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(CAPITAL MARKET DEVELOPMENTS ABROAD

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

I. Germany: Money and Capital Markets, August to mid-September, 1963

Money market conditions were somewhat easier but upward pressures on bond yields were renewed in German financial markets during August and early September. To maintain the 6 per cent coupon on new issues, maturities have been shortened on new offerings and no provision included for advance redemption. The repatriation of funds from abroad and large payments by the public authorities in late August enabled the commercial banks to meet the seasonal tax drain on reserves in September without borrowing from the Bundesbank as they have done in earlier periods of heavy tax flows in the recent past.

Germany's trade surplus continued to improve in August and the D-mark remained firm in foreign exchange markets. For July, larger official payments abroad and private short-term capital exports temporarily eliminated the balance-of-payments surplus. But for the first seven months of the year Germany had an over-all payments surplus of DM 2.1 billion this year compared with a deficit of 0.2 billion in 1962.

Money market. Money market rates eased in July and August after reaching a temporary seasonal peak at the end of June when the quotation for day-to-day money reached 4-3/4 per cent. This was the highest mid-year rate recorded since 1960, when the Bundesbank was pursuing a vigorous tight money policy. (See Table 1.) But at the end of August call money rates were down to a range of 2-1/4 to 2-7/8 per cent.

The banks were able to meet the mid-September tax date and the usual end-of-quarter payments with less pressure on day-to-day money rates than has been experienced in earlier periods. They repatriated funds from abroad in August but were able to return part of these funds abroad because of their relatively easy reserve position. In this connection, they were aided by large month-end payments by public authorities in late August (somewhat earlier than is customary). They also made some borrowings abroad in the Euro-dollar market (particularly in the Netherlands). As a result, commercial banks had little, if any, need to borrow from the Bundesbank as they have done in earlier pre-tax periods.

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(Decontrolled After Six Months)

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

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

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

Source: Deutsche Bundesbank.

Bond market. The bond market was quiet during July. The slight downward movement in August in the bond index of the F.A.Z. probably reflected the effects of the summer lull and was characteristic of the slowness with which the market was absorbing new offerings at the usual 6 per cent coupon. Foreign interest in German fixed interest securities, although still considerable, has been reduced in recent months. The authorities are reportedly determined to maintain the 6 per cent rate.

To this end, the Central Capital Market Committee acted to limit new flotations in July and August. Gross bond placements, totaling DM 1,683 million in July (see Table 2) were slightly below the July 1962 figure; earlier this year, monthly bond placements exceeded year-ago levels by considerable amounts.

To maintain the 6 per cent rate, the authorities are tailoring new issues to prevailing market conditions. Two public loans issued in August—a DM 250 million Federal Railways issue and a DM 100 million issue of the Equalization of Burden Fund—were offered at shorter maturities and without advance redemption features in order to facilitate absorption. As the market turned somewhat more active after the summer lull, these issues were readily placed.

Further evidence of the authorities' policy to hold the long-term rate at 6 per cent is provided by the terms of the scheduled advance redemption in October of a 7-1/2 per cent issue of the Federal Postal System, which will permit holders to subscribe to a new 6 per cent coupon issue in exchange. In addition, a further DM 100 million Federal Government issue is expected in October.

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

	1 9 6 2				1 9 6 3			
	I	II	III	IV	I	II	June	July
"Occasional" borrowers bonds:								
Industrial	112	72	113	60	143	88	15	341
Public authorities	314	136	358	187	489	451	311	466
Foreign issuers	32	--	--	--	32	--	--	--
Other bonds 2/	89	132	154	57	259	153	135	172
Total	547	340	625	304	923	692	461	979
Mortgage and communal bonds	665	453	532	480	652	578	527	704
Total gross bond placements 3/	1,212	793	1,157	784	1,575	1,270	988	1,683
Gross share placements	185	205	172	170	155	51	52	144
Total security placements at issue value	1,397	998	1,329	954	1,730	1,321	1,040	1,827

1/ Market value.

2/ Mostly bonds of specialized credit institutions.

3/ Includes medium-term notes (Kassenobligationen).

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

Stock market. The stock market, which had been relatively subdued during the summer months, was only temporarily affected by the announcement of the proposed U.S. interest equalization tax. The F.A.Z. stock index fell by 2-3/4 per cent between July 18 and 22 but has since risen by 9 per cent between July 22 and September 20. (See Table 3.) The stock market became very active in August, as favorable economic news underscored the growing feeling of business confidence and encouraged a brisk demand for German shares. The stock index reached a new high for the year in early September, but shaded off slightly in the second week of the month, reportedly because of profit taking. The market was also influenced by reports that American interests were selling German holdings in order to re-invest the proceeds in the rising New York market.

