DIVISION OF INTERNATIONAL FINANCE

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CAPITAL MARKET DEVELOPMENTS ABROAD

I. Switzerland
II. Eight Charts on Financial Markets Abroad

I. Switzerland: Money and Capital Markets during November

The money market tightened in November as many institutions began to accumulate cash for year-end "window-dressing" purposes. The demand for funds subsided in the second week of December, presumably as "window-dressing" preparations were completed.

The Swiss money market has been very liquid throughout most of 1961, mainly because of very large inflows of capital which, from the beginning of the year until mid-December, have been estimated at about $950 million. However, the freely-utilizable reserves of Swiss banks in December were not significantly different from what they were a year earlier, because the capital inflow has been offset by such developments as: a blocking of part of the banks' reserve gains last March; a Government budget surplus; a rise in the currency circulation; record exports of private long-term capital; and a deficit in the current-account balance of payments.

Long-term bond yields showed scarcely any net change between the end of October and mid-December. In November and early December, industrial stock prices registered a strong advance, and on December 8 the index was only 2 per cent below the mid-June record peak. There were declines in the two weeks ended December 23.

New issues continued at a high level in October. According to press reports, the Swiss Finance Ministry is fearful that continued heavy foreign loan issues may drive up mortgage rates, whereas the Swiss National Bank favors a liberal capital export policy in order to combat excessive liquidity. As a result, it is reported that the program for foreign issues for the first part of 1962 has not yet been agreed.

The Swiss National Bank's gold and foreign exchange reserves declined $36 million in November, the second consecutive month in which reserves showed a decrease. The drop was caused primarily by covered short-term foreign investments induced by operations in the Swiss forward exchange market for the account of the U.S. Treasury. Reserves rose $3 million in the first half of December. The spot dollar and spot sterling were strong in November but weakened in December, the dollar falling to the intervention point by mid-December. The discounts on three-month forward dollars and sterling rose in December, the discount on the forward dollar being 0.57 per cent at mid-month compared to around 0.3 per cent during November.

NOT FOR PUBLICATION

DECONTROLLED AFTER SIX MONTHS

Money Market

Primarily because of seasonal factors, the money market tightened in November. Notwithstanding the high degree of liquidity prevailing on the market, many institutions began to accumulate cash for year-end "window-dressing" purposes. As a result, rates paid on three-month deposits rose from 1.75-2.00 per cent at the end of October to 2.00-2.25 per cent in mid-November, and were reported to have reached 2.25-2.50 per cent in the first week of December. With the apparent completion of "window-dressing" preparations, the demand for funds subsided in the second week of December despite the economy's rising seasonal demand for currency.

	Rate on 3-month deposits with large banks in Zurich	Interbank call loan rate in Zurich
Aug. 31	1 1/2 - 2	1
Sept. 30	1 3/4 - 2	1
Oct. 31	1 3/4 - 2	1
Nov. 7	2	1
Nov. 15	2 - 2 1/4	1

The Swiss money market has been very liquid throughout most of 1961, mainly because of enormous inflows of short-term capital. The capital inflow for the year (through mid-December) has been placed at nearly $950 million, according to a recent press report. However, despite the heavy movement of funds to Switzerland, liquidity is not greater than it was a year ago. In early December, short-term interest rates were either the same or somewhat higher than at the same time in 1960, and freely-utilizable reserves of Swiss banks in mid-December were not significantly different from their level of a year previous. The effect of the capital inflow on bank reserves has been offset by several developments, of which the following are of particular importance.

1. Blocking of reserves. There was an especially heavy movement of funds to Switzerland immediately after the revaluations of the German and Dutch currencies last March. At the end of March the Swiss National Bank impounded most of the resulting increase in bank reserves by requiring the banks to place SF 1,035 million ($240 million) of reserves in temporarily blocked accounts, which could be used only for investments abroad. (None of these blocked funds have as yet been utilized for this purpose.)

