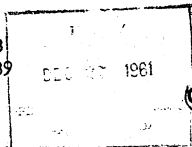


H. 13
No. 39

December 22, 1961

CAPITAL MARKET DEVELOPMENTS ABROAD

- I. Germany
- II. Eight Charts on Financial Markets Abroad

I. Germany: Money and Capital Markets during November

During the first half of November, trends prevailing in German financial markets in October continued. Short-term funds were placed abroad, and foreign long-term funds continued to flow into the German stock market. About mid-November a reversal in the direction of short-term money flows occurred as German commercial banks repatriated funds to meet seasonally high domestic requirements, including year-end "window-dressing" of balance sheets. Tightness of the domestic market led to sharp rises in short-term interest rates, particularly one-month money. To help meet seasonal demands for money the Bundesbank lowered cash reserve requirements for the ninth time this year.

On the capital markets, the upward trend in stock prices was reversed in the second half of November, probably as a result of profit-taking. In December there was renewed investor interest in the bond market. Long-term yields are believed stabilized, at least for the present, at around 6 per cent, and further issues at this rate are planned for January.

German official reserves declined by \$34 million during November. A large rise in reserves during the last week of the month--the result primarily of Bank of England dollar purchases of DM's for another prepayment of the U.K.'s August drawing from the IMF and of some early year-end "window-dressing" repatriation by the commercial banks--partially offset declines during the first three weeks of the month. The Bank of England's purchase led on November 28 to a decline in the spot dollar rate to below parity for the first time since November 3. Both the dollar and sterling remained at lower rates against the DM with the discounts, as of December 15, on the three-months forward dollar and sterling at 1 per cent plus and 3.92 per cent, respectively.

Money Market. During the first half of November commercial banks were reported to have continued to invest short-term funds abroad without causing more than a moderate tightening of the money market. After the middle of the month, however, the market tightened further, and the rate for day-to-day money exceeded 3 per cent for the first time since the end of September. It is reported that the banks had underestimated their cash requirements for mid-month payments.

NOT FOR PUBLICATION

DECONTROLLED AFTER SIX MONTHS

In anticipation of the seasonally heavy demand for money in December, the Bundesbank lowered commercial bank minimum reserve ratios by 4.8 per cent, effective December 1, releasing an estimated DM 230 million from required reserves. This was the ninth decrease in reserve requirements this year. Despite this action, and the repatriation of funds to meet liquidity requirements as well as for window-dressing purposes, the money market continued to tighten during the first half of December. Lower foreign trade surpluses in October and November may also have contributed to tightness. The demand for one-month money was particularly strong, the rate for such funds rising to over 4 per cent, the highest since February. The rate for three-month loans rose only slightly above the 3-1/2 - 3-3/4 per cent range which had prevailed since the first week in November, indicating an expectation that easier conditions will return to the money market after the first of the year.

On December 15, the Bundesbank indicated that it shared that expectation by removing the charge of 0.25 per cent per annum that it had imposed on dollar swap operations since August 14. In view of the tight money market conditions prevailing in December, the measure is not expected to facilitate the export of short-term capital until after the first of the year, but introduction of the measure in mid-December enables the banks to arrange their commitments so as to take advantage of it at that time.

Frankfurt Inter-bank Money Rates

	Day-to-day money rates		One-month	Three-month
	Lowest	Highest	loans	loans
<u>1961</u>				
Sept. (monthly range)	2.25	3.25	2.63 - 3.00	2.75 - 3.13
Oct. "	1.75	3.13	2.00 - 3.00	3.50 - 4.25
Nov. (weekly range)	1-5 2.50	2.75	2.50 - 2.75	3.50 - 3.75
"	6-12 2.50	2.88	2.63 - 2.75	3.50 - 3.75
"	13-19 2.13	2.63	2.50 - 2.75	3.50 - 3.75
"	20-26 2.63	3.25	2.50 - 2.63	3.50 - 3.75
"	27-Dec.3 2.50	3.38	2.63 - 4.25	3.50 - 3.75
Dec. "	4-10 2.63	3.25	4.00 - 4.25	3.50 - 3.75
"	11-17 2.63	2.88	3.75 - 4.13	3.50 - 3.88

There have been no further changes since October 20 in the rates at which the Federal Bank is prepared to sell Treasury bills and short-term bonds; the yield on 60-90 day bills remains at 2.00 per cent and on 6-month Treasury bonds at 2.25 per cent.

