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COMMISSION DES COMMUNAUTÉS EUROPÉENNES



DIRECTION GÉNÉRALE
AFFAIRES ÉCONOMIQUES ET FINANCIÈRES

Brussels,
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MONTHLY NOTE ON THE ECU MARKETS N° 3 (NOVEMBER)

DEVELOPMENTS DURING THE MONTH

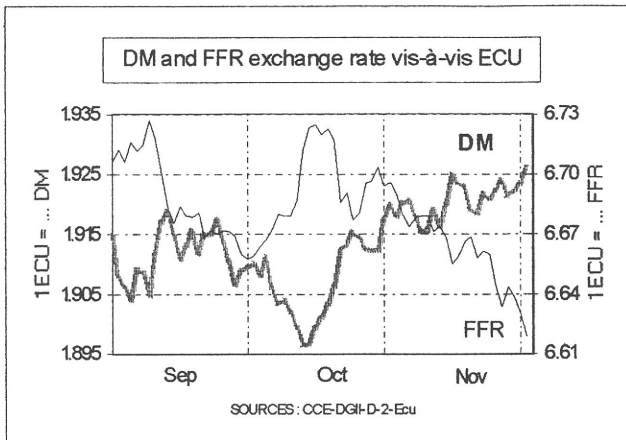
- After the boost given by the 29 October EC Summit in Brussels, **the ratification of the Maastricht Treaty on 1 November further bolstered confidence on the ecu markets.** However, the attention of operators continued to focus more on component markets conditions rather than on the prospects for Monetary Union.
- **Positive global conditions enabled the ecu to continue to perform well in November:** the ecu Basket/Market exchange rate spread narrowed to below 10 bp while the yield curve steepened. Stability within the ERM continued to improve:
for an external reason **weakness of the DM against the USD** ; on the back of better-than-expected US economic data operators showed renewed interest in the USD; worse-than-expected German economic data and a persistent expectation that the Bundesbank was set to reduce its key interest rates added further to the USD's strength vis à-vis the DM;
for internal reasons **Belgium, Danish, and Portuguese interest rate cuts** led to an appreciation of these currencies against the DM; **the French Franc** also strengthened considerably against the DM during the month.
- After the burst of issuing activity in October (ecu 4.1 bn), **only one new ecu issue** (an Italian ecu 1bn CTE, 5-year maturity, 7%), was launched in November, bringing the total amount of ecu bonds issued during the first eleven months of the year to **ecu 20.8 bn.**
- **Two new ecu Treasury bills** (ecu 1 bn of UK T-bills and ecu 600 mn of Italian BTE's) were launched successfully.

OUTLOOK

- A number of Member State Treasuries reaffirmed their commitment to pursue borrowing programmes in ecu (for instance, France, the United Kingdom, and Spain). Alongside the involvement of EU institutions in the ecu markets, this commitment **should encourage other borrowers (sovereign and private) back into the primary market.**
- **The Belgian Treasury** has confirmed that; if conditions within the ecu markets continue to improve, it will launch its OLO ecu borrowing programme early in 1994. Separately, the **EIB** is expected to return to the ecu market next year.
- **The outlook for ecu bonds is enhanced** by the expectation of further interest rate cuts in component currency sectors and of continued recovery in underlying bond markets.

1. Exchange rate evolution

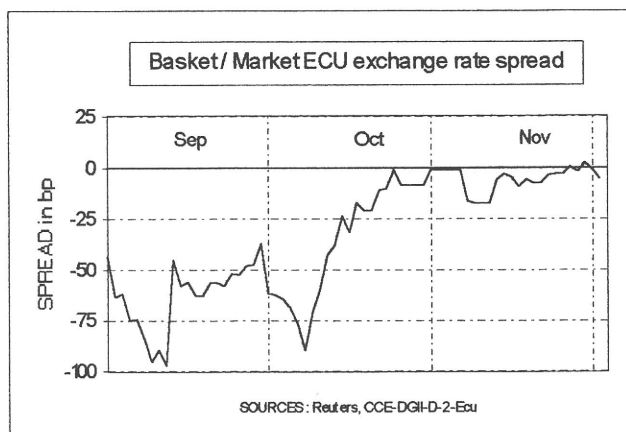
* During November, the ecu continued to appreciate against the DM (building upon the trend observed during the second half of October), moving from 1.915 to 1.92, partly due to the latter's weakness against the USD; the USD's performance strengthened on the back of better-than-expected US economic data released during the month, as well as some poor German figures, particularly concerning inflation, M3 and the government budget. The short term outlook for the DM remains largely negative vis-à-vis the USD, although imminent resistance levels will serve to slow the USD's rise to a degree.



