

European banks use their gold reserves to raise cash

By Jack Farchy in London

European commercial banks have begun using their holdings of gold to raise cash with the Bank for International Settlements, in a further sign of strains in the money markets on which many rely for funding.

The BIS, the so-called “central banks’ central bank”, took 346 tonnes of gold in exchange for foreign currency in “swap operations” in the financial year to March 31, according to a note in its latest annual report.

In a gold swap, one counterparty, in this case a bank, sells its gold to the other, in this case the BIS, with an agreement to buy it back at a later date.

In the past the BIS has occasionally engaged in gold swaps.

There has been no mention, though, of any such operation in recent years.

The gold swaps detailed in the annual report began in December last year, according to monthly data from the International Monetary Fund, and have surged since January, when the Greek debt crisis erupted.

The amount raised in the operations, just over \$13bn at current prices, is small compared with the wholesale money markets. But the fact that banks are using their gold holdings to raise capital is a further indication of the stress in the sector.

Euribor, the rate at which eurozone banks lend to each other, has risen for 27 successive days, while markets are nervous about the impending release of bank stress tests in Europe, scheduled to be published at the end of the month.

The BIS annual report says the gold received in the swaps was held “at central banks”.

Talk of the swaps caused a stir in the gold market, with some traders citing it as a reason for gold’s fall to a five-week low below \$1,200 a troy ounce.