<u>From</u>	<u>60-90 days Treasury bills</u>	<u>6-month Treasury bonds</u>
Dec. 20, 1960	3.75	4.00
1961		
Jan. 20	3.25	3.50
Mar. 23	2.50	2.75
Apr. 26	2.38	2.63
May 5	2.25	2.50
Oct. 4	2.13	2.38
Oct. 20	2.00	2.25

German commercial banks were apparently moving funds to London on an uncovered basis during the first part of November, because the covered incentive remained slight. From mid-November on the tightening of German money markets more than offset the influence of strengthening of rates in some competitive markets abroad, and brought a reflow of funds to Germany.

German money-market rates vs. London Euro-dollar rates

		Rate for U.S. dollar deposits at call in London	Incentive in favor of London Euro-dollar call rate	3 months money in Frankfurt	Rate for U.S. dollar deposits on 3 months basis in London	Incentive in favor of London Euro-dollar 3-month rate
Oct. 6	2.88	2.63	-0.25	4.00	3.25	-0.75
13	2.13	2.50	0.37	3.88	3.31	-0.57
20	2.00	2.63	0.63	3.75	3.31	-0.44
27	1.88	2.75	0.87	3.63	3.38	-0.25
Nov. 3	2.63	2.63	--	3.63	3.31	-0.32
10	2.69	2.63	-0.06	3.63	3.31	-0.32
17	2.56	2.63	0.07	3.63	3.44	-0.19
24	3.13	2.63	-0.50	3.63	3.50	-0.13
Dec. 1	3.32	2.75	-0.57	3.63	3.63	--
8	2.69	2.63	-0.06	3.63	3.81	0.18
15	2.81	2.50	-0.31	3.75	3.75	--

Interest incentives remained too slight to induce any movement of funds to the United States through mid-December. Despite rises in the rate on the U.S. 3-month treasury bill, it remained 1 per cent below the German 3-month inter-bank rate, and while the comparable German treasury bill was about 50 to 60 basis points below the U. S. bill, this incentive was almost halved by the cost of forward cover of 0.25 per cent, which was still in effect through the 15th of December.

	German Inter-bank loan rate vs. U.S. bill rate				Bundesbank's Treasury bill selling rate vs. U.S. bill rate		
	Inter-bank loan rate	U.S. bill rate	Spread over U.S. bill	Net covered incentive of German rate ^{a/}	German 3 mos. bill rate	Spread over U.S. bill	Net covered incentive of German rate ^{a/}
Oct. 6	4.00	2.31	1.69	1.94	2.13	-0.18	0.07
13	3.88	2.37	1.51	1.76	2.13	-0.24	0.01
20	3.75	2.30	1.45	1.70	2.00	-0.30	-0.05
27	3.63	2.29	1.34	1.59	2.00	-0.29	-0.04
Nov. 3	3.63	2.28	1.35	1.60	2.00	-0.28	-0.03
10	3.63	2.47	1.16	1.41	2.00	-0.47	-0.22
17	3.63	2.53	1.10	1.35	2.00	-0.53	-0.28
24	3.63	2.55	1.08	1.33	2.00	-0.55	-0.30
Dec. 1	3.63	2.53	1.10	1.35	2.00	-0.53	-0.28
8	3.63	2.57	1.06	1.31	2.00	-0.57	-0.32
15	3.63	2.63	1.00	1.25	2.00	-0.63	-0.38

^{a/} From February 13 to August 14 the Bundesbank provided forward dollars flat to German banks; a charge of 0.25 per cent per annum was imposed from August 14 to December 15, after which such dollar swap operations were again free of charge.

Bond Market. The unexpected over-subscription of a DM 60 million, 6 to 15-year loan with a 6 per cent coupon issued by the Industriekreditbank at 99-3/4 per cent of par on November 20 indicated a strengthening of both foreign and domestic demand in the German bond market, which had been stagnant for several months. The market consensus, reported last month, that yields had stabilized at around 6 per cent, and that no further fall in prices could be expected probably contributed, along with the easing of international tensions over Berlin, to the renewed interest in bonds. In view of the apparent strengthening of the market, the Federal Loan Consortium approved issuance by the Federal Post Office of one-half of a DM 210 million 6 to 15-year loan at 6 per cent in early December. Siemens-Schuckert A. G. also issued a DM 150 million, 6 per cent loan in the first half of December. Several other public and private issues are expected to be issued in January at the 6 per cent rate.

