

May 26, 1961

CAPITAL MARKET DEVELOPMENTS ABROAD

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

I. Switzerland: Money and Capital Markets During April

The money market remained very liquid in April and early May. Short-term rates remained unchanged at low levels. The desire to speed up the absorption of excess liquidity contributed to the record level of new issues approved and offered in the Swiss capital market in March. Foreign bond flotations in particular seem to have been encouraged; as a result, these issues amounted to \$78 million during the first quarter compared with \$28 million a year earlier. Bond yields eased further in April but moved up in mid-May close to March levels. Stock prices fluctuated within a narrow range and on April 14 were 1.6 per cent below the March 17 level.

No significant withdrawal from Switzerland of the substantial March inflow of foreign funds appears to have taken place. Official reserves were virtually unchanged during April but the gold component was increased. The spot dollar rate continued its recovery in April from the drop that occurred in the second week of March, and remained steady in early May.

Money Market. During April and early May an exceptionally high degree of liquidity was the dominant characteristic of the money market in Switzerland. Because of the abundance of funds, the volume of money market transactions was small, and at times the lending business of leading financial houses was practically at a standstill. Although most of the abnormal foreign exchange inflow in March was neutralized by the blocking at the National Bank of over SF 1 billion of the Swiss franc proceeds of the inflow, liquidity was already high because of the large inflows during the past year; and it has been increased somewhat by stagnation in short term capital exports caused by speculative forces, reflected in a high premium on the forward Swiss franc and a resulting high cost of forward cover. Despite the general liquidity, some small banks experienced difficulty in meeting seasonal credit demands because the supply of credit from large to small banks was to some extent restricted by the blocking of balances at the National Bank. These blocked funds may, however, be used for foreign investment.

Short-term interest rates continued to be at depressed levels. The rate on 3-months deposits with large banks in Zurich, which had fallen to

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DECONTROLLED AFTER SIX MONTHS

$1\frac{1}{2}$ per cent by mid-March, continued at this level through April 15 (see Chart 5), and there is no indication that this $1\frac{1}{2}$ per cent rate has not also persisted in May. The call money rate in Zurich remained at 1 per cent, where it has been almost continuously since early September of 1960.

	<u>Rate on 3-months deposits with large banks in Zurich</u>	<u>Interbank call loan rate in Zurich</u>
1960 - High	2.25	1.50
Low	1.50	1.00
Dec.	2.08	1.13
1961 - Jan.	1.81	1.00
Feb.	1.75	1.00
Mar.	1.56	1.00
Apr. 7	1.50	1.00
Apr. 15	1.50	1.00

Bond Market. In April there was continued strong demand for bonds, and yields declined for the fifth consecutive month. Yields have in fact been in a generally declining phase since February 1960, the downward movement having been interrupted only temporarily in the autumn of last year. The yield to maturity on the Swiss Confederation 3% bond of 1967-72 dropped to 2.83 per cent at the end of April from 2.86 per cent at the end of March after having fallen previously from 3.07 per cent at the end of November 1960 (see Chart 6). Subsequently, the yield rose to 2.85 per cent in the middle of May. The rates paid by banks on cash bonds, which have also been falling since last November, were reduced further in the first part of April. These rates, as well as those on savings deposits, have reportedly become more uniform throughout the country because of competitive pressure. The new mortgage rate again was unchanged through mid-April.

	<u>Gov't bond yield</u>	<u>New mortgage rate</u>
1960 - Nov. 25	3.07	3.74
1961 - Mar. 30	2.86	3.74
Apr. 14	2.84	3.74
28	2.83	
May 12	2.83	
19	2.85	

	<u>Interest on cash bonds</u>	
	<u>12 cantonal banks</u>	<u>5 large banks</u>
1960 - Nov. 30	3.35	3.34
1961 - Mar. 30	3.31	3.29
Apr. 15	3.30	3.27

The new issue market in April appears to have been less hectic than in March, when the \$125 million of new money raised from public flotations of domestic and foreign stocks and bonds was 78 per cent greater than in any other month since World War II. The March activity was especially high for new issues of Swiss stocks and foreign bonds, which, for the first quarter of 1961, ran far ahead of last year; foreign borrowing in March amounted to \$51 million. To some extent the rise in new issues appears to have been due to a speed-up of issue approvals, in the hope of speeding the absorption of excess liquidity. In April the Cassa per il Mezzogiorno (Italy) borrowed \$11.6 million on the Swiss market, and the Swedish firm Volvo raised \$9.3 million in May.

