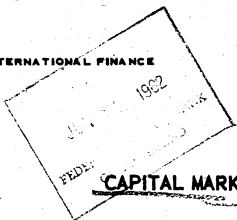


H.13  
No. 63

June 8, 1962

**CAPITAL MARKET DEVELOPMENTS ABROAD**

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

I. Germany: Money and Capital Markets during April

A gradual tightening of credit conditions occurred in German financial markets during April and May. Short money rates in the money market eased somewhat from the exceedingly high levels produced in late March as a result of the seasonal flow of tax receipts to the Treasury but remained well above the levels prevailing in early 1962. Compared with the temporary March peak of about 4 per cent, day-to-day money fluctuated between 2-1/4 and 3-1/8 per cent and the three-month interbank loan rate between 3 and 3-1/8 per cent in April. The three-month loan rate was maintained but the day-to-day money rate declined further in late May.

The gradual pressures on credit supplies reflected reduced liquidity in financial markets, especially the lower level of the "free" reserves of the banking system. The German authorities have also been anxious to bring up short-term rates to encourage the banks to hold their shortest-term liquid assets within the country and not in foreign financial centers. To this end, the Bundesbank on April 13 raised its selling rate for three-month Treasury bills from 2 to 2-1/8 per cent. In addition, the authorities have moved in the direction of reducing credit availabilities because of domestic demand pressures and especially the rising trends in wages and prices. Minister of Economics Erhard has been particularly outspoken about his concern over trends in wages and costs. Finally, the Treasury's cash position has been more favorable than had been expected.

During April the bond market shifted in direction and yields moved from 5-3/4 per cent toward a 6 per cent level in May. The turn-around in bond prices in late April brought to an end the steady rise in prices over the preceding six months. A heavy slate of new issues and the reduced liquidity position of the banks contributed to this reversal. In place of a 5-1/2 per cent coupon, the authorities decided to put a 5-3/4 per cent coupon on a DM200 million issue of the Reconstruction Loan Corporation (a prime market name) after the market trend turned. This offering made on May 10 was quickly over-subscribed; but a DM100 million offering of the Equalization of Burdens Bank 12 days later with a 5-3/4 per cent coupon was not fully subscribed. Because of the situation in the bond market, there is some uncertainty about the terms for the first DM250 million tranche of a 1962 loan by the Federal Government which had been expected for the end of June, and is now scheduled for the early part of July.

NOT FOR PUBLICATION

DECONTROLLED AFTER SIX MONTHS

The German stock market was weak but fairly calm during April and early May. Stock prices fell about 3 per cent during the first week in April and, after remaining firm during the rest of the month, dropped again by about 5 per cent on May 9 and 10. On May 29, after New York prices had fallen, German stock prices fell by 7 per cent to the lowest level since 1959, some 42 per cent below the August 1960 all-time high. But the index recovered sharply by 11 per cent on May 30 and June 1.

The German trade surplus in April was almost as large as the unexpectedly large March figure. The March-April average was about \$150 million per month or an annual rate of \$1.8 billion. Both exports and imports were larger, on a seasonally adjusted basis, in April than in March. On foreign exchange markets, the D-mark remained close to parity against the U.S. dollar.

Money market. During the early part of April the money market eased and money rates declined from the abnormal levels reached in late March when tax payments produced exceedingly tight credit conditions. (See Charts 3, 4, and 5.) The increase of some DM56 million in commercial bank borrowings from the Bundesbank in April reflected an underlying tightening tendency in German credit markets.

Recent quotations for interbank short-term money in Germany (in per cent per annum) have been:

		<u>Day-to-day</u>	<u>3-month loans</u>
April	1 - 7	2-3/4 - 3-1/8	
	8 - 15	2-1/4 - 2-3/4	3 - 3-1/8
	16 - 23	2-1/4 - 2-1/2	
	24 - 30	2-3/4 - 3-1/4	
May	1 - 7	2-3/4 - 3-1/4	3-1/8
	8 - 15	2-1/8 - 2-3/4	3 - 3-1/8
	16 - 23	2-1/8 - 2-1/2	3 - 3-1/8
	24 - 31	1-7/8 - 2-1/4	3-1/8

On April 13 the Bundesbank raised its selling rate for three-month Treasury bills from 2 per cent to 2-1/8 per cent to encourage the banks to keep their primary liquid assets in Germany and not in foreign centers. During April and May, the Bundesbank's preferential rate of 0.50 per cent for forward DM-dollar swaps of maturities up to two months (available only to commercial banks) was substantially above the market rate for three-months forward contracts (see table, p. 7). This policy was also designed to encourage the banks to keep their shortest-term assets at home.

