hearing in Quito on a government proposal to raise taxes on banks to finance cash subsidies to the South American nation's poor.

Four members of the Swiss Parliament [want Switzerland to reclaim its gold](#).

Some people in the Netherlands [want their gold back](#) as well.

(Forbes [notes](#) that Iran and Libya have recently repatriated their gold as well).

The Telegraph's lead economics writer – Ambrose Evans Pritchard – argues that the German repatriation demand shows that we're switching to a [de facto gold standard](#):

Central banks around the world bought more bullion last year in terms of tonnage than at any time in almost half a century.

They added a net 536 tonnes in 2012 as they diversified fresh reserves away from the four fiat suspects: dollar, euro, sterling, and yen.

The Washington Accord, where Britain, Spain, Holland, South Africa, Switzerland, and others sold a chunk of their gold each year, already seems another era – the Gordon Brown era, you might call it.

That was the illusionary period when investors thought the euro would take its place as the twin pillar of a new G2 condominium alongside the dollar. That hope has faded. Central bank holdings of euro bonds have fallen back to 26pc, where they were almost a decade ago.

Neither the euro nor the dollar can inspire full confidence, although for different reasons. EMU is a dysfunctional construct, covering two incompatible economies, prone to lurching from crisis to crisis, without a unified treasury to back it up. The dollar stands on a pyramid of debt. We all know that this debt will be inflated away over time – for better or worse. The only real disagreement is over the speed.

My guess is that any new Gold Standard will be sui generis, and better for it. Let gold take its place as a third reserve currency, one that cannot be devalued, and one that holds the others to account, but not so dominant that it hitches our collective destinies to the inflationary ups (yes, gold was highly inflationary after the Conquista) and the deflationary downs of global mine supply.

A third reserve currency is just what America needs. As Prof Micheal Pettis from Beijing University has argued, holding the world's reserve currency is an "exorbitant burden" that the US could do without.

The Triffin Dilemma – advanced by the Belgian economist Robert Triffin in the 1960s – suggests that the holder of the paramount currency faces an inherent contradiction. It must run a structural trade deficit over time to keep the system afloat, but this will undermine its own economy. The system self-destructs.

A partial Gold Standard – created by the global market, and beholden to nobody – is the best of all worlds. It offers a store of value (though no yield). It acts a balancing force. It is not dominant enough to smother the system.

Let us have three world currencies, a tripod with a golden leg. It might even be stable.

How Much Gold Is There?

It's not confidence-inspiring that CNBC's senior editor John Carney argues that [it doesn't](#)

[matter](#) whether or not the U.S. has the physical gold it claims to hold.

In fact, many allege that [the gold is gone](#):

Cheviot Asset Management's Ned Naylor-Leyland says that the Fed and Bank of England will [never return gold to its foreign owners](#).

Jim Willie [says](#) that the gold is gone.

Others allege that the gold has not been sold outright, but has been leased or encumbered, so that the U.S. does not own it outright.

\$10 billion dollar fund manager Eric Sprott writes - in an article entitled "[Do Western Central Banks Have Any Gold Left???](#)":

If the Western central banks are indeed leasing out their physical reserves, they would not actually have to disclose the specific amounts of gold that leave their respective vaults. According to a document on the European Central Bank's (ECB) website regarding the statistical treatment of the Eurosystem's International Reserves, current reporting guidelines do not require central banks to differentiate between gold owned outright versus gold lent out or swapped with another party. The document states that, "**reversible transactions in gold do not have any effect on the level of monetary gold regardless of the type of transaction** (i.e. gold swaps, repos, deposits [or loans](#)), in line with the recommendations contained in the IMF guidelines."⁶ (Emphasis theirs). Under current reporting guidelines, therefore, central banks are permitted to continue carrying the entry of physical gold on their balance sheet even if they've swapped it or lent it out entirely. You can see this in the way Western central banks refer to their gold reserves.

Indeed, it is now well-documented that [the Fed has leased out a large chunk of its gold reserves](#), and that big banks [borrow gold from central banks and then to multiple parties](#).

As such, it might not entirely surprising that the Fed [needs 7 years to give Germany back its 300 tons of gold ... even though the Fed claims to hold 6,720 tons at the New York Federal Reserve Bank alone](#):

Even Pimco co-CEO Bill Gross [says](#):

When the Fed now writes \$85 billion of checks to buy Treasuries and mortgages every month, they really have nothing in the "bank" to back them. **Supposedly they own a few billion dollars of "gold certificates" that represent a fairy-tale claim on Ft. Knox's secret stash, but there's essentially nothing there but trust.** When a primary dealer such as J.P. Morgan or Bank of America sells its Treasuries to the Fed, it gets a "credit" in its account with the Fed, known as "reserves." It can spend those reserves for something else, but then another bank gets a credit for its reserves and so on and so on. The Fed has told its member banks "Trust me, we will always honor your reserves," and so the banks do, and corporations and ordinary citizens trust the banks, and "the beat goes on," as Sonny and Cher sang. **\$54 trillion of credit in the U.S. financial system based upon trusting a central bank with nothing in the vault to back it up. Amazing!**

And given that gold-plated tungsten has turned up all over the world, and that a top German gold expert found fake gold bars imprinted with official U.S. markings, Germans may have lost confidence in the trustworthiness of the Fed. See [this](#), [this](#), [this](#) and [this](#).

