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CAPITAL MARKET DEVELOPMENTS ABROAD

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

I. Switzerland: Money and Capital Markets in April and May

A severe decline in stock prices and a marked strengthening of the Swiss franc in the foreign exchange market were the outstanding events on the Swiss financial scene in April and May. In early June there was a large increase in Swiss official foreign exchange reserves, and a further drop in share prices. The generally upward trend in Swiss money rates continued during the period under review.

Stock prices in Switzerland continued to fall in April from the all-time peak in March, and in May the decline accelerated. The retreat of share prices in May reached a climax on May 29, in the wake of the "Black Monday" sell-off in the United States the previous day. Very heavy declines in Swiss stock prices on May 28 and 29 were made up in the ensuing days of that week, and the Swiss National Bank index of 42 industrial stocks was the same for June 1 as it had been for May 25, one week earlier. But there was a renewed decline in the week ending June 8, on which day the index was down nearly 29 per cent from the record high set on March 9 of this year. Swiss analysts have said that the behavior of stock prices in Switzerland since mid-April has been determined mainly by stock market developments abroad, particularly in the United States.

During April, the Swiss franc was not strong and fluctuated rather narrowly around the level to which it had fallen by the end of March. The Swiss National Bank intervened modestly from time to time in support of the franc, and official reserves diminished \$12 million for the month. After the announcement of the new parity of the Canadian dollar on May 2, the franc strengthened. It continued to strengthen throughout the remainder of the month, and by May 31 the spot dollar in Switzerland had fallen to the official support level. The strength of the franc in May has been attributed to capital flows related to Canadian developments, lower interest rates in the United Kingdom, liquidation of short positions in Swiss francs, and preparation for mid-year window dressing. Despite these flows, Swiss National Bank reserves showed a further decline in May of \$17 million. But in early June a substantial reserve accrual appears to have occurred.

The short-term money market tightened further at the end of April and in early May. Long-term bond yields continued to rise in early April and held at very high levels for the rest of the month, but declined considerably in May.

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DECONTROLLED AFTER SIX MONTHS

New issues of Swiss securities continued in heavy volume in April. While they were well received, slightly stiffer terms were demanded because of the heavy demand for capital and the lower level of capital inflow. A temporary pause in foreign borrowing in April was related to the tighter conditions in the Swiss capital market.

Money market. After having tightened somewhat in March, the short-term money market in Switzerland underwent no significant changes during most of April. The market in April continued to reflect the influences of the current-account deficit in the balance of payments, the large credit needs of a booming economy, and a much-reduced level of capital inflow compared with last year and the first few weeks of this year. Rates paid on new 3-month bank deposits, which had risen in March (see Table and Chart 5), remained at 2.25 per cent in the first three weeks of April before rising to 2-3/8 per cent at the end of the month.

There was a further stiffening of money rates in early May, and the rate on 3-month deposits rose to 2-1/2 per cent on May 15. This development was in part related to lower discounts on the forward dollar and forward pound. About mid-May the money market turned significantly easier. This was probably a consequence of capital inflows reported to be taking place at that time. However, there was no further change in short-term rates through the end of May. In the latter part of the month, short-term investment possibilities in foreign centers continued to be attractive, and there was a demand for cash in Switzerland for window-dressing purposes in connection with June 30 balance sheets.

Bond market. The extremely sharp rise in long-term bond yields which had begun in March continued into the latter part of April, reaching a two-year high. Market reports have failed to discuss the reasons for this rise in long-term yields. However, as was mentioned in Capital Market Developments Abroad for April 27, the reasons are probably related to the credit restriction measures taken at the end of March and the shifts in inflows and outflows of capital between Switzerland and foreign countries which had occurred in February and March. The yield to maturity on the Swiss Confederation 3 per cent bond of 1967-74 rose to 3.30 per cent on April 13 and remained at about this figure for the rest of the month. (See Table and Chart 6.)

In May, however, yields turned abruptly downward and much of the March-April rise was erased. By May 18 the yield to maturity on the above-mentioned Swiss Confederation issue had fallen to 3.12 per cent. There was little change in the next two weeks, the yield being 3.14 per cent on June 1.

With respect to medium-term deposit certificates, the yield on certificates issued by the five large banks remained unchanged, at 3.29 per cent, through May 15, but the yield on those issued by the twelve cantonal banks rose from 3.35 per cent at the end of March to 3.37 per cent on April 15, where

it remained through mid-May. (See Table). Although this was the first change in yields on these instruments since January, it marks a continuation of the generally upward trend which began in August 1961.

Stock market. Industrial stock prices continued to fall rapidly in April and May. Extremely heavy selling on May 28-29 was followed by a sharp recovery later that week, and then by a renewed decline in the first week of June.

The industrial index had already declined 4.8 per cent between March 9, when the all-time peak was attained, and March 30. (See Chart 7.) There was a net decrease of 3.2 per cent in the index between March 30 and April 13. This drop, like that in March, was attributed by analysts primarily to consolidation of earlier gains.