Bond market. The six-month rise in German bond prices came to an end in early April and a reverse market trend was evident late in the month as prices declined. (See Chart 6.) In this adjustment, yields moved to a new level, especially for new issues. Hopes that the Reconstruction Loan Corporation (a prime market name) might be able to offer its DM200 million issue at 5-1/2 per cent coupon to break through to a new level were disappointed. The bonds were offered on May 10 at a 5-3/4 per cent coupon at par and were promptly oversubscribed. However, a DM100 million loan of the Equalization of Burdens Bank on the same terms on May 22 was not fully taken up. On outstanding issues, the yield on the 5-1/2 per cent Railway bond (1958-83) rose from 5.55 per cent on April 13 to 5.67 per cent on May 4 and 5.77 per cent on May 25. Perhaps as an indication of official concern about bond trends, the German press reported that the Bundesbank intervened to support the bond market from time to time in the latter part of May.

Several factors helped to bring the turn-about in yields in the bond market. Heavy gross placements of bond offerings in recent months and the substantial slate of new issues in prospect were important factors. In addition, the unexpected tightness of the money market in March and the more gradual pressures on the liquidity positions of the commercial banks in April and May contributed to the reversal. Furthermore, institutional considerations had significant effects, especially the apparently widely-held view in German financial circles that a 5-1/2 per cent coupon is a low long-term interest rate for that country. This view, reportedly, is held by both lenders and borrowers and helped to produce market resistance to further declines as market yields began to approach a 5-1/2 per cent level in early April.

On May 20, Finance Minister Starke announced that the first DM250 to 300 million tranche of the 1962 Federal loan would be issued at the end of June "with such good conditions that the Federal Government would not experience bankruptcy." The market interpreted this statement to mean that the loan would have a 6 per cent coupon but a later press report stated that the Federal Capital Market Committee had recommended that industrial borrowers retain a 5-3/4 per cent coupon and reduce their issue prices. Some DM250 million of industrial issues are reportedly planned for late May and early June.

In April gross placements of securities in Germany were about DM200 million higher than in March, largely because of the DM260 million loan of the Federal Railways and a larger volume of new issues of shares; placements of mortgage and communal bonds declined.

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	Feb.	Mar.	Apr.
<b>"Occasional" borrowers:</b>								
Special credit institutions	101	84	45	69	49	60	4	46
Industrial	40	17	--	50	112	150	75	--
Public authorities	445	103	86	80	316	530	8	260
Foreign	--	--	4	--	33	100	--	--
Total	586	204	135	199	510	840	87	306
<b>Mortgage and communal bonds:</b>								
Mortgage	293	302	288	331	387	280	358	256
Communal	246	229	181	180	287	304	248	184
Total	539	531	469	511	674	584	606	440
Shares	229	141	263	98	106	135	54	225
Total securities <sup>a/</sup>	1,354	885	876	824	1,333	1,610	786	995

<sup>a/</sup> Includes "Kassenobligationen."

**Stock market.** The German stock market was weak but fairly calm during April and early May. (See Chart 7.) Stock prices fell about 3 per cent the first week in April and, after remaining firm during the rest of the month, fell about 5 per cent on May 9 and 10. Thereafter during May, prices fell continuously and rapidly; not until May 30 did prices rise by as much as one point. On May 29, after prices had fallen in New York, German stock prices fell by 7 per cent to the lowest level since 1959, some 42 per cent below the all-time high in August 1960. On May 30 and June 1, stock prices recovered sharply by 11 per cent.

Press reports indicate that security sales by small investors were accelerated in May when stocks had to be sacrificed to cover credit or margin buying because the value of securities used as collateral for the loans declined. Mr. Blessing, President of the Bundesbank, expressed regrets that, in spite of Bundesbank warnings, private banks had been extending credit for such transactions.

