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MONTHLY NOTE ON THE ECU MARKETS N° 1 (JANUARY)

JANUARY 1994 : STABILITY AND GOOD PERFORMANCE

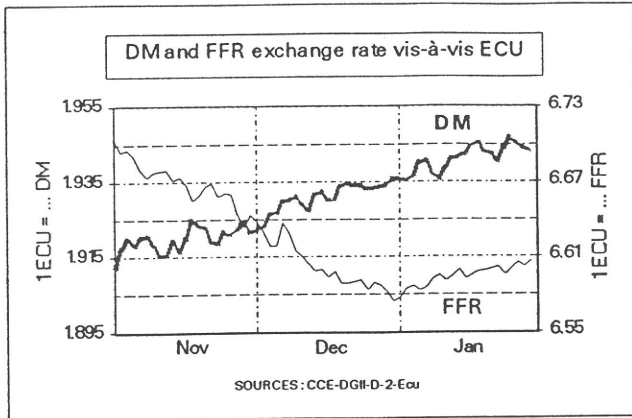
- Ecu markets performed well. There were 11 new issues (four sovereign and six private borrowers) to a total value of ecu 4.8bn; all were in the 3-10 year maturity range.
- Secondary market turnover was firm, although hindered by the preponderance of retail investors in the market.
- Swap market liquidity continued to improve during the month, on the back of the increase in issuing activity.
- Market stability was underlined. Ecu exchange and interest rates spreads remained narrow throughout the month. This was the result primarily of continued stability within the ERM; the DM remained weak against the USD and Member currencies, which were buoyed by interest rate reductions.

OUTLOOK

- Issuing activity will be greatly facilitated by the volume of funds to be released by maturing paper during the year (approximately ecu 1-2bn per month).
- Changes to French and Italian borrowing programmes will lead to an improvement in cash market liquidity.
- On February 2, Crédit Local de France came to the market with a 5-year ecu 300mn issue.

1. Exchange rate evolution

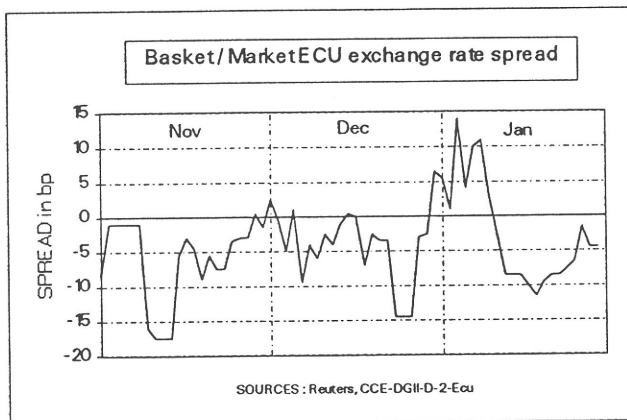
* Market developments in December confirmed the end of the ERM crisis, as the pattern observed during November, in terms of a strengthening of many component currencies (for example, the FFR, BEF, DKR) against the DM continued, allowing most of them to return within their former narrow bands. In January, too, currencies were stable, despite one or two negative economic and political developments. This stability can be interpreted as an indication that current ERM central rates are appropriate on the basis of fundamental.



* Throughout January, the ecu appreciated against the DM, from an initial ecu/DM1.922 to ecu/DM1.935 at the end of the month. This was due, firstly, to the weakness of the DM against itself, and secondly, to the positive effect on market sentiment vis-à-vis other European currencies of the reduction in component interest rates (for instance, Denmark, Belgium, and Spain). In contrast, the ecu/FFR rate fell further, from ecu/FFR6.63 on January 1 to ecu/FFR6.57 on January 31, consequent to the strengthening of the FFR vis-à-vis the DM throughout the month, even if this trend slowed somewhat during the last week.

2. Exchange rate spread (basket minus market rates)

* During December, the spread between ecu basket and market exchange rates was generally negative (-5bp on average), but became positive (+6bp) towards the end of the month.

