

January 18, 1963

H. 13  
No. 91

## CAPITAL MARKET DEVELOPMENTS ABROAD

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

I. France: Money and Capital Markets, Fourth Quarter, 1962

Easy conditions prevailed in the Paris money market throughout the quarter, and long-term bond prices resumed their downward trend in November and December. Although stock prices fell to a 1962 low and gold prices to a five-year high in late October as a result of the Cuban crisis and of domestic political controversies, financial markets in Paris quickly recovered after the Gaullist election victories in late November. By late December, prices in the French stock and gold markets had returned to late September levels.

France's balance of payments surplus, which has permitted a rapid rise in bank credit during the course of 1962 with scarcely any expansion of Bank of France credit to the money market, was the principal factor contributing to easy credit availabilities and declining money-market and bond rates last year. The importance of the payments surplus as a source of bank reserves can be seen in the changes in selected Bank of France accounts during 1962 (in billion of francs):

	Jan. 4 to Oct. 4	Oct. 4 to Dec. 20	Dec. 20 to Jan. 3 (1963)	Total Jan. 4, 1962 to Jan. 3, 1963
<u>Factors reducing reserves</u>				
Increase in note circulation	4.1	--	1.7	5.7
Decrease in credit to Treasury, adjusted a/	0.1	0.6	0.5	1.2
Total	4.2	0.6	2.2	6.9
<u>Factors increasing reserves</u>				
Increase in:				
Foreign assets, adjusted a/	5.7	1.1	0.1	6.9
Rediscounts and advances	-1.4	0.2	2.1	0.9
Holdings of money-market paper	0.6	-0.6	-0.4	-0.3
Total	4.9	0.7	1.8	7.6

a/ Adjusted for repayments (scheduled and advance) of external public debt totalling 3.3 billion francs between January 4, 1962 and January 3, 1963.

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During the year, the reserves created by the external payments surplus were sufficient to offset the contractive effects on reserves of the larger note circulation and Treasury credit repayments.

Easier credit availabilities in financial markets brought money-market rates since last August to the lowest point reached since 1956, and have contributed to declines of 20 to 30 basis points in bond yields during the course of the year. The main impact of the favorable political developments in November apparently is to be found in the restoration by the year-end of the conditions prevailing in financial markets at the end of the third quarter.

External payments developments continued to be favorable during the fourth quarter. In particular, a pick-up in exports in October brought the trade accounts into balance in October and November compared with a \$30 million monthly average import deficit in the third quarter. At the same time, reserve accruals, adjusted for special official transactions, amounted to \$197 million. With another \$117 million debt prepayment to the United States, French prepayments totalled \$588 million in 1962 or about 45 per cent of the \$1.3 billion balance of payments surplus in 1962.

On January 1, 1963 the "franc" again became the French monetary unit. It replaces, at a 1 to 1 ratio, the "new franc" which was introduced at the beginning of 1960 at the ratio of 1 "new franc" per 100 of the pre-1960 francs (now called "old francs").

Money market. Because of the high liquidity of the French banking system, the Paris money market continued to exhibit in the period under the review the extremely easy conditions that had prevailed in August and September. Since August 1962, the market has been easier than at any time since 1956. Money rates did not fall further in the last quarter, but they held at levels below those which had ruled either in the first seven months of the year or in the preceding five years. (See Table 1.)

Day-to-day money rates against private paper were almost continuously at 3-3/8 or 3-1/2 per cent. These rates fluctuated close to the Bank of France basic rediscount rate of 3-1/2 per cent because, during the period under review, banks were not obliged to rediscount short-term paper at the 4-1/2 or 6 per cent penalty rates applicable to rediscounts of such paper above the ceilings set by the monetary authorities. (Under present conditions, money market rates cannot fall significantly below the rediscount rate, because banks are still rediscounting within the ceilings.) The end of the year brought some tightening of the market because of a currency drain and window dressing, making necessary increased recourse to Bank of France accommodation. But these factors caused little difficulty for the banks in December 1962. The rate against private paper rose to 4-1/2 per cent for a few hours on December 31, but fell to 3-1/2 per cent by the end of the day.