In the six weeks from mid-April through the third week of May, industrial stock prices were down in every week, usually very sharply so. The total decline in the index in this period came to 16.5 per cent, the largest weekly drop (6 per cent) coming in the week ended May 25. According to press reports, Swiss observers cited the recent stock market declines in the United States and other foreign countries as the basic reason for falling stock prices in Switzerland.

The decline continued on May 28, and after the heavy May 28 sell-off in the United States, stocks opened much lower on May 29, with bank shares off as much as 30 per cent from the May 25 close. There was some recovery during the day on May 29, and a very large recovery on May 30 in the wake of similar developments in the United States the day before. After the May 31 (Ascension Day) holiday, stock prices were firm on June 1, and the industrial index for June 1 was 225.2 (1958=100), identical to that for May 25. At this level, the index was down 23 per cent from the March 9 high of 292.5. Renewed heavy selling in the week ending June 8 pushed the index down to 208.8, nearly 29 per cent below the March 9 level.

Industrial Share Index %/
(1958=100)

1961 - December	29	279.0
1962 - March	9	292.5
	30	278.6
April	13	269.7
	27	259.0
May	4	254.9
	11	243.1
	18	239.5
	25	225.2
June	1	225.2
	8	208.8

a/ Swiss National Bank index of 42 industrial stocks.

Observers of the Swiss stock market have noted that the decline and recovery of share prices there on May 29-30 far exceeded in amplitude the fluctuation which occurred on the U.S. exchanges on May 28-29. This is believed to be the result in part of the "à la criée" system of crying out bid and ask prices, under automatic rules, on the Zurich exchange, a procedure which magnifies the effects on prices of changes in supply and demand. The question has been raised whether this system should be abolished or revised. It is also felt that the especially great fall in the prices of bank stocks, which had psychological effects on prices of other stocks, could have been tempered if banks had consulted with one another and bought up a few of their shares. It is expected that in a similar situation the banks will take action along those lines. In addition, thought is being given to raising the minimum margin requirement above the present 50 per cent in normal periods, and reducing it back to 50 per cent in critical periods.

New issues. In both March and April, new public issues of stocks and bonds by Swiss enterprises were still running at high levels. New money raised amounted to \$44 million in both months (See Table.) Net of reimbursements, the figures were \$43 million and \$39 million, respectively. While new domestic issues in March were substantially below the amount in March 1961 (\$74 million on a gross basis), the latter figure reflects a deliberate speeding up of new issues to absorb funds which flowed to Switzerland in heavy volume in the wake of the DM and guilder revaluations. According to reports, in the first half of May new issues continued to be well received by Swiss investors.

There were no offerings of loans by foreign borrowers between the previously reported \$11.6 million Mannesmann loan (for which the subscription period was March 30-April 4) and the bond issue offered May 9-14 by International Standard Electric Corporation of New York, a subsidiary of International Telephone and Telegraph Corporation. This loan, for 18 years in the amount of \$14 million, was priced to yield 4-1/4 per cent to maturity; the bonds are callable at any time after May 1966. Except for the IBRD loan in January, the yield to maturity at time of issue was lower on this loan than on the other foreign loans this year.

The pause in foreign loan flotations in April coincided with a period when the Swiss franc was still under some selling pressures in the exchange markets, and the Swiss authorities may have disallowed foreign borrowing in April partly to ease these pressures. However, the *Neue Zuercher Zeitung* observed on April 29 that this pause was "connected with the present tendency towards more strained conditions on the Swiss capital market." The article noted the sharp rise in yields on long-term government bonds in March and April, and observed that this was reflected in "slightly stiffer terms demanded for ^{new} domestic issues." The newspaper linked the tighter market conditions to both the heavy demand for capital and the lower level of capital inflow from abroad.

It is believed that Imperial Chemical Industries, of the United Kingdom, will shortly raise funds in the Swiss bond market, probably in the amount of \$14 million.

Foreign trade. The unadjusted trade deficit was \$66 million in March, virtually the same as in February, but dropped to \$61 million in April. The unadjusted deficit thus continued to run far below the \$104 million recorded in January.

However, on a seasonally-adjusted basis, the trade deficit decreased from \$76 million in February to \$64 million in March and then rose sharply to \$86 million in April. Imports fell 11.6 per cent from February to March and rose 4.6 per cent in April, at \$248 million in April, seasonally-adjusted imports were substantially below the very high January level of \$273 million. Seasonally-adjusted exports declined 9.9 per cent in March and another 6.4 per cent in April, and at \$162 million in April were lower than at any time in the preceding 15 months.

