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BOARD OF GOVERNORS
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CAPITAL MARKET DEVELOPMENTS ABROAD

I. Switzerland
II. Nine Charts on Financial Markets Abroad

Switzerland: Money and Capital Markets in August

Swiss markets experienced a relatively placid August in the wake of the turbulent events of the preceding two months. There was no recurrence in August or in the first two weeks of September of the speculative inward capital flows which had been brought to a halt by President Kennedy's remarks about the dollar during his Telstar news conference on July 23, and Swiss official reserves underwent a nominal decline.

The heavy capital inflow of June and July--in the neighborhood of $250 million--had the effect of putting a certain amount of downward pressure on money rates and government bond yields in Swiss money and capital markets in August. In other markets, stock prices moved narrowly in light trading, and new issue business was at a low level. The spot dollar, at SF 4.32-4.325, held above its lower limit on the Swiss foreign exchanges. The discount on the 3-month forward dollar moved about the 0.80 per cent per annum level during most of August, but widened to 1.09 per cent per annum in mid-September, reducing to 1.69 per cent a year the covered yield to Swiss investors on 3-month U.S. Treasury bills.

On August 18 the Swiss National Bank and the Swiss commercial banks renewed for six months their "gentlemen's agreement" to discourage the flow of foreign funds to Switzerland. Under the agreement, new accounts opened by foreign residents with Swiss banks are subject to a withdrawal notice of three months, earn no interest, and are subject to a service charge of 1/4 per cent per calendar quarter where the account is of less than six months duration. The banks also agree not to act as intermediaries in the investment of fresh foreign funds in Swiss securities. A new feature of the latest renewal is an undertaking by the banks to take all possible steps to prevent investment of new foreign funds in Swiss real estate.

The "gentlemen's agreement" was first entered into in August 1960 and was renewed for a year in August 1961. The Swiss authorities have sought to hold down capital inflows because they add to Swiss reserve accruals and lay a base for inflationary credit expansion in Switzerland. Although the "gentlemen's agreement" has undoubtedly discouraged a certain amount of capital inflow, it cannot prevent inflows of foreign funds which are motivated by either safety considerations or speculation on changes in exchange rates. Furthermore, by its nature the agreement does not extend to repatriation of capital by Swiss residents. In fact, such repatriation has accounted for much of the capital inflow in the past two years (more than 50 per cent in 1961, according to Swiss authorities). Some idea of the potential for repatriation is given by a revealing recent study.

Dr. Max Iklé, General Manager of the Swiss National Bank, has estimated that at the end of 1960 Switzerland had assets abroad of some $8,840 million. Of this total, roughly $5,700 million consisted of private short-term claims and foreign securities in Swiss private ownership, assets which are susceptible to sudden repatriation. The survey also shows that, through the years ending with 1960, Switzerland was a large net capital exporter. Her liabilities to foreigners at the end of 1960 were placed at $4,070 million, leaving net foreign assets of $4,770.1/ Dr. Iklé's table of foreign assets and liabilities is reproduced below (in millions of U.S. dollars).

Assets

Short-term claims		
Private	1,810	
Public	280	2,090
Long-term claims		
Bond loans and indirect capital export	900	
State credits	270	1,160
Holdings of foreign securities		
Private investors	2,560	
Investment trusts	470	3,020
Direct investments		2,560
Private holdings of real estate and mortgages		pro memoria
Total		8,840

Liabilities

Short-term bank liabilities	1,630
Foreign participation in Swiss foreign loans	230
Swiss securities in foreign ownership	1,160
Direct investments	350
Real estate and mortgages	700
Total	4,070

All short-term claims on foreigners totaled $2,090 million. Of this amount, $280 million was publicly held, including $140 million by the Swiss National Bank and $84 million by the State. Private short-term claims on foreigners came to $1,810 million. Swiss business firms regularly hold foreign balances, but most of the private claims represent reinvestment abroad, mainly in deposit form, of foreign-owned funds placed with Swiss commercial banks. The commercial banks' short-term liabilities to foreigners were put at $1,630 million at the end of 1960, a large part being payable in U.S. dollars or other foreign currencies.

1/ The preciseness of these figures is spurious. They result from the conversion into U.S. dollars of the more-rounded Swiss franc figures estimated by Dr. Iklé.

Individuals and investment trusts in Switzerland held $3,020 million of foreign securities, of which about half were believed to be American. This estimate is conservative, and Dr. Iklé thinks the true figure might be as high as $3,700 million. These holdings do not include $900 million of what Dr. Iklé calls "bond loans and indirect capital exports." The "bond loans" seemingly refer to foreign bond issues floated on the Swiss market and taken up by Swiss investors. "Indirect capital exports" appear to include reinvestment abroad of $163 million deposited with the BIS by Swiss banks and the Swiss Government. On the liabilities side of the portfolio account, foreigners owned $1,160 million of Swiss securities in addition to $230 million of foreign participation in Swiss foreign loans.

