

COMMISSION
OF THE EUROPEAN COMMUNITIES

Directorate-General
For Economic and Financial Affairs



**ECU
MARKETS
REVIEW**

PART 1
The ecu markets

PART 2
Statistical review and assessment

II / 85 / 93 EN , n° 4

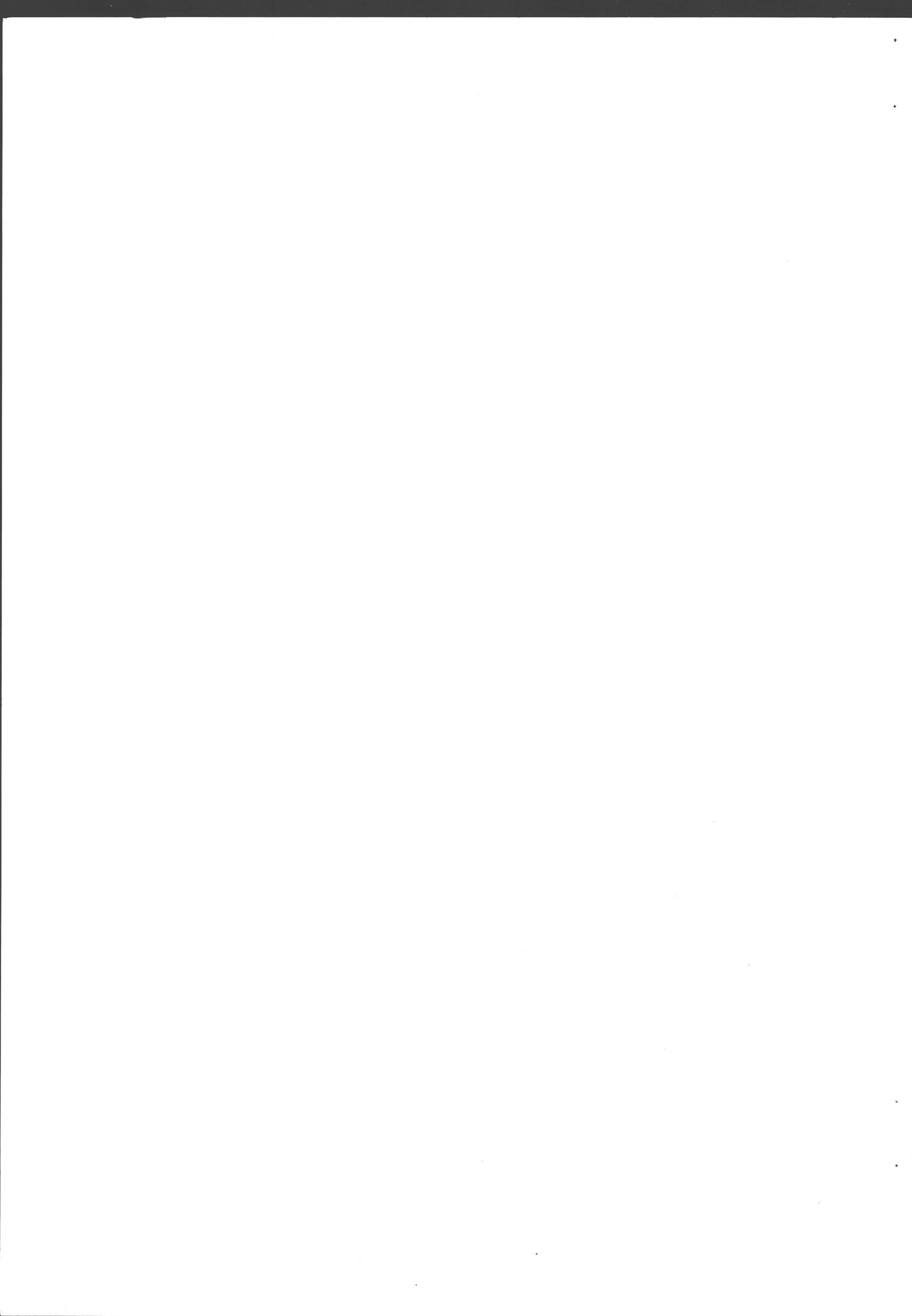
CEE-DGII-D2-ECU

I. Performance of the ecu markets during the third quarter of 1993

- The July exchange rate crisis affected markets far less than the previous ERM turbulences. Especially the bond market has been more resilient to exchange rate movements than it used to be in similar situations.
- The impact of the temporary widening of the ERM bilateral fluctuation margins to 15 % on August 2, was quite limited.
- The UK, Italy and France continued their programmes of regular short-term and long-term ecu denominated issues.
- Fears about the legal future of the ecu and the uncertainty concerning the timetable of the Maastricht Treaty hampered to some degree activity on the ecu markets in July and August.
- The level of redemption flows facilitated in the second half of September a series of seven new issues, with a total volume of ecu 2.05 bn. Five of these were for private borrowers.
- Trading on the secondary market was sluggish mainly due to the high short-term interest rates.
- On September 1 the Bank of England created ESO (European Settlement Office) by which it offers a real time, same day settlement in ecu denominated money and capital market securities.
- Ecu futures contracts sustained a good level of liquidity.

II. Outlook

- Following ratification of the Maastricht Treaty by the UK in July and Germany in October, the prospect for the ecu has improved markedly.
- The flow of new issues in September were an indication of a sound underlying activity on the ecu markets.
- Given the high amount of redemption (more than ecu 6 bn maturing until the end of the year) the outlook for further issues is positive.
- The further development of the ecu bond market depends mainly on the development of short-term interest rates and the evolution of the yield curve.



PART 1

THE ECU MARKETS

DG II D 2-ECU / E.W.

I. Impact of the widening of the ERM bands on the ecu

1. The Council's decision to widen the ERM bands
2. The volatility of the ecu
 - 2.1. Exchange rates ecu/DM/FFR
 - 2.2. Exchange rate spreads
3. Short-term interest rates

II. Performance of the ecu markets

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 - 1.1 Reduced volatility of ecu bonds
 - 1.2 Fears about the legal future of the ecu
2. Revival of the primary bond market in September
3. The secondary bond market
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4. Short-term national programmes
5. Ecu clearing activity
6. Continued strong activity on the derivative markets

III. Conclusion



I. Impact of the widening of the ERM bands on the ecu

1. The Council's decision to widen the ERM bands

Following the July exchange rate crisis, on 2 August the Council of Finance Ministers decided to widen the bilateral fluctuation margins of all currencies participating in the ERM of the EMS to +/- 15 %.

This decision has led to an increased volatility of the exchange rates of the participating currencies. But the crisis and the decision have affected the ecu markets far less than developments in the ERM during the second half of 1992. Three main reasons gave rise to the smoother reaction on the ecu markets:

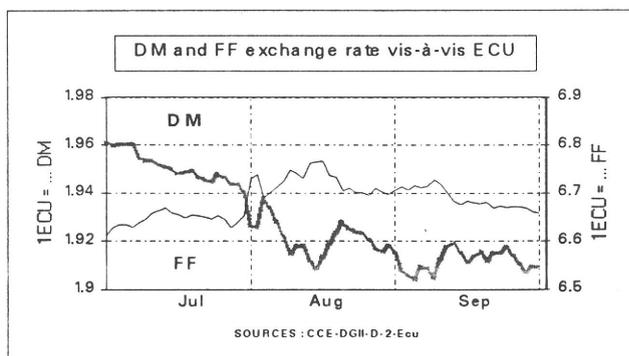
- (i) the September 1992 crisis taught market operators that exchange rate movements continue to be relevant, given the relative cost and price developments, despite the absence for five years of exchange rate realignments within the ERM;
- (ii) market operators were impressed by the resilience of the ecu markets during the 1992 crisis;
- (iii) market operators seem to have changed their attitude towards the ecu: instead of considering the ecu primarily as the future single currency, they have come back to the idea of exploiting the ecu as a relatively low cost method of diversification with a limited currency risk.

Even if markets are far from being as buoyant as during 1991 and the first half of 1992, several issues (bonds, notes and bills) have been placed successfully since July - which was certainly not the case for the second half of 1992.

2. The volatility of the ecu

2.1. Exchange rates ecu/DM/FFR

Whereas during the September 1992 crisis, the ecu suffered a 3% depreciation against the Deutschemark and a 3.6 % depreciation against the French franc, the volatility of the ecu remained very limited this time.



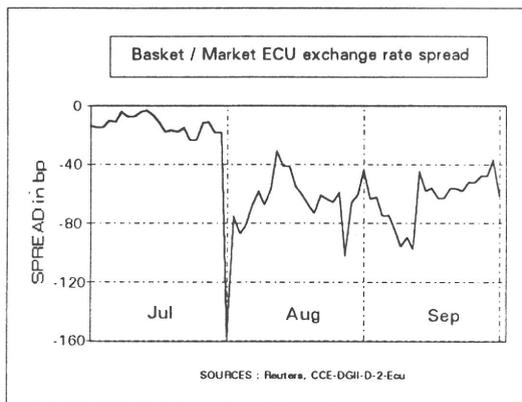
The DM appreciated against the ecu by 1.75 % from 1.96115 on 01/07/92 to 1.92666 on 02/08/92. The widening of the ERM bands only led to a limited further appreciation of the DM vis-à-vis the ecu of 0.45 % until the end of August.

End September, the ecu/DM exchange rate levelled at 1.90894, which is a total depreciation of 0.92 % of the ecu since 2 August.

The FFR depreciated against the ecu by 1.78 % from 01/07/93 to 02/08/93, but recovered slightly until the end of August with an exchange rate FFR/ecu of 6.69716 and returned to its end July level of about 6.66 on 30 September.

2.2. Exchange rate spreads

Compared to the crisis of September 1992, where the market value of the ecu fell below its theoretical value by approximately 200 bp for several days, the impact of the latest ERM crisis was limited to a negative spread of 159 bp on 2 August, immediately after which the spread declined to -30 bp to -80 bp compared to a normal spread of around +/- 10 bp recorded from January to July 1993.



In the wake of the Bundesbank's decision on 26 August not to reduce interest rates, several currencies in the ERM weakened against the DM so that the discount of the market ecu against the basket (i.e. the market ecu is cheaper than the basket) increased to 102 bp on Friday, 27/08, but the next day stabilised again at around 50 bp. At the beginning of September, renewed pressure on the Belgium franc and the Danish krone led to an increased

spread of - 97 bp but it stabilised at around 50 bp later in the month.

Despite the ecu 2.05 bn new bond issues in September, the demand for ecu on the cash market was not sufficient to bring the spread back to its normal level of about +/- 10 bp. This is mainly due to the fact that most of the new issues were directly swapped.

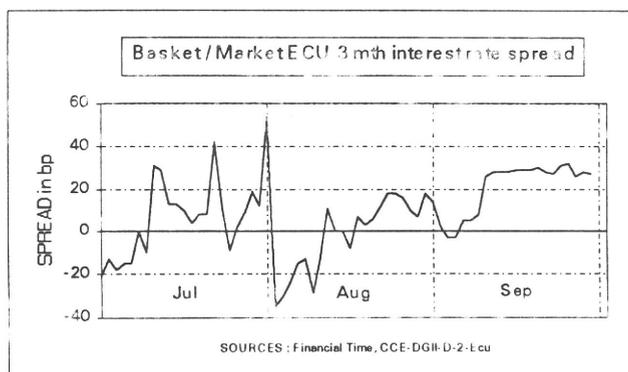
3. Short-term interest rates

The situation from the middle of June, when 3-month ecu market rates were below the respective DM rates, has been reversed since July 5, because some of the Member States who temporarily enjoyed lower short-term rates than Germany had to increase them once more in order to defend their exchange rates.

In the main, market operations (including ecu) were dominated by the expectation of early and substantial interest rate cuts in all Member States, other than Germany and the Netherlands, following the widening of the ERM bands given the generally depressed state of real sector activity in these countries.

These expected interest rate cuts were anticipated in the ecu market. Therefore, the three-month ecu market interest rate fell substantially from 8.06 % on July 30, to 7.13 % in the first week of August.

Consequently, the differential between three-month ecu market rates and respective theoretical rates changed from July's peak of +54 bp to -35 bp on 2 August.



Contrary to initial expectations, however, national short-term interest rates remained relatively unchanged during August, especially in France, where the 3-month rates continue to fluctuate between 8.38 % and 7.25 %.

From the beginning of September, market operators have to some degree reversed their anticipations

and the spread levelled at around 28 bp in the second half of the month.

II. Performance of the ecu markets

1. The ecu bond market in the light of the changed ERM situation

1.1 Reduced volatility of ecu bonds

In July, Italy, France and the European Community issued in total ecu 1.55 bn ecu bonds. Subsequent to these issues, however, no new borrowers came to the market, which had been perturbed by the new crisis.

Similarly to the September 1992 crisis, the spread for ecu bonds was affected but in a smaller magnitude by the latest ERM crisis. The 10-year spread (actual - theoretical yields) changed from -20 bp at the end of June to +20 bp at the climax of the crisis compared to a change from -50 bp in June 1992 to +30 bp in September 1992.

