DIVISION OF INTERNATIONAL FINANCE

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CAPITAL MARKET DEVELOPMENTS ABROAD

I. Switzerland
II. Nine Charts on Financial Markets Abroad

I. Switzerland: Money and Capital Markets, November 1962--January 1963

To meet heavy seasonal needs for currency and to window-dress year-end balance sheets, Swiss banks repatriated funds from abroad in the closing weeks of 1962 and concluded dollar-franc swaps over the year-end (reported at $255 million) with the Swiss National Bank and the Bank for International Settlements. As a result of cooperative arrangements between these latter two institutions, the year-end swaps were fully reflected in the $260 million rise in the Swiss National Bank's holdings of gold and foreign exchange in December. As liquidity needs contracted in January these swaps were unwound, but Swiss National Bank reserves fell only $217 million in January, about $38 million less than the reported total of swaps.

Seasonal needs and stronger demand for Swiss francs by Italian banks pushed up short-term money rates in November-December. But early in 1963 money rates fell approximately to their October levels. Yields on medium- and long-term funds showed little change in the period under review.

In November Swiss stock prices rebounded smartly and recovered almost all of the decline suffered in the preceding two months. Swiss industrial stocks are currently priced at about 32 per cent below their all-time high of last March, but Swiss stocks showed a yield of only 1.56 per cent at the end of November.

During 1962, new public issues of securities in Switzerland were 3.6 per cent greater than in 1961. While Swiss issues were up 20 per cent, the Swiss authorities allowed a much-reduced volume of foreign bond issues to come to market in order to ease pressures on long-term interest rates. The SF 655 million of foreign borrowings were distributed as follows (in millions of Swiss francs): World Bank, 100; British firms, 170; German firms, 130; the European Coal and Steel Community, 60; Denmark, 60; a U.S. firm, 60; and French, Austrian, and Italian firms 40, 25, and 10, respectively.

Concern over the "overheating" of the Swiss economy, and particularly the moderate but continuing upward movement of prices, led the authorities on December 31 to replace the "gentlemen's agreement" of last April 1 between the Swiss National Bank and Swiss commercial banks, to limit the expansion of bank credit during 1962, with a new one covering 1963. The new agreement is slightly more restrictive than its predecessor, but it too can scarcely be

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DECONTROLLED AFTER SIX MONTHS

called severe. Under its terms, mortgage credits cannot rise more than 108 per cent, and other types of bank credit more than 87 per cent, of the increase which occurred in 1960 or 1961, whichever was greater. These provisions appear to allow increases in 1963 (over end-1962 levels of credit outstanding) of approximately 8 per cent for mortgages and 15 per cent for other credits. According to The Economist of January 5, 1963, the Swiss National Bank wished to make the new terms more restrictive, but the banks were unwilling to do so as long as other sectors of the economy, such as the labor unions, do not collaborate more closely with the authorities in restraining inflation.

Since mid-December, representatives of the Swiss Federal Council have been holding consultations with employers associations, labor, and agriculture concerning "excessive expansion" and inflation. The Economics Minister has, inter alia, asked entrepreneurs to limit manpower demands to existing levels, and has appealed to the unions to renounce demands for cuts in working hours. However, the annual labor contracts signed on January 23, 1963 covering the engineering, metal, and watchmaking industries (which employ 20 per cent of organized labor and "set the pace" on wage trends) provided for a reduction in the work week from 45 to 44 hours effective May 1, as well as for wage increases.

Money market. The year-end liquidity requirements of the Swiss banking system gave rise in November and December to what the Swiss National Bank termed "a massive creation of francs". Part of the banks' need for funds was to meet the currency drain, the note circulation rising by SF 1,060 million Swiss francs or 14 per cent between November 15 and December 22. The rise was nearly SF 200 million larger than in the same period of 1961. In addition, the Swiss banks engaged in the customary practice of "dressing up" their year-end balance sheets to show large holdings of liquid francs. To this end, sight balances with the Swiss National Bank were increased SF 300 million or 28 per cent between December 15 and December 31 to a year-end level of SF 2,294 million.

In addition to these seasonal factors, Italian banks borrowed more heavily on the Swiss money market in November-December. Effective November 1, Italian banks were allowed to borrow foreign exchange abroad to make foreign-currency loans to Italian customers. This change in regulations caused a large increase in the Italian banks' demand for foreign funds, including Swiss francs.

Preparations for the year-end began in early November. To satisfy the bulk of these franc requirements, the large banks in Switzerland -- and a very few cantonal banks which held foreign exchange -- repatriated foreign balances on a heavy scale. Some of this exchange was sold on the market, but large amounts (apparently a high proportion) were swapped for francs with the Swiss National Bank and the Bank for International Settlements for periods extending over the year-end. According to the Neue Zuercher Zeitung for January 12, 1963, these swaps aggregated SF 1,100 million ($255 million), and were generally for longer than the usual periods. These swaps are described in more detail on page 7.

In addition, Swiss banks (including small banks) increased their rediscounts and advances from the Swiss National Bank by SF 120 million in November and December, of which SF 84 million occurred in the final week of December. The sale of $30 million to the U.S. Treasury in December was a third source of additional francs for some banks. These dollars had been purchased by certain Swiss banks in late October, and sold forward to the U.S. Treasury at that time.

