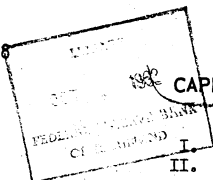


September 28, 1962

H. 13  
No. 78**CAPITAL MARKET DEVELOPMENTS ABROAD**I. Germany  
II. Nine Charts on Financial Markets AbroadI. Germany: Money and Capital Markets in August

A sluggish stock market and a continued upward tendency in bond yields characterized financial markets in Germany during August and early September. The relative easy conditions in the money market was the outgrowth of substantial repatriation of funds from abroad by German commercial banks.

During August day-to-day money rates eased downward from about 2-5/8-3-1/4 per cent in late July to a range of 2--2-7/8 per cent in the last week in August when day-to-day credit supplies approached a point of over-liquidity. The approaching September tax date did not cause the market to tighten as usual. Further repatriation of commercial bank funds from abroad, encouraged by a further rise in the cost of forward cover at the Bundesbank from 0.50 to 0.75 per cent and a rise in the Treasury bill rate from 2.38 to 2.50 per cent at the end of July, contributed to the availability of funds in the money market.

Long-term bond yields continued to rise and the bond market displayed signs of being saturated. Recent 6 per cent issues--industrial and public--are being quoted as much as 1-1/8 points under par. The August DM 250 million Federal railways issue was barely subscribed, and then only with the help of large foreign purchases. Because of these conditions, the authorities have decided to offer only DM 300 million of the second tranche of the Federal loan to the domestic market; the other planned DM 100 million will be offered globally, probably to institutional investors.

The German stock market remained rather weak in August. The stock index moved sluggishly within a four point range (from 155 to 159) during the last two weeks of August and the first two of September. Trading volume was generally small and general uncertainty was the dominant market note.

The Federal budget for 1962, approved by Parliament in May, provides a deficit, on an economic basis, of about DM 1.3 billion compared with a surplus of DM 0.8 billion for 1961. After prolonged discussion, The Laender agreed to contribute a grant of DM 1.05 billion to the Federal Treasury.

German commercial banks held DM 3,061 million or 55 per cent of their total foreign money-market assets in U.S. dollars on June 30, according to a special survey of the Bundesbank summarized in Table 1. About half these dollars were held in U.S. financial centers and about half as U.S. dollar deposits in banks in other centers. Some DM 1,061 million of U.S. dollars

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were held in European banks with about 21 per cent in British, 9 per cent in French and 8 per cent in Italian banks. Two-thirds of U.S. dollar assets were held as time deposits. Less than half the holdings in U.S. banks were in time deposits but over 90 per cent of U.S. dollars held at European banks were in time deposits constituting a major part of the supply of so-called Euro-dollars available in international money markets.

Table 1. Short-term Foreign Assets of German Commercial Banks  
(in millions of D-marks)

	Total	Foreign deposits:			Money-market paper	Short-term credits
		Total	Demand	Time		
<b>1. Foreign assets by currency:</b>						
U.S. dollar	3,061	2,297	235	2,062	a/ 660	104
D-mark	1,945	287	117	170	385	1,273
Canadian dollar	75	7	7	--	66	2
Pounds	133	101	85	16	--	--
Swiss francs	102	99	39	60	1	2
Other currencies	219	207	185	22	0	48
Total	5,535	2,998	668	2,330	1,112	1,425
<b>2. Holdings of U.S. dollars by financial center:</b>						
United States	1,574	906	193	713	658	10
United Kingdom	651	649	26	623	--	2
France	267	267	0	267	--	--
Italy	238	238	0	238	--	--
Belgium	91	91	0	91	--	0
Netherlands	34	31	0	31	--	3
Canada	32	32	8	24	--	0
Switzerland	27	13	1	12	--	14
Japan	24	5	--	5	--	19
Other	123	65	7	58	2	56
Total U.S. dollars	3,061	2,297	235	2,062	660	104

a/ Includes DM 611 million of U.S. Treasury bills held by the Reconstruction Loan Corporation.

Money market. The money market was relatively easy throughout August. (See Charts 3&4.) Banks repatriated funds from abroad during the first two weeks of the month despite an easy money market, apparently because the cost of forward cover was increased. (See Table 6.) A temporary tightening of the market in the third week of August arose from the banks' miscalculation of the liquidity effects of the repatriation but at the end of the month there was over-liquidity on the short-term money market; day-to-day money was almost exclusively offered and not demanded and rates fell to a 2 to 2-7/8 per cent range. (See Table 2.) Longer term money remained unaffected by these events.