Table 1. France: Short-term Interest Rates, 1956-1963

Range or average	Bank of France	Day-to-day Money	
	basic re- discount rate	Private paper	Treasury bills
	range	average	
1956	3.0	3.19	
1957	4.0 - 5.0	5.35	3.12
1958	5.0 - 4.5	6.49	3.54
1959	4.5 - 4.0	4.07	3.57
1960	4.0 - 3.5	4.08	3.64
1961	3.5	3.65	3.45
1962-Jan.	3.5	3.51	3.40
Apr.	3.5	3.93	3.64
July	3.5	3.66	3.38
Aug.	3.5	3.46	3.23
Sept.	3.5	3.48	3.22
<u>Date</u>			
1962 -			
Oct. 31	3.5	3.50	3.38
Nov. 15	3.5	3.38 - 3.50	3.38
Nov. 29	3.5	3.50	3.38
Dec. 13	3.5	3.38 - 3.50	3.38
Dec. 31	3.5	3.50 - 4.50	n.a.
1963 -			
Jan. 3	3.5	3.38 - 3.50	3.38

Bond market. The downward trend of long-term bond yields resumed in the last two months of 1962. Yields had moved downward through August, after which there occurred some rise in September and October. (See Table 2.) The renewed declines in November-December drove yields on rentes and corporates below the August levels, and at the end of the year yields on these issues were 20 to 25 basis points below a year earlier. Although yields on public sector bonds did not fall to the August lows, at the end of 1962 these yields were 30 basis points under the end-1961 level.

The downtrend in long-term yields reflects the rapid increase in money supply which occurred in 1962, the absence, through September, of any increase over 1961 in new bond flotations, and reductions of about 1/4 of 1 per cent last April in rates on medium-term Treasury "bills" sold to the public. Bond yields seemingly were unaffected by either the sharp swings in stock prices or the series of crises which pervaded the French political arena throughout last year. It is also noteworthy that the continuing erosion of the internal purchasing power of the franc did not turn investors against bonds sufficiently to prevent bond prices from rising.

Table 2. France: Long-term Bond Yields, 1961-62 <sup>a/</sup>

	Redeemable bonds			5% per- petual rate
	Treasury	Public Sector	Corporate	
<u>1961-end December</u>	4.35	5.75	6.30	5.05
<u>1962-end of Month</u>				
January	4.49	5.74	6.25	5.19
February	4.56	5.80	6.38	5.01
March	4.49	5.74	6.42	5.12
April	4.48	5.68	6.36	5.14
May	4.52	5.74	6.30	5.14
June	4.53	5.56	6.23	5.06
July	4.63	5.48	6.11	5.09
August	4.22	5.36	6.15	4.90
September	4.19	5.50	6.10	4.96
<u>1962 - date</u>				
Oct. 12	n.a.	5.53	6.12	5.00
26	4.19	5.54	6.15	5.00
Nov. 16	n.a.	5.47	6.12	5.01
30	4.14	5.44	6.12	4.97
Dec. 14	n.a.	5.49	6.06	4.93
28	n.a.	5.46	6.05	4.86

<sup>a/</sup> All groups exclude indexed or participating bonds.

**Stock market.** Prices of French stocks were subject to wide fluctuations in the fourth quarter of 1962, as a consequence of political developments on both the national and international scenes. These swings left prices at the end of December at the same level as had prevailed three months before.

The impasse between President de Gaulle and the old Parliament which developed at the beginning of October sent stock prices down more than 6 per cent between September 28 and October 19, and the eruption of the Cuban crisis resulted in a further fall of 2-1/2 per cent between October 19 and October 23. (See Table 3.) The easing of international tensions brought some recovery, but the bleak outlook for the Gaullist parties after the indecisive referendum of October 28 was reflected in a renewed weakening, and a new low for the year was established on November 9.

Prices surged upward in late November following the unexpected triumph of the Gaullist parties at the polls in the two-round elections on November 18 and 25; the index rose nearly 13 per cent between November 16 and 26. But profit taking in the next few days erased part of this gain. In December the market was irregular. On December 28 the comprehensive weekly index was at the September 28 level.

Table 3. France: Stock Price Indexes, 1962 <sup>a/</sup>  
(December 29, 1961 = 100)

Weekly index <sup>b/</sup>		Daily index <sup>c/</sup>	
High (Apr. 27)	114.8	High (Apr. 2)	113.9
Low (Nov. 9)	96.3	Low (Oct. 23)	89.0
Sept. 28	103.6	Oct. 19	91.1
Oct. 19	97.0	23	89.0
26	98.5	26	93.9
Nov. 9	96.3	Nov. 9	90.8
16	98.6	16	92.4
23	107.4	19	95.1
30	105.3	23	102.3
Dec. 7	105.3	26	104.0
14	103.1	27	100.3
21	102.9	30	98.9
28	103.6	Dec. 28	97.1

<sup>a/</sup> Composite indexes exclusive of shares of foreign companies.

