

H. 13
No. 159

August 5, 1964.

CAPITAL MARKET DEVELOPMENTS ABROAD

- I. France
- II. Nine Charts on Financial Markets Abroad

I. France: Money and Capital Markets, June to mid-July, 1964

The Paris money market was less tight in June-July than in May. The easing was the result, at least in part, of deliberate efforts by the Bank of France to provide funds to the market. These efforts took the form of a two-stage reduction in June in the banks' required liquidity ratio, which cut the compulsory percentage from 36 to 33 per cent, and helped to bring call money rates down markedly from their high May levels. Concurrently, the incentive to import short-term funds was reduced, and official reserve gains were smaller in June-July than in May.

Long-term interest rates changed little in the period under review, while stock prices, which had been falling continuously, rose 6 per cent in the three weeks ending July 15. Liquid savings and total new security issues for the first five or six months of 1964 show substantial increases over last year, a development which attests to the success of the French stabilization program. But a sharp year-to-year decline in flotations of private sector securities suggests a weakening, undesired by the authorities, of private investment outlays in 1964.

In the foreign exchange market, the spot franc remained at or near its ceiling almost continuously, while the discount on the forward franc narrowed sharply with the easing of the money market. The official reserve gains (adjusted for special official transactions) in June (\$95 million) and through mid-July (\$34 million) remained substantial but were well below the gain in May.

The Franc-area payments surplus was provisionally estimated at \$103 million in the first quarter of 1964, less than half the surplus a year earlier. The surplus probably rose in the second quarter, when the trade deficit was reduced, tourist receipts rose seasonally, and monetary stringency induced imports of short-term capital.

Money market eased by liquidity ratio reduction

In June the Bank of France twice lowered the liquidity ratio (coefficient de trésorerie) imposed on French commercial banks--from 36 to 34 per cent early in the month, and to 33 per cent in late June. These

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changes did not signify a relaxation of over-all credit restraint but were rather designed to help the Paris money market accommodate anticipated high seasonal demands for funds over the middle of the year. The authorities intended to restore the liquidity coefficient to 34 per cent after the money market strain expected at end-July had been met, and to 36 per cent by end-August, provided that seasonal tensions abate normally.

Call money and short-term interest rates had reached unusually high levels during May; it was feared that the high demands for accommodation over the seasonally-tight June and July month-end periods would push these rates up still further, and provide continued incentive for large inflows of foreign exchange, such as developed during May and the first week of June.

Judging by market developments, these measures were successful. The rate on day-to-day money against private paper fell from an average of 6.18 per cent during May to 4.93 per cent in June and then to an average of 4.83% for the first four Thursdays in July. This decline is in sharp contrast to the rise of 135 basis points over the same period last year. (See Table 1.)

Apart from the official policy steps, the Paris money market was dominated by seasonal influences in the period from June 12th through July 23rd. Through June 18 the market eased under the influence of large expenditures of the Treasury, the inflow of foreign exchange during the previous month, and the first reduction in the liquidity ratio; although the spot money market eased, the rate on one-month money rose sharply in anticipation of stringent month-end conditions. By June 25th, when day-to-day money had risen to 5 per cent, money at one month was loaned at 6.19 per cent, and the Bank of France reported that money for the 10 days over the month-end was not available at a bid rate of 7.25 per cent.

The tightening of the market culminated in intense activity on June 30th, when the banks had to provide large sums for payment of business taxes, for payments to the social security fund, for settlement of the Electricité de France issue (the proceeds of which were removed from the market during the week of June 29th), and most importantly, to meet large withdrawals of currency in preparation for vacations. From July 1st through July 9th, the market eased substantially because of large Treasury expenditures. Conditions tightened somewhat after July 9th, because of the outflow of currency in connection with vacations.

The auction rate on 1-year Treasury bills (free investments) rose 25 basis points to a yield of 3.56 per cent in a fairly steady movement from May 28th through July 15. (See Table 1.) These bills may be used to satisfy the banks' required liquidity ratio. The rise in the rate of return probably reflects both (i) the increase in the amounts of bills offered, and (ii) the decreased need of the banks for holdings of bills, reflecting the successive reductions in the liquidity coefficient.

Table 1. France: Money Rates and Treasury Bill Auctions, 1963-64

<u>Monthly Average</u>	Day-to-day Money ^{1/} Against Private Paper as Collateral		Date	Treasury 1-year Bill Auctions 1964	
	1963 % p.a.	1964 % p.a.		Amount FF Million	Rate % p.a.
March	3.43	4.98	March 16	200	3.47
April	3.92	5.05	April 15	100	3.45
May	3.91	6.18	May 15	100	3.34
June	4.76	2/ 4.93			
July	5.26	2/ 4.83			
<u>Daily Average</u> ^{1/}					
May 28	4.56	6.13	May 28	100	3.31
June 4	5.13	5.88	June 5	100	3.34
11	3.56	4.00	15	150	3.38
18	4.13	3.94	25	250	3.41
25	6.25	5.00	July 6	400	3.50
July 2	6.50	5.31	15	400	3.56
9	4.00	4.13			
16	3.56	4.31			
23	5.25	4.38			

^{1/} Average of daily range. 1963 data for two days later--e.g., May 30, not May 28.

^{2/} Average of the first four Thursdays in the month.

Sources: (i) Bank of France for daily quotes; (ii) INSEE, Bulletin Mensuel de Statistique, For monthly averages.

