DIVISION OF INTERNATIONAL FINANCE

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No. 16
CAPITAL MARKET DEVELOPMENTS ABROAD

I. Germany
II. Nine Charts on Financial Markets Abroad

### I. Germany: Money and Capital Markets During June

The money market in Frankfurt tightened in the second half of June following unexpected ease during the first half of the month. The tightness was attributed in large part to a movement of foreign funds out of Germany as a result of some shift in attitudes about the outlook for exchange rates, and some fear of a future crisis in Berlin. Day-to-day money was in ample supply for most of the month. A fall in Euro-dollar rates in London, coupled with the rise in Frankfurt day-to-day rates, all but eliminated the gap between call money rates in the two centers.

On June 26, spot dollars in Frankfurt sold at the highest rate since the March revaluation of the mark; after rising somewhat higher the dollar eased slightly at the end of June. The slight improvement in late June was attributed to liquidation of forward contracts and some selling by foreign holders of German bonds and shares; press comment has also implied that there has been some Federal Bank intervention in the spot dollar market. Discounts on the forward dollar and on forward sterling increased in the latter part of June.

German bond and stock markets were generally quiet in June. The recent decline in bond yields was arrested, at least temporarily, as the liquidation by foreigners of some of their German holdings led to a decline in prices and a rise in yields. Issues of public authorities declined in price, and a new German Federal Railways issue of July 4 found only moderate demand. Late June selling in the stock market left early July share prices at the levels of early June despite a good rally in the middle of the month.

Money-Market. The German money market, which had eased somewhat during the first half of June, became tight after the middle of the month and eased only slightly at the very end of the month. During the first ten days of July the condition of the market changed little from that at the end of June. Throughout June and into July, rates for one-month and three-months money remained around 3 per cent despite the June I cut in minimum reserve requirements, much of the additional liquidity being absorbed by major tax payments and the seasonal demand for funds to settle semi-annual obligations. However, day-to-day money was in ample supply throughout the first half of June, and rates fell to as low as 2 per cent (briefly to 1 3/4 per cent) around the middle of the month. Later, day-to-

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DECONTROLLED AFTER SIX MONTHS

day money rates rose, holding at around 2 1/2 perseent for most of the remainder of the month, but rising in early July to the level of the discount rate (3 per cent) and on one day to 3 1/8 per cent. The ease in the day-to-day rate earlier in June was attributable in part to the generally unexpected June 1 reduction in minimum reserve requirements.

# Frankfurt Inter-bank Money Rates

1961		day money Highest rate	One-month loans	Three-month loans
April (monthly range) May	2.38 2.38	3.50 3.13	3.00 - 3.25 2.75 - 3.13	
June (weekly range) 1-7 8-15	2.38 1.75	2.88 2.50	2.88 - 3.13	
16 <b>-</b> 23 24 <b>-</b> 30		2.50 3.13	2.75 - 3.00 2.88 - 3.00	3.00 - 3.13 3.13 - 3.25
July (weekly range) 1-7	2.63	3.13	3.00	3.13

There was no change during June or early July in the rates at which the Federal Bank is prepared to sell Treasury bills and short-term bonds in the open market and, as of July 13, they remained at the levels set on May 5.

				60-90 days	6-month		
	From			Treasury bills	Treasury bond		
	Dec. 1961	20,	1960	3.75	4.00		
	Jan.	20		3.25	3.50		
٥.	Mar.	23		2.50	2.75		
	Apr.	26		2.38	2.63		
	May	5		2.25	2,50		

After mid-June, rates paid on Euro-dollar deposits in London declined somewhat. This, coupled with the rise in day-to-day money in Frank-furt and the maintenance of a three-month Frankfurt rate of around 3 1/8 per cent, narrowed the spread between the two rates. In late April a moderate gap-in both the day-to-day and three-months rate-in favor of London had widened; it fluctuated in May but remained until early July. By July 7, however, there was almost no incentive to move day-to-day funds from Frankfurt into Euro-dollars in London, and the gap between the three-month rates favored London by only 3/16 per cent.