Seasonally-adjusted Foreign Trade
(\$ millions; monthly average or month)

	1961				1962			
	I	II	III	IV	Jan.	Feb.	Mar.	Apr.
Imports c.i.f.	221	217	229	232	273	268	239	248
Exports f.o.b.	166	168	171	174	179	192	174	162
Balance	-55	-49	-58	-58	-94	-76	-65	-86

Foreign exchange reserves. The gold and foreign exchange reserves of the Swiss National Bank decreased \$12 million in April, partly because of continued intervention in support of the franc. It would appear that National Bank sales of foreign exchange to the market were somewhat less than in March. In May, the Bank's reserves declined \$17 million. Approximately \$14 million of this decline resulted from further short-term foreign investments by the Swiss Confederation. The remainder of the loss occurred despite reported inflows of capital.

Swiss National Bank Reserves
(\$ millions)

	Gold	Foreign exchange	Total
1961 - Dec. 31	2,560	198	2,758
1962 - Jan. 31	2,505	181	2,686
Feb. 28	2,482	163	2,645
Mar. 30	2,444	163	2,607
Apr. 15	2,429	169	2,598
Apr. 30	2,424	171	2,595
May 15	2,424	170	2,594
May 23	2,409	170	2,579
May 31	2,409	168	2,578
June 7	2,409	195	2,605

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However, from May 31 through June 7, there was a \$27 million increase in official reserves, and the National Bank is reported to have had substantial further accruals in the second week of June.

Foreign exchange rates. During April the spot dollar continued strong on the Swiss market. Swiss import payments remained at a high level, and capital inflow slowed down still further. For most of the month, the dollar fluctuated between SF 4.343 and SF 4.349, and the Swiss National Bank intervened on a modest scale to keep the rate from going above SF 4.349. (At mid-month the dollar temporarily fell to SF 4.339, reportedly because of a movement of funds from Monaco to Switzerland.) Spot sterling was also strong, the rate moving between SF 23.212 and SF 23.237.

On May 3, the day following the announcement of the new parity for the Canadian dollar, the Swiss franc strengthened, and continued to strengthen throughout the rest of the month. The spot dollar in Switzerland declined from SF 4.346 on May 2 to 4.315 on May 31, the latter being the level below which the Swiss authorities currently do not allow the dollar to fall on the Swiss market. The spot pound also weakened against the Swiss franc; the spot sterling quotation of SF 12.138 in the last week of May was the lowest since January.

Market reports have cited four factors contributing to the strength of the Swiss franc in May:

- (1) Repatriation of Swiss funds from Canada because of uncertainties over the permanence of the new parity of the Canadian dollar;
- (2) Reflows of funds from the German stock market and from London, following the recent reductions in the British Bank rate;
- (3) Liquidation by foreign exchange dealers of short positions in Swiss francs which had been built up in expectation of a weaker franc;
- (4) Repatriation of funds for mid-year window dressing.

The discount on the three-month forward dollar in Switzerland narrowed in April and again in May, falling from 0.78 per cent per annum on March 30 to 0.14 per cent per annum on June 1. (See Table.) A still greater reduction occurred in the discount on the three-month forward pound, which narrowed from 2.50 per cent per annum on April 8 to 0.95 per cent per annum on June 1. The narrowing discount on the three-month dollar significantly increased the covered yields on three-month Euro-dollar deposits in London (from 2.91 per cent on March 30 to 3.58 per cent on June 1), and on three-month U.S. Treasury bills (from 1.97 per cent on March 30 to 2.55 per cent on June 1). (See Table.) But the increases in the covered yields on these short-term investments abroad were approximately matched by a rise in the yield on three-month bank deposits in Switzerland, from 2 per cent on March 30 to 2-1/2 per cent on June 1.

The price of the "Vreneli" gold coin held steady at SF 36.25 from the end of March to May 25, except for a temporary dip to SF 35.75 in the first week of April.

In early April the United States Treasury repaid the remaining \$23 million of the \$46 million Swiss-franc loan received last October in connection with operations by U.S. authorities in the Swiss foreign exchange market.

Europe and British Commonwealth Section.

II. Nine Charts on Financial Markets Abroad

- Chart 1 - Interest Arbitrage, United States/Canada
- Chart 2 - Interest Arbitrage, New York/London
- Chart 3 - Interest Arbitrage for German Commercial Banks
- 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 - Spot Exchange Rates -- Major Currencies
Against U.S. Dollar
- Chart 9 - 3-month Forward Exchange Rates

