DIVISION OF INTERNATIONAL FINANCE

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

H. 13
No. 183

February 17, 1965

# CAPITAL MARKET DEVELOPMENTS ABROAD



## I. France: Money and Capital Markets, July 1964 to January 1965

From July 1964 to January 1965, conditions in French money and capital markets eased somewhat from the stringencies which occurred in the second quarter.1/ Short-term rates in the money market moved down substantially; relaxation of policy measures and, toward the close of the year, heavy foreign exchange inflows associated with the shifting of funds out of sterling contributed to lower money rates. On January 28, 1965, the National Credit Council reduced minimum charges on bank loans by .15 to .25 percentage points. Yields in the bond market fluctuated narrowly at around existing levels, but the volume of new issues improved noticeably beginning in September. Stock prices rose moderately, bringing to an end 18 months of decline. Some tax relief for investors and a rise in the propensity to save (as a result of the stabilization program) contributed to a better tone in securities markets.

In June, money rates declined from the 6.18 per cent average paid for day-to-day funds in May (the highest level since September 1958) after the monetary authorities made a temporary reduction in the liquid assets ratio of the banks. The cut was restored in August; but, with increasing evidence of a levelling off of economic activity in France, reserve requirements were reduced in October and again in December. By December, call money was at 4.17 per cent. Even though the reserve requirement was restored to 36 per cent, the market remained seasonally easy in January, 1965.

The sterling crisis was apparently the main factor responsible for the $346 million increase during the fourth quarter in France's official external reserves and IMF position; of this amount, $316 million was recorded in November-December. In part, the acceleration of reserve accruals was based on a shift in leads and lags in payments with the sterling area. Reserve gains fell to $67 million in January. France's

1/ The previous review of French money and capital markets was No. 159 of this series, dated August 5, 1964.

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$150 million gold purchase in early January raised the proportion of official reserves held in gold from 73 to 76 per cent and was accompanied by forecasts of another large purchase in the near future and of the conversion of all fresh dollar accruals in 1965. On news of the impending gold purchase, turnover on the Paris gold market rose by four to five times and prices hit a post-Cuban crisis peak on January 8, but demand subsided to near normal levels in the following week.

French officials are gratified by the improved tone evident since September in the market for new bond issues, both by the volume of flotations and the speed with which new issues have been taken up. The authorities have allowed a small increase in yields on new offerings, and taxation of bond interest was lightened by the 1965 budget presented in September. Since June market yields on corporate bonds have come down 10 basis points but yields on public sector bonds have risen slightly. A reduction in taxes on dividends has helped stock prices, which moved irregularly but posted an 8 per cent gain from end-June to end-January despite the autumn dip in industrial production. This revival came after a period of 18 months during which prices declined by 30 per cent.

The securities markets may well have been aided by the increase in the savings propensity of the French public since the launching of the stabilization program. There was a much greater rise in 1964 than in 1963 in public holdings of savings and time deposits and other forms of liquid savings, despite a very large reduction in the rate of expansion of the money supply.

## Money market rates show large decline

The pronounced decline in money market rates has been an outstanding development in French financial markets since the late spring of 1964. By December, rates were a full two percentage points below the high levels attained in May. Deliberate efforts by the French authorities to bring rates down and heavy foreign exchange inflows in the fourth quarter, related to the sterling crisis, account for this shift.

Money rates soared in the spring in response to a fiscal tightening; in May day-to-day money against private paper averaged 6.18 per cent, the highest monthly average since September 1958. These high rates had two undesirable consequences. They led to a large and unwanted inflow of funds from abroad which, if continued, might disrupt the orderly expansion of credit. The high rates also came at a time when economic activity in France was levelling off. Therefore, the banks' liquid assets reserve requirement (*coefficient de trésorerie*) was temporarily cut from

36 to 33 per cent of deposits in June, and was set at 34 per cent for the July reserve accounting. (The requirement is met at the end of the month). Thereafter, rates for day-to-day money began to drop in June, and in July they averaged 4.77 per cent, down 1-1/2 percentage points from May. (See Table 1). Although the reserve ratio of 36 per cent was restored in August, the market did not tighten (partly because of a seasonal decrease in banks' rediscounting needs) until the very end of September, when the rate reached 5-1/2 per cent.

Toward the end of each month in the period June-September, the Bank of France acted to take pressure off by the market by greatly stepping up its open market operations. This accommodation consisted of purchases of paper toward the end of the month, and of subsequent resale when the market ease in the early part of the following month.

Table 1. France: Day-to-Day Money Rates, 1964-65
(against private paper; in per cent per annum)

| | Monthly Average | Monthly High | Monthly Low |
|---|---|---|---|
| 1964 - January | 4.13 | 5.25 | 3.00 |
| February | 4.33 | 6.00 | 3.50 |
| March | 5.04 | 6.25 | 4.00 |
| April | 5.05 | 6.50 | 4.13 |
| May | 6.18 | 6.50 | 5.25 |
| June | 4.86 | 6.50 | 3.88 |
| July | 4.77 | 5.38 | 4.13 |
| August | 4.72 | 5.38 | 4.00 |
| September | 4.75 | 5.50 | 4.13 |
| October | 4.36 | 5.50 | 3.88 |
| November | 4.15 | 4.63 | 3.25 |
| December | 4.17 | 5.50 | 4.00 |
| | | Daily Range | |
| 1964 - December 17 | | 3.88 - 4.00 | |
| 24 | | 3.75 - 4.00 | |
| 31 | | 5.50 | |
| 1965 - January 14 | | 3.25 - 4.00 | |
| 21 | | 3.00 - 3.75 | |
| 28 | | 4.00 - 4.25 | |
| February 4 | | 4.38 - 4.50 | |

Source: INSEE and Bank of France.

In October, economic activity in France began to turn downward. The authorities also expected that the money market would tighten again in the fourth quarter because of a seasonal decline in Bank of France credit to the Treasury and a seasonal rise in the note circulation. Consequently, the banks' reserve ratio was lowered to 34 per cent for October-November and, later, to 33 per cent for December.

The reductions in the liquid assets reserve ratio eased money market rates because the banks were able to avoid rediscounting at the stiff penalty rates they had paid in the spring. Part of the banks' portfolio of medium-term, grain, and export bills held to meet the reserve requirement was freed by the cuts in the reserve ratio. Because rediscounts of these instruments are not subject to any ceilings, the banks substituted them for rediscounts of ordinary short-term domestic bills which bear penalty rates when they exceed ceilings imposed by the Bank of France. The large-scale modifications of banks' rediscounts in response to changes in the liquid assets reserve ratio are strikingly revealed by the details which the Bank of France began to include in its statements in 1964. As shown in Table 2, the proportion of total Bank of France credit to the banks made up of rediscounts of ordinary short-term domestic bills was slashed sharply in June, rose between June and early October, declined in the last quarter, and rose again in January 1965.

