

August 17, 1962

**CAPITAL MARKET DEVELOPMENTS ABROAD**

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

I. Germany: Money and Capital Markets in July

Further sharp declines in German stock prices and a continued tendency toward relative tightness in money and security markets were the important financial developments in Germany during July and early August. By August 7, the German stock price index reached a low for 1962 substantially below the May level and was 45 per cent below the postwar peak of mid-1961.

During July, short money rates eased from the highs reached following the June tax date but were above April and May levels as the following monthly rates (in per cent per annum) indicate:

	<u>April</u>	<u>May</u>	<u>June</u>	<u>July</u>
Day-to-day money	2-3/4	2-1/2	3-1/4	2-7/8
Treasury bills	2	2-1/8	2-1/4	2-1/2

On July 31, the Bundesbank raised the selling rate for the three-month Treasury bill by 1/8 per cent to 2-1/2 per cent. By August 7, however, the call money rate had dropped to 2-5/8 per cent.

Long-term bond yields had an upward tendency. The bond market was dominated by two large government bond issues with 6 per cent coupons which were heavily over-subscribed. Both resident and non-resident investors were reportedly interested in these offerings.

The sharp decline in stock prices in late July and early August was in part affected by several corporate insolvencies which contributed to market nervousness rather than to any specific adverse turn in major German economic indicators during the period under review. German officials continued to be concerned about wage and price trends and about Germany's competitive position. The Bundesbank's Monthly Report for July presents a picture of contradictory tendencies within the domestic economy with such expansionary factors as the continuing acute labor shortage, the unusually sharp seasonal pick-up in the spring months and growing consumer demand considered to be "merely the after-effects of the intensive boom period from 1959 to the end of 1961." (Times, London, August 10, 1962, p. 12.)

NOT FOR PUBLICATION

DECONTROLLED AFTER SIX MONTHS

The commercial banks are thought to have moved some liquid funds to foreign markets during July. The action by the Bundesbank at the end of July raising to 1 per cent the cost of swapping U.S. dollars forward to D-marks for the 31-60 day term and 3/4 per cent for 61-180 day term probably reduced the attractiveness of foreign investments. (See Table.) Official reserves fell \$19 million in July. The spot dollar in Frankfurt strengthened at the end of the month following President Kennedy's Telstar appearance. However, the forward premium during July increased further to 0.9-1.0 per cent per annum.

Money market. Money rates during July declined from the late June highs as the second-quarter tax date passed. (See Table and Charts 3 and 4.) The weekly range of day-to-day and three-month loan rates in Frankfurt (in per cent per annum) were:

	<u>Day-to-day money</u>	<u>Three-month loans</u>
June 24-30	3-1/4 - 3-1/8	n.a.
July 2-6	3 - 3-1/4	n.a.
9-13	2-3/4 - 3	3-1/4 - 3-3/8
16-20	2-3/4 - 3	3-1/4
23-27	2-5/8 - 3-1/4	n.a.

The Bundesbank reported some further reduction in the liquid assets of the commercial banks during the month. Bank holdings of German Treasury bills, short-term Treasury bonds and short-term assets abroad amounted to DM 8.6 billion compared with DM 9.5 billion on March 31 and the unusually high figure of DM 11.3 billion on January 31. The banks remain sufficiently liquid so that they continue to be interested in profitable short-term investments. They are thought to have moved some funds abroad during July.

Bond market. Despite a declining tendency in bond prices during July, the market absorbed a DM 400 million, 20-year Federal Government loan with a 6 per cent coupon on July 6 and a DM 210 million, 20-year Federal Post Office bond with a 6 per cent coupon on July 31. Both issues were heavily over-subscribed. Private investors, both domestic and non-resident, showed interest in these two issues. But the July flotations helped to develop resistance to any downward movement in Germany bond yields at this time. (See Chart 6.)

During June, gross security flotations amounted to DM 711 million or substantially below the levels in earlier months this year as may be seen in the table on page 3. A particularly sharp drop in new issues of shares contributed to this decline. A sizeable number of new issues are expected before winter including a Federal Railway bond and refunding flotations of maturing bonds with 8 per cent coupons issued earlier in the postwar period.

