

H. 13  
No. 2510 19 1961FEDERAL RESERVE BANK  
COMMUNICATIONS SECTION

September 15, 1961

CAPITAL MARKET DEVELOPMENTS ABROAD

- I. United Kingdom
- II. Nine Charts on Financial Markets Abroad

I. United Kingdom: Money and Capital Markets during August

Yields in British money and capital markets were maintained in August at around the high levels reached after the rise in Bank rate from 5 to 7 per cent on July 25. There was some tendency for rates to ease slightly in early September. Since yields of undated British Government securities turned down in early August, the yield curve has remained practically flat, with Treasury bills at 6.65 per cent and War Loan at 6.68 per cent on September 8. Despite the high prevailing rates, the value of new capital issues was sharply increased in July. The desire of British industry to meet its capital needs without being subject to the increasing credit restraints on the banking sector contributed to new issue activity.

Evidence of the July 25 credit restraint can be seen in the greater than seasonal decline in outstanding loans to the private sector of the London clearing banks between mid-July and mid-August. However, installment credit outstanding continued its steady rise for the fifth month in succession and reached its all-time high in July. The former peak was in July 1960.

During August, the spot pound rose nearly 2 U.S. cents and official reserves increased. The improved tone in the foreign exchange market probably reflected the covering of short positions by traders and perhaps a limited inflow of investment funds from continental Europe. The July 25 austerity program seems to have halted the outflow of funds from London but no appreciable return flow is yet evident, despite record London yields. Even though London bill rates have been substantially above those in New York, there has been little incentive to move funds from New York to London because of the wide discount on 3-month forward pounds.

Greater interest developed in the London bullion market during August as the price of gold rose from \$35.14 to just over \$35.20 per fine ounce on September 14. The demand for gold is reported to be mainly from the Far East and to a lesser extent from the Middle East and Western Europe.

Money market. Yields in the London money market receded slightly after mid-August. The yield on the British 3-month Treasury bill eased from a high point of 6.74 per cent on August 11 to 6.65 per cent on

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September 8 (see Table and Chart 2). A similar decline in the U.S. bill yield kept London rates about 4.30 per cent above those in New York. However, the incentive to move funds to London on a covered basis remained small (below one-half per cent) because of the substantial discount on forward sterling.

Government securities market. After reaching record peaks in early August, yields on undated British Government securities fell sharply (see Table and Chart 6). They rose slightly late in the month but turned down again in the first half of September. In intermediate maturities, yields were steady through late August and early September. In shorter maturities, yields rose throughout August but then tended to ease in September.

General rise in money rates. The general level of money rates continued to adjust to the high Bank Rate. The interest on Tax Reserve Certificates subscribed after August 12 will be 3.5 per cent compared with 3 per cent previously. On the same day, the rate of interest for new loans to farmers was increased by the Agricultural Mortgage Corporation to 7.5 per cent from 7 per cent. The rate was formerly raised to 7 per cent from 6.5 per cent on July 20.

Building society rates were maintained in August at the higher level announced in June. Second-quarter figures for all building societies show that new savings declined by £1.7 million and withdrawals increased by £1.3 million over first-quarter returns. As a result, net receipts totaled £35 million compared with £38 million in the first quarter. Further pressures on the resources of building societies are likely to develop as competing rates for small savings respond to the July 25 rise in Bank Rate.

Evidence of the increased competition for small savings is reflected in the sharp decline in August and early September in net receipts of the Government's National Savings Movement as rates on competing media have proved more attractive. While net saving between April 1 and July 28 was £41.7 million, in the following six weeks to September 8 net saving fell by £17.5 million. In contrast, between late July and early September last year net savings rose slightly by £8 million.

Insurance companies. In response to a request from the Bank of England, British insurance companies are to reduce their advances, particularly for property development. Other outlets for insurance company capital will, however, be restricted only by market forces. These include underwriting of new capital issues, personal and professional loans and long-term finance to enable repayment of short-term loans to a bank.

New capital issues. New capital issues (excluding Treasury operations) during the first seven months of 1961 totaled £448.7 million, by far the largest total of recent years. Nearly a quarter of this was

in July in which new capital issues of £108.9 million were floated. Much of this year's increase, concentrated mainly in the May-July period, reflects the efforts of British industry to obtain financing outside the banks which are under an increasingly tight credit rein. Total new issues were broken down as follows (in millions of pounds):

| <u>First seven months</u> | <u>U.K.</u> | <u>Overseas</u> | <u>Total</u> |
|---------------------------|-------------|-----------------|--------------|
| 1958                      | 199.2       | 39.5            | 238.8        |
| 1959                      | 268.9       | 32.4            | 301.3        |
| 1960                      | 296.0       | 31.7            | 327.7        |
| 1961                      | 413.6       | 35.1            | 448.7        |

London clearing banks. Advances of the London clearing banks to the private sector fell sharply in the month to mid-August by £108 million, the largest drop since September 1955. While the fall was influenced by seasonal factors, it reflects efforts by the banks earlier in the year to reduce their present and future commitments. A further call-up of £38 million was made to Special Deposits. Sales of British Government securities were negligible at £2 million. Liquid assets fell by £23 million but the liquidity ratio remained unchanged at 32.9 per cent because of the fall in gross deposits.

