

H.13  
No. 38

December 15, 1961

CAPITAL MARKET DEVELOPMENTS ABROAD

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

I. United Kingdom: Money and Capital Markets in November

Money and capital markets in London were somewhat unsettled during November and early December as some signs of deterioration in Britain's economic position became evident. As a result, there was a general decline in prices of government securities and, from mid-November, a fall in industrial stock prices. At the end of November, some weakness was also evident in the spot pound in exchange markets.

The disturbed conditions in the gilt-edged market were reflected in somewhat erratic movements in prices and yields of government securities during this period. Actual movements in gilt-edged yields (in per cent per annum) and values were as follows:

	Govt. security price index	91-day		2-1/2% Consols		3-1/2% War Loan	
		Treas. bill yields (Friday)	Closing price	Yield %	Closing price	Yield %	
Aug. 4	72.01	6.50	36-1/2	6.85	50-1/2	6.98	
Sept. 6	74.15	6.38	38-1/2	6.40	53-7/16	6.65	
Sept. 29	73.76	6.44	38-1/4	6.48	52-15/16	6.73	
Nov. 3	76.61	5.31	39-5/8	6.30	52-11/16 <sup>a</sup>	6.60	
Nov. 23	74.90	5.31	38-3/8	6.55	51-1/4 <sup>a</sup>	6.75	
Nov. 29	75.46	5.28	39	6.45	51-3/4 <sup>a</sup>	6.75	
Dec. 6	74.82	5.25	37-2/4 <sup>b</sup>	6.55	51-1/4 <sup>a</sup>	6.80	

a/ Abnormally low value due to payment of dividend on October 25.

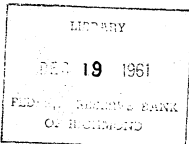
b/ Abnormally low value due to payment of dividend on December 1.

Nonetheless, Britain's reserves rose by \$25.2 million during November as foreign funds continued to flow into the country. In addition to this gain, Britain was also able to repay \$140 million to the IMF in late November.

However, foreign exchange markets began to reflect adverse developments toward the end of November when the spot rate came under pressure. The extent of the fall in the spot rate after November 29 can be seen in the following daily quotations for spot sterling (in U.S. cents per pound):

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Aug. 4	280.12	Nov. 29	281.50
Sept. 6	281.19	Nov. 30	281.29
Sept. 29	281.43	Dec. 1	280.91
Nov. 3	281.38	Dec. 4	281.17
Nov. 22	281.57	Dec. 5	281.27
Nov. 24	281.54	Dec. 6	281.16
Nov. 27	281.54	Dec. 7	281.16
Nov. 28	281.51	Dec. 8	281.11

Seasonally-adjusted exports for November fell slightly below the average for the first three quarters of 1961. However, the seasonally-adjusted trade deficit was reduced from £56 million in October to £41 million in November as a result of a considerable decline in imports. Recent monthly data (in millions of pounds) are as follows:

	<u>Exports</u>	<u>Re- exports</u>	<u>Imports</u>	<u>Trade balance</u>
1960	296	12	380	- 72
1961: I	309	12	385	- 64
II	307	13	362	- 42
III	309	15	358	- 34
Oct.	311	12	379	- 56
Nov.	305	14	360	- 41

Several factors contributed to the concern of financial markets about economic trends in Britain. The 2 point fall in industrial output in September, and the 1 point decline in the seasonally adjusted value of retail sales in October, together with disappointing dividend and profit statements, created uncertainties about the immediate business outlook. The widely-debated grant of a wage increase to the electrical workers in mid-November not only threatened the "pay pause" policy but focused attention on the critical position of wage negotiations in Britain and on the controversy between the Government and union leaders over general economic policies as well as over wages.

Credit availabilities continued to tighten in November. Private advances of the London clearing banks fell by £28 million in November, compared to £30 million for October, £128 million in September, and £104 million in August. Installment credit continued to decline in October by £11 million, following a £18 million drop in September. New capital issues declined from £48.3 in September to £26.5 in October, or about a third of the figure for October 1960. The above-the-line Exchequer deficit has been reduced by £71 million from £428 million in 1960-61 to £357 million in fiscal 1961-62.

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**Money market.** After declining sharply during the three preceding months, the yield on 91-day British Treasury bills remained almost constant at around 5.3 per cent during November (see Table and Chart 4). During November, the proportion of 91-day bills procured by bill houses at the weekly tender declined to a more usual level than earlier in the fall as may be noted:

<u>Date</u>	<u>Per cent</u>	<u>Date</u>	<u>Per cent</u>
Sept. 1	48	Oct. 20	51
Sept. 8	60	Oct. 27	66
Sept. 15	59	Nov. 3	63
Sept. 22	65	Nov. 10	44
Sept. 29	39	Nov. 17	56
Oct. 6	57	Nov. 24	42
Oct. 13	59		

On December 8, for the first time since the 63-day Treasury bills were introduced in 1955, the discount houses failed to obtain any of the bills at their minimum tender price. The actual buyers of the bills are at present unknown. The maturity date of this issue of bills coincides with the final redemption of 4-1/2 conversion bonds 1962 on February 15.