During the fourth quarter, the effects of the reserve ratio reductions were supplemented by a sharp pick-up in foreign exchange inflows, largely associated with speculation against the pound sterling. The monthly average of rates for day-to-day money against private paper dropped from 4.75 per cent in September to 4.17 per cent in December although on December 31, the only day of tension, the rate reached 5-1/2 per cent. An increase of 1.22 billion francs in Bank of France net foreign assets between October 29 and December 31 partly offset the drain on bank liquidity caused by the big year-end bulge in the note circulation. (See Table 3). Even though the banks had to increase their total recourse to Bank of France credit, the further shift in the composition of rediscounts prevented any increase in credit subject to ceilings.

The authorities restored the liquid assets reserve requirement to 36 per cent in January when a return flow of notes to the banks and greater calls on central bank credit by the Treasury reduce the banks' rediscount requirements. As a result of these influences, money market rates did not exceed 4-1/2 per cent at the end of January. In fact, banks could not reduce their rediscounts rapidly enough because of insufficient paper reaching maturity; consequently, market rates were at times well under the Bank of France's 4 per cent basic discount rate.

Table 2. France: Bank of France Credit to Commercial Banks, 1963-65[1/]
(In billions of francs)

| | (1) Total | (2) Subject to ceilings | (3) Outside ceilings[2/] | (4) 2 as % of 1 |
|---|---|---|---|---|
| 1963 - December 31 | 15.86 | 7.03 | 8.33 | 44.3 |
| 1964 - May 28 | 16.43 | 8.30 | 8.13 | 50.5 |
| June 25 | 15.08 | 6.36 | 8.72 | 42.2 |
| October 1 | 14.90 | 6.57 | 8.33 | 44.1 |
| December 31 | 16.37 | 6.17 | 10.19 | 37.7 |
| 1965 - January 28 | 13.75 | 5.47 | 8.29 | 39.8 |

1/ The figures are the best approximations obtainable from the balance sheet of the Bank of France, and agree very closely with end-of-quarter data published by the Conseil National du Crédit.
2/ Medium-term, grain, export and open-market paper.
Sources: Bank of France balance sheet and Conseil National du Crédit quarterly reports.

Table 3. France: Determinants of Bank of France Credit to Banks, 1963-65
(In billions of francs)

Effect on banks' need for Bank of France credit[1/]

| | Selected Bank of France accounts: Net foreign assets | Claims on Treasury | Special construction loans[3/] | Note circulation | Misc. factors[2/] | Total = Bk. of Fr. credit to banks |
|---|---|---|---|---|---|---|
| 1964 - Mar. 26 | -25.14 | -12.09 | -3.73 | 54.28 | 1.80 | 15.14 |
| May 28 | -26.11 | - 9.30 | -4.21 | 54.55 | 1.50 | 16.43 |
| June 25 | -26.63 | -12.21 | -5.02 | 57.12 | 1.43 | 15.08 |
| July 30 | -26.87 | -12.77 | -3.73 | 58.49 | 1.55 | 16.67 |
| Oct. 1 | -27.14 | -11.75 | -5.54 | 57.90 | 1.44 | 14.90 |
| Oct. 29 | -27.30 | - 9.08 | -6.87 | 57.02 | 1.74 | 15.52 |
| Dec. 31 | -28.52 | - 9.94 | -6.82 | 59.54 | 2.10 | 16.37 |
| 1965 - Jan. 28 | -28.98 | -12.69 | -4.67 | 58.04 | 2.06 | 13.75 |

1/ A negative figure indicates that the effect is to reduce the need for credit.
2/ Principally circulation of Treasury coins.
3/ Rediscounts of paper representing the bulk of the construction loans made by the Crédit Foncier de France and its subsidiary, the Sous-Comptoir des Entrepreneurs.
Source: Bank of France balance sheet.

At the auctions for "free investment" Treasury bills--whose importance is distinctly overshadowed by that of the market for day-to-day funds--rates rose from the 3.34-3.41 per cent range in June to 3.50-3.61 per cent in July and most of August in response to a seasonal rise in offerings. As the Treasury reduced its calls for funds in the ensuing months, the rate dropped to as low as 3.23 per cent in late November and early December. The volume of bills offered was increased in December and again in January, but after rising to 3.50 per cent on January 4 the rate fell back to 3.38 per cent at the January 25 auction.

On January 28, 1965 the National Credit Council reduced minimum interest rates charged by banks. The reductions were from 4.15 to 4 per cent on commercial bills; from 4.65 to 4.40 per cent on rediscountable short-run financial bills; and from 6.25 to 6 per cent on medium-term equipment credits.

Foreign exchange inflows are heavy in November-December

The inflow of foreign exchange into France became extremely large in November-December; the flow subsided in January of this year but has still remained relatively high. These accruals reflected a small improvement in France's trade balance and speculation against the pound sterling.

The increase in official gross and commercial bank net foreign assets declined seasonally from $237 million in the second quarter to $178 million in the third. In the fourth quarter, France's official gold and foreign exchange reserves and IMF gold tranche position, taken together, rose $346 million, of which $316 million occurred in November-December. (See Table 4). This was a larger increase than in any of the previous four quarters. However, two important qualifying observations must be made. First, France purchased $63 million of gold from the IMF in December in connection with the United Kingdom Fund drawing; but there was no compensating drop in French foreign exchange holdings because the UK left $63 million equivalent of francs on deposit with the Bank of France. Second, it is not possible to measure the improvement in France's over-all external position in the fourth quarter in the absence of information on other monetary movements, particularly the change in the net foreign position of the commercial banks in December. In October-November, the banks' position deteriorated by $29 million.

