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April 26, 1963

CAPITAL MARKET DEVELOPMENTS ABROAD

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

I. Switzerland: Money and Capital Markets in February and March

Developments in the Swiss money market have been relatively uneventful since the end of January, after the banks had again placed abroad the large volume of funds repatriated in December. Market rates were unchanged in the period under review, with 3-month deposits commanding 2-5/8 per cent. The market was unaffected by any large flows of funds into or out of Switzerland, and Swiss National Bank reserves underwent a modest decline of \$20 million between end-January and April 22. The money market tightened slightly in early April with the spring revival of construction activity.

In other markets, an active demand for bonds caused yields on long-term governments to fall about 6 basis points by mid-April, but stock prices fell around 3 per cent. Gold prices were unchanged. New issue activity was lively in February, and foreign bond flotations rose well above their recent levels. Additional foreign loans were raised in Switzerland in March and April.

According to U. S. press reports, the Swiss National Bank was one of the group of central banks that extended \$250 million of assistance to the United Kingdom in February and March when sterling came under pressure. These sources said the lending banks deposited dollars with the Bank of England but continued to include these dollars in their reserve figures.

Switzerland informed the International Monetary Fund in March of its willingness to participate in international monetary rescue actions as provided for by the Fund's General Arrangements to borrow. Switzerland will enter into a framework agreement with the Fund which will set forth general guide lines for coordination of Swiss aid action with that of the 10 industrial nations which already adhere to the Arrangements. Loans will be made directly to an individual country and not to or through the Fund. The Neue Zürcher Zeitung reports that a bilateral convention between Switzerland and the Federal Reserve System has already been drawn up.

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Money market. Conditions on the Swiss money in the period under review were essentially unchanged from those which prevailed in late January after the banks had again placed abroad the large volume of funds repatriated in December. Rates on three months deposits held steady at 2-5/8 per cent, and the call-money rate continued at 1-1/2 per cent. Customary end-of-quarter payments placed no strain on the market.

A delay in the seasonal upturn of construction activity, caused by the protracted and severe winter weather, made the market easier than had been expected. During the winter months only a minimal amount of new construction credits were taken up. With the advent of fair weather, increased building activity began to place greater demands on the money market, which consequently tightened slightly in early April. Increased interest rates abroad, particularly in Britain and Germany, and increased requirements of domestic firms for commercial funds are also expected to contribute to a further tightening of the money market during the second quarter.

Bond market. There was considerable activity on the Swiss bond market in February and March. The market received well the numerous new issues in February, some of which were heavily oversubscribed. An increased interest in Swiss bonds was evident. Foreign bonds bearing slightly higher rates of interest were also in demand.

Trading in Federal bonds was especially lively in the last half of March and the yield on the Swiss Confederation 3 per cent bond of 1967-74 eased 8 basis points from 3.13 per cent at the beginning of February to 3.05 per cent toward the end of March as demand pushed prices up. But this yield moved back up and then steadied at 3.07 per cent during the first three weeks of April. (See Table 6 and Chart 6.)

Yields on medium-term deposit certificates have remained at 3.39 per cent since the beginning of the year.

Stock market. There were no significant price movements on the Swiss stock exchanges during February/March and the first part of April. The Swiss industrial index eased gradually from 197 in the first week of February to 191 in the first week of April, a decline of 3 per cent. (See Table 1.) However, latest reports indicate a rise in prices during the second week of April.

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

January 4	202.9	March 1	187.4
11	197.9	8	192.8
18	198.1	15	190.9
25	196.4	22	192.0
February 1	196.9	29	189.0
8	196.1	April 5	191.4
15	196.2		
23	192.6		

The Association of Swiss Stock Exchanges recently removed the 50 per cent margin requirement on purchases of stock which has been in force since February 1961. According to The Economist of April 20, it is felt that Swiss stock prices are currently high enough to allow the removal of this restriction without incurring a rush of speculative buying. But the periodical also stated that the availability of greater margin financing might not attract much additional business because of lingering public dissatisfaction with the mode of operation on the stock exchange. This sentiment is a product of last May's "black Tuesday" when the price of Swiss shares plummeted in sharp reaction to the Wall Street collapse. The Zürich Stock Exchange asserted, in its latest annual report, that the rules of the stock exchange must be amended. However, because legislation governing the stock exchange is the province of the individual canton and not the Federal Government, action in this area is expected to proceed slowly.

The two main points under criticism are the auction system and the size of price fluctuations common to the Swiss market. Under the auction system, no official record is kept of the exact time at which a transaction is made. According to The Economist, the feeling exists among many Swiss investors that some bankers took advantage of the tremendous fluctuations in price on "black Tuesday" and put through all sales at the lowest, and all purchases at the highest, prices going. In response to the criticism regarding the range of price fluctuations, the Swiss stock exchanges ruled last May that transactions in any security would cease for 15 minutes if prices varied by more than 15 per cent of its previous day's close.