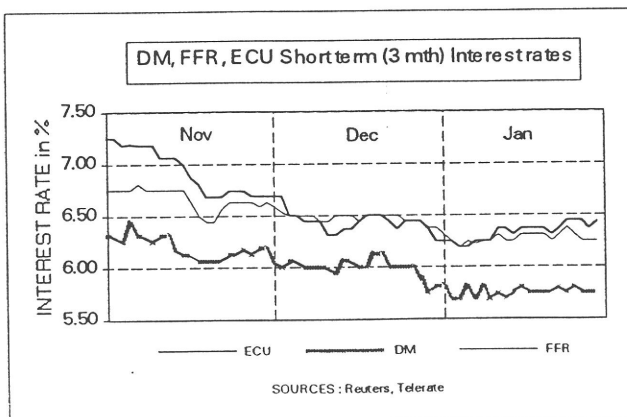


* Throughout January, the spread has remained in its "normal" range - generally remaining close to +/-10bp - indicating market confidence.

The spread was positive during the first week of the month, but then turned negative, partly as a result of ecu issuing activity which has led to an increase in demand for ecu in the foreign exchange market relative to its basket.

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

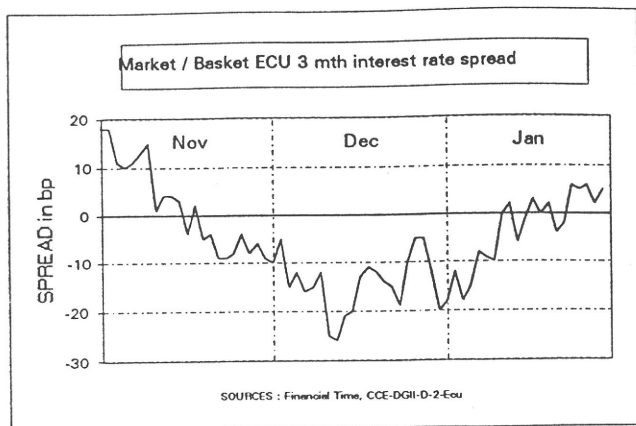
* Throughout December, the ecu/DM interest rate spread tightened significantly, from 63bp to 44bp, partly due to interest rate cuts in other component markets.



* During January, the ecu short term interest rate increased substantially, from 6.25% to 6.43%, following DM and FFR rate trends until the middle of the month (the former increased from 5.69% to 5.81%, and the latter from 6.25% to 6.31%). Thereafter, DM and FFR rates fell back, to 6.75% and to 6.25%, respectively, while the ecu rate continued to increase.

Consequent to above, ecu/DM and ecu/FFR spreads widened, from +56bp to +68bp and from 0bp to +18bp, respectively.

4. Three month interest rate spread (market minus basket rates)

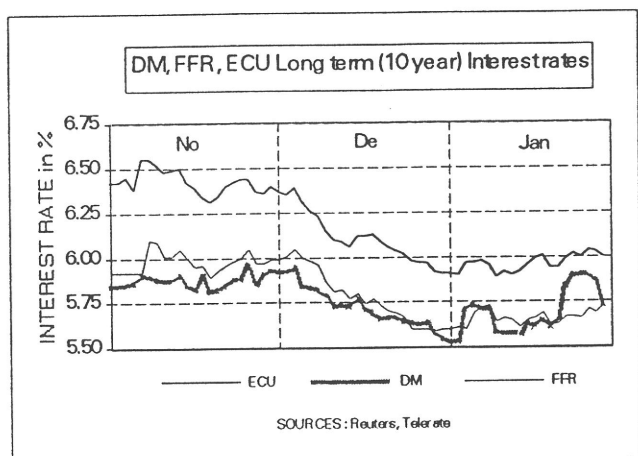


* During January, the market/basket ecu 3 month interest rate spread remained in a narrow range, beginning the month at -12bp and closing it at +6bp.

Much of the movement during the month would seem to have been due simply to spread trading on the basis of interest rate expectations.

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

* The ecu long-term interest rate decreased during December, indeed at an accelerated rate compared to earlier months, moving down from 6.37% to 5.91%, following DM and FFR 10 year rate trends (from 5.92% to 5.53% and from 5.99% to 5.60%, respectively).



