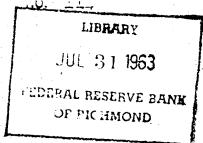


H. 13

July 24, 1963

**CAPITAL MARKET DEVELOPMENTS ABROAD**

I Switzerland
Nine Charts on Financial Markets Abroad

I. Switzerland: Money and Capital Markets, April-June 1963

In the period April through June, Swiss money and capital markets had a general tendency to tighten. Rates for three-month deposits on the Zurich market rose gradually from a range of 2-1/2 to 2-5/8 at the beginning of April to 2-7/8 by the end of June, when a substantial demand for call money (usually of little importance on the Swiss money market) was also evident. Pressures on the money market came from attempts by French and German banks to obtain Swiss francs and from increased drawings on loans by Swiss firms and individuals for the financing of imports and of construction activity; in addition, Swiss financial institutions took steps to prepare for mid-year window-dressing.

The foreign exchange markets reflected the tightening of the money market. Swiss commercial banks found it necessary to sell large amounts of their foreign exchange holdings (predominantly dollars) to obtain Swiss francs. As a consequence, the rate for the U.S. dollar fell from SF 4.329 in the middle of April to SF 4.319 by the end of May. To relieve the pressure on the money market, the Swiss National Bank entered into short-term dollar-franc swaps with Swiss commercial banks in June which allowed the banks to satisfy their Swiss franc demands. Since the commercial banks no longer had to obtain francs by selling dollars in the foreign exchange market, the pressure on the dollar eased. By the end of June, the rate rose to SF 4.328 to the dollar.

After having been relatively quiet in April, the bond market showed increased activity in May. There was some pressure on bond prices caused by a slightly rising offer but turnovers, on the whole, remained moderate and there was little change in yields. In June, however, increased sales led to a decline in prices and a tendency for yields to creep up. Foreign bonds continued to attract considerable attention, but a good portion of a recent 3-1/2 per cent City of Zurich loan offered at 99 per cent of par was left in the hands of the underwriters.

Changes in the gold and foreign exchange reserves of the Swiss National Bank mirrored the attempts by the Swiss authorities to ease the Swiss money market. The increase in SNB gold holdings in June and the subsequent decline in the first week of July reflected the swap transactions between the SNB, Swiss commercial banks and the BIS.

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Money market. Conditions on the Swiss money market were stable during most of April and rates for 90-day deposits held steady at a range of 2-1/2 to 2-5/8 per cent. However, in the last week of April, end-of-month financial transactions and an increased demand for funds to finance imports and construction activity pushed up rates to about 2-5/8 to 2-3/4 per cent. (See Table 1.)

Table 1. Rates for 3-month Deposits at Banks in Zurich 1/

(In per cent per annum)

March 7	2-5/8	May 7	2-5/8 - 2-3/4
15	2-5/8	15	2-5/8 - 2-3/4
23	2-5/8 - 2-3/4	23	2-3/4
31	2-5/8 - 2-3/4	31	2-3/4
April 7	2-1/2 - 2-5/8	June 7	2-7/8
15	2-1/2 - 2-5/8	15	2-3/4 - 2-7/8
23	2-1/2 - 2-5/8	23	n.a.
30	2-5/8 - 2-3/4	30	2-7/8 p/

1/ Rates most frequently quoted by the five large Swiss banks in Zurich during the indicated time period.

p/ Based on preliminary information.

The money market stiffened further in May; the rate for three-month deposits was quoted increasingly at 2-3/4 per cent. Utilization of earlier loans as construction activity picked up contributed to the reduced ease. In addition, French and German banks also sought funds in Switzerland to cushion the tightening liquidity situation at home. Finally, some Swiss institutions began early preparations for mid-year window-dressing. To meet their Swiss franc requirements, the large commercial banks sold considerable amounts of spot dollars and other foreign exchange.

In the first week of June, rates for 3-month money rose further to 2-7/8 per cent. Continued window-dressing by the Swiss banks and foreign demand for Swiss francs caused the market to tighten further. The Swiss National Bank moved to relieve market pressures and helped the commercial banks to satisfy their Swiss franc requirements by entering into dollar-franc swaps with the banks over the mid-year. Commercial banks sold the central bank spot dollars for francs and agreed to repurchase the dollars at a value-date at the beginning of July. This action had the effect of both lessening the pressures on the Swiss money market and removing the source of selling pressure which was depressing the rate for

the U.S. dollar on the foreign exchange market. According to reports, the rate for 3-month money was still 2-7/8 per cent at the end of June and call money (usually in little demand) was also actively sought at 1-1/2 per cent.

Currency-swaps as a means of controlling domestic liquidity.
The recent currency swaps with Swiss commercial banks were merely a further use by the Swiss authorities of this new technique to control domestic liquidity. In June, the Swiss authorities sought (as they had in year-end operations in 1961 and 1962) to help the commercial banks temporarily shore up their liquidity positions. At other times, the swap technique has been used to reduce bank liquidity.