New issues. In February, the gross total of new money raised on the Swiss capital market rose sharply to \$77.8 million. This sum was twice the size of total January issues and the largest amount of new money raised on the Swiss securities market since May 1962. The volume of loan funds raised in February by foreigners was, at \$23 million, unusually large. (See Table 6.) Reimbursements were negligible.

Two foreign interests offered issues to the market in February. The Sâchingen Rhein Power Station placed a SF 40 million loan at par at a cost of 4 per cent. Shortly thereafter the Kingdom of Norway successfully placed a loan for SF 60 million at par with a coupon of 4.5 per cent. (See Table 2.) Both loans were immediately oversubscribed.

Table 2. Switzerland: Foreign Bond Issues, February-April 1963

	Amount (SF mill.)	Term	Coupon Rate	Issue Price	Yield to maturity
<u>February</u>					
Säckingen Rhein Power Station (Germany)	40.0	1969-78	4.0	100	4.0
Kingdom of Norway	60.0	1981	4.5	100	4.5
<u>March</u>					
Châtillon- Commentry (France)	30.0	1970-79	4.5	100	4.5
<u>April</u>					
International Railroad Assoc. for Refrigerated Transports (Brussels)	15.0	1978	4.5	n.a.	n.a.

During March and April two more foreign loans were heavily over-subscribed. Issues for SF 30 million and SF 15 million, were floated by the French iron and steel company, Châtillon-Commentry, and by INTERFRIGO respectively. Both loans carried 4-1/2 per cent coupons.

The Union Bank of Switzerland has granted the Japanese Industrial Bank a loan of SF 10 million at 6.11 per cent interest for a period of six years. The proceeds of the loan are to be used for imports of Swiss machinery.

Foreign trade. The Swiss trade deficit continued to shrink in January and February. (See Table 3.) Seasonally-adjusted imports averaged 3.6 per cent less than in the last quarter of 1962, probably reflecting a further easing of the Swiss boom. Exports picked up in February, when they were 3.7 per cent above the fourth quarter average.

Table 3. Switzerland: Seasonally-Adjusted Foreign Trade
(\$ millions; monthly average)

	1962				1963	
	I	II	III	IV	Jan.	Feb.
Imports c.i.f.	250	244	256	251	240	243
Exports f.o.b.	181	186	186	187	186	194
Balance	- 69	- 58	- 70	- 64	- 54	- 49

International reserves. Gold and foreign exchange reserves of the Swiss National Bank declined \$8 million in February and \$12 million in March. (See Table 4.) According to the New York Times of April 18th, the Swiss National Bank was one of several Continental central banks (the others being France, Germany, and Italy) which together made available a total of \$250 million of short-term assistance to the United Kingdom in February and March when sterling was under heavy speculative pressure. According to the April 24th edition of the same paper, this assistance took the form of deposits of dollars with the Bank of England. The lending banks, however, continued to include these dollars in their reserve figures.

Swiss reserves remained unchanged from the end of March through mid-April.

Table 4. Switzerland: Gold and Foreign Exchanges Reserves, 1962-63
(In millions of dollars)

		<u>Gold</u>	<u>Foreign Exchange</u>	<u>Total</u>
<u>1962</u>				
October	31	2,453	180	2,633
November	30	2,421	191	2,612
December	31	2,666	204	2,872
<u>1963</u>				
January	31	2,455	199	2,655
February	28	2,461	186	2,647
March	30	2,461	174	2,635
April	6	2,461	175	2,636
	11	2,461	174	2,635

Switzerland and the IMF borrowing arrangements. In March the Swiss government publically announced its willingness to collaborate in international monetary aid actions taken within the framework of the IMF's borrowing arrangements. The decision--subject to referendum--provides for ten-year's participation and empowers the Federal Government to place a maximum of SF 865 million (\$200 million) at the disposal of the other ten participating countries. Swiss assistance will take the form of swaps, and loans of Swiss francs, gold or dollars. The term of such credits may not exceed five years. Switzerland will conclude a framework agreement with the IMF which will simply document Swiss readiness to participate in the general borrowing arrangements and establish guide lines along which the assistance of Switzerland and the other participating countries can be coordinated.

Swiss aid given under these arrangements must be provided for in advance by bilateral conventions between Switzerland and the individual participants. The size, nature and conditions of Swiss aid will be stipulated in the bilateral agreements and loans extended by Switzerland will be made directly to the country in question, not to the Fund. When the IMF mobilizes

support under the General Agreements, it will submit to Switzerland a proposal indicating the size of the desired contribution. Switzerland reserves the right to withhold a contribution or make a smaller one than proposed if a weak reserve or balance of payments position justifies this.