Table 2. Money Market Rates in Frankfurt, July and August  
(in per cent per annum)

		<u>Day-to-day money</u>	<u>Three-month loans</u>
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	3-1/4 - 3-3/8
August	1-7	2-5/8 - 3	3-3/8
	8-15	2-3/8 - 2-5/8	3-1/8 - 3-1/4
	16-23	2-3/8 - 3	3-3/8
	24-31	2 - 2-7/8	3-3/8 - 3-1/4

The money market was firmer during the first half of September because of preparations for the coming tax date. Substantial amounts are still being repatriated from abroad but the banks appeared to have added to their assets with the Bundesbank rather than offering their incoming funds to the money market.

Bond market. Total placement of bonds in July reached a record DM 1.7 billion. (See Table 3.) This heavy placement was, however, too much for the market to bear without strain. The bond market was very weak and very quiet throughout August. (See Chart 6.) Recent 6 per cent government issues were to be had 3/8 to 1/2 below par and industrial issues as much as 1-1/8 below par. The August 6 per cent DM 250 million Federal railways issue was barely subscribed, and then only with the help of large foreign purchases, whereas all Federal loans issued previously this year had been immediately oversubscribed. Bond prices slipped downward through August and appear to have held their level at the end of the month, at least in part because no new issues appeared.

Even at the low market levels, there existed little demand for securities. Bond yields continued to creep upward; the yield on the 1958-83 5-1/2 per cent railway issue rose by 11 basis points from the beginning of August to the 11th of September. The tightening of the German credit market in general is attributed in part to the fact that 72 per cent of the long-term funds of the banks are now held in long-term investments and the banks have accordingly reduced their purchases of new issues.

A 21 million DM 6 per cent industrial loan issued at 99-3/4 was immediately oversubscribed on September 10th. Standard-Electric-Lorenz, A.G. and the State Public Mortgage Bank are expected to approach the market with sizeable issues in September and the second tranche of the Federal loan is expected the first week in October. DM 100 million of this tranche will probably be offered globally to institutional investors and DM 300 million to the German capital market.

Table 3. Gross Placements in German Security Markets  
(in millions of DM, monthly or monthly average)

	1961				1962				
	I	II	III	IV	I	II	May	June	July
"Occasional" borrowers' bonds:									
Industrial	39	16	--	50	112	72	139	78	258
Public authority	441	78	84	79	314	136	130	20	638
Foreign issuers	--	--	4	--	32	--	--	--	--
Other bonds a/	101	117	53	84	89	132	217	109	157
Total occasional borrowers' bonds:	581	211	141	213	547	340	486	207	1,253
Mortgage and communal bonds	526	525	464	503	665	453	485	440	640
Total gross bond placements b/	1,107	736	605	716	1,212	793	971	647	1,693
Gross share placements	354	263	352	130	185	205	322	64	312
Total security placements at issue value	1,461	999	957	846	1,397	998	1,293	711	2,005

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

b/ Includes medium-term notes (Kassenobligationen).

**Stock market.** The German stock market remained weak but fairly calm in August. (See Chart 7.) After a further drop of 6 per cent from 151 to 142 in the Frankfurter Allgemeine all-shares index during the first 7 days of August, the stock market recovered itself as the FAZ index rose 13 per cent to 163 between August 7th and 16th thanks partly to renewed foreign investment. In the last part of the month, the market drifted downward again on a low turnover and fluctuated uneasily under bearish pressure from Berlin. Continued uneasiness and reduced activity have characterized the market through the first half of September; the share index remained unchanged at 155 from September 6th to 17th.

**Foreign trade.** In June, the German trade surplus continued to decline as exports fell by \$40 million or 4 per cent to \$1,070 million on a seasonally-adjusted basis and imports increased by only \$5 million to \$1,053 million. (See Table 4.) The resulting trade surplus for June was \$17 million.

Both import and export trade continued to expand in the second quarter of 1962. The second quarter increase in imports of 10 per cent over the same quarter of 1961 was due principally to necessary and unusually large imports of agricultural products as a result of the poor harvest in 1961. This compares with a rise in imports of 14 per cent between the first quarters of 1961 and 1962. The trade surpluses in the first and second quarters in 1962 were only about one half as large as they were in the corresponding quarters of 1961.

