

H. 13  
No. 127

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**CAPITAL MARKET DEVELOPMENTS ABROAD**

I. Switzerland

II. Nine Charts on Financial Markets Abroad

I. Switzerland: Money and Capital Markets, July-September 1963

Interest rates in Swiss money and capital markets advanced further between July and September. (See Table 1.) Rising rates abroad and domestic demands for commercial and building credit put financial markets under strain and produced higher rates in all sectors. In the money market 3-month deposit rates climbed from a mid-point of about 2.81 per cent (a range of 2-3/4 to 2-7/8 per cent) in late June to 2.94 per cent in late September. In medium-term maturities the major Swiss banks obtained permission of the Banque Nationale Suisse to raise their rates on 5-8 year certificates of deposit from 3-1/2 to 3-3/4 per cent while rates on 3-4 year certificates remained at 3-1/2 per cent. The yield on long-term government bonds rose from 3.11 per cent in June to 3.38 per cent at mid-October, and the "Kraftwerke Linth-Limmern AG" 4 per cent \$9.3 million bond issue in early September was the first important domestic issue to be offered at 4 per cent since April. Finally, using a technique not hitherto customary with Swiss banks, the four major banks, beginning in July, issued long-term bonds (10 to 12 years) for their own account.

Table 1. Switzerland: Selected Financial Indicators for Selected Dates, 1963  
(in per cent per annum or index)

	January 25	April 26	June 28	September 27	October 11
<u>Interest rates</u>					
3-month yields:					
Zurich banks a/	2.69	2.69	2.86	2.94	c/ 3.12
Euro-dollars b/	3.19	3.36	3.44	4.07	3.94
U.S. Treasury bills b/	2.53	2.53	2.59	3.28	3.30
Deposit certificates (3 to 8 years):					
12 cantonal banks	3.39	3.41	3.41	d/ 3.63	
5 large banks	3.39	3.39	3.39	d/ 3.64	
Long-term government bonds	3.13	3.06	3.11	3.26	3.38
<u>Stock prices (1958 = 100)</u>	250.0	263.1	257.6	266.4	263.9
<u>Exchange rates</u>					
Spot Francs (cents)	23.13	23.14	23.11	23.18	23.18
Forward premium on Franc e/	+ 0.40	+ 0.36	+ 0.40	+ 0.06	+ 0.12

a/ Most frequently quoted rates of the five large Swiss banks in Zurich.

b/ Return in Swiss francs after cost of exchange cover. c/ October 4. d/ September 15.

e/ Per cent per annum.

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(Decontrolled After Six Months)

On the external side, the Swiss franc was actively sought in the foreign exchange market, and the spot rate climbed to the ceiling during the quarter. On occasion, the tight domestic money-market situation led the Swiss banks to sell foreign assets for liquidity purposes. In addition, very strong demands for Swiss francs came from abroad as a result of uncertainties created by international developments: in July, the U.S. interest-equalization tax; in August and September, "pre-IMF jitters"; and thereafter the further deterioration of the Italian financial situation. The Swiss authorities were forced to take steps to offset the effects of these inflows both in the foreign-exchange and in Swiss credit markets. During August, the "gentlemen's agreement" with the Swiss commercial banks designed to curtail foreign capital inflows, which was first introduced in 1960, was extended until the end of the year.

Domestic money market tightens further

Conditions in the money market became tighter during the July-September period as the already high level of building and commercial credit activity rose further and foreign demand for money became evident. The reversal during July of the June dollar-franc swaps between the BNS and the commercial banks took \$70 million of liquidity from the banks over the month and average rates on 3-month deposits with the large banks increased from 2.81 per cent the first of July to 2.94 per cent by the first of August. (See Table 5, page 7).

The market eased during August even though foreign bidding, especially for very short-term money, was reported. Toward the end of September the market tightened because of quarter-end liquidity needs; however, liquidations of dollar assets and a return flow of notes tended to ease the money situation. Early in October the 3-month deposit rate reached 3.12 per cent in spite of Swiss authorities easing the cash positions of the banks through purchases of spot dollars in the exchange market.

In August the informal gentlemen's agreement between the BNS and the commercial banks designed to discourage the inflow of foreign short-term funds was renewed only until the end of the current year. Earlier renewals had been for one year. Under this agreement (originally concluded in August 1960 and since renewed three times) the banks undertake to accept new foreign franc deposits only on a time basis, with a 3-month withdrawal notice, and to pay no interest on any new foreign franc deposits of whatever type. They also agree to refrain from purchasing Swiss securities, real estate, and mortgages for foreign account. However, the latest renewal ends the provision that foreign deposits for less than six months be subject to an annual charge of 1 per cent.

Heavy demands on capital markets.

The medium- and long-term capital markets were under pressure throughout the period under review. A growing shortage of medium-term funds finally forced the BNS on August 1 to allow the large commercial banks to increase by 1/4 per cent the rate of interest they pay on their medium-term bonds (Kassenobligationen,

which are similar to U.S. certificates of deposit but for longer terms) of five years or longer maturity.