Exchange rates. The spot rate for the dollar in Switzerland fluctuated narrowly between 4.322 and 4.326 Swiss francs during February, but strengthened to 4.330 by March 8. The Swiss foreign exchange market was unsettled during the greater part of March. Both the dollar and sterling were under pressure. Uneasiness over possible sterling devaluation was touched off by articles spotlighting the weaknesses of sterling in two leading British journals. Reports of British reserve losses in February and a general feeling that Britain's position had been weakened by its failure to gain entry into the Common Market increased market uneasiness. The rate on spot sterling fell from SF 12.128 at the beginning of March to SF 12.115 by mid-month. (See Table 5.)

The rate for the spot dollar moved in sympathy with sterling, falling slightly from SF 4.330 on the 8th of March to SF 4.327 by the 22nd. But increased demand for dollars then emerged, and brought the rate to SF 4.331 on April 18. Sterling improved also following the British chancellor's budget speech, and was quoted above SF 12.12 in the first half of April.

The discount on the 3-month forward dollar fluctuated around 0.4 per cent per annum in February-March. After rising to 0.51 per cent on April 5, it narrowed again and stood at 0.37 per cent per annum on April 18.

Gold market. The price of the Vreneli held steady at SF 38.25 during February and March, and the market was reported to be very quiet in the first half of April.

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 5. Switzerland: Money Rates, Exchange Rates, and Gold Prices

	Forward Swiss franc (3-mo.)	US Tr. bill		Euro-dollar deposit		Swiss bank deposit (3-mo.)	Spot \$ in SF	Spot £ in SF	Gold coin ^{a/} in SF
		Bill yield	Net return in SF	London rate	Net return in SF				
1963-Jan. 11	+0.60	2.89	2.29	3.69	3.09	2.63	4.326	12.137	38.25
18	+0.42	2.92	2.50	3.59	3.17	2.63	4.324	12.130	38.25
25	+0.40	2.93	2.53	3.59	3.19	2.69	4.325	12.133	38.25
Feb. 1	+0.38	2.94	2.56	3.56	3.18	2.69	4.325	12.128	38.25
8	+0.39	2.95	2.56	3.56	3.17	2.63	4.324	12.122	38.25
15	+0.43	2.92	2.49	3.53	3.10	2.63	4.323	12.118	38.25
21	+0.06	2.87	2.81	3.44	3.38	2.63	4.322	12.117	38.25
Mar. 1	+0.39	2.90	2.51	5.30	4.91	2.63	4.328	12.128	38.25
8	+0.48	2.86	2.38	6.30	5.82	2.63	4.330	12.127	38.25
15	+0.46	2.88	2.42	7.20	6.74	2.63	4.327	12.115	38.25
22	+0.48	2.90	2.42	6.90	6.42	2.63	4.327		38.25
29	+0.41	2.91	2.50	6.90	6.49	2.63	4.331		38.25
Apr. 5	+0.51	2.91	2.40	6.90	6.39	2.63	4.327		
11	+0.37	2.92	2.55	6.90	6.53	2.63	4.329		

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

Table 6. Switzerland: Selected Capital Market Statistics

Capital market yields				New issues (\$ millions; monthly ave. or month) (New money raised)						
	Long-term	Deposit	cert's							
	govt.	12 can-	5							
	bonds	tonal	large		Swiss	Swiss	Fgn.	Total		a/
		banks	banks		bonds	stocks	bonds	Gross	Net	
1962 - High	3.31	3.39	3.29	1960	17.3	3.8	10.8	31.8	26.6	
Low	2.98	3.35	3.29							
1963				1961	19.8	7.2	18.6	45.7	42.6	
Jan. 4	3.11	3.39	3.39	Qtr. I	24.0	14.3	25.9	64.2	63.4	
11	3.10	3.39	3.39	II	17.6	6.8	15.5	39.9	34.0	
18	3.11	3.39	3.39	III	19.6	1.2	18.6	39.5	38.6	
25	3.13	3.39	3.39	IV	18.2	6.6	14.3	39.1	34.2	
Feb. 1	3.13	3.39	3.39	1962	21.8	12.8	12.7	47.3	38.3	
8	3.11	3.39	3.39	Qtr. I	24.5	15.6	20.2	60.3	45.4	
15	3.11	3.39	3.39	II	26.8	21.7	13.2	61.7	53.9	
22	3.10	3.39	3.39	III	16.6	5.3	7.0	28.9	27.8	
Mar. 1	3.08	3.40	3.39	IV	18.8	6.9	10.5	36.2	18.8	
8	3.08	3.40	3.39	Oct.	23.4	6.4	11.6	41.4	39.8	
15	3.05	3.40	3.39	Nov.	29.6	9.6	14.0	53.1	4.3	
22	3.05			Dec.	3.5	4.7	5.8	14.0	12.2	
29	3.09									
Apr. 5	3.07			1963						
11	3.07			Jan.	30.9	0.7	4.6	36.3	28.7	
19	3.07			Feb.	43.6	10.9	23.3	77.8	77.6	

