

H. 13
No. 45

February 2, 1962

CAPITAL MARKET DEVELOPMENTS ABROAD

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

I. Switzerland: Money and Capital Markets in December

The money market was tight in December because of seasonal requirements for currency and window-dressing. Banks increased their borrowing from the National Bank, and swapped government securities and foreign exchange for cash from the National Bank. By mid-January money market conditions had returned to normal.

In December and January, long-term bond yields showed very small fluctuations. Industrial stock prices stopped rising in early December, and declined rather sharply in early January. New public security issues in 1961 were 43 per cent greater than in 1960 (see Table). Domestic issues showed a 29 per cent increase, and foreign issues, totaling \$223 million in 1961, were up 72 per cent over 1960. An IERD public loan issue in the Swiss market in January was only barely subscribed, indicating that in 1962 foreign borrowers may have to offer more attractive terms than in 1961.

In reflection of window-dressing operations, the National Bank's gold and foreign exchange reserves rose \$56 million in December, and fell \$68 million in the first half of January. At the end of December the Swiss Government loaned the equivalent of \$50 million to the United Kingdom.

The reduction in the premium on the forward Swiss franc shifted the incentive for Swiss residents to buy U.S. Treasury bills from -0.45 per cent on December 1 to a +0.08 per cent on January 5 (see Table). Thereafter the forward premium increased and the incentive was -0.34 per cent on January 26. The price of gold coins in Switzerland rose from SF 36.50 on December 1 to SF 37.00 on December 29 and to SF 37.25 on January 26 (see Table).

In a speech in December, Dr. Walter Schwegler, President of the Swiss National Bank, stated that boom conditions were causing an increasing strain on the Swiss economy. He asked that employers and employees work together to put an end to what he termed the "spiral of prices, costs, and wages." In the year ending last November, the Swiss cost-of-living index was up 2.8 per cent and the wholesale price index 2.0 per cent.

Money market. The money market was tight in December, when there was a heavy demand for cash to meet the seasonal requirements for both currency and window-dressing. To obtain liquid funds, the banks increased

NOT FOR PUBLICATION**DECONTROLLED AFTER SIX MONTHS**

their recourse to National Bank credit, via discounts and Lombard loans, by \$15 million in December, and just before the year-end they swapped with the National Bank, for cash, \$25 million of "sterilization rescriptions" (short-term securities) of the Federal Government.^{1/} Repatriation of funds from abroad for window-dressing purposes led to dealings in exceptional volume between the banks and the Swiss National Bank, especially in the closing days of the month; in the last week of December short-term swaps of dollars against francs, to be reversed soon after the turn of the year, reached \$65 million. Because short-term money rates had already risen in November when preparations for the year-end were begun, they did not undergo any further significant change in December despite the tight position (see Chart 5). New 3-month deposits generally brought 2-1/4 per cent and call money 1-1/4 per cent in late December.

By the middle of January, money market conditions had returned to a more normal state. The banks reduced their borrowing from the National Bank by \$12 million in the first two weeks of the month, and liquidated the short-term swaps transactions involving "sterilization rescriptions" and foreign exchange. Rates paid on 3-month deposits dropped to 2-1/8 per cent in early January.

Changes in the incentives for Swiss and for non-Swiss investors to hold U.S. Treasury bills during December and January are shown in the table at the end of this report. These calculations show a shift from a minus incentive for Swiss investors on December 1 to a small positive incentive on January 5 but an appreciable negative incentive reappeared later in January.

Bond market. The long-term bond market was seasonally quiet in December. The yield to maturity on the 3 per cent Swiss Confederation Bond of 1967-74 was 3.01 per cent on December 1, 3.00 per cent on December 29, 2.99 per cent on January 12, and 3.02 per cent on January 19 (see Chart 6 and Table). Yields in January 1962 were nearly identical with those prevailing a year earlier. The yields on medium-term deposit certificates, which have been rising since July, were unchanged in December, but moved up fractionally in early January (see Table).

New issues. New public issues of Swiss stocks and bonds and foreign bonds in December brought the total for the fourth quarter of 1961 to \$117 million in terms of new money raised, a level about equal to that for the second and third quarters (see Table). The fourth-quarter figure was not appreciably in excess of that for the same quarter of last year. However, for the full year 1961, new money raised came to \$548 million

^{1/} In October 1960 the Government sold to the banks SF 400 million (\$93 million) of these rescriptions in order to offset increased bank liquidity resulting from a heavy foreign exchange inflow that had begun in midsummer. The Government placed the proceeds in a special account with the National Bank, where it has kept the funds idle.

compared with \$382 million in 1960. Foreign issues of \$223 million in 1961 were up 72 per cent over 1962. The 24 foreign borrowers in 1961 comprised four governments (Australia, Argentina, Finland and Austria), two parastatal organizations in Italy, the Belgian National Railways, the IERD, and 15 industrial and commercial establishments in eleven countries of Western Europe and in the United States. The yields to maturity, given by the coupon rate and issue price, were 4-1/2 to 5 per cent on 20 issues. The IERD was able to borrow at 4 per cent, while the Argentine Government paid 7-1/4 per cent. The expansion of borrowings by Common Market countries during 1961 can be seen in the following figures (in millions of U.S. dollars of new money raised):

	<u>1960</u>	<u>1961</u>
Europe		
Common Market countries	3.2	80.8
U.K.	25.6	37.2
Other Europe	<u>23.3</u>	<u>47.0</u>
	52.1	165.0
U.S.	22.1	13.9
All other countries	27.8	21.0
IERD	27.9	23.3
Totals	129.8	223.3

For the year, new domestic issues totaled \$325 million, 29 per cent more than in 1960, with stock issues showing a greater percentage increase than issues of bonds. For both domestic and foreign issues, by far the heaviest monthly volume of flotations was in March, when total new issues amounted to \$126 million compared with an average of \$46 million a month for the year as a whole. It appears that the Swiss authorities greatly speeded up approvals of new issues in March, in order to soak up increased liquidity arising out of the heavy inflow of funds from abroad in that month.