* In contrast, during January, the ecu long-term interest rate increased marginally, from 5.90% to 6.00%, following FFR and DM rate trends; the former increased slightly from 5.61% to 5.73%; and the latter moved up sharply at the end of the month, from 5.53% to 5.90% (due partly to heightened uncertainty vis-à-vis German inflation data, which affected long end DM yields), before coming back to 5.73%.

Consequently the ecu/DM spread initially tightened, from 37bp to about 15bp, before narrowing at the end of the month to 29bp, while the ecu/FFR spread remained little changed at about 29bp.

6. Bond market

There were 11 new bond issues during the month :

Type	Cat. of Issuer	Date of Issue	Issuer	Nat.	Amount (ecu mn)	Maturity	Coupon	Lead Manager	Dur.
Dom.	Sovereign	11.01.94	Italian CTEs	It	750.0	14.01.1999	6.31%		5
Dom.	Sovereign	12.01.94	French OATs	FR	398.001.2004	5.85%		10
Dom.	Sovereign	12.01.94	French BTANs	FR	585.001.1999	5.28%		5
Dom.	Sovereign	18.01.94	UK T-NOTE	UK	1000.0	21.01.1997	5.25%		3
Global	Sovereign	31.01.94	Portugal	P	750.0	16.02.2004	6%	Paribas, Dresdner Bank Morgan Stanley	10
Sovereign issues					3483.0				
Euro	Private	11.01.94	Eurofima	Swiss	225.0	.01.2001	5.5%	Swiss Bank Corp.	7
Euro	Private	12.01.94	Bellsouth Cap. FDG. Corp.	US	125.0	02.02.1999	5.25%	Morgan Stanley Int.Ltd.	5
Euro	Private	12.01.94	Crédit Foncier de France	FR	300.0	08.02.2001	5.5%	Paribas Cap. Markets Ltd.	7
Euro	Private	12.01.94	Caisse Française de Dévelop.	FR	200.0	09.02.2001	5.5%	BZW Ltd	7
Euro	Private	12.01.94	KfW International Finance Inc.	Germ.	200.0	...01.2001	5.5%	Goldman Sachs Int.	7
Euro	Private	12.01.94	UK Pass Through SEC Ltd	UK	250.0	21.02.2001	5.5%	Morgan Stanley Int. Ltd.	7
Private issues					1300.0				
TOTAL for January					4783.0				

This amount has increased compared to January 1993 (ecu 0.33bn) but also compared to January 1992 (ecu 4.12bn) and to January 1991 (ecu 2.45bn).

French and UK issuing programmes for 1994 :

The French Treasury has changed its ecu-borrowing programme to incorporate bi-monthly issuing activity, as compared to quarterly during 1993; issues will be auctioned on the second Wednesday of relevant month. Its new stripped bond facility, i.e. coupon and bond (effectively, therefore, a zero coupon bond), can be traded separately, should also improve liquidity in the market.

The Italian Treasury is expected to increase its volume of ecu-borrowing and will unveil other measures to improve the efficiency of CTE issues in due course.

The Bank of England announced that will continue its regular ecu-borrowing T-note programme. Thus, it began the year with an ecu 1bn Treasury Note auction, dated January 21, 1994, maturing on January 21, 1997. This issue had a bid-to-cover ratio of approximately 3.

Portugal came to the market with a 10 year ecu 750mn Global bond :

The Republic of Portugal, on January 31, issued a 10 year ecu 750mn Global Bond, lead managed by three banks, Paribas, Dresdner Bank and Morgan Stanley, and had a 6% coupon set with reference to the 2004 benchmark OAT, with an indicated spread range of 28-30bp over this latter. This issue was oversubscribed. The response of the american investors was superior to the expectation of the issuers. It is the first ecu global bond to be issued in the ecu market, thus confirming its soundness.

Expected new issues :

The French Treasury will come back to the market in the second Wednesday of March 1994.

Other sovereign issues are also expected to come to the market in the near future, in particular **Spain and Belgium**.

The EIB will announced its 1994 borrowing programme at the beginning of February.

7. Treasury bill issues

The Bank of England successfully issued ecu 1 bn of Treasury bills on January 11. Its next auction will be held on February 8.

8. Secondary market

During January, secondary activity was firm but still limited.

