

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date May 25, 1937

To Chairman Eccles

Subject: Swiss National Bank prefers

From Mr. Gardner

dollars to gold

W.R.G.

CONFIDENTIAL

What appears to be a changed attitude toward gold on the part of the Swiss National Bank is at present the chief factor in the gold movement to the United States.

As you know the inflow of gold in recent weeks has been almost wholly a matter of the movement of short-term funds. During the last three weeks for which we have figures (April 28 - May 19) the movement of short-term funds has been to a large extent from Switzerland. Swiss balances in this market have increased \$68,000,000, while other balances have increased \$30,000,000. In the week ending May 19 Swiss balances increased \$37,000,000, while other balances here declined.

Nearly half the increase in Swiss balances is directly attributable to the Swiss National Bank, which increased its deposit with the Federal Reserve Bank of New York by \$30,000,000 during the three-week period. How much of the remainder represents balances handled by member banks for account of the Swiss National Bank is not known, but since these other Swiss balances (amounting to \$38,000,000) have made their appearance at exactly the same time, it is quite possible that they represent in part accounts which the Swiss National Bank has chosen to maintain with the market rather than with the Federal Reserve.

The most striking feature of this new development is the bank's apparent preference for dollars as against gold. It has by now converted practically all its gold earmarked in the United States into dollar deposits. Figures for the three-week period, as well as for the last few days, are given below.

SWISS NATIONAL BANK ACCOUNT
WITH THE
FEDERAL RESERVE BANK OF NEW YORK

(In millions of dollars)

<u>1937</u>	<u>Dollar deposit</u>	<u>Earmarked gold</u>
April 28	2.2	26.7
May 5	9.9	22.2
12	15.3	19.9
19	32.1	17.7
24	45.0	5.3

It is known that the bank has also been selling gold in London, and there is some evidence that it has been disposing of gold through the agency of the B. I. S. This development has been in progress for only a month. It may not prove permanent, and if it does, it marks the attitude of only one central bank. It does, however, suggest the sort of possibility that was discussed more fully in my memorandum of May 18.

GOLD AND CAPITAL INFLOW TO UNITED STATES

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(In millions of dollars)

	Gold inflow	Capital inflow					
		Total	In securities		In banking funds		In brokerage balances
			American securities	Foreign securities	Increase in foreign balances here	Return of American balances from abroad	
1934	1,149	416	- 25	249	86	106	--
1935	1,708	1,381	320	131	564	360	6
1936	1,131	1,195	601	215	267	106	6
1937 to May 19 p/	588	625	127	182	280	35	1
Total	4,576	3,615	1,023	777	1,197	605	13

Period of international currency arrangement

Sept. 30, 1936 - May 19 p/	1,057	949	411	283	256	8	- 9
6 weeks ending Nov. 11	316	234	225	29	- 36	32	- 16
20 " " Mar. 31	404	414	217	210	67	- 78	- 2
7 " " May 19 p/	518	301	- 31	44	225	54	9

Week ending -

Apr. 7	24	32	8	10	19	- 1	- 4
14	97	75	—	6	45	18	8
21	37	34	- 9	1	38	5	- 1
28	44	38	- 12	4	55	- 11	2
May 5	52	37	- 23	18	15	21	6
12 p/	41	46	9	2	32	8	- 5
19 p/	23	39	- 4	3	23	14	3

Days -

		Stocks (SEC)
May 20	20.3	- 1.4
21	0.7	1.7
22	0.3	0.3
24	p/25.5	0.6
25	p/ 4.6	0.7
26	p/ 6.5	p/1.6

Note: Figures of gold inflow represent all gold acquired from foreigners. Figures for capital inflow have been adjusted on the assumption that foreign funds set aside for redemption of foreign securities have already been applied to redemption.

p/ Preliminary