Switzerland: Money Rates, Exchange Rates, and Gold Price

	Forward Swiss franc (3-mo.)	US Tr. bill		Euro-dollar deposit		Swiss bank deposit (3-mo.)	Exchange rates		Gold coins/ in SF
		Bill yield	Net return in SF	London rate	Net return in SF		Spot \$ in SF	Spot £ in SF	
Feb. 23	+0.83	2.69	1.86	3.56	2.73	1.94	4.331	12.192	35.50
Mar. 2	+1.09	2.69	1.60	3.56	2.47	2.06	4.336	12.205	36.00
9	+0.94	2.76	1.82	3.69	2.75	2.13	4.336	12.206	36.25
16	+1.00	2.72	1.72	3.69	2.69	2.06	4.343	12.234	36.50
23	+0.71	2.70	1.99	3.63	2.92	2.00	4.338	12.206	36.25
30	+0.78	2.75	1.97	3.69	2.91	2.00	4.348	12.234	36.25
Apr. 6	+0.56	2.70	2.14	3.63	3.07	2.25	4.346	12.230	35.75
13	+0.34	2.74	2.40	3.50	3.16	2.25	4.342	12.218	36.25
20	+0.37	2.73	2.36	3.50	3.13	2.25	4.347	12.231	36.25
27	+0.32	2.74	2.42	3.50	3.18	2.31	4.344	12.213	36.25
May 4	+0.39	2.73	2.34	3.56	3.17	2.38	4.333	12.183	36.25
11	+0.06	2.63	2.57	3.63	3.57	2.44	4.333	12.186	36.25
18	+0.23	2.68	2.45	3.56	3.33	2.50	4.328	12.175	36.25
25	+0.19	2.69	2.50	3.81	3.62	b/2.50	4.320	12.143	36.25
June 1	+0.14	2.69	2.55	3.72	3.58	b/2.50	4.315	12.125	
8	+0.14	2.65	2.51	3.69	3.55		4.315		

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

Switzerland: Selected Capital Market Statistics

Capital market yields				New issues				
	Long-term govt. bonds	Deposit cert's		(millions \$'s, monthly ave. or month)				
		12 can-tonal banks	5 large banks	1960	Swiss bonds	Swiss stocks	Fgn. bonds	Total
1961				1960	17.3	3.8	10.8	31.8
High	3.12	3.34	3.34	1961	19.8	7.2	18.6	45.7
Low	2.83	3.29	3.25	Qtr. I	24.0	14.3	25.9	64.2
1962				II	17.6	6.8	15.5	39.9
Feb. 23	2.99	3.35	3.29	III	19.6	1.2	18.6	39.5
Mar. 2	2.99	3.35	3.29	IV	18.2	6.6	14.3	39.1
9	2.99	3.35	3.29	July	17.7	2.2	42.0	61.9
16	3.02	3.35	3.29	Aug.	7.4	0.9	7.0	15.3
23	3.15	3.35	3.29	Sept.	33.7	0.6	7.0	41.3
30	3.17	3.35	3.29	Oct.	38.3	1.2	20.9	60.2
Apr. 6	3.17	3.35	3.29	Nov.	14.1	2.1	10.5	26.6
13	3.30	3.35	3.29	Dec.	2.1	16.3	11.6	30.0
20	3.31	3.37	3.29	1962				
27	3.31	3.37	3.29	Qtr. I	24.5	15.6	20.2	60.3
May 4	3.25	3.37	3.29	Jan.	13.9	2.1	23.3	39.3
11	3.20	3.37	3.29	Feb.	39.4	21.1	14.0	74.5
18	3.12			Mar.	20.2	23.7	23.3	67.2
25	3.14			Apr.	35.7	8.5	11.6	55.8
June 1	3.13			May			14.0	