Bond yields change little; stock prices rise

Yields on major new security issues changed little from April to June, and were comparable to those on similar issues in the same period last year. The Credit National borrowed at 5.56 per cent in April 1964, compared with 5.60 per cent in April 1963; issues of the P.T.T. (the government postal, telegraphic, and telephone network) were floated at 5.60 per cent both in June 1964 and in June 1963. (See Table 2.) Market yields on outstanding issues moved narrowly from May 22 through June 17. The average yield on public sector bonds (Bank of France series) fell from 5.73 per cent on May 22 to 5.63 per cent on June 12, and then rose to 5.69 per cent on July 17. Yields on corporate issues fell 11 basis points to 6.29 per cent over the period May 22 to July 17. (See Table 3.)

The weekly index of French stock prices rose 6 per cent from a low of 73.3 on June 24 to 77.7 on July 15. The recovery of the market reportedly results in part from rumors that the Government intended to take steps to strengthen the market. During July it was also reported that the market was strengthened by foreign purchases. The average yield on stocks remains less than 2-1/2 per cent.

Table 2. France: Major New Issues and Yields to Lender, 1963-1964

1964	April	May	June
	% Per Year		
Caisse Nationale de Credit Agricole	5.62		
Credit National	5.56		
Grands Magasins "Au Printemps"	5.70		
Electricite de France			
9-years		5.45	
18-years		5.67	
P.T.T.			5.60
Depart. de la Seine			5.62
<hr/>			
1963	April	May	June
	% Per Year		
Groupement des industries agricoles, etc. "G.I.A.C."	5.70		
Credit National	5.60		
Compagnie Generale d'Elect.		5.69	
Treasury		4.49	
Groupement des Indust. Mecanique			5.70
P.T.T.			5.60

Savings forms show increase

Both "liquid and short-term savings" and new securities sold to the public rose over year-earlier levels during the first five and six months, respectively, of 1964. Both forms of savings combined amounted to about F 13.5 billion in 1964, compared to F 11.8 billion over the same period last year. This increase of 11 per cent has contributed to the success of the stabilization plan.

Table 3. France: Bond and Stock Yields and
 Stock Prices, 1963-1964
 (Per cent per year; or index, 12/31/61 = 100)

	Long-term bond Yields ^{1/}				Common Stocks ^{3/}			
	Public Sector		Corporates		Yield at end-month		Price Index (Weekly) 12/29/61 = 100	
	1963	1964	1963	1964	1963	1964	1963	1964
<u>MONTHLY AVERAGE</u>								
March	5.48	5.66	6.03	6.33	1.73	2.09	97.1	83.4
April	5.45	5.66	6.02	6.33	1.80	2.08	97.2	83.4
May	5.52	5.70	6.05	6.36	1.83	2.22	93.6	79.3
June	5.41	5.66	6.09	6.34	1.73	n.a.	91.7	75.2
<u>WEEK ENDING</u> ^{2/}								
May 22	5.52	5.73	6.08	6.40			93.1	78.2
29	5.54	5.71	6.06	6.36			93.0	78.3
June 4	5.46	5.65	6.10	6.36			92.6	77.1
12	5.37	5.63	6.12	6.35			92.0	75.5
19	5.42	5.66	6.10	6.34			91.1	74.7
26	5.38	5.69	6.05	6.33			90.9	73.3
July 3	5.48	5.72	6.09	6.32			89.5	77.5
10	5.46	5.71	6.06	6.31			91.0	77.5
17	5.38	5.69	6.00	6.29			91.9	77.7
26	5.24	n.a.	5.96	n.a.			94.7	n.a.

1/ Monthly average bond yields are averages of weekly averages supplied by Bank of France. These data differ in level and movement from the yield series published by INSEE and the Conseil National de Credit. See previous (July 17, 1964) French Capital Market. Indexed, participating, and tax-exempt issues excluded.

2/ Dates given for 1964. 1963 data generally are for week ending two days later--e.g., May 24, not May 22.

3/ Monthly average stock prices are averages of weekly index.

Sources: Bank of France, and INSEE, Bulletin Mensuel de Statistique.

New "liquid and short-term savings" in the first five months of 1964 totalled F 5.42 billion, up more than 27 per cent over the year-ago level. New savings were up sharply in both the first and second quarter of 1964 compared to a year ago. The increases were channelled into bank time deposits and deposits with savings banks while investment in Treasury bills fell. (See Table 4.)

Table 4. France: Liquid and Short-term New Savings, 1963-1964
(Changes in billions of francs)

	Jan.-Mar.	April-May p/	Jan.-May p/
Public Treasury Bills			
1964	.19	.07	.26
(1963)	(.94)	(.36)	(1.30)
Bank Time Deposits and Deposit Certificates			
1964	1.07	.04	1.11
(1963)	(.87)	(-.24)	(.63)
Deposits with Savings Banks			
1964	2.94	.34	3.28
(1963)	(1.59)	(.15)	(1.74)
Certificates of the Caisse Nationale de Crédit Agricole			
1964	.67	.10	.77
(1963)	(.48)	(.11)	(.59)
Total			
1964	4.87	.55	5.42
(1963)	(3.88)	(.38)	(4.26)
% Rise from year earlier	26	45	27%

p/ Provisional

Source: Conseil National du Crédit

Table 5. France: New Securities Sold to Public, 1963-1964
(billion francs or per cent per year)

