

JUL 25 1961

H.13
No. 17FEDERAL RESERVE BANK
OF BALTIMORE

July 24, 1961

CAPITAL MARKET DEVELOPMENTS ABROAD

- I. Switzerland
- II. Nine Charts on Financial Markets Abroad

I. Switzerland: Money and Capital Markets During June

Short-term money rates rose in June and early July in contrast to their behavior earlier this year. Although seasonal factors were involved, it appears that the demand for funds may also have risen because of cyclically higher levels of economic activity, especially in the building sector. Bank credit outstanding in January-May of this year averaged 25 per cent greater than in the like period of last year, and the Swiss National Bank has recommended to the banks that they severely limit future credit expansion.

Long-term bond yields, which had turned upward in late May, continued to rise in June and the first half of July. New issues of securities have run far ahead of last year, and new foreign loans in June brought the January-June total for foreign borrowings to more than double that for the same months of 1960. Stock prices continued to rise in the first half of June but declined in the second half.

The spot dollar weakened in Zurich, and in the last week of June and the first half of July was at or near the Swiss National Bank buying rate. For 3-months forward currencies, the discount on the dollar continued, and the discount on sterling increased. Official gold and foreign exchange reserves rose \$62 million in the first two weeks of July, reportedly as a result of capital inflow prompted by revaluation rumors.

Money Market. In contrast to their behavior in previous months this year, short-term interest rates rose in June. The rates paid on three-months deposits were raised from $1\frac{1}{2}$ per cent in May to $1\frac{3}{4}$ - 2 per cent in the first half of June. There was a further increase to $1\frac{3}{4}$ - $2\frac{1}{4}$ per cent by the first week of July. However, the call loan rate remained unchanged at 1 per cent.

Although seasonal factors contributed to the rise in the three-month rates, it appears that more fundamental forces may also be raising the demand for funds. Top officials of the Swiss National Bank stated in June that: (1) since the spring, signs of overexpansion of the Swiss economy have become more pronounced; and (2) building activity this year has risen to exceptionally high levels which probably cannot be financed from traditional banking sources. In a letter to banks, the Swiss National Bank

NOT FOR PUBLICATION
DECONTROLLED AFTER SIX MONTHS

NOT FOR PUBLICATION

- 2 -

pointed out that bank credit outstanding in January-May averaged 25 per cent above that for the like period of last year. It recommended that banks exercise the utmost reserve in granting new credits, and that credits to finance building not be further increased.

The General Manager of the National Bank has asserted that a rise in the official discount rate would not help to counteract a dangerous overexpansion of the money supply, since, by raising interest rates, it would attract further foreign funds to Switzerland. He said that the only effective weapon was capital exports.

	<u>Rate on 3-months deposits with large banks in Zurich</u>	<u>Interbank call loan rate in Zurich</u>
1960 High	2.25	1.50
Low	1.50	1.00
Dec.	2.08	1.13
1961 Jan.	1.81	1.00
May 23	1.50	1.00
June 7	1.75 - 2.00	1.00
June 15	1.75	1.00

Bond Market. Long-term bond yields have likewise reversed their trend of the earlier months this year. The rise which began in the latter half of May continued throughout June and into July. The yield to maturity on the 3% Swiss Confederation bond of 1967-74 rose from 2.83 per cent on May 12 to 2.95 per cent on June 30, and by July 14 stood at 3.12 per cent. Although yields on medium-term deposit certificates declined further in the first half of June, they were reported to be rising in early July.

	<u>Gov't bond yield</u>	<u>New mortgage rate</u>
Jan. 6	2.96	3.74
May 12	2.83	3.74
June 2	2.91	3.74
June 30	2.95	n.a.
July 14	3.12	n.a.

	<u>Yield on deposit certificates</u>
	<u>12 cantonal banks 5 large banks</u>
Jan. 30	3.33 3.34
May 30	3.29 3.27
June 15	3.29 3.25

New Issues. A possible further indication of tightening of the Swiss capital market is a press report that, of two recent new loan issues, one was not fully subscribed, and the other (by a German firm, noted below)

NOT FOR PUBLICATION

was only barely subscribed.