Some \$54.4 million of net new funds were raised in the bond market in July, somewhat above the monthly averages for the first and second quarters. Only \$12.8 million was for foreign borrowers, but the market's interest in foreign bonds meant that those offered were oversubscribed. The average yield on Federal bonds was up to 3.22 per cent by the end of July (See Table 6, page 7) and remained steady throughout August. Only a low volume of new issues were offered in August (See Table 6.) No foreign issues were marketed.

Pressure on the bond market became evident again throughout September and into October. As a result, yields on Federal Government bonds rose steadily to an average of 4.38 per cent. (See Table 6.) The "Kraftwerke Linth-Limmern AG" (Electric Power Station) 4 per cent \$9.3 million bond issue in early September was the first domestic issue of any importance to be offered at 4 per cent in a very long time. However, a \$14 million issue for the Compagnie Francaise des Petroles was successfully offered on October 1 at the 4-1/2 per cent rate that has generally prevailed this year on foreign issues. It remains to be seen whether the mid-October easing of the money market will steady long-term rates.

The gradual spreading of the Swiss banks between the growing demand for long-term advances and the growing supply of short-term funds became so apparent during this quarter that the four largest Swiss commercial banks began issuing long-term bonds for their own account, a technique not hitherto customary with Swiss banks. The construction industry and foreign trade needs have been for more long-term credit. But the current trend seems to be toward more short-term deposits; by contrast, the volume of cash bank bonds (Kassenobligationen: 3 to 8 year terms), which are the banks' major source of medium- to long-term funds, declined during the early part of this year below that outstanding in 1962. Short-term funds, especially from abroad, have long given Swiss banks an appearance of extreme liquidity, but these funds cannot be used for long-term advances.

Approximately \$100 million in long-term funds will be raised by the four banks over the four-month period, July through October, by bond issues when borrowing plans already announced are carried out. The Swiss Bank Corporation raised \$23 million in July, and the Union Bank of Switzerland sold \$23 million worth of 12-year 3-3/4 per cent bonds early in August. The Banque Populaire offered in early October \$12 million worth of 4 per cent 10 year bonds at a price of 101 per cent (including Federal stamp duty), which was oversubscribed. Pending final approval by the stockholders, the Swiss Credit Bank will increase its share capital by \$12 million in order to provide shares for a \$42 million 12-year 3 1/2 per cent convertible bond issue. This issue will be subject to redemption after eight years and will be convertible after March 2, 1964.

In July the Swiss stock market, possibly reacting to the proposed U.S. equalization tax, dropped off slightly; the Swiss Bank Corporation's industrial share index declined by 1.8 per cent. (See Table 2.) It recovered during August and continued to rise through the middle of September, a trend in line with stock markets in North American and in other major European centers. However, during the latter half of September stock prices fell off sharply, leaving the index on October 11 at its July 5 level.

Table 2. Switzerland: Industrial Share Index\*  
(1958 = 100)

May	31	272.5	August	23	266.7
				30	267.8
July	5	260.5	September	6	272.3
	12	256.7		13	275.4
	19	255.3		20	271.9
	25	255.7		27	266.4
August	2	258.7	October	4	260.6
	9	258.8		11	260.9
	16	265.1		14	263.9

\*Swiss Bank Corporation Industrial Share Index.

#### Foreign demand for francs leads to increase in official reserves

In the third week of July the demand for Swiss francs in the exchange market increased, partly in reaction to the announcement of the U.S. interest-equalization tax, pushing the franc price up to 23.132 U.S. cents against the dollar. (See Chart 8.) Although the BNS attempted to ease the continued demand for Swiss francs by temporarily releasing commercial bank franc reserves blocked since March 1961, the dollar closed out the month under increasing pressure. This was due in part to special operations by some Italian banks, which sold spot dollars and bought forward for short-term covered investment in Switzerland. In addition, the commercial banks found it hard to hold dollars because of the tight domestic market for franc advances, and because they were reversing the dollar-franc swaps undertaken with the BNS to ease the end-June stringency in Swiss francs. Official interventions took place in the exchange market, and the narrowing of the premium on the forward Swiss franc early in August materially improved the covered yield on Euro-dollar deposits. (See Table 5, page 7).

The dollar then remained steady at just above the floor, supported by a strong commercial demand, until the latter part of September. This was in spite of a strong demand for francs caused by continuing tightness in the Swiss money market and by institutional anticipation of end-of-quarter liquidity needs. The last of September, official interventions in the exchange market were again required as funds flowed heavily into Switzerland, and during

the first-half of October, a substantial flow of funds from Italy built up using the dollar as a vehicle currency.

The price of the Vreneli gold coin rose to SF 38.50 by the middle of July and remained there until the end of August. However, unlike gold bullion in London, a steadily increasing demand in September, probably from Italy, drove its price up to SF 40.30 by the first of October, where it has since remained.

