

H. 13 2  
No. 162

August 26, 1964

CAPITAL MARKET DEVELOPMENTS ABROAD

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

I. Germany: Money and Capital Markets, July-August 1964

Conditions in German financial markets improved appreciably during July and August. In part, this better tone reflected the success of the attempts of the German authorities both to curb the inflow of foreign funds and to mop up some of the excess liquidity in the domestic market. The balance of payments, which had been in substantial surplus in June, was probably in approximate balance during July and the first half of August.

Short-term funds available to the domestic market became less plentiful because of two factors: the disappearance of large inflows of foreign exchange and the continuing incentive for private banks to place funds abroad both into U.S. Treasury bills and in the Euro-dollar market. As a result, the money market tightened further after August 1 when an increase in minimum reserve requirements became effective. Short-term money rates moved higher and call money was quoted at 3-7/8 per cent in the third week of August, or running 7/8 per cent above the discount rate. Despite this spread, however, banking circles did not expect any discount rate action on the part of the Bundesbank: this would only serve to defeat the Bank's policy of encouraging money exports.

The bond market, although seasonally quiet, has had a much improved tone since early July and it was no longer necessary for the Bundesbank to engage in support purchases of Federal issues. Yields on the 6 per cent coupon Federal bonds have stabilized at around 6.37 per cent since early July and a DM 250 million Federal Railway bond was placed without difficulty at an effective yield of 6.32 per cent. Two factors which contributed to the stabilization of the bond market were: (a) the view that the long-awaited policy measures to contain inflationary pressures have now come to an end, at least for the present; and (b) the effects of the withholding tax on bonds--so far indefinitely postponed--have now worked themselves out.

The view that the authorities are not likely to be required to act more drastically at this time also contributed to a considerable strengthening in the stock market: the stock price index (F.A.Z.) rose 4.7 per cent between the end of June and August 21, but was still about 4.8 per cent below the 1964 high recorded at the beginning of April. Hesitancy on the part of domestic investors has diminished and the German press reports that sales by foreigners--reported to take advantage of the rise in the New York market--have come to an end.

OFFICIAL USE ONLY  
(Decontrolled after six months)

Security markets in summer lull

Security markets have been seasonally quiet in recent weeks. Turnover has been small and the number of new major placements has declined. But, in contrast with last year, prices have strengthened and a number of major issues were readily placed.

The bond market quickly absorbed two major issues offered between mid-July and mid-August. A DM 50 million placement of a Swiss-based corporation (exempt from the proposed withholding tax) was issued at an effective yield of 5.88 per cent and a DM 250 million issue of the Federal Railways was placed at an effective yield of 6.32 per cent. This issue has been previously postponed because of weak market conditions. Yields of existing Federal issues, such as that of the 5-1/2 per cent Railways bond of 1958-1963, have remained steady during July and August despite the cessation of Bundesbank support purchases of Federal issues. (See Table 1.)

Table 1. Germany: Selected Financial Indicators

	March	May	June	July				August	
	30	29	26	10	17	24	31	7	14
<u>Bond Yields:</u>									
Railroad bond (1958-83)	5.84	6.27	6.39	6.30	6.33	6.24	6.34	6.33	6.33
<u>Stock Price Index:</u>									
<u>Industrials</u>									
(December 31, 1958=100)	209.22	195.40	193.57	197.92	197.50	196.31	199.19	198.50	203.03
<u>Exchange Rates:</u>									
Spot DM (U.S. cents)	25.161	25.164	25.160	25.168	25.158	25.158	25.150	25.157	25.151
Forward (% per annum)	+0.9	+0.4	+0.9	+0.8	+0.8	+0.7	+0.8	+0.6	+0.6

The stock market also improved. Between June 30 and August 21 the stock index of the F.A.Z. rose by 4.7 per cent and recovered a major portion of the loss sustained between March and June in reaction to the withdrawal of foreign funds. (See Table 2.) Confidence in business prospects and the basic strength of the market is also demonstrated by the fairly large gap between bond and stock yields: it amounted to 3.3 per cent in the second quarter and must have increased since. (See Table 10.)

Despite the postponement of some new placements, particularly of Federal issues, total placement of securities of all types increased by 31 per cent in the second quarter of 1964 as compared with the preceding year. (See Table 3.) A greater part of these funds came from domestic sources than in the preceding year, since, on balance, German residents bought domestic securities from foreigners in contrast to net sales a year earlier. Domestic funds channelled into the German capital market, either through the purchase of new securities or through transactions with foreigners amounted to about DM 6 billion in the second quarter of 1964. This was more than four times the amount forthcoming in the second quarter of 1963.

