

H. 13  
No. 44

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**CAPITAL MARKET DEVELOPMENTS ABROAD**

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

I. Germany: Money and Capital Markets during December

Despite substantial repatriation of money-market funds from abroad by German commercial banks, the money market in Germany remained tight during December and short-money rates moved up appreciably late in the month. On December 15 the Bundesbank removed its charge of 0.25 per cent for buying forward dollars to slow down the inflow into Germany. The return of assets from abroad contributed to a sudden rise in Euro-dollar and sterling deposit rates in London in the second half of the month (see Capital Market Developments, No. 43, January 19, 1962).

After the turn of the year conditions in the Frankfurt market changed abruptly. Commercial banks began shifting funds out of Germany in very large volume to take advantage of attractive money-market yields abroad. On January 2, the Bundesbank reinstated a charge of 0.25 per cent for dollar swaps, raised it to 0.38 per cent on January 8 and to 0.50 per cent on January 10, presumably in an attempt to slow down the outflow. The Bank again reduced its selling rate on 60- to 90-day Treasury bills on January 4, as the authorities continued to promote lower rates in Germany. As a result, money rates declined appreciably in early January in spite of the capital exports.

The German bond market maintained into December the improvement which commenced in mid-November. The first significant activity in industrial and Federal agency securities since July took place as several large new issues were absorbed in December at the 6 per cent rate established in November. The improved market tone suggests that foreign purchasers may have re-entered the German bond market during December in some volume, especially since the latest German balance-of-payments estimates show for November a slight inflow of private long-term capital after several months of outflow during the Berlin crisis. On the other hand, stock prices had a downward tendency in December and early January.

During the course of 1961 German interest rates moved to substantially lower levels. Short-term rates and commercial bank loan and deposit rates declined in the first three-quarters of the year, and the Bundesbank twice reduced its discount rates, as may be seen in the following summary of interest rates (in per cent per annum):

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	1961		Spring 1959
	January	December	Low point
Discount rate	4	3	3
Treasury bills (60-90 day)	3-3/4	2	2
Interbank loan rates:			
Day-to-day	3.94	3.00	2.31
Three-month	4.44	3.88	2.69
Commercial bank rates:			
Loans (maximum)	8.50	7.50	7.25
Savings deposits (6-12 mos.)	4.25	3.50	3.25
Time deposits (6-12 mos.)	3.50	2.75	2.50
Bond yields:			
Mortgage	6.2	6.0	5.8
Industrial	5.8	6.1	5.7
Public authorities	6.1	6.0	5.6
Total bonds	6.1	6.0	5.7

Bond yields also declined until mid-year, but began to rise in July reflecting the effect of the Berlin crisis on the German capital market.

Capital exports by the commercial banks, which the Bundesbank has been promoting, help reduce official reserves and ease pressures on the key currencies, but they also help tighten the German money market and thereby impede efforts to lower the interest rate structure. It is interesting that, while bank rate and the Treasury bill rate are as low, other German interest rates at the end of 1961 were substantially above the low points reached in the spring of 1959 when the monetary authorities last made an effort materially to lower the level of rates.

In the foreign exchange market, the German currency strengthened during December. The spot rate moved up in early December, rising above par against the U.S. dollar, and climbed further in early January. The forward premium of the D-mark against the U.S. dollar widened from 0.60 per cent per annum on December 1 to a peak of 1.30 per cent on December 22 and dropped back to 1.05 per cent on January 12. (See Charts 8 and 9).

German foreign-exchange losses (measured by the combined holdings of the Bundesbank and the commercial banks) came to an end in November. During December, the Bundesbank's reserves rose by about \$350 million but we do not yet know how much the increase will be offset by commercial bank sales of liquid assets in foreign centers.

Unexpectedly seasonally-adjusted German exports rose sharply in December to a level not far from the all-time high of April 1961. The trade surplus widened from an average of about \$86 million for October and November to \$135 million for December, an annual rate of \$1.5 billion compared with the 1961 record level of \$1.8 billion.

**Money market.** To meet seasonal credit needs and for window dressing year-end balance sheets, German commercial banks repatriated funds from abroad at an accelerated pace in the second half of December. The foreign-exchange holdings of the Federal Bank increased by \$66 million in the first two weeks and \$290 million in the second two weeks of December. The December 15 decision of the Bundesbank to remove its charge of 0.25 per cent for providing forward dollar cover appeared to reflect a desire to stem the influx of funds.

Despite this substantial inflow, the German money market remained tight throughout December. Between December 14 and 29, the rate on day-to-day money in Frankfurt rose from 2.69 to 3.00 per cent and on 3-month interbank loans from 3.63 per cent to 3.88 per cent. (See Table) The demand for cash appears to have been exceptionally high, partly because Christmas was on a Monday. Moreover, a large part of the inflow of foreign exchange did not contribute to the liquidity of the money market because these funds were intended to enhance the cash position of the banks.

