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CAPITAL MARKET DEVELOPMENTS ABROAD

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FEDERAL RESERVE BANK
OF RICHMONDI. Germany
II. Nine Charts on Financial Markets AbroadGermany: Money and Capital Markets during February

During February, easy conditions continued to prevail in German money and capital markets. The short-term money market was quite liquid and the day-to-day money rate fell briefly to 1-1/8 per cent. German commercial banks continued to place large sums abroad. The bond market continued strong and active, with yields declining. For the first time since last summer a major loan was placed with a coupon of less than 6 per cent and average market yields on long-term bonds declined from 6.0 to 5.9 per cent. The city of Osaka, Japan, floated the first foreign loan on the German market since the IHRD loan in April 1959. The 10-year, DM 100 million Osaka loan, which yielded 7.1 per cent, was easily absorbed by the market. The stock market was slightly more buoyant in February and early March, but suffered a major decline in the third week as the result of domestic selling.

In March the money market became very tight as the result of a major tax payment date, which caused the banks to repatriate funds from abroad in sizeable amounts and to borrow temporarily from the central bank. As a result of this technical factor, day-to-day money rates rose as high as 4 per cent on March 27, but began to decline the following day. Market yields on long-term securities continued to decline in March, but at a slower rate than in February.

Following is a summary of German interest rates (per cent per annum) through February 1962:

	Spring 1959 <u>low point</u>	1961		1962	
		<u>February</u>	<u>January</u>	<u>February</u>	<u>p/</u>
		<u>Monthly range</u>			
Discount rate	2.75	3.50	3	3	
Treasury bills (60-90-day)	2 - 2.13	3 - 3.25	1.88	1.88	
Interbank loan rates:					
Day-to-day	1.75-2.88	2.63-4.13	1.85-2.75	1.13-2.88	
Three-month	2.50-2.88	3.88-4.38	2.75-3.13	2.38-3.00	
Commercial bank rates:		<u>Monthly average</u>			
Loans (maximum)	7.25	8.00	7.50	7.50	
Savings deposits (6-12 mos.)	3.25	5.25	3.50	3.50	
Time deposits (6-12 mos.)	2.50	3.38	2.75	2.75	
Bond yields:					
Mortgage	5.8	6.2	6.0	n.a.	
Industrial	5.7	5.7	5.9	n.a.	
Public authorities	5.6	6.0	6.9	n.a.	
Total bonds	5.7	6.1	5.9	n.a.	

p/ Preliminary.

DECONTROLLED AFTER SIX MONTHS

On foreign exchange markets, the mark was relatively weak during February and most of March, fluctuating near parity. The weakness of the mark was probably related to the small February trade surplus, which amounted to \$42 million after adjustment for a change in statistical procedures, but not for seasonal variation.

Money market. In February the German money market continued to be quite liquid. Except at the beginning of the month, when there is a technical tightening, as the banks fulfill their reserve requirements, interbank lending rates were nearly as low as in January. In the last week of February, day-to-day money declined to 1-1/8 per cent and 3-month money to 2-3/8 per cent, compared with lows of 1 per cent and 2-3/8 per cent, respectively, in January.

During most of February, as in January, German commercial banks placed short-term funds abroad. However, the volume of such transactions is not yet known. On February 14, the Bundesbank attempted to moderate the outflow of funds by raising from one to two months the minimum period for DM-dollar swaps by banks at a preferential rate (currently 0.50 per cent). The market discount on the 3-month forward dollar ranged between 0.60 and 0.80 per cent in February.

In March the money-market tightened appreciably as the demand for funds rose in anticipation of a major tax payment date. Rising business demands due to seasonal, and probably also cyclical, influences contributed to the demand for funds.

After easing somewhat in early March, the money market tightened in mid-March, with day-to-day money rising to 4 per cent on March 27. That the tightness was expected to be temporary is indicated by the fact that interbank rates for money for longer periods, which are normally higher, lagged behind day-to-day money rates. Interbank rates for 30-day money remained at 2-3/8 to 2-5/8 per cent from March 6 through March 26, and 90-day money was steady at 2-1/2 to 2-3/4 per cent. It is reported that the commercial banks repatriated well over \$100 million of funds from money-markets abroad and cashed Treasury paper and rediscounted bills with the central bank in volume, but that most banks did not have sufficient liquid funds to meet reserve requirements. On the one hand, the banks were afraid that too much refinancing would create excess liquidity in April, and on the other hand, they expected large outpayments by the Treasury before the end of the month. On March 9 the Bundesbank again reduced the minimum swap period for forward dollars in order to moderate the inflow of bank funds. The market discount on the dollar 3-months forward declined during March to 0.2 per cent on the 23rd, but rose again to 0.4 on March 28.