2. Government surplus. In 1961, as in 1960, the Federal Government has run a substantial surplus. In the first nine months, fiscal receipts of the Federal Government exceeded expenditures by more than $100 million, and the Government's cash balances with the central bank have risen as a result.

3. Expansion of currency in circulation. The continued expansion of the Swiss economy has required an increase in the currency circulation, and this has been a drain on bank reserves. Currency in circulation in December was $200 million more than in December 1960.

4. Capital export. Foreign borrowing in Switzerland has been at record levels in 1961. In the first eleven months of the year, foreign borrowers raised $210 million from public bond flotations on the Swiss market, compared to $118 million in the same period of 1960. Foreign banking credits authorized by the Swiss National Bank in the first ten months of the year amounted to $75 million.

5. Current-account deficit. Switzerland ran a trade deficit of $565 million in the first ten months of 1961. The surplus on current invisibles ($214 million in the first half of the year) did not offset the trade gap, and for the full year 1961 a current-account deficit of around $230 million is expected.

Bond Market

In November and the first half of December the market for long-term bonds showed little departure from the supply-demand relationships which ruled at the end of October. The average yield on the Swiss Confederation 3 per cent bond of 1967-74 was generally between 2.96 and 3.01 per cent, except in the latter part of November when it briefly rose to 3.07 per cent. The yield was 2.98 per cent on December 15. In contrast to the wider variations which occurred earlier in the year, since mid-August the yield on this issue has fluctuated within a range of 2.94 to 3.07 per cent.

	Gov't bond yield	New mortgage rate
Jan. 6	3.00	3.76
May 12	2.83	3.76
July 14	3.12	3.76
Aug. 18	3.07	3.76
Oct. 27	2.96	3.76
Nov. 10	3.00	3.76
Nov. 17	3.07	n.a.
Nov. 24	3.06	n.a.
Dec. 1	3.01	n.a.
Dec. 15	2.98	n.a.

Yields on medium-term deposit certificates of cantonal banks showed another small rise in November. After declining throughout the first seven months of this year, yields on deposit certificates of these banks and on those of the five large banks have since tended to rise, and on November 15 were 3.34 and 3.27 per cent, respectively. As shown by the figures below, the yields have generally been somewhat higher on the certificates issued by the cantonal banks than on those of the five large banks (Swiss Bank Corporation, Union Bank of Switzerland, Crédit Suisse, Banque Populaire Suisse, and Leu et Cie).

	Yields on deposit certificates	
	12 cantonal banks	5 large banks
Jan. 15	3.33	3.34
Feb. 28	3.33	3.29
July 31	3.29	3.25
Aug. 31	3.30	3.25
Sept. 30	3.32	3.25
Oct. 31	3.33	3.27
Nov. 15	3.34	3.27

Stock Market

In the most persistent advance since last spring, prices of industrial stocks moved up sharply in November and early December. There was a 5.5 per cent rise in the industrial share index in the two weeks ended November 10 which was attributed to both an easing of tension over Berlin and favorable reports expected from Swiss companies. Further increases brought the industrial share index on December 11 to 280 (1958=100), only 2 per cent below the record high set in mid-June. There was a broad decline in stock prices in the two weeks ending December 23, which was considered to be a technical reaction to the previous increases.

	Industrial share index
June 16	285
Aug. 25	232
Oct. 27	255
Nov. 10	269
Nov. 24	272
Dec. 1	276
Dec. 8	280

New Issues

New money raised by public issues of securities continued to run at a high level in October, amounting to $61 million. Issues of Swiss bonds were particularly large, and, as was the case in the third quarter, were well in excess of the volume of flotations in the comparable period of 1960. Through October, new money raised this year from flotations of Swiss bonds, Swiss stocks and foreign bonds came to $491 million compared to $329 million in January-October 1960.