<sup>b/</sup> Covers all French shares listed on Paris Bourse.

<sup>c/</sup> Based on sample of about 50 per cent in terms of market value.

**New issues.** Although the third-quarter decline in net new security issues was largely seasonal, flotations fell below the year-earlier level for the second successive quarter. (See Table 4.) In both the second and third quarters, new issues were off about 9 per cent. Because they had been up sharply in the first quarter, for the nine months January-September there was still a 4.6 per cent increase over 1961.

Table 4. France: Net Security Issues, 1961-62 <sup>a/</sup>  
(In millions of francs)

	1961			1962		
	I	II	III	I	II	III
Treasury	--	--	--	--	--	--
Private firms:						
Stocks	842	800	702	878	1,031	725
Bonds	304	393	521	236	440	151
Participations <sup>b/</sup>	73	51	50	90	61	60
Other bonds <sup>c/</sup>	1,279	1,357	11	1,919	840	244
<b>Total</b>	<b>2,498</b>	<b>2,601</b>	<b>1,284</b>	<b>3,123</b>	<b>2,372</b>	<b>1,181</b>

<sup>a/</sup> Excluding Treasury bills.

<sup>b/</sup> In limited liability companies.

<sup>c/</sup> National enterprises, public and semi-public savings-collecting institutions, and local public bodies.

Third-quarter issues were especially low for private firms, and were 17 per cent under a year previous. As a result, for the first nine months the volume of private firms' issues ran only 2.4 per cent over January-September 1961. This was due to a 32 per cent fall in corporate bond issues; stock flotations rose 12 per cent. Because of the much lower volume of corporate bond issues, total bond issues in the first nine months of 1962 were slightly below their level in the same period of 1961, despite the existence of lower bond yields in 1962.

Gold market. Gold prices were also sensitive to political developments in the period under review. The opening of the recent domestic political drama caused the price of the Napoleon to jump from MF 40.90 on September 28 to MF 41.70 on October 8. (See Table 5.) After a decline in the next few days, the Cuban crisis sent the price to MF 43.50 on October 24, the highest price in five years. The easing of international tensions brought a retreat, and the Gaullist election victories in late November caused a further fall to around the MF 40.50 level. Quotations were little changed in December, and the December 28 price of MF 40.70 was slightly under the price three months earlier.

Table 5. Price of Napoleon Gold Coin, 1960-62  
(In new francs)

1960-average	36.62	1962-Selected dates:	
1961-average	39.30	September 28	40.90
1962-Monthly averages:		October 8	41.70
January	42.73	18	41.20
February	40.63	24	43.50
March	40.41	25	41.40
April	39.60	November 16	41.80
May	39.71	23	40.50
June	39.98	December 28	40.70
July	40.15		
August	40.81		
September	41.07		

Foreign trade. October saw a sudden reversal of the third-quarter deterioration in the French trade balance, but in November the balance again worsened. In October, seasonally-adjusted exports rose 11 per cent over the September level, while imports dropped 4 per cent. (See Table 6.) In November, exports fell 6 per cent and imports rose 2 per cent. For October-November, trade was virtually balanced, in contrast with the sizeable third-quarter deficit, because of a greater increase in exports than in imports. But the balance in October-November also contrasts with surpluses in January-June.

Compared with the year previous, trade with foreign countries shows imports in October-November up 19 per cent and exports up 16 per cent. On trade with the overseas franc area, imports were down 3 per cent and exports down 15 per cent.

Table 6. France: Foreign Trade, 1961-62  
(In millions of dollars; monthly average or month)

Total trade, seasonally-adjusted

	<u>Exports</u>	<u>Imports c.i.f.</u>	<u>Balance</u>
1961 - year	602	557	+45
Qtr. I	584	549	+35
II	605	552	+53
III	619	548	+71
IV	602	599	+ 3
1962 - Qtr. I	620	576	+44
II	603	587	+16
III	609	639	-30
September	606	672	-66
October	671	648	+23
November	633	659	-26