Throughout February and most of March, the Bundesbank's selling rate for 60- to 90-day Treasury bills remained unchanged at 1-7/8 per cent, and the discount rate was unchanged at 3 per cent.

Bond market. New issues of fixed interest-bearing securities in Germany were at a record level for the month in February. At DM 1,475 million, the volume of new issues was slightly higher than in January, when volume is normally largest. In both January and February new issues by industry, public authorities, and foreign countries were mainly responsible for the high volume. Mortgage and municipal bonds, which usually constitute the bulk of new issues, amounted to less than 40 per cent of the total, in contrast to over 60 per cent in 1960 and 1961. New security placements (nominal values in millions of DM, monthly or monthly average) in recent months were as follows:

	Indus- trial	Public author- ities	Foreign bonds	Sub- total	Mort- gage ^{a/}	Total bonds	Shares	Total securi- ties
1960: IV	--	128	--	128	269	421	97	518
1961: I	40	445	--	485	539	1,125	229	1,354
II	17	103	--	120	531	744	141	885
III	--	86	4	90	469	613	263	876
IV	150	80	--	230	511	726	98	824
Nov.	--	129	--	129	400	655	68	723
Dec.	150	105	--	355	571	897	126	1,023
1962: Jan.	110	411	--	521	834	1,472	130	1,602
Feb. p/	150	530	100	780	584	1,475	135	1,610

a/ Includes municipal bonds.

p/ Preliminary.

Average market yields on bonds declined in January from 6.0 to 5.9 per cent, and this downward trend of yields is reported to have continued in February in spite of the large volume of new issues put on the market. The Federal Post loan of DM 210 million, which was issued at the end of February with a 5-3/4 per cent coupon at 99 (effective yield 5.85 per cent) was heavily oversubscribed. The DM 100 million loan of the city of Osaka, Japan, was also absorbed without difficulty; however, the effective yield was 7.1 per cent.

The Frankfurter Bank ascribed the exceptional success of bond placings in January and February in part to the release towards the end of last year of blocked savings deposits amounting to over DM 2 billion. Moreover, interest and redemption payments at the close of 1961 were estimated by the Bundesbank at DM 1 billion, and the bulk of these funds were probably available for reinvestment. It is not expected that such a large volume of domestic funds will be available to the bond market in the next few months. Although it is generally expected that the downward trend of long-term yields will continue until a rate of 5-1/2 per cent is established for industrial and official users, concern has been expressed in some quarters that this goal might be endangered by over-loading the market with new issues.

On March 23, the Federal Loan Committee approved a DM 260 million, 15 year, Federal Railway loan to be issued on April 4 at 99.5 per cent of par with a coupon of 5-3/4 per cent. The Federal Government, which plans to raise DM 1.0 billion on the long-term capital market in 1962, is not expected to enter the market before May. However, new long-term issues by industry during the spring of 1962 are expected to amount to DM 300-400 million. Among the companies planning to issue bonds are Dortmund-Hoerder, Thyssen, and Rheinische Braunkohle.

Stock market. In February, stock prices fluctuated within a fairly narrow range. In the first half of March the market was more buoyant, and the Frankfurter Allgemeine's index of share prices rose on March 6 to 217 for the first time since mid-January. Foreign demand for German shares was reported to be mainly responsible for this rise in market prices. After that, however, prices drifted downward. On March 26, the market broke sharply, with the F.A.Z. index declining by 2.6 per cent to the lowest level since last August. Selling pressure, which came from Germans, was attributed to disappointment over the course of the Geneva talks, and to the strong warning on the dangers of rising wage costs issued by Economics Minister Erhard in a radio address to the nation on March 22. The market rallied on the 27th, the F.A.Z. index rising to 204.91. Recent levels of the F.A.Z. index of stock prices (December 31, 1958 equals 100) were):

<u>1961:</u>	July 31	223.80	<u>1962:</u>	Jan. 5	217.25
	Aug. 31	203.38		31	213.88
	Oct. 13	206.35		Feb. 3	215.26
	31	219.36		6	211.07
	Nov. 17	229.72		15	215.99
	30	227.36		19	214.01
	Dec. 29	220.92		27	211.90
				Mar. 7	217.30
				15	215.31
				20	212.33
				22	210.01
				23	207.25
				26	201.95
				27	204.91