Table 2. Germany: Stock Index  
(December 31, 1958=100)

All time high:	Aug. 31, 1960	264.60	1964 high:	April 6	211.02
1963 high:	Sept. 9	194.81	low:	Jan. 2	189.08
1963 low:	Feb. 26	151.54			

1964	January	31	198.47	July	3	196.20
	February	28	202.06		10	197.92
	March	26	207.41		17	197.50
	April	30	202.81		24	196.31
	May	22	198.35		31	199.19
	June	1	194.52	August	7	198.50
		12	193.72		14	203.03
		26	193.57			

Source: Frankfurter Allgemeine Zeitung

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

	1 9 6 3			1 9 6 4				
	II	III	IV	I	II	April	May	June
"Occasional" borrowers bonds:								
Industrial	88	166	117	70	195	158	182	246
Public authorities	451	328	424	495	325	114	420	440
Foreign issuers	--	--	20	46	177	40	138	352
Other bonds 2/	153	180	172	316	138	189	111	114
Total	692	674	733	927	835	501	851	1152
Mortgage and communal bonds	578	575	672	959	668	890	479	636
Total gross bond placements 3/	1270	1249	1405	1886	1503	1391	1330	1788
Gross share placements	51	117	116	145	225	229	138	308
Total security placement at issue value	1321	1366	1521	2031	1728	1620	1438	2096

1/ Market value.

2/ Mostly bonds of specialized credit institutions.

3/ Includes medium-term notes (Kassenobligationen).

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

Money market tightening

Despite the July 9 announcement of the increase in reserve requirements effective August 1, the money market did not begin to tighten until the last week of July. Conditions were reported to be difficult in the first weeks of August. An extraordinarily large increase in currency in circulation during the mid-summer vacation period made the reserve position of the banks more difficult at the beginning of the month and heavy use was made of the discount privilege. Redeposits of some currency and large public disbursements eased the situation somewhat in mid-month.

Day-to-day money was quoted between 3 and 3-3/4 per cent and three-month money between 3-5/8 and 3-7/8 in July. (See Table 4.) Day-to-day money moved up to 3-5/8 - 3-7/8 during the difficult first two weeks in August, in contrast to the usual seasonal easing in the second week of the month and has remained at these rates through August 21. Three month money has not significantly changed from July averages.

Table 4. Germany: Money Market Rates in Frankfurt 1/  
(in per cent per annum)

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

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

Source: Deutsche Bundesbank.

External position trending toward balance in July-August

After a net deficit in April and approximate balance in May, the German balance of payments again showed a surplus of DM 343 million (\$86 million) in June. With a sharp seasonal decline in the trade balance, the June surplus was the result of large inflows of short-term funds, partly because of renewed revaluation rumors; both the short-term private capital and the "errors and omissions" categories showed strong surpluses. (See Table 5.) Even with the June inflow, however, the increase in domestic liquidity due to foreign funds was practically halted during the second quarter as a whole because of private capital outflows in April and May. The outflow of long-term capital has probably

declined in recent weeks as fewer foreign bonds have been offered in Germany and as foreign withdrawals from the German securities markets appear to have diminished.

Preliminary indications suggest that large official payments abroad and a decline of speculative inflows may again have caused the balance of payments to be in deficit in July, and in close balance through mid-August.

Table 5. Germany: Balance of Payments  
(in millions of DM)

	1 9 6 3		1 9 6 4				
	III	IV	I	II 1/	April	May	June 1/
1. Goods and Services							
Trade balance	1263	2860	2227	1944	737	738	469
Services	- 532	274	37	- 77	- 15	88	-150
Total	724	3134	2264	1867	722	826	319
2. Official Payments							
Donations	-1290	-1054	-1093	-1376	-637	-356	-383
Long-term capital	- 123	- 471	- 176	- 230	-130	- 45	- 55
Short-term capital	592	-1296	- 382	15	6	- 14	23
Total	- 821	-2821	-1651	-1591	-761	-415	-415
3. Private Capital							
Long-term	838	583	435	- 955	-247	-395	-309
Short-term 2/	206	- 453	- 618	162	41	- 87	208
Errors and omissions	209	-1399	904	582	- 35	77	500
Total	1253	- 363	721	- 211	-241	-409	439
Surplus or Deficit (-)	1156	- 50	1334	65	-280	2	343

1/ Preliminary.

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

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

#### Decline in foreign reserves in July

Foreign reserves held by the Bundesbank declined by \$110 million in July, reversing speculative inflows which had occurred in June. (See Table 6.) The major factors appear to have been large official payments abroad and some money re-exports by the commercial banks after their mid-year liquidity needs had been met. Some use was made of the special 0.25 per cent forward premium on the D-mark offered by the Bundesbank to the commercial banks for purposes of investment in U.S. Treasury Bills. These special arrangements are made for three month periods and would not permit the banks to repatriate their funds without penalty in time for the August rise in reserve requirements.

Mid-year totals show that the inflow of foreign reserves to the Bundesbank was small in the first half of 1964. Governmental measures designed to reverse the earlier inflows of capital have clearly been a success. The reserve gains in this period may be attributed principally to speculative inflows of funds in early June.

Table 6. Germany: Changes in Reserve Position  
(in millions of U.S. dollars)

	1963	1964							
	Jan.- Dec.	I	II	March	April	May	June	July <sup>1/</sup>	August 1-7 <sup>1/2</sup>
A. Bundesbank gold and foreign exchange									
Gold	164	110	128	104	107	10	11	35	8
Foreign exchange	491	-94	-84	-196	-253	-57	226	-145	15
Total	655	16	44	-92	-146	-47	237	-110	23
B. Drawing rights on IMF	35	92	54	73	- 6	- 9	69	n.a.	
C. Commercial banks foreign exchange	73	236	-71	67	88	48	-207	n.a.	
Total A through C	763	344	27	48	-64	- 8	99	n.a.	