Gross Placements in German Security Markets  
(in millions of DM, monthly or monthly average)

	1961				1962				
	I	II	III	IV	I	II	Apr.	May	June
"Occasional" borrowers' bonds:									
Industrial	39	16	--	50	112	72	--	139	78
Public authority	441	78	84	79	314	136	259	130	20
Foreign issuers	--	--	4	--	32	--	--	--	--
Other bonds a/	101	117	53	84	89	132	69	217	109
Total occasional borrowers' bonds:	581	211	141	213	547	340	328	486	207
Mortgage and communal bonds	526	525	464	503	665	453	434	485	440
Total gross bond placements b/	1,107	736	605	716	1,212	793	762	971	647
Gross share placements	354	263	352	130	185	205	230	322	64
Total security placements at issue value	1,461	999	957	846	1,397	998	992	1,293	711

a/ Mostly bonds of specialized credit institutions, especially in 1961.

b/ Includes medium-term notes (Kassenobligationen).

Stock market. After a sharp recovery from 439 to 459 during the first two weeks of July, the stock market fell even more sharply to 421 during the last two weeks in July, a drop of 9 per cent in this official index. (See Chart 7.) The index of stock prices was thus the same as in the summer of 1959.

The Frankfurter Allgemeine Zeitung all shares index indicates a further 5 per cent decline in the first seven days of August. (July percentage changes in the FAZ index approximate those of the official index.)

The Economist reports that the July fall came on low volume with foreigners and banks the dominant sellers. It further stated that increasing tension over Berlin was a general bear influence and that the banks were selling to increase liquidity since they expect the balance of payments developments to bring on further money market tightening.

The financial collapse of Mr. Willy Schlieker's steel and shipbuilding complex was a factor in the July stock price decline. With consolidated sales of over \$200 million a year and a reported capitalization of only \$5 million, Schlieker found that to meet current financial obligations he either had to round up for his companies an estimated \$20 to \$30 million in credits from domestic and foreign banks and customers or to persuade current suppliers to extend outstanding credits. He has been unsuccessful at both, and creditors have begun acquiring control of some of the individual operating companies. From press reports, the problem of the Schlieker companies appears to be

strictly short-run liquidity difficulties--insufficient cash and current receipts to meet operating needs. The press reports imply that, given more time, Schlieker could probably get his financing in order, since demand for the products of his companies is reported still strong. The shipyard, for instance, is reported to have orders enough to keep work going through 1963, including orders from U.S. firms. The Wall Street Journal has reported that he has sought advance payments for ships ordered by two American firms, among others, the American Telephone and Telegraph Company and Bethlehem Steel Corporation (August 13, 1962, p. 20).

Reserves and the dollar exchange rate. Gross commercial bank holdings of foreign exchange declined \$255 million in June. Since official foreign exchange holdings increased \$154 million, combined German foreign exchange reserves declined by \$101 million in June.

Commercial bank foreign exchange holdings increased in July. The large increase in holdings in the beginning of the month was only slightly reduced by repatriations at the end of the month. "Since official reserves declined by only \$19 million in July, combined reserves certainly increased for the month. (Trade statistics are expected to show a larger surplus than usual for July.)

German Foreign Exchange Reserves  
(in millions of U.S. dollars)

	1961				1962			
	I	II	III	IV	I	II	June	July
Bundesbank	+300	-282	-570	+68	-463	+48	+154	-19
Comm. banks a/	+479	+404	-74	-427	+601	-89	-255	n.a.
Total	+799	b/+122	-644	-359	+138	-40	-101	

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

b/ After special debt prepayments of \$275 million to the United States and the United Kingdom. The total would be a reserve gain of \$898 million, if adjusted for these transactions.

The Bundesbank again changed the swap rates and Treasury bill rates effective August 1. The previous changes were on July 16. Each time swap rates were increased 1/4 per cent; and 31-60 day contracts now carry a 1 per cent discount; 61-180 day contracts a 3/4 per cent discount. Treasury bill rates increased another 1/8 per cent; and now 60-90 day bills, for instance, are offered with a 2-1/2 per cent return. As usual, by making these changes the Bundesbank attempts to induce the commercial banks to reduce their exports of short-term funds.

At the end of July the spot dollar picked up some strength following the President's Telstar statement that the United States will not devalue the dollar. From a peak of 25.119 cents per D-Mark on July 13 the spot rate dropped gradually during the rest of July to 25.020 on August 1. (See Chart 8.) In early August, however, the D-Mark strengthened slightly to 25.040 on August 9. The forward premium increased throughout July from 0.4 per cent per annum and has been maintained at 0.9-1 per cent per annum so far during August.

