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CAPITAL MARKET DEVELOPMENTS ABROAD

I. United Kingdom
II. Five Charts on Financial Markets Abroad

United Kingdom: Money and Capital Markets During March

Substantial capital outflows, following the German and Dutch exchange revaluations on March 5, unsettled financial markets in Britain during March. The United Kingdom has reported actual reserve losses of $174 million for the month, but it is known that Britain obtained substantial temporary help from continental central banks following an agreement by European central banks for close cooperation in the exchange markets which was announced on March 13. The amount of such assistance extended to Britain in March has not been disclosed. Britain's reserves and temporary borrowings were drawn upon for exchange market support operations by the Exchange Equalization Account to hold the spot rate for the pound, but the discounts on forward sterling and on security sterling had widened sharply by the end of March.

The wider forward discount reduced or eliminated incentives for foreigners to keep funds in London money markets with the exchange risk covered, even at the high current yields. During the preceding 12 months, a yield differential in favor of Treasury bills in London over those in New York (on a covered basis) had been maintained at about 1 per cent, but the net incentive dropped rapidly in March and had disappeared altogether by the latter part of the month (see Table and Chart). The wide forward discount can be expected to lead foreign investors to withdraw funds from London as their investments mature.

During March, money market and bond yields were stable. The yield on the British Treasury bill changed only about 5 basis points between March 3 and March 30. Bond yields were also unchanged during the month, except for a sharp rise in the yield on 2-1/2 per cent Consols which had failed during the preceding months to follow the rapid rise in War Loans. The yield on War Loan was close to 6.2 per cent, the highest market yield on an undated British Government security in 163 years.

Sales by foreign investors and continued selling pressures from banks in Britain contributed to a sluggish tone in the gilt-edged market. The London clearing banks continued to sell bonds in March as continued commercial lending pushed their liquidity position close to the 30 per cent ratio convention. The combined position for all the banks was only 30.43 per cent compared with 31.47 per cent a year ago; and three of the 11 London banks showed liquidity ratios below 30 per cent in their mid-March statement.

Despite unsettled conditions in the foreign-exchange and in security markets, stock prices continued to rise rapidly during the month. On April 7, the industrial stock index stood at an all-time peak of 351 compared with 323 on February 24 and 305 at the end of December (1960). On March 30 the average share yield had declined to 4.45 per cent and was 1.50 per cent below the yield on Consols.

Money market conditions. The yield on the 3-month Treasury bill fluctuated narrowly between 4.44 and 4.49 per cent during the month. At these yields, the London bill rate was more than 2 per cent above the bill yield in New York. Because of the sharply wider discount on the forward pound, however, the net incentive in favor of London declined after the March 5 exchange revaluations and had disappeared altogether by March 24 (see Table and Chart).

Bond market. Bond yields remained unchanged during March despite the disturbed conditions in the foreign exchange market. The selected bonds shown in the Table were about at the same level on March 30 that they had been on March 3 (see Table). The principal exception was the 2-1/2 per cent Consol the yield of which rose rapidly after having lagged behind the general advance in bond yields over the past few months.

The City of Birmingham offered a £10 million, 6 per cent issue, 1974-76, at a price of £99 in the latter part of March which was oversubscribed.

The gilt-edged market had a generally unsettled tone during the month. Several factors contributed to the sluggish demand conditions. Sales of some £105 millions of securities by the Iron and Steel Holding and Realization Agency (representing the sale of formerly nationalized steel company properties to private investors) in early March undoubtedly absorbed or committed a large volume of money which might otherwise have moved into the gilt-edged market. The London clearing banks continued in March substantial sales of bonds to relieve their liquidity positions which has become tight as a result of continued expansion in lending to the private sector.

International factors also contributed to the difficult position in the gilt-edged market. Unfavorable foreign trade and balance-of-payments returns do not encourage immediate prospects for an easing of money rates in Britain, even though long-term bond yields are at historically high levels. This outlook, together with other developments, have encouraged foreign holders to continue to dispose of British long-term securities which they bought late in 1960; the large discount on security sterling is thought to be explained by security sales by foreigners.