After the turn of the year, the money-market position was reversed, as domestic requirements for cash and credit declined seasonally. Attracted, at least in part, by the high yields available in other European money markets, a very large amount of banking funds moved from Germany early in January. In the first four business days in the month, the Bundesbank's foreign-exchange reserves dropped by \$386 million. The bank reinstated a charge of 0.25 per cent for dollar swaps on January 2 and raised it to 0.38 per cent on January 8 and to 0.50 per cent on January 10. These several small increases in the cost of forward dollar cover to the German commercial banks suggests an effort on the part of the Bank to moderate the outflow of funds but not to reverse it. On January 4, in fact, the Bundesbank provided an additional incentive to place funds abroad by reducing its selling rate on 60- to 90-day Treasury bills from 2.00 to 1.88 per cent.

Despite the shift of commercial banking funds abroad, short-term money rates in Frankfurt declined rapidly in early January. The changes in interbank loan rates in Frankfurt between December 29 and January 12 were as follows (in per cent per annum):

	<u>December 29</u>	<u>January 12</u>
Day-to-day money	3	1-1/2 - 1-3/4
30-day money	4 - 4-1/4	2-1/2 - 2-7/8
90-day money	3-3/4 - 4	2-5/8 - 3

German banking circles have estimated that the circulation of prime acceptances of banks and leading firms have gone up by about 50 per cent in the last six months. This increase is attributed chiefly to the fact that German private discount rates have been lowered several times while those abroad have tended to rise. In Frankfurt the quoted rate on prime bankers' acceptances fell from 3-15/16 per cent on January 16, 1961 to 2-3/4 per cent on December 15. A Frankfurter A.Z. report in December estimated that a

90-day discount credit cost about 4-3/4 per cent in Germany, between 5 to 5-3/4 per cent in the Netherlands, 5-3/8 to 5-7/8 per cent in Switzerland, around 6 per cent in the United States and 9 per cent in London.

Factors affecting commercial bank reserves. During the months of October and November, German commercial banks were able to reduce their borrowings from the Bundesbank, as financial markets in Germany began to recover from the effects of the Berlin crisis. In the disturbed conditions of the third quarter, commercial banks borrowed DM 360 million from the central bank to meet the need for reserves which developed despite several reductions in reserve requirements during the period. Changes in the principal factors affecting commercial bank reserves to the end of November (in millions of D-marks) as shown in the Bundesbank's Monthly Report were:

	<u>1960</u>	<u>1961</u>			<u>Oct.</u>	<u>Nov.</u>
	<u>IV</u>	<u>I</u>	<u>II</u>	<u>III</u>		
<u>Technical factors</u>						
Currency	-932	+474	-641	-1,046	- 21	+115
Public authorities dep.	-1,164	-3,082	-2,911	- 160	+ 29	+106
Central bank's net exchange	+2,754	+2,164	+2,210	+49	- 48	-234
Other	<u>+328</u>	<u>+412</u>	<u>+380</u>	<u>+247</u>	<u>+230</u>	<u>+166</u>
Total	+ 986	- 32	- 962	- 910	+190	+179
<u>Policy factors</u>						
Open market operations	-436	-720	+529	-506	-467	+416
Central bank advances	-312	-205	-685	+360	- 42	-282
Total	-748	-925	-156	-146	-509	+134
Changes in required reserves	-59	-784	-1,053	-1,044	-403	+165

If third-quarter developments are omitted, two important changes affecting bank reserves in Germany occurred between the first half of the year and October-November. These changes substantially offset each other in their impact on reserve availabilities. In the first place, additions to the central bank's holdings of foreign exchange supplied reserves to the banking system earlier in the year but slight drains on bank reserves occurred from the small foreign-exchange losses of October and November. On the other hand, the deposits of federal and local governments at the Bundesbank absorbed substantial amounts of reserves earlier in 1960 but these accounts had shifted to a small deficit in October and November, largely as a result of the disappearance of the Federal Government's cash surplus in mid-1961.

Bond market. The improved tone of the bond market which became evident in mid-November was maintained during December. (See Chart 6 and Table) During the month, total placings of fixed-interest securities amounted to DM 897 million (\$224 million), the heaviest volume since last February. Several large issues were readily absorbed. Following the DM 60 million 6 per cent loan of the Industriegreditbank on November 20, two other large issues were oversubscribed: a DM 105 million 6 per cent offering of the Federal Post on December 5, and a DM 150 million 6 per cent offering by Siemens, the first industrial flotation since June, on December 18. The financial press indicates that additional industrial and local government offerings are expected in the near future. Recent new security placements in Germany (nominal values in millions of D-marks, monthly or monthly average) were as follows:

	<u>Mort-</u> <u>gage</u>	<u>Indus-</u> <u>trial</u>	<u>Public</u> <u>author-</u> <u>ities</u>	<u>Foreign</u> <u>bonds</u>	<u>Total</u> <u>bonds</u>	<u>Shares</u>	<u>Total</u> <u>secu-</u> <u>rities</u>
1960: IV	269	--	128	--	421	97	518
1961: I	539	40	445	--	1,125	229	1,354
II	531	17	103	--	744	141	885
III	469	--	86	4	613	263	876
Oct.	562	--	6	--	625	100	725
Nov.	400	--	129	--	655	68	723
Dec. p/	641	150	105	--	897	126	1,023

Return of foreign purchasers probably contributed to the recent strength of the bond market in December. The latest balance-of-payments estimates available show that the heavy outflow of long-term private capital, which resulted from the Berlin crisis, reached a peak in August-September, was reduced in October and became a slight surplus in November. The shift from net foreign purchases to net sales of securities during the Berlin crisis was undoubtedly an important factor in the lack of activity in the market in the third quarter. For example, foreign purchases of German bonds "accounted in the six months from October 1960 to March 1961 for nearly 40 per cent of the net placing of domestic fixed interest securities during that period," according to the Bundesbank. From June foreign sales of bonds exceeded purchases (in millions of D-marks) as follows: June, 20; July, 13; August, 113; and September, 87.

Stock market. The reaction in stock prices which commenced in mid-November continued during December. (See Chart 7.) The total index of share prices of the Frankfurter A.Z. declined from 229.72 on November 17 to 219.81 on December 12 and was at 216.81 on January 19. Political uncertainties and profit-taking are given as the reason for the recent market weakness. Recent levels of the Frankfurter A.Z. index were (Dec. 31, 1958 equals 100):

<u>1961:</u>	July 31	223.80		Nov. 30	227.36
	Aug. 31	203.38		Dec. 12	219.81
	Oct. 13	206.35		29	220.92
	31	219.36			
	Nov. 17	229.72	<u>1962:</u>	Jan. 5	217.25
				19	216.81

The Ford Motor Company of Detroit announced on January 24 that it would apply for listings of its common stock on the Frankfurt and Dusseldorf exchanges. The Deutsche Bank of Frankfurt will soon make an offering of 150,000 shares of Ford common stock. The offering will not increase the total number of shares outstanding or constitute new financing. It is designed to widen the market for Ford shares and Ford products.

Foreign trade. Seasonally-adjusted German exports rose sharply in December to the second highest figure on record. Even with a substantial expansion in imports, the German trade surplus was about \$135 million compared with an average surplus of \$86 million during the two preceding months. Recent seasonally-adjusted German trade figures (monthly averages or monthly in millions of U.S. dollars) were:

	<u>Calendar year</u>		<u>Quarterly - 1961</u>				<u>Monthly - 1961</u>		
	<u>1960</u>	<u>1961</u>	<u>I</u>	<u>II</u>	<u>III</u>	<u>IV</u>	<u>October</u>	<u>November</u>	<u>December</u>
Exports	948	1,060	1,047	1,077	1,060	1,058	1,056	987	1,131
Imports	844	914	852	936	911	955	974	897	996
Surplus	104	147	195	141	151	103	82	90	135

a/ Preliminary

Foreign exchange reserves. The decline in German exchange reserves (as measured by the combined holdings of the central bank and commercial banks) came to an end in November. Total declines of \$874 million were recorded between August and October and a drop of only \$6 million was shown for November. During December, the Bundesbank reported a gross increase of \$358 million, but the amounts of foreign money-market assets sold by the commercial banks are not yet available. On January 15 the Bundesbank reported reserve losses of \$624 million. Recent changes in German reserves in 1961 have been as follows (in millions of U.S. dollars):

	Jan. to Mar.	Apr. to June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Central bank	+300	-282	-106	-473	+ 9		- 34	+358
Commercial banks	+479	+404	+115	+ 48	-250	+ 47	+ 28	n.a.
Total	+779	+122	+ 9	-425	-241	-208	- 6	n.a.

a/ After special debt prepayments of \$776 million to the United States and the United Kingdom. The total would be a reserve gain of \$898 million, if adjusted for these transactions.

Foreign exchange. The foreign exchange market reported a good deal of activity early in December, in part perhaps as a response to rumors of a revaluation of the Italian lira which affected leading European exchange markets early in the month. The spot D-mark moved above par with the U.S. dollar on December 8 and remained above parity thereafter. (See Chart 8). The forward D-mark premium widened appreciably during the month to a peak of 1.30 per cent per annum on December 22 and was at 1.05 per cent on January 12. (See Table and Chart 9).