Short-term money rates rose over the year-end period. The call loan rate, which had remained at 1-1/4 per cent for 10 months, drifted up to 1-1/2 per cent in early November and to between 1-3/4 and 2 per cent in the last three weeks of December. Three-month deposit rates rose from 2-3/4 per cent at the end of October to between 2-7/8 and 3 per cent in the third week of November, and stood at 2-7/8 per cent during December. (See Table 7 and Chart 5.)

With the turn of the year, the money market eased. The note circulation declined nearly SF 800 million in the first two weeks of January, and the banks' balances with the central bank decreased SF 141 million in January. Funds were again placed abroad in volume, and all the swaps with the SNB and the BIS were reported to have been reversed by the end of January. By January 15, rediscounts and advances from the Swiss National Bank returned to normal levels. The 3-month deposit rate declined from 2-7/8 per cent in December to 2-5/8 per cent in January, and the call loan rate dropped to 1-1/2 per cent.

Bond market. The tightening of credit availabilities in the money market in November-December did not extend to the markets for medium- and long-term funds. Rather, in the long-term government bond sector, there was a moderate easing in mid-November, when the yield to maturity on the Swiss Confederation 3 per cent bond of 1967-74 declined from 3.11 per cent on November 9 to 3.09 per cent on November 16. (See Table 8 and Chart 6.) Contributing to this easing was the very small amount of net new money raised by new issues in November-December. The subsequent slight tightening in mid-December did no more than bring the yield back up to 3.11 per cent. This yield remained unchanged until late January, when a decline in demand for bonds pushed it to 3.13 per cent on January 25 and February 1.

Yields on new medium-term deposit certificates were unchanged in the period under review.

Stock market. The week of the Cuban crisis saw the culmination of a severe decline in Swiss stock prices which took place in September-October. Reports of somewhat less buoyant demand in some sectors of the Swiss economy in the third quarter, and weakness on Wall Street, contributed to these declines. However, the Swiss market joined other markets in the rebound which occurred at the end of October, with the easing of international tensions. (See Table 1 and Chart 7.) After a 5-week rise, the Swiss industrials index was 21 per cent higher on November 30 than on October 26, recovering all the loss since mid-September.

After mid-December, price changes were generally very small. The absence of any marked tendency, up or down, in these six weeks was in strong contrast to the recent wide fluctuations.

Table 1. Switzerland: Industrial Share Index, 1962-63
(1958 = 100)

1962		1963	
March 9	292.5	January 4	202.9
June 15	175.6	11	197.9
August 31	209.5	18	198.1
October 26 (low)	169.4	25	196.4
November 2	179.6	February 1	196.9
16	190.4	8	196.1
30	205.7		
December 14	196.8		
28	196.4		

Because of the severity of the decline in prices last spring, Swiss industrial stocks are currently selling, on the average, about 32 per cent below the all-time high in March 1962. And yet Swiss stocks remain very high-priced as measured by their yields. According to calculations made by the Union Bank of Switzerland, the average yield on major Swiss stocks was 1.56 per cent at the end of November 1962. On other major markets, such a yield is approached only by that on French stocks, which stood at 1.63 per cent at the end of last November. Even at the end of October 1962, when end-of-month prices were at 1962 lows, the average yield was still only 1.79 per cent. (See Table 2.)

Table 2. Switzerland: Stock Yields, 1962 a/
(In per cent; end of month)

Group	Feb.	June	Aug.	Sept.	Oct.	Nov.
Banks	1.10	1.49	1.40	1.52	1.60	1.39
Insurance	1.48	1.87	1.80	1.98	2.11	1.87
Electricity	1.70	2.00	1.99	2.01	2.17	1.97
Chemicals	0.65	0.99	0.93	1.05	1.12	0.96
Metals and Machines	1.46	2.02	1.83	1.99	2.15	1.89
Foods	0.88	1.15	1.09	1.19	1.26	1.10
Combined average	1.23	1.64	1.54	1.67	1.79	1.56

a/ Based on gross yields of major stocks. Calculated by the Union Bank of Switzerland.

New issues. In terms of net new money raised, public issues of securities fell off sharply in November and December. Net volume amounted to $4 million in November and $12 million in December. (See Table 8.) In November, gross new money raised was substantial or average for all categories, and totalled $53 million. But reimbursements came to $49 million, of which $48 million constituted redemption of bonds of the Federal Treasury. The low level of activity in December was largely a seasonal development, but the amounts raised, both gross and net of reimbursements, fell short of the new money raised in December of 1960 and 1961.

Foreign bond issues continued at the now-customary rate of one per month. In November, the European Coal and Steel Community raised $14 million on the Swiss market at a cost of 4-1/2 per cent. (See Table 3.) At the same time, the ECSC floated loans in Belgium and the Netherlands for a total of $11 million. The December borrowing was by the Graz (Austria) power company Steirische Wasserkraft- und Elektrizitaets-A. G. in the amount of about $6 million and at a cost of 5 per cent. At the end of January, a $5 million loan was floated in Switzerland by Cadbury Brothers, a subsidiary of British Chocolate Company Ltd. All three loans were oversubscribed.

Table 3. Switzerland: Foreign Bond Issues, November 1962 -- January 1963

	Amount ($ mil.)	Term	Coupon rate	Issue price	Yield to maturity
November 1962					
European Coal and Steel Community	14.0	1968-80	4.5	100	4.5
December 1962					
Steirische Wasserkraft- und Elektrizitaets-A. G. (Graz, Austria)	5.8	1968-77	5.0	100	5.0
January 1963					
Cadbury Brothers (U.K.)	4.7	1978	4.5	100	4.5

For 1962 as a whole, gross new money raised totalled $568 million, a rise of only 3.6 per cent over the preceding year. (See Table 4.) Because of a much heavier volume of reimbursements (half of which occurred in November), net new money raised declined 10 per cent ($51 million) in 1962. It may be that the November-December new issue authorizations did not take into account the availability of liquid funds freed by the November redemptions.