Press reports indicate that U.S. residents had been important buyers, and are now important sellers, of long-term bonds. These reports have suggested that as much as half last year's capital inflow into London went into the gilt-edged market. Recent quarterly changes in marketable public debt holdings of major investor groupings were as follows (in millions of pounds):

	1959 II	1959 III	1959 IV	1960 I	1960 II	1960 III	1960 IV
Banking system	+16	+160	+79	-562	-100	- 70	+ 96
Official overseas	+29	- 40	+71	+ 38	- 55	- 13	- 44
Nonbank (home and overseas)	+30	+36	+28	+ 54	+ 42	+365	+198

London clearing banks. The mid-March statement of the London clearing banks showed sales of £50 million of Government bonds since mid-February. With loans continuing to expand, the banks' liquidity was only 30.4 per cent and three banks were below the 30 per cent conventional ratio on statement day. The banks were under liquidity pressures from the seasonal inflow of tax funds to the Exchequer. The Bank of England is reported to have helped the banks out of their liquidity difficulties by taking the bonds off their hands but there were no releases from the clearing banks' Special Deposits.

During the past year of monetary restriction from March 1960 to March 1961, the banks reduced their lending to the Treasury at about the rate they expanded their loans to the private sector. Total lending to the Government was reduced by £469 million and total private loans increased by £349 million. March-to-March changes in major clearing bank assets between 1959-1960 and 1960-1961 were as follows (in millions of pounds):

	1959 to 1960	1960 to 1961
1. Government sector:		
Call loans to money market	57	- 13
Treasury bills	64	-151
Bonds	-448	-294
Loans to nationalized industries	- 1	- 11
Total	-328	-469
2. Private sector:		
Other call loans	- 4	41
Commercial bills	26	60
Advances	643	349
Total	665	450
3. Liquid assets	164	- 29
4. Net deposits	246	61

Coming in a period of recession in some durable goods industries, the growth in private loans probably financed the increases in inventories which took place in 1960. The rate of inventory accumulation, in turn, explains the high level of imports in 1960. A downturn in imports in February may mark the beginning of a long-awaited slowdown in inventory trends in Britain.

Hire-purchase credit. Even though the relaxations in hire-purchase regulations were not in effect until January 20, new installment credit sales showed some recovery in January; credit sales of household goods had begun to pick up slightly in December. Nonetheless, repayments exceeded new credit extended in January. As a result, total credit outstanding in January at £928 million was £7 million below the December figure. Recent changes in outstanding credit (in millions of pounds) have been:

	1960				1961
	July	Oct.	Nov.	Dec.	Jan.
Household shops	332	322	322	325	321
Finance companies	639	623	620	610	607
	971	945	942	935	928

Treasury financing. Exchequer returns for the 1960-61 fisal year ending April 1 show an ordinary budget surplus of £147 million compared with the estimate of £143 million. A £45 million shortfall in tax receipts due to recessionary factors was matched by an equivalent reduction in ordinary expenditures. The below-the-line deficit for capital spending was £81 million below the earlier estimate largely because the needs of the Coal Board were reduced by the rise in coal prices last year and the reduction in coal stocks.

Bullion market. Activity in foreign exchange was not communicated to the London gold market in March. The price of gold declined slightly from $35.0822 per fine ounce early in March to $35.0779 in early April. Its present level is below the cost of buying gold from the U.S. Treasury in New York.

	Sterling fixing price	Spot sterling	Dollar fixing price
March 3	251/-	279.54	35.0822
10	250/9-1/2	279.77	35.0819
17	250/7	279.87	35.0653
24	250/8	279.78	35.0657
30	250/10-1/2	279.75	35.0911
April 7	250/7	279.97	35.0779

Foreign exchange. Spot sterling fell steadily between mid-January and early March (see Table). From a low of 279.30 U.S. cents on March 7, the spot sterling rate strengthened later in the month and closed on April 6 at 279.99 U.S. cents. Official support operations account for the strength of the spot rate.