Table 3. Germany: Stock Index, March-September 1963
(December 31, 1958 = 100)

All time high:	Aug. 31, 1960	264.60	1963 high:	Sept. 9	194.81
1962 high:	Jan. 2	222.81	1963 low:	Feb. 26	151.54
1962 low:	Oct. 10	132.88			

1963	March 15	157.63	Aug. 2	181.90
	29	159.23	9	184.40
	April 16	164.67	16	188.86
	30	163.65	23	190.44
	May 17	183.50	30	191.10
	31	184.63		
	June 14	184.36	Sept. 6	194.02
	28	178.96	13	192.28
	July 19	179.13	20	193.51
	26	181.90		

Source: Frankfurter Allgemeine Zeitung.

Foreign trade results continue favorable. The steady rise in exports was briefly interrupted in June, when seasonally adjusted exports fell 14 per cent below the very high May figure. (See Table 4.) However, since imports also declined in June, a relatively substantial export surplus was maintained. The foreign trade results in June may have been influenced by the changes in Common Market tariffs which became effective on July 1, with the further 10 per cent reduction in internal tariffs possibly causing some holding back in export activity.

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
April	4.92	4.61	.31
May	5.15	4.25	.90
June	4.42	4.11	.31
July	4.94	4.54	.40
August	5.06	4.41	.65

a/ Change in import accounting procedure raised first quarter and April 1962 imports by a total of approximately DM 0.4 billion.

Source: Deutsche Bundesbank Monthly Report.

In July and in August exports resumed their rise, while imports were up in July, but fell back slightly in August. Consequently, the trade balance continued to improve. On a year-to-year basis, August exports were up 13 per cent and imports 5 per cent.

The continued large inflow of foreign orders suggests that the upsurge in exports should continue in the near future. In addition, the competitive position of the steel-, textile- and leather goods industries should improve if the German Government's proposed increase in turnover tax rebates for these industries becomes effective.

Balance of payments surplus reduced in July. Substantial short-term private capital exports and heavier official payments abroad temporarily ended for the month of July the balance of payments surplus recorded during each of the first two quarters of 1963. (See Table 5.) However, the trade balance was sharply up in July, producing a goods and services surplus in spite of a heavy deficit on services account.

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

	Jan. - July		1 9 6 3			
	1962	1963	I	II	June	July
1. GOODS & SERVICES						
Trade balance	1,648	2,222	544	1,268	156	410
Services	- 377	- 712	21	- 464	-261	-269
Total	<u>1,271</u>	<u>1,510</u>	<u>565</u>	<u>804</u>	<u>-105</u>	<u>141</u>
2. OFFICIAL PAYMENTS						
Donations	-2,206	-2,070	-931	- 925	-238	-214
Long-term capital	-1,065	- 381	- 88	- 88	- 79	- 58
Short-term capital	- 68	263	211	99	80	- 47
Total	<u>-3,339</u>	<u>-2,188</u>	<u>-808</u>	<u>-1,061</u>	<u>-237</u>	<u>-319</u>
3. PRIVATE CAPITAL						
Securities transactions						
Foreign purchases ^{1/}			700	730	162	} 244
German purchases	539	1,939			10	
(increase-) ^{2/}			-161	- 48	- 10	
Other long-term			205	269	115	
Short-term ^{3/}	- 257	91	78	278	268	-265
Errors and omissions	1,570	733	243	290	88	200
Total	<u>1,852</u>	<u>2,763</u>	<u>1,065</u>	<u>1,519</u>	<u>623</u>	<u>179</u>
SURPLUS OR DEFICIT (-)	<u>- 216</u>	<u>2,085</u>	<u>822</u>	<u>1,262</u>	<u>281</u>	<u>1</u>

^{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.

For the first seven months of 1963 the cumulative balance of payments surplus has amounted to a substantial DM 2,085 million, compared with a DM 216 million deficit for the same period of 1962. (See Table 5.) On a year-to-year basis, the major changes were: a substantial increase in the trade surplus partly offset by a deterioration in the service balance; a decrease in the official payments abroad primarily because of deliveries made on pre-paid military goods (the import of which is recorded as a short-term official capital inflow); and a large increase in private capital inflows. Foreign purchases of German securities continue to be substantial.

Foreign exchange markets. With the favorable external position, the D-mark continued firm in the foreign exchange market. (See Table 6.) After declining in mid-July when the German banks were putting money-market funds abroad, the spot rate moved up from 25.09 cents on August 2 to 25.13 cents on September 20. Press reports suggest that some of this improvement was attributed to uncertainties about the U.S. dollar created by the proposed U.S. interest equalization tax.