Although total gross new money rose only 3.6 per cent, for Swiss securities the rise was 28 per cent. This was the second successive large increase, following a 29 per cent rise in 1961. In contrast, foreign bond issues, at $152 million in 1962, were down $71 million from 1961, because the Swiss authorities tightened up on this borrowing.

The restriction of foreign access to the Swiss capital market apparently reflects fears on the part of the Swiss authorities that, had foreign borrowing not been reduced by direct action, long-term interest rates would have been higher. The level of bond yields affects mortgage rates, and the latter are a highly sensitive political issue in the Swiss Confederation.

Table 4. Switzerland: New Public Issues, 1959-62
(In millions of dollars equivalent)

	1959	1960	1961	1962
Gross new money				
Swiss issues	253	252	325	415
Bonds	160	207	238	261
Stocks	94	45	87	154
Foreign bonds	112	130	223	152
Total, gross new money	365	382	548	568
Reimbursements	38	62	37	108
Total, net new money	327	320	511	460

Foreign trade. In recent months, Switzerland's foreign trade has ceased to expand. Exports in the fourth quarter of 1962, seasonally adjusted, were at the same level as in the second and third quarters. (See Table 5.) Adjusted imports in the fourth quarter were down 2 per cent from the third quarter, and have tended to decline moderately since last July. As a result, the trade deficit was reduced somewhat in the later months of the year. From the last quarter of 1961 through the last quarter of 1962, the quarterly trade deficit fluctuated in a narrow range of $58 to $70 million at a monthly rate; in 1961, a very rapid rise in imports had caused the trade deficit to grow nearly two-fold in the space of a year.

Table 5. Switzerland: Seasonally-Adjusted Foreign Trade
($ millions; monthly average)

	1961				1962			
	I	II	III	IV	I	II	III	IV
Imports c.i.f.	217	216	228	241	250	244	256	251
Exports f.o.b.	168	168	172	175	181	186	186	187
Balance	-49	-48	-56	-66	-69	-58	-70	-64

International reserves. The gold and foreign exchange reserves of the Swiss National Bank declined $21 million in November because of a $31 million drop in gold holdings. (See Table 6.) With commercial banks already beginning to repatriate funds for year-end internal needs, and with the higher Italian demand for francs, it seems evident that special transactions were responsible for the November reserve decline.

The $260 million reserve increase in December was virtually identical with the reported $255 million of dollar-franc swaps which Swiss commercial banks made over the year-end with the Swiss National Bank and the Bank for International Settlements. To carry out these swaps, the latter two institutions made two types of swaps with each other. According to the Neue Zuercher Zeitung, the Swiss National Bank did not wish to let its dollar holdings rise "too far above the limit of Fcs 750 million /$175 million/ recently established" (January 12, 1963). Therefore, the SNB swapped dollars for gold with the BIS. In turn, the BIS obtained the francs for its swaps with Swiss commercial banks by swapping gold for francs with the SNB.

As a consequence, nearly all of the commercial banks' swaps were reflected in the gold holdings of the Swiss National Bank, which increased $247 million in December. The SNB's dollar holdings rose no more than $14 million for the month. These dollar holdings reached as high as $286 million on December 22, but further dollar-gold swaps with the BIS cut them to $204 million by the end of the month.

Table 6. Switzerland: Gold and Foreign Exchange Reserves, 1962-63
(In millions of dollars)

		Gold	Foreign Exchange	Total
1962				
October	31	2,453	180	2,633
November	30	2,421	191	2,612
December	7	2,424	188	2,612
	15	2,433	229	2,662
	22	2,563	287	2,850
	31	2,668	204	2,872
1963				
January	7	2,566	206	2,772
	15	2,562	202	2,764
	23	2,482	201	2,683
	31	2,455	199	2,655
February	7	2,461	193	2,653
	15	2,461	190	2,650

Swiss National Bank reserves declined in January by $217 million; the decrease was spread out over the month because of the unusual length of some of the commercial bank swaps but these swaps were said to have been entirely unwound by the end of January. For the month, the decline in SNB reserves was $38 million short of the swaps reported to have been entered into by the commercial banks. It is not known what accounted for this apparent difference. Reserves fell $4 million in the first two weeks of February.

Exchange rates. With funds flowing to Switzerland, the Swiss franc was strong in November and December. Except for the last few days of the year, the spot dollar in Switzerland was either at its lower limit of SF 4.315 or quoted at no higher than SF 4.317. (See Table 7.)

As Swiss banks slowed their repatriation of exchange in late December and then placed funds abroad again in January, the dollar strengthened, and the rate rose from SF 4.315 on December 20 to SF 4.328 on January 14. From then through February 15, fluctuations were within the range from SF 4.322 to SF 4.327.

The spot pound, which was quoted at SF 12.087 at the beginning of November, strengthened gradually in the next two months and then more sharply in the new year, reaching SF 12.145 on January 14. The unfavorable course of Britain's Common Market discussions after President de Gaulle's January 14 press conference caused sterling to weaken, and the quotation was SF 12.122 on February 9.

