

The euro-currency business of banks in London: maturity analysis as at end-October 1972

This article reports the results of a further enquiry by the Bank into the maturities of London banks' assets and liabilities in foreign currencies. It discusses the figures submitted for the end of October 1972, as set out in the tables on pages 48–50, and the main changes which have occurred in the euro-currency market in London since the previous enquiry in October 1971.¹

During the twelve months there was, on the whole, a plentiful supply of funds to the market. The U.S. balance of payments deficit was again very large. Some of the dollars accruing to foreign central banks, particularly European central banks, would have been held directly in the United States, while some, together with most of those retained in private hands, would have been attracted into the euro-currency market. There was also, during the period, some outflow from Italy and the United Kingdom, which may also have gone into the euro-currency market. At the same time, demand from traditionally large borrowers from the market was reduced. It was not until well into 1972 that economic growth rates in many of the leading industrial countries started to recover, and in the meantime companies in these countries were less ready borrowers than usual. In some countries, in particular Western Germany, measures were taken to discourage domestic companies from obtaining external finance. Borrowing by banks in the United States from their overseas branches remained small. After the Smithsonian agreement of December 1971 on exchange rate parities, the demand for funds for speculative purposes was only sporadic.

In these conditions euro-currency interest rates were generally low and keen competition among banks led to a decline in profit margins. Nevertheless, business continued to expand as banks widened the field of their lending, especially to the less developed countries in Latin America, Africa, and the Middle and Far East. In fact, lending to these countries increased by about £2,500 million during the twelve months. Some of this new lending was to finance development projects and was probably at fairly long term. Much of the increase of £670 million in lending to U.K. customers was to finance portfolio investment abroad and was also at fairly long term. At the same time the maturity pattern of deposits changed little and so the lack of balance in terms of maturities between loans and deposits tended to grow. Most of the lengthening of the books of the London banks during the period was attributable to American and other foreign banks in London. The American banks, in doing dollar business, are operating in their own currency and have access to dollar finance through their head offices. At the end of October 1972, the American banks were net providers

¹ An article giving the results of the October 1971 enquiry and commenting on the main changes since the previous enquiry in February 1971 appeared in the March 1972 *Bulletin*, pages 56–63.

of stand-by credit facilities to other banks – to the extent of about £100 million to banks abroad and of a similar amount to other banks in London. Other foreign banks in London can also no doubt rely on some foreign help in case of need.

Table A shows the changes that have occurred in the main categories of borrowing and lending during the period under review.

Table A
Liabilities and claims by customer

£ millions	Amounts outstanding		Change over period
	1971 October	1972 October	
Foreign currency liabilities of U.K. banks to			
Other banks in the United Kingdom	6,760	9,070	+ 2,310
Other U.K. residents	540	860	+ 320
Banks overseas	13,680	19,330	+ 5,650
Other non-residents	3,660	4,530	+ 870
	24,640	33,790	+ 9,150
Foreign currency claims of U.K. banks on			
Other banks in the United Kingdom	6,890	9,430	+ 2,540
Other U.K. residents	1,430	2,100	+ 670
Banks overseas	10,170	15,290	+ 5,120
Other non-residents	6,250	7,000	+ 750
	24,740	33,820	+ 9,080

In the twelve months ended October 1972, the size of the market in London, as measured by both liabilities and claims, rose by over £9,000 million, to nearly £34,000 million. About £1,500 million of this increase was in currencies other than dollars. Part of the total increase, perhaps as much as £2,000 million, reflected changes in sterling valuation. A similar amount was due to increased operations between banks in London. Part of the large growth in business with overseas banks was also the result of increased inter-market operations, in this case between banks in London and banks in other market centres. Such repositing with other banks in the market may occur to adjust the spread of maturities, or to take advantage of temporary differences in interest rates, or because banks wish to limit the amount of money they place directly with particular banks or with banks in particular countries. But the bulk of the growth in business with overseas banks represented new money coming into the market, as did the growth in domestic and foreign business not with banks.

Banks were asked on this occasion to report separately foreign currency deposits made with them by overseas central banks; these amounted to about £4,100 million out of the total of around £19,300 million for all overseas banks.

The effects of these developments on the maturity structure of the London market are illustrated by Table B.