This development, if true, is somewhat surprising, as the demand for new foreign bonds in Switzerland had greatly intensified in the past year with the enormous inflows of foreign funds. The intensification was all the greater because, under the "gentlemen's agreement" of last August between the Swiss National Bank and the banks, foreign residents have not been permitted to put new money into Swiss securities and, on bank accounts opened since last August, foreign residents receive no interest, and pay a service charge of $\frac{1}{4}$ per cent per calendar quarter on deposits of less than six months. At the same time, foreign borrowers are attracted by the relatively low interest rates, and the Swiss authorities have been especially willing to authorize foreign loans this year in order to promote the outflow of money, which helps to dispose of excessive liquidity.

However, as a result of all these developments, subscription to new capital issues earlier this year have been very heavy. New money raised by security flotations in January-May totalled \$268 million, 45 per cent above the amount for the corresponding period of last year and 70-115 per cent higher than in like periods of 1956-59.

New Public Issues
(new money raised; \$ millions)

	<u>Swiss bonds</u>	<u>Swiss stocks</u>	<u>Foreign bonds</u>	<u>Total</u>
<u>1960</u>				
Jan.-Mar.	87.8	10.0	27.5	125.3
April	13.8	5.4	14.0	33.2
May	12.3	6.4	8.1	26.8
<u>1961</u>				
Jan.-Mar.	71.9	42.9	77.7	192.5
April	16.2	4.9	11.6	32.7
May	12.9	12.6	17.0	42.4

Foreign borrowings in June included \$14 million by the British Aluminium Company, and \$4.1 million by the Mont Blanc Tunnel Company of France. The June borrowings again exceeded those for the comparable month of last year, and the six-months total of foreign loans of \$124 million was more than double the \$59 million in January-June 1960. In July the Istituto Mobiliare Italiano borrowed \$11.6, and a loan of similar amount was raised by Robert Bosch, G.m.b.H., of Germany, the first public loan to be raised by a German industrial firm in Switzerland since World War II.

Foreign Borrowings, June-July

	<u>Amount</u> (mil. \$)	<u>Term</u>	<u>Coupon</u> <u>rate</u>	<u>Issue</u> <u>Price</u>	<u>Yield to</u> <u>Maturity</u>
<u>June</u>					
British Aluminium Co.	14.0	1966-76	4.25	100	4.25
Mont Blanc Tunnel Co. (France)	4.1	1969-73	4.50	100	4.50
<u>July</u>					
IMI (Italy)	11.6	1968-77	4.50	100	4.50
Robert Bosch (Germany)	11.6	1968-76	4.50	100	4.50

NOT FOR PUBLICATION

- 4 -

Stock Market. As was reported in the July 3 issue of this review, stock prices continued to rise in the first two weeks of June, and on June 16 the industrial index, at 285, was 46 per cent higher than at the end of 1960. After prices had reportedly reached new record levels on the 19th, a broad decline set in which continued throughout the remainder of the month. This was regarded principally as a technical correction and was welcomed by Swiss analysts. The decline followed statements by Swiss National Bank officials warning of inflationary symptoms in the economy and recommending restraint by banks in extending credit.

Industrial share index

1960 - Dec. 30	195
Mar. 17	236
Apr. 21	233
June 16	285

Foreign Exchange. Foreign currencies tended to weaken against the Swiss franc during June. In the final week of the month the spot dollar in Zurich was never appreciably above the Swiss National Bank buying rate of SF 4.3150 per dollar, and the National Bank purchased dollars from the market. The dollar rate has remained at about the same level in July to date. Pressure on sterling continued in June. The Swiss franc has also been strengthened by rumors of revaluation. The discount on the 3-months forward dollar declined in the first three weeks of June but rose again in the final week almost to the level of the beginning of the month. The discount on 3-months forward sterling increased during the month.

