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RFD 377

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Division of International Finance

REVIEW OF FOREIGN DEVELOPMENTS

May 8, 1962

Foreign Exchange Markets and Reserve Developments -- March-April

8 pages

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Summary

Continued strength of most European currencies, and the depreciation of the Canadian dollar and the Argentine peso, were the dominant developments in world exchange markets in the past two months. Britain and France reported official reserve accruals which, adjusted for special official transactions, exceeded $350 million in March and $200 million in April. On the other hand, Canada continued to experience substantial reserve losses, and the Argentine peso depreciated when the central bank withdrew support.

Capital again flowed to the United Kingdom in heavy volume in March and, on a lesser scale, in April. French reserve gains were unusually heavy in March and April. German official reserves also underwent a large increase, taking March and April together. The only weak currency in Europe in this period was the Swiss franc.

The Canadian dollar was depreciated on May 2 with the establishment of a par value of 92.5 cents. The "managed" floating rate policy adopted last year had led to very heavy reserve losses in 1962. The depreciation of the Argentine peso climaxed an 11-month drain on international reserves.

The United States balance-of-payments deficit was considerably smaller in the first quarter of 1962 than in the preceding quarter, but somewhat larger than in the first quarter of 1961 when imports were at their recession low.

Changes in Official Gold and Foreign Exchange Reserves, Selected Countries
(In millions of dollars)

	1961		1962				Total
	Jan.-June	July-Dec.	Jan.	Feb.	Mar.	Apr.	holdings April 30
Belgium	+ 50	+185	+ 7	- 15	+ 13	a/ - 43	a/ 1,619
France	+707	+162	+ 53	+ 65	+164	+ 97	3,318
Germany							
Official	+ 17	-500	-731	+ 36	+232	- 56	6,618
Commercial banks b/	+883	-503	+818	- 10	n.a.	n.a.	c/ 1,502
Netherlands d/	+ 34	- 5	+ 18	- 49	+ 57	+ 16	1,706
Switzerland	+276	+159	- 72	- 35	- 44	- 13	2,595
United Kingdom	-459	+546	+ 92	+ 14	+ 28	+ 20	3,472
Adjusted change	-1,339	+521	+ 92	+224	+203	+ 90	
Canada	+157	+ 70	-134	-175	- 37	-114	1,595
Japan	+ 89	-436	+ 24	+ 4	+ 47	- 2	1,559
South Africa	- 25	+174	+ 37	+ 19	+ 30	n.a.	e/ 476
Venezuela	+ 30	- 57	+ 3	- 29	- 2	n.a.	e/ 504

a/ To April 27.
b/ Balances with foreign banks and money market investments abroad.
c/ End of February. d/ Net reserves. e/ End of March.

Exchange rates

On May 2, the Canadian Government announced adoption of a par value for the Canadian dollar of 92.5 U.S. cents, with approval of the IMF. Exchange rates will be maintained within the normal Fund margins of 1 per cent on either side of parity, i.e., between 91.575 and 93.424 U.S. cents. During April the rate had been maintained at between 95.20 and 95.28 U.S. cents. On May 3, the rate settled at around 92.86 U.S. cents, but it declined to 92.53 cents at the close on May 7. This action brought to a close an experiment in flexible exchange rate policy dating from 1950. After more than ten years of virtual nonintervention in the exchange market, the Canadian Government sought to reduce the Canadian dollar from premium to discount against the U.S. dollar, and more recently tried what may be called a "managed" floating rate policy. This policy resulted in heavy reserve losses totaling $460 million in the first four months of 1962.

With demand for sterling continuing very strong, the pound was traded in a range from $2.815 to $2.818 in the first three weeks of March. The second Bank Rate cut on March 22 caused the pound to fall to $2.811 on March 26, but it then rallied. In April, the rate fluctuated between $2.813 and $2.816 until near the close of the month. After the third Bank Rate reduction on April 26, sterling dropped to $2.812 on April 30.

The Swiss franc declined in March under the pressure of heavy import payments and short-term capital flows, and in the latter half of the month the Swiss National Bank intervened with support sales of dollars. The franc dropped from 23.07 U.S. cents on February 28 to 23.03 cents on March 15 and then to 23.00 U.S. cents on March 30. In April, the rate fluctuated between 23.00 and 23.04 U.S. cents. Market reports stated that the authorities were again supporting the rate in the first half of April, and intervening "modestly" in the second half.