The discount on 3-month forward sterling widened rapidly from March 6 to March 24 and thereafter declined slightly (see Table). The price of security sterling declined from 279.125 U.S. cents in early March to 275.375 U.S. cents in early April.

Britain's gold and foreign currency reserves fell by £62 million in March to £1,079 million, the lowest level since August 1960. It was the biggest drop of any month since December 1959, when Britain had to make large special payments. Actual reserve losses were much larger but were covered by special credits to the Bank of England provided by continental central banks under the March 13 agreement for greater intra-European central bank cooperation in exchange markets.

Stock market. The prices of industrial shares continued to rise rapidly on the London Stock Exchange and in the week following the Easter holiday set a record on each of the four days since the market reopened. The Financial Times Industrial Ordinary share index rose to 351.4 on April 7 (see Table). This was a gain of 9.2 points over the week. The previous high before April 3 was recorded on January 4, 1960, when the index reached 342.9. Thereafter prices tended generally to decline with the index closing the year at 305. The recent increases have been said by market commentators to be in response to investors' hopes for an expansionist budget on April 17, and probably reflect recent stock trends in the United States and improved prospects for business expansion in Britain and in continental countries.

British Commonwealth Section.

United Kingdom: Treasury Bill Yields and Exchange Rates

Date	3-mo. Treasury bill: U.K.[a]	3-mo. Treasury bill: U.S.[b]	3-mo. Treasury bill: Difference	Discount on 3-mo. sterling[c]	Net incentive to hold U.K. bill[d]	Exchange rate: Spot sterling[e]	Exchange rate: Discount on 3-mo. sterling[f]
1959 - High	3.6	4.7	-1.1	--	--	--	--
Low	3.0	2.6	0.4	--	--	--	--
1960 - High	5.68	4.59	3.63	(P).64	1.95	281.58	1.64
Low	2.13	2.05	-0.84	-2.33	- .23	279.83	(P).47
Feb. 3	4.17	2.28	1.89	0.79	1.10	280.20	0.55
10	4.30	2.39	1.91	0.83	1.08	280.20	0.58
17	4.38	2.40	1.98	0.91	1.07	280.00	0.64
24	4.40	2.52	1.88	1.00	0.88	279.63	0.70
Mar. 3	4.44	2.51	1.93	1.04	0.89	279.62	0.73
10	4.49	2.42	2.07	1.46	0.61	279.80	1.02
17	4.49	2.30	2.19	1.96	0.23	279.86	1.37
24	4.49	2.32	2.17	2.32	-0.15	279.77	1.62
30	4.48	2.42	2.06	2.13	-0.07	279.70	1.49

a/ Average yield at Friday weekly tender.
b/ Closing market yield for Friday in New York.
c/ Spread between spot and forward rate in per cent per annum.
d/ Net of difference in bill yield less discount on 3-month sterling.
e/ Spot rate in New York market in U.S. cents.
f/ Spread between spot and forward rates in U.S. cents.

