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FEDERAL RESERVE BANK
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June 12, 1961

CAPITAL MARKET DEVELOPMENTS ABROAD

- I. Canada
- II. Nine Charts on Financial Markets Abroad

I. Canada: Money and Capital Markets During May

Monetary conditions eased somewhat in Canada during May as business indicators continued to show mixed trends. The chartered banks built up their liquid asset ratios through substantial purchases of Treasury bills during the month and announced a reduction in the prime lending rate from 5-3/4 per cent to 5-1/2 per cent on June 1. Interest rates in the money and capital markets eased only slightly in May.

A new Canadian Government short-term bond placed on the market in mid-May brought the total of short-term bonds issued during the past 6 months to more than \$1.0 billion. Another \$720 million of bonds will mature in December. Even with a budget deficit of \$700-800 million in prospect for 1961-62, the new issue was well received by the market.

Industrial stock prices continued to rise through the month and the volume of sales rose to new highs. The spot rate on the Canadian dollar fluctuated within very narrow limits throughout the month and closed at 101.3 (U.S. cents) in June, no change from the May 1 rate. The forward discount, however, widened some during the month. This widening discount, combined with a narrowing of the interest rate spread, reduced the net incentive to invest in Canadian short Treasury bills to about one-fourth of 1 per cent compared with over three-fourths of 1 per cent a month earlier.

Money market. The Canadian money market remained relatively stable through May with some easing of short-term rates. The average yield on the 3-month Treasury bill at the Thursday auctions eased a bit from 3.22 per cent on May 4 to 3.17 per cent on May 25 but the yield on the 6-month bill was unchanged at an average yield on May 25 at 3.35 per cent, just 1 basis point below the May 4 level. Day-to-day money rates also showed a slight easing tendency during the month.

The general public decreased its holdings of Treasury bills by \$77 million during the month, in part reflecting anticipation of the new bond issue. The chartered banks, on the other hand, made large purchases of Treasury bills. Chartered bank bill holdings rose by \$64 million, while the Bank of Canada purchased \$13 million.

During May there was a narrowing of the spread of the Canadian over the U.S. 3-month Treasury bill. While the spread exceeded 1 per cent

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in April, it declined to 0.75 per cent by May 25. Moreover, the discount on the 3-month forward Canadian dollar widened and remained at about one-half of 1 per cent through the month. With the narrowed spread and the widened forward discount, the net incentive to hold the Canadian bill declined from 0.87 per cent on April 6 to 0.26 per cent on May 25.

Bond market. The Canadian bond market remained stable through May in spite of a new Canadian bond offering and a sizeable expansion of new security issues by local governments and corporations. Bond yields eased up to 12 basis points for most maturities following a rise of about the same amount in April. The October 1962 maturity, which has moved more erratically over recent months due largely to the new short-term bond issues, declined 59 basis points in May following a more than normal rise of 62 basis points in March.

<u>Maturity</u>	<u>Feb. 23- Mar. 30</u>	<u>Mar. 30- Apr. 27</u>	<u>Apr. 27- May 25</u>
Oct. 1962	+ 0.62	+ 0.12	- 0.59
Sept. 1965	+ 0.29	+ 0.04	- 0.12
Jan. 1975-78	+ 0.11	+ 0.08	- 0.05
Sept. 1983	+ 0.16	+ 0.06	- 0.12

There was a narrowing of the spread between yields on Canadian and U.S. securities during the month as a result of some rise in U.S. yields combined with easing on the Canadian market. The following table compares the spread between comparable Canadian and U.S. securities:

	<u>April 27</u>	<u>May 25</u>	<u>Change during period</u>
91-day bill	1.01	0.75	-0.26
182-day bill	1.02	0.80	-0.22
8-year bond	1.07	0.96	-0.11
20-year bond	1.38	1.35	-0.03
35-year bond	1.48	1.45	-0.03

According to A. E. Ames & Co., new issues of provincial, municipal, and corporate securities continued relatively heavy through the early weeks of May. By the middle of the month, these new issues totaled \$119 million compared with \$150 million in the previous month. A comparison of new issues during the periods January-March, April, and May are shown below in millions of Canadian dollars. (The new Canadian Government issue was placed on the market on May 17 and is therefore not included here.):

	Jan. 1- Mar. 27	Mar. 27- Apr. 24	Apr. 24- May 15
1. Government of Canada:			
Direct	1,855	780	360
Guaranteed	0	0	0
Total	<u>1,855</u>	<u>780</u>	<u>360</u>
Less short-term	<u>1,440</u>	<u>486</u>	<u>360</u>
Long-term issues	<u>415</u>	<u>294</u>	<u>0</u>
2. Other issues:			
Provincial-direct	135	65	60
-guaranteed	157	9	0
Municipal	107	19	24
Corporation	99	54	35
Total	<u>498</u>	<u>150</u>	<u>119</u>
3. Net long-term issues	913	444	119

A new Canadian Government short-term issue was placed on the market Wednesday, May 17, as a further step in the Government's 1961 debt-management program. The new issue consists of \$200 million of 3-1/2 per cent noncallable bonds due December 15, 1962, priced at 98.75 to yield 4.35 per cent to maturity. Of the \$200 million, \$90 million was taken by the Bank of Canada in exchange for maturing issues (\$50 million for 3 per cent bonds maturing December 1961, and \$40 million for 12-month Treasury bills maturing June 1, 1961). The remaining \$110 million was offered on the market for cash.