New Public Issues
(new money raised; $ millions)

	Swiss bonds	Swiss stocks	Foreign bonds	Total
1960				
1st qtr.	87.8	10.0	27.5	125.3
2nd qtr.	42.2	20.9	31.4	94.5
3rd qtr.	20.8	9.4	17.4	47.6
October	31.5	--	30.2	61.7

New Public Issues (cont.)

	Swiss bonds	Swiss stocks	Foreign bonds	Total
1961				
1st qtr.	71.9	42.9	77.7	192.5
2nd qtr.	52.7	20.3	46.6	119.6
3rd qtr.	58.9	3.7	55.9	118.6
October	38.3	1.2	20.9	60.7

New foreign issues are still being well received on the Swiss market, the last two having been oversubscribed. These were a $9.3 million, 4-1/2% loan in November raised by Electric and Musical Industries, a British firm, and, in early December, a flotation by the Republic of Austria of $11.6 million of 15-year 5% bonds.

Foreign borrowings in November-December

	Amount (mil. $)	Term	Coupon rate	Issue price	Yield to Maturity
November					
Electric and Musical Industries (UK)	9.3	1966-76	4.5	100	4.5
December					
Republic of Austria	11.6	1976 1/	5.0	100	5.0

1/ Call date, if any, not yet reported.

The German electro-engineering firm Siemens-Schuckert had planned to raise a $13.9 million loan in Switzerland, but this plan has been canceled. A Swiss newspaper has said that certain circles in the Swiss machine industry exerted strong pressure on the government in order to stop a foreign competitor from obtaining funds on the Swiss market. However, The Times of London gives, as the reason for the cancellation, the opposition of the Ministry of Finance. According to this source, the Ministry of Finance fears that a policy of "unlimited foreign loans" may result in a rise in domestic mortgage rates in the near future. It is further reported that, in contrast to this view, the Swiss National Bank is very much in favor of a continuation of a liberal capital export policy for the purpose of counteracting the high degree of liquidity in the economy. According to The Times, as a consequence of this difference of opinion the program of foreign issues for the first part of 1962 has not yet been fixed.

Foreign Exchange

The gold and foreign exchange reserves of the Swiss National Bank declined $36 million in November, the second consecutive month in which reserves showed a decrease. Most of the November fall, viz. $28 million, occurred in the first week. As was reported in Capital Market Developments Abroad for December 1, this was caused primarily by covered short-term foreign investments induced by operations in the Swiss forward exchange market for the account of the U.S. Treasury. In the remaining weeks of the month, when reserves fell another $8 million, there were reported inflows from Germany, Latin America, the Middle East, Africa, and France. These inflows were said to have been more than offset by the trade deficit, commercial loans to foreigners, stock purchases in the United States and Canada by Swiss residents, and covered short-term investments abroad of the kind just mentioned. In the first half of December, reserves rose only $3 million.

On December 15 the National Bank's external reserves were $2,705 million, $75 million less than the record level of $2,780 reached on September 23. Much of the decline between these two dates is attributable to the short-term investments abroad induced by the operations in support of the forward dollar. The most significant fact, of course, is that there was no large net inflow of foreign exchange as had occurred almost continuously from the middle of 1960.

Swiss National Bank reserves
($ millions)

	Gold	Foreign Exchange	Total
1959			
December 31	1,934	126	2,060
1960			
June 30	1,774	132	1,905
Dec. 31	2,185	137	2,322
1961			
Feb. 28	2,162	138	2,300
Mar. 31	2,165	372	2,538
Sept.23	2,453	327	2,780
Oct. 31	2,525	214	2,739
Nov. 7	2,506	204	2,709
Nov. 30	2,506	196	2,702
Dec. 15	2,506	200	2,705

Both the spot dollar and spot sterling were strong throughout most of November, the dollar rate being generally SF 4.32-4.325 and the rate for sterling SF 12.16-12.17. Beginning in the closing days of November the dollar weakened progressively, and was at the official support level of 4.315 on December 15. Spot sterling dropped sharply at the end of November, and in the first half of December the rate was around SF 12.12. The discount on the 3-month dollar in November was 0.3 per cent per annum, the level to which it had fallen at the end of October, but in early December it rose to 0.7 per cent and was 0.57 per cent at mid-month. On 3-month sterling, the discount fell to 2.9 per cent per annum in the middle of November but subsequently rose to 3.36 per cent at the end of the month.