Swiss direct investment abroad valued at $2,560 million far exceeded the $350 million of foreign direct investment in Switzerland. However, the latter figure does not include foreign ownership of Swiss real estate. This, and foreign-held mortgages, were put at $700 million. Dr. Iklé's survey is completed with the inclusion, on the assets side, of $270 million of Swiss Government long-term credits to foreigners.

Money market. The short-term money market experienced no fundamental changes in August and early September, and conditions remained essentially as they had been at the end of July. This quiescence--which contrasted sharply with the perturbations of the previous two months--grew out of the ending of the speculative inward capital flows and consequent official reserve accruals. The increased liquidity provided by the June-July capital inflows put some downward pressure on rates; between August 7 and August 15 the large Zurich banks reduced 3-month deposit rates to 2-1/4--1/2 per cent from the 2-1/2 per cent which had prevailed since mid-May. (See Table and Chart 5.) These rates reportedly dipped further in late August, but in mid-September were again reported at 2-1/4--1/2 per cent.

Bond market. The weakening of Government bond yields, begun in late July, continued during August and into September. The increasing demand for Federal obligations is believed to stem from reinvestment in Switzerland of Swiss-owned funds which had been withdrawn from foreign countries in June-July. The yield to maturity on the 3 per cent Swiss Confederation bond of 1967-74 declined from 3.19 per cent on July 27 to 3.14 per cent on August 31, and was traded to yield 3.11 per cent on September 14. (See Table and Chart 6.)

Yields on medium-term deposit certificates were unchanged in the first half of August (see Table), but were reported to have risen after the middle of the month as some banks shortened the maturities on new issues of certificates. This continues an upward trend in yields on these instruments. At present, yields are being subjected to upward pressure by an unusually large amount of certificates coming to maturity.

Stock market. The stock exchanges "took a vacation" in August after a period of five months of hectic business during which prices fell 40 per cent from March 9 to June 15 and rose 17 per cent from then to July 27. Price changes were narrow and trading was very quiet throughout August and during the first week of September. The Swiss National Bank industrial stock index showed a rise of 2 per cent between July 27 and September 7.

Industrial Share Index a/
(1958 = 100)

1961 - December	29	279.0		
			August 3	207.6
1962 - March	9	292.5	10	206.4
June	1	225.2	17	211.1
	15	175.6	24	210.9
July	13	214.6	31	209.5
	27	206.3	September 7	210.4

a/ Swiss National Bank index of 42 industrial stocks.

New issues. Flotations of new securities were at a low level in July, new money raised amounting to only $7.2 million gross and $5.0 million net of reimbursements. The month-to-month fluctuations in new issue volume are large, and the summer months also tend to be quiet. In August new issue activity remained at a reduced level until late in the month, when the first issues of the new season were enthusiastically taken up.

In August, Albert E. Reed and Co., Ltd. of Great Britain, paper manufacturers, raised $11.6 million on the Swiss market with the flotation at par of 15-year bonds bearing a 4.5 per cent coupon. The loan was over-subscribed. The Swiss National Bank has so far approved only $23.2 million of other foreign borrowings for the remainder of this year; these borrowers are understood to be the Thyssen Huette group in Germany, and a French firm.

Foreign Borrowings in July-August

	Amount ($ mil.)	Term	Coupon rate	Issue price	Yield to maturity
Anglo-American Corp. of South Africa, Ltd. a/	11.6	1968-74	5.0	100	5.0
Albert E. Reed & Co., Ltd. (London)	11.6	1972-77	4.5	100	4.5

a/ Conversion loan.

Balance of payments. Switzerland incurred a current-account balance-of-payments deficit in 1961 of $213 million. This contrasts with the $95 million surplus registered in 1960, and also exceeds the 1961 deficit estimate of about $150 million made by the Neue Zuercher Zeitung several months ago. The major cause of the change in 1961 was the greater rise in imports (21 per cent) than in exports (8.5 per cent) and the resultant widening of the trade gap from $353 million to $656 million. Surprisingly, (and contrary to the earlier Neue Zuercher Zeitung estimate), the surplus on current invisibles increased only $4 million to $452 million. While the gross and net receipts from tourism, investment income, transportation, insurance, and the transit trade were all higher than in 1960, expenditures under the "miscellaneous services" heading rose more than receipts, and widened the deficit on that entry.

In addition to the current-account deficit of $213 million, other outpayments from Switzerland in 1961 included $210 million of net new money raised by foreign bond issues on the Swiss market; loans by the Swiss Government of $50 million to the United Kingdom and $11.6 million to the IBRD; and short-term investments abroad by the Swiss Treasury reported at $60 million. 2/ Since the Swiss National Bank's reserves increased $436 million for the year, other capital movements produced a net inflow of $980 million. One-third of that total entered Switzerland in the few days following the DM and guilder revaluations. Swiss officials believe over half of the total capital inflow in 1961 was repatriation of Swiss capital from abroad.

