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FEDERAL RESERVE BANK
OF RICHMOND**CAPITAL MARKET DEVELOPMENTS ABROAD**

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

I. Germany: Money and Capital Markets, May - July 1963

A further tightening of the money market in large part as a result of technical factors (mid-year window-dressing and a major tax date in June) and a general upward tendency in the interest rate structure were the principal developments in German financial market in May and June. There was only a slight easing in the money market in July and that movement occurred only slowly.

Rates in Frankfurt for both call money and 3-month money rose steadily from the beginning of May through the end of June. Three-month money hit a momentary peak of 5 to 5-1/4 per cent at mid-year. Commercial banks found it necessary to borrow at the Bundesbank in May and then again quite heavily at the end of June.

The tightening of the money market was accompanied by a general upward tendency in the overall level of interest rates. Bond yields rose slightly and the authorities found it difficult to maintain the usual 6 per cent coupon on new bond issues. In addition, effective July 1, a major savings bank raised the interest rate on deposits left for more than four years from 4 per cent to 5 per cent and other savings banks are expected to follow soon.

The German balance of payments remained in substantial surplus during the second quarter of 1963 as foreign capital continued to move into German securities in considerable volume. German banks and firms also borrowed more heavily abroad. In addition, the trade balance improved. As a result, Bundesbank foreign exchange reserves rose \$253 million and the foreign exchange assets of the commercial banks rose \$56 million in the second quarter. In June the banks built up their holdings of foreign exchange despite the tightness of the German money market probably because of extremely attractive rates on Euro-dollar deposits.

Money market. After easing somewhat at the end of April, the German money market tightened during May. Rates on call money rose from a range of 2-3/8 - 2-1/2 per cent at the end of April to 3-1/4 - 3-5/8 per cent by the third week of May and rates on 3-month loans rose from 3-1/2 per cent to a range of 3-5/8 - 3-3/4 per cent. (See Table 1.) During the last week of May, German banks increased their borrowing at the Bundesbank in preparation for the month-end and for the major tax date in June. They then loaned these reserves out on a day-to-day basis and the rate on call money subsequently eased to 2-1/4 - 3-1/2 per cent.

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Table 1. Germany: Money Market Rates in Frankfurt, April - June 1963 ^{a/}
(in per cent per annum)

		<u>Day-to-day money</u>	<u>Three-month loans</u>
May	1- 7	3-1/8 - 3-3/8	3-3/8 - 3-5/8
	8-15	3 - 3-3/8	3-1/2 - 3-5/8
	16-23	3-1/8 - 3-5/8	3-5/8 - 3-3/4
	24-31	2-1/4 - 3-1/2	3-5/8 - 3-3/4
June	1- 7	3-1/8 - 3-1/2	3-3/4
	8-15	3 - 3-3/8	3-3/4 - 3-7/8
	16-23	3-1/2 - 4	3-3/4 - 4
	24-30	3-3/4 - 4-3/4	3-3/4 - 4
July	1- 7	3-1/4 - 4-3/8	3-7/8 - 4-1/4
	8-15	2-7/8 - 3	3-7/8 - 4-1/8
	16-23	2-5/8 - 3-1/8	3-7/8 - 4
	24-31	2-1/2 - 2-7/8	3-3/4 - 4

a/ Highest and lowest rates quoted each week by Frankfurt banks.

Source: Deutsche Bundesbank

The coincidence of the quarterly tax date, semi-annual payments, and mid-year window-dressing of the balance sheets of the German commercial banks caused the market to become increasingly tight during June. The rate for 3-month loans rose to a range of 3-3/4 - 4 per cent by the end of June. At mid-year, call money was demanded at 4-3/4 per cent and the banks were forced to rediscount heavily at the Bundesbank.

Despite domestic money market tightness, commercial banks continued lending operations in Euro-currency markets during May and June. Attractive rates on Euro-dollars and an interest range of 6 to 7 per cent for DM loans in other European financial centers led German banks to engage in day-to-day arbitrage operations.

After mid-year, the Germany money market eased somewhat. Rates on call money declined steadily to a range of 2-1/2 - 2-7/8 per cent by the end of July. However, there was no easing of the rates for three-months money. After rising further to a range of 3-7/8 - 4-1/4 per cent in the first week of July, the rate declined slowly during the rest of the month but at the end of July was as high as it had been at mid-year. (See Table 1.)

Upward pressure on German interest rates. The general steady tightening of the money market created upward pressure on the entire interest rate structure in the period under review.

At mid-year when 90-day money momentarily rose to a peak of 5 to 5-1/4 per cent, the financial press reported that the commercial banks were anxious about

their liquidity position and were suggesting that the Bundesbank raise interest rates on money-market paper, reduce minimum reserve requirements and allow payment of interest on foreign deposits. In addition, the banks wanted the Federal authorities to keep balances with them and not shift all their cash receipts to the Bundesbank.

In early June, however, President Blessing stated that the Bundesbank was opposed to an upward movement of interest rates. Such a rise would: (a) further impede investment activity which was already sluggish; and (b) produce a further influx of funds from abroad.

Nonetheless, upward pressures on the interest rate structure continue. A major savings bank (the Wuertembergische Landessparkasse) on July 1 raised the interest rates on deposits committed for more than four years (which are exempt from the agreement on maximum deposit rates) to 5 per cent; other savings banks are expected to follow.