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. U.S. \$ into Marks		3-mo. Treas. bills		
				Comm. banks <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	3.63	3.00	+0.50	-0.25	-0.95	4.34	1.88	2.74
Feb. 16	3.44	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
May 25	3.81	3.13	+0.68	-0.25	-0.35	3.69	2.13	2.69
June 22	3.66	n.a.	--	-0.25	-0.21	3.78	2.25	2.74
29	3.69	n.a.	--	-0.25	-0.26	3.84	2.25	2.90
July 6	3.66	n.a.	--	-0.25	-0.40	3.81	2.25	2.93
13	3.94	3.31	+0.63	-0.25	-0.47	3.81	2.25	2.96
20	3.72	3.25	+0.47	-0.50	-0.61	3.88	2.38	2.91
27	3.94	--	--	-0.50	-0.82	3.81	2.38	2.88
Aug. 3	3.81	--	--	-0.75	-0.95	3.75	2.50	2.82
10	--	--	--	-0.75	-0.84	--	--	--

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 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
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	6.6	5.6	2.77	2.8
May	7.50	3.50	2.75	5.7	5.8	3.23	2.6
June	7.50	3.50	2.75	5.8	5.9	3.49	2.3
July	--	--	--	5.8	--	--	--

a/ Approved credits on current account.