Yield of Fixed-Interest-bearing securities (per cent)

		<u>Mortgage</u> <u>bonds</u>	<u>Industrial</u> <u>bonds</u>	<u>Loans of</u> <u>public</u> <u>authorities</u>
1960	July	6.5	6.5	6.7
	Oct.	6.4	6.1	6.3
	Dec.	6.2	6.1	6.1
1961	Jan.	6.2	5.8	6.1
	Feb.	6.2	5.7	6.0
	Mar.	6.1	5.8	5.9
	Apr.	5.9	5.7	5.7
	May	5.8	5.6	5.6
	June	5.8	5.6	5.6
	July	5.8	5.8	5.7
	August	5.9	6.0	5.9
	September	6.0	6.3	6.0
	October	6.0	6.1	6.0

Stock Market. Prices rose generally on the German stock market from about mid-October through mid-November, after which prices declined somewhat as a result of profit-taking. Iron and steel shares declined following press reports of a slowdown in German steel production. American brokers and mutual funds were reported to have contributed heavily to the rise in demand for shares in German chemical companies, banks, and electrical and automobile enterprises before mid-November. The trend of the market is shown by the Frankfurter Allgemeine Zeitung index of share prices, which climbed from 205.03 on September 29 to 229.72 on November 17, but dropped back to 219.81 on December 12.

On December 13 General Motors became the second U.S. corporation in the postwar period to have its stock officially listed on the principal German stock exchanges. Although stocks of 17 U.S. corporations are traded in Germany, only International Telephone and Telegraph and General Motors are now listed. Registered common shares of General Motors with a total value of \$285.2 million were admitted to trading. The shares will be traded in the form of share certificates issued by the Deutsche Bank and endorsed to the bearer, or by transferring title to shares held by a collective security deposit of the Frankfurter Kassenverein. In either case share holders will be able to exercise all rights, including voting, represented by the shares.

Frankfurter Allgemeine Zeitung Total Index of Share Prices
(12/31/58 = 100)

<u>1961</u>	July 31	223.80
	Aug. 31	203.38
	Sept. 29	205.03
	Oct. 13	206.35
	" 31	219.36
	Nov. 3	221.65
	" 17	229.72
	" 30	227.36
	Dec. 12	219.81

Foreign Trade. Monthly averages of seasonally adjusted West German trade figures for the periods indicated are as shown below.

	<u>Exports</u>	<u>Imports</u>	<u>Trade balance</u>
	(in millions of U.S. dollars)		
1960	948	844	104
1961 - I	1,047	852	195
- II	1,077	936	141
- III	1,060	911	151
July	1,108	955	153
August	1,005	870	135
September	1,068	909	159
October	1,056	974	82
November	987	897	90

German Gold and Foreign Exchange Reserves in 1961
(in millions of dollars)

	<u>Official gross reserves</u>	<u>Commercial bank holdings abroad</u>	<u>Total</u>	<u>Change from Previous Month</u>		
				<u>Official</u>	<u>Com'l. Bank</u>	<u>Total</u>
Jan.	7,483	653	8,136	-137	+340	+203
Feb.	7,491	740	8,231	+ 8	+ 87	+ 95
Mar.	7,920	792	8,712	+429	+ 52	+481
Apr.	7,476 ^{1/}	944	8,420	-444	+152	-292
May	7,507	1,080	8,587	+ 31	+136	+167
June	7,638	1,196	8,834	+131	+116	+247
July	7,532	1,324	8,843	-106	+115	+ 9
Aug.	7,059	1,373	8,418	-473	+ 48	-425
Sept.	7,068	1,122	8,177	+ 9	-250	-241
Oct.	6,813	1,169	7,982	-255	+ 47	-208
Nov.	6,779	n.a.	xxx	- 34	n.a.	xxx

^{1/} After special debt prepayment of \$776 million to U.S. and U.K.