Bond market. The tightening of the money market was also reflected in the bond market. Yields moved up (See Table 9 and Chart 6) as bond prices (as reflected by the F.A.Z. bond index) declined from 106.10 at the beginning of May to 105.56 at the end of July (December 31, 1958 = 100). There is evidence that the authorities are beginning to find it difficult to maintain the 6 per cent coupon on new issues. For example, a DM 400 million Federal Government bond issue, which was offered on July 4 encountered considerable trouble being placed. The financial press reported that foreign interests, accustomed to being allocated only a small per centage of their subscription, had demanded several times the amounts they really wanted. To their surprise, however, they found that their subscriptions were to be filled fully as demand was lagging and they consequently tried to unload part of their allocation. A further difficulty in placing the issue was the information which became known in early July that the Treasury had offered a special issue of DM 100 million to the social security funds on more favorable terms than those of the July 4 offering.

An earlier DM 210 million issue of the Federal Postal System, floated in June at 6 per cent par, also had run into lagging subscriptions.

The Capital Market Committee is reported nevertheless to have decided to maintain the 6 per cent coupon rate. Therefore all but one major industrial issue is being postponed until after the end of August.

Earlier during April and May, public authorities were the most active borrowers in the bond market as they were in the first quarter. They accounted for DM 1,043 million (or 37 per cent) of a total of gross bond placements of DM 2,821 million. (See Table 2.) During April and May, foreign participation in public bond issues continued to be heavy and non-resident demand, as in the past quarter, outran allocations.

Stock market. Share prices in June were virtually unchanged from May levels and the German stock market was generally quiet as foreign buying apparently slackened.

Table 2. Germany: Gross Placements in Security Markets ^{1/}
(millions of DM, month or monthly average)

	1962				1963			
	I	II	III	IV	I	Mar.	Apr.	May
"Occasional" borrowers bonds:								
Industrial	112	72	113	60	143	119	100	149
Public authorities	314	136	358	187	489	69	626	417
Foreign issuers	32	--	--	--	32	98	--	--
Other bonds ^{2/}	89	132	154	57	259	187	200	121
Total	<u>547</u>	<u>340</u>	<u>625</u>	<u>304</u>	<u>923</u>	<u>503</u>	<u>926</u>	<u>687</u>
Mortgage and communal bonds	665	453	532	480	652	629	627	581
Total gross bond placements ^{3/}	<u>1,212</u>	<u>793</u>	<u>1,157</u>	<u>784</u>	<u>1,575</u>	<u>1,132</u>	<u>1,553</u>	<u>1,268</u>
Gross share placements	185	205	172	170	155	258	33	69
Total security placements at issue value	<u>1,397</u>	<u>998</u>	<u>1,329</u>	<u>954</u>	<u>1,730</u>	<u>1,390</u>	<u>1,586</u>	<u>1,337</u>

^{1/} Market value.

^{2/} Mostly bonds of specialized credit institutions.

^{3/} Includes medium-term notes (Kassenobligationen).

Source: Deutsche Bundesbank Monthly Report, Table V, 6.

After fluctuating within narrow limits during June, the F.A.Z. index of general stocks dipped slightly from 183.92 to 178.96 at the end of the month. The market continued to move indecisively during most of July but showed a tendency to rise at the end of July and the first weeks of August. (See Table 3.)

The budget. The Budget bill was finally passed and signed with the expectation that the Federal Government's share in the collection of income and corporation taxes would be raised from 35 to 38 per cent, with a further rise scheduled for 1964. Total budgetary outlays for 1963 are to be DM 56.8 billion, DM 1 billion less than foreseen in the bill passed earlier by the Bundestag (Lower House). As finally passed, the budget bill had a shortfall of DM 1 billion of receipts over expenditures, which actually makes the legality of the bill questionable. The German budget, by law, must be balanced, which means that provision for the financing of any deficit must be included in the bill. Since the Bundestag rejected the compromise reapportionment of taxes bill (which would have raised the Federal Government's share of income taxes to the 38 per cent necessary for balancing the 1963 Budget) the original bill raising the Government's

Table 3. Germany: FAZ Stock Index

(Dec. 31, 1958 = 100)

All time high:	Aug. 31, 1960	264.60	1963 high: May 13	188.83
1962 high:	Jan. 2, 1962	222.81	1963 low: Feb. 26	151.54
1962 low:	Oct. 10, 1962	132.88		

1963	March 15	157.63	June 7	183.02
	29	159.23	14	184.36
	April 16	164.67	21	183.92
	30	163.65	28	178.96
	May 17	183.50	July 5	180.31
	31	184.63	12	180.39
			19	179.13
			26	181.23
			Aug. 2	181.90
			9	184.40

Source: Frankfurter Allgemeine Zeitung.

share to 40.5 per cent was resubmitted to the Bundesrat (which is made up of representatives of the Laender) where it was rejected, as expected. Consequently, the budget will remain unbalanced at least until October when Parliament reconvenes. This may mean that government borrowing requirements may be further increased, putting further pressure on German interest rates.

Foreign trade position strengthening. After a low first quarter (primarily owing to the bad weather and the U.S. dock strike), the foreign trade results have become more favorable. (See Table 4.) Exports rose steadily, and in May were 11 per cent above their year-ago level. Imports, on the other hand, declined in May and were only 3.5 per cent above the May 1962 figure. Consequently, the May trade surplus was the largest in the post-war period.

In June, seasonally adjusted exports were 2.8 per cent above the year ago level while imports rose only 0.5 per cent over the same period. The German trade surplus in June remained at the high level recorded in April.