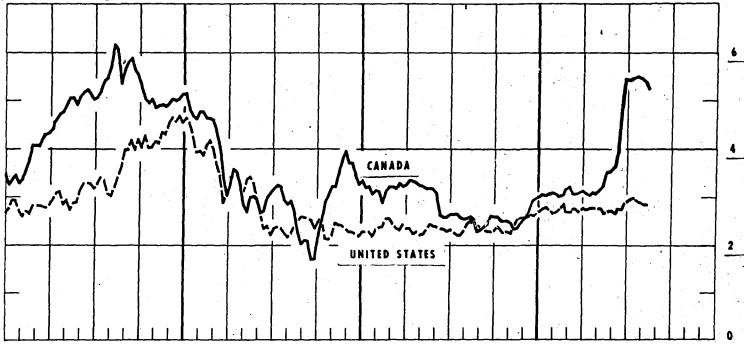
Chart 1

**INTEREST ARBITRAGE, UNITED STATES / CANADA**

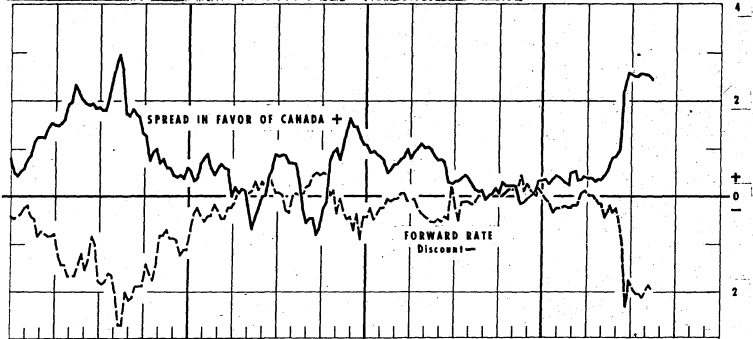
Thursday figures

**THREE-MONTH TREASURY BILL RATES**

Per cent per annum



**RATE DIFFERENTIAL AND FORWARD CANADIAN DOLLAR**



**RATE DIFFERENTIAL WITH FORWARD EXCHANGE COVER**

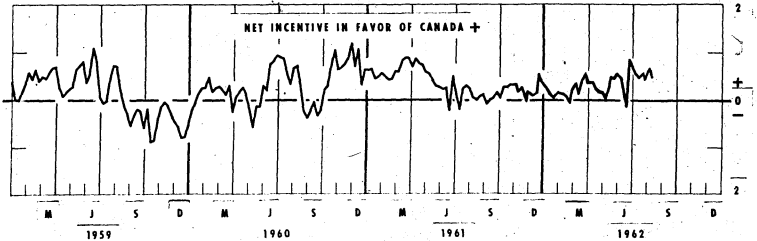


Chart 2

### INTEREST ARBITRAGE, NEW YORK/LONDON

Friday figures

Per cent per annum

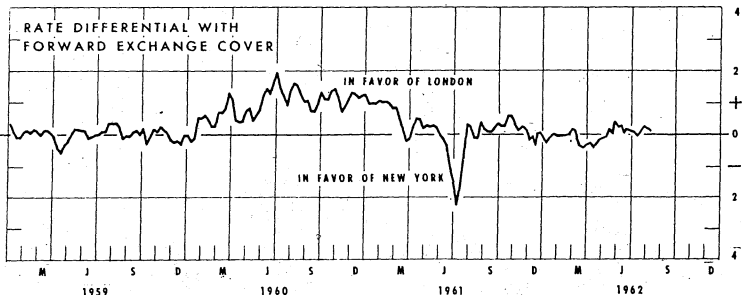
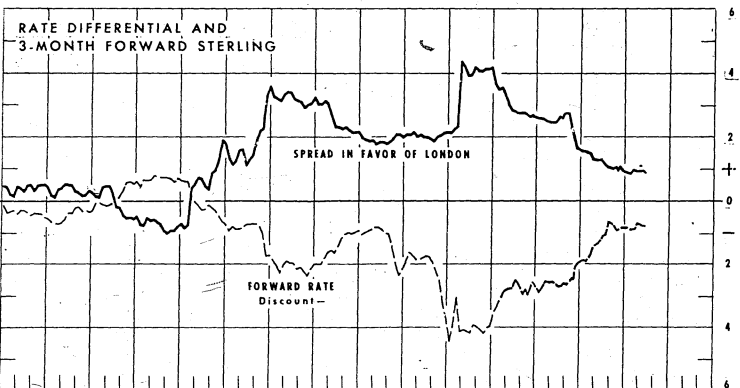
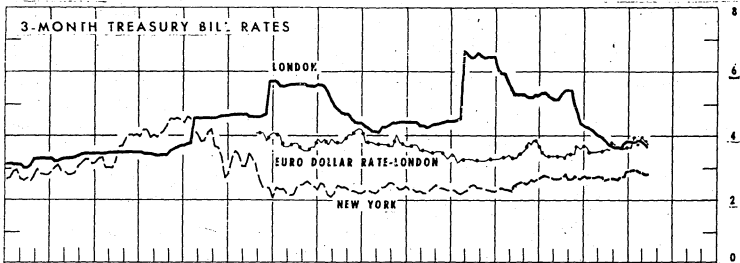
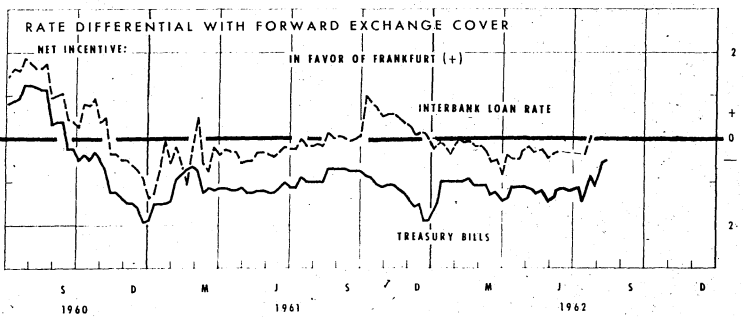
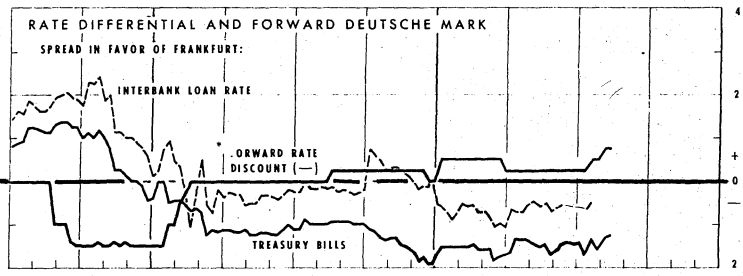
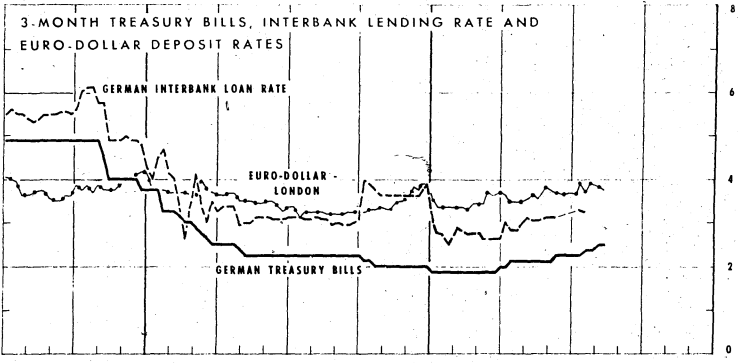


Chart 3

**INTEREST ARBITRAGE FOR GERMAN COMMERCIAL BANKS**

Friday figures

Per cent per annum



Note: Special forward rate available to German commercial banks.