Foreign Exchange. Both the dollar and sterling, which had strengthened substantially against the DM in early November, remained strong until the last days of the month, when the dollar fluctuated at lower levels and sterling weakened. The spot dollar moved generally downward from its post revaluation high of 4.0037 on November 9 but remained above parity (DM 4.00=\$1) except on one or two occasions late in November. The dollar dropped sharply to DM 3.9992 on November 28 but later recovered, closing the month at 4.0017. Reportedly, the break on November 28 was attributable primarily to Bank of England dollar purchases of DM's in preparation for another repayment on the U.K.'s drawing from the Monetary Fund of last August. Such a purchase was advantageous to the Bank, as the dollar at the time was above par on the German market. The announced decline of \$300 million in the U.S. gold stock also affected the dollar adversely and the Bundesbank reportedly intervened to brake the decline in the spot dollar rate. The spot dollar remained above par through the first week of December, but has fluctuated slightly below par since December 8. The discount on three-months forward dollars declined from 0.8 per cent at the beginning of November to 0.5 per cent in the third week and then rose to over 1 per cent on December 5 where it has since remained.

Sterling declined steadily from the third week in November through the first half of December. The discount on three-months forward sterling, which had narrowed from around 3.5 per cent in early November to 3.2 per cent in the third week, has since risen and was at 3.92 per cent on December 15. Throughout December the DM is expected to remain in its improved position against the dollar and sterling as the result of a further favorable shift in the terms of payment, and as the commercial banks accelerate for domestic seasonal needs and year-end "window dressing" their repatriation of funds held abroad.

DM-Dollar middle rate par (DM 4.00 = \$1)

Oct. 20	4.0000
23	4.0008
31	3.9968
Nov. 3	3.9992
10	4.0037
27	4.0020
28	3.9992
30	4.0017
Dec. 1	4.0024
7	4.0003
8	3.9996
14	3.9992

European Section

II. Eight Charts on Financial Markets Abroad

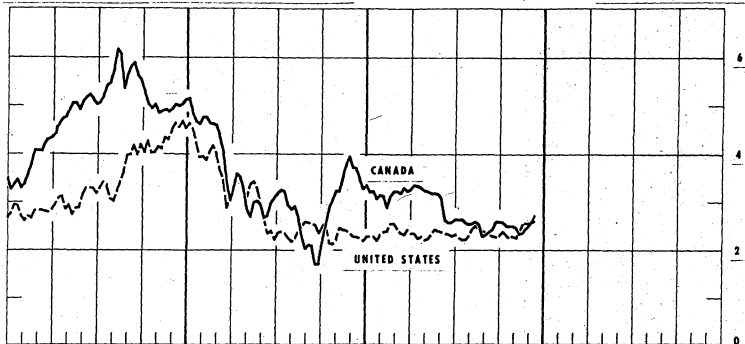
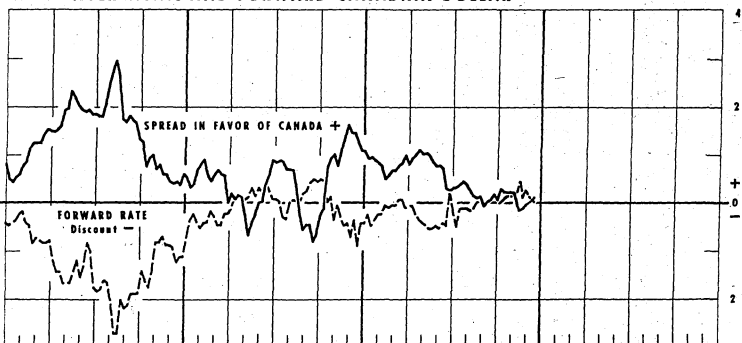
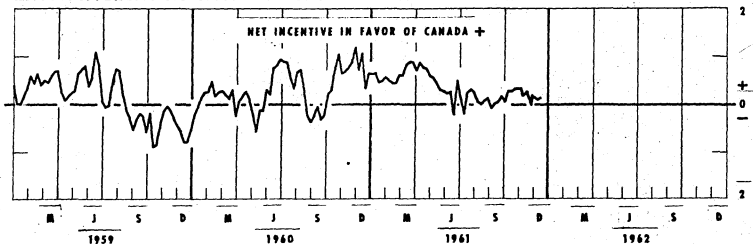
- Chart 1 - Interest Arbitrage U.S./Canada
- Chart 2 - Interest Arbitrage New York/London
- Chart 3 - Interest Arbitrage New York/Frankfurt
- Chart 4 - Short-term Bond Yields
- Chart 5 - Long-term Yields
- Chart 6 - Industrial Stock Indices
- Chart 7 - Major Currencies in Terms of Spot
United States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