Installment credit. Installment credit rose sharply in July, apparently in the expectation of a general increase in indirect taxes or in installment credit controls as part of the Government's austerity measures expected in July. The increase in installment credit outstanding by £11 million to £968 million again was wholly accounted for by the debt owing directly to finance houses (mainly for motor vehicle finance). Recent figures of installment credit outstanding are (in millions of pounds):

|             | <u>Household goods stores</u> | <u>Finance houses</u> | <u>Total</u> | <u>Change</u> |
|-------------|-------------------------------|-----------------------|--------------|---------------|
| 1959 - July | 273                           | 469                   | 742          | --            |
| 1960 - July | 332                           | 639                   | 961          | + 219         |
| December    | 325                           | 610                   | 935          | - 26          |
| 1961 - May  | 306                           | 643                   | 949          | + 14          |
| June        | 306                           | 651                   | 957          | + 8           |
| July        | 306                           | 662                   | 968          | + 11          |

Exchequer receipts and payments. The Exchequer's deficit above the line for the first five months of fiscal 1961-62 was £212 million compared with £282 million a year ago. Revenue increased by £271 million and Expenditure by £201 million from the previous year. Below-the-line deficit, at £231 million, was £39 million larger than during the corresponding period last year. The over-all deficit was thus £443 million, £31 million smaller than a year ago.

Foreign trade. British exports in July seasonally adjusted continued at about the June level. In the 3-month period May-July, seasonally adjusted exports were only 0.5 per cent higher than in the preceding three months. However, seasonally adjusted imports declined 2.5 per cent between May-July and February-April. Lower imports sharply reduced the trade deficit below the first-quarter level. Recent monthly averages of seasonally adjusted trade figures (in millions of pounds) are:

|              | <u>Exports</u> | <u>Re-<br/>exports</u> | <u>Imports</u> | <u>Trade<br/>balance</u> |
|--------------|----------------|------------------------|----------------|--------------------------|
| 1960         | 296            | 12                     | 380            | - 72                     |
| 1961 - I     | 309            | 12                     | 385            | - 64                     |
| II           | 307            | 13                     | 362            | - 42                     |
| May          | 283            | 12                     | 365            | - 70                     |
| June         | 331            | 15                     | 367            | - 21                     |
| July         | 307            | 16                     | 354            | - 31                     |
| Aug. (prem.) | 324            | 15                     | 361            | - 22                     |

Foreign exchange reserves. Foreign exchange reserves rose sharply in August. After excluding special capital payments and receipts and the I.M.F. drawing, the press estimate an inflow of between £34 and £61 million. This inflow appears to reflect the covering of short positions by traders following the July 25 measures to support sterling and some interest in British bonds. The total rise in reserves of £369 million included the £518 million drawing from the International Monetary Fund and an unknown inflow from a transaction in which France purchased sterling to repay some part of her £27 million final payment to the now-defunct European Payments Union. Offsetting these two inflows was a £200 million payment to several major European central banks for their assistance in supporting sterling earlier in the year, and a £10 million payment to Germany for debts incurred under the EPU.

Overseas sterling holdings. Overseas sterling holdings declined again in the second quarter to £4,257 million from £4,272 million in the first quarter and the high of £4,436 million in the fourth quarter of 1960. All regions of the nonsterling area reduced their sterling holdings in the second quarter. This fall has been in progress since the fourth quarter of 1960 in all regions except Western Europe, which reached its peak in the first quarter of 1961 and reflects the increase in official holdings under the Basle agreement. After declining since the second quarter of 1960, sterling holdings of the Overseas Sterling Area rose sharply in the second quarter of 1961. Part of this rise may be seasonal. Recent movements in overseas holdings of sterling are as follows (in millions of pounds):

| End of period | Total | Nonsterling area |                |                 | Rest of sterling area | Non-territorial organizations |
|---------------|-------|------------------|----------------|-----------------|-----------------------|-------------------------------|
|               |       | North America    | Western Europe | Other countries |                       |                               |
| March 1960    | 4,180 | 58               | 408            | 356             | 2,670                 | 688                           |
| <u>Change</u> |       |                  |                |                 |                       |                               |
| June 1960     | + 295 | + 33             | + 81           | + 4             | + 4                   | - 27                          |
| Sept. 1960    | + 72  | + 42             | + 143          | + 41            | - 97                  | - 57                          |
| Dec. 1960     | + 89  | + 170            | + 67           | + 4             | - 97                  | - 5                           |
| March 1961    | - 164 | - 160            | + 48           | - 19            | - 37                  | + 4                           |
| June 1961     | - 15  | - 29             | - 85           | - 61            | + 161                 | - 1                           |

Foreign exchange rates. The sterling spot rate fluctuated narrowly about 280.50 U.S. cents during most of August but by early September it strengthened to about 281.20 U.S. cents. This strengthening is reported to reflect commercial interest rather than a movement of capital for investment purposes. A substantial inflow of funds to London on a covered basis seems unlikely as long as the per annum discount on 3-months forward sterling holds at about the 4 per cent level which has prevailed since late July.