In December the \$11.6 million 5 per cent Austrian Government loan was oversubscribed. On December 1 the IERD repaid, one year in advance, \$11.6 million of 3-1/2 per cent bonds floated on the Swiss market in 1952, and on February 1 was due to prepay a 3-1/2 per cent 1963 loan, also in the amount of \$11.6 million. The prepayments added to the supply of loanable funds available for the new IERD issue of \$23.2 million of 4 per cent bonds which were offered for public subscription in Switzerland on January 5-11, and on which the settlement date was February 1. Press reports stated that this loan was not fully successful and that the underwriting banks had to take up part of the issue. However, it is reported by IERD officials that the underwriters were in fact able to dispose of the entire issue within a few days, and well before the end of the subscription period. This result, which contrasts with the more enthusiastic

reception of almost all foreign loans in 1961, may indicate that foreign issues in Switzerland in 1962 may have to be more attractively priced than last year.

Foreign Borrowings in December-January

	<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>December</u>					
Republic of Austria	11.6	1971-76	5.0	100	5.0
<u>January</u>					
IBRD	23.2	1970-73	4.0	100	4.0

The British press stated in mid-January that, while the Swiss authorities still had not yet determined the foreign issues program, it was likely that Bowater Paper of the United Kingdom would shortly float a public issue in Switzerland, amounting to \$13.95 million, at 4-1/2 per cent. The report speculated that other future borrowers would include Imperial Chemical Industries and Tube Investments, both of the United Kingdom; International Electric of New York; Sevillana de Electricidad of Spain; the Japanese Development Bank; and the Siemens Group in Germany. As was reported in "Capital Market Developments Abroad" for December 29, 1961, the Siemens loan, originally scheduled for late 1961, was put off, reportedly (according to British sources) because the Swiss Finance Minister feared that continued heavy foreign borrowing might drive up mortgage rates in Switzerland.

The Bank of Tokyo reports it will receive from a group of Swiss banks a loan of nearly \$7 million for imports of Swiss capital goods and royalties on Swiss industrial rights. It said the interest rate would be 5-1/2 per cent for 2- to 3-year loans and 5-3/4 per cent for 4- to 5-year loans.

On January 1 the Swiss Government made available to the IBRD the equivalent of \$11.6 million. This was the second tranche of the SF 100 million (\$23.6 million) loan which was negotiated between the Confederation and the IBRD in October; one-half of the proceeds had been made available last November 1.

Stock market. After rising for three and one-half months and nearly reattaining the peak of last June, industrial stock prices turned downward in early December (see Chart 7). Market analysts called this development a technical consolidation of the large gains made in the preceding months. Following a rally in late December, prices fell sharply in the week ended January 12, bringing the index down more than 3 per cent. The next two weeks showed only minor changes.

Foreign exchange reserves. There was a \$56 million rise in the Swiss National Bank's gold and foreign exchange reserves in December, almost entirely concentrated in the last half of the month. The increase was held down when the National Bank sold \$50 million to the Confederation in connection with the latter's 3-year Swiss franc loan to the United Kingdom, which funds the outstanding balance of Switzerland's assistance to the U.K. under the "Basle agreements" last March. The inflow of funds stemmed primarily, if not entirely, from the window-dressing activities of the banks, which in the last week of December engaged in very short-term swaps of dollars against francs with the National Bank amounting to \$65 million. Liquidation of these swaps caused the National Bank's reserves to decline \$68 million in the first half of January. The Bank's gold reserves rose \$55 million in the last week of December and fell by the same amount in the first week of January as a result of swaps of dollars against gold with the Bank For International Settlements.

Swiss National Bank Reserves
(\$ millions)

	<u>Gold</u>	<u>Foreign exchange</u>	<u>Total</u>
<u>1960</u>			
Dec. 31	2,185	137	2,322
<u>1961</u>			
Nov. 30	2,506	196	2,702
Dec. 23	2,505	229	2,734
Dec. 30	2,560	198	2,758
<u>1962</u>			
Jan. 7	2,505	186	2,691
Jan. 15	2,505	185	2,690

Foreign exchange. The spot dollar in Switzerland fell from slightly over SF 4.32 on November 29 to SF 4.315, the official support level, by mid-December. It strengthened somewhat in the closing days of the month, and in the first three weeks of January fluctuated between SF 4.317 and 4.320 (see Chart 8 and Table). The movements in spot sterling were similar, the rate falling from about SF 12.165 at the end of November to around SF 12.12 in the latter half of December and subsequently rising to 12.138 on January 20. The discount on the 3-month forward dollar, which had risen abruptly from 0.25 per cent per annum on November 24 to 0.60 per cent on December 1, declined again to 0.38 per cent on December 22, but by January 19 had climbed back up to 0.85 per cent (see Chart 9). The discount on 3-month forward sterling dropped from 3.36 per cent per annum at the end of November to 3.07 per cent on December 23, but later rose again and was 3.63 per cent on January 13.

