

August 28, 1961

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No. 22FEDERAL RESERVE BANK
OF RICHMONDCAPITAL MARKET DEVELOPMENTS ABROAD

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

I. Switzerland: Money and Capital Markets During June

The money market became somewhat easier in July, when there were further liquidations of foreign investments, and short-term rates fell slightly. The long-term bond market tightened further in July, governments yielding around 3.11 per cent compared to about 2.83 per cent as recently as mid-May. Response to new security issues was poor in July for the first time this year. This was believed to reflect a saturation of the market in the wake of the very high volume of new flotations this year. New issues, foreign and domestic, were again at high levels in July. In early August the money and capital markets were quiet, showing little change.

Stock prices fell severely during most of July, continuing the decline that began after mid-June. Both technical factors and the international situation were cited as causes of the drop. In August price movements have been erratic.

Funds moved into Switzerland from abroad on a substantial scale in July. However, in the first half of August the inflow was apparently much reduced despite the worsened Berlin situation. The spot dollar was at or near its support level throughout July and was not much stronger in the first three weeks of August. Spot sterling rallied dramatically after the British measures announced July 25, and held the gains through the third week of August. However, the discount on three-months forward sterling did not narrow appreciably after July 25 but has remained above 5 per cent per annum. The forward dollar continued at a discount of over 1 per cent.

In a move to check inflows of "hot money", the Swiss National Bank in August renewed for a second year the so-called gentlemen's agreement of August 1960 under which Swiss commercial banks discourage foreign deposits.

Money Market. The short-term money market became somewhat easier in the last three weeks of July after having tightened since the middle of May. This resulted in part from liquidations of Swiss investments abroad, which helped to meet some of the continued high demand for funds for construction. In August, there was little activity in the

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DECONTROLLED AFTER SIX MONTHS

market. Rates on three-months deposits, which had moved up to $1\frac{3}{4}$ - $2\frac{1}{4}$ per cent on July 7, fell back to 2 per cent on July 15, and no further changes have been reported.

	Rate on 3-months deposits with large banks in Zurich	Interbank call loan rate in Zurich
Jan. 7	$1\frac{3}{4}$ - 2	1
May 15	1 $\frac{1}{2}$	1
July 7	$1\frac{3}{4}$ - $2\frac{1}{4}$	1
July 15	$1\frac{3}{4}$ - 2	1

Bond Market. In July the long-term bond market was markedly tighter. This was evidenced by the disappointing reception given to a number of new bond issues as well as by lower bond prices. The yield to maturity on the $3\frac{1}{2}$ Swiss Confederation bond of 1967-74 rose abruptly from 2.95 per cent on June 30 to 3.12 per cent on July 14 and stood at about 3.11 per cent for the remainder of the month. There was a decline to 3.08 per cent on August 4. The pronounced rise in bond yields since the middle of May is shown in the table below. This movement seems in part to be in reaction to the extremely large volume of new issues floated on the Swiss market beginning in March and continuing through July.

Despite the especially heavy demand for construction loans this year, the rate on new mortgages on houses and industrial buildings has remained unchanged at 3.76 per cent, where it has been since the autumn of 1959.

	Gov't bond yield	New mortgage rate
Jan. 6	2.96	3.76
May 12	2.83	3.76
July 14	3.12	3.76
July 28	3.11	n.a.
Aug. 4	3.08	n.a.

The yields on medium-term deposit certificates remained at 3.25 - 3.29 per cent on July 15, unchanged from a month earlier, bringing to an end the continuing declines since December 1960.

Yields on deposit certificates

12 cantonal banks 5 large banks

Jan. 30	3.33	3.34
June 15	3.29	3.25
July 15	3.29	3.25

New Issues. For the first time this year, public response to new issues was poor in July. Investors failed to subscribe fully the bonds offered by PETROFINA of Brussels and to offerings of four varied types of Swiss enterprises. The terms and conditions of these offerings were in line with those of earlier loans this year. Financial analysts ascribe these results to market saturation after the new issue activity of recent months; they also suggest that investors held off in July in the hopes of higher interest rates in the near future. There is a belief that the terms of future new issues will have to be more attractive if they are to be successful.