Table 6. Germany: Exchange Rate in U.S. Cents per DM
(noon buying rates)

	Par value	25.000			
	Upper limit	25.188			
	Lower limit	24.875			
May	31	25.105	Aug.	2	25.091
June	14	25.124		9	25.100
	28	25.123		16	25.101
July	5	25.121		23	25.111
	12	25.123		30	25.118
	19	25.099	Sept.	6	25.121
	26	25.097		13	25.122
				20	25.128

Source: Federal Reserve Bulletin.

Since mid-August, the premium on the forward D-mark has risen appreciably from 0.1 to about 0.3-0.4 per cent per annum. Because of the wider premium, the banks are reported to have requested that the Bundesbank intervene by providing an attractive rate for one-month swaps. At present, no business is being done at the Bundesbank's swap rate which has been deliberately set out of line with the market rate. (See Table 8, columns 4 and 5.) The Bundesbank has made it known that it does not intend to change its swap rate at this time.

Reserve position declines slightly. Total German reserves declined by \$28 million in July as a \$67 million increase in Bundesbank gold and foreign exchange holdings was more than offset by a decline in commercial banks' liquid foreign assets. (See Table 7.) The reduction in reserves was offset by a decline in Bundesbank foreign liabilities.

Table 7. Germany: Change in Reserve Position, July 1962-July 1963
(in millions of U.S. dollars, end of period figures)

	1962		1963			
	July	Dec.	April	May	June	July
A. Bundesbank gold and foreign exchange						
Foreign exchange	2,542	2,768	2,699	2,933	2,946	3,005
Gold	<u>3,667</u>	<u>3,679</u>	<u>3,749</u>	<u>3,749</u>	<u>3,753</u>	<u>3,761</u>
Total	<u>6,209</u>	<u>6,447</u>	<u>6,448</u>	<u>6,682</u>	<u>6,699</u>	<u>6,766</u>
B. Drawing rights on IMF	1,320	1,305	1,312	1,312	1,307	1,307
C. Commercial banks foreign exchange	<u>1,071</u>	<u>632</u>	<u>847</u>	<u>854</u>	<u>910</u>	<u>815</u>
D. Total reserves (A+B+C)	<u>8,600</u>	<u>8,384</u>	<u>8,607</u>	<u>8,848</u>	<u>8,916</u>	<u>8,888</u>
E. Change in total reserves	<u>- 45</u>	<u>-216</u>	<u>+223</u>	<u>+241</u>	<u>+ 68</u>	<u>- 28</u>
F. Gold as percentage of Bundesbank reserves	59.1	57.1	58.1	56.1	56.0	55.6

In August Bundesbank foreign exchange holdings increased by about \$25 million. The increase would have been larger but for a \$50 million purchase of U.S. Treasury bills by the Reconstruction Bank (Kreditanstalt fuer Wiederaufbau). There was a further inflow of about \$21 million into Bundesbank reserves through the first half of September.

German participation in foreign bank. A Frankfurt bank with strong trade union ties is reported to have recently acquired a 50 per cent interest in a Dutch bank in Amsterdam, which is 50 per cent trade union owned. The Dutch press reported that this was part of a concerted effort to acquire interests in Common Market countries.

Europe and British Commonwealth Section.

Table 8. Germany: Selected Money Market Yields and Exchange Rates
(per cent per annum)

	3-mo. Euro-dollar deposits <u>London</u>	3-mo. inter-bank loans <u>Frankfurt</u>	Spread in favor <u>London</u>	3-mo. U.S. \$ into Marks		3-mo. Treas. bills		
				Comm.		U.K.	Ger.	U.S.
				bank ^{a/}	Market			
1962-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 31	3.84	3.69	0.25	+0.75	-0.3	3.61	2.63	3.00
June 28	3.84	3.88	-0.04	+0.75	-0.3	3.63	2.63	2.99
July 12	3.94	4.00	-0.06	+0.75	+0.1	3.72	2.63	3.18
19	4.06	3.54	+0.12	+0.75	-0.2	3.69	2.63	3.18
26	4.00	3.88	+0.12	+0.75	+0.1	3.69	2.63	3.20
Aug. 2	3.94	3.88	+0.06	+0.75	+0.1	3.69	2.63	3.21
9	3.88	3.88	0.00	+0.75	+0.2	3.59	2.63	3.30
16	3.94	3.88	+0.06	+0.75	+0.3	3.62	2.63	3.31
23	4.00	3.75	+0.25	+0.75	+0.2	3.62	2.63	3.35
30	4.00	3.75	+0.25	+0.75	+0.2	3.62	2.63	3.38
Sept. 6	4.19	n.a.	n.a.	+0.75	+0.5	3.62	2.63	3.32
13	4.09	n.a.	n.a.	+0.75	+0.4	3.62	2.63	3.34
20	4.06	n.a.	n.a.	+0.75	+0.2	3.62	2.63	3.38

^{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%	Public		
				Railway 1958-83	authorities		
1962-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	6.1	3.19	2.8
June	7.50	3.50	2.75	6.03	6.1	3.26	
July	7.50	3.50	2.75	6.10	6.1	3.20	
Aug.	7.50	3.50	2.75	6.09	n.a.	n.a.	n.a.