* The appreciation of the FFR against the DM (which began following the decline in speculative flows to more normal levels during October, and which has been a reflection of underlying fundamentals in the two economies) gathered pace during November. Indeed, towards the end of the month the FFR achieved its highest level (FFR3.44/DM1) against the DM since 2 August. The ecu depreciated against the FFR throughout the month to finish close to FFR6.64, from 6.70 at the beginning of November.

2. Exchange rate spread (basket versus market rates)

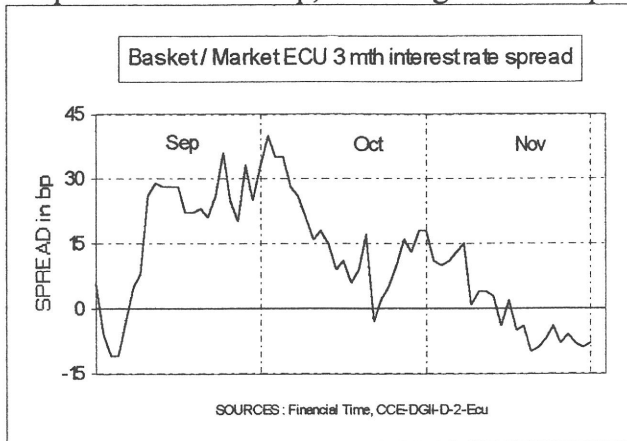
* During the last two weeks of October, immediately following the German Constitutional court's ruling on the ratification of the Maastricht Treaty and the reductions in the Bundesbank's key interest rates, the spread between ecu basket and market exchange rates returned within its "normal" range, remaining at approximately -10bp for the much of the time, before declining to -1bp at the very end of the month in response to heavy demand for new ecu bond issues.



* During November, the spread between the ecu market and basket exchange rates was very small. A number of component currencies appreciated against the DM; indeed, the FFR and BLF had moved, by the end of the month, close to their previous narrow ERM bands.

3. Three month interest rate spreads (basket versus market rates)

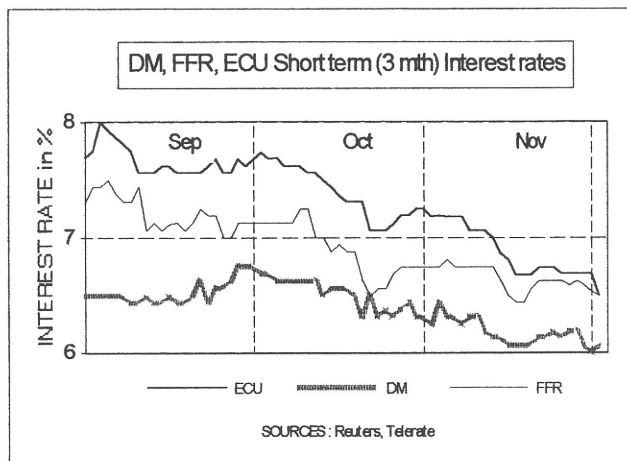
* During October, the spread between the ecu market and basket interest rate narrowed from -30bp to less than -15bp, reflecting the developments in Germany noted in the previous section.



* In November, the spread remained in the region of 10bp confirming both the positive climate within the ecu markets and the extent to which stability has been regained within the ERM.

4. Short-term interest rate evolution (3 month)

* During October, the ecu 3 month interest rate decreased, from 7.68 % to 7.19 %. The magnitude of decline was similar to the reduction in FFR and DM rates. Ecu/Dm and ecu/FFR interest rate spreads remained quite stable through most of October around an average of 85bp and 48bp, respectively, before narrowing towards the end of the month to 75 and 44 bp, respectively.

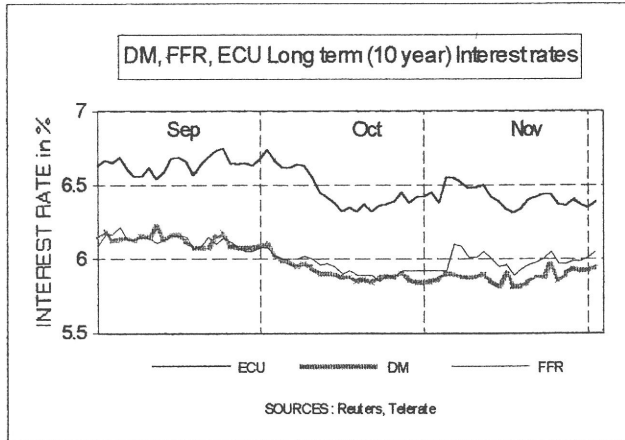


* During November, interest rate cuts in component currency sectors ensured that the decline of the short term ecu rate continued; it had reached 6.68 % towards the end of the month. Ecu/Dm and ecu/FFR short term interest rate spreads narrowed substantially during the month, from 94bp to 50bp and from 50bp to 41bp, respectively.