The Bundesbank's commitments to German commercial banks to swap U.S. dollars for D-marks are thought to have risen in January, but no figures on these commitments have been published since the latter part of October. These estimates showed a peak in swap commitments of DM 3.95 billion or nearly \$1.0 billion on August 11 as the following figures show (in billions of D-marks):

Jan. 7	1.95	Aug. 11	3.95
March 31	1.85	31	3.50
April 28	2.17	Sept. 15	3.10
June 15	3.42	30	2.60
30	3.13	Oct. 7	2.50
July 14	3.43	14	2.80
31	3.60	23	3.02

## II. Nine Charts on Financial Markets Abroad

- Chart 1 - Interest Arbitrage, United States/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

Germany: Selected Money Market Yields and Exchange Rates  
(per cent per annum)

	3-mo. Euro-dollar deposits London	3-mo. inter-bank loans Frankfurt	Spread in favor London	Forward U.S. \$		3-mo. Treasury bills		
				Comm. bank	Market	U.K.	Ger.	U.S.
1961-Oct. 6	3.25	4.00	-0.75	-0.25	-0.60	6.00	2.13	2.31
Nov. 10	3.31	3.63	-0.32	-0.25	-0.73	5.31	2.00	2.47
17	3.44	3.63	-0.19	-0.25	-0.65	6.31	2.00	2.53
24	3.50	3.63	-0.13	-0.25	-0.60	5.31	2.00	2.55
Dec. 1	3.63	3.63	--	-0.25	-0.60	5.28	2.00	2.53
8	3.81	3.63	+0.18	-0.25	-0.85	5.25	2.00	2.57
15	3.75	3.63	+0.12	-0.25	-0.98	5.25	2.00	2.63
22	3.88	3.75	+0.13	--	-1.30	5.28	2.00	2.60
29	3.88	3.88	--	--	-1.15	5.28	2.00	2.67
1962-Jan. 5	3.50	3.00	+0.50	-0.25	-0.95	5.34	1.88	2.74
12	3.38	2.79	+0.59	-0.50	-1.05	5.34	1.88	2.76

Germany: Selected Loan, Deposit and Security Rates  
(per cent per annum)

	Comm. bank loans <sup>a/</sup>	6-12 mo. deposits		Bond yields		Share yields	Yield gap
		Savings	Time	5-1/2% Railway 1958-83	Public authorities		
1958-March	8.00	4.00	3.75	--	--	--	--
June	7.75	4.00	3.75	--	--	--	--
Sept.	7.50	3.25	3.00	--	--	--	--
Dec.	7.50	3.25	2.75	--	--	3.29	--
1959-March	7.25	3.25	2.50	5.4	5.6	3.22	2.4
June	7.25	3.25	2.50	5.5	5.7	2.66	3.0
Sept.	7.50	3.25	2.50	5.7	5.8	2.33	3.5
Dec.	8.50	3.25	3.25	5.9	6.2	2.19	4.0
1960-March	8.50	3.75	3.25	6.3	6.4	2.27	4.1
June	9.50	3.75	3.25	6.4	6.6	1.86	4.7
Sept.	9.50	4.50	4.00	6.2	6.5	1.80	4.7
Dec.	8.50	4.50	3.50	5.9	6.2	1.96	4.2
1961-March	8.00	4.25	3.25	5.8	5.9	2.11	3.7
June	7.50	4.00	2.75	5.5	5.6	2.19	3.4
Sept.	7.50	4.00	2.75	5.9	6.0	2.63	3.4
Nov.	7.50	3.50	2.75	5.9	6.0	2.42	3.6

<sup>a/</sup> Approved credits on current account.