Trade by area, unadjusted

	1961				1962			
	<u>I</u>	<u>II</u>	<u>III</u>	<u>Oct.-Nov.</u>	<u>I</u>	<u>II</u>	<u>III</u>	<u>Oct.-Nov.</u>
<u>Foreign countries</u>								
Exports	426	450	426	474	487	496	449	550
Imports c.i.f.	425	450	391	451	471	479	457	537
Balance	+ 1	--	+35	+23	+16	+17	- 8	+13
<u>Franc area</u>								
Exports	166	157	138	163	142	110	100	138
Imports c.i.f.	129	136	104	119	138	147	114	115
Balance	+37	+21	+34	+44	+ 4	-37	-14	+23

International reserves. Reserve gains continued to be large in the fourth quarter, and at the end of December France made another debt prepayment of \$116.6 million to the United States. Official gold and foreign exchange holdings increased \$86 million in October and \$103 million in November; there were no known special transactions in these months. Seasonal factors kept these increases below the level of reserve accruals during the summer.

In December, official reserves fell \$109 million, but would have risen \$8 million in the absence of the debt prepayment. Two other transactions which contributed to the drop in actual reserve holdings in December were (1) \$25.8 million of scheduled debt repayments to the United States, and (2) \$23 million of prepayments by the Simca automobile company on a \$31.5 million loan obtained in 1961 from a group of Swiss banks. The December debt prepayment brought to \$588 million the total of advance debt repayments by France in 1962 or about 45 per cent of the \$1.3 billion French balance-of-payments surplus in 1962.

Europe and British Commonwealth Section.

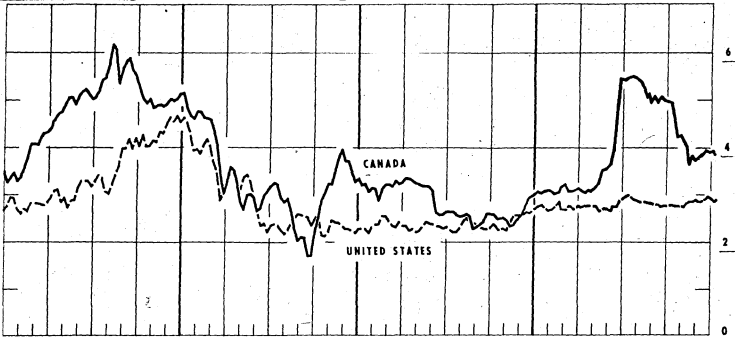
Chart 1

### INTEREST ARBITRAGE, UNITED STATES / CANADA

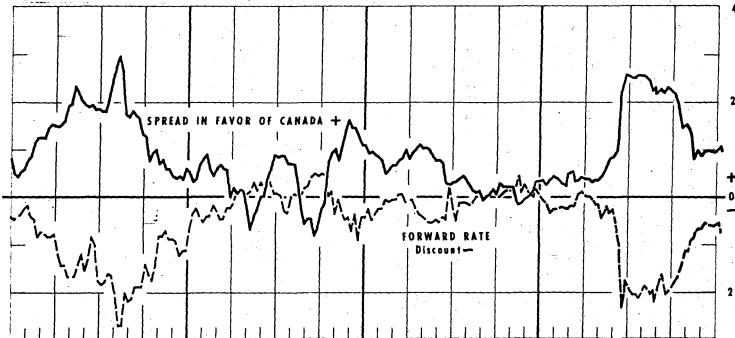
Thursday figures

#### THREE-MONTH TREASURY BILL RATES

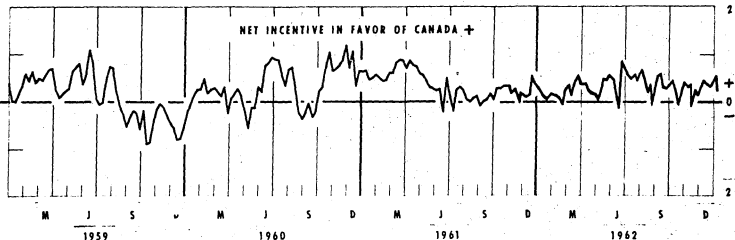
Per cent per annum



#### RATE DIFFERENTIAL AND FORWARD CANADIAN DOLLAR



#### RATE DIFFERENTIAL WITH FORWARD EXCHANGE COVER





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Chart 2  
**INTEREST ARBITRAGE, NEW YORK/LONDON**