<u>PUBLIC SECTOR</u> ^{2/}	<u>Quarter I</u>	<u>Quarter II</u> ^{1/}	<u>Total</u> ^{1/} <u>Jan.-June</u>
Treasury			
1964	1.50	--	1.50
(1963)	(--)	(1.00)	(1.00)
All Other			
1964	1.35	2.80	4.15
(1963)	(2.39)	(1.29)	(3.68)
Total Public Sector			
1964	<u>2.85</u>	<u>2.80</u>	<u>5.65</u>
(1963)	<u>(2.39)</u>	<u>(2.29)</u>	<u>(4.68)</u>
% Rise, 1964/1963:	19%	22%	21%
<u>PRIVATE SECTOR</u> ^{2/}			
Bonds			
1964	.13	.10	.23
(1963)	(.26)	(.33)	(.59)
Stocks and Participations			
1964	1.10	1.13	2.23
(1963)	(.93)	(1.35)	(2.28)
Total Private Sector			
1964	<u>1.23</u>	<u>1.23</u>	<u>2.46</u>
(1963)	<u>(1.19)</u>	<u>(1.68)</u>	<u>(2.87)</u>
% Rise, 1964/1963:	3%	-37%	-17%
<u>TOTAL NEW ISSUES</u>			
1964	4.08	4.03	8.11
(1963)	<u>(3.58)</u>	<u>(3.97)</u>	<u>(7.55)</u>
% Rise, 1964/1963:	14%	2%	7%

^{1/} Provisional

^{2/} Issues of nationalized industries included under "Private Sector."

Source: Conseil National du Cr dit.

New securities sold to the public amounted to F 8.1 billion during the first half of 1964. However, the increase over a year ago fell from 14 per cent in the first quarter to 2 per cent in the second quarter, so that for the half-year new issues were only 7 per cent above a year ago. (See Table 5.) While public sector bond issues were up 21 per cent over the first half of 1963, private sector bond and stock issues fell 17 per cent below a year earlier. The lack of strength of the private securities market through June probably is related to two factors: (i) the possibility that private real investment in industry may fall 5 per cent in 1964, according to a recent INSEE survey of business investment intentions, perhaps because of uncertainties about the effects of the stabilization plan on output levels and profits; and (ii) the weakening of financial markets as reflected in the fall of stock prices through June 24 and the higher level of long-term bond yields.

Spot franc stays at ceiling; forward franc strengthens

The spot franc remained almost continuously at its ceiling price of 20.44 U.S. cents through mid-July, after weakening briefly to 20.398 cents on June 10. Appreciable reserve gains in June reflected the continued strength of the franc. However, the supply of foreign exchange was somewhat reduced when inflows of short-term foreign funds fell off after the authorities took steps in early June to ease the Paris money market. The Exchange Stabilization Fund obtained substantial amounts of foreign exchange through mid-July; however the gains were at a lower rate than in June.

The discount on the forward franc declined. The discount on three-month francs, which had risen about 100 basis points during May, reaching a range of 1.95-2.10 per cent per annum on May 27th, fell to about 1.62 per cent on June 10th, increased slightly at the end of the half-year, and fell to about 1.02 per cent on July 16th. (See Table 6.) The rising discount on the forward franc during May was associated with the large inflows of foreign exchange, which were induced in part by the tightness of the Paris money market. The subsequent decline in the forward discount reflected the easing of the money market.

Payments surplus fell in first quarter

Provisional figures for the Franc-area balance of payments in the first quarter of 1964 show a surplus of \$103 million, less than one-half the \$217 million surplus recorded in the first quarter of 1963. The main reason for the drop was a wide swing in the current account, from a \$102 million surplus in 1963 to a \$93 million deficit in 1964. Most of this deterioration of nearly \$200 million was caused by an adverse movement of the trade balance, but the surplus on current invisibles also decreased significantly. (See Table 7.) The net capital inflow of \$70 million was \$10 million less than a year earlier, but the surplus of the overseas Franc-area countries of \$66 million was up \$16 million. The over-all balance benefited from a favorable shift of \$76 million in errors and omissions and items in transit.

Table 6. France: Exchange Rates and Discount on Forward Franc

	<u>Spot rate</u> (U.S. cents)	<u>Forward rate (90-day)</u> (per cent per annum)
<u>1964</u>		
Feb. 5	20.410	.45- .50
Mar. 5	20.408	.50- .55
April 2	20.410	1.00-1.05
May 5	20.410	1.10-1.22
14	20.410	1.35-1.48
21	20.409	1.68-1.83
27	20.409	1.95-2.10
June 4	20.410	1.95-2.05
10	20.398	1.55-1.68
17	20.410	1.60-1.73
24	20.410	1.75-1.88
July 1	20.410	1.15-1.25
8	20.409	1.05-1.15
16	20.410	.98-1.05

Trade deficit declined in second quarter

Available data suggest that the payments position improved during the second quarter, partly as a result of short-term capital inflows in May and June and partly because France's trade deficit with foreign currency areas narrowed. The seasonally-adjusted deficit on total trade (customs basis, imports c.i.f.) fell from \$313 million in the first quarter to \$230 million in the second. The improvement was caused mainly by a reduction in imports. On trade with foreign currency areas alone, the customs data suggest that the seasonally-unadjusted deficit, estimated in payments terms (imports f.o.b.), fell from \$120 million in the first quarter to \$95 million in the second. (The actual first-quarter trade deficit, payments basis, was \$125 million.)