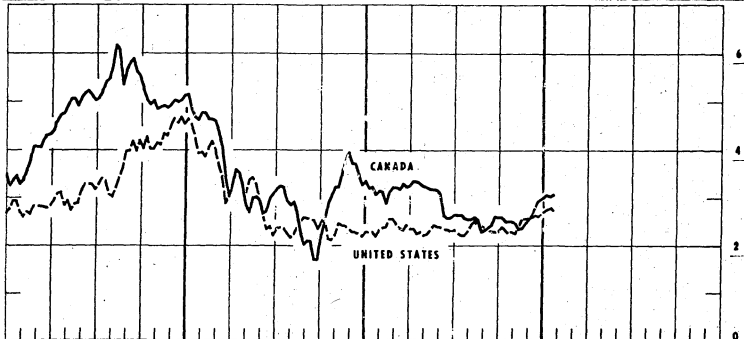


### INTEREST ARBITRAGE, UNITED STATES / CANADA

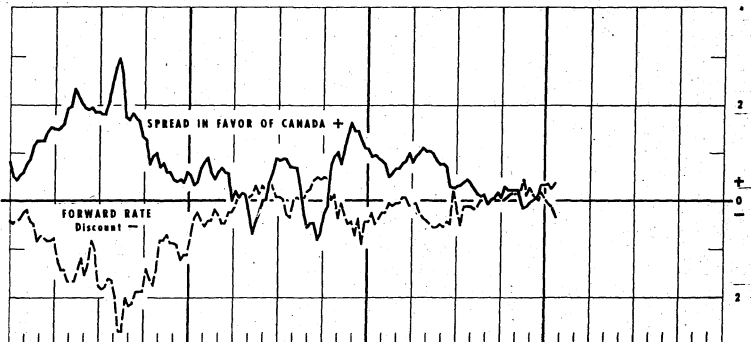
Thursday figures

#### THREE-MONTH TREASURY BILL RATES

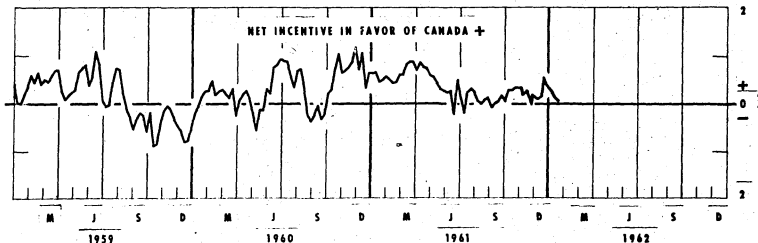
Per cent per annum



#### RATE DIFFERENTIAL AND FORWARD CANADIAN DOLLAR



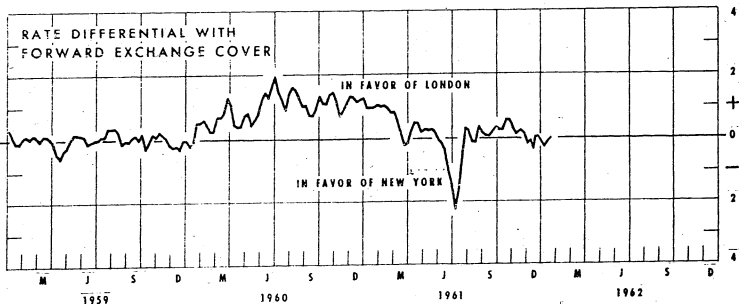
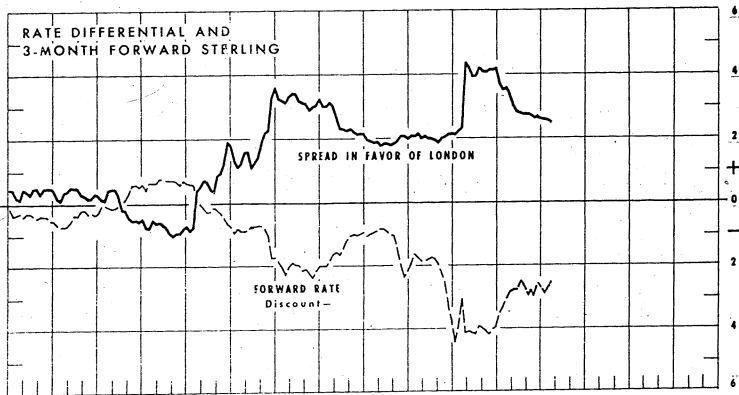
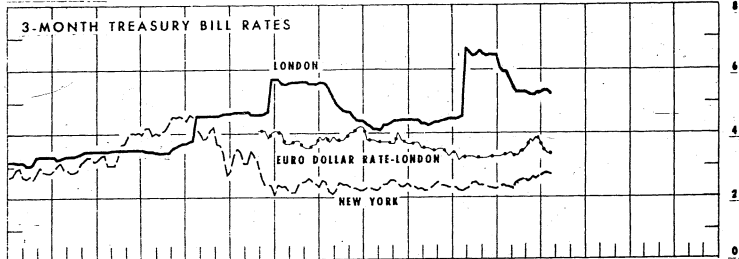
#### RATE DIFFERENTIAL WITH FORWARD EXCHANGE COVER