**INTEREST ARBITRAGE, FRANKFURT / LONDON**

Friday figures

Per cent per annum

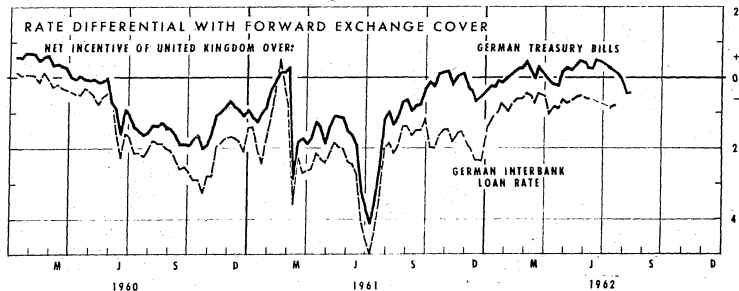
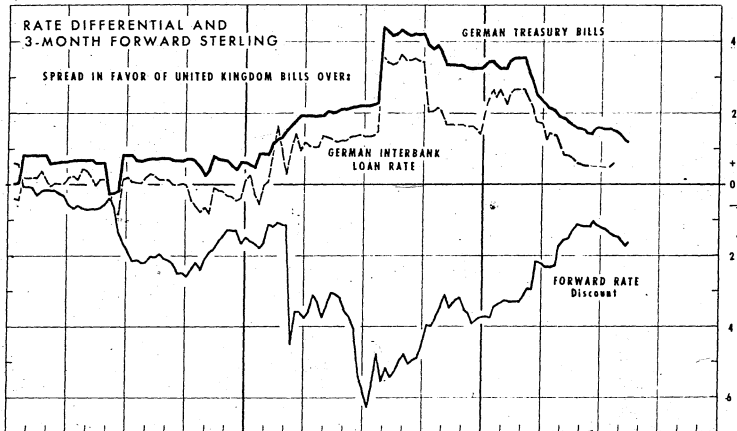
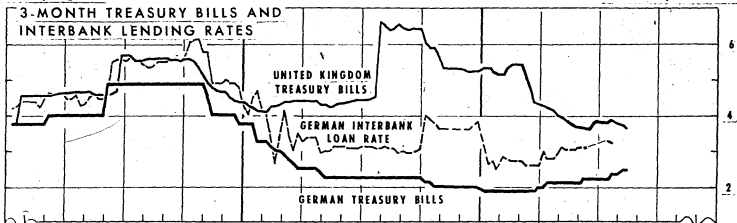
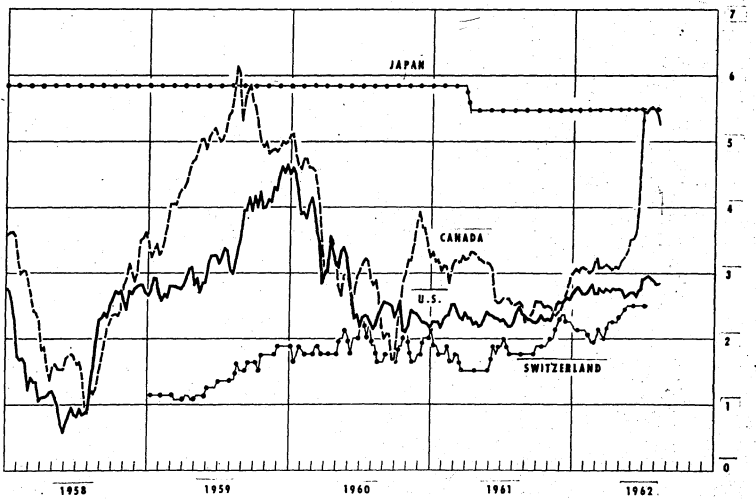
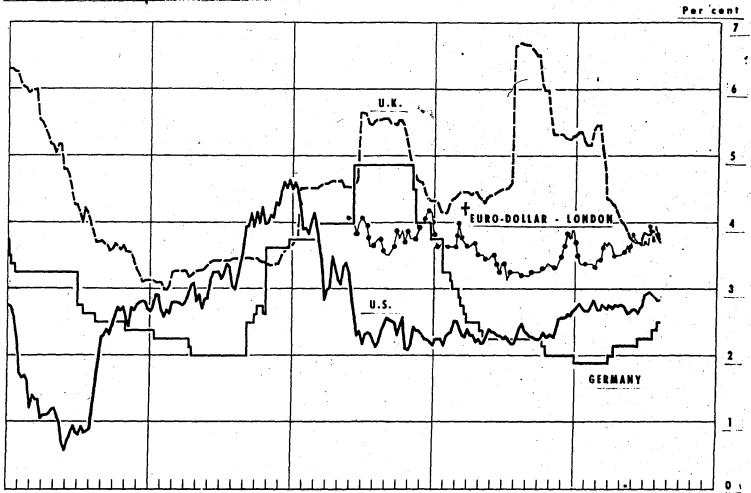