In a recent speech, Dr. Iklé' of the Swiss National Bank explained in detail how this technique was used to neutralize the massive inflow of \$270 million of foreign exchange into Switzerland in June and July 1962 at a time of speculation against the Canadian and U.S. dollars. There were two main operations involved:

- a. The Federal Reserve System drew \$50 million against its \$100 million swap with the Swiss Nation Bank (SNB). The System used the equivalent Swiss francs (216 million) to buy back \$50 million of dollars which the SNB had purchased in the foreign exchange market. In this way, the SNB reduced its dollars not covered against exchange risk and increased its dollars covered against that risk. As a second step, the SNB then induced the Swiss commercial banks to take these dollars on a swap basis and invest them in US Treasury bills.
- b. The Federal Reserve System drew \$60 million against its \$100 million swap with the Bank of International Settlements (BIS). The BIS did not have the requisite volume of Swiss francs on hand, but proceeded to obtain the additional funds required by means of three-month deposits by Swiss commercial banks. (Had the BIS not been able to obtain sufficient francs from the commercial banks, the BIS had declared its readiness to make them available against gold.)

The results of these operations were that:

- a. Some \$110 million out of the \$270 million inflow into Switzerland was turned over to the Federal Reserve Bank of New York; and
- b. At the same time, approximately Swiss francs 475 million of the newly-created Swiss francs 1.1 milliard - the countervalue of the \$270 million - was immobilized, partly by means of dollar transfers to the commercial banks and partly by means of the time deposits with the BIS. 1/

1/ Speech by Dr. M. Iklé, Swiss National Bank at the General Meeting of the Forex-Club Suisse, 20 October 1962, pp. 14-15 (mimeo).

Bond market. There was a moderate amount of activity on the Swiss bond market in April and the tenor of the market was calm. The gross total of new money raised in April was considerably below the levels of February and March because of the unusually small volume of new issues offered by domestic borrowers. Swiss bond issues totalled only \$17.8 million or about the same as the \$17.2 million of new foreign issues. (See Table 7.) In May, new offerings totalled \$62 million. The yield on the Swiss Confederation 3 per cent bond of 1967-74 eased three basis points in April but then rose 5 basis points to 3.11 per cent in May as demand slacked off slightly and a large volume of new issues in May absorbed market interest. At this time, the SNB reported that the bond market was beginning to show signs of strain.

Conditions in the bond market deteriorated somewhat in June and there was a tendency for yields to creep up. There were reports in June of liquidations on the bond market made for the purpose of obtaining funds to pay for new subscriptions. New Swiss issues in June met with a certain amount of difficulty. A City of Zurich SF 50 million, 3-1/2 per cent bond issue was offered to the public at 99. But although SF 30 million of the loan was taken up through conversions, the remaining SF 20 million was left in the hands of the underwriting banks. These developments have prompted discussion in financial circles that a certain tightening of the capital market may be in prospect.

During the April-June period, new foreign issues (carrying a higher rate of interest than domestic bonds) continued to attract considerable interest. The majority of foreign issues carried coupons of 4-1/2 per cent and were offered at par. (See Table 2.) There were two instances of a 5 per cent coupon, however, and two issues were floated at 99 per cent of par. A number of the foreign issues were oversubscribed.

Stock market. In April the Swiss stock market broke away from the indecision which had characterized price movements for some months past and the Swiss National Bank share index rose 5.5 per cent from the end of March to 199 at the end of April. (See Table 3.) Banking circles attributed the bullish tendency to recently published favorable year-end results of leading Swiss industries, increased interest in Swiss shares by institutional investors and growing public participation in the stock market. During May, stock prices advanced a further 1 per cent but a 5 per cent drop during June brought the index back to the end of March level.

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

	<u>Amount</u> <u>(SF mill.)</u>	<u>Term</u>	<u>Coupon</u> <u>Rate</u>	<u>Issue</u> <u>Price</u>	<u>Yield to</u> <u>Maturity</u>
<u>April</u>					
Compagnie des Ateliers et Forges de la Loire (France)	9.0	1969	4.5	100	4.5
Compañía Sevillana de Electricidad (Spain)	20.0	1969-78	5.0	99	5.1
<u>May</u>					
Assoc. diocésaine de Besancon	2.0	1968-73	5.0	100	5.0
Siemens and Halske, A.G. (Germany)	60.0	1978	4.5	100	4.5
Société Métallurgique de Knutange (France)	30.0	1970-79	4.5	100	4.5
<u>June</u>					
A.S.Vaksdal Møale (Norway)	8.0	1975	4.5	99	4.6
Société Electrique de l'Our S.A. (Luxembourg)	60.0	1969-79	4.5	100	4.5

Table 3. Switzerland: Industrial Share Index

(1958 = 100)