Foreign exchange reserves. Gross gold and foreign exchange reserves of the Bundesbank rose by \$36 million in February to \$6,442 million. All of the rise may have been due to British purchases of marks in order to repay on February 28 part of its DM drawing from the International Monetary Fund last August. In view of the report that by the last week of February German commercial banks had already begun to repatriate funds to meet the demand caused by a major tax payment date in March, there may have been a deficit in the German balance of payments in February, due perhaps to heavier imports, but February data are not yet available. Official

reserves rose by \$212 million in the first three weeks of March, primarily as a result of repatriation of funds by the commercial banks. Monthly or quarterly changes in German reserves of gold and foreign exchange in 1961 and 1962 (in millions of U.S. dollars) were as follows:

	1961					1962	
	I	II	III	IV	Dec.	Jan.	Feb.
Bundesbank	+300	-282	-570	+ 68	+358	-731	+36
Comm. banks a/	+479	+404	- 74	-427	-502	+818	n.a.
Total	+799	b/+122	-644	-359	-144	+ 87	n.a.

a/ Balances with foreign banks and money market investments abroad.

b/ After special debt prepayments of \$776 million to the United States and the United Kingdom. The total would be a reserve gain of \$896 million, if adjusted for these transactions.

Foreign aid. Germany has recently concluded the following aid agreements with foreign countries:

Country	Amount		Rate per cent	Term years	Purpose
	DM	\$ (millions)			
Syria	64	16	Not known		Stabilization (40 per cent of consortium loan).
Jordan	15	4	3	20	Port expansion.
Portugal	150	38	3-1/4	4-3/4	Irrigation, airport expansion.

Foreign trade. The German Statistical Office has revealed that a change in customs procedures resulted in artificially high import figures in the last three months. Beginning in December 1961, goods destined eventually for the German market were counted as imports when they entered customs free zones, or warehouses, as well as, according to the former practice, when they left such zones. This double counting of imports, which amounted to about \$20 million in December, and to \$36 million in January has been eliminated from the monthly trade figures in the table below, thus raising the surplus in those months over what was previously reported.

In February, German foreign trade, seasonally adjusted, showed a small deficit, in contrast to a large surplus in January. Exports were hardly changed from January, whereas imports increased substantially. Sizeable imports of state-traded goods were reported to have contributed to the high level of imports in February. It is possible, moreover, that the seasonal-adjustment factor is no longer adequate, and that a more

realistic revision of the German trade picture would be obtained by averaging two months' figures.

German Foreign Trade
(seasonally adjusted, monthly or monthly averages, in millions U.S. dollars)

	Calendar year		1961				Monthly		
	1960	1961	I	II	III	IV	1961 Dec.	1962 Jan.	Feb.
	Exports	951	1,052	1,047	1,077	1,060	1,058	1,131	1,088
Imports	848	917	852	936	911	960	1,013	915	1,097
Surplus	103	135	195	141	151	98	118	173	- 13

Foreign exchange. The spot dollar strengthened against the D-mark in February and March. The mark dropped below par toward the end of February, and fluctuated closely around par in the first half of March. The mark strengthened against the pound and the dollar for two days following the reduction of Bank of England's discount rate on March 22, but weakened in the succeeding days of March. Friday quotations for the spot D-mark during the reporting period were (in U.S. cents):

Jan. 26	25.025	Mar. 2	25.015
Feb. 2	25.030	9	25.004
9	25.013	16	25.006
16	25.015	23	25.045
23	24.998		

The market discount on the 3-months' forward dollar ranged between 0.6 and 0.8 per cent in February, but declined in the first three weeks of March, reaching 0.2 per cent on the 23rd.

Europe and British Commonwealth Section.

