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## CAPITAL MARKET DEVELOPMENTS ABROAD

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

I. Switzerland: Money and Capital Markets During May

The money market in May was still highly liquid. A seasonal increase in demand for funds in the first half of June produced an increase in short-term interest rates. Long-term bond yields rose in the latter part of May and the first half of June after having declined continuously for nearly six months. The steep upward movement of stock prices was resumed. By mid-June prices of industrial stocks were 46 per cent higher than at the end of 1960 and more than double the end-of-1959 level, and the combined average yield on all stocks had fallen as low as 1.4 per cent. In May the spot dollar maintained its recovery from the low levels of March, but in the first three weeks of June both the spot dollar and spot sterling weakened again. The discounts on forward sterling and forward dollars, which have impeded short-term capital export and contributed to the liquidity of the money market, averaged lower in May than in April, but the discount on forward sterling rose again in June. Maturing funds in London were generally being withdrawn in June.

Money Market. In May, conditions in the Swiss money market changed little. An unusually high degree of liquidity has prevailed since the summer of 1960 as a result of inflows of funds from abroad. The discounts on forward sterling and forward dollars, which have impeded short-term capital exports and thus contributed to the liquidity of the market, continued in May, although at lower levels than in April.

In the first week of June, demand by the banks for liquid funds increased because of preparations for midyear "window-dressing," and also in anticipation of a seasonal increase in the utilization of building loans. Money-market rates stiffened as a result, with some banks offering 2 per cent on three months' domestic deposits as against the  $\frac{1}{2}$  per cent previously being paid by most banks. There has been no reported change in the call money rate which, in mid-May, was still 1 per cent.

		Rate on 3-months deposits with large banks in Zurich	Interbank call loan rate in Zurich
1960	High	2.25	1.50
	Low	1.50	1.00
	Dec.	2.08	1.13
1961	Mar. 31	1.50	1.00
	Apr. 30	1.50	1.00
	May 15	1.50	1.00

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DECONTROLLED AFTER SIX MONTHS

Bond Market. The long-term bond market in May showed a firming in yields. The yield to maturity on the Swiss Confederation 3 per cent bond of 1967-72, which had fallen to 2.83 per cent by the end of April and remained there until mid-May, rose to 2.88 per cent at the end of the month, and subsequently rose further to 2.92 per cent by June 16. (See Chart 6.) This movement reversed a declining trend that had been under way since the end of last November. In the market for medium-term issues, the yields on deposit certificates issued by banks, which have also been declining since November, dropped further to 3.27-3.29 per cent on May 15. (No later data are available.) These certificates are issued for maturities of three to eight years, carry various rates of interest, are traded over-the-counter, and are a widespread form of investment for banks, insurance companies, and individuals. They currently account for 17 per cent of all bank liabilities.

Gov't bond yield    New mortgage rate

1960	Nov. 25	3.07	3.74
1961	Apr. 28	2.83	3.74
	May 12	2.83	3.74
	May 26	2.88	
	June 16	2.92	

Yield on deposit certificates

12 cantonal banks    5 large banks

1960	Nov. 30	3.35	3.34
1961	Apr. 30	3.30	3.27
	May 15	3.29	3.27

New issues of securities in April totalled \$32.7 million (in terms of new money raised) compared with the record \$125.5 million floated in March. The total for January-April 1961 remains far ahead of that for the first four months of last year, because of higher flotations of Swiss shares and foreign bonds. Foreign borrowers in the Swiss market in May included the (Swedish) Volvo Company and a Norwegian firm. In June the National Railroad Company of Belgium floated a  $4\frac{1}{2}$  per cent 12-year bond issue for \$11.6 million and retired a 4 per cent issue of similar amount and maturity which fell due June 15.

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

	<u>Swiss bonds</u>	<u>Swiss stocks</u>	<u>Foreign bonds</u>	<u>Total</u>
1960 Jan.-Apr.	101.6	15.4	41.5	158.5
1961 March	36.2	38.2	51.2	125.5
April	16.2	4.9	11.6	32.7
Jan.-Apr.	88.2	47.8	89.4	225.4

Foreign Borrowings, May-June

	<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>
<u>May</u>					
Aktiebolaget Volvo (Sweden)	9.30	1969-76	4.50	100	4.50
Vaksdal Molle (Norway)	1.86	1966-71	4.50	99	4.65
<u>June 1-16</u>					
Nat'l R.R.Co. (Belgium)	11.62	1973 <sup>1</sup> / <sub>2</sub>	4.50	100	4.50

<sup>1</sup>/<sub>2</sub> Callable upon notice.

