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FEDERAL RESERVE BANK
OF CHICAGOCAPITAL MARKET DEVELOPMENTS ABROAD

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

I. Switzerland: Money and Capital Markets during October

The gold and foreign exchange reserves of the Swiss National Bank showed a monthly decline in October for the first time since last April, and dropped further in the first half of November. The reduction between October 14 and November 15 came to \$60 million, and was primarily caused by short-term placements of funds abroad. These investments were related to the recent activities of the U.S. Treasury on the forward dollar market in Switzerland, in which the Treasury has contracted to buy forward dollars at attractive rates to stimulate a flow of funds from Switzerland to the United States. To obtain Swiss francs necessary to cover its commitments, the Treasury in October sold in Switzerland the equivalent of \$46.3 million of Swiss franc-denominated certificates of indebtedness.

As a consequence at least in part of this intervention, the discount on the three-month forward dollar in Switzerland was reduced from 1.1 per cent per annum near the end of September to 0.3 per cent in mid-November. During the same period, the spot dollar in Zurich remained continuously above the official support level, after having been at the intervention point most of the time during the three preceding months. Concurrently, the discount on three-months forward sterling fell from 4.8 per cent per annum at the beginning of October to 2.9 per cent in mid-November.

The highly liquid state of the short-term money market was unchanged in October. In early November, preparations for year-end "window dressing" by the banks resulted in a small increase in rates paid on three-month deposits. After falling in August and September, long-term bond yields were stable in October and rose in early November. The Swiss stock market continued to reflect primarily the international political outlook, and prices advanced somewhat in October.

New issue activity remained high in September and early October. Attracted by the low borrowing costs in Switzerland, one British firm floated a long-term loan in Switzerland in November, and two other British companies are expected to follow suit in the next few weeks.

Money Market. October saw no significant changes in the short-term money market, which continued to be exceedingly liquid. Although the greater part of the liquidity was concentrated with the large banks, the liquidity position of the non-bank credit institutions was also very strong. In the

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DECONTROLLED AFTER SIX MONTHS

first two weeks of November, banks began their year-end "window dressing" operations; as a result, the interest rates offered on 3-month deposits reportedly rose from 1 3/4 - 2 per cent towards the end of October to 2 - 2 3/8 per cent by the middle of November.

	<u>Rate on 3-month deposits with large banks in Zurich</u>	<u>Interbank call loan rate in Zurich</u>
Aug. 30	1 1/2 - 2	1
Sept. 15	1 3/4	1
Sept. 30	1 3/4 - 2	1
Oct. 15	1 3/4 - 2	1

Bond Market. After having fallen from mid-July to the end of September, long-term bond yields were very stable throughout October, and the yield to maturity on the Swiss Confederation 3% bond of 1967-74 fluctuated between 2.94 and 2.96 per cent. In the first-half of November the price of this issue weakened, and the yield rose to 3.07 per cent on November 17. (See Chart 5.) Yields on medium-term deposit certificates issued by cantonal banks showed a further small rise in the first half of October. These yields have been moving up gradually since July, but over the same period there has been no change in the yields on the deposit certificates issued by five large banks.

	<u>Gov't bond yield</u>	<u>New mortgage rate</u>
July 14	3.12	3.76
Sept. 29	2.94	3.76
Oct. 13	2.94	3.76
Oct. 27	2.96	n.a.
Nov. 10	3.00	n.a.
Nov. 17	3.07	n.a.

	<u>Yields on deposit certificates</u>	
	<u>12 cantonal banks</u>	<u>5 large banks</u>
July 31	3.29	3.25
Aug. 31	3.30	3.25
Sept. 30	3.32	3.25
Oct. 15	3.33	3.25

Statistics have been released which show a remarkable growth in Swiss investment trusts in the postwar years. From the end of 1946 to the end of 1959 the number of trust certificates outstanding rose from 2.1 million to 13.0 million and the value of the trusts' assets increased from \$57 million to \$818 million equivalent. During 1960, the number of certificates increased

further by 10 per cent to 14.3 million while the value of the assets rose another 16 per cent to \$945 million. At the end of 1960, 68 per cent of the value of trust assets was represented by securities, mostly foreign, and the remainder by real estate. A measure of the trusts' role as a channel for savings is seen by the fact that at the end of 1960 their assets equalled about one-fourth of all savings deposits in Switzerland, or one-fourth of total Swiss bonds in circulation, or around one half of bank deposit certificates outstanding. A major reason for the growth of the trusts has been the influx of foreign money.