March	1	187.4	May	3	199.3
	8	192.8		10	194.8
	15	190.9		17	199.7
	22	192.0		24	199.2
	29	189.0	31	201.8	
April	5	191.4	June	7	199.9
	12	192.6		14	198.0
	19	195.6		21	195.5
	26	199.4		28	192.0

Foreign trade. A decline in imports and a rise in exports in the first two months of the year caused the seasonally-adjusted Swiss trade deficit to fall from \$64 million in the fourth quarter of 1962 to \$54 million in January and only \$49 million in February. (See Table 4.) But the trade deficit widened appreciably in March and April as exports rose only 1.5 per cent in March and failed to increase in April and imports rose sharply in both months. Part of the March increase in imports can probably be attributed to a working-off of pent-up winter import demand but the continued upsurge of imports in April may well point to an increase in over-all demand.

Table 4. Switzerland: Seasonally-Adjusted Foreign Trade

(in millions of U.S. dollars, month or monthly average)

	<u>1962</u>				<u>1963</u>				
	<u>I</u>	<u>II</u>	<u>III</u>	<u>IV</u>	<u>I</u>	<u>Jan.</u>	<u>Feb.</u>	<u>March</u>	<u>April</u>
Imports c.i.f.	250	244	256	251	247	240	243	260	273
Exports f.o.b.	181	186	186	187	192	186	194	197	197
Balance	-69	-58	-70	-64	-55	-54	-49	-63	-76

Source: OECD

Foreign exchange reserves. Gold and foreign exchange reserves of the Swiss National Bank declined slightly in April by \$6 million and by a further \$2 million in May. (See Table 5.) The rise in gold holdings in June reflected attempts by the Swiss authorities to help the commercial banks with their mid-year window-dressing activities. To this end, the Swiss National Bank entered into short-term dollar-franc swaps with Swiss commercial banks. Commercial banks sold the central bank spot dollars totalling about \$70 million for francs and agreed to repurchase the dollar at the beginning of July. The Swiss National Bank then swapped the dollar received from the commercial banks for gold from the BIS on a short-term basis. These transactions were largely responsible for the \$77 million rise in BNS gold reserves in June. Gold holdings of the Swiss National Bank fell \$42 million in the first week of July when a reversal of the swap arrangement between the central bank, the Swiss commercial banks and the BIS was begun.

Table 5. Switzerland: Official Gold and Foreign Exchange Reserves

(in millions of U.S. dollars)

		<u>Gold</u>	<u>Foreign Exchange</u>	<u>Total</u>
1962	October	2452	181	2,633
	November	2421	192	2,613
	December	2667	205	2,872
1963	January	2455	200	2,655
	February	2461	189	2,650
	March	2461	177	2,638
	April	2453	179	2,632
	May	2453	177	2,630
	June	2530	178	2,708
	July 6	2488	176	2,664

Exchange rates. The rate for the spot dollar held steady at SF 4.329 from mid-April through the first two weeks of May but the dollar then weakened as a result of window-dressing preparations by Swiss financial institutions. Commercial banks sold large amounts of their foreign exchange assets, especially dollars, to get back into Swiss francs. As a result of the persistent selling pressure, the rate on the dollar declined from SF 4.329 on May 10 to SF 4.318 on May 24. (See Table 6.) To ease the strains on the money market, the Swiss National Bank announced in late May it would enter into the short-term dollar/franc swaps, previously described. In consequence, selling pressure on the dollar eased and the rate climbed to SF 4.328 by June 28.

The rate for the pound sterling moved within the narrow limits of SF 12.125 and SF 12.123 during April. Sterling was under pressure in May and the rate fell to SF 12.090 by May 24. But as the demand for Swiss francs abated following announcement of the BNS/commercial bank swap facilities, the rate for sterling recovered somewhat and stood at SF 12.105 on June 14.

Gold market. The price of the Vreneli remained at SF 38.75 through April and May but then dropped to SF 38.25 in the first week of June and remained there during the rest of the month.

Europe and British Commonwealth Section.

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.)	Spot \$ in SF	Spot £ in SF	Gold coin ^{a/} in SF
			Bill yield	Net return in SF	London return rate	Net return in SF				
1963 -	Jan. 25	+0.40	2.93	2.53	3.59	3.19	2.69	4,324	12,133	38.25
	Feb. 21	+0.06	2.87	2.81	3.44	3.38	2.63	4,323	12,117	38.25
	Mar. 29	+0.41	2.91	2.50	3.69	3.28	2.69	4,331	12,125	38.75
	Apr. 19	+0.39	2.88	2.49	3.66	3.27	2.56	4,329	12,125	38.75
	26	+0.36	2.89	2.53	3.72	3.36	2.69	4,329	12,123	38.75
	May 3	+0.36	2.90	2.54	3.74	3.38	2.69	4,328	12,117	38.75
	10	+0.19	2.91	2.72	3.81	3.62	2.69	4,329	12,119	38.75
	17	-0.06	2.91	2.97	3.84	3.90	2.69	4,321	12,095	38.75
	24	+0.14	2.96	2.82	3.91	3.77	2.75	4,318	12,090	38.75
	31	+0.17	3.00	2.83	3.84	3.67	2.75	4,319	12,093	38.75
	June 7	+0.28	2.98	2.70	3.91	3.63	2.88	4,321	12,101	38.25
	14	+0.41	2.99	2.58	3.84	3.43	2.81	4,323	12,105	38.25
	21	+0.42	2.98	2.56	3.78	3.36	n.a.	4,325		38.25
	28	+0.40	2.99	2.59	3.84	3.44	2.86	4,328		38.25

