

H. 13

No. 128 A

November 6, 1963.

CAPITAL MARKET DEVELOPMENTS ABROAD

I. Germany

II. Nine Charts on Financial Markets Abroad

Germany: Money and Capital Markets, mid-September - October, 1963

Money market conditions turned easier with the passing of seasonal demands on the banks in September. Funds were apparently available in ample amounts and commercial banks were in a position to increase the amount of funds employed abroad.

The bond market turned very active with several public authorities' issues selling out quickly as both domestic and foreign demand were heavy. Part of the demand for bonds may have been the result of a switching from stocks into bonds, as the former came under some selling pressure in October. Disappointing dividend announcements by some steel firms and the insolvencies of the Stinnes concerns, followed by rumors of liquidity difficulties of Krupp, caused nervousness in the stock market, particularly among foreign holders of German shares. But there are indications that foreign funds pulled out of the stock market nevertheless remained in Germany.

Germany's balance of payments surplus continued to increase, amounting to \$695 million in the first eight months of this year, as compared with a deficit of \$56 million for the corresponding period of 1962. In September, the trade balance was reduced from the high August level, but capital inflows into Germany reportedly continued in September and October, and further substantial balance of payments surpluses are expected for both months. The DM was very strong in foreign exchange markets during the period under review.

The passing of the Chancellorship from Mr. Adenauer to Dr. Erhard apparently had no repercussions in the foreign exchange markets or on the stock market. The new Government's policy declaration stated that the preservation of the stability of the DM would be one of its major principles. On the whole, drastic policy changes are not expected.

Money market easier. With the passing of the major September tax date and the end-of-the quarter requirements, the money market turned easier. Day-to-day money, which had been quoted in Frankfurt at 3-1/2 to 3-7/8 per cent at the end of September, was quoted from 2 to 2-7/8 per cent at the end of October. (See Table 1.) The press reported that, with the easing in the money market, banks were putting funds abroad in October. The rates moved somewhat higher at the beginning of November, reflecting a minor tax date, but there still appeared to be ample funds available.

Aside from the seasonal demands on the banks, the major factor in the earlier money market stringency was the public authorities' cash position, with

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(Decontrolled after six months)

Table 1. Germany: Money Market Rates in Frankfurt, August-October, 1963 ^{a/}

(in per cent per annum)

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

^{a/} Highest and lowest rates quoted each week by Frankfurt banks

Source: Deutsche Bundesbank

funds being withdrawn from the domestic economy faster than they were put back in circulation. (See Table 2.) However, higher public cash expenditures in August acted to ease bank liquidity positions, and it is expected that during the fourth quarter the public sector will add to the liquidity of the banking sector. Preparation for year-end window dressing pushed the three-months rate up from 3-3/4 per cent at the end of September to 5- 5-1/4 per cent in October. This compares with the 4-1/4 - 4-5/8 range quoted in October 1962, and reflects the generally higher level of interest rates prevailing this year.

Table 2. Germany: Factors increasing (+) or reducing (-)
commercial bank resources, 1962 - October 1963
(in billions of DM, quarters and months)

	1962				1963					
	I	II	III	IV	I	II	July	Aug.	Sept.	Oct. ^{1/}
<u>Market factors:</u>										
Notes in circulation	+ .7	- .6	- .5	-1.5	+1.0	- .9	- .3	a/	- .2	+ .9
Public authority deposits	-1.6	- .6	-1.2	+ .2	-3.5	-1.5	- .4	+ .7	- .4	- .2
Bundesbank foreign exchange operations	- .8	+1.2	+1.6	+1.3	+1.0	+2.1	+ .6	+ .5		
Other	+ .4	+ .2	+ .1	+ .4	+ .3	+ .4	a/	+ .3		
Total	<u>-1.3</u>	<u>+ .2</u>	<u>a/</u>	<u>+ .4</u>	<u>-1.2</u>	<u>+ .1</u>	<u>- .1</u>	<u>+1.5</u>		
<u>Central Bank credit operations:</u>										
Open market operations	+ .7	a/	+ .2	+ .3	- .3	+ .2	+ .3	- .3	+ .2	- .1
Borrowings at Bundesbank	a/	+ .1	+ .2	+ .3	+ .8	+ .2	- .3	- .9	+ .3	a/
Total	<u>+ .7</u>	<u>+ .1</u>	<u>+ .4</u>	<u>+ .6</u>	<u>+ .5</u>	<u>+ .4</u>	<u>0</u>	<u>-1.2</u>	<u>+ .5</u>	<u>- .1</u>
<u>Overall effect on bank liquidity</u>										
	<u>- .6</u>	<u>+ .3</u>	<u>+ .4</u>	<u>+1.0</u>	<u>- .7</u>	<u>+1.4</u>	<u>- .1</u>	<u>- .3</u>		
<u>Compare</u>										
Change in required reserves	a/	+ .4	+ .2	+ .3	+ .2	+ .3	a/	+ .2		

1/ October 1-23 only

a/ Less than DM 50 million

Source: Deutsche Bundesbank Monthly Report and Weekly returns for September October

Bond market active. With the end of the summer, the period of apparent satiation of the bond market at the six per cent coupon rate also ended. The final DM 300 million tranche of the Federal loan issued to finance the 1963 budget deficit was quickly absorbed and foreign participation was reportedly heavy, as was also the case for a DM 150 million loan floated by the Reconstruction Loan Corporation (Kreditanstalt fuer Wiederaufbau) in October. A DM 110 million loan floated by the Federal Postal System was heavily oversubscribed and sold out on the day the books opened, again with very active foreign participation. Foreign interest was reported to have come particularly from Switzerland but it was thought that the funds involved were primarily Italian.