<sup>1/</sup> Estimated.

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

#### D-mark eases.

The market for the D-mark has been quiet since early July. The rate has declined from 25.168 U.S. cents on July 10 to 25.151 cents on August 14. (See Table 7.) The passing of speculative interest and money exports by the banks after seasonal needs had been met explain the easing of the rate. With revaluation rumors quieting funds were no longer flowing in and the forward premium also declined from 1.0 per cent in early June to 0.6 per cent in mid-August.

Nevertheless, the annual report of the Association for the Protection of German Savings, which has as its membership nearly the entire banking community, came out flatly in favor of both a revaluation and a temporary invocation of par. 23 of the Foreign Trade Law which would prohibit capital imports. However, the Association was not supported in its view by its entire membership. In particular the Association of Private Banks has protested against this recommendation and is reported to be contemplating dropping its membership.

Table 7. Germany: Exchange Rate in U.S. cents per DM and  
Three Months Forward Rates in per cent per annum

		Par value		25.000	
		Upper limit		25.188	
		Lower limit		24.875	
		Spot <sup>1/</sup>	Forward <sup>2/</sup>		
				Spot <sup>1/</sup>	Forward <sup>2/</sup>
1963	Dec.	27	25.156	+0.0	
1964	Jan.	31	25.166	+0.8	1964 July 3 25.165 +1.0
	Feb.	21	25.176	+0.9	10 25.168 <sup>3/</sup> +0.8
	March	27	25.160	+0.9	17 25.158 +0.8
	April	24	25.168	+0.5	24 25.158 +0.7
	May	8	25.158	+0.5	31 25.150 +0.8
		22	25.160	+0.4	August 7 25.157 +0.6
	June	5	25.169	+0.7	14 25.151 +0.6
		19	25.168	+0.8	

<sup>1/</sup> Certified noon buying rate in New York.

<sup>2/</sup> Closing market rate in Frankfurt.

<sup>3/</sup> July 2.

Source: Federal Reserve Board.

#### Trade balance declines

The seasonally adjusted trade balance, which had already shown a small decline in June, was more than halved, to DM 300 million (\$75 million), in July. This was the result of a small decline in exports from the high June level and a continued increase in imports, which in July more than regained the April, 1964 high.

While July exports were still 9.4 per cent above July, 1963, the very spectacular export growth rates of over 15 per cent registered during the first half may be a thing of the past. In part these large increases were due to the low level of exports in the first quarter of 1963 because of the harsh winter, but in part a tapering off of the growth rates may be expected as continental stabilization programs take hold and domestic order books continue to lengthen. This would also be indicated by the fact that foreign order inflow in the second quarter was only slightly above the very high first quarter rate.

Table 8. Germany: Merchandise Trade, 1963-July 1964  
(seasonally adjusted monthly or monthly average, in DM billions)

		Exports	Imports	Industrial goods	Trade
		<u>f.o.b.</u>	<u>c.i.f.</u>	<u>Imports</u>	<u>balance</u>
1963	I	4.45	4.12	3.11	.33
	II	4.85	4.40	3.33	.45
	III	5.00	4.57	3.41	.43
	IV	5.07	4.30	3.21	.77
1964	I	5.34	3.46	3.38	.88
	II	5.41	4.71	3.50	.70
	April	5.63	5.00	3.80	.63
	May	4.91	4.15	3.04	.76
	June	5.68	4.97	3.67	.71
	July	5.44	5.14	n. a.	.30

Source: Deutsche Bundesbank.

Europe and British Commonwealth Section.

## II. Nine Charts on Financial Markets Abroad

- Chart 1 - International Money Market Yields for U.S. Dollar Investors
- Chart 2 - Interest Arbitrage, United States/Canada
- Chart 3 - Interest Arbitrage, New York/London
- Chart 4 - Interest Arbitrage for German Commercial Banks
- Chart 5 - Short-term Interest Rates
- Chart 6 - Long-term Bond Yields
- Chart 7 - Industrial Stock Indices
- Chart 8 - Spot Exchange Rates - Major Currencies Against U.S. Dollar
- Chart 9 - 3-month Forward Exchange Rates