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

Table 7. Switzerland: Selected Capital Market Statistics

		Capital market yields				New issues (\$ millions; monthly ave. or month) (New money raised)				
		Long-term govt. bonds	Deposit cert's			Swiss bonds	Swiss stocks	Fgn. bonds	Total	
			12 can- tonal banks	5 large banks					Gross	Net ^{a/}
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	1961	19.8	7.2	18.6	45.7	42.6
1963 -	Jan. 25	3.13	3.39	3.39	1962	21.8	12.8	12.7	47.3	38.3
	Feb. 22	3.10	3.39	3.39	Qtr. I	24.5	15.6	20.2	60.3	45.4
	Mar. 29	3.09	3.40	3.39	II	26.8	21.7	13.2	61.7	53.9
	Apr. 26	3.06	3.41	3.39	III	16.6	5.3	7.0	28.9	27.8
	May 17	3.10	3.41	3.39	IV	18.8	6.9	10.5	36.2	18.8
	24	3.11	3.41	3.39	1963					
	31	3.11	3.41	3.39	Jan.	30.9	0.7	4.6	36.3	28.7
	June 7	3.11			Feb.	43.6	10.9	23.3	77.8	77.6
	14	3.11			Mar.	40.0	31.8	--	71.8	24.4
	21	3.11			Apr.	17.8	7.7	17.2	42.7	12.6
	28	3.11			May	47.9	16.3	14.4	78.6	77.9
	July 6	3.12								

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

INTEREST ARBITRAGE, UNITED STATES / CANADA

Thursday figures Per cent per annum

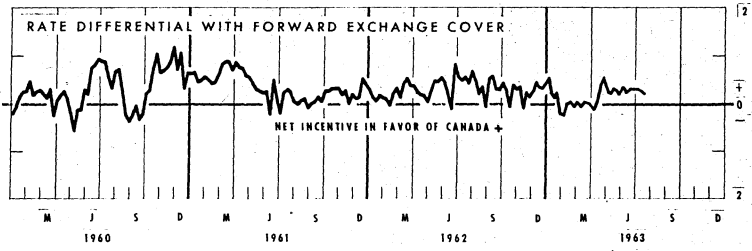
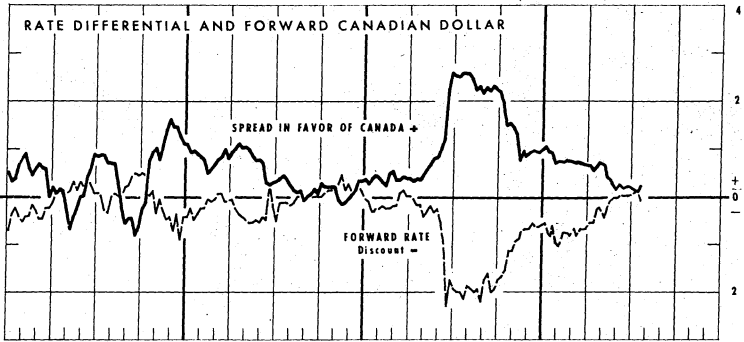
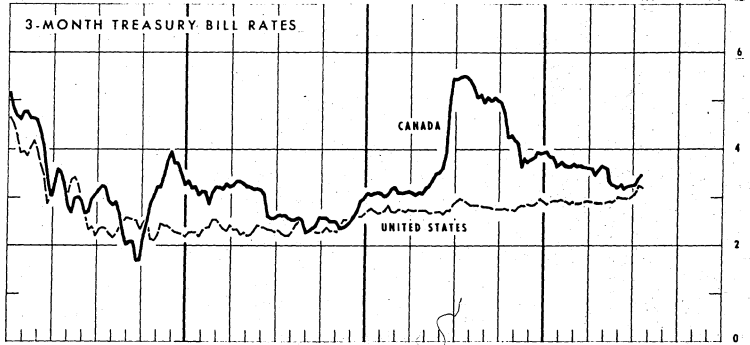
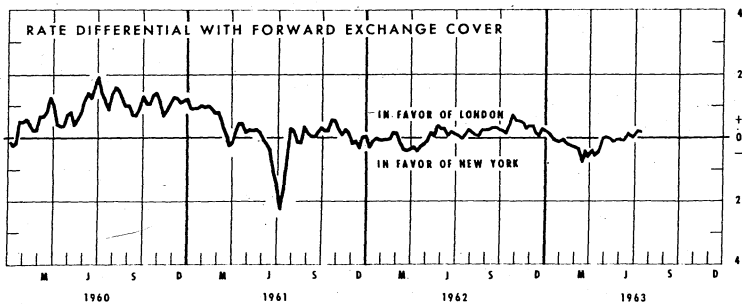
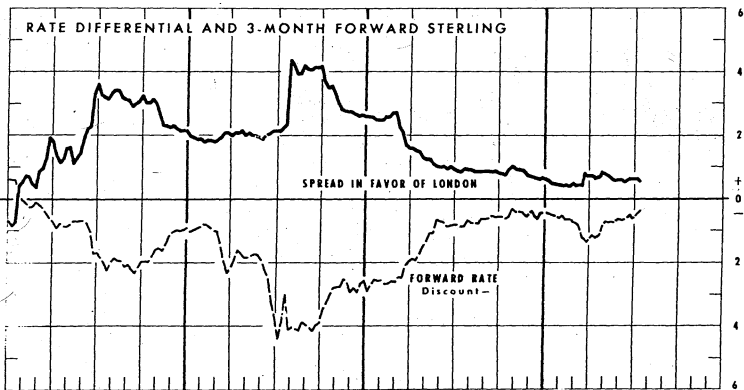
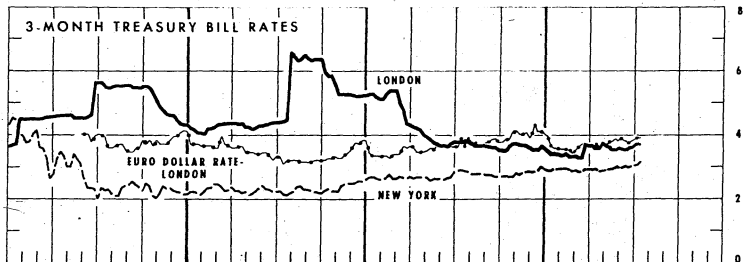


