

October 27, 1961

H. 13

No. 31 FEDERAL RESERVE BANK  
OF ST. LOUIS**CAPITAL MARKET DEVELOPMENTS ABROAD**

- I. Switzerland
- II. Private International Long-term Capital Movements for 1959
- III. Nine Charts on Financial Markets Abroad

I. Switzerland: Money and Capital Markets During September

Reflecting the substantial third-quarter inflows of funds from abroad, the Swiss money market was highly liquid in September. The President of the National Bank of Switzerland stated recently that the inflow of funds, together with boom conditions in Switzerland, were raising the danger of inflation, and warned that the banks should pursue a prudent credit policy.

Long-term bond yields continued to fall, the drop in September being sharper than in August. Stock prices showed a small increase in September, after having declined severely in July and August. New issue activity declined seasonally in August, and picked up in September. It was reported that in the first part of September, Swiss enthusiasm for foreign bond issues waned considerably because of the international situation.

The \$14 million increase in official gold and foreign exchange reserves in September was the smallest monthly increase since last April, due in part to the fact that toward the end of the month several large Swiss commercial banks increased their short-term investments abroad. The spot dollar in Zurich was stronger at the end of September and in early October, and spot sterling strengthened throughout September. The discounts on both the three-month forward dollar and three-month forward sterling were reduced in late September and the first week of October, the discount on the three-month forward dollar falling to the lowest level since last December.

Switzerland has agreed to lend SF 215 million (\$50 million) to the United Kingdom, repayable in 1964. The loan (subject to approval by the Swiss Parliament) would fund the outstanding balance of Switzerland's short-term assistance to the United Kingdom under the "Basle agreements."

Money Market. The Swiss money market in September was highly liquid and was scarcely affected by end-of-quarter demands for funds. On September 15 the balances maintained by banks, trade and industry with the Swiss National Bank reached their highest level since last April. The liquidity of the market is related to the substantial inflows of funds from abroad which occurred in July and August and, at a reduced rate, most of

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DECONTROLLED AFTER SIX MONTHS

September. Banks continued to show little interest in accepting 3-month deposits. The rates on 3-month deposits with large banks in Zurich remained at  $1\frac{1}{2}$  to 2 per cent through September 7 and became unified at  $1\frac{3}{4}$  per cent by September 15. (See Chart 5.)

		<u>Rate on 3-month deposits with large banks in Zurich</u>	<u>Interbank call loan rate in Zurich</u>
May	15	1 $\frac{1}{2}$	1
July	7	1 $\frac{3}{4}$ - 2 $\frac{1}{4}$	1
July	23	1 $\frac{1}{2}$ - 2	1
Aug.	15	1 $\frac{1}{2}$ - 2	1
Sept.	15	1 $\frac{3}{4}$	1

In a recent report to the Council of the Swiss National Bank, Dr. W. Schwegler, President of the Bank, said that the current boom in the Swiss economy is placing an increasing strain on resources and raising the danger of inflation. One of the consequences of present demand pressures is the high level of imports; in the first eight months of this year, imports were 22 per cent greater than in the corresponding period of 1960. As a result, the current account of the balance of payments has been in deficit, the deficit amounting to \$130 million for the first half of 1961. Dr. Schwegler said that it is only because political factors have generated a large inflow of capital from abroad that gold and foreign exchange reserves have risen and the market has been liquid. He warned that because the over-all balance of payments might turn unfavorable, the banks should pursue a prudent credit policy and watch their liquidity position closely.

Bond Market. Since the middle of July, the increasing liquidity of the money market has been accompanied by falling yields on long-term bonds. The decline in yields in September was sharper than in August, in reflection of a stronger demand for bonds. The yield to maturity on the Swiss Confederation 3% bond of 1967-73 fell from 3.05 per cent on September 1 to 2.94 per cent on September 29, and was still at that level on October 14. (See Chart 6.) Since the beginning of 1961 the movements of the yield have gone through three successive phases of decline, rise, and decline. The following government bond yield figures include the low point of the January-May decline and the peak of the May-July rise.

	<u>Gov't bond yield</u>	<u>New mortgage rate</u>
Jan. 6	3.00	3.76
May 12	2.83	3.76
July 14	3.12	3.76
Sept. 1	3.05	3.76
Sept. 15	3.02	3.76
Sept. 29	2.94	n.a.
Oct. 14	2.94	n.a.

In contrast with the fall in yields on long-term bonds, yields on medium-term deposit certificates of cantonal banks rose again in the first half of September, after having risen slightly in August, and on deposit certificates of five large banks the yields remained unchanged.