Stock Market. The steep upward movement of stock prices was resumed in the last week of April following five weeks of pause, and it continued throughout May and the first half of June. The index of industrial stock prices rose from 233 on April 21 to 262 on May 10 (see Chart 7), and the rise is reported to have carried the index to 285 by June 16. This was 46 per cent above the end-of-1960 level, and more than double the end-of-1959 level. Prices of non-industrial stocks have also risen sharply, although at a somewhat slower rate, and on June 16 the combined gross average yield on all stocks had reportedly fallen to 1.40 per cent from 1.89 per cent at the close of last year. This compares with yields of around 2.9 per cent on government bonds and 3.3 per cent on deposit certificates issued by banks. The extent of the search for capital gains on the stock market has alarmed the authorities, and at the end of February measures were taken to limit credit for stock purchases. But these measures have so far failed to halt the swift ascent of stock prices.

Industrial share index

1959 - Dec. 31	139
1960 - Dec. 30	195
1961 - Mar. 17	236
Apr. 21	233
May 10	262
June 16	285 <sup>1</sup> / <sub>2</sub>

<sup>1</sup>/<sub>2</sub> Based on press report.

Foreign Exchange. In May the spot dollar maintained its recovery from the low point of early March, being quoted at or slightly under SF 4.33, but in June there was a pronounced weakening, and by June 23 the buying rate had fallen on the New York market to SF 4.3156, or almost to

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the intervention point of 4.315 maintained by the Swiss National Bank last March. Spot sterling came under heavy pressure in the last week of May and the first half of June, the rate falling as low as SF 12.04 per pound. Swiss short-term investments in London have practically ceased, and maturing funds in London are generally being transferred abroad. In May the discounts on forward dollars and forward sterling averaged lower than in April, as seen from the following monthly ranges of Friday rates for 3-month quotations:

	Discount (per cent per annum)	
	<u>April</u>	<u>May</u>
3-months dollar	1.38 - 2.08	1.38 - 1.50
3-months sterling	3.00 - 4.30	3.30 - 3.38

However, in the first two weeks of June the discount on forward sterling widened, and was 3.75 per cent on June 17 for 3-months forward.

Official reserves of gold and foreign exchange rose by \$18 million in May and declined by \$1 million in the first half of June.

Swiss National Bank reserves  
(\$ millions)

	<u>Total</u>	<u>Gold</u>	<u>Foreign Exchange</u>
April 29	2,534	2,239	295
May 31	2,552	2,247	305
June 15	2,551	2,246	306

European Section.

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II. Japan: Money and Capital Markets During May

Japan had a sizeable deficit in its over-all balance of payments position during the month of May for the first time since 1957. The resulting drop of \$69 million in international reserves had a contractionary impact on the money market. The deficit is likely to continue in June and, together with a Treasury surplus and expansion in notes in circulation, is expected to contribute to much tighter conditions in the money market.

Until recently, the deficits on current account in the balance of payments had been more than offset by substantial inflows of short-term capital. Lately, however, the volume of direct, unsecured loans from foreign banks and Euro-dollar balances has been rising less rapidly. The deterioration in the balance of payments, together with signs of overexpansion in domestic investment in capital equipment and upward price pressures, has reportedly led the Bank of Japan to begin to limit its credit accommodation to city banks.

Money Market. Money market conditions remained tight in May. The shift from an inflow to an outflow of foreign exchange caused the Foreign Exchange Fund to withdraw ¥ 26 billion from circulation as the domestic counterpart of its foreign currency operations. The tightening effect of this shift and the Treasury surplus of ¥ 72 billion was offset in the money market by an expansion in Bank of Japan loans of ¥ 68 billion and a reduction in notes in circulation of ¥ 38 billion. The money market is expected to become tighter in June because of an expected Treasury surplus, a continued outflow of foreign exchange, and a seasonal expansion of notes in circulation as mid-year bonus payments are made by business firms.

Bond Market. New issues of debentures in April were at generally lower levels than during the first quarter of the year. Spurred by public interest in the new bond investment trusts, monthly issues of industrial debentures averaged ¥ 77 billion yen during the first quarter, but dropped to ¥ 22 billion in April. Issues of bank and public corporation debentures were also down significantly from first quarter levels. The reduction in new issues in April was in part a reflection of the continued tightness in the call money market.

