I. Switzerland

Money and Capital Markets During August

The money market became more liquid in August and the first week of September, when there were further repatriations of Swiss funds abroad. The Swiss banks have become less interested in three-month deposits and more interested in six-month deposits. Despite the increase in liquidity, the call money market became firmer in late August.

The bond market was quiet in August. Yields on government bonds declined in August and the first week of September, offsetting part of the sharp rise that had occurred between mid-May and mid-July. Increased use of bank loans prompted a rise in rates paid on medium-term deposit certificates. Stock prices declined further in August.

New issue activity is expected to continue at a very high level through the rest of 1961. Through July of this year total new issues were almost as great as in all of 1960, and new foreign issues already exceed the 1960 total. The Argentine Government has placed in Switzerland part of an issue of bonds on which interest payments and principal repayments may be made in any of eight different currencies, at the option of the bondholder.

Official reserves rose $91 million in August and another $17 million in the first week of September. Funds flowed into Switzerland from Germany, apparently in reflection of the Berlin crisis. The spot dollar declined to the official support level in the third week of August and remained almost continuously through the first week of September. Spot sterling strengthened further in late August and early September. The discount on the three-month forward dollar in August was generally between 1.1 and 1.4 per cent per annum, while the discount on three-month forward sterling fluctuated downward from somewhat over to somewhat under 5 per cent.

It is estimated that in the first half of 1961 the net capital inflow into Switzerland was around $100 million and the gross inflow about $550 million. Capital inflow apparently continued at a high rate in July and August.

Money Market. During August and the first week of September the short-term money market became more liquid. There were further repatriation of Swiss funds abroad, including investments in Germany, and the rise in

NOT FOR PUBLICATION

DECONTROLLED AFTER SIX MONTHS
official reserves indicates that the inflow of funds into Switzerland was heavy. Turnover on the money market was light, and the market was calm despite international tensions. The rates paid on three-month deposits by large banks in Zurich, which had fallen by 1/4 per cent in mid-July, remained at 1 1/2 - 2 per cent through the second week of August. In July some banks had offered higher rates on these deposits than did the large Zurich banks, but such offers declined in August.

Reflecting their increased liquidity, the Swiss banks have become less willing to accept three-month deposits, and are more interested in six-month deposits. Despite the increase in liquidity, in late August there was some reluctance to lend on the call money market. While the call money rate has remained nominally at about 1 per cent through August 31, some call money transactions in late August carried rates of 1 1/2 or 1 3/8 per cent.

<table>
<thead>
<tr>
<th>Rate on 3 months deposits with large banks in Zurich</th>
<th>Interbank call loan rate in Zurich</th>
</tr>
</thead>
<tbody>
<tr>
<td>May 15: 1 1/2</td>
<td>1</td>
</tr>
<tr>
<td>July 7: 1 3/4 - 2 1/4</td>
<td>1</td>
</tr>
<tr>
<td>July 23: 1 1/2 - 2</td>
<td>1</td>
</tr>
<tr>
<td>Aug. 15: 1 1/2 - 2</td>
<td>1</td>
</tr>
</tbody>
</table>

Bond Market. The bond market in August was characterized by a greatly reduced volume of business, and changes in yields were generally small. However, yields on government bonds declined in August and the first week of September, thereby erasing part of the sharp rise between mid-May and mid-July. The yield to maturity on the 3% Swiss Confederation bond of 1967-72 fell from 3.11 per cent on July 28 to 3.05 per cent on September 1, and was down to 3.02 per cent by September 8.

<table>
<thead>
<tr>
<th>Govt' bond yield</th>
<th>New mortgage rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>May 12: 2.83</td>
<td>3.76</td>
</tr>
<tr>
<td>July 14: 3.12</td>
<td>3.76</td>
</tr>
<tr>
<td>July 28: 3.11</td>
<td>3.76</td>
</tr>
<tr>
<td>Sept. 1: 3.06</td>
<td>n.a.</td>
</tr>
<tr>
<td>Sept. 8: 3.02</td>
<td>n.a.</td>
</tr>
</tbody>
</table>

The yield on medium-term deposit certificates rose slightly in the second week of August. This was the first rise this year in these yields, which previously had declined continuously from the beginning of the year until June. It is reported that later in the month banks offered more attractive terms on new issues of deposit certificates, in the form of either higher interest rates or shorter maturities. The more favorable terms have been prompted by increased use of credit lines by the commercial and building sectors.
Yields on deposit certificates