The price of gold coin moved up from SF 36.50 on December 1 to SF 37.00 on December 29 and to SF 37.25 on January 26 (see Table).

Europe and British Commonwealth Section.

Switzerland: Money Rates, Exchange Rates, and Gold Price

Interest arbitrage for U.S. Treasury bill								
	U.S. Treas. bill yield	3-mo. Swiss franc	Incentive for non-Swiss resident	Swiss 3-mo. deposit rate	Incentive for Swiss resident	Spot \$ (in SF's)	Spot £ (in SF's)	Gold coin ^a (in SF's)
1961-Oct. 27	2.29	+0.28	2.01	1.88	0.13	4.322	12.169	
Nov. 3	2.28	+0.51	1.77	1.88	-0.11	4.321	12.159	36.75
10	2.47	+0.46	2.01	2.00	0.01	4.323	12.165	36.75
17	2.53	+0.32	2.21	2.13	0.08	4.324	12.173	36.25
24	2.55	+0.25	2.30	2.25	0.05	4.322	12.166	36.50
Dec. 1	2.53	+0.60	1.93	2.38	-0.45	4.317	12.139	36.50
8	2.57	+0.59	1.98	2.38	-0.40	4.316	12.131	36.75
15	2.63	+0.46	2.17	2.25	-0.08	4.315	12.125	36.75
22	2.60	+0.38	2.22	2.25	-0.03	4.315	12.110	36.75
29	2.67	+0.51	2.16	2.25	-0.09	4.316	12.118	37.00
1962-Jan. 5	2.74	+0.53	2.21	2.13	0.08	4.319	12.136	37.25
12	2.76	+0.76	2.00	2.13	-0.13	4.318	12.135	37.25
19	2.71	+0.85	1.86	2.13	-0.27	4.317	12.138	37.25
26	2.67	+0.88	1.79	2.13	-0.34	4.317	12.137	37.25

a/ "Vreneli" 20-franc piece containing approximately 0.1867 troy ounces of fine gold, or \$6.53 at \$35 per ounce.

Switzerland: Selected Capital Market Statistics

	Capital market yields			New issues				
	Long-term govt. bonds	Deposit cert's		(millions \$'s, monthly ave. or month)				
		12 cantonal banks	5 large banks	Swiss bonds	Swiss stocks	Fgn. bonds	Total	
1961				1960	17.3	3.8	10.8	31.8
High	3.12	3.34	3.34	1961	19.8	7.2	18.6	45.7
Low	2.83	3.29	3.25	Qtr. I	24.0	14.3	25.9	64.2
Nov. 24	3.06	3.34	3.27	II	17.6	6.8	15.5	39.9
Dec. 1	3.01	3.34	3.27	III	19.6	1.2	18.6	39.5
8	3.01	3.34	3.29	IV	18.2	6.6	14.3	39.1
15	2.98	3.34	3.27	May	13.0	12.6	17.0	42.6
22	3.00	3.34	3.27	June	23.3	2.7	18.0	44.0
29	3.00	3.34	3.27	July	17.7	2.2	42.0	61.9
1962				Aug.	7.4	0.9	7.0	15.3
Jan. 5	3.00	3.34	3.27	Sept.	33.7	0.6	7.0	41.3
12	2.99	3.35	3.29	Oct.	38.3	1.2	20.9	60.2
19	3.02	3.35	3.29	Nov.	14.1	2.1	10.5	26.6
26	2.98			Dec.	2.1	16.3	11.6	30.0

II. Japan: Money and Capital Markets During December

Money market conditions tightened in December and the drain in international reserves was further reduced. Bank liquidity was reduced by a sharp seasonal increase in notes in circulation and call loan rates rose to new highs. The rate of credit expansion continued to slacken through November, reflecting the government's monetary restraints imposed in earlier months. Trade data, adjusted seasonally, showed a substantial improvement in December, possibly marking a reversal in previously adverse trends. With the seasonally high exports in December and a further drawing of \$50 million on Japan's \$200 million line of credit with three American banks, international reserves fell only \$3 million in December to \$1,486 million. In October and November, reserves fell \$104 and \$17 million, respectively.

On January 19, 1962, Japan received approval from the IMF for a \$305 million stand-by credit. The Japanese anticipate that they will not have to draw on this credit in the near future.

Money Market. Money market conditions tightened in December as net Treasury outpayments and an expansion in Bank of Japan loans failed to offset a large seasonal expansion in note issue. Call loan rates, accordingly, rose to new highs. During December, bank note issue rose ¥13 billion and foreign exchange operations withdrew ¥19 billion from circulation; these developments, which reduced bank liquidity, were only partly offset by a ¥328 billion expansion in Bank of Japan loans and discounts to ¥1,438 billion, and a ¥148 billion net outpayment of Treasury funds.

Interest Rates. Reflecting the increases in the Bank of Japan's discount rate in July and September of 1961, the average interest rate on bank loans and discounts continued to rise through November. From a low of 7.88 per cent in June, the average rose to 8.17 per cent in November, the highest level since August 1960.