Bullion market. After remaining about steady in late July-early August, the dollar equivalent of the fixing price of gold increased further through September 14, thereafter declining slightly.

Fixing price  
(in dollars)

|              |         |
|--------------|---------|
| April 7      | 35.0779 |
| May 5        | 35.0673 |
| June 2       | 35.0739 |
| July 7       | 35.0951 |
| August 11    | 35.1517 |
| September 14 | 35.2019 |

Stock market. After rising sharply in early August, industrial prices on the London stock market fell back in the second week of the month to the July levels (see Table and Chart 7). The market drifted slightly lower later in the month but by early September prices strengthened somewhat. 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 Interest Rates
- 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

United Kingdom: Treasury Bill Yields and Exchange Rates

| Date        | 3-mo. Treasury bill |                    |                 | Discount<br>on 3-mo.<br>sterling <sup>c/</sup> | Net<br>incentive<br>to hold<br>U.K. bill <sup>d/</sup> | Exchange rate                     |  |
|-------------|---------------------|--------------------|-----------------|--|--|-----------------------------------|--|
|             | U.K. <sup>a/</sup>  | U.S. <sup>b/</sup> | Differ-<br>ence |  |  | Spot<br>sterling<br><sup>e/</sup> | Discount<br>on 3-mo.<br>sterling <sup>f/</sup> |
| 1960 - High | 5.68                | 4.95               | 3.63            | (P).64   | 1.95   | 281.58                            | 1.64   |
| Low         | 2.13                | 2.08               | -0.84           | 2.33   | - .23  | 279.83                            | (P).47   |
| 1961 - High | 6.74                | 2.52               | 4.45            | 4.36   | 1.13   | 281.07                            | 3.04   |
| Low         | 4.17                | 2.16               | 1.88            | 0.79   | -2.12  | 278.47                            | 0.55   |
| July 14     | 4.57                | 2.20               | 2.37            | 3.85   | -1.48  | 278.47                            | 2.68   |
| 21          | 4.63                | 2.16               | 2.47            | 2.99   | -0.52  | 278.47                            | 2.08   |
| 28          | 6.69                | 2.24               | 4.45            | 4.07   | 0.38   | 279.28                            | 2.84   |
| Aug. 4      | 6.71                | 2.29               | 4.42            | 4.00   | 0.42   | 280.18                            | 2.80   |
| 11          | 6.74                | 2.44               | 4.30            | 4.07   | 0.23   | 280.34                            | 2.85   |
| 18          | 6.71                | 2.47               | 4.24            | 4.11   | 0.13   | 280.30                            | 2.88   |
| 25          | 6.70                | 2.34               | 4.36            | 3.85   | 0.51   | 280.29                            | 2.70   |
| Sept. 1     | 6.70                | 2.35               | 4.35            | 3.93   | 0.42   | 280.58                            | 2.76   |
| 8           | 6.65                | 2.31               | 4.34            | 4.01   | 0.33   | 281.07                            | 2.82   |

<sup>a/</sup> Average yield at Friday weekly tender.

<sup>b/</sup> Closing market yield for Friday in New York.

<sup>c/</sup> Spread between spot and forward rate in per cent per annum.

<sup>d/</sup> Net of difference in bill yield less discount on 3-month sterling.

<sup>e/</sup> Spot rate in New York market in U.S. cents.

<sup>f/</sup> Spread between spot and forward rates in U.S. cents.