<table>
<thead>
<tr>
<th>Date</th>
<th>12 cantonal banks</th>
<th>5 large banks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan. 30</td>
<td>3.33</td>
<td>3.34</td>
</tr>
<tr>
<td>July 15</td>
<td>3.29</td>
<td>3.25</td>
</tr>
<tr>
<td>July 31</td>
<td>3.29</td>
<td>3.25</td>
</tr>
<tr>
<td>Aug. 15</td>
<td>3.30</td>
<td>3.25</td>
</tr>
</tbody>
</table>

New Issues. The new issue market was seasonally quiet in August; incomplete data show a total of $9 million of new money raised compared with a monthly average of $53 million in the first seven months of this year. The only foreign borrowing so far reported in August is a $7 million bond issue by the International Mosel Company of Trier, guaranteed by the French Government, the proceeds of which are to be used to improve navigation facilities on the Mosel River.

Foreign borrowings in August

<table>
<thead>
<tr>
<th>Amount (mil. $)</th>
<th>Term</th>
<th>Coupon Rate</th>
<th>Issue Price</th>
<th>Yield to Maturity</th>
</tr>
</thead>
<tbody>
<tr>
<td>International Mosel Co. (Germany)</td>
<td>7.0</td>
<td>1970-79</td>
<td>4.5</td>
<td>100</td>
</tr>
</tbody>
</table>

It has now been reported that in July the Argentine Government placed in Switzerland a bond issue, denominated in U.S. dollars, with a nominal value of $7,21,000. These bonds are part of a total issue of $25 million which the Argentine Government is placing in seven Western European countries. The issue has the distinctive feature that payment of coupons and redemption of the bonds may be made, at the option of the bondholder, in any of the currencies of Belgium, France, West Germany, Italy, the Netherlands, Switzerland, the United Kingdom and the United States, at a fixed rate of exchange, as a protection against devaluation. The bonds are serial bonds maturing in 1967-73, carry a 6 1/2% coupon, and were priced at 95, to give an average yield to maturity of 7.75 per cent. This yield is much higher than that on other foreign issues floated in Switzerland this year. One-half the placement in Switzerland was taken up by the underwriting syndicate. This is the first public bond issue floated abroad by the Argentine Government since World War II.

It is expected that new issue activity during the balance of 1961 will be proportionately as high as it has been until now, although interest rates may turn higher. This forecast is based upon the current boom conditions in Switzerland and expectation of continued readiness on the part of the Swiss authorities to sanction foreign loans, which have been employed as a tool to mop up liquidity. Through July of this year total new issues (in

---

1/ This issue was not included in the list of foreign loans in July as given in the August 28 issue of "Capital Market Development Abroad."
terms of new money raised) came to $374 million, which is only $8 million short of the amount raised in all of 1960. New foreign issues already exceeded the 1960 total.

### New public issues
(new money raised; $ millions)

<table>
<thead>
<tr>
<th>Year</th>
<th>Swiss issues</th>
<th>Foreign issues</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1958</td>
<td>213.7</td>
<td>31.8</td>
<td>250.5</td>
</tr>
<tr>
<td>1959</td>
<td>253.2</td>
<td>111.5</td>
<td>364.7</td>
</tr>
<tr>
<td>1960</td>
<td>251.9</td>
<td>129.8</td>
<td>381.7</td>
</tr>
<tr>
<td>Jan.-June</td>
<td>187.8</td>
<td>124.3</td>
<td>312.1</td>
</tr>
<tr>
<td>July</td>
<td>20.2</td>
<td>42.0</td>
<td>61.9</td>
</tr>
</tbody>
</table>

Stock Market. Stock prices showed a further net decline in the first two weeks of August, although the fall was relatively much less severe than the precipitate five-week drop that set in after mid-June. Small gains in the first week of the month were more than wiped out by declines in the second week, which were attributed to Soviet pronouncements about their nuclear strength. The industrial share index fell 1.3 per cent in the two weeks ended August 11. There was another decline in late August which analysts related to the international situation. A small recovery ensued in the first week of September.

### Industrial share index

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>June 16</td>
<td>285</td>
</tr>
<tr>
<td>July 21</td>
<td>234</td>
</tr>
<tr>
<td>July 28</td>
<td>248</td>
</tr>
<tr>
<td>Aug.  4</td>
<td>252</td>
</tr>
<tr>
<td>Aug. 11</td>
<td>215</td>
</tr>
</tbody>
</table>

Foreign Exchange. Official gold and foreign exchange reserves have again showed a large increase, rising $91 million in August and another $17 million in the first week of September. Almost all the August increase occurred in the latter half of the month, following the Berlin border closing. Funds flowed into Switzerland from Germany, and at least part of the inflow was repatriation of Swiss investments. In August, gold reserves rose $105 million. According to press reports, there was a liquidation of a further $28 million of the gold-sterling swaps made last March, and $39 million of conversions into gold of dollars received in repayment of some of the credits extended by Switzerland to the United Kingdom under the "Basle agreements."