The F.A.Z. bond index moved slightly higher during October, after having declined in September. As in past months, the public authorities continued to be the most active borrowers in the bond market. In August there were no placements of industrial bonds and total new private issues were very small. (See Table 3.) This may in part reflect the Capital Market Committee's moves to limit access to the market in August, because the market's willingness to absorb a sizeable amount at the prevailing six per cent rate seemed doubtful. However, current reports suggest that, with profit margins improving, private borrowers show little interest in the bond market; and the Frankfurter Allgemeine Zeitung felt that were it not for the very active borrowing by public authorities, the current lively demand for German bonds would have brought downward pressure on the long-term interest rate. Although the Federal Government has borrowed up to the limit authorized in the 1963 budget, it is thought that other public bodies, such as the Federal Railways, will continue to borrow actively until the end of the year.

Table 3. Germany: Gross Placements in Security Markets ^{1/}
(millions of DM, month or monthly average)

	1962		1963				
	III	IV	I	II	June	July	Aug.
"Occasional" borrowers bonds:							
Industrial	113	60	143	88	15	341	--
Public authorities	358	187	489	451	311	466	416
Foreign issuers	--	--	32	--	--	--	--
Other bonds ^{2/}	154	57	259	153	135	172	81
Total	625	304	923	692	461	979	497
Mortgage and communal bonds	532	480	652	578	527	704	504
Total gross bond placements ^{3/}	1,157	784	1,575	1,270	988	1,683	1,001
Gross share placements	172	170	155	51	52	144	138
Total security placements at issue value	1,329	954	1,730	1,321	1,040	1,827	1,139

^{1/} Market value.

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

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

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

- Federal Budget. Federal bond flotations authorized for this fiscal year were completed in October. However, with the dispute regarding the share the Federal Government can expect from the income taxes collected jointly with the Laender still unresolved, there remains an estimated DM 1.2 billion to be financed. Since borrowing authority has been exhausted, it is expected that the Federal Government will have to take up cash credits at the Bundesbank for the amount required.

Chancellor Erhard stated in his policy declaration that the preservation of the stability of the DM would be one of the Government's main concerns. Therefore, 1964 budget outlays are to be held to a rate of growth equal to the anticipated growth in GNP in 1964. The current estimate of a 6 per cent growth in GNP in current prices yields a 1964 budget ceiling of DM 60.2 billion, as against DM 56.8 billion in 1963. However, the 1964 budget total may be revised extensively when the dispute over the division of tax revenues is settled.

Stock Market. The spate of favorable economic news, which brought the F.A.Z. stock index to a new high in the second week of September, was interrupted by the news of the insolvencies of the two separate Hugo Stinnes concerns: that controlled by Hugo Stinnes, Jr. and that controlled by his mother and brother. Although these difficulties were said to be the result of financing long-term requirements through short-term credits, and should not be taken as signs of general economic troubles in Germany, the stock market reacted nervously to the news. There were reports of fairly heavy selling, especially by foreigners. However, it appears that confidence in the overall German economy was maintained, since the strengthening of the exchange rate for the DM apparently indicates that the funds realized in the stock sales have remained in Germany.

The F.A.Z. stock index declined by 5.5 per cent between September 9 (1963 high) and October 25. (See Table 4.) It recovered somewhat subsequently, but turned down again as the British press reported that the Krupp concern might be in liquidity difficulties because long-term credits to customers were financed by short-term borrowings. A Krupp spokesman has stated that the firm's credit lines with the "Big Three" German banks are far from exhausted and the president of one of the banks, the Deutsche Bank, has supported this statement.

Table 4. 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			
<hr/>					
1963	May 31	184.63	Sept. 6		194.02
	June 28	178.96		13	192.28
	July 26	181.90		20	193.51
	Aug. 2	181.90		27	191.89
	9	184.40	Oct. 4		192.39
	16	188.86		11	190.26
	23	190.44		18	189.58
	30	191.10		25	184.10
				31	186.05

Source: Frankfurter Allgemeine Zeitung.

Foreign trade. In September, exports fell below the very high August figure and were fractionally below the July level. (See Table 5.) On the other hand, imports rose appreciably in September after falling off the month before. Consequently, the trade surplus was much reduced from the high August level. However, a substantial part of the rise in imports in September probably reflected deliveries of pre-paid military goods, for which there is

an offset in the balance of payments in the short-term government capital account, leaving reserves unaffected.

Table 5. 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	4.45		4.19		.26
IV	4.39		4.20		.19
1963					
I	4.37		4.15		.22
II	4.83		4.34		.49
III	4.97		4.52		.45
July	4.94		4.54		.40
August	5.06		4.37		.69
September	4.92		4.65		.27

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.

Compared with the preceding year, September exports were up 11.3 per cent, which was about as large a year-to-year increase as in August, and larger than in July. Imports rose 11.5 per cent over the year, but after exclusion of government purchases of military goods and adjustment for a statistical change in import accounting in 1962, they were up only 2.5 per cent. This would indicate that the trade balance on commercial goods improved appreciably over the year.