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

	¥ 1.	Day-to-day money in Frankfurt	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	
April	L 7	3.19	3.00	-0.19	3.38	3.63	0.25
	14	3.00	3.00		3.38	3.63	0.25
	21	2.75	3.00	0.25	3.38	3.63	0.25
	28	2.63	2.88	0.25	2.94	3.56	0.62
May	- 5	2.82	3.00	0.18	3.00	3.56	0.56
	12	2.88	2.88		3.00	3.56	0.56
	19	2.88	2.88		3.13	3.44	0.31
	26	2.75	2.88	0.13	3.13	3.44	0.31
June	2	2.50	2.88	0.38	3.13	3.44	0.31
	9	2.50	2.88	0.38	3.07	3.50	0.43
	16	2.13	2.88	0.75	3.07	3.50	0.43
	23	2.50	2.88	0.38	3.07	3.38	0.31
	30	2,50	2.75	0.25	3.13	3.38	0.25
July	7	2.63	2.75	0.12	3.13	3.31	0.18

During June and early July the spread between Treasury bill yields in the United States and Germany continued to favor, but only negligibly, the U.S. bill over the German bill on a net incentive basis. There was almost no change in the spread between the U.S. bill rate and the German inter-bank loan rate, with the German rate still favored on a net incentive basis (see charts 3 and 4); as of July 7 there was an incentive of about 0.83 per cent per annum on the basis of the Frankfurt inter-bank loan rate. There was thus no apparent incentive for a movement of German bank funds to the United States.

		German		bank loa bill ra		Bundesbank's Treasury bill		
						selling rate vs. U.S. bill rate		
		German	Spread		Net		Spread	Net
		3 mos.	over	Spread	incentive	3 mos.	over	incentive
		inter-bank	U.S.	over	on covered	bill	U.S.	on covered
		loan rate	bill	U.S.	basis <u>l</u> /	rate	bill	basis1/
1961								
1961 May	5	3.00	2.18	0.82	0.82	2.25	0.07	0.07
	12	3.00	2.22	0.78	0.78	2.25	0.03	0.03
	19	3.13	2.29	0.84	0.84	2.25	-0.04	-0.04
	26	3.13	2.39	0.74	0.74	2.25	-0.14	-0.14
June	2	3.13	2.47	0.66	0.66	2.25	-0.22	-0.22
	9	3.07	2.35	0.72	0.72	2.25	-0.10	-0.10
	16	3.07	2.33	0.74	0.74	2.25	-0.08	-0.08
	23	3.07	2.28	0.79	0.79	2.25	-0.03	-0.03
	30	3.13	2.27	0.86	0.86	2.25	-0.02	-0.02
July	7	3.13	2.30	0.83	0.83	2.25	-0.05	-0.05

1/ To encourage capital outflow the Bundesbank provides forward dollars flat to German banks.

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The late June tightening of the German money-market caused some German banking circles to express concern over the fact that the market could at any time come under more severe strain if foreign investors moved more funds out of Germany as a result of exchange developments and the situation in Berlin. Some observers called for a further easing of reserve requirements in order to increase market liquidity. Other observers, without reference to reserve requirements, have pointed out that the present situation in the German money market is not favorable to any further reduction in rates as has been desired by the German Federal Bank. Some have called for a further reduction in the Bank's selling rate for Treasury bills and shorterm bonds if the Bank desires a further lowering of the German interest rate structure.

Foreign Exchange. On the foreign exchange markets the spot rates for both the dollar and the pound sterling strengthened after mid-June. The improvement in the spot rate was due largely to the liquidation of maturing forward contracts through the purchase of spot dollars, and to some selling of German bonds and shares by foreigners, partly in response to the Berlin situation. On June 26, spot dollars (which on June 11 had been at DM 3.9711) sold at DM 3.9776, the highest rate since revaluation, and were at higher levels of DM 3.9786 on June 27 and DM 3.9796 on June 28. By June 30 the rate was down slightly to 3.9770 and continued at this level for the first few days of July.