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

		3-mo. Euro-	3-mo. inter-	Spread in favor	3-mo. U.S. \$		3-mo. Treas. bills		
		dollar de- posits London	bank loans Frankfurt		London	into Marks		U.K.	Ger.
					Comm. bank	Market			
1964-Jan.	31	4.12	3.31	+0.81	+0.75	+0.8	3.61	2.63	3.48
Feb.	28	4.12	3.38	+0.74	+0.75	+1.0	4.16	2.63	3.56
March	20	4.25	3.44	+0.81	+0.50	+0.9	4.16	2.63	3.52
	27	4.25	3.50	+0.75	+0.50	+0.9	4.16	2.63	3.52
April	10	4.25	3.56	+0.69	+0.50	+0.8	4.16	2.63	3.44
	24	4.19	3.63	+0.56	+0.50	+0.5	4.16	2.63	3.43
May	8	4.25	3.69	+0.56	+0.50	+0.5	4.16	2.63	3.47
	15	4.25	3.69	+0.56	+0.50	+0.5	4.25	2.63	3.45
	22	4.19	3.69	+0.50	+0.50	+0.4	4.25	2.63	3.45
	29	4.19	3.69	+0.50	+0.50	+0.4	4.25	2.63	3.46
June	5	4.31	3.81	+0.50	+0.50	+0.7	4.32	2.63	3.45
	12	4.38	3.75	+0.63	+0.50	+0.8	4.36	2.63	3.46
	19	4.38	3.69	+0.69	+0.50	+0.8	4.32	2.63	3.46
July	3	4.31	3.63	+0.68	+0.50	+1.0	4.34	2.63	3.46
	10	4.38	3.69	+0.69	+0.25	+0.8	4.34	2.63	3.45
	17	4.38	3.75	+0.63	+0.25	+0.8	4.44	2.63	3.39
	24	4.31	3.75	+0.56	+0.25	+0.7	4.50	2.63	3.43
	31	4.31	3.75	+0.56	+0.25	+0.8	4.50	2.63	3.44
August	7	4.19	n. a.	n. a.	+0.25	+0.6	4.50	2.63	3.47
	14	4.25	n. a.	n. a.	+0.25	+0.6	4.50	2.63	3.48

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

	Comm. bank loans	6-12 mo. deposits		Bond yields		Share Yields	Yield gap
		1/ Savings	Time 2/ Time	5-1/2% Railway	Public author- ities 3/4		
1963-August	7.50	3.50	2.75	6.09	6.1	3.09	3.0
September	7.50	3.50	2.75	6.09	6.1	3.08	3.0
October	7.50	3.50	2.75	6.07	6.1	3.17	2.9
November	7.50	3.50	2.75	6.04	6.0	3.26	2.7
December	7.50	3.50	2.75	6.03	6.0	3.16	2.8
1964-January	7.50	3.50	2.75	5.93	5.9	3.01	2.9
February	7.50	3.50	2.75	5.80	5.9	2.93	3.0
March	7.50	3.50	2.75	5.88	6.0	2.83	3.2
April	7.50	3.50	2.75	6.09	6.2	2.88	3.3
May	7.50	3.50	2.75	6.23	6.3	2.98	3.3
June	7.50	3.50	2.75	6.36	6.3	3.03	3.3
July	7.50	3.50	2.75	6.35	n. a.	n. a.	n. a.

1/ Approved credits on current account.

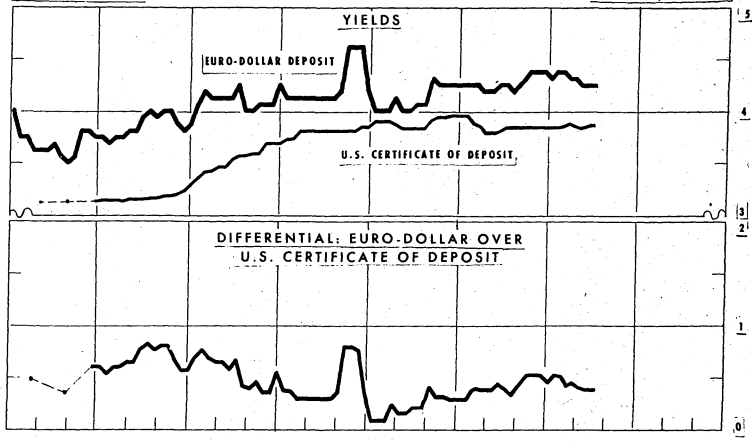
2/ Beginning on March 20, 1964, commercial banks are prohibited from making interest payments on new foreign owned time deposits.

3/ Monthly averages of end-of-week figures.

Chart 1  
**INTERNATIONAL MONEY MARKET YIELDS FOR U.S. DOLLAR INVESTORS**

**3-MONTH EURO-DOLLAR DEPOSIT VS. CERTIFICATE OF DEPOSIT**

Wednesday figures (Per cent per annum)