In the first half of this year, the trade deficit ran at a much higher annual rate, amounting to $447 for the six months. Foreign bond issues, net of reimbursements, came to $55 million, while the Swiss Treasury reportedly invested about $83 million in foreign money markets and loaned a further $11.6 million to the IBRD. The above items caused a foreign exchange drain of $597 million. The current invisibles surplus presumably amounted in January-June to less than one-half the 1961 full-year figure, because this period does not cover the July-August peak of the tourist season, and thereby offset less than $372 million of the drain. Swiss National Bank reserves, however, fell only $53 million in January-June, indicating a net capital inflow on unidentified transactions in excess of $319 million. Nearly one-half of this inflow apparently occurred in June, when SNB reserves, adjusted for Swiss Treasury investment abroad, rose $142 million. The inflow continued heavy in July but abated in August.

International reserves. Adjusted for special transactions, the gold and foreign exchange reserves of the Swiss National Bank declined $2 million in August. This followed adjusted reserve gains of $142 million in June and $108 million in July. The heavy movements out of the dollar into the Swiss franc and gold abated abruptly after President Kennedy's remarks about defending the parity of the dollar on his Telstar news conference of July 23. Official reserves actually declined $52 million in August. However, about $40 million of the decrease resulted from further short-term investments abroad by the Swiss Treasury. In addition, the Federal Reserve System purchased another $10 million of dollar reserves of the SNB, with francs drawn under the July 19 reciprocal balance swap agreement with the Bank for International Settlements.

2/ See Table, page 7.

The first week of September showed a $2 million decrease in SNB reserves.

Swiss National Bank Reserves
($ millions)

Changes	1961 Year	1962 Jan.-Mar.	1962 Apr.-June	1962 July	1962 Aug.
Actual	+436	-151	+ 97	- 17	-52
Adjusted for special transactions a/	+558	- 86	+127	+108	- 2

Holdings		Gold	Foreign Exchange	Total
1961 - December	31	2,560	198	2,758
1962 - May	31	2,409	168	2,596
June	30	2,409	295	2,705
July	31	2,459	229	2,688
August	15	2,459	189	2,649
	31	2,459	177	2,636
September	7	2,458	176	2,634

a/ Adjusted for reported short-term foreign investments by the Swiss Federal Treasury, use of swap facilities by the Federal Reserve System, and Confederation loans to the United Kingdom and IBRD.

Exchange rates. The supply of dollars on the Swiss market was much reduced from the June-July levels, and the spot dollar was above its *de facto* lower support limit of SF 4.315 throughout August and during the first half of September. Quotations fluctuated between SF 4.320 and SF 4.325 in August. After dipping to SF 4.319 on September 11, the spot dollar rose to SF 4.324 on September 18. Spot sterling weakened slightly, falling from SF 12.118 on August 3 to SF 12.103 on September 14.

The discount on the 3-month forward dollar in Switzerland, which had widened markedly in June and July, narrowed somewhat from 1.06 per cent per annum on July 27 to 0.74 per cent on August 10, and was around 0.80 per cent per annum for the next four weeks. This discount gave a covered net return to Swiss investors of around 2 per cent on 3-month U.S. Treasury bills and 3 per cent on 3-month Euro-dollar deposits in London, compared with 2.5 per cent, or slightly less, on 3-month deposits in Swiss banks. (See Table.) In the second week of September, the discount widened again to 1.09 per cent per annum on the 14th. This reduced covered yields to 1.69 per cent on the U.S. bill and 2.82 per cent on Euro-dollars.

The price of the "Vreneli" gold coin rose again to SF 38.25 on August 11, and held there through the 25th. (See Table.) Earlier, it had risen 5.5 per cent from late-May to late-July, reaching SF 38.25 on July 21, and then had dropped back to SF 37.25 on July 28 as confidence in the dollar strengthened. Demand from Germany was a factor in the renewed price rise of early August.

A correction. In terms of U.S. currency, the present de facto and statutory upper limits of the Swiss franc against the dollar on the Swiss market (lower limits of the dollar against the franc) are, respectively, 23.175 U.S. cents and 23.283 U.S. cents. In Capital Market Developments Abroad No. 73 of August 24, 1962, p. 5, these were inadvertently stated to be 23.00 cents and 22.8676 cents, respectively. The figure of 22.8676 cents is the par value of the franc, and the figure of 23.00 cents per franc is a de facto lower limit of the franc practiced by the Swiss National Bank in March and April of this year. The statutory lower limit of the franc is 22.472 cents.

Swiss Balance of Payments, 1961
(Millions of dollars)

Current account	
Trade balance	-656
Invisibles (net)	+452
Total	-213
Capital account	
Net foreign bond loans on Swiss Market	-210
Swiss Federal Government:	
Loans to United Kingdom and IBRD	- 52
Short-term investment	- 60
Other capital movements (net)	+980
Change in Swiss National Bank reserves	+436

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 Interest Rates
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 Prices