The unadjusted deficit in France's trade with foreign currency areas (customs basis) decreased $19 million between the third and fourth quarters; it was very small in October-November but widened sharply in December. (The seasonally-adjusted deficit on total trade in the fourth quarter was $54 million less than in the third quarter, but it appears that much of this improvement was in trade with the overseas franc area which does not affect French foreign exchange flows). The major part of the

Table 4. France: Selected Official and Banking Foreign Assets, 1963-65
(in millions of dollars)

| | Official (gross) | | | | |
|---|---|---|---|---|---|
| | Official reserves (1) | IMF gold tranche (2) | Total (3) = (1+2) | Com'l banks (net) (4) | Total (5) = (3+4) |
| **Changes in period** | | | | | |
| 1963 - Qtv. IV | +135 | + 6 | +141 | -36 | +105 |
| 1964 - Qtv. I | + 20 | + 51 | + 71 | +11 | + 82 |
| II | +260 | + 45 | +305 | -68 | +237 |
| III | +125 | - 32 | + 93 | +85 | +178 |
| IV | +242 | +104 | +346 | n.a. | n.a. |
| October | + 39 | + 4 | + 43 | + 7 | + 50 |
| November | + 97 | -- | + 97 | -36 | + 61 |
| December | +106 | +100 | +206 | n.a. | n.a. |
| 1965 - January | + 67 | --1/ | + 67 | n.a. | n.a. |
| **Outstanding, end of period** | | | | | |
| 1963 - December | 4,457 | 451 | 4,908 | -348 | 4,560 |
| (of which gold) | (3,175) | | | | |
| 1964 - December | 5,105 | 619 | 5,724 | n.a. | n.a. |
| (of which gold) | (3,729) | | | | |
| 1965 - January | 5,172 | 619 1/ | 5,791 | n.a. | n.a. |
| (of which gold) | (3,913) | | | | |

1/ Estimate

acceleration in reserve increases thus appears to have stemmed from capital inflows. Reportedly, leads and lags in French payments with the sterling area shifted sharply in France's favor in November-December. In January, official reserves increased by an additional $67 million, a big drop from December but still above the average monthly gain of $51 million in combined official reserves and IMF position in the first ten months of 1964.

France participated in the $3 billion assistance operation for sterling in late November, and the United Kingdom's $1 billion drawing from the IMF on December 2 included $163 million equivalent of francs. In view of the Fund's low holdings of francs, it obtained $100 million of francs under the General Arrangements to Borrow and $63 million by selling gold to France.

Gold portion of official reserves increased

The conversion on January 8 of $150 million of France's official dollar reserves into gold drew much attention. In 1964, France tended to keep constant the proportion of total reserves held in gold; the share of gold fluctuated between 70 and 74 per cent, and was 73 per cent on December 31. The $150 million gold purchase in January raised the gold proportion to 76 per cent, and it remained atthat level at the end of the month as well. (See Table 4). According to press reports in January, France may make another substantial gold purchase (perhaps $100 or $150 million) in the near future; it was also reported that France in 1965 would probably convert into gold all of her current dollar accruals. In 1964, French dollar holdings increased $94 million.

Gold market reacts to gold purchase

In the first week of January, the gold market in Paris (as in London) reacted to speculation over the size, purpose, and possible repercussions of the well-advertized French intention to purchase gold from the United States.

In 1964, gold prices in France trended downward and showed no sharp short-run fluctuations; the price of the Napoleon 20-franc piece averaged about 41.5 francs in December compared with 42.62 francs in January 1964. The decline was in large measure probably related to expectations that the present government efforts to prevent general price increases in France would continue to be successful.1/ Immediately after the New Year, turnover and prices on the gold market began to rise when the forthcoming conversion of official dollar holdings was announced. On Friday, January 8, the price of the Napoleon reached a peak of 43.2 francs, the highest level since the Cuban crisis in October 1962. On that day, the volume of trading in coins and bars (together) was 23 million francs, apparently 4 to 5 times the normal daily average. The Bank of France is believed to have sold heavily on the market to keep the price down. After the U.S. Treasury's statement of its determination to maintain the present official gold price, turnover declined to 8.8 million francs on January 12, and the price of the Napoleon was down to 42.3 francs on January 13. However, prices have since remained somewhat above their end-of-year level, and speculation over what President de Gaulle might say about gold in his February 4 press conference helped maintain demand.

1/ The December-to-December increase in consumer prices dropped from 5.1 per cent in 1963 to 2.2 per cent in 1964. Consumer prices held steady in both November and December, 1964.

New issue market firms up

In the markets for long-term funds, market activity has picked up since the July-August slack period, at least partly in response to tax measures and slightly higher yields. The authorities have been gratified by the 2.77 billion francs of new money raised through bond flotations in the three months September-November, compared with 1.66 billion francs in the same period of 1963 (excluding the 2 billion franc Treasury issue of September 1963. (See Table 5). The absence of any Treasury borrowing in the 1964 period (with the much-reduced budget deficit) made more funds available to other borrowers. Yet the important tax-exemption features enjoyed by Treasury bonds means that, to a considerable degree, there are two separate markets for Treasury and for non-Treasury bonds. In addition to the increase in flotations, recent issues have been marketed much more quickly. For example, subscription lists to the National Railways loan in November were open one week and reportedly raised over 800 million francs (against expectations of 600 million); the previous Railways loan in December 1963 was open for two weeks and brought in 660 million francs. The good climate for bond issues continued in January, when the Crédit National borrowed 850 million francs in five days; the subscription period for the Crédit National's 700 million franc loan in April 1964 was much longer.

Table 5. France: New Public Security Issues, 1963-64
(gross new money raised; in billions of francs)

| | 1963 | | 1964 | |
|---|---|---|---|---|
| | Jan. - Aug. | Sept. - Nov. | Jan. - Aug. | Sept. - Nov. |
| 1. Bonds excluding Treasury | 4.75 | 1.66 | 4.69 | 2.77 |
| Public credit institutions | 1.75 | 0.56 | 1.96 | 1.25 |
| Nationalized enterprises | 1.41 | 0.23 | 1.42 | 0.64 |
| Other public sector | 0.79 | -- | 0.85 | -- |
| Competitive sector | 0.80 | 0.97 | 0.31 | 0.90 |
| Eur. Coal & Steel Comm. | -- | -- | 0.15 | -- |
| 2. Treasury bonds | 1.00 | 2.00 | 1.50 | -- |
| 3. Shares and partnership participations | 2.63 | 1.03 | 2.91 | 1.16 |
| Total | 8.38 | 4.69 | 9.10 | 3.93 |

Source: Conseil National du Crédit

The 5.65 per yield on the Railways loan was six basis points higher than the yield on its earlier loan, and the success of the issue was of course helped by this increase. The French Treasury (which controls the terms and amounts of new issues) seems to have concluded that a slight rise in yields on some loans was in order. In September, the 5.65 per cent yield on a 600 million franc issue by the Crédit Foncier de France was three basis points more than the yield on the Crédit Foncier's earlier offering in January of 1964. (See Table 6). In November, on the other hand, the Caisse Nationale de Crédit Agricole paid the same rate of return as on its previous loan. New features of the tax system also have helped recent bond flotations. The 1965 budget eliminated a special 3 per cent surtax on bond interest, and exempted from income tax the first 500 francs of bond interest as well as the first 500 francs of dividends.