Interest Rates. The average interest rate for all commercial banks on loans and discounts, which had remained steady at 8.22 per cent per annum during the April-July period last year, continued to decline during the first quarter. In March the average rate was 7.92 per cent, an all-time low since the end of the Second World War. With the lowering in April of the general level of interest rates (See "Capital Market Developments Abroad," May 1961), it is likely that the average rate continued to decline in April and May.

Average Monthly Interest Rate on Bank Loans and Discounts  
(per cent per annum)

	<u>1958</u>	<u>1959</u>	<u>1960</u>	<u>1961</u>
March	8.63	8.18	8.21	7.92
June	8.61	8.08	8.22	
September	8.41	8.06	8.14	
December	8.27	8.11	8.08	

**Bank Loans and Discounts.** In April and May bank loans and discounts continued to expand at a faster rate than a year earlier. During this period, loans and discounts rose 2.1 per cent compared to 1.4 per cent in the same period last year. The proportion of loans utilized for the purchase of capital equipment, which has been rising steadily for several years, was slightly lower in March and April than in January and February.

Increase in Loans and Discounts: All Banks  
(In billions of yen)

	<u>1958</u>	<u>%</u>	<u>1959</u>	<u>%</u>	<u>1960</u>	<u>%</u>	<u>1961</u>	<u>%</u>
I	125	2.5	168	2.9	225	3.3	374	4.6
II	146	2.8	157	2.6	227	3.2	177a/	2.1
III	235	4.4	281	4.6	395	5.4		
IV	283	5.1	384	6.0	531	6.9		

a/ April-May period.

**Stock Market.** The Dow Jones average of 225 stocks set a new record on June 28, reaching ¥ 1,735 and passing the previous peak of ¥ 1,703 reached on May 17, 1961. The average had fallen 7 per cent from the May 17th level to ¥ 1,580 on June 7. The market was apparently given a boost by the successful issue of 2 million shares of the Sony Corporation in New York on June 7 under the new American Depository Receipts system which spurred Japanese interest in those stocks approved for purchase under the ADR system.

Dow Jones Average of 225 Stocks  
Tokyo Stock Exchange

April 26	¥ 1,658	May 31	¥ 1,679	1960 High	¥ 1,321
May 4	1,663	June 7	1,580	Low	¥ 869
10	1,692	14	1,619		
17	1,703	21	1,677	1961 High	¥ 1,735
24	1,655	28	1,735	Low	¥ 1,367

Foreign Exchange. With the balance of payments in substantial deficit in May and early June, the yen remained at the extreme official selling rate during this period. A persistent weakening of the yen in the forward market widened the spread between the spot and forward rates, and the forward discount of the yen against the dollar rose from 0.55 per cent on May 12 to 0.94 per cent per annum on June 15.

Customer's T. T. Exchange Rates  
of Bank of Tokyo in Tokyo

<u>Date</u>	<u>Yen-dollar</u>		<u>3-month</u>		<u>Forward discount in per cent per annum</u>
	<u>spot</u>	<u>middle rate</u>	<u>forward</u>	<u>middle rate</u>	
May 5	361.10		361.60		0.55
12	361.10		361.60		0.55
19	361.10		361.70		0.66
26	361.10		361.90		0.89
June 2	361.10		361.90		0.89
9	361.10		361.90		0.89
15	361.10		361.95		0.94

Since the establishment of the security yen system on May 1, transactions have been very limited. At mid-June, however, the security yen rate was reported at ¥ 378 to the dollar, a discount of 5 per cent.

Far Eastern Section.

