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CAPITAL MARKET DEVELOPMENTS ABROADMAY 13 1962
FEDERAL RESERVE BANK
OF RICHMONDI. Germany
II. Nine Charts on Financial Markets AbroadI. Germany: Money and Capital Markets during March

Conditions in money and capital markets tightened in March and April. Pressures on short rates in March were produced by seasonal tax inflows. At the peak of the March stringency, day-to-day money rates reached a peak of 4 per cent, 1 per cent above Bank Rate. The commercial banks repatriated funds from abroad in sizeable amounts to meet domestic liquidity requirements. During April, the rate fluctuated within a range of 2-1/8 to 3-1/4 per cent as money market conditions eased somewhat. The banks re-exported funds abroad but in lesser amounts than the March inflow.

During the period under review, the Bundesbank took additional steps to encourage the banks to keep their shortest term liquid assets in German, rather than in foreign, money markets. The central bank raised its selling rate on Treasury bills from 1-7/8 to 2 per cent at the end of March and to 2-1/8 per cent on April 13. In addition, the authorities reduced to 0.25 per cent the charge on forward dollar swap of maturities from 2 to 6 months but kept the rate on 1-2 month swaps unchanged at 0.50 per cent per annum which is above the market rate for the forward dollar.

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

	<u>Spring 1959</u> <u>low point</u>	<u>1961</u> <u>March</u>	<u>1962</u> <u>February</u>	<u>March p/</u>
		<u>Monthly range</u>		
Discount rate	2.75	3.50	3	3
Treasury bills (60-90-day)	2 - 2.13	2.50-3.00	1.88	1.88-2.00
Interbank loan rates:				
Day-to-day	1.75-2.88	2.50-4.25	1.13-2.88	2.25-4.00
Three-month	2.50-2.88	3.50-4.00	2.38-3.00	2.50-3.00
		<u>Monthly average</u>		
Commercial bank rates:				
Loans (maximum)	7.25	8.00	7.50	n.a.
Savings deposits (6-12 mos.)	3.25	4.25	3.50	n.a.
Time deposits (6-12 mos.)	2.50	3.25	2.75	n.a.
Bond yields:				
Mortgage	5.8	6.1	6.0	n.a.
Industrial	5.7	5.8	5.8	n.a.
Public authorities	5.6	5.9	5.7	n.a.
Total bonds	5.7	6.0	5.9	n.a.
p/ Preliminary.				

p/ Preliminary.

DECONTROLLED AFTER SIX MONTHS

On the capital market, a pause in placing new issues was apparent in March. However, the bond market continued strong in March and early April, with yields continuing to decline. Late in April, however, the market turned and the German authorities decided to place an important new issue at a 5.75 per cent coupon instead of going to 5.50 per cent, as had earlier been considered. Issues placed at this rate or higher in April were oversubscribed. A large volume of industrial and public issues is planned for May. The stock market declined fairly sharply in March and continued weak in April.

With abnormally high exports reported, the German trade surplus in March was \$168 million and the monthly average for the first quarter of 1962 exceeded the average for the fourth quarter. On the foreign exchange markets, the D-mark fluctuated closely around par except in the latter part of March when it strengthened in the aftermath of the British Bank Rate reduction.

Money market. Fairly tight conditions prevailed on the German money market throughout March. The payment of several billion DM of income and corporation taxes, due March 10, together with demand for credit by business in connection with the spring expansion of economic activity, were the major factors contributing to the demand for funds. In the last week of February, commercial banks began repatriating short-term funds to meet domestic liquidity requirements, and in March increased their borrowing from the central bank and cashed money-market paper. In spite of these measures, interbank rates for day-to-day money rose briefly as high as 4 per cent. Interbank rates for 3-month money, on the other hand, fluctuated only between 2.5 and 3 per cent.

At the end of March, the Bundesbank raised its selling rates for Treasury bills by one-eighth of 1 per cent (from 1-7/8 to 2 per cent for 3-month bills), and at the same time lowered its charge for forward DM-dollar swaps from 0.50 per cent to 0.25 per cent for maturities of 2 to 6 months, but retained the rate of 0.50 per cent for one-month swaps. The Bank is, in effect, interested in encouraging the export of only longer-term commercial bank funds. Treasury bill rates were increased by a further one-eighth of 1 per cent on April 13. These two increases in Treasury bill rates, plus the 0.50 charge for one-month swaps, have practically eliminated the incentive to hold very short-term funds abroad.