Table 4. German Foreign Trade  
(seasonally adjusted, monthly or monthly averages  
in millions of U.S. dollars)

	Calendar Year		1961				1962			
	1960	1961	I	II	III	IV	I	II	May	June
Exports	951	1052	1047	1077	1060	1058	1103	1115	1110	1070
Imports	848	917	852	936	911	960	994	1043	1048	1053
Surplus	103	135	195	141	151	98	109	72	62	17

The German Bundesbank announced that bills of German exporters are now being admitted as first class bank acceptances by Privatdiskontbank, A.G., thus reducing the cost of short-term export financing. The Privatdiskontbank was established two years ago to rediscount bills of exchange for importers and those drawn for transit dealings. This action would seem to herald a new era of active encouragement of exports by German official policy.

Foreign exchange reserves. Commercial bank holdings of foreign exchange increased \$44 million in July. Gross gold and foreign exchange reserves of the Bundesbank declined \$19 million in July even though the United Kingdom repaid \$65 million of its earlier DM drawing with the IMF. The total reserve gain for July was therefore \$25 million. In August commercial banks reduced their swap engagements by \$62 million net and repatriated considerable funds from abroad in response to a hike of 1/4 per cent in swap costs and in preparation for the September tax date. An increase of only \$20 million in total official reserves indicates that German combined reserves fell appreciably in August.

Table 5. German Foreign Exchange Reserves  
(in millions of U.S. dollars)

	1961				1962				
	I	II	III	IV	I	II	June	July	August
Bundesbank	+300	-282	-570	+ 68	-463	+48	+154	-19	+20
Comm. banks a/	+479	+404	- 74	-427	+601	-89	-255	+44	n.a.
Total	+799	b/+122	-544	-359	+138	-40	-101	+25	

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.

In its latest monthly Report the Bundesbank released information about the foreign short-term investments of the commercial banks. The Bundesbank action at the end of 1958 to provide facilities for forward exchange cover encouraged the commercial banks to move funds abroad from 1958 until this year. By February 1962 their short-term foreign investment totaled DM 7.3 billion. A summary of these holdings on June 30, 1962 is shown in Table 1 of this report.

During the first half of 1962, the Bundesbank has raised the cost of forward cover and increased the interest rates on the domestic money market. These actions led the banks to reduce their short-term foreign investments to DM 5.5 billion by the end of June 1962. Since then short-term investments have further declined to an estimated DM 4 billion and the return flow of money into Germany has accelerated since the beginning of August.

Foreign exchange rate. After strengthening slightly during the first eight days of August, the D-mark continued to weaken gradually against the dollar during the rest of the month. (See Chart 8.) On August 31 the exchange rate slipped to 24.996 cents and remained below par through September 5, the first time this year that the DM exchange rate has dipped below par for more than a day. Berlin tension was the dominant market factor at this time. The forward premium on the DM decreased from 1.0 per cent per annum in the first week of August to 0.7 per cent where it stabilized at the end of the month.

Foreign aid developments. Federal Minister for Economic Cooperation, Walter Schell, recently summarized future German economic aid policy in two public statements. Aid commitments will be made in the future only for specific projects; aid will be "tied." The major burden of economic development aid will be born by private industry and investors. To this end, new government guarantees for the covering of capital investments in developing countries against political risks have been announced. The main change in comparison with the existing arrangement is a reduction of the proportion of the risk borne by the investor from 20 to 10 per cent. This residual portion must not be covered elsewhere. The government's liability is restricted to a maximum amount determined by the initial value of the investment, which is reduced by a fixed sum each year, plus income equal to at most 24 per cent of the capital value. The charge for the guarantee was formerly 3/4 to 1-1/2 per cent a year but has now been reduced to 0.6 to 1 per cent of the value covered.

The German Development Corporation was established officially on September 14th and will begin operations immediately. It will promote small- and medium-sized enterprises abroad. Momentarily the Federal Government is the only member of the corporation but there will be future opportunity for other public and private interests to participate.

European and British Commonwealth Section.