III. Nine Charts on Financial Markets Abroad

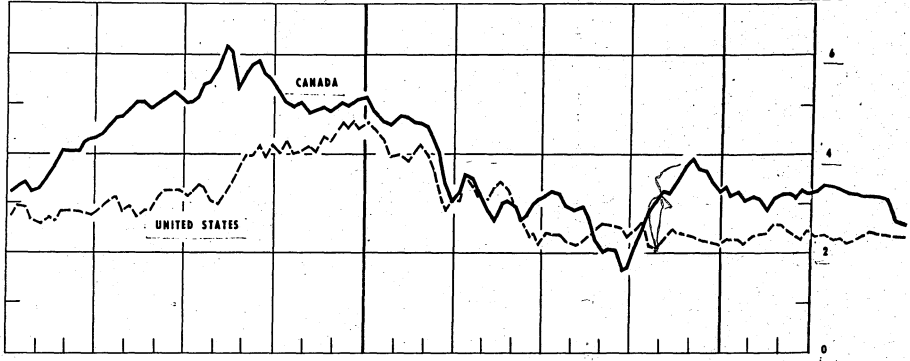
- Chart 1 - Interest Arbitrage U.S./Canada
- Chart 2 - Interest Arbitrage New York/London
- Chart 3 - Interest Arbitrage New York/Frankfurt
- Chart 4 - Interest Arbitrage Frankfurt/London
- Chart 5 - Short-term Bond Yields
- Chart 6 - Long-term Bond Yields
- Chart 7 - Industrial Stock Indices
- Chart 8 - Major Currencies in Terms of  
Spot United States Dollar
- Chart 9 - 3-month Forward Rate--London Quotations

Chart 1

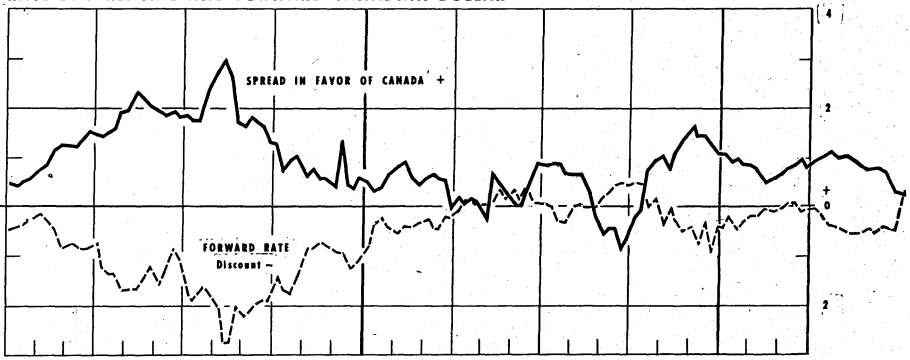
**INTEREST ARBITRAGE, UNITED STATES / CANADA**  
Thursday figures

**THREE-MONTH TREASURY BILL RATES**

Per cent per annum



**RATE DIFFERENTIAL AND FORWARD CANADIAN DOLLAR**



**RATE DIFFERENTIAL WITH FORWARD EXCHANGE COVER**

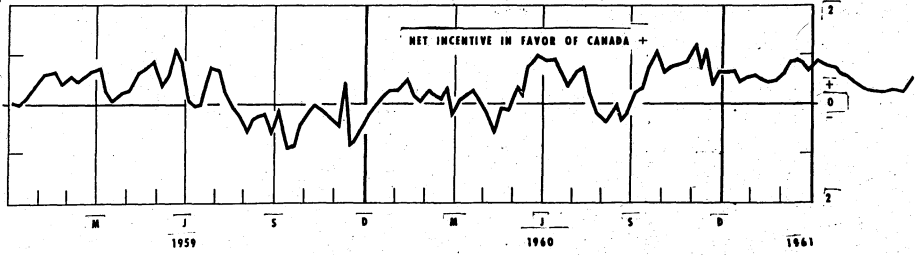
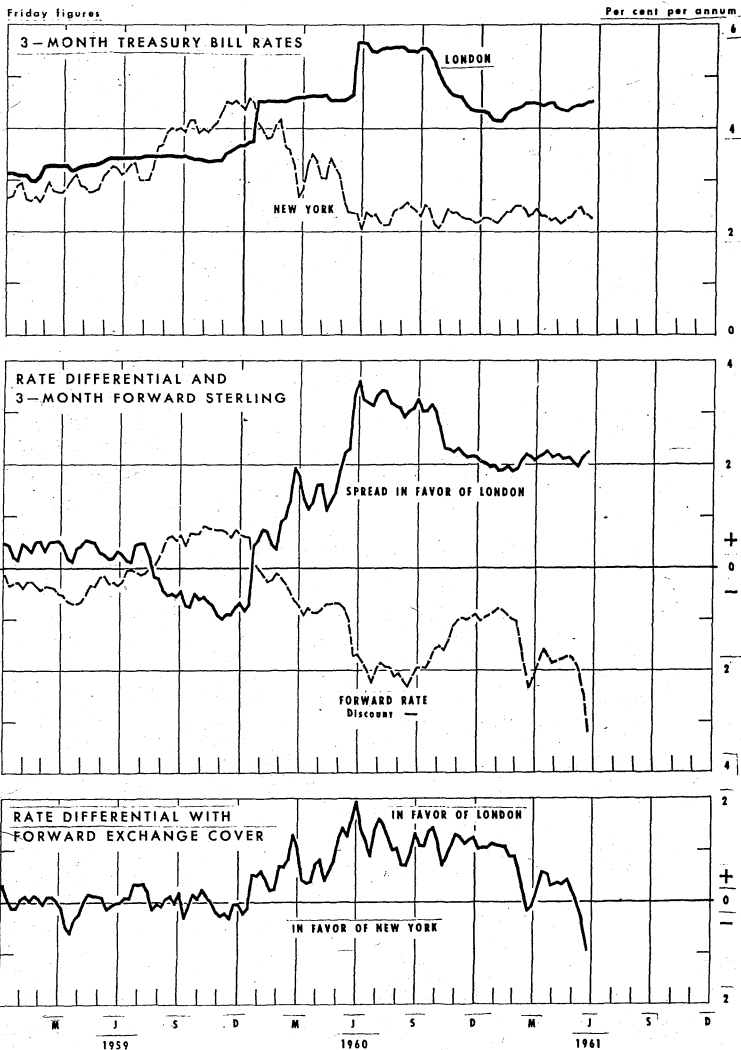