Stock Market. Prices of industrial shares underwent wide fluctuations in the early part of October, the index rising nearly 5 per cent in the first week of the month and falling by 3.4 per cent in the second. (See Chart 6.) This behavior was ascribed to changing sentiment over the international situation and, during the second week, to profit taking. Commentators pointed out that ever since the start of the current Berlin crisis, Swiss stock prices have been more affected by the international political outlook than by economic factors. Since the end of August, the market has staged some recovery from the very large drop in prices that took place after the middle of June. On October 13, the industrial share index was 7 per cent higher than on August 25, although still nearly 13 per cent under the record high set on June 16. In the three weeks from October 13 to November 3, there was a further small increase in the general level of industrial stock prices.

Industrial share index

June 16	285
Aug. 25	232
Sept. 29	246
Oct. 6	258
Oct. 13	249

New Issues. New issue activity picked up further in October, and in at least the first half of the month continued to run at a high level. New money raised by public security issues amounted to \$38 million in the period October 1-16 compared to \$41 million in the whole of September of this year and \$62 million in October 1960. The new issues in September brought the total for January-September 1961 to \$431 million. The nine-month total already exceeds the \$382 million raised in all of last year, and exceeds the \$267 million raised in January-September 1960 by more than 60 per cent.

As the figures below bring out, the increase this year reflects in particular a rise in foreign loan flotations from \$76 million in January-September 1960 to \$180 million in the first three quarters of 1961. The demand for foreign securities has been intensified this year by the exceedingly heavy inflows of foreign funds, coupled with the "gentlemen's agreement" under which new foreign funds are not permitted to be invested in Swiss securities and earn no interest when deposited in bank accounts. On the supply side, there is the attraction of relatively low borrowing costs in Switzerland and the desire of the Swiss authorities to promote capital export in order to

Foreign borrowings in October-November

	<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>October</u>					
Tiroler Wasserkraftwerke					
A. G. (Austria)	9.3	1967-77	5	100	5
Falck S.p.A. (Italy)	11.6	1969-76	4.5	100	4.5
<u>November</u>					
Electric and Musical Industries (UK)	9.3	1966-76	4.5	100	4.5

Foreign Exchange. In October, the gold and foreign exchange reserves of the Swiss National Bank declined for the first time since last April. Following a rise of \$20 million in the first half of the month, reserves declined by \$30 million in the second half. This reduction resulted primarily from short-term foreign investments for the account of the Swiss Confederation. Further short-term investments on behalf of the Confederation were mainly responsible for another drop in reserves of \$28 million in the first week of November. In the second week of November, reserves fell again by \$2 million.

Swiss National Bank reserves (\$ millions)

	<u>Gold</u>	<u>Foreign Exchange</u>	<u>Total</u>
Sept. 31	2,473	275	2,748
Oct. 14	2,526	242	2,768
Oct. 31	2,526	212	2,738
Nov. 7	2,506	204	2,709
Nov. 15	2,506	202	2,707

The investments for the Confederation were related to the recent actions of the U.S. Treasury in the forward exchange market in Switzerland. In recent months, the U.S. Treasury has been buying forward dollars from certain Swiss investors who were prepared to make covered short-term investments abroad if the cost of forward cover were not too high. The purpose of the program is to promote directly a movement of funds from Switzerland to the United States by buying forward dollars at rates attractive to these investors, and to induce further monetary movements of this type by bringing down the discount on the dollar in the forward exchange market. On maturity of the forward contracts the Treasury requires Swiss francs. For this purpose, in October the Treasury placed in Switzerland \$46.3 million equivalent of Swiss franc-denominated certificates of indebtedness. The certificates have a maturity of three months and yield 1.25 per cent per annum.

In October and the first half of November, the spot dollar remained above the Swiss National Bank intervention point of SF 4.315. Fluctuations

in the rate were confined to a narrow range of SF 4.319 - 4.3275, and on November 17 the rate was around 4.325. Spot sterling opened the month of October at SF 12.18, the highest since May 1960, and between then and mid-November oscillated narrowly around SF 12.165. In the forward markets, the discount on the three-month dollar was reduced from about 1.1 per cent per annum in the last week of September to around 0.7 per cent in the first week of October, fell further to 0.3 per cent in the closing days of October, and stood at 0.3 per cent in mid-November. On three-month forward sterling, the discount was reduced from 4.8 per cent per annum at the beginning of October to 2.9 per cent in mid-November. The large reduction in the discount on the forward dollar is at least partly a consequence of the activities of the U.S. Treasury in the Swiss forward market.

