

1962

H. 13
No. 86FEDERAL RESERVE BANK
OF RICHMOND

November 23, 1962.

CAPITAL MARKET DEVELOPMENTS ABROAD

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

Switzerland: Money and Capital Markets in September-October

The Cuban crisis precipitated another flow of funds to Switzerland, but the inflow was heavy on only one day, October 24. In the last week of October a total of \$57 million accrued to the Swiss National Bank, largely from Germany and in lesser amounts from other European centers. The rise in Swiss official dollar holdings, and the accompanying increase in the liquid franc holdings of the Swiss commercial banks, posed problems similar to those which had arisen last July, although this time of much smaller magnitude. Cooperative arrangements among the Swiss National Bank, Swiss commercial banks, and the Federal Reserve System at the end of October took \$50 million out of Swiss National Bank dollar holdings and the equivalent of \$30 million out of Swiss commercial banks' liquid franc balances. (For details, see page 5.)

An upsurge in the demand for gold accompanied the inflow of foreign exchange at the height of the tensions over Cuba, and the price of Swiss gold coins jumped 13 per cent to a ten-year high on October 24. By early November the price had retreated 10 per cent. Over the past three years, Swiss gold coin prices have risen on the occasion of various political crises and disruptive financial developments, but there has also been a strong underlying upward trend. As a result, prices now are 31 per cent higher than in June 1959. Swiss gold coins presently command a premium of 40 per cent over the official gold price.

The Swiss money market tightened at the end of September for seasonal reasons, but subsequently tightened further in October, only partly because of increased foreign demand for Swiss francs. The 3-month deposit rate was 2-3/4 per cent in early November compared with 2-1/4 - 2-1/2 per cent in mid-September. Long-term bond yields declined very slightly in the period under review; the yield to maturity on long-term government bonds is currently about 3.11 per cent.

Industrial stock prices, which had rallied well during the summer, declined again in September and October by nearly 20 per cent to a new low for the year. But with the easing of tensions over Cuba, the industrial index rose 11 per cent in the two weeks ending November 9.

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DECONTROLLED AFTER SIX MONTHS

Reflecting the booming state of the Swiss economy, fresh money raised from new public issues of Swiss securities was 35 per cent more in the first nine months of 1962 than in the same period last year. In contrast, new issues of foreign bonds in Switzerland have dropped sharply this year because of tighter "rationing" of foreign access to the Swiss capital market.

Two further steps in the field of U.S.-Swiss monetary cooperation were taken in the latter part of October, which are additional to those referred to in the first paragraph above. The U.S. Treasury sold to the Swiss National Bank, in the week ending October 23, Swiss franc-denominated certificates of indebtedness in the amount of SF 207 million (about \$48 million), with maturities of 5 and 8 months. The proceeds were credited to a Swiss franc account with the Swiss National Bank. In addition, the U.S. Treasury sold to the Swiss Confederation Swiss franc-denominated bonds in the amount of SF 100 million (about \$23 million) with a maturity of 15 months. According to the Swiss newspaper Neue Zuercher Zeitung, the Swiss Government purchased these bonds with the proceeds of the liquidation of part of its short-term dollar investments which, before this transaction, amounted to some \$150 million.

Money market. Swiss financial circles were taken by surprise by the extent to which the money market tightened at the end of September. Market developments in September were purely routine until the end of the month, when demands on the liquid funds of the banks took on quite unexpected proportions. These demands sprang from the coincidence of the quarter-end, the week-end, and the settlement of tax debts. The note circulation rose SF 320 million in the last week of the month. Rates paid on three-month deposits, which had ranged from 2-1/4 to 2-1/2 per cent since the end of August, rose to 2-1/2 per cent in the last week of September and then to 2-1/2 - 2-3/4 per cent in the first few days of October. (See Table 6 and Chart 5.)

Despite a return flow of notes of SF 280 million in the first two weeks of October, the three-month deposit rate continued to rise and reached 2-3/4 per cent on October 15. In this period there was increased foreign demand for Swiss francs. But Swiss observers doubted if this factor made any serious demands on the liquidity of the Swiss banks, so that domestic factors appear to have been the main cause of the further rise in three-month rates.

In the last week of October, the Cuban crisis touched off an inflow of foreign exchange of about \$57 million (SF 246 million) and thereby caused an equivalent increase in the liquid Swiss franc assets of the banks. Part of this increase (SF 129 million) was reversed when the Swiss National Bank, in cooperation with U.S. authorities, sold \$30 million of U.S. dollars to Swiss commercial banks; the Federal Reserve System purchased these dollars forward against Swiss francs. Three-month deposit rates remained at 2-3/4 per cent through the first week of November.

Bond market. Yields on long-term bonds changed little in the period under review. The yield to maturity on the Swiss Confederation 3% bond of 1967-74 was generally 3.13 per cent in September and 3.11 per cent from then through November 9. (See Table 7 and Chart 6.) This stability partly reflects

the fact that there were no heavy movements of Swiss funds into or out of the country. Earlier, large-scale repatriation of Swiss assets in June and July had added to the demand for Swiss obligations and caused bond yields to fall appreciably between mid-July and early September.