Reserve gains were smaller in June

The increase in official reserves of gold and foreign exchange (adjusted for certain official transactions) rose from \$72 million in the first quarter to \$298 million in the second. Following the May increase of \$147 million, the adjusted gains dropped to \$95 million in June. In part the reduced June accruals reflected \$33 million of scheduled official debt and interest payments; in addition, short-term capital inflows probably fell off because the money market was less tight than in May. Adjusted gains in the first three weeks of July appear to have been around \$34 million.

Table 7. Metropolitan France: Balance of Payments
with Foreign Currency Areas
(Millions of U.S. dollars)

		Calendar Year	IV ^{1/}	I ^{2/}
A. CURRENT ACCOUNT				
Goods	{ 1963-64 (1962-63)	177 (---)	36 (94)	-125 (31)
Services	{ 1963-64 (1962-63)	207 (---)	76 (110)	13 (58)
Donations	{ 1963-64 (1962-63)	127 (---)	41 (- 49)	19 (13)
Total	{ 1963-64 (1962-63)	511 (---)	153 (155)	- 93 (102)
B. CAPITAL ACCOUNT				
Short-term Non-monetary	{ 1963-64 (1962-63)	- 72 (---)	- 37 (- 19)	- 27 (- 2)
Long-term Private	{ 1963-64 (1962-63)	516 (---)	139 (110)	110 (113)
Long-term Public ^{3/}	{ 1963-64 (1962-63)	-139 (---)	- 23 (- 22)	- 13 (- 32)
Total	{ 1963-64 (1962-63)	305 (---)	80 (69)	70 (80)
C. ERRORS, OMISSIONS, AND ITEMS IN TRANSIT				
	{ 1963-64 (1962-63)	- 4 (---)	-164 (- 45)	60 (- 16)
METROP. FRANCE ^{3/} OVERALL BALANCE				
	{ 1963-64 (1962-63)	812 (---)	69 (178)	37 (167)
D. NET OVERSEAS FRANC AREA				
	{ 1963-64 (1962-63)	132 (---)	50 (26)	66 (50)

(Continued on page 11.)

Table 7. Metropolitan France: Balance of Payments
with Foreign Currency Areas
(Millions of U.S. dollars)
(Continued)

		Calendar Year	IV ^{1/}	I ^{2/}
E. BALANCE OF FRANC ^{3/} AREA	{	1963-64	944	119
	{	(1962-63)	(---)	(204)
				(217)
MONETARY MOVEMENTS (- is increase)				
F. COMMERCIAL BANKS	{	1963-64	193	27
	{	(1962-63)	(---)	(- 30)
				(144)
G. PUBLIC SECTOR				
Official Reserves	{	1963-64	-783	-135
	{	(1962-63)	(---)	(- 80)
				(-388)
Other	{	1963-64	- 56	- 10
	{	(1962-63)	(---)	(19)
				(28)
IMF Fr. Holdings	{	1963-64	- 7	---
	{	(1962-63)	(---)	(---)
				- 51
Total	{	1963-64	-846	-146
	{	(1962-63)	(---)	(- 61)
				(-360)
H. DEBT PREPAYMENTS (ADD)	{	1963-64	-290	---
	{	(1962-63)	(---)	(-118)
				(---)
NET MONETARY CHANGES BEFORE DEBT PRE- PAYMENTS				
	{	1963-64	-944	-119
	{	(1962-63)	(---)	(-209)
				(-216)

^{1/} 4th quarter data are residuals between yearly totals and data for first three quarters.

^{2/} 1st quarter 1964 data are preliminary.

^{3/} Before debt prepayments by French Government. See entry "H" for quarterly debt prepayments.

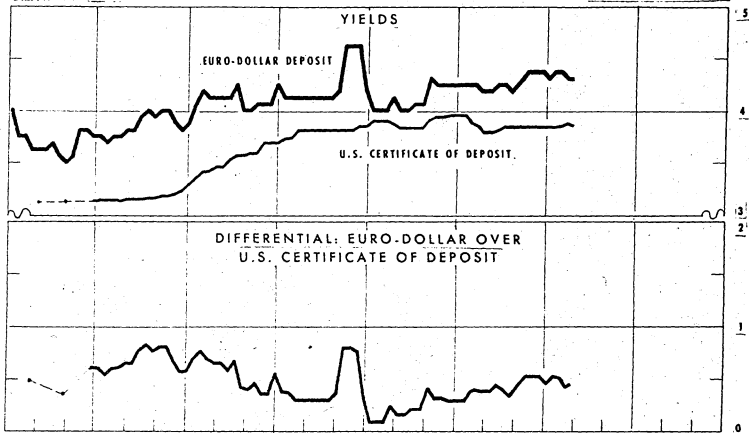
Totals do not add because of rounding areas; also, data are periodically revised.

Europe and British Commonwealth Section.