United Kingdom: Selected Capital Market Yields

|             | 6-year<br>bond <sup>a/</sup> | 15-year<br>bond <sup>b/</sup> | War<br>loan <sup>c/</sup> | Consols<br><sup>d/</sup> | Share<br>yield <sup>e/</sup> | Yield<br>gap <sup>f/</sup> | Share<br>prices <sup>g/</sup> |
|-------------|------------------------------|-------------------------------|---------------------------|--------------------------|------------------------------|----------------------------|-------------------------------|
| 1960 - High | 6.11                         | 6.00                          | 5.94                      | 5.70                     | 4.96                         | 1.49                       | 228.6                         |
| Low         | 4.93                         | 5.33                          | 5.53                      | 5.02                     | 3.74                         | 0.63                       | 294.6                         |
| 1961 - High | 6.68                         | 6.76                          | 6.92                      | 6.78                     | 5.14                         | 1.90                       | 365.3                         |
| Low         | 5.95                         | 5.97                          | 5.95                      | 5.70                     | 4.22                         | 0.97                       | 306.2                         |
| July 14     | 6.37                         | 6.48                          | 6.71                      | 6.53                     | 5.13                         | 1.40                       | 306.2                         |
| 21          | 6.34                         | 6.47                          | 6.62                      | 6.44                     | 5.01                         | 1.43                       | 313.8                         |
| 28          | 6.52                         | 6.55                          | 6.72                      | 6.57                     | 5.14                         | 1.43                       | 307.3                         |
| Aug. 4      | 6.65                         | 6.65                          | 6.92                      | 6.78                     | 4.88                         | 1.90                       | 328.6                         |
| 11          | 6.65                         | 6.73                          | 6.72                      | 6.56                     | 5.04                         | 1.52                       | 313.3                         |
| 18          | 6.63                         | 6.73                          | 6.71                      | 6.51                     | 5.08                         | 1.43                       | 311.0                         |
| 25          | 6.68                         | 6.76                          | 6.77                      | 6.60                     | 5.11                         | 1.49                       | 308.7                         |
| Sept. 1     | 6.61                         | 6.74                          | 6.66                      | 6.44                     | 5.10                         | 1.34                       | 309.2                         |
| 8           | 6.60                         | 6.75                          | 6.68                      | 6.45                     | 5.03                         | 1.42                       | 313.7                         |

<sup>a/</sup> 5-1/2 per cent Exchequer, 1966.

<sup>b/</sup> 3 per cent Savings Bond 1965-75.

<sup>c/</sup> 3-1/2 per cent War Loan (undated).

<sup>d/</sup> 2-1/2 per cent Consol (undated)

<sup>e/</sup> Financial Times.

<sup>f/</sup> Difference between yield on 2-1/2 per cent Consols and share yield.

<sup>g/</sup> Financial Times.