New public issues in June were high for the fourth consecutive month and brought the January-June total of new money raised to \$312 million compared to \$220 million in the first half of 1960 and to \$181 million in the same period in 1959. Incomplete figures on new issues in July totalling \$54 million also exceed the full amounts raised in July of the previous two years. The table below shows that this year's large volume of total new issues reflects greatly increased offerings of foreign bonds and of Swiss stocks, but that new issues of domestic bonds have lagged. Several of the factors which have acted to swell the volume of new foreign bond issues were discussed in "Capital Market Developments" for July 24. In the case of Swiss issues, this year's much higher proportion of issues of stocks relative to bonds may be related to the greater public demand for stocks which has pushed stock prices in general far above the 1960 levels.

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

<u>Jan.-June</u>	<u>Swiss bonds</u>	<u>Swiss stocks</u>	<u>Foreign bonds</u>	<u>Totals</u>
1959	90.2	28.4	62.8	181.3
1960	130.0	30.9	58.9	219.8
1961	124.6	63.2	124.3	312.1
<u>Total issues, 1961, by months</u>				
Jan. -	31.3	Apr. -	32.7	
Feb. -	36.0	May -	42.6	
Mar. -	125.5	June -	44.0	

Foreign borrowings in July of \$35 million were especially heavy and further raised the cumulative total for 1961 compared to previous years. The July loans, each in the amount of SF 50 million (\$11.6 million), were issued by PETROFINA, S.A., of Brussels, the Istituto Mobiliare Italiano, and Robert Bosch, G.m.b.H., of Stuttgart. The new issue market in August has been very quiet, and no foreign bond issues have as yet been reported for this month.

Foreign Borrowings in 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>
IMI (Italy)	11.6	1968-77	4.50	100	4.50
Robert Bosch (Germany)	11.6	1968-77	4.50	100	4.50
PETROFINA, S.A. (Belgium)	11.6	1972-76	4.50	100	4.50

Stock Market. Stock prices continued to fall severely during most of July. The decline was believed to be partly a further technical correction of the earlier large rise which reached a peak in mid-June, and partly a consequence of international tensions over Berlin and Bizerte. On July 14 the industrial share index was down 12 per cent from its level on June 16. A further decline in the third week of July preceded a recovery in the final week. In August, the market has moved irregularly on relatively small volume, and prices were down only slightly in the week which followed the Berlin border closing.

Industrial share index

1960 - Dec. 30	195
1961 - Mar. 30	231
June 16	285
June 30	274
July 14	252

Foreign Exchange. There were further substantial return flows of capital in July caused by speculation over possible readjustments of the exchange rates for sterling and the Swiss franc. The July gain in official reserves was \$44 million, but this figure should be adjusted for the \$50 million of gold used to exchange for Swiss francs held by a foreign central bank. All of the July reserve gain occurred prior to the British measures announced on July 25. In the first half of August, reserves rose by \$13 million despite the capital flows from Germany produced by the tension in Berlin.

Swiss National Bank reserves
(\$ millions)

	<u>Gold</u>	<u>Foreign Exchange</u>	<u>Total</u>
May 31	2,247	305	2,552
June 30	2,271	327	2,598
July 31	2,323	320	2,642
Aug. 15	2,323	333	2,655

Throughout July, the spot dollar remained mostly at the Swiss National Bank intervention rate of SF 4.315. From time to time, it rose momentarily but then fell back. It rose to 4.320 early in August but had again fallen back to the intervention point in the third week. Spot sterling rose abruptly after the July 25 measures from its low point for the year of SF 12.015 to SF 12.103 in the first week of August and remained at or close to that level through the third week. The discount on the three-months forward dollar dropped from 1.85 per cent in the second week of July to 1 per cent in early August, but by the third week of August had widened again to 1.13 per cent. The three-months forward sterling discount remained very high, reaching 5.62 per cent in July, and in the third week of August was still above 5 per cent despite the dramatic improvement in spot sterling.

A highly significant development in August was the renewal, for another twelve months, of the "gentlemen's agreement" concluded a year ago between the Swiss National Bank and commercial banks in Switzerland. This agreement is a prime instrument in the monetary authorities' attempt to preserve financial stability in Switzerland by discouraging inflows of foreign capital of the "hot money" variety. Its principal features are: (a) new bank accounts opened by foreign residents are subject to a withdrawal notice of at least three months, earn no interest, and are subject to a service charge of $\frac{1}{4}$ per cent per calendar quarter where the account is of less than six months duration; (b) new foreign funds are not allowed to be invested in Swiss securities.

European Section.