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Federal Reserve Bank of St. Louis

Chart 1

INTEREST ARBITRAGE, UNITED STATES / CANADA

Thursday figures

Per cent per annum

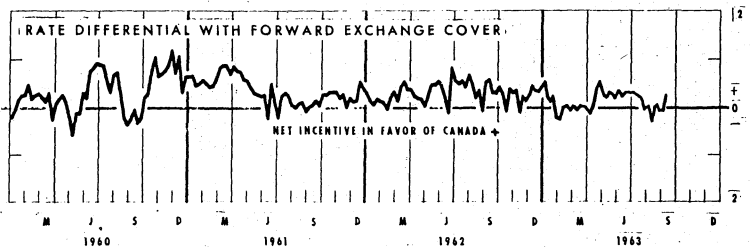
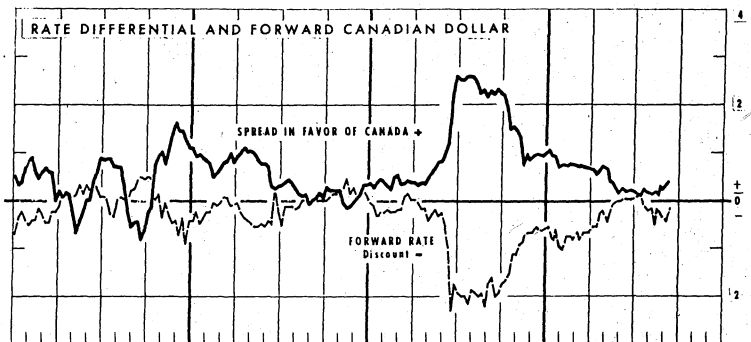
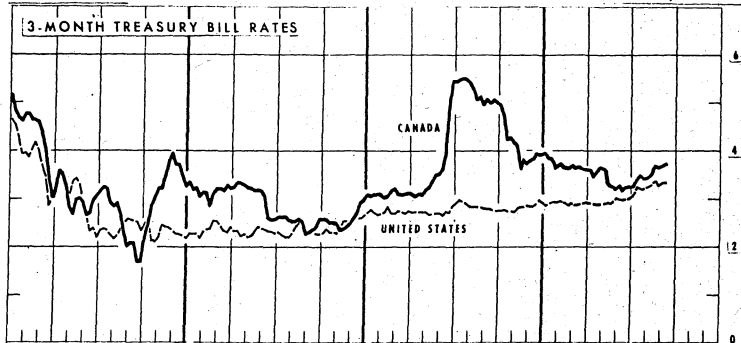