Both houses of the Swiss Parliament have approved unanimously the October agreement under which the Swiss Government will lend SF 215 million ($50 million) to the United Kingdom. The proceeds will become available on January 1, 1962. The loan, which is for three years, constitutes a funding of the unpaid balance of Switzerland's assistance to the UK last March under the "Basle agreements."

An agreement between Switzerland and Chile will enable a consortium of Swiss banks to extend to the Central Bank of Chile up to $4.7 million of credits with a maximum maturity of ten years. The credits are to be used to purchase Swiss capital goods for the rehabilitation of the Chilean economy, which suffered severe earthquake damage in 1960.

European Section

II. 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

Chart 1

INTEREST ARBITRAGE, UNITED STATES / CANADA

Thursday figures

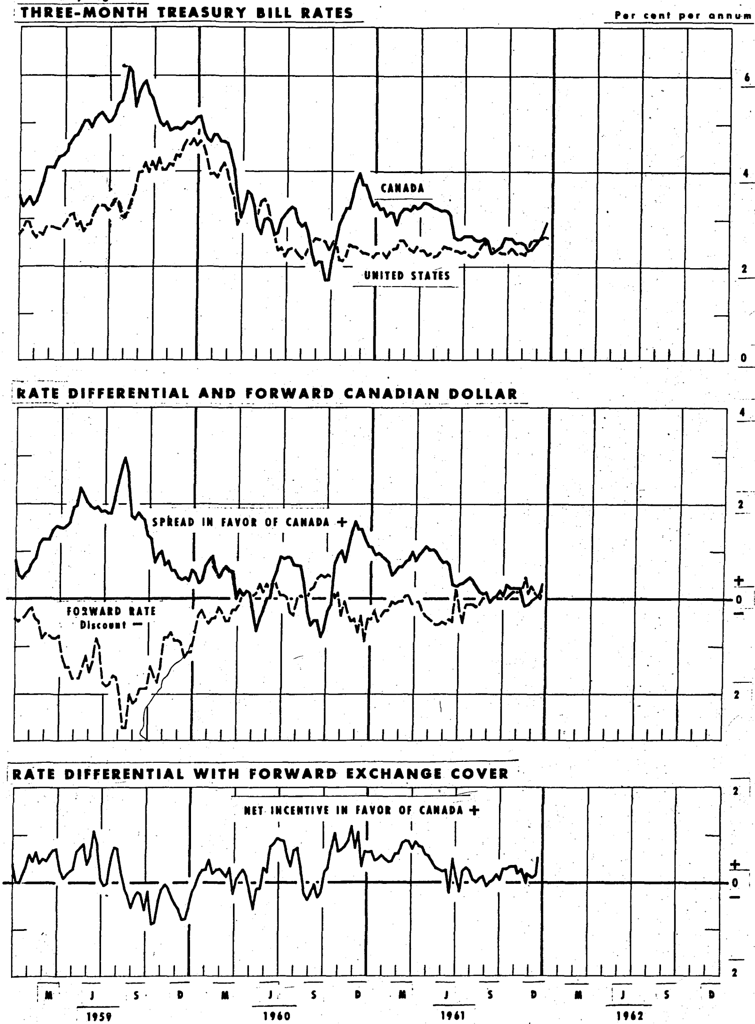

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Chart 2

INTEREST ARBITRAGE, NEW YORK/LONDON