The Bundesbank, according to President Blessing in a speech on April 8, will in the future make more intensive use of the instruments of monetary policy, because, as he said, "We no longer have to worry about the balance-of-payments surplus." In a further move to relax its barriers against the inflow of funds, domestic or foreign, the Bank announced that effective May 1, the ban on commercial banks paying interest on nonresident time deposits would be lifted. This prescription, together with a ban on interest on nonresident sight deposits which is still in effect, were introduced in June 1960. Nonresidents are still not allowed to invest in German money-market paper.

The money market eased in the first week of April, and the German commercial banks again exported surplus funds. The market tightened again just before Easter, and remained tight, as is usual, into the first week of May. Rates for interbank loans of day-to-day money ranged from 2-1/8 to 3-1/4 per cent, and rates for 3-month money ranged from 2-1/2 to 3-1/8 per cent; in both cases these rates were slightly lower than those prevailing in April 1961 (see Table, page 7.)

Bond market. After reaching a record level in February, new issues of fixed interest-bearing securities in Germany dropped sharply in March. For the first quarter of 1962, new issues of mortgage and communal bonds were 25 per cent above the year-ago level, but placings by the so-called "occasional" borrowers (that is, industrial, public authority, and foreign) was slightly lower for the quarter than last year. Security gross placements (nominal values in millions of DM, monthly or monthly average) in recent months were as follows:

	1961				1962			
	I	II	III	IV	I	Jan.	Feb.	Mar.
"Occasional" borrowers:								
Special credit institutions	101	84	45	69	49	83	60	4
Industrial	40	17	--	50	112	110	150	75
Public authorities	445	103	86	80	316	411	530	8
Foreign	--	--	4	--	33	--	100	--
Total	586	204	135	199	510	604	840	87
Mortgage and communal bonds:								
Mortgage	293	302	288	331	387	525	280	358
Communal	246	229	181	180	287	309	304	248
Total	539	531	469	511	674	834	584	606
Shares	229	141	263	98	106	130	135	54
Total securities a/	1,354	885	876	824	1,333	1,602	1,610	786

a/ Includes "Kassenobligationen."

With new issues dropping off, demand for existing bonds was maintained; yields continued to drop in March and early April, but were checked in the latter part of April as market conditions became less favorable. Yields to maturity on the 5-1/2 per cent Railway bond of 1958-83 declined from 5.71 per cent at the end of February to 5.58 per cent at the end of March, and to 5.55 per cent in mid-April, but thereafter the yield tended to rise. The DM 250 million loan of the Federal Railways issued early in April at 99-1/2 with a coupon of 5-3/4 per cent was oversubscribed on the day of issue, as was an industrial loan at 6 per cent.

The Federal Loan Committee approved about DM 500 million of new industrial issues for May, to be issued at an average yield of 5.75 per

cent. The city of Stuttgart will issue a DM 50 million loan at 5-3/4 per cent interest and an issue price of 99-1/2 per cent on May 15. There was considerable uncertainty in the market as to the course of long-term yields in the immediate future. On May 4, the Kreditanstalt fuer Wiederaufbau (Reconstruction Loan Corporation) announced that it would issue a 20-year, DM 200 million loan at par on May 10 with a coupon of 5-3/4 per cent. The fact that the new bonds were not offered at a 5-1/2 per cent coupon as had earlier been thought indicates that new issues in the immediate future will bear the 5-3/4 per cent coupon, including the Federal Government's loan, which has apparently been postponed again. A loan by the Lastenausgleichbank (Equalization of War Burdens Bank) will precede the Government's loan, but no exact time has been set for either. There is some evidence that, despite a reported weakening of the bond market, an issue yield of 5-3/4 per cent may be attractive. An Ilseeder Steel Co. loan, which was oversubscribed at an issue price of 99-1/2 per cent and a 5-3/4 per cent coupon on May 3, was offered in quantity the following day at an effective yield equal to its coupon rate.