	Forward Swiss franc (3-mo.)	US Tr. bill: Bill yield	US Tr. bill: Net return in SF	Euro-dollar deposit: London rate	Euro-dollar deposit: Net return in SF	Swiss bank deposit (3-mo.)	Exchange rates: Spot $ in SF	Exchange rates: Spot £ in SF	Gold coin a/ in SF
1962-June 1	+0.14	2.69	2.55	3.72	3.58	2.50	4.315	12.126	n.a.
8	+0.14	2.65	2.51	3.69	3.55	2.50	4.315	12.118	35.25
15	+0.32	2.74	2.42	3.66	3.34	2.50	4.315	12.121	36.75
22	+0.32	2.74	2.42	3.66	3.34	2.50	4.315	12.122	36.75
29	+0.51	2.90	2.39	3.69	3.18	2.50	4.315	12.118	36.75
July 6	+0.67	2.93	2.26	3.66	2.99	2.50	4.315	12.115	36.75
13	+0.86	2.96	2.10	3.94	3.08	2.50	4.315	12.113	37.75
20	+0.95	2.91	1.96	3.72	2.77	2.50	4.315	12.117	38.25
27	+1.06	2.88	1.82	3.94	2.88	2.50	4.321	12.112	37.25
Aug. 3	+0.94	2.82	1.88	3.81	2.87	2.50	4.320	12.118	37.75
10	+0.74	2.83	2.09	3.78	3.04	2.50	4.323	12.121	38.25
17	+0.79	2.83	2.04	3.72	2.93	2.38	4.321	12.121	38.25
24	+0.83	2.82	1.99	3.72	2.89		4.321	12.113	38.25
31	+0.74	2.80	2.06	3.81	3.07		4.323	12.113	
Sept. 7	+0.80	2.79	1.99	3.84	3.04		4.322	12.109	
14	+1.09	2.78	1.69	3.91	2.82		4.321	12.103	

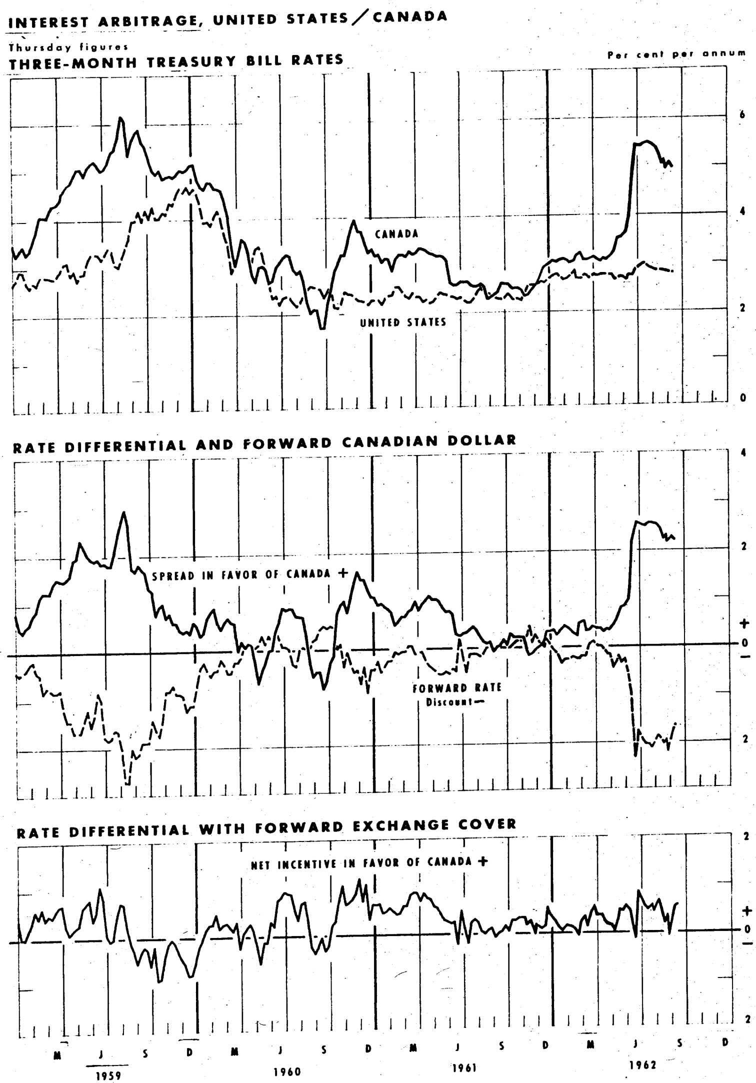
a/ "Vreneli" 20-franc piece (0.1867 troy ounces; $6.53 at $35 per ounce).

Switzerland: Selected Capital Market Statistics

Capital market yields	Long-term govt. bonds	Deposit cert's: 12 cantonal banks	Deposit cert's: 5 large banks	New issues ($ millions; monthly ave. or month) (New money raised)	Swiss bonds	Swiss stocks	Fgn. bonds	Total: Gross	Total: Net a/
1962-High				1960	17.3	3.8	10.8	31.8	26.6
Low				1961	19.8	7.2	18.6	45.7	42.6
				Qtr. I	24.0	14.3	25.9	64.2	63.4
June 15	3.23	3.38	3.32	II	17.6	6.8	15.5	39.9	34.0
22	3.23	3.38	3.32	III	19.6	1.2	18.6	39.5	38.6
29	3.23	3.38	3.32	IV	18.2	6.6	14.3	39.1	34.2
July 6	3.23	3.38	3.35	1962					
13	3.23	3.38	3.35	Qtr. I	24.5	15.6	20.2	60.3	45.4
20	3.23	3.39	3.39	II	26.8	21.7	13.2	61.7	53.9
27	3.19	3.39	3.39	Feb.	39.4	21.1	14.0	74.5	50.7
Aug. 3	3.19	3.39	3.39	Mar.	20.2	23.7	23.3	67.2	46.8
10	3.19	3.39	3.39	Apr.	35.7	8.5	11.6	55.8	50.0
17	3.18			May	31.9	45.0	14.0	90.9	89.8
24	3.18			June	12.7	11.7	14.0	38.3	38.0
31	3.14			July	6.1	1.1	b/ --	7.2	5.0
Sept. 7	3.13			Aug.			11.6		
14	3.11								