Official gold and foreign exchange reserves rose by \$46 million in the final week of June; the Swiss National Bank reported in its weekly letter that \$25 million of this represented a purchase of gold from the United States. There was a further rise in reserves of \$62 million in the first two weeks of July, which press reports have attributed to capital inflow based on continued revaluation rumors.

Swiss National Bank reserves
(\$ millions)

	<u>Gold</u>	<u>Foreign Exchange</u>	<u>Total</u>
May 31	2,247	305	2,552
June 23	2,246	306	2,552
June 30	2,271	327	2,598
July 15	2,331	329	2,660

European Section.

NOT FOR PUBLICATION

II. Nine Charts on Financial Markets Abroad

- Chart 1 - Interest Arbitrage U.S./Canada
- Chart 2 - Interest Arbitrage New York/London
- Chart 3 - Interest Arbitrage New York/Frankfurt
- Chart 4 - Interest Arbitrage Frankfurt/London
- Chart 5 - Short-term Bond Yields
- Chart 6 - Long-term Bond Yields
- Chart 7 - Industrial Stock Indices
- Chart 8 - Major Currencies in Terms of
Spot United States Dollar
- Chart 9 - 3-month Forward Rate--London Quotations

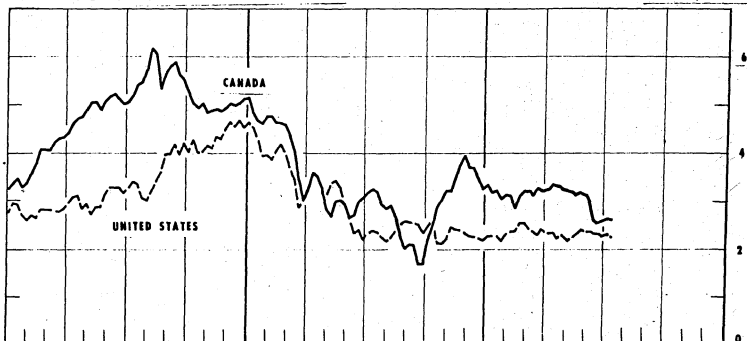
Chart 1

INTEREST ARBITRAGE, UNITED STATES / CANADA

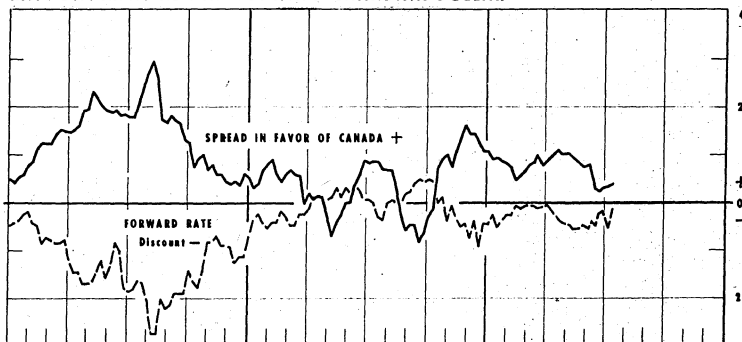
Thursday figures

THREE-MONTH TREASURY BILL RATES

Per cent per annum



RATE DIFFERENTIAL AND FORWARD CANADIAN DOLLAR



RATE DIFFERENTIAL WITH FORWARD EXCHANGE COVER

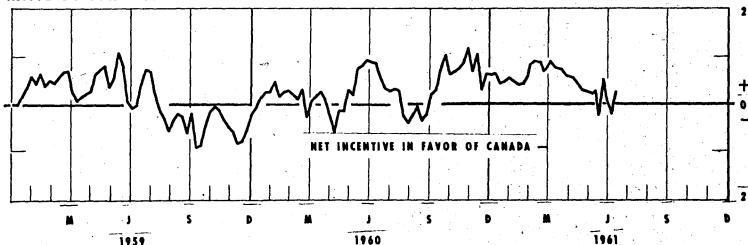
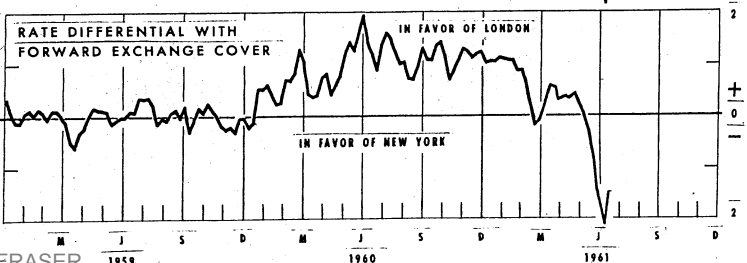
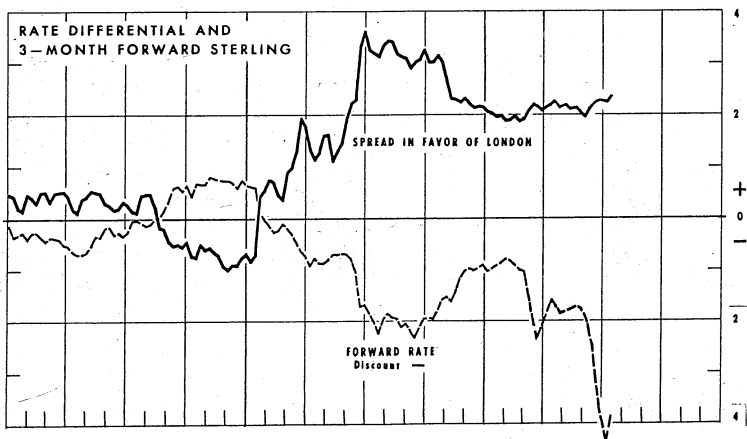
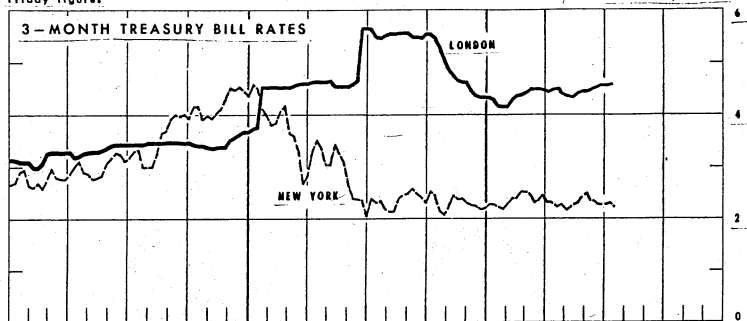