New Public Issues
(new money raised; million \$)

<u>Year</u>	<u>Swiss bonds</u>	<u>Swiss stocks</u>	<u>Foreign bonds</u>	<u>Total</u>
1956	142.6	43.9	66.2	252.7
1957	267.0	43.2	1.1	311.3
1958	192.3	26.4	31.8	250.5
1959	159.5	93.6	111.5	364.7
1960	207.0	45.0	129.8	381.7
<u>Jan.-Mar.</u>				
1960	87.8	10.0	27.5	125.3
1961	71.9	42.9	77.7	192.5

Foreign Borrowings, April-May
(new money raised)

	<u>Amount</u> (mil.\$)	<u>Term</u>	<u>Coupon</u> <u>rate</u>	<u>Issue</u> <u>price</u>	<u>Yield to</u> <u>Maturity</u>
April - Cassa per il Mezzogiorno (Italy)	11.63	1971-74	4.50	100	4.50
May (to date) - Aktiebolaget Volvo (Sweden)	9.30	1976 ^{1/}	4.50	100	4.50

^{1/} Maturity. Information on call date, if any, not yet received.

Stock Market. The nearly unbroken rise in prices of industrial stocks dating from the middle of last December was interrupted in March (see Chart 7). The index of 39 industrial stocks fell 2.1% in the week March 17-24. After the lost ground had been made up in early April there was another drop, making a net decline of 1.6 per cent for the four weeks ending April 14. On that date, the index was 22 per cent higher than on December 16, 1960, and 67 per cent above the level of the end of 1959.

Industrial share index
(1958 = 100)

1960 - Dec. 16	190
Dec. 30	195
1961 - Mar. 17	236
24	231
Apr. 7	236
14	232

Foreign Exchange. During April the spot dollar tended to strengthen in Zurich, the rate touching as high as SF 4.33 = \$1 during the latter half of April compared with SF 4.316 = \$1 at the end of March. In May the rate has fluctuated in the narrow range between 4.326 and 4.329 Swiss francs per dollar, being 4.329 on May 23. Spot sterling moved upward against the Swiss franc from SF 12.0725 = £1 at the end of March to as high as SF 12.1125 = £1 in the final week of April, but fell back in the first half of May, falling to SF 12.0875 = £1 on May 12.

Official gold and foreign exchange reserves declined by \$1 million in April, in marked contrast to the \$236 million increase in March. The first week of May saw a drop of \$3 million, bringing reserves to \$2,531 million. The gold component of the reserves was increased by \$64 million in this period. However, the proportion of reserves held in gold was still smaller (88.1 per cent on May 6) than was normally the case prior to the large influx of foreign exchange in March (e.g., 94 per cent on February 28).

Swiss National Bank Reserves
(millions of \$)

	<u>Gold</u>	<u>Foreign Exchange</u>	<u>Total</u>
Feb. 28	2,162	138	2,300
Mar. 31	2,166	370	2,536
Apr. 29	2,239	295	2,535
May 6	2,229	302	2,531

European Section.

II. Nine Charts on Financial Markets Abroad

- Chart 1 - Interest Arbitrage U.S./Canada
- Chart 2 - Interest Arbitrage New York/London
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- Chart 4 - Interest Arbitrage Frankfurt/London
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- Chart 6 - Long-term Bond Yields
- Chart 7 - Industrial Stock Indices
- Chart 8 - Major Currencies in Terms of
Spot United States Dollar
- Chart 9 - 3-month Forward Rate--London Quotations