Yields on deposit certificates

	<u>12 cantonal banks</u>	<u>5 large banks</u>
July 31	3.29	3.25
Aug. 15	3.30	3.25
Aug. 31	3.30	3.25
Sept. 15	3.32	3.25

New Issues. New money raised by public issues of securities in August came to \$15.3 million, which was less than the January-July monthly average because new issue activity is seasonally low in August. For the sixth time in eight months this year the amount exceeded the amount raised in the corresponding period of last year, and new money raised in the eight-month period reached \$389 million, 70 per cent more than in January-August 1960. New issue activity picked up in September, and the issues were helped by increased demand reflected in the decline in yields on outstanding issues in the market.

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

	<u>Swiss issues</u>	<u>Foreign issues</u>	<u>Total</u>
<u>1960</u>			
January-June	160.9	58.9	219.8
July	4.7	--	4.7
August	1.3	3.4	4.7
<u>1961</u>			
January-June	187.8	124.3	312.1
July	20.2	42.0	61.9
August	7.0	8.3	15.3

In September the Government of Finland floated a \$7 million, 15-year loan on the Swiss market. The bonds were priced to give a yield to maturity of 5 per cent per annum. Of the 19 foreign-loan issues floated in Switzerland in the first nine months of this year, this loan gave the third highest yield to maturity at the time of issue. Higher yields were offered only by the issues of the Argentine Government (6½ per cent) and of a Portuguese petroleum refining company (5 3/4 per cent), and all the other 16 loans yielded 4 1/2 per cent except for the 4 per cent yield on an IFRD issue. Despite the relatively favorable terms, it is reported that the Finnish

Government issue was undersubscribed when offered to the public, and that approximately one-half the issue was sold to private purchasers. Investors were said to have had some hesitations about the issue because of Finland's exposed position in relation to the Soviet Union. On the other hand, observers also believe that Swiss enthusiasm for foreign issues in general waned considerably in the first part of last month because of international political tensions. It was felt that unless the international situation improved, yields on foreign bonds would have to be higher than in the recent past if they were to attract Swiss lenders.

Foreign issues in October included a \$9.3 million loan for 16 years, at 5 per cent, by the Tiroler Wasserkraftwerke of Innsbruck.

Foreign borrowings in September-October

	<u>Amount</u> <u>(mil.\$)</u>	<u>Term</u>	<u>Coupon</u> <u>rate</u>	<u>Issue</u> <u>price</u>	<u>Yield to</u> <u>maturity</u>
<u>September</u>					
Republic of Finland	7.0	1971-76	5	100	5
<u>October</u>					
Tiroler Wasserkraftwerke A. G. (Austria)	9.3	1977 <sup>1/</sup>	5	100	5

<sup>1/</sup> Call date not yet reported.

On October 23 the Swiss Government and the IBRD entered into an agreement whereby the Swiss Government will purchase SF 100 million (\$23.2 million) of IBRD bonds. Half the total will be purchased on November 1, and the remainder next January 1. The loan will be repaid in two equal installments in 1966 and 1968. The interest rate, and the yield to maturity, are 3 3/4 per cent. This is lower than the yield on the SF 100 million IBRD issue floated publicly in Switzerland last March (4 per cent), which was a serial bond issue repayable between 1971 and 1979.

Switzerland has been an important source of funds for the IBRD. Including this latest loan, the IBRD has borrowed \$70 million from the Swiss Government and has raised an additional \$162 million in Switzerland via public offerings and private placements. Of the total, \$206 million is still outstanding.

With long-term borrowing costs in the United Kingdom substantially higher than in Switzerland, several British firms are said to be considering loans in the Swiss market. The head of Switzerland's Department of Finance and Customs stated recently that future accessibility to the Swiss capital market will depend upon internal financial conditions in Switzerland. He indicated that the government would not restrict capital exports if the market remained as liquid as it is now, but, in order to avoid price increases, would revise its policy if the general stability of interest rates were threatened.

Stock Market. Following the decline in August, the general level of industrial stock prices (Chart 7) showed scarcely any change during the first three weeks of September. Traders were cautious, and a "wait-and-see" attitude prevailed. Although prices advanced in the last week of the month and the first week of October, when investors' concern over the international situation was said to have diminished, profit-taking and some reassessment of the Berlin situation were given as reasons for a moderate fall in prices in the second week of October.