The press also reported that the Small Shareholders' Protective Association had requested that Chancellor Adenauer close the Stock Exchanges for at least a month because large corporations allegedly had been manipulating the market. How this manipulation took place was not made clear.

Daily fluctuation in stock prices as measured by the Frankfurter Allgemeine index (December 31, 1958 equals 100) were:

<u>1961</u> :	July 31	223.80	<u>1962</u> :	Apr. 3	210.12
	Aug. 31	203.38		11	200.94
	Oct. 31	219.36		18	202.66
	Nov. 17	229.72		25	203.48
	Dec. 29	220.92		May 2	201.07
				9	196.61
<u>1962</u> :	Jan. 31	213.88		16	185.85
	Feb. 27	211.90		23	176.83
	Mar. 7	217.30		25	169.85
	20	212.33		29	154.44
	23	207.25		30	171.09
	26	201.95		June 1	175.07
	27	204.91			

Foreign trade. Both imports and exports rose in April on a seasonally adjusted basis, resulting in a trade surplus of \$140 million. The new high attained by German exports this spring is attributed to the large order backlog for machinery built up some time ago, as well as to a recent rise in foreign demand for steel and automobiles. Imports in March and April were 15 per cent above the year-ago level. The German trade surplus for the two months averaged \$156 million in 1962, compared with \$192 million for the comparable period of 1961.

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>1960</u>	<u>1961</u>	<u>I</u>	<u>II</u>	<u>III</u>	<u>IV</u>	<u>I</u>	<u>Feb.</u>	<u>Mar.</u>	<u>Apr.</u>
Exports	951	1,052	1,047	1,077	1,060	1,058	1,103	1,084	1,138	1,165
Imports	848	917	852	936	911	960	894	1,097	970	1,025
Surplus	103	135	195	141	151	98	109	- 13	168	140

Foreign exchange reserves. Gross gold and foreign exchange reserves of the Bundesbank declined in April by \$56 million, compared with a rise of \$232 million in March. Commercial bank holding of short-term liquid assets abroad declined during the month by \$36 million, bringing the total reserve loss to \$92 million in April. The effect on German reserves of British purchases of DM in April for repayment to the International Monetary Fund was virtually offset by a \$33 million indemnification payment by Germany to France.

In March the gross short-term liquid assets held abroad by German commercial banks declined by \$207 million, so that the total reserve gain by Germany for the month amounted to \$25 million, compared with \$26 million in February and \$87 million in January.

In the first three weeks of May, gross gold and foreign exchange reserves of the Bundesbank rose \$43 million to \$6,661 million.

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	I	Feb.	Mar.	Apr.
Bundesbank	+300	-282	-570	+ 68	-463	+ 36	+232	- 56
Comm. banks a/	+479	+404	- 74	-427	+601	- 10	-207	- 36
Total	+799	b/ +122	-644	-359	+138	+ 26	+ 25	- 92

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 exchange. The D-mark weakened against the dollar in April, and remained close to par with the U.S. dollar in the first three weeks of May. (See Table 8.) During the period of turmoil on world stock exchanges, however, the mark strengthened against the dollar somewhat. Friday quotations for the spot D-mark during the reporting period were (in U.S. cents):

Mar. 2	25.015	April 6	25.020	May 4	25.010
9	25.004	13	25.015	11	25.003
16	26.006	20	25.005	18	25.006
23	25.045	27	24.998	25	25.029
30	25.039			June 1	25.025

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 Bond Yields
- 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 <sup>a/</sup>	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. 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
May 4	3.56	2.94	+0.62	-0.25	-0.32	3.97	2.13	2.73
11	3.63	2.88	+0.75	-0.25	-0.42	3.88	2.13	2.63
18	3.56	2.88	+0.68	-0.25	-0.25	3.72	2.13	2.68
25	3.81	2.88	+0.93	-0.25	-0.35	3.69	2.13	2.69

a/ Bundesbank special rate for 2 to 6 month deposits.

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		
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.	7.50	3.50	2.75	5.6	5.6	2.65	3.0
April	7.50	3.50	2.75	5.6			
May				5.7			

a/ Approved credits on current account.