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

Chart 1

INTEREST ARBITRAGE, UNITED STATES / CANADA

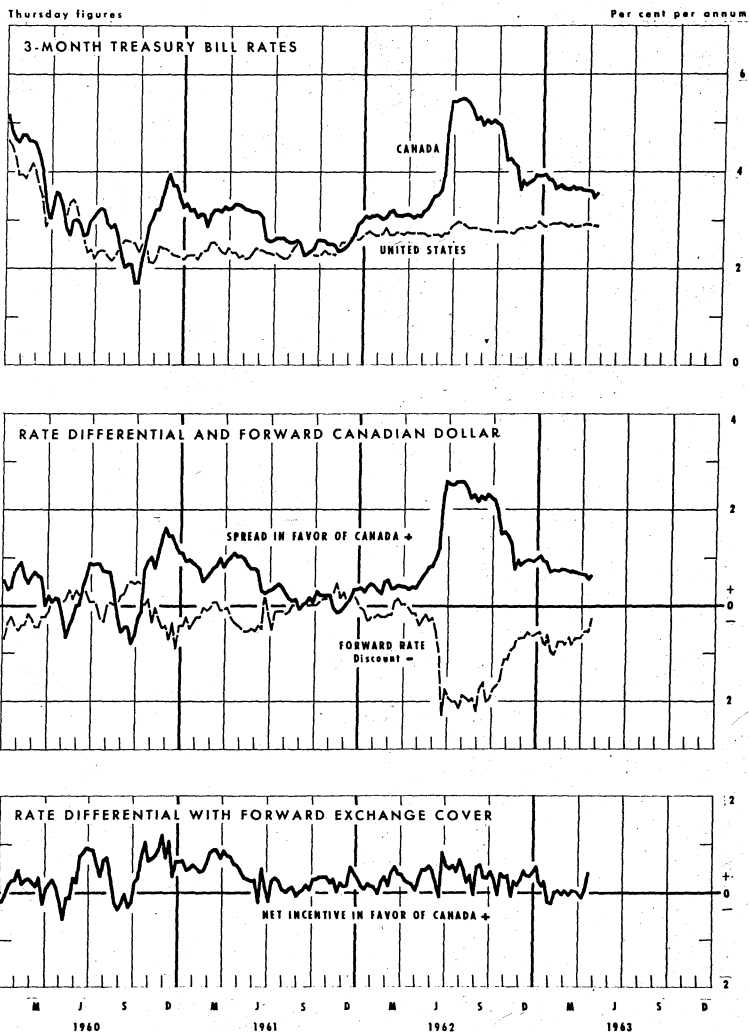


Chart 2

INTEREST ARBITRAGE, NEW YORK/LONDON

Friday figures

Per cent per annum