The new issue was well received and dealers oversold their allotments by the end of the first day's trading. However, the price was held at issue price with some certainty that the Bank of Canada had a sufficient supply on hand to meet market needs at that price.

During the last 6 months, the Canadian authorities have issued over \$1 billion in short-term bonds to refinance current year maturities. Another \$10 million of 12-month Treasury bills will mature on June 1, and about \$700 million of bonds will mature in December. Moreover, a budget deficit of about \$700-800 million is expected for the current year thus adding further to current year debt-management problems.

An uncertain market has discouraged the issuance of long-term maturities after the failure of the \$250 million, 20-year, ONR issue last September. The authorities have therefore depended entirely upon shorter maturities since that time -- mostly 1- to 3-year bonds. However, the current average term of maturity of Canadian Government debt is sufficiently long to permit this technique for current year financing. The average term of Canadian debt outstanding is presently 9 years and 2 months compared with 4 years and 6 months in the United States.

Chartered bank loans and money supply. During the last two months seasonally adjusted general loans declined about \$12 million after rising rather sharply earlier in the year. Since the beginning of the year the rise has been about \$50 million, to 1 per cent above the December level. However, total bank investments in the private sector (loans, mortgages, and non-Government securities) showed little change during this period.

On May 30, the chartered banks announced a reduction of the prime lending rate from 5-3/4 per cent to 5-1/2 per cent effective June 1. This is the first change in bank lending rate since April 1959. Moreover, the relatively high degree of bank liquidity will permit expansion of bank loans at the lower rates. At the end of the month, the cumulative average of bank liquid assets was 17.7 per cent of last month's deposits compared with the required 15 per cent minimum. The existing level is considerably above previous year levels.

Money supply (excluding Government deposits), seasonally adjusted, rose \$79 million during May after a \$29 million decline in April. Since the beginning of the year there has been a 3.4 per cent expansion above normal seasonal needs. Compared with a year ago the seasonally adjusted money supply rose 7.1 per cent.

Secondary mortgage market. The Canadian authorities announced new measures designed to establish a secondary market for mortgages and thereby increase the flow of funds to this sector and reduce the continued pressure on mortgage rates, currently as high as 7-3/4 per cent for conventional and 6-3/4 per cent for NHA mortgages. Effective June 1, the Central Mortgage Housing Corporation (CMHC), a Government owned and financed corporation, will sell \$15 million of its mortgage holdings to private groups and organizations. The CMHC will stand ready to repurchase mortgages and will service these mortgages if requested at a small cost. By adding a greater degree of liquidity to mortgage holdings, it is hoped that increased interest will be shown in this type of investment. CMHC holdings presently total \$800 million and is financed through the regular budget.

Foreign exchange. There was little fluctuation in the Canadian dollar in May. The spot rate rose from 101.27 (U.S. cents) on May 1 to 101.33 on June 1. The discount on the 3-month forward Canadian dollar remained relatively steady through May, varying roughly between 0.49 per cent per annum and 0.56 per cent per annum.

Stock market. During the week ending May 11, average weekly prices of industrial stock on the Canadian exchanges declined only slightly below the high of the previous week, but the average for the first two weeks of May remained 4 per cent above the April average. The current level is 34.7 per cent above the level of last October when the rise began. During the same period, the New York Standard & Poor index of industrial stock prices showed a rise of 24.1 per cent. The following table compares the weekly averages of industrial stock price indices of New York Standard & Poor with the DBS in Canada:

	<u>DBS</u>	<u>New York Standard & Poor</u>
October 6	246.1	56.63
December 29	275.9	61.27
February 23	298.7	66.07
April 27	324.4	68.96
May 4	33.7	69.84
11	331.4	70.29

The volume of sales on the Canadian exchanges rose to weekly highs of \$24.3 million in the first week of May and dropped to \$11.8 million in the week ending May 26. The volume continues far above the April level with a total of \$73 million in May compared with \$59.8 million in April.

The Toronto Stock Exchange has recently announced plans to introduce a program for instalment buying of stocks along the lines of the Monthly Investment Plan of the New York Stock Exchange. A similar plan was introduced by the Montreal Stock Exchange in March (see Capital Market Developments Abroad, April 3, 1961) to compete with U.S. stock exchanges which now have direct lines with both the Toronto and Montreal exchanges.