II. Nine Charts on Financial Markets Abroad

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- Chart 4 - Interest Arbitrage Frankfurt/London
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- Chart 6 - Long-term 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

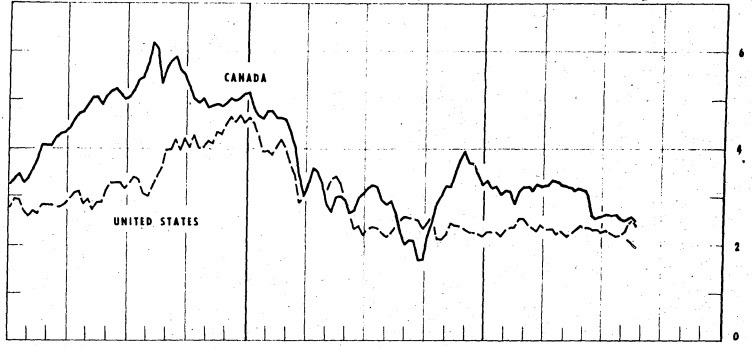
Chart 1

INTEREST ARBITRAGE, UNITED STATES / CANADA

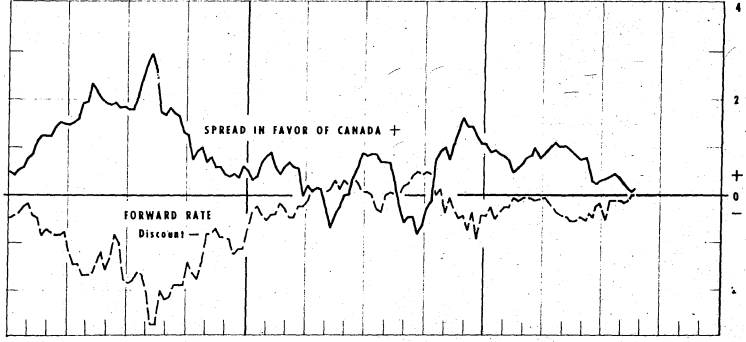
Thursday figures

THREE-MONTH TREASURY BILL RATES

Per cent per annum



RATE DIFFERENTIAL AND FORWARD CANADIAN DOLLAR



RATE DIFFERENTIAL WITH FORWARD EXCHANGE COVER

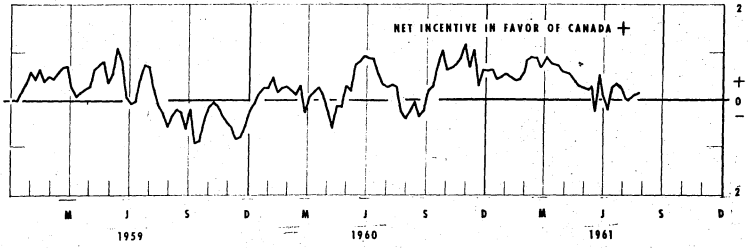
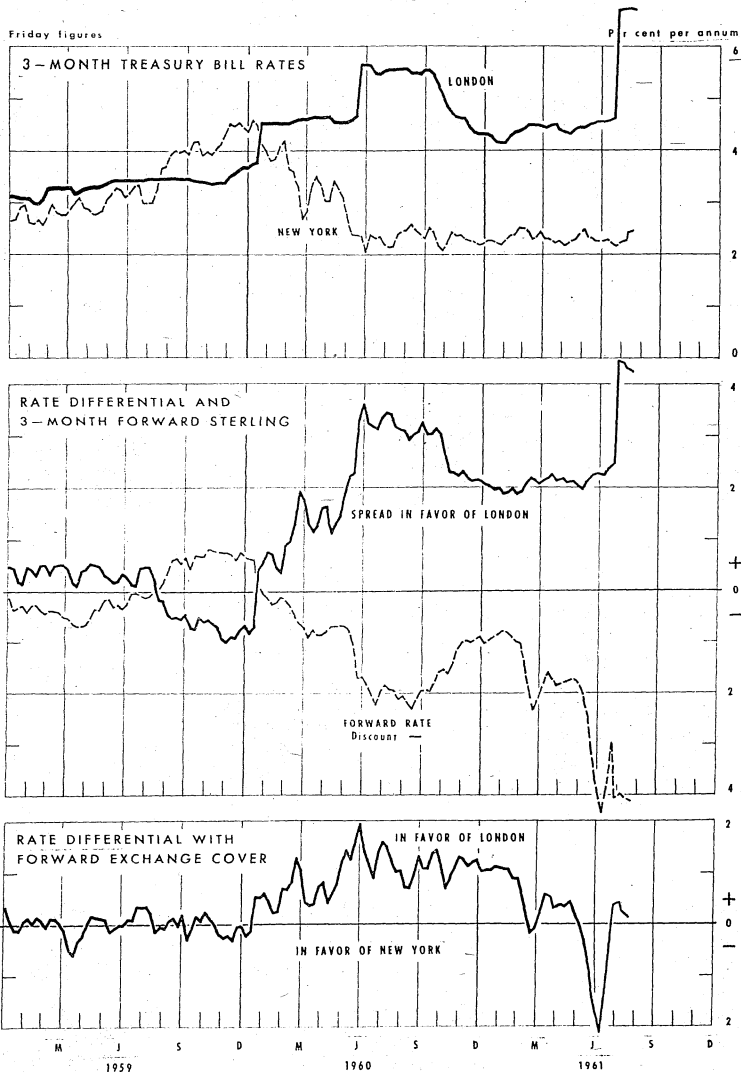