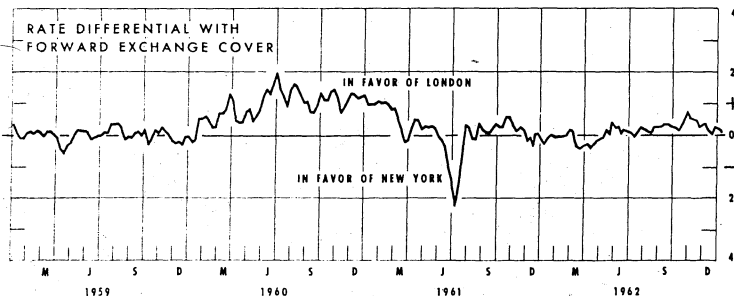
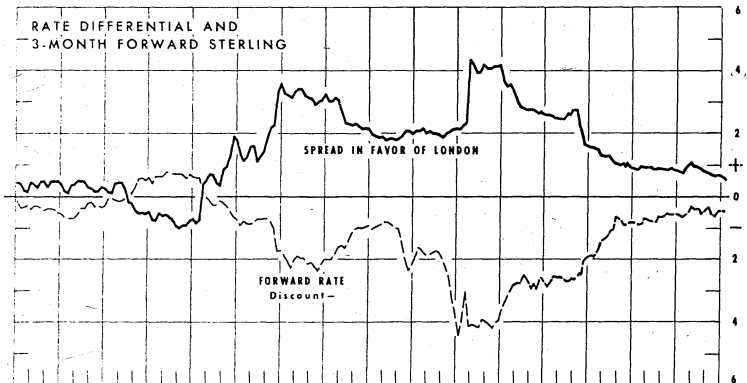
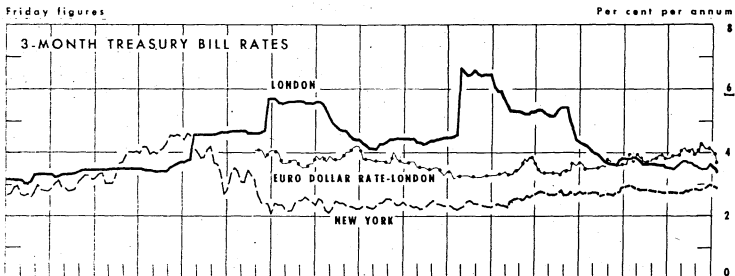
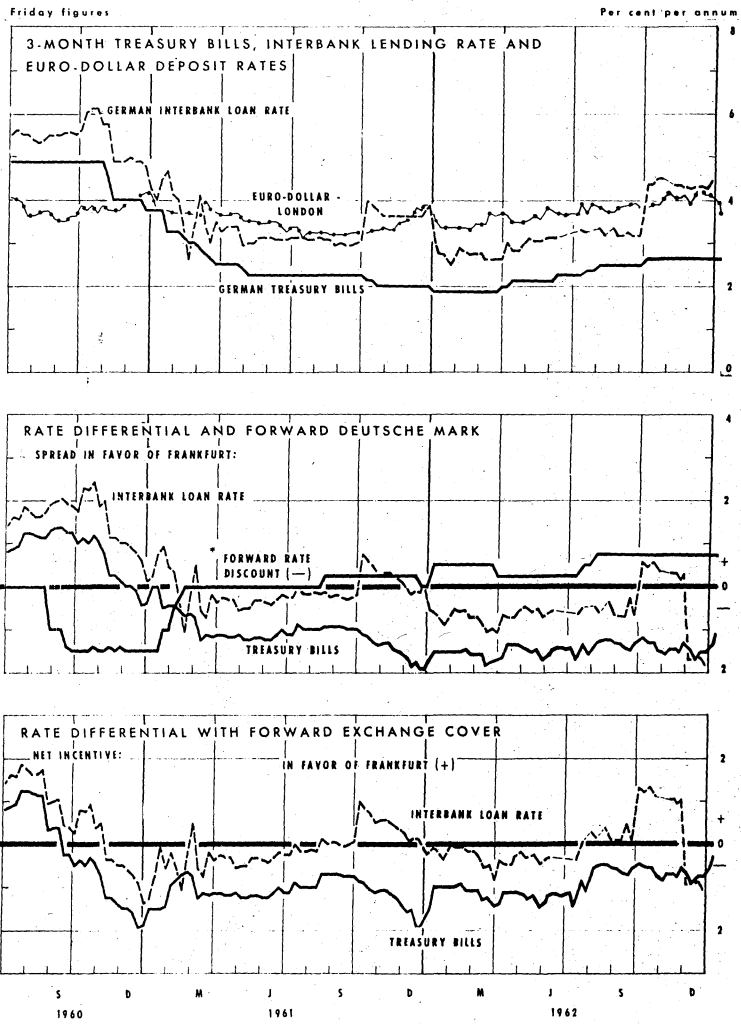