Industrial share index

June 16	285
Aug. 4	252
Sept. 1	236
Sept. 8	234
Sept. 15	235

Foreign exchange. Swiss gold and foreign exchange reserves continued to increase in the first three weeks of September, the rise in that period amounting to \$16 million. In the final week of the month they declined by \$32 million, principally because of an increase in short-term investments abroad by several large commercial banks in Switzerland. The reserve increase for the month of \$14 million was the smallest since last April. Reserves fell again by \$1 million in the first week of October, but in the second week rose \$20 million.

Swiss National Bank reserves  
( \$ millions )

	<u>Gold</u>	<u>Foreign Exchange</u>	<u>Total</u>
Aug. 31	2,428	306	2,734
Sept. 23	2,453	327	2,780
Sept. 30	2,473	275	2,748
Oct. 14	2,526	242	2,768

On the Zurich market the spot dollar remained almost continuously at the Swiss National Bank support price of SF 4.315 during most of the month. In the last week of September and the first week of October demand for dollars increased, and the rate rose to 4.325 on October 6. Spot sterling continued to strengthen steadily, rising from SF 12.11 on September 1 to SF 12.16 on September 29 and subsequently reaching SF 12.18 in the first week of October. The discount on the three-month forward dollar remained at about 1.1 per cent per annum until the last week of the month. It then declined in the next two weeks and reached 0.7 per cent in the first week of October. This was the smallest discount since December 1960. The discount on three-month forward sterling was reduced more sharply, from 5.1 per cent per annum in the third week of September to 4 per cent in the first week of October.

The discount on the forward dollar has fallen irregularly since March 1961, when, immediately following the German and Dutch revaluations, it stood at 2.9 per cent.

According to press reports, an agreement was signed on October 20 under which Switzerland will lend to the United Kingdom SF 215 million (\$50 million) at 3 per cent, repayable in Swiss francs by the end of 1964. The Swiss Parliament is expected to approve the loan by the end of this year. The proposed loan would fund the outstanding balance of Switzerland's short-term assistance to the United Kingdom under the "Basle agreements."

European Section.

II. Private International Long-term Capital Movements for 1959

A publication of the United Nations Economic and Social Council, entitled "Economic Development in Under-Developed Countries - International Flow of Private Capital, 1959-1960" presents a collection of available data on private international long-term capital movements, together with comments on particular circumstances affecting private capital transactions in major lending and borrowing countries.

The composition of available data varies from country to country with respect to completeness and detail. Heavy reliance is placed on U.S. balance of payments data published by the Department of Commerce, and on the Balance of Payments Yearbook, published by the International Monetary Fund. The paper does not explicitly evaluate the adequacy of the available data as a measure of aggregate international private capital movements, but seems to assume that the missing data are not very important.

According to the paper, the outflow of private long-term capital (including reinvested profits) from main capital-supplying countries exceeded \$5 billion in 1959, of which more than 2 billion went to under-developed countries. The United States was by far the largest exporter of private capital, contributing in 1959 \$3.3 billion (or \$2.2 billion excluding reinvested profits). The next largest capital exporter was the United Kingdom, with nearly \$900 million. The figures on private capital imports and exports of individual developed countries are shown in the table on page 8.

It is difficult to determine from the paper the extent to which the figures are comparable in composition or accuracy. Information on Swiss private capital movements, for instance, is entirely lacking, and French data are fragmentary. Switzerland is, however, known to be a large importer and exporter of private capital, with the balance probably on the side of exports. As to France, it is believed that its capital exports to countries outside the franc zone were nil, and that the estimated outflow went exclusively to the rest of the franc zone.

Comparable data are given for most of the tabulated countries for 1958, and for some countries for 1957 and 1960. These time series reveal year-to-year fluctuations, which are believed to be inherent in the nature of private capital investment. Over the period shown, the U.S. and the U.K. were consistently large net exporters of private long-term capital, and Canada, Australia, and Italy large net importers. Germany, the Netherlands, and Belgium were sometimes net importers and at other times net exporters of capital.

The inflow of private long-term capital into underdeveloped countries as a whole is estimated at about \$2.0 billion in 1959, of which \$1.2 billion went to Latin America, \$0.4 billion to Asia, and \$0.3 billion to Africa, and less than \$0.1 billion to Greece, Portugal and Spain.

Estimated Private Long-term Capital Movements, 1959  
(In millions of dollars)

	<u>Outflow</u>	<u>Inflow</u>	<u>Net Outflow</u>
U. S.	3,300	1,000	2,300
U. K.	888	490	398
Germany	470	207	263
Netherlands	369	352	17
Belgium	n.a.	n.a.	1/84
Franc area	n.a.	757	- 757
France	n.a.	n.a.	3/(350)
Italy	42	311	- 269
Australia 2/	16	326	- 310
Japan	90	120	- 30
Canada	113	1,200	- 1,087

n.a. - Not available.