## II. Nine Charts on Financial Markets Abroad

Table 6. 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. 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	3.63	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
Apr. 27	3.50	2.94	+0.56	-0.25	-0.32	4.03	2.13	2.74
May 25	3.81	3.13	+0.68	-0.25	-0.35	3.69	2.13	2.69
June	3.66	n.a.	n.a.	-0.25	-0.21	3.78	2.25	2.74
July 27	3.94	3.31	+0.63	-0.50	-0.82	3.81	2.38	2.88
Aug. 3	3.81	n.a.	--	-0.75	-0.95	3.75	2.50	2.82
10	3.78	3.38	+0.40	-0.75	-0.84	3.69	2.50	2.83
17	3.72	3.19	+0.53	-0.75	-0.78	3.69	2.50	2.83
24	3.72	3.38	+0.34	-0.75	-0.63	3.69	2.50	2.82
31	3.81	3.19	+0.62	-0.75	-0.63	3.69	2.50	2.80
Sept. 7	3.84	--	--	-0.75	-0.65	3.66	2.50	2.79
14	3.91	--	--	-0.75	-0.69	3.63	2.50	2.78

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
Apr.	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	7.50	3.50	2.75	5.8	5.9	3.71	2.1
Aug.	--	--	--	5.8	--	--	--

a/ Approved credits on current account.