INTEREST ARBITRAGE, UNITED STATES / CANADA

Thursday figures

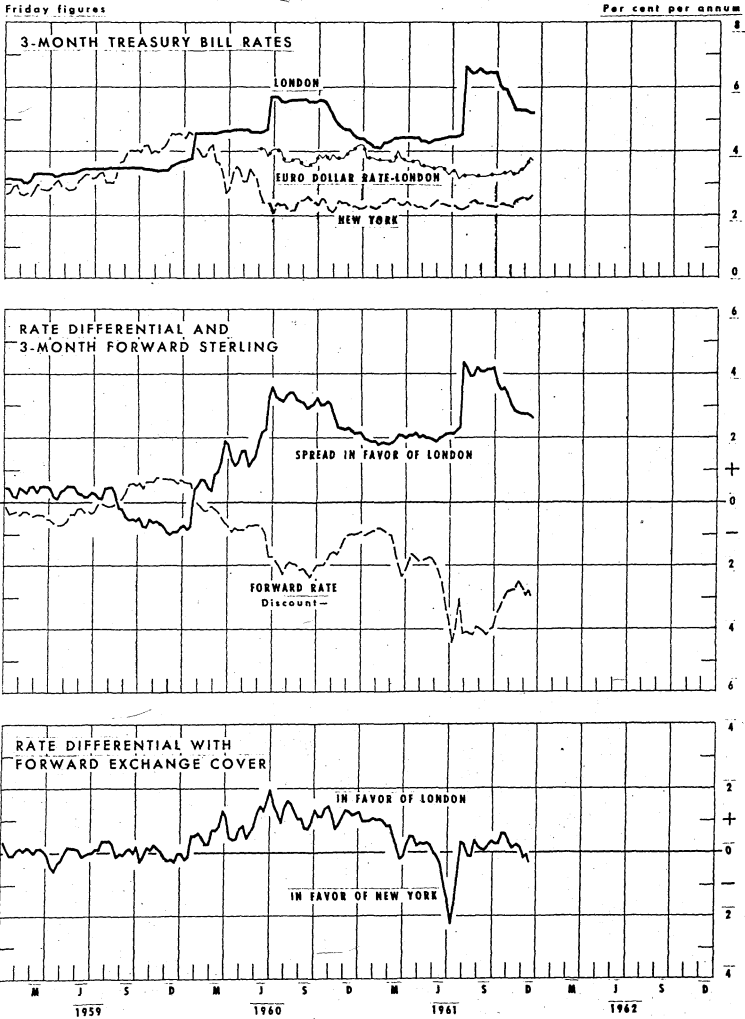
THREE-MONTH TREASURY BILL RATES

Per cent per annum

**RATE DIFFERENTIAL AND FORWARD CANADIAN DOLLAR****RATE DIFFERENTIAL WITH FORWARD EXCHANGE COVER**

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Chart 2
INTEREST ARBITRAGE, NEW YORK/LONDON