Chart 2

INTEREST ARBITRAGE, NEW YORK / LONDON

Friday figures

Per cent per annum

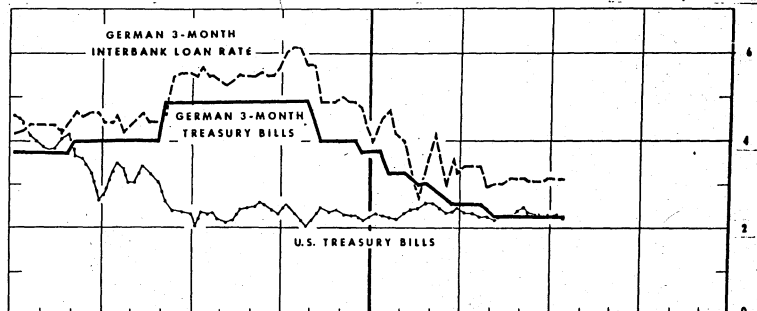
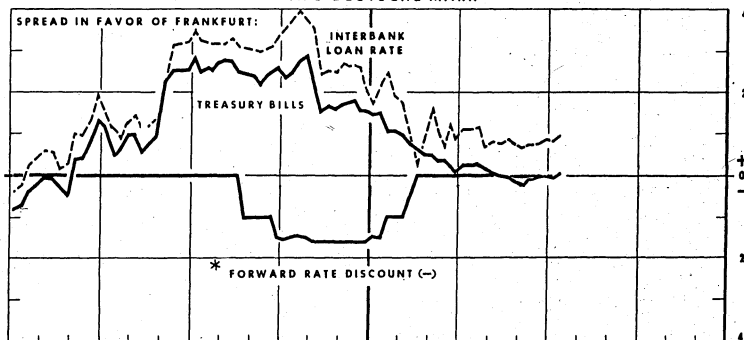
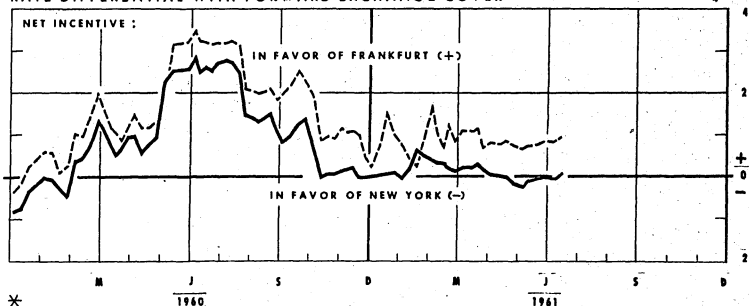


INTEREST ARBITRAGE, NEW YORK/FRANKFURT

Friday figures

**3-MONTH TREASURY BILL RATES AND
GERMAN 3-MONTH INTERBANK LOAN RATES**

Per cent per annum

**RATE DIFFERENTIAL AND FORWARD DEUTSCHE MARK****RATE DIFFERENTIAL WITH FORWARD EXCHANGE COVER**

* Note. Special forward dollar rate (either flat or premium on spot) available to German commercial banks.