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	3-mo. forward marks vs. US \$		3-mo. Treas. bills		
				Comm. bank ^{a/}	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
Dec. 22	3.88	3.75	+0.13	--	-1.30	5.28	2.00	2.60
1962-Jan. 5	3.50	3.00	+0.50	-0.25	-0.95	4.34	1.88	2.74
26	3.38	2.75	+0.63	-0.50	-0.90	5.16	1.88	2.67
Feb. 2	3.38	2.88	+0.50	-0.50	-0.99	5.16	1.88	2.67
9	3.38	2.81	+0.57	-0.50	-0.70	5.34	1.88	2.72
16	3.31	2.75	+0.56	-0.50	-0.62	5.44	1.88	2.83
23	3.44	2.75	+0.69	-0.50	-0.78	5.44	1.88	2.69
Mar. 2	3.44	2.75	+0.69	-0.50	-0.63	5.44	1.88	2.69
9	3.44	2.63	+0.81	-0.50	-0.58	5.03	1.88	2.76
16	3.63	2.63	+1.00	-0.50	-0.56	4.81	1.88	2.72
23	3.50	2.63	+0.87	-0.50	-0.30	4.38	1.88	2.70

^{a/} Bundesbank special rate.

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

	Comm. bank loans ^{a/}	6-12 mo. deposits		Bond yields		Share yields	Yield gap
		Savings	Time	5-1/2% Railway 1958-83	Public authorities		
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	3.50	2.75	5.9	6.0	2.63	3.4
Dec.	7.50	3.50	2.75	6.0	6.0	2.49	3.5
1962-Jan.	7.50	3.50	2.75	5.8	5.9	2.57	3.3
Feb.				5.7			

^{a/} Approved credits on current account.