Stock market. On the whole, demand was weak on the German stock market in March and April, and turnover was low. After breaking sharply on March 22 following Minister Erhard's strong warning of the dangers of rising costs, the market sustained a rally for nine days, but broke again on April 5, and showed little tendency to recover thereafter. At the beginning of May the Frankfurter Allgemeine's index of German stock prices, at 199.98, was 25 per cent below the 1960 high. Recent levels of the F.A.Z. index of stock prices (December 31, 1958 equals 100) were:

1961:	July 31	223.80	1962:	Mar. 7	217.30
	Aug. 31	203.38		20	212.33
	Oct. 13	206.35		23	207.25
	31	219.36		26	201.95
	Nov. 17	229.72		27	204.91
	30	227.36	Apr. 3		210.12
	Dec. 29	220.92		4	208.07
1962:	Jan. 5	217.25		11	200.94
	31	213.88		18	202.66
	Feb. 5	215.26		25	203.48
	27	211.90	May 2		201.07
				4	199.98

The controversy going on in Germany over price and wage policy, which the rise in Volkswagen prices on March 30 intensified, was reported to be a major factor in the stagnating demand for German shares. In the last two weeks of April prices of Volkswagen shares dropped about 5 per cent, compared with an almost unchanged level for the index as a whole, despite the fact that the avowed reason for the VW price increase was to protect the interests of the stockholders.

Foreign trade. In March, German foreign trade showed a whopping big surplus any way you look at it. As reported by the German Statistical Office, the surplus amounted to \$144 million; adjusted for inflated

imports due to a change in customs procedures, it was \$171 million, and the latter adjusted for seasonal variation amounted to \$168 million. The seasonally adjusted surplus resulted from a 5 per cent rise in exports together with a 4 per cent decline in imports compared with the January-February averages. For the first quarter, the seasonally adjusted trade surplus averaged \$109 million per month, which is somewhat greater than in the fourth quarter of 1961, but one-third below the average of the first three quarters.

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

	<u>Calendar year</u>		<u>1961</u>				<u>1962</u>	<u>1962 - Monthly</u>		
	<u>1960</u>	<u>1961</u>	<u>I</u>	<u>II</u>	<u>III</u>	<u>IV</u>	<u>I</u>	<u>Jan.</u>	<u>Feb.</u>	<u>Mar.</u>
Exports	951	1,052	1,047	1,077	1,060	1,058	1,103	1,088	1,084	1,138
Imports	848	917	852	936	911	960	994	915	1,097	970
Surplus	103	135	195	141	151	98	109	173	- 13	168

The Ausfuhrkredit A.G. (Export Credit Company) has announced that effective April 1, 1962, the term for which it will extend financing to German exporters (or importers of German goods) has been extended from five to eight years, and that it has also eased downpayment conditions.

Foreign exchange reserves. Gross gold and foreign exchange reserves of the Bundesbank rose by \$232 million in March and declined by \$56 million in April. The rise in March was reportedly due mainly to repatriation of funds by German commercial banks to meet tight domestic money market conditions, whereas the decline in April was due, at least in part, to the subsequent reinvestment of funds abroad as German money market conditions eased. Data on the magnitudes of German commercial bank holdings abroad in March and April are not yet available. Another factor which probably contributed to the reserve gain in March was the very large trade surplus. April reserve figures were adversely affected by a \$33 million indemnification payment to France; on the other hand, British purchases of D-marks on the market for repayment of \$35 million in marks to the International Monetary Fund at the end of April augmented German reserves.

In February the assets of German commercial banks held abroad declined by \$10 million, which brought the total German reserve gain for the month to \$26 million, instead of a deficit as was forecast in this report last month. However, judging by the \$55 million rise in the IMF's holdings of DM in February, the British repayment of marks to the Fund on February 28 must have exceeded the German reserve gain during the month. It is presumed that the Bank of England acquired most of the DM for the

repayment on the market in February. 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	Jan.	Feb.	Mar.
Bundesbank	+300	-282	-570	+ 68	-731	+ 36	+232
Comm. banks a/	+479	+404	- 74	-427	+818	- 10	n.a.
Total	+799	b/+122	-644	-359	+ 87	+ 26	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 \$898 million, if adjusted for these transactions.

Foreign aid. The German cabinet has approved the establishment of a Development Company whose primary purpose will be to acquire capital participations in small- and medium-sized concerns which invest and set up work-shops in underdeveloped countries. It may also make long-term, low interest loans. The Company will have an initial paid-in capital of DM 35 million, most of which will be paid out of the 1962 Federal budget appropriation of DM 175 million for bilateral development aid. The Company will also provide investment consultation services for small investors in developing countries. It is expected to be in operation by July.