British Commonwealth Section.

II. Nine Charts on Financial Markets Abroad

- Chart 1 - Interest Arbitrage U.S./Canada
- Chart 2 - Interest Arbitrage New York/London
- Chart 3 - Interest Arbitrage New York/Frankfurt
- Chart 4 - Interest Arbitrage Frankfurt/London
- Chart 5 - Short-term Bond Yields
- Chart 6 - Long-term Bond Yields
- Chart 7 - Industrial Stock Indices
- Chart 8 - Major Currencies in Terms of
Spot United States Dollar
- Chart 9 - 3-month Forward Rate -- London Quotations

Selected Canadian Money Market and Related Data

	3-mo. Treas. bills			Canadian dollar			Net incentive to hold Can. bills/
	Canada a/	U.S. b/	Spread over U.S.	Spgt c/	3-mo. forward	discount premium (+) d/	
1960 - High	5.14	4.53	1.62	105.27	--	0.99	1.99
Low	1.68	2.10	-0.82	100.33	--	-0.91	-0.57
1961 - High	3.34	2.54	1.10	101.72	--	0.06	0.89
Low	2.86	2.17	0.48	100.47	--	-0.56	0.22
April 27	3.28	2.27	1.10	101.27	101.16	-0.43	0.58
May 4	3.22	2.19	1.03	101.38	101.25	-0.49	0.54
11	3.20	2.23	0.97	101.27	101.13	-0.56	0.41
18	3.16	2.32	0.84	101.28	101.14	-0.55	0.29
25	3.17	2.42	0.72	101.33	101.20	-0.49	0.26
June 1	3.14	2.37	0.77	101.33	101.19	-0.55	0.22

a/ Average yield at weekly tender on Thursday.

b/ Composite market yield for the U.S. Treasury bill on Thursday close of business.

c/ In U.S. cents.

d/ Spread between spot rate and 3-month forward Canadian dollar on Thursday closing, expressed as per cent per annum.

e/ Spread over U.S. Treasury bill (column 3), plus 3-month forward discount or premium (column 6).

Selected Government of Canada Security Yields

	6-mo. Treas. bills		Intermediate bonds (8 yr.)		Long-term bonds			
	Canada a/	Spread over U.S. b/	Canada c/	Spread over U.S. d/	(20 year)		(35 year)	
					Canada e/	Spread over U.S. f/	Canada g/	Spread over U.S. h/
1960 - High	5.33	1.37	5.55	1.11	5.42	1.36	5.28	1.61
Low	1.99	-0.86	4.09	0.21	4.63	0.85	4.68	0.95
1961 - High	3.63	1.15	4.75	1.16	5.19	1.40	5.23	1.59
Low	3.15	0.58	4.63	0.78	5.06	1.29	5.04	1.37
April 27	3.40	1.02	4.74	1.07	5.17	1.38	5.09	1.48
May 4	3.36	0.89	4.72	1.12	5.14	1.40	5.10	1.54
11	3.36	0.96	4.71	1.16	5.12	1.39	5.09	1.53
18	3.34	0.89	4.70	1.10	5.12	1.38	5.08	1.52
25	3.35	0.80	4.73	0.96	5.15	1.35	5.10	1.45
June 1	3.30	0.70	4.75	0.96	5.15	1.36	5.09	1.43

a/ Average yield at weekly tender on Thursday.

b/ Spread between Canadian auction rate and composite market yield of U.S. bill on close of business Thursday.

c/ Government of Canada 2-3/4 per cent of June 1967-68.

d/ Spread over U.S. Government 2-1/2 per cent of 1963-68.

e/ Government of Canada 3-1/4 per cent of October 1979.

f/ Spread over U.S. Government 3-1/4 per cent of 1978-83.

g/ Government of Canada 3-3/4 per cent of September 1996 - March 1998.

h/ Spread over U.S. Government of 1995.

**Canada: Changes in Distribution of Holdings of Canadian
Government Direct and Guaranteed Securities**
(millions of Canadian dollars, par value)

	<u>Bank of Canada</u>		<u>Government</u> <u>Total</u>	<u>Chartered banks</u>		<u>General public</u>		
	<u>Treas.</u> <u>bills</u>	<u>Bonds</u>		<u>Treas.</u> <u>bills</u>	<u>Bonds</u>	<u>Savings</u> <u>bonds</u>	<u>Treas.</u> <u>bills</u>	<u>Bonds</u>
1960-Oct.	+ 66	+ 6	+ 37	- 54	+126	- 5	0	+ 72
Nov.	- 8	+ 1	+ 15	- 4	+ 29	+630	+ 55	- 46
Dec.	+ 9	- 8	- 87	- 17	- 34	- 32	+ 12	- 78
1961-Jan.	- 41	- 38	+ 15	+111	- 37	- 2	- 46	+ 23
Feb.	- 7	- 68	- 96	+ 67	+ 88	- 6	- 26	+ 39
Mar.	- 47	+120	- 25	- 36	+ 50	- 18	+ 30	+ 6
April	+ 9	+ 59	- 2	- 70	- 52	- 37	+ 64	- 12
May	+ 13	- 27	- 1	+ 64	+ 32	- 26	- 77	- 2

Source: Bank of Canada, Weekly Financial Statistics.