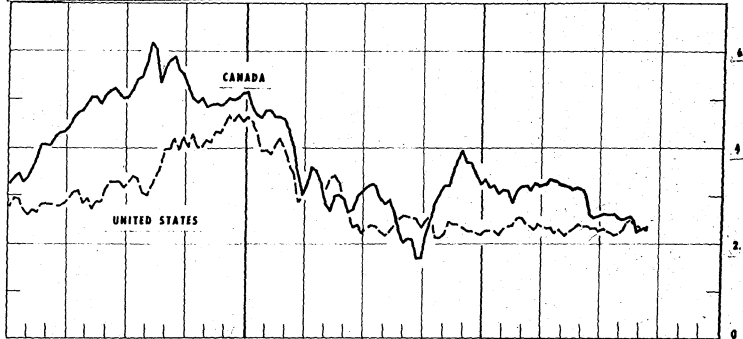
Chart 1

# INTEREST ARBITRAGE, UNITED STATES / CANADA

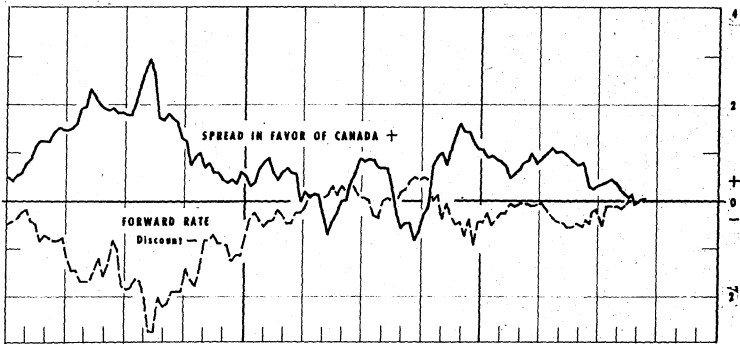
Thursday figures

## THREE-MONTH TREASURY BILL RATES

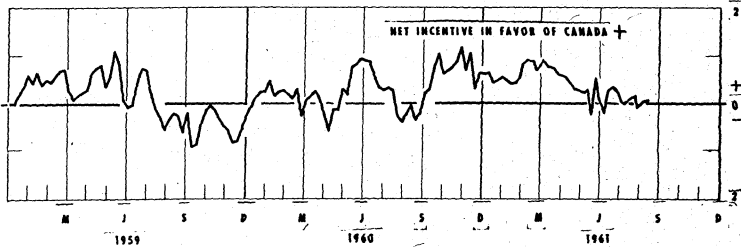
Per cent per annum



## RATE DIFFERENTIAL AND FORWARD CANADIAN DOLLAR



## RATE DIFFERENTIAL WITH FORWARD EXCHANGE COVER



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Chart 2

**INTEREST ARBITRAGE, NEW YORK / LONDON**

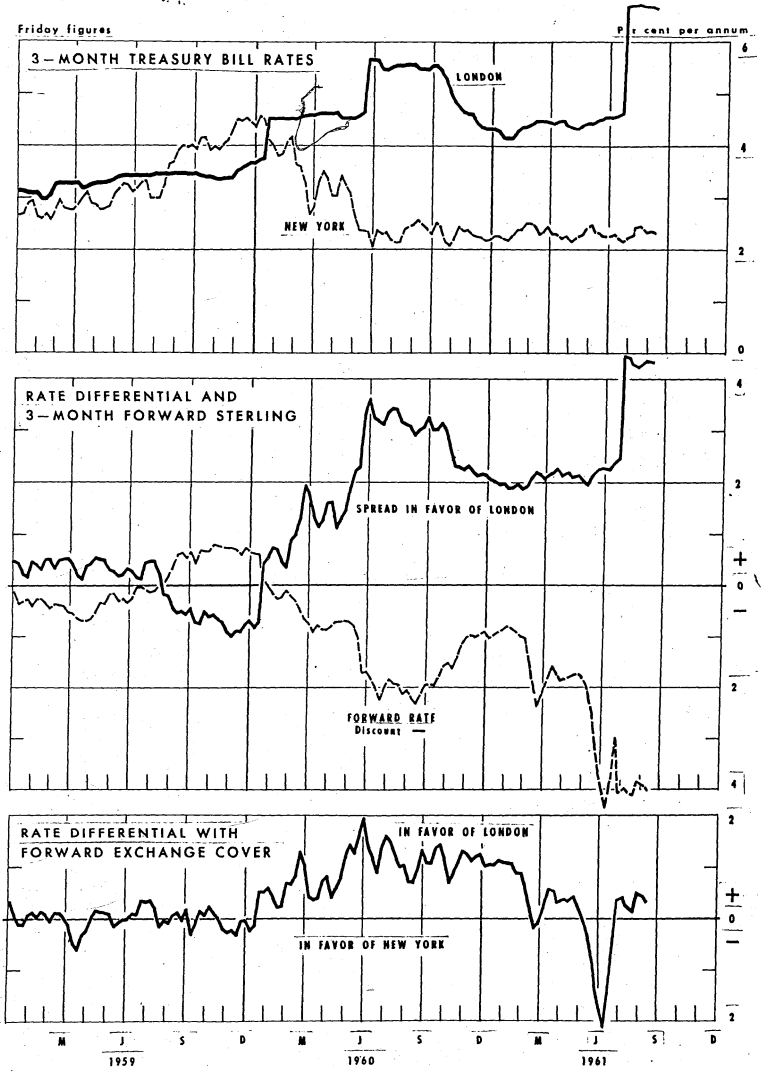




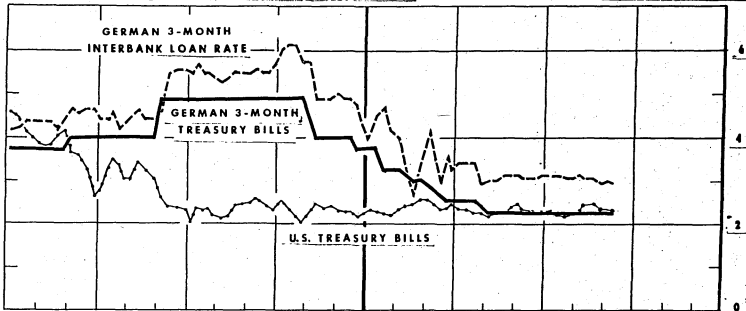
Chart 3

### INTEREST ARBITRAGE, NEW YORK/FRANKFURT

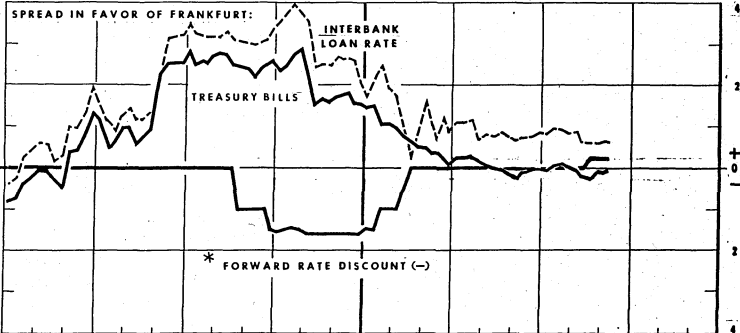