Foreign exchange. After weakening for a few days following the reduction of the Bank of England's discount rate on March 22, the spot dollar strengthened against the D-mark in April, with the DM falling below par at the end of April. Friday quotations for the spot D-mark during the reporting period were (in U.S. cents):

Mar. 2	25.015	April 6	25.020
9	25.004	13	25.015
16	26.006	20	25.005
23	25.045	27	24.998
30	25.039	May 4	25.010

Europe and British Commonwealth Section.

II. Nine Charts on Financial Markets Abroad

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	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
Feb. 16	3.31	2.75	+0.56	-0.50	-0.62	5.44	1.88	2.83
Mar. 9	3.44	2.63	+0.81	-0.50	-0.58	5.03	1.88	2.76
16	3.69	2.63	+1.06	-0.50	-0.56	4.81	1.88	2.72
23	3.63	2.63	+1.00	-0.50	-0.30	4.38	1.88	2.70
30	3.69	2.63	+1.06	-0.25	-0.35	4.34	2.00	2.75
Apr. 6	3.63	3.00	+0.63	-0.25	-0.40	4.28	2.00	2.70
13	3.50	2.81	+0.69	-0.25	-0.38	4.25	2.13	2.74
19	3.50	2.81	+0.69	-0.25	-0.40	4.19	2.13	2.73
27	3.50	2.94	+0.56	-0.25	-0.32	4.03	2.13	2.74

^a/ Bundesbank special rate.

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

	Comm. bank loans ^a / Savings	6-12 mo. deposits		Bond yields		Share yields	Yield gap
		Savings	Time	5-1/2% Railway 1958-83	Public author- ities		
1959-March	7.25	3.25	2.50	5.4	5.6	3.22	2.4
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
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.	7.50	3.50	2.75	5.7	5.7	2.61	3.1
Mar.				5.6			
April				5.6			

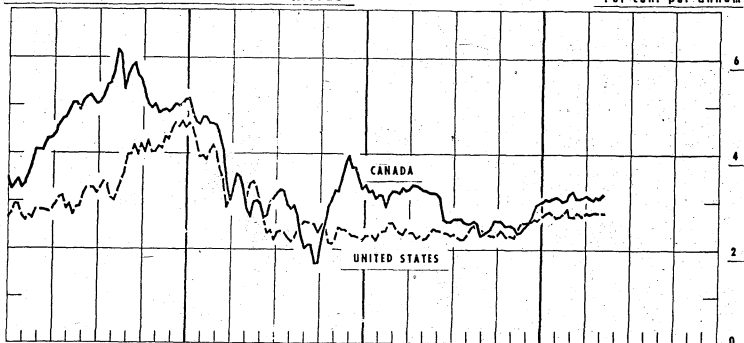
^a/ Approved credits on current account.