1/ Includes short-term, except commercial paper.

2/ Fiscal year ending June 1959.

3/ Estimated average for 1956-59.

Of the estimated total outflow of private long-term capital of over \$5 billion in 1959, direct investments accounted for about \$3.5 billion. Direct investments of the United States amounted to nearly \$2.4 billion, of which \$1.6 billion was invested in developed countries (Canada, Europe, Japan, and Australia), and \$750 million in underdeveloped countries. Over one-third of the total went to Canada, and about one-fourth to Latin America.

Direct investments represented in 1959 over half of the outflow of long-term private capital from the United Kingdom, about two-thirds of the outflow from the Netherlands, but only about one-sixth of the outflow from Germany.

The data on portfolio investment and loans and credits do not give a clear picture of these kinds of international capital movements, as available information is not sufficiently homogenous to permit international comparisons.

International Operations 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 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



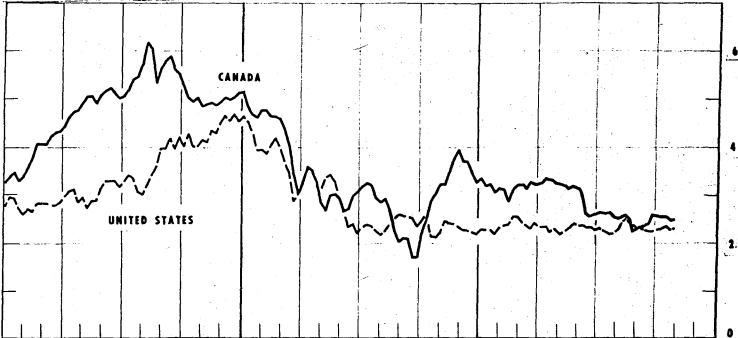
Chart 1

**INTEREST ARBITRAGE, UNITED STATES / CANADA**

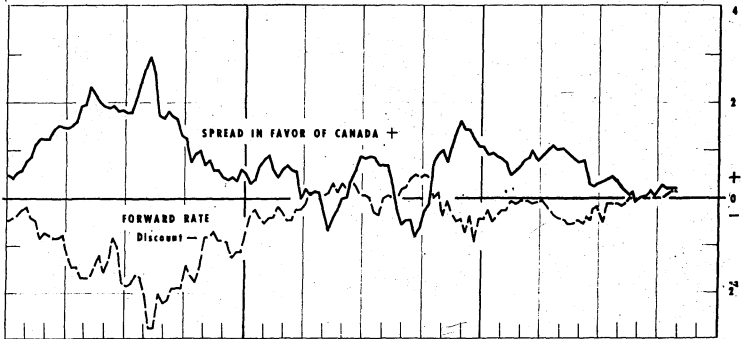
Thursday figures

**THREE-MONTH TREASURY BILL RATES**

Per cent per annum



**RATE DIFFERENTIAL AND FORWARD CANADIAN DOLLAR**



**RATE DIFFERENTIAL WITH FORWARD EXCHANGE COVER**

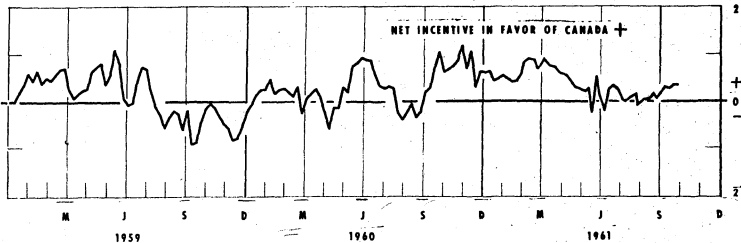
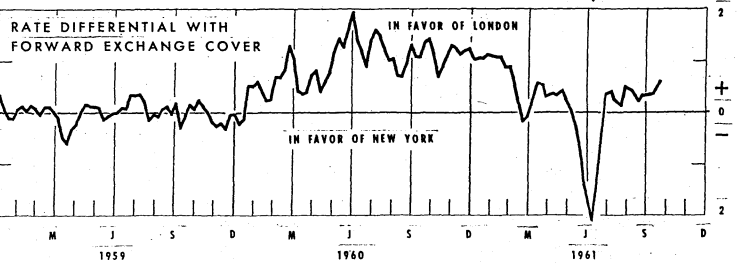
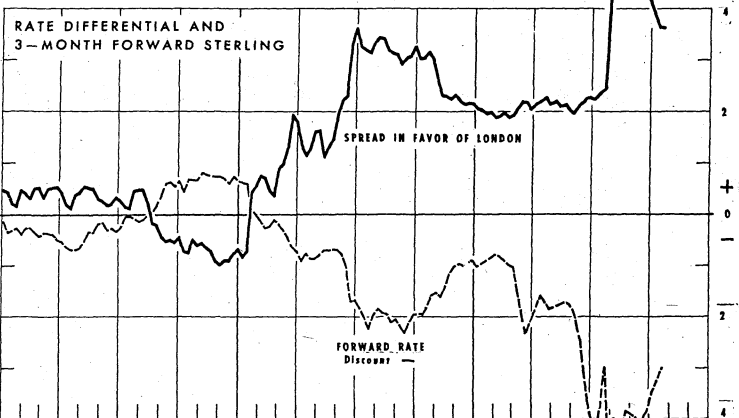
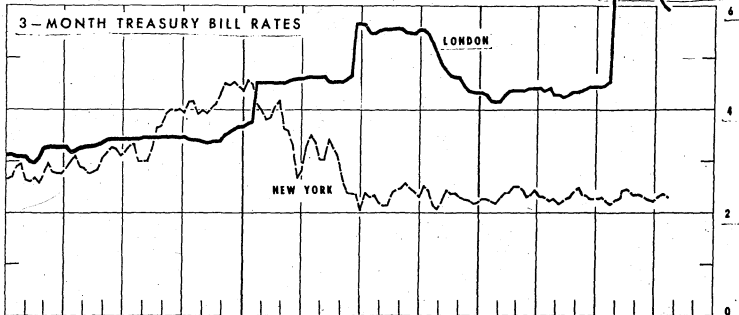


Chart 2

**INTEREST ARBITRAGE, NEW YORK / LONDON**

Friday figures

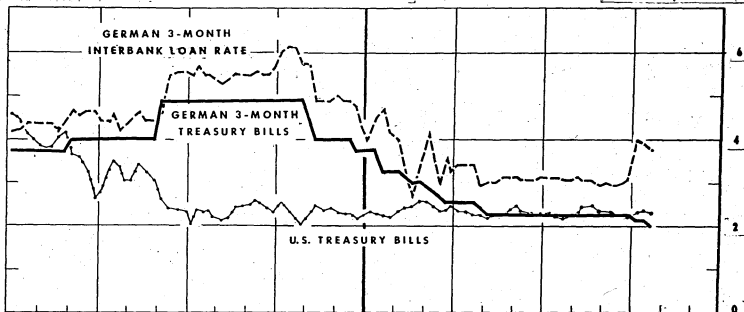


**INTEREST ARBITRAGE, NEW YORK / FRANKFURT**

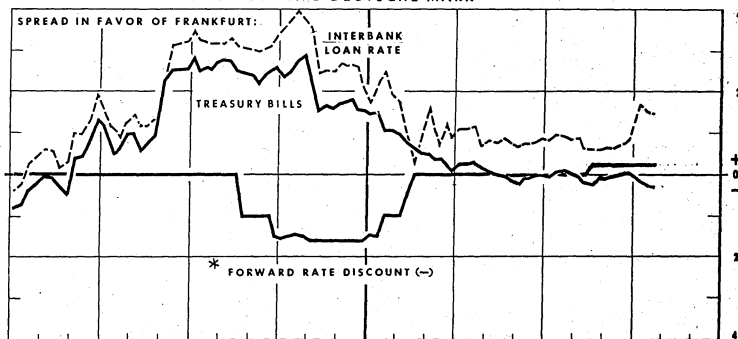
Friday figures

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

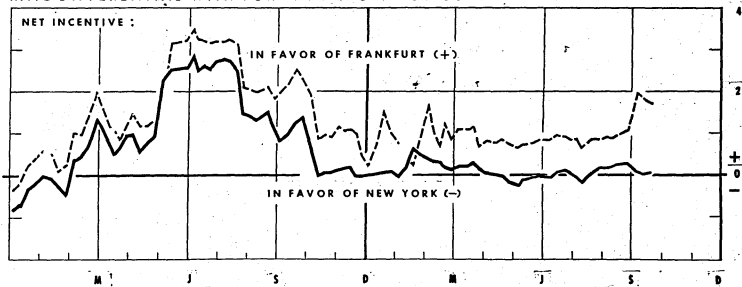
Per cent per annum



**RATE DIFFERENTIAL AND FORWARD DEUTSCHE MARK**



**RATE DIFFERENTIAL WITH FORWARD EXCHANGE COVER**



\*

Note: Special forward dollar rate available to German commercial banks.