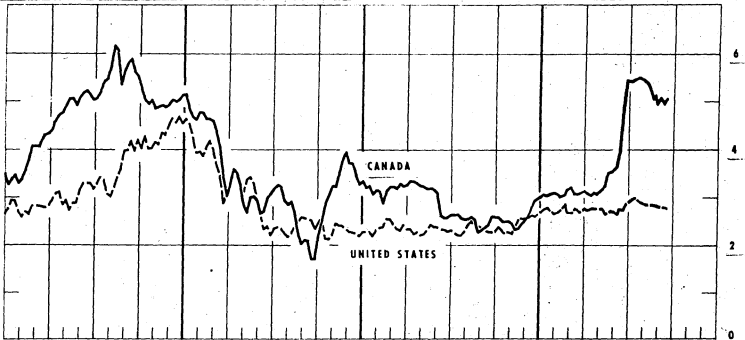
Chart 1

### INTEREST ARBITRAGE, UNITED STATES / CANADA

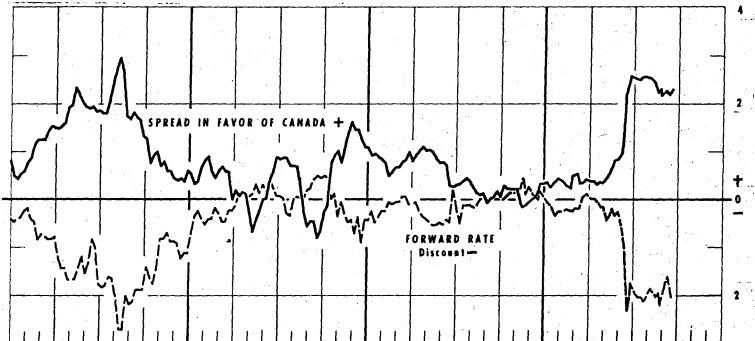
Thursday figures

#### THREE-MONTH TREASURY BILL RATES

Per cent per annum



#### RATE DIFFERENTIAL AND FORWARD CANADIAN DOLLAR



#### RATE DIFFERENTIAL WITH FORWARD EXCHANGE COVER

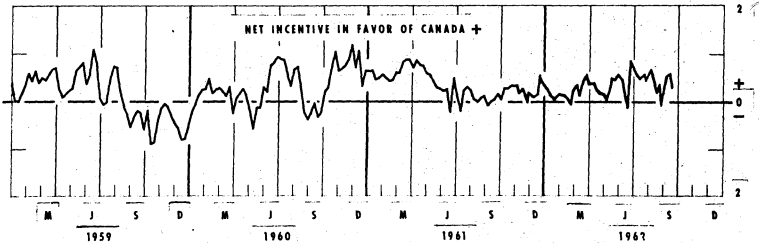




Chart 2

# INTEREST ARBITRAGE: NEW YORK/LONDON

Friday figures

Per cent per annum

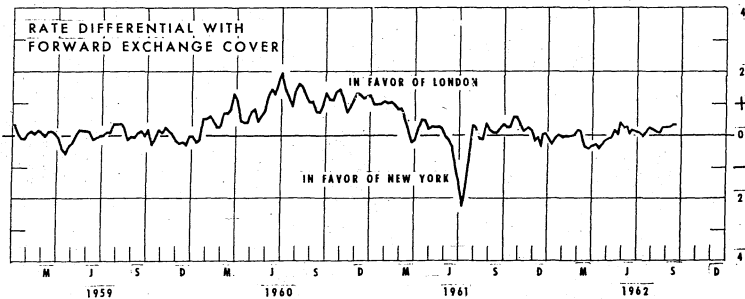
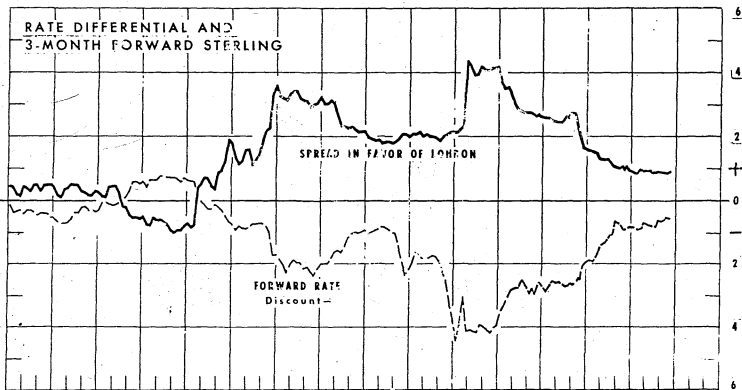
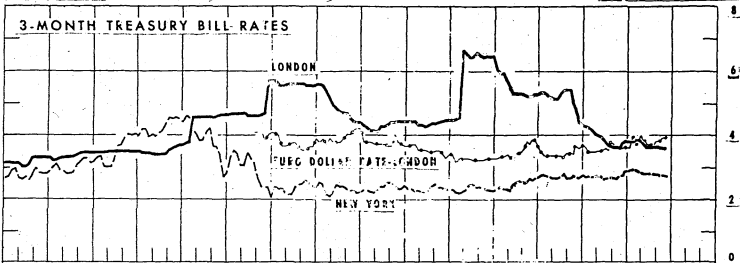
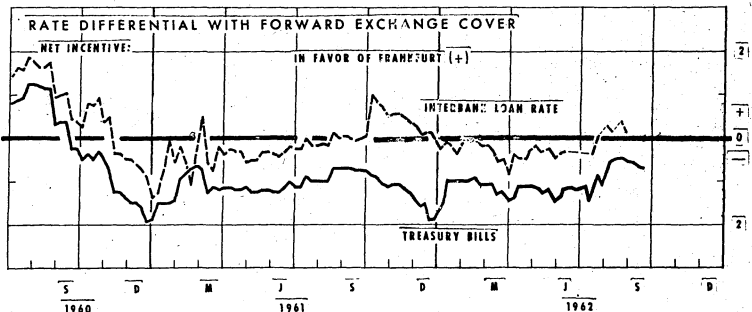
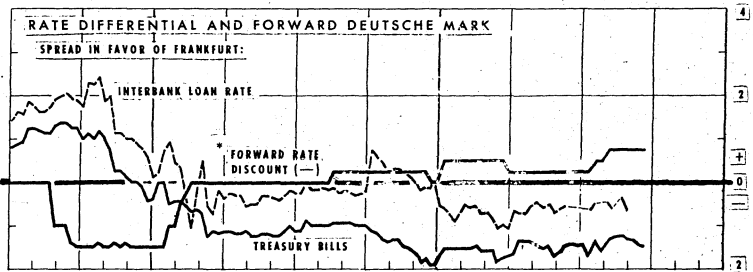
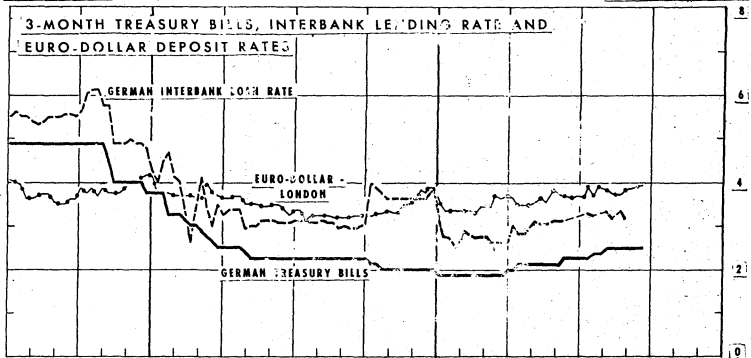


Chart 3

**INTEREST ARBITRAGE FOR GERMAN COMMERCIAL BANKS**

Friday figures Per cent per annum



(Note: Special forward rate available to German commercial banks.)