Chart 4

INTEREST ARBITRAGE, FRANKFURT/LONDON

Friday figures

Per cent per annum

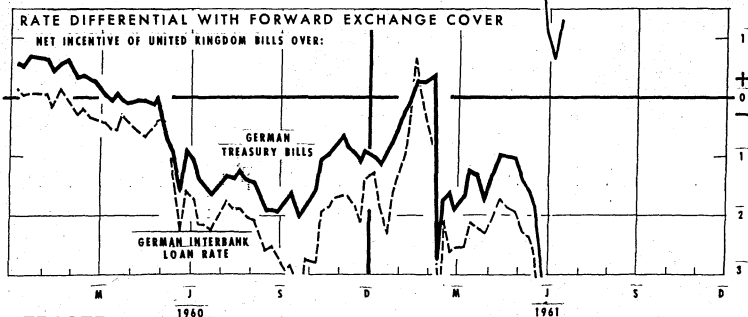
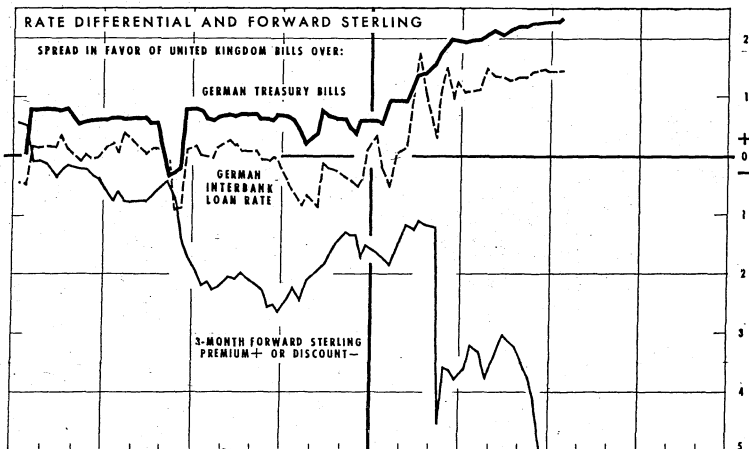
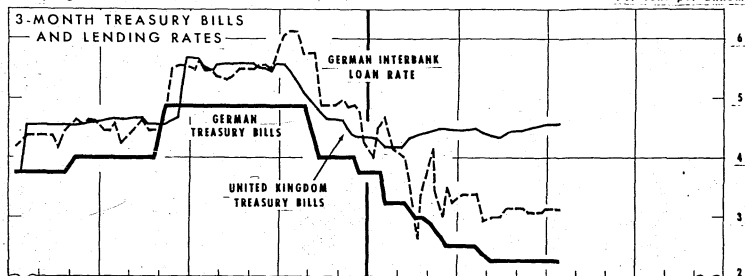
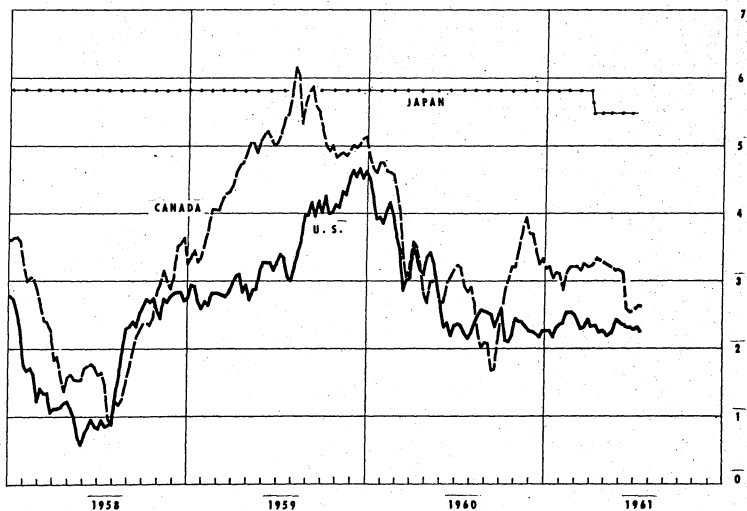
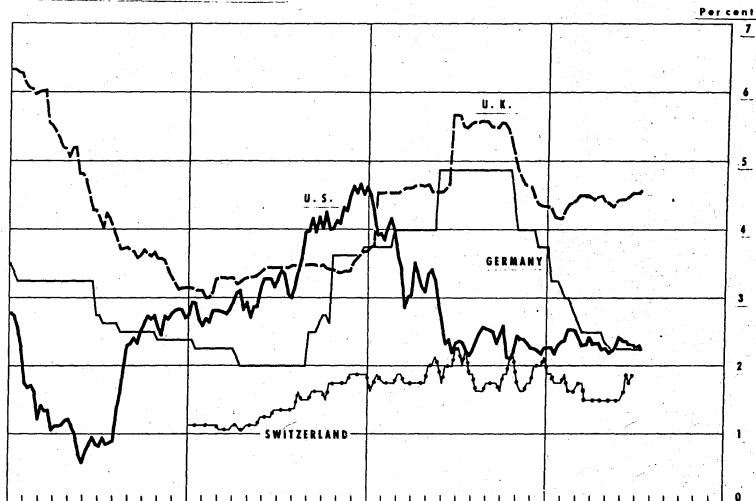


Chart 5

SHORT-TERM INTEREST RATES *



Note: 3-month treasury bill rates for all countries except Japan (3-month interbank deposit rate) and Switzerland (3-month deposit rate).^a