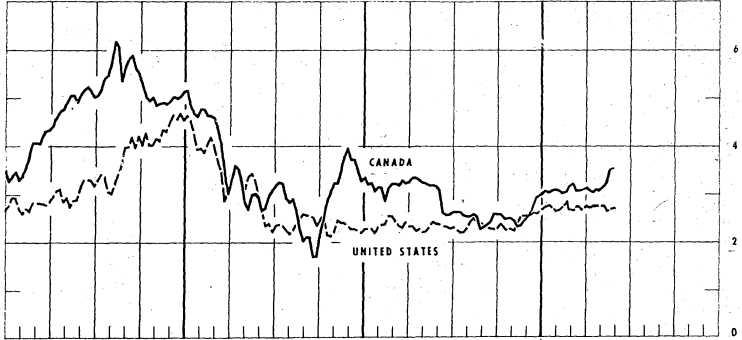
Chart 1

### INTEREST ARBITRAGE, UNITED STATES / CANADA

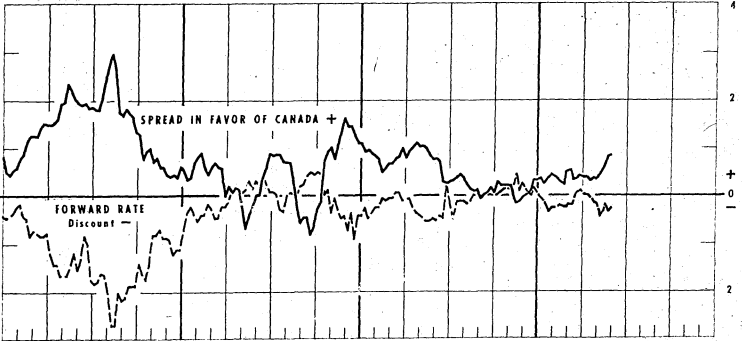
Thursday figures

#### THREE-MONTH TREASURY BILL RATES

Per cent per annum



#### RATE DIFFERENTIAL AND FORWARD CANADIAN DOLLAR



#### RATE DIFFERENTIAL WITH FORWARD