Chart 2

INTEREST ARBITRAGE, NEW YORK/LONDON

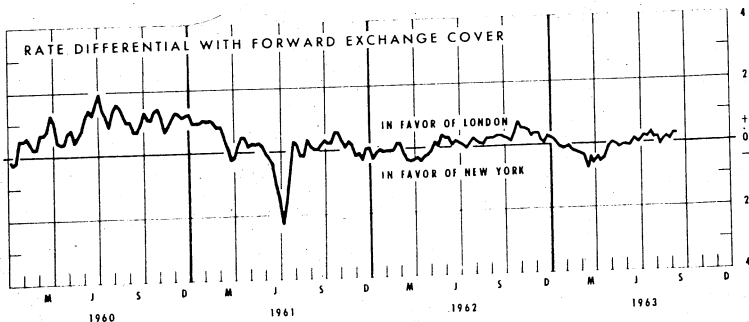
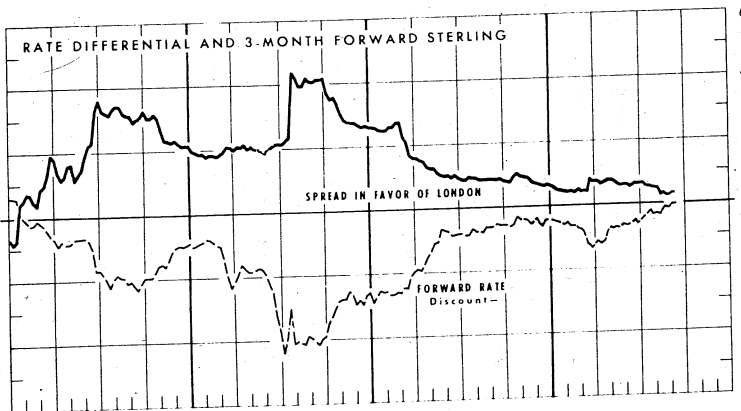
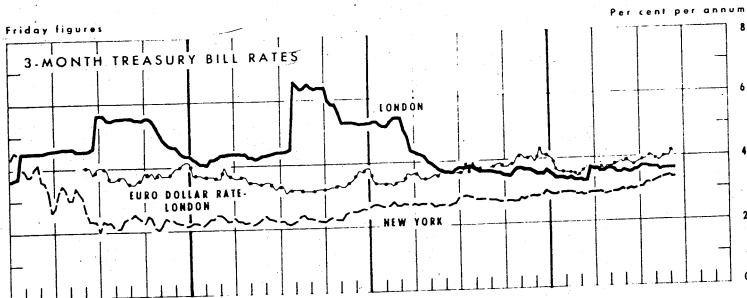
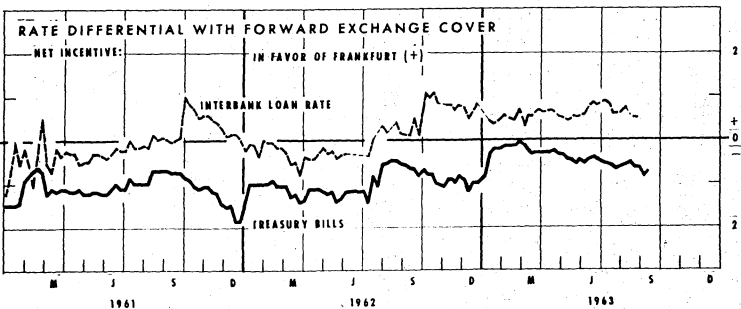
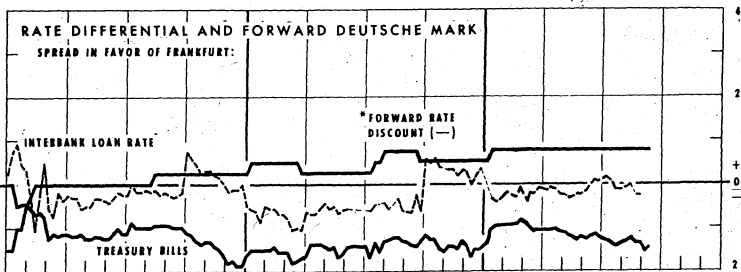
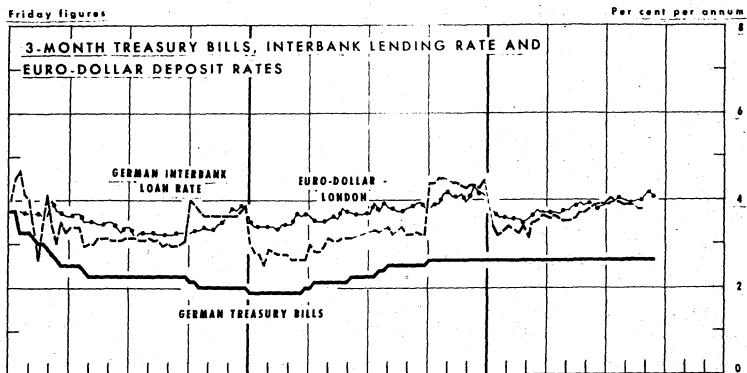