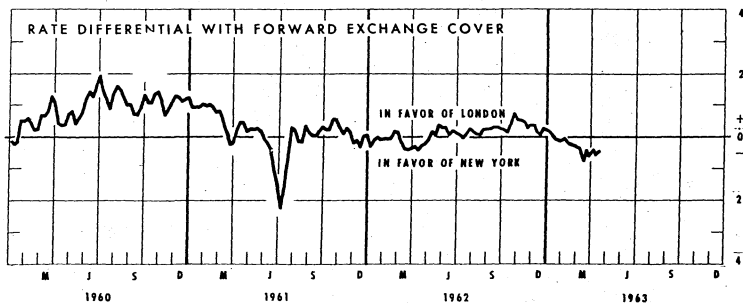
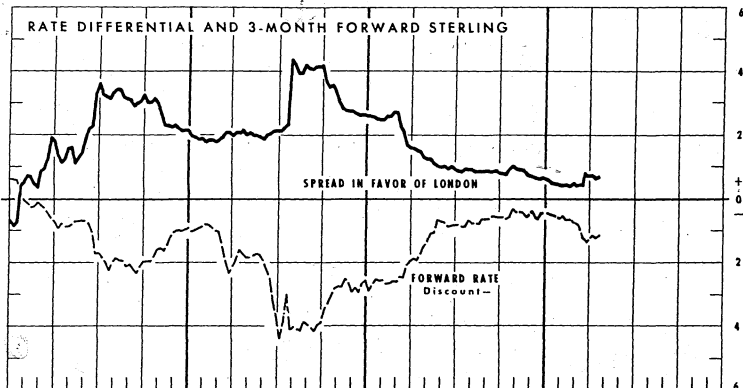
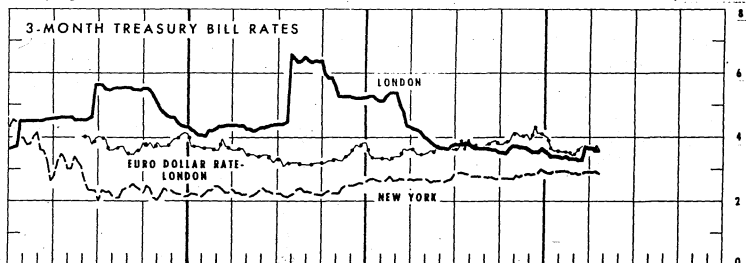
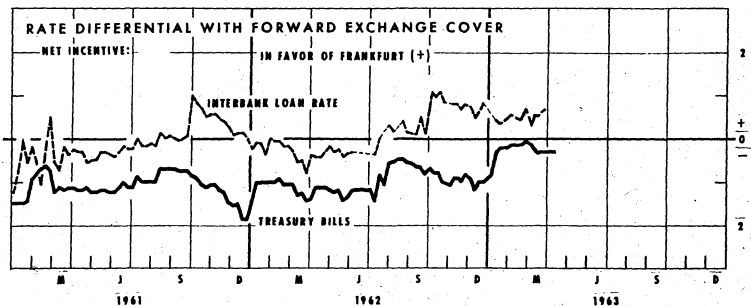
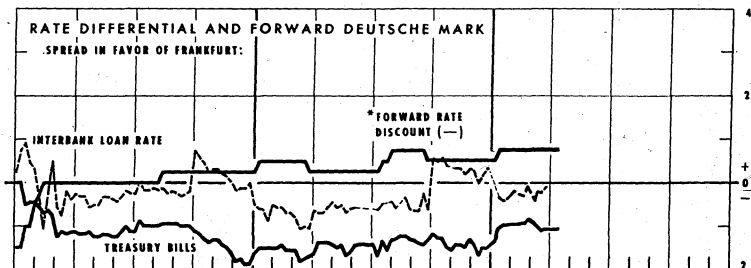
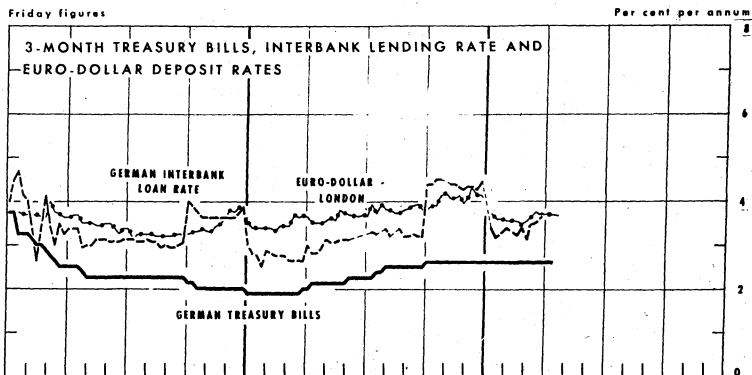