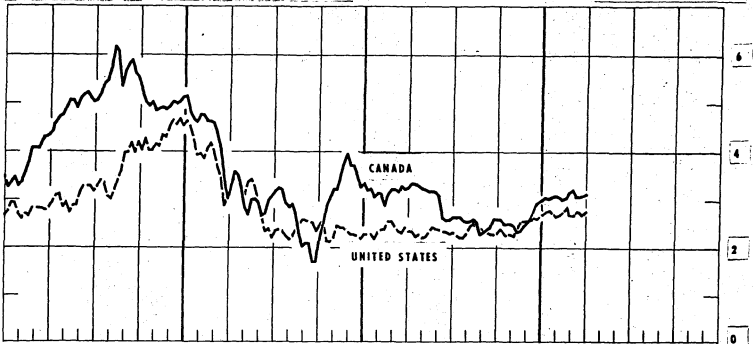
Chart 1

INTEREST ARBITRAGE, UNITED STATES / CANADA

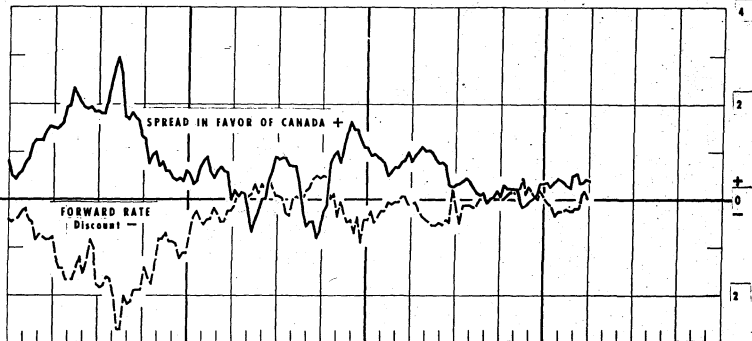
Thursday figures

THREE-MONTH TREASURY BILL RATES

Per cent per annum



RATE DIFFERENTIAL AND FORWARD CANADIAN DOLLAR



RATE DIFFERENTIAL WITH FORWARD EXCHANGE COVER

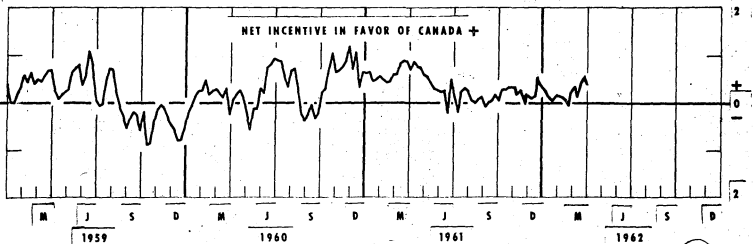


Chart 2
INTEREST ARBITRAGE, NEW YORK/LONDON

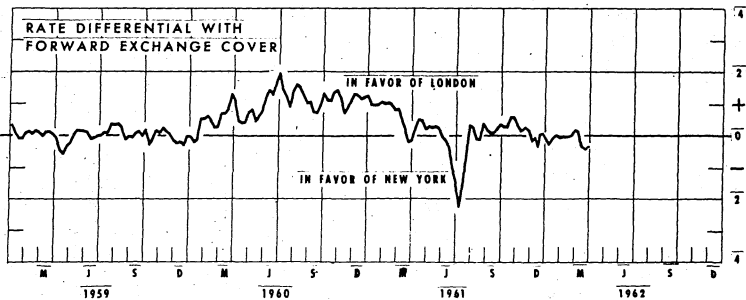
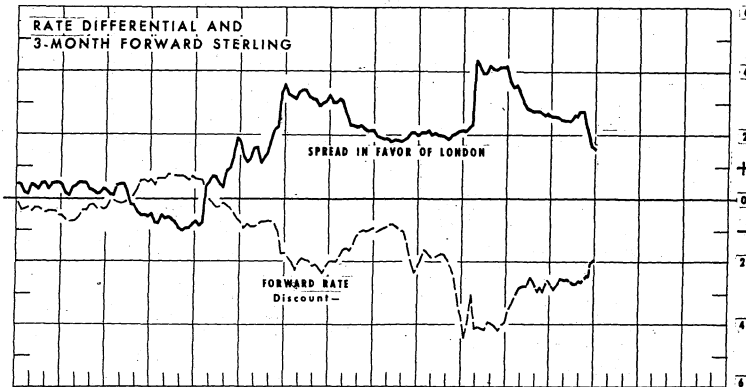
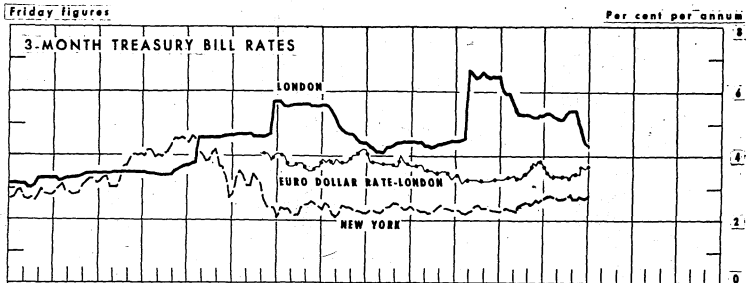
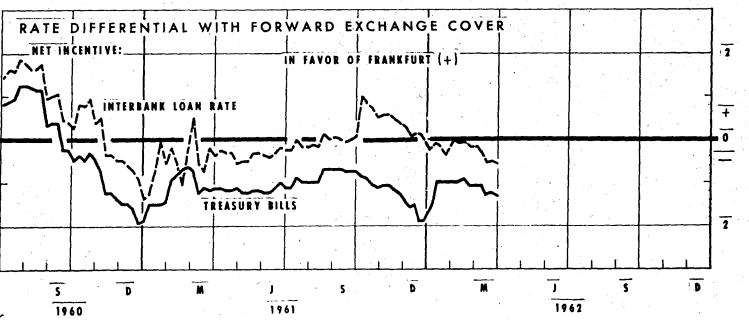
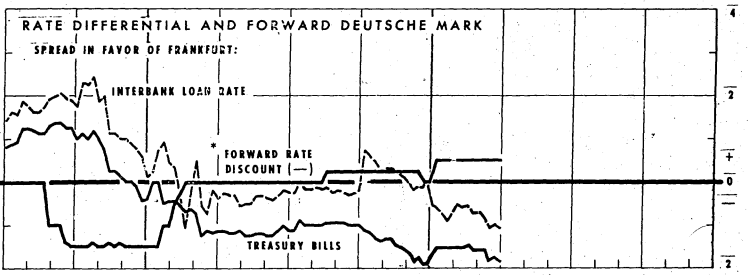
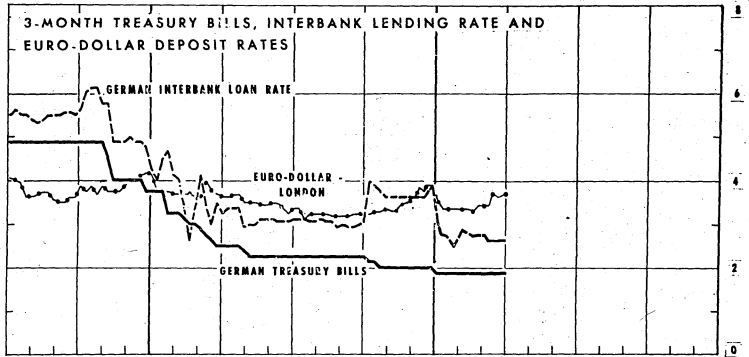