Balance of payments in substantial surplus. Heavy private capital inflows were the main factor in the shift of the German balance of payments from a substantial deficit position in 1962 back to a continuing large surplus position this year. While the surplus virtually disappeared in July, owing to substantial short-term private capital exports and heavier official payments abroad, it re-emerged in August, when short-term capital flows were reversed and the trade surplus increased further. Indications are that continued substantial surpluses were registered in September and October.

For the first eight months of 1963 the cumulative balance of payments surplus amounted to DM 2,778 million, as compared with a DM 223 million deficit for the corresponding period of 1962. (See Table 6.) Large increases in the trade balance more than offset the continued growth of the deficit on service account and produced a DM 0.5 billion improvement in the goods and services balance. But the major improvement came in the private capital balance, which rose by close to DM 1.5 billion. Most of the private capital inflow was concentrated in the acquisition of German securities, especially long-term bonds.

Table 6. Germany: Balance of Payments 1962-August 1963
(in millions of DM)

	Jan-Aug.		1 9 6 3				a/
	1962	1963	I	II	July	Aug.	
1. GOODS & SERVICES							
Trade balance	b/ 1,945	2,818	544	1,268	410	596	
Services	-668	-1,056	81	-474	-323	-340	
Total	1,277	1,762	625	794	87	256	
2. OFFICIAL PAYMENTS							
Donations	-2,454	-2,444	-931	-911	-256	-316	
Long-term capital	-567	-376	-96	-256	-62	38	
Short-term capital 1/	-597	260	219	120	-47	-32	
Total	-3,618	-2,560	-808	-1,047	-365	-310	
3. PRIVATE CAPITAL							
Securities transactions							
Foreign purchases 2/			700	730			
German purchases							
(increase-) 3/	673	2,083	-161	-48	245	143	
Other long-term			205	269			
Short-term 4/	-121	513	78	278	-265	422	
Errors and omissions	1,556	950	183	266	299	202	
Total	2,108	3,546	1,005	1,495	279	767	
SURPLUS OR DEFICIT (-)	-233	2,778	822	1,242	1	713	

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 4 months imports. This is offset in errors and omissions.

1/ Short-term capital inflow will not agree with Bundesbank figures, after adjustment for differences in definition, because of the apparent omission of a DM 20 million IMF transaction from the Bundesbank data in June.

2/ Foreign purchases of German securities.

3/ German purchases of foreign securities.

4/ Includes commercial bank capital other than foreign exchange assets.

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

German reserves increasing. With the rising balance of payments surplus (approximately \$695 million for the first eight months of 1963) the Bundesbank's holdings of gold and foreign exchange increased by \$358 million between the end of 1962 and August 1963, by a further \$65 million in September and by an estimated \$8 million in October. (See Table 7.) The October increase was small only because, in addition to substantial Government pre-payments for military purchases, the Kreditanstalt fuer Wiederaufbau (Reconstruction Loan Corporation), which floated a loan in the same month, invested \$58 million in U.S. Treasury bills. Furthermore, with the generally easier money market in October, commercial banks did not find it necessary to sell foreign exchange which they received to the Central Bank, but according to market reports, employed part of these funds abroad.

Table 7. Germany: Changes in Reserves Position 1962-
October 1963
(in millions of U.S. dollars).

	<u>Dec.-Sept.</u>		<u>1 9 6 3</u>					<u>a/</u>
	<u>1962</u>	<u>1963</u>	<u>I</u>	<u>II</u>	<u>Aug.</u>	<u>Sept.</u>	<u>Oct.</u>	
A. Bundesbank gold and foreign exchange								
Gold	4	82	69	5	--	--	--	
Foreign exchange	<u>-72</u>	<u>341</u>	<u>-70</u>	<u>248</u>	<u>39</u>	<u>65</u>	<u>8</u>	
Total	-68	423	- 1	253	39	65	8	
B. Drawing rights on IMF	-102	27	2	--	13	12		
C. Commercial banks								
foreign exchange	<u>125</u>	<u>b/ 302</u>	<u>223</u>	<u>56</u>	<u>118</u>			
Total A through C	-45	767	224	309	170			

a/ Estimated.

b/ January-August only

Source: IMF, International Financial Statistics; Bundesbank, Monthly Report.

Through August, the latest month for which data are available, commercial banks increased their foreign exchange holdings by \$302 million, but most of this was concentrated early in the year when banks were unwinding year-end window-dressing operations. Actually, not all the funds repatriated then were put abroad again. Consequently, total foreign exchange holdings of commercial banks, amounting to \$943 million at the end of August, were about \$70 million below their August 1962 level. The fact that banks were not adding to their foreign holdings, despite the continually increasing trade surplus, is one indication of the relatively tighter domestic credit situation.

Foreign exchange markets. Quotations for the DM in foreign exchange markets have risen since early August and by November 6, at 25.149 U.S. cents, had reached the highest rate since June 1961. (See Table 8.) The strength of the DM reflects the favorable German external position and the confidence foreigners have in the underlying health of the German economy, which has evidently not been seriously shaken by the recently reported insolvencies of the Stinnes concerns and the subsequent rumors about financial difficulties of the Krupp firm.

Table 8. Germany: Exchange Rate in U.S. Cents per DM
(noon buying rates)

	Par value	25.000			
	Upper limit	25.188			
	Lower limit	24.875			
August	2	25.091	October	4	25.138
	9	25.100		11	25.132
	16	25.101		18	25.138
	23	25.111		25	25.143
	30	25.118	November	1	25.145
				6	25.149
September	6	25.121			
	13	25.122			
	20	25.128			
	27	25.124			

Source: Federal Reserve Board.