Chart 6

LONG-TERM BOND YIELDS

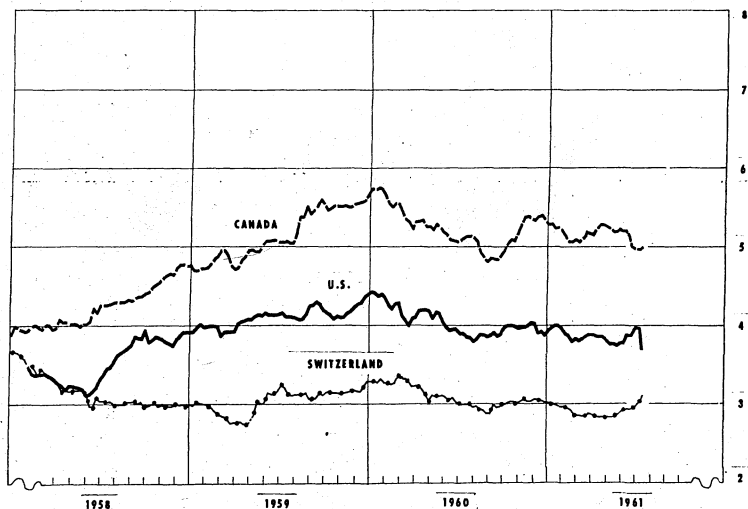
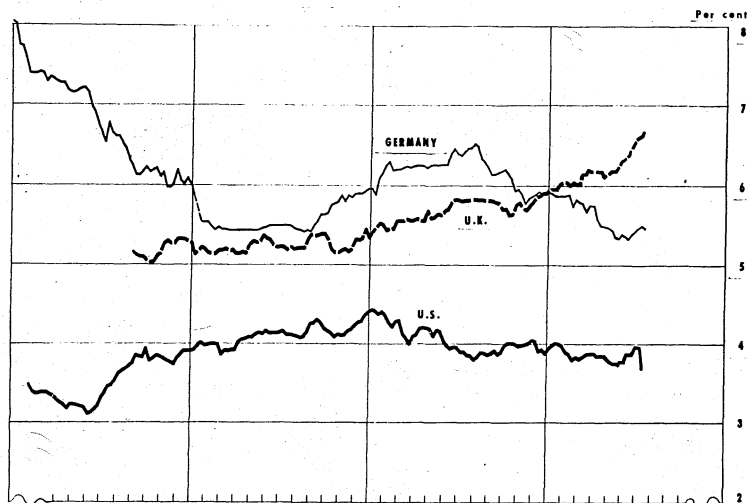
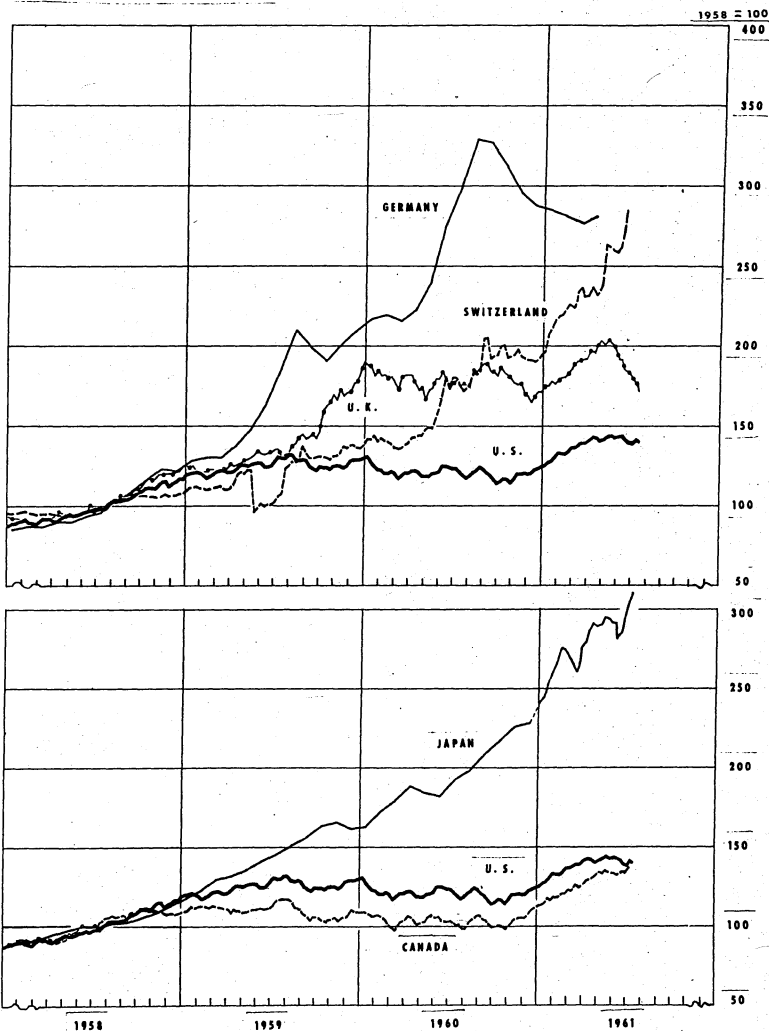