Chart 5

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

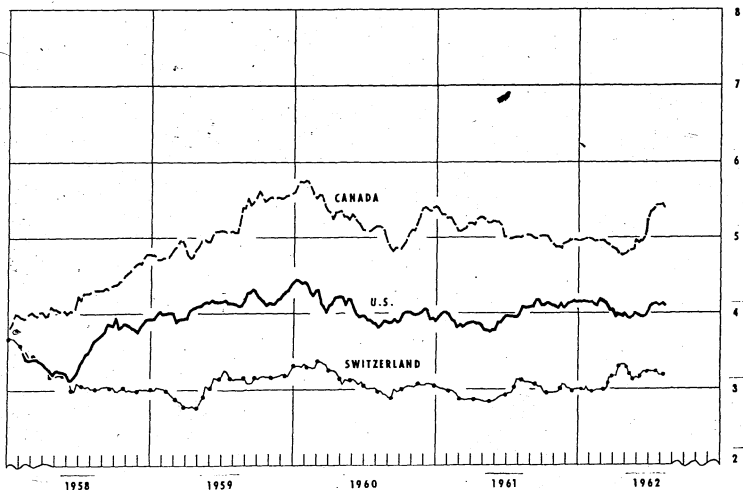
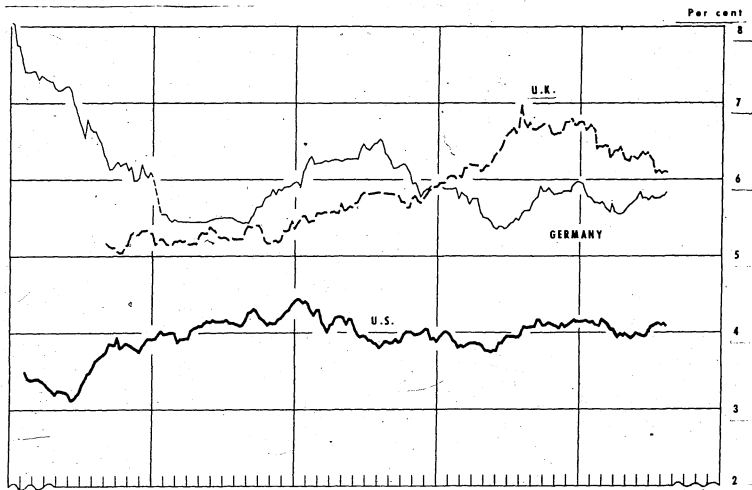
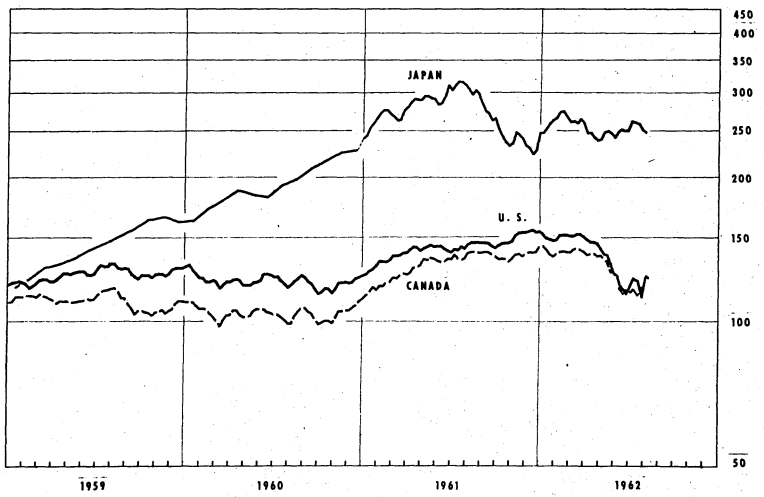
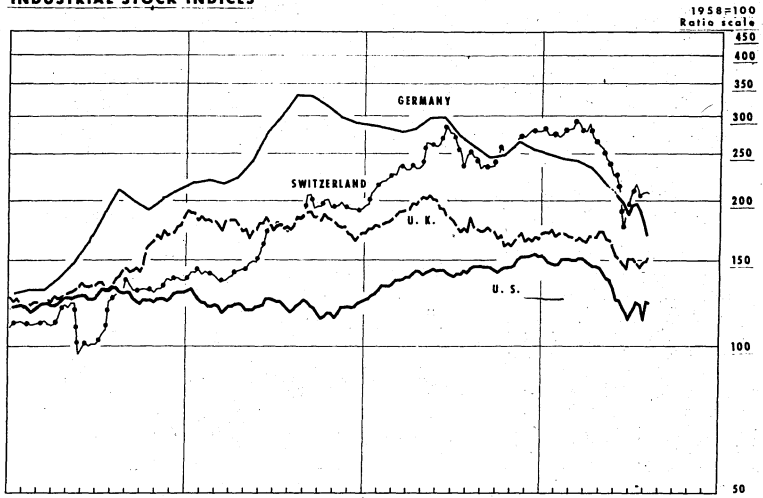