By early October the substantial forward premium on the three-months DM was replaced by a small discount, since funds covered for that period would extend into the new year. Commercial banks, habitually, repatriate balances held abroad for window-dressing purposes at year-end and return these funds again in January. This leads to demand for the DM up to the end of the year and sales of DM in January, bringing about the discount on the three-months DM in October.

European and British Commonwealth Section.

Table 9. Germany: Selected Money Market Yields and Exchange Rates
(per cent per annum)

- 10 -

	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. bank ^{a/}	Market	U.K.	Ger.	U.S.
1962-Sept. 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 26	4.00	3.88	+0.12	+0.75	+0.1	3.69	2.63	3.20
Aug. 30	4.00	3.75	+0.25	+0.75	+0.2	3.62	2.63	3.38
Sept. 6	4.19	3.81	+0.38	+0.75	+0.5	3.62	2.63	3.32
13	4.09	3.69	+0.40	+0.75	+0.4	3.62	2.63	3.34
20	4.06	3.75	+0.31	+0.75	+0.2	3.62	2.63	3.38
27	4.09	3.75	+0.34	+0.75	-0.2	3.54	2.63	3.34
Oct. 4	4.25	4.06	-0.81	+0.75	-0.3	3.48	2.63	3.42
11	4.06	5.12	-1.06	+0.75	-0.1	3.48	2.63	3.42
18	4.12	5.12	-1.00	+0.75	-0.2	3.61	2.63	3.47
25	4.12	5.25	-1.13	+0.75	-0.2	3.61	2.63	3.43
Nov. 1	4.12	n.a.	n.a.	+0.75	-0.2	3.63	2.63	3.46

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

Table 10. 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 - 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
August	7.50	3.50	2.75	5.83	6.0	3.58	2.2
September	7.50	3.50	2.75	5.92	6.0	3.79	2.1
October	7.50	3.50	2.75	6.04	6.2	3.89	2.1
November	7.50	3.50	2.75	6.14	6.2	3.34	2.8
December	7.50	3.50	2.75	6.08	6.1	3.44	2.7
1963 - January	7.50	3.50	2.75	5.99	6.0	3.58	2.4
February	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	2.9
June	7.50	3.50	2.75	6.03	6.1	3.26	2.8
July	7.50	3.50	2.75	6.10	6.1	3.20	2.9
August	7.50	3.50	2.75	6.09	6.1	3.09	3.0
September	7.50	3.50	2.75	6.09	n.a.	n.a.	n.a.
October	7.50	3.50	2.75	6.07	n.a.	n.a.	n.a.

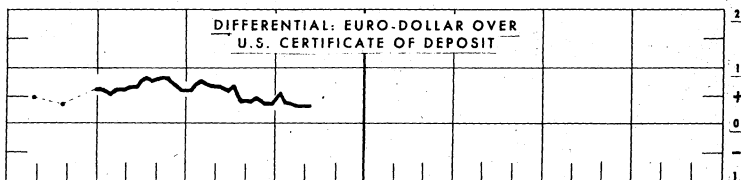
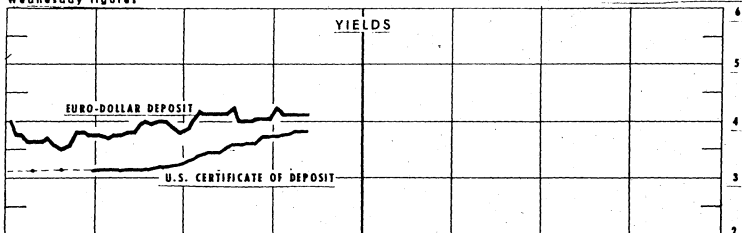
^{a/} Approved credits on current account.

Chart 1

INTERNATIONAL MONEY MARKET YIELDS FOR U.S. DOLLAR INVESTORS**3-MONTH EURO-DOLLAR DEPOSIT VS. U.S. CERTIFICATE OF DEPOSIT**

Wednesday figures

Per cent per annum

**NEW YORK OFFER RATES ON SELECTED 3-MONTH INVESTMENTS**

Friday figures

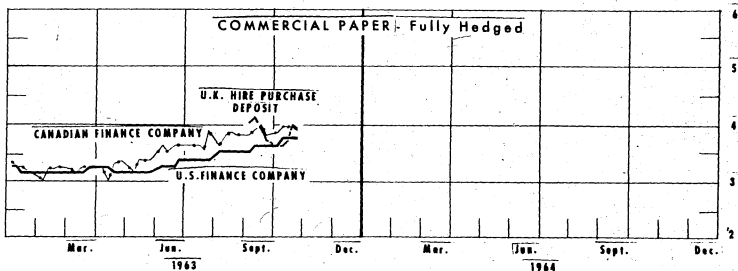
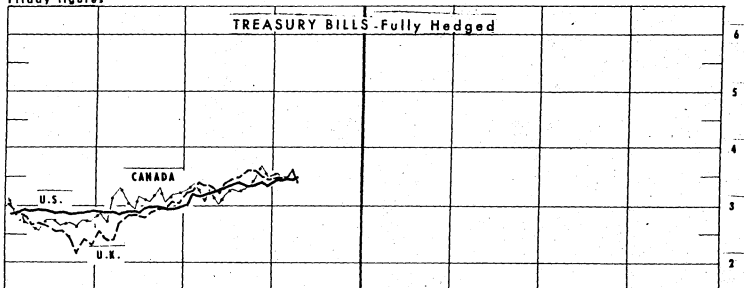