INTEREST ARBITRAGE, UNITED STATES / CANADA

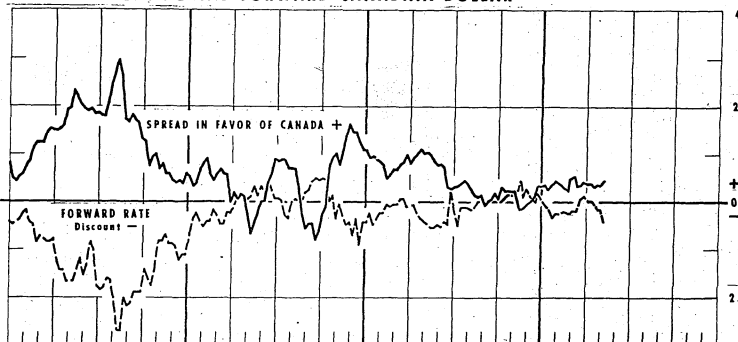
Thursday figures

THREE-MONTH TREASURY BILL RATES

Per cent per annum



RATE DIFFERENTIAL AND FORWARD CANADIAN DOLLAR



RATE DIFFERENTIAL WITH FORWARD EXCHANGE COVER

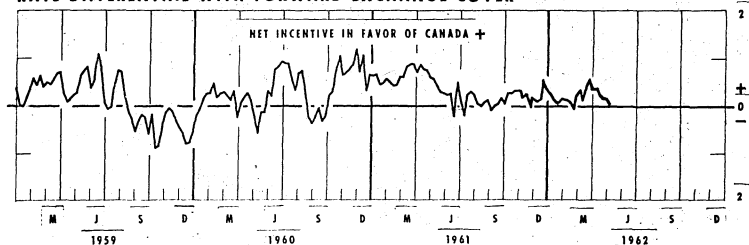
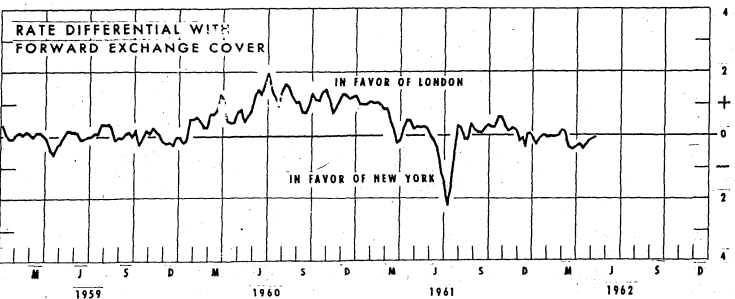
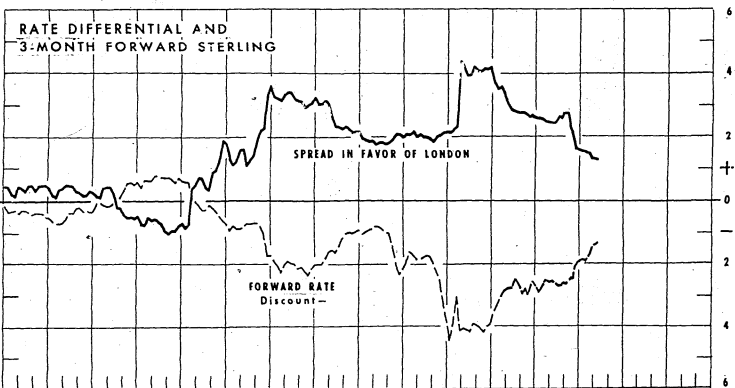
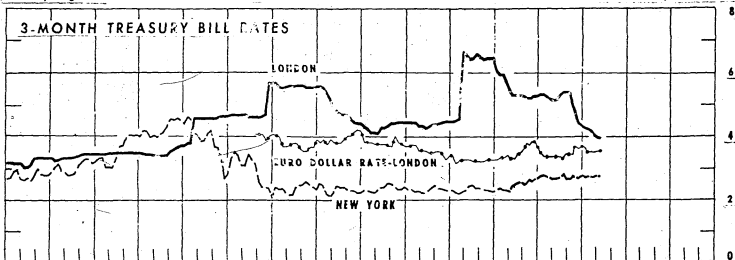


Chart 2

INTEREST ARBITRAGE, NEW YORK/LONDON

Friday figures

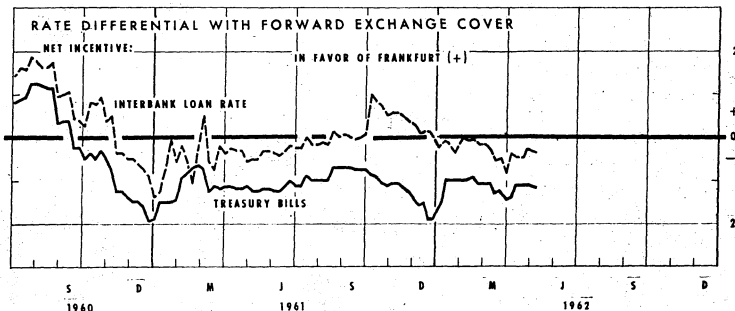
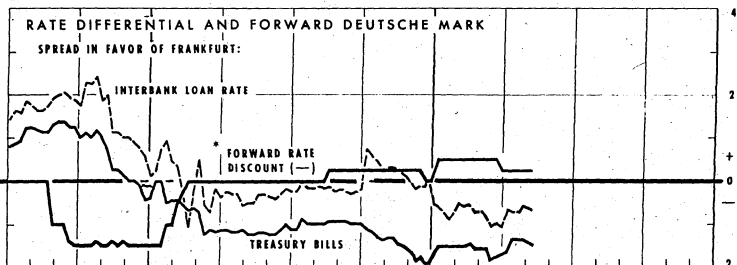
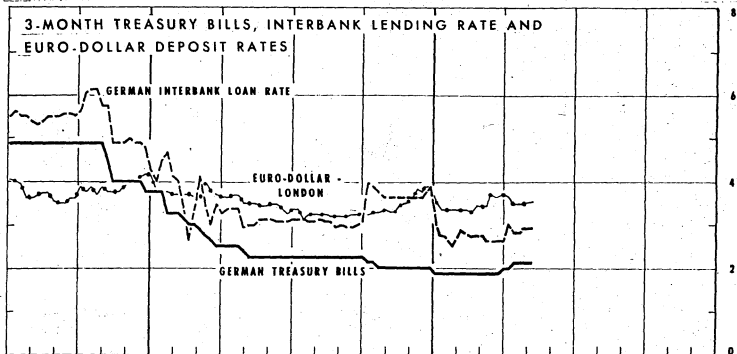
Per cent per annum