Table 6. Yields to Maturity on New Bond Issues, 1963-64

| | 1963 | | 1964 | |
|---|---|---|---|---|
| | Jan.-Aug. | Sept.-Dec. | Jan.-Aug. | Sept.-Dec. |
| Public Sector 1/ | | | | |
| Crédit Foncier de France | 5.61 | | 5.62 | 5.65 |
| Electricité de France | 5.55 | | 5.56 | |
| Caisse Nationale de Crédit Agricole | 5.62 | 5.61 | 5.62 | 5.62 |
| Crédit National | 5.60 | | 5.56 | |
| P.T.T. (Post Office, Tel. & Tel.) | 5.60 | | 5.60 | |
| Caisse Nationale des Autoroutes | 5.58 | | 5.65 | |
| S.N.C.F. (Railways) | | 5.59 | | 5.65 |
| Gaz de France | | | 5.62 | |
| Departement de la Seine | | | 5.62 | |
| Average | 5.59 | 5.60 | 5.61 | 5.64 |
| Private Sector | | | | |
| Average on all issues of 100,000 francs or more | 5.70 | 5.68 | 5.67 | 5.68 |
| (number of issues) | (7) | (5) | (3) | (6) |

1/ Excluding Treasury bonds, on which important tax exemption features result in greatly reduced gross yields.

Source: Conseil National du Crédit

In the markets for outstanding bonds, yield movements have been mixed and not easily reconcilable with developments in the new issues market. Yields on corporates fell during the summer to levels sometimes as much as 15-25 basis points below the 6.30-6.40 range that obtained continuously in March-June. (See Table 7). The decline was probably in part seasonal; however, the ensuing rise in September failed to make up the earlier decline, and since mid-September corporate yields have generally been in a range from 6.21 to 6.24 per cent. In contrast, except for a dip in the summer, yields on public sector bonds in 1964 continued to hover around the 5.70 per cent level reached in July, and averaged 5.75 per cent in January 1965.

The markets for new issues and for outstanding bonds are not identical, because institutional purchasers are more heavily represented in the new issues market. This lack of identity often results in inconsistent

Table 7. France: Bond Yields, 1963-65

| Monthly average 1/ | Public sector 2/ | Corporates |
|---|---|---|
| 1963 - September | 5.43 | 5.97 |
| 1964 - March | 5.66 | 6.33 |
| June | 5.66 | 6.35 |
| July | 5.70 | 6.30 |
| August | 5.65 | 6.18 |
| September | 5.67 | 6.20 |
| October | 5.71 | 6.21 |
| November | 5.71 | 6.23 |
| December | 5.69 | 6.23 |
| 1965 - January | 5.75 | 6.24 |

1/ Averages of daily yields in the weeks ending in the month shown.
2/ Excludes Treasury bonds.

Source: Bank of France

yield movements, of which the best recent example is furnished by those in late 1963 and early 1964. With the further tightening of bank credit and the rise in the discount rate in the autumn of 1963, market yields rose appreciably; the yields on public sector bonds moved up more than 20 basis points from September 1963 to March 1964. (See Table 7). In contrast, yields on new issues of public sector bonds remained essentially unchanged during that period.

## Short-term liquid savings continue rapid growth

The marked upsurge in short-term liquid savings that began soon after the stabilization measures of late 1963 has continued. At the end of November 1964, outstanding short-term liquid savings (savings bank deposits, commercial bank time deposits, and Treasury bills and certificates of the Caisse Nationale de Crédit Agricole held by the public) exceeded the year-earlier level by 14.6 per cent, compared with a 11.5 per cent rise in 1963. (See Table 8). This faster growth has occurred despite the fact that the money supply increase was sharply reduced--from 14.6 per cent in 1963 to 8.2 per cent in the 12 months ending in November 1964. This development would appear to be a consequence of the upward shift in the French public's savings propensity that has been an important factor in the levelling off of economic activity in France since early 1964.

Table 8. France: Short-term Liquid Savings, 1963-64
(in billions of francs)

| | | Savings bank deposits | Treas. bills | CNCA certificates | Com'l bank time deposits | Total |
|---|---|---|---|---|---|---|
| Outstanding: | Dec. 31, 1962 | 37.85 | 26.90 | 3.81 | 13.88 | 82.44 |
| | Dec. 31, 1963 | 43.38 | 28.90 | 5.03 | 14.57 | 91.88 |
| Increase: | absolute | 5.53 | 2.00 | 1.22 | 0.69 | 9.44 |
| | percentage | 14.6 | 7.4 | 32.0 | 5.0 | 11.5 |
| Outstanding: | Nov. 30, 1963 | 41.96 | 28.77 | 5.02 | 14.49 | 90.24 |
| | Nov. 30, 1964 | 50.27 | 29.41 | 6.67 | 17.11 | 103.46 |
| Increase: | absolute | 8.31 | 0.64 | 1.65 | 2.62 | 13.22 |
| | percentage | 19.8 | 2.2 | 32.9 | 18.1 | 14.6 |

Table 9. France: Increases in Short-term Liquid Savings and Money Supply, 1963-64

| | Short-term liquid savings | Money supply (currency, demand deposits) |
|---|---|---|
| In year 1963: | | |
| absolute (billion francs) | 9.44 | 19.06 |
| percentage | 11.5 | 14.6 |
| In 12 months ending Nov. 1964: | | |
| absolute (billion francs) | 13.22 | 11.70 |
| percentage | 14.6 | 8.2 |

Stock prices rise moderately; authorities act to aid Bourse

A moderate net gain was registered by French stock prices between the end of June and the end of January 1965. Prices rose 13 per cent in July, and held this gain in August, in anticipation that the 1965 budget would provide tax relief to share owners. The budget, announced on September 16, abolished a special 6 per cent surtax on dividends and exempted the first 500 francs of dividends from income tax. But the market apparently expected more, and its disappointment came at a time when reductions in the work week at French auto plants increased public awareness of the levelling out of economic activity. Prices fell 6-1/2 per cent during September. Despite further small declines in industrial production in the autumn, stocks have since held their ground; at the end of January they were virtually at the end-September level, and up 8.3 per cent from the end of June.