In the forward market, however, discounts increased in the latter part of June; on June 27, 90-day dollars were quoted at a discount of 2.52 per cent per annum and 90-day sterling at 6.88 per cent, compared with 1.72 per cent and 3.83 per cent respectively on June 14.

DM-Dollar middle rate	par (DM 4.00 = \$1
April 28	3.9701
May 26	3.9701
June 2	3.9701
9	3.9701
1),	3.9711
22	3.9757
23	3.9769
26	3.9776
27	3.9786
28	3.9796
. 30	3.9770
July 7	3.9772

Bond Market. The German bond market was calm throughout June and in early July. The strengthening of the spot dollar had a decided effect on the capital market. The German press circulated reports that the German Federal Bank was intervening in the exchange markets "in decisive fashion," and these reports increased fears on the part of foreign investors that there might be a further drop in the mark as against the dollar and possibly the Swiss franc. These fears caused foreigners, principally

Americans, Swiss, and Dutch, to sell some of their German holdings. Fears about the Berlin situation may also have been a factor in explaining these sales. At the end of the month, foreigners slowed the pace of their sales, although the unrest on the exchange markets continued.

As a result of selling by foreign investors, bond prices fell and yields rose slightly. The recent downward trend in German bond yields was arrested, at least temporarily, and the prevailing rate in the German capital market, which had been about  $5\frac{1}{2}$  per cent in May, was up slightly above this level in June. The trend toward a long-term interest rate of around 5 per cent, reflected by the fact that about half of the mortgage bonds issued in May had been issued at 5 per cent, was temporarily stopped. There was little activity in mortgage bonds in June. At the end of the month, five per cent mortgages dropped to 9h 3/h per cent, down fractionally from the end of May.

During June, issues of the public authorities declined generally in price from 1 to 1 3/4 points. The  $5\frac{1}{2}$  per cent German Federal Railways issue stood at 96 5/8, down a point from early June. The  $5\frac{1}{2}$  per cent public authorities issues were quoted at around 100 3/8 while the  $5\frac{1}{2}$  Berlin Loan of 1955 was at par of 100. The 1958 German Federal Railways  $5\frac{1}{2}$  per cent 25-year issue of 1958 was at 100 as of July 7, down from 101 5/8 as of June 9.

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

	Mortgage bonds	Industrial bonds	Loans of public authorities	
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 <b>.7</b> '	5.7	
May	5.8	5.6	5.6	

The new DM 250 million (\$62.5 million) 12-year 5 per cent German Federal Railways issue offered between July 4 and 12 at a price of 98 (an effective yield of 5.17) was not fully placed on the first day of issue, and demand was reported as mild. The issue was expected to be placed by the last day of offer, however. Financial circles had expected lower reserve requirements to be instituted in connection with the public offering of this latest government issue, but the Central Banking Committee of the German Federal Bank took no action at its meeting of June 29.

Japanese officials, who have held discussions at various times over the past two months with German representatives on the possible issue of Japanese bonds in the German market, have recently sent representatives

to Germany to complete arrangements for a previously-discussed loan for the municipality of Osaka. According to Foreign Director Ishii of the Fuji-Bank (Tokyo) the Japanese authorities are now seeking to float this loan on the German market within the next few weeks. The issue, in an amount of DM 100 million (\$25 million), would run from 7 to 20 years and would offer an interest rate of 7 per cent. No issue price has been mentioned. A consortium of German banks would underwrite this issue as well as other Japanese issues, planned but not yet identified.

Stock Market. The German stock market has entered a period of "uncertainty and caution," ascribed largely to "exchange instability" but also to the developing situation in Berlin. As in the case of the bond market, in June the stock market was adversely affected by this instability as foreign holders of shares partially liquidated their holdings in the face of the possibility of further strengthening of the dollar and Swiss franc vis-a-vis the mark.