EXCHANGE COVER

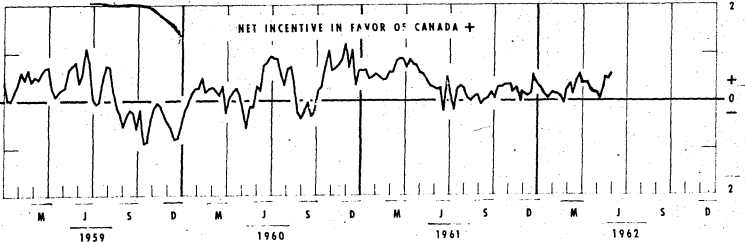




Chart 2

# INTEREST ARBITRAGE, NEW YORK/LONDON

Friday figures

Per cent per annum

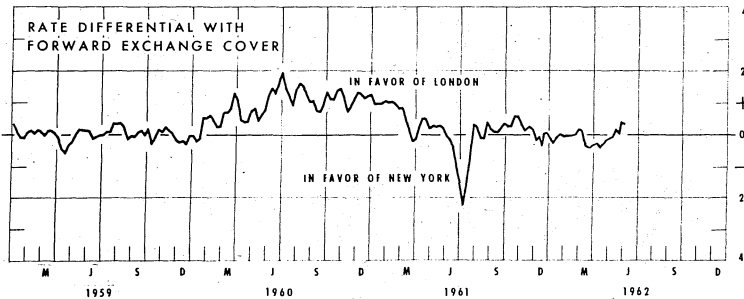
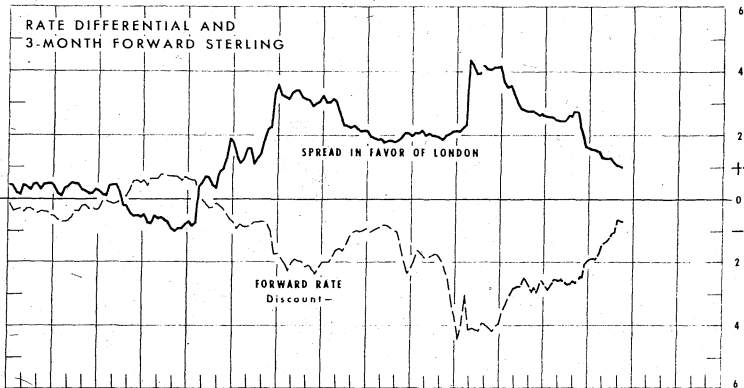
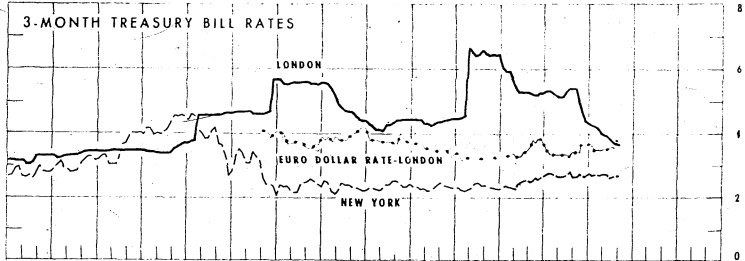
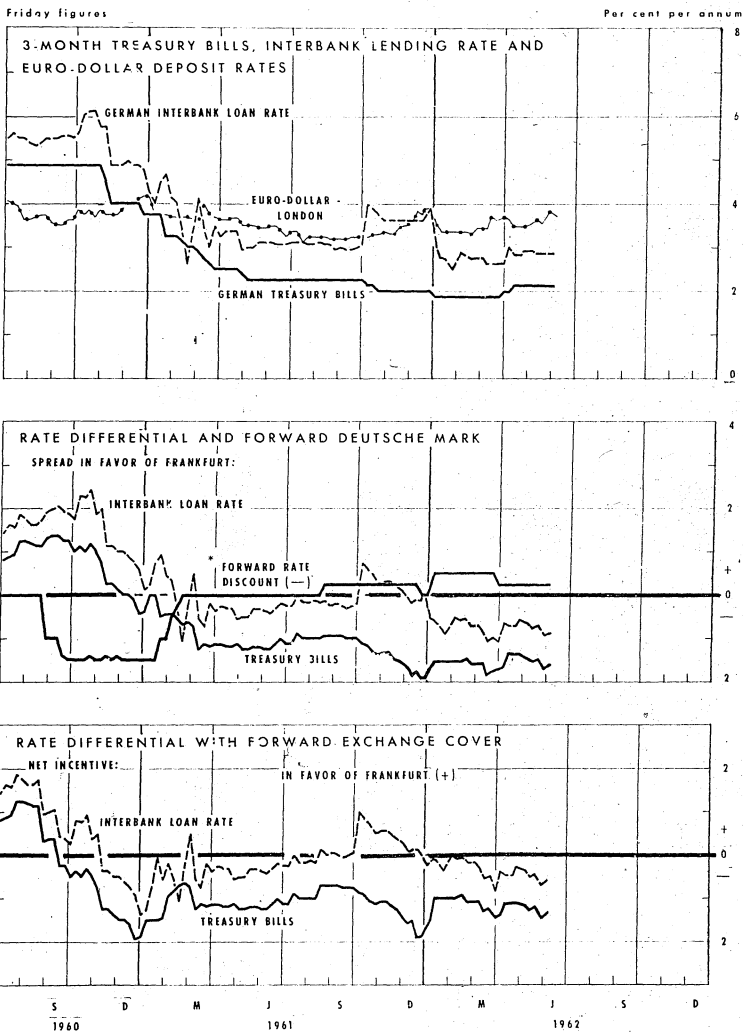