The discount on the 3-month forward dollar held in November at around the level of 0.2 per cent per annum (see Table 7), but the quotation shifted to show a premium in early December as the net flow of bank funds to Switzerland increased. The premium increased to 0.60 per cent on January 11 even as banks were placing funds abroad again. The premium then contracted somewhat to 0.42 per cent per annum on January 18, and remained near that level through February 15.

The changed position of the 3-month forward dollar on the Swiss market has meant a higher covered net return to Swiss investors on short-term foreign investments. As shown in Table 7, the net return on the 3-month U.S. Treasury bill rose from about 2-2/3 per cent in November to around 3-1/3 per cent in January and early February, mainly because of the shift in the forward dollar rate. This gave such investments a higher net return than that on 3-month bank deposits in Switzerland (which was somewhat lower in January-February than in November-December). The covered yield on 3-month Euro-dollar deposits remained well above the rate on 3-month Swiss bank deposits. (See Table 7.) But, after increasing sharply in December, this Euro-dollar yield declined to around the November level because of a reduction in rates paid on Euro-dollar deposits.

Gold prices. Following their sharp rise at the time of the Cuban crisis, gold coin prices retreated for several weeks. The Vreneli, which had touched SF 43.50 on October 24, was traded at SF 40.00 on November 2, and by December 7 the price was down to SF 37.75. (See Table 7.) Market reports stated that in 1962 there was an absence of the lively Christmas business in gold coins seen in other years. There was subsequently a moderate revival of demand which raised the price to SF 38.25 on January 4, but through early February there was no further significant change. At SF 38.25, the Vreneli price was at the level that had prevailed from early August to late October.

Europe and British Commonwealth Section.

Table 7. Switzerland: Money Rates, Exchange Rates, and Gold Prices

	Forward Swiss franc (3-mo.)	US Tr. bill: Bill yield	US Tr. bill: Net return in SF	Euro-dollar deposit: London rate	Euro-dollar deposit: Net return in SF	Swiss bank deposit (3-mo.)	Spot $ in SF	Spot £ in SF	Gold coin a/ in SF
1962-Nov. 16	+0.21	2.83	2.62	4.06	3.85	2.75	4.315	12.087	39.50
23	+0.16	2.84	2.68	4.13	3.97	2.94	4.317	12.103	38.75
30	+0.18	2.86	2.68	3.94	3.76	2.88	4.316	12.099	38.75
Dec. 7	0.00	2.84	2.84	4.06	4.06	2.88	4.315	12.096	37.75
14	-0.18	2.85	3.03	4.31	4.49	2.88	4.315	12.097	37.25
21	-0.25	2.89	3.14	4.13	4.38	2.88	4.318	12.106	38.25
28	-0.37	2.98	3.35	4.13	4.50	2.88	4.320	12.110	37.75
1963-Jan. 4	-0.48	2.90	3.38	3.97	4.45	2.63	4.321	12.112	38.25
11	-0.60	2.89	3.49	3.69	4.29	2.63	4.326	12.137	38.25
18	-0.42	2.92	3.34	3.59	4.01	2.63	4.324	12.130	38.25
25	-0.40	2.93	3.33	3.59	3.99	b/2.63	4.325	12.133	
Feb. 1	-0.38	2.94	3.32	3.56	3.94	b/2.63	4.325	12.128	
8	-0.39	2.95	3.34	3.56	3.95	b/2.63	4.322	12.122	
15	-0.43	2.92	3.35	3.53	3.96		4.323		

a/ "Vreneli" 20-franc piece (0.1867 troy ounces; $6.53 at $35 per ounce).
b/ Estimate based on market reports.

Table 8. Switzerland: Selected Capital Market Statistics

Capital market yields

	Long-term govt. bonds	Deposit cert's: 12 cantonal banks	Deposit cert's: 5 large banks
1962 - High	3.31	3.39	3.29
Low	2.98	3.35	3.29
Nov. 9	3.11	3.39	3.39
16	3.09	3.39	3.39
23	3.09	3.39	3.39
30	3.09	3.39	3.39
Dec. 7	3.09	3.39	3.39
14	3.10	3.39	3.39
21	3.11	3.39	3.39
28	3.11	3.39	3.39
1963			
Jan. 4	3.11	3.39	3.39
11	3.10	3.39	3.39
18	3.11		
25	3.13		
Feb. 1	3.13		
8	3.11		

New issues ($ millions; monthly ave. or month) (New money raised)

	Swiss bonds	Swiss stocks	Fgn. bonds	Total: Gross	Total: Net a/
1960	17.3	3.8	10.8	31.8	26.6
1961	19.8	7.2	18.6	45.7	42.6
Qtr. I	24.0	14.3	25.9	64.2	63.4
II	17.6	6.8	15.5	39.9	34.0
III	19.6	1.2	18.6	39.5	38.6
IV	18.2	6.6	14.3	39.1	34.2
1962	21.8	12.8	12.7	47.3	38.3
Qtr. I	24.5	15.6	20.2	60.3	45.4
II	26.8	21.7	13.2	61.7	53.9
III	16.6	5.3	7.0	28.9	27.8
IV	18.8	6.9	10.5	36.2	18.8
July	6.1	1.1	b/ --	7.2	5.0
Aug.	15.0	14.8	11.6	41.5	41.1
Sept.	28.6	--	9.3	37.9	37.2
Oct.	23.4	6.4	11.6	41.4	39.8
Nov.	29.6	9.6	14.0	53.1	4.3
Dec.	3.5	4.7	5.8	14.0	12.2

a/ Net of reimbursements. Amounts by type are gross.
b/ The July borrowing was a conversion loan and did not raise new money.