Chart 1
INTERNATIONAL MONEY MARKET YIELDS FOR U.S. DOLLAR INVESTORS:

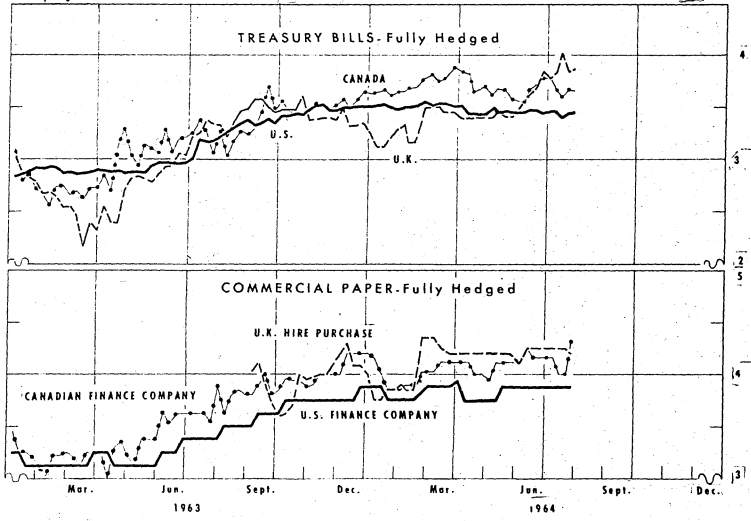
3-MONTH EURO-DOLLAR DEPOSIT VS. CERTIFICATE OF DEPOSIT

Wednesday figures Per cent per annum



NEW YORK OFFER RATES ON SELECTED 3-MONTH INVESTMENTS

Friday figures

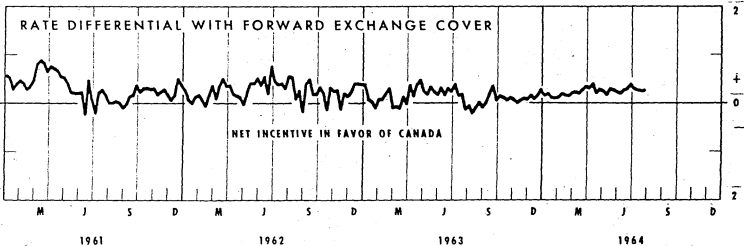
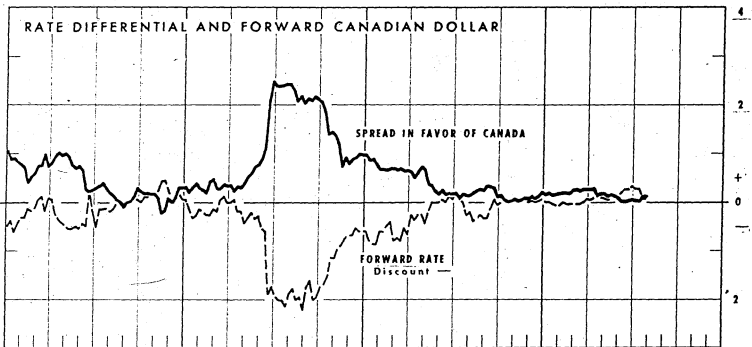
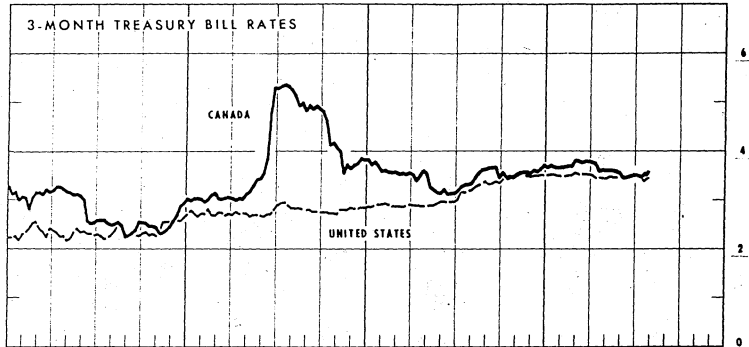


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Chart 2
INTEREST ARBITRAGE, UNITED STATES / CANADA

Friday figures*

Per cent per annum

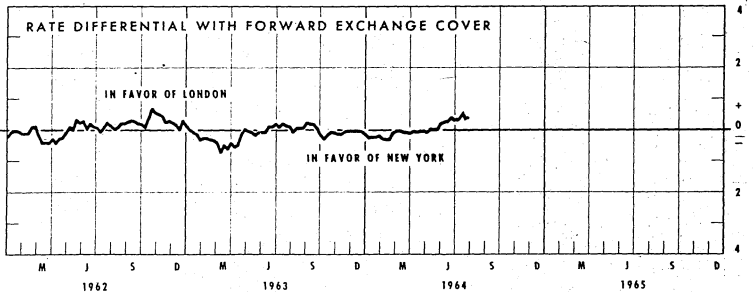
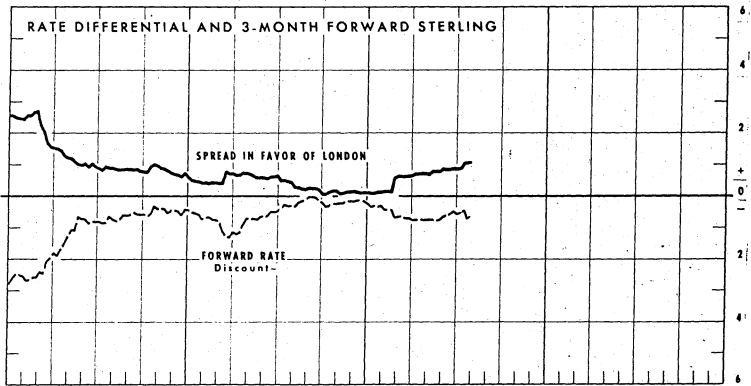
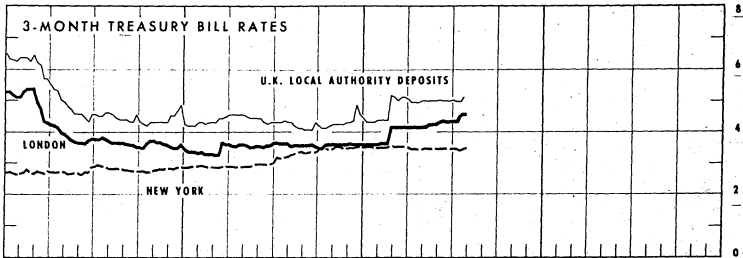