The continuing rise in export orders suggests that the favorable export performance may continue.

Balance of payments in substantial surplus. The German balance of payments continued to improve in the second quarter of 1963. The current account balance reflected an improved trade balance resulting from increased exports and a slower growth of imports.

The factor chiefly responsible for the payments surplus, however, was the continued heavy flow of private capital into Germany. Purchases of German stocks and bonds by non-residents brought large sums of money into the country, especially in May. (See Table 5.) German industrial firms are also beginning to

Table 4. Germany: Foreign Trade
(seasonally adjusted, monthly averages or month in billions of DM)

	<u>Exports</u>	<u>Imports</u>	<u>Trade Balance</u>
1962			
I	4.36	a/ 4.16	a/ .20
II	4.44	a/ 4.05	a/ .39
III	4.44	4.18	.26
IV	4.40	4.19	.21
1963			
I	4.36	4.12	.24
March	4.63	4.51	.18
April	4.92	4.61	.31
May	5.15	4.25	.90
June	4.42	4.11	.31

a/ Change in import accounting procedure raised first quarter and April 1962 imports by DM .20 billion each.

Source: Deutsche Bundesbank Monthly Report

borrow in foreign markets. Recently, a German chemical firm took up a \$10 million loan in New York at a reported cost of 5.25 per cent compared with a cost of over 6 per cent in Germany for a comparable loan. In May, Siemens and Halske, A.G. floated a SF 60 million loan in Switzerland at a cost of 4.50 per cent.

In June, moreover, there was a sudden, unexplained influx of short-term capital totaling DM 268 million from abroad. Since German commercial banks had actually substantially built up their positions abroad by the end of June, this short-term capital movement does not represent any large scale repatriation of funds for window-dressing purposes. German banks were actually lenders on the Euro-dollar market during that time.

German reserves continue to increase. The balance of payments surplus was almost entirely reflected in an increase in the German reserve position. (See Table 6.) The Bundesbank's holdings of gold and foreign exchange increased by \$253 million during the second quarter of 1963. Most of the increase occurred in May. There was a further rise of \$17 million in June and about \$70 million during the first half of July. The latter increase may have been connected with payments for the foreign subscriptions to the Federal bond issue.

The commercial banks increased their foreign exchange holdings by \$56 million during the second quarter of 1963. Almost the entire increase took place in June. The build-up in the commercial banks foreign exchange position is a reflection not only of the banks' lending operations during June but probably also the result of the increased trade surplus.

Table 5. Germany: Balance of Payments 1961-June 1963
(in millions of DM)

	1961	1962	1 9 6 3			
			I	April	May	June
1. GOODS & SERVICES						
Trade balance	6,491	3,414	544	428	656	188
Services	3	-1,214	33	-116	-34	-330
Total	6,494	2,200	577	312	622	-142
2. OFFICIAL PAYMENTS						
Donations	-3,448	-3,746	-931	-479	-207	-238
Long-term capital	1,201	-1,305	-69	-155	-16	-99
Short-term capital	-1,276	157	211	-13	32	80
Total	-3,523	-4,894	-789	-647	-191	-257
3. PRIVATE CAPITAL						
Securities transactions						
Foreign purchases ^{1/}	1,745	1,522	744	264	338	267
German purchases						
(increase-) ^{2/}	- 207	- 726				
Other long-term	- 687	348				
Short-term ^{3/}	1,802	20	78	12	4	268
Errors and omissions	233	400	231	190	57	125
Total	2,886	1,564	1,053	466	399	660
SURPLUS OR DEFICIT (-)	5,857	-1,130	841	131	830	261

a/ Preliminary.

b/ A change in import accounting procedure has resulted in approximately DM 400 million of goods in bonded warehouses being included in the first four months imports. This is offset in errors and omissions.

^{1/} Foreign purchases of German securities.

^{2/} German purchases of foreign securities.

^{3/} Includes commercial bank capital other than foreign exchange assets.

Source: Basic data from Bundesbank and International Financial Statistics rearranged by author.

Table 6. Germany: Change in Reserve Position
(in millions of U.S. dollars, end of period figures)

	1 9 6 2		1 9 6 3				
	June	Dec.	Feb.	Mar.	Apr.	May	June
A. Bundesbank gold and foreign exchange							
Foreign exchange	2566	2768	2587	2698	2699	2933	2946
Gold	3667	3679	3727	3748	3748	3749	3753
Total	6233	6447	6314	6446	6447	6686	6699
B. Drawing rights on IMF	1384	1305	1307	1307	1312	1312	1307
C. Commercial banks							
foreign exchange	1028	632	868	854	847	855	910
D. Total reserves (A+B+C)	8645	8384	8489	8607	8606	8849	8916
E. Change in total reserves	- 11	- 224	+ 92	+ 118	- 1	+ 243	+ 67
F. Gold as percentage of Bundesbank reserves	58.8%	57.1%	59.0%	58.1%	58.1%	56.1%	56.0%

Source: Deutsche Bundesbank Monthly Report; International Financial Statistics.

Foreign exchange market. As a result of the favorable external position, the DM was in active demand in foreign exchange markets throughout the entire period. (See Table 7 and Chart 8.) In June and July the DM was quoted close to the upper limit at which the Central Bank is committed to intervene. A fairly large proportion of the foreign exchange accruals to the Bundesbank in May came from such intervention. However, the demand for D-marks eased around the middle of July and the rate declined from 25.123 cents on July 12th to 25.100 on August 9th.