However, since Friday, 27/08, although the exchange rate evolutions still influences the short-term ecu interest rates, the correlation between currency volatility and movements on the cash bond markets has declined. Despite the fact that markets had anticipated an interest rate cut by the Bundesbank which did not occur on the 26/08, the spread (market -theoretical) for 10-year bonds remained negative at about -5 bp.

1.2 Fears about the legal future of the ecu

Given the relatively low volatility of the ecu in comparison to national currencies, the incentive to buy or to fund in ecus should have increased, ecu bond prices should have risen and thus, the market/theoretical spread should have become increasingly negative.

One reason why this did not happen immediately is that institutional investors tend to be cautious in their ecu activities as they are anxious about the legal future of the ecu, the uncertainty surrounding the future of the ERM and increased doubts on the Maastricht time-table. Furthermore, the swap market suffered a lack of liquidity resulting in unattractive swap conditions.

Retail investors remain interested in the ecu not only because they appreciate the hedging characteristics of the ecu but also because enormous amounts of ecu bonds are currently maturing and further ecu 6.109 bn are to mature during the fourth quarter of 1993.

On August 12, a slight revival of the swap driven market took place with an ecu 100 mn re-opening of the ecu 500 mn 7-year issue, Sweden launched in June, followed by two private 6- and 7-year issues of in total ecu 400 mn in that week.

2. Revival of the primary bond market in September

Backed by the high redemption flows in the second half of September, a series of seven new issues of in total ecu 2.05 bn was launched of which five were private.

Furthermore, at the end of September, France issued another ecu 1.05 bn OAT as part of its commitment to fund 15 % of its public debt in ecu and the EC announced an ecu 1 bn bond issue for October.

Whereas the first two issues in September were sold out immediately, not all of the following issues (which were mainly intended to meet demand from retail investors) could be placed at once, due to the aggressive pricing (especially the Swedish issue), the high amount of new issues launched within one week and the market's acceptance was hampered further by the political crisis in Russia.

Finally, it is the case that investors prefer to profit from the high short-term interest rates instead of investing in long-term bonds which is due to the extremely flat yield curve.

3. The secondary bond market

3.1. Activity sluggish

Most of these factors have also affected activity in the secondary bond market.

On 10 September, the yield of 3-year UK-T-notes in ecu was 6.36 % compared to 6.23 % for the OAT 97 and 6.4 % for the OAT 00. Until the end of September, the situation for long-term bonds remained unattractive with the following yields: UK 95 - 6.45 %; OAT 97 - 6.21 %; EEC 98 - 6.41 %; OAT 00 - 6.66 % and OAT 03- 6.63.

Since in most European countries, short-term interest rates have not been reduced significantly yet, the consequent inversed yield curve apparent on several European bond markets has led to a re-structuring of port-folios for those currencies and the ecu in line with them. This trend might continue as long as the yield curve remains extremely flat and the long-term yields remain unattractive.

3.2 The new same day settlement by ESO

On September 1, 1993, the Bank of England created the so-called European Settlements Office (ESO) by which it offers a real time, same day settlement in ecu denominated money and capital market securities. The Bank is the second European central bank to link its ecu clearing system to Clearing Houses after the Banque de France which established its SIRE (integrated system of ecu payments) on March 16, 1993.

ESO will facilitate the development of an overnight market both in ecu securities lending and also in lending cash against collateral. It should make buy/sell-back and repo operations more efficient and is intended to become the main vehicle for large scale, wholesale business.

The advantage of this system is that at any one time the institutions involved are aware of their daylight risk. The system will strengthen cash clearing by allowing much more efficient use of ecu collateral to secure or offset payment imbalances.

According to a financial magazine, Belgium is also considering introducing a similar system once it starts issuing ecu OLO's.

4. Short-term national programmes

The programmes of Italian BTEs and UK Treasury bills have continued without being affected by the currency turmoil.

The UK continued the monthly issuance of ecu Treasury bills. Throughout the third quarter, tenders of ecu 1 bn each were nearly twice oversubscribed and allotted in full.

In the first three quarters of 1993, about ecu 9 bn in total were allotted by the Bank of England while the Italian Treasury launched BTE of ecu 4.342 bn.

Further ecu 1 bn UK T-bills and ecu 600 mn BTE will be issued on 12 October.

5. Ecu clearing activity

The ecu clearing through S.W.I.F.T. continued to exceed the daily average turnover of ecu 46 bn in 1992, reaching ecu 51.8 bn in July after ecu 47.6 bn in June. It levelled at ecu 46.4 bn in August and increased slightly to an average daily clearing of ecu 47.34 bn.

6. Activity on the derivative markets

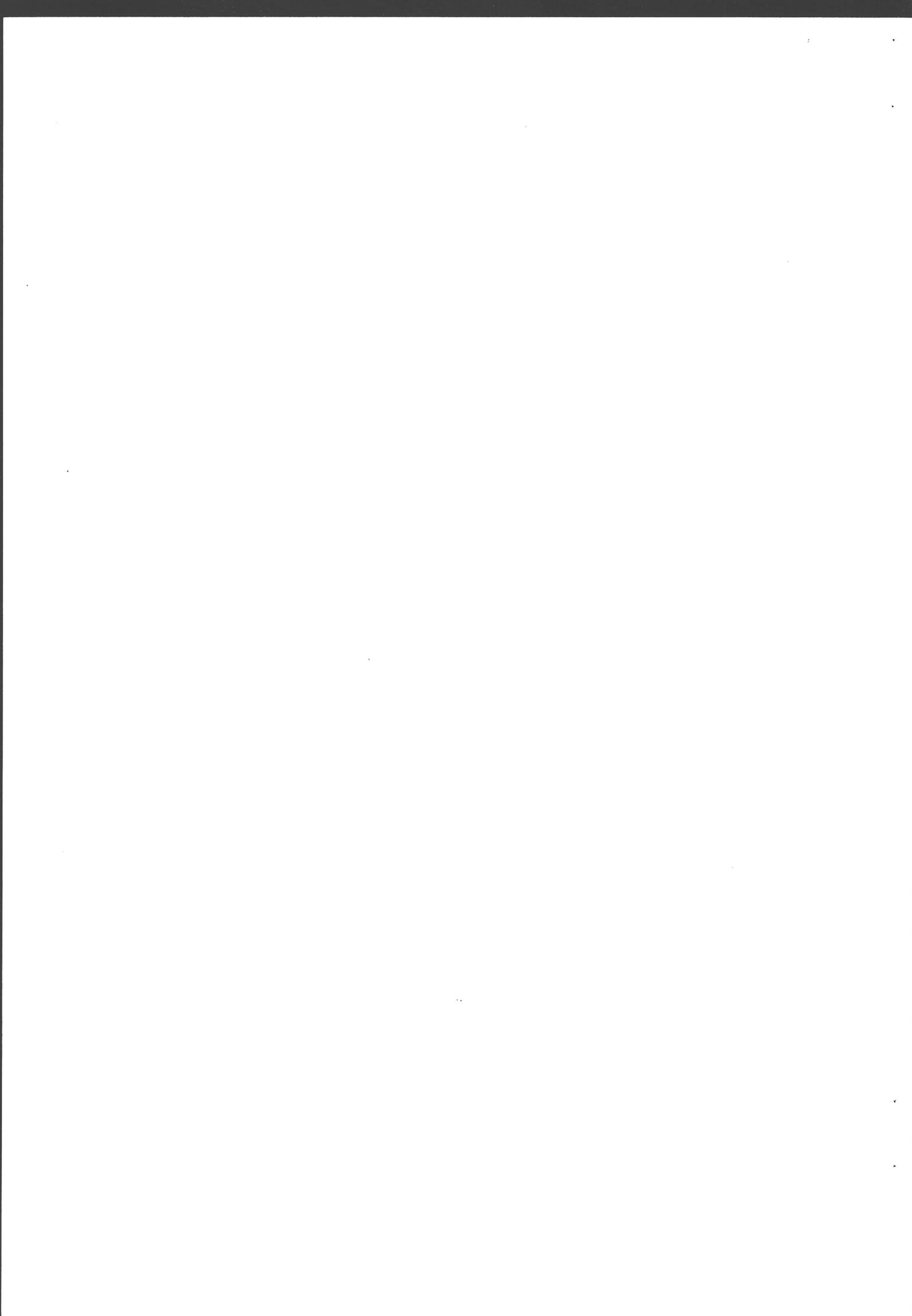
Despite the fact that the primary market was rather calm in July and August, the ecu futures contracts at LIFFE and MATIF, whose volumes of activity increased substantially in the second quarter of 1993, still retained a good level of liquidity.

Whereas the monthly volume of MATIF slid back from 97.000 contracts in June to 55.000 in July and 59.000 contracts in August, due to the revival of the primary market in September, it reached again 95.200 contracts.

The LIFFE short-term contract increased in liquidity, trading up to 6.178 contracts per day compared to about a daily average below 1.500 in 1992. The rise in liquidity and the steady growth of average daily volume of the LIFFE contract was encouraged by the ecu 3-month futures Designated Market Maker Scheme which has been strengthened by introducing a "quoting on request".

III. Conclusion

The flow of new issues in September and the return of private borrowers to the market are a sign of a sound underlying activity on the ecu markets. Following ratification of the Maastricht Treaty by the UK in July and Germany on 12 October, the prospects for the ecu has improved markedly. The further development of the ecu bond market depends mainly on the development of short-term interest rates and the evolution of the yield curve.

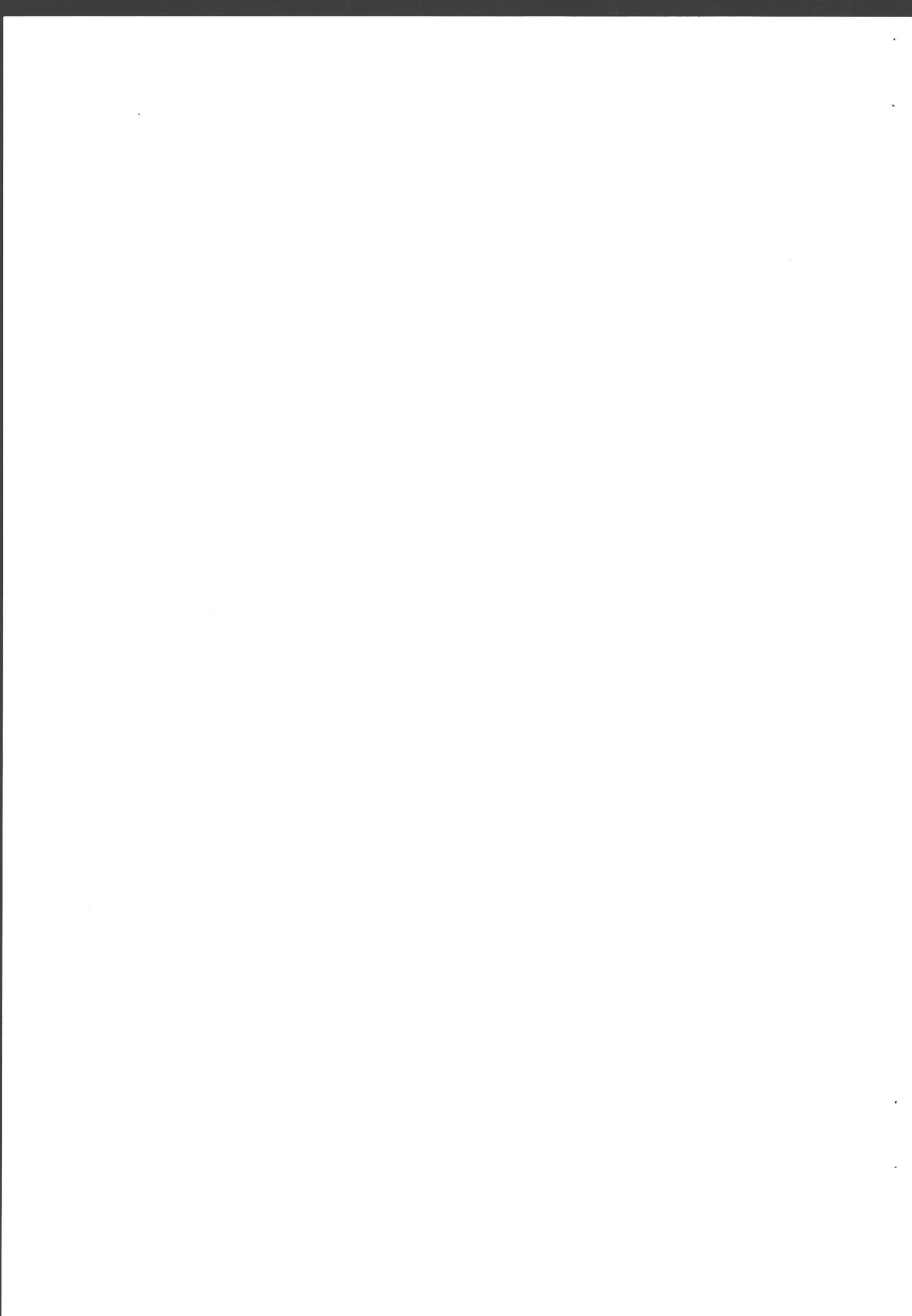


PART 2

STATISTICAL REVIEW AND ASSESSMENT

DGII - D - 2 - ECU / E.W. - A.R.