Chart 3

### INTEREST ARBITRAGE FOR GERMAN COMMERCIAL BANKS



Note: Special forward rate available to German commercial banks

Chart 4

### INTEREST ARBITRAGE, FRANKFURT / LONDON

Friday figures Per cent per annum

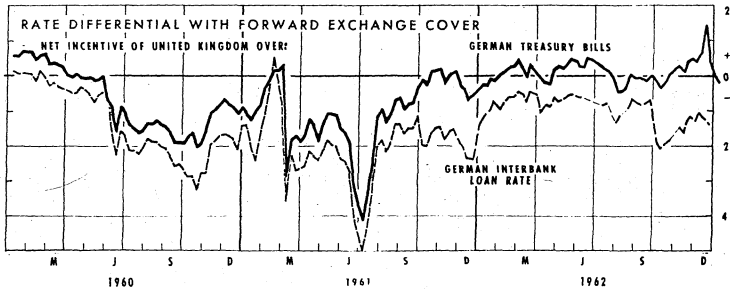
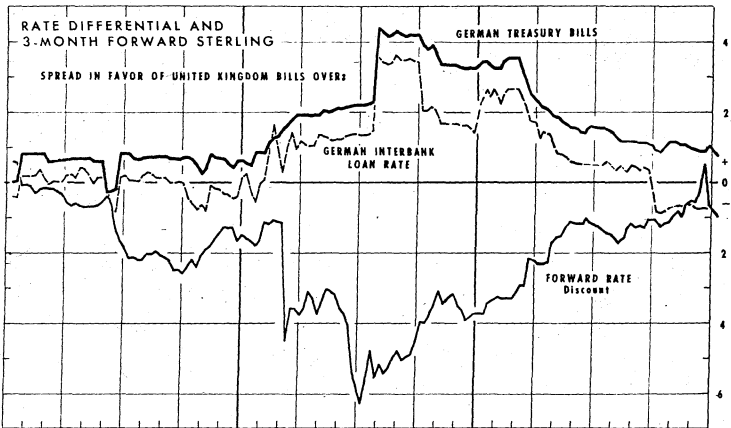
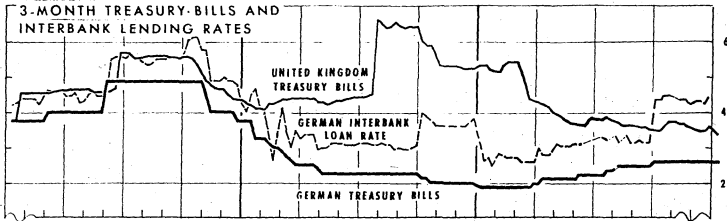
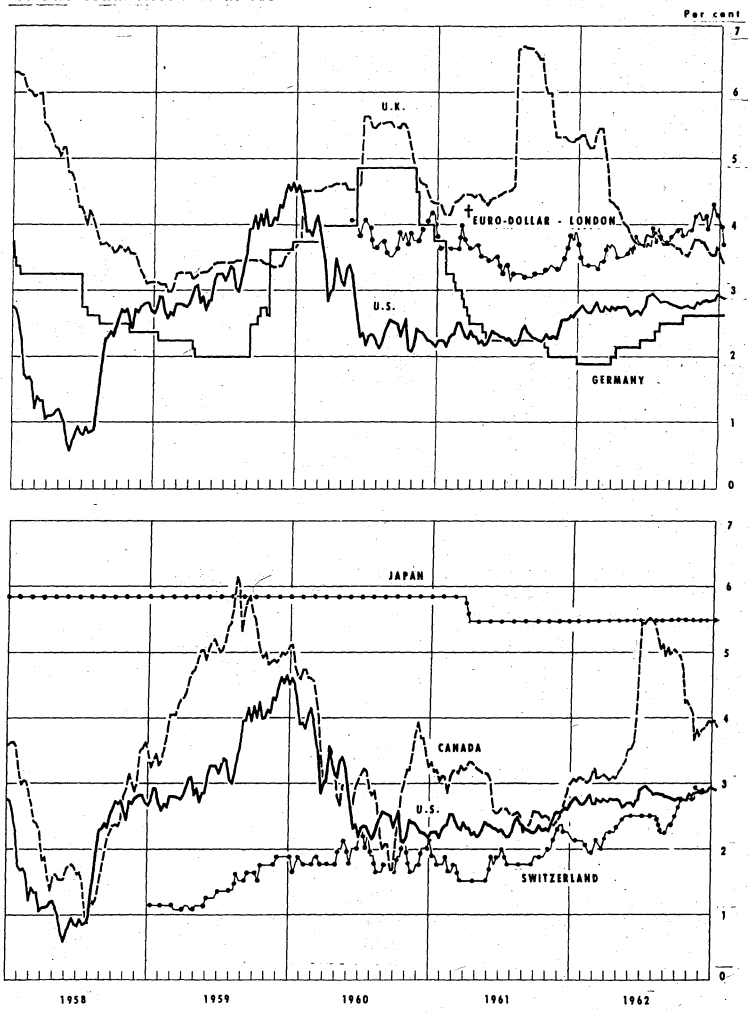