Table B
Maturity structure

£ millions: *percentage of total in italics*

	1971 October		1972 October	
Foreign currency liabilities of U.K. banks				
Sight	2,700	<i>11</i>	3,800	<i>11</i>
Less than 8 days	1,700	<i>7</i>	2,200	<i>7</i>
8 days to 3 months	12,800	<i>51</i>	16,700	<i>49</i>
3 months to 1 year	6,400	<i>26</i>	9,300	<i>27</i>
1 year to 3 years	600	<i>3</i>	800	<i>3</i>
3 years and over	400	<i>2</i>	1,000	<i>3</i>
	<u>24,600</u>	<u><i>100</i></u>	<u>33,800</u>	<u><i>100</i></u>
Foreign currency claims of U.K. banks				
Sight	3,200	<i>13</i>	3,100	<i>9</i>
Less than 8 days	1,700	<i>7</i>	1,900	<i>5</i>
8 days to 3 months	10,200	<i>41</i>	14,900	<i>44</i>
3 months to 1 year	6,200	<i>25</i>	9,100	<i>27</i>
1 year to 3 years	1,500	<i>6</i>	2,200	<i>7</i>
3 years and over	1,900	<i>8</i>	2,600	<i>8</i>
	<u>24,700</u>	<u><i>100</i></u>	<u>33,800</u>	<u><i>100</i></u>

In this table London dollar certificates of deposit held by U.K. banks are included, on the claims side, according to their maturity dates. The total at the end of October 1972 was about £1,000 million, compared with about £500 million a year earlier. A maturity breakdown of this total, and also of the total of outstanding issues of London dollar certificates of deposit in October 1972, is given in Table C.

The latest analysis of the euro-currency market shows that there has been some further maturity transformation, although perhaps not as much as might have been expected from market circumstances. This has had its most marked effect at the short end. For example, the banks' liabilities at terms up to eight days exceeded claims of similar term by about £1,000 million in October 1972, whereas a year previously claims had exceeded liabilities by about £500 million. At the other end of the scale, lending at terms of one year or more, at about £4,800 million, exceeded corresponding liabilities by about £3,000 million, compared with about £2,400 million in October 1971.

Much of this change in the very short-term position was attributable to the American banks, which at terms up to eight days had a net liability position of £680 million in October 1972, compared with a net asset position of £300 million in October 1971, while their net lending at terms of one year or more increased by about £120 million, to £980 million. The other foreign banks, including the Japanese banks, were responsible for the next largest share of the change, having a small net liability position of £30 million at terms up to eight days in October 1972, compared with a net asset position of £160 million in October 1971. At the same time their net lending at longer

term rose from £80 million to nearly £200 million. As for the consortium banks, their position at terms up to eight days was approximately balanced at both dates, although their net lending at longer term increased by £250 million, to £760 million. They had also formally arranged net stand-by facilities of over £200 million from banks abroad by October 1972, and they may also have had informal arrangements. In October 1972 the Commonwealth banks had net liabilities at terms up to eight days of £40 million, compared with net assets of £50 million in October 1971; net lending at longer term was small at both dates.

The net positions at terms up to eight days mentioned in the previous paragraph would be improved, although not very materially, if holdings of London dollar certificates of deposit had been counted, not according to maturity, but as immediately realisable assets, which they are in normal times for the individual holder. Positions would then have been as follows:

£ millions	Funds at terms up to eight days (net assets +/net liabilities -)	
	1971	1972
	October	October
Commonwealth banks	+ 90	+ 40
American banks	+360	-500
Other foreign banks	+320	+ 50
Consortium banks	+ 50	+ 40

The British banks would benefit particularly from such a reclassification, because they were large holders of deposit certificates. Counting them as immediately realisable assets, the British banks had net assets at terms up to eight days of £320 million in October 1972 compared with net assets of £740 million in October 1971; whereas, analysing deposit certificates according to maturities, they had net liabilities of £240 million and £50 million respectively. At the same time, their net lending at terms of one year or more increased by £160 million, to £1,030 million. By October 1972 they had arranged net stand-by credits of £140 million from banks abroad.

Table C
Maturities of London dollar certificates of deposit:
October 1972

£ millions	Holdings of U.K. banks	Issues outstanding by U.K. banks
Sight	6	10
Less than 8 days	19	46
8 days to less than 1 month	121	335
1 month to less than 3 months	244	840
3 months to less than 6 months	220	692
6 months to less than 1 year	157	331
1 year to less than 3 years	137	308
3 years and over	74	187
	<u>978</u>	<u>2,749</u>

Table D

Maturity analysis of liabilities and claims in non-sterling currencies of banks in the United Kingdom: October 1972