* Thursday figures 1961-1962, Friday thereafter

Chart 3
INTEREST ARBITRAGE, NEW YORK/LONDON

Friday figures

Per cent per annum



15

Chart 4
INTEREST ARBITRAGE FOR GERMAN COMMERCIAL BANKS

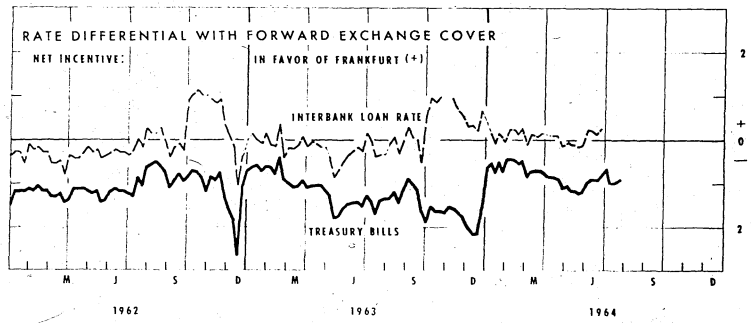
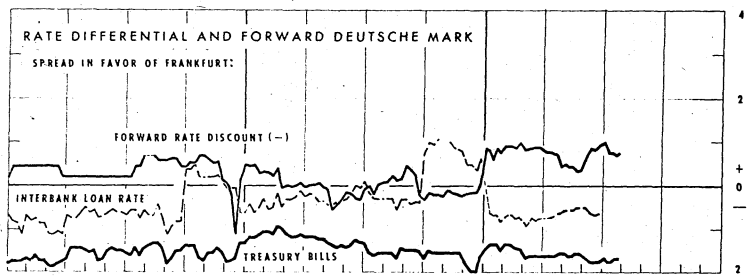
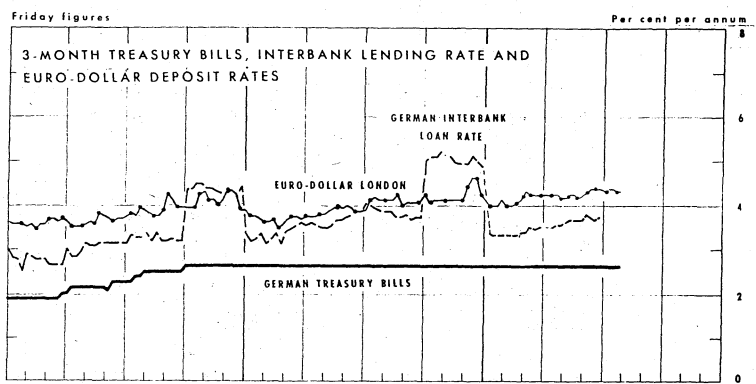
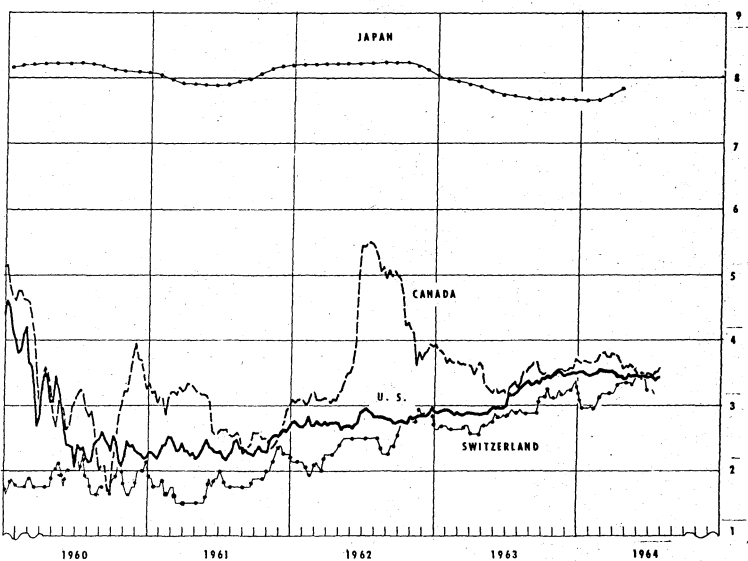
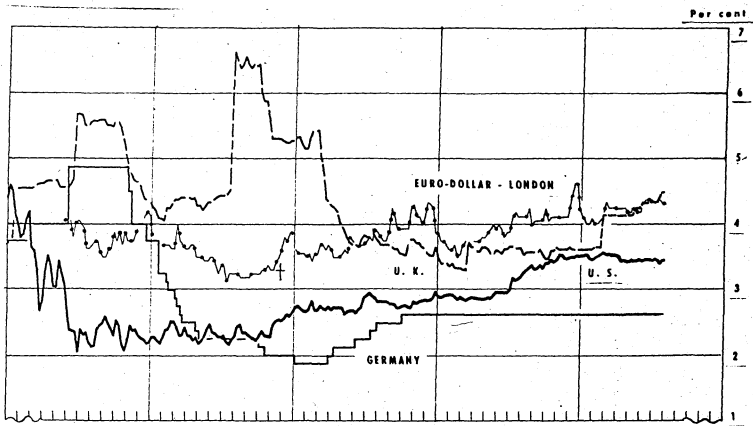