Yields on medium-term deposit certificates were unchanged at 3.39 per cent in September and the first half of October.

Stock market. After the good summer rally, prices of Swiss shares entered another declining phase in early September which persisted until the end of October and brought the industrial index to a new 1962 low. The Swiss National Bank index of industrial share prices declined in each of the seven weeks from September 7 to October 26, for a total decline of 19.5 per cent. On the latter date the index was below the previous 1962 low set on June 15. There was no adverse domestic economic news. Observers attributed the decline to the weakening tendency on Wall Street and to a small demand for shares which was reflected in a low volume of trading.

Selling pressures were not heavy except at the beginning of the Cuban crisis. Prices of Swiss blue chips dropped 10-12 per cent on October 23-24, but recovered most of the lost ground on the 25th; the Swiss National Bank industrial index showed only a 1.7 per cent decline between October 19 and October 26.

In the heaviest trading since last May, prices on the Swiss exchanges rose sharply following the easing of tensions over Cuba. Industrials were up 6 per cent in the week ending November 2, and this was followed by a 4-1/2 per cent gain in the next week.

Table 1. Switzerland: Industrial Share Index, 1962
(1958 = 100)

June	15	175.6	October	5	179.6
August	31	209.5		12	177.8
September	7	210.4		19	172.3
	14	207.7		26	169.4
	21	200.2	November	2	179.6
	28	190.9		9	187.6

New issues. The volume of new issues in August turned out to be substantial, and fresh money raised from public security flotations came to \$41 million, net of a very small amount of reimbursements. (See Table 7.) In September the \$37 million of net new issues was slightly under the August 1961 figure.

Striking developments in the new issue market this year are obscured by the figures for total new issue activity. For the first nine months of 1962, total new issues, on a gross basis, of \$459 million were not much in excess of the \$431 million for the same period last year, and the \$404 million net of reimbursements this year were under the \$408 million

of net new money raised in January-September 1961. However, Swiss issues alone, in reflection of the booming state of the Swiss economy, are up this year by 35 per cent on a gross basis and 38 per cent on a net basis; the increases on a gross basis are 12 per cent for bonds and 99 per cent for stocks. Interestingly, the very severe slump in stock prices between mid-March and mid-June apparently had no slowing effect on new stock issues, which in the months June-September of this year were 5 times as great as in the same months last year.

In contrast, foreign bond issues, gross basis, were \$121 million this year compared to \$180 million last year, and on a net basis were \$74 million this year against \$169 million last year. These declines are not the result of either a downturn in foreign demand for capital market funds or a rise in borrowing rates on the Swiss market, but rather stem from a tighter "rationing" by the Swiss authorities of foreign access to the Swiss market.

In September a \$9.3 million bond issue was floated by the French firm Compagnie des Machines BULL, S.A., manufacturers of electronic calculators. This loan was oversubscribed, as was the \$11.6 million loan in October by the German steel firm August Thyssen-Huette, A.G.

Table 2. Switzerland: 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>
Compagnie des Machines BULL, S.A. (Paris)	9.3	1968-77	4.5	100	4.5
August Thyssen- Huette, A.G. (Duisburg-Hamborn)	11.6	1972-77	4.5	100	4.5

Foreign trade. The Swiss trade deficit, on a seasonally-adjusted basis, widened again in the third quarter to a monthly average of \$70 million, compared with \$58 million in the second quarter. The third-quarter deficit was thus back up to the high first-quarter level, and well above the 1961 average. The enlargement of the deficit was due to the failure of exports to increase over the second quarter, while imports rose further to a record high for any quarter.

Table 3. Switzerland: Seasonally-adjusted Foreign Trade^{a/}
 (\$ millions; monthly average or month)

	1960 <u>Year</u>	1961 <u>Year</u>	1962					
			<u>I</u>	<u>II</u>	<u>III</u>	<u>July</u>	<u>Aug.</u>	<u>Sept.</u>
Imports c.i.f.	186	225	250	244	256	260	258	250
Exports f.o.b.	<u>157</u>	<u>170</u>	<u>181</u>	<u>186</u>	<u>186</u>	<u>184</u>	<u>181</u>	<u>193</u>
Balance	-29	-55	-69	-58	-70	-76	-77	-57

a/ Source: OECD. Because of revision of seasonal adjustment factors, these figures differ from preliminary estimates previously shown.

International reserves. Swiss National Bank reserves underwent a small decline of \$10 million between August 31 and October 23. With the outbreak of the Cuban crisis, there was another sudden rush of funds to Switzerland, which, however, proved to be short-lived and was almost wholly concentrated in one day, October 24. A total of \$57 million accrued to the Swiss monetary authorities in the eight days October 24-31. Market reports state that most of this flow came from West Germany, and to a lesser extent from France, Austria, and other countries. The inflow was accompanied by an upsurge in the demand for gold in Switzerland.