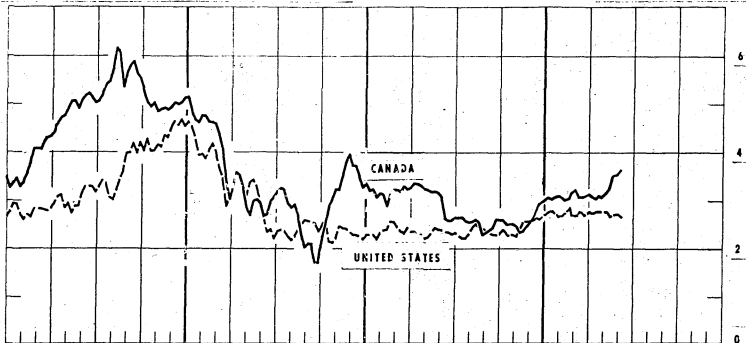
Chart 1

INTEREST ARBITRAGE, UNITED STATES / CANADA

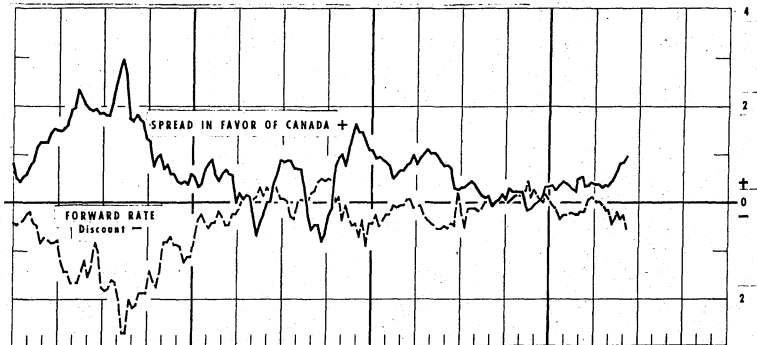
Thursday figures

THREE-MONTH TREASURY BILL RATES

Per cent per annum



RATE DIFFERENTIAL AND FORWARD CANADIAN DOLLAR



RATE DIFFERENTIAL WITH FORWARD EXCHANGE COVER

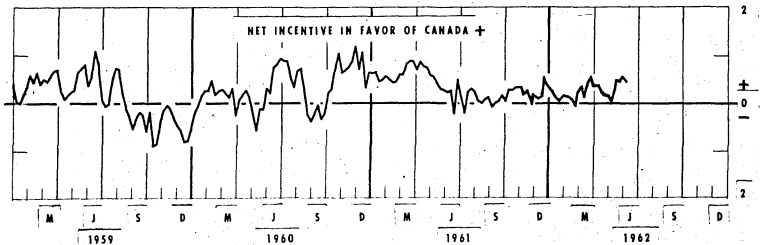


Chart 2
INTEREST ARBITRAGE, NEW YORK/LONDON

Friday figures Per cent per annum

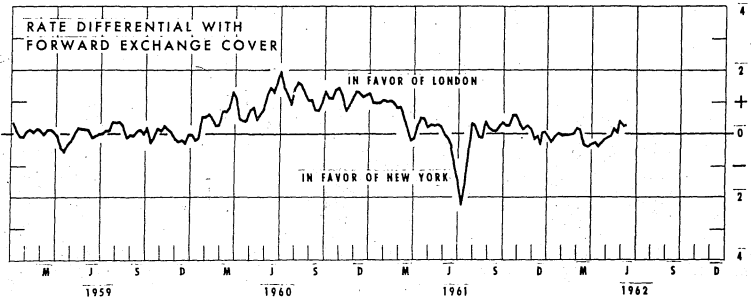
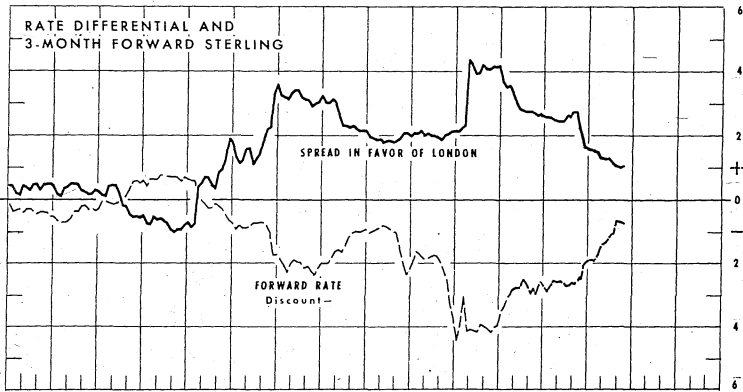
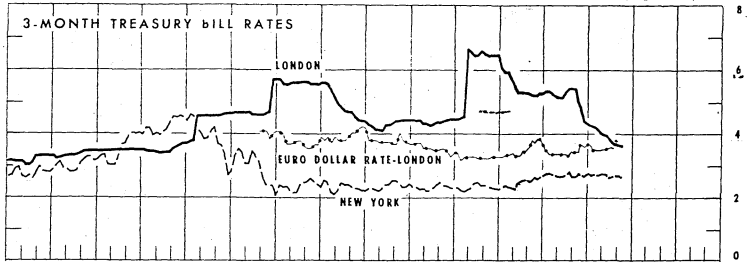
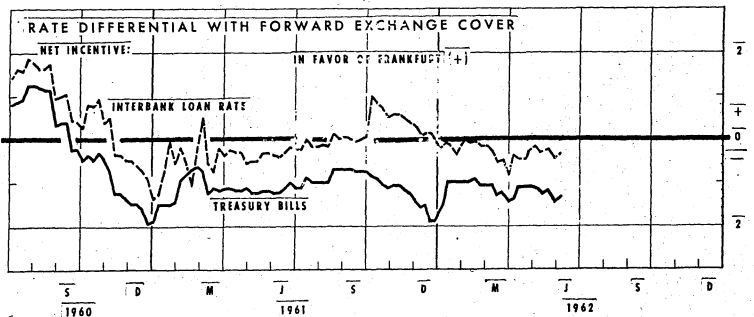
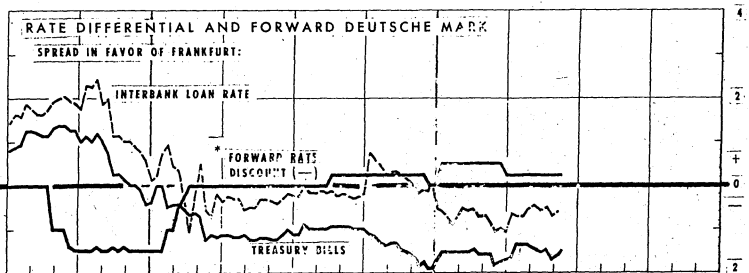
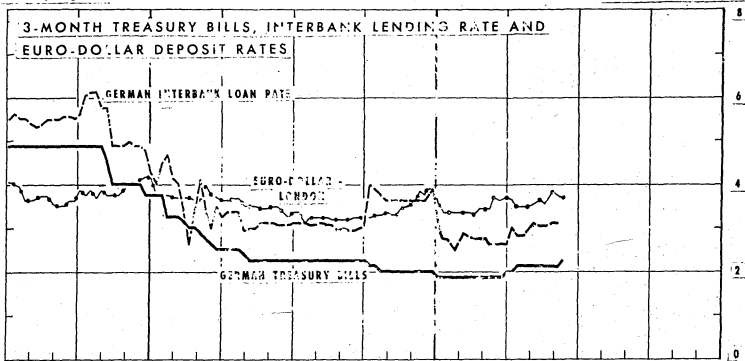