Chart 2

INTEREST ARBITRAGE, UNITED STATES / CANADA

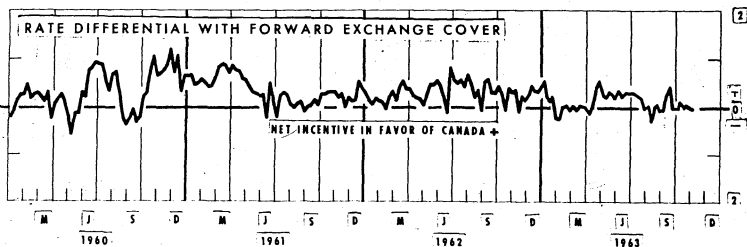
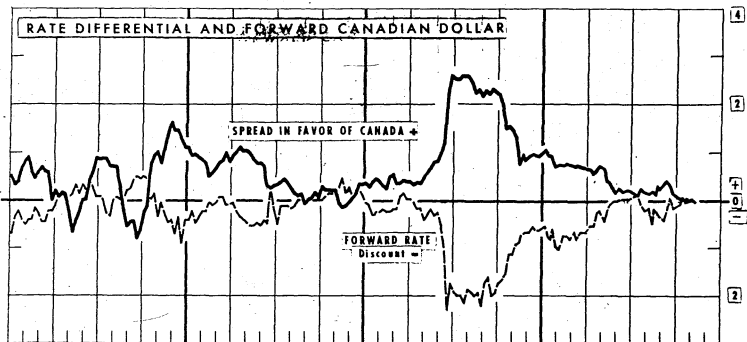
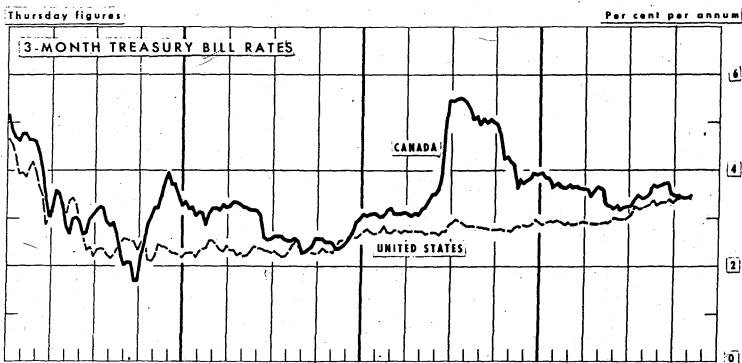


Chart 2

INTEREST ARBITRAGE, NEW YORK/LONDON

Friday figures

Per cent per annum

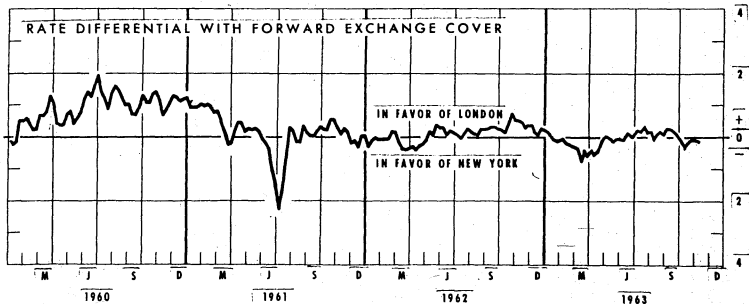
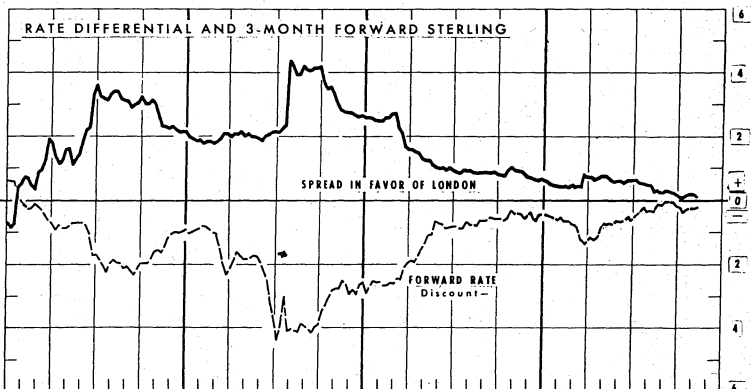
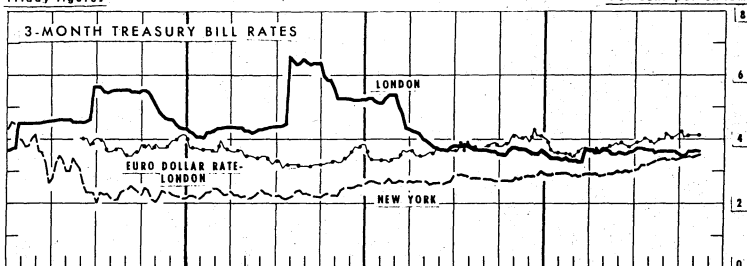
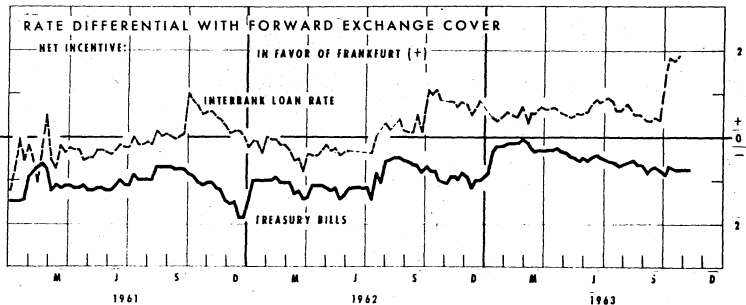
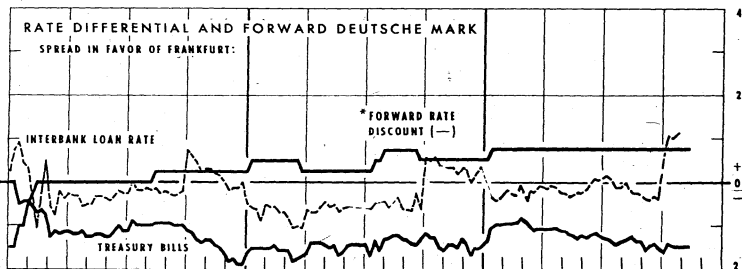
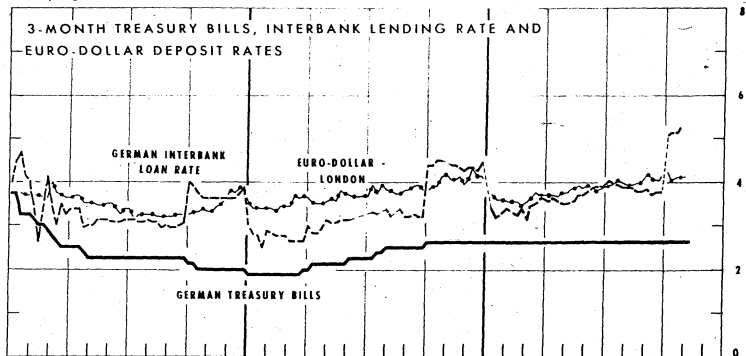