Chart 2

INTEREST ARBITRAGE, NEW YORK / LONDON

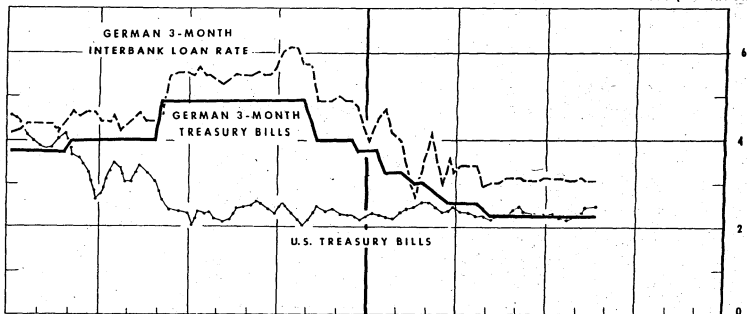
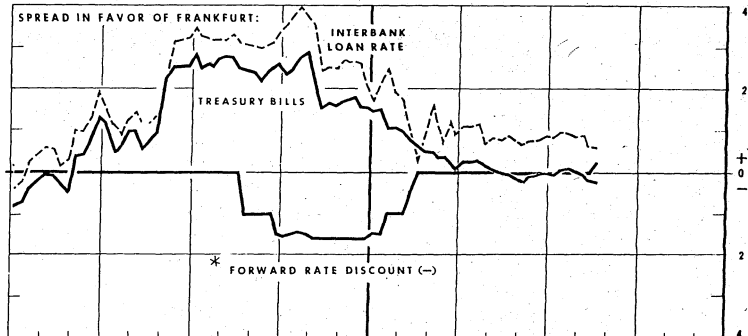
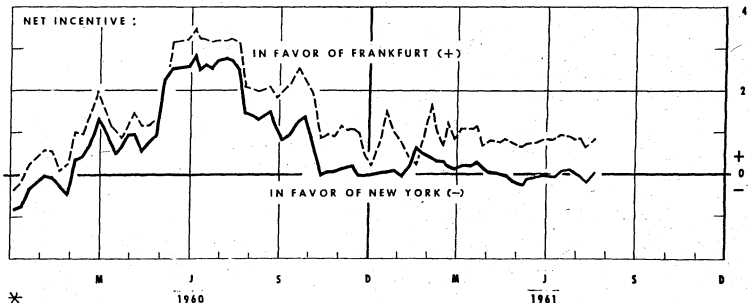