Chart 3

INTEREST ARBITRAGE FOR GERMAN COMMERCIAL BANKS

* Note: Special forward rate available to German commercial banks

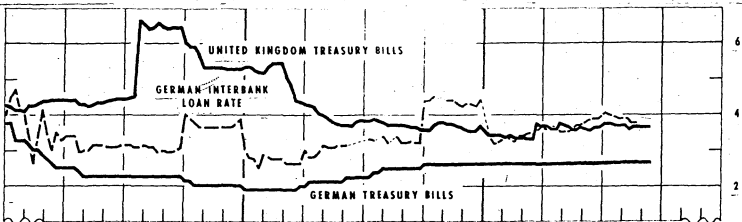
Chart 4

INTEREST ARBITRAGE, FRANKFURT / LONDON

Friday figures

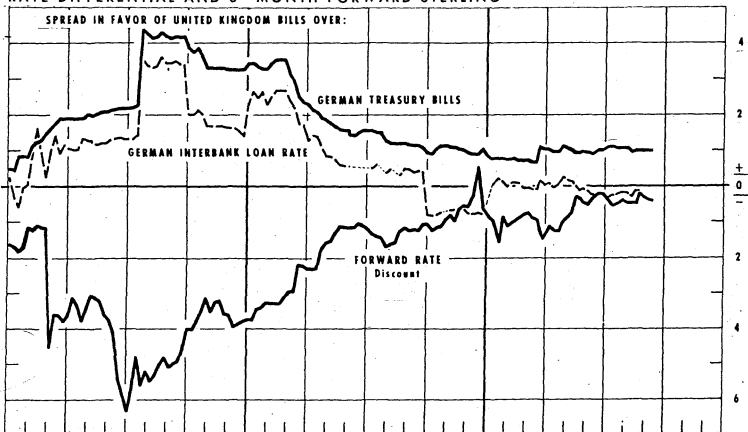
3-MONTH TREASURY BILLS AND INTERBANK LENDING RATES

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:

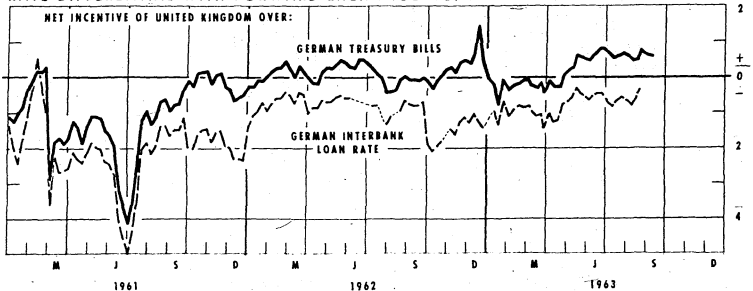
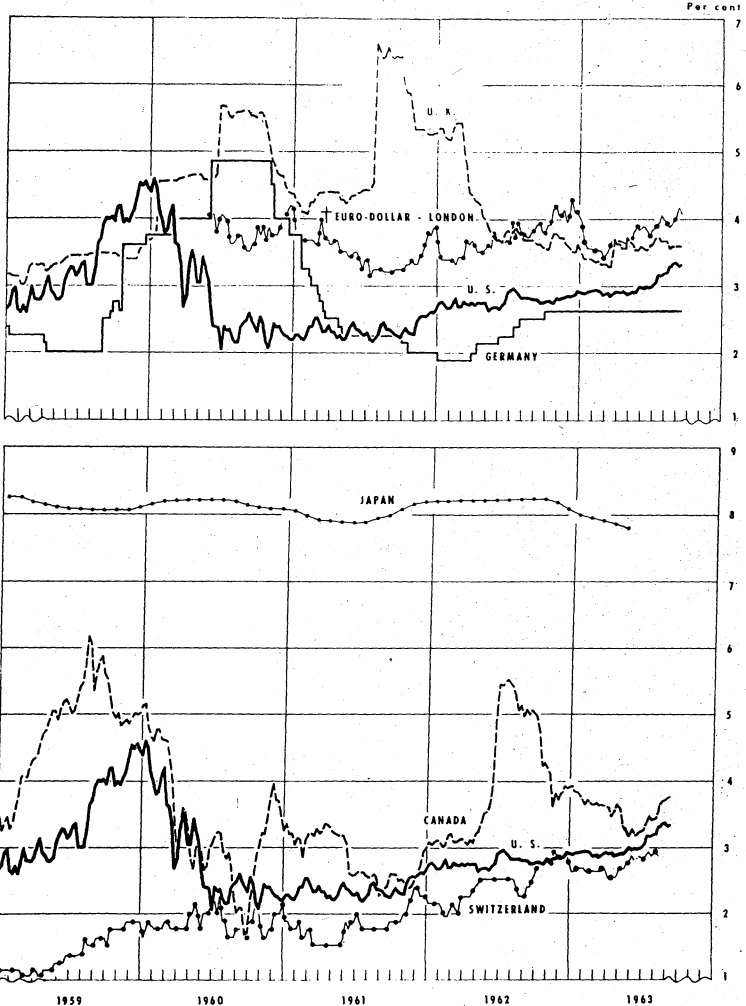


Chart 5
SHORT-TERM INTEREST RATES *



* 3 month treasury bill rates for all countries except Japan (Average rate on bank loans and discounts)
 † 3 month rate for U S dollar deposits in London
 ‡ and Switzerland (3 month deposit rate)