However, German stock prices at the end of June were about at the end of May level, easing at the end of June following a good rally during the first half of the month.

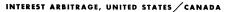
# Frankfurt Allgemeine Zeitung Index of Industrial Share Prices (Dec. 31, 1954 = 100)

Apr.	28		426.88
May	5		434.01
	12		447.97
	19		463.04
	26		465.69
June	3		467.15
	10		472.20
	16		477.88
	23		464.29
	30		462.67
	May	May 5 12 19 26 June 3 10 16 23	May 5 12 19 26 June 3 10 16 23

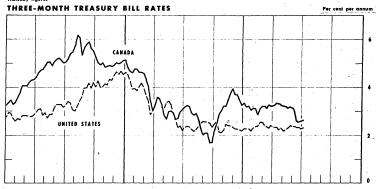
The German stock exchanges are now especially sensitive to the reactions of foreign holders of stocks. In recent months, foreign funds, principally from the United States, Switzerland, and the Netherlands, have moved into German shares. It has been noted that during the past year U.S. investment trusts have moved heavily into German stocks, especially into such leading issues as Farbenfabrikan Bayer A.G., Siemens, Hoechst Farbenwerke, Dresdner Bank, and Badische Anilin und Soda Fabrike. Exchange market developments can have an important effect upon such holders of German stocks.

# European Section.

II. Nine Charts on Financial Markets Abroad
Chart 1 - Interest Arbitrage U.S./Canada
Chart 2 - Interest Arbitrage New York/London
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Chart 7 - Industrial Stock Indices
Chart 8 - Major Currencies in Terms of
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Chart 9 - 3-month Forward Rate--London Quotations



Thursday figures





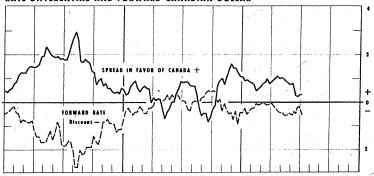
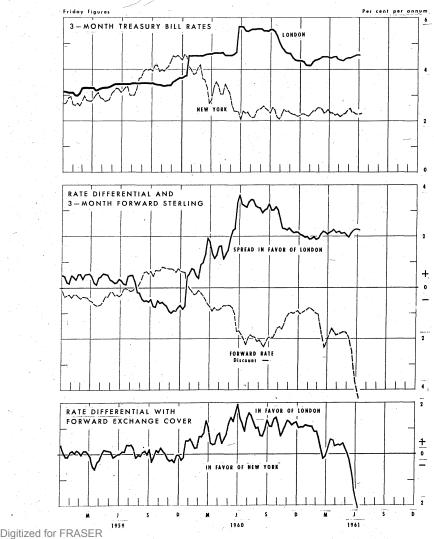




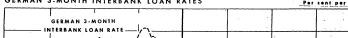


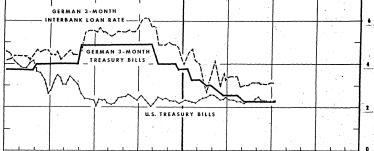
Chart 2
INTEREST ARBITRAGE, NEW YORK / LONDON



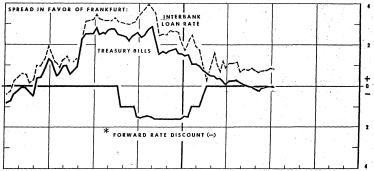
http://fraser.stlouisfed.org/ Federal Reserve Bank of St. Louis 3-MONTH TREASURY BILL RATES AND