Elsewhere on the Continent, the Deutsche Mark was traded at or slightly above parity (25 U.S. cents) in March and April, the buying rate dipping just below parity in the closing days of April for the first time in many months. The French franc and Italian lira remained at or close to their upper limits in March and April. The Dutch guilder appreciated steadily from 27.64 U.S. cents on February 28 to 27.81 U.S. cents on April 30, at which point it was close to its upper limit.

The Indonesian rupiah has continued to depreciate rapidly. The Djakarta free market quotation was Rp. 550 per dollar on April 6 compared with Rp. 400 on March 12 and Rp. 300 at the beginning of January. On March 5, the Indonesian Government announced a new retention quota system for exporters, allowing them to use for imports, or sell in the free market, 15 per cent of their foreign exchange proceeds. In the Philippines, the peso fluctuated in March and early April in a range between ₱3.60 and ₱3.80 to the dollar; but weakened in late April and was quoted at ₱3.89 per dollar on April 30.

Spot Foreign Exchange Rates against the Dollar[a/]
(In U.S. cents per unit of foreign currency)

	U.K.	Canada	Germany	Switzer-land	Nether-lands	France	Italy
Parity	280.00	b/92.50	25.00	22.87	27.62	20.26	.1600
Official limits:							
Buying	278.00	b/91.575	24.81	22.47	27.42	20.10	.1588
Selling	281.00	b/93.425	25.19	23.28	27.84	20.41	.1612
Date							
Mar. 2	281.54	95.20	25.01	23.06	27.64	20.41	.1610
9	281.58	95.20	25.00	23.06	27.65	20.41	.1610
16	281.63	95.32	25.00	23.03	27.69	20.41	.1610
23	281.28	95.30	25.04	23.04	27.73	20.41	.1610
30	281.35	95.24	25.03	23.00	27.73	20.41	.1610
Apr. 6	281.35	95.23	25.02	23.01	27.75	20.41	.1610
13	281.50	95.23	25.01	23.03	27.77	20.41	.1611
20	281.42	95.22	25.00	23.00	27.77	20.41	.1611
27	281.20	95.20	24.99	23.02	27.81	20.41	.1611
May 4	281.26	92.71	25.00	23.07	27.82	20.41	.1611

a/ Certified noon buying rates in New York for cable transfers.
b/ Effective May 3, 1962.

IMF transactions

IMF holdings of major convertible currencies increased $190 million in March, principally as a consequence of a $175 million repurchase by Australia. In March, there were also repurchases by South Africa ($12.5 million) and Argentina ($3 million), and drawings by the U.A.R. ($7.5 million) and Guatemala ($3 million). On April 30, the United Kingdom made another repurchase of $70 million, bringing to $700 million the total of prepayments to date on its $1,500 million drawing of last August-September.

Net Change in IMF Holdings of Major Currencies
(Millions of dollars equivalent)

	Feb.	Mar.	Apr.[a/]	Holdings, Mar. 31: Amount	Holdings, Mar. 31: Per cent of quota
Currency of:					
United States	+123	+111		2,672	62
Canada		+ 10	+ 20	348	63
Belgium	+ 15	--	+ 15	196	58
France	+ 20	+ 15		389	49
Germany	+ 55	+ 31	+ 35	226	29
Italy	+ 10	+ 10		47	18
Netherlands	+ 35	+ 10		215	52
United Kingdom	-224	+ 3	- 70	2,258	116

a/ U.K. repayment only.

Reserve Developments in Selected Countries

North America

The United States balance-of-payments deficit was considerably smaller in the first quarter of 1962 than in the preceeding quarter, but somewhat larger than in the first quarter of 1961 when imports were at their recession low. In February, net transfers to foreigners were $206 million. This contrasts strongly with the net transfers to the United States of $14 million in January, but the January figure was strongly affected by some very short-term transactions over the year-end. In March, the large increase in official foreign dollar holdings at Federal Reserve Banks, shown in the table, was partly offset by declines in private foreign holdings with commercial banks. Preliminary and incomplete data on transfers in April suggest that they continued at roughly the first-quarter rate.