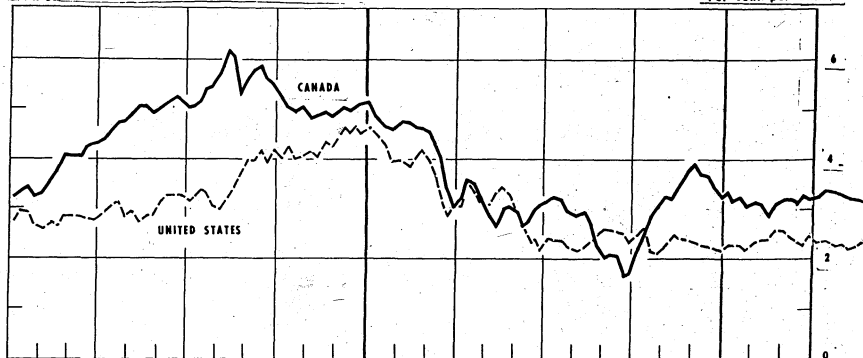
Chart 1

INTEREST ARBITRAGE, UNITED STATES / CANADA

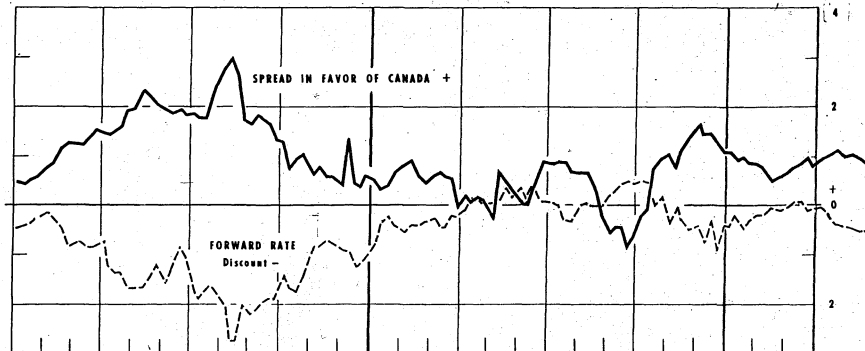
Thursday figures

THREE-MONTH TREASURY BILL RATES

Per cent per annum



RATE DIFFERENTIAL AND FORWARD CANADIAN DOLLAR



RATE DIFFERENTIAL WITH FORWARD EXCHANGE COVER

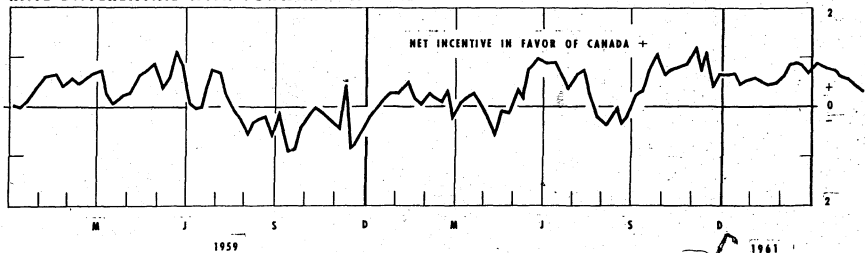
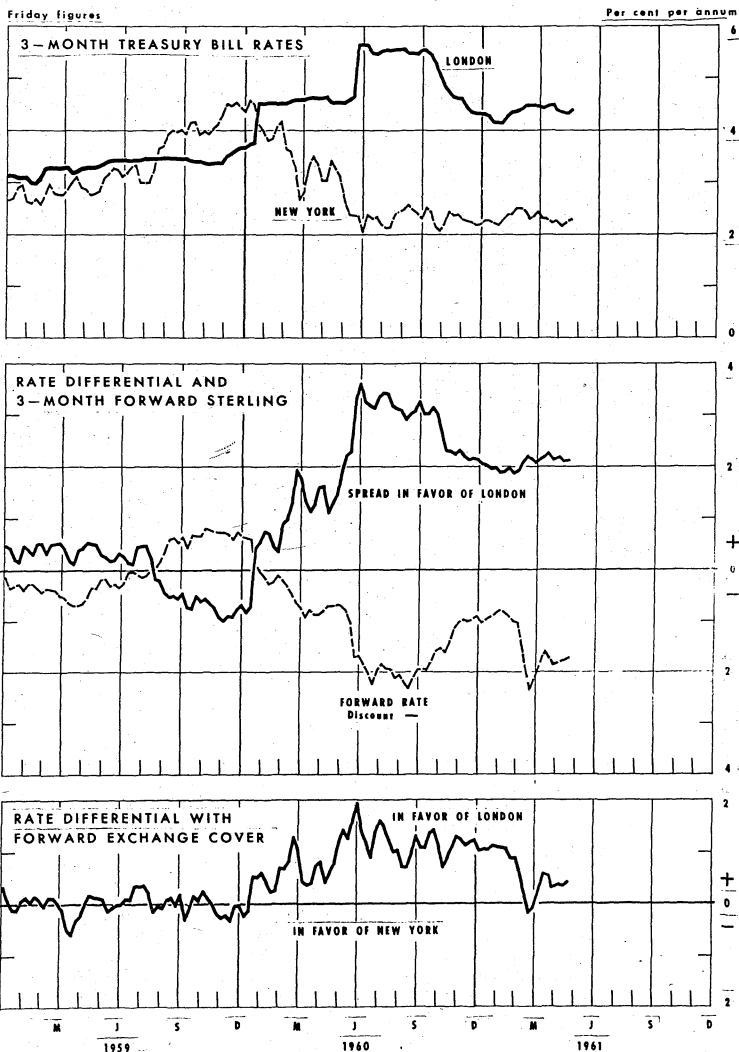