Swiss gold and foreign exchange reserves declined by \$83 million in July but registered gains of \$24 million and \$53 million in August and September, respectively. (See Table 3.) About \$70 million of the July decline was due to the reversal during the month of the dollar-franc-gold swaps executed in late June between the commercial banks, the BNS, and the BIS to bolster the commercial banks' half-year-end liquidity position in Swiss francs. In June the BNS had swapped francs for dollars with Swiss commercial banks. To hold down its dollar holdings, it also had swapped dollars for gold with the BIS. Reversing the franc-dollar swap with the commercial banks required swapping gold for dollars with the BIS.

Table 3. Switzerland: Official Gold and Foreign Exchange Reserves  
(end of period figures, in millions of U.S. dollars)

		<u>Gold</u>	<u>Foreign Exchange</u>	<u>Total</u>	<u>Change</u>
1963	January	2455	200	2,655	-217
	February	2461	189	2,650	- 5
	March	2461	177	2,638	- 12
	April	2453	179	2,632	- 6
	May	2453	177	2,630	- 2
	June	2530	178	2,708	+ 78
	July	2445	179	2,624	- 83
	August	2451	197	2,648	+ 24
	September	2501	200	2,701	+ 53
	October 14	2503	204	2,707	+ 6

Both the August and September increases in reserves were due to the BNS taking in large amounts of dollars in those periods. During the two weeks from September 23 through October 3 alone, Swiss reserves increased a little less than \$100 million, attributable to continued "nervousness" on the international financial scene and, in October, to capital inflow from Italy. Dollar-franc swaps between Swiss banks and the BNS to increase bank liquidity in Swiss francs also added to foreign exchange reserves.

A significantly greater increase in imports than in exports during the second quarter of the year caused the seasonally-adjusted Swiss foreign trade deficit to increase by an average of \$10 million per month over the first quarter average. The second quarter deficit averaged \$65 million a month. (See Table 4.) In July the deficit widened further, primarily because of a sharp rise in imports. Although preliminary figures show the

deficit down somewhat in August, the high level of imports over the summer is indicative of the very high pace of economic activity Switzerland has been experiencing recently, particularly in construction.

Table 4. Switzerland: Seasonally-Adjusted Foreign Trade

(in millions of U.S. dollars, month or monthly average)

	1 9 6 2				1 9 6 3					
	I	II	III	IV	I	II	May	June	July	August
Imports c.i.f.	250	244	256	251	247	271	281	259	291	<u>1/256</u>
Exports f.o.b.	<u>181</u>	<u>186</u>	<u>186</u>	<u>187</u>	<u>192</u>	<u>206</u>	<u>208</u>	<u>212</u>	<u>195</u>	<u>1/172</u>
Balance	-69	-58	-70	-64	-55	-65	-73	-47	-96	-84

1/ Preliminary figures subject to adjustment.

Source: OECD

Europe and British Commonwealth Section.

## II. Nine Charts on Financial Markets Abroad

- Chart 1 - International Money Market Yields for U.S. Dollar Investors
- Chart 2 - Interest Arbitrage, United States/Canada
- Chart 3 - Interest Arbitrage, New York/London
- Chart 4 - Interest Arbitrage for German Commercial Banks
- Chart 5 - Short-term Interest Rates
- Chart 6 - Long-term Bond Yields
- Chart 7 - Industrial Stock Indices
- Chart 8 - Spot Exchange Rates - Major Currencies Against U.S. Dollar
- Chart 9 - 3-month Forward Exchange Rates

Table 5. Switzerland: Money Rates, Exchange Rates, and Gold Prices

	Forward Swiss franc (3-mo.)	US Tr. bill		Euro-dollar deposit		Swiss bank deposit (3-mo.)	Spot \$ in SF	Spot £ in SF	Gold coin a/ in SF
		Bill	Net	London	Net				
		return yield in SF	return rate in SF	return rate in SF	return rate in SF				
1963 - Apr. 26	+0.36	2.89	2.55	3.72	3.36	2.69	4.329	12.123	38.75
May 31	+0.17	3.00	2.83	3.84	3.67	2.75	4.319	12.093	38.75
June 28	+0.40	2.99	2.59	3.84	3.44	2.81	4.328	12.123	38.25
July 12	+0.44	3.18	2.74	3.94	3.50	2.88	4.325	12.116	38.30
19	+0.16	3.18	3.02	4.06	3.90	2.94	4.323	12.106	38.50
Aug. 2	+0.02	3.21	3.19	3.94	3.92	n.a.	4.319	12.100	38.50
9	+0.07	3.30	3.23	3.88	3.81	2.94	4.317	12.093	38.50
16	+0.20	3.31	3.11	3.94	3.74	2.88	4.316	12.084	38.50
23	+0.52	3.35	2.83	4.00	3.48	2.88	4.316	12.078	38.50
30	+0.48	3.38	2.90	4.00	3.52	2.88	4.316	12.079	38.50
Sept. 6	+0.40	3.32	2.92	4.19	3.79	2.88	4.315	12.073	38.75
13	+0.35	3.34	2.99	4.09	3.74	2.88	4.315	12.072	38.78
20	+0.15	3.38	3.23	4.06	3.91	2.88	4.314	12.072	38.98
27	+0.06	3.34	3.28	4.13	4.07	2.94	4.314	12.072	39.75
Oct. 4	+0.07	3.42	3.35	4.25	4.18	b/ 3.12	4.314	12.072	40.50
11	+0.12	3.42	3.30	4.06	3.94		4.314	12.072	40.50

a/ "Vreneli" 20-franc piece (0.1867 troy ounces; \$6.53 at \$35 per ounce).

b/ Preliminary figure.