Chart 2

**INTEREST ARBITRAGE, NEW YORK / LONDON**

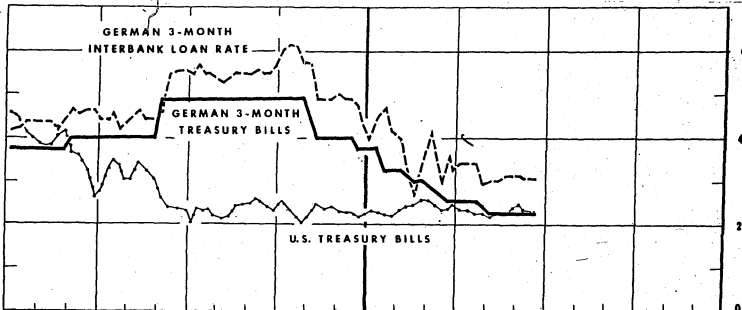


**INTEREST ARBITRAGE, NEW YORK/FRANKFURT**

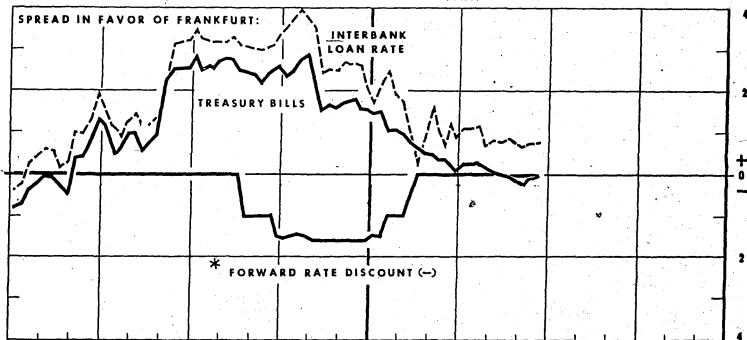
Friday figures

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

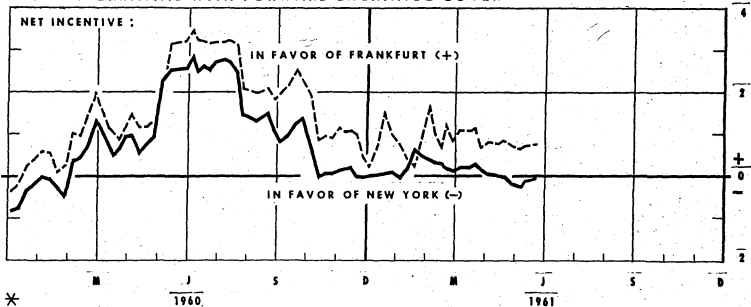
Per cent per annum