Chart 3  
INTEREST ARBITRAGE FOR GERMAN COMMERCIAL BANKS



Notes: Special forward rate available to German commercial banks

Chart 4

### INTEREST ARBITRAGE, FRANKFURT / LONDON

Friday figures Per cent per annum

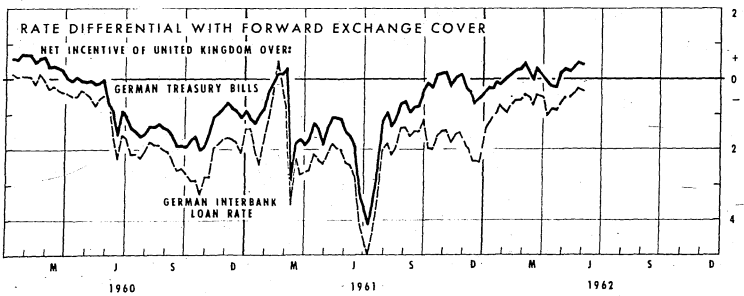
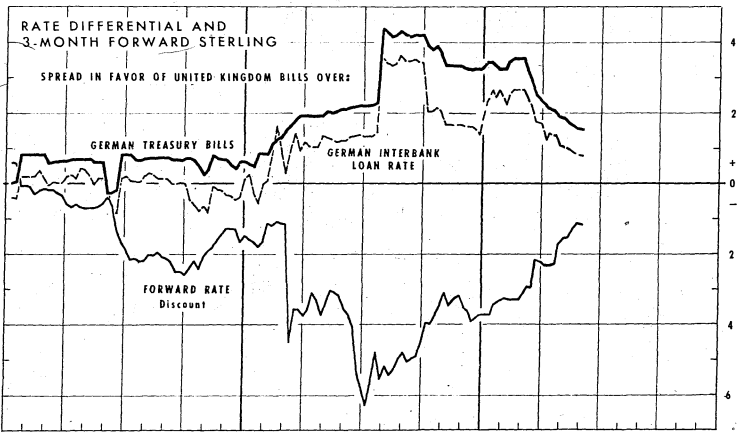
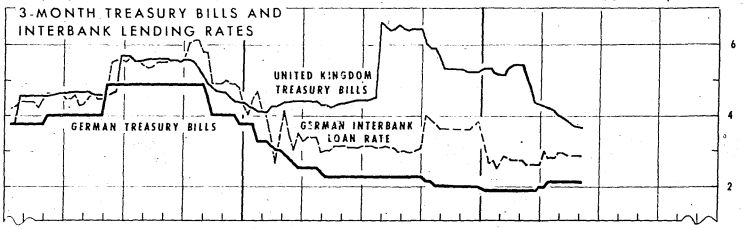
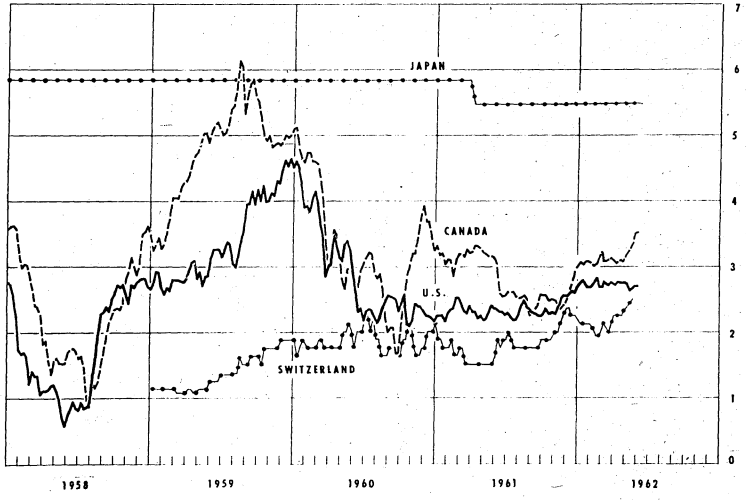
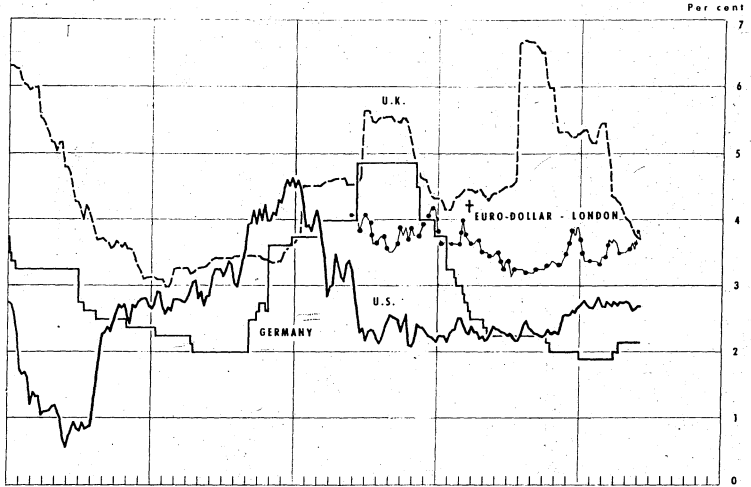