Chart 3

INTEREST ARBITRAGE FOR GERMAN COMMERCIAL BANKS

Friday figures

Per cent per annum



(Note: Special forward rate available to German commercial banks.)

Chart 4

INTEREST ARBITRAGE, FRANKFURT / LONDON

Friday figures

Per cent per annum

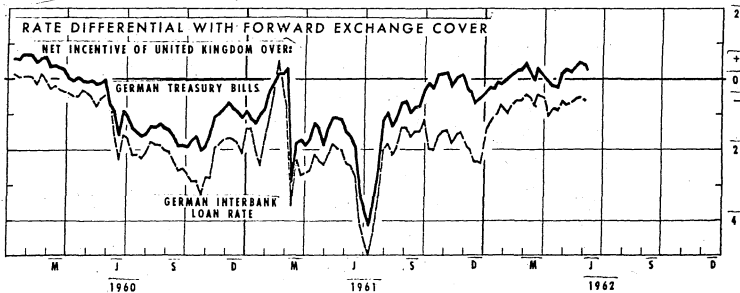
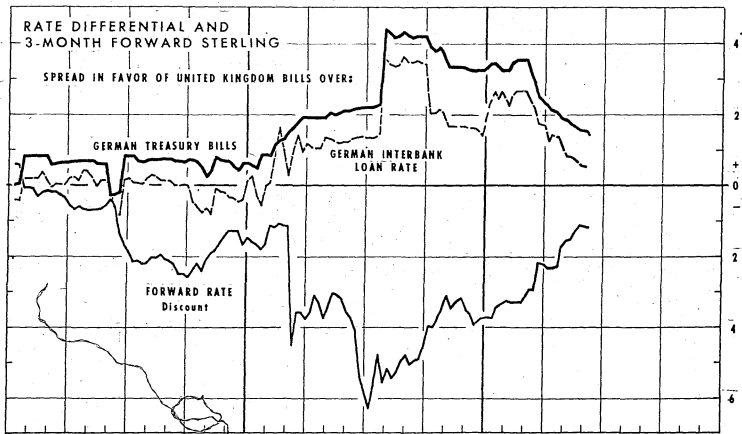
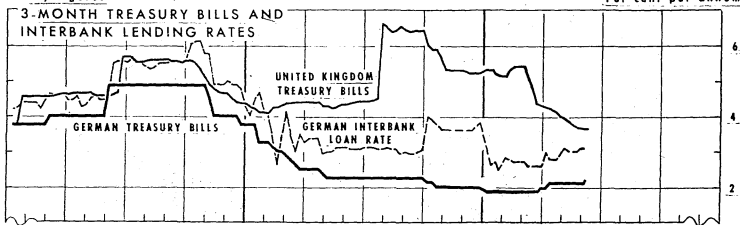
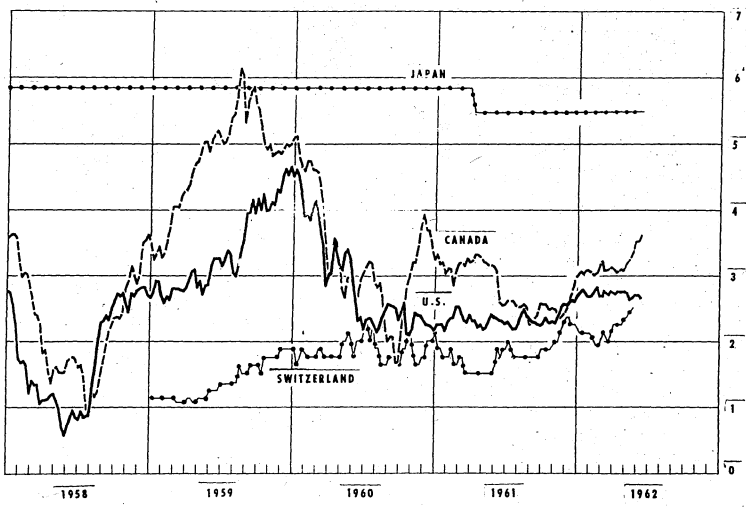
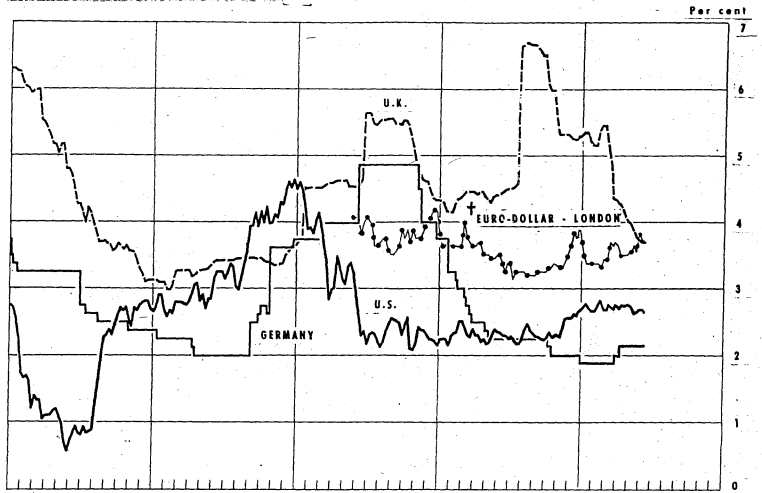