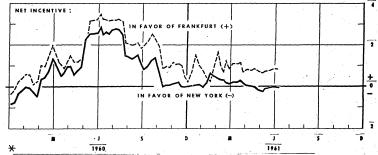




## RATE DIFFERENTIAL AND FORWARD DEUTSCHE MARK

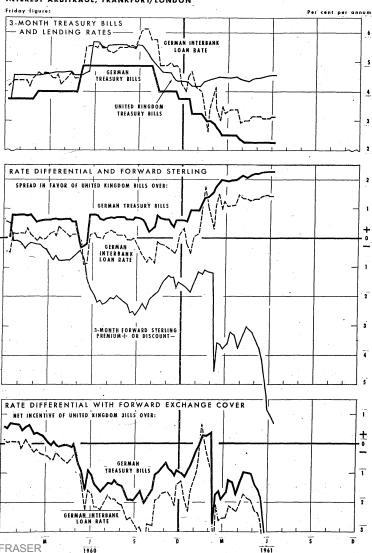






Note: Special forward dollar rate (either flat or premium on spot) available to German commercial banks.

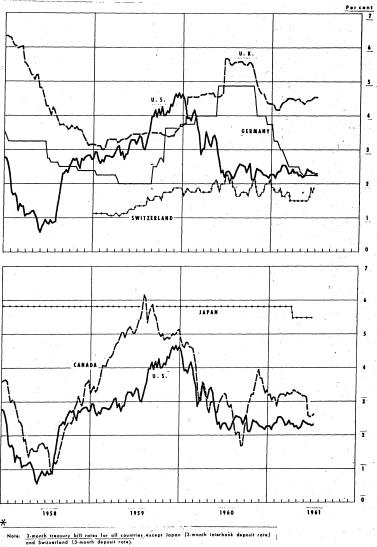
## INTEREST ARBITRAGE, FRANKFURT/LONDON



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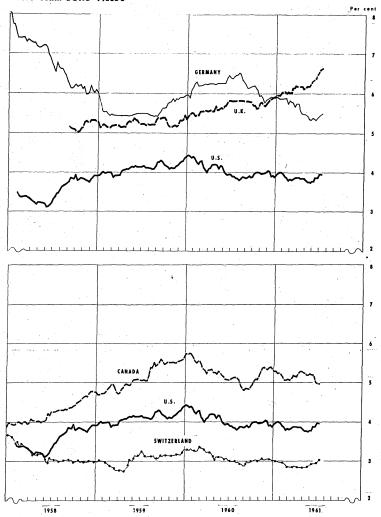
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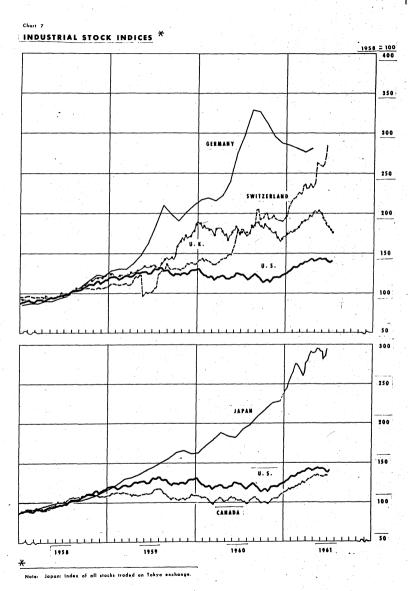




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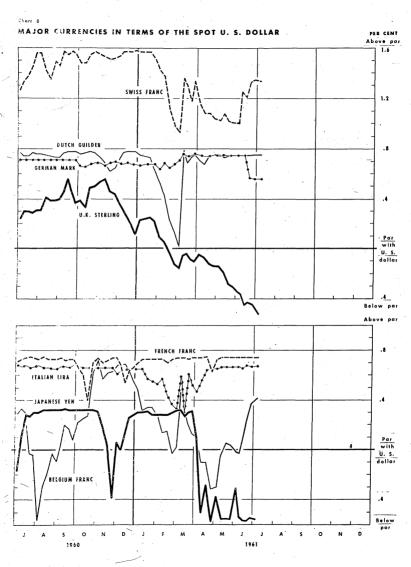
Chart 6
LONG-TERM BOND YIELDS





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