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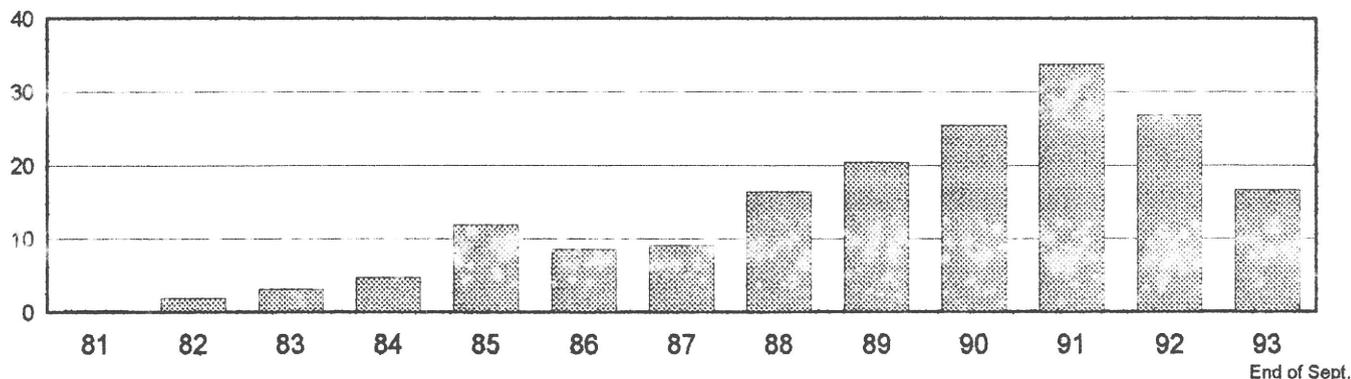
I. FINANCIAL MARKETS

A. PRIMARY BOND MARKET

(Amounts issued in Billions Ecus)

Last update : 30.09.1993

Historical Evolution

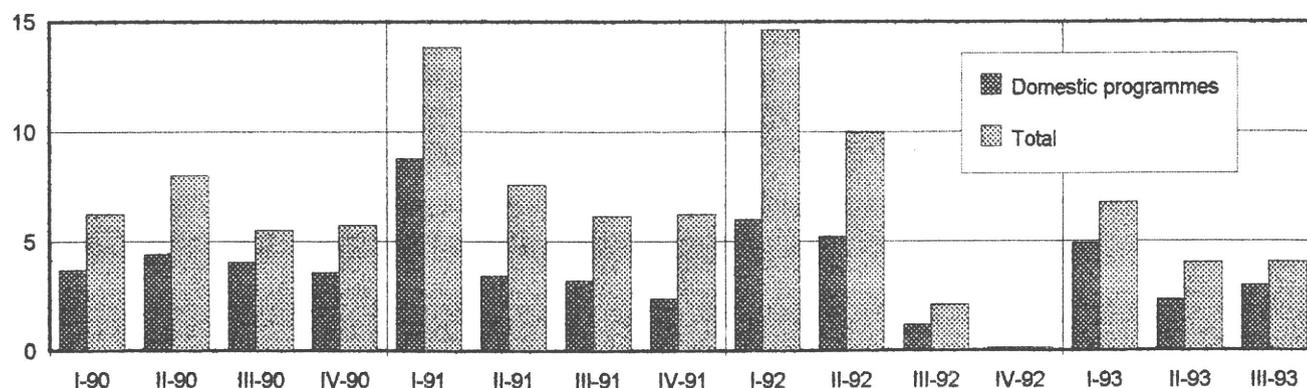


From 1986 to 1991 issuing activity grew steadily to reach a peak of total issues in 1991 of ecu 33.8 bn, mainly due to the increasing commitment of Member States but also due to growth in private issues.

This positive trend continued throughout the first half of 1992 when further ecu 24.6 bn of ecu bonds were issued in the first six month. But financial turbulence and the ERM crisis of September 92 provoked a near-halt of issuing activity in the second half of 1992.

After the positive outcome of the Edinburgh summit in December 1992 governmental and institutional as well private borrowers have returned to the market in 1993.

Recent Evolution



In the first 6 month of 1993, ecu 10.79 bn were issued compared to ecu 23.85 bn and ecu 21.43 bn in the same period of 1992 and 1991, respectively.

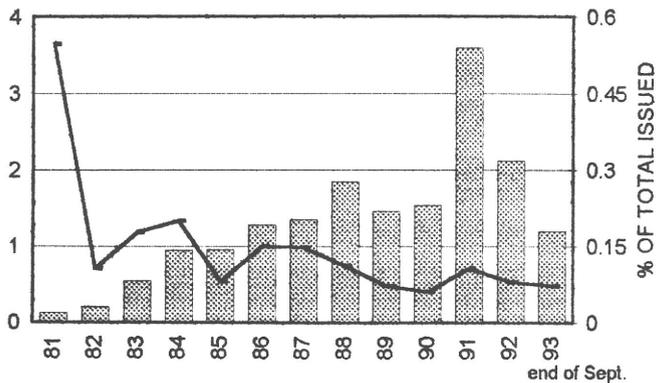
The French ecu 500 mn OAT issued on 1 July, was followed by the United Kingdom and Italy with ecu 500 mn and ecu 1 bn, respectively.

In mid-August, after four weeks without any issues, the Kingdom of Sweden re-opened its successful ecu 500 mn 7-year eurobond, launched on 2 June 1993, and sold a further ecu 100 mn. Immediately afterwards, two swap-driven private issues, each of ecu 200 mn, were absorbed rapidly by the market.

The market was hampered by low liquidity in the swap market but mid-September some sovereign issuers returned to the market with ecu 1.275 bn and also five private issues totalling to ecu 775 mn were launched.

Bonds by type of issuer

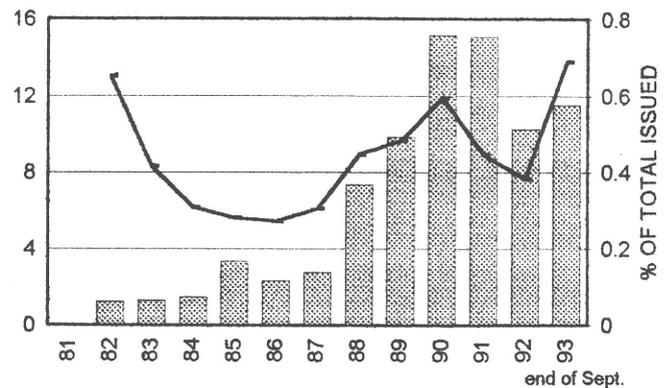
E.E.C. INSTITUTIONS



In the third quarter of 1993, no issue was launched by an EC institution. Thus, the share of EC institutions in the primary market fell from 10.65 % in the first half of 1993 to 0.

On 13 September, the Council of Europe launched an ecu 150 mn 8-year 6.75 % bond. The bond was launched 8 bp through the 2000 OAT. Given the high demand for the good name, it was sold out soon and traded at 17 bp through.

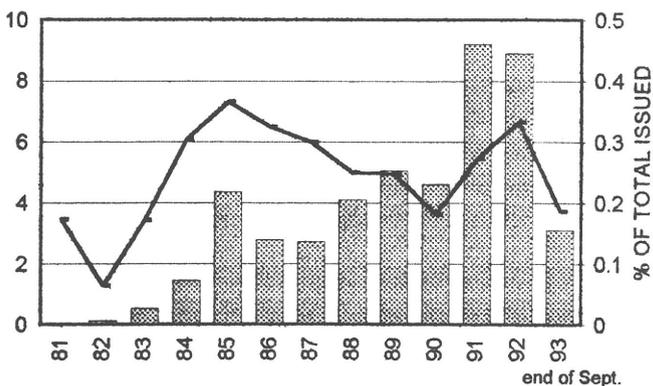
MEMBER STATES



In the third quarter, Member States had a share of 56.5 % of total issuing activity, compared to 75 % in the first and 63.7 % in the second quarter.

France, Italy and the UK continued their regular issuing programmes. France and the United Kingdom each issued ecu 500 mn and Italy launched two CTE's with a combined volume of ecu 1.75 bn.

NON E.E.C.

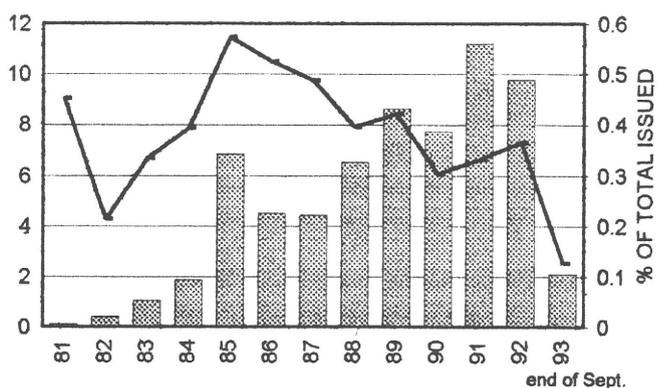


On August, 10, 1993, the Kingdom of Sweden reopened its ecu 500 mn 7-year bond, launched on June 2, 1993.

On September 25, it followed with an ecu 500 mn 5.75 % issue, due 1998.

The issue was priced aggressively but attracted demand from retail investors and from central banks and supranational buyers.

PRIVATE SECTOR



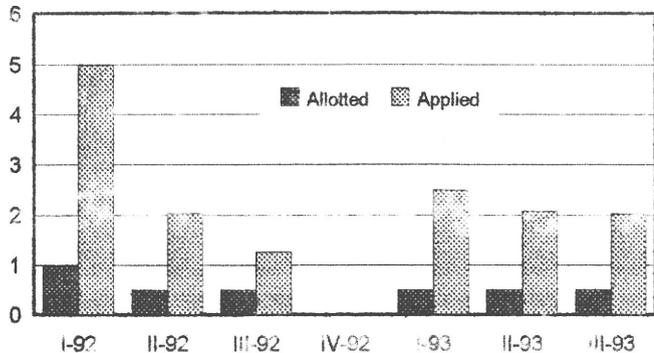
One of the good news on the ecu markets is the return of private issuers of bonds. In mid-September, private borrowers were well represented on the ecu market. Five private issues of 7- to 8-years were launched:

- Compagnie Bancaire: 200 mn, 6.5 %, due 17.09.99
- Credit Local de France: 175 mn, 6 %, due 28.09.98
- De Nationale Investings Bank: 150 mn due 6.10.98
- Banque Indosuez: 100 mn, 6.25 %, due 15.10.98

As the volumes of all issues remained at ecu 200 and below, the share of the business sector's issues did not exceed the 19.5 % of second quarter of 1993, levelling at 18.76 %.

Long Term Domestic Programmes

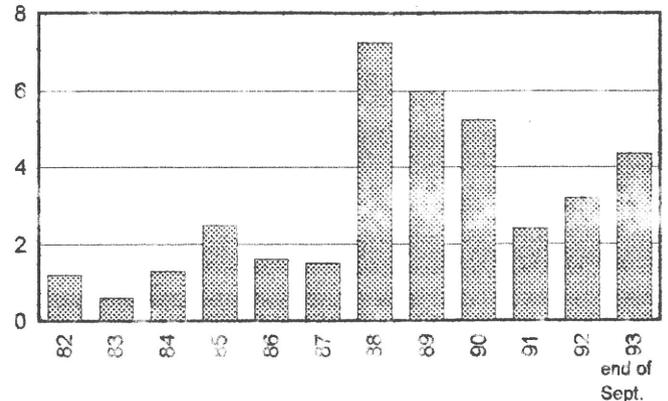
UK T-NOTE PROGRAMME IN ECU



On July 20, the Bank of England launched a 3-y ecu euro-note for tender on a bid-yield basis. The notes are fungible with the ecu 500 mn of notes sold at each of the tenders held on February 2 and on April 20. Despite the tensions within the ERM, the tender was well received and met a demand of ecu 2 012.5 mn.

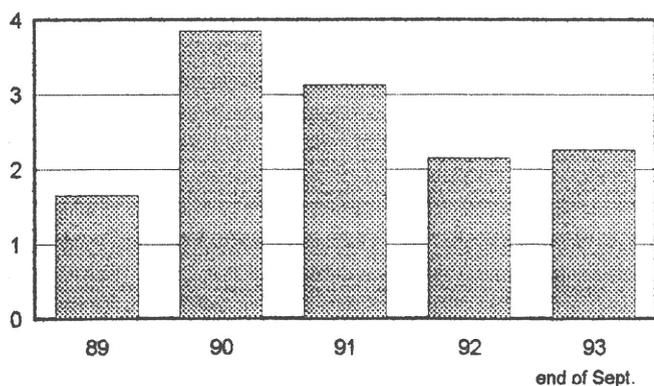
The tender was allotted in full at an average yield of 6.575%. Compared to an average yield on notes allotted of 8% in February and of 7.3% in April, the interest rate reduction has been continued. The next UK T-note tender will take place on 19.10.93.