Chart 6
LONG-TERM BOND YIELDS

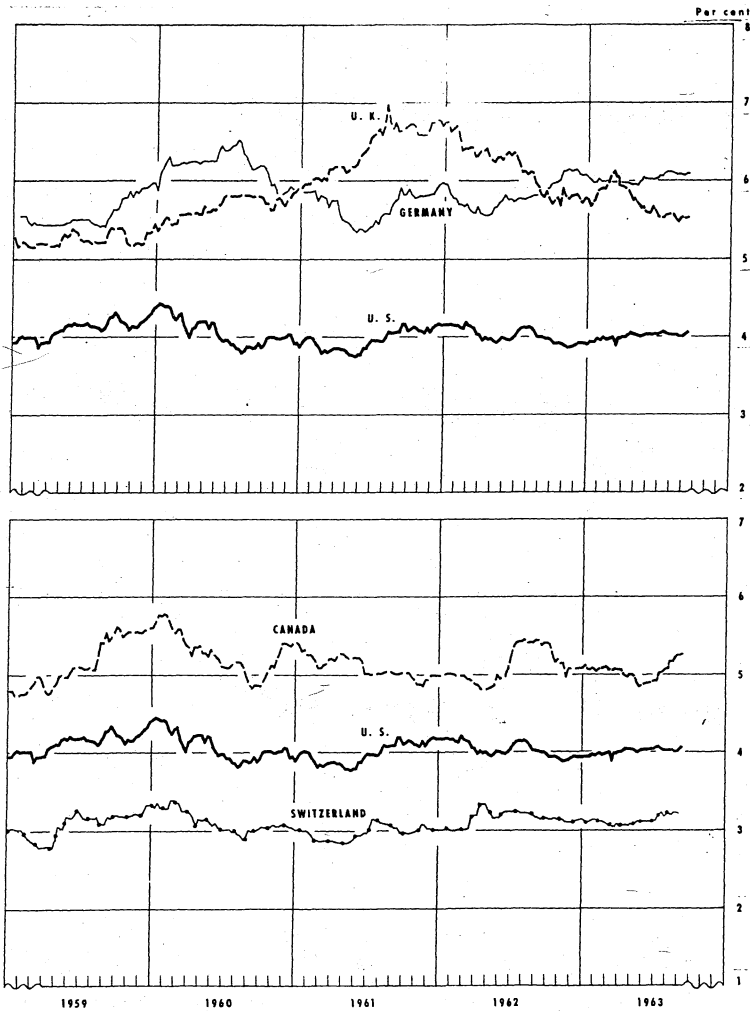
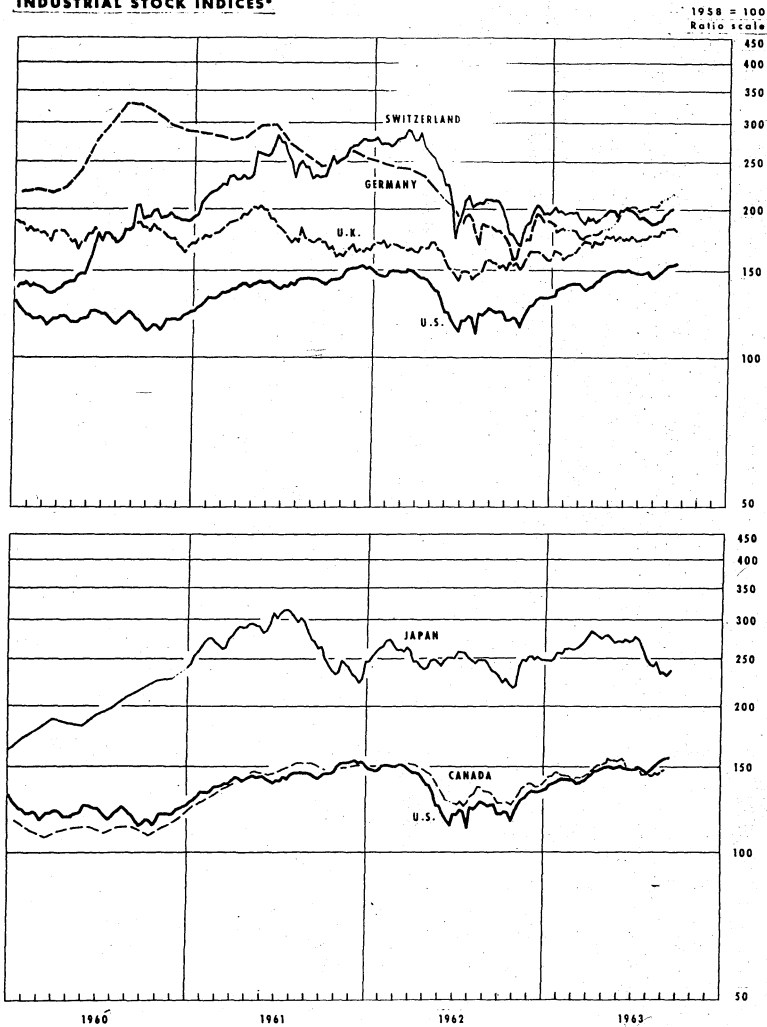