Selected Canadian Financial Statistics
(in millions of Canadian dollars or per cent)

	<u>Jan.</u>	<u>Feb.</u>	<u>Mar.</u>	<u>Apr.</u>	<u>May</u>
1. Money supply: ^{a/}					
Currency and deposits	13,727	13,856	13,939	13,876	13,797
Less: Govt. deposits	334	308	287	253	95
Equals: privately held	13,393	13,548	13,652	13,623	13,702
Change in period	+ 146	+ 155	+ 104	- 29	+ 79
2. General bank loans: ^{a/}	5,149	5,204	5,209	5,207	5,197
Change in period	+ 30	+ 55	+ 5	- 2	- 10
3. Total Govt. securities:	17,239	17,729	17,808	17,780	17,695
Of which: Treas. bills	1,985	1,985	1,935	1,935	1,935
Bonds	12,161	12,160	12,309	12,308	12,258
Savings bonds	3,493	3,481	3,564	3,537	3,502
4. New security issues: ^{b/}	788	661	913	926	478
Of which sold in U.S.	1	4	6	0	1
5. Chartered bank liquidity:					
Cash reserve	1,027	1,016	1,009	1,017	1,018
Cash ratio	8.2	8.2	8.1	8.1	8.1
Liquid assets	2,189	2,284	2,263	2,170	2,226
Liquid asset ratio	17.4	18.2	18.2	17.3	17.7

^{a/} Seasonally adjusted.

^{b/} Source: A. E. Ames & Co., Ltd. (Includes public and private securities.)

^{c/} Includes first two weeks of May.