The accruals of U.S. dollars to the Swiss National Bank, together with the accompanying rise in the liquid franc balances of the Swiss commercial banks, presented the Swiss authorities with problems of the same nature -- but of much smaller proportions -- as those that had arisen from the June-July movement out of the dollar. Two measures were taken, in cooperation with U.S. authorities, to reduce the above-cited increases. As described in The Times of London of November 2, these measures were:

(1) The Swiss National Bank sold \$30 million of dollars back to Swiss commercial banks, and the Federal Reserve System purchased these dollars forward, against Swiss francs, from the Swiss banks; and

(2) The Federal Reserve System drew another \$20 million equivalent of Swiss francs under the July swap agreement with the Bank for International Settlements, and with these francs bought \$20 million of the dollar holdings of the Swiss National Bank.

As a result, the Swiss National Bank's gold and dollar reserves on October 31 were only \$7 million greater than on October 23, and comprised \$2,453 million of gold and \$180 million of foreign exchange.

Swiss National Bank reserves increased in the first half of November by \$14 million. According to market reports, Swiss banks in this period were already beginning to repatriate funds for year-end window-dressing.

Table 4. Changes in Swiss National Bank Reserves in 1962
(\$ millions)

	<u>Jan.-Mar.</u>	<u>Apr.-June</u>	<u>July</u>	<u>Aug.</u>	<u>Sept.</u>	<u>Oct.</u>
Actual change	-151	+ 97	- 17	-52	-8	+ 5
Change adjusted for special transactions ^{a/}	- 86	+127	+108	- 2	-8	+55

a/ Adjusted for reported short-term foreign investments by the Swiss Federal Treasury, for sales of exchange to Swiss commercial banks, and for use of swap facilities by the Federal Reserve System.

Exchange rates. The spot Swiss franc moved irregularly against the U.S. dollar in September and most of October, the rate fluctuating generally between SF 4.321 and SF 4.326 per dollar. (See Table 6 and Chart 8.)

The rush of funds to Switzerland precipitated by the Cuban crisis caused the Swiss franc to strengthen against all foreign currencies. On the Swiss market, the business week October 22-27 saw the pound sterling at its low for the year of SF 12.084, and the DM at its lowest point since the March 1961 revaluation. The dollar fell to its lower intervention point of SF 4.315 on October 24. Since then the Swiss franc has been only slightly less strong. The dollar recovered a bit on October 25, fell again to its lower limit on November 3, and was only negligibly above SF 4.315 from then through November 17.

On the forward market, the premium on the 3-month forward Swiss franc rose in September to 1.09 per cent per annum around mid-month. It subsequently fell very sharply to only 0.07 per cent per annum on November 2 (see Table 6), before rising to 0.21 per cent on November 16. The net return to Swiss investors, on a covered basis, on the 3-month U.S. Treasury bill consequently rose from 1.64 per cent on September 21 to 2.76 per cent on November 2 and was 2.62 per cent on November 16. However, this return remained under the 3-month bank deposit rate in Switzerland. Because of both the declining forward premium and a rise in Euro-dollar rates in late October, the covered yield for Swiss investors on 3-month London Euro-dollar deposits soared from 2.95 per cent on September 14 to 4.12 per cent on November 2, before dropping back to 3.85 per cent on November 16.

Gold price. The price of the Vreneli gold coin moved up from SF 38.25 in mid-August to SF 38.75 in early September, but fell back again to SF 38.25 on September 21 and remained at that level through most of October. These prices are shown in Table 6. The gold prices in Table 6 are the average of buying and selling prices published weekly in the Neue Zuercher Zeitung.

A large increase in the demand for gold in Switzerland accompanied the inflow of funds to Switzerland during the height of the tensions over Cuba. This caused the price of the Vreneli to jump on October 24 to SF 43.50, its highest price in more than 10 years. There was also an upsurge in the demand for bullion, and large orders were placed by Swiss banks in the London market on behalf of private customers. However, the demand for gold began to diminish as early as October 25, and in the two weeks November 3-17 the Vreneli price was reported by the Swiss National Bank to be about SF 39.50.

Despite this drop, the price of gold coins in Switzerland remains high in comparison with recent years. The buying price of SF 39.30 on November 17 reported by the Swiss National Bank was 31 per cent above the price at the end of June 1959. The changes in the price of the Vreneli over the past decade are shown in Table 5. The price declined sharply from 1952 to 1955, rose again, and once more declined between 1957 and 1959. The price of SF 30.00 at the end of June 1959 was 23 per cent below the 1952 average. Since June 1959 the trend has been irregularly but markedly upward. The principal periods of rising prices (as given by month-end prices) have been: (1) June 1960 to January 1961 (up 15 per cent), a period which encompassed the Congo crisis and the late-1960 "gold rush" on the London market; (2) June to August 1961 (up 9 per cent), the time of last year's Berlin crisis; (3) the months since June 1962 (up 8 per cent as of November 17), a period covering the movement out of the dollar in July and the Cuban crisis.

Political crises and disruptive financial developments have caused the price to make sudden jumps. But the disappearance of these temporary factors has not caused the price to move back down to its original level.

Using the November 17 price of SF 39.50 (mid-point between buying and selling prices), and converting at the current exchange rate of SF 4.315 per dollar, the price of the Vreneli is \$9.15. This is 40.1 per cent above the price of \$6.53 obtained on the basis of the official gold price of \$35 per ounce and the official parity of the franc of SF 4.373 per dollar.