Chart 5  
**SHORT-TERM INTEREST RATES** \*



\* 3 month treasury bill rates for all countries except Japan (1 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**

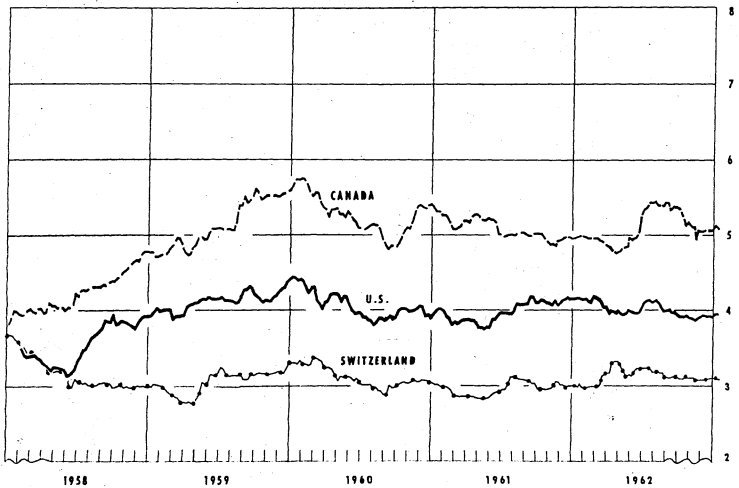
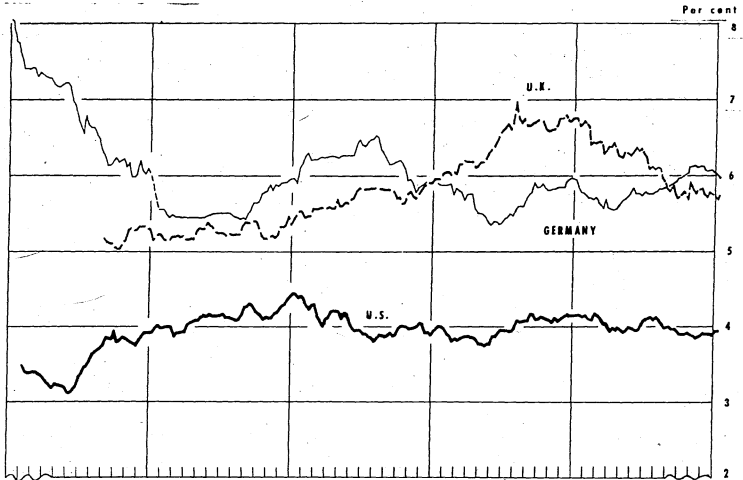
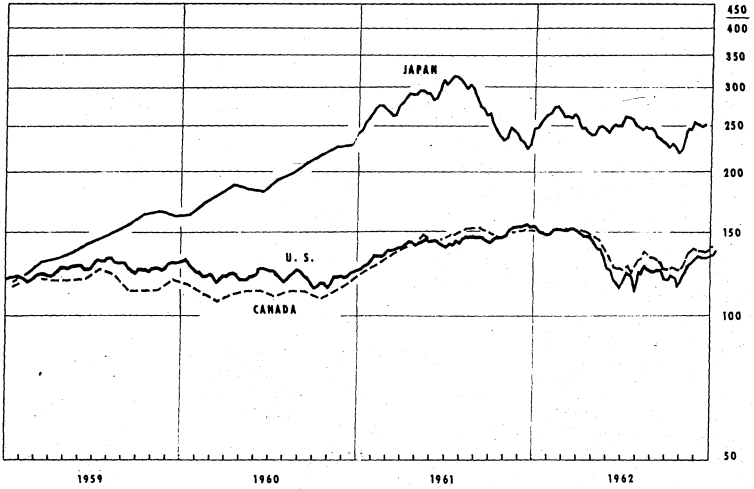
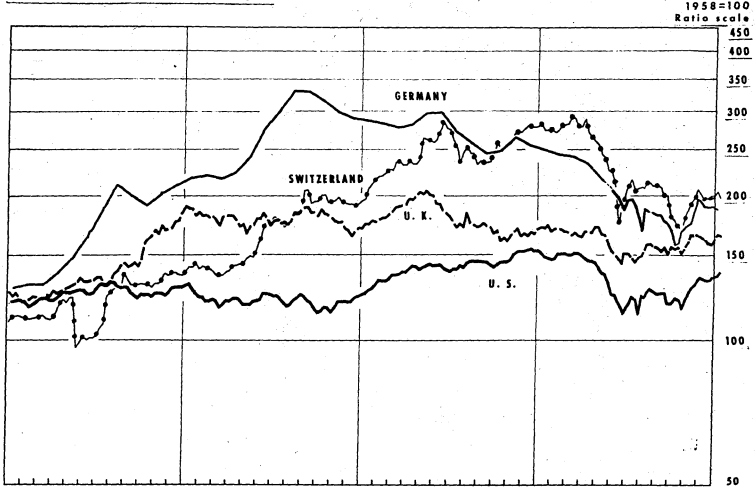