However, new issues had some positive impact. On the whole, these were well received and market absorbed them rather quickly. Therefore, as the market is expensive issuing activity remain interesting for the borrowers, although it appears less interesting for investors. Moreover, the constant and steady reflow of funds (ecu 2bn during January and a monthly average of ecu 1bn during the year) will provide borrowers with good issuing opportunities throughout the year (either sovereign, institutional or private borrowers). Further reductions in interest rates within component sectors could also attract more investors to the ecu market.

9. Derivative Markets

* On the MATIF :

The January volume of traded contracts (73.5 td) was higher compared to January 93 (64.8 td) and to December 1993 monthly average (58.9 td).

* On the LIFFE :

On the LIFFE, **traded volume over the month increased (57.5 td)** compared to December 1993 (44.7 td). It was higher compared to January 1993 (36.1 td), and to January 1992 (24.9 td).

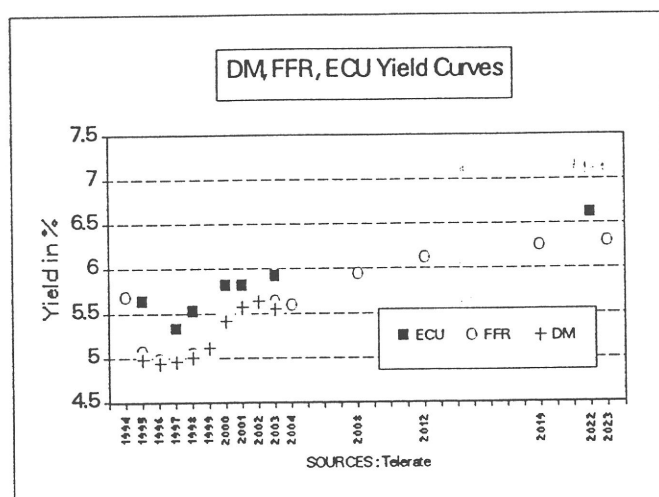
10. Ecu netting system

Compared to the same month during each of the preceding three years (ecu 30.5bn, ecu 42.9bn and ecu 46bn, respectively) the **daily average turnover in January 1994, ecu 53.9bn**, was markedly higher.

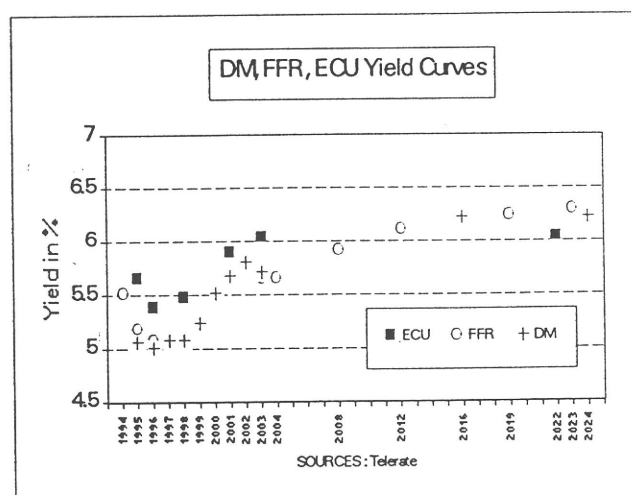
In addition in January 1994, the daily average turnover was also 16% higher than December 1993's average (ecu 45.01bn). This continued increase in daily average turnover underlines both the improving position of the ecu financial markets and the continued growth in the use of the ecu for commercial purposes.

11. Yield Curve

31.12.93



28.01.94



The ecu yield curve continued to flatten throughout the first two weeks of January. But immediately after the large volume of new issues during the second week of January and the reduction of interest rates in some component sectors, the ecu yield curve steepened. DM and FFR trends were similar.

However, the steepening during second half of January was not as strong as compared to last month. Effectively, **the monthly view shows a net tendency to flatten**, as the short end of the curve increased (by about 6bp), and the long end decreased; yields on intermediate maturities (from 6-9 year) increased by about 10bp.

In contrast, DM and FFR curves steepened significantly throughout the month.

It is interesting to note that, for the first time, longer maturity DM and FFR yields (from 15-20 year), rose above the ecu yields during January.