This may especially be true since the Fed [refused to allow Germans to inspect their own gold](#) stored at the Fed.

Currency War?

The gold repatriation is – without doubt- related to *currency*.

As Forbes [notes](#):

Officials at the Bundesbank ... acknowledged the move is “preemptive” in case a “currency crisis” hits the European Monetary Union.

“No, we have no intention to sell gold,” a Bundesbank spokesman said on the phone Wednesday, “[the relocation] is in case of a currency crisis.”

[Reggie Middleton](#) thinks that Germany’s demand for its gold is part of a currency war.

Jim Rickards has previously [said](#) that the Fed had plans to grab Germany gold:

Jim Rickards has outlined possible plans by the Federal Reserve to commandeer Germany’s and all foreign depositors of sovereign gold at the New York Federal Reserve in the event of a dollar and monetary crisis leading to intensified “currency wars” and the ‘nuclear option’ of a drastic upward revision of the price of gold and a return to a quasi gold standard is contemplated by embattled central banks to prevent debt deflation.

Is that one reason that Germany is demanding its gold back now?

China is quietly becoming a [gold superpower](#), and China has long been rumored to be [converting the Yuan to a gold-backed currency](#).

The Telegraph’s James Delingpole [points out](#):

Back in the mid-1920s, the head of the German Central Bank, Herr Hjalmar Schacht, went to New York to see Germany’s gold. However the NY Fed officials were unable to find the palette of Germany’s gold bullion. The Chairman of the Federal Reserve, Benjamin Strong was mortified, but to put him at ease Herr Schacht turned to him and said ‘Never mind, I believe you when you say the gold is there. Even if it weren’t you are good for its replacement.’ (H/T [The Real Asset Company](#))

But that was then and this is now. In the eyes of the Germans – and who can blame them? – America has lost its mojo to such a degree that it can no longer be trusted honour its debts, even in the unlikely event that it were financially capable of doing so. Which is why, following in the footsteps of Venezuela’s

Hugo Chavez (who may be an idiot but is definitely no fool), Germany is repatriating its gold from the US federal reserve. It will now be stored in Frankfurt.

[Things] may look calm on the surface, but this latest move by the Bundesbank gives us a pretty good indication that beneath the surface that serene-seeming swan is paddling for dear life.

If you want a full analysis I recommend [this excellent summary by Jan Skoyles](#). The scary part is this bit:

Every few months there is a discussion regarding what China are planning on doing with the gold they both mine and import every year, with many believing they are hoarding the metal as an insurance against the billions of US Treasury bonds, notes and bills they hold. Many believe they will issue some kind of gold-backed currency in the short-term and dump its one trillion dollars' worth of US Treasury securities. Whilst, at the moment the US seem to take their monopoly currency for granted, should the Chinese or anyone else behave in such a manner, the US will need to respond - most likely with gold, which on its own it does not have enough of.

Anyone who thinks this isn't going to happen eventually should read Peter Schiff's parable [How An Economy Grows And Why It Crashes](#). If something can't go on forever, it won't.

In other words, Rickards and Skoyles appear to argue that Germany may be repatriating gold in the first round of musical chairs in which China is preparing to roll out a gold-backed Yuan. Under this theory, the rest of the world's currencies will sink unless their nations' can scramble to get their hands on enough gold to lend credibility to their paper.

Postscript: Michael Rivero [thinks](#) that the war in Mali is connected:

Mali is one of the world's largest gold producers. Together with neighboring Ghana they account for 7-8% of world gold output. That makes them a rich prize for nations desperate for real physical gold. So, even as Germany started demanding their gold back from the Bank of France and the New York Federal Reserve, France (aided by the US) decided to invade Mali to fight "Islamists" working for "Al Qaeda." Of course, "Islamists" has become the catch-all label for people that need to be killed to get them out of the way of the path to riches, and the people being bombed by France (aided by the US) are not "Al Qaeda" but Tawariqs, who have been fighting for their independence for 150 years, long before the CIA created "Al Qaeda". Left to themselves, the Tawariqs could sell gold to whoever they want for whatever they want, and right now China can outbid the US and France.

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