Chart 4

INTEREST ARBITRAGE FOR GERMAN COMMERCIAL BANKS

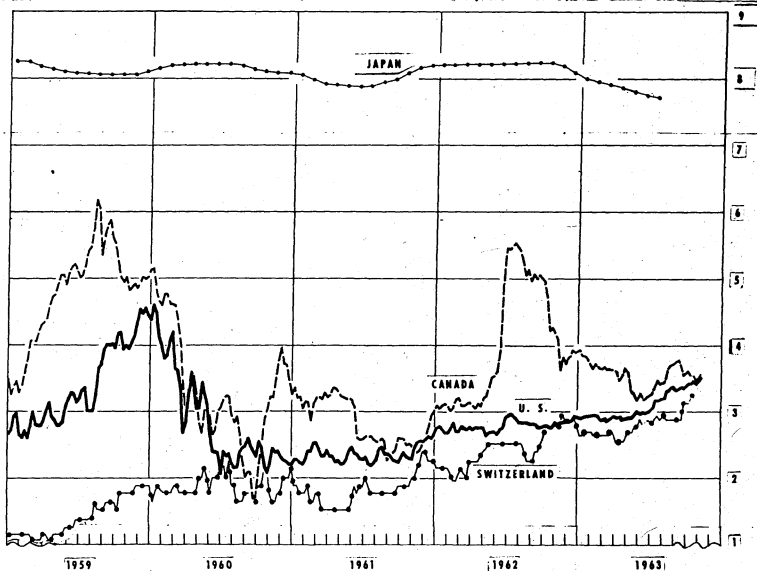
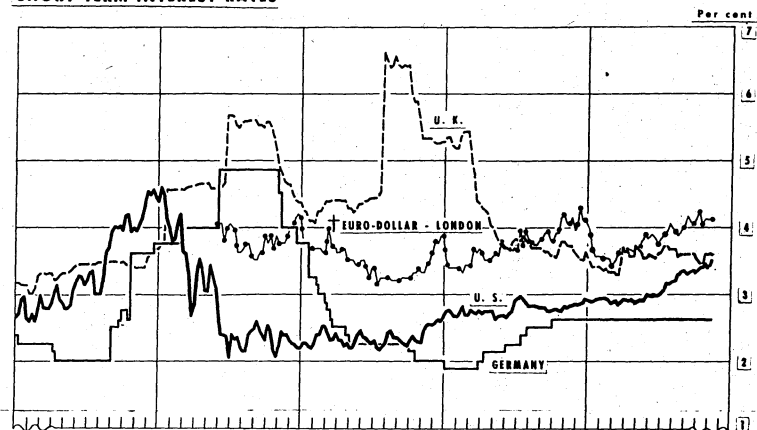
Friday figures

Per cent per annum



Note: Special forward rate available to German commercial banks

Chart 5
SHORT-TERM INTEREST RATES *



* 3-month treasury bill rates for all countries except Japan; (Average rate on bank loans and discounts) and Switzerland (3-month deposit rate)