Chart 1

INTEREST ARBITRAGE, UNITED STATES/CANADA

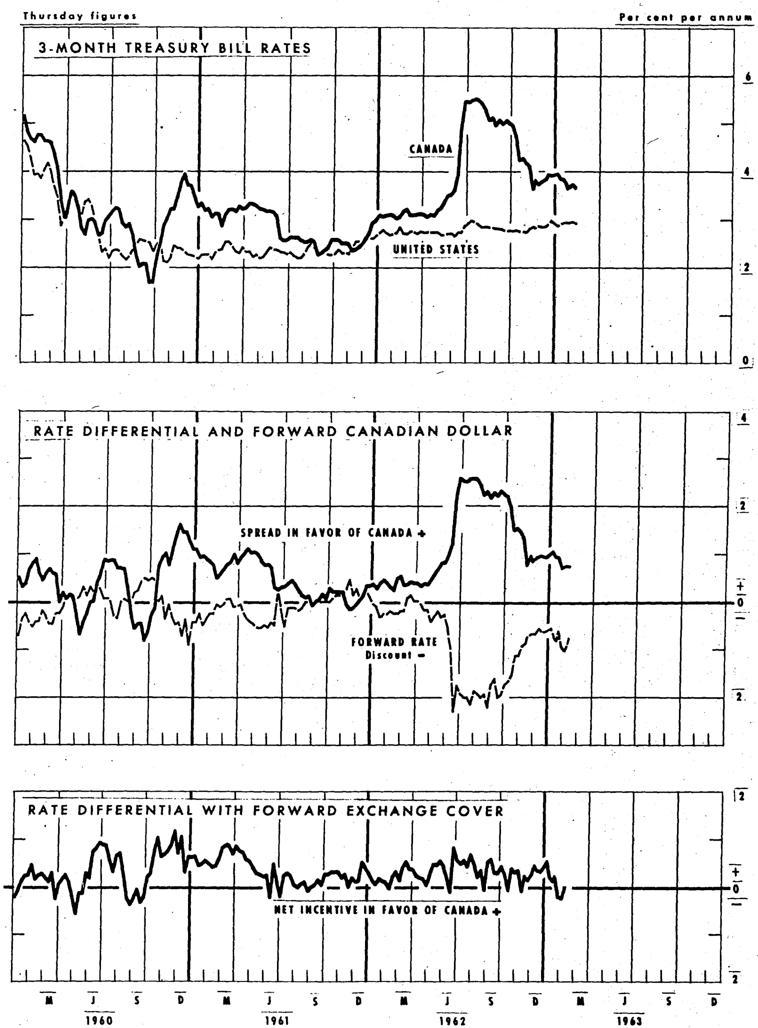


Chart 2

INTEREST ARBITRAGE, NEW YORK/LONDON

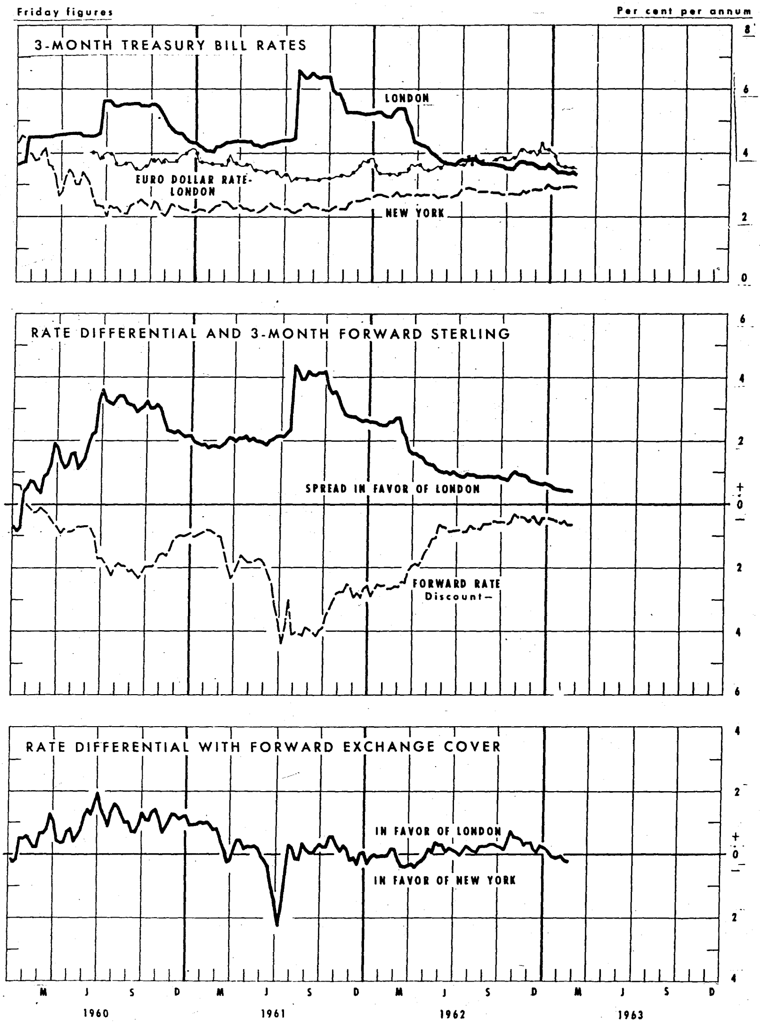
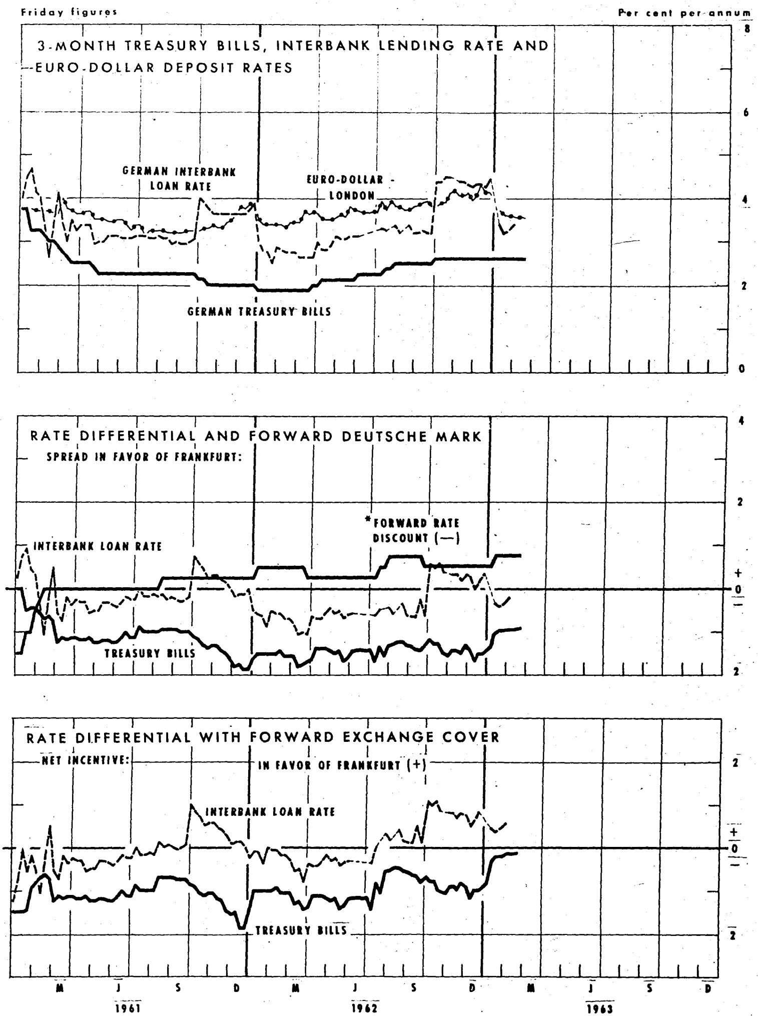