Chart 5  
SHORT-TERM INTEREST RATES \*



\* 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

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Chart 6

**LONG-TERM BOND YIELDS**

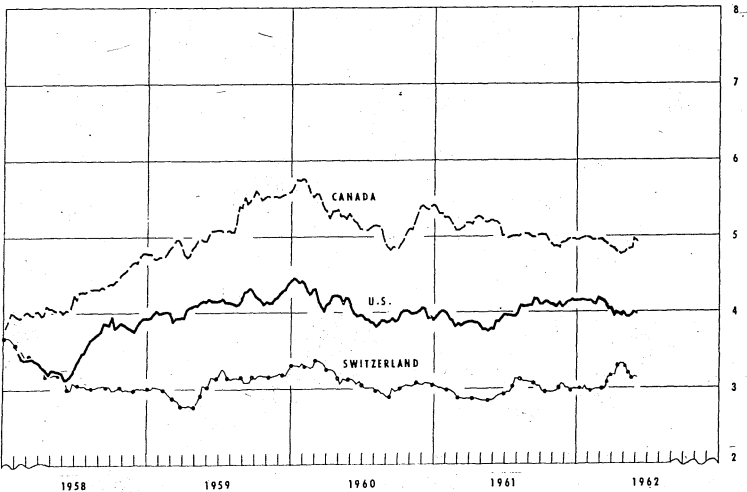
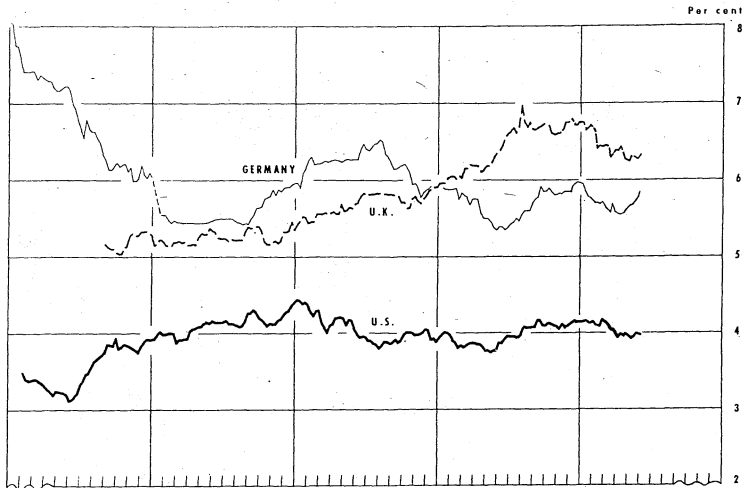
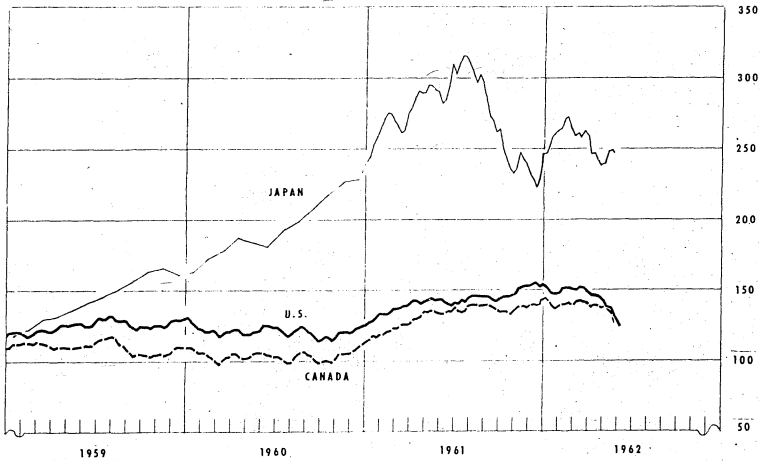
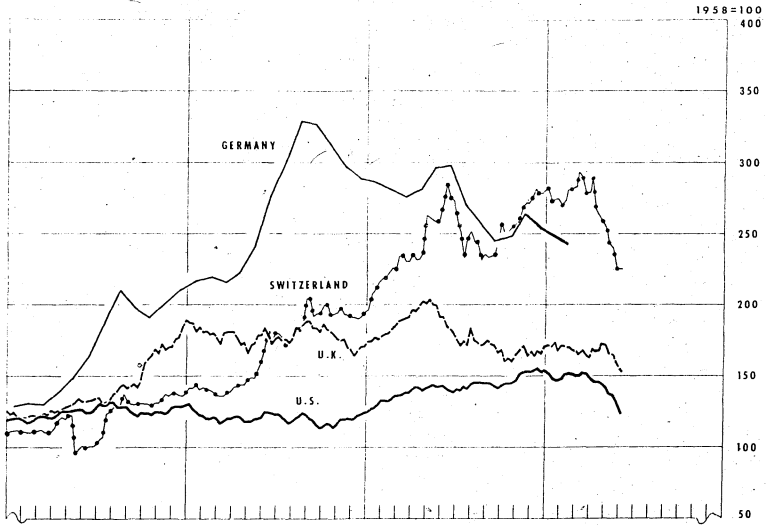