Chart 4

### INTEREST ARBITRAGE, FRANKFURT/LONDON

Friday figures

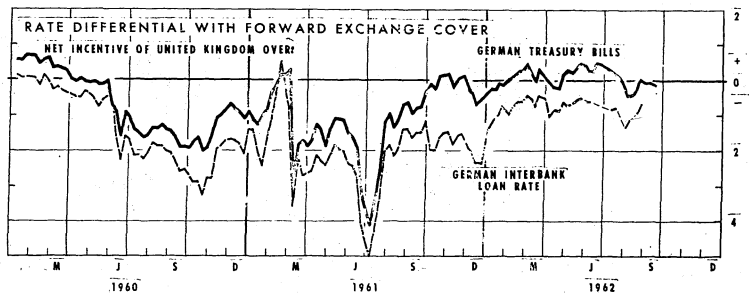
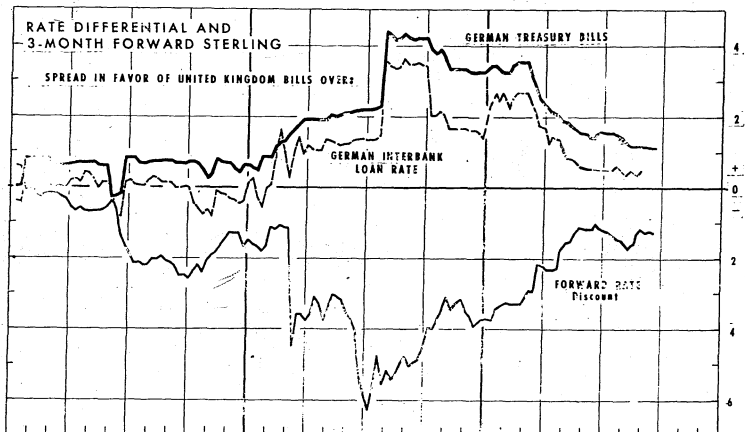
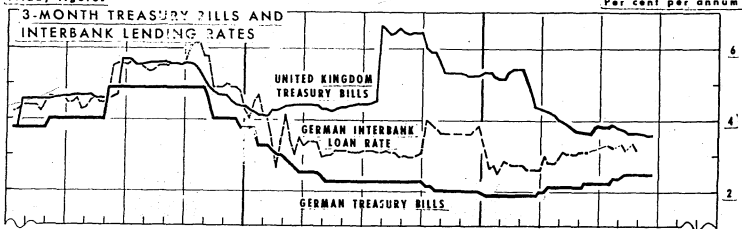
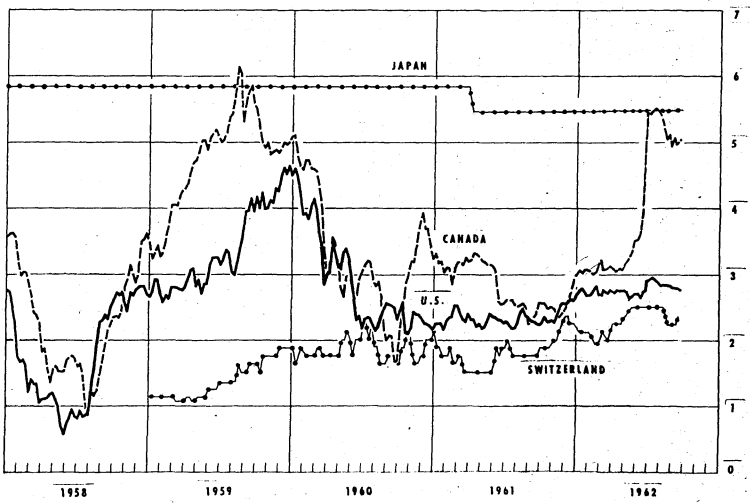
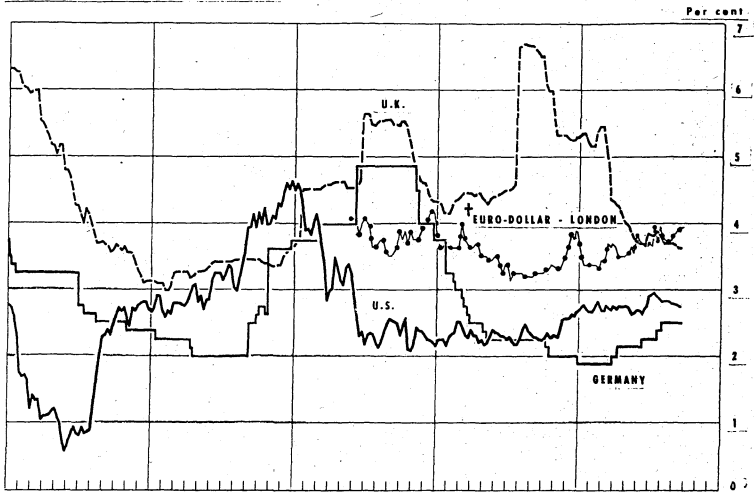


