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Where Is Germany's Gold?

Almost half of Germany’s gold is stored in vaults under the streets of Manhattan. Or is it?
A German Metal Bug’s Campaign Opens Fed Vault

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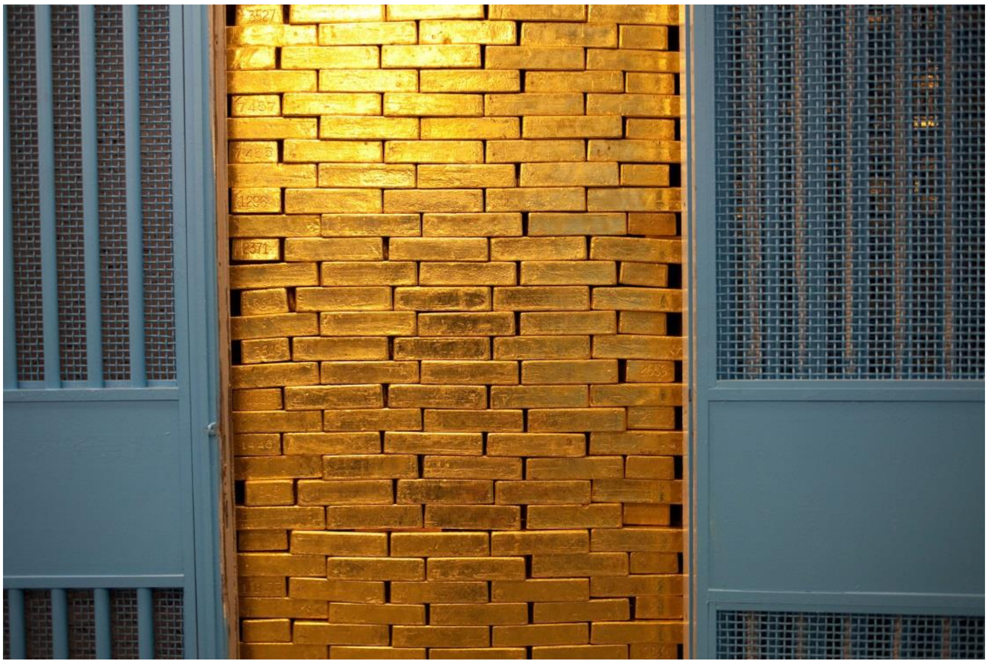


Gold at the Federal Reserve Bank of New York.

Peter Boehringer hates the word “conspiracy.” It implies something crazy, and if you spend even a little time with the 45-year-old German, it becomes clear he’s driven by a desire for order. On a recent morning in Munich, he’s dressed in a cobalt blue shirt that matches his blue tie and blue eyes. His black hair is cropped close above his receded hairline. In his gray Volkswagen minivan, the cup holder contains two identical water bottles, each filled to the same level. At the end of a daylong interview, for which Boehringer has arranged an hour-by-hour itinerary, he sends a follow-up e-mail with a numbered summation of points he’s made. No. 2 says that the crusade he’s been waging for the last three years is simply about transparency. “Questions,” he writes, “by definition cannot be ‘conspiracy theories.’ ”

Boehringer is a gold bug, a member of the impassioned tribe of investors and academics who distrust central banks and paper money, unless the governments that print it will exchange the cash for gold or silver from their vaults. He has an asset management firm that invests his own money and that of clients in gold, silver, and mining stocks, and he’s a founder of the nonprofit German Precious Metal Society, which educates the public about “the craziness of unbacked monetary systems,” he says. In short, Boehringer is worried that the global economy is built on a fiction of currencies that aren’t backed by precious metals. Which is why he set out to make sure the gold that Germany and other nations say they have actually exists.

Almost half of Germany's gold resides at 33 Liberty St., the headquarters of the Federal Reserve Bank of New York, 80 feet below street level in a vault that sits on Manhattan's bedrock. In 2011, Boehringer started a campaign on his blog to bring it home. He argued the gold should be shipped to the German central bank in Frankfurt. The hoard, amassed during Germany's postwar boom, had never been subject to a published bar-by-bar physical review by its owners.