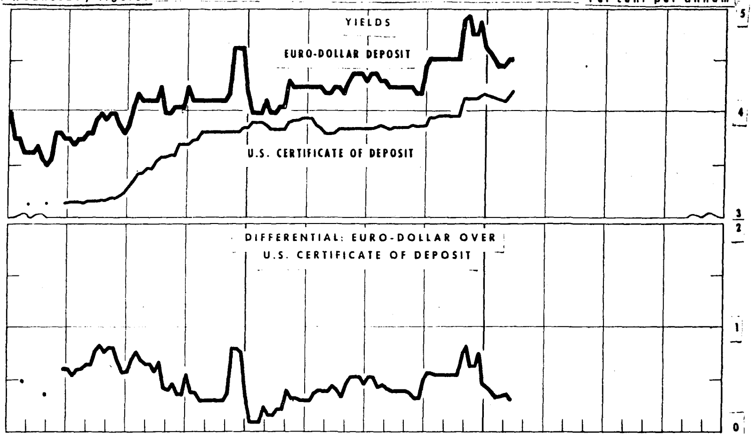
As indicated by the tax adjustments in favor of stocks, the government has been somewhat concerned over the question of confidence on the Bourse, where prices suffered a long and irregular decline of some 30 per cent over the 18-month span covering 1963 and the first half of 1964. In a more recent move to aid stock prices, on January 25 a cut of 10 percentage points in margin requirements on futures transactions was made. With this reduction, the required margins now range from 30 to 50 per cent (depending on the collateral) instead of from 40 to 60 per cent.

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

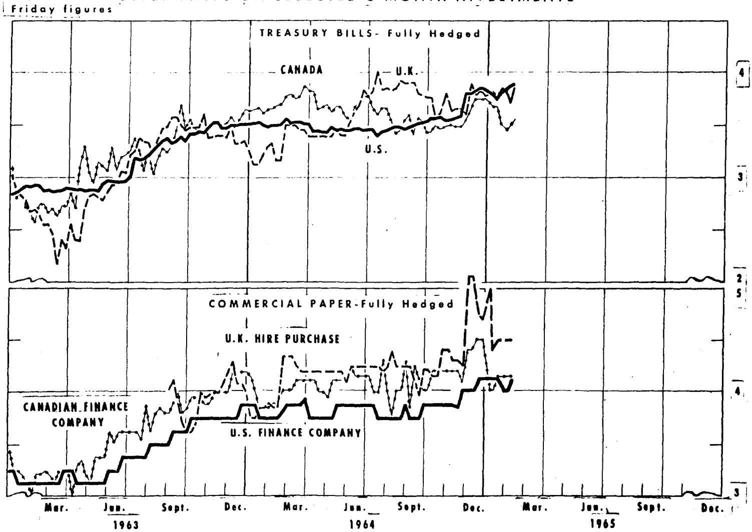


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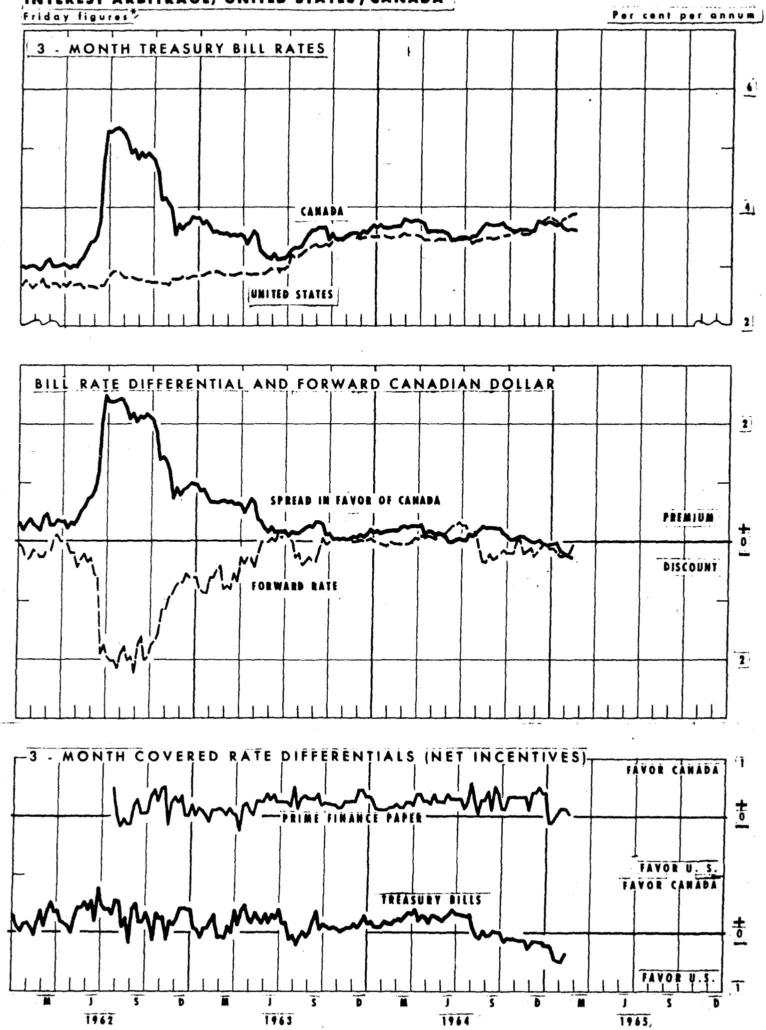
Chart 2

**INTEREST ARBITRAGE, UNITED STATES/CANADA**

Friday figures*




*(Thursday figures 1962, Friday thereafter.