United Kingdom: Selected Capital Market Yields

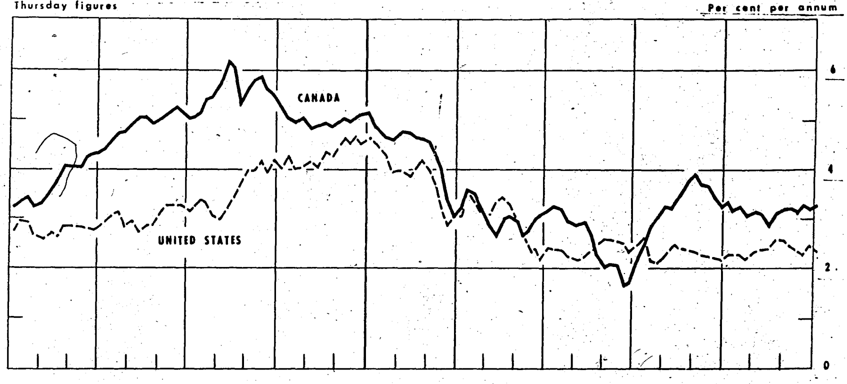
	6-year bond[a]	15-year bond[b]	War loan[c]	Consols[d]	Share yield[e]	Yield gap[f]	Share prices[g]
1960 - High	6.11	6.00	5.94	5.70	4.96	1.49	338.6
Low	4.93	5.33	5.53	5.02	3.74	0.63	294.6
Feb. 3	6.11	6.05	6.12	5.84	4.65	1.19	315.0
10	6.10	6.08	6.15	5.85	4.61	1.24	322.5
17	5.07	6.07	6.18	5.86	4.60	1.26	319.9
24	5.96	6.06	6.13	5.80	4.96	1.24	323.4
Mar. 3	6.05	6.10	6.18	5.88	4.54	1.34	328.9
10	6.02	6.08	6.15	5.84	4.46	1.38	338.0
17	6.06	6.08	6.15	5.87	4.44	1.43	337.0
24	6.09	6.10	6.18	5.91	4.44	1.57	339.4
30	6.07	6.11	6.18	5.95	4.45	1.50	341.3

a/ 5-1/2 per cent Exchequer, 1966.
b/ 3 per cent Savings Bond 1965-75.
c/ 3-1/2 per cent War Loan (undated).
d/ 2-1/2 per cent Consol (undated)
e/ Financial Times.
f/ Difference between yield on 2-1/2 per cent Consols and share yield.
g/ Financial Times.

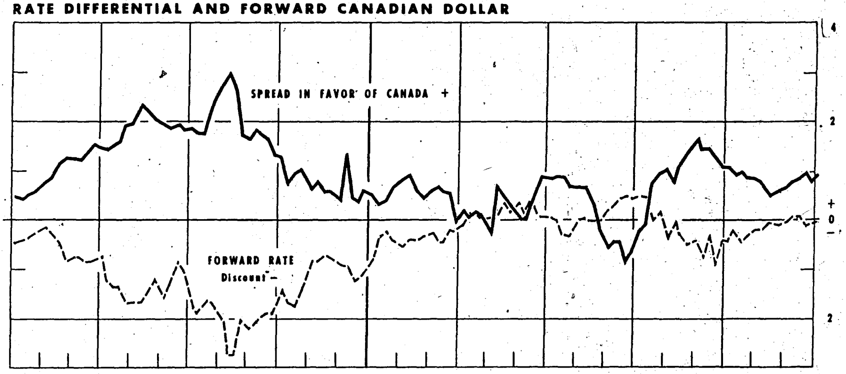
CANADA - UNITED STATES

THREE-MONTH TREASURY BILL RATES

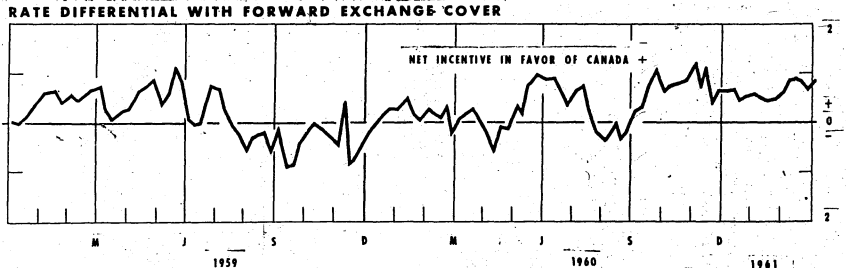
Thursday figures



RATE DIFFERENTIAL AND FORWARD CANADIAN DOLLAR



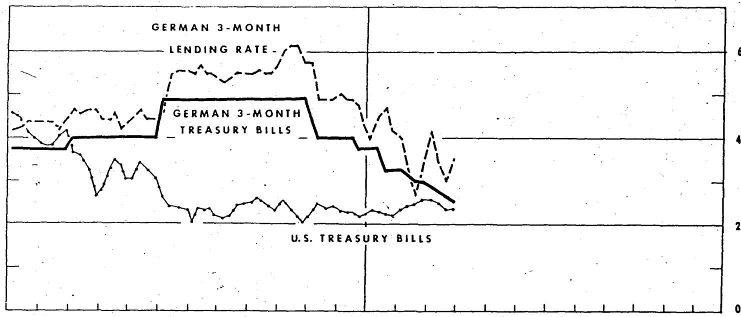
RATE DIFFERENTIAL WITH FORWARD EXCHANGE COVER