That lack of accounting had become an insatiable itch for Boehringer. As the volunteer chairman of a private storage company for silver and gold investors based in Gerstetten, Germany, Boehringer personally counts the holdings each year by lugging metal valued at some €140 million ($161 million) from one end of the vault to the other, just to make sure it's all there. His blog became a hub for precious-metal fans. As gold prices peaked in 2011, the Taxpayers Association of Europe asked him to draft a letter to the Deutsche Bundesbank seeking to know precisely where the central bank's gold was. He eagerly agreed to help the group, which advocates for lower taxes and serves as an umbrella for 29 national associations across the continent. After receiving a response that wasn't detailed enough to satisfy him, Boehringer pressed on, starting the "Repatriate Our Gold" campaign in February 2012. He conceded it had low odds of success. Gold bugs largely inhabit the fringes of finance, and some of their apocalyptic arguments for investing had begun to show cracks as gold prices slid. Opponents including bankers and journalists branded Boehringer a conspiracy theorist for even suggesting something was amiss at the core of global finance. **Then the seemingly impossible happened: He started to win.**

Photographer: Ulricht Baumgarten/Getty Images

Because it doesn't react with air or water, gold always glitters, even in shipwrecks lost for centuries. It's so dense—19.3 times heavier than water—that when you lift an ingot, the disconnect between what your eyes see and your hands feel produces an odd sensation, as if you're on a planet with a stronger gravitational pull. A standard central bank gold bar is a bit smaller than two soda cans stuck together end-to-end but weighs about 27 pounds, the combined heft of four newborn babies.

Less than 175,000 metric tons (386 million pounds) of gold have been mined in all human history, according to the World Gold Council. Melt it all down—King Tutankhamun's death mask, the bars in Fort Knox, your wedding ring—and it would form a cube 21 meters on each side, reaching just one eighth the height of the Washington Monument. A 1-kilogram gold bar is the size of a flip phone and could buy a BMW.

Gold also has a deeper appeal. When stocks and bonds are plummeting on paper, gold is reassuringly physical. Speaking in October at the Council on Foreign Relations, former Federal Reserve Chairman Alan Greenspan said gold is so universally treated like money itself, it's as if it's "inbred into human beings." The fact that gold can be touched means, of course, that it can also disappear.

Boehringer cites an anecdote from almost a century ago to argue that Germany has failed to zealously protect its gold holdings. In the 1920s the president of the German central bank, Hjalmar Schacht, paid a visit to the New York Fed and its founding president, Benjamin Strong. In an episode recounted in his 1955 autobiography, Schacht wrote, “Strong was proud to be able to show us the vaults which were situated in the deepest cellar of the building and remarked: ‘Now, Herr Schacht, you shall see where the Reichsbank gold is kept.’ ” The two bankers waited as New York Fed staff sought the German stash. “At length we were told: ‘Mr. Strong, we can’t find the Reichsbank gold.’ ” Schacht comforted the flabbergasted Fed banker: “Never mind; I believe you when you say the gold is there. Even if it weren’t you are good for its replacement.” The men left without the German seeing his bars, instead accepting their existence as a matter of trust.

Assuming the German gold actually was somewhere at 33 Liberty St. at the time, it’s probably now long gone. The period between the World Wars was plagued by runaway inflation in which Germans legendarily shopped with wheelbarrows of cash and burned bundles of reichsmarks for warmth. (Among the inflation causes, Germany had stopped backing its currency with gold during World War I.) Adolf Hitler exploited the economic meltdown to seize power and then drained Germany’s gold holdings, including assets he stole from Jews, to pay for World War II.

After the war, global trade revolved around the U.S. dollar, which was backed by gold. Under the arrangement, any nation could cash in its greenbacks for ingots at any time. As West Germany’s economy took off, the nation ran a trade surplus during the 1950s and ’60s. German companies exchanged their dollars for deutsche marks, filling the new Deutsche Bundesbank with U.S. currency. The central bank, in turn, switched the dollars for gold at the New York Fed, swelling its stores under Liberty Street. That ended in 1971 when President Richard Nixon suspended gold conversions, making the dollar a “fiat currency,” backed by nothing but the public’s confidence in the U.S. During the Cold War, it made sense to keep the gold in Manhattan rather than Frankfurt, 75 miles from the Iron Curtain, just in case the Soviets invaded. Yet even after the Berlin Wall fell in 1989, the gold remained in New York. Or so the Germans have been told.

One does not just show up at the New York Fed and start counting gold bars

Boehringer in Munich. Photographer: Ramon Haindl for Bloomberg Businessweek

The bursting of the dot-com bubble in the early 2000s left Boehringer, who'd done tech investing, with time on his hands. After a life ticking the boxes of conventional success—growing up middle class near Stuttgart, earning dual degrees in information technology and business, working as a management consultant for Booz & Co. and a private equity group—he got to thinking for the first time about how the global economy works.