Chart 2

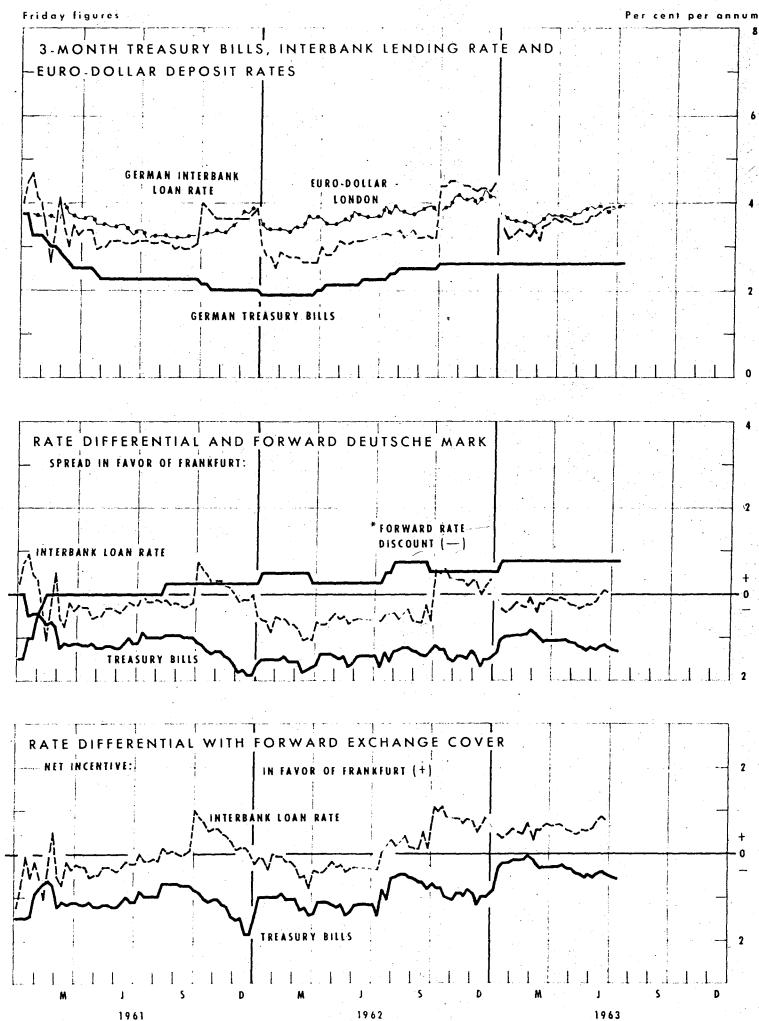
INTEREST ARBITRAGE, NEW YORK/LONDON

Friday figures

Per cent per annum



INTEREST ARBITRAGE FOR GERMAN COMMERCIAL BANKS



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

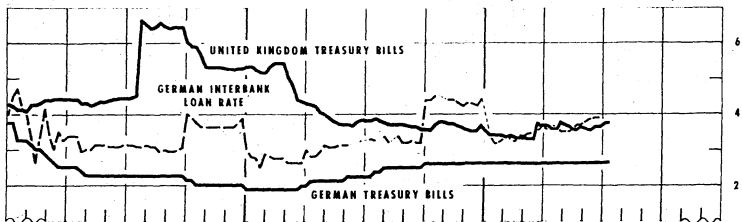
Chart 4

INTEREST ARBITRAGE, FRANKFURT / LONDON