It was reported in mid-October that the large volume of Swiss funds that had earlier been repatriated from Germany because of the Berlin crisis had in part been reinvested in Swiss securities, and in part had been deposited in Canada, London, and New York.

European Section.

II. Japan: Money and Capital Markets During October

Pressure on the Japanese balance of payments continued in October as international reserves fell \$104 million to \$1,506 million, off \$529 million from the end-of-April peak. The capital outflow, which began in August, continued in October when net capital outpayments, as measured on an exchange transactions basis, totaled \$30 million. These outflows included reductions in acceptance credits from U.S. banks and in Euro-dollar deposits borrowed by Japanese banks in European markets. (In April 1961, Japanese borrowings of Euro-dollars were estimated at \$314 million by a Japanese research publication.) Current account outpayments were \$76 million in October as the trade balance worsened significantly.

To ease the reserve position, Japan signed an agreement with three American banks on November 24 for total credits of \$200 million. The credits will be extended for a period of 360 days at a 4.5 per cent rate of interest. In October Japan received \$32 million in long-term credits from the U.S. Export-Import Bank and another \$11 million in November. On November 29 the I.B.R.D. approved a long-term \$40 million loan to the Japan Highway Public Corporation. Negotiations are underway with the U.S. Export-Import Bank for credits totaling \$125 million to finance the import of various agricultural commodities. Japan has not approached the I.M.F. for a drawing and it appears unlikely that this step will be taken this year.

There are signs that the rate of credit expansion has slowed and in October Treasury and central bank operations increased banking liquidity. The increased advance import deposit requirements instituted in September may be curbing import demand as there was a strengthening of the yen in the forward market in November. The stock market, after a brief recovery, has remained depressed.

Money Market. In October there was a net increase in bank liquidity owing to substantial net Treasury outpayments to the public and an increase in central bank credit. Foreign exchange operations withdrew ¥ 43 billion from circulation, reducing net Treasury outpayments to ¥ 74 billion. Bank of Japan loans and discounts rose ¥ 24 billion, which was considerably less than in previous months. These expansionary factors were only partly offset by an expansion in bank note issue of ¥ 16 billion.

Interest Rates. The average interest rate for all commercial banks continued to move up in September, reaching 8.00 per cent, compared to the June low of 7.88 per cent. The continued rise reflects the increase in the Bank of Japan's discount rate in July and September this year which lead to upward adjustments in commercial bank lending rates.

Average yields on bank, public corporation and government debentures were unchanged in September from the August levels. The yield on corporate debentures dropped from 7.512 per cent in August to 7.490 per cent in September, thus continuing a downtrend from the July peak this year.

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- 8 -

The highest Tokyo call-loan rate for those loans callable at a day's notice rose from 13.87 per cent in August and September to 16.43 per cent in October.

Average Monthly Interest Rates on
Bank Loans and Discounts

	<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	7.88
September	8.41	8.06	8.14	8.00
December	8.27	8.11	8.08	

Bank Loans and Discounts. Bank credit expanded at a slower rate in September than a year earlier, thus continuing the slowdown first evident in July and August. Total bank loans, discounts and security holdings rose 1.8 per cent in September compared to 2.4 per cent a year earlier. Deposits rose 3.8 per cent as against 4.3 per cent in September 1962. With the increased monetary restraints imposed late in September, it is likely that bank credit will continue to expand less rapidly. During the third quarter period, both bank credit and deposits expanded less than in the third quarter of 1960. The proportion of bank loans and discounts extended for equipment purchases in September remained at 17 per cent, unchanged from the August level.

Commercial Banks: Quarterly changes in Deposits and Principal Assets
(In billions of yen)

		MAIN ASSETS							
		<u>Deposits</u>	<u>Per cent change</u>	<u>Loans</u>	<u>Per cent change</u>	<u>Bills Discounted</u>	<u>Per cent change</u>	<u>Securities</u>	<u>Per cent change</u>
1959	I	+201	3.1	+143	3.6	+ 21	1.2	+ 51	5.2
	II	- 22	-0.3	+ 83	2.0	+ 86	4.9	+ 62	6.1
	III	+276	4.1	+136	3.2	+149	8.1	+ 58	5.3
	IV	+475	6.8	+207	4.7	+169	8.5	+ 66	5.8
1960	I	+249	3.4	+176	3.8	+ 54	2.5	+ 78	6.5
	II	+ 96	1.3	+167	3.5	+ 87	3.9	+ 75	5.8
	III	+506	6.5	+244	4.9	+172	7.5	+ 35	2.6
	IV	+607	7.3	+347	6.7	+185	7.5	+127	9.1
1961	I	+502	5.7	+326	5.9	+ 48	1.8	+103	6.8
	II	+169	1.8	+206	3.5	+133	4.9	+104	6.4
	III	+359	3.8	+216	3.6	+206	7.3	+ 43	2.5