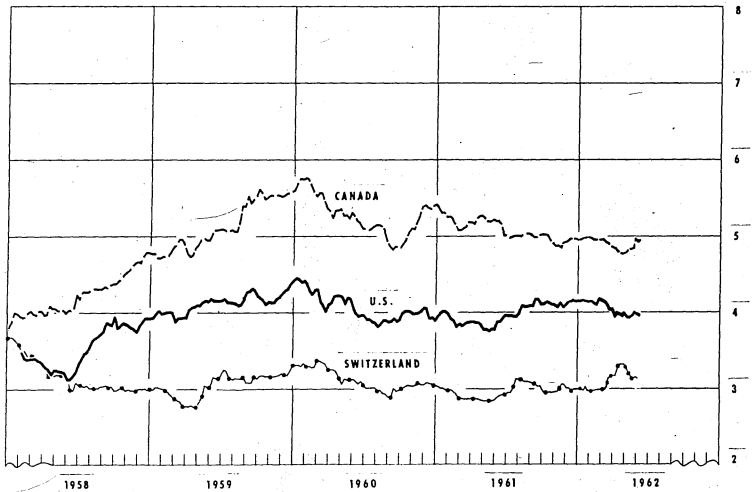
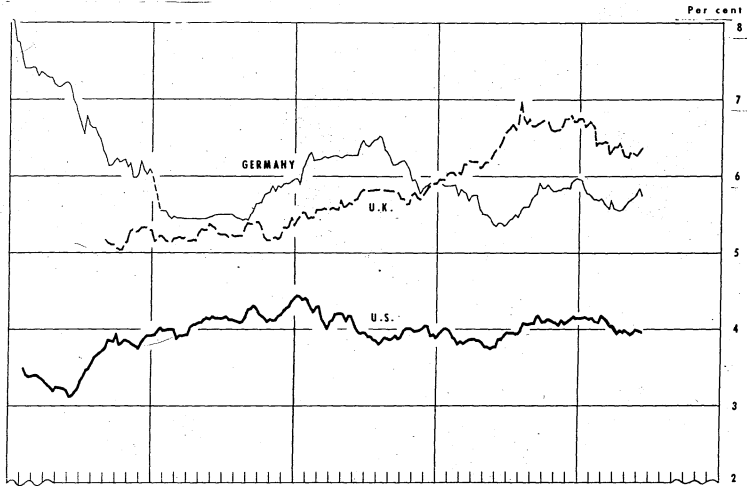
Chart 5
SHORT-TERM INTEREST RATES *



* 3-month treasury bill rates for all countries except Japan (1-month interbank deposit rate) and Switzerland (1-month deposit rate).
 † 3-month rate for U.S. dollar deposits in London.