The pace and magnitude of the decline in ecu rates during November continued largely to be determined by the timing and extent of changes in German monetary stance, given that, as expected, Member States have reaffirmed their commitment to the EMU process since the widening of ERM margins. Consequently this will continue to be the case in the future also. Following the latest cut in the German repo rate (during the first week of December) the Bundesbank fixed this rate for the following six tenders up to mid-January, thereby indicating that the market should not expect further reductions in key interest rates during this period. Nonetheless, although of course dependent upon developments in M3 and inflation in particular, further cuts in German rates are expected by a number of market operators to be front-loaded during 1994.

5. Long-term interest rate evolution (10 year)

* In October, the ecu long-term interest rate continued its decline, reaching 6.38 % at the end of the month, in response to further declines in DM and FFR rates; although the latter did nudge slightly higher in the face of domestic and speculative tensions. Ecu/DM and ecu/FFR spreads decreased marginally in October, from 59 to 52bp and from 60 to 46bp, respectively.



* During November, the direction of FFR, DM and ecu long rates was generally downwards, although there was a slight upwards 'blip' during the second week. However, ecu rates came down slightly faster than either of the other two, so that the ecu/DM and ecu/FFR spreads fell marginally during the month, by 4bp to 52bp and by 10bp to 40bp, respectively. Thus, the 10 year ecu rate closed the month at 6.4%, with the DM and FFR rates at 5.85% and 5.97%, respectively.

6. Primary bond market

Since the beginning of the year ecu 20.81 bn have been issued.

New issues :

Compared to the previous month, during which ecu 4.1bn of new issues was launched, issuing activity was light in November; indeed, only one new issue was brought to the market, during the third week of the month:

Payment	Emission	Issuer	Nat.	Amount	Maturity	Type *	
	11.93	Italian CTE	IT	1,000.0	98	DMPI	CG
Total amount				1,000.0			

*DMPI : Domestic Market Public Issue

CG : Central Government

While it is generally expected that no further issues will be brought to the market this year, there is an outside chance that the French Treasury will offer a new benchmark ecu OAT during December.

Issuing activity in perspective :

Several Member States have reaffirmed their commitment to conduct ecu borrowing programmes, for instance the United Kingdom, Belgium, Spain and France; while the latter appears unlikely to achieve its target of funding 15% of the 1993 public borrowing requirement in ecu (it would have to issue a further ecu 5-6bn during December to supplement the ecu 4.4bn already issued to achieve this target), it has nonetheless stated that it will seek to achieve this goal in 1994.

The volume of ecu paper maturing during December (ecu 1.75bn), as well as the first quarter of 1994 (ecu 7.26bn) will facilitate new issuing activity.

7. Secondary market

Trading in the secondary market was relatively light during November, due partly to the lack of issuing activity in the primary market. In addition, though, towards the end of the month, ecu bonds began to appear slightly expensive against theoreticals.

Although trading continued to concentrate upon the shorter end of the curve (that, is paper with a maximum date to maturity of five years), there was a discernible increase in interest in longer term ecu paper as the month went on; however, the extent of any such shift is likely to remain limited because of the shorter maturity preference of institutional investors in the ecu market.

8. Treasury bills

New issues :

Ecu 600 mn Italian BTE's was issued successfully on November 4 (1-year maturity, 7.75 %, maturing 16 November 1994, with closed date subscription on 11 November).

A new ecu 1 bn UK Government Treasury Bill auction also held on November 9 was over-subscribed at all three maturities (at an overall level, the auction was covered 1.7 times):

-Announced issues :

The next tender for UK government ecu Treasury bills will be held on Tuesday 14 December 1993; details of the amounts and maturities of bills to be offered at that tender will be announced on Tuesday 7 December 1993.

9. Derivative Markets

* On the MATIF :

Similarly to October, the daily volume of traded contracts declined on a month-on-month basis during November by 10.6%, to 67.71 td, and by 10.0% on an annual basis.