Chart 3

INTEREST ARBITRAGE FOR GERMAN COMMERCIAL BANKS



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

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Chart 4

INTEREST ARBITRAGE, FRANKFURT / LONDON

Friday figures

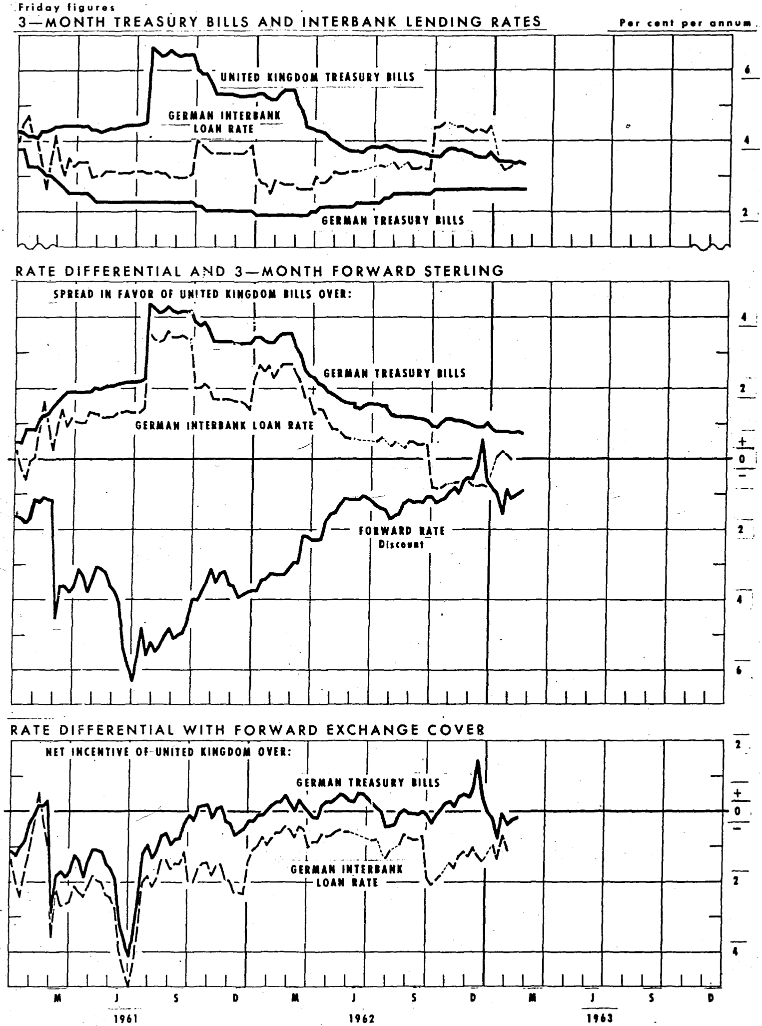