Table 5. Switzerland: Buying Price of the Vreneli Gold Coin a/
(In Swiss Francs)

Yearly average

1952 - 39.13	1957 - 34.01
1953 - 36.79	1958 - 31.98
1954 - 30.52	1959 - 30.43
1955 - 28.70	1960 - 31.66
1956 - 32.71	1961 - 34.99

End of month, selected months

1959: June	- 30.00
1960: June	- 30.25
1961: January	- 34.70
June	- 33.60
August	- 36.75

a/ Source: Swiss National Bank.

(Table 5 continued on page 8.)

(Table 5 continued from preceding page.)

End of month, selected months (continued)

1962: January	- 36.50
June	- 36.40
July	- 37.60
August	- 38.25
September	- 38.60
October	- 40.00 (approximate)

On November 17, 1962 - 39.30

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

Table 6. Switzerland: Money Rates, Exchange Rates, and Gold Prices

	Forward Swiss franc (3-mo.)	US Tr. bill		Euro-dollar deposit		Swiss bank deposit (3-mo.)	Exchange rates		Gold coin a/ in SF
		Bill yield	Net return in SF	London return rate	Net return in SF		Spot \$ in SF	Spot £ in SF	
1962-Aug. 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	2.25	4.321	12.113	38.25
31	+0.74	2.80	2.06	3.81	3.07	2.25	4.323	12.113	38.50
Sept. 7	+0.80	2.79	1.99	3.84	3.04	2.25	4.322	12.110	38.75
14	+1.09	2.78	1.69	3.91	2.82	2.38	4.321	12.106	38.75
21	+1.09	2.73	1.64	3.94	2.85	2.38	4.323	12.111	38.25
28	+0.69	2.74	2.05	3.81	3.12	2.50	4.325	12.115	38.25
Oct. 5	+0.50	2.76	2.26	3.81	3.31	2.63	4.326	12.118	38.25
12	+0.39	2.77	2.38	3.91	3.52	2.75	4.323	12.114	38.25
19	+0.17	2.74	2.57	3.91	3.74	b/ 2.75	4.322	12.111	n.a.
26	+0.32	2.73	2.11	4.13	3.81	b/ 2.75	4.315	12.085	41.00
Nov. 2	+0.07	2.83	2.76	4.19	4.12	b/ 2.75	4.315	12.088	
9	+0.19	2.80	2.61	4.06	3.87	b/ 2.75	4.315		
16	+0.21	2.83	2.62	4.06	3.85		4.315		

a/ "Vreneli" 20-franc piece (0.1867 troy ounces; \$6.53 at \$35 per ounce); average of buying and selling prices as published weekly in the Neue Zuercher Zeitung.

b/ Estimate based on market reports.

Table 7. Switzerland: Selected Capital Market Statistics

	Capital market yields				New issues				
	Long-term govt. bonds	Deposit cert's 12 can-tonal banks	5 large banks		(\$ millions; monthly aye. or month) (New money raised)				
				Swiss bonds	Swiss stocks	Fgn. bonds	Total		
							Gross	Net a/	
1962-High	3.31	3.39	3.39	1960	17.3	3.8	10.8	31.8	26.6
Low	2.98	3.35	3.29	1961	19.8	7.2	18.6	45.7	42.6
				Qtr. I	24.0	14.3	25.9	64.2	63.4
Aug. 10	3.19	3.39	3.39	II	17.6	6.8	15.5	39.9	34.0
17	3.18	3.39	3.39	III	19.6	1.2	18.6	39.5	38.6
24	3.18	3.39	3.39	IV	18.2	6.6	14.3	39.1	34.2
31	3.14	3.39	3.39	1962					
Sept. 7	3.13	3.39	3.39	Qtr. I	24.5	15.6	20.2	60.3	45.4
14	3.11	3.39	3.39	II	26.8	21.7	13.2	61.7	53.9
21	3.13	3.39	3.39	III	16.6	5.3	b/ 7.0	28.9	27.8
28	3.13	3.39	3.39	Apr.	35.7	8.5	11.6	55.8	50.0
Oct. 5	3.11	3.39	3.39	May	31.9	45.0	14.0	90.9	89.8
12	3.11	3.39	3.39	June	12.7	11.7	14.0	38.3	38.0
19	3.13			July	6.1	1.1	b/ --	7.2	5.0
26	3.11			Aug.	15.0	14.8	11.6	41.5	41.1
Nov. 2	3.11			Sept.	28.6	--	9.3	37.9	37.2
9	3.11			Oct.			11.6		

a/ Net of reimbursements. Amounts by type are gross.