Table 7. Germany: Exchange Rate in U.S. Cents per DM
(noon buying rates)

		Par value		25.000	
		Upper limit		25.125	
		Lower limit		24.875	
May	3	25.065	July	5	25.121
	17	25.102		12	25.123
	31	25.105		19	25.099
June	7	25.113		26	25.097
	14	25.124	Aug.	2	25.091
	28	25.123		9	25.100

Source: Federal Reserve Bulletin.

Europe and British Commonwealth Section.

Table 8. 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		
				Bundesbank ^{a/}	Market	U.K.	Ger.	U.S.
1962-Aug. 31	3.81	3.19	+0.62	+0.75	+0.7	3.69	2.50	2.80
Sep. 28	3.81	3.19	+0.62	+0.50	+0.5	3.56	2.50	2.76
Oct. 26	4.13	4.50	-0.37	+0.50	+0.8	3.78	2.63	2.74
Nov. 30	3.94	4.25	-0.31	+0.50	+0.2	3.63	2.63	2.86
Dec. 28	4.13	4.44	-0.31	+0.50	+0.5	3.66	2.63	2.98
1963-Jan. 25	3.59	3.25	+0.34	+0.75	+0.3	3.41	2.63	2.93
Feb. 22	3.44	3.38	+0.06	+0.75	0.0	3.34	2.63	2.87
Mar. 29	3.69	3.63	+0.06	+0.75	+0.1	3.66	2.63	2.92
Apr. 26	3.72	3.50	+0.22	+0.75	0.0	3.76	2.63	2.89
May 3	3.74	3.50	0.24	+0.75	0.0	3.66	2.63	2.90
10	3.81	3.50	0.31	+0.75	0.0	3.63	2.63	2.91
17	3.84	3.56	0.28	+0.75	-0.5	3.56	2.63	2.91
24	3.91	3.69	0.22	+0.75	-0.4	3.56	2.63	2.96
31	3.84	3.69	0.25	+0.75	-0.3	3.61	2.63	3.00
June 7	3.91	3.75	0.16	+0.75	-0.2	3.59	2.63	2.98
14	3.84	3.81	0.03	+0.75	-0.3	3.56	2.63	2.99
21	3.78	3.88	-0.10	+0.75	-0.3	3.63	2.63	2.98
28	3.84	3.88	-0.04	+0.75	-0.3	3.63	2.63	2.99
July 5	3.91	4.06	-0.15	+0.75	0.0	3.72	2.63	3.07
12	3.94	4.00	+0.12	+0.75	0.0	3.72	2.63	3.18
19	4.06	3.94	+0.12	+0.75	n.a.	3.69	2.63	3.18
26	4.00	3.88	+0.12	+0.75	+0.1	3.69	2.63	3.20

^{a/} Special swap rate provided by Bundesbank to domestic commercial banks for 2-6 month period.

Table 9. Germany: Selected Loan, Deposit and Security Rates
(per cent per annum)

	Comm. bank loans ^{a/}	6-12 mo. deposits		Bond yields		Share Yields	Yield gap
		Savings	Time	5-1/2% Railway 1958-83	Public author-ities		
1962 - March	7.50	3.50	2.75	5.62	5.6	2.65	3.0
April	7.50	3.50	2.75	5.57	5.6	2.77	2.8
May	7.50	3.50	2.75	5.72	5.8	3.23	2.6
June	7.50	3.50	2.75	5.77	5.9	3.49	2.3
July	7.50	3.50	2.75	5.77	5.9	3.71	2.1
Aug.	7.50	3.50	2.75	5.83	6.0	3.58	2.2
Sept.	7.50	3.50	2.75	5.92	6.0	3.79	2.1
Oct.	7.50	3.50	2.75	6.04	6.2	3.89	2.1
Nov.	7.50	3.50	2.75	6.14	6.2	3.34	2.8
Dec.	7.50	3.50	2.75	6.08	6.1	3.44	2.7
1963 - Jan.	7.50	3.50	2.75	5.99	6.0	3.58	2.4
Feb.	7.50	3.50	2.75	5.99	6.0	3.75	2.2
March	7.50	3.50	2.75	5.99	6.0	3.63	2.4
April	7.50	3.50	2.75	5.97	6.0	3.56	2.4
May	7.50	3.50	2.75	6.00	6.0	3.19	2.8
June	7.50	3.50	2.75	6.03	n.a.	n.a.	n.a.
July	7.50	3.50	2.75	6.10	n.a.	n.a.	n.a.

^{a/} Approved credits on current account.