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

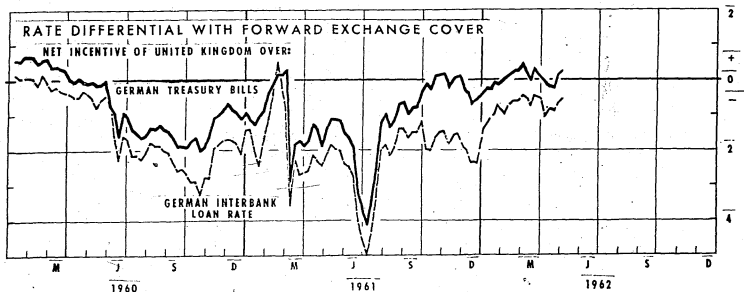
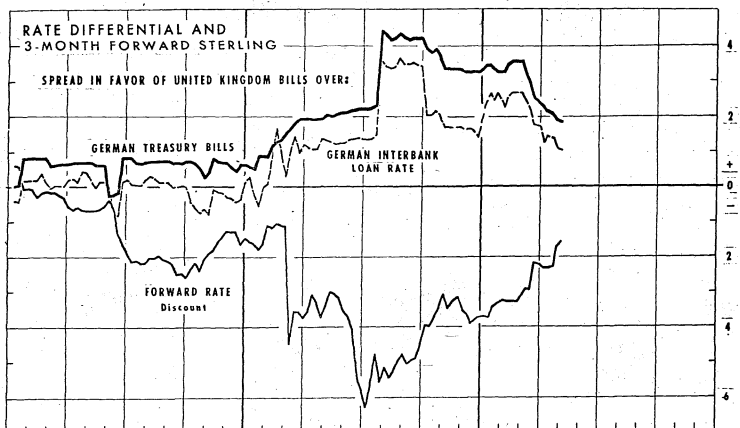
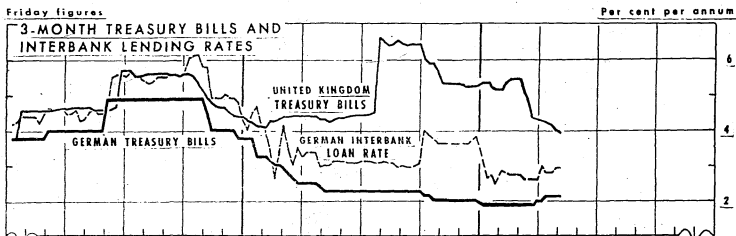
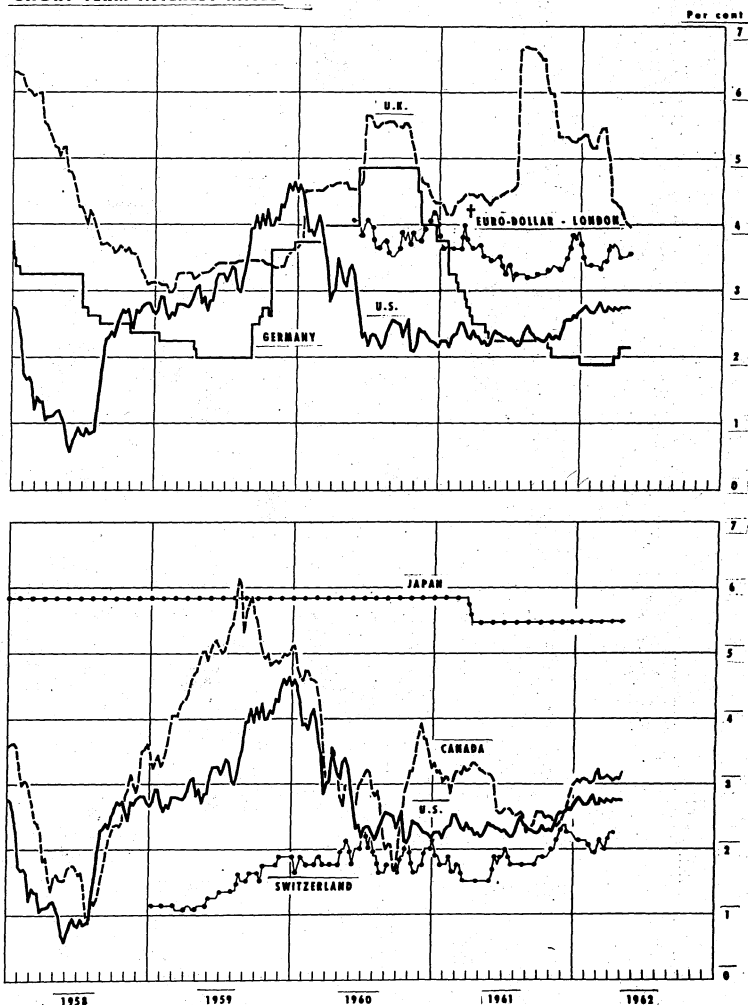