Table 6. Switzerland: Selected Capital Market Statistics

	Capital market yields				New issues (\$ millions; monthly ave. or month) (New money raised)				
	Long-term govt. bonds	Deposit cert's		1960 1961 1962 Qtr.	Swiss bonds	Swiss stocks	Fgn. bonds	Total	
		12 can-	large banks					Gross	Net a/
1962 - High	3.31	3.39	3.29	1960	17.3	3.8	10.8	31.8	26.2
Low	2.98	3.35	3.29	1961	19.8	7.2	18.6	45.7	42.6
1963 - Jan. 25	3.13	3.39	3.39	1962	21.8	12.8	12.7	47.3	38.3
Feb. 22	3.13	3.39	3.39	Qtr. I	24.5	15.6	20.2	60.3	45.4
Mar. 29	3.09	3.40	3.39		II 26.6	21.7	13.2	61.7	53.9
Apr. 26	3.06	3.41	3.39		III 16.6	5.3	7.0	28.9	27.8
May 31	3.11	3.41	3.39	1963	16.8	6.9	10.5	30.2	18.8
June 28	3.11	3.41	3.39	Qtr. I	38.2	14.5	9.3	62.0	43.6
July 26	3.18	3.44	3.39	Apr.	17.8	7.7	17.2	42.7	12.6
Aug. 2	3.22	3.44	3.39	May	47.9	16.3	14.4	78.6	77.9
16	3.21	3.63	3.63	June	31.3	5.9	22.8	60.0	58.0
30	3.22	3.63	3.64	July	41.6	2.1	12.8	56.3	54.4
Sept. 6	3.21	3.63	3.64	Aug.	12.7	8.8	---	21.5	21.5
13	3.21	3.63	3.64						
20	3.25								
27	3.25								
Oct. 4	b/ 3.38								
11	b/ 3.38								

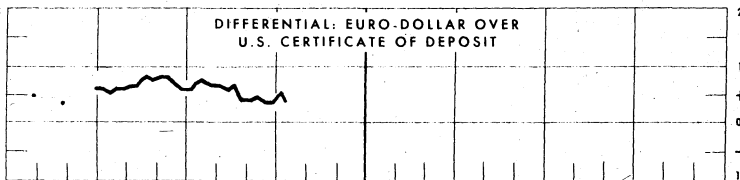
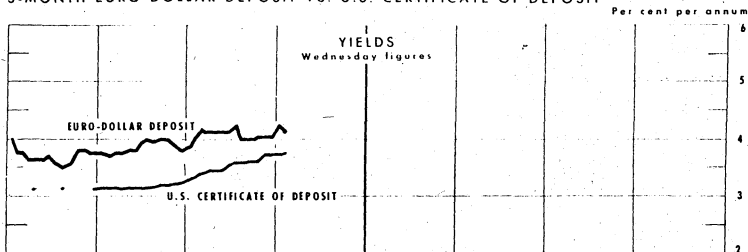
a/ Net of reimbursements. Amounts by type are gross.

b/ Preliminary figures.

Chart 1

### INTERNATIONAL MONEY MARKET YIELDS FOR U.S. DOLLAR INVESTORS

#### 3-MONTH EURO-DOLLAR DEPOSIT VS. U.S. CERTIFICATE OF DEPOSIT



#### NEW YORK OFFER RATES ON SELECTED 3-MONTH INVESTMENTS

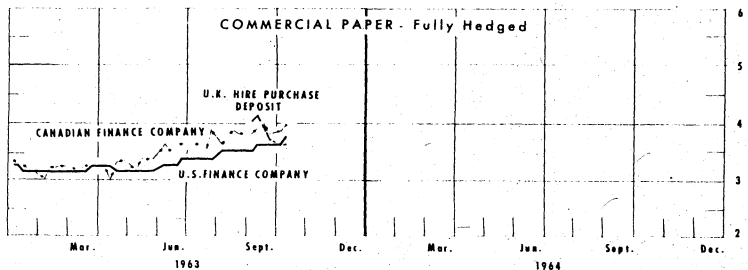
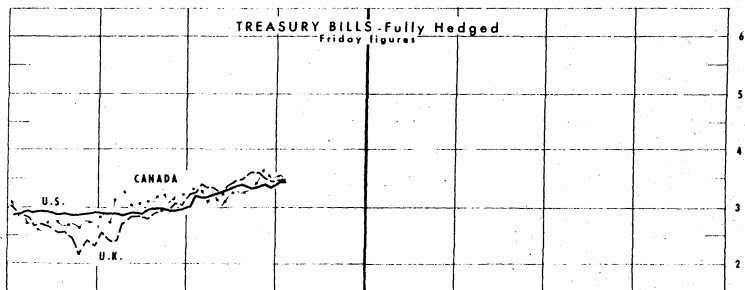