**RATE DIFFERENTIAL AND FORWARD DEUTSCHE MARK**



**RATE DIFFERENTIAL WITH FORWARD EXCHANGE COVER**



\*

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

Chart 4

**INTEREST ARBITRAGE, FRANKFURT/LONDON**

Friday figures

Per cent per annum

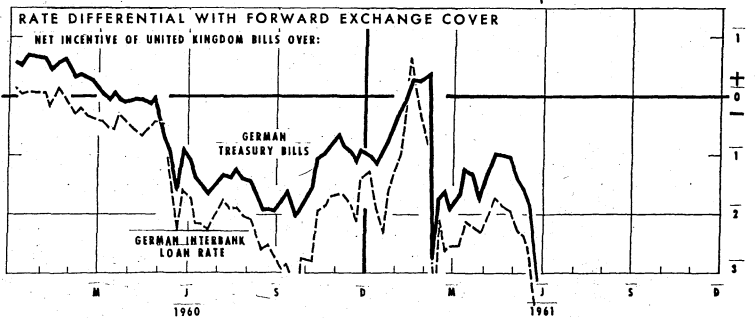
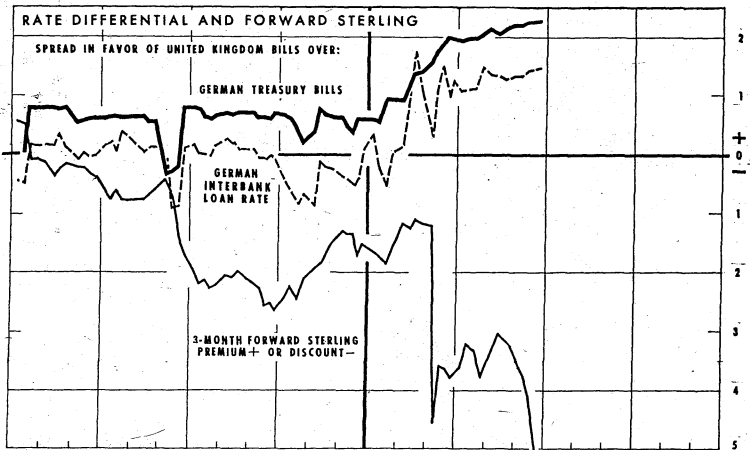
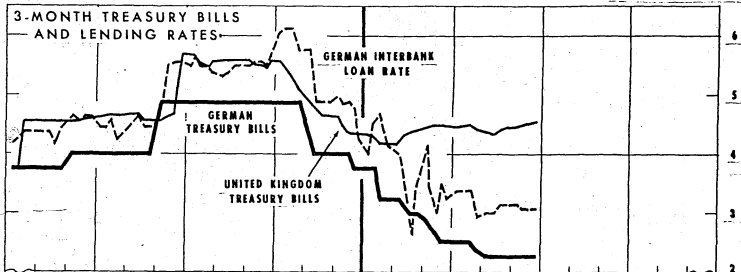
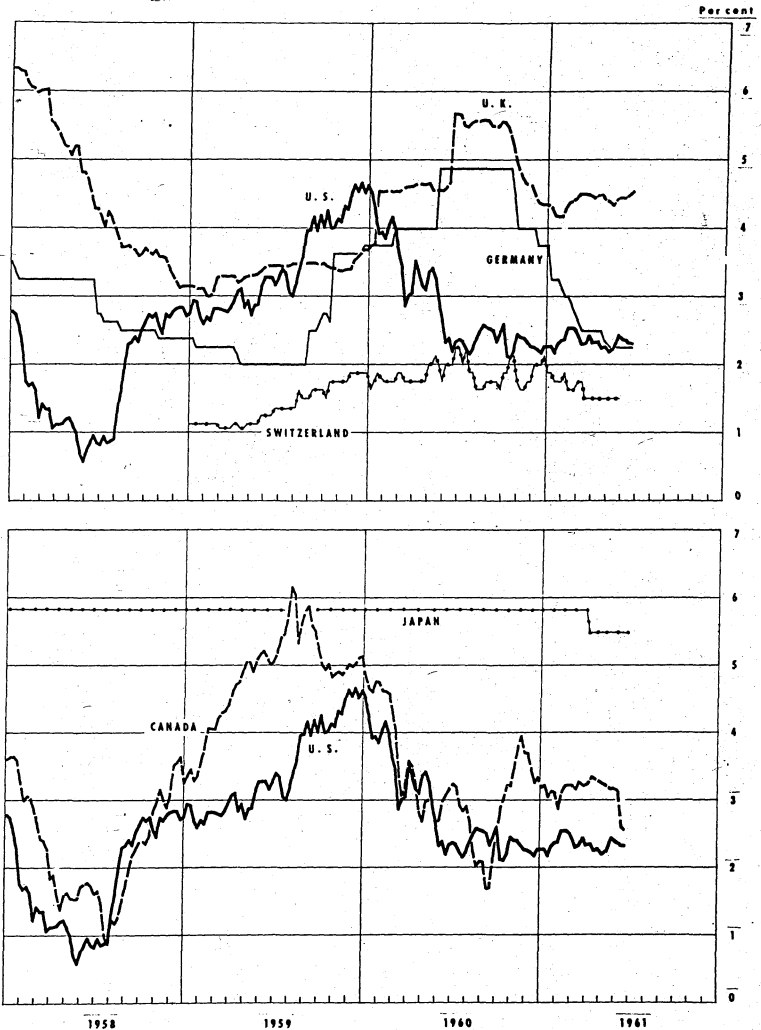