ITALIAN TREASURY CERTIFICATES IN ECU (CTE's)



On July 21, one month after the launch of ecu 600 mn CTE (demand: 1.43 bn), the Italian Treasury continued its ecu programme with a tender of ecu 1 bn CTE. For this issue (maturity: 26.07.98) ecu 1.496 bn of bids were received. The 5-y CTE carries an 8.25% coupon (9% for the June paper). But, perhaps as a reflection of the tensions on the exchange markets, the net yield rose from 7.02% at the June auction to 7.42% for the July tender. Given the global European interest-rate reductions, the next ecu 750 mn 5-y CTE was offered with an 8% coupon on September 28, 1993.

FRENCH FUNGIBLE TREASURY BONDS IN ECU (OAT's)

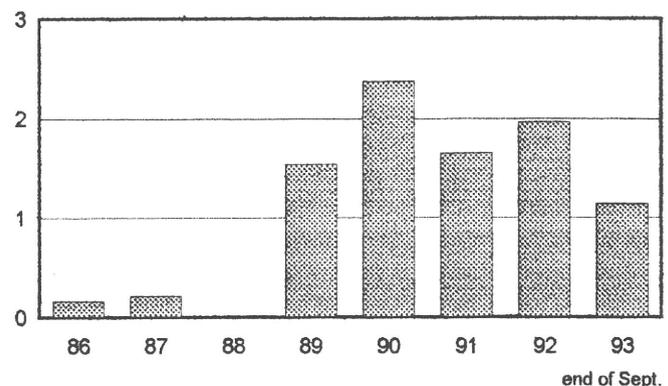


Within the French programme covering 15% of the deficit through quarterly issues in ecu, the Banque de France sold ecu 500 mn OAT due April 25, 2003, on July 1, which are assigned to the second quarter.

A further 6% OAT was announced on Sept. 20 of which ecu 1.052 bn were allotted. Since the start of 1993 France has issued ecu 1.21 bn of its 8% OAT due 2003 and ecu 2 bn of its 7.25 BTAN due 1998.

An additional French OAT issues are expected to follow in the fourth quarter of 1993.

GREEK ECU-LINKED BONDS



The regular monthly issues of 1- and 3-year bonds reached a total amount of ecu 1.009 bn up to August 24, 1993.

Following the general interest rate release, the 1-year securities dropped from 9.50 % gross yield at issue date in January to 6.75 % in August.

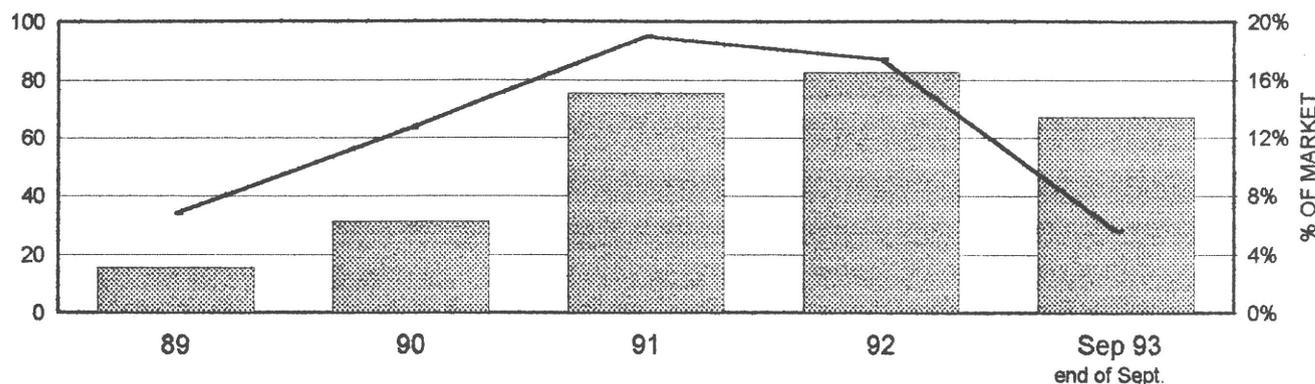
The 3-year bonds ran parallel and decreased from 9.35 % in January to 7.2 % in August.

B. SECONDARY BOND MARKET

(Billions Ecu)

Last update : 30.09.1993

Historical Evolution (Average Monthly Turnover per Year)

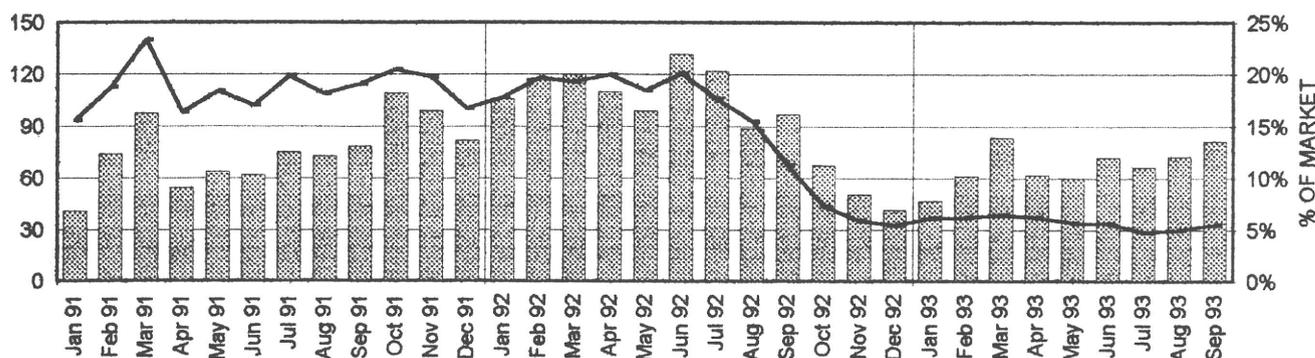


The average monthly turnover of ecu bonds increased quite steadily until mid 1992. In June 1992 it amounted to 131.8 bn, bringing the ecu market-share to 20 % of the secondary bond market.

The second half of 1992 was characterised by a steady decrease, reaching ecu 41.6 bn and a share of 5 % in December 1992. This was the result of the absence of new issues, the lack of swap activities and the redeeming of a lot of liquid bonds.

Although the activity on the secondary bond market slowed down significantly throughout the second half of 1992, the average monthly turnover value in 1992 (82 bn) increased by 7 bn compared to 1991 (75 bn).

Recent Evolution (Monthly Turnover)



In the first half of 1993, the average monthly turnover remained below the level of the two previous years with approximately ecu 64 bn.

In the third quarter of 1993, the secondary market still suffered from the low activity on the primary market. Due to the bulk of new issues in September, the monthly turnover increased from ecu 66.29 bn in June to ecu 81.46 bn in September, coming close to the average monthly turnover of ecu 82 bn in 1992. In September, the ecu share of bond turnover levelled at 5.53 %.

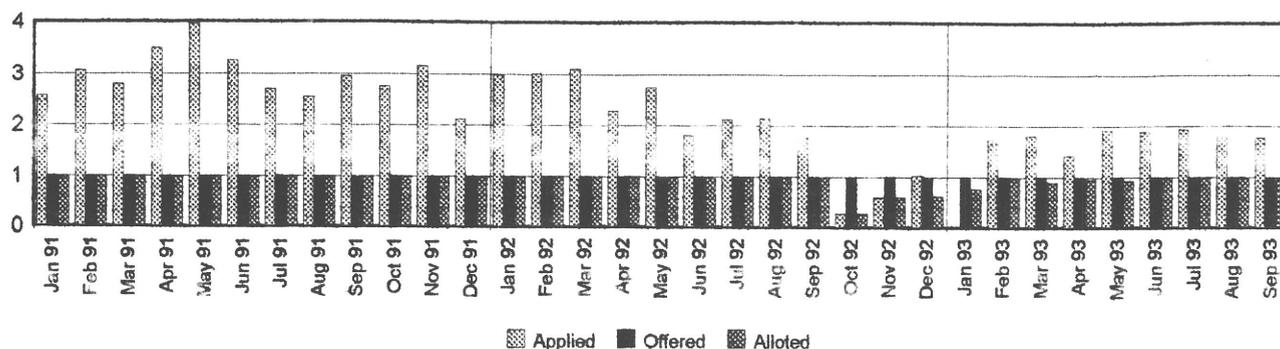
C. SHORT TERM DOMESTIC PROGRAMMES

(Billions Ecus)

Last update : 30.09.1993

BRITISH TREASURY BILLS

Primary market



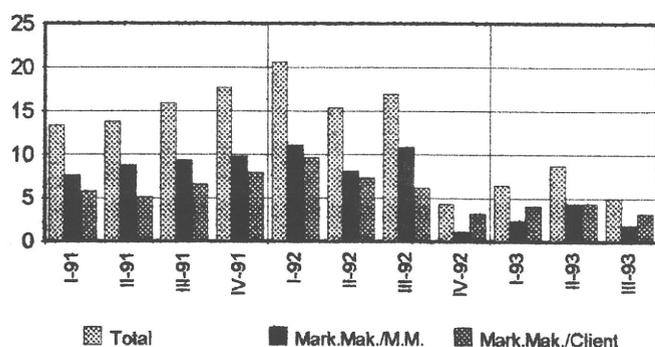
The UK continued the monthly issuance of ecu Treasury bills of ecu 200 mn 1-month, ecu 500 mn 3-month and ecu 300 mn 6-month bills. In both July and August, both tenders of ecu 1000 mn each were nearly twice oversubscribed and allotted in full. Also the September tender was well received with demand of ecu 699 mn for the offered ecu 200 mn 1-month bills, ecu 645 mn for the offered ecu 500 mn 3-month bills and ecu 422 mn for the offered ecu 300 mn 6-month bills.

It is noteworthy that the interest rates for the 1- and 3-month bills rose from June to August by 85 bp to 8.7 % and 28 bp to 7.7 %, respectively. The significant increase of the 1-month interest rates of the August tender can be explained by the fact that several countries raised their short-term interest rates (especially up to 1-month) during the monetary crisis and had not reduced them before mid-August.

As a global interest-rate reduction took place in the following weeks, the result of the September 1-mth bills was with 7.74% 96 bp below the August level. The average yield on 3-mth bills allotted to tenderers was 7.46% compared to the 3-mth market ecu yield of 7.56%. In the first 9 month of 1993, ecu 9 bn T-bills were issued in total. The next ecu 1 bn UK T-bill tender will be held October 12.

BRITISH TREASURY BILLS

Secondary market

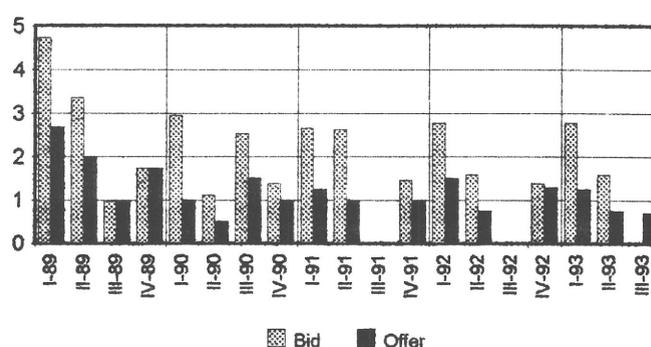


In the second quarter of 1993, the turnover increased slightly to ecu 8.7 bn from ecu 6.5 bn in the first quarter. This volume remains very low compared with the turnover in the second quarter of ecu 13.8 bn in 1991 and ecu 15.3 bn in 1992.

In July and August, the turnover remained extremely limited with ecu 1.38 bn and ecu 1.76 bn.

ITALIAN TREASURY BILLS

Primary market



The last Italian BTE was issued on May 26, 1993 with ecu 750 mn on offer meeting a demand of ecu 2.452 mn.

A new issue of ecu 600 mn BTE will take place on October 12, 1993.