Chart 2

### INTEREST ARBITRAGE, UNITED STATES / CANADA

Thursday figures

Per cent per annum

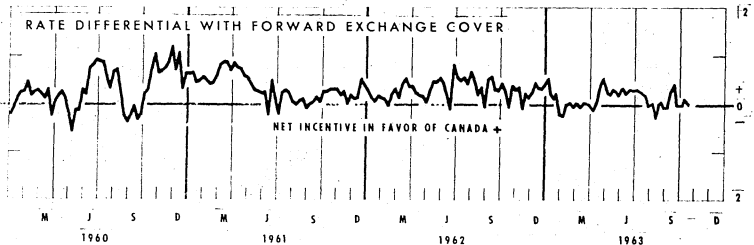
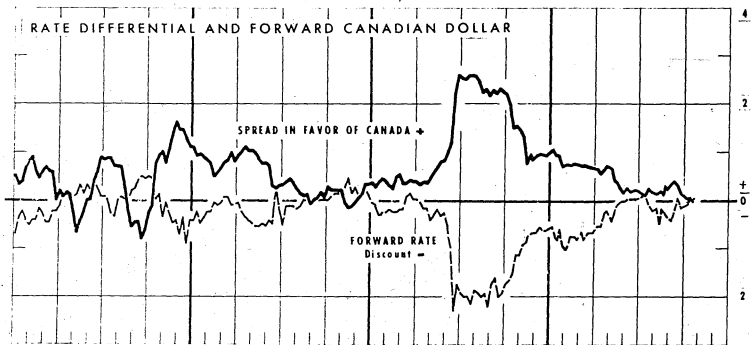
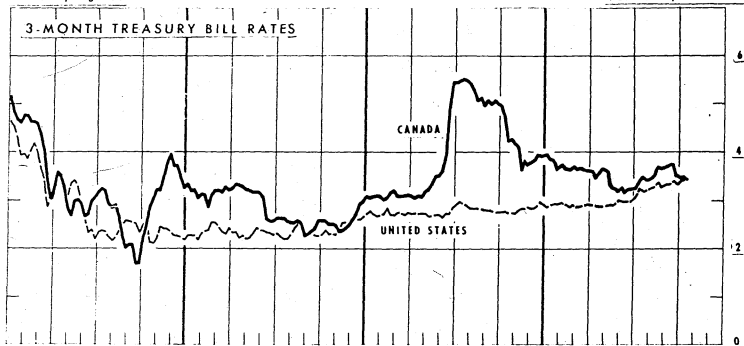
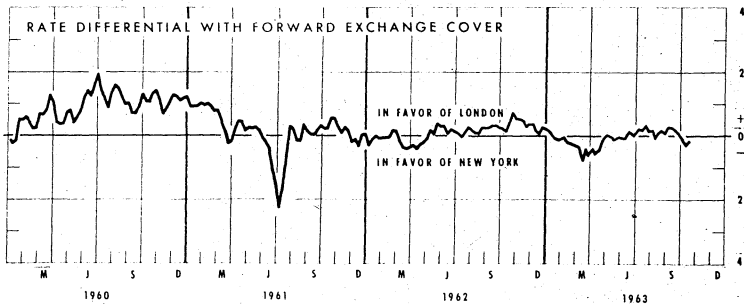
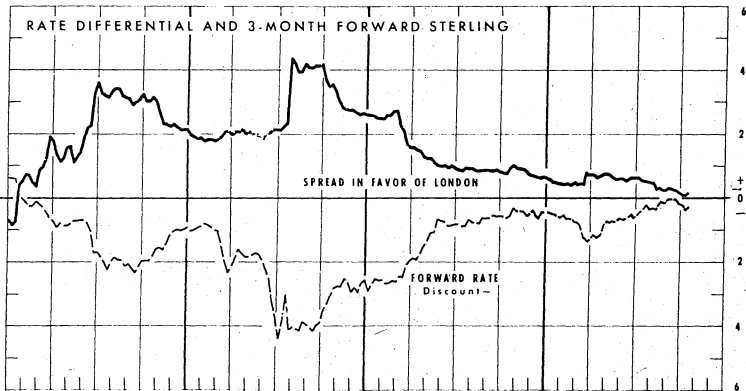
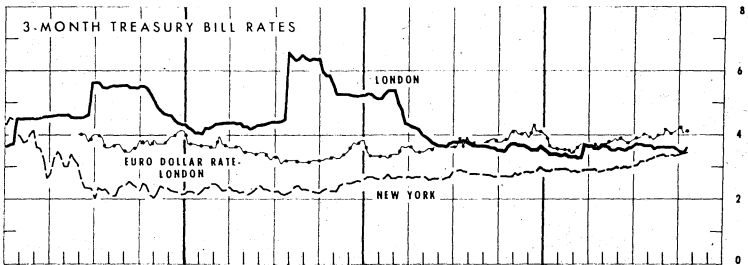