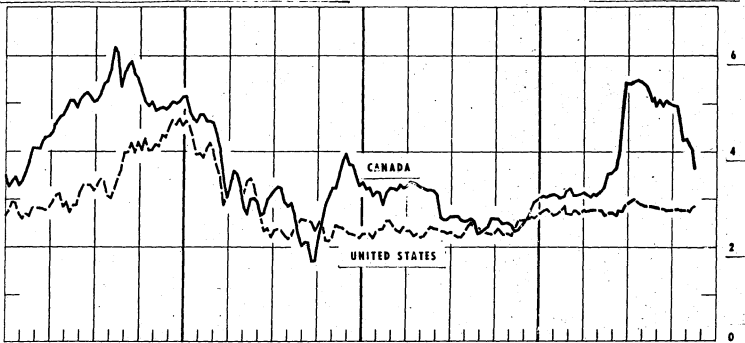
b/ The July borrowing was a conversion loan and did not raise new money.

INTEREST ARBITRAGE, UNITED STATES / CANADA

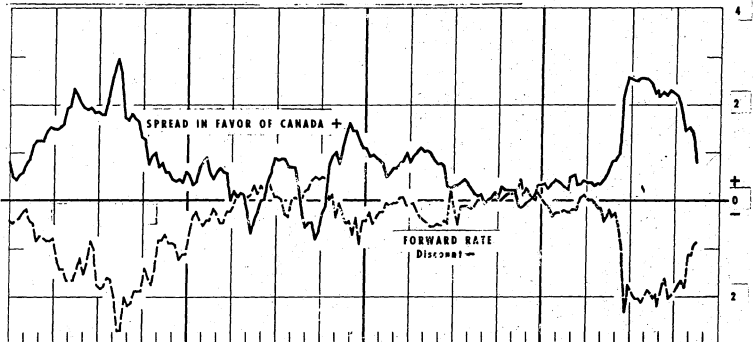
Thursday figures

THREE-MONTH TREASURY BILL RATES

Per cent per annum



RATE DIFFERENTIAL AND FORWARD CANADIAN DOLLAR



RATE DIFFERENTIAL WITH FORWARD EXCHANGE COVER

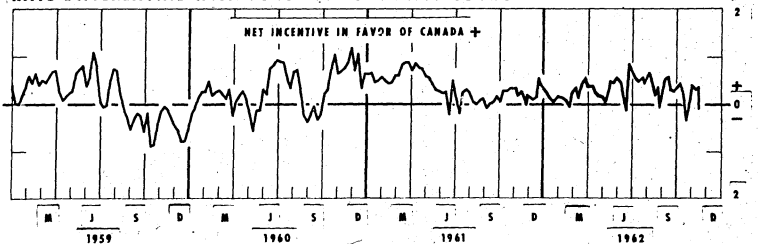
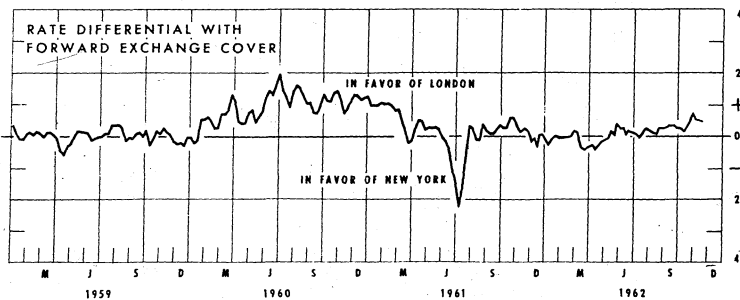
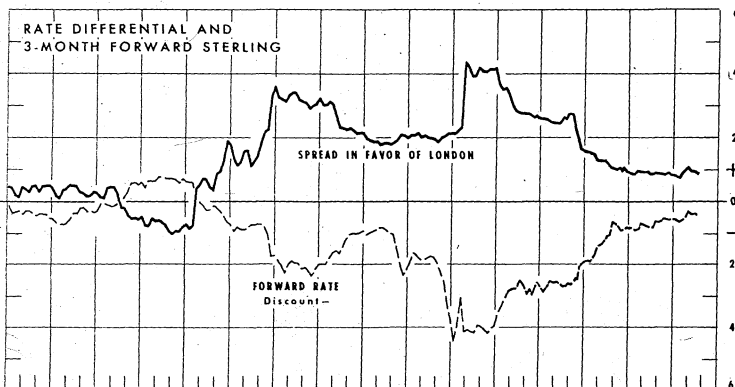
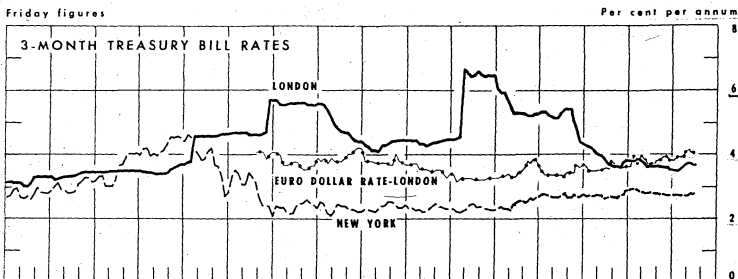