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

Friday figures

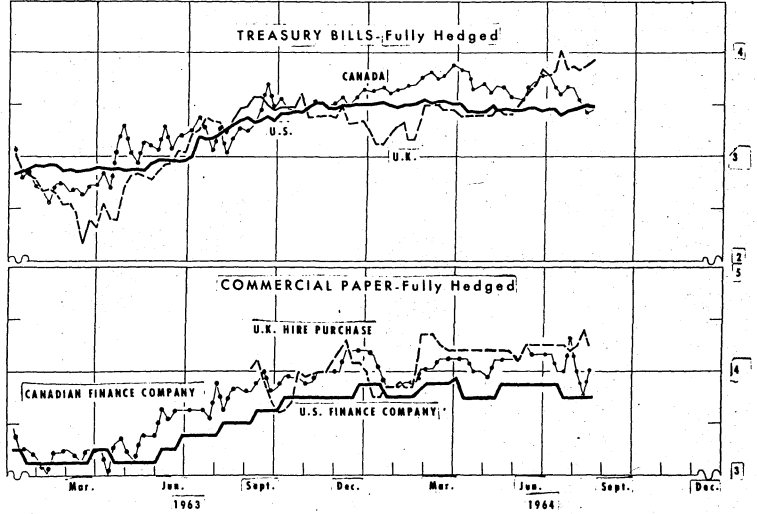
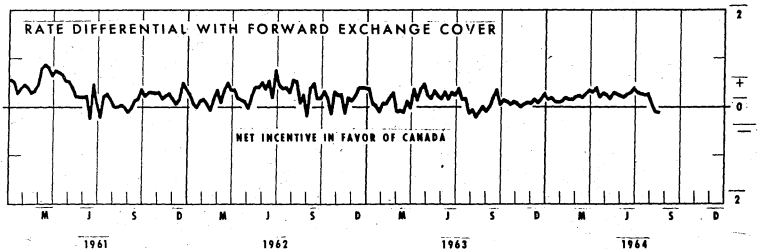
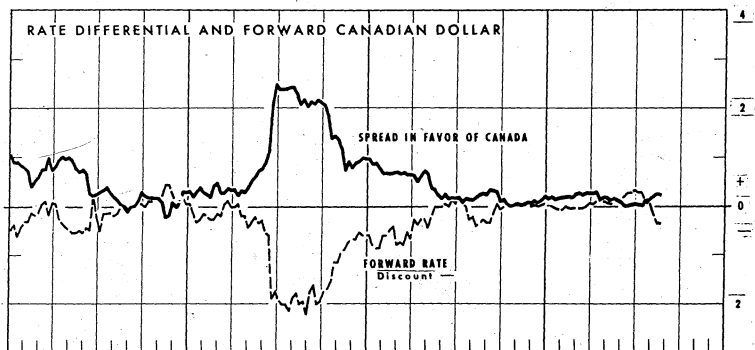
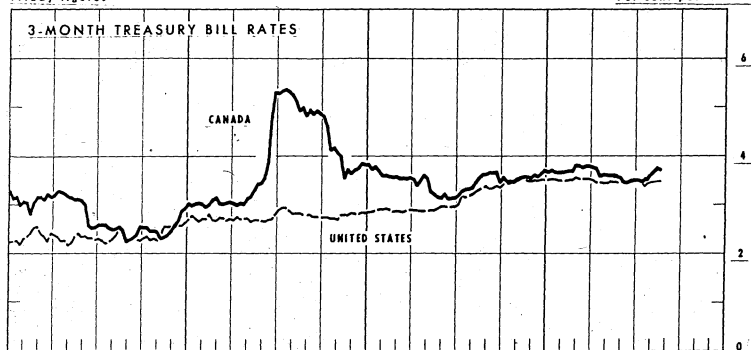


Chart 2

**INTEREST ARBITRAGE, UNITED STATES / CANADA**

Friday figures\*

Per cent per annum



\* Thursday figures 1961-1962, Friday thereafter.

Chart 3  
**INTEREST ARBITRAGE, NEW YORK/LONDON**

Friday figures

Per cent per annum

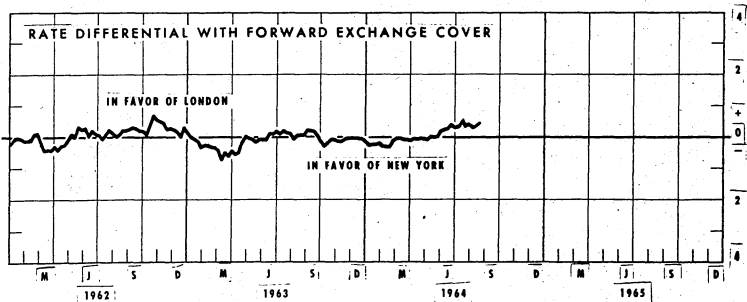
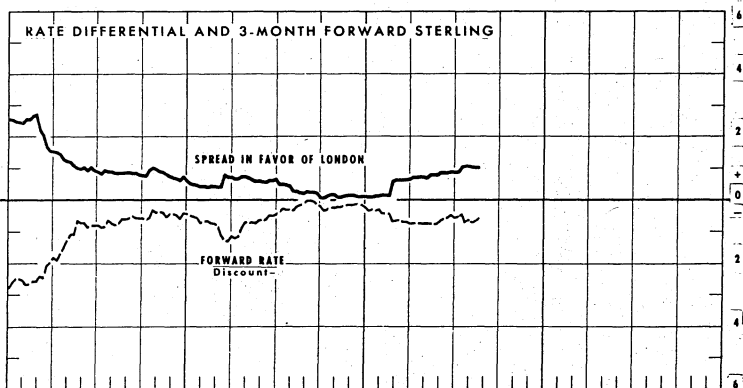
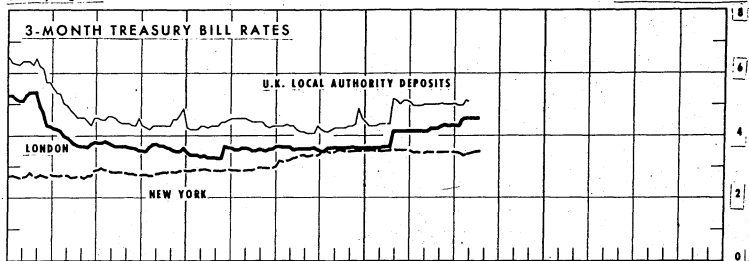