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Chart 4

### INTEREST ARBITRAGE, FRANKFURT/LONDON

Friday figures

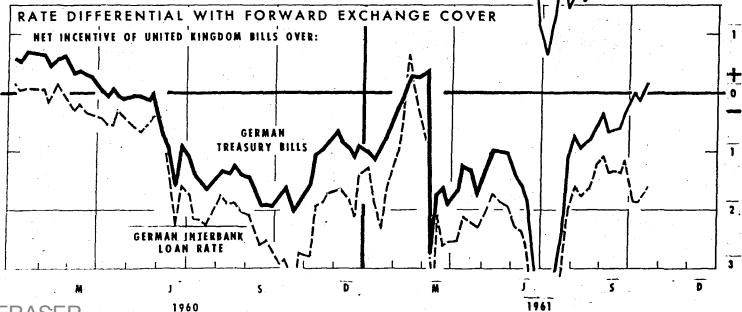
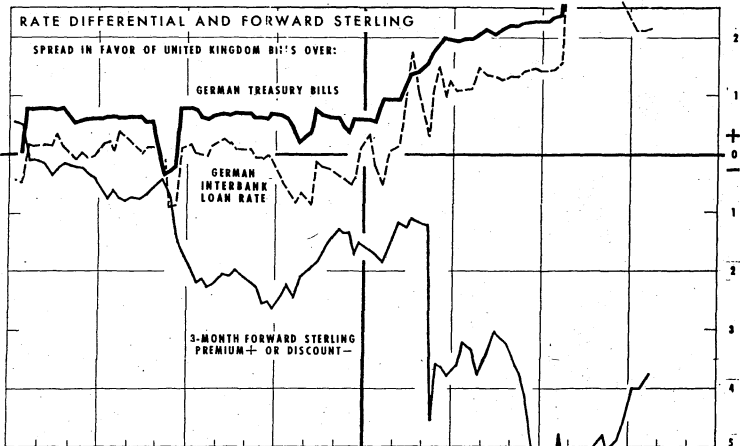
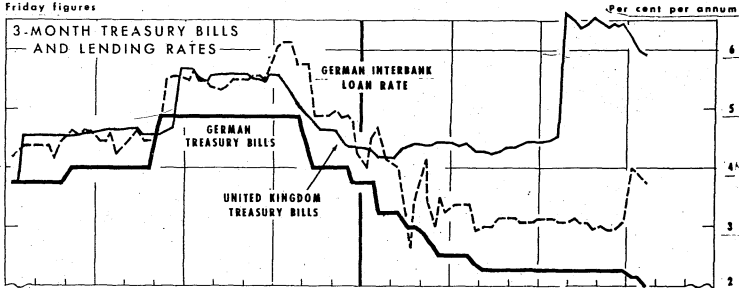
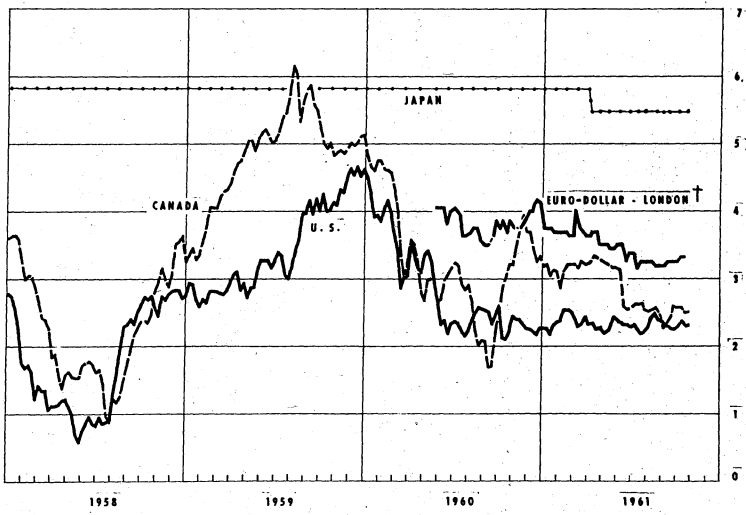
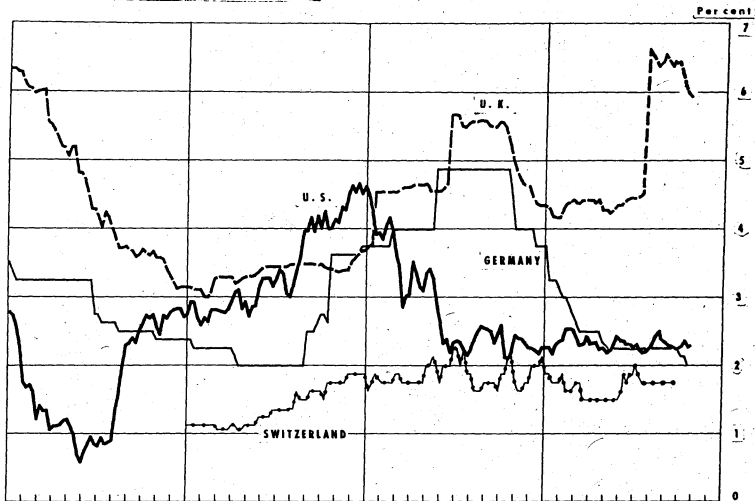