**INTEREST ARBITRAGE, NEW YORK/LONDON**

Friday figures

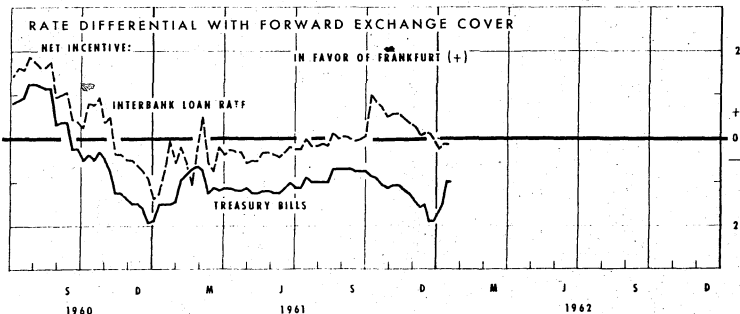
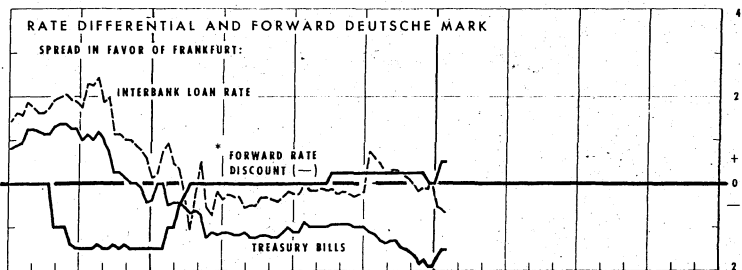
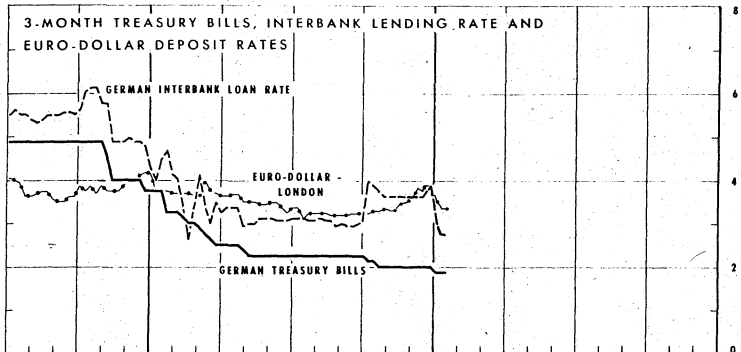
Per cent per annum



## 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

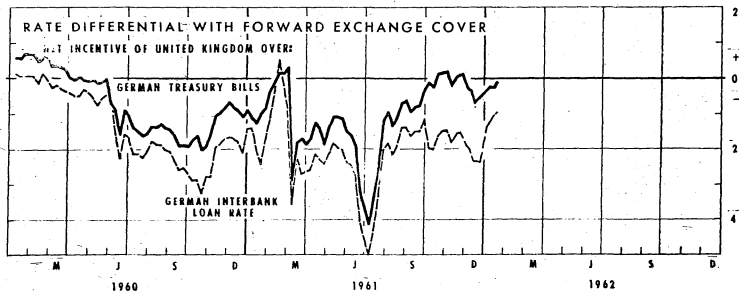
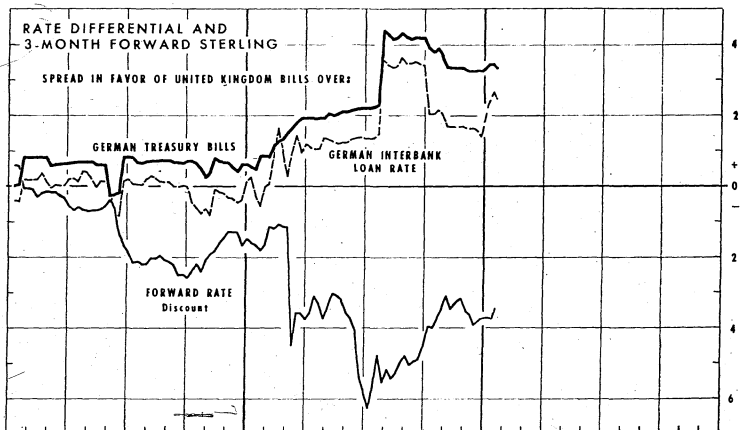
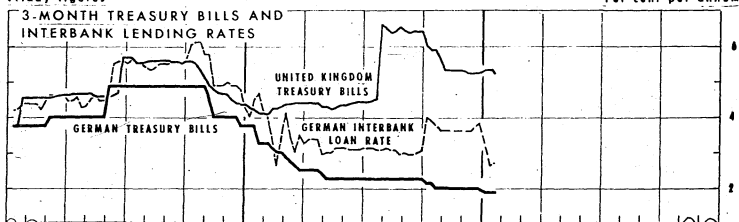
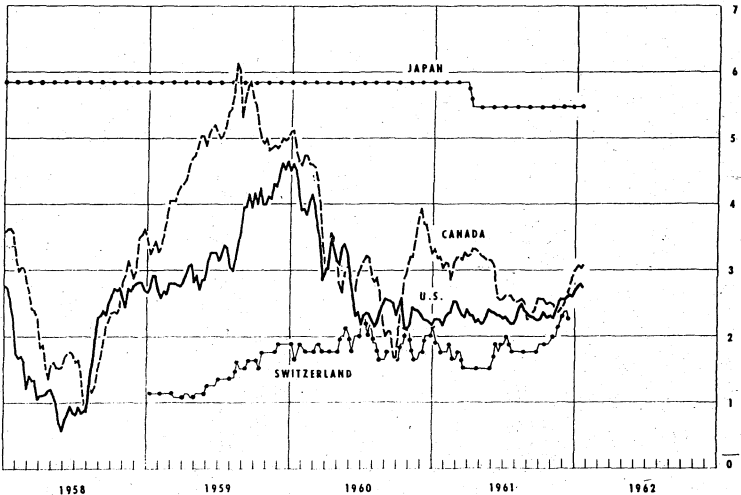
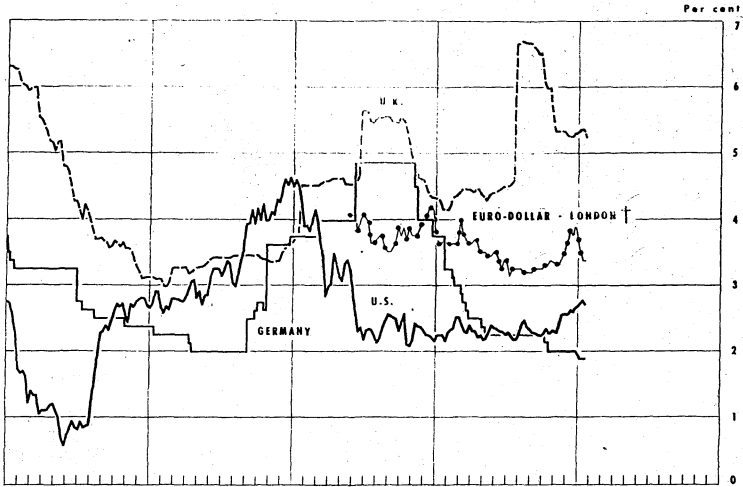