Chart 3

**INTEREST ARBITRAGE, NEW YORK/LONDON**

Friday figures

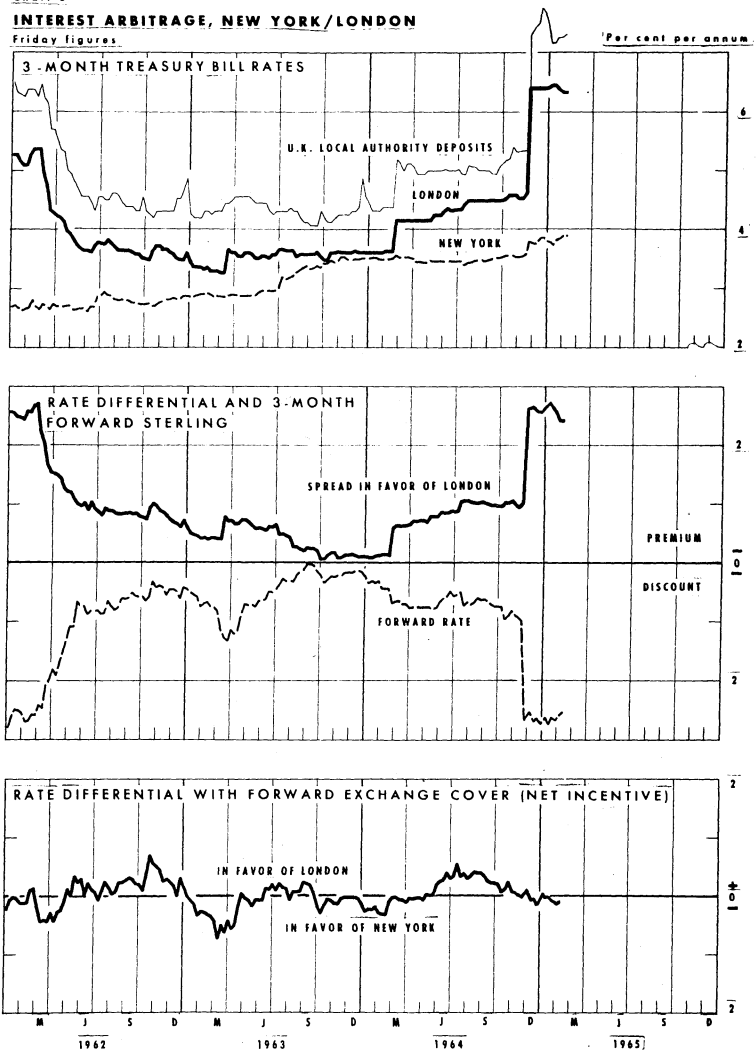


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Chart 4

**INTEREST ARBITRAGE FOR GERMAN COMMERCIAL BANKS**

Friday figures | Per cent per annum

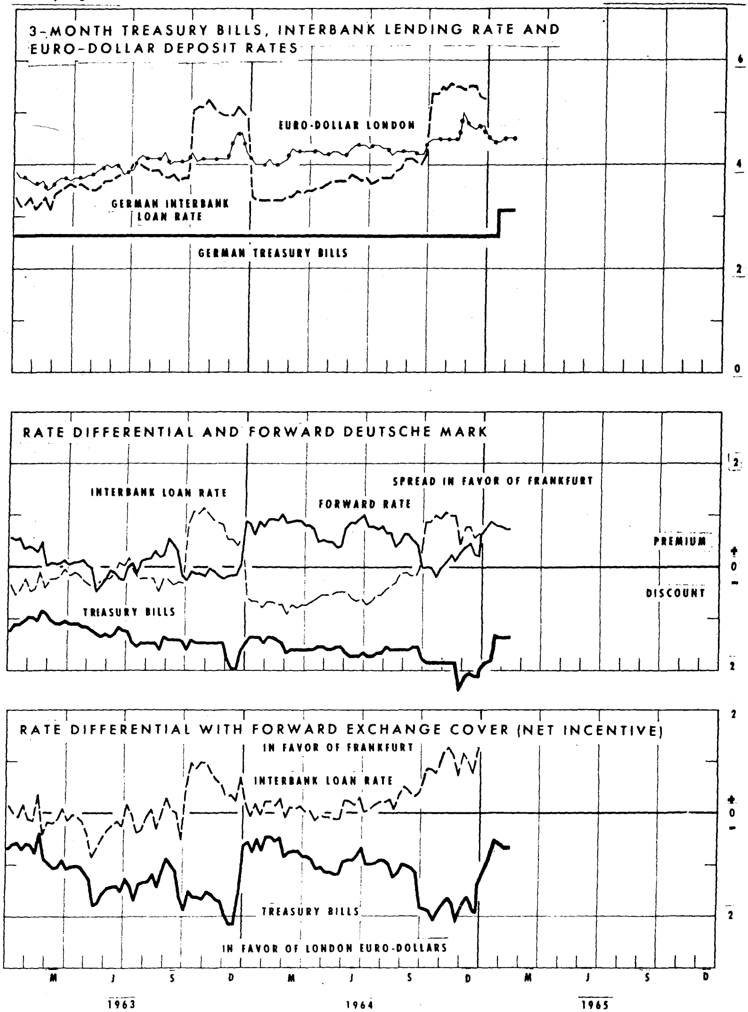
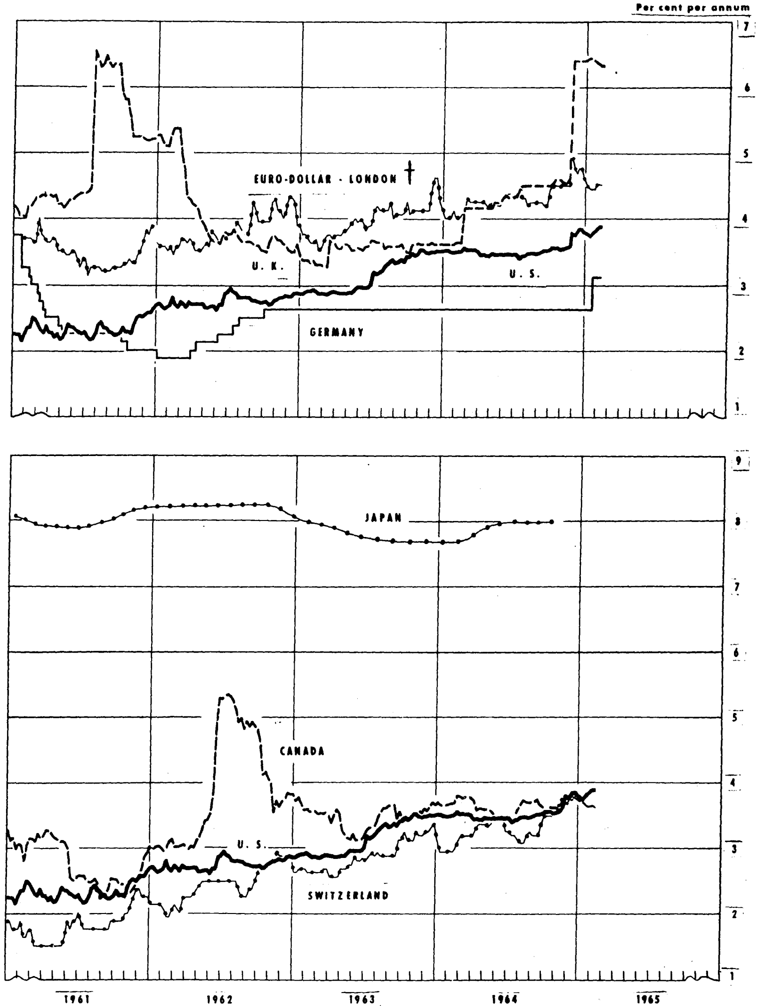