Chart 7  
**INDUSTRIAL STOCK INDICES\***



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

Chart 8

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

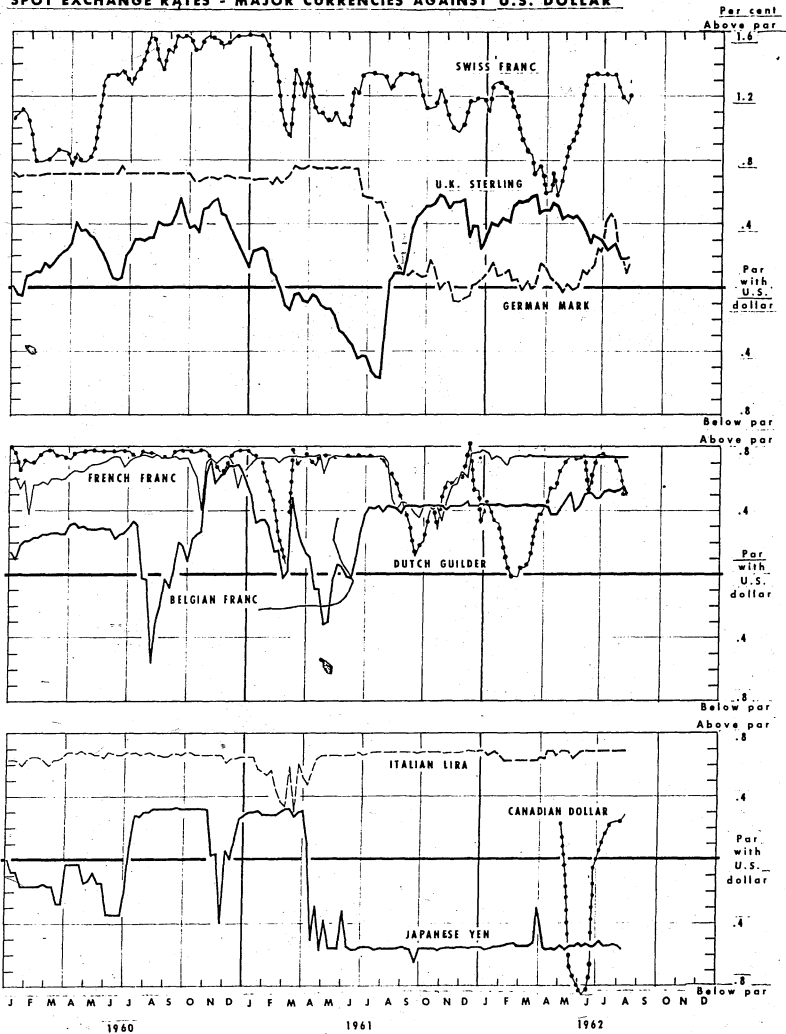


Chart 9

3-MONTH FORWARD EXCHANGE RATES