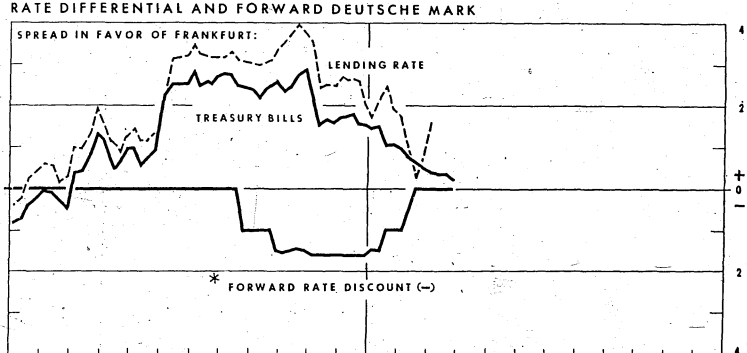
INTEREST ARBITRAGE, NEW YORK/FRANKFURT

3-MONTH TREASURY BILL RATES AND GERMANY 3-MONTH BANK LENDING RATES

Friday figures — Per cent per annum



RATE DIFFERENTIAL AND FORWARD DEUTSCHE MARK



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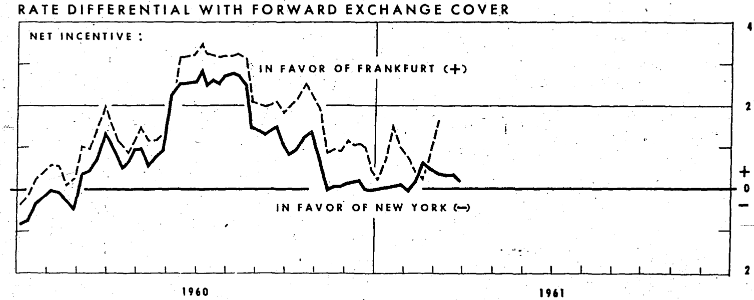
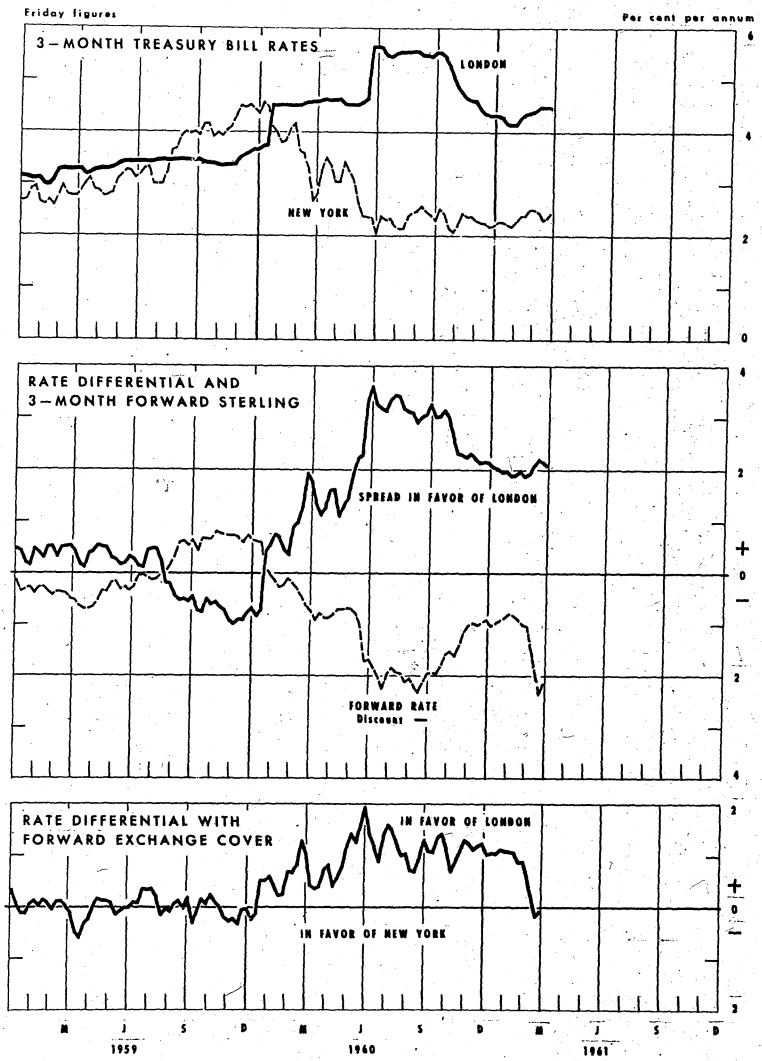


