

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° 3

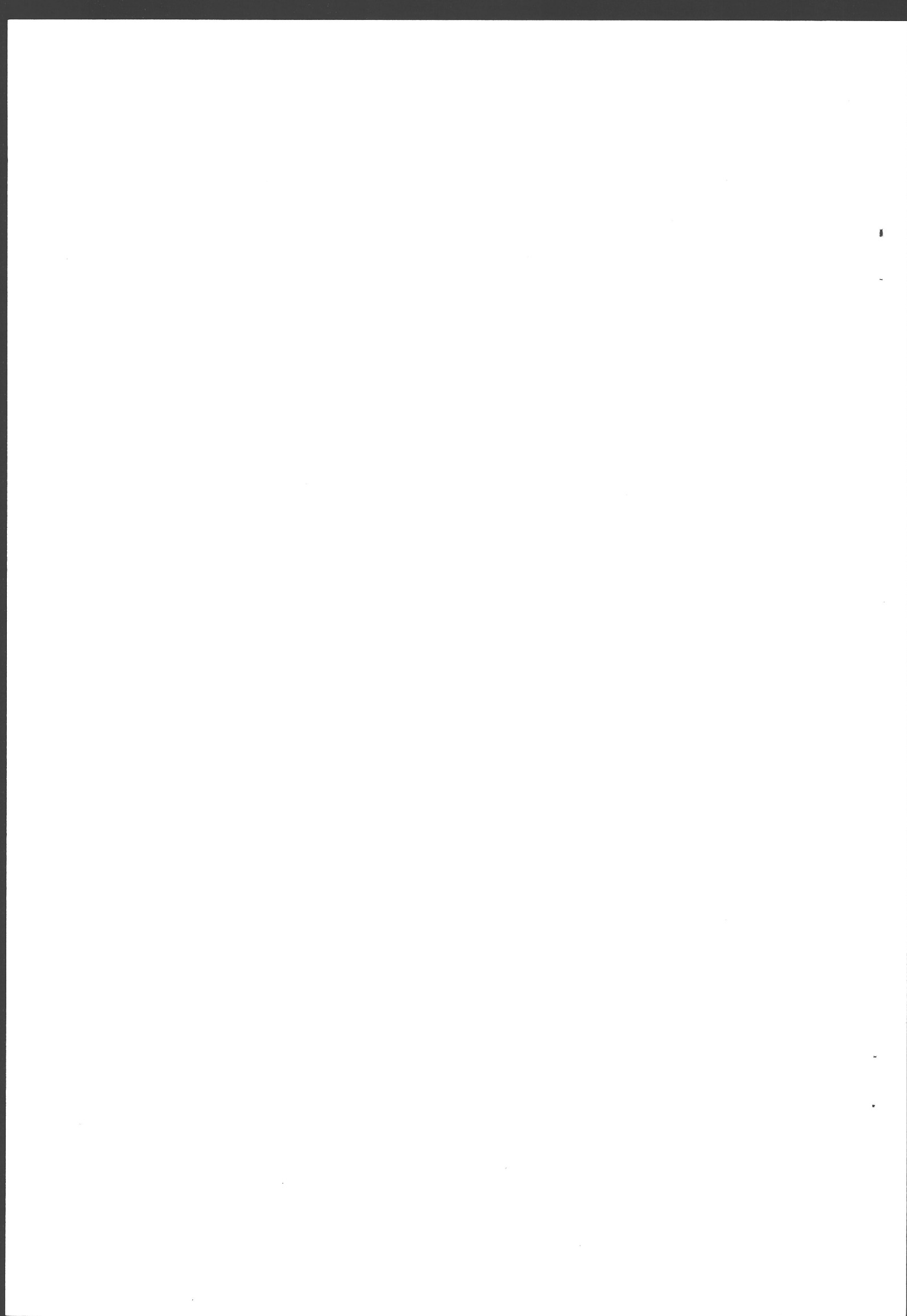
CEE-DGII-D2-ECU

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

- Ecu markets continued to outperform the underlying bond markets, resulting in market yields being persistently lower than theoretical yields.
- The UK, Italy and France continued their programmes of regular short-term and long-term ecu denominated issues.
- Scandinavians have returned to the ecu markets: Finland was the first to issue an ecu 500 mn 5-year note in March, followed by Denmark with an ecu 250 mn 3-year note in May. In June, Sweden launched an ecu 500 mn 7-year bond, which is the first Swedish ecu denominated paper after an absence of four years.
- Several private borrowers stimulated the ecu market and might pave the way for more private issues.
- On June 2, ecu short-term interest rates slipped for the first time below German 3-month rates following the French rate cuts.
- Apart from the regular issues of the UK T-bills and French OATs, the primary market suffers from a lack of issuing activity and the levels of activity of the other markets are still inferior to those of the beginning of 1992.
- Ecu futures contracts performed very well and increased in liquidity.

II. Outlook

- Positive outcome of the second Danish referendum on May 18. Decisions on German and British ratification are expected soon
- July turbulence within the ERM did not impede the successful issue of ecu OAT and ecu Treasury bills. Nevertheless turbulence has a negative impact on market perceptions of the likelihood that the EMU process will proceed.



PART 1

THE ECU MARKETS

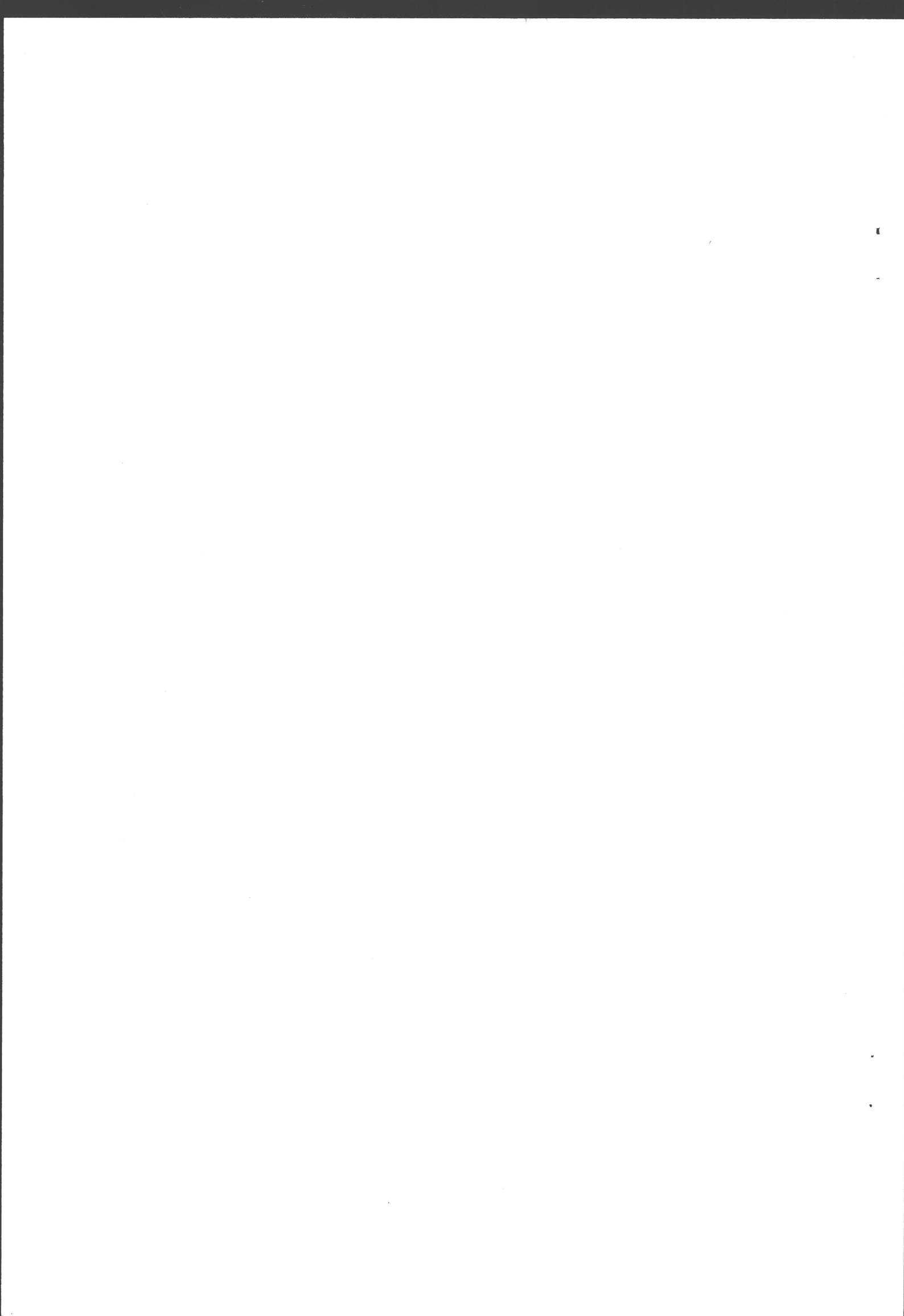
DG II D 2-ECU / E.W. / A.R.

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

1. Markets behaved more smoothly on the way to second Danish referendum
2. Continuing demand for ecu securities
3. Issuing activity
 - 3.1. National programmes
 - 3.2. Private issuers and Sweden back to the ecu market
 - 3.3. Further national programmes in view
4. Derivative markets performing very well

II. Reduction of interest rate differentials

III. Conclusion



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

1. Markets behaved more smoothly on the way to second Danish referendum

On the way to the second Danish referendum on May 18, markets behaved much calmer than a year ago.

Before the first Danish referendum on June 2, 1992, ecu bond market set new records for issuance and ecu bonds had become a component of many large international bond portfolios. On the assumption that ecu bonds were to form the single European bond market, demand for ecu bonds increased even faster than supply, leading to a situation in which actual ecu bond yields were up to 60 bp below the theoretical level.

Due the negative outcome of the first Danish referendum and the subsequent financial and monetary crisis, ecu markets suffered a loss of confidence. The result was that actual yields rapidly approached the theoretical level, surpassed it by August and remained higher till the end of 1992.

From the beginning of 1993 onwards, especially the UK, France and Italy gave back confidence to the market as they continued their issuing programmes of Treasury-bills and bonds. In anticipation of a positive outcome of the second Danish referendum some market players who left the ecu in 1992 re-entered the market and also demand from retail investors especially from Belgium and Switzerland increased. Thus, throughout the first quarter of 1993, the spread between actual and theoretical interest rates narrowed again to slip below the theoretical level. Whereas in the case of the 3, 5 and 7 year securities this occurred in April/May, by January this was already true for the 10 year yields. From April 1, up to the date of the second Danish referendum, the spread remained quite limited for all four maturities (between -10 bp and -30 bp) but increased by more than 10 bp on May 17 (see graphs on page 14).