Bond Market. New issues of industrial debentures dropped from ¥ 26 billion in August to ¥ 16 billion in September, possibly reflecting the tight

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money conditions and a government request in July that businesses cut back on their capital investments. The volume of other new issues rose between August and September, however, leaving the total volume of new issues relatively unchanged. New issues of bank debentures were ¥ 62 billion in September, up ¥5 billion from the August level, and new issues of public corporate debentures were ¥ 19 billion in September, up ¥ 2 billion from August. Total new issues in September were ¥ 97 billion, down only ¥ 3 billion from August.

Stock Market. Following the sharp 29 per cent decline in the stock price average between July 18 and October 23, stocks gradually recovered 10 per cent in the following two weeks. From the year's low of ¥ 1,300 on October 23, the stock average rose to ¥ 1,429 on November 8. In the last three weeks of November, however, prices again turned down and by November 29 the average reached ¥ 1,303, close to the year's low. (See Chart 6.)

Dow Jones Average of 225 Stocks
Tokyo Stock Exchange

September 27	¥ 1,500	November 1	¥ 1,360	1960 High	¥ 1,357
October 4	1,420	8	1,429	Low	¥ 869
11	1,399	15	1,389		
18	1,356	22	1,376	1961 High	¥ 1,830
25	1,348	29	1,303	Low	¥ 1,300

Foreign Trade. Following a slight improvement in September, the trade deficit, seasonally adjusted, worsened substantially in October. Exports continued to remain stagnant and imports rose substantially, increasing the trade gap from \$156 million in September to \$219 million in October. According to preliminary estimates, the unadjusted deficit on current account in October was \$76 million and the net capital outflow was \$30 million compared to \$28 million in September. The continuing net capital outflow is attributable in part to a decline in outstanding trade acceptances and the level of Euro-dollar holdings. The monthly averages of seasonally adjusted trade figures (in millions of dollars) are detailed below.

	<u>Exports</u>	<u>Imports</u>	<u>Trade Balance</u>
1960	337	375	- 38
1961 I	344	420	- 76
II	351	466	-115
III	359	511	-152
July	358	477	-119
August	363	543	-180
September	356	512	-156
October	337	556	-219

Foreign Exchange. During October and the first half of November the yen-dollar spot rate continued to remain at the official support point. The three-month forward rate of the yen against the dollar, however, strengthened slightly in mid-October and also in the second week of November. The forward discount of the yen against the dollar fell from 1.44 per cent per annum on October 18 to .89 per cent per annum on November 14. The strengthening of the yen against the dollar in the forward market was reportedly due in part to the monetary and import restrictions instituted in September which have reduced demand for foreign exchange.

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

<u>Date</u>	<u>Yen-dollar spot middle rate</u>	<u>3-month forward middle rate</u>	<u>Forward discount in per cent per annum</u>
September 29	361.10	362.40	1.44
October 6	361.10	302.40	1.44
13	361.10	362.40	1.44
20	361.10	362.30	1.33
27	361.10	362.30	1.33
November 3	361.10	362.30	1.33
10	361.10	362.00	1.00
15	361.10	361.90	.89

Far Eastern Section.

III. Eight Charts on Financial Markets Abroad

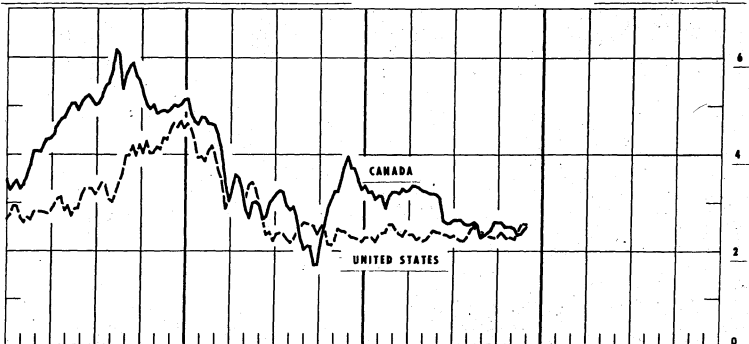
- Chart 1 - Interest Arbitrage U.S./Canada
- Chart 2 - Interest Arbitrage New York/London
- Chart 3 - Interest Arbitrage New York/Frankfurt
- Chart 4 - Short-term Bond Yields
- Chart 5 - Long-term Yields
- Chart 6 - Industrial Stock Indices
- Chart 7 - Major Currencies in Terms of Spot
United States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

