

if the acceptor of the deposit swaps it into a local currency, and the dollars are acquired by a European central bank that employs them for the purchase of gold, or if the dollars are used ultimately to pay off a loan at a U.S. bank.

#### THE SUPPLY STRUCTURE

Suppliers of dollar deposits to the market include commercial banks, a few central banks, Eastern European banks, and, through their banks, some non-banking institutions and individuals. Banks of certain countries or areas—Switzerland and the Netherlands, for example—are normally suppliers in the market, reflecting high domestic liquidity and relatively low interest rates (after allowing for the spot-forward exchange rate differential) at home compared with abroad. For these banks, the New York money market and, to a somewhat lesser extent, the London money market have been “safety valves” for any surplus funds that could not be employed at home. The continental dollar market now serves exactly the same function. Even banks in countries where money market rates exceed those obtainable in the continental dollar market may enter the market on a large scale if the unfavorable interest rate differential is more than offset by a premium on forward dollars.

Individual suppliers of dollars, as well as entire national banking groups, may at times withdraw suddenly and almost completely from the market and even appear on the demand side—for instance, because domestic money market conditions tighten or because of shifts in forward exchange rates. Such withdrawals from the supply side can affect the deposit market considerably, much more than similar withdrawals from regular money markets. For instance, liquidation of United States or United Kingdom Treasury bills by commercial banks of a particular country may scarcely make a ripple in these broad and highly liquid markets. The effect is potentially of an entirely different order in a market such as the dollar deposit market where certain national banking groups occupy a key role. While most banks accepting dollar or other foreign exchange deposits take care to offset their liabilities with similar foreign exchange assets, it is not always possible (or profitable) to have exactly corresponding maturities. They may consequently be vulnerable to sudden and unexpected withdrawals of deposits.

Another noteworthy characteristic of the market is the premium put by some suppliers, notably the more conservative banks, on first-class names among depositories of their funds and their consequent willingness to make rate concessions, if they can place their balances with such names. Branches of American banks abroad, for example, can normally obtain deposits at rates somewhat under the going “market” rate. Lesser known names, on the other hand, may have to pay rates above the quoted market.

Actually, the market is somewhat compartmentalized in that bank managements, aiming at risk diversification, ordinarily establish lines for each country in which they place funds and for individual banks in these countries. The market is thus permeated with quotas which in turn may be reflected in the average rate level at which various national groups of banks and individual institutions can actually obtain funds.

These various deposit policies and procedures also reflect the fact that many major operators in the market instinctively dislike placing large amounts of funds with a bank in a currency other than that of the bank's country and would prefer to place their deposits in the United States, or at least with foreign branches of U.S. banks, if the rate differential is not too great. Since they often have insufficient information on what their placements are employed for, and do not know the quality of the ultimate borrowers, some banks feel uneasy over the possibility that bankers in different countries, without each knowing what the other is doing, may place excessive funds with one and the same bank in a third country. While some central banks are well posted on how much and with whom the banks in their country place dollar balances, they are of necessity ill-informed on commitments of bankers in other countries to the same acceptors.

#### INTERMEDIARIES

As already noted, several European banks have made it their business to operate on a large scale on both sides of the market, and to be ready at any time to quote interest rates at which they will accept and offer funds, mainly in dollars, but also in several other major currencies. There is room for a relatively large number of intermediaries in the market because of the services