Friday figures

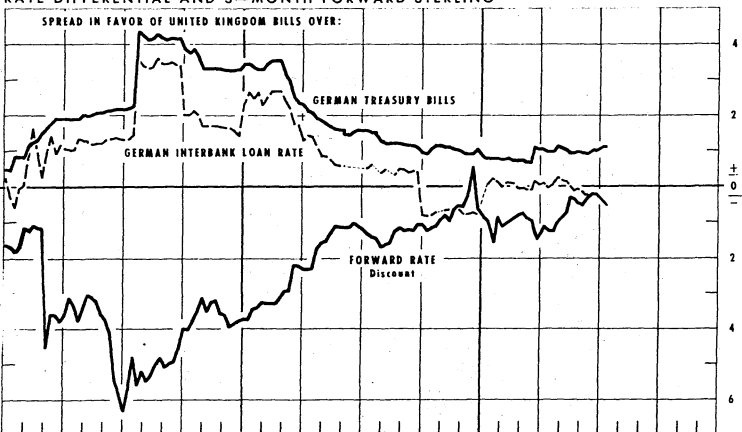
3—MONTH TREASURY BILLS AND INTERBANK LENDING RATES

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:

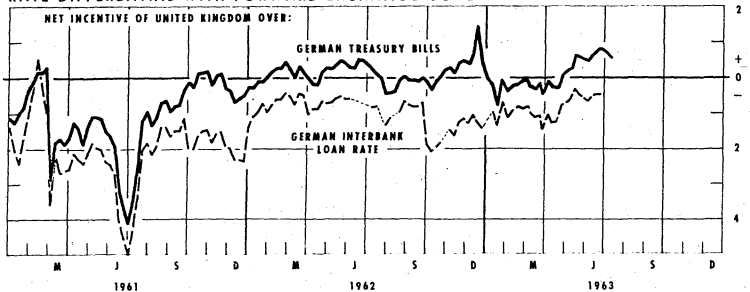
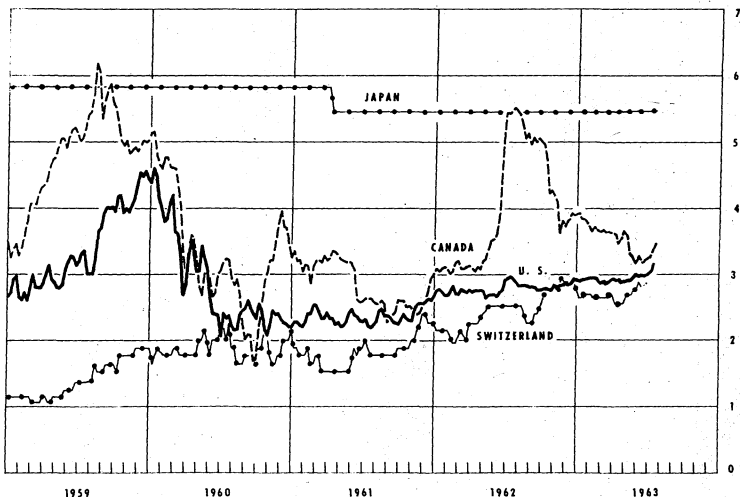
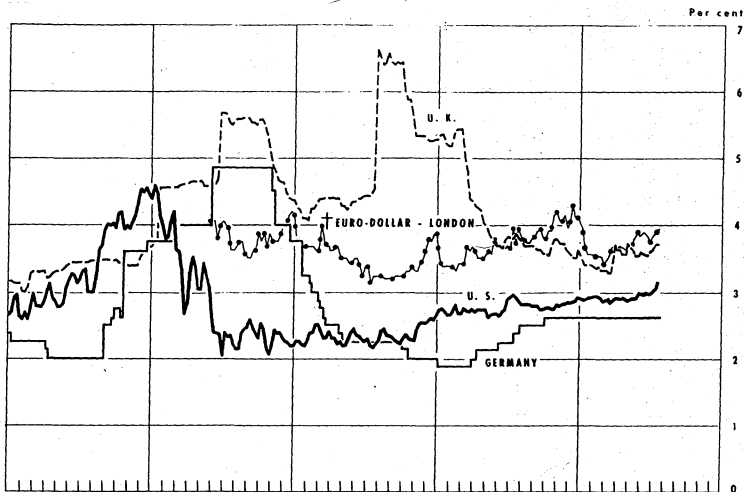