INTEREST ARBITRAGE, UNITED STATES / CANADA

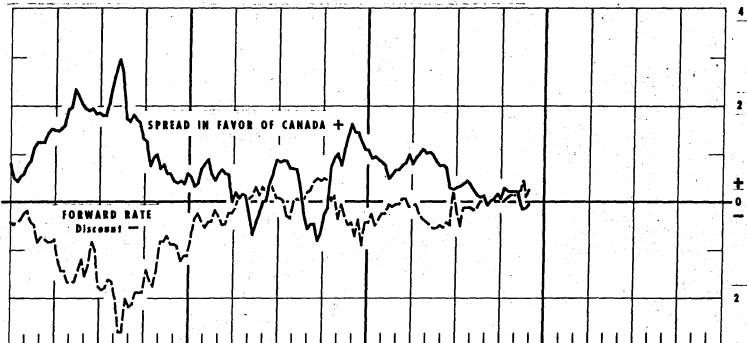
Thursday figures

THREE-MONTH TREASURY BILL RATES

Per cent per annum



RATE DIFFERENTIAL AND FORWARD CANADIAN DOLLAR



RATE DIFFERENTIAL WITH FORWARD EXCHANGE COVER

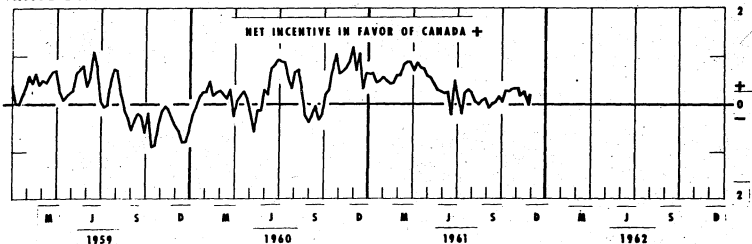
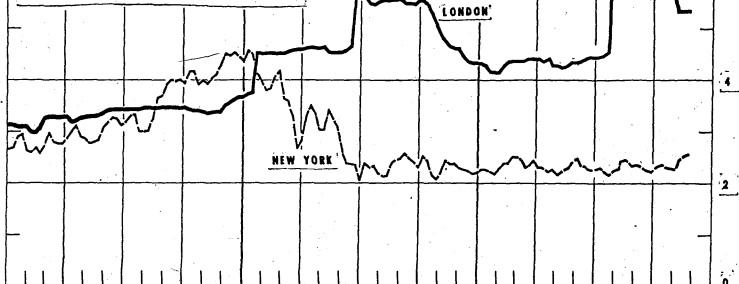


Chart 2'