Chart 2

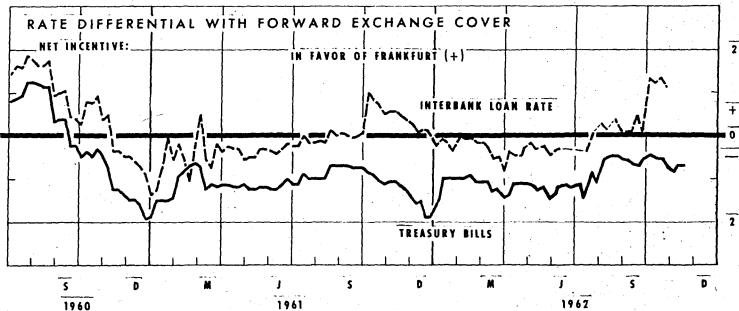
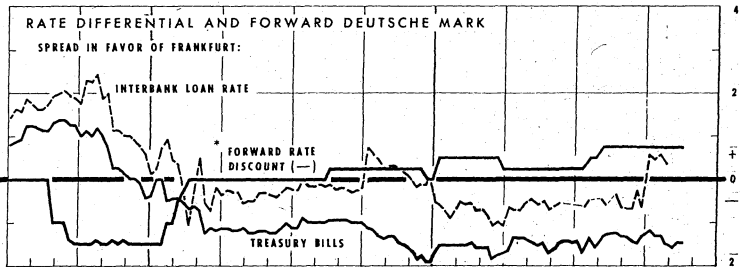
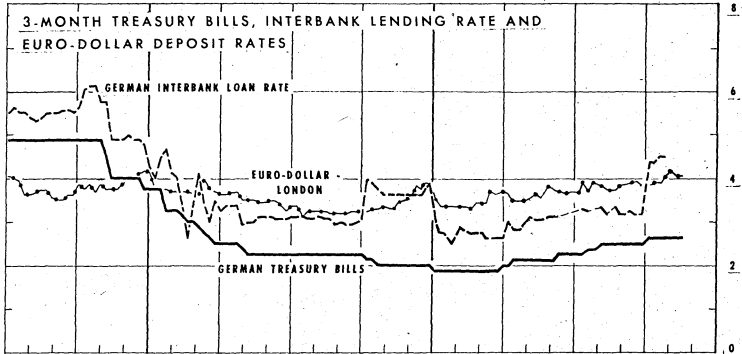
INTEREST ARBITRAGE, NEW YORK/LONDON



INTEREST ARBITRAGE FOR GERMAN COMMERCIAL BANKS

Friday figures

Per cent per annum



Notes: Special forward rate available to German commercial banks.

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Chart 4
INTEREST ARBITRAGE, FRANKFURT / LONDON

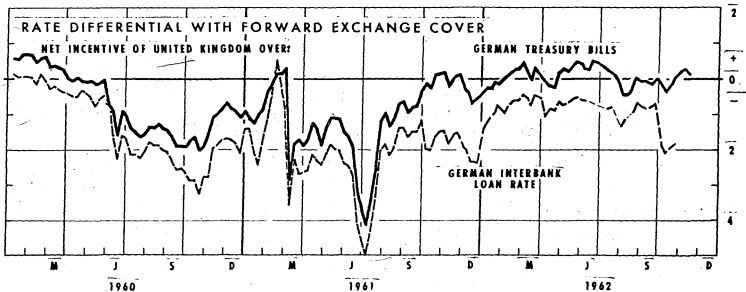
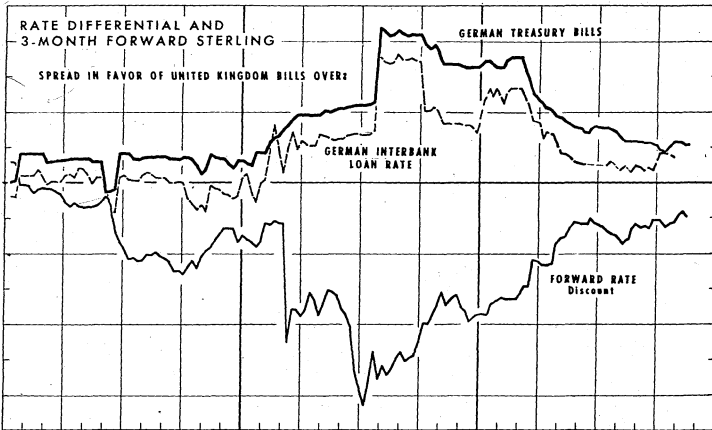
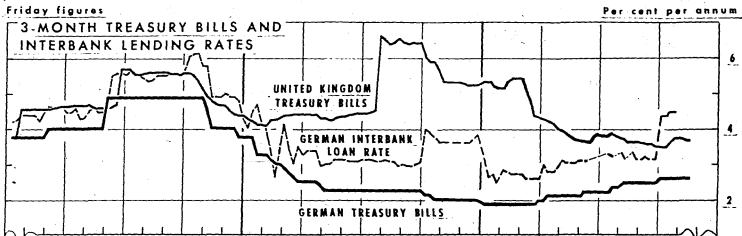
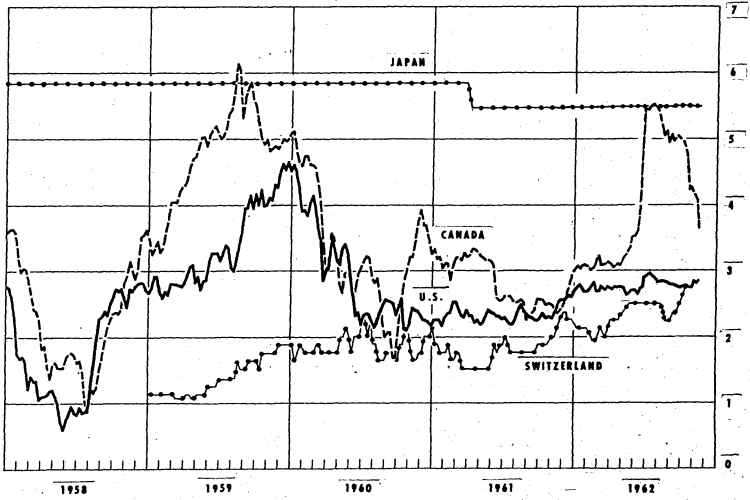
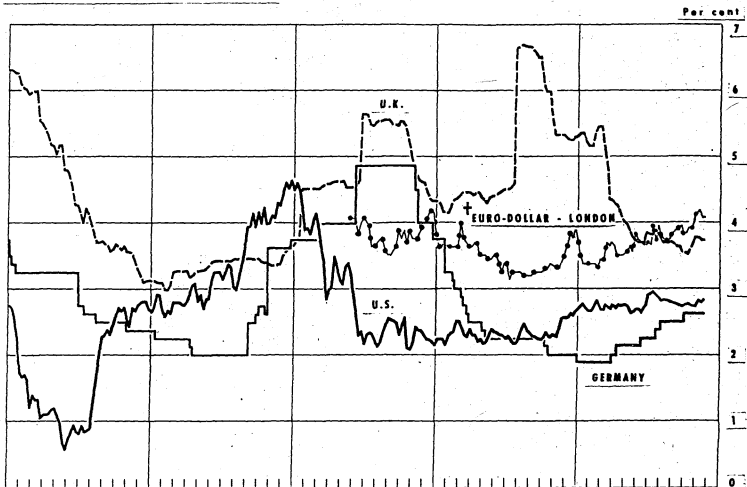