2. Continuing demand for ecu securities

Despite the positive Danish referendum on May 18, 1993, traded volumes on the secondary market remained disappointingly thin with an average monthly turnover of about ecu 72.05 bn in June against ecu 131.76 bn in the best month of 1992.

On the one hand investor interest has been growing under the prospect of speculative gains in a period of interest rate reductions all over Europe. On the other hand some demand derives from the redemption flows from maturing ecu bonds. But the potential demand as well from institutional as retail investors could not be satisfied by the low number of new issues.

Given the faster reduction of long-term interest rates of ecu bonds in comparison with other currencies, shown by the large gap between market rates and basket rates, the ecu market should have gained in attractiveness for borrowers. Nevertheless, in the first half of 1993, the ecu occupied only 9th place of the most used currencies for bond issues as, in the second quarter of 1993, the quantity (10) and the total value of new issues (ecu 3 505 mn) remained quite low in comparison to nearly ecu 10 bn issued in the second quarter of 1992. Reasons for this are firstly that private borrowers still hesitate given the uncertainty about the future of EMU, and secondly that swap rates are considered unattractive at present being too close to actual yields.

3. Issuing activity

However, in the second quarter of 1993, especially the UK, Italy and France have continued their ecu issue programmes. Also some Scandinavian countries and even private borrowers have returned to the market.

3.1. National programmes

In addition to the ecu 750 mn 3-year CTE, issued mid-May, the Italian Treasury sold ecu 500 mn of 5-year CTE on June 25. According to the Bank of Italy, the Italian Treasury might react to positive market reception (demand of ecu 1 432 mn surpassing supply more than twice) with a further issue of short-term BTE or of long-term CTE.

Two more issues with a 3-year maturity were launched by the UK and Denmark, respectively. Whereas the ecu 500 mn UK T-note tendered in April met a demand of 2 068 mn, the market reception for the Danish ecu 250 mn issue was mixed as some major operators complained that the pricing of 5 to 10 bp below the comparable UK 3-year T-note was too aggressive. The disturbance of markets by the Danish issue might be an explanation for the fact that despite the Danish ratification the next ecu issue was not due to follow before June 25.

3.2. Private issuers and Sweden back to the ecu market

A good sign for the markets has been set by 4 private issuers who all came to the market with 5-year bonds. In addition to the ecu 55 mn from Highway Finance Ltd, the issues from Eutelsat and the Compagnie Bancaire (ecu 100 mn each), especially the ecu 500 mn issued by MGI Securities Obligation which add up to the ecu 300 mn sold in March 1993 might give a new stimulus for further private borrowers.

Furthermore, two issues were made with a 7-year maturity: EIB launched 150 mn in April, and in June Sweden sold ecu 500 mn, which was the first Swedish ecu issue after an absence of four years. According to the Swedish National Debt Office the motive to issue an ecu bond was on the one hand that the ecu issue offers a good opportunity to fund in the basket currencies with the ecu showing competitive funding costs. On the other hand they relied on the strengthened demand in the ecu market after the positive outcome of the Danish referendum.

3.3. Further national programmes in view

Another issue of a French OAT within the ecu programme which targets 15 % of the total 1993 government borrowing in ecu was widely expected to take place in the second quarter of 1993. The French Treasury postponed the second issue until July as it was too busy with the large "Balladur Bond" in French franc. As soon as this issue was successfully launched, the Treasury issued its ecu OAT (payment date is July 25) which is assigned to the second quarter of 1993.

As the programme announced one issue every quarter, two more issues might be placed in the second half of 1993. Up to now, France has issued ecu 710 mn in January and ecu 500 mn in July as 10 year OAT and ecu 2000 mn as BTAN. Compared with the total funding requirement of FRF 330-340 bn in 1993 which equate ecu 7.7 bn, additional ecu 4.49 bn OAT or BTAN might follow in the second half of 1993.

Belgium has also been regarded as a potential issuer in ecu but -as is already the case for France- Belgium also considers the current market conditions to be unattractive with Belgium rates below ecu rates. In June 1992 Belgium signed an ecu CP programme which might be started as soon as markets provide conditions which allow a regular issuance.

In order to fulfil the requirement of the Maastricht Treaty which will forbid the Bank of Spain to provide credit lines to the Spanish Treasury, the Kingdom of Spain established long-term liquidity by an ecu 4 bn 3-year revolving credit facility.

4. Derivative markets performing very well

The LIFFE short-term interest rate futures contract has gradually increased its trading volumes and open interest. In the first half of 1993 the number of monthly traded contracts doubled from 36 133 in January to 67 022 contracts in June. Compared to 25 222 contracts traded in June 1992, this is an increase of 166 %.

Several reasons have contributed to this development. First of all, the increase in the derivative market is based on growth on the underlying markets. As the deposit markets, forward rate agreements and swaps increased, the need for hedging the position on those markets also grew.

The second reason is the successful implementation of a new market-makers scheme. A number of banks are participating in this scheme committing themselves to quote bid and offer prices and thereby guaranteeing higher liquidity to the futures contract.

Also trading volumes in ecu futures contracts at MATIF remained quite high, as, despite the fact that the primary ecu market did not reach the levels of the first quarter of 1993, the number of outstanding cash bonds remained significant. Especially under the view of continuing uncertainties about EMU, there is a need to hedge the existing bond positions (in June, 97 000 MATIF long-term interest rates futures contracts were traded compared to 212 000 in June 1992 but only 55,000 in June 1991).

II. Reduction of interest rate differentials

Convergence has been underpinned by improving political and economic fundamentals and led to a fundamental reduction of interest spreads between the EC currencies. The more convergence will be achieved by the Member States, the better the ecu bond markets will perform.

In the second quarter 1993, the situation seemed to have relaxed as the French franc firmed vis-à-vis the DM although interest rate cuts in France were above those of Germany. The risk premium for the French franc has not only disappeared but in June, the franc reached even a lower short-term interest rate than the DM. It now depends on the further development of the French economy and the resulting expectations of the markets whether this evolution can continue.

Equally it can be noted that, in June, the differential between the ecu and the DM interest rates has reached historically low levels with the spread at the long end against bunds tightening to 48 bp (30.06.93) and interest rates at the short end even being up to 37 bp (25.06.93) lower than DM . Despite a German interest rate release and a

slight increase in ecu rates in the last week of June, the 3-month spread remained negative (-13 bp on June 30)

There are several reasons that may explain the new evolution of ecu rates vis-à-vis those of the DM.

- After the withdrawal of the British Pound and the Italian Lira from the Exchange Rate Mechanism in mid-September 1992 and later the devaluations of the Irish punt, the Spanish peseta and the Portuguese escudo, the short-term interest rates of these currencies began to decrease and according to their significant weight in the ecu (ca. 30 %), the ecu three-month interest rate has lowered from 12.31 % on 5/10/1992 to 7.44 % on 22/06/1993.
- The end of political uncertainty in France and the continued policy of the "Franc fort" of the new government have increased the confidence of market operators, temporarily allowing a reduction of the French interest rates without the risk of tension on the exchange rate.
- By contrast, in order to control the inflationary tensions in the aftermath of the reunification the Bundesbank has introduced a prudential policy of interest rate release.

The further development of interest rates depends strongly on markets expectations especially concerning which country will be the first to get out of recession. The recent evolution can quickly be inverted again indicated by the fact that despite the last interest rate cut on July 2 (Lombard rate by 25 bp and Discount rate by 50 bp) the DM gained ground in the ERM.

III. Conclusion

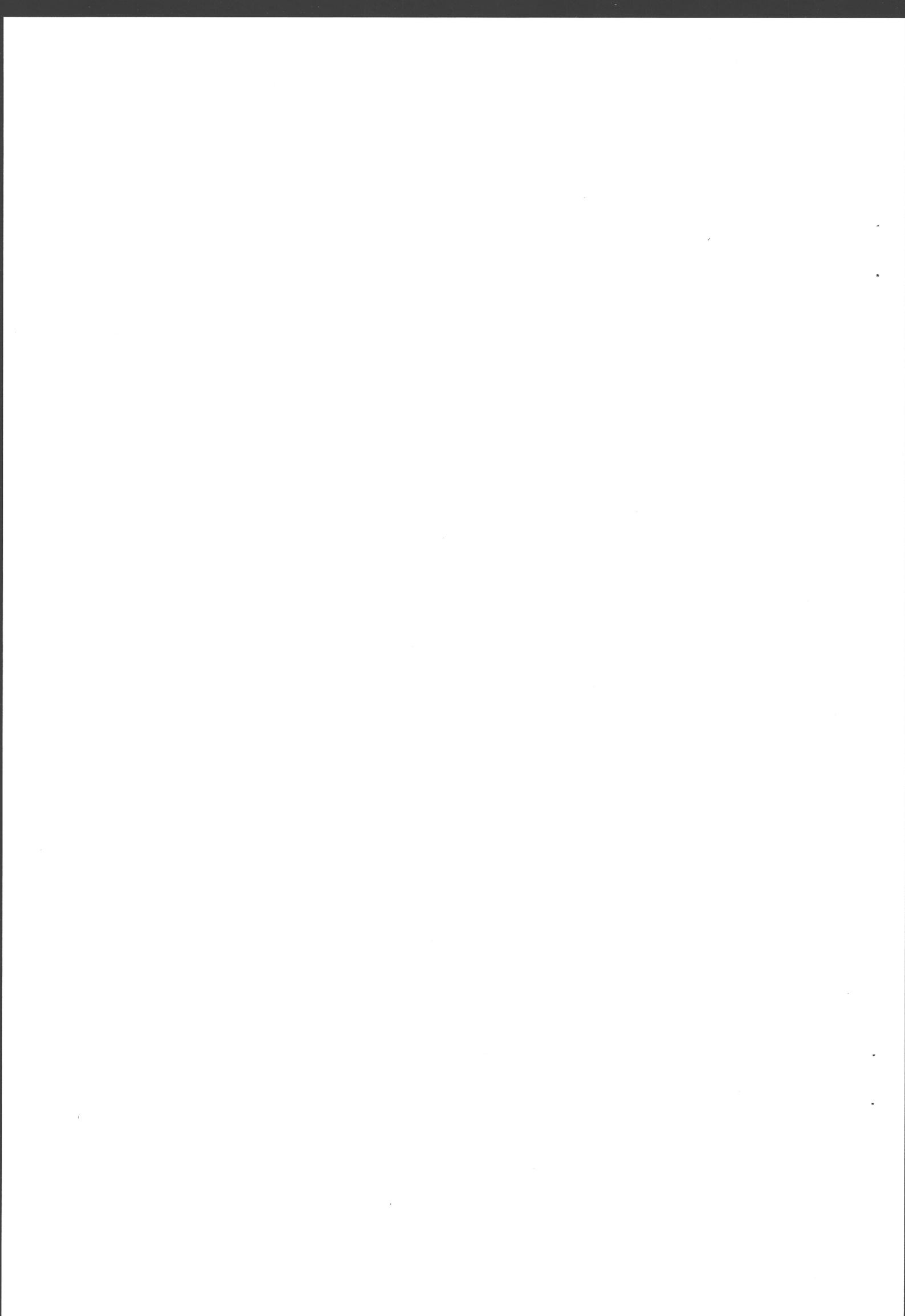
Despite the strong demand for all maturities current activity does by far not reach the exceptional levels of the first half of 1992, where issuing activity reached new records with nearly ecu 25 bn. Since the positive impact of the Danish ratification was not strong enough to lead to a real recovery of the markets, it is now to wait for the UK and German ratification. When the ratification process has been finished and the steps which are to be taken during stage II are specified in detail, markets will react with more activity.