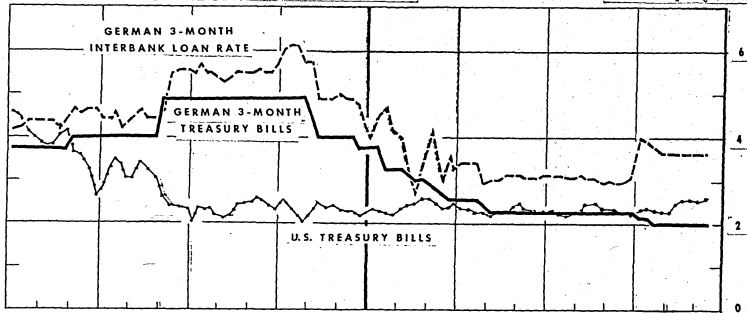


INTEREST ARBITRAGE FOR GERMAN COMMERCIAL BANKS

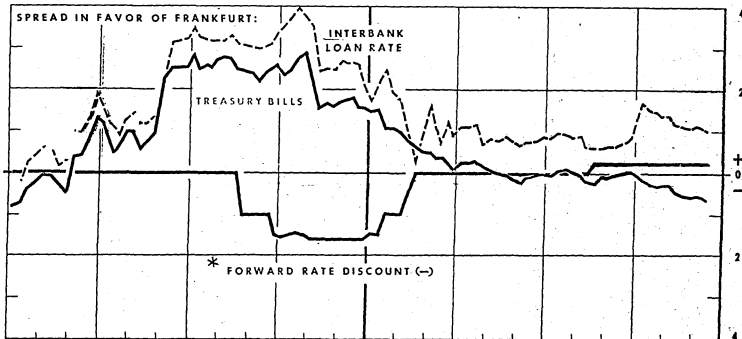
Friday figures

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

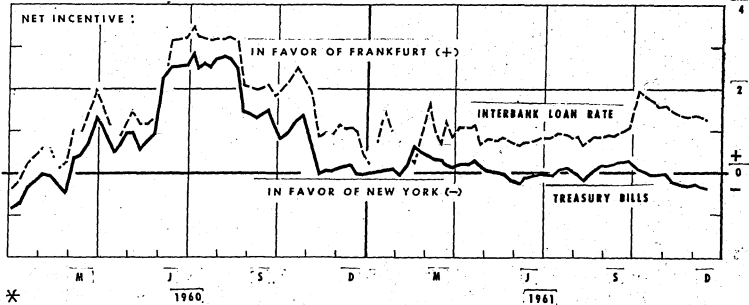
Per cent per annum



RATE DIFFERENTIAL AND FORWARD DEUTSCHE MARK



RATE DIFFERENTIAL WITH FORWARD EXCHANGE COVER

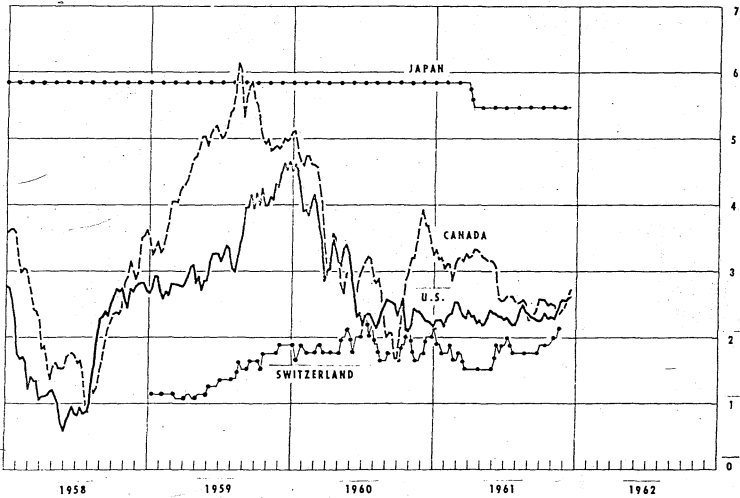
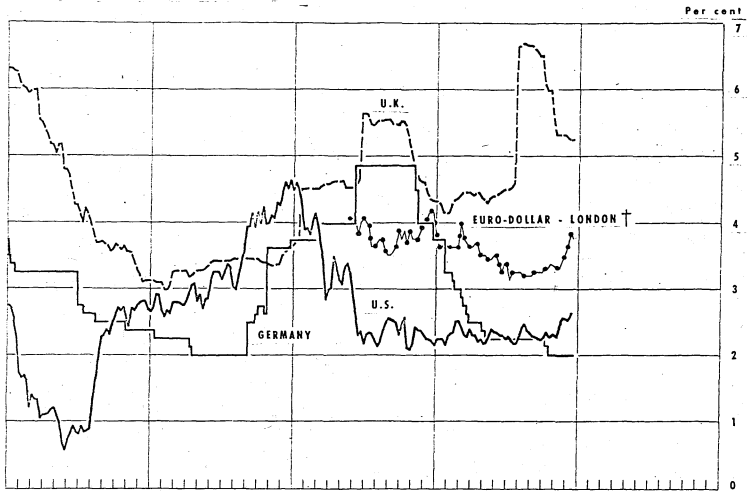


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Note. Special forward dollar rate available to German commercial banks.