INTEREST ARBITRAGE, UNITED STATES / CANADA

Thursday figures

Per cent per annum

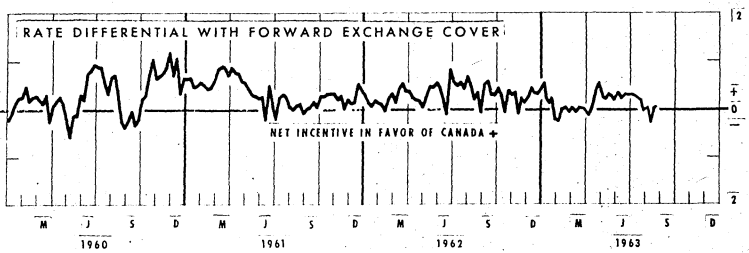
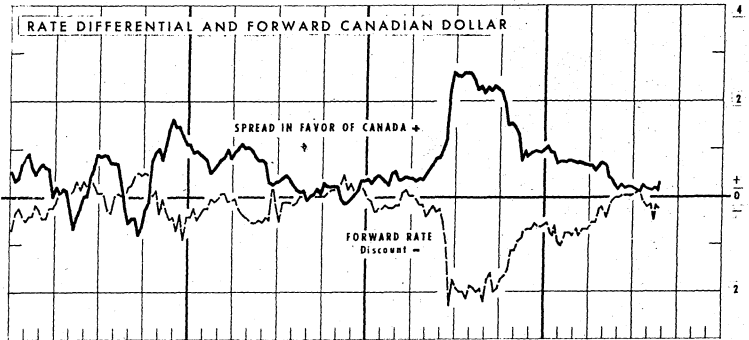
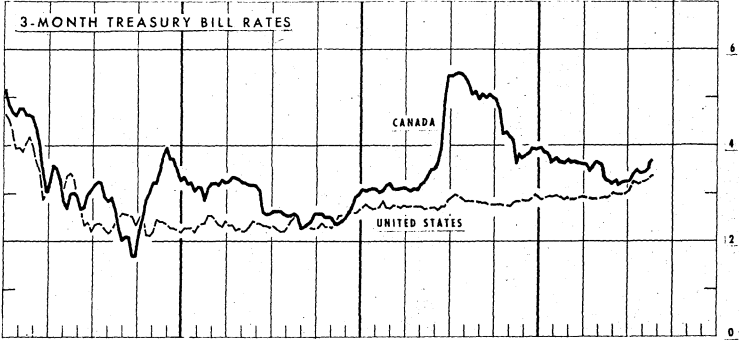


Chart 2

INTEREST ARBITRAGE, NEW YORK/LONDON

Friday figures

Per cent per annum

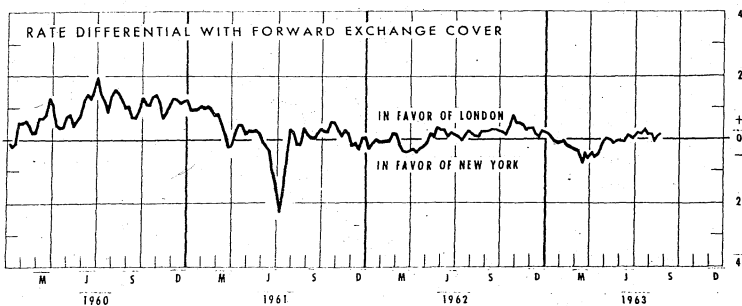
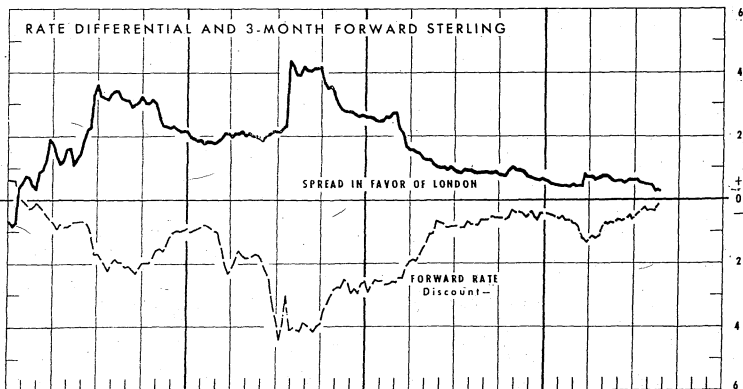
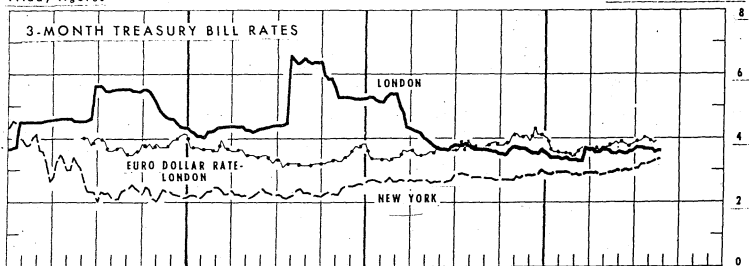
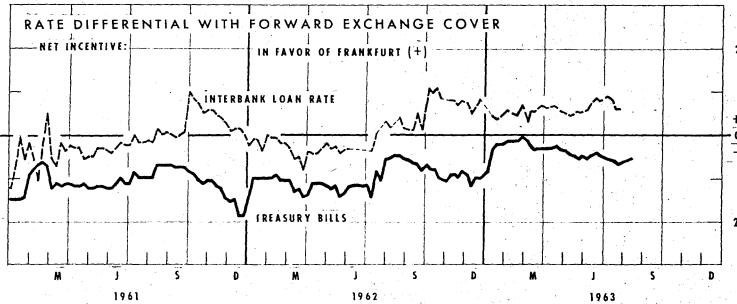
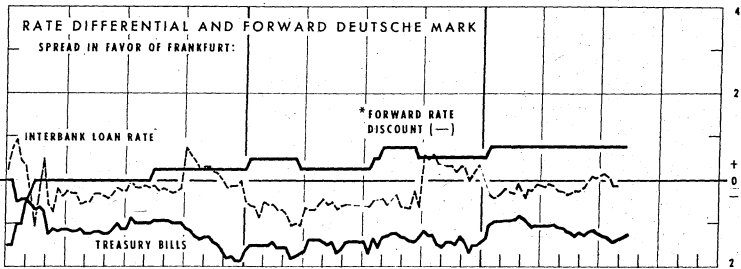
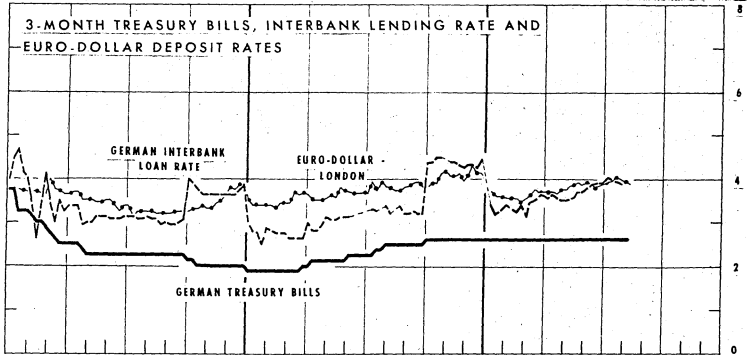