Chart 3
INTEREST ARBITRAGE FOR GERMAN COMMERCIAL BANKS

Friday figures Per cent per annum



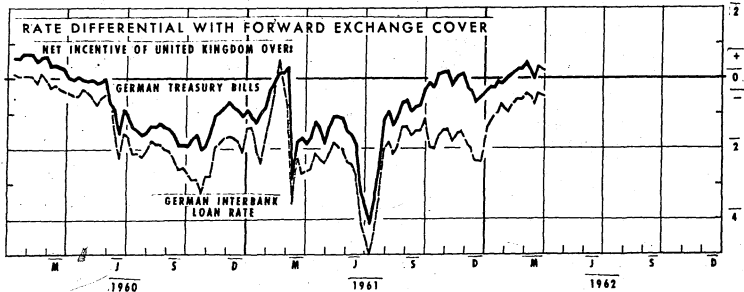
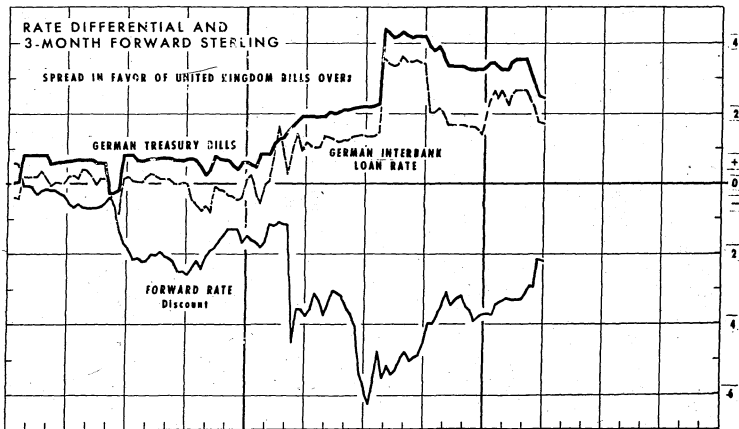
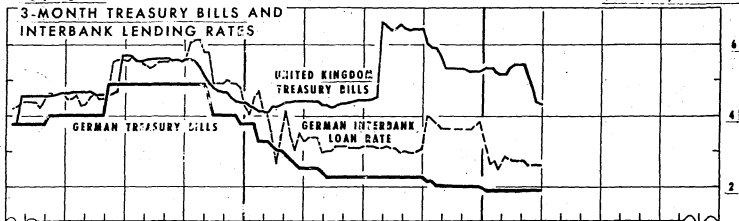
Note: Special forward rate available to German commercial banks