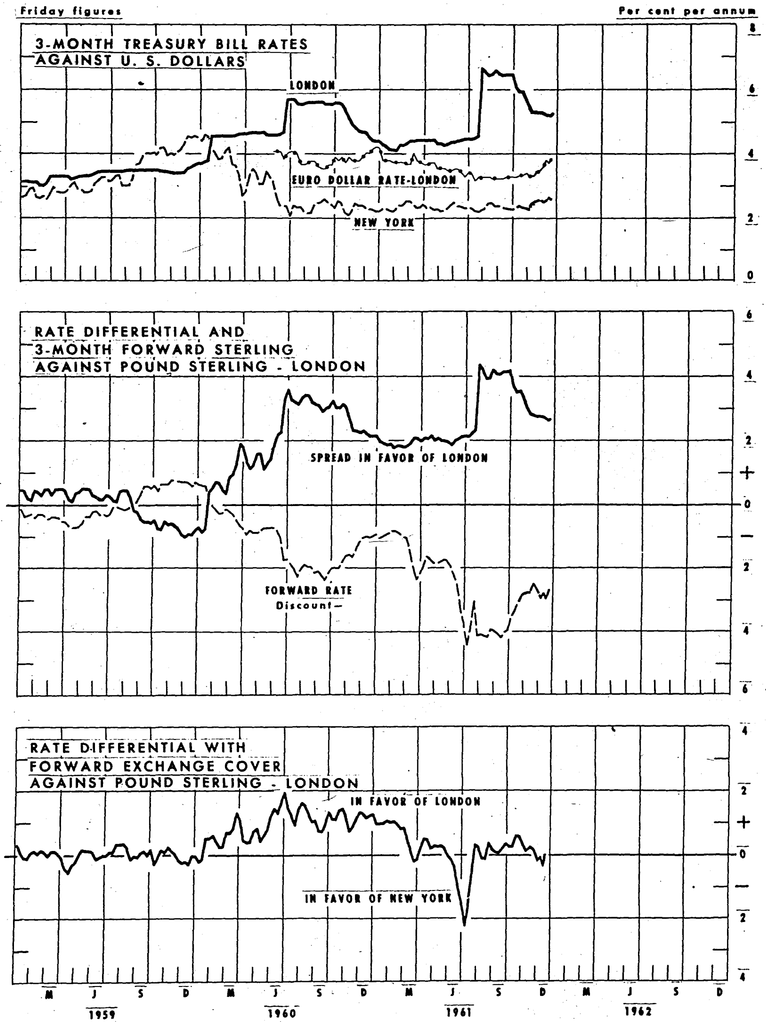


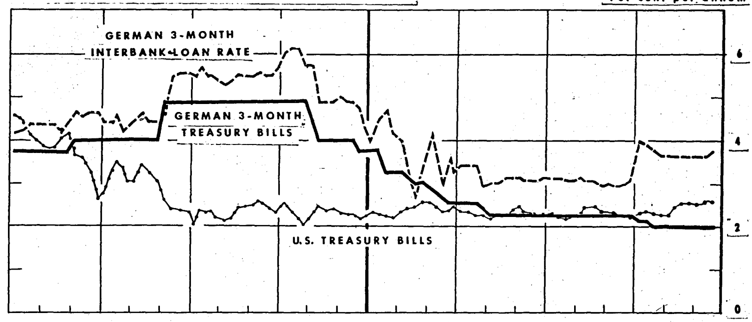
Chart 3

INTEREST ARBITRAGE FOR GERMAN COMMERCIAL BANKS

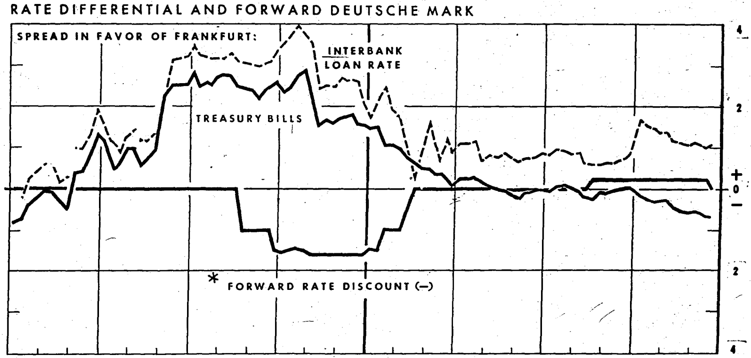
Friday figures

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

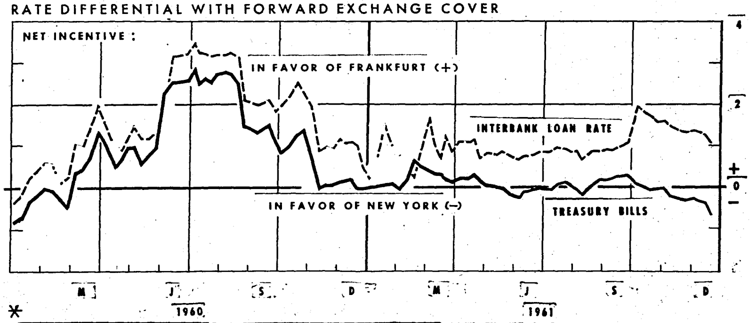
Per cent per annum



RATE DIFFERENTIAL AND FORWARD DEUTSCHE MARK



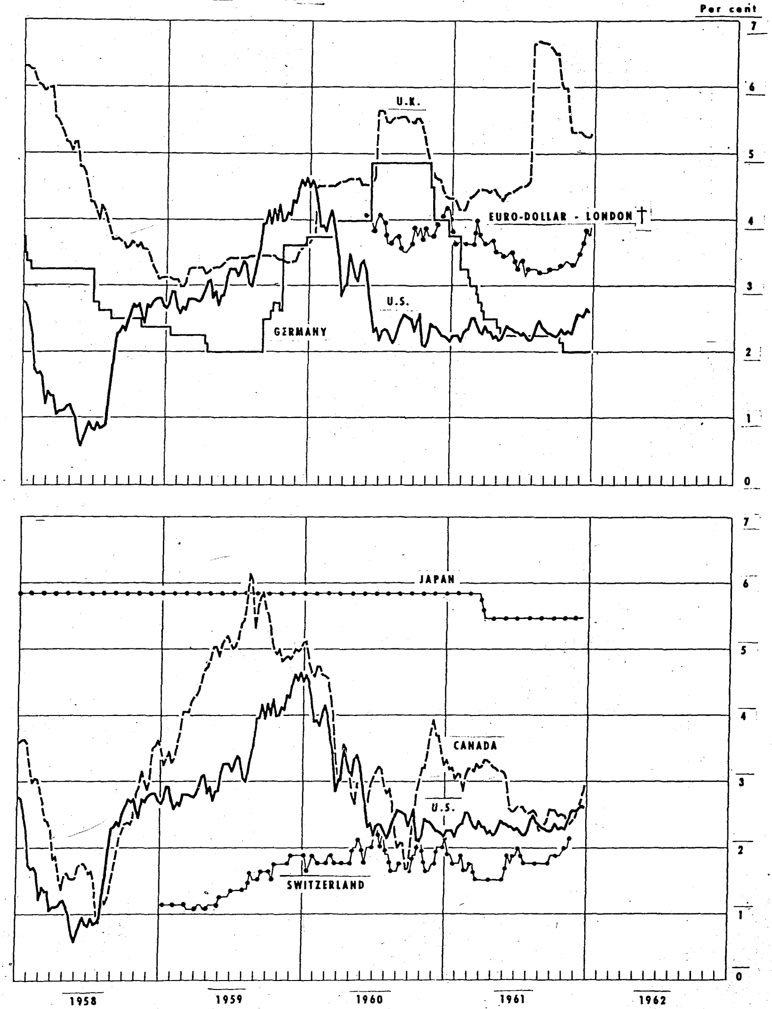
RATE DIFFERENTIAL WITH FORWARD EXCHANGE COVER



* 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.