Chart 5
SHORT-TERM INTEREST RATES *



* 3-month treasury bill rates for all countries except Japan. (Average rate on bank loans and discounts)
 † 3-month rate for U. S. dollar deposits in London.
 ‡ 3-month deposit rate for Switzerland.

Chart 6
LONG-TERM BOND YIELDS

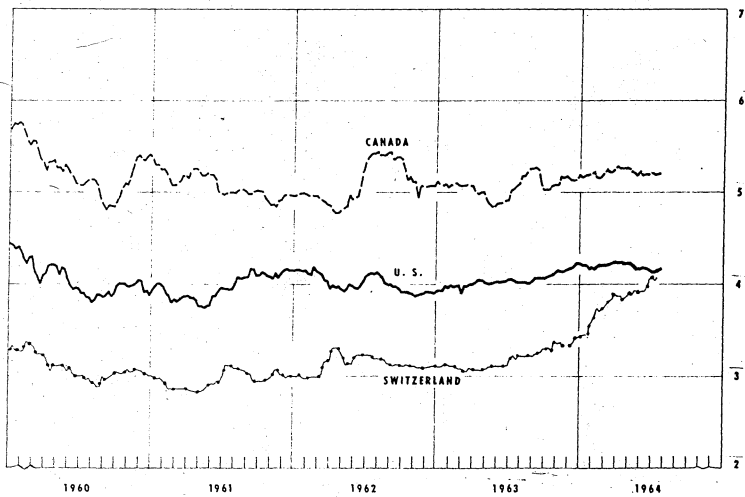
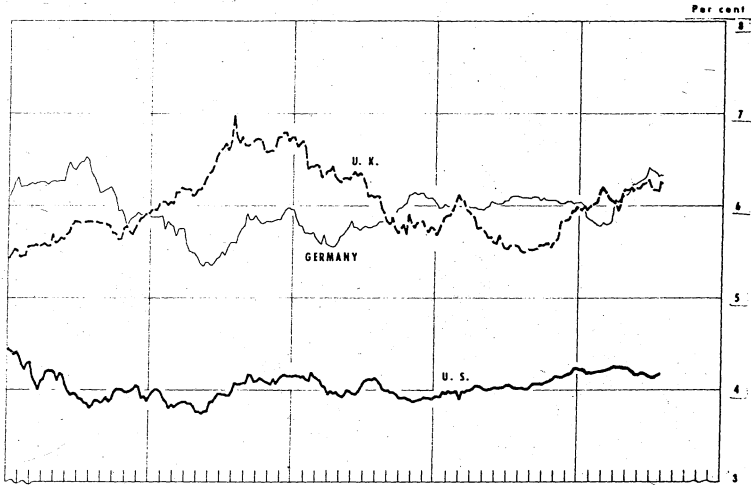
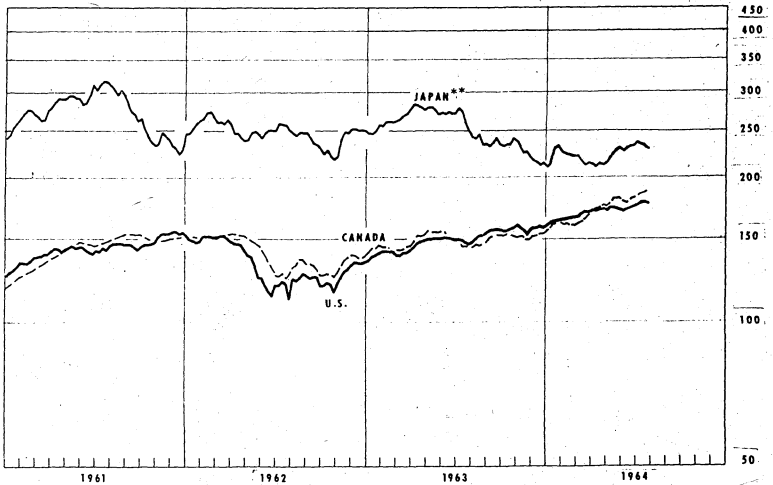
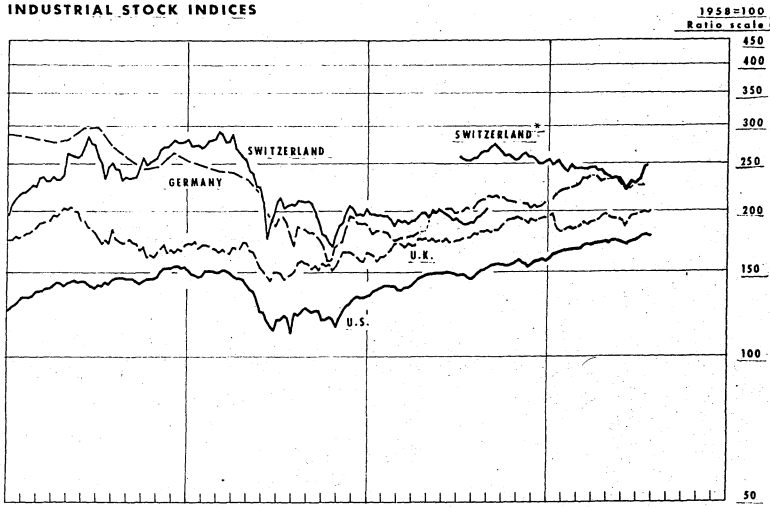