PART 2

STATISTICAL REVIEW AND ASSESSMENT

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

	Page
I. FINANCIAL MARKETS	
A. Primary bond market	1
B. Secondary bond market	4
C. Short term domestic programmes	5
D. Derivative markets	6
E. Euro notes	7
II. BANKING SECTOR	
A. Assets and liabilities	8
B. Ecu clearing through S.W.I.F.T.	9
III. EXCHANGE RATES	10
IV. INTEREST RATES	11
V. ECU / DM : EXCHANGE and INTEREST RATES	12
VI. EXCHANGE and INTEREST RATES SPREADS	13
VII. YIELDS	14
<hr/>	
EXPLANATIONS	15, 16



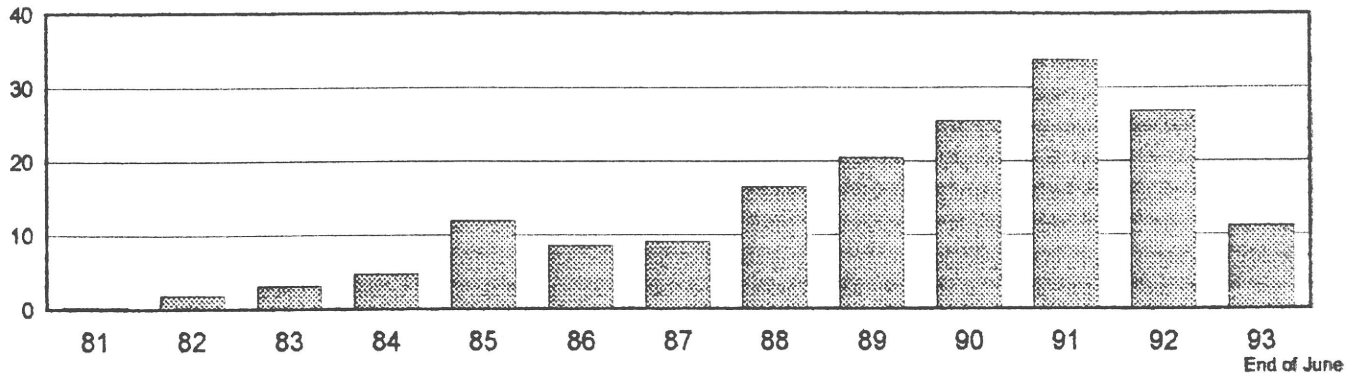
I. FINANCIAL MARKETS

A. PRIMARY BOND MARKET

(Amounts issued in Billions Ecus)

Last update : 30.06.1993

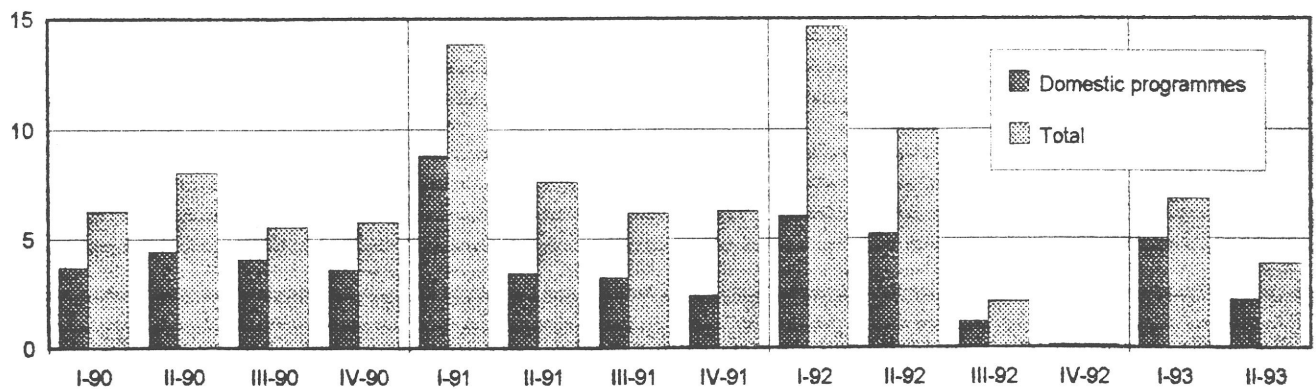
Historical Evolution



From 1986 to 1991 issuing activity grew steadily to reach a peak 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 where the volume of ecu bond issues increased further up to ecu 24.6 bn but financial turbulence and the ERM crisis of September provoked a near-halt of issuing activity in the second half of 1992.

The positive outcome of the Edinburgh summit in December 1992 gave a new stimulus to the market. In the first half of 1993, France, Italy, the UK, Greece and EC Institutions (EIB, EEC) as well as some private borrowers issued a total of ecu 10.67 bn, nevertheless, the market remained sensitive to the continuing uncertainty about the ratification of the Maastricht Treaty and, despite the existing strong demand, has by far not met the amounts issued in the previous years (1st. half 1991: 21.4 bn and 1st. half 1992: 24.6 bn).

Recent Evolution



After the ecu 6.8 bn issued in the first quarter of 1993, the volume of issues in the second quarter was rather thin with ecu 3.87 bn despite the existing demand.

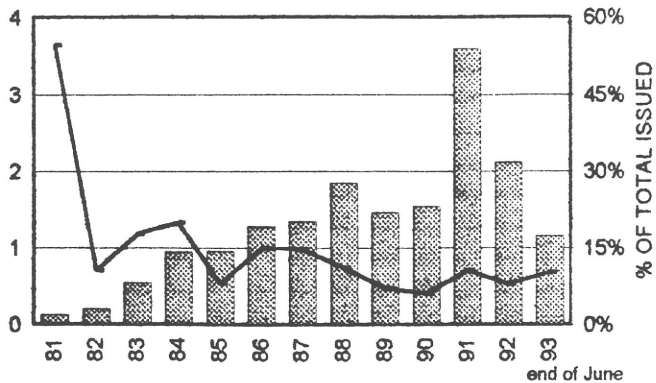
In the second half of April, the UK, Italy and the EIB launched a total of ecu 1.4 bn and the first private issue since the September crisis was launched by MGI, followed by Eutelsat on May 11.

After a period of hesitation before the second Danish referendum, Denmark was the first to launch an ecu 250 mn issue one day after the positive outcome. The aggressive pricing of this bond disturbed markets slightly, so that the next issues followed only in the last week of June.

Although the Scandinavians gave up their exchange rate peg to the ecu, Finland and Sweden returned to the market, both with ecu 500 mn.

Bonds by type of issuer

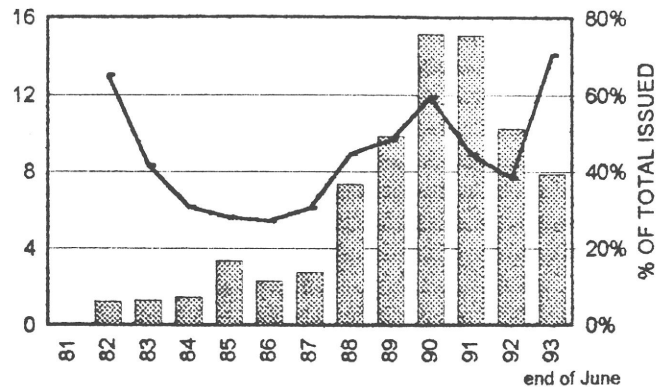
E.E.C. INSTITUTIONS



In mid-April, the European Investment Bank launched ecu 150 mn as a second tranche of the 7-year ecu 500 mn bond issued in March 1993, which met demand from especially Swiss and Benelux retail investors.

As this was the only ecu bond issued by EEC institutions, their share in total ecu issuing activity dropped to 3.9 % in the second quarter compared to 14.7 % in the first quarter.

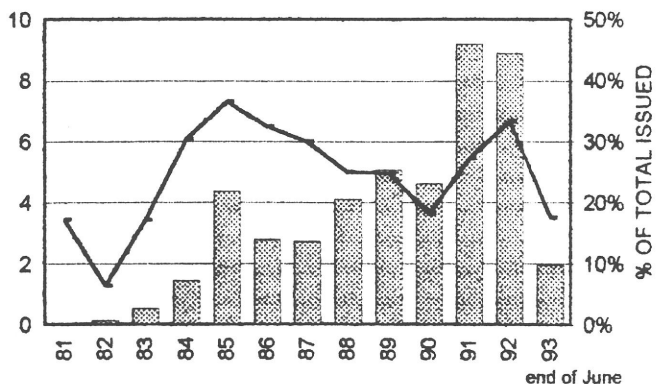
MEMBER STATES



In the second quarter, Member States had a share of 63.7 % of total issuing activity after 75 % in the first quarter.

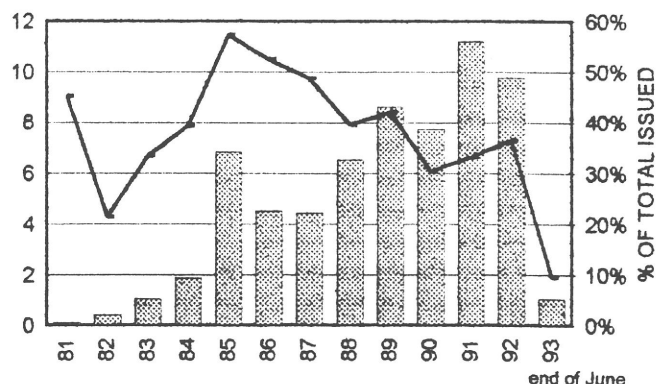
Especially France, Italy and the UK continued their regular issuing programmes, and Denmark came back to the market

NON E.E.C.