* On the LIFFE :

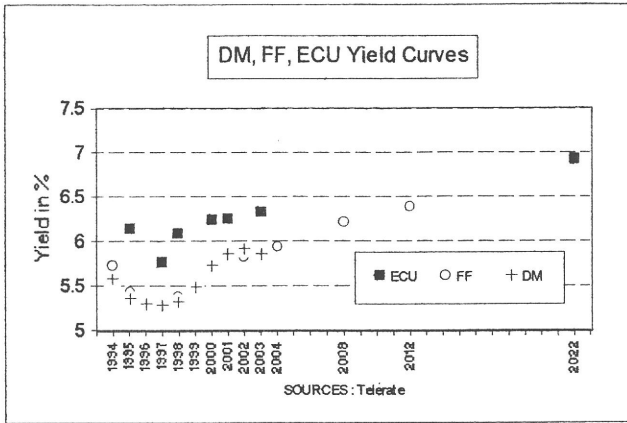
The daily volume of traded contracts also declined in November on a monthly basis, by 31% to 59.85td, although, in contrast to the MATIF, the volume of traded contracts increased on an annual basis, by 113.7%.

10. Ecu netting system

Average daily turnover increased further during November, to ecu 50.94bn (or ecu 1,528bn on a monthly basis). This represents an increase of 1.64% compared to October, and 21.8% compared to November 1992.

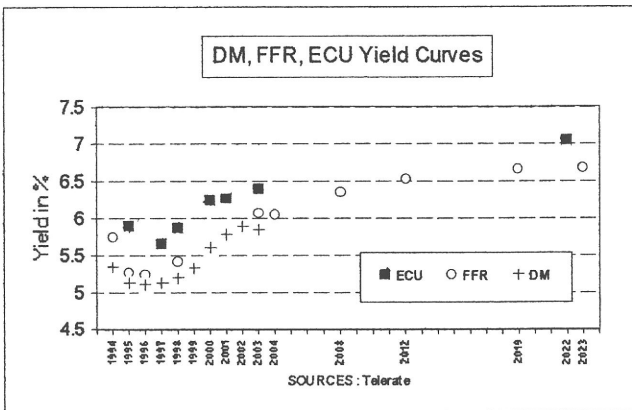
11. Yield Curve

(29.10.93)



During October, the ecu yield curve moved downwards and flattened, basically following the evolution of the FFR and the DM curves.

(03.12.93)



In contrast, during November, while all three yield curves continued to move downwards, except for very long instruments (>25 years to maturity), the curves also steepened significantly, with short ecu yields (as noted above) declining most sharply (for instance, yields on ecu paper maturing in 1997 and 1998 declined by 25 and 28bp during the month, respectively).

01.12.1993

ACTIVITE DE LA DIRECTION GENERALE CREDIT ET INVESTISSEMENTS

DU 1ER JANVIER AU 30 NOVEMBRE 1993

A) Volume d'émissions (en mio. Ecu)

	Total des instruments	CECA	EURATOM	NIC	CEE AS	BP
Nombre d'opérations en 1993	39	27	-	-	7	5
en 1992	35	30	-	-	5	-
Montants encaissés en 1993	5.923	884	-	-	1.034*	4.005
en 1992	2.345	1.219	-	-	1.124	-
dont refinancements en 1993	-	-	-	-	-	-
en 1992	57	57	-	-	-	-
soit en % en 1993	-	-	-	-	-	-
en 1992	2	5	-	-	-	-

* Assistance structurelle	270.000.000,00
Utilisation progressive des opérations réalisées pour les ex-Républiques soviétiques	<u>764.212.705,54</u>
	1.034.212.705,54

Les chiffres de 1992 portent sur la même période que celle couverte en 1993.

01.12.1993

B) Devises utilisées par instrument (%)

	Total des instruments	CECA	EURATOM	NIC	CEE AS	BP
ECU	50,8	-	-	-	100	49
BEF	0,2	1	-	-	-	-
LUF	-	-	-	-	-	-
DEM	39	32	-	-	-	51
NLG	-	-	-	-	-	-
GBP	1,2	8	-	-	-	-
DKR	-	-	-	-	-	-
FRF	6,4	43	-	-	-	-
ITL	0,9	6	-	-	-	-
IRP	-	-	-	-	-	-
GRD	-	-	-	-	-	-
ESP	0	0	-	-	-	-
PTE	-	-	-	-	-	-
USD	1,5	10	-	-	-	-
CHF	-	-	-	-	-	-
CAD	-	-	-	-	-	-
YEN	-	-	-	-	-	-
TOTAL	100	100	-	-	100	100