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Chart 4
SHORT-TERM INTEREST RATES *

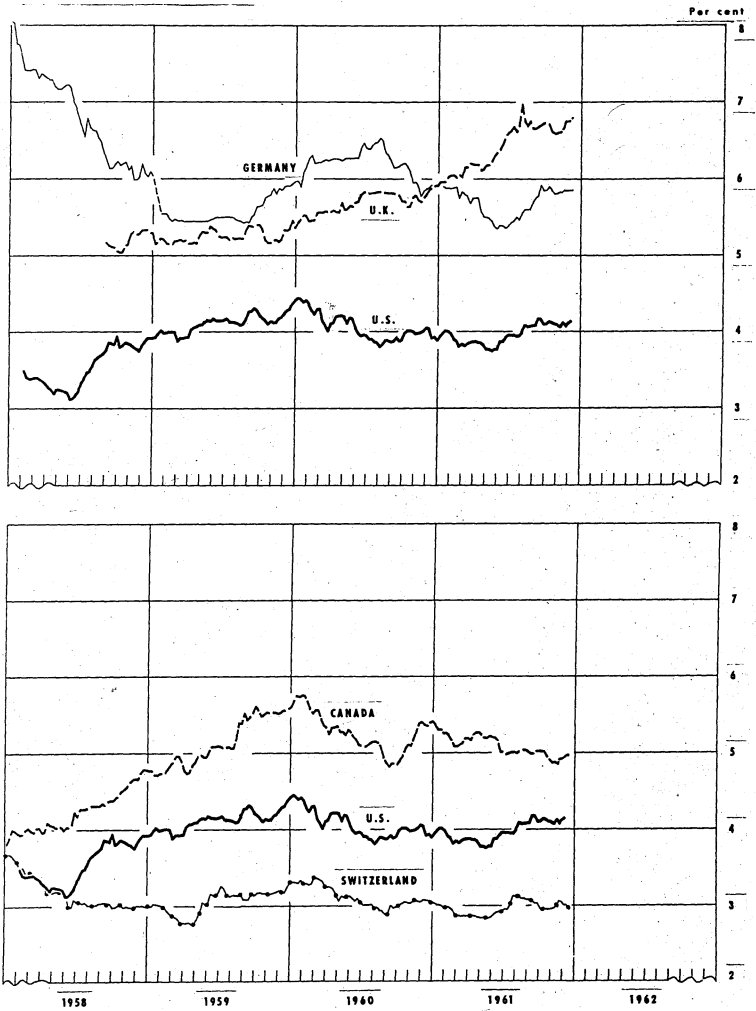


* 3-month treasury bill rates for all countries except Japan (3-month interbank deposit rate) and Switzerland (3-month deposit rate)