Friday figures

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

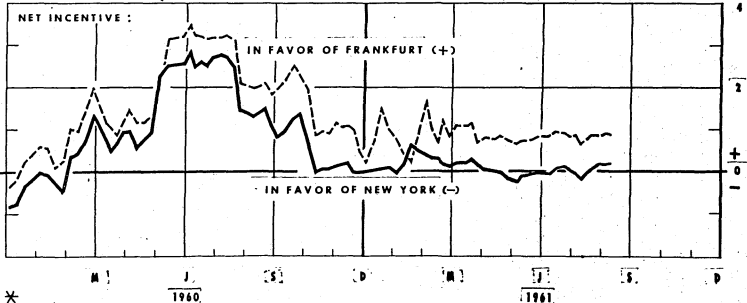
Per cent per annum



#### RATE DIFFERENTIAL AND FORWARD DEUTSCHE MARK



#### RATE DIFFERENTIAL WITH FORWARD EXCHANGE COVER



\* Special forward dollar rate available to German commercial banks.

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Chart 4

**INTEREST ARBITRAGE, FRANKFURT/LONDON**

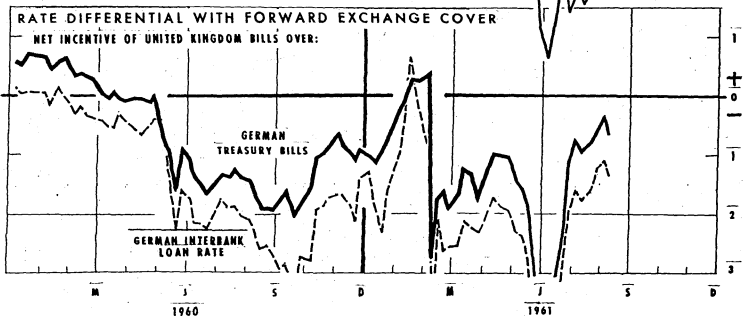
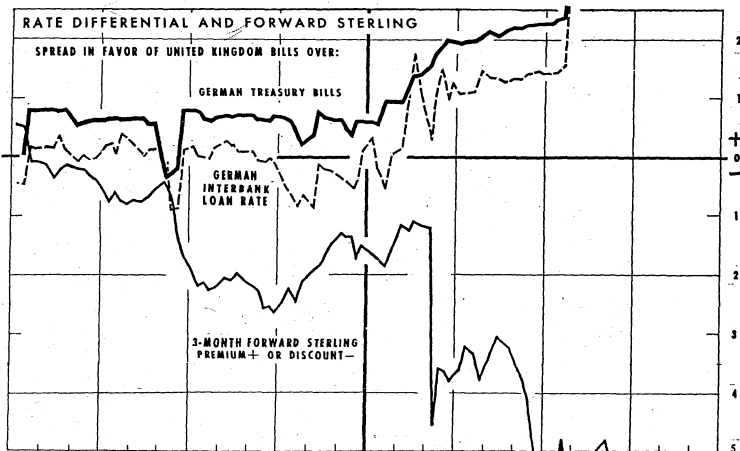
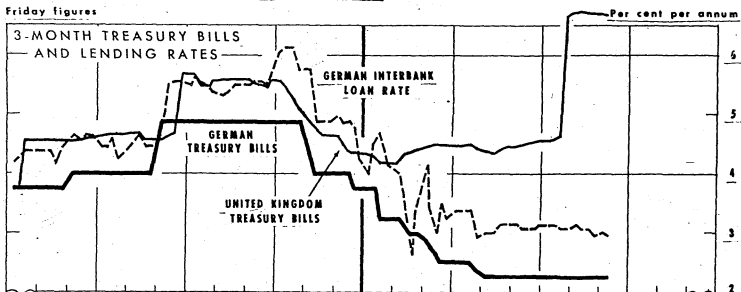
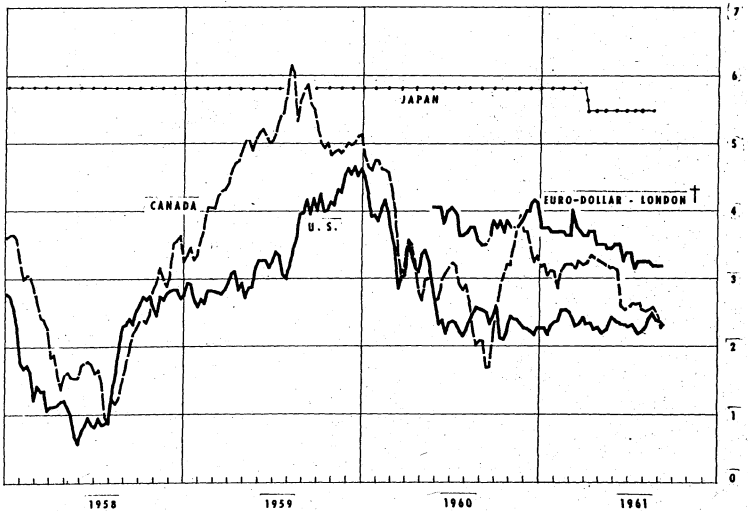
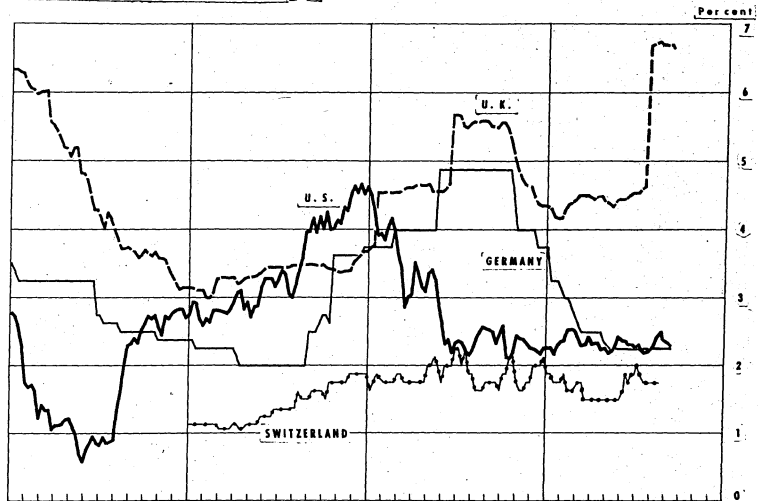