Chart 7

INDUSTRIAL STOCK INDICES\*



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

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

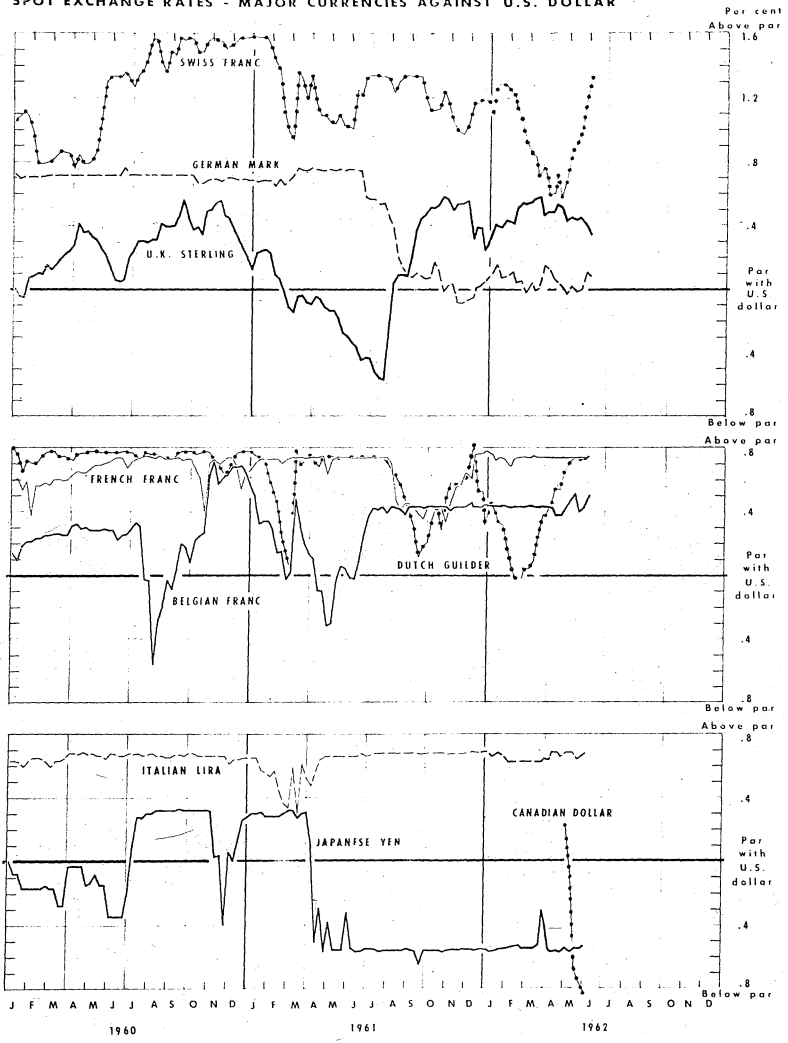


Chart 9

3-MONTH FORWARD EXCHANGE RATES