Chart 5

## 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

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Chart 6

## LONG-TERM BOND YIELDS

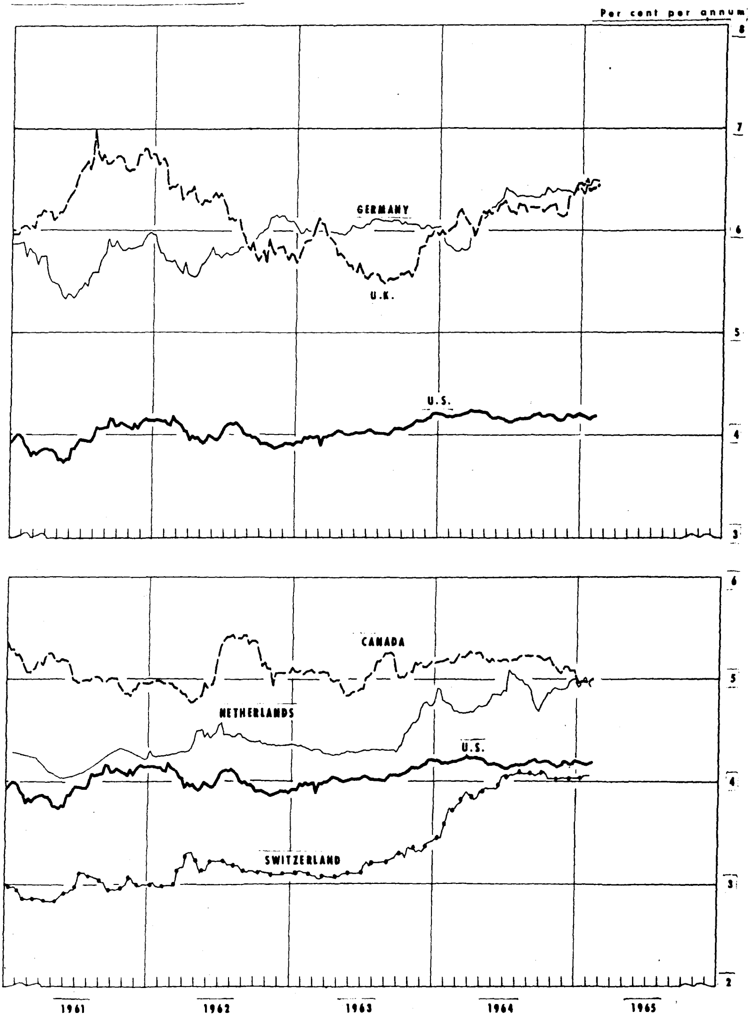
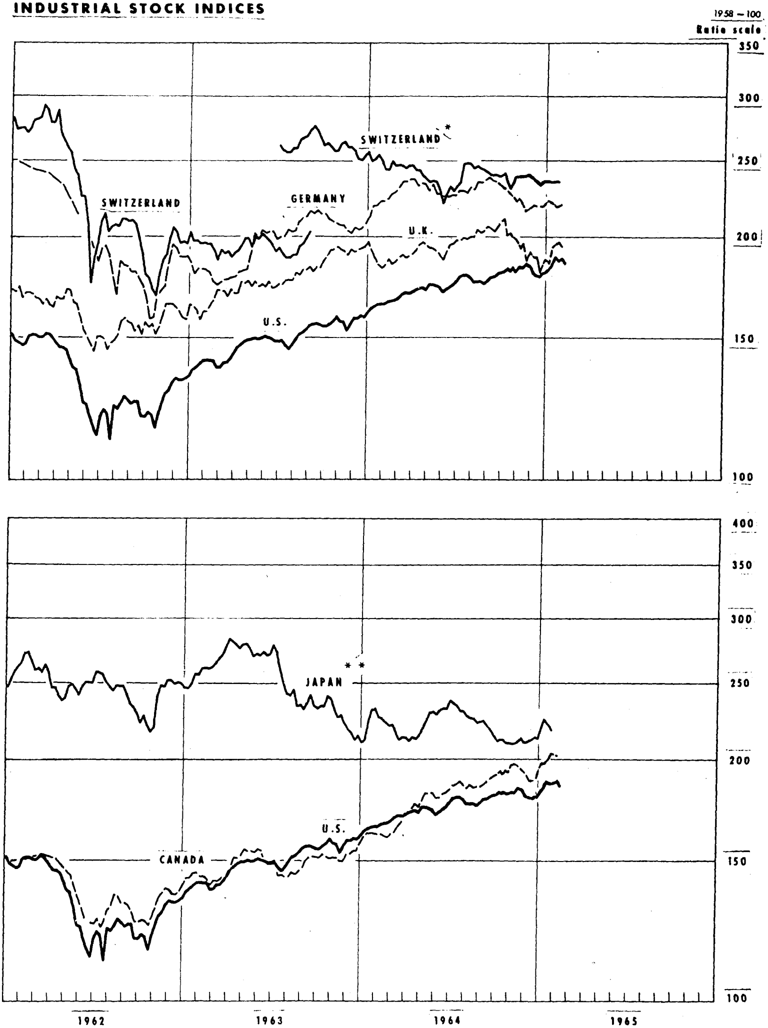