INTEREST ARBITRAGE, NEW YORK/FRANKFURT

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**

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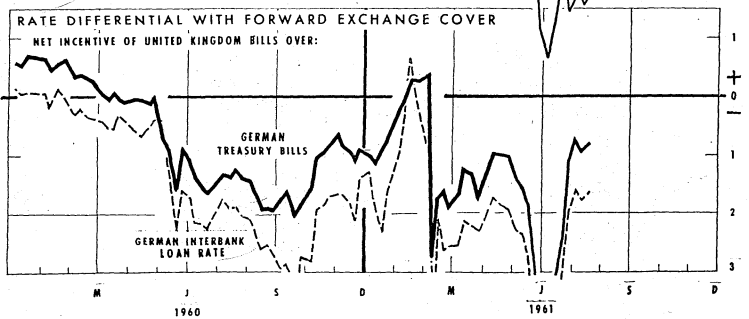
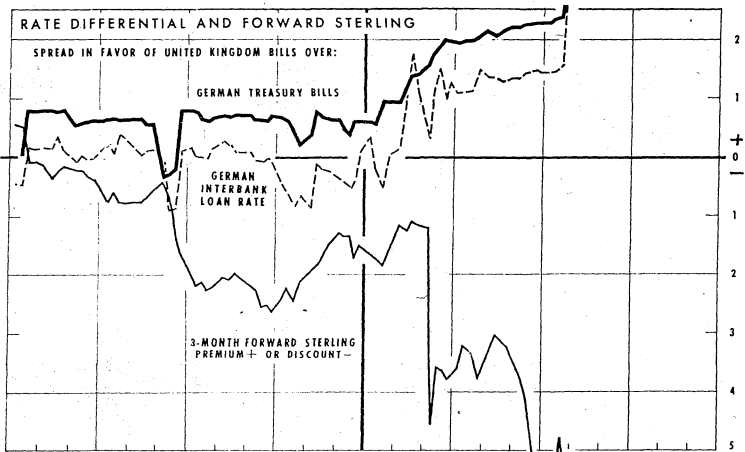
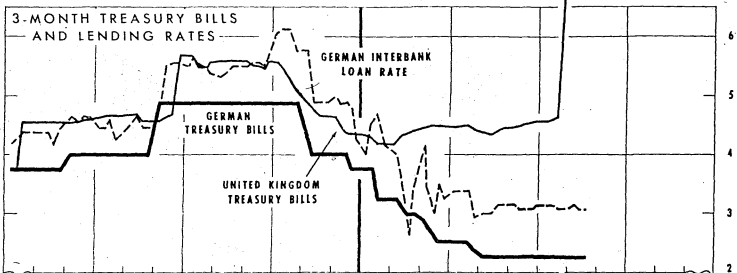
* Special forward dollar rate (either flat or premium on spot) available to German commercial banks.

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Chart 4

INTEREST ARBITRAGE, FRANKFURT/LONDON

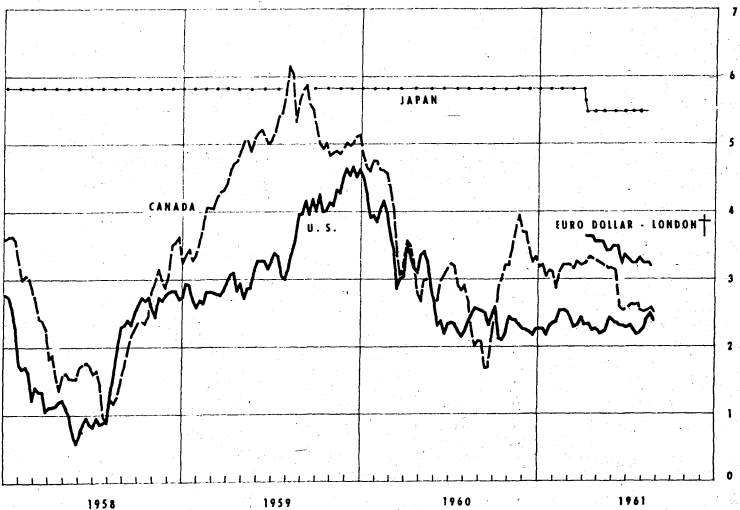
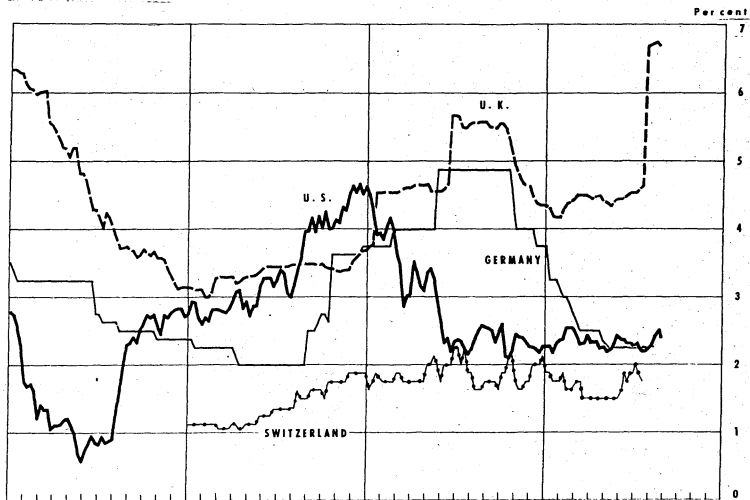
Friday figures