Average yields on bank, public corporation and government debentures were unchanged in December from the levels since May 1961. Yields on private industrial debentures rose to 7.511 per cent in December after having fallen steadily from the earlier high of 7.529 in July to 7.470 in November 1961. Local government bond yields dropped slightly from 7.344 in November to 7.340 per cent in December. The highest Tokyo call-loan rate for loans callable at a days notice rose from 15.70 per cent in November to 19.80 per cent in December.

Average Monthly Interest Rates on
Bank Loans and Discounts

	1958	1959	1960	1961
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	8.17 ^{1/}

^{1/} November.

Bank Loans and Discounts. Bank credit through November continued to expand less rapidly than a year earlier, thus continuing the slowdown first evident in July 1961. The main assets of commercial banks rose 2.7 per cent in October-November, compared to 3.8 per cent a year earlier. Loan expansion was only 1.7 per cent in October-November against 3.2 per cent in the same period of 1960. The rate of increase in bills discounted and security holdings was also less as indicated in the table below. Bank deposits, which rose 3.0 per cent in October-November of 1960, were up only 0.4 per cent in the same period of 1961. The proportion of bank loans and discounts extended for purchases of equipment remained in October and November at the level of 17.19 per cent. The equipment-loan ratio had been rising since June 1961.

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

	Deposits	Per cent change	M A I N A S S E T S				Per cent change	Per cent change
			Loans	Per cent change	Bills Discounted	Per cent change		
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
Oct-Nov.	+251	3.0	+165	3.2	+ 86	3.5	+ 95	6.8
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
Oct-Nov.	+ 41	0.4	+107	1.7	+ 93	3.1	+ 94	5.3

Bond Market. The volume of new monthly issues of bonds and debentures, which has been falling off since August 1961 when the level was ¥100 billion, was ¥92 billion in November. All of the decline has been due to a drop in the volume of new industrial debenture issues, which fell from ¥26 million in August to ¥13 billion in November. New monthly issues of bank debentures in September-November remained fairly constant at ¥62 billion, and new issues of public corporate debentures in November were ¥17 billion, about the same level as in August 1961.

Stock Market. Since the low of December 19, when the Dow Jones average was ¥1,258, the market has moved up substantially and on January 31, the average reached ¥1,511. This represents a rise of 20 per cent. The high earlier in the year in July was ¥1,830.

On December 5 the Tokyo Shibaura Electric Company registered with the U.S. Securities and Exchange Commission an offering of 30 million of its shares in the U.S. market in the form of American Depository Receipts. If approved, the issue is to be made in late January or early February. In June of 1961 the Sony Corporation registered and sold shares in the U.S. market under the A.D.R. system.

Dow Jones Average of 225 Stocks
Tokyo Stock Exchange

November 29	¥ 1,303	January 4	¥ 1,425	1960 High	¥ 1,357
December 6	1,318	10	1,435	Low	¥ 869
13	1,291	17	1,467		
20	1,282	24	1,505	1961 High	¥ 1,830
27	1,321	31	1,511	Low	¥ 1,258

Foreign Trade. In December, imports, seasonally adjusted, were off substantially from earlier high levels, and exports, also adjusted seasonally, moved up encouragingly to a new high. Although the trade deficit was sharply reduced, it still remained at a relatively high level. The improvement in the trade picture is the first clear sign of a possible reversal in adverse trade trends.

With this improvement in trade, the current account deficit, as measured on an exchange transactions basis, narrowed further in December to \$42 million compared to \$55 million in November. There was a net capital inflow of \$27 million, chiefly because the Japanese drew another \$50 million on the \$200 million line of credit from three American banks. Excluding the \$50 million drawing, there was a net outflow of short-term capital, probably because of year-end window dressing by foreign creditors.

The monthly averages of seasonally adjusted trade figures on a customs basis (in millions of dollars) are detailed below.

	<u>Exports</u>	<u>Imports</u>	<u>Trade Balance</u>
1960 Year	337	375	- 38
IV	353	395	- 42
1961 Year	354	486	-132
I	344	420	- 76
II	351	466	-115
III	359	511	-152
IV	360	547	-187
October	333	556	-223
November	362	567	-205
December	386	517	-131

Foreign Exchange. Except for three days at the end of December, exchange rates remained unchanged between mid-December and mid-January. The yen-dollar spot rate continued to remain at the official support point, unchanged since April 26, 1961. The forward discount of the yen against the dollar rose from .28 per cent per annum to .33 per cent on December 28-30, but returned to .28 per cent during the first half of January.

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

<u>Date</u>	<u>Yen-dollar spot middle rate</u>	<u>Three-month forward middle rate</u>	<u>Forward discount in per cent per annum</u>
November 24	361.10	361.90	.89
December 1	361.10	361.80	.76
8	361.10	361.80	.76
15	361.10	361.35	.28
22	361.10	361.35	.28
29	361.10	361.40	.33
January 5	361.10	361.35	.28
12	361.10	361.35	.28

Asia, Africa and Latin America Section.