In June, Sweden followed Finland (ecu 500 mn in March) to re-enter the market with a successfully placed ecu 500 mn 7-year bond.

PRIVATE SECTOR



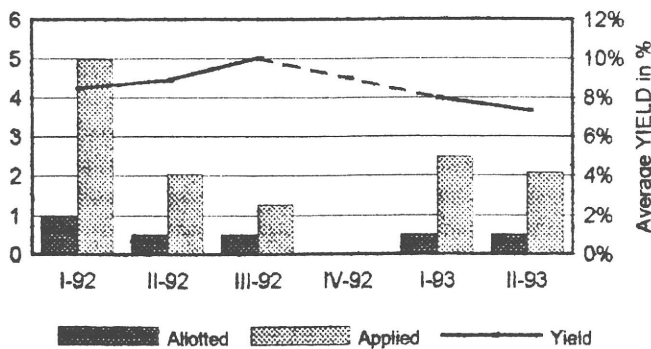
Four private issuers came back to the market in 1993, all with 5-year paper:

- Highway Finance Ltd. ecu 55 mn in April,
- MGI Secured Obligations ecu 300 mn in March and 500 mn in May,
- Eutelsat ecu 100 mn in May,
- Compagnie Bancaire ecu 100 mn in June.

After six months without any private issue, the share of the business sector's issues reached 10 % with ecu 1.055 bn in the first half of 1993.

Long Term Domestic Programmes

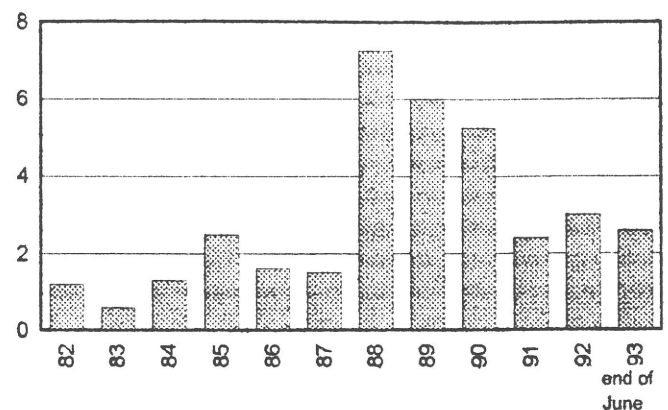
UK T-NOTE PROGRAMME IN ECU



On April 20, the Bank of England offered ecu 500 mn UK 3-year notes which met a demand of ecu 2 068 mn. These notes add to the ecu 500 mn of the same security sold at the tender on February 2, 1993.

The next UK T-note tender will take place on July 20, 1993.

ITALIAN TREASURY CERTIFICATES IN ECU (CTE's)

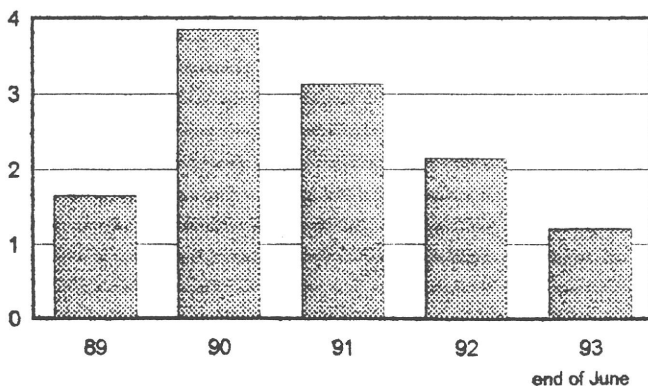


On April 15, the Italian Treasury launched an issue of ecu 750 mn. This is the third tranche of the CTE, due February 1996, of which ecu 500 mn were issued on February 22, and ecu 750 mn on March 19.

An additional 5-year CTE of ecu 600 mn was tendered on June 22. Market reception proved to be positive given a demand of ecu 1 432 mn.

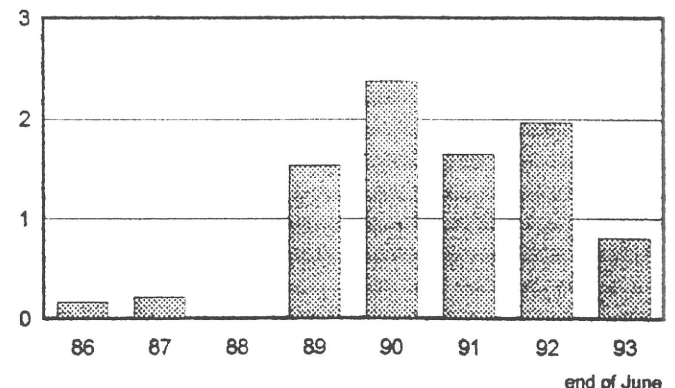
The net yield for the 3-year February CTE issue rose from 7.7 % in February to 8.16 % in April, whereas the June 1998 CTE provided a net yield of 7.02 %.

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. Thus, two further French OAT issues are expected to follow in the third and fourth quarter of 1993, respectively.

GREEK ECU-LINKED BONDS



The regular monthly issues of 1- and 3-year bonds reached a total amount of ecu 804.1 mn up to May 17.

Following the general interest rate release, the 1 year securities dropped from 9.50 % gross yield at issue date in January to 7.9 % in May.

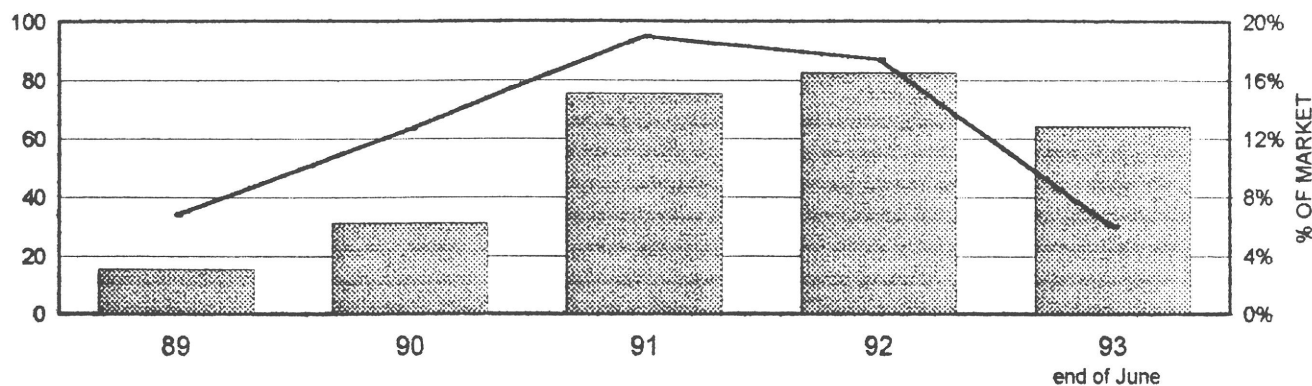
The 3-year bonds ran parallel and decreased from 9.35 % in January to 8.0 % in May.

B. SECONDARY BOND MARKET

(Billions Ecus)

Last update : 30.06.1993

Historical Evolution (Average Monthly Turnover per Year)

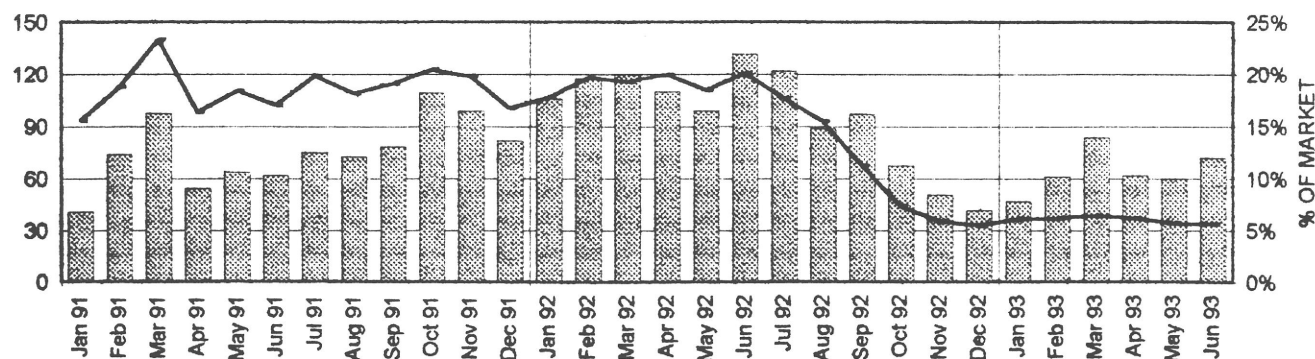


The average monthly turnover of ecu bonds increased quite steadily until mid 1992. In June 1992 it amounted to 131.8 bn, bringing the ecu market-share to 20 % of the secondary bond market.

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)



Due to the recovery on the primary market the secondary market has strongly rebounded since the beginning of 1993. With an average monthly turnover of 83.5 bn in March 1993, the average volume of 1992 was even exceeded, while the ecu share of bond turnover remained at the low level of 6 %.

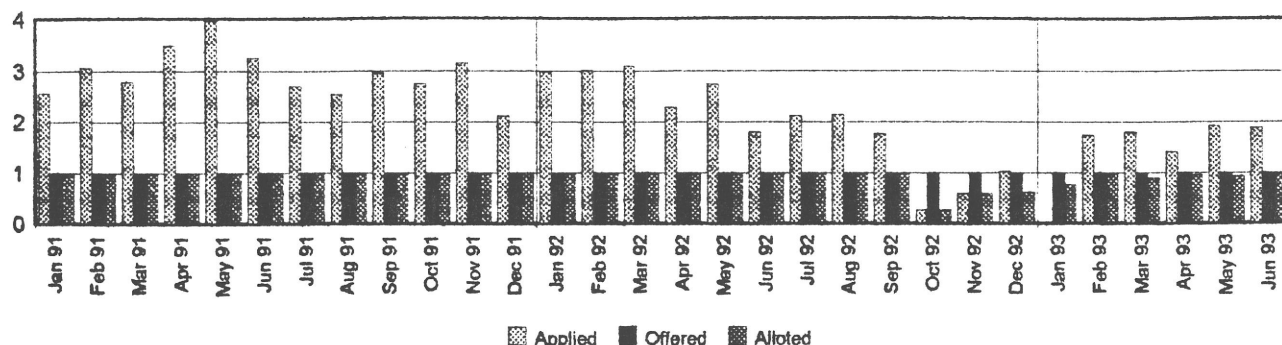
Since the second quarter of 1993 was again marked by a low issuing activity, the secondary market suffered a decline in monthly average turnover to about ecu 60 bn and the ecu's share dropped below 6% to reach 5.66 % in May. Despite an increase in monthly average turnover in June to ecu 72.05 bn, the ecu's share continued to decline to 5.62 %.