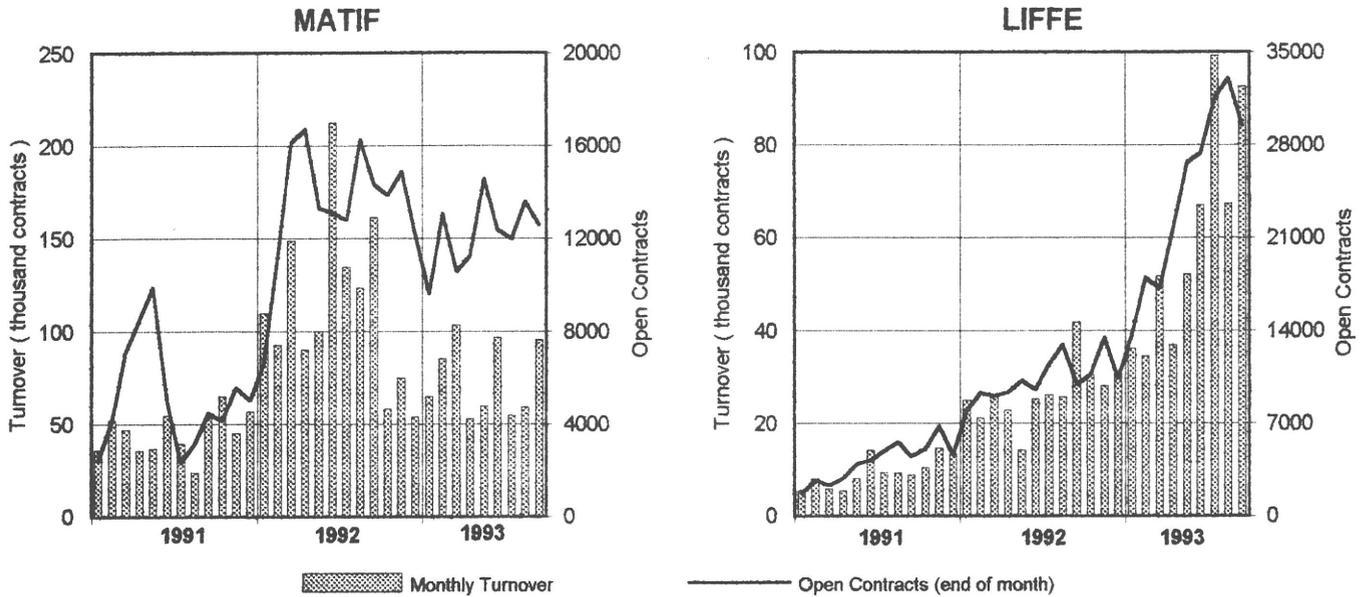
D. DERIVATIVE MARKETS

(Billions Ecus)

Last update : 30.09.1993

LIFFE and MATIF Futures Contracts

Trading on the derivative markets was mainly based on the interest-rate reduction expectations in most Member States after the widening of the ERM bands, leading to increasing prices with an implied yield for the LIFFE June 3-month contract of 5.6 % in August, compared to a 3-month ecu market rate of above 7 %.



In September 1993, 95.2 td long-term futures contract were traded at MATIF . Thus, the volume of activity has fallen by 41% compared to 161.4 td in September 1992 but has increased by 61 % compared to 59.1 td in August 1993.

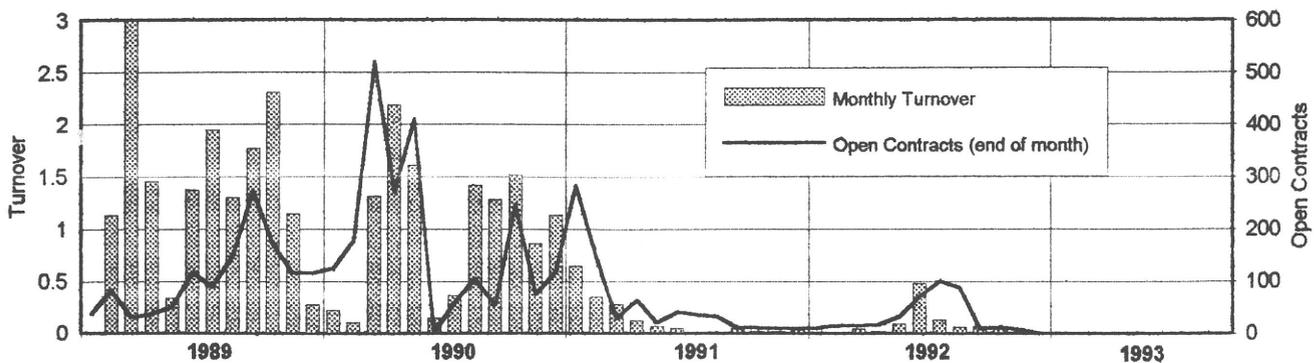
In the third quarter, the MATIF contract passed its historical high of 118 and remained at that high level, again highlighting the expectation of interest-rate reductions across Europe.

The LIFFE short-term interest rate futures contract continued to grow in volume, due partly to the introduction of a effective market maker scheme which has strengthened the liquidity of the contract.

The monthly volume of traded contracts rose from 67 td in June to 99.3 td in July. After 67.4 td during the summer break, it reached 92.6 td in September, a 121% increase year-on-year.

Open interest in ecu futures has risen from 27,370 in June to 29,405 in September.

FINEX Ecu / Dollar Options Contract

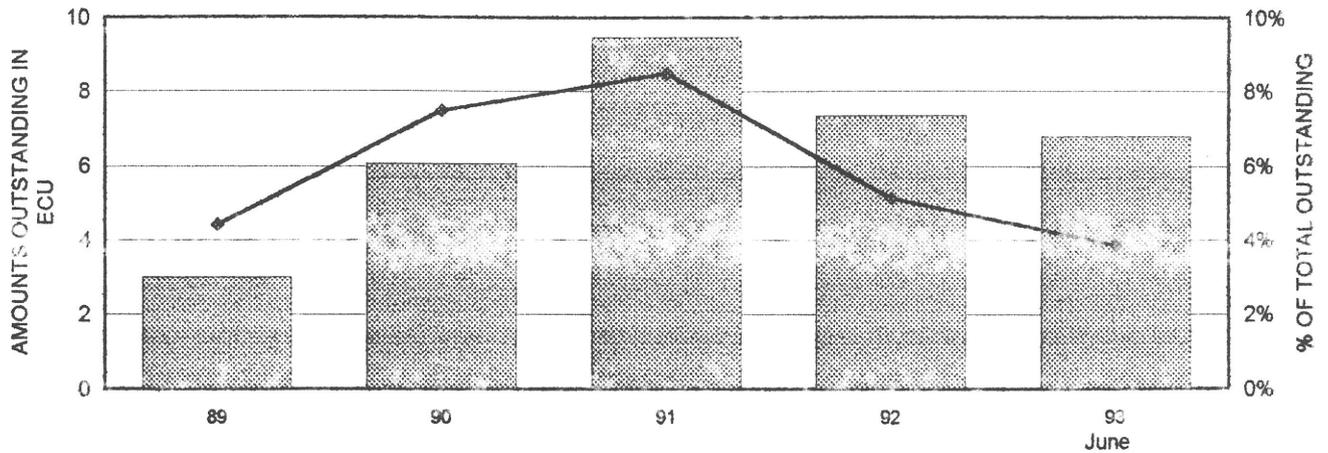


Since the beginning of 1993, no FINEX ecu contracts have been traded.

E. EURO NOTES

(Commercial Paper and Medium Term Notes Outstanding in Billions Ecus)

Last update : end of June 1993



The outstanding amount of Euro-notes has continued to decline and reached ecu 6.5 bn in the second quarter of 1993. The amount of outstanding Euro-commercial paper decreased from ecu 2.0 bn in the first quarter to ecu 1.8 bn in the second quarter, compared to ecu 4.8 bn in the second quarter of 1992.

The volume of outstanding Medium-term notes fell slightly from ecu 2.5 bn in the first quarter to ecu 2.4 bn in the second quarter, compared with ecu 2.8 bn in the second quarter of 1992.

Other short-term paper remained stable at ecu 2.4 bn in the first half of 1993, which is ecu 1 bn less than in the second quarter of 1992.

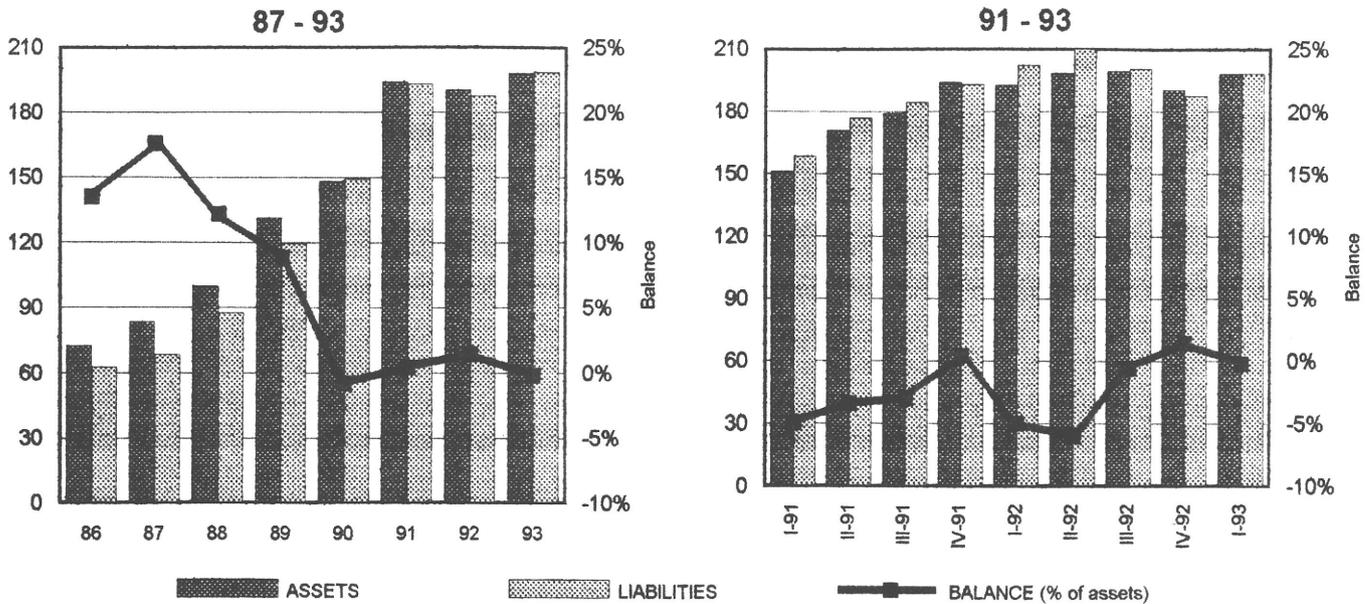
II. BANKING MARKET

ASSETS AND LIABILITIES

(Billions Ecus)

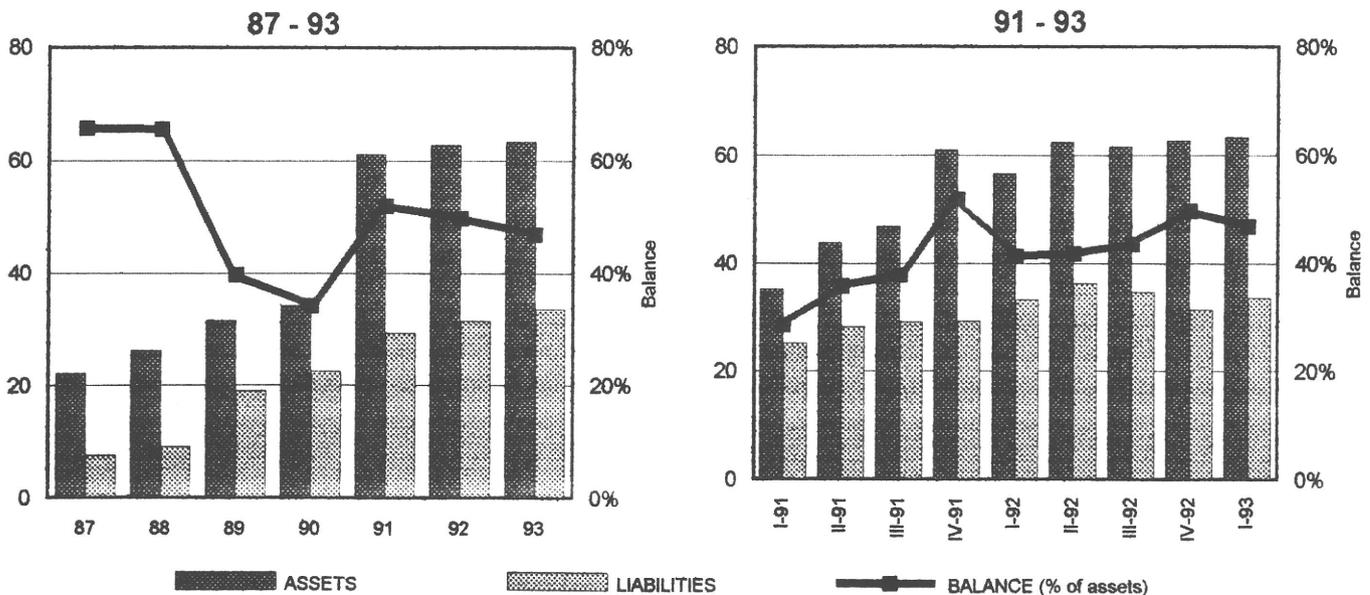
Last update : End of March 1993

TOTAL



Following continuous growth until mid-1992 with assets reaching ecu 198 bn and liabilities levelling at ecu 210 bn, the activity of the ecu banking sector decreased slightly in the second half of 1992. The total amount of assets declined to ecu 191.29 bn. Liabilities dropped to ecu 187.82 bn, due mainly to a decline in banks' liabilities. In the first quarter of 1993, banks assets and liabilities in ecu both increased by approximately ecu 7 bn, to ecu 134.8 bn and ecu 164.9 bn, respectively. With an additional rise of non-bank activity the total ecu assets rose to ecu 198.09 bn and the ecu liabilities reached ecu 198.52 bn. Thus, after exceeding the assets by 1.44 % in the fourth quarter of 1992, liabilities were once more slightly (0.21 %) lower than assets.