Chart 4  
INTEREST ARBITRAGE FOR GERMAN COMMERCIAL BANKS

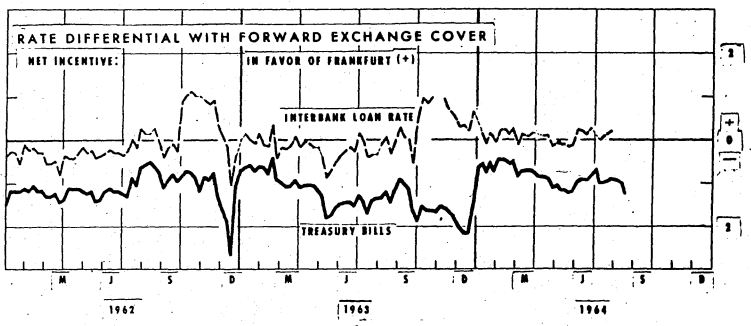
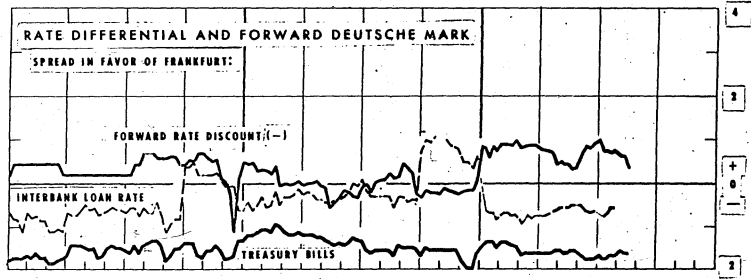
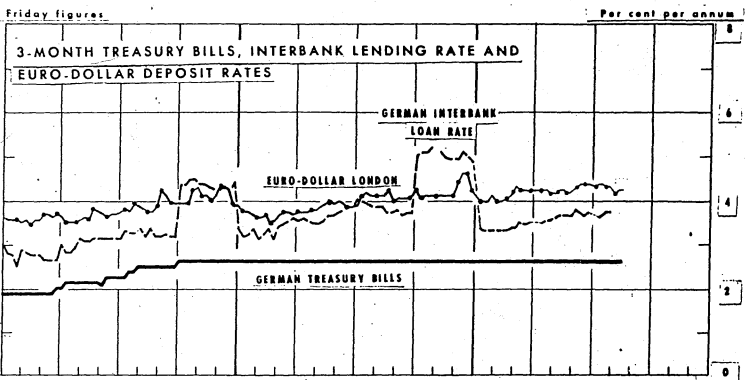
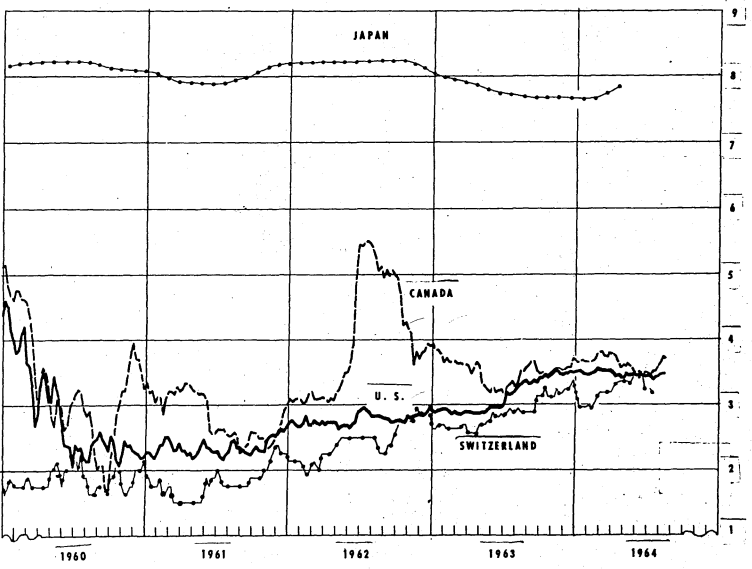
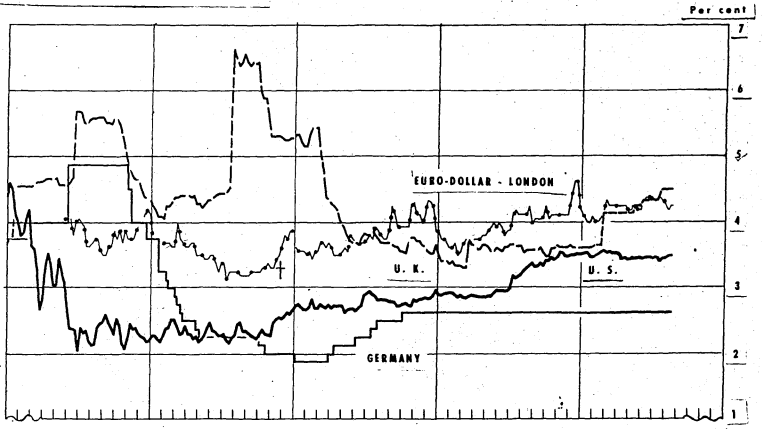