Chart 3

INTEREST ARBITRAGE FOR GERMAN COMMERCIAL BANKS

Friday figures

Per cent per annum



* Note: Special forward rate available to German commercial banks

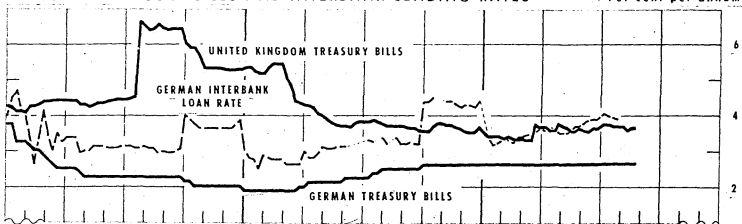
Chart 4

INTEREST ARBITRAGE, FRANKFURT / LONDON

Friday figures

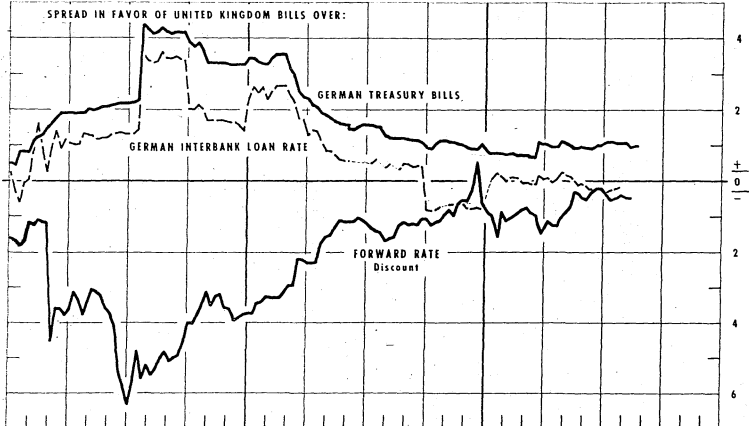
3—MONTH TREASURY BILLS AND INTERBANK LENDING RATES

Per cent per annum



RATE DIFFERENTIAL AND 3—MONTH FORWARD STERLING

SPREAD IN FAVOR OF UNITED KINGDOM BILLS OVER:



RATE DIFFERENTIAL WITH FORWARD EXCHANGE COVER

NET INCENTIVE OF UNITED KINGDOM OVER:

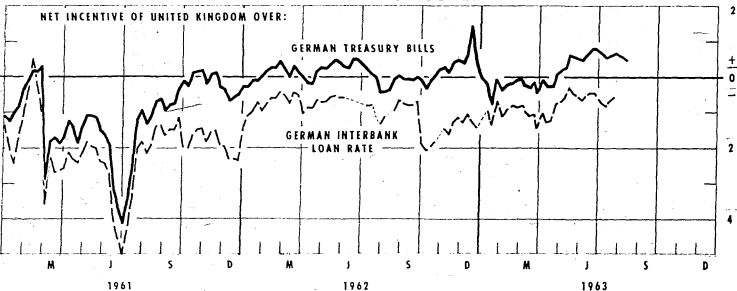
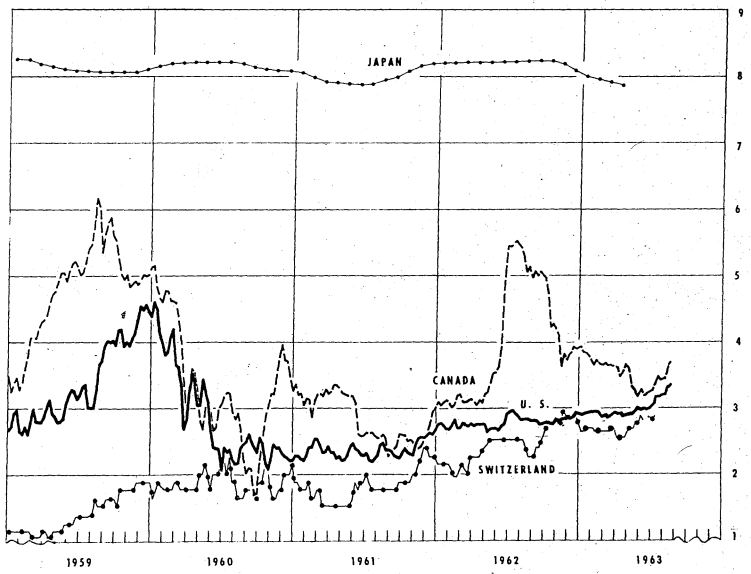
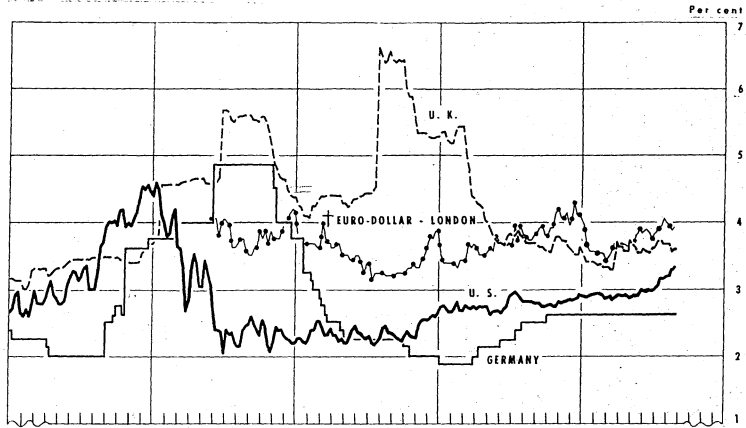