£ millions

	Liabilities								Total	
	Sight	Less than 8 days	8 days to less than 1 month	1 month to less than 3 months	3 months to less than 6 months	6 months to less than 1 year	1 year to less than 3 years	3 years and over	1972 October	1971 October
Liabilities to										
Other U.K. banks:										
British banks	193	135	364	784	609	294	107	58	2,544	1,833
Commonwealth banks	57	24	74	164	125	59	14	25	542	392
American banks	483	235	615	1,149	687	257	62	40	3,528	2,980
Other foreign banks	146	119	454	586	216	98	46	24	1,689	1,011
Consortium banks	36	36	148	265	198	62	9	14	768	545
	915	549	1,655	2,948	1,835	770	238	161	9,071	6,761
Other U.K. residents:										
British banks	150	32	49	56	33	23	9	54	406	238
Commonwealth banks	14	4	5	5	3	2	1	1	35	25
American banks	112	36	59	69	44	13	8	7	348	233
Other foreign banks	8	12	5	11	5	7	3	2	53	37
Consortium banks	4	1	2	3	2	1	1	—	14	7
	288	85	120	144	87	46	22	64	856	540
Banks abroad:										
British banks	429	359	796	1,611	1,148	665	177	55	5,340	3,425
Commonwealth banks	61	32	106	185	167	46	24	38	659	405
American banks	1,046	653	1,527	2,925	1,586	674	170	125	8,776	7,050
Other foreign banks	421	176	746	1,143	634	170	65	140	3,495	2,138
Consortium banks	62	91	186	358	211	101	17	31	1,057	661
	2,019	1,311	3,361	6,292	3,746	1,656	453	489	19,327	13,679
Other non-residents:										
British banks	185	88	217	261	203	108	47	90	1,199	905
Commonwealth banks	51	39	98	302	261	20	11	2	784	466
American banks	240	124	389	651	297	109	40	133	1,983	1,775
Other foreign banks	66	30	10	121	71	31	25	42	456	434
Consortium banks	5	17	21	21	14	10	13	11	112	76
	547	298	795	1,356	846	278	136	278	4,534	3,656
Total										
British banks	957	614	1,426	2,712	1,993	1,090	340	357	9,489	6,401
Commonwealth banks	183	99	283	656	556	127	50	66	2,020	1,288
American banks	1,881	1,048	2,590	4,864	2,614	1,053	280	305	14,635	12,038
Other foreign banks	641	337	1,275	1,861	926	306	139	208	5,693	3,620
Consortium banks	107	145	357	647	425	174	40	56	1,951	1,289
	3,769	2,243	5,931	10,740	6,514	2,750	849	992	33,788	24,636

Claims^a

Sight ^a									Total	
	Less than 8 days	8 days to less than 1 month	1 month to less than 3 months	3 months to less than 6 months	6 months to less than 1 year	1 year to less than 3 years	3 years and over	1972 October	1971 October	
305	<i>866</i>	166	422	788	540	295	140	91	2,747	1,911
38	<i>116</i>	30	88	206	202	38	21	2	625	539
423	<i>610</i>	284	701	1,367	750	404	61	32	4,022	2,887
165	<i>247</i>	108	296	523	352	68	36	26	1,574	1,273
78	<i>142</i>	49	77	131	59	33	29	4	460	283
1,009	<i>1,981</i>	637	1,584	3,015	1,903	838	287	155	9,428	6,893
54		24	91	176	150	124	184	267	1,070	669
9		12	22	54	61	29	17	18	222	176
38		20	29	86	115	51	81	159	579	414
13		10	20	24	38	14	4	22	145	106
7		1	3	8	1	10	16	36	82	64
121		67	165	348	365	228	302	502	2,098	1,429
465		161	530	1,061	758	391	195	17	3,638	3,160
87		55	145	269	187	34	12	34	823	307
789		507	1,304	2,311	1,290	493	265	129	7,088	5,583
409		202	780	928	531	154	109	128	3,241	856
55		28	96	134	76	31	33	48	501	262
1,805		953	2,855	4,703	2,842	1,103	614	416	15,291	10,168
94		60	187	408	348	197	348	424	2,066	1,729
6		6	50	108	124	32	8	20	354	269
69		118	426	687	605	163	299	541	2,908	3,150
25		17	68	191	132	82	55	163	733	400
8		5	38	69	60	74	302	386	942	705
202		206	769	1,463	1,269	548	1,012	1,534	7,003	6,253
918	<i>1,479</i>	411	1,230	2,433	1,796	1,007	867	859	9,521	6,469
140	<i>218</i>	103	305	637	574	133	58	74	2,024	1,291
1,319	<i>1,506</i>	920	2,460	4,451	2,760	1,111	706	861	14,597	12,034
612	<i>6,947</i>	337	1,164	1,666	1,053	318	204	339	5,693	3,635
148	<i>212</i>	33	214	342	196	148	380	474	1,985	1,314
3,137	<i>4,109</i>	1,863	5,373	9,529	6,379	2,717	2,215	2,607	33,820	24,743

Claims on
Other U.K. banks:
British banks
Commonwealth
banks
American banks
Other foreign
banks
Consortium banks

Other U.K. residents:
British banks
Commonwealth
banks
American banks
Other foreign
banks
Consortium banks

Banks abroad:
British banks
Commonwealth
banks
American banks
Other foreign
banks
Consortium banks

Other non-residents:
British banks
Commonwealth
banks
American banks
Other foreign
banks
Consortium banks

Total
British banks
Commonwealth
banks
American banks
Other foreign
banks
Consortium banks

— nil or less than £½ million.