a/ Net of reimbursements. Amounts by type are gross.
b/ The July borrowing was a conversion loan and did not raise new money.

Chart 1


INTEREST ARBITRAGE, UNITED STATES / CANADA
Thursday figures
THREE-MONTH TREASURY BILL RATES
Per cent per annum
CANADA
UNITED STATES
RATE DIFFERENTIAL AND FORWARD CANADIAN DOLLAR
SPREAD IN FAVOR OF CANADA +
FORWARD RATE
Discount –
RATE DIFFERENTIAL WITH FORWARD EXCHANGE COVER
NET INCENTIVE IN FAVOR OF CANADA +
M J S D M J S D M J S D M J S D
1959
1960
1961
1962

10

Chart 2

INTEREST ARBITRAGE, NEW YORK/LONDON

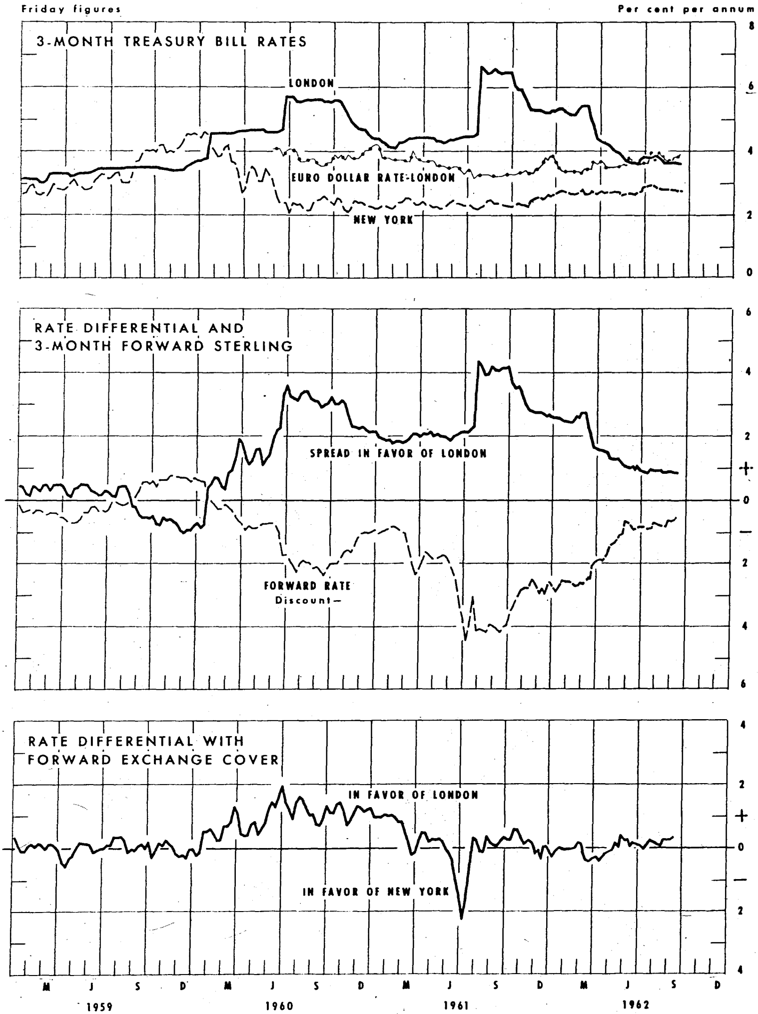
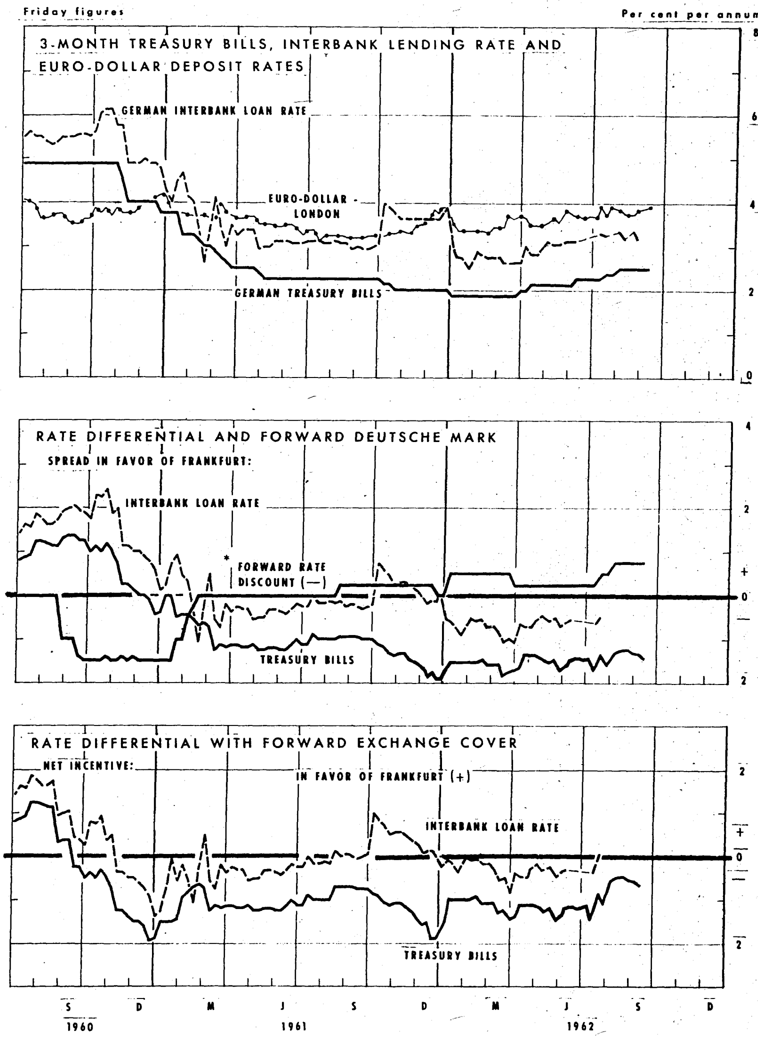