† 3-month rate for U. S. dollar deposits in London

Chart 6

LONG-TERM BOND YIELDS

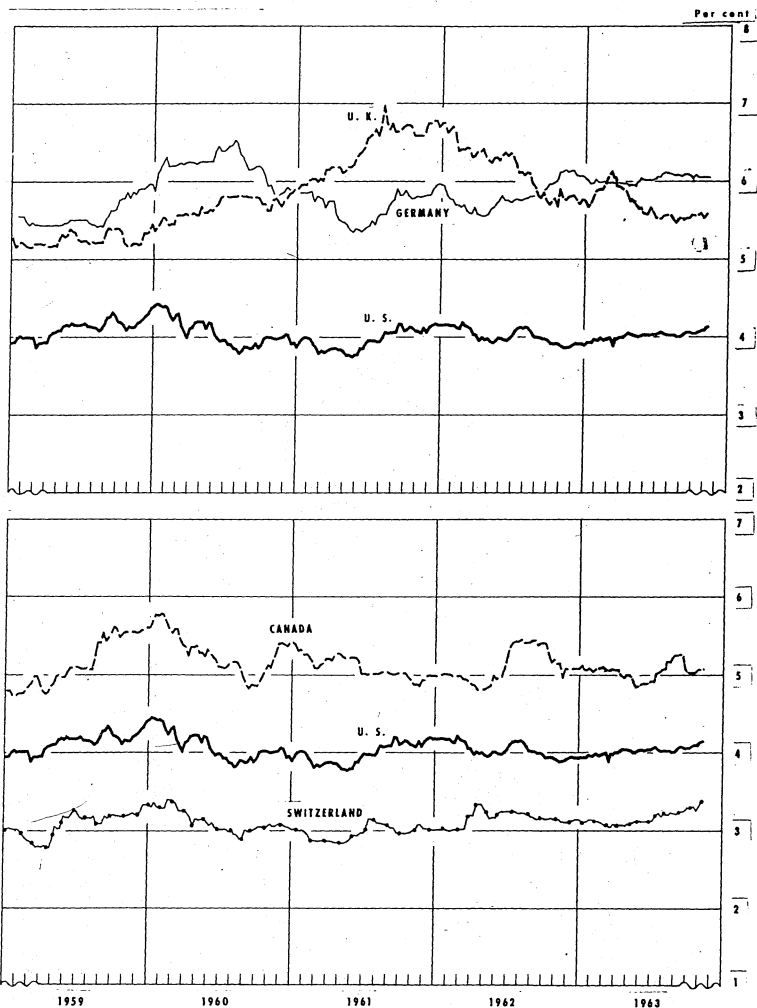
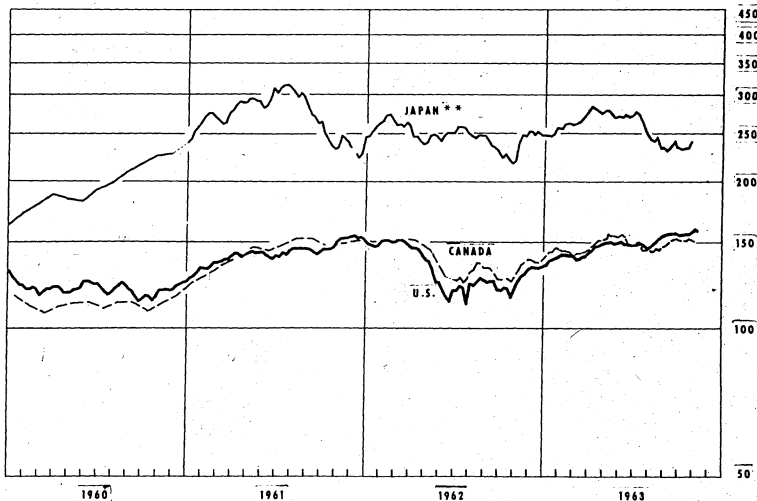
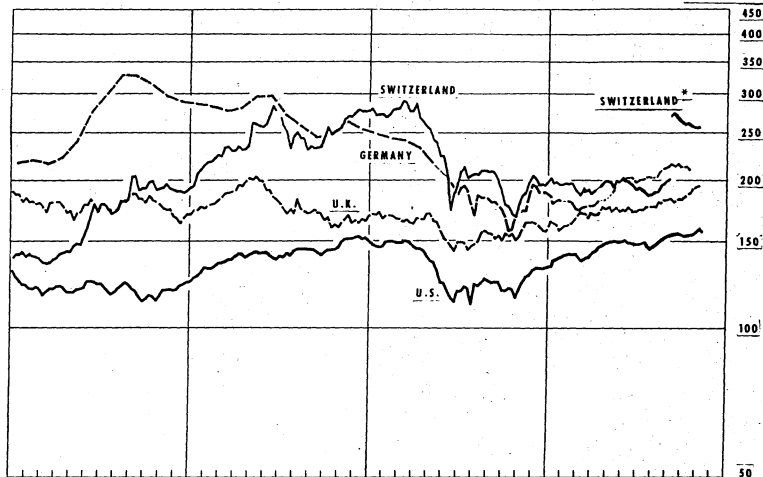


Chart 7

INDUSTRIAL STOCK INDICES

1958 = 100
Ratio scale

* New series: Swiss Bank Corporation industrial stock index.