Chart 5
SHORT-TERM INTEREST RATES *



* 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

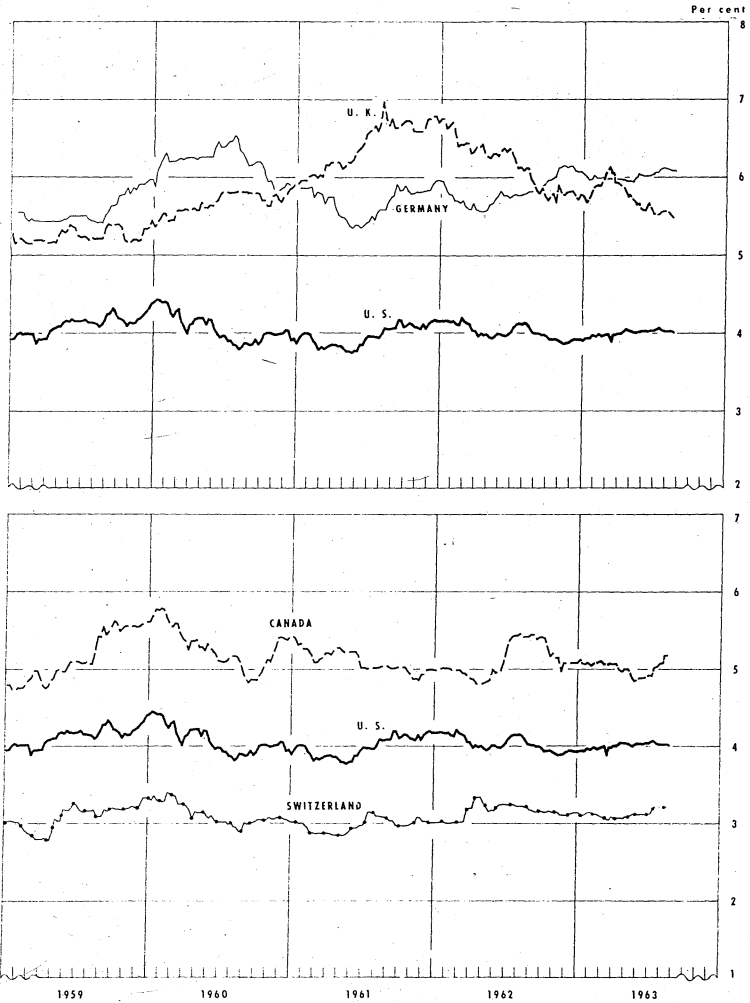
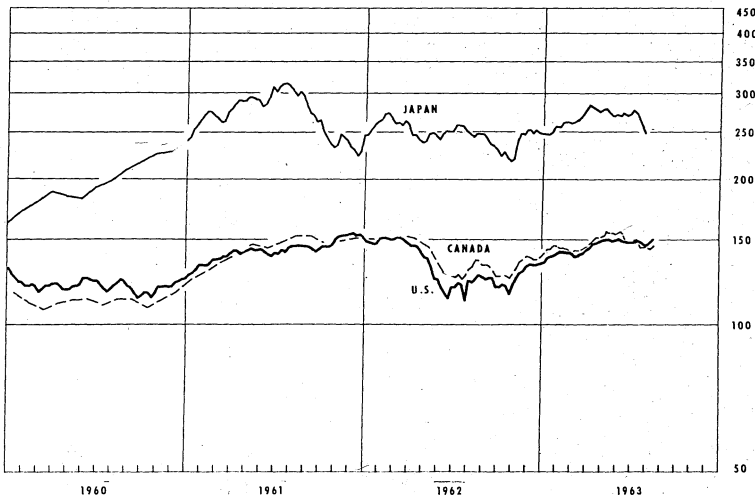
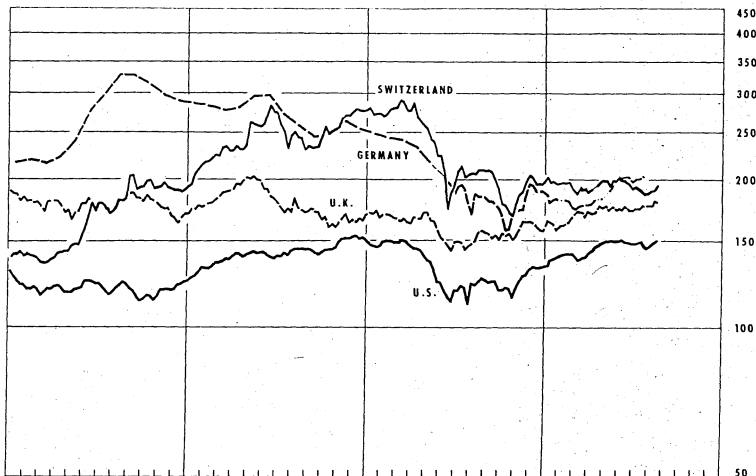