Chart 5

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

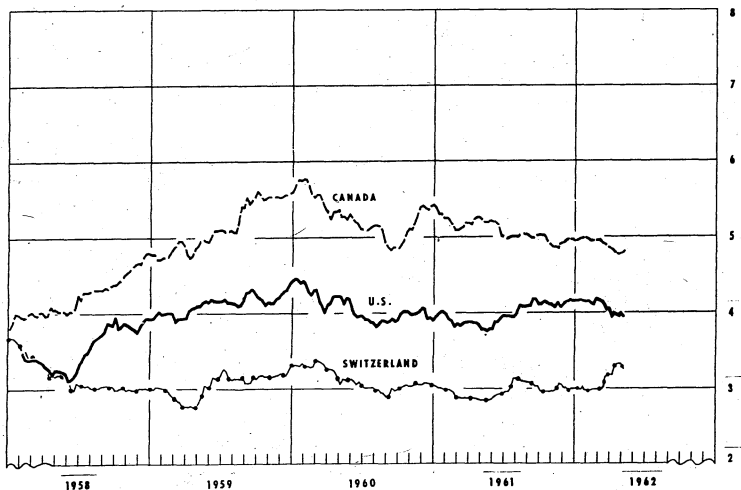
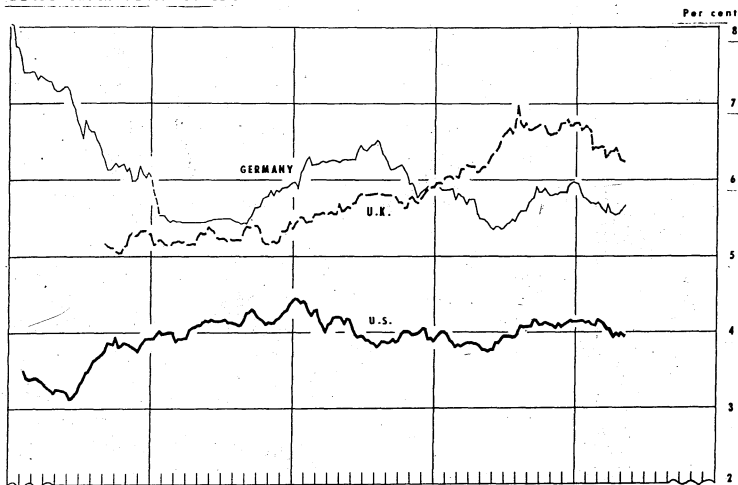
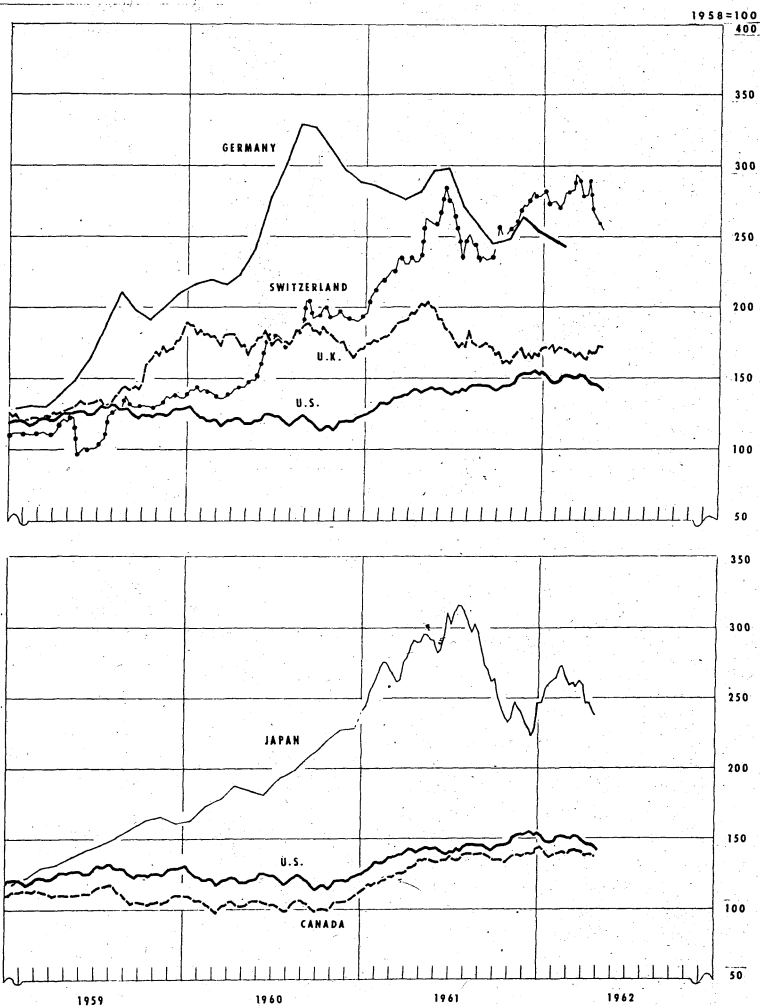