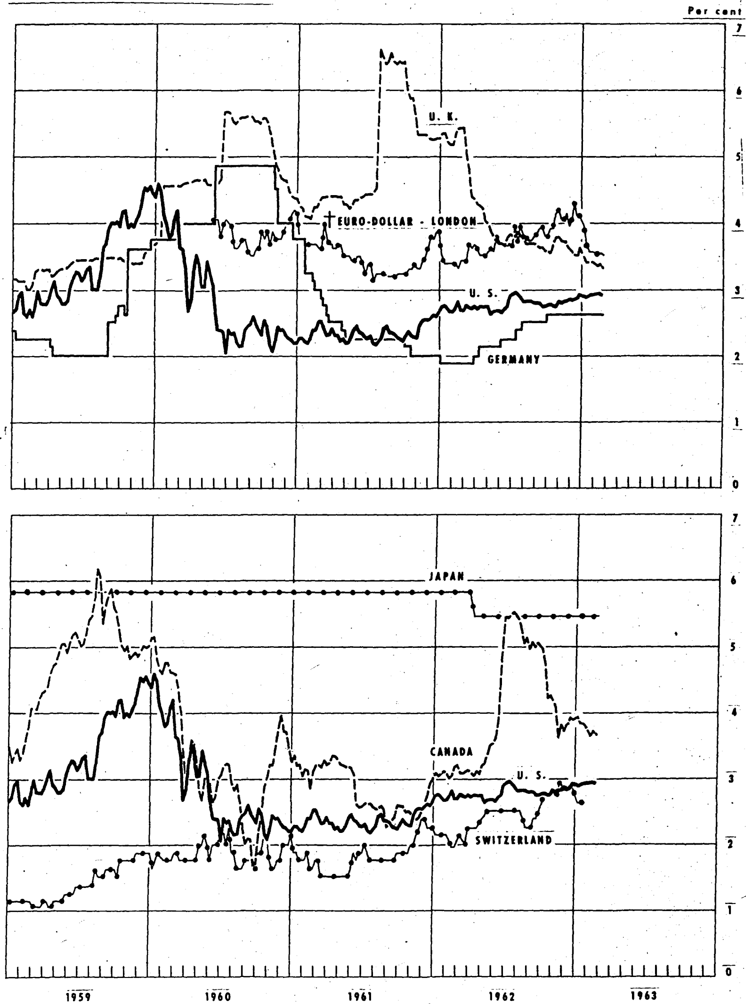


Chart 5

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

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Chart 6

LONG-TERM BOND YIELDS

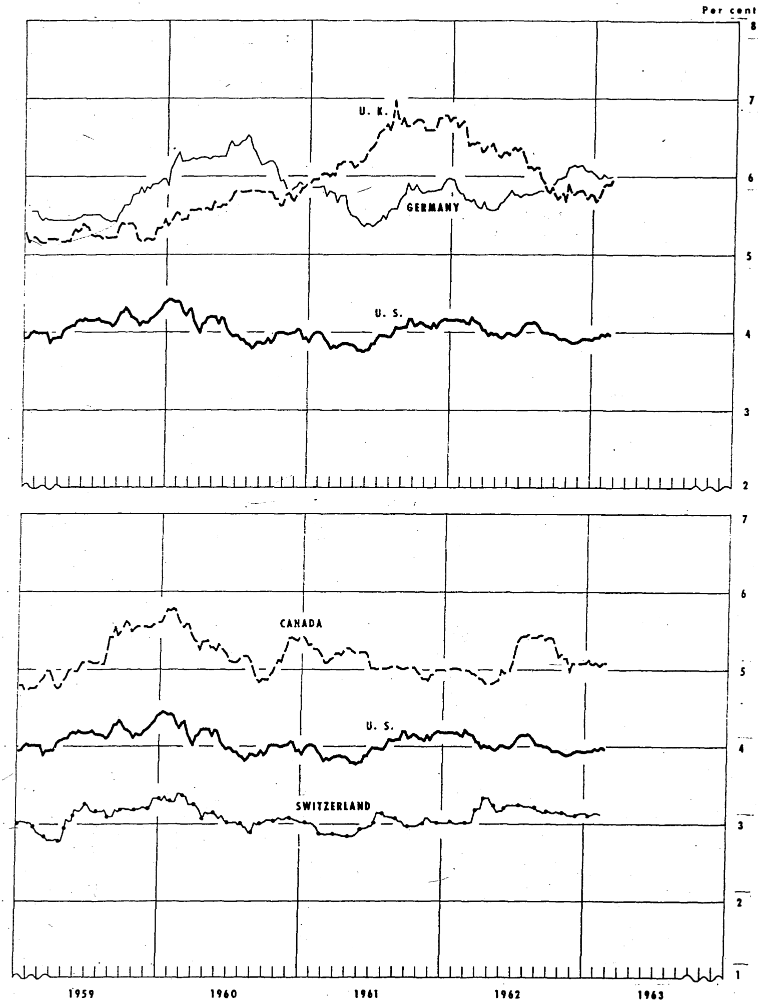
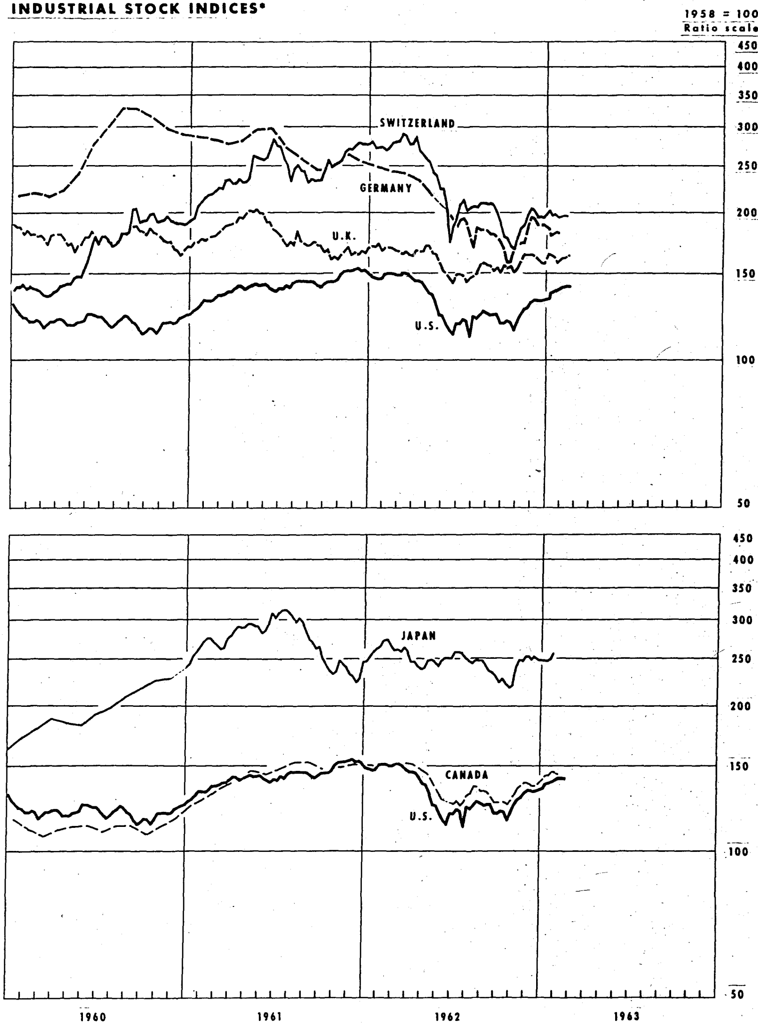