C. SHORT TERM DOMESTIC PROGRAMMES

(Billions Ecus)

Last update : 30.06.1993

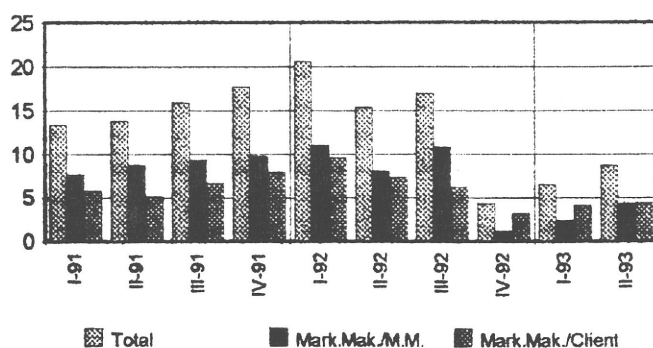
BRITISH TREASURY BILLS Primary market



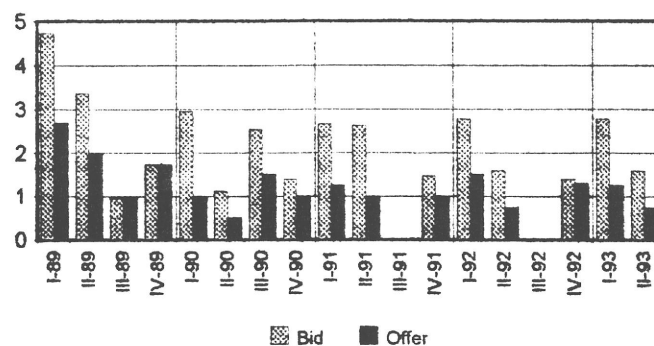
As part of its monthly ecu 1 bn T-bill programme, on April 13, the Bank of England offered ecu 300 1-month, ecu 300 3-month and ecu 400 6-month bills. The tender was oversubscribed at the 1- and 3-month securities whereas the 6-month bills were not fully subscribed by tenderers.

From May onwards, in order to respond to the stronger demand for the 3-month bills the Bank of England has adjusted the pattern of issuance within an unchanged total of ecu 1 bn. The 1- and 6-month bills have been reduced by ecu 100 each and the 3-month tranche has been increased by 200 mn to 500 mn. After the May tender where the 3- and 6-month bills were oversubscribed but only 130 mn of 1-month bills could be allotted, the June tender proved to be more successful. The ecu 1 bn on offer met applications of ecu 1 883 mn, and being oversubscribed at all maturities were allotted in full. All tenders were characterised by a fall of interest rates in all maturities, e.g.; the average yield on bills allotted to tenderers for 3-month bills dropped from 8.59 % in April to 7.42 % in June, compared with the 3-month market ecu yield of 7.56 % in June.

BRITISH TREASURY BILLS Secondary market



ITALIAN TREASURY BILLS Primary market



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

On May 26, ecu 750 mn BTE were issued, which met a demand of ecu 2.452 mn.

Following the general interest rate decline across Europe, the Italian CTE net yield fell from 9.09 % in January to 8.42 % in February and reached 7.13 % in May.

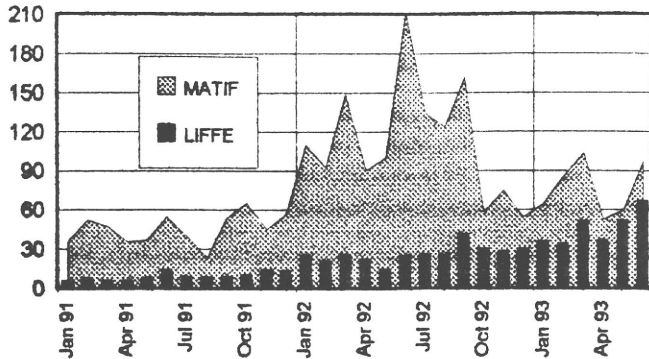
D. DERIVATIVE MARKETS

(Billions Ecus)

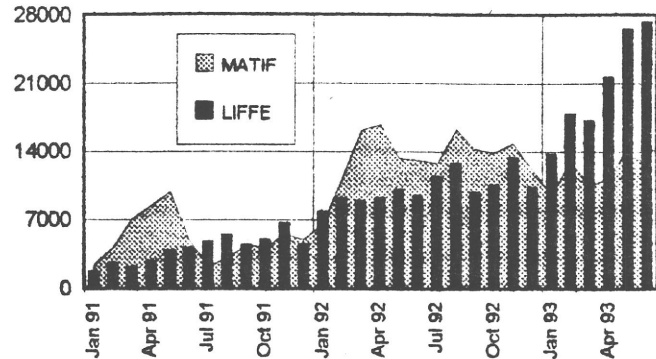
Last update : 30.06.1993

LIFFE and MATIF Futures Contracts

Monthly Turnover
(thousand contracts)



Open Contracts
(end of month)



LIFFE AND MATIF

Despite the fact that the primary ecu market did not reach the levels of the first quarter of 1993, trading volumes in ecu futures contracts at MATIF and at LIFFE even increased.

MATIF

The number of traded long-term interest rate futures contracts fluctuated between 394 and 7,703 contracts a day but was on average about 3,000 contracts per business day.

After the peak of activity in March, when the total of monthly traded contracts reached nearly 104,000 contracts, in April this number fell back to 53,000 and then increased again to level at 60,000 contracts in May and 97,000 contracts in June.

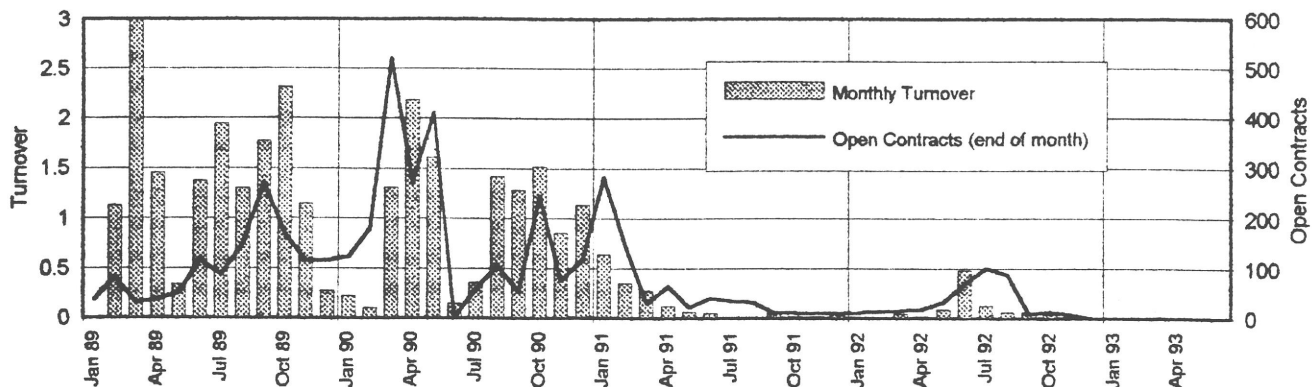
In the first half of April, the MATIF contract came under pressure, resulting in a price of 112.64. In June, the contract became extremely expensive and passed for the first time the price of 116.00 which was partly grounded in technical reasons and in interest rate falls.

LIFFE

Short-term interest rate futures contract undertook a tremendous increase in the first half of 1993, nearly doubling from 36,133 contracts in January to 67,022 contracts traded in June. Compared to 25,222 contracts traded in June 1992, the monthly traded number of contracts increased by 166 %.

Open interest in the ecu futures has risen from 17,178 in March to 27,370 in June.

FINEX Ecu / Dollar Options Contract

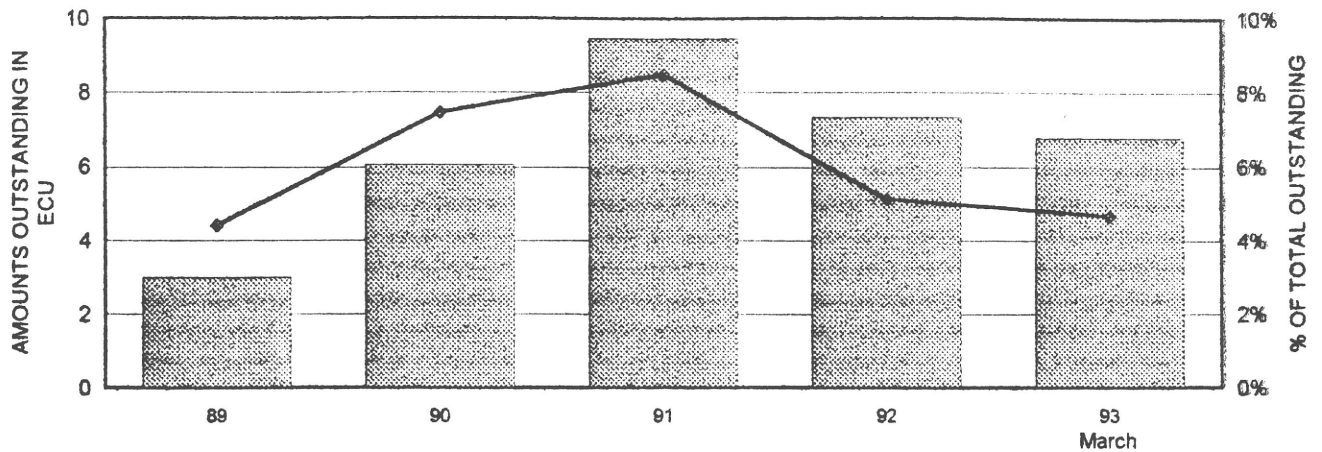


During the second quarter of 1993 no FINEX ecu contracts were traded.

E. EURO NOTES

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

Last update : March 1993



The outstanding amounts of Euro-notes continued to decline and reached ecu 6.8 bn in the first quarter of 1993. All three components of the Euro-note market decreased, with euro-commercial paper and other short-term paper each declining by ecu 100 mn to ecu 2.0 bn and ecu 2.4 bn, respectively, and the amount of outstanding Medium-term notes falling by ecu 200 mn to ecu 2.5 bn.