Chart 3

INTEREST ARBITRAGE FOR GERMAN COMMERCIAL BANKS



Note: Special forward rate available to German commercial banks

12

Chart 4

INTEREST ARBITRAGE, FRANKFURT / LONDON

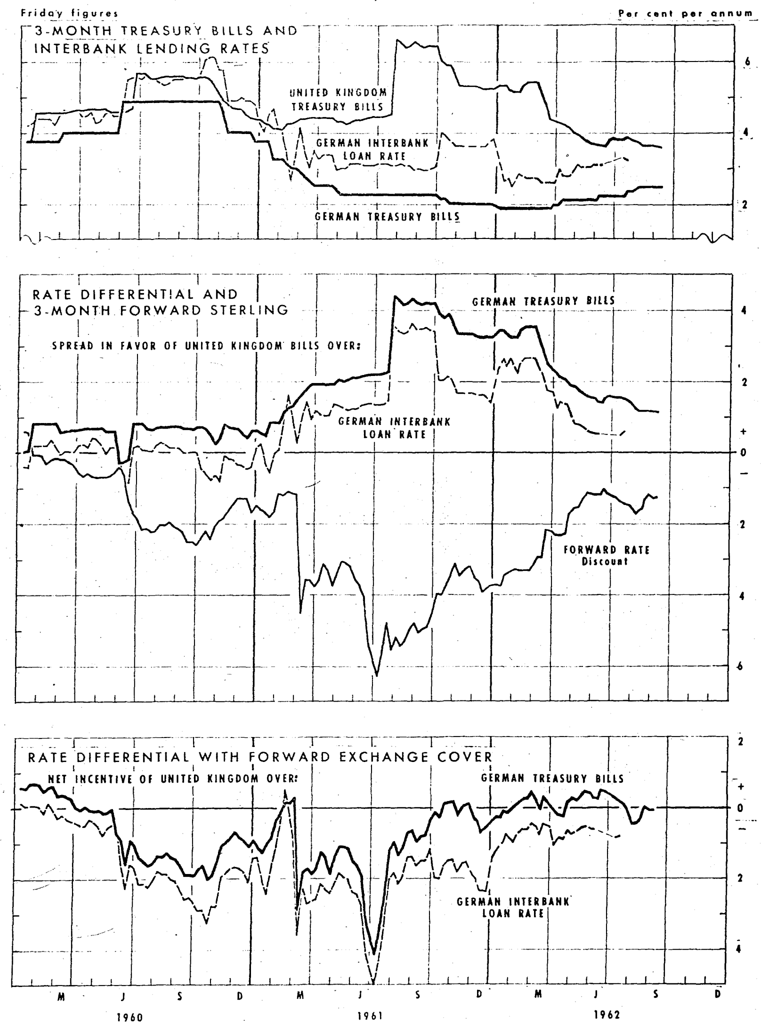
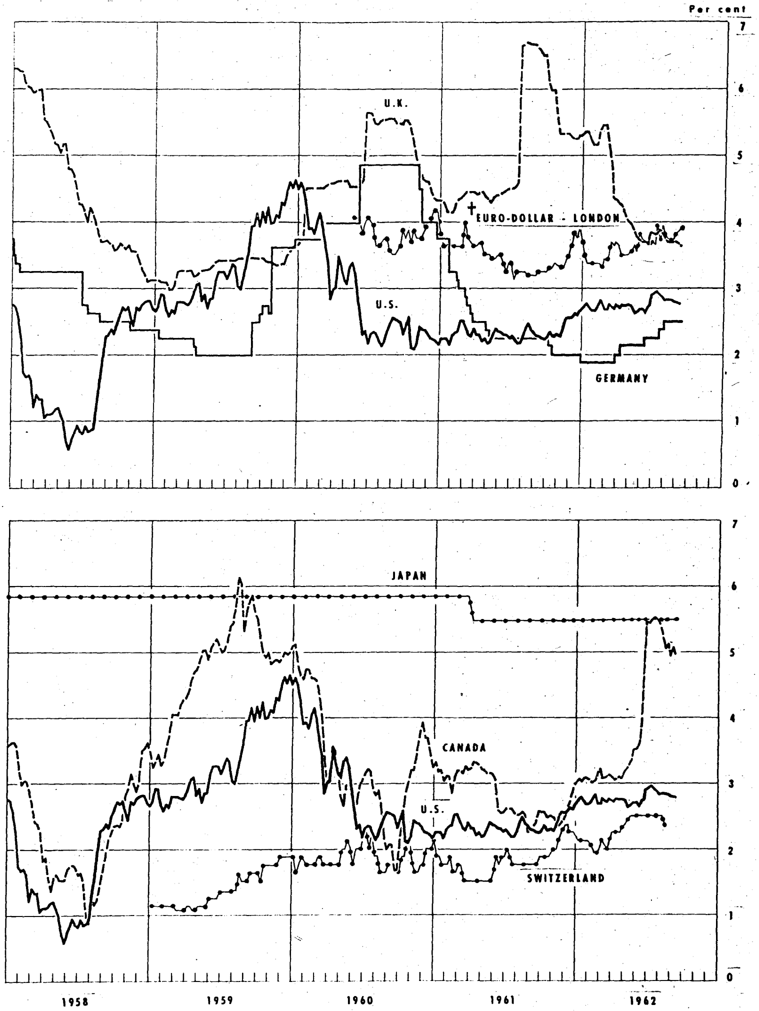