Chart 7

**INDUSTRIAL STOCK INDICES\***



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

Chart 8

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

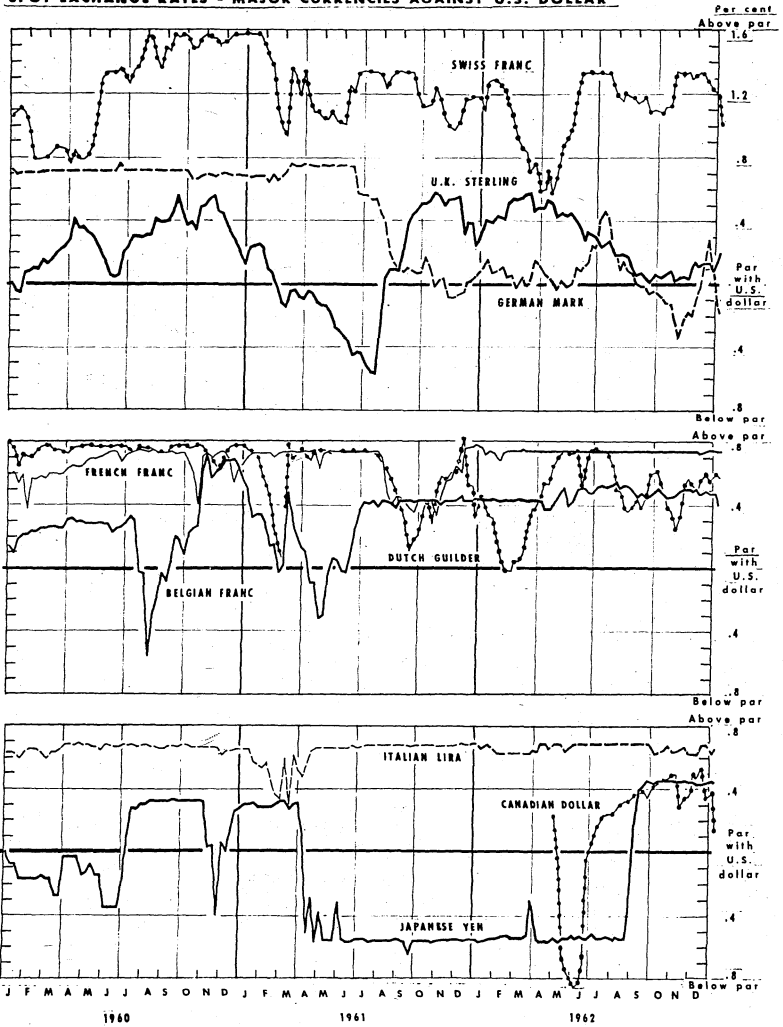


Chart 9

3-MONTH FORWARD EXCHANGE RATES