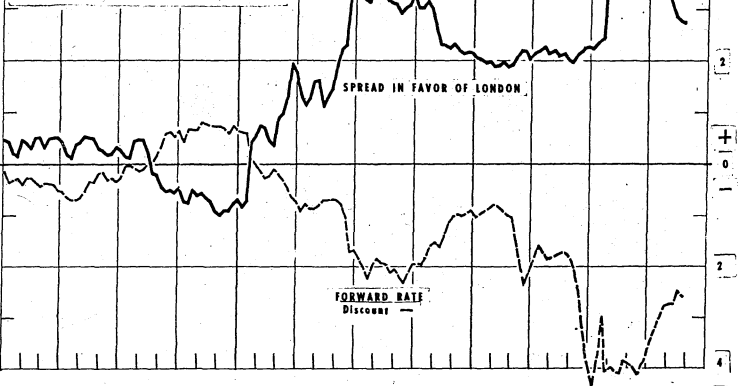
INTEREST ARBITRAGE, NEW YORK / LONDON

Friday figures

3-MONTH TREASURY BILL RATES



RATE DIFFERENTIAL AND
3-MONTH FORWARD STERLING



RATE DIFFERENTIAL WITH
FORWARD EXCHANGE COVER

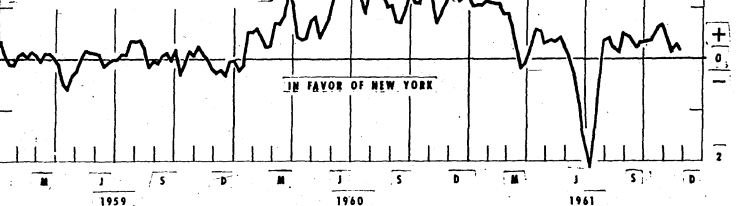


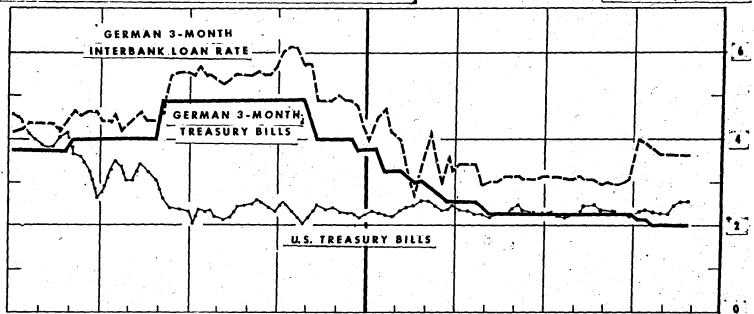
Chart 3

INTEREST ARBITRAGE FOR GERMAN COMMERCIAL BANKS

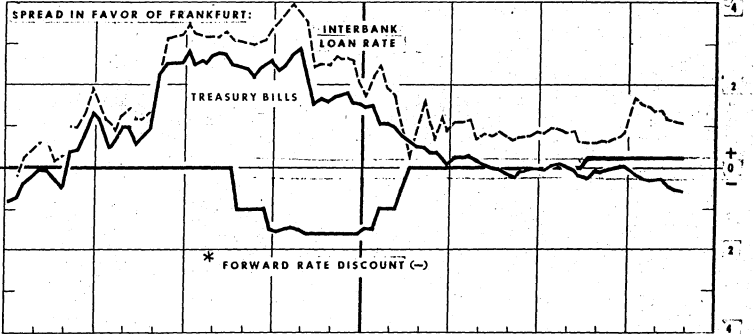
Friday figures

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

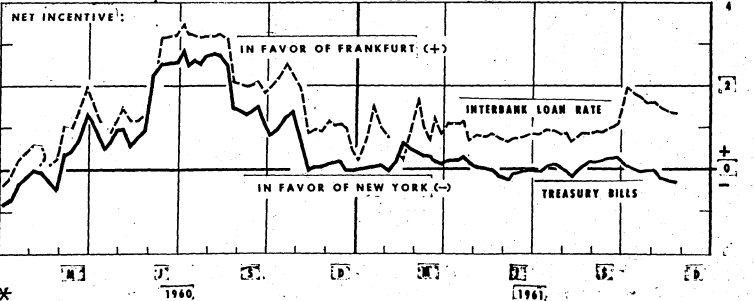
Per cent per annum



RATE DIFFERENTIAL AND FORWARD DEUTSCHE MARK



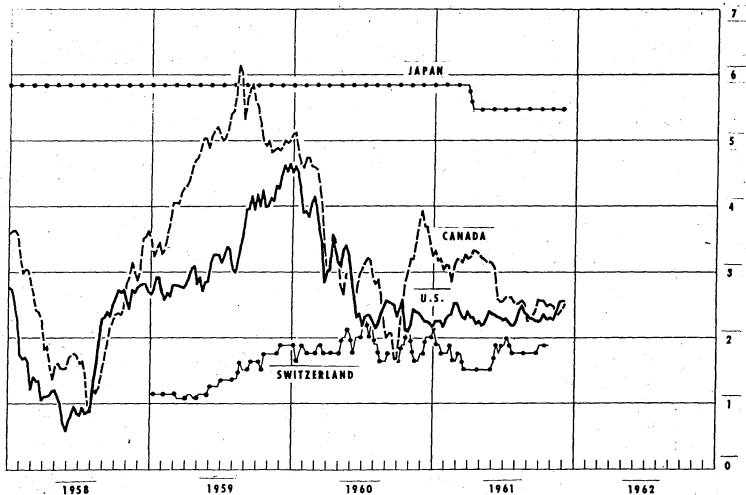
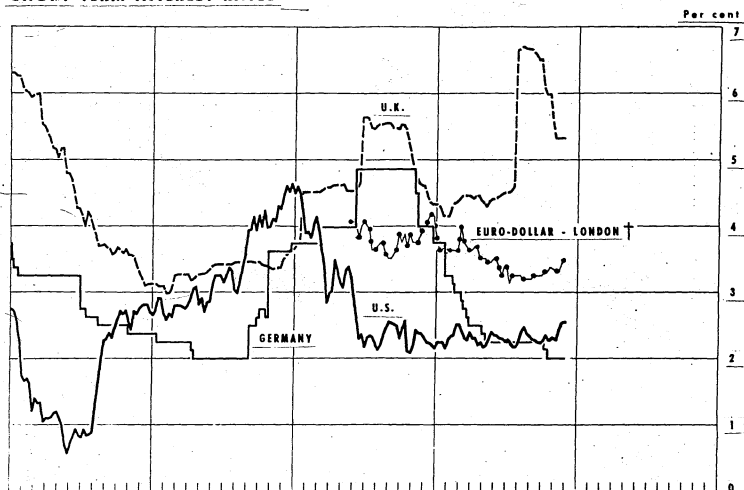
RATE DIFFERENTIAL WITH FORWARD EXCHANGE COVER