Chart 5  
**SHORT-TERM INTEREST RATES** \*



\* 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**

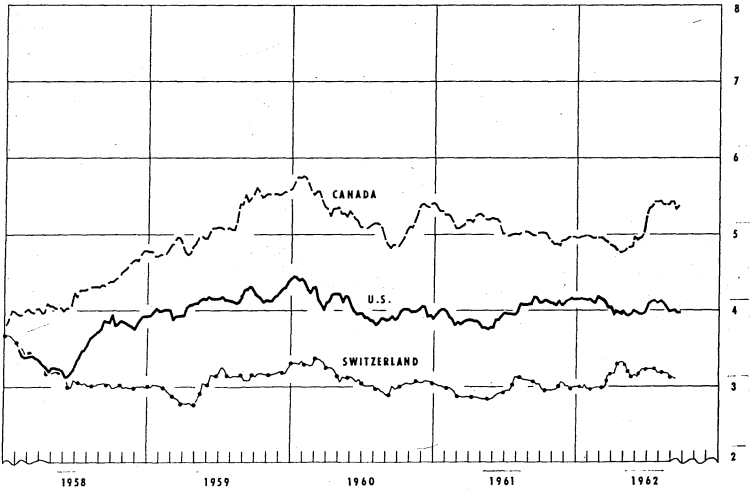
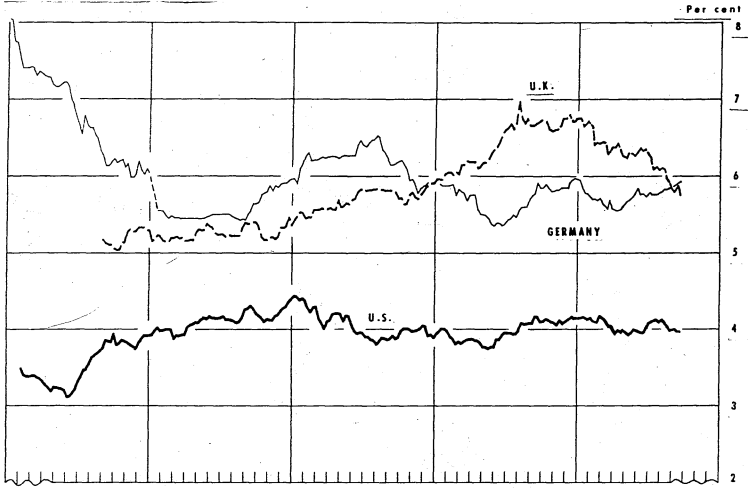
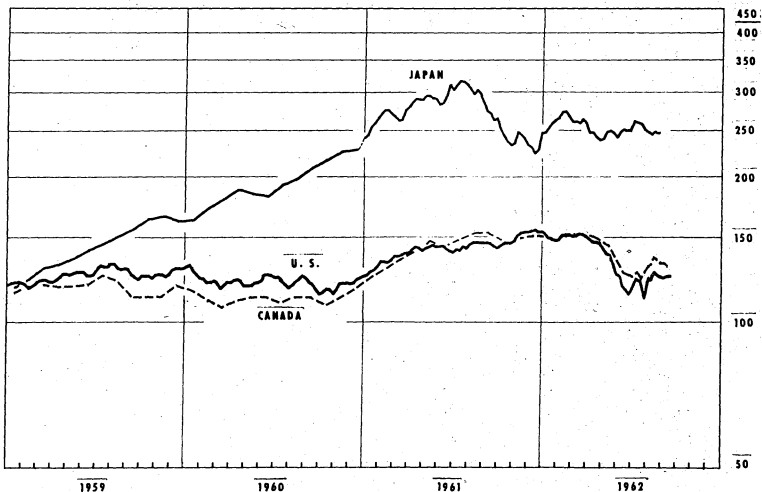
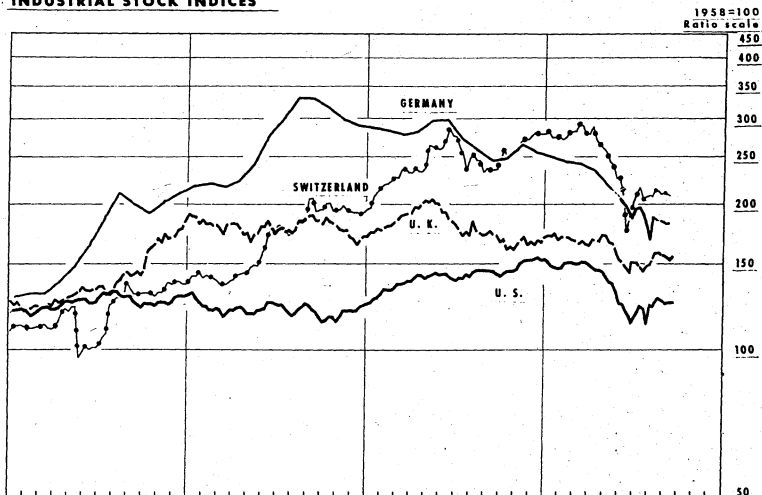