Chart 3

INTEREST ARBITRAGE FOR GERMAN COMMERCIAL BANKS



* Note: Special forward rate available to German commercial banks

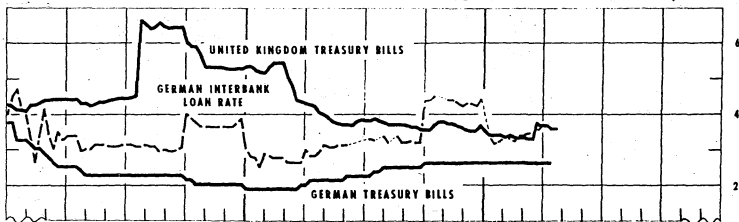
Chart 4

INTEREST ARBITRAGE, FRANKFURT / LONDON

Friday figures

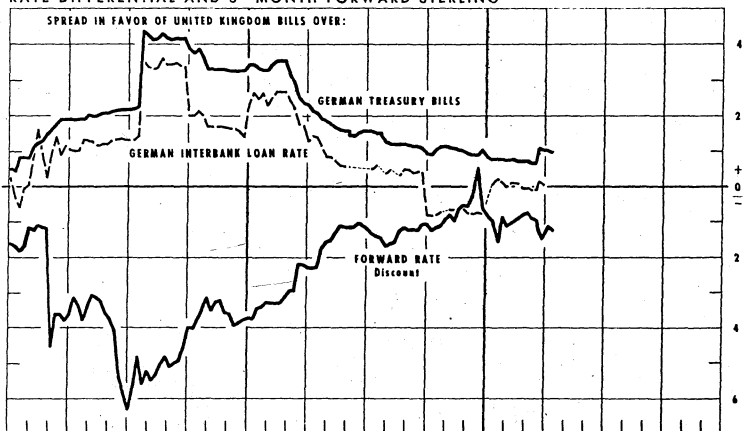
3-MONTH TREASURY BILLS AND INTERBANK LENDING RATES

Per cent per annum



RATE DIFFERENTIAL AND 3-MONTH FORWARD STERLING

SPREAD IN FAVOR OF UNITED KINGDOM BILLS OVER:



RATE DIFFERENTIAL WITH FORWARD EXCHANGE COVER

NET INCENTIVE OF UNITED KINGDOM OVER:

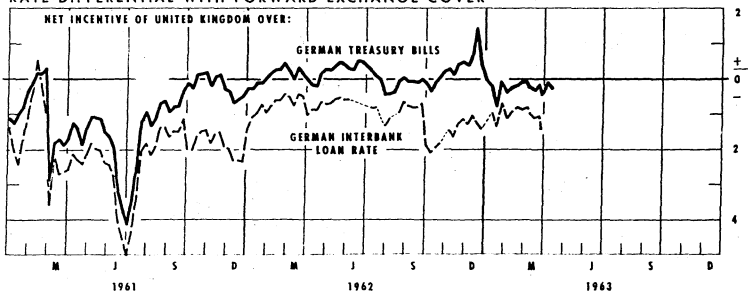
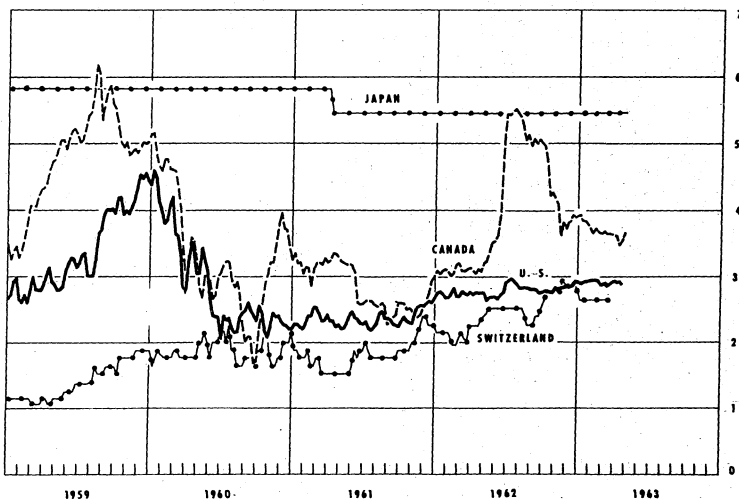
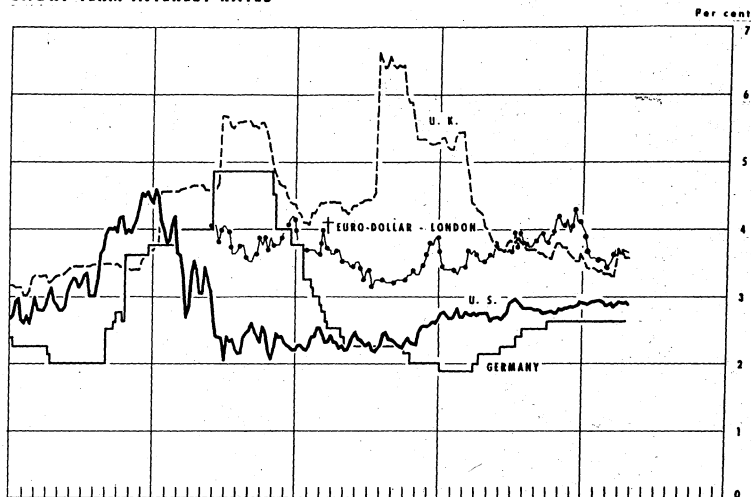