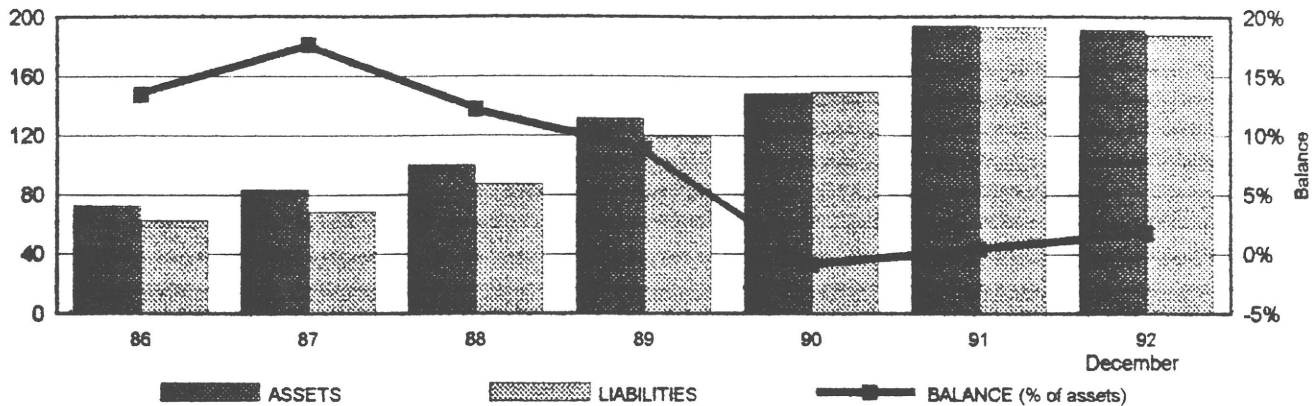
II. BANKING SECTOR

A. ASSETS AND LIABILITIES

(Billions Ecus)

Last update : End of December 1992

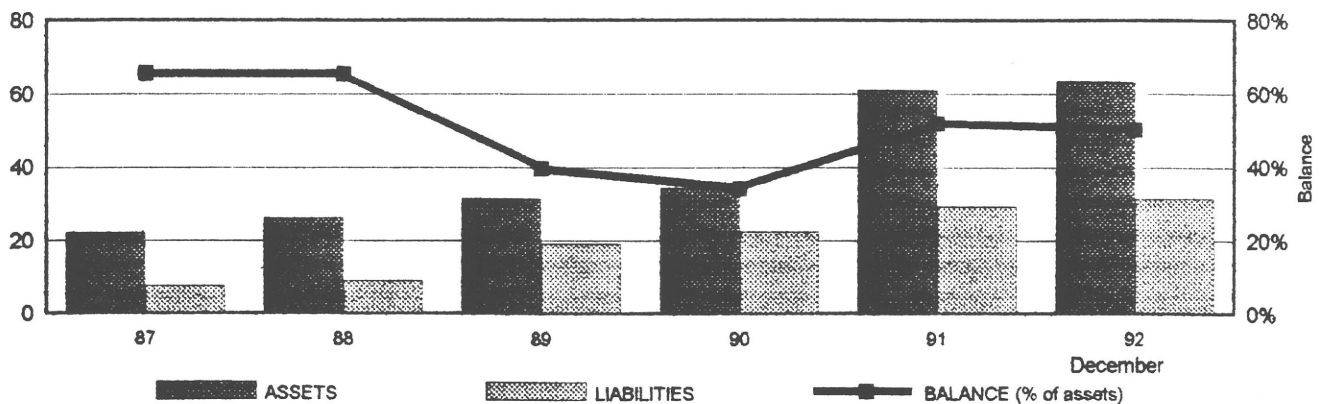
TOTAL



The banking market has not followed the same evolution as the ecu bond market. After the continuous growth during the first half of 1992 with assets reaching ecu 198 bn and liabilities levelling at ecu 210 bn, the activity of the ecu banking sector has remained quite stable in the third quarter of 1992 and decreased slightly in the fourth quarter. The total amount of assets was ecu 191.29. Liabilities dropped to ecu 187.82 bn, the reduction was mainly due to a decline in banks' liabilities.

In contrast to the first two quarters of 1992, where liabilities exceeded assets, in the fourth quarter of 1992, liabilities were 1.81 % lower than assets.

NON-BANK



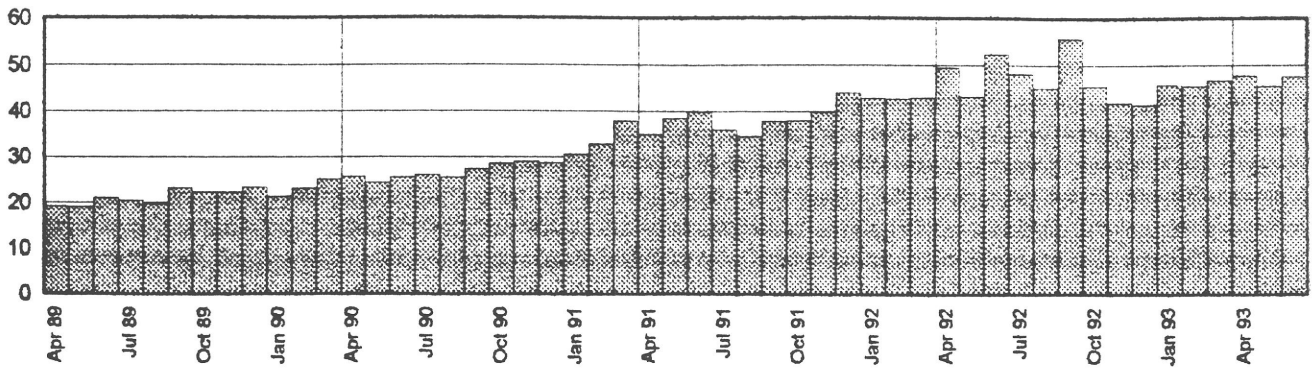
Non-bank commitments in ecu (33 % of the total ecu banking market) remained quite stable. As liabilities decreased by ecu 3.31 bn whereas assets increased slightly to ecu 63.36 bn, the gap between assets and liabilities continued to widen and reached 50.32 % of assets.

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

(Billions Ecus)

Last update : 30.06.1993

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 the amount suffered a slight set-back and levelled at ecu 42 bn.

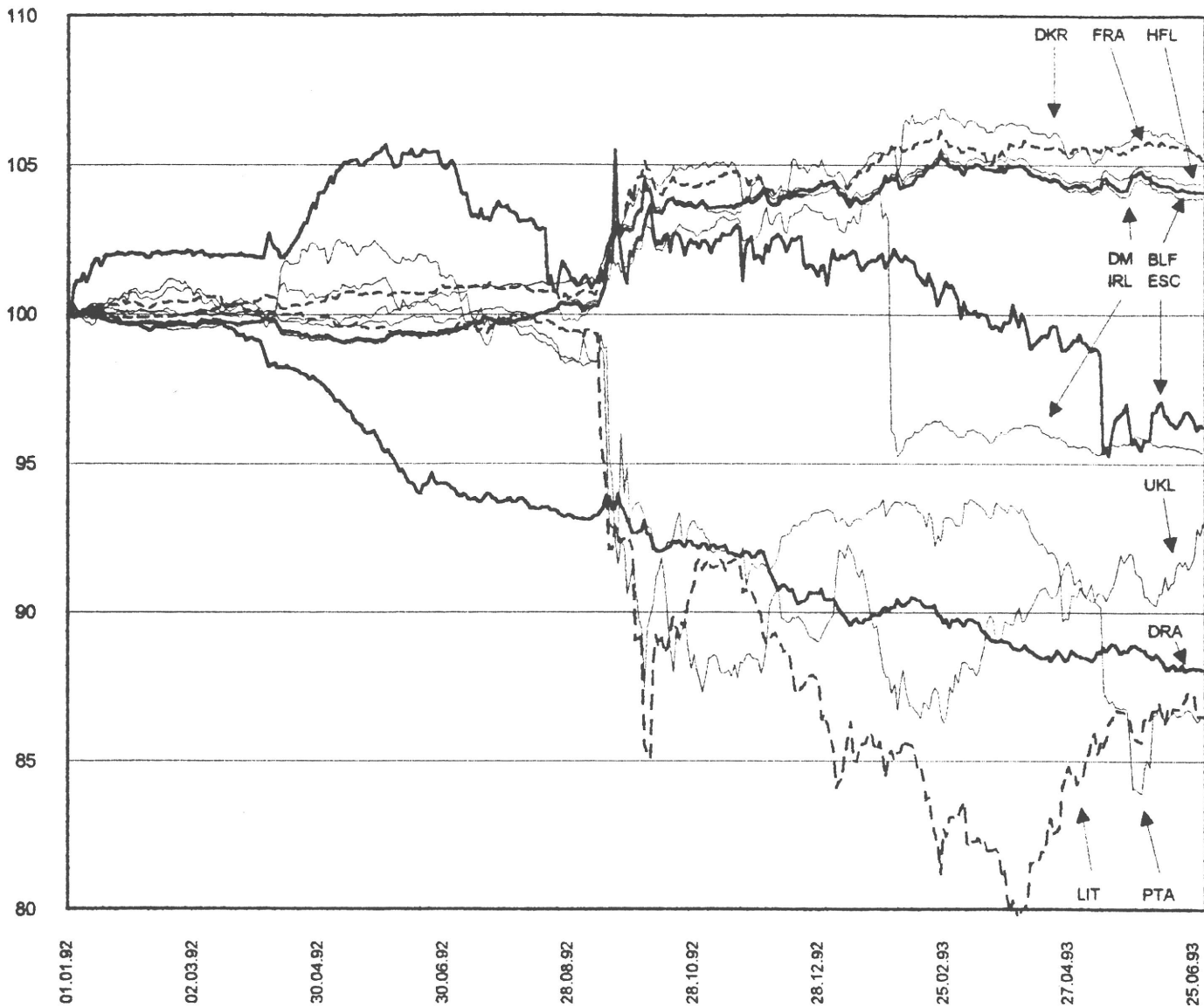
From January 1993 on, the ecu clearing rose again and reached a daily average turnover of ecu 47 bn in March, thus exceeding the daily average turnover of ecu 46 bn in the year 1992. This amount was maintained during the second quarter of 1993 and levelled at ecu 47.59 bn in June.

III. EXCHANGE RATES

Last update : 30.06.1993

EXCHANGE RATE MOVEMENTS VIS-A-VIS ECU

100 = 01.01.1992



From Easter until May 13, the IRL remained at the top of the ERM. The Dutch Guilder and the Belgian Franc have maintained their strong position in the parity grid.

Despite interventions and high interest rates, the escudo and the Peseta (uncertainty created by general elections in June) lost ground. Thus, on May 13, the Peseta devalued by 8 % in a third realignment accompanied by a 6.5 % devaluation of the escudo.

The French franc recovered as a result of the new French governments strong reaffirmation of the "Franc fort" policy. Nevertheless, it is currently at the bottom of the grid and prone to further bouts of speculation. Although the DM is now in the lower half of the band it seems to have maintained its role as the anchor of the EMS.