### Swiss National Bank reserves
($ millions)

<table>
<thead>
<tr>
<th></th>
<th>Gold</th>
<th>Foreign Exchange</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>July 31</td>
<td>2,323</td>
<td>320</td>
<td>2,642</td>
</tr>
<tr>
<td>Aug. 15</td>
<td>2,323</td>
<td>-333</td>
<td>2,655</td>
</tr>
<tr>
<td>Aug. 31</td>
<td>2,428</td>
<td>306</td>
<td>2,734</td>
</tr>
<tr>
<td>Sept. 7</td>
<td>2,428</td>
<td>323</td>
<td>2,751</td>
</tr>
</tbody>
</table>
The spot dollar in Zurich fell from SF 4.329 per dollar in the first week of August to the Swiss National Bank intervention point of SF 4.315 in the third week, and remained almost continuously at this support level through the first week of September. Spot sterling, after recovering sharply from SF 12.015 per pound in late July to 12.103 in early August, held its gains and then strengthened further, touching SF 12.135 in the first week of September before closing the week at SF 12.126. The discount on the three-month forward dollar was reduced from 1.4 per cent per annum on August 1 to around 1.1 per cent at mid-month, but rose again to 1.2 per cent in the last week of the month. The discount on three month forward sterling was at or over 5 per cent through more than half of August but dropped to 4.9 per cent on August 25.

It is estimated that in the first half of 1961 the net capital inflow into Switzerland was around $400 million and the gross inflow about $550 million. The rise in official reserves in this period was only $276 million. However, the current account produced a deficit of $130 million (after a deficit of $314 million on trade), long-term foreign borrowings in Switzerland came to $124 million, and Swiss banks made foreign loans of $20 million. This leaves receipts of $550 million on other capital accounts. Presumably there was little capital outflow in addition to that mentioned above, so that the gross inflow appears to have approximated this $550 million. Capital inflow apparently continued at a high rate during July and August.

European Section.

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 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
INTEREST ARBITRAGE, UNITED STATES/CANADA

Three-month Treasury Bill Rates

Rate Differential and Forward Canadian Dollar

Rate Differential with Forward Exchange Cover
INTEREST ARBITRAGE, NEW YORK / LONDON

Friday figures

3-MONTH TREASURY BILL RATES

RATE DIFFERENTIAL AND 3-MONTH FORWARD STERLING

RATE DIFFERENTIAL WITH FORWARD EXCHANGE COVER

Per cent per annum

1959  1960  1961

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis
INTEREST ARBITRAGE, NEW YORK/FRANKFURT

Friday figures

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

GERMAN 3-MONTH INTERBANK LOAN RATE
GERMAN 3-MONTH TREASURY BILLS
U.S. TREASURY BILLS

RATE DIFFERENTIAL AND FORWARD DEUTSCHE MARK

SPREAD IN FAVOR OF FRANKFURT:
INTERBANK LOAN RATE
TREASURY BILLS
* FORWARD RATE DISCOUNT (—)

RATE DIFFERENTIAL WITH FORWARD EXCHANGE COVER

NET INCENTIVE :
IN FAVOR OF FRANKFURT (+)
IN FAVOR OF NEW YORK (—)

Note: Special forward dollar rate available to German commercial banks.
INTEREST ARBITRAGE, FRANKFURT/LONDON

Friday figures

RATE DIFFERENTIAL AND FORWARD STERLING

SPREAD IN FAVOR OF UNITED KINGDOM BILLS OVER:

GERMAN TREASURY BILLS

GERMAN INTERBANK LOAN RATE

3-MONTH FORWARD STERLING PREMIUM+ OR DISCOUNT:

RATE DIFFERENTIAL WITH FORWARD EXCHANGE COVER

NET INCENTIVE OF UNITED KINGDOM BILLS OVER:

GERMAN TREASURY BILLS

GERMAN INTERBANK LOAN RATE

Per cent per annum

M J S D M 1960

S 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.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis
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

- Swiss Franc
- Dutch Guilder
- German Mark
- U.K. Sterling
- Italian Lira
- Japanese Yen
- Belgian Franc

Per cent

Above par

Below par

Par with

1960

1961