Chart 5
SHORT-TERM INTEREST RATES *



* 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

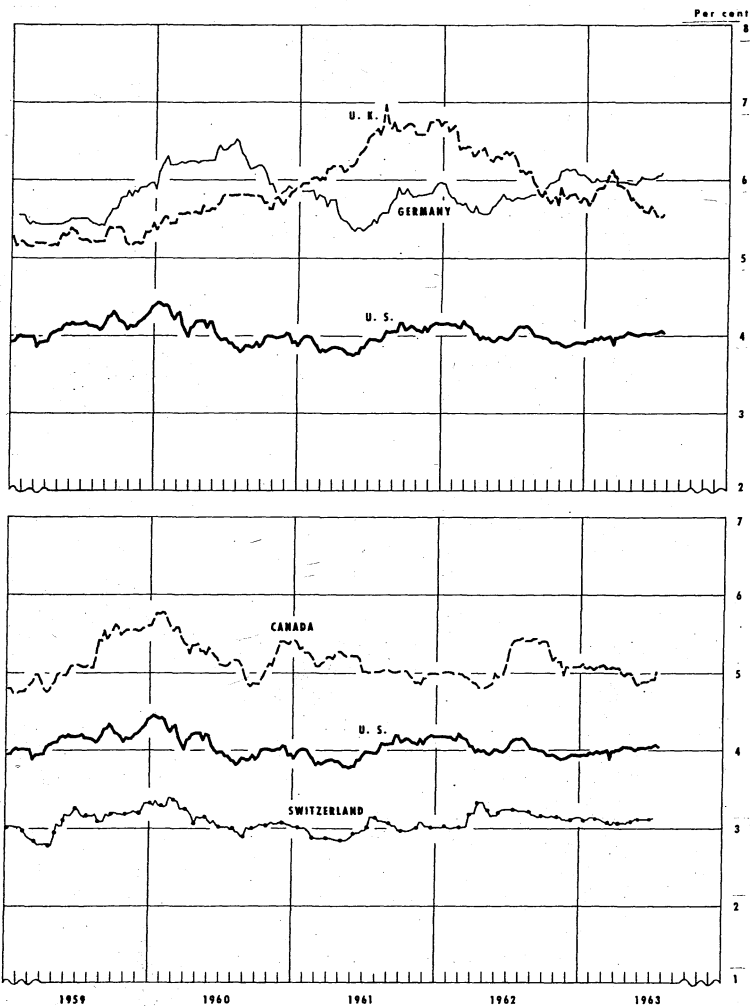
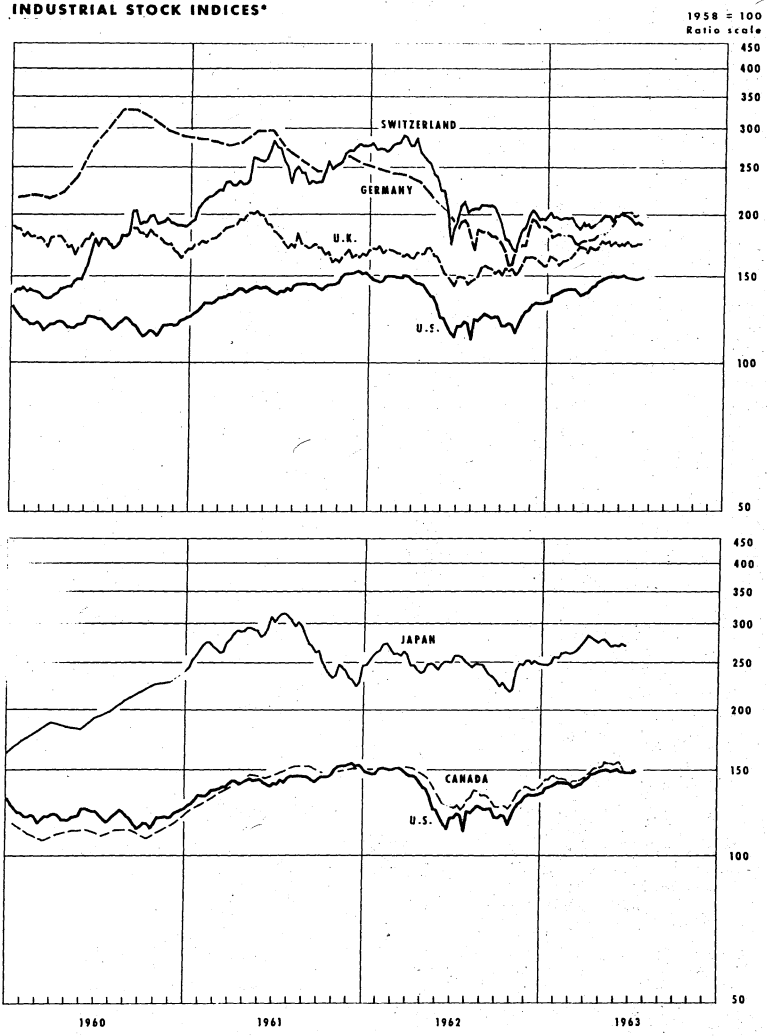