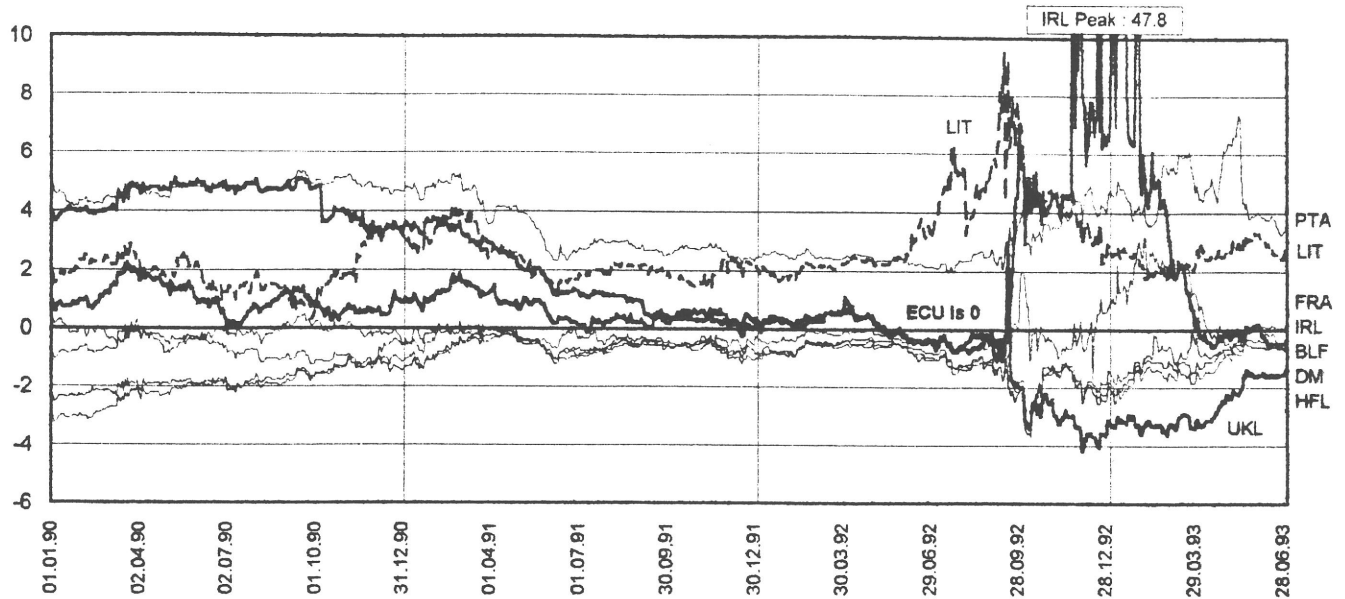
The uncertainty concerning the outcome of the second Danish referendum on May 18, caused some pressure against the Danish krone but following the "yes"-vote the DKR has consolidated its gains but then has again be put under pressure.

Outside the ERM, sterling continued its recovery following release of more favourable data on the UK economy but subsequently weakened due to uncertainty around Maastricht ratification and expectations of a near-term monetary easing by the new Chancellor of the Exchequer. The Italian Lira recovered as new government ministers were appointed.

IV. INTEREST RATES

Last update : 30.06.1993

SHORT TERM DIFFERENTIAL AGAINST ECU

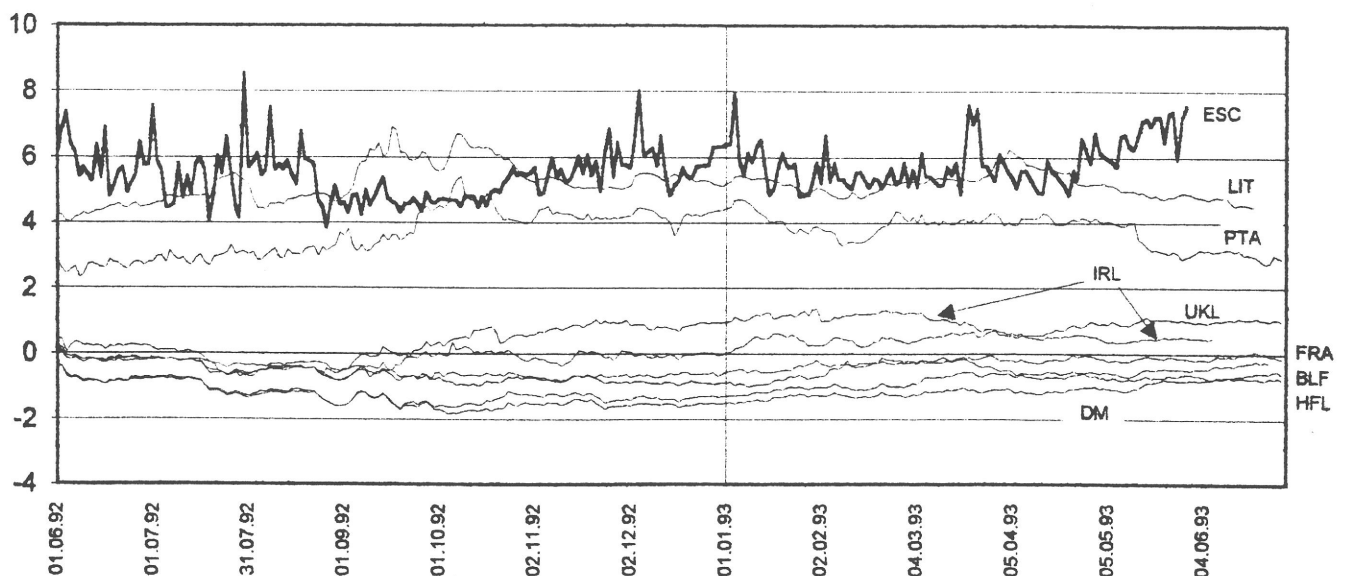


After the realignment on May 13, Spain and Portugal cut their key interest rates by 1.5 and 2 percentage points, respectively.

As bilateral spreads against the DM move in favour of the other EMS currencies, the negative interest-rate differential on underlying short-term interest rates were consolidated (except Denmark).

With the eighth reduction of official rates since the election in March, France official rates were in June, for the first time in 36 years, below rates in Germany. The Netherlands has a negative differential of 71 bp and Belgium of 58 bp.

LONG TERM DIFFERENTIAL AGAINST ECU



The long-term interest rate of the ecu has remained above those of Germany, Belgium, the Netherlands and France, pushed up by the weak currencies.

The Irish interest rates are now below those of the UK.

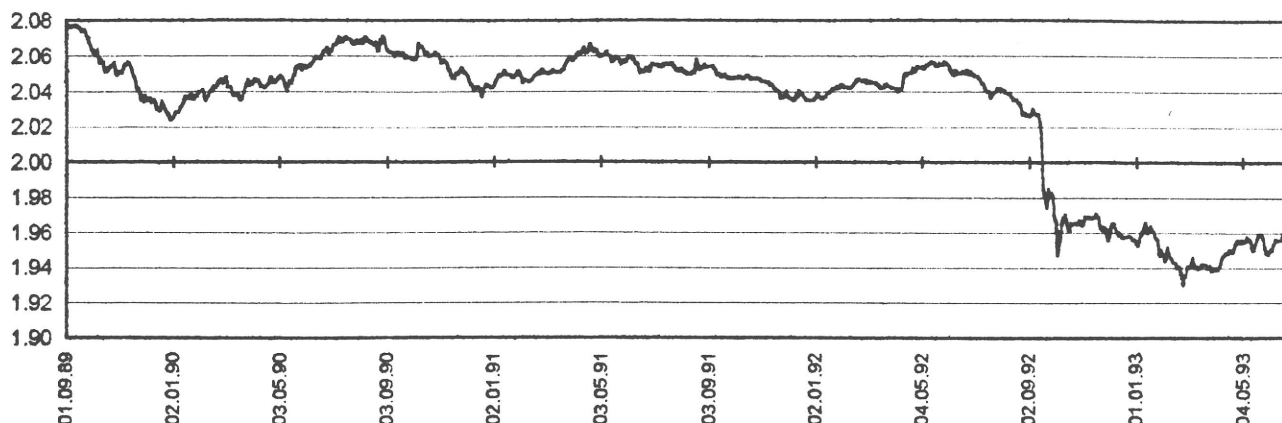
Spain was able to reduce the interest rate differential against the ecu, whereas the Portuguese escudo fluctuated with the tendency to rise.

Although Italy was able to reduce the interest rate spread from nearly 700 bp in April to 500 bp in June, it still remained second after Portugal.

V. ECU / DM : EXCHANGE and INTEREST RATES

Last update : 30.06.1993

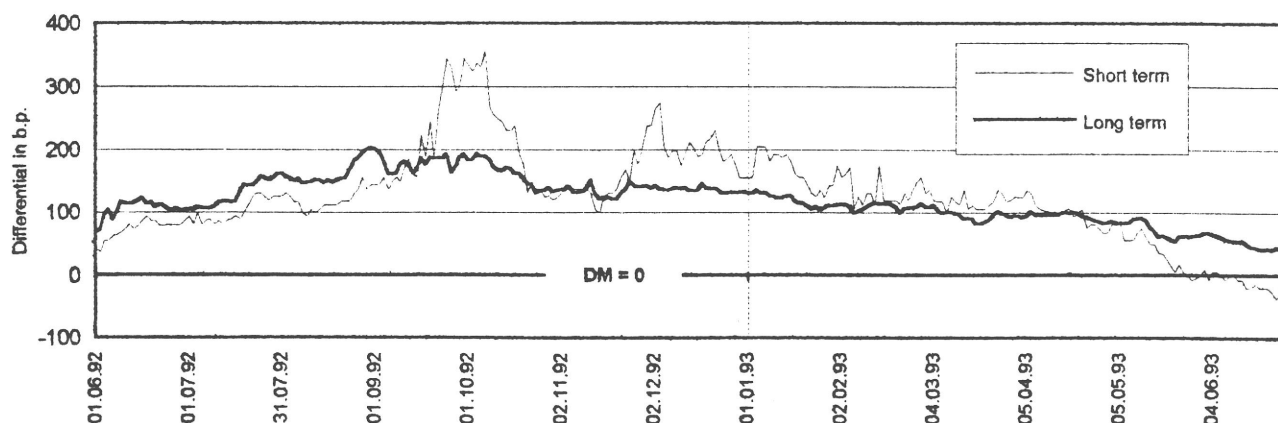
ECU / DM : EXCHANGE RATE



Until the ERM crisis the ecu remained at a level above 2.00 DM. Due to the withdrawal of the British Pound and the Italian Lira from the ERM and the devaluation of the Peseta, the escudo and the Irish Punt the Deutsche Mark appreciated against the ecu, reaching an exchange rate of 1.94 at the end of March.