Chart 7

**INDUSTRIAL STOCK INDICES\***



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

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Chart 8

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

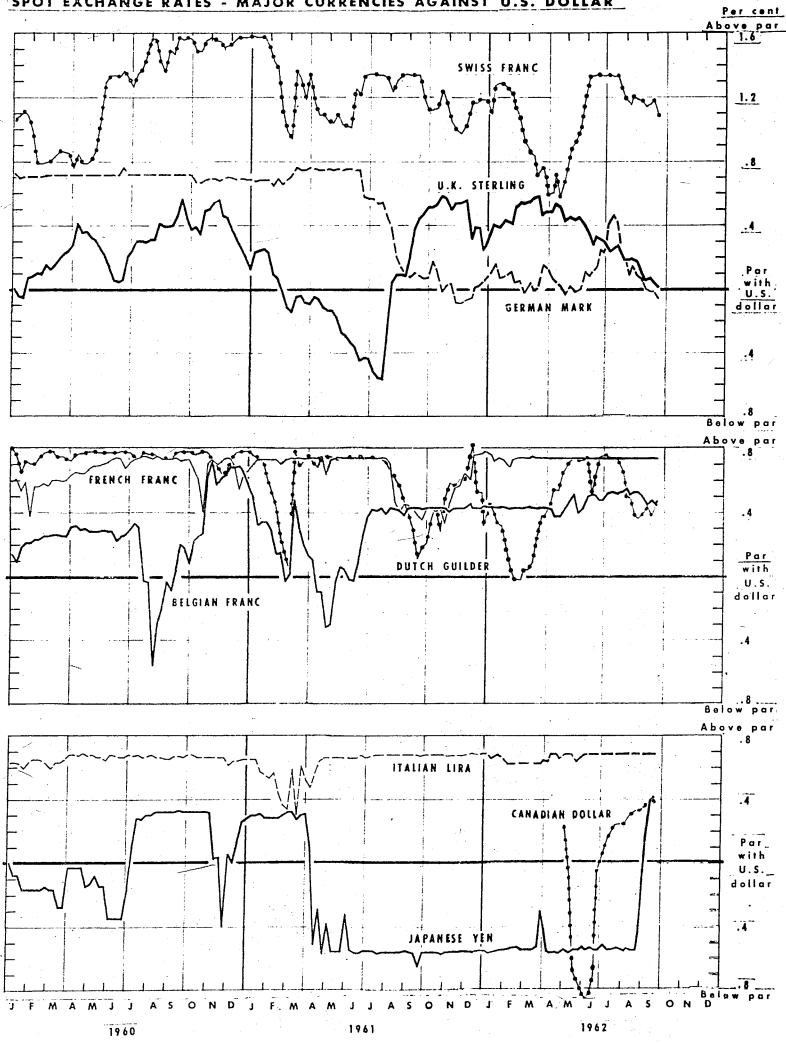


Chart 9

**3-MONTH FORWARD EXCHANGE RATES**