Chart 2

INTEREST ARBITRAGE, NEW YORK / LONDON

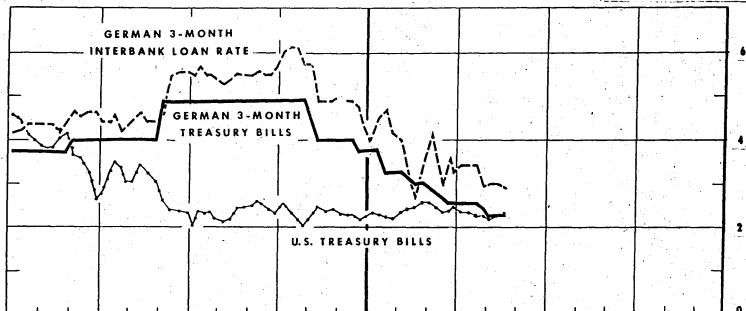
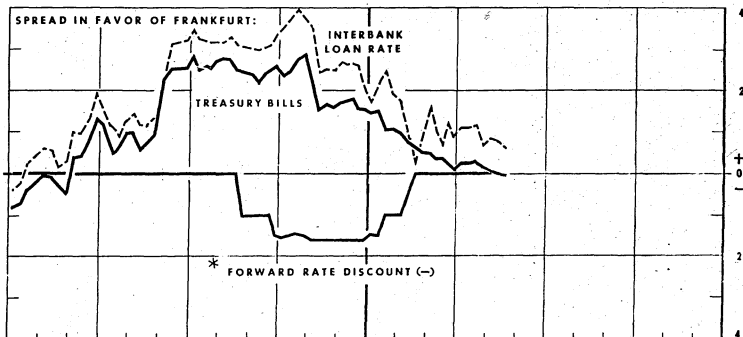
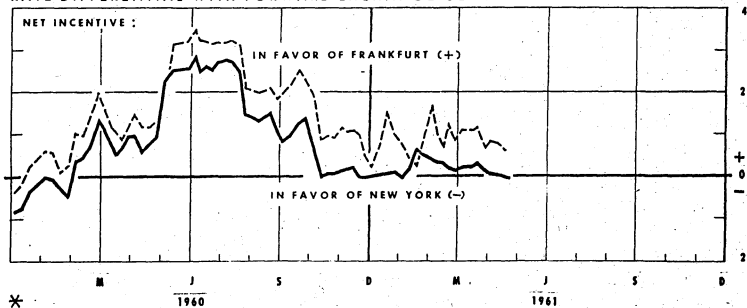


INTEREST ARBITRAGE, NEW YORK/FRANKFURT

Friday figures

**3-MONTH TREASURY BILL RATES AND
GERMAN 3-MONTH INTERBANK LOAN RATES**

Per cent per annum

**RATE DIFFERENTIAL AND FORWARD DEUTSCHE MARK****RATE DIFFERENTIAL WITH FORWARD EXCHANGE COVER**

* Special forward dollar rate (either flat or premium on spot) available to German commercial banks.