Chart 5  
SHORT-TERM INTEREST RATES \*



\* 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**

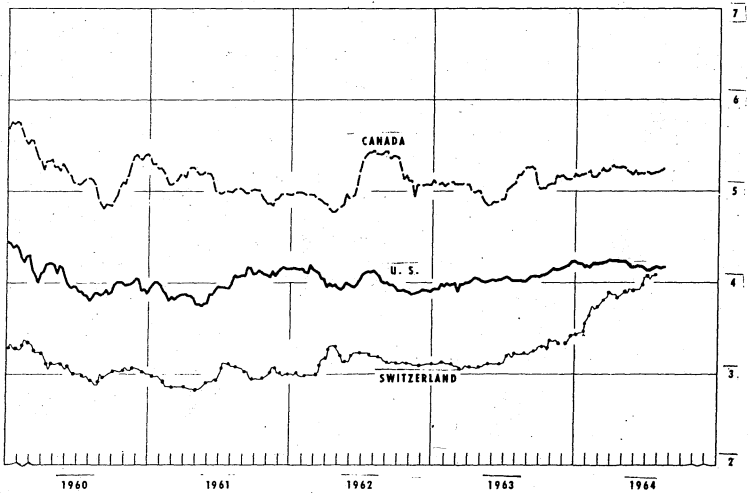
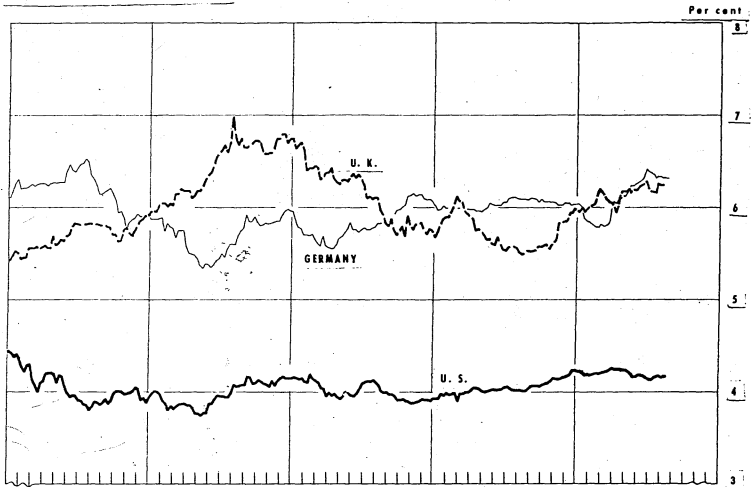
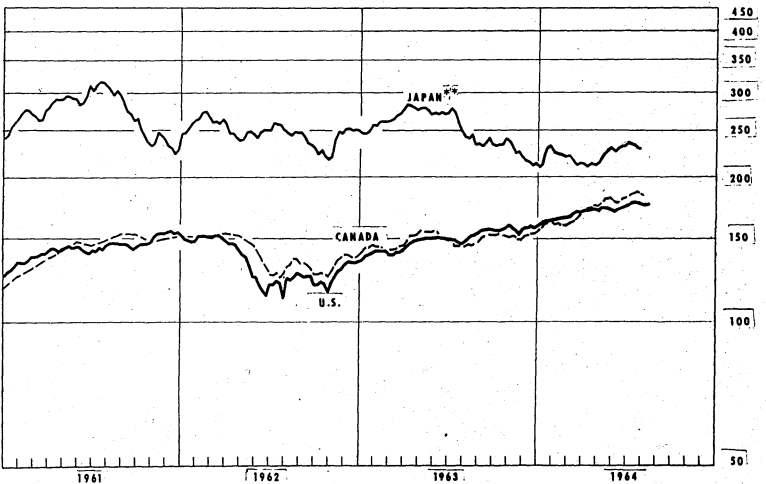
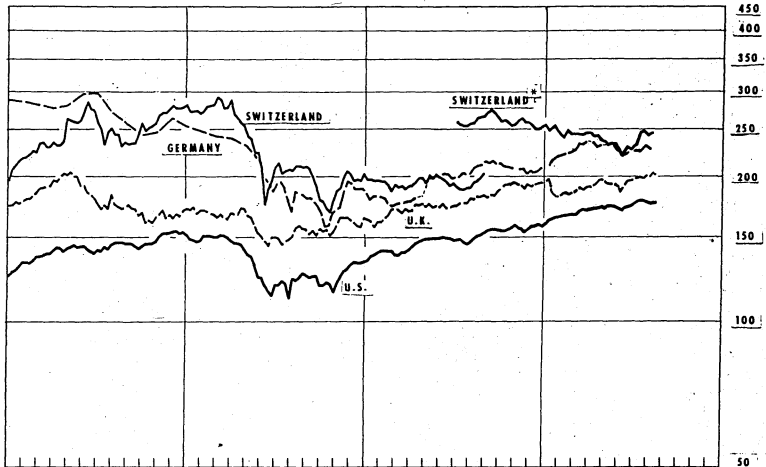


Chart 7

INDUSTRIAL STOCK INDICES

1958=100  
Ratio scale



<sup>1</sup> New series. Swiss Bank Corporation industrial stock index.