Chart 5

**SHORT-TERM INTEREST RATES\***



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

† 3-month rate for U. S. dollar deposits in London.

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Chart 6

**LONG-TERM BOND YIELDS**

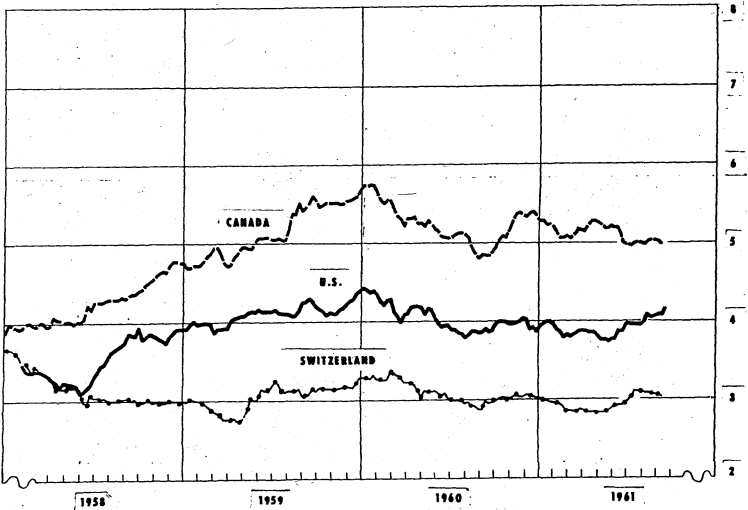
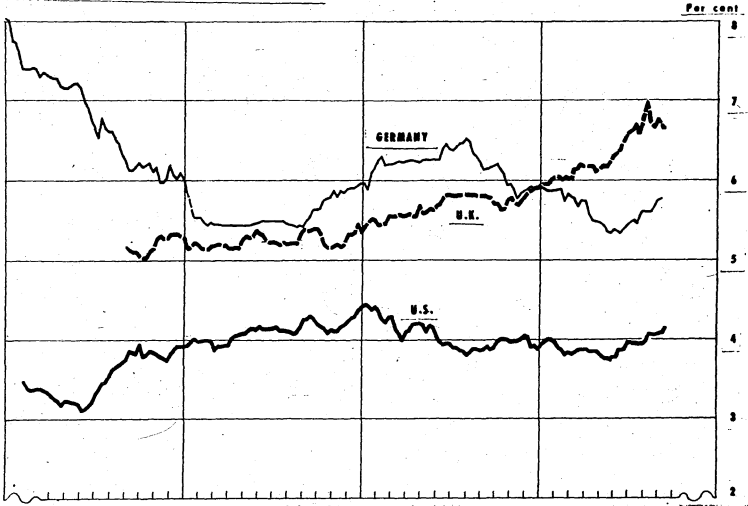
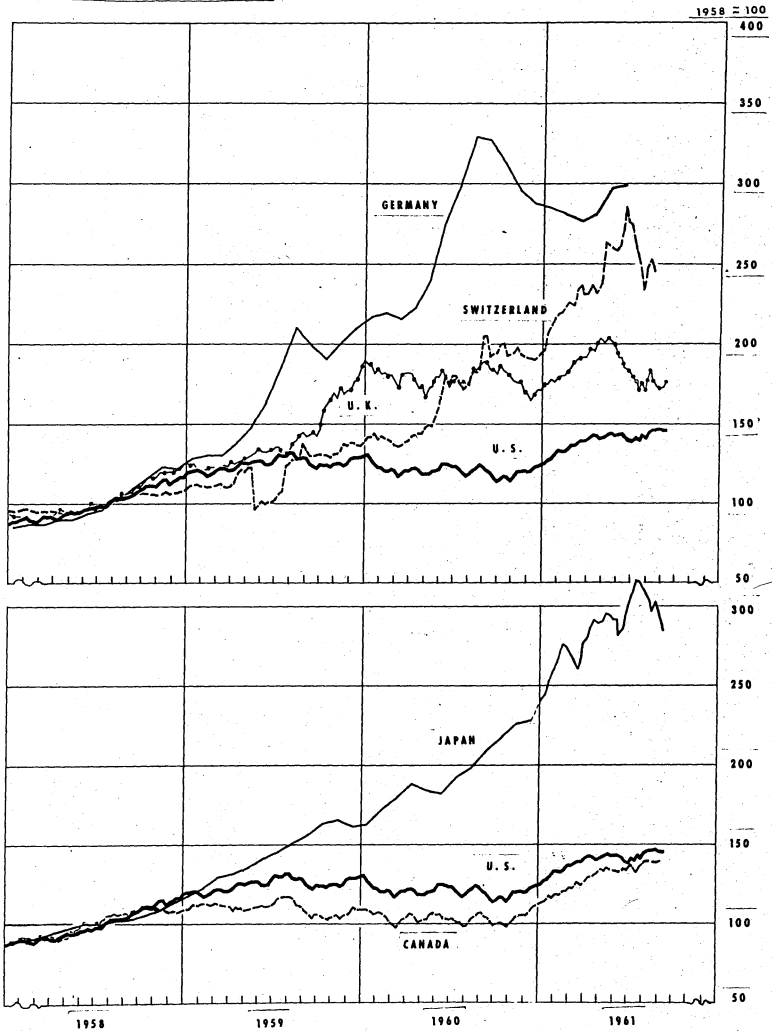