^a Banks' holdings of London dollar certificates of deposit have been included according to maturity date. The alternative figures in italics in the sight column show the effect of treating all such holdings of certificates of deposit as sight assets.

Table D continued

Maturity analysis of liabilities and claims in non-sterling currencies of banks in the United Kingdom: October 1972

£ millions

	Net liabilities (-)/claims (+) ^a									Total	
	Sight ^a	Less than 8 days	8 days to less than 1 month	1 month to less than 3 months	3 months to less than 6 months	6 months to less than 1 year	1 year to less than 3 years	3 years and over	1972 October	1971 October	
Net liabilities to/claims on											
Other U.K. banks:											
British banks	+112	+ 673	+ 31	+ 58	+ 4	- 69	+ 1	+ 33	+ 33	+ 203	+ 78
Commonwealth banks	- 19	+ 59	+ 6	+ 14	+ 42	+ 77	- 21	+ 7	- 23	+ 83	+ 147
American banks	- 60	+ 127	+ 49	+ 86	+ 218	+ 63	+147	- 1	- 8	+ 494	- 93
Other foreign banks	+ 19	+ 101	- 11	-158	- 63	+136	- 30	- 10	+ 2	- 115	+ 262
Consortium banks	+ 42	+ 106	+ 13	- 71	- 134	-139	- 29	+ 20	- 10	- 308	- 262
	+ 94	+1,066	+ 88	- 71	+ 67	+ 68	+ 68	+ 49	- 6	+ 357	+ 132
Other U.K. residents:											
British banks	- 96		- 8	+ 42	+ 120	+117	+101	+ 175	+ 213	+ 664	+ 431
Commonwealth banks	- 5		+ 8	+ 17	+ 49	+ 58	+ 27	+ 16	+ 17	+ 187	+ 151
American banks	- 74		- 16	- 30	+ 17	+ 71	+ 38	+ 73	+ 152	+ 231	+ 181
Other foreign banks	+ 5		- 2	+ 15	+ 13	+ 33	+ 7	+ 1	+ 20	+ 92	+ 69
Consortium banks	+ 3		-	+ 1	+ 5	- 1	+ 9	+ 15	+ 36	+ 68	+ 57
	-167		- 18	+ 45	+ 204	+278	+182	+ 280	+ 438	+1,242	+ 889
Banks abroad:											
British banks	+ 36		-198	-266	- 550	-390	-274	+ 18	- 18	-1,702	-1,108
Commonwealth banks	+ 26		+ 23	+ 39	+ 84	+ 20	- 12	- 12	- 4	+ 164	- 98
American banks	-257		-146	-223	- 684	-296	-181	+ 95	+ 4	-1,688	-1,433
Other foreign banks	- 12		+ 26	+ 34	- 215	-103	- 16	+ 44	- 12	- 254	- 276
Consortium banks	- 7		- 63	- 90	- 224	-135	- 70	+ 16	+ 17	- 556	- 398
	-214		-358	-506	-1,589	-904	-553	+ 161	- 23	-4,036	-3,433
Other non-residents:											
British banks	- 91		- 28	- 30	+ 147	+145	+ 89	+ 301	+ 334	+ 867	+ 787
Commonwealth banks	- 45		- 33	- 48	- 194	-137	+ 12	- 3	+ 18	- 430	- 197
American banks	-171		- 6	+ 37	+ 36	+308	+ 54	+ 259	+ 408	+ 925	+1,341
Other foreign banks	- 41		- 13	- 2	+ 70	+ 61	+ 51	+ 30	+ 121	+ 277	- 40
Consortium banks	+ 3		- 12	+17	+ 48	+ 46	+ 64	+ 289	+ 375	+ 830	+ 628
	-345		- 92	- 26	+ 107	+423	+270	+ 876	+1,256	+2,469	+2,519
Total											
British banks	- 39	+ 522	-203	-196	- 279	-197	- 83	+ 527	+ 502	+ 32	+ 68
Commonwealth banks	- 43	+ 35	+ 4	+ 22	- 19	+ 18	+ 6	+ 8	+ 8	+ 4	+ 3
American banks	-562	- 375	-119	-130	- 413	+146	+ 58	+ 426	+ 556	- 38	- 4
Other foreign banks	- 29	+ 53	-	-111	- 195	+127	+ 12	+ 65	+ 131	-	+ 15
Consortium banks	+ 41	+ 105	- 62	-143	- 305	-229	- 26	+ 340	+ 418	+ 34	+ 25
	-632	+ 340	-380	-558	-1,211	-135	- 33	+1,366	+1,615	+ 32	+ 107

—nil or less than £½ million.

^a Banks' holdings of London dollar certificates of deposit have been included according to maturity date. The alternative figures in italics in the sight column show the effect of treating all such holdings of certificates of deposit as sight assets.