III. Nine Charts on Financial Markets Abroad

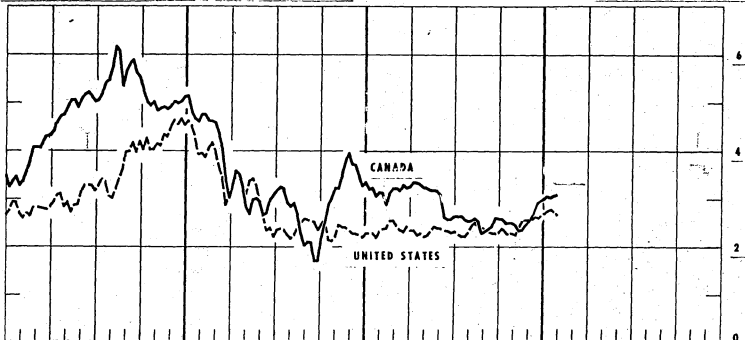
- Chart 1 - Interest Arbitrage U.S./Canada
- Chart 2 - Interest Arbitrage New York/London
- Chart 3 - Interest Arbitrage for German Commercial Banks
- Chart 4 - Interest Arbitrage, Frankfurt/London
- Chart 5 - Short-term Interest Rates
- Chart 6 - Long-term Bond Yields
- Chart 7 - Industrial Stock Indices
- Chart 8 - Spot Exchange Rates -- Major Currencies
Against U.S. Dollar
- Chart 9 - 3-month Forward Exchange Rates