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

Chart 4

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.

LONG-TERM BOND YIELDS

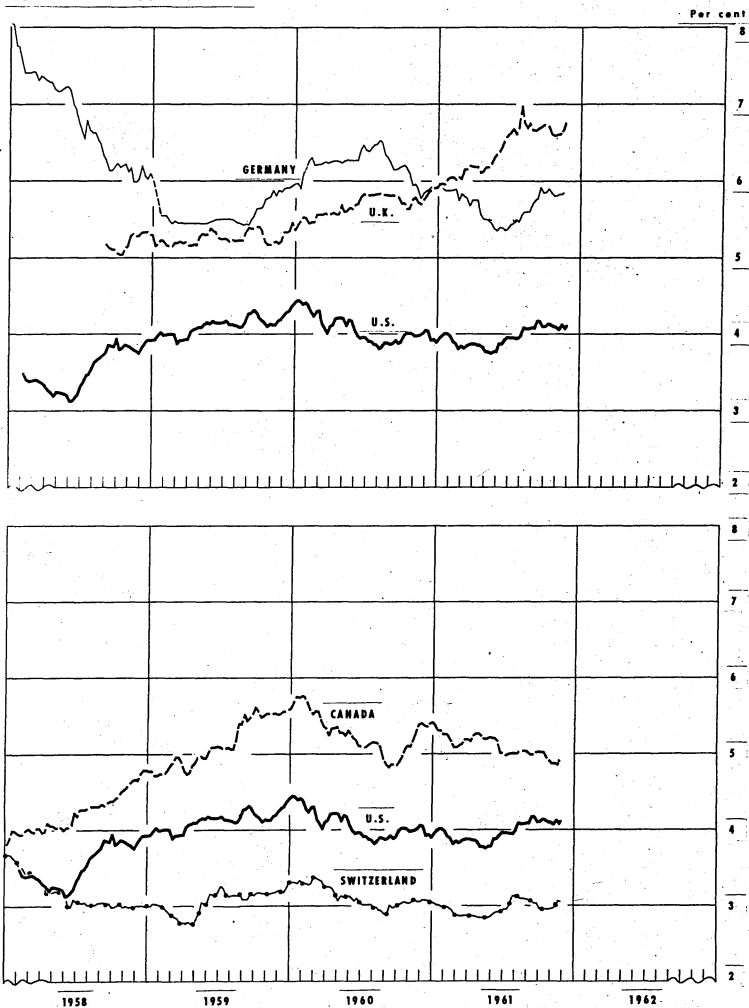
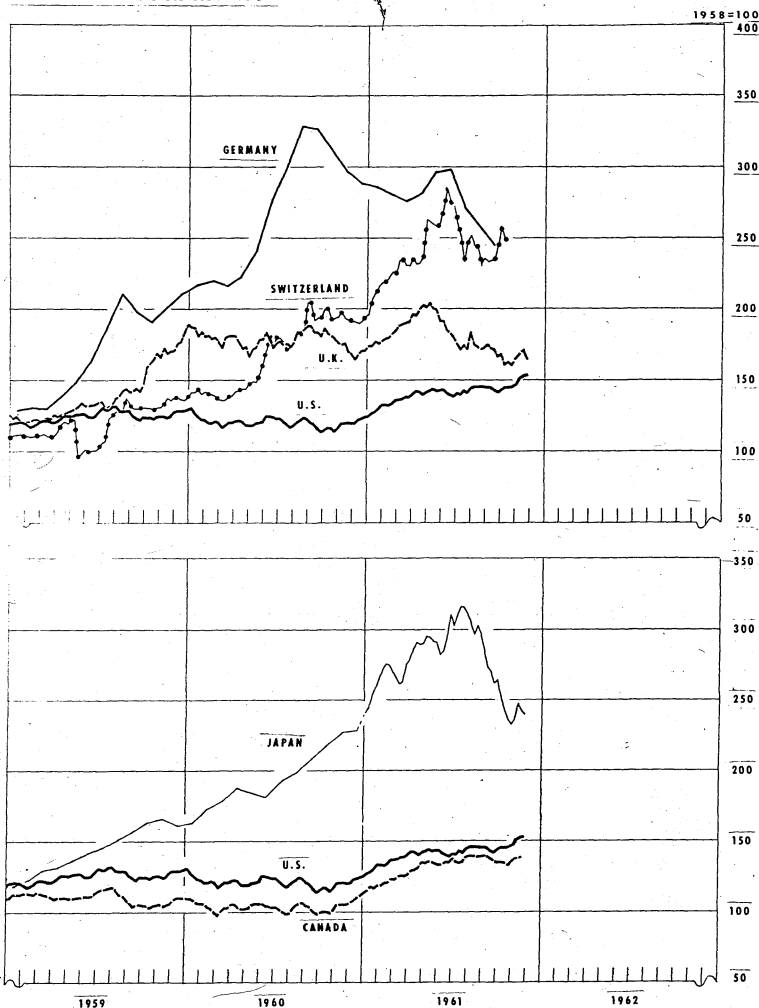