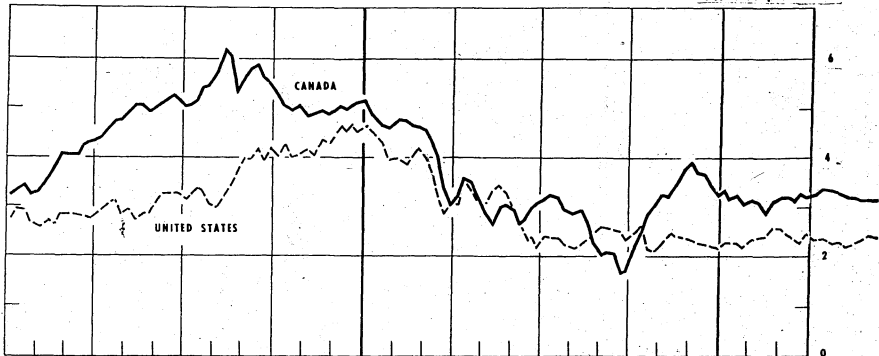
Chart 1

INTEREST ARBITRAGE, UNITED STATES / CANADA

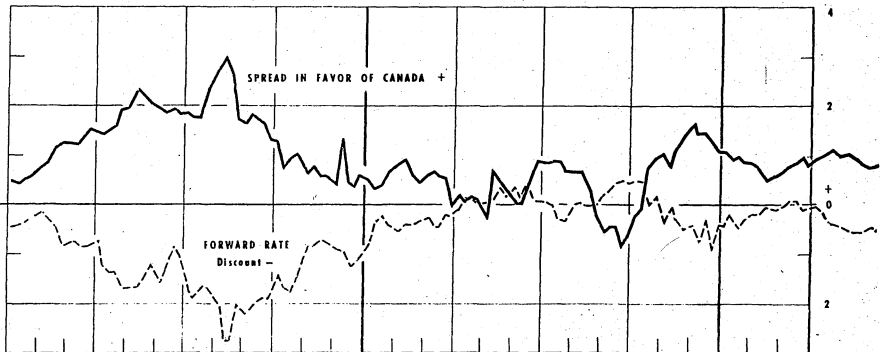
Thursday figures

THREE-MONTH TREASURY BILL RATES

Per cent per annum



RATE DIFFERENTIAL AND FORWARD CANADIAN DOLLAR



RATE DIFFERENTIAL WITH FORWARD EXCHANGE COVER

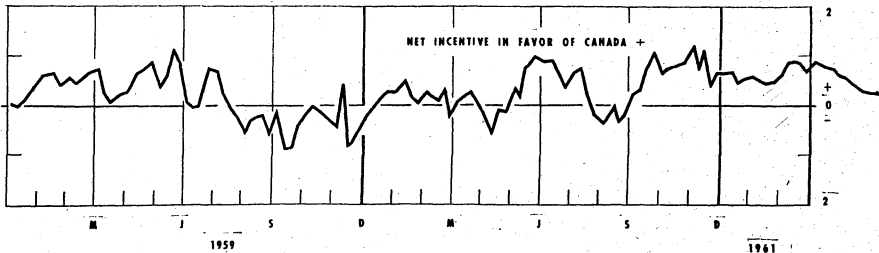
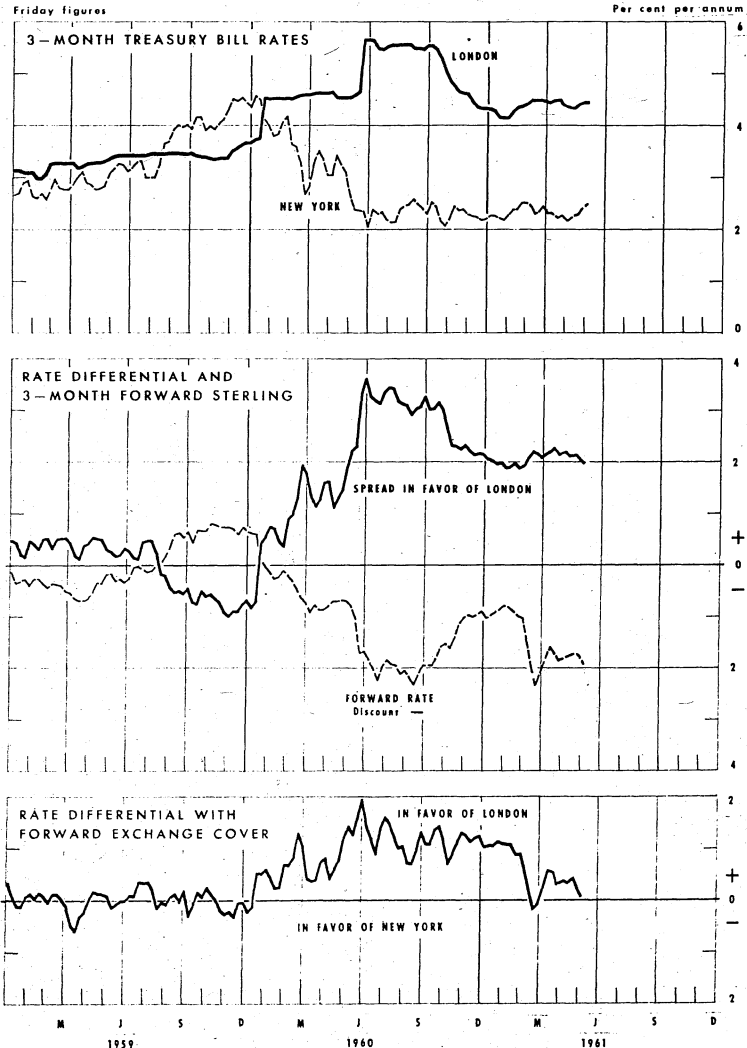