NON-BANK



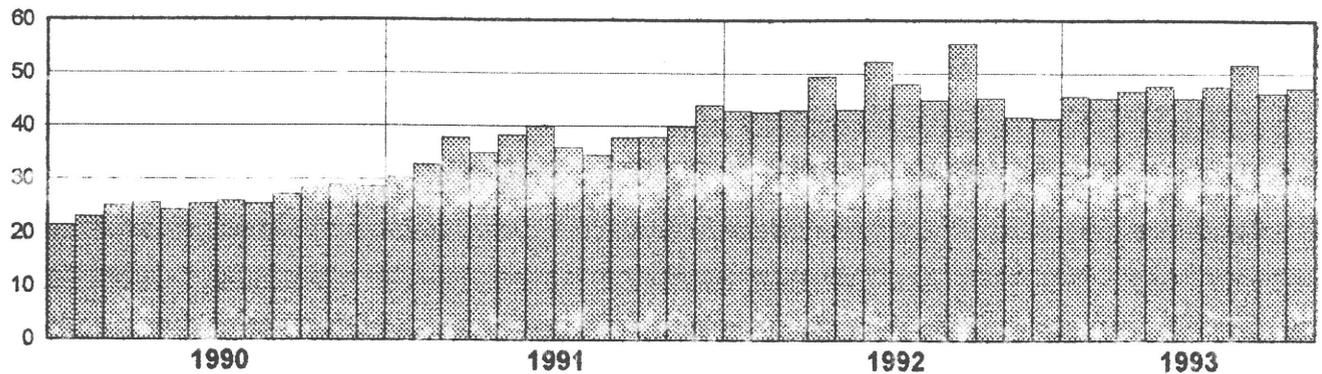
The share of non-bank commitments in ecu decreased from 33 % to 32 % of the total ecu banking market. As both assets and liabilities increased, the gap between assets and liabilities remained quite stable at 47 % of assets. Assets passed from ecu 62.71 bn in the last quarter of 1992 to ecu 63.29 bn in the first quarter of 1993. Liabilities rose from ecu 31.48 bn to ecu 33.6 bn.

B. ECU CLEARING THROUGH S.W.I.F.T.

(Billions Ecus)

Last update : 30.09.1993

DAILY AVERAGE TURNOVER PER MONTH



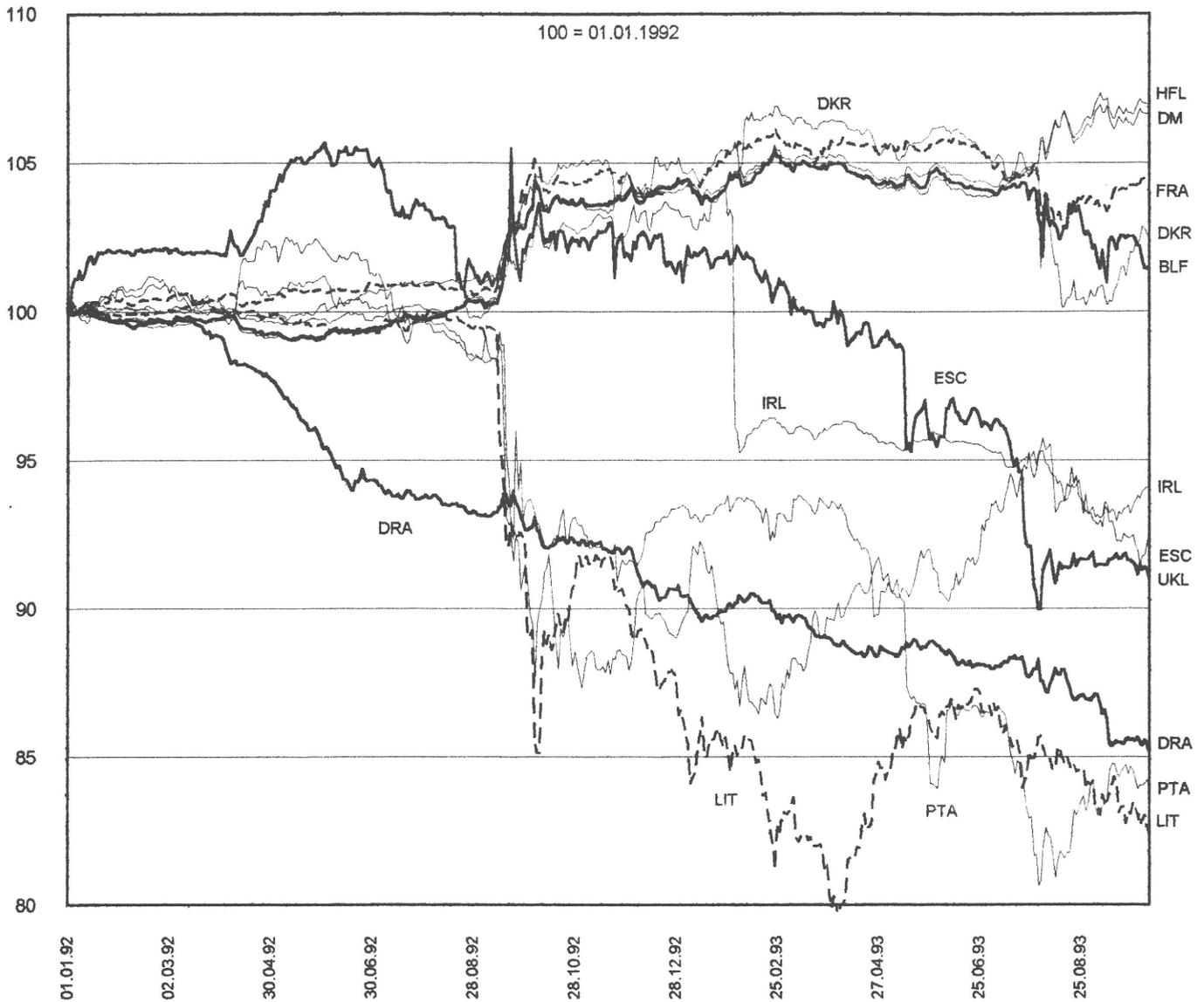
Until September 1992 the clearing of private banking transactions through the S.W.I.F.T. network increased steadily and peaked at a daily average turnover per month of ecu 56 bn in September 1992. During the ERM turmoil volumes decreased and levelled at ecu 42 bn during the remainder of 1992.

From January 1993, ecu clearing rose again and reached an average daily turnover of ecu 47 bn during the first half of 1993. After the good performance in July, when ecu 51.8 bn was cleared, the volume remained stable at around ecu 47 bn per day, exceeding the daily average turnover of ecu 46 bn in 1992.

III. EXCHANGE RATES

Last update : 30.09.1993

EXCHANGE RATE MOVEMENTS VIS-A-VIS ECU



Beginning in July, FFR came under selling pressure. Despite interventions of the Bundesbank and the Banque de France, the trend was not reversed. The DKR, BEF and IRL also weakened. From 15 July onwards, the tensions grew as the expected German rate cut did not occur.

After the temporary introduction of the wider ERM fluctuation margins of 15 % among member currencies on 2 August, the volatility in EMS exchange rates has been less than expected. But especially the French and Belgian franc and the Danish krone depreciated.

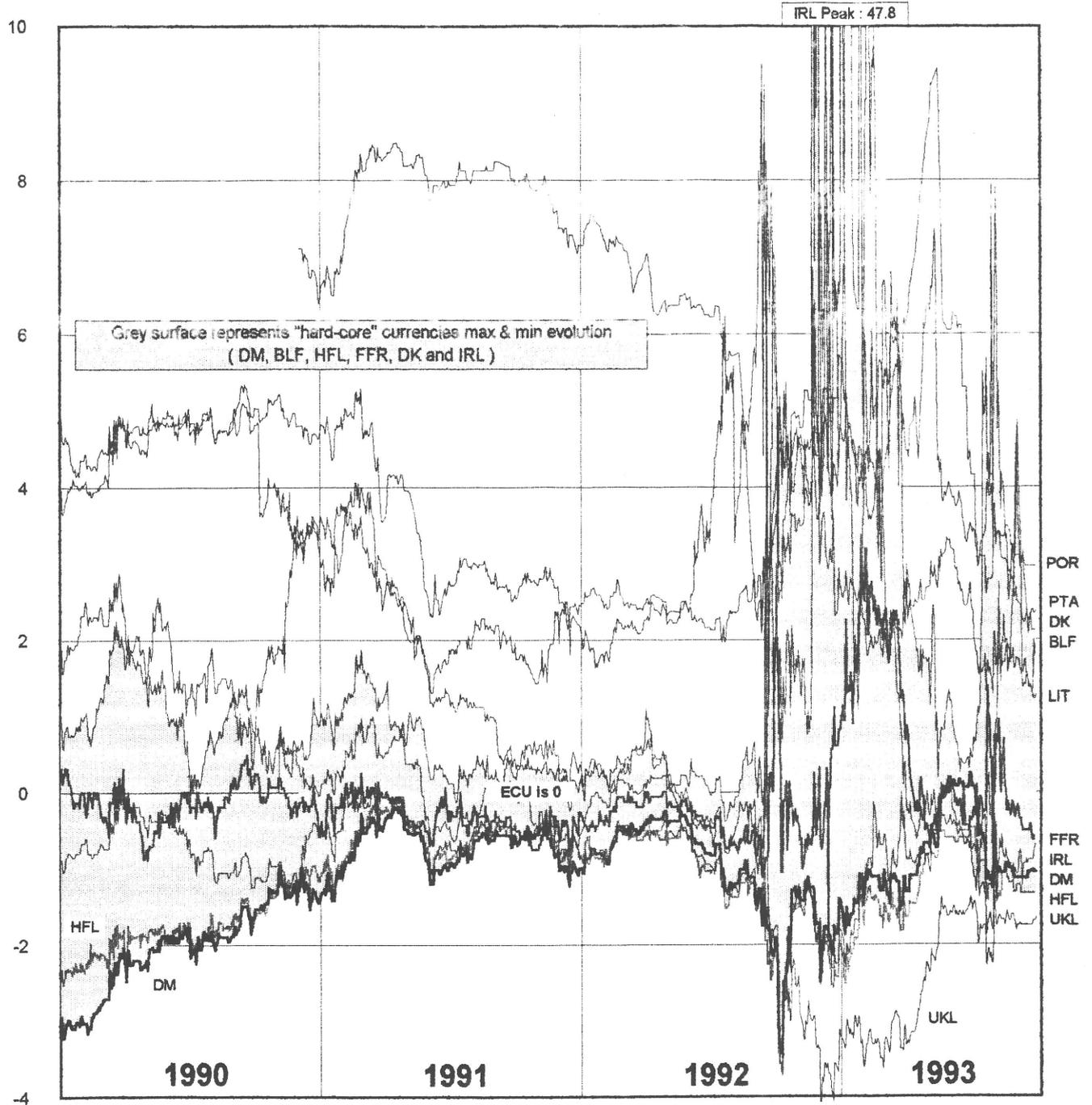
The Dutch and German authorities confirmed their intention to adhere to the original 2.25 % band, and the HFL has mostly traded in a narrow range between HFL 1.123 and HFL 1.126 against the DM in August.

Outside the ERM, the LIT depreciated, whereas sterling has been used as vehicle for hedging FFR/DM risks, and reached, on July 26, its peak level of 2.59 DM since its exit from the ERM but slipped back to 2.44 DM towards the end of September.

IV. INTEREST RATES

Last update : 30.09.1993

SHORT TERM DIFFERENTIAL AGAINST ECU



On 2 July, the Bundesbank cut Lombard rate by 0.25 % and Discount rate by 0.5 %, these cuts were followed by most other European countries.

In the second week of July, tensions have resurfaced in the ERM, and led to the re-establishment, or widening, of short-term interest rate differentials vis-à-vis the DM in a number of countries. As a result, only Ireland and the Netherlands remain with a sizeable negative differential against the DM.