Gold and Dollar Transfers to Foreigners
(In millions of dollars)

	1961				1962			
	Jan.-June	July-Sept.	Oct.-Dec.	Dec.	Jan.	Feb.	Mar.	Apr. 1-25
Decline (+) in total U.S. gold stock	+201	+146	+510	+ 74	+100	+ 52	+152	a/+114
Decline (+) in U.S. official holdings of convertible foreign currencies	-186	+124	- 54	+ 11	--	- 37	n.a.	n.a.
Change in dollar holdings of foreign countries at F.R. Banks b/	--	+405	- 63	-111	+294	+ 4	+347	-120
Other c/	+265	+235	+878	-105	+539	+187	n.a.	n.a.
Net transfers to foreigners	+280	+910	+1,271	+274	- 14	+206	n.a.	n.a.

a/ Decline in Treasury gold stock only.
b/ Deposits and holdings of U.S. Government securities.
c/ Official holdings outside Federal Reserve Banks, holdings of international institutions (at F.R. Banks and commercial banks) and all private foreign holdings reported by banks.

In Canada, pressure on the Canadian dollar slackened in March, and official net sales of U.S. dollars by the Exchange Fund were $37 million for the month, mostly in the first half, in contrast to the $309 million of such sales in January-February. However, in April pressure again intensified, and Exchange Fund losses amounted to $114 million.

Europe

For the third consecutive month British reserves registered a large increase in March. The rise would have been $203 million except for the $175 million IMF repayment by Australia which was reflected in U.K. reserves because of Britain's role as "banker" for the sterling area. While the reserve gain, adjusted for special transactions, was somewhat less than in February, net capital inflow was presumably larger because the unadjusted trade deficit widened from $69 million in February to $147 million in March. Capital inflow was attracted by high British interest rates and prospects for capital gains if interest rates moved to lower levels as a result of Bank Rate reductions. These funds represented direct Continental European investments, and conversion by London institutions of Euro-dollar deposits into sterling. After the second reduction in Bank Rate on March 22, the inflow of foreign funds slackened. However, it resumed again in April, and the further inflows of funds were a key factor in the decision to reduce Bank Rate on April 26 for the third time in eight weeks. Reserves would have increased $90 million in April except for the $70 million IMF repayment.

On a seasonally-adjusted basis, Britain's trade position showed some further improvement in March when, for the second successive month, there was a modest rise in exports and a dip in imports. The seasonally-adjusted deficit was $101 million in March, the smallest since August 1961, compared with $190 million in January and $126 million in February.

French reserves underwent unusually large increases in March and April. Of the March rise of $164 million, a relatively small part was due to two known special factors, viz., $15 million of Australian purchases of francs for repayment to the IMF, and the conversion of a portion of the proceeds of a $40 million bond flotation in the U.S. by a French oil pipeline company. Swiss sources reported that in March some French funds were repatriated from that country to France. The exceptional size of the March reserve gain does not appear to have resulted from a widened trade surplus. French trade in March with countries other than the overseas franc area showed a surplus of $18 million, compared with surpluses of $24 million in January and $8 million in February. Seasonally-adjusted total trade in March saw declines in both imports and exports and a surplus of $46 million, about the same as in February.

The French reserve rise in April was $97 million, but after adjustment for two special transactions this increase comes to $124 million. France received a $33 million payment from Germany for indemnification of French victims of Nazism, this being the second of three such payments, totaling $100 million, scheduled to be made by April 1963. Continuing the policy of using part of the balance-of-payments surplus to retire external debt, on April 19 France repaid $60 million of long-term debt to the United States originally due in 1958-59 and rescheduled for 1981-82. A tightening of the French money market in the final days of April caused an acceleration of sales of foreign exchange.

In February, Germany had a balance-of-payments surplus of $26 million as measured by a $36 million rise in official gross reserves and a $10 million decrease in foreign money market investments and balances held abroad by the German commercial banks. But the surplus was less than the $55 million increase in IMF holdings of DM's in February, which presumably resulted entirely from the February British IMF repayment.

German official gross reserves rose $232 million in March. Commercial banks in Germany were reported to have repatriated funds to provide liquidity needed for annual income and corporation tax payments. There was also an unusually large trade surplus in March. After adjustment for a change in customs procedures, the March trade surplus amounts to $170 million (seasonally unadjusted), compared with an average of $135 million per month in 1961. On a seasonally-adjusted basis this surplus was $168 million.

In April, German official gross reserves fell $56 million, partly because of the $33 million indemnification payment to France already mentioned. Commercial banks reportedly reexported funds as domestic money market conditions became easier than in March.