Chart 7

## INDUSTRIAL STOCK INDICES




* New series: Swiss Bank Corporation industrial stock

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

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Chart 8

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

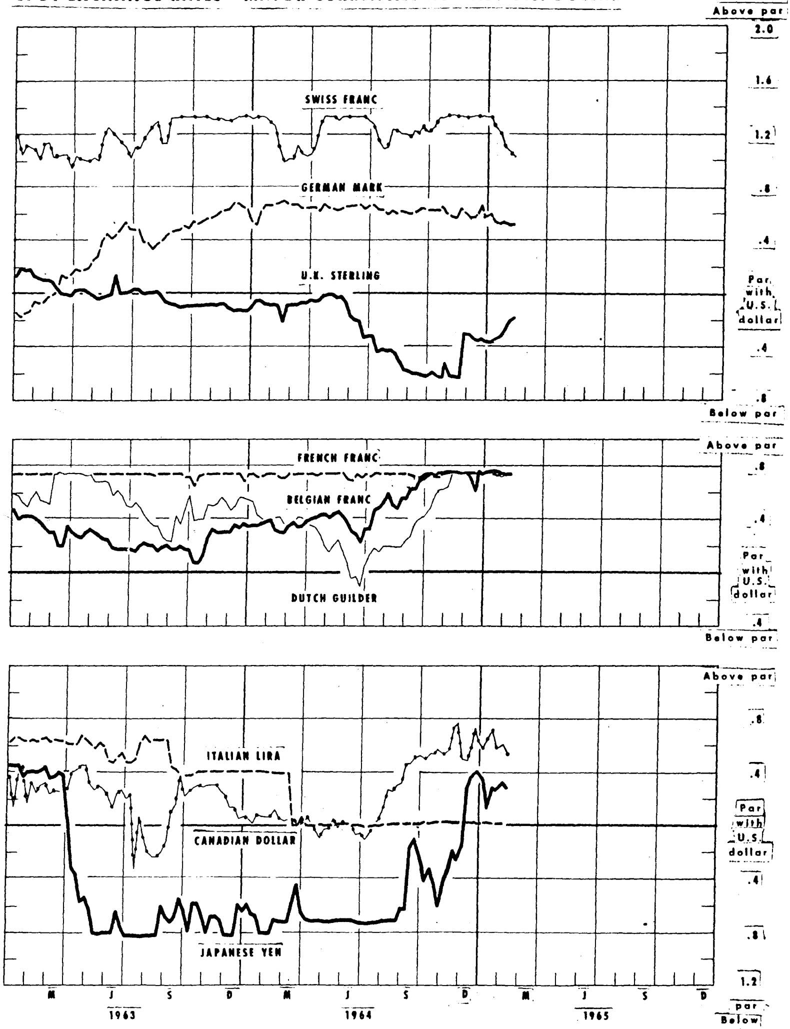
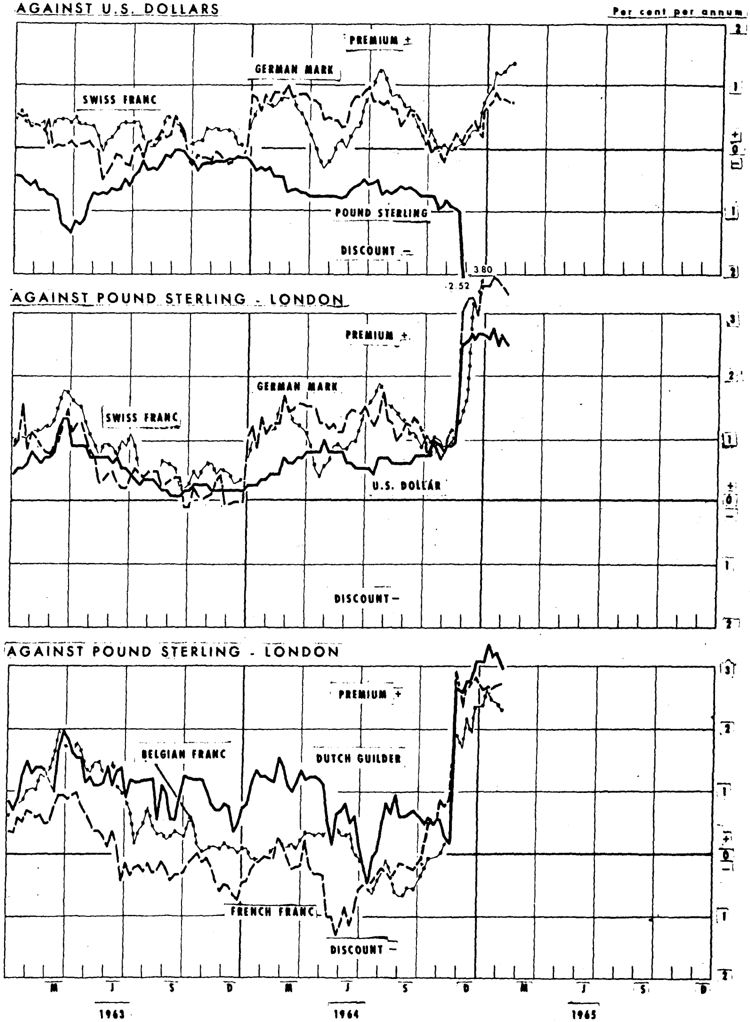


Chart 9

3-MONTH FORWARD EXCHANGE RATES

Friday figures



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## III. Latest Figures Plotted In H.13 Chart Series, 1965

| Chart 1 | Per cent per annum |
|---|---|
| **Upper panel** | |
| (Wednesday, Feb. 10) | |
| Euro-$ deposit | 4.50 |
| U.S. certif. of deposit | 4.20 |
| **Lower panels** | |
| (Thurs., Feb. 11) | |
| Treasury bills: U.S. | 3.89 |
| U.K. | 3.86 |
| Canada | 3.55 |
| Finance Co. paper: U.S. | 4.12 |
| Canada | 4.15 |
| Hire-purchase paper, U.K. | 4.50 |

| Chart 2 | |
|---|---|
| (Thurs., Feb. 11) | |
| Treasury bills: Canada | 3.61 |
| U.S. | 3.89 |
| Spread favor Canada | -0.28 |
| Forward Canadian dollar | -0.07 |
| Net incentive (Canada +) | -0.35 |

| Chart 3 | |
|---|---|
| (Thurs., Feb. 11) | |
| Treasury bills: U.K. | 6.32 |
| U.S. | 3.89 |
| Spread favor U.K. | +2.43 |
| Forward pound | -2.52 |
| Net incentive (U.K. +) | -0.09 |

| Chart 5 | Per cent per annum |
|---|---|
| (Thurs., Feb. 11, except as noted) | |
| Treasury bills: | |
| U.S. | 3.89 |
| U.K. | 6.32 |
| Germany | 3.12 |
| Canada | 3.61 |
| Swiss 3-month deposits (Date: Jan. 15) | 3.25 |
| Euro-$ deposit (London) | 4.50 |
| Japan: composite rate (Date: Oct. 30) | 7.990 |

| Chart 6 | |
|---|---|
| Bonds: | |
| U.S. govt. (Wed., Feb. 10) | 4.19 |
| U.K. war loan (Thurs., Feb. 11) | 6.44 |
| German Fed. Railway (Fri., Feb. 12) | 6.47 |
| Swiss Confederation (Fri., Feb. 5) | 4.05 |
| Canadian govt. (Wed., Feb. 10) | 5.01 |
| Netherlands government perpetual | |
| (Fri., Jan. 29) | 4.98 |
| (Fri., Feb. 5) | 4.91 |

For description and sources of data see special annex to H. 13 Number 164, September 23, 1964.