Chart 4

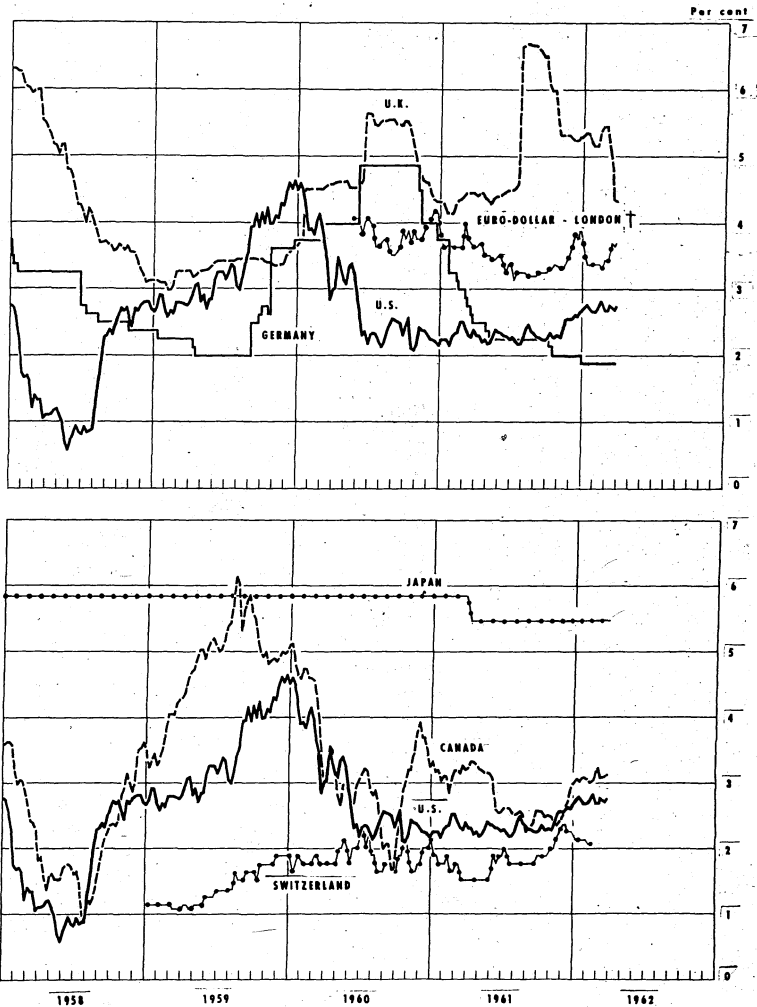
INTEREST ARBITRAGE, FRANKFURT / LONDON

Friday figures

Per cent per annum



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

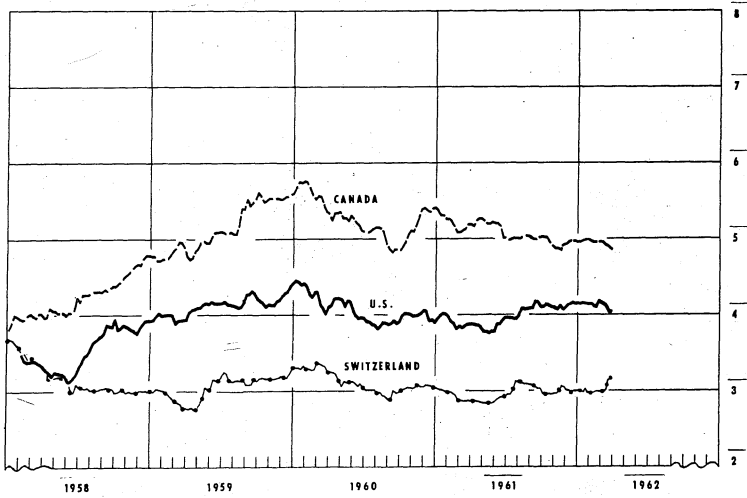
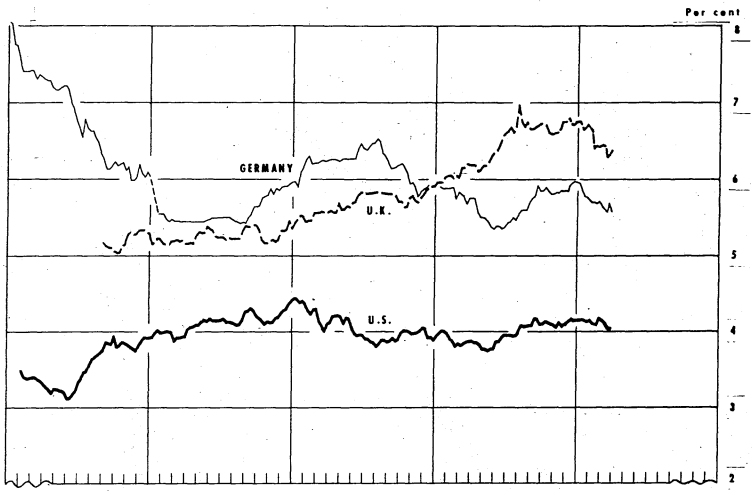
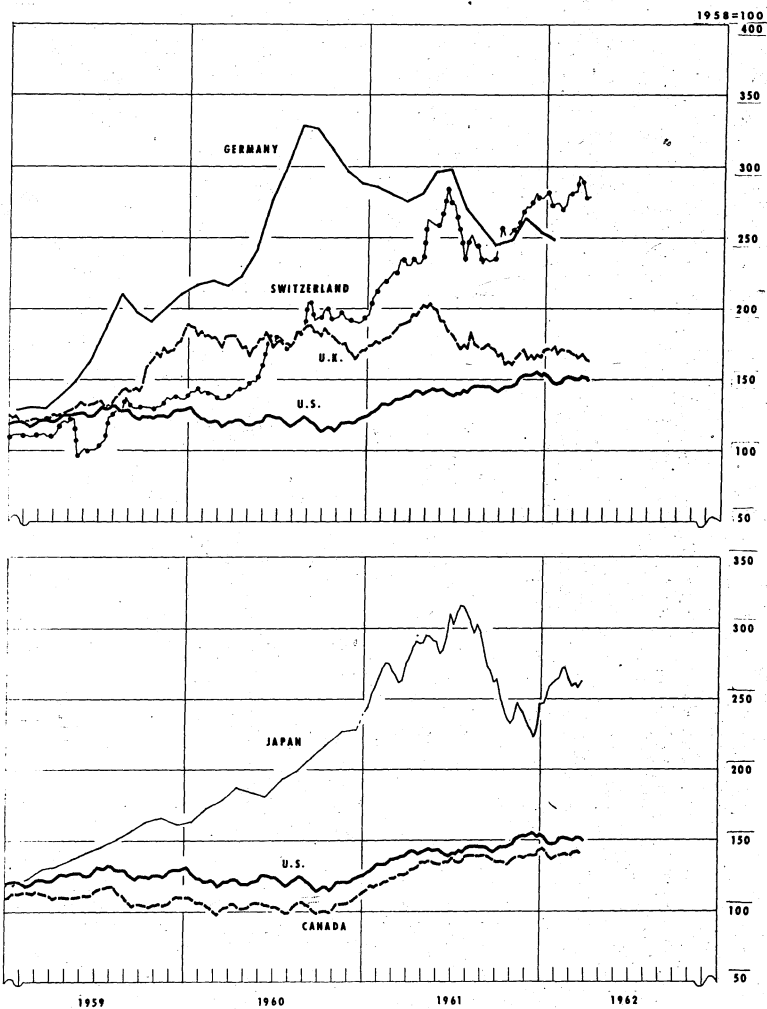