Chart 5

LONG-TERM BOND YIELDS

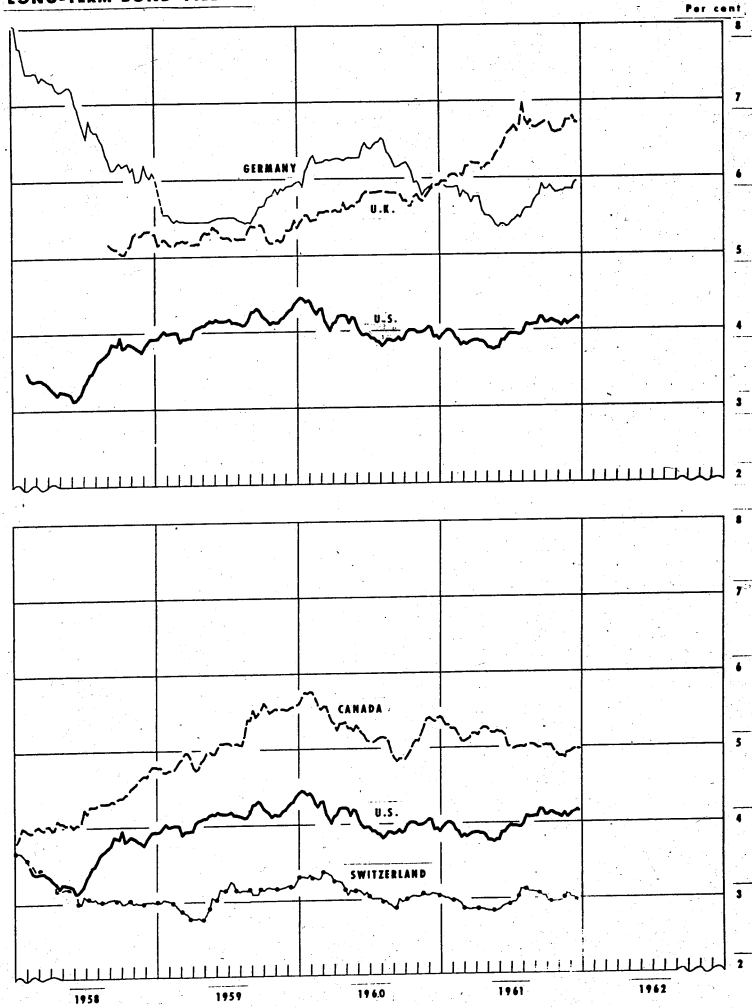


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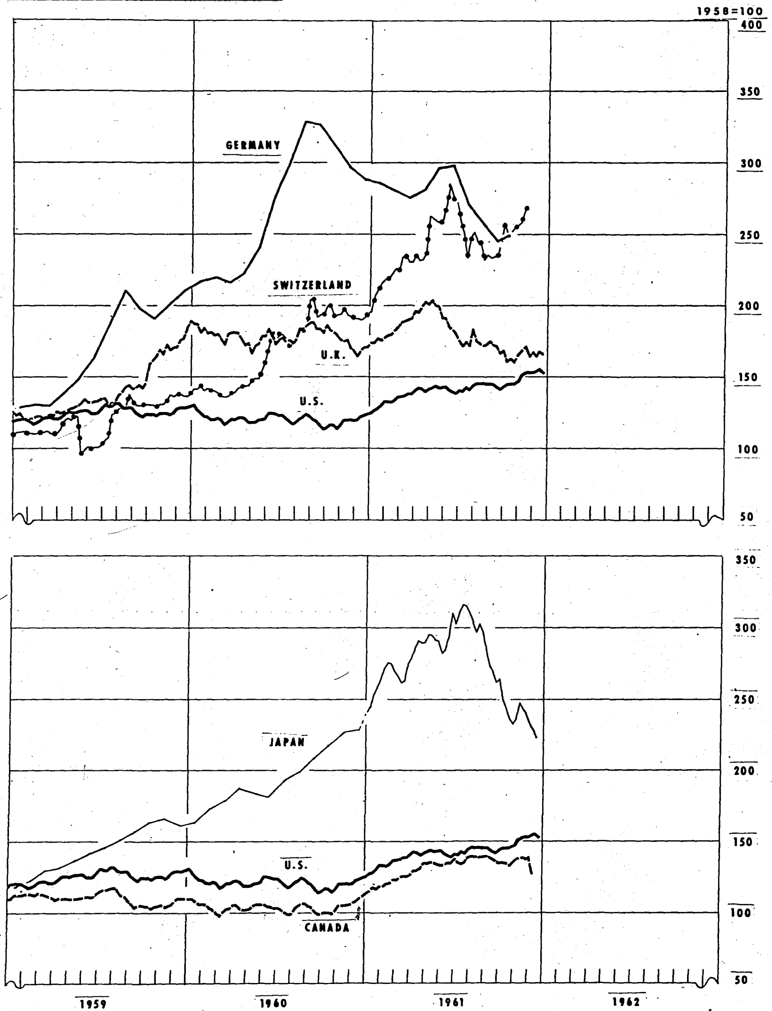
Chart 6