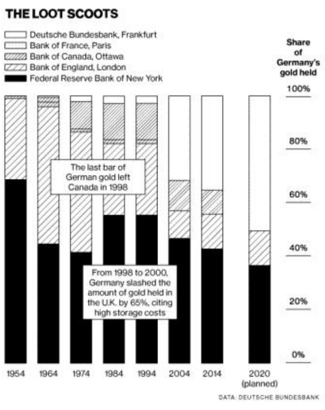
"Some things didn't add up," he says, especially the trust-based monetary system. "I saw how destructive paper money could become." Concluding that precious metals were a reliable store of wealth, he became a gold evangelist, blogging and starting his money-management business in 2003. Three years later he founded the German Precious Metal Society, which organizes conferences and speeches on topics such as gold price manipulation and trends in gold demand in Asia. It was through his activism that the Taxpayers Association of Europe found Boehringer, and they started their campaign.

The first breakthrough occurred in September 2012, when Germany's Audit Court followed Boehringer with its own, similar demands. The court, which is a branch of the federal government that examines federal financial management, asked the Bundesbank to say how much gold it had and where it was located and to physically inspect the bars, saying their existence had never been verified.

The Bundesbank responded a month later, revealing that at the end of 2011 it had 271,265 bars weighing 3,396 tons—today worth about $140 billion. They were stored in Frankfurt and at the New York Fed, the Bank of England in London, and the Bank of France in Paris. "Every year, these central banks provide the Bundesbank with confirmation of its holdings of gold," the German bank said. "The integrity, reputation, and security of these foreign depositories are beyond reproach. … There is no possibility of confusion or commingling with the holdings of other parties." The single biggest slice of the German reserves, at 45 percent, was in Lower Manhattan: 122,597 bars weighing about 1,536 tons, dwarfing the 1,036 tons held in Germany itself.

But the Bundesbank said the physical inventory requested by the audit court didn't conform to common practice among central banks—that is, one does not just show up at the New York Fed and start counting gold bars.

The Bundesbank told the German parliament it was in talks to gain access and that the New York Fed was receptive, as long as its own security and logistical constraints were taken into account. Bundesbank executive board member Carl-Ludwig Thiele, who testified to the parliament's budget committee, added, "We're in negotiations with our partner central banks to develop auditing rights."



For Boehringer, the disclosure that it would take negotiations to access the gold felt like proof he was on the right track. The limited transparency he'd won had made plain that Germany didn't necessarily have the right to thoroughly examine the single largest stash of its own gold. "Central banks live from their trust," he says. "Our campaign has the ability to put that trust in question."

In October 2012, as part of a compromise with the audit court, the Bundesbank said it would start bringing home some of the reserves. At first, the bank said it would move 150 tons of gold, valued at about $8.4 billion at the time, from New York to its own vaults, dividing the shipments evenly over three years. "It was a huge success for us," Boehringer says. "I would never have believed that." The German central bank later expanded its repatriation plan to 300 tons from New York to Frankfurt by 2020.

Boehringer had to wait until Christmas Eve 2013 to see if the Bundesbank was making good on the pledge. That day, the central bank announced the first-year tally in the tabloid *Bild* under a front-page headline, "Today Only Good News." "At last! The Bundesbank gets its gold treasure back," the story said. The amounts, however, were underwhelming. Although 32 tons came from the Bank of France, just 5 tons came from New York—a tenth of the original plan of 50 tons a year from the New York Fed.

"Why so little material?" Boehringer recalls wondering. "Something smelled fishy." The article quoted Bundesbank President Jens Weidmann saying the repatriation had been "a huge logistical challenge." Yet one ton of gold, formed into a cube, is just larger than a plastic milk crate. Five tons of gold bars can fit into the back of a pickup truck, assuming the truck's suspension can handle the weight.

"The organisational preparations were very time-consuming since the required agreements and contracts are voluminous and detailed," the Bundesbank's Thiele said in a statement four weeks later. Additionally, some bars in New York had to be melted and recast. To Boehringer, the recasting was the ultimate red flag. It meant any trace of original serial numbers had been wiped out. "Their untouched existence since the 1960s is no longer provable," Boehringer says.

The Bundesbank explained that it recast the bars because they hadn't met the "London good delivery" standard. Such gold is at least 99.5 percent pure and comes in bars of roughly 400 troy ounces, or 12.44 kilograms. They must bear certain marks, such as year of manufacture, and have sides that measure within specified dimensions. The gold in American vaults is a mix of London good delivery and lower-quality bars. Boehringer figured maybe the German bars had oddball weights and purities and needed to be recast.

He did some quick math on the Bundesbank's own numbers, dividing the total weight it had disclosed for New York holdings by the number of bars it listed. It came out to about 12.5 kilograms per bar—same as London good delivery. If the central bank's published numbers were right, Boehringer says, "There would not be a reason to melt them, but they did."