Chart 7
INDUSTRIAL STOCK INDICES



* New series Swiss Bank Corporation industrial stock index
 ** Japan index of 225 industrial and other stocks traded on the Tokyo exchange

Chart 8

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

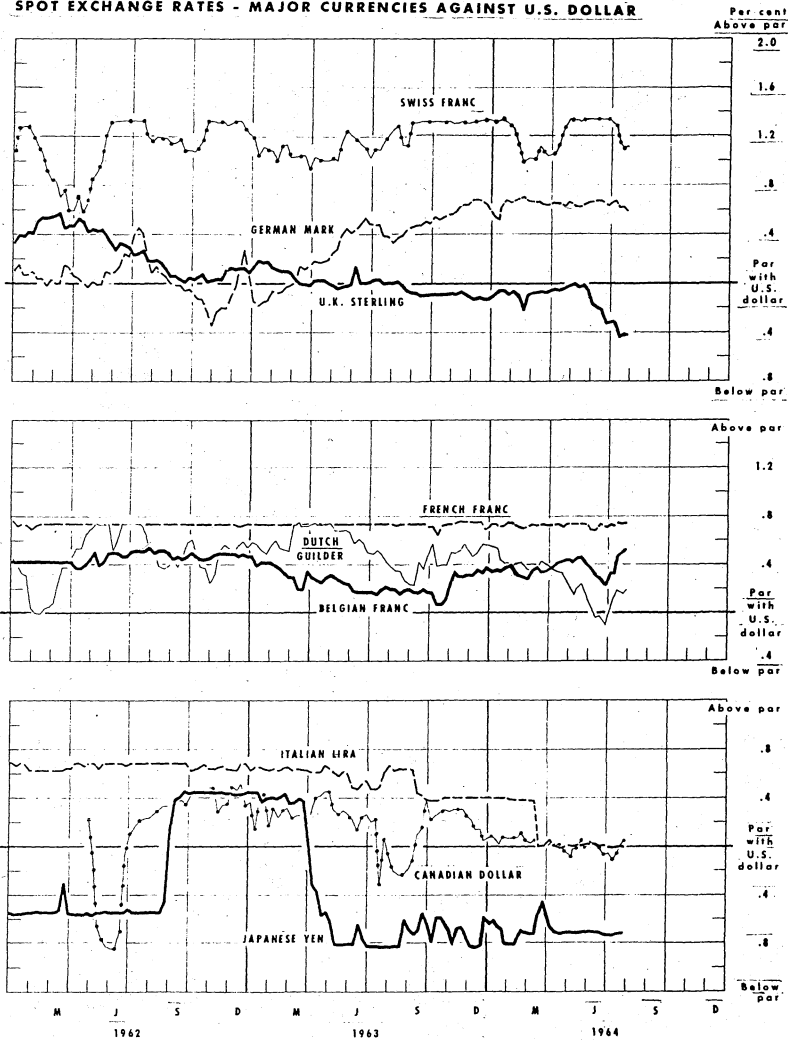
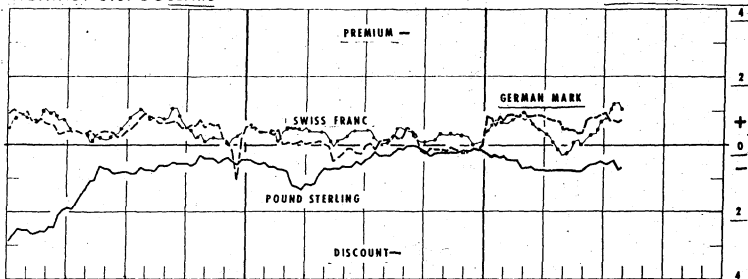


Chart 9
3-MONTH FORWARD EXCHANGE RATE

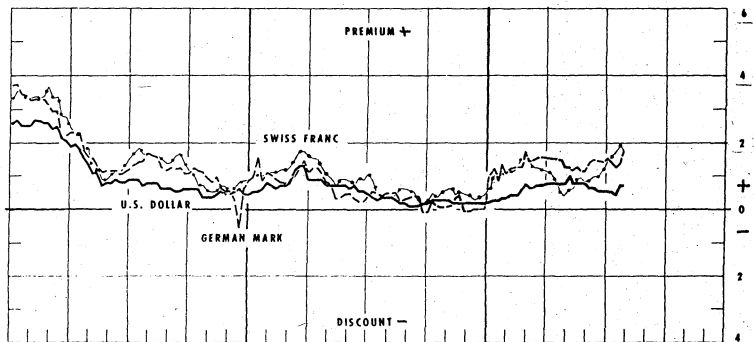
Friday figures

AGAINST U.S. DOLLARS

Per cent per annum



AGAINST POUND STERLING - LONDON



AGAINST POUND STERLING - LONDON