Chart 5
SHORT-TERM INTEREST RATES *



* 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

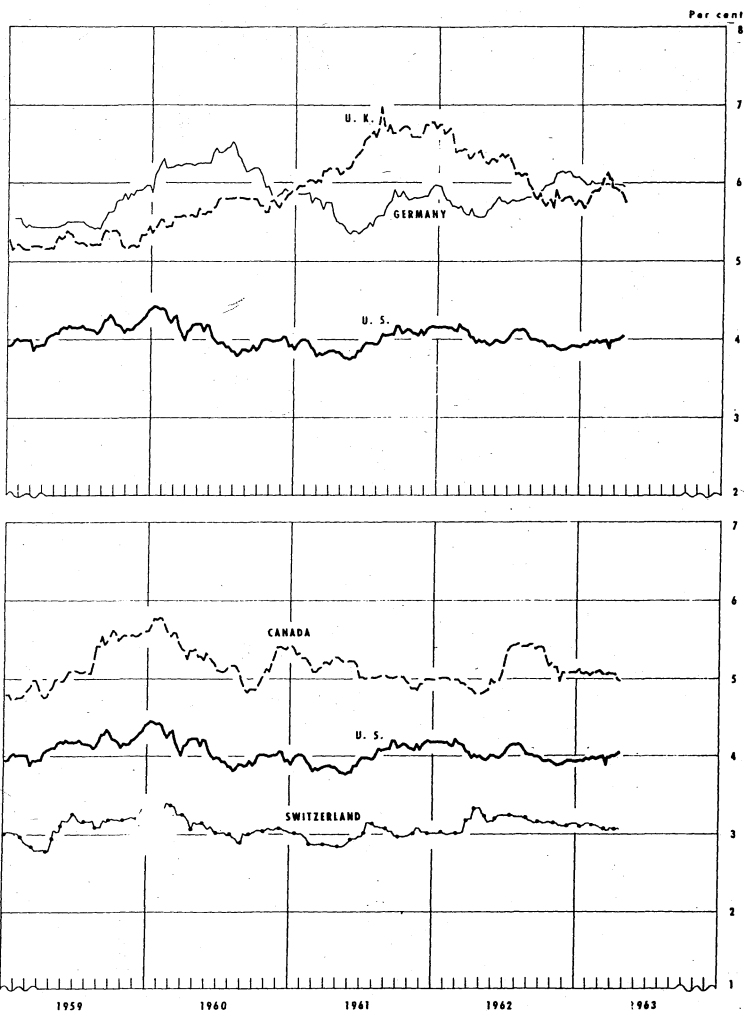
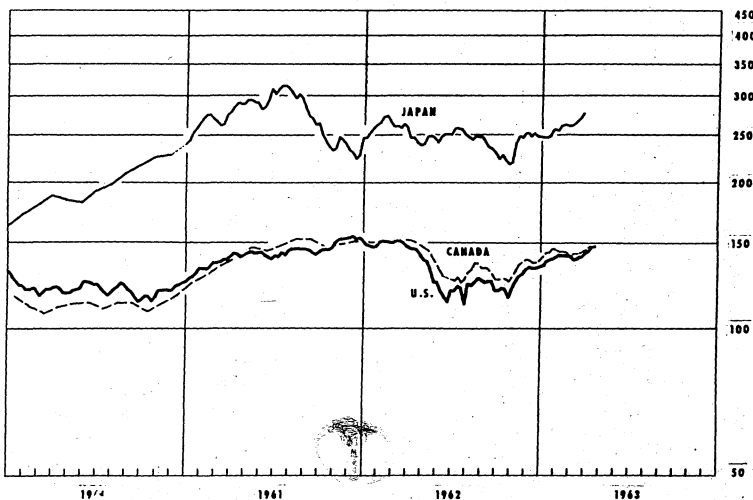
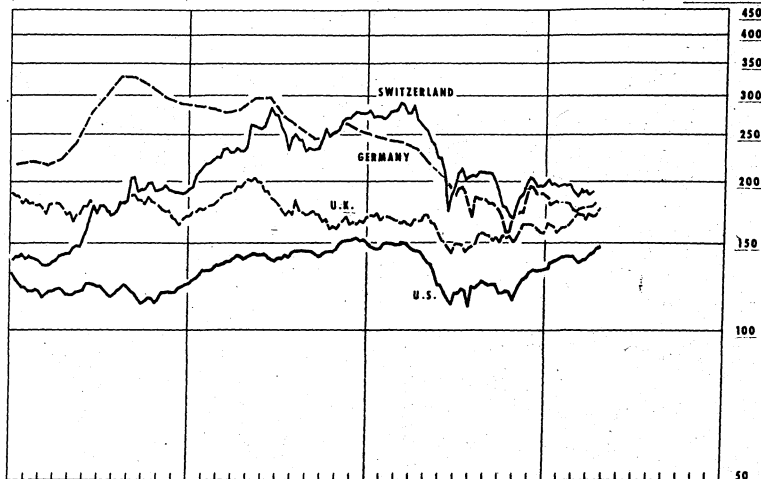


Chart 7

INDUSTRIAL STOCK INDICES*

1958 = 100
Ratio scale



*Note: Japan: Index of 225 industrial and other stocks traded on the Tokyo exchange.