Chart 2

INTEREST ARBITRAGE, NEW YORK / LONDON

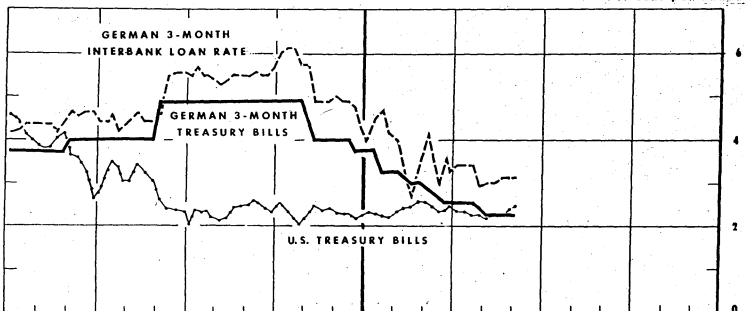


INTEREST ARBITRAGE, NEW YORK/FRANKFURT

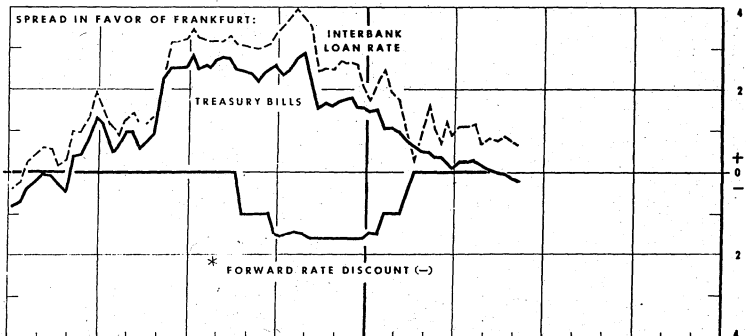
Friday figures

**3-MONTH TREASURY BILL RATES AND
GERMAN 3-MONTH INTERBANK LOAN RATES**

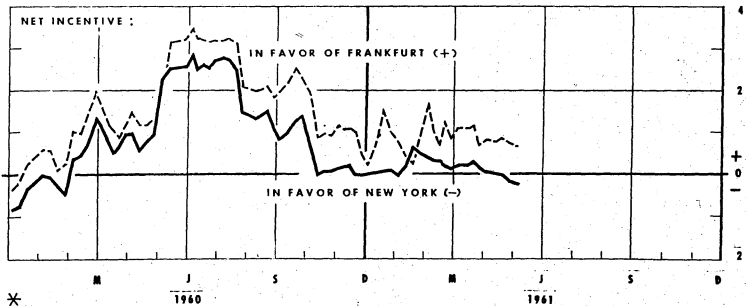
Per cent per annum



RATE DIFFERENTIAL AND FORWARD DEUTSCHE MARK



RATE DIFFERENTIAL WITH FORWARD EXCHANGE COVER



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

Chart 4

INTEREST ARBITRAGE, FRANKFURT/LONDON

Friday figures

Per cent per annum

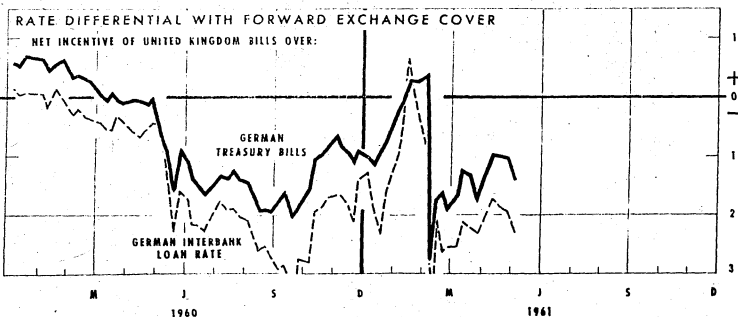
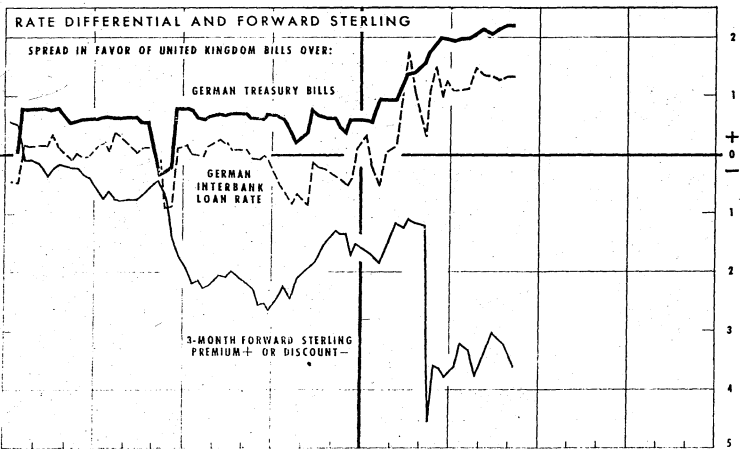
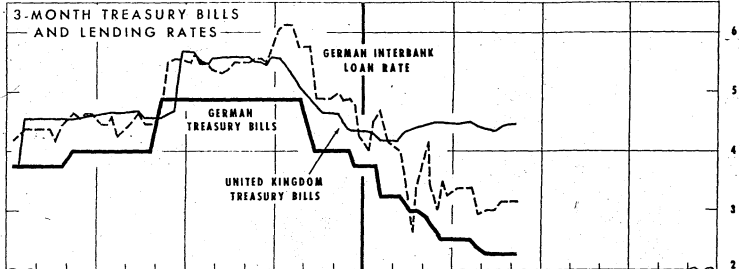
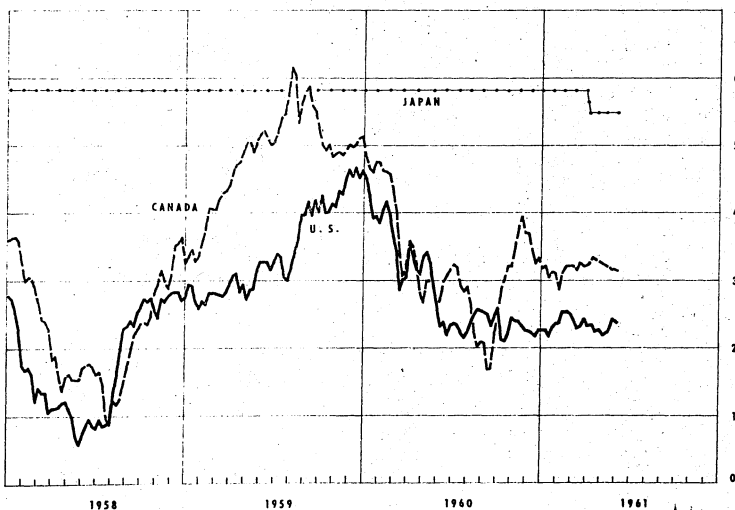
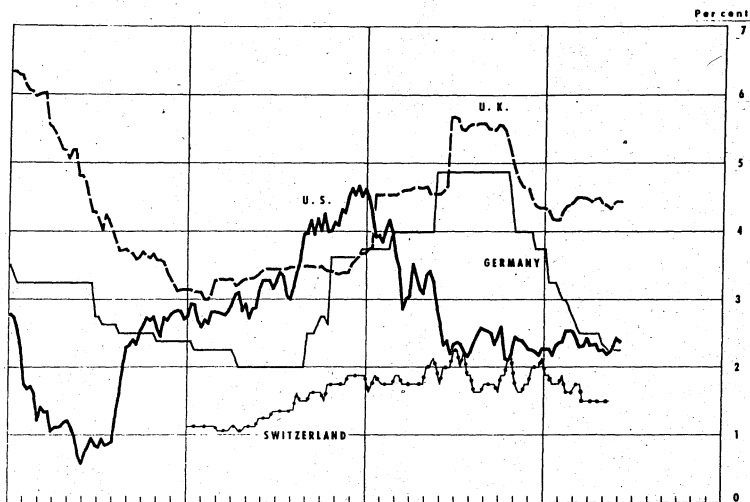