INTEREST ARBITRAGE, UNITED STATES / CANADA

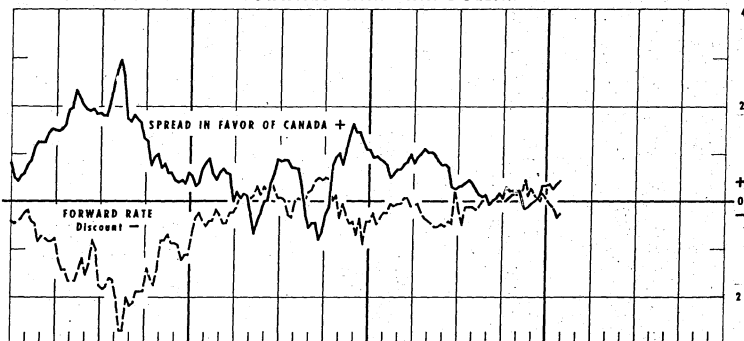
Thursday figures

THREE-MONTH TREASURY BILL RATES

Per cent per annum



RATE DIFFERENTIAL AND FORWARD CANADIAN DOLLAR



RATE DIFFERENTIAL WITH FORWARD EXCHANGE COVER

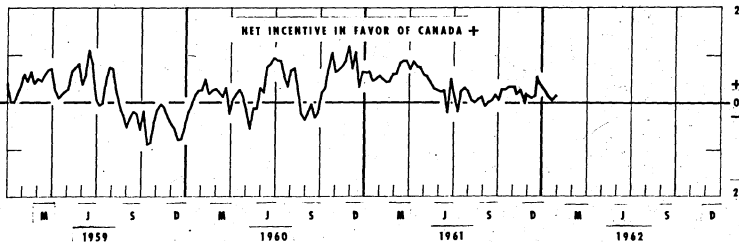


Chart 2

INTEREST ARBITRAGE, NEW YORK/LONDON

Friday figures

Per cent per annum

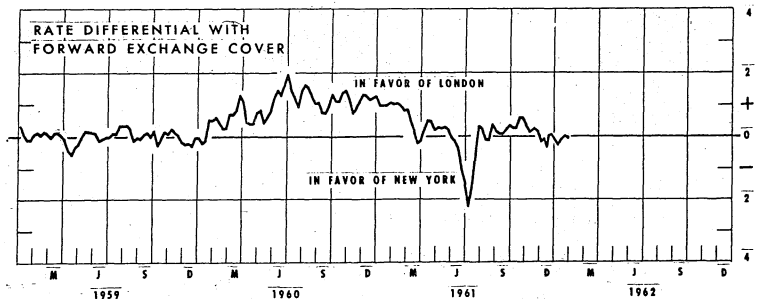
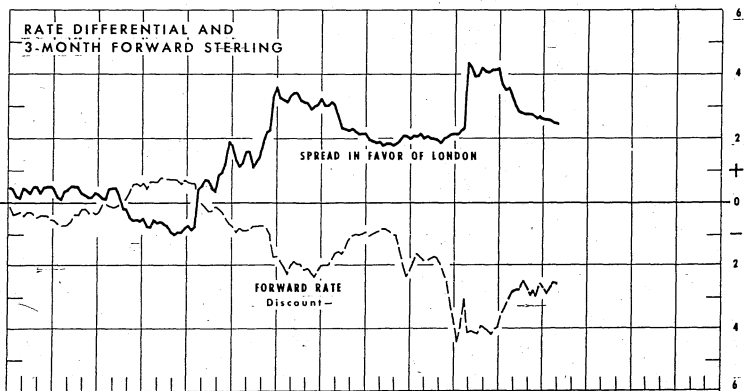
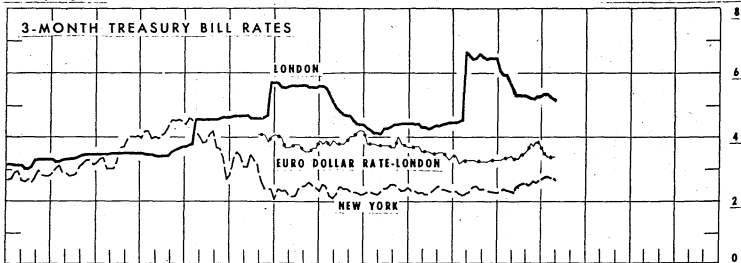
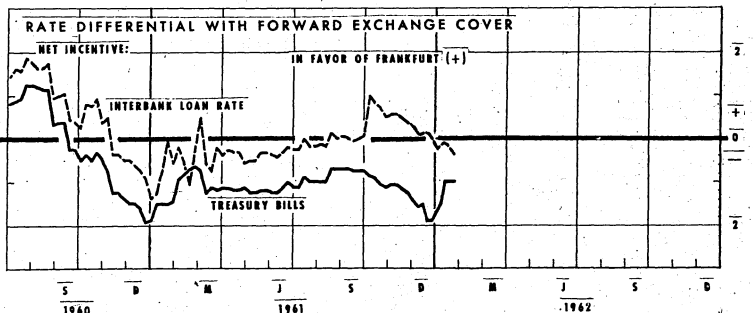
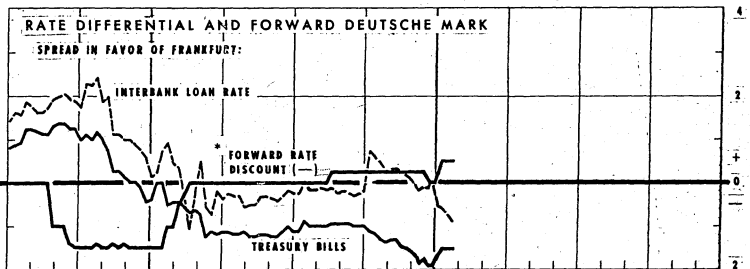
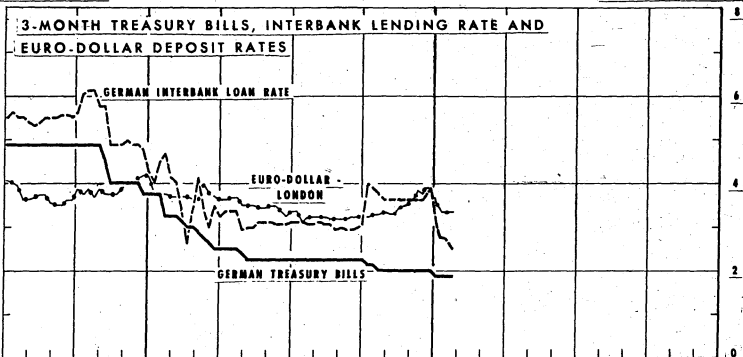


Chart 3

INTEREST ARBITRAGE FOR GERMAN COMMERCIAL BANKS

Friday figures

Per cent per annum



Note: Special forward rate available to German commercial banks.