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

Chart 8

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

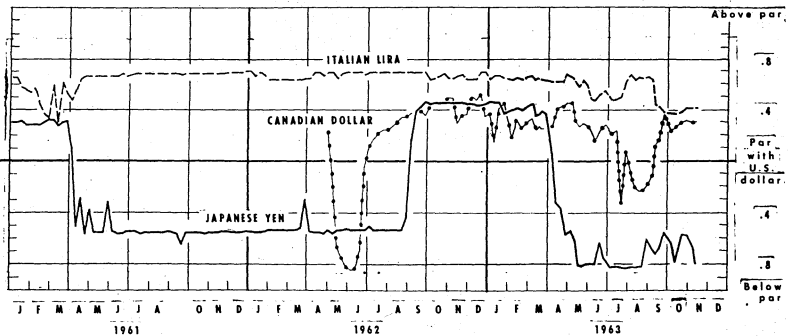
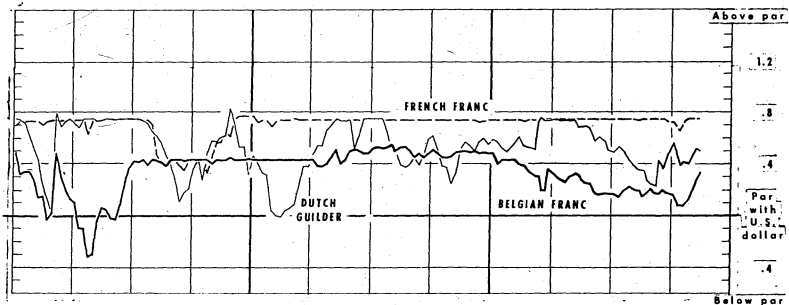
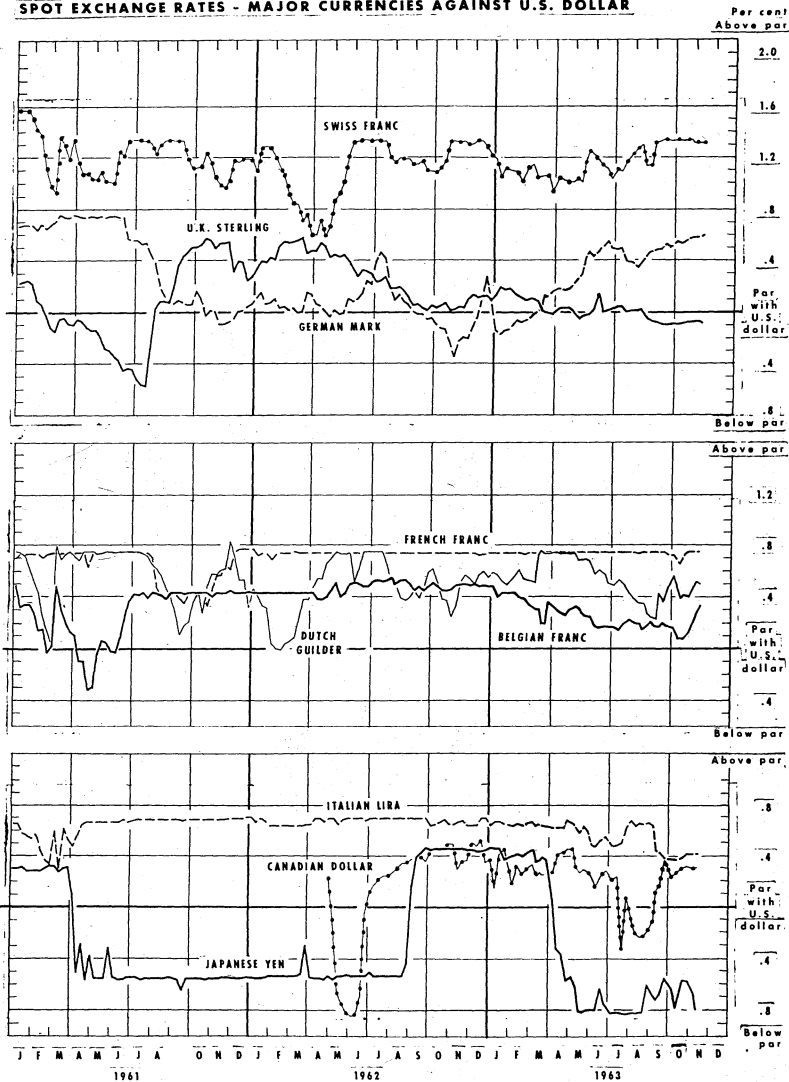
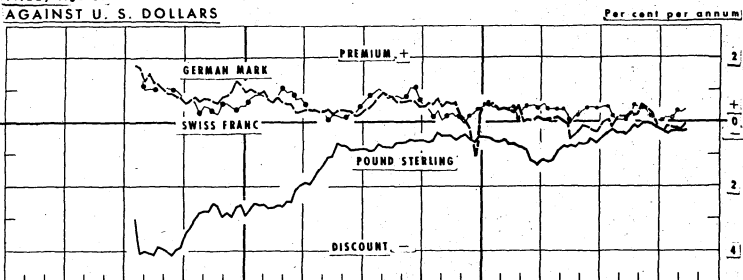


Chart 2

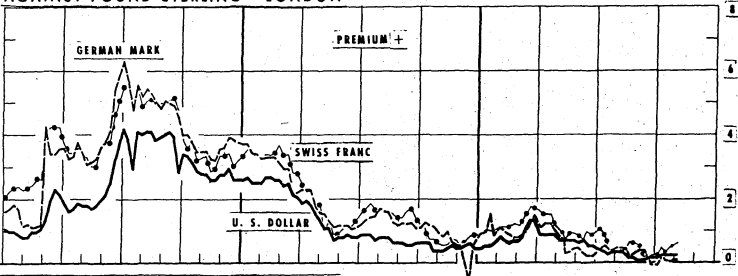
3-MONTH FORWARD EXCHANGE RATE

Friday figures

AGAINST U. S. DOLLARS



AGAINST POUND STERLING - LONDON



AGAINST POUND STERLING - LONDON