Since the begin of April the DM started slightly to depreciate resulting in an exchange rate of 1.96 (June30).

ECU / DM : INTEREST RATE DIFFERENTIAL



From mid November 1992 on, the interest rate differential has narrowed steadily.

On June 2, the short-term ecu interest rate was for the first time below the DM interest rate.

The continued policy of the "Franc fort" implemented by the new government increased temporarily the confidence of market operators, which gave France the opportunity to reduce interest rates independently from the Bundesbank.

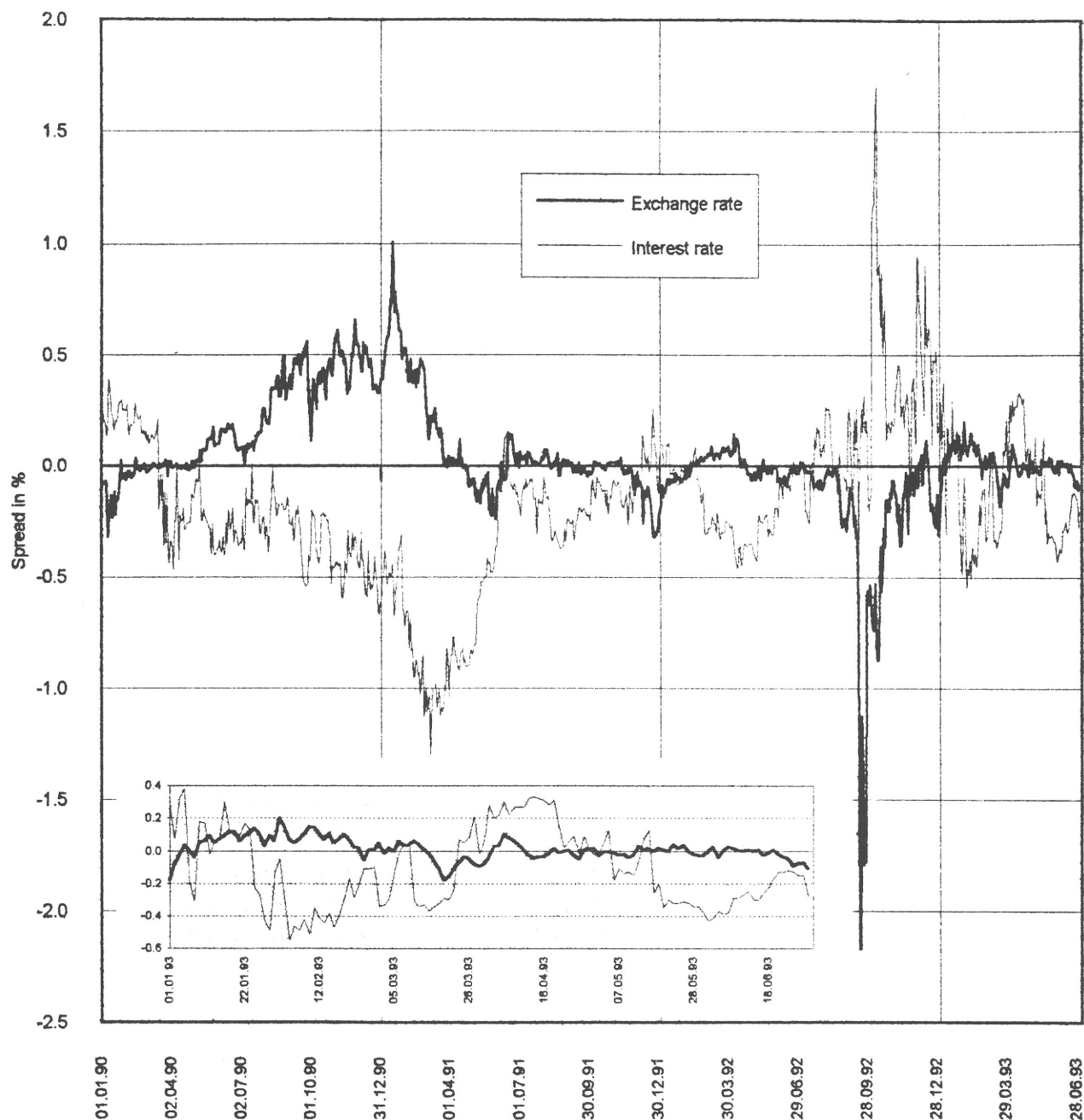
In order to control the inflationary tensions in the aftermath of the reunification the Bundesbank did not reduce interest rates as much as other ERM countries desired, which may conflict with the economic policies of those countries..

The further evolution of the ecu interest rates will depend on the outcome of the present pressure on the French franc and the Danish krone.

VI. EXCHANGE AND INTEREST RATES SPREADS

Last update : 30.06.1993

THEORETICAL VERSUS MARKET RATES SPREADS



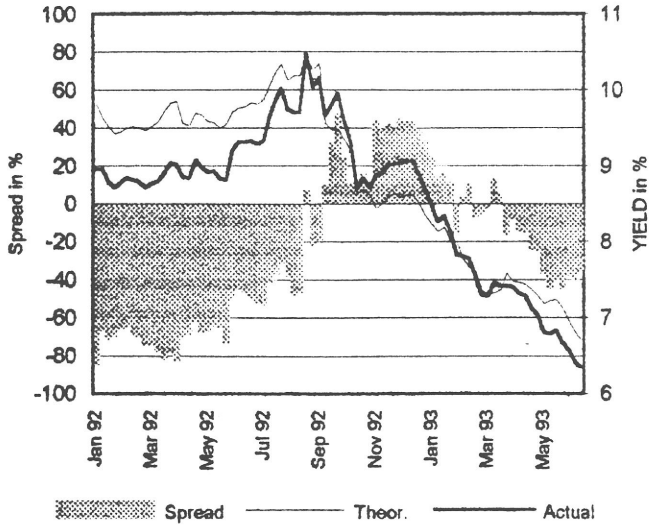
After the ERM-crisis in September 1992, where the spread between the theoretical and the market exchange rates reached for a short while a peak of 200 bp, the situation has returned to normal conditions since the beginning of 1993. During the first half of 1993, the spread always fluctuated around zero, never exceeding -9 or +11 bp.

After being negative until March 23, 1993, the spread between the actual and the theoretical ecu interest rates (3 months) turned and was positive in April. On the day of the positive outcome of the second Danish referendum on May 18, the spread dropped again from +13 bp to -26 bp and remained negative until the end of June.

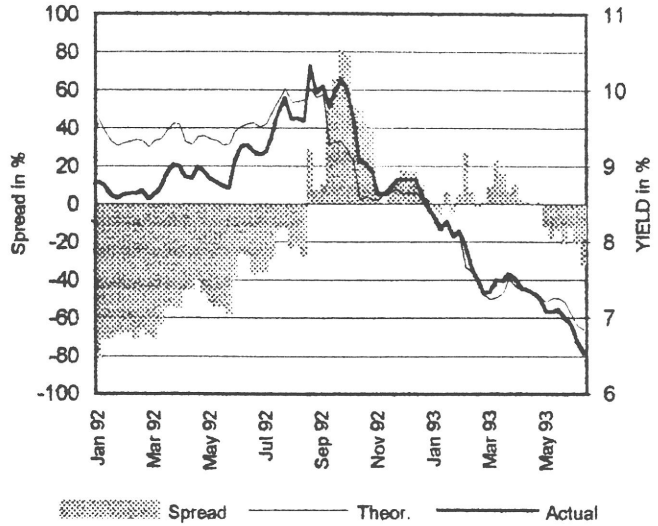
VII. YIELDS

Last update : 30.06.1993

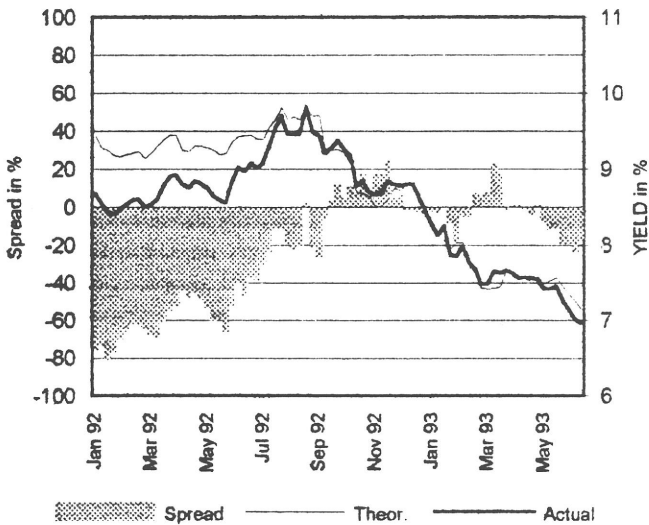
3 YEARS



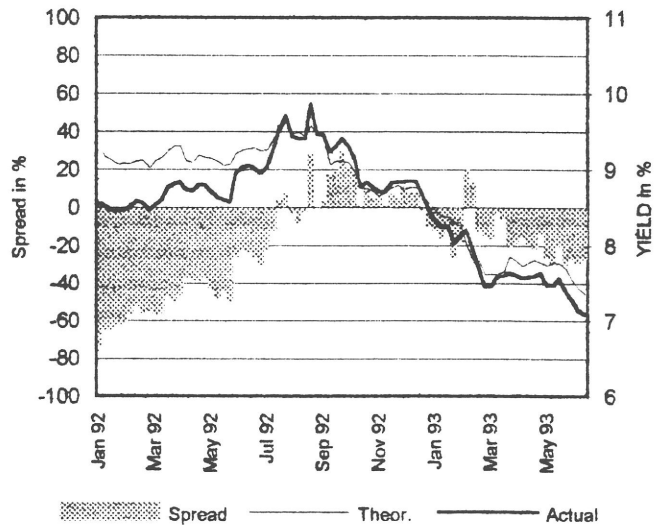
5 YEARS



7 YEARS



10 YEARS



For all maturities yields continued to fall. As they declined at a lower speed for the long-term maturities, the inverse yield curve has flattened.

Up to September 1992 actual yields for all maturities remained far below theoretical yields as a result of the positive expectation concerning EMU after the signing of the Maastricht Treaty in December 1991.

Actual yields have rapidly approached theoretical levels before surpassing them after the negative outcome of first Danish referendum and the subsequent financial and monetary crisis.

In 1993, the market interest rates have again slipped below the theoretical level. Whereas in March this was already true for the three- and ten-year securities, for the five and seven-year securities this occurred in May.

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