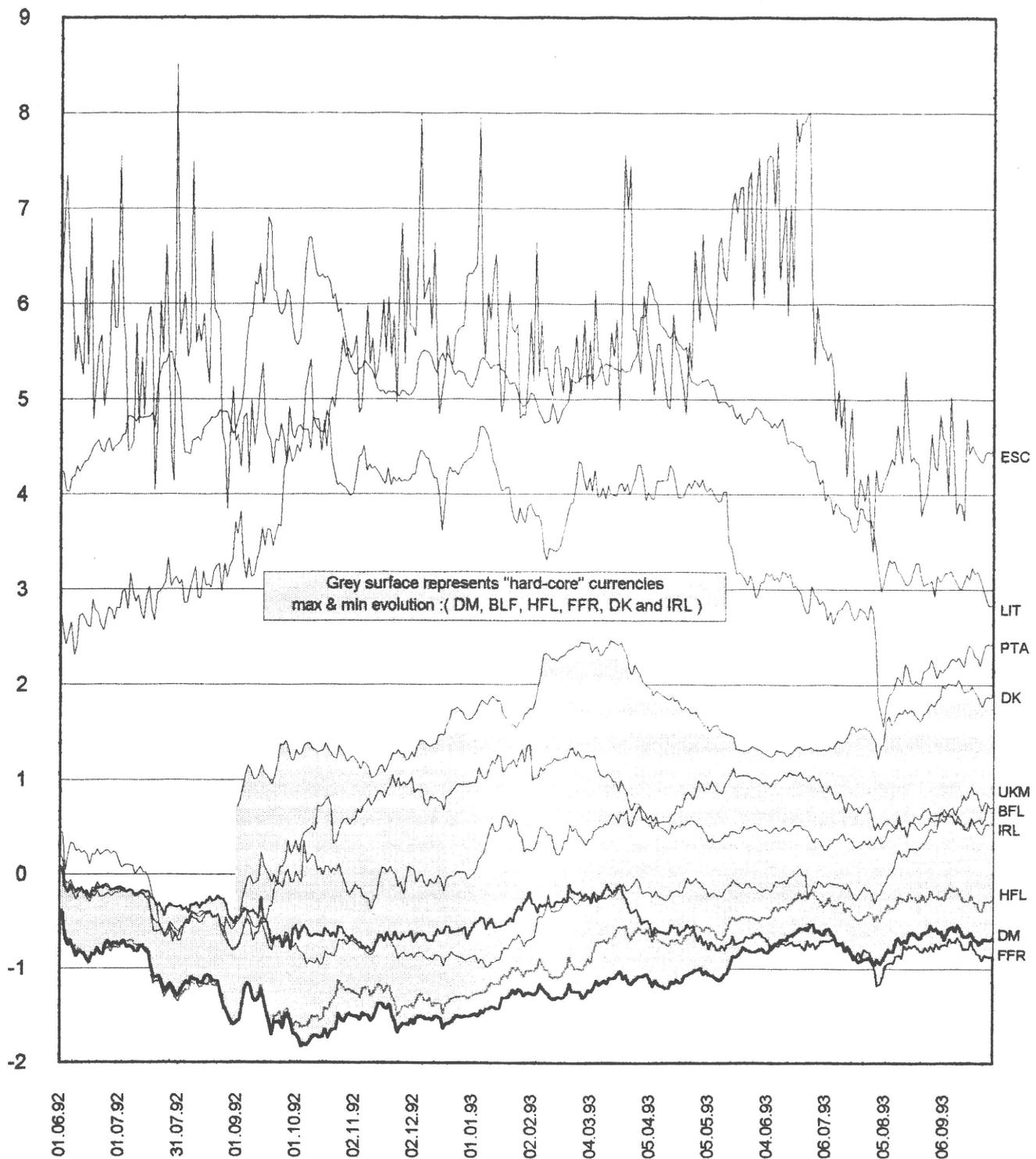
The FFR 3-month differential with the DM reversed from - 50 bp on 25 June to +46 bp on 17 July.

In order to stay within the grid, the Danish central bank tightened policy by raising repo-rates by 120 bp. The 3-month interest rate differential to the DM, which had fallen to below 10 bp in mid-June, widened to 276 bp.

During the crisis, the Spanish 3-month interest rate differential to the DM widened to 380 bp.

The UK 3-month money market rates have remained relatively constant at about 5.8 %. The Italian 3-month money-market rate remained just above 9 %, reflecting an unchanged monetary-policy stance by the Banca d'Italia.

LONG TERM DIFFERENTIAL AGAINST ECU



Escudo, Lira and Peseta reduced their interest rate differential vis-à-vis ecu substantially.

The Danish long-term interest rates rose and are now close to the Spanish rates.

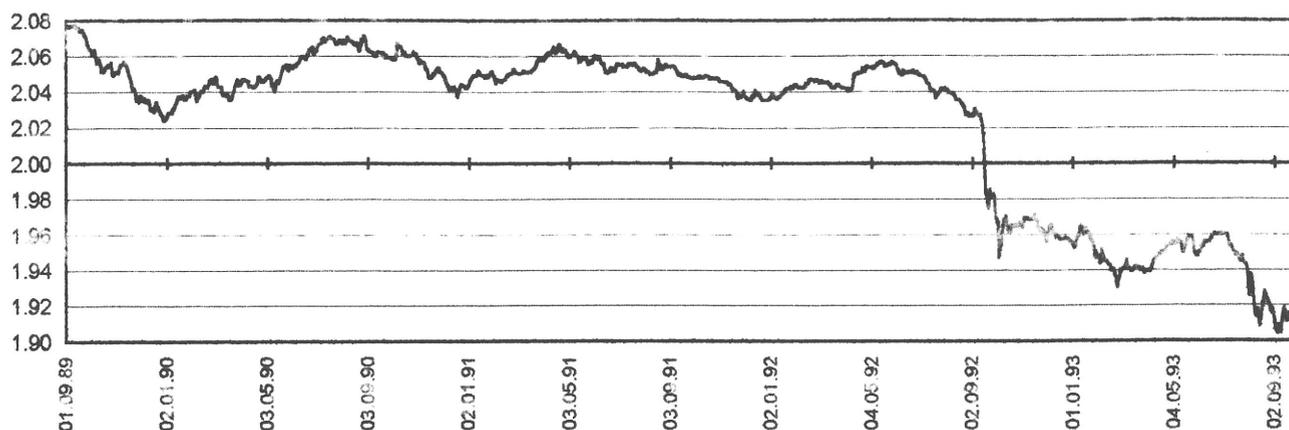
Only France, Germany and the Netherlands have interest rates which are below the respective ecu rates.

During the last weeks, the French long-term interest rates were slightly below the German rates.

V. ECU / DM : EXCHANGE and INTEREST RATES

Last update : 30.09.1993

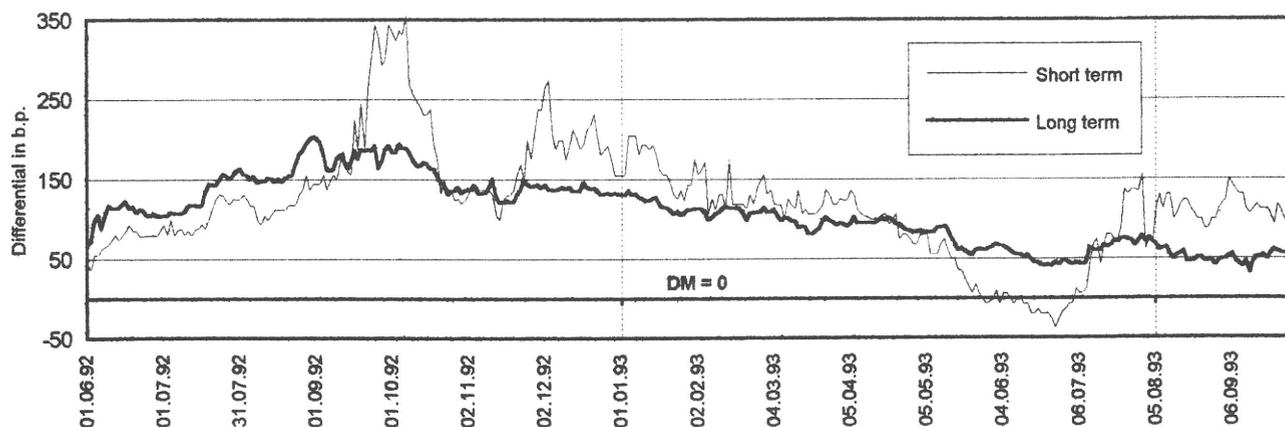
ECU / DM : EXCHANGE RATE



The DM appreciated against the ecu by 1.75 % from 1.96 ecu on 1 July to 1.93 ecu on 2 August. The widening of the ERM bands only let to a limited further appreciation of the DM vis-à-vis the ecu (0.45 %) up to the end of August. In September, the ecu remained quite stable at around DM 1.91.

The FFR which depreciated against the ecu by 1.78 % during July, subsequently volatility increased slightly until the end of August with an exchange rate FFR/ecu of 6.69716. From mid-September onwards, the FFR started to lose ground again and the FFR/ecu exchange-rate levelled at 6.65763 on 1 October.

ECU / DM : INTEREST RATE DIFFERENTIAL



The ecu-DM short-term interest rate differential increased steadily up to the end of July to reach 156 bp.

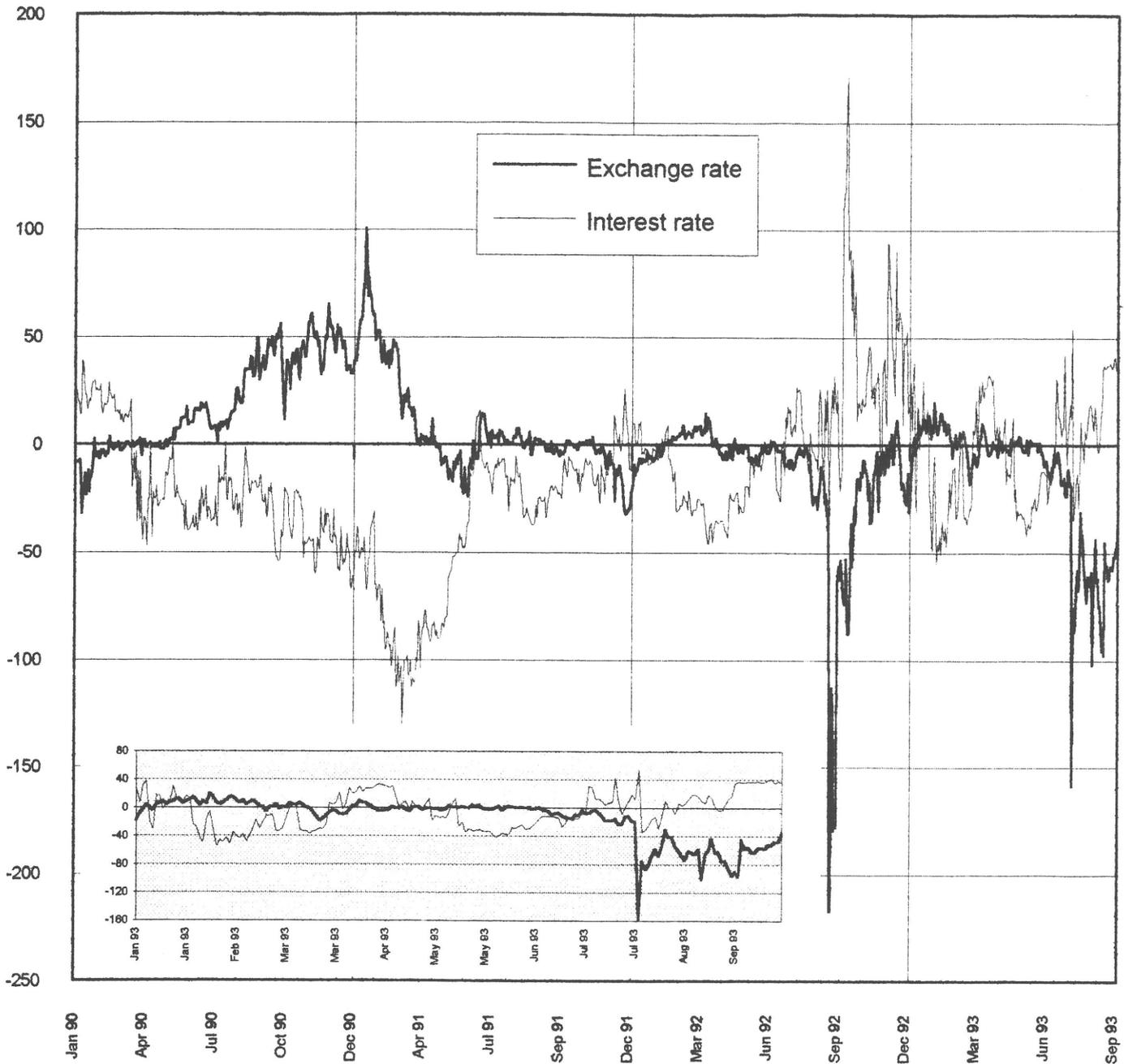
It declined after the Council's decision to widen the ERM bands but remained at the high level of approximately 100 bp reflecting the uncertainty about the further developments in the ERM.

Furthermore, German interest rates fell faster than most other European rates.

VI. EXCHANGE AND INTEREST RATES SPREADS

Last update : 30.09.1993

THEORETICAL VERSUS MARKET RATES SPREADS IN



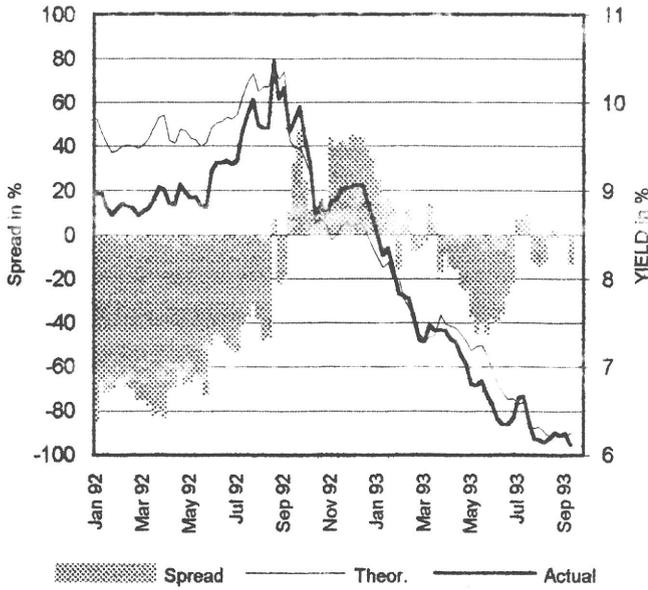
During the first half of 1993, the spread always fluctuated around zero, never exceeding -9 or +11 bp. In July, the ecu suffered from the tensions in the ERM resulting in a persistent negative spread (theoretical=100-market). At the climax of the crisis, the spread reached -159 bp on 2 August, the day of the widening of the ERM bands to $\pm 15\%$. The subsequent day, the spread decreased to -75 bp. Up to the end of September, the discount of the market ecu against the basket ecu has remained within 37 to 97 bp.