Chart 8

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

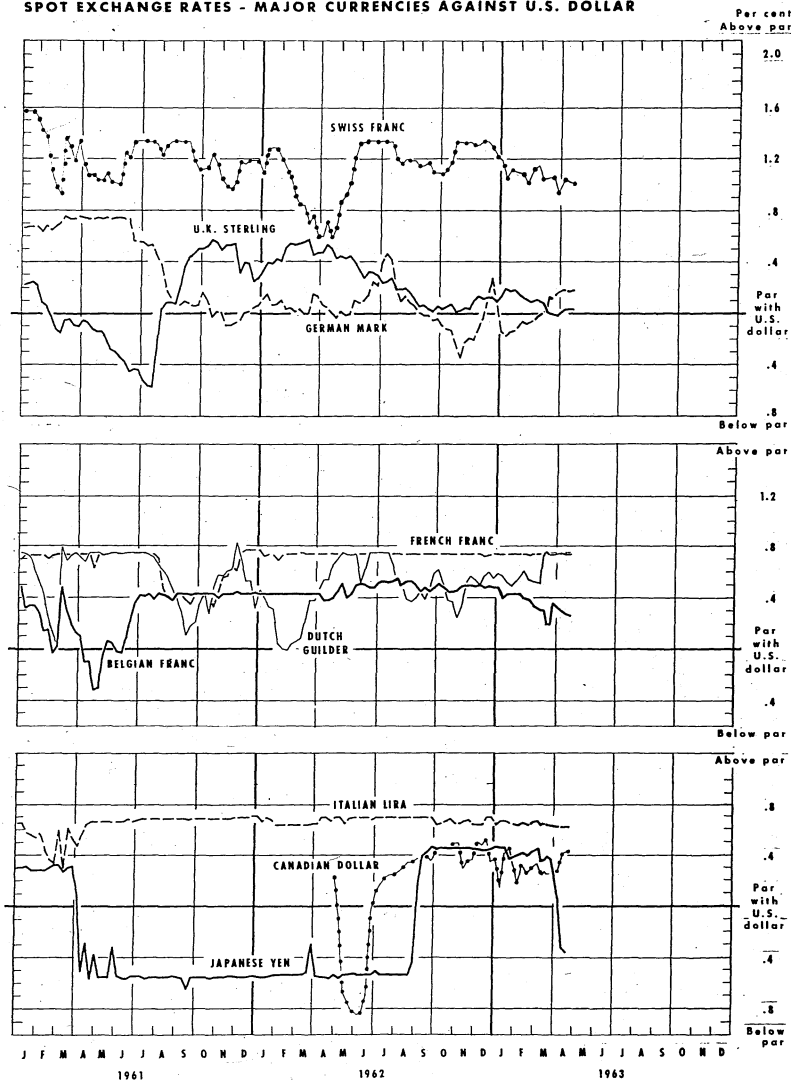


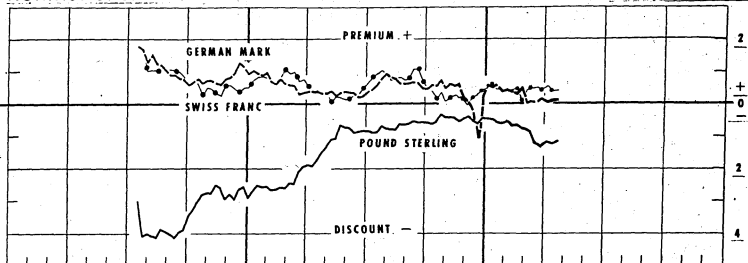
Chart 9

3-MONTH FORWARD EXCHANGE RATE

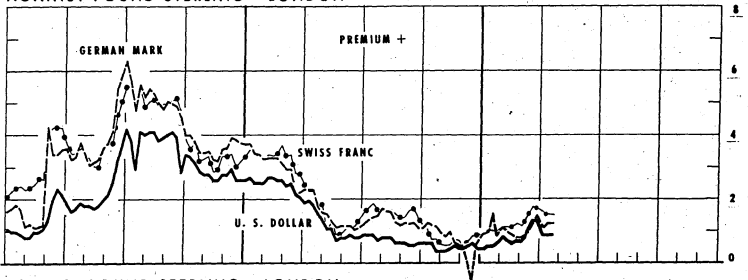
Friday figures

AGAINST U. S. DOLLARS

Per cent per annum



AGAINST POUND STERLING - LONDON



AGAINST POUND STERLING - LONDON