Chart 5

SHORT-TERM INTEREST RATES *



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Note: 3-month treasury bill rates for all countries except Japan (3-month interbank deposit rate) and Switzerland (3-month deposit rate).

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Chart 6

LONG-TERM BOND YIELDS

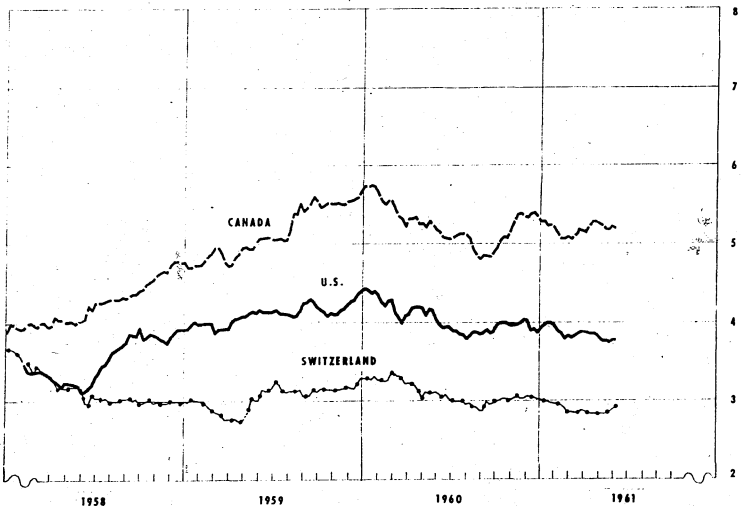
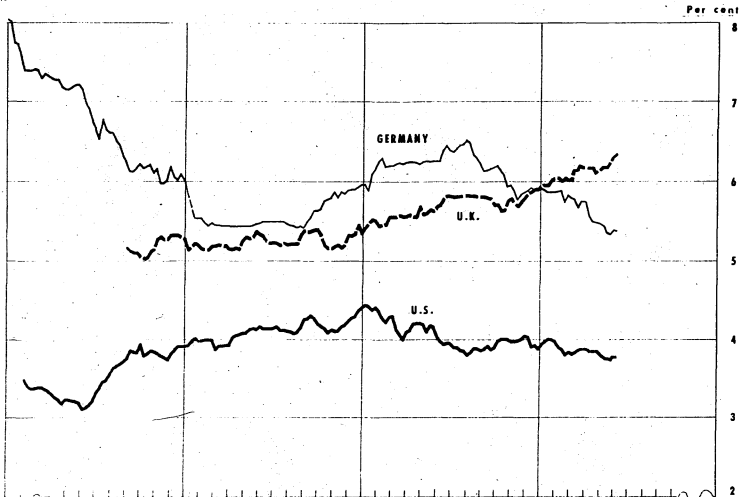
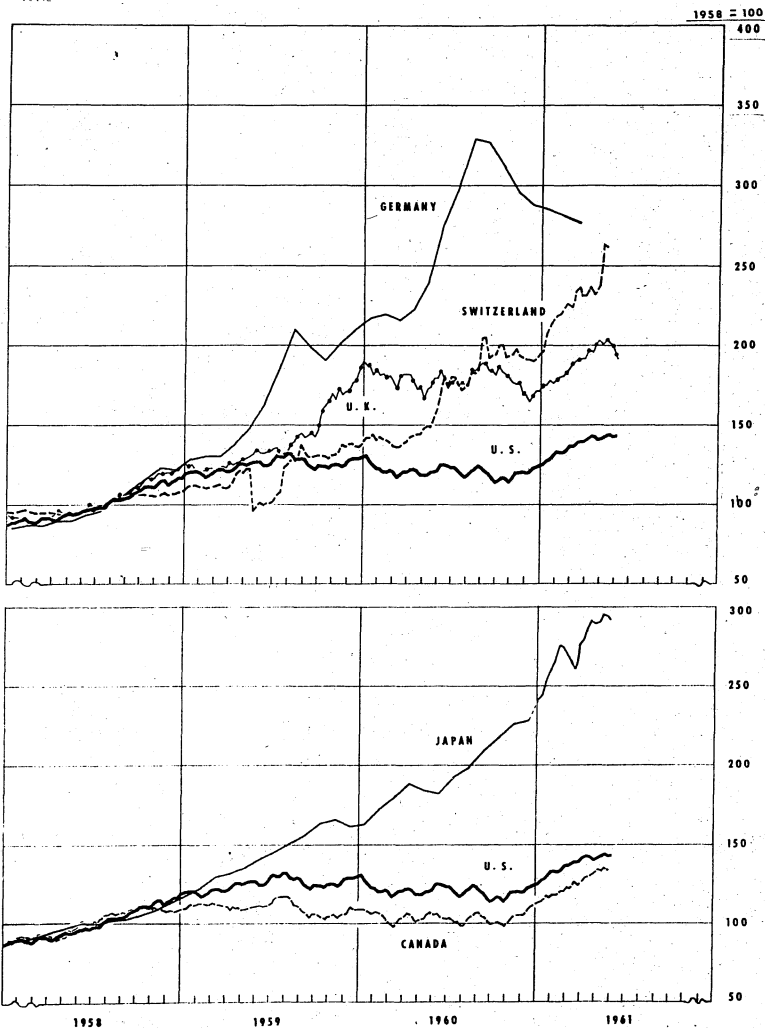