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Chart 4

INTEREST ARBITRAGE, FRANKFURT/LONDON

Friday figures

Per cent per annum

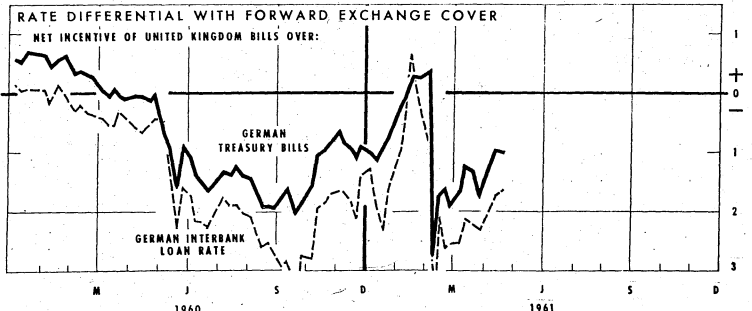
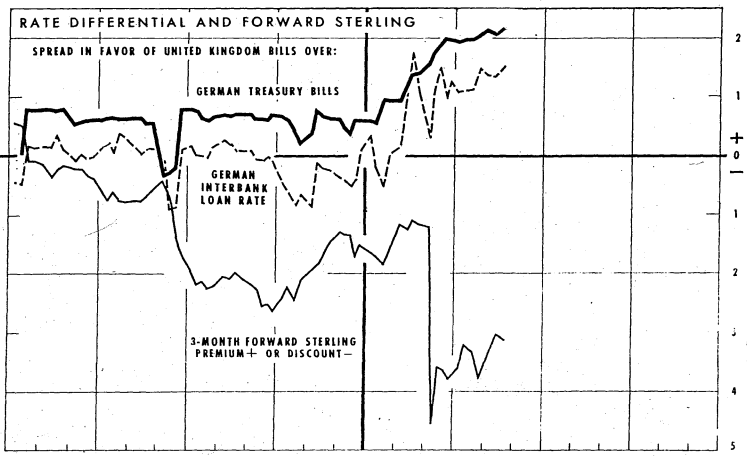
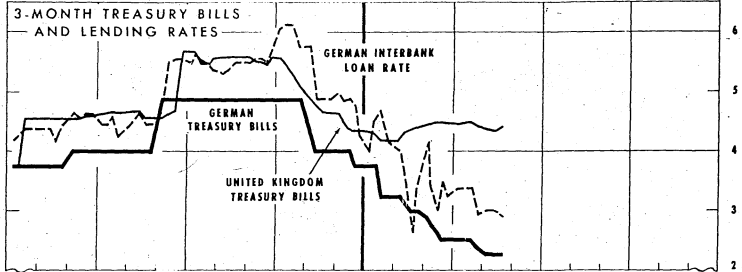
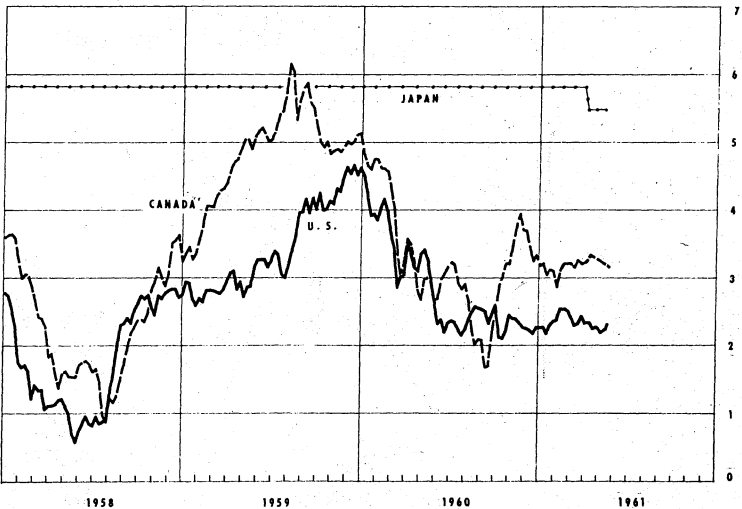
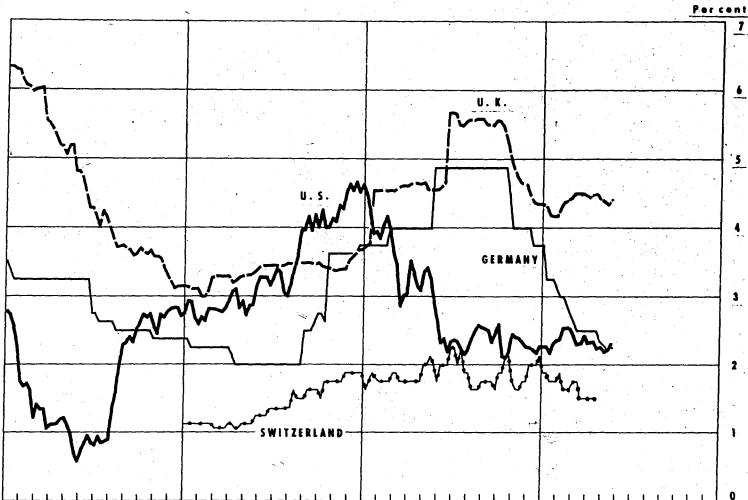


Chart 5

SHORT-TERM INTEREST RATES *



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Note: 3-month treasury bill rates for all countries except Japan (3-month interbank deposit rate) and Switzerland (3-month deposit rate).