Chart 5

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

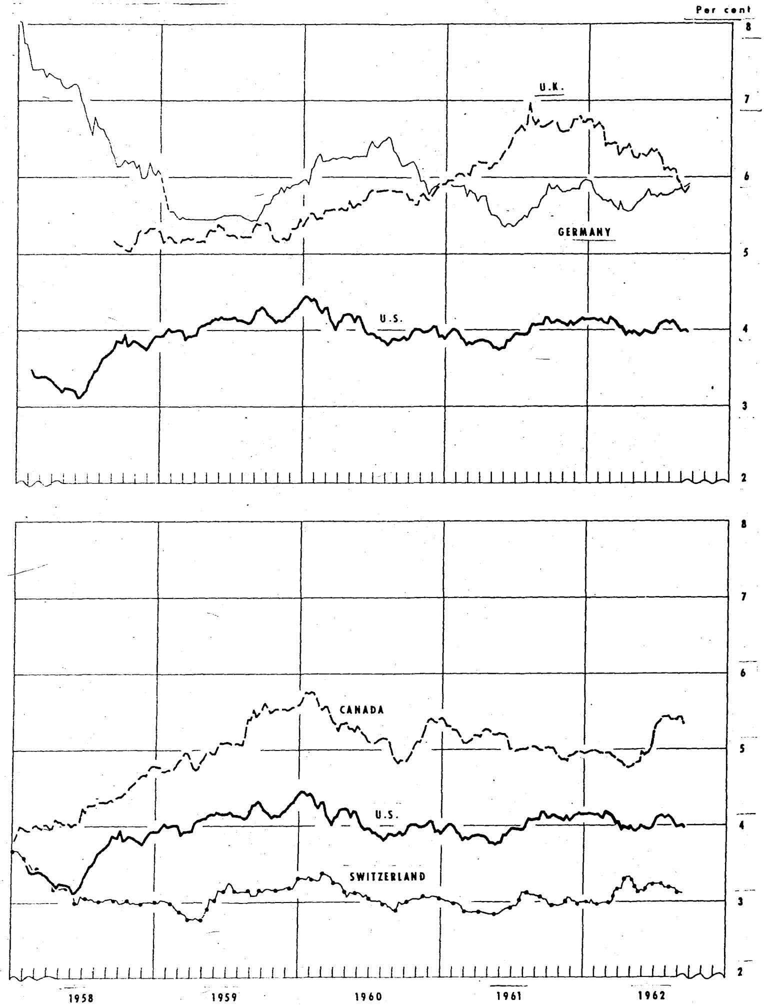
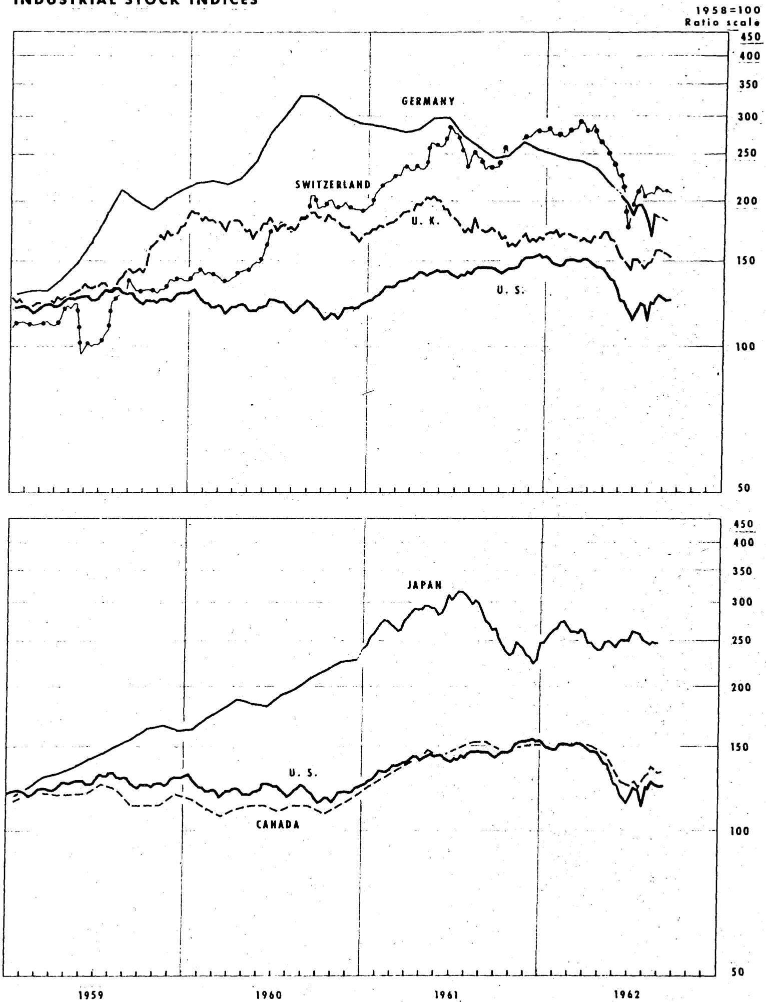