Chart 7

INDUSTRIAL STOCK INDICES *



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Note: Japan: Index of all stocks traded on Tokyo exchange.

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Chart B

MAJOR CURRENCIES IN TERMS OF THE SPOT U. S. DOLLAR

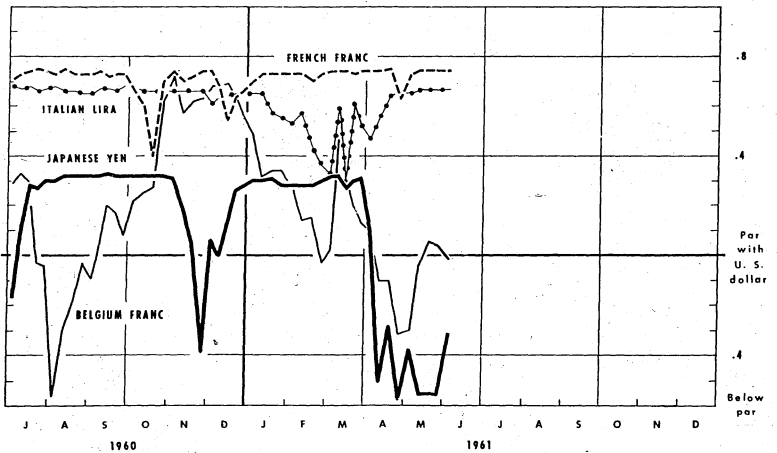
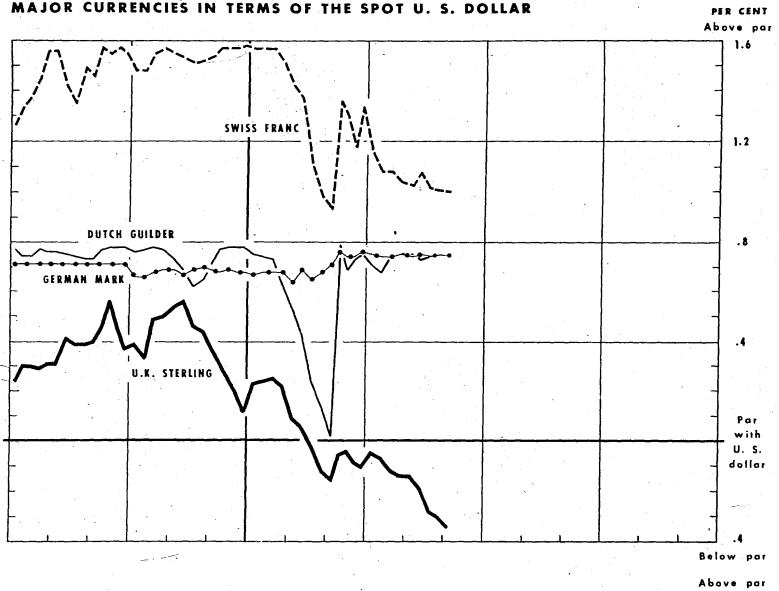


Chart 9

3-MONTH FORWARD RATES - LONDON QUOTATIONS