Chart 3

### INTEREST ARBITRAGE, NEW YORK/LONDON

Friday figures

Per cent per annum



**INTEREST ARBITRAGE FOR GERMAN COMMERCIAL BANKS**

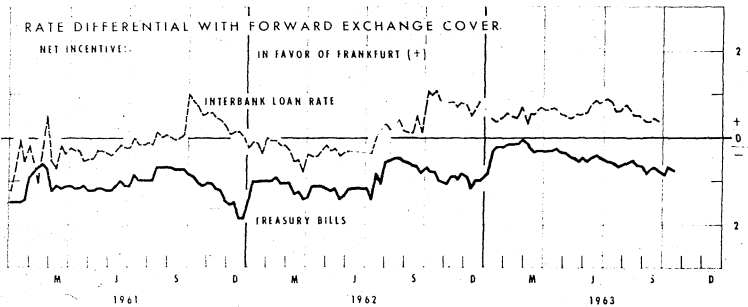
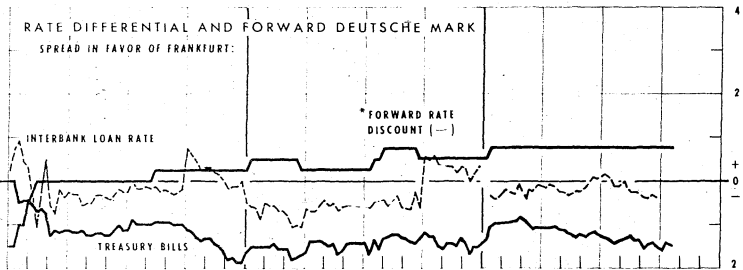
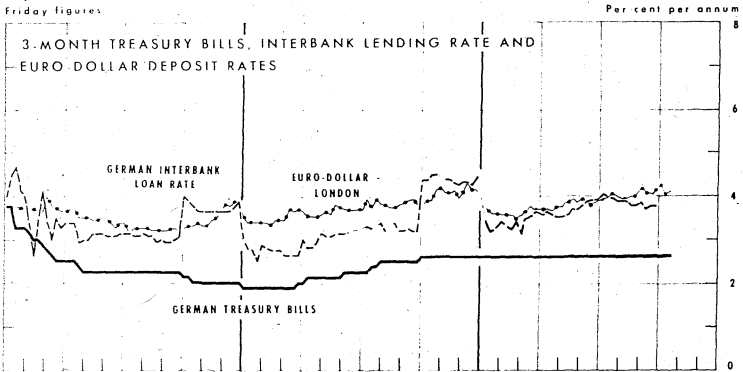
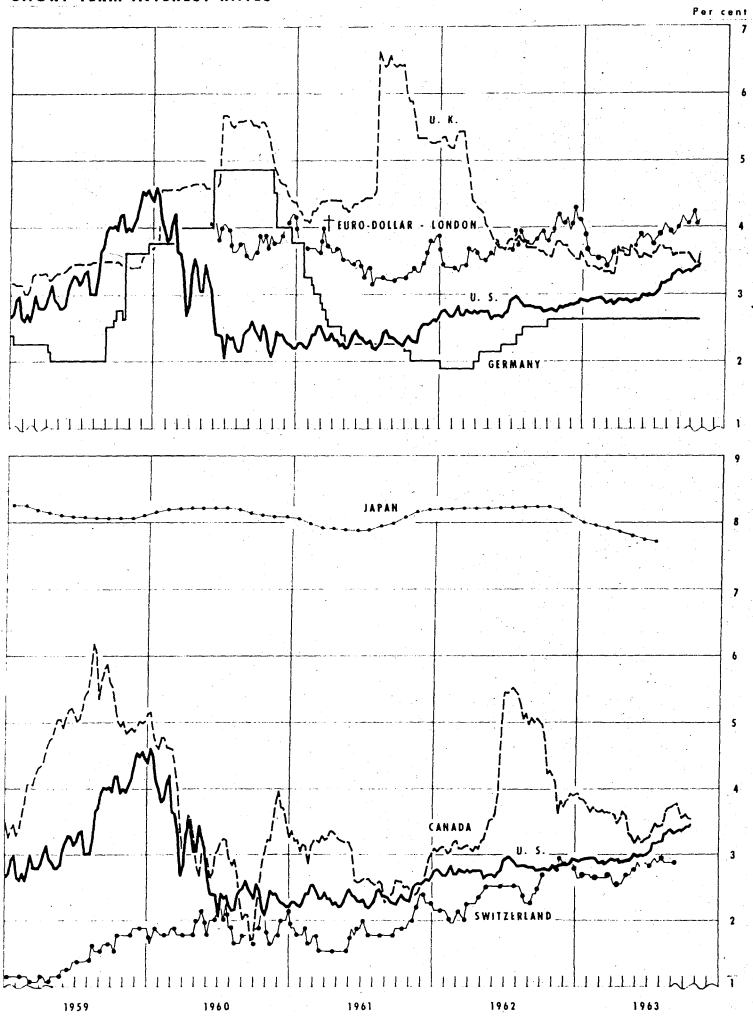