Chart 6

LONG-TERM BOND YIELDS

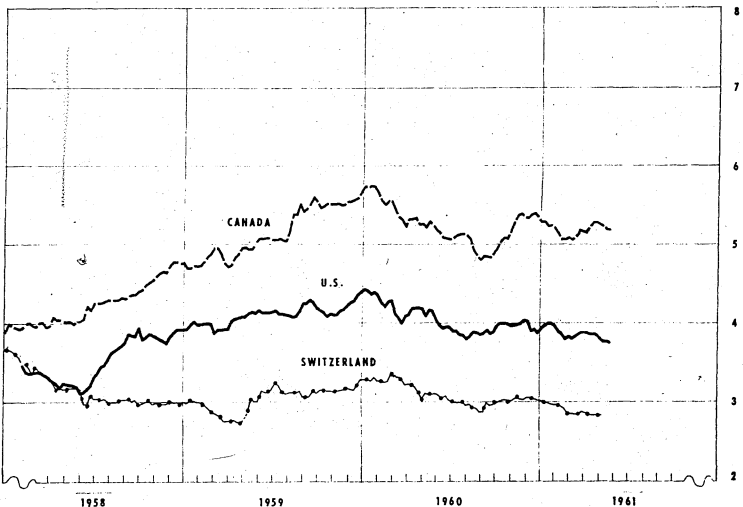
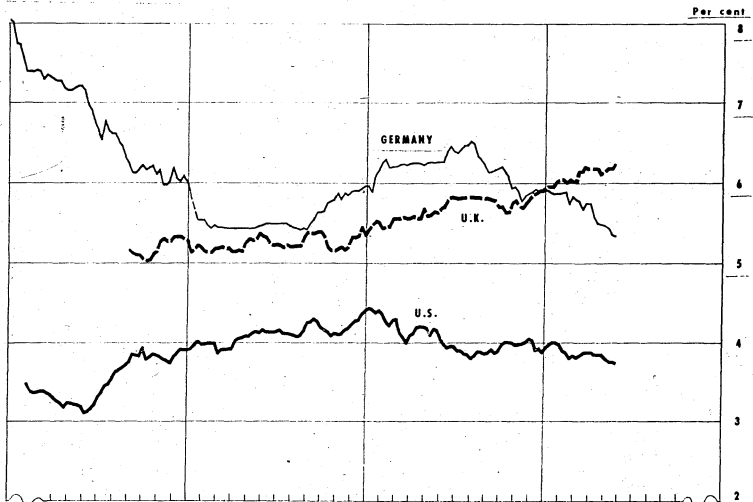
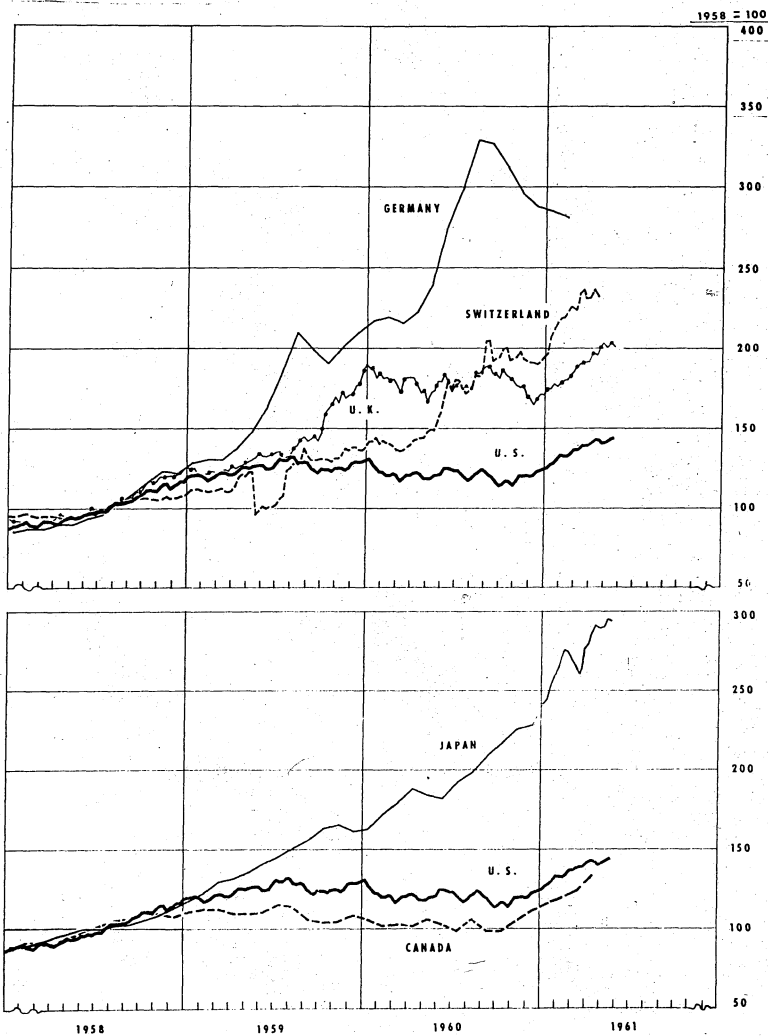


