# Swiss referendum could effectively re-launch the ‘gold standard’

Last week the price of gold dropped 0.5% at a price of USD$ 1,230/oz., after experiencing a bit of a rally the previous week that pushed it from an annual low of USD$ 1,183/oz. to USD$ 1,255 an ounce, reaching the highest level in over a month. It is likely that gold’s rebound was prompted by continued demand in Asia and to the slowdown in the US Dollar’s bullish ride. The risk of another drop remains, given the high market volatility worldwide; however, there is also the chance for a sustained and bullish correction, which could push the value of gold to new heights. This is because Swiss voters will decide in a referendum whether or not the Swiss National Bank (SNB) will be prohibited to sell gold, which would end up forcing to maintain at least 20% of its reserves is in gold. The three referendum questions that Swiss citizen will have to address are:

1. Should the Swiss National Bank increase its gold reserves to 20%

2. Should the central bank should stop selling its precious metals

3. Should all the gold currently stored overseas should be repatriated to the country.

The chances of the ‘yes’ vote winning are rather bullish, even though polls show that many are still undecided. A poll organized by GFS Bern showed that 44% would vote ‘yes’, 39% would vote “no” and 17% remain undecided. Swiss citizens, while not enflamed by passion over the issue, appear to favor the increase in gold reserves. Another poll conducted by the Swiss newspaper ‘20 Minutes’ suggests that 45% are in favor of restoring the gold standard while only 28% of respondents oppose it. A 'yes' victory would force the Swiss National Bank to purchase 1,500 tons of gold ingots, almost certainly causing a boom in gold prices in international markets. It is still too early to determine the popularity of the pro-gold initiative among the Swiss population. The conservative Swiss People's Party launched the idea in April 2013 after collecting more than 100,000 signatures to force the referendum; the campaign actually got underway last week.

Although it is still too early to assess the general feeling of the Swiss people, many have had concerns about the SNB deciding to weaken the Swiss Franc (CHF) to stimulate growth. Since 2011, the SNB pegged the CHF to the Euro at a threshold of 1.20 Francs to 1 euro. The Swiss Franc has a long tradition of being associated with gold. Switzerland had the largest gold reserves per capita in the world until about 10 years ago and many of its citizens continue to consider gold as the basis of a strong currency (Liechtenstein uses the Swiss franc as its currency). Many economists believe that if the 'yes' voters prevail, the price of gold itself will soar while the Euro currency will suffer. The referendum will carry significant implications for the gold price and for the capital markets in general. Indeed, the referendum represents a not so veiled attempt to restore or to resume some version of the gold standard. The Swiss appear to mistrust 'paper' currency wanting it to be backed by gold.  Economists, for that matter, have not presented adequate evidence to prove that a weak currency leads to economic growth in the long term. A weak currency may lead to short-term benefits such as increased exports, but it also ends up outweighing these by lowering purchasing power and raising the cost of imported fuel.

Whether or not the referendum passes or not, the coming weeks will be interesting for gold; in a sense, Swiss people are actually getting an opportunity to 'comment' on its global future and not just the SNBs monetary policy. Switzerland currently has about 1,040 tons of gold, which amounts to about 7.8% of its foreign exchange reserves. If the referendum passes, Switzerland will triple its reserves over the next five years to meet its commitment of 20% of its reserves in gold. Nevertheless, there are major international implications. The most obvious one is that the a victory of the ‘yes’ could even prompt a return of the ‘gold standard’, abandoned in 1971 at a time when US President Richard Nixon secured the position of the American dollar as a pillar of monetary stability around the world, suspending the convertibility of the dollar into gold or other reserve assets, heralding the end of the gold standard or Bretton-Woods system that had been in place since 1958 (formally since 1944), which entailed the US government pegging its currency to gold and all other currencies pegged to the Dollar.

The international implications of the Swiss referendum are already being felt. The Swiss initiative is not an isolated case. For years, Asia has been building up its bullion. China may have accumulated as much or more bullion than the United States while Russia is following suit. Despite the collapse of the ruble due both to the financial sanctions imposed on Moscow by the US and EU, as well as the decline in crude oil prices, the Bank of Russia backed its currency by buying another 37 tons of gold in September alone – that is a large amount considering world monthly production is about 220 tons. Three of the BRICS alone (Russia, China and India) bought 270 tons of gold. In fact, even if the Swiss vote against the higher gold reserves, the trend for the yellow metal’s prices points to higher prices in the medium and long term.