* Note: Special forward dollar rate (either flat or premium on spot) available only to German commercial banks

INTEREST ARBITRAGE, NEW YORK / LONDON



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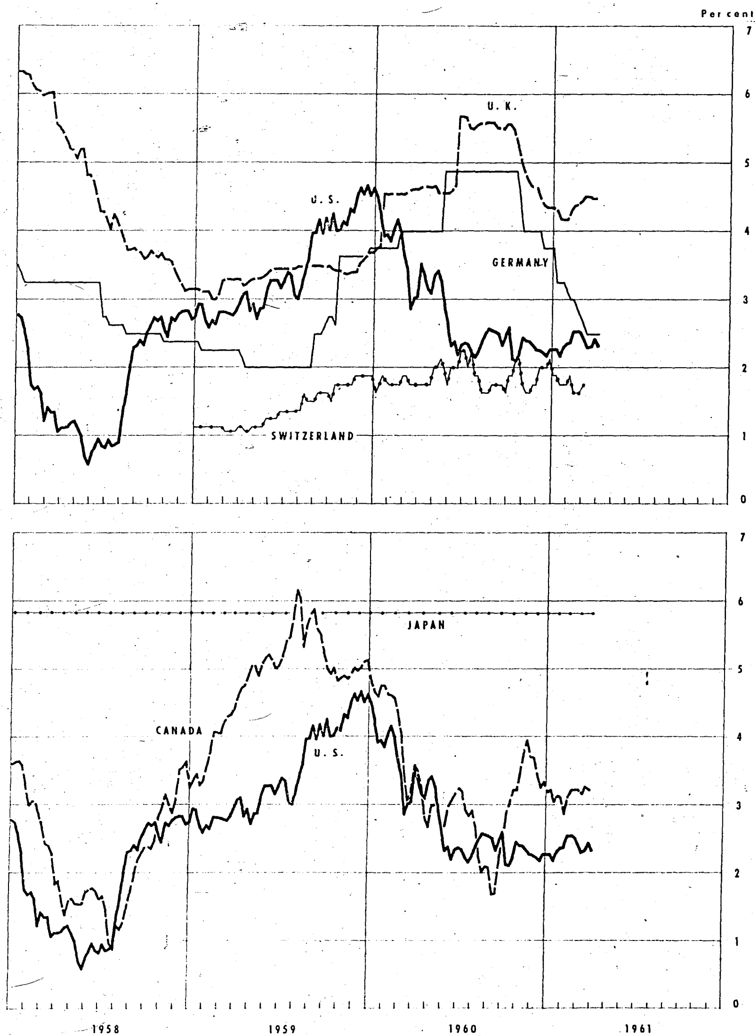
SHORT-TERM INTEREST RATES



INDUSTRIAL STOCK INDICES