Chart 4

INTEREST ARBITRAGE, FRANKFURT / LONDON

Friday figures

Per cent per annum

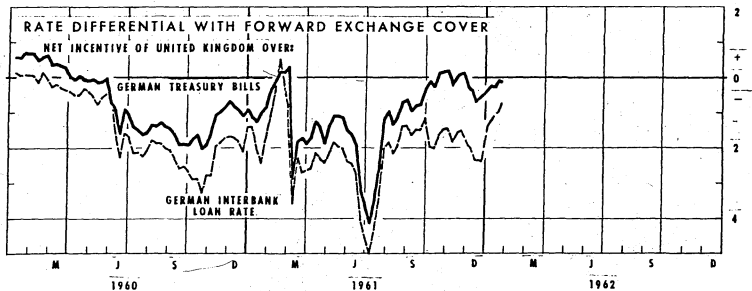
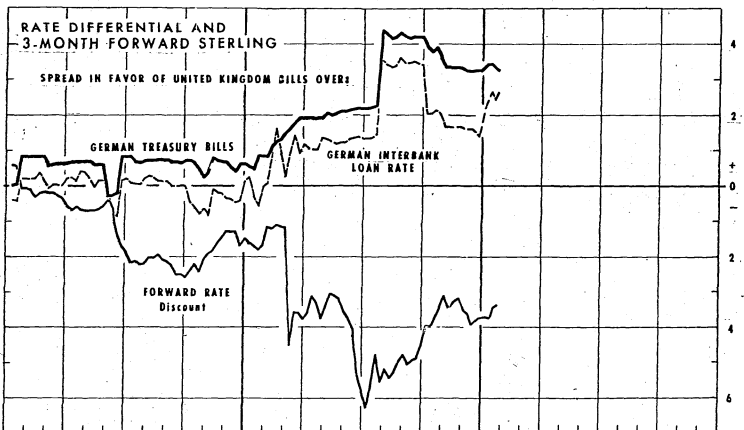
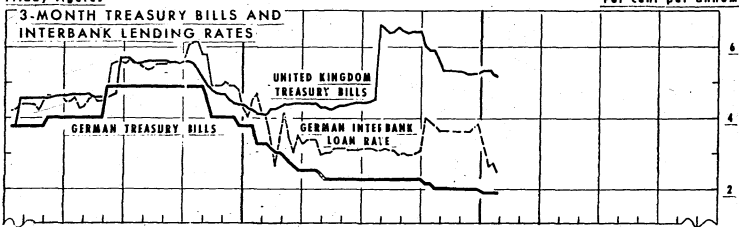
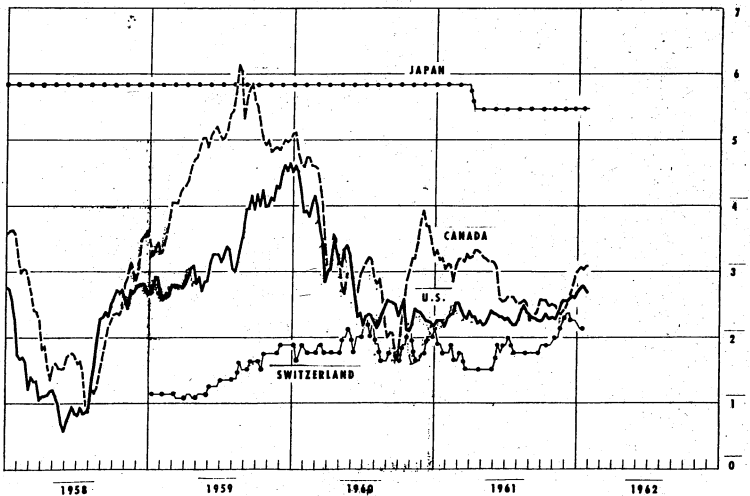
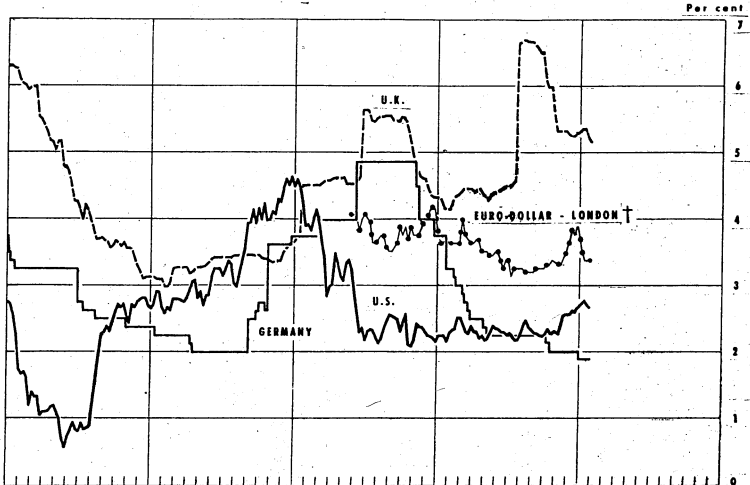


Chart 5
SHORT-TERM INTEREST RATES *



* 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 6

LONG-TERM BOND YIELDS

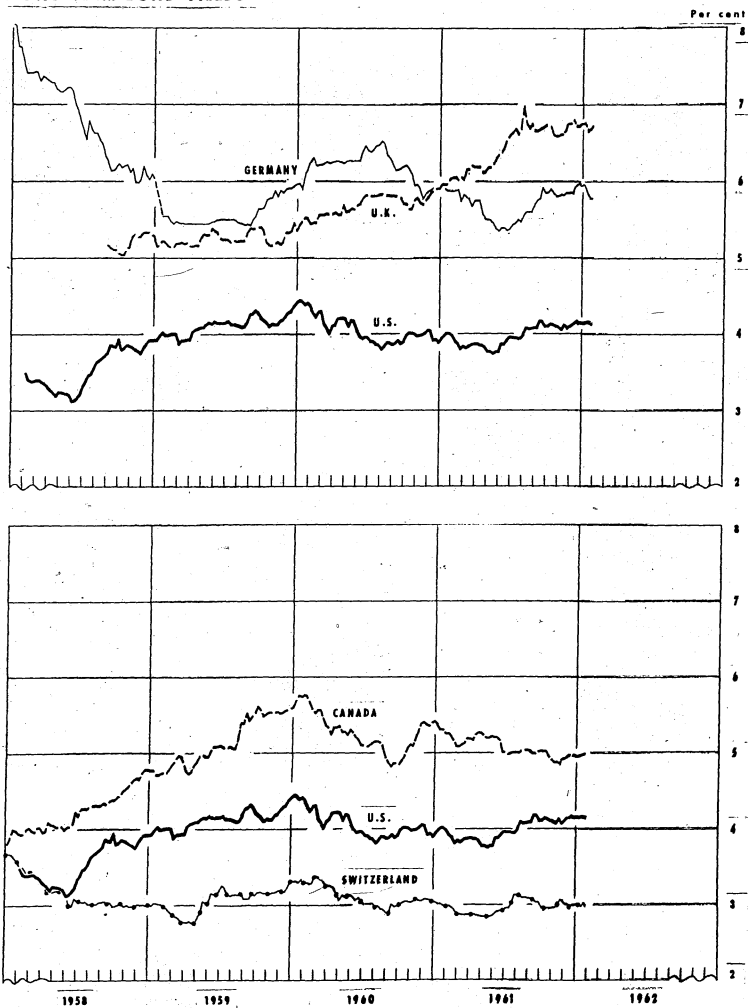
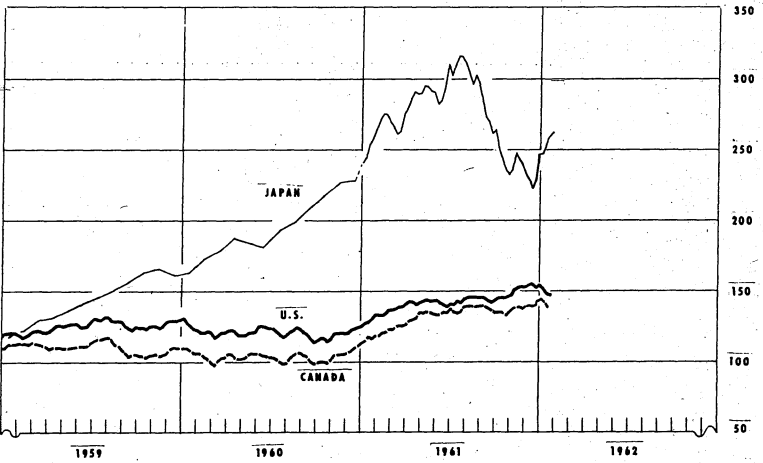
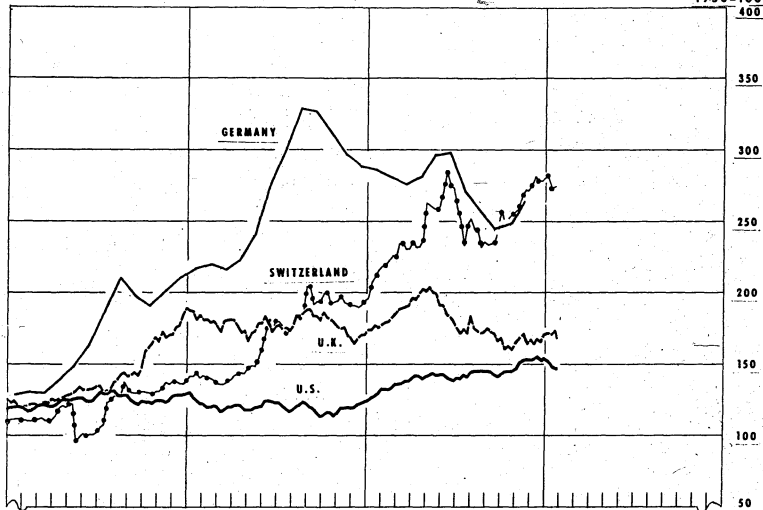