Chart 7
INDUSTRIAL STOCK INDICES*



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

Chart 8

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

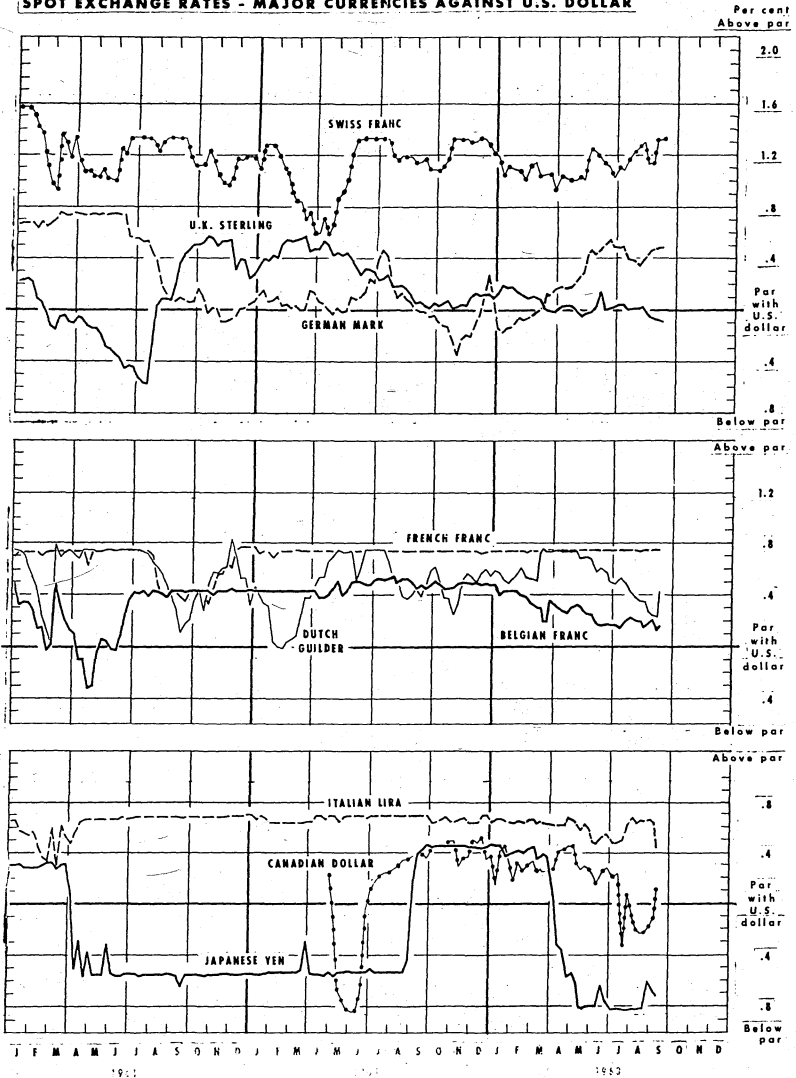


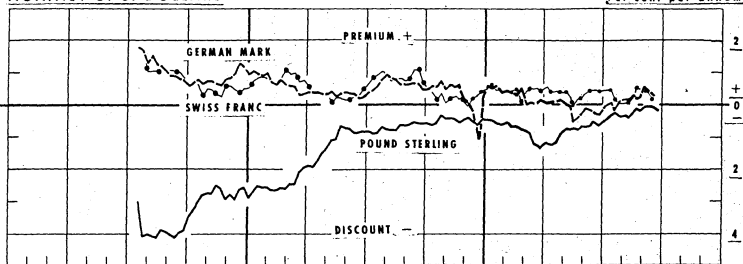
Chart 9

3-MONTH FORWARD EXCHANGE RATE

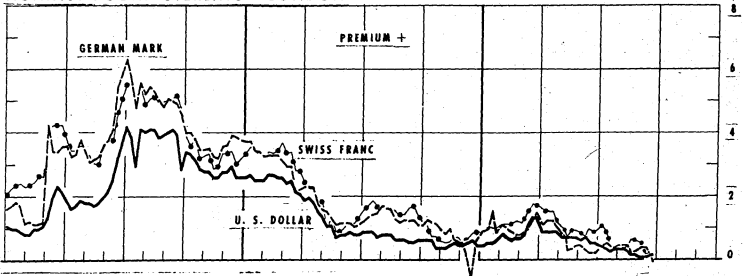
Friday figures

AGAINST U. S. DOLLARS

Per cent per annum



AGAINST POUND STERLING - LONDON



AGAINST POUND STERLING - LONDON