Chart 6

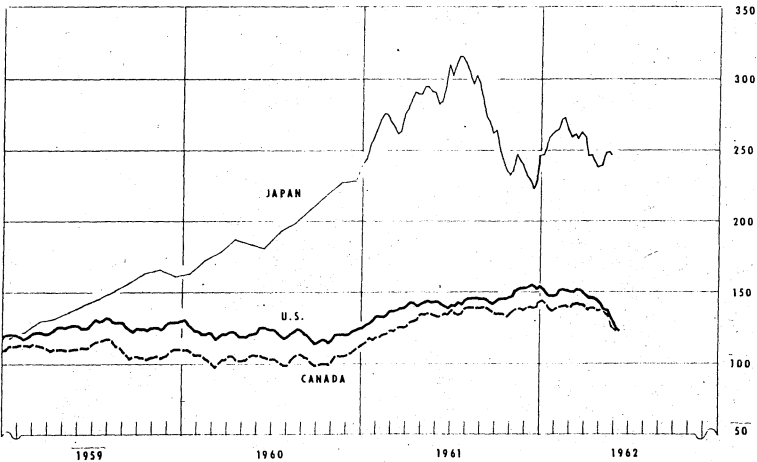
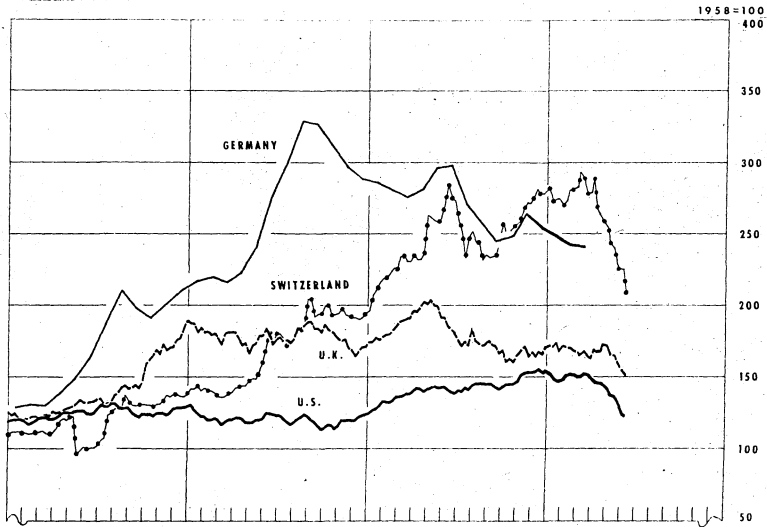
LONG-TERM BOND YIELDS



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Chart 7

INDUSTRIAL STOCK INDICES*



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

Chart 8

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

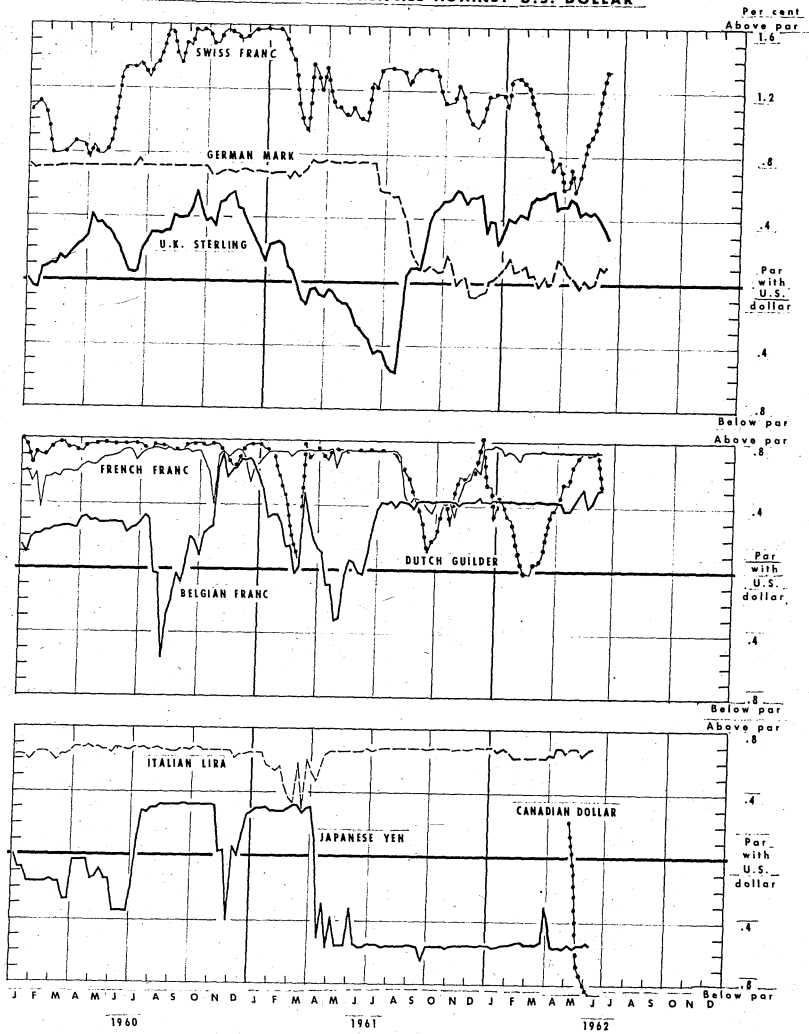


Chart 9
3-MONTH FORWARD EXCHANGE RATES