Chart 7

**INDUSTRIAL STOCK INDICES \***



\*

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

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Chart 8

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

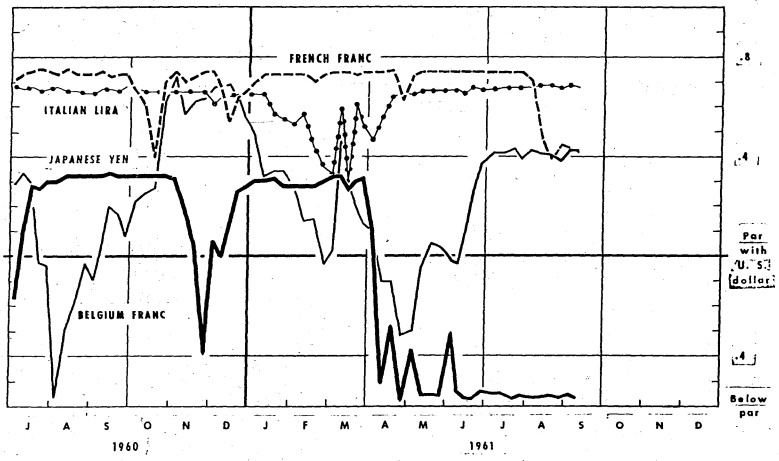
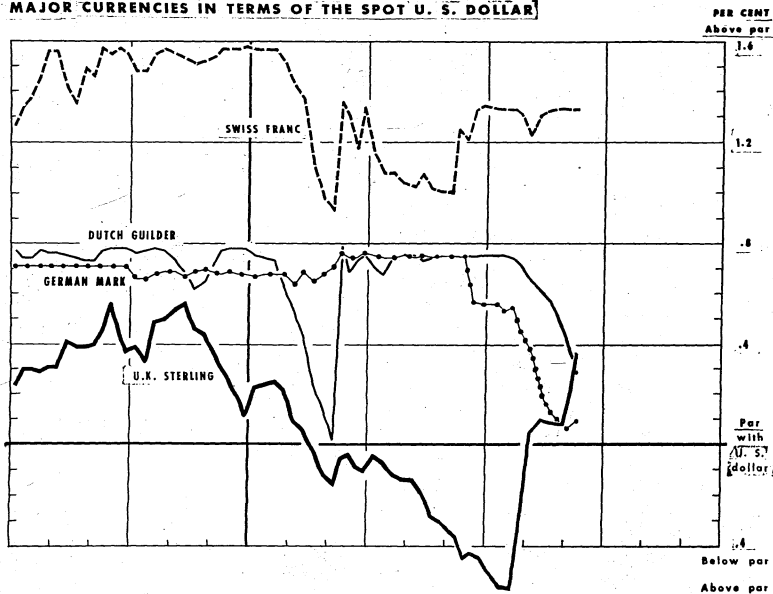


Chart 9

3-MONTH FORWARD RATES - LONDON QUOTATIONS