Chart 7

INDUSTRIAL STOCK INDICES *



*

Note: Japan: Index of all stocks traded on Tokyo exchange.

Chart 8

MAJOR CURRENCIES IN TERMS OF THE SPOT U. S. DOLLAR

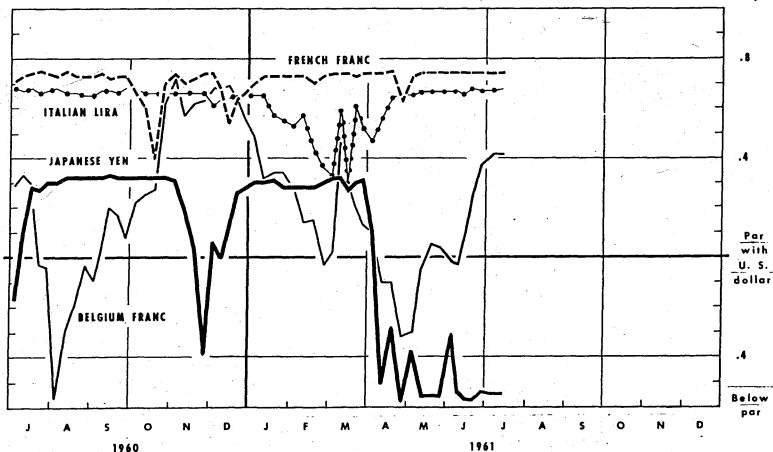
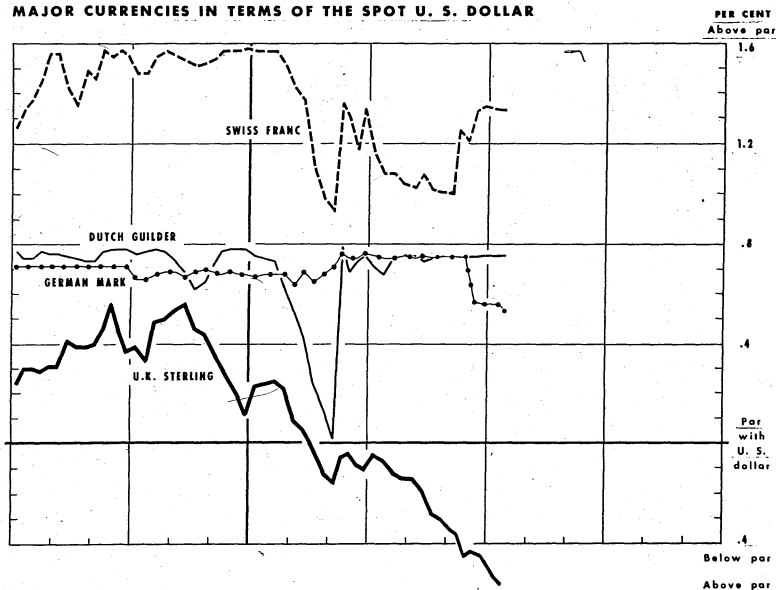


Chart 9

3-MONTH FORWARD RATES - LONDON QUOTATIONS

14