Chart 7

INDUSTRIAL STOCK INDICES*



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

16

Chart 8

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

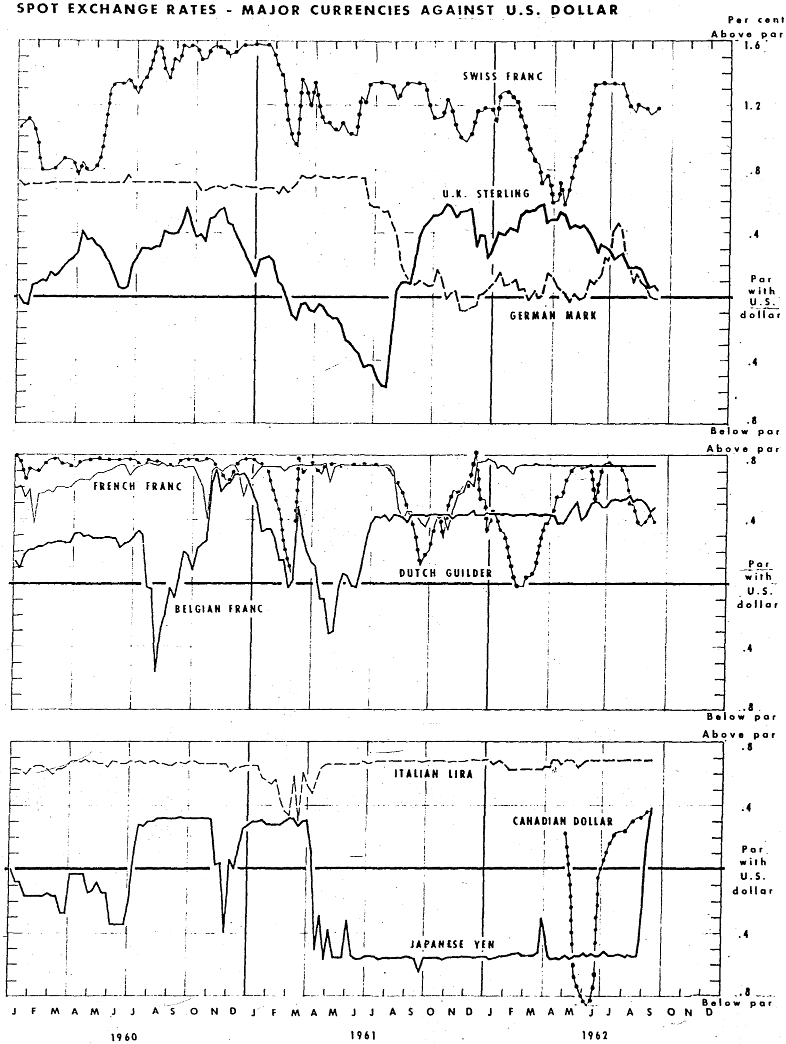


Chart 9

3-MONTH FORWARD EXCHANGE RATES