Chart 5  
SHORT-TERM INTEREST RATES \*



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

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Chart 6

**LONG-TERM BOND YIELDS**

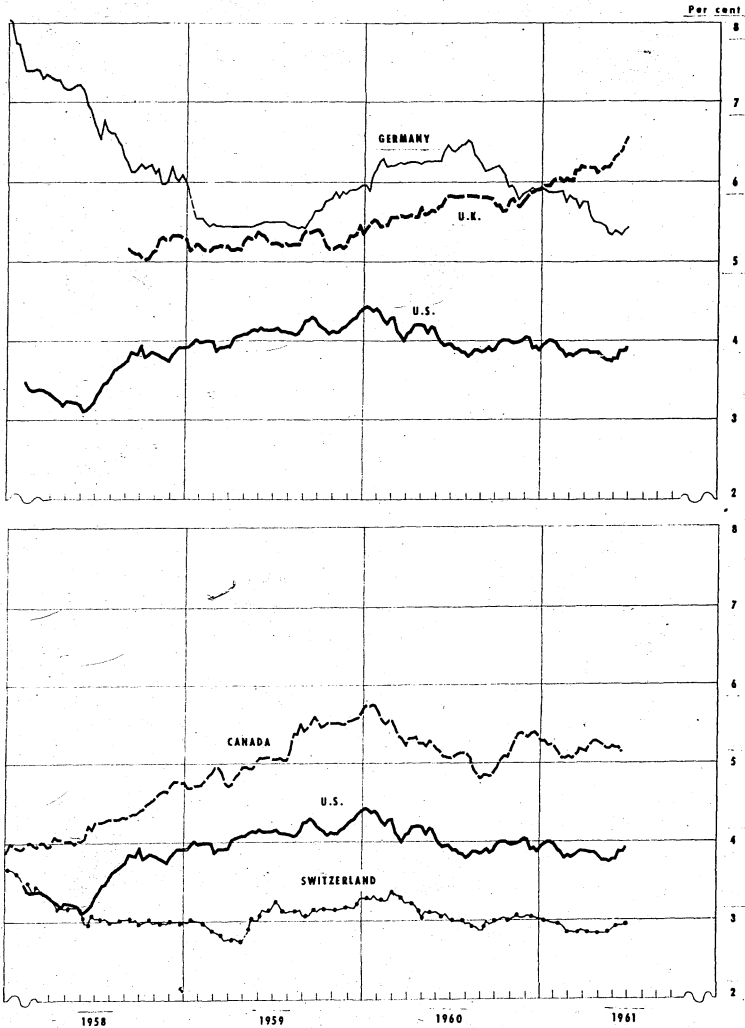
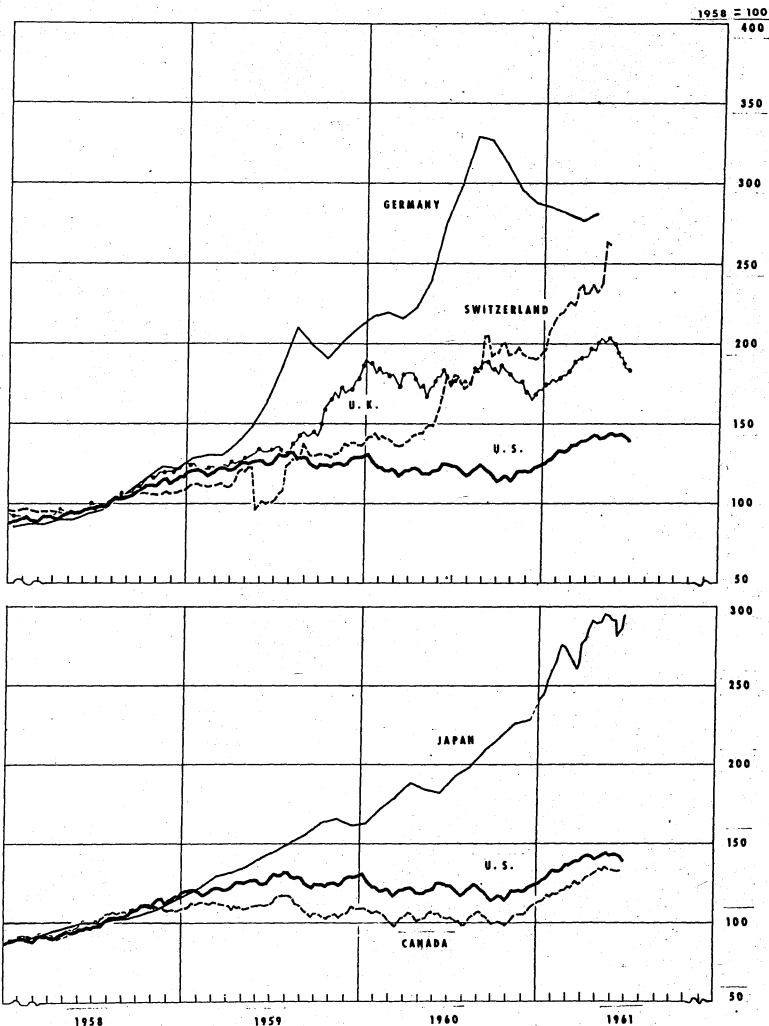