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

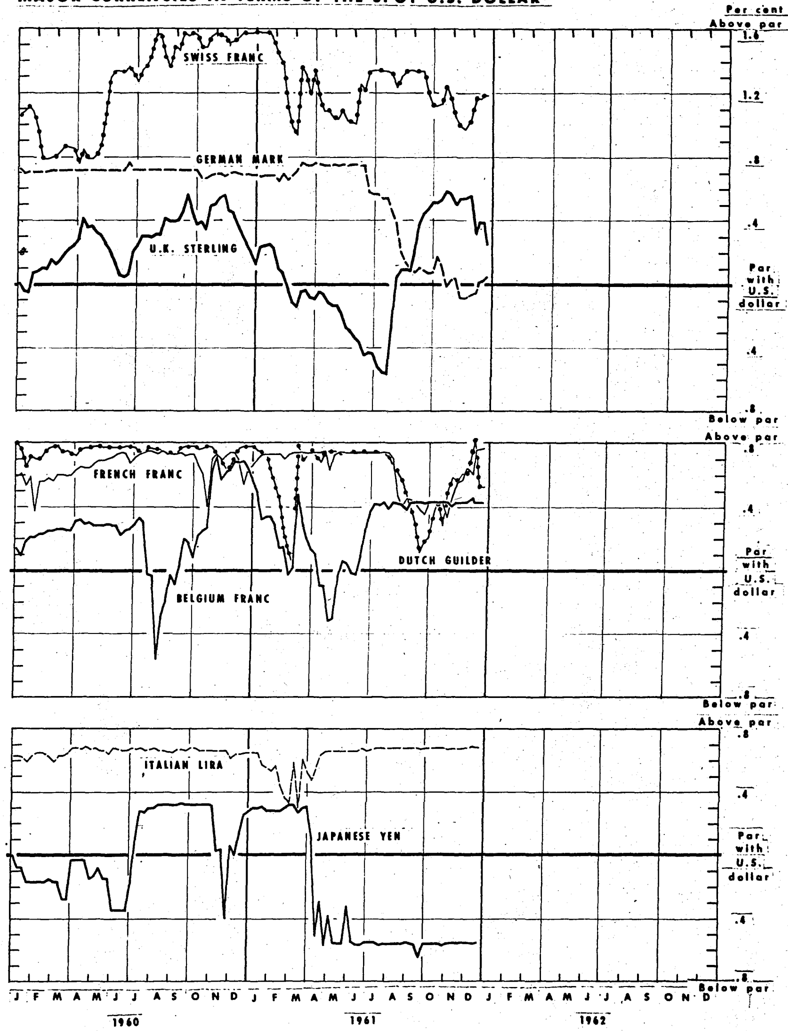


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Chart 8

3-MONTH FORWARD RATE