Chart 7
INDUSTRIAL STOCK INDICES*



*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

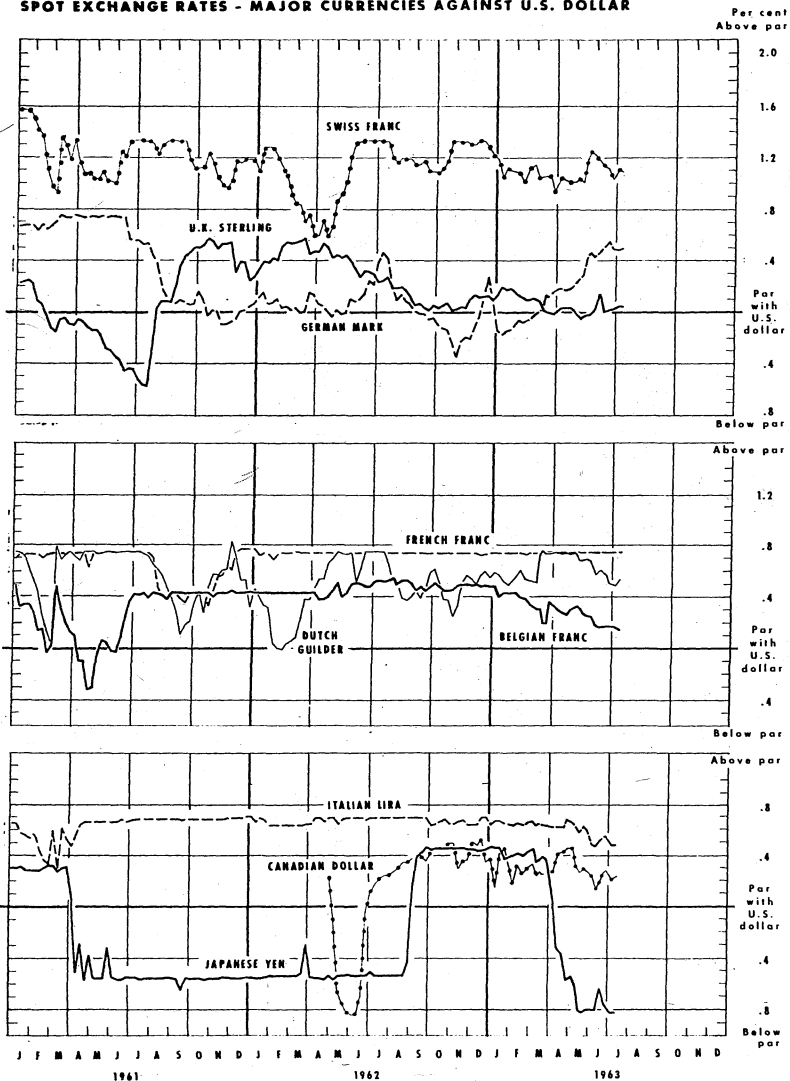


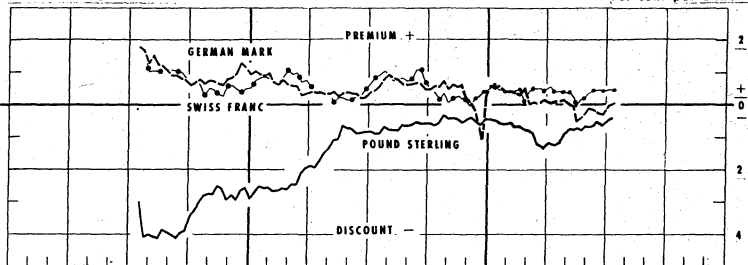
Chart 9

3-MONTH FORWARD EXCHANGE RATE

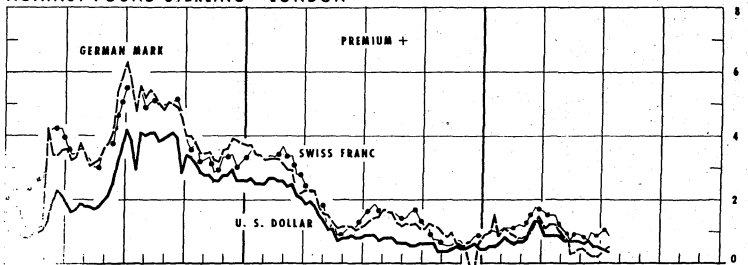
Friday figures

AGAINST U. S. DOLLARS

Per cent per annum



AGAINST POUND STERLING - LONDON



AGAINST POUND STERLING - LONDON