From the second week of July, the interest spread (market - basket) was positive and reached its peak on 2 August at 54 bp. As market operators anticipated interest rate cuts in several European countries following the widening of the ERM bands, the 3-month ecu market interest rate dropped by 87 bp on one day and was 35 bp below the respective theoretical rate. Since the expected rate cuts did not occur, market interest rates were corrected resulting in a positive spread.

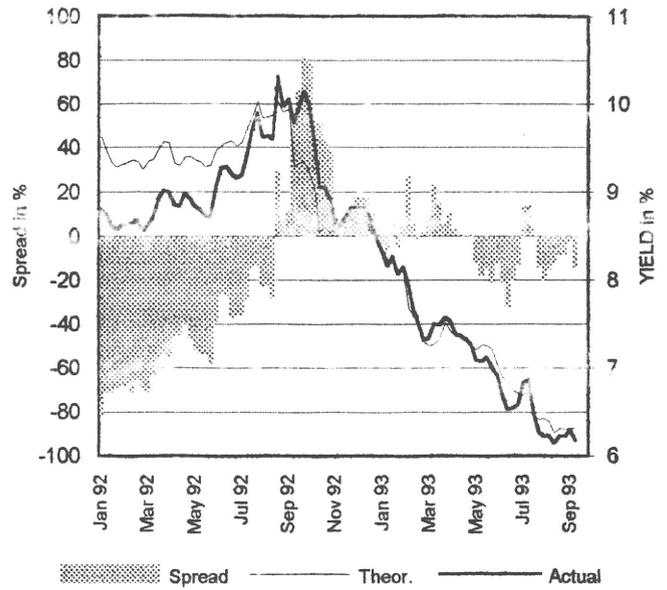
VII. YIELDS

Last update : 30.09.1993

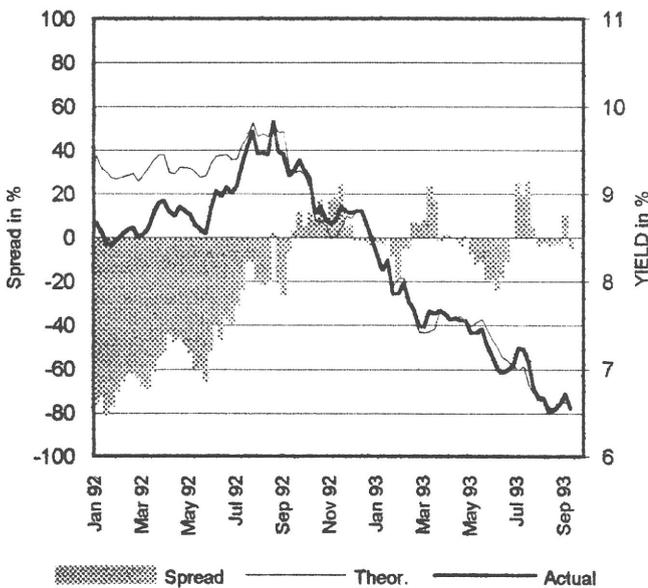
3 YEARS



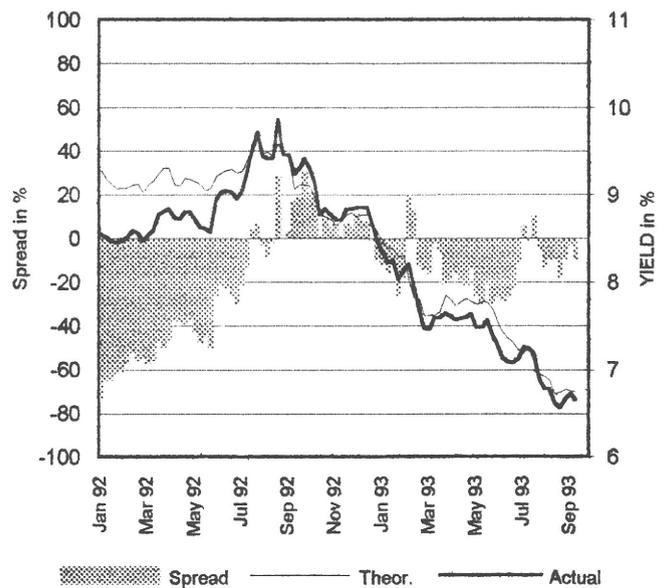
5 YEARS



7 YEARS



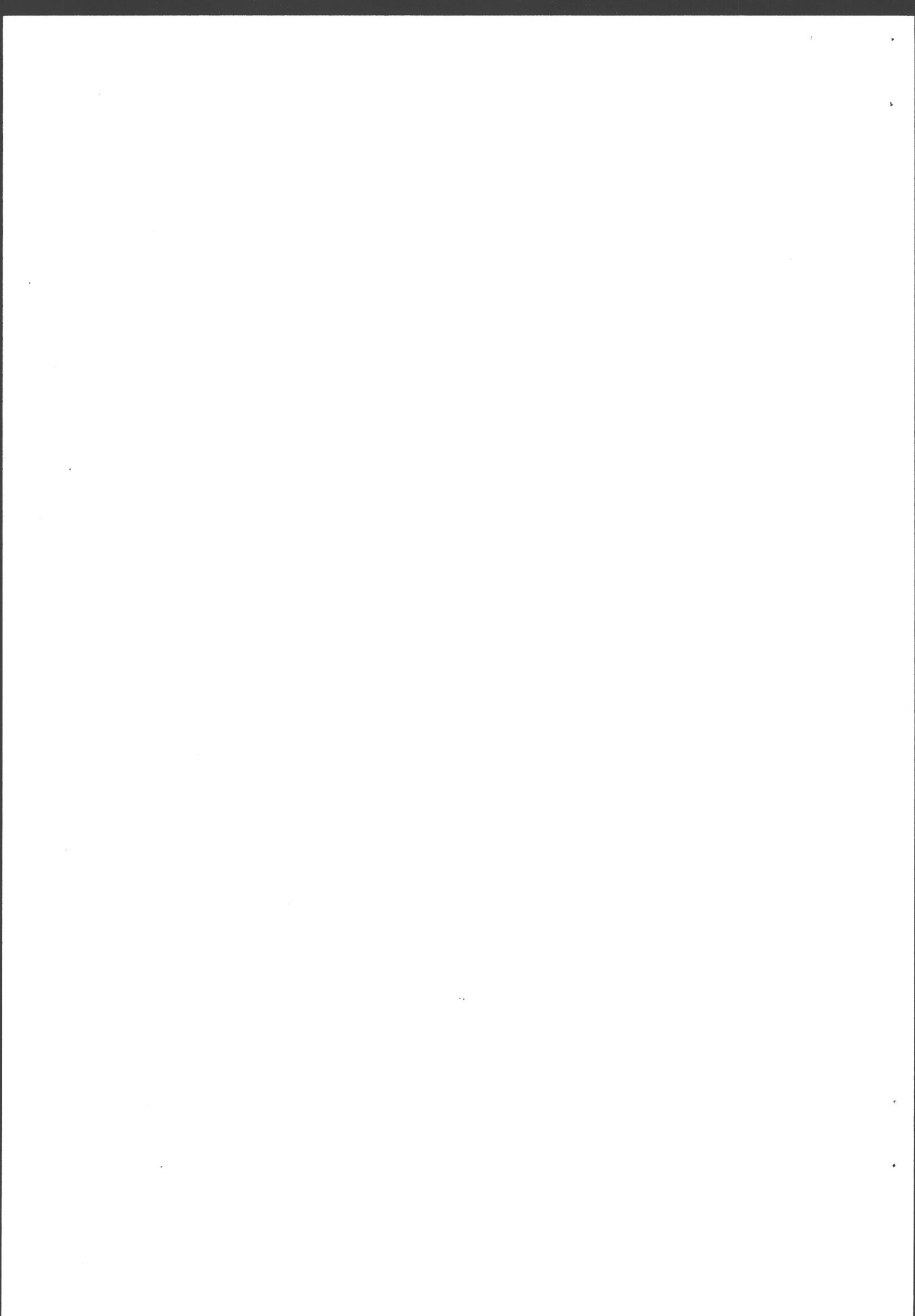
10 YEARS



For all maturities yields continued to fall. From 1 July to 30 September, the 3-year yield dropped by 23 bp whereas the 10-year yields even declined by 44 bp, so that the longer maturities become less attractive for investors.

As a result of the ERM crisis in July, the actual yields passed the theoretical yields and remained higher for about two weeks. Following the widening of the ERM bands, actual passed theoreticals again but the spreads were reduced due to the Russian crisis.

The spreads did by far not reach the levels they had in the first half of 1992, partly because investment is hampered by the uncertainty about the time-table of Maastricht and the future of the ecu.



EXPLANATIONS

PRIMARY MARKETS

SOURCE : IFR, Lux. Stock Exchange, Cedel

Type of issuer E.C. Institutions : European Investm. Bank, ESCC, EURATOM, EC Commission, EC
Member States : EC Governments
Non-E.C. : Non-EC Institutions, non-EC Governments, non-EC Privates
Private Sector : EC and non-EC Private Borrowers

NB : Total is not 100 % because a issuer may be counted in more than one group (ex: non-EC Privates)

Domestic Programmes UK T-NOTES : 3-year Treasury Notes, introduced in 1992
ITALIAN CTE's : from 4-year to 8-year Treasury Certificates, introduced in 1982
FRENCH OAT's : from 5-year to 30-year Fungible Treasury Bonds, introduced in 1989
GREEK ELB's : from 1-year to 5-year Ecu-Linked Bonds, introduced in 1986

REM: payment date is considered

SECONDARY MARKET

SOURCE : Cedel, Euroclear

The average monthly turnover data (based on nominal value) are the sum of Cedel's and Euroclear's data, including issues of 17 countries :the 12 EC countries, the 4 Scandinavian countries and Canada.

Transactions registered are: - clearance between customers : only one side is counted ;
- bridge (Cedel/Euroclear) transactions : double-counting is avoided ;
- physical movements via depositaries : both receipts and deliveries.

Amounts received in US\$ are converted with ecu / UD\$ monthly average exchange rate.

SHORT TERM DOMESTIC PROGRAMMES

SOURCE : Bank of England, Banca d'Italia

UK T-BILLS : Treasury Bills (1, 3 and 6-month maturities), introduced in Oct. 1987
ITALIAN BTE's : 1-year Treasury Bills, introduced in Oct. 1987

DERIVATIVE MARKETS

SOURCE : MATIF, LIFFE, FINEX

MATIF : Ecu Long Interest Rate Futures, introduced in Oct. 1990
Unit of trading: ecu 100.000 (nominal value)
LIFFE : Ecu 3-Month Interest Rate Futures, introduced in Oct. 1989
Unit of trading: ecu 1.000.000
FINEX : Exchange Rate Futures, introduced in Jan. 1989
Unit of trading: ecu 100.000 (nominal value)

EURO NOTES

SOURCE : Bank for International Settlement

Amounts outstanding for commercial paper, other short term Euro-notes and medium term notes

BANKING SECTOR

SOURCE : Bank for International Settlement

TOTAL Assets and liabilities (bank and non-bank)
NON BANK Assets and liabilities (non-bank)

ECU CLEARING THROUGH S.W.I.F.T.

SOURCE : E.B.A.

SWIFT : Society for Worldwide Interbank Financial Telecommunications as telecommunication network used by the E.B.A. ecu clearing system.

Daily private banking transactions cleared in ecu.

EXCHANGE RATE

SOURCE : C.C.E.

EMS currencies' exchange rate movements vis-à-vis ecu , 100 = 01.01.92

INTEREST RATES

SOURCE : Financial Times

E.E.C. currencies short (3-month) and long (10-year) term interest rates differentials against ecu

ECU / DM EXCHANGE AND INTEREST RATES

SOURCE : C.C.E, Telerate

ECU / DM daily exchange rate at 14.15 Brussel's time

ECU / DM short (3-month) and long (10-year) term interest rates differential

ECU EXCHANGE AND INTEREST RATES SPREADS

SOURCE : C.C.E, Reuters, KB

Interest Rates Spread = Ecu Market 3-month Interest Rate - Ecu Basket 3-month Interest Rate

Exchange Rate Spread = 100 - Bid and Offer Exchange Rate Average

(Bid and Offer Exchange rates are expressed vis-à-vis Basket Exchange rate, which is 100)

ECU YIELDS

SOURCE : Deutsche Bank AG London

Theoretical yields : composite yields of bonds traded in component currencies.

Actual yields : yield observed on ecu securities