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1960 1961

Chart 5

SHORT-TERM INTEREST RATES *



* 3 month treasury bill rates for all countries except Japan (3 month interbank deposit rate) and Switzerland (3 month deposit rate).
 † 3 month rate for U.S. dollar deposits in London

Chart 6

LONG-TERM BOND YIELDS

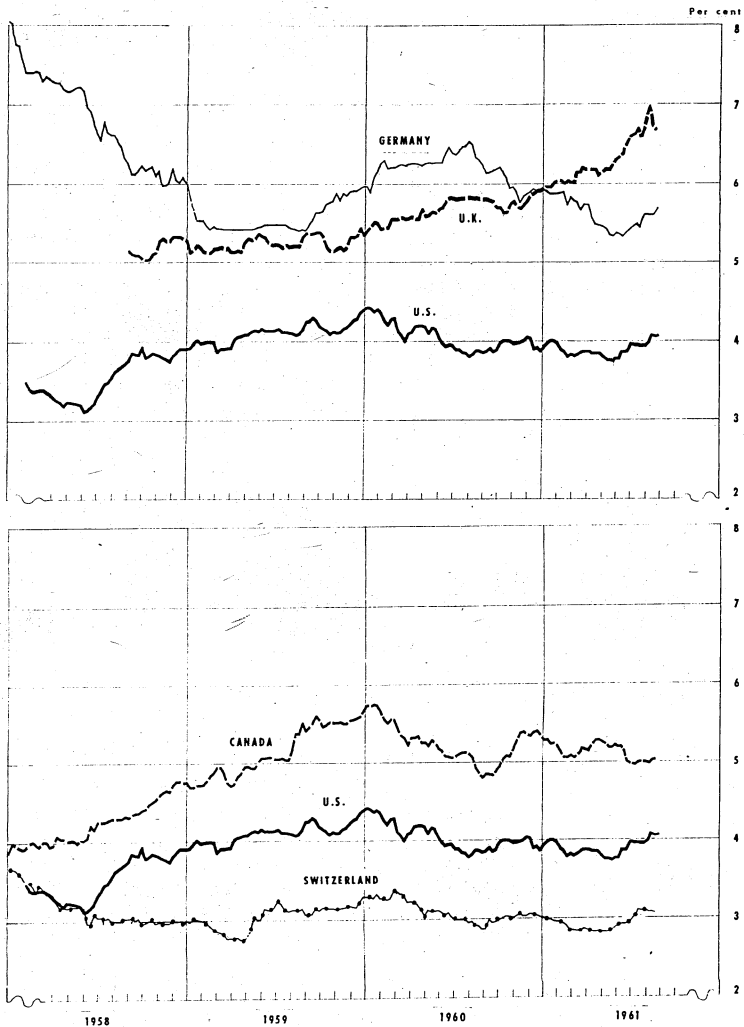
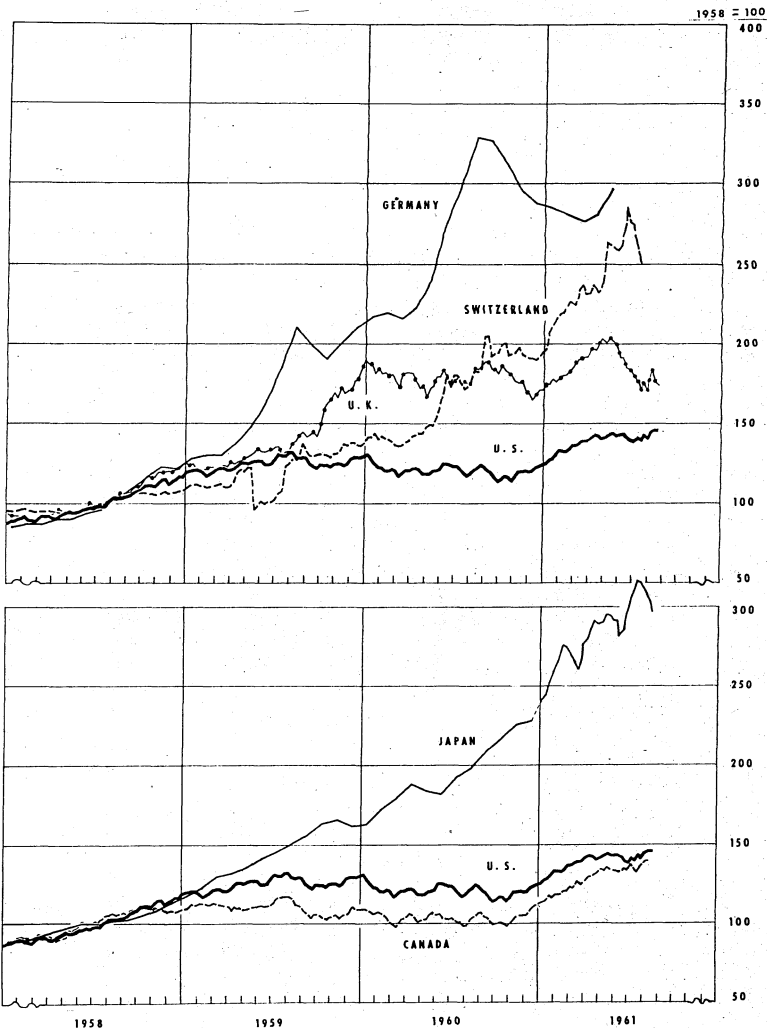