Chart 5  
SHORT-TERM INTEREST RATES \*



\* 3 month treasury bill rates for all countries except Japan (Average rate on bank loans and discounts) and Switzerland (3 month deposit rate)  
 † 3 month rate for U.S. dollar deposits in London

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Chart 6

**LONG-TERM BOND YIELDS**

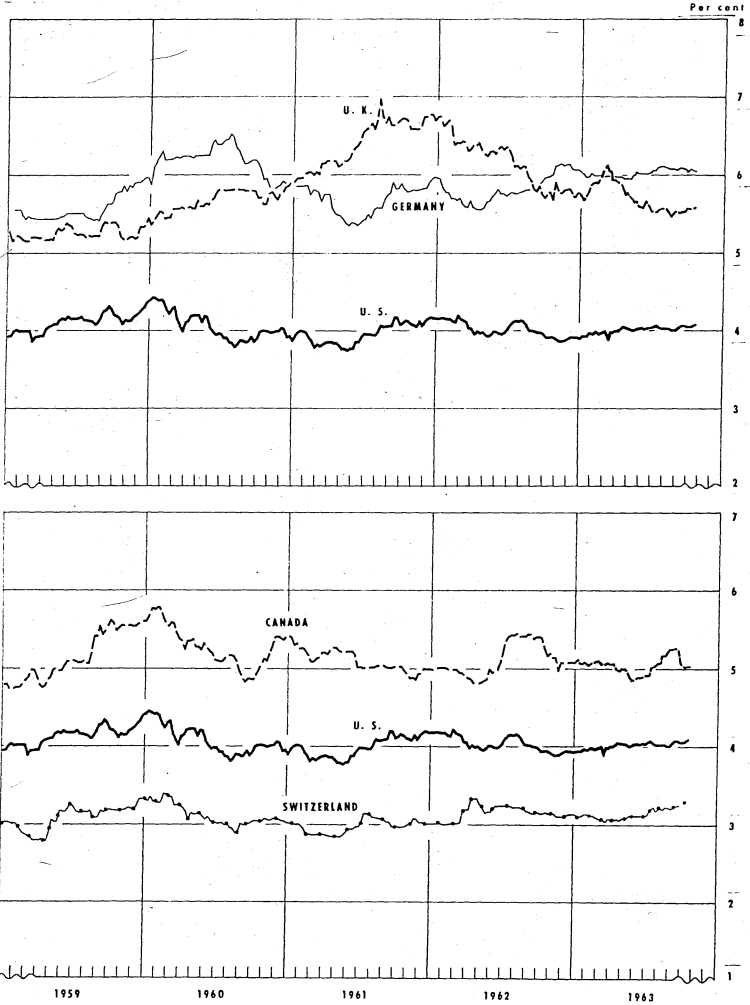
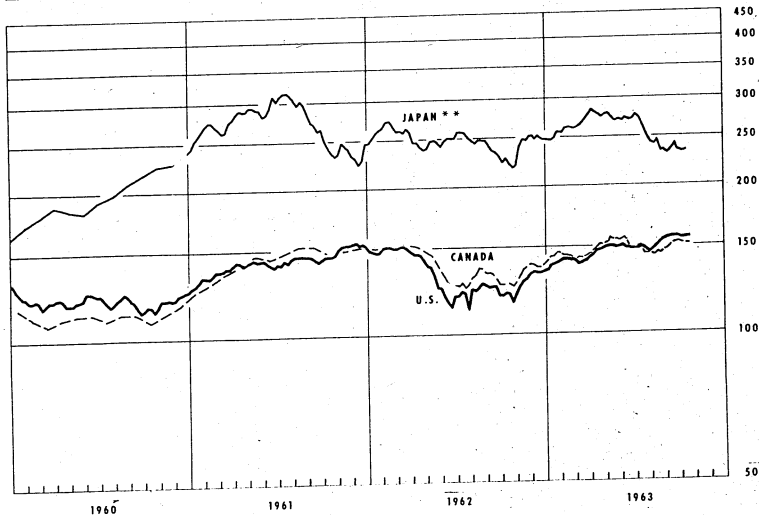
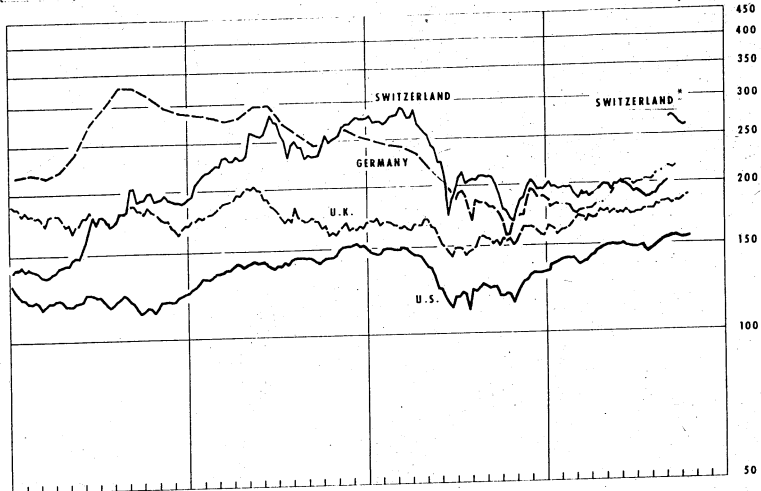