Asked about the calculations, a Bundesbank spokesperson says meeting the London good delivery standard "cannot be reduced entirely to the weight of a gold bar but needs to take various other features into account, one criterion being the outer appearance." The spokesperson also noted that "parts of the gold reserves, which were relocated from New York to Frankfurt," were recast to meet that standard.

Boehringer still doesn't buy it. "Why, of all the possible bars—120,000—it chose to repatriate, did it choose bars that were nonconforming?" He also questions why the Bundesbank doesn't publish lists of bar numbers, which would allow other depositors to see if there's any double counting of the same gold under multiple owners. The Bundesbank says it has such lists for all the gold it keeps in custody at the New York Fed but that "security reasons" prevent it from making those lists public.

"Why is a bar list a security risk?" Boehringer says. It reminds him of the 1920s visit the Reichsbank president paid to the New York vault. "That's the culture of 'I don't want to know,' " he says.

Boehringer speculates that individual bars may have several owners, perhaps as the result of bars being leased, sold, or subject to complicated financial arrangements. "I can't prove it," he adds, saying the onus of proof should be on the central bankers, not him. He isn't alone in raising doubts. John Hathaway, co-manager of the $1.3 billion Tocqueville Gold Fund, says Germany might need the slow, seven-year repatriation window to unwind complex financial arrangements by which the gold was loaned out, perhaps several times. Their questions about multiple owners aren't completely out of left field, as there is a loan market in which gold bars are put up as collateral and then sold to third parties for the duration of the deals.


Piling gold bars at the Bundesbank headquarters in Frankfurt.
Photographer: Frank Rumpenhorst/EPA via Corbis

The German central bank says that's not the case with its New York gold and that its repatriation plans will be completed on schedule. "The Deutsche Bundesbank has never loaned gold bars held in custody at the New York Fed into the market or to other central banks," the bank said.

The New York Fed says it isn't party to any transactions that the gold in its custody may be involved in. It says all gold bars on deposit are present at the 33 Liberty St. vault and that the bank doesn't recognize any third-party rights or interests other than those of the account holder. In response to questions for this story, the bank also says foreign depositors are able to conduct inventories and that it provides those depositors with lists of bar numbers for all holdings.

Bar lists were cross-checked with bar markings. Spot checks found no irregularities. Yet any identifying trace of the original gold had been wiped out

The gold may be in order. The gold may not be in order. But either way, gold bugs around the world are winning unprecedented concessions from their governments, and gold is streaming out of 33 Liberty St. and across the Atlantic.

In May 2014, the Bank of Italy, which has the third-biggest gold reserves after the U.S. and Germany, ended years of secrecy by disclosing the locations of its holdings. Citing the German repatriations, the central bank said about half its gold is in Rome and most of the rest is beneath the New York Fed. Then in November, the Dutch central bank announced that it had secretly moved 122.5 tons of gold from New York to Amsterdam. In apparently just months, the Dutch had shipped almost 25 times the gold that Germany moved in all of 2013.

“Beyond realising a more balanced distribution of the gold stock across the different locations, this may also have a positive effect on public confidence,” the Dutch bank said in its announcement. Soon after, the leader of France’s anti-euro, anti-immigration National Front party, Marine Le Pen, asked the Bank of France for an independent audit of its gold and to reveal any lending or financial commitments related to the reserves.

At the end of November, a referendum in Switzerland to repatriate some holdings failed but led the country’s central bank to disclose locations and amounts of its gold for the first time. Swiss politicians are pushing for more. “I want a clear inspection where you have a list of all the gold bars, where it’s written that it’s fine gold and only belongs to Switzerland,” says Lukas Reimann, a member of the Swiss parliament who led the referendum.

On Jan. 19, the Bundesbank delivered its own surprise, publishing a tally of its 2014 gold repatriations. During the year, the German central bank had shipped 85 tons from New York to Frankfurt, blowing away the mere 5 tons from 2013 and setting a pace at which the Bundesbank would easily meet its target of 300 tons returned by 2020.

Even if the world’s biggest central banks did explain away his gold bug speculations, Boehringer had triumphed. But for him, and his sense of order, the itch is never scratched. There were still 1,447 tons of German gold under Manhattan at year’s end, and he wants all of it back in Frankfurt. At the current rate it would take more than 30 years for all German gold stored abroad to return, he says.

And there’s this detail from the German announcement: “The Bundesbank took advantage of the transfer from New York to have roughly 50 tonnes of gold melted down and recast according to the London Good Delivery standard.” Bar lists were cross-checked with bar markings, the statement said. Spot checks found no irregularities. Yet any identifying trace of the original gold had been wiped out, the bars “now destroyed,” a freshly fired-up Boehringer says. Melted bars might not prove something’s rotten under Liberty Street, but the mere disclosure shows Boehringer is making a difference.