Chart 6

INDUSTRIAL STOCK INDICES*



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

Chart 7

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

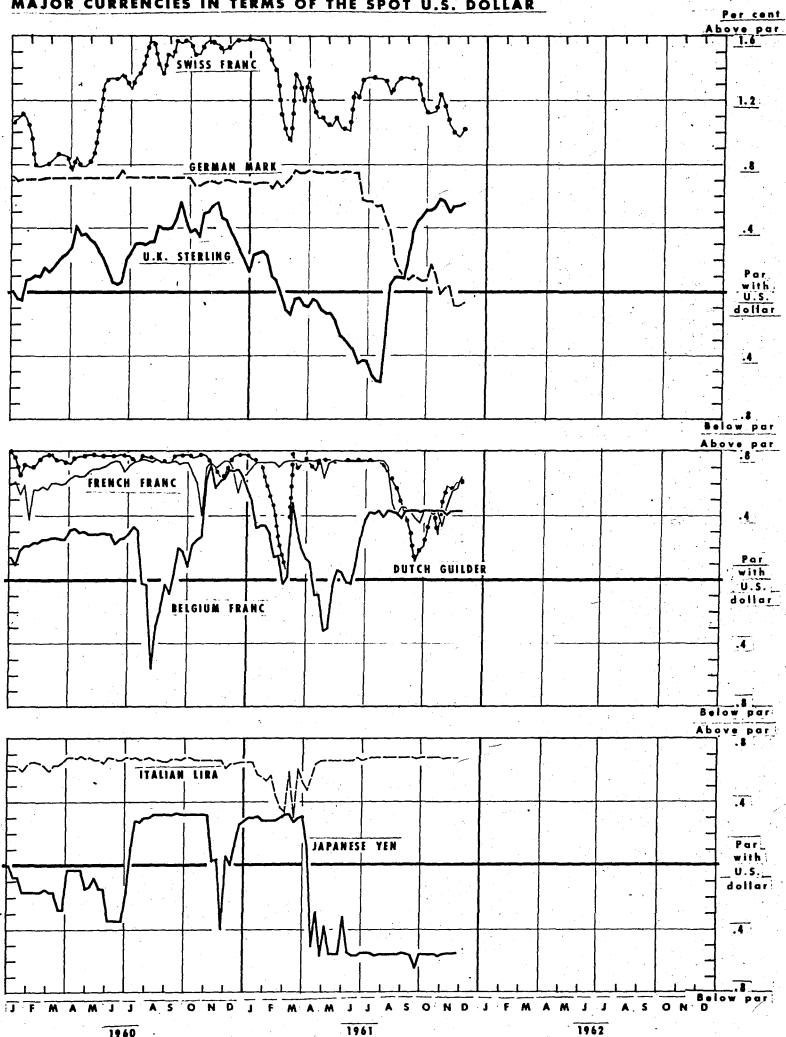


Chart 8

3-MONTH FORWARD RATES - LONDON QUOTATIONS