Chart 7

# INDUSTRIAL STOCK INDICES

1958 = 100  
Ratio scale

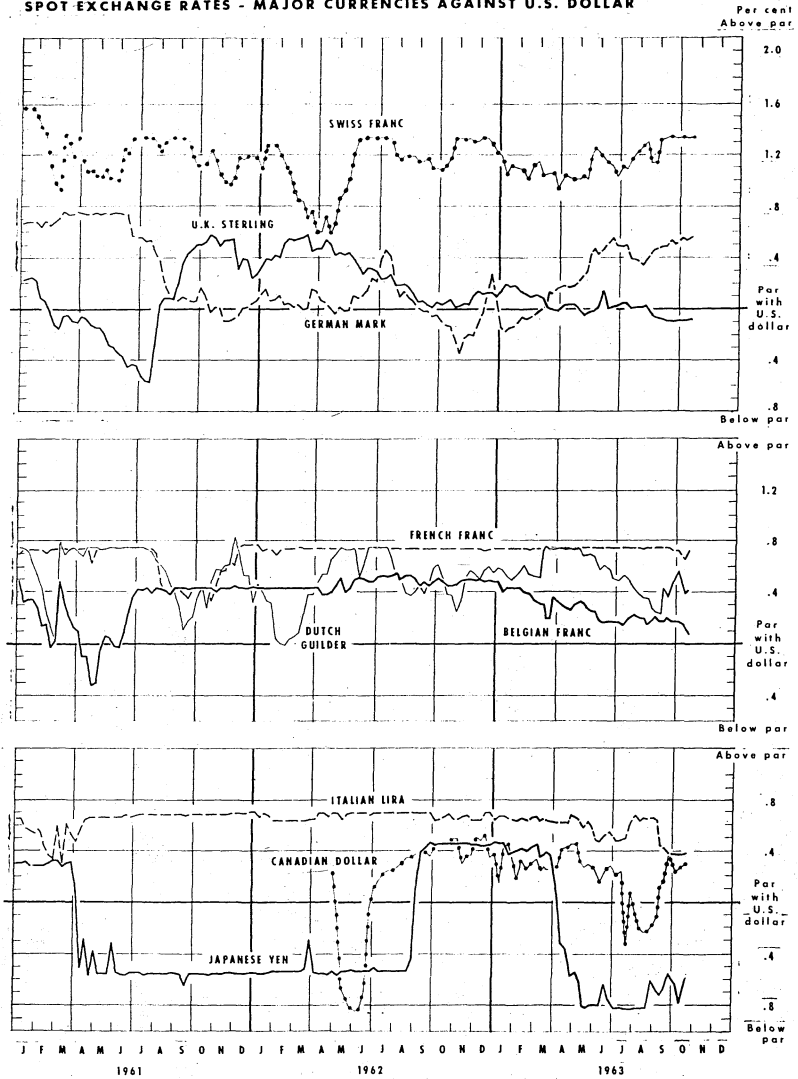


— New series Swiss Bank Corporation industrial stock index

— Japan: index of 225 industrial and other stocks traded on the Tokyo exchange.

Chart 8

SPOT EXCHANGE RATES - MAJOR CURRENCIES AGAINST U.S. DOLLAR

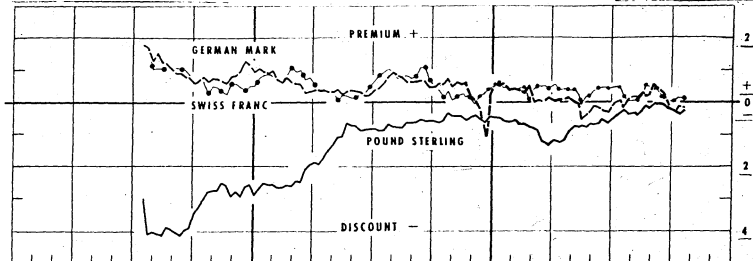


**3-MONTH FORWARD EXCHANGE RATE**

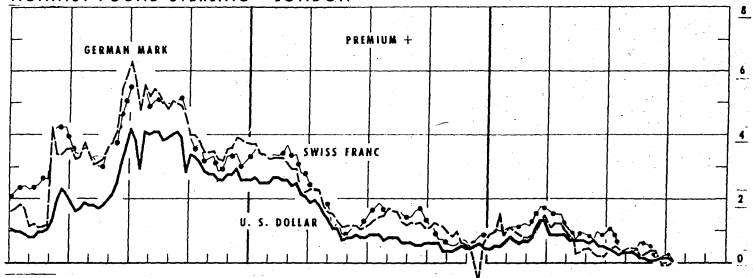
Friday figures

AGAINST U. S. DOLLARS

Per cent per annum



AGAINST POUND STERLING - LONDON



AGAINST POUND STERLING - LONDON