On March 30, the Bundesbank reduced, from 0.50 to 0.25 per cent per annum, the preferential charge which it makes to German banks on forward dollar transactions with maturities of two to six months. However, the rate for one-month maturities was left at 0.50 per cent per annum. The creation of the differential rates encourages the banks to make longer-term commitments of funds abroad.

Reserves of the Swiss National Bank decreased $44 million in March and would have declined $54 million in the absence of a purchase of $10 million equivalent of Swiss francs by the Federal Reserve Bank of New York. However, at least $23 million of the decline was not directly related to the weakening of the franc, since a drop of that amount was caused by further additions to the Swiss Federal Government's short-term foreign investments, conversions of proceeds of private long-term foreign loans, and normal foreign exchange requirements of the Government. Weakness in the franc caused by high payments for imports and private short-term capital movements prompted intervention by the Swiss National Bank in the latter half of the month. The National Bank reported that it sold $15 million to the market in the third week of March. Reserves declined $13 million in April; a market report attributes a loss of $9 million in the first half of April mainly to further National Bank dollar sales to the market to finance a continuing high level of imports.

Belgian reserves rose $13 million in March but declined $43 million in April, at least in part because of further repayments of Treasury debt denominated in foreign exchange. In the January-March quarter, official Belgian reserves show a rise of only $5 million, but this occurred despite net retirements of Treasury debt in foreign currencies, mainly short-term, of $40 million. The improvement in the Belgian budgetary situation has a permitted reduction in the outstanding debts in foreign currency, between May 1961 and March 1962, of $105 million. Partly through consolidations, the short-term foreign currency debt was reduced in this period by $230 million, to a level of $403 million at the end of March.

In April, the Belgian Government floated a $30 million public bond issue in the United States, and used the proceeds to repay a loan of similar amount which had been received last December from a group of U. S. banks.

The $57 million increase in net reserves of the Netherlands in March resulted principally from repatriation of funds by commercial banks to make subscription payments on a fl. 300 million ($83 million) government bond issue. There was a $16 million rise in net reserves in April.

Latin America

In Argentina, following the end of a two-week suspension of foreign exchange operations on April 4, the central bank on April 9 withdrew its support of the peso, climaxing an 11-month drain on international reserves. The peso fell from its former level of 83 pesos to the dollar to 100 pesos per dollar on April 10, and fluctuated around this level for the balance of the month.

In Venezuela, the piecemeal depreciation of the bolivar, begun in November 1960, was extended on April 2 to a wide range of additional imports. As a result, the proportion of total imports paid for at the "controlled free rate" of 4.54 bolivars per dollar was raised from about 35 to around 80 per cent. Other imports are paid for at the official rate of 3.35 bolivars per dollar.

Asia and Africa

Japanese reserves rose $47 million in March, the third successive monthly increase, reflecting a further narrowing in the current-account deficit and substantially higher net long-term capital receipts. The Bank of Japan drew an additional $20 million of the $125 million credit from seven U. S. banks arranged last January. The March seasonally-adjusted trade deficit of $93 million was unchanged from February, remaining far below the levels of the second half of 1961. In April, Japan's reserves decreased $2 million.

Reserves of the Reserve Bank of India on April 6 were $20 million less than at end-February and $53 million below the amount at the end of 1961. Despite the August 1961 drawing on the IMF of $122.5 million, India enters the second year of the third five-year plan with fewer reserves than in April 1961 when the plan period began. Reserve Bank holdings on April 6 were $510 million as against $529 million a year previous. Holdings of the Indian Government, which have tended to be nearly constant, were $100 million at the end of March 1961 and $102 million at the end of February 1962.

From the end of 1960 through February 1962, the Thai authorities added $67 million to official reserves rather than permitting the baht to appreciate above its present level of approximately 20.8 baht per dollar. Bank of Thailand reserves were $451 million at the end of February. The increase reflects a reduced trade deficit and increased inflows of private and official capital.

Although both import and exchange controls have been slightly relaxed recently, the gold and foreign exchange reserves of the South African Reserve Bank continue to increase. Following repayment in early March of the final installment of South Africa's debt to the International Monetary Fund, holdings resumed an upward course, gaining $50 million between March 16 and April 13 to reach $489 million, the highest level in over 13 years.