Chart 7

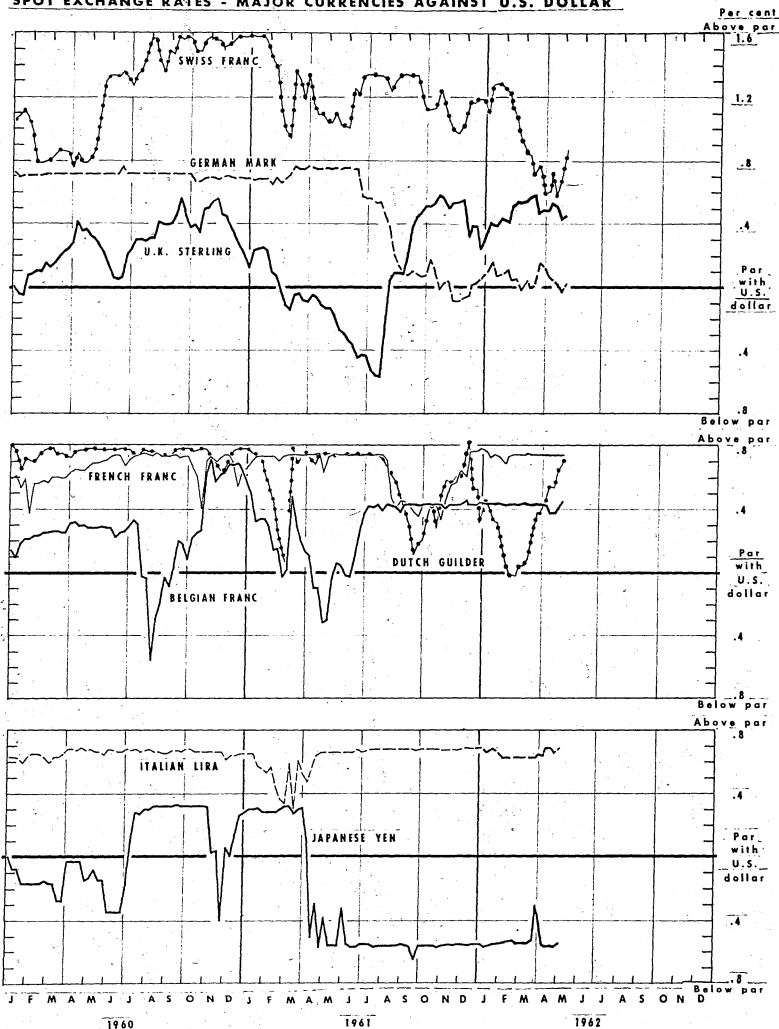
INDUSTRIAL STOCK INDICES*



Note: Japan Index of all stocks traded on Tokyo exchange

Chart 8

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



3-MONTH FORWARD EXCHANGE RATES