Chart 5

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

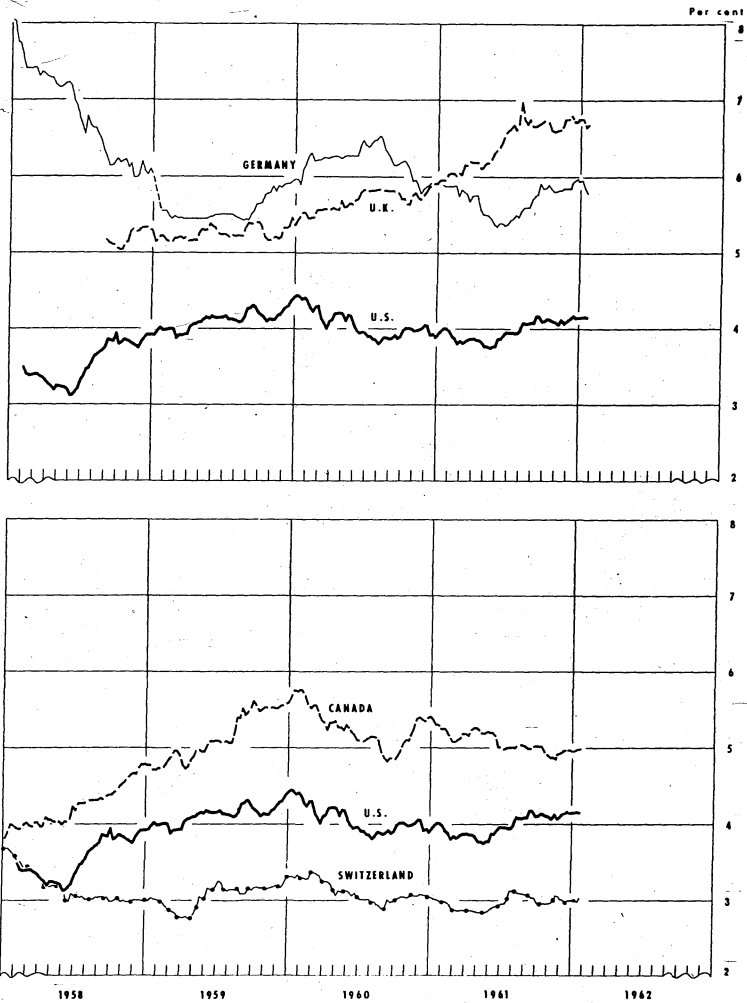
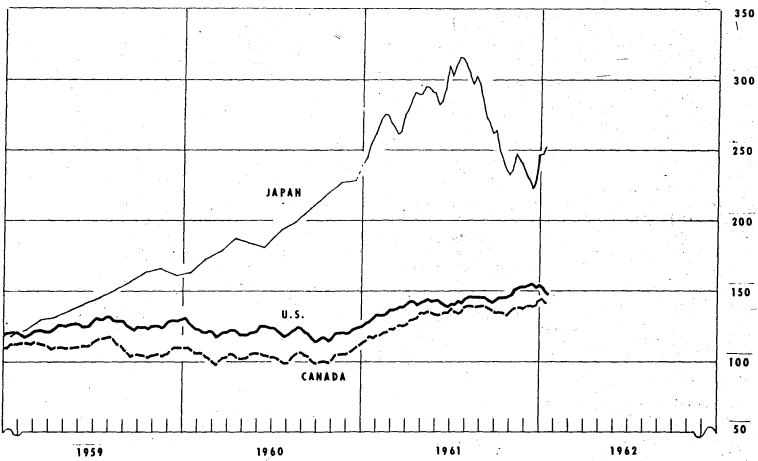
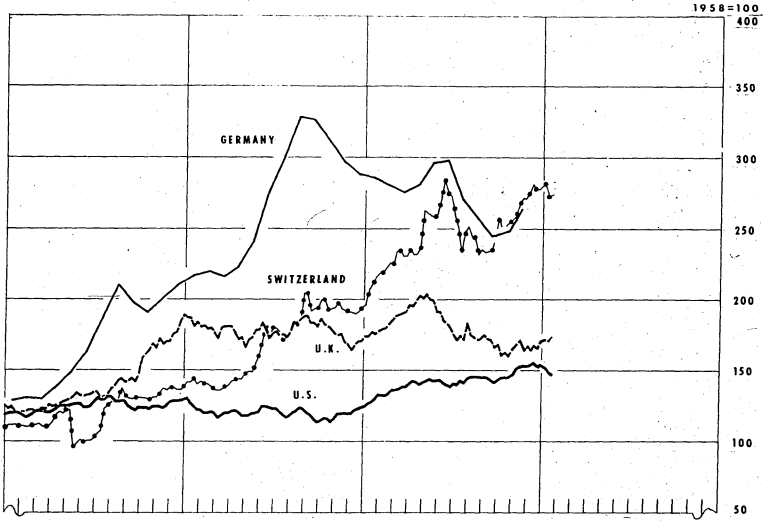