<sup>2</sup> Japan: index of 225 industrial and other stocks traded on the Tokyo exchange.



Chart 8

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

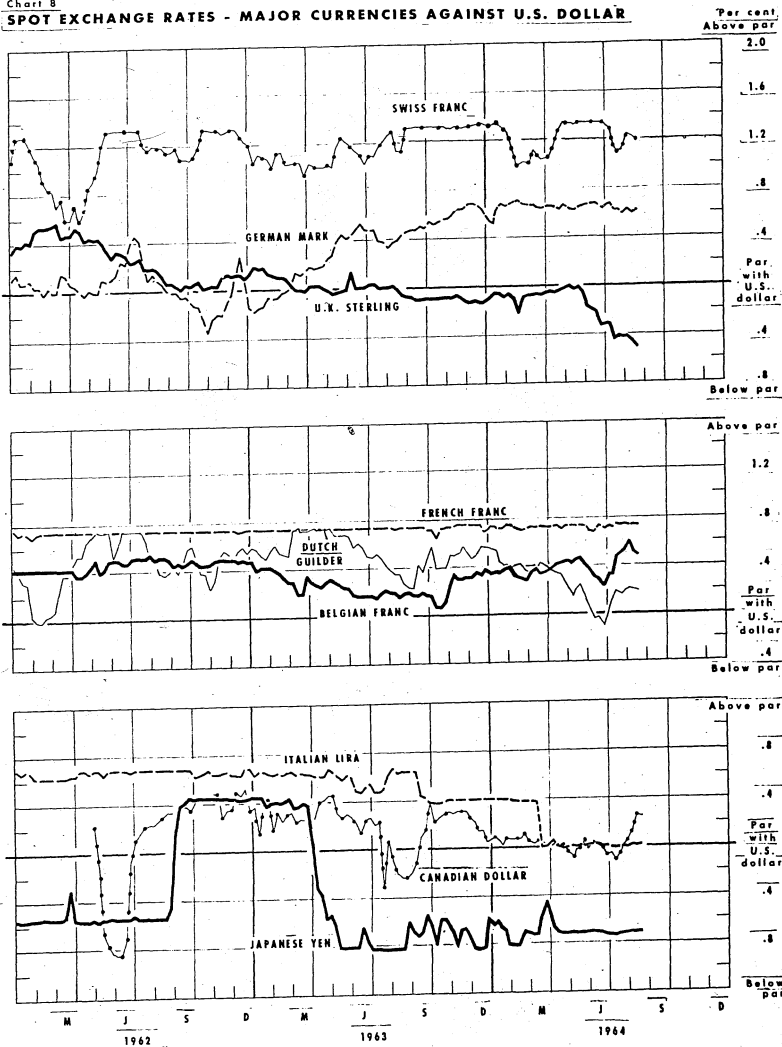


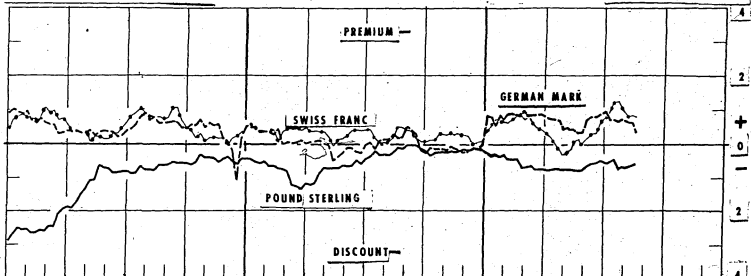
Chart 9

**3-MONTH FORWARD EXCHANGE RATE**

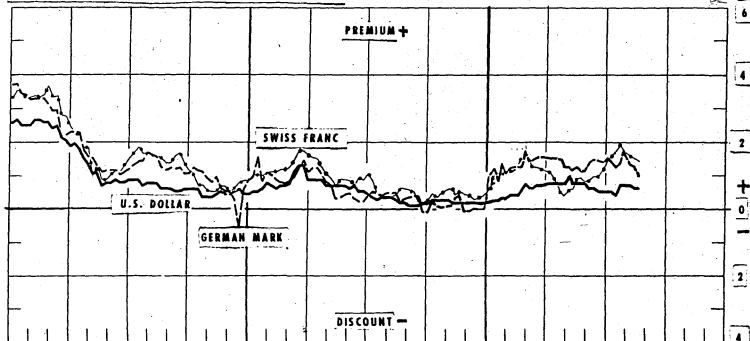
Friday figures

AGAINST U.S. DOLLARS

Per cent per annum



AGAINST POUND STERLING - LONDON



AGAINST POUND STERLING - LONDON