† 3-month rate for U. S. dollar deposits in London

Chart 5

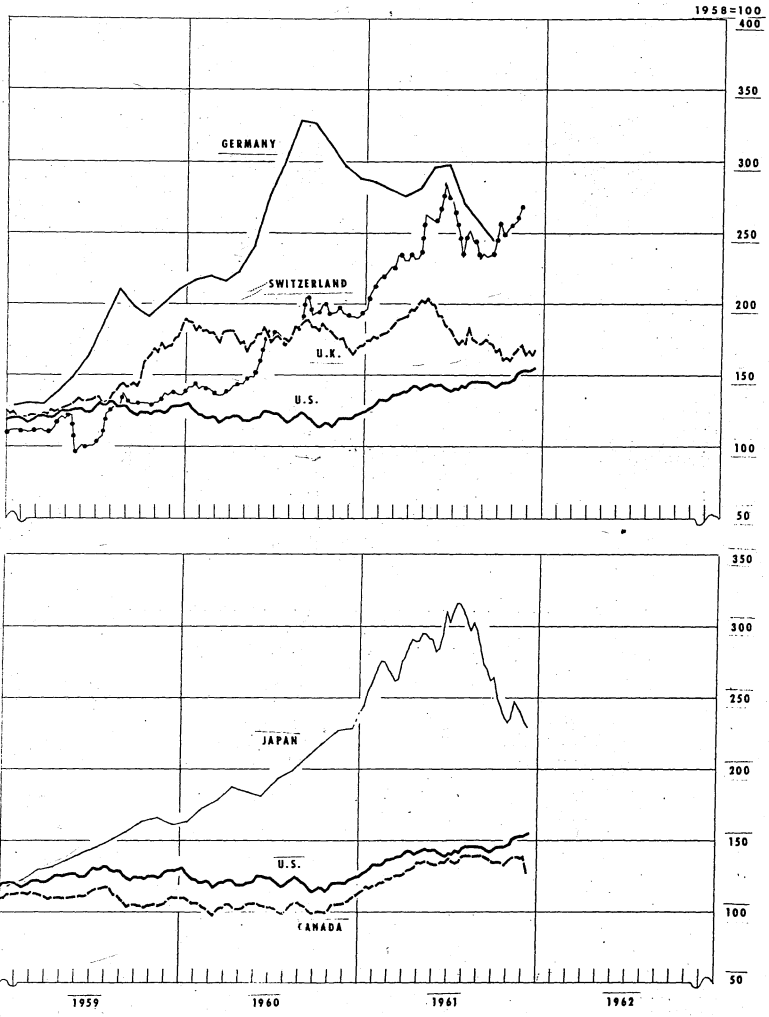
LONG-TERM BOND YIELDS



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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

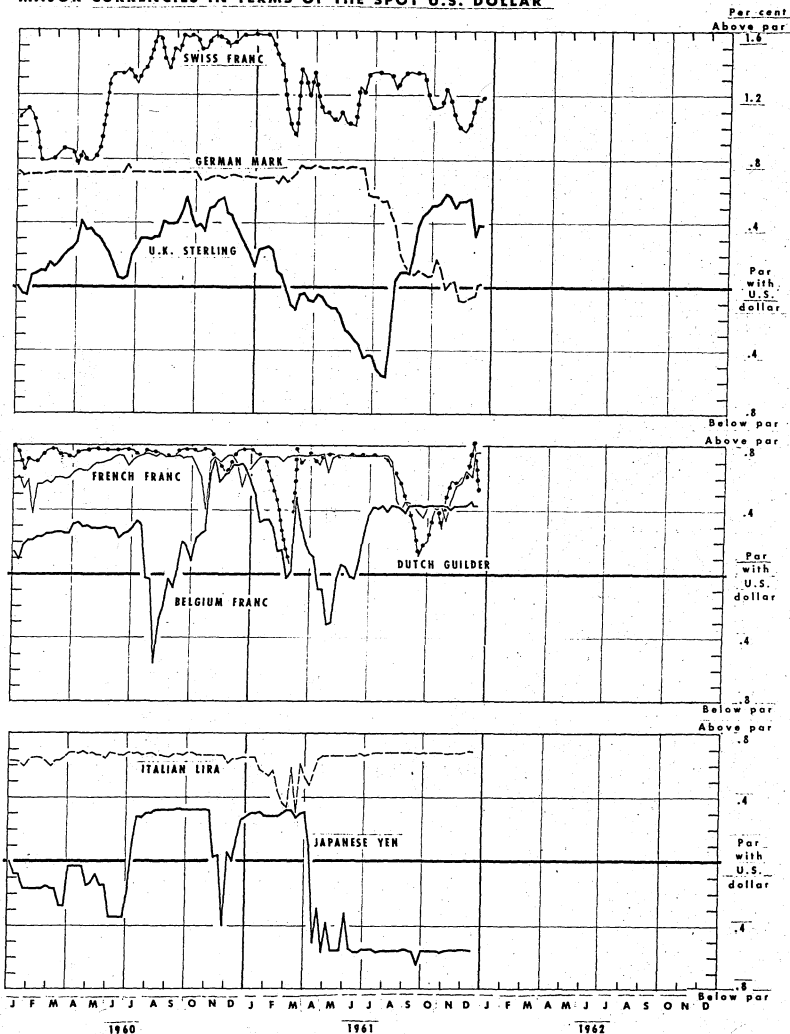


Chart 8

3-MONTH FORWARD RATE