Chart 7

INDUSTRIAL STOCK INDICES *



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

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Chart B

MAJOR CURRENCIES IN TERMS OF THE SPOT U. S. DOLLAR

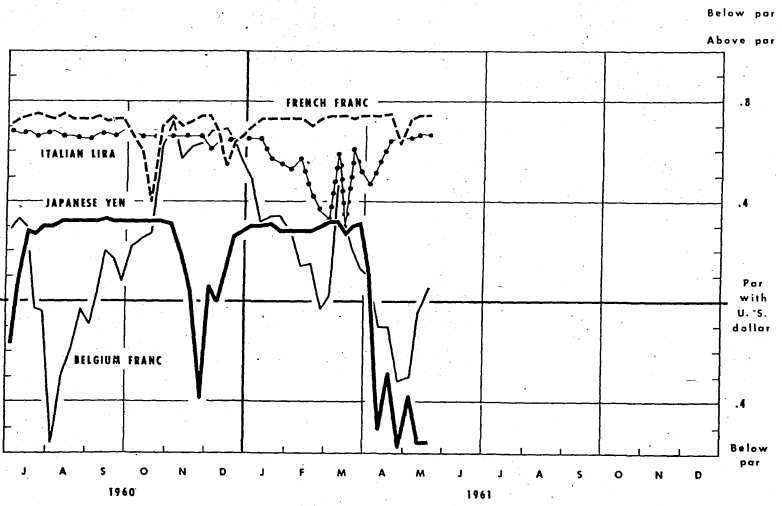
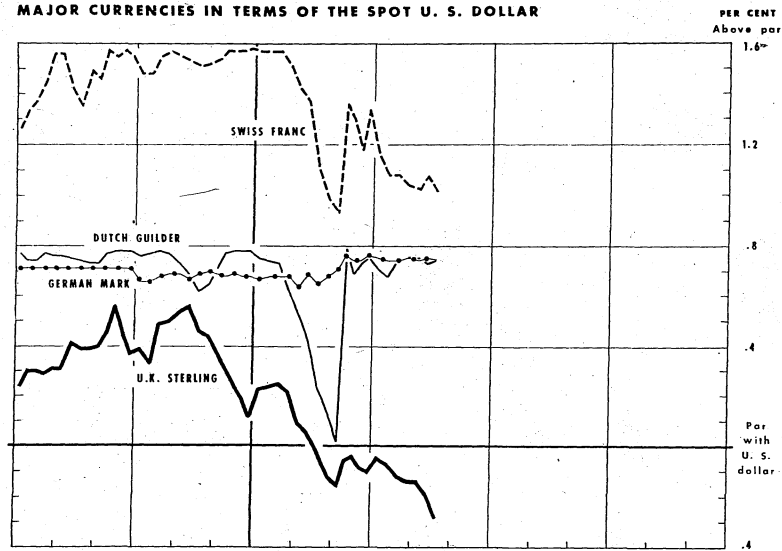


Chart 9

3-MONTH FORWARD RATES - LONDON QUOTATIONS

