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Lisbon, April 3, 1945

Letter No. 187

To: Harry D. White, Esq., Assistant Secretary of the Treasury

From: James E. Wood, Financial Attache, American Embassy, Lisbon

Subject: Notes on Suspension of Gold Sales by Bank of Portugal

You already have been informed by cable of (1) the attempt of the Bank of Portugal to discourage the drain on its gold stocks to private and institutional buyers in Portugal through banks, bankers and cambistas; and, subsequent to this measure, of (2) the suspension of sales of gold to the outlets just named. The first step was taken on February 9th and the second on February 23rd.

The principal reason for the suspension of the sale of gold was the heavy demand that had been made on the Bank of Portugal over a long period, especially since last August. From unofficial but well-informed sources I have learned that between early August and the date of suspension of sales, banks, bankers and cambistas bought for their clients an average of 90 to 100 kilos of gold per business day and that on one day last January these purchases aggregated about 300 kilos. It also is possible that the Spanish Government requested the Portuguese to suspend sales in order to reduce the volume of smuggling of currency and gold over the frontiers of the two countries. I have no confirmation of this point and the speculation is supported only by the possibility that the Spaniards might have desired to reenforce their monetary controls and by the fact that at the time of the suspension order was issued important Spanish and Portuguese officials were meeting in Madrid for purposes of balancing the Luso-Spanish clearing and of discussing trade agreements.

Since the Bank of Portugal permitted such a substantial drainage from its stocks its directorate must have calculated that (1) for a time at least the bank could permit part of its stocks in Lisbon to be sold; (2) in the selling of the gold and in the resmelting process (reducing 12 kilos bars to kilo and half kilo bars for the ordinary ultimate purchasers) it could rid itself of bullion having identification marks of German or other enemy origin, and that (3) it was desirable to take profits on the gold in escudos. If (2) was not a consideration, the directorate might have reasoned that the bank could, if it desired, compensate for the drain by acquiring additional stocks from enemy sources, bringing them in by Lufthansa until traffic on that line between Spain and interior Europe became too intermittent or was stopped entirely.

The demand for gold in the Peninsula stems from lack of confidence in the peseta and, to a lesser extent, in the escudo, together with the inability to acquire more desirable foreign currencies in free accounts. It is likely that enemy nationals have bought large quantities of gold in the local market before the suspension of sales, although as yet no substantial acquisitions by them have been uncovered, and that they will continue to buy in the free market that remains.

Since the sale of gold is prohibited in Spain, buyers there have obtained the metal in Portugal through contrabandists. A heavy and lucrative traffic has been created which consists of smuggling pesetas to Portugal where they are sold on the black market for escudos. These are used to purchase gold which is then taken to Spain and sold for pesetas. Other currencies also may enter into this circle. I understand that a margin of about six escudos per gramme has been realized for division among the contrabandists and other intermediaries. At such a profit the traffic has been highly profitable and it evidently would continue even if a lower margin were realizable.

It will be seen that the profit margin depends upon the prices of gold in Spain and Portugal and the price of the peseta on the Lisbon market. Raising of the price of gold by the Bank of Portugal on February 9th from approximately 32 to 35 escudos for the ultimate buyer, and the decline in value of the peseta in the Lisbon black market from around 1$48 in January to between 1$15 and 1$19 in mid-February, created conditions to discourage the smuggling cycle between Spain and Portugal. These developments were offset to some extent, temporarily, by the increases in the price of gold offered to individuals and institutions in Portugal and Spain, where the price immediately went up to 39 escudos per gramme. Since the suspension went into effect the price here has risen to 42$50 per gramme, which would seem that it would have an even higher value in Spain. This substantial increase in price reflects the desire of individuals and firms in Portugal to retain the gold in their possession. This increase in price has narrowed the market in Spain and in recent weeks the flow of gold to that country has been very light.

Persons with foreknowledge of the decision of the Bank of Portugal to suspend gold sales reputedly made heavy purchases before the order was issued and heavy profits afterwards.

The Bank of Portugal will continue to sell limited amounts of gold to the Gremio dos Ourives. According to the plan most recently reported the Gremio would receive 80 kilos a month, 10 of which would be allocated to Lisbon and the rest to Oporto, where the goldsmiths are concentrated. These amounts are said to have been established tentatively on the basis of the quantities sold to the Gremio last year. At this writing it appears that the goldsmiths will receive more gold than the allocation specified, but how much more has not been reported. In view of the current price of gold it may be expected that the goldsmiths will try to obtain larger quantities than required in the trade in order to take advantage of the high prices and quick profits obtainable in the free market. The Gremio immediately objected to the increase in the price of gold that went into effect on February 9th, which applied to gold for industrial as well as for non-industrial purposes, declaring that if the increase were maintained it would be necessary to raise the prices of jewelry. Acceding to the Gremio's request, the Bank of Portugal reduced the price to 31$50 escudos per gramme for the goldsmiths at the same time that it suspended sales to banks, bankers and cambistas.

With gold bullion no longer directly available from the Bank of Portugal there has been an increase in purchases and sales of gold coins. The most noteworthy lot of such coins currently being sold is 90,600 gold sovereigns which have been held by Companhia de Mozambique. This company received the coins from the Portuguese Government in satisfaction of certain claims. Where and how the Government obtained these coins is not at present known.