Chart 7

### INDUSTRIAL STOCK INDICES \*



\*

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

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Chart 8

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

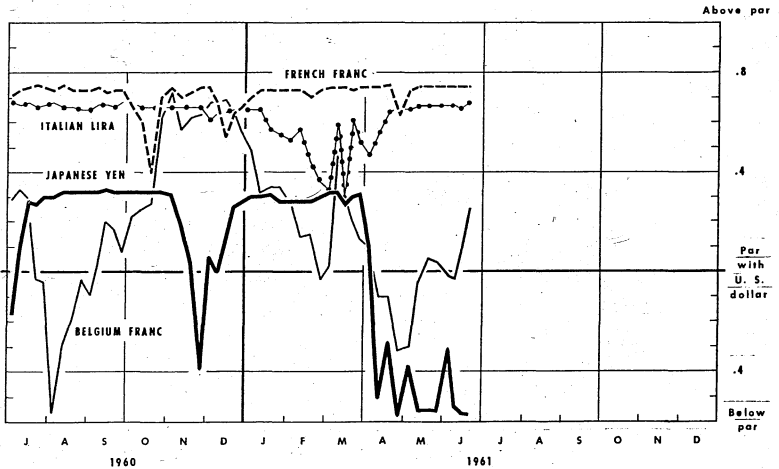
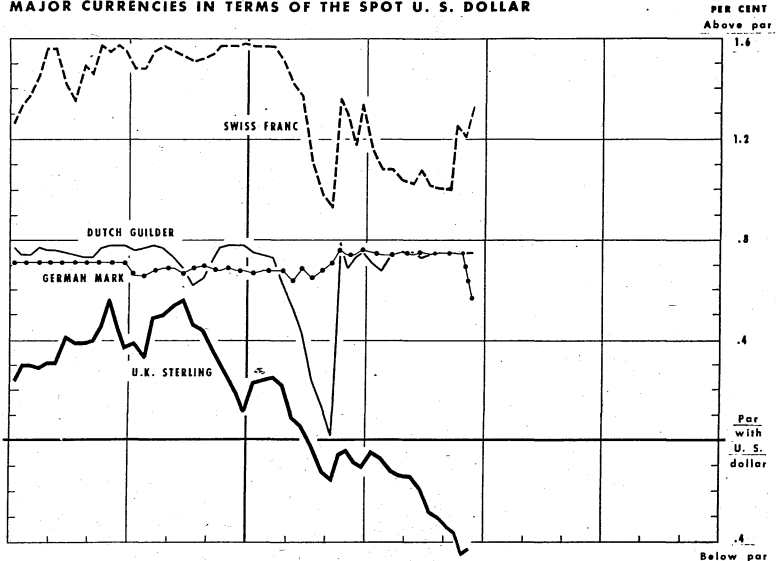


Chart 9

### 3-MONTH FORWARD RATES - LONDON QUOTATIONS