Chart 7

INDUSTRIAL STOCK INDICES*

1958=100



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

Chart 8

SPOT EXCHANGE RATES - MAJOR CURRENCIES AGAINST U.S. DOLLAR

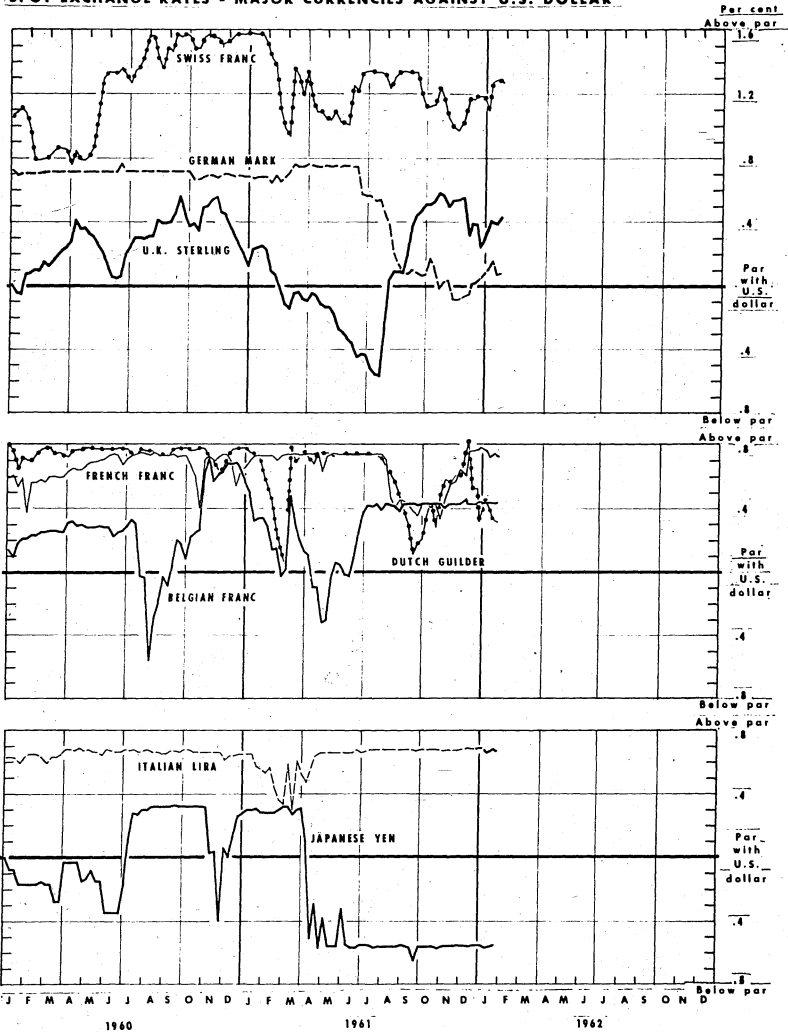


Chart 9

3-MONTH FORWARD EXCHANGE RATES

Per cent per annum