Chart 5  
SHORT-TERM INTEREST RATES \*



\* 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

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Chart 6

**LONG-TERM BOND YIELDS**

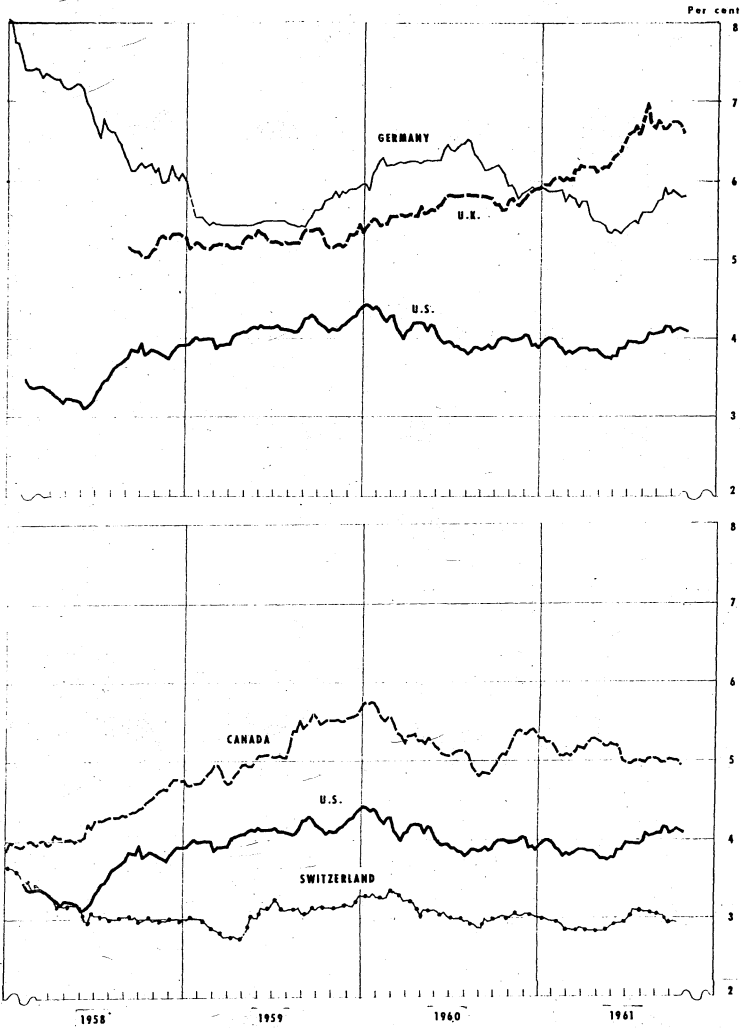
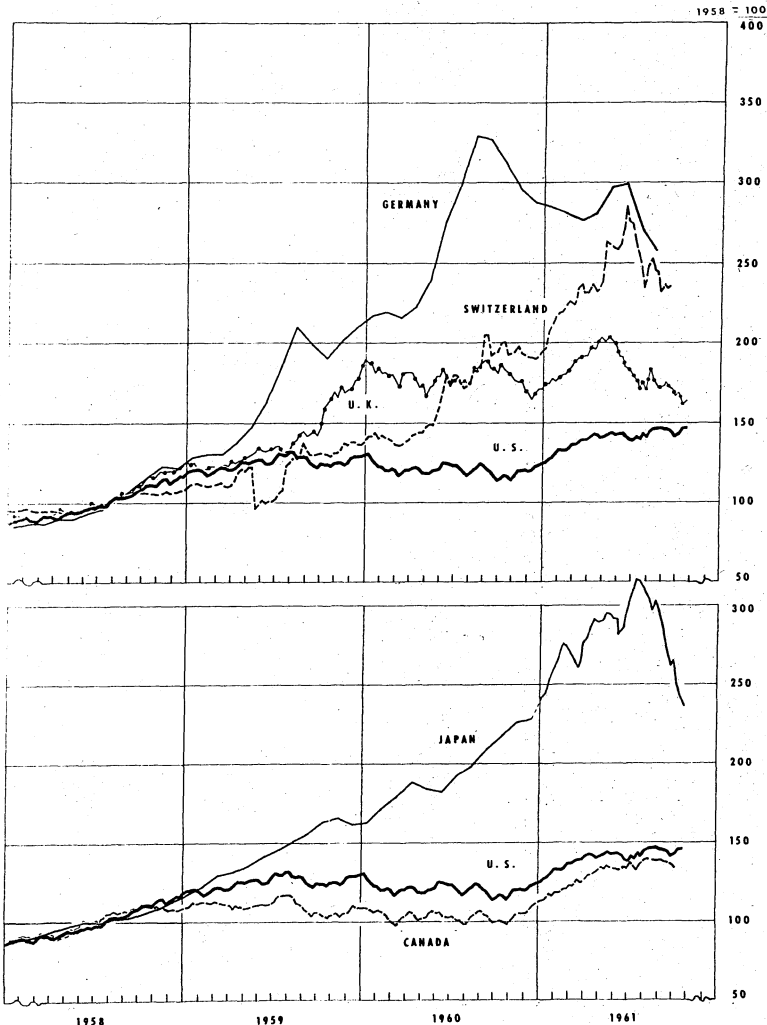