Chart 7  
**INDUSTRIAL STOCK INDICES\***



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

Chart 5  
**SPOT EXCHANGE RATES - MAJOR CURRENCIES AGAINST U.S. DOLLAR**

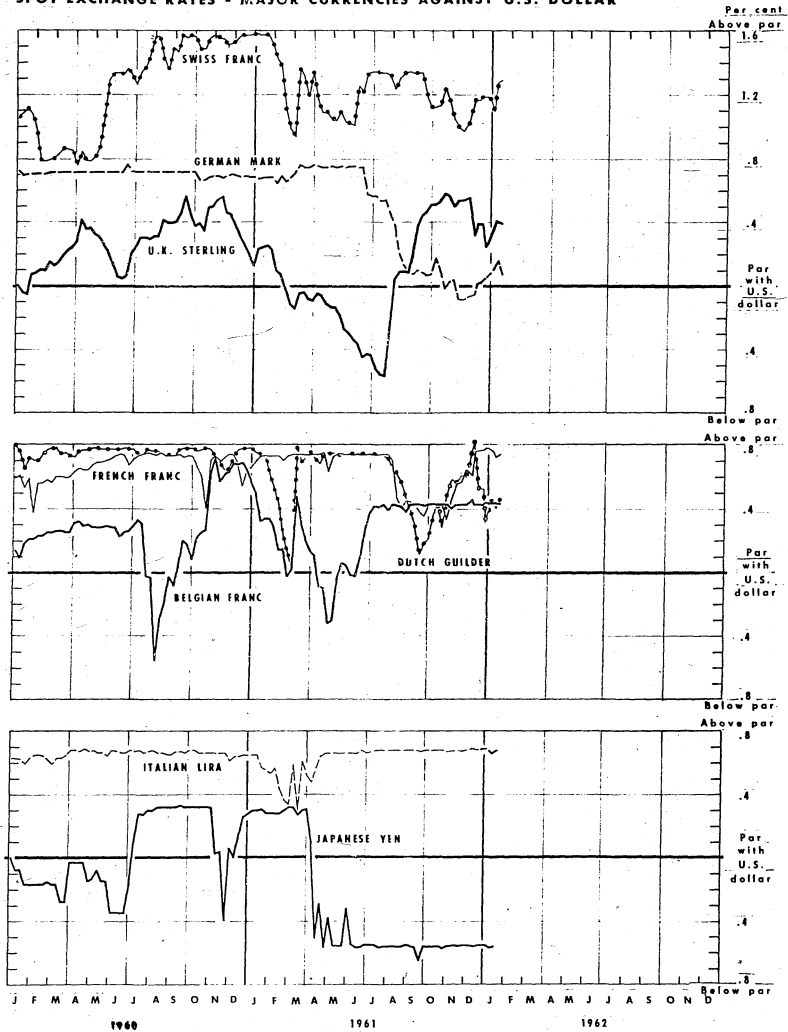




Chart 9

3-MONTH FORWARD EXCHANGE RATES

Per cent per annum