Chart 7

INDUSTRIAL STOCK INDICES*

1958 = 100
Ratio scale



*Note: Japan: index of 225 industrial and other stocks traded on the Tokyo exchange.

Chart B

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

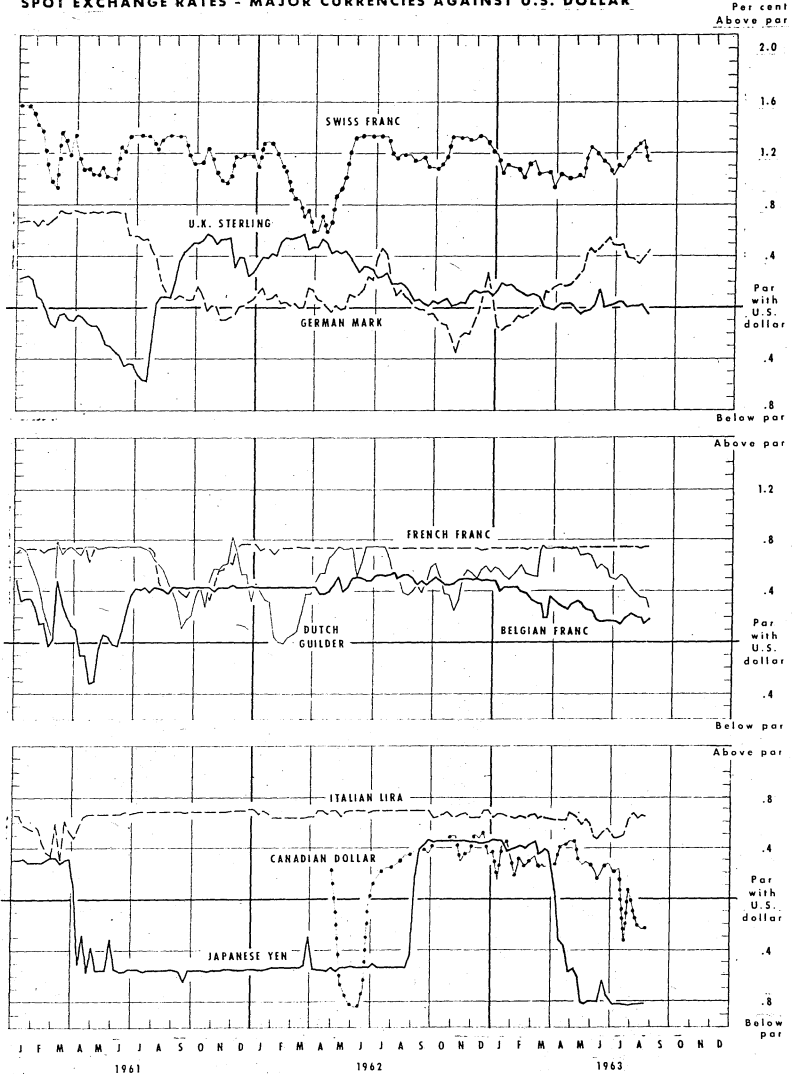


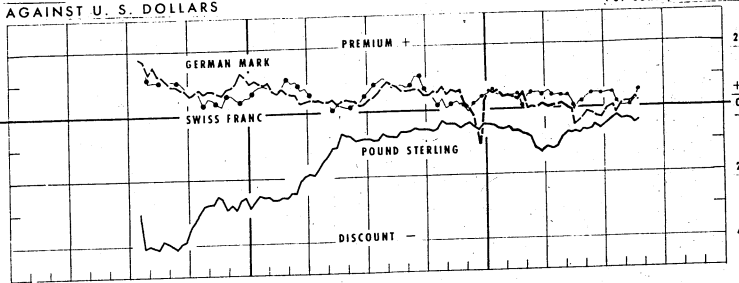
Chart 9

3-MONTH FORWARD EXCHANGE RATE

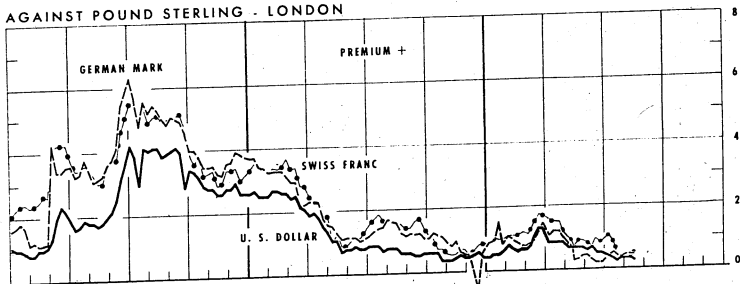
Friday figures

AGAINST U. S. DOLLARS

Per cent per annum



AGAINST POUND STERLING - LONDON



AGAINST POUND STERLING - LONDON