Chart 7
INDUSTRIAL STOCK INDICES*



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

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Chart 8

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

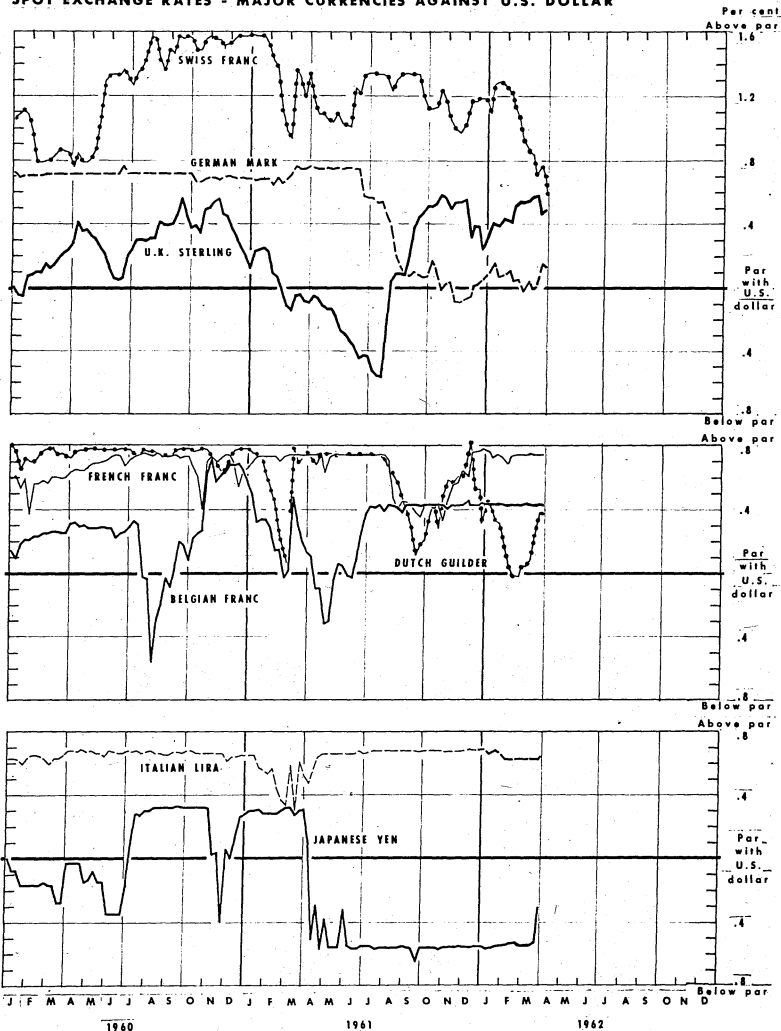


Chart 9

3-MONTH FORWARD EXCHANGE RATES