Chart 7

INDUSTRIAL STOCK INDICES *



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

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Chart 8

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

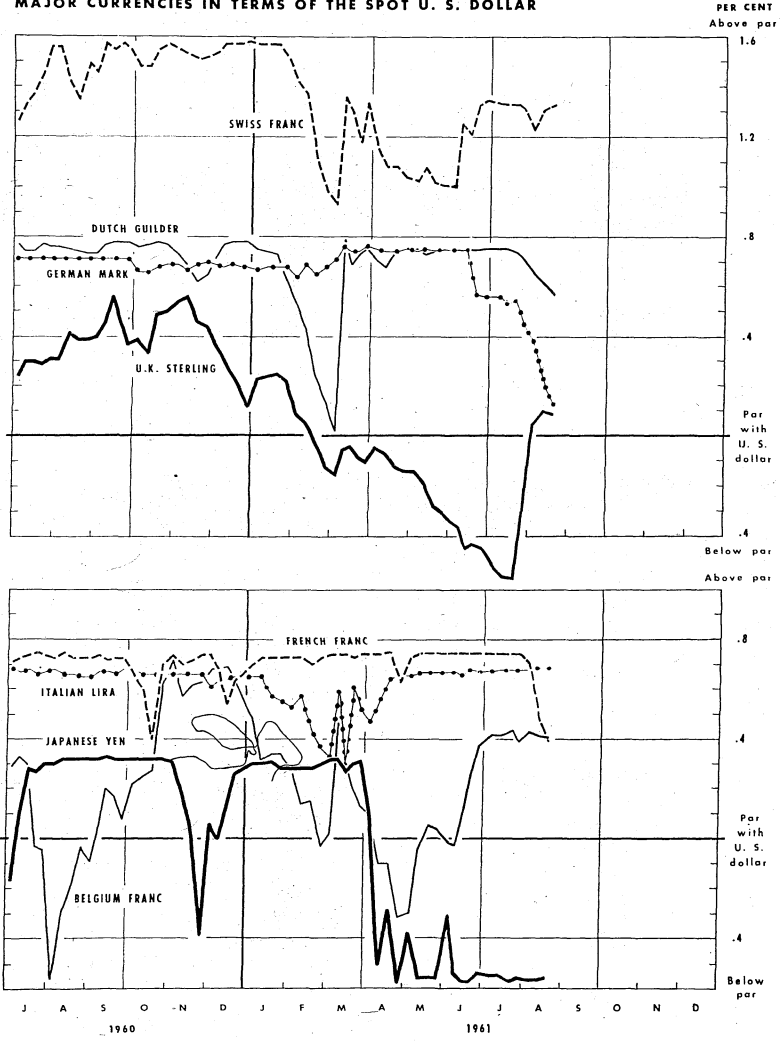


Chart 9

3-MONTH FORWARD RATES - LONDON QUOTATIONS