Chart 5

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

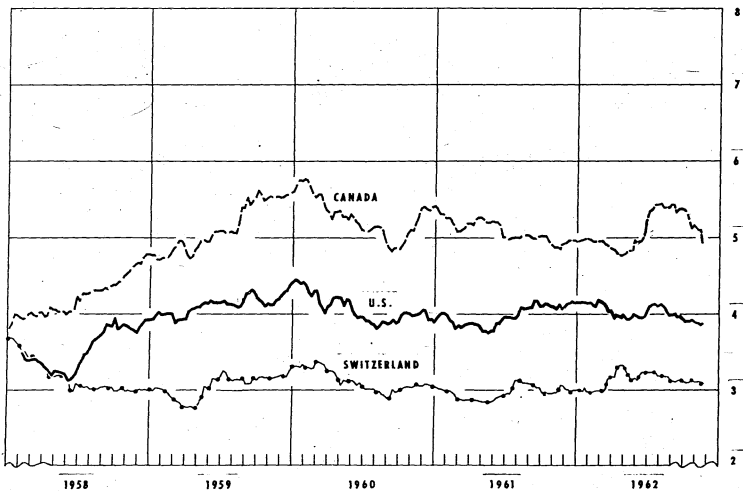
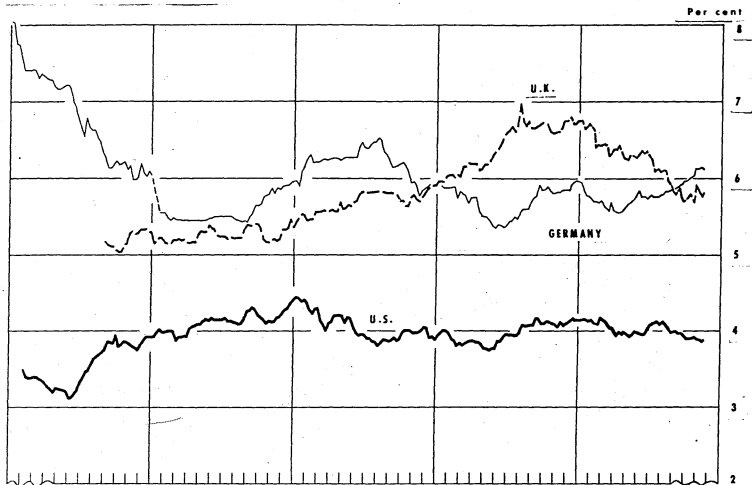
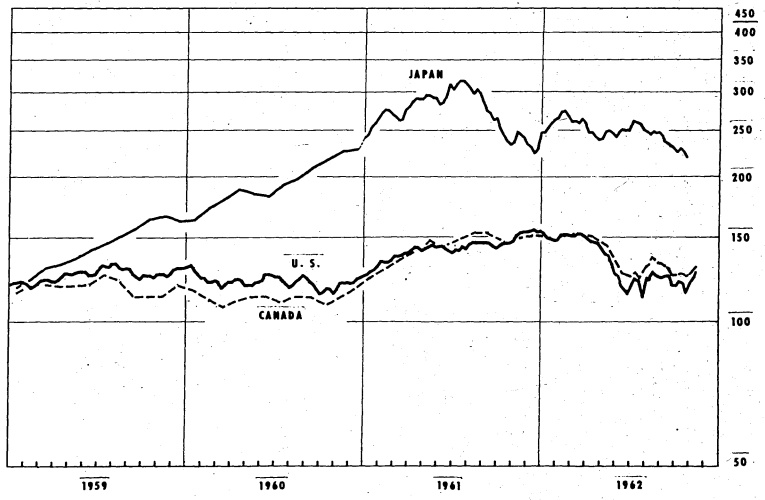
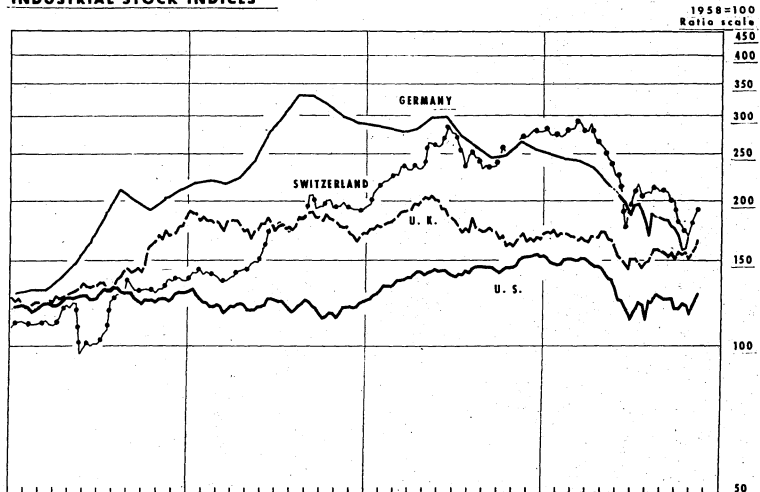