Chart 7

INDUSTRIAL STOCK INDICES \*



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

Chart 8

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

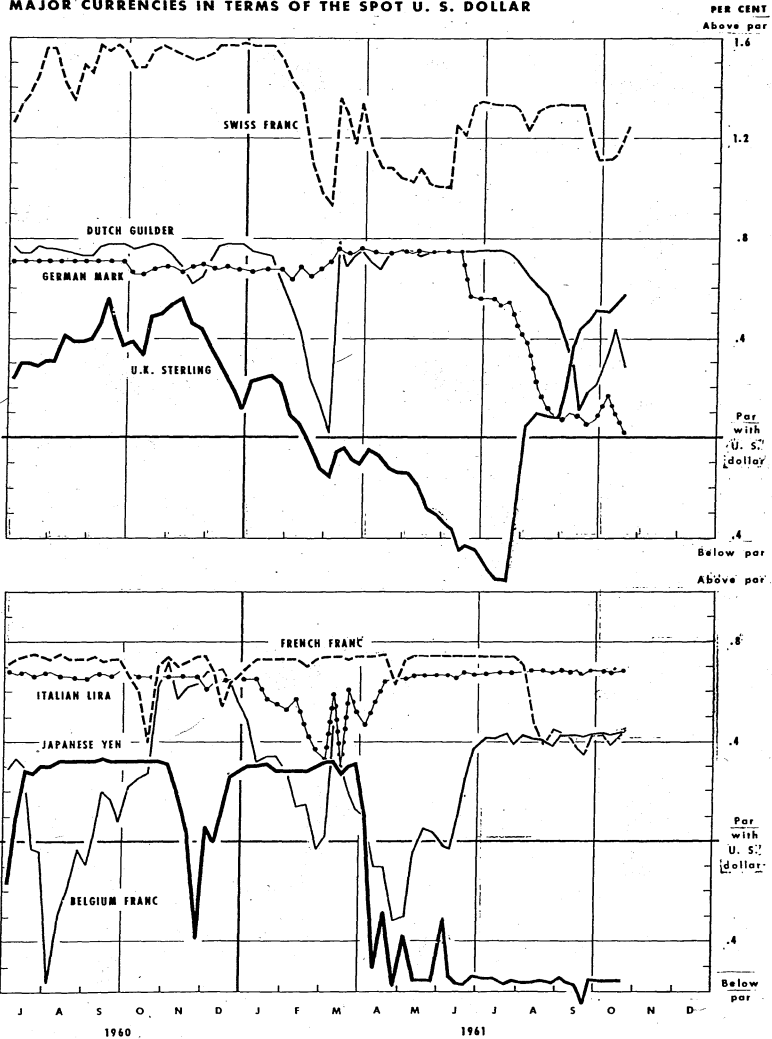




Chart 9

3-MONTH FORWARD RATES - LONDON QUOTATIONS