Chart 7

INDUSTRIAL STOCK INDICES*



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

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Chart 8

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

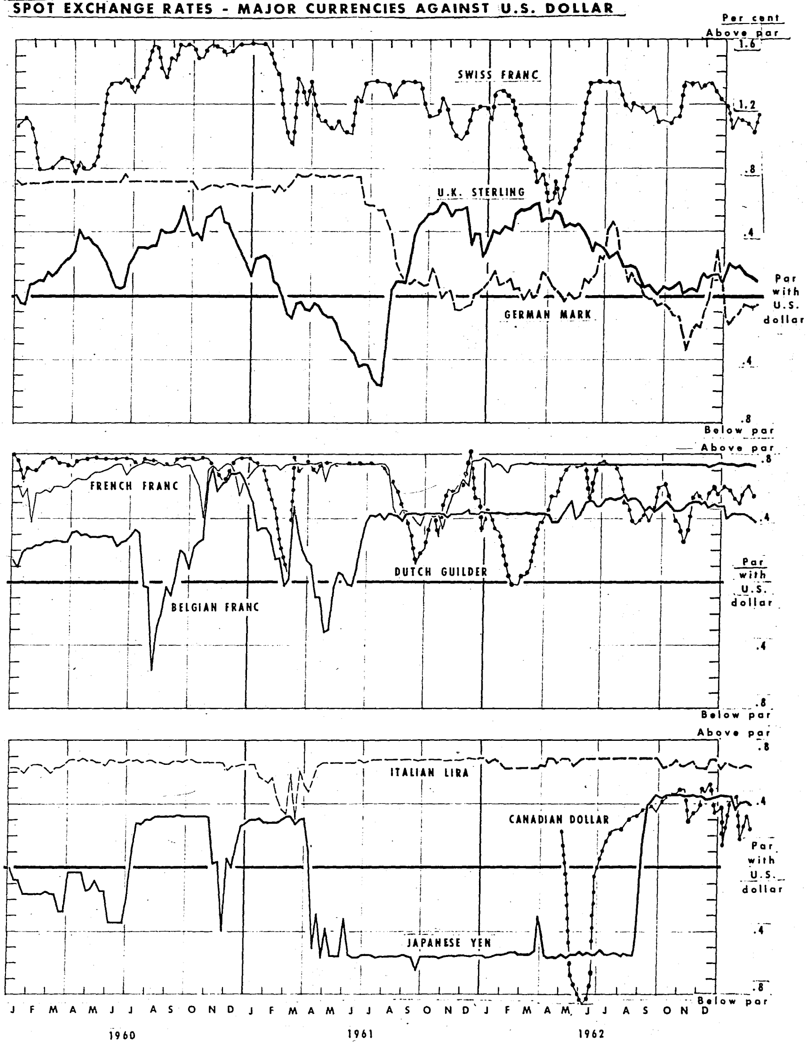

Chart 9

3-MONTH FORWARD EXCHANGE RATE

Friday figures