Chart 7

INDUSTRIAL STOCK INDICES*



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

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Chart 8
SPOT EXCHANGE RATES - MAJOR CURRENCIES AGAINST U.S. DOLLAR

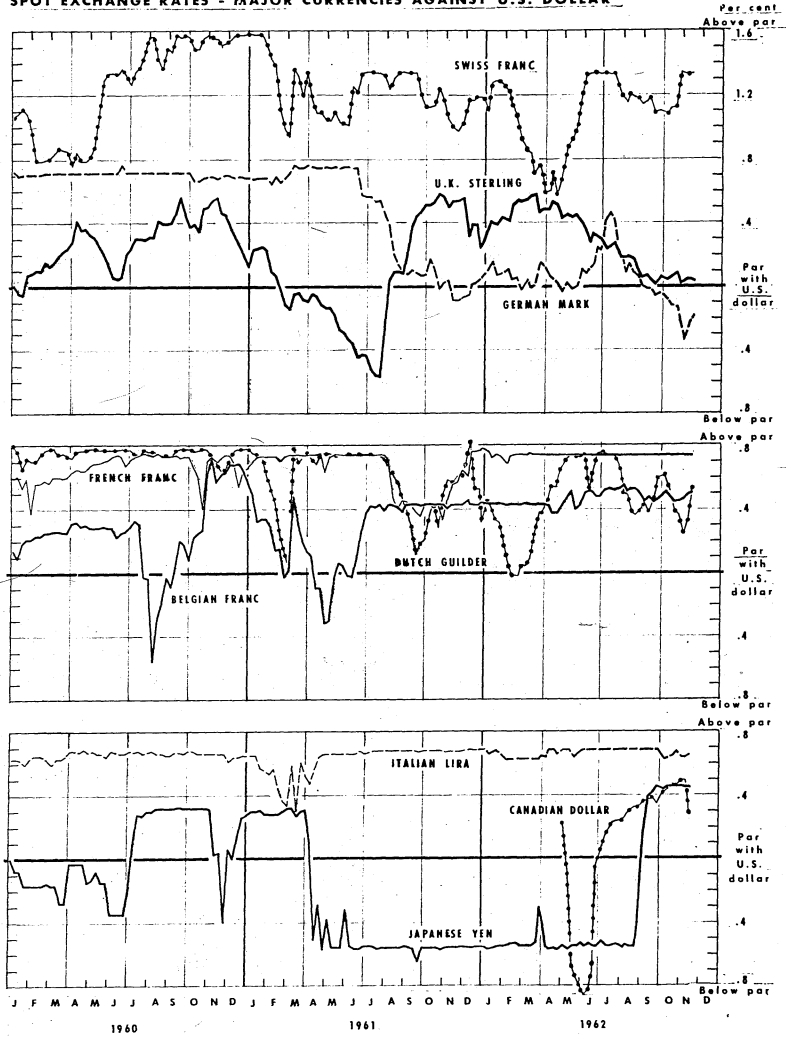


Chart 9

3-MONTH FORWARD EXCHANGE RATES

Per cent per annum