Since Treasury bill yields in the United States rose during November, the British rate exceeded the U.S. rate by 2.76 per cent on December 1 compared with 3.34 per cent on October 27. With the exchange risk covered, the net incentive to hold U.K. Treasury bills declined from .56 per cent on October 27 to .16 per cent on November 24. Indeed, the brief fall in the forward pound around December 1 resulted in a net incentive to hold U.S. Treasury bills over covered U.K. Treasury bills for the first time since July (see Table and Chart 2).

During the period under review, the rate on 3-month Euro-dollar deposits in London moved up from 3.38 per cent to 3.63 per cent on December 1 (see Table and Chart 4). This rise reflected the upward trend in U.S. Treasury bill yields. It may also have been indirectly related to the decision to raise the ceiling at U.S. banks on time deposits under the Federal Reserve's Regulation Q.

**Gilt-edged market.** The gilt-edged market weakened appreciably in November and yields rose generally in the period under review (see Table and Chart 5). Expectations that short-term interest rates might not fall further and a weakness in other financial markets contributed to lack of demand for gilt-edged securities during November.

The reduction of the interest rate offered by the Manchester Corporation from 6-1/2 per cent to 6-1/4 per cent on November 28 reflected earlier declines in money rates in Britain. Likewise, the rate of interest on newly issued Tax Reserve Certificates was reduced 1/4 per cent to 3-1/4 per cent free of taxes.

Offers have been made to holders of the 4-1/2 per cent conversion bond 1962 to convert to a new 6 per cent conversion bond 1972 or to the 5-1/2 per cent funding bond 1982/84. Some £300 million of 6 per cent conversion 1972 and £200 million 5-1/2 funding 1982/84 have been made available for the transfer. Inasmuch as £757 million in the 4-1/2 per cent conversion bonds 1962 will be replaced by a maximum of £500 million in bonds, the total quantity of government bonds outstanding will be reduced by £257 million on February 15 when the present bonds mature.

Industrial finance. New capital issues, excluding those of the British Government, declined sharply in October to £26.5 million from a level of £48.3 million in September. October's figure is also far below the £77.4 million level of October 1960. However, the total for the first ten months of 1961 of £559.6 million was well above the £470.9 million for the first ten months of 1960.

The Electrical and Musical Industries borrowed funds in Switzerland in early November as a result of lower interest rates abroad. Two other British companies are negotiating loans in Switzerland also.

National savings. Net national savings reported to the National Savings Committee in the 34 weeks after April 1, 1961 were £53.2 million, excluding interest accrued and interest paid. In the same period in 1960, net savings amounted to \$164.7 million. The decline is primarily attributed to the unattractive interest rate on saving certificates and defense bonds compared to yields on gilt-edged securities.

Exchequer receipts and payments. Recent figures on the British Governmental receipts and expenditures in £ millions are as follows:

	<u>Year to date</u>		<u>Fiscal year</u>	
	<u>1961-62</u>	<u>1960-61</u>	<u>1961-62</u>	<u>1960-61</u>
	<u>Apr. 1-</u>	<u>Apr. 1-</u>	<u>budget</u>	<u>actual</u>
	<u>Dec. 2</u>	<u>Dec. 3</u>	<u>estimate</u>	<u>actual</u>
<u>Above-the-line</u>				
Revenue	3,611	3,202	6,508	5,934
Expenditure	4,000	3,664	6,002	5,787
Balance	- 389	- 462	+ 506	+ 147
<u>Below-the-line (net)</u>				
Local authorities	+ 25	+ 37	+ 57	+ 56
Post Office	-	- 18	- 29	- 36
Nationalized industries	- 300	- 278	- 356	- 380
Iron and steel industry	- 26	- 1	- 68	- 27
Overseas assistance	- 46	- 41	- 92	- 61
Other	- 60	- 48	- 87	- 93
Aggregate	- 407	- 349	- 575	- 541
<u>Over-all deficit</u>	<u>- 796</u>	<u>- 811</u>	<u>- 69</u>	<u>- 394</u>

London clearing banks. Private advances and net deposits continued to fall in November. The decline of £28 million in private advances was about equal to the fall in at approximately October but far less than that during August and September. Holdings of gilt-edged securities rose by £15 million while holdings of Treasury bills declined by £61 million. The lessened purchases of government securities in November compared to October no doubt contributed to the weaker tone of the gilt-edged market in November. The decline in holdings of Treasury bills is noteworthy since offerings of Treasury bills rose by £60 million. The nearly constant rise in the liquidity ratio since last March ended at least temporarily in November with a slight decline in liquidity ratio from 35.0 to 34.7. Relevant figures for the clearing banks are as follows (in millions of pounds):

	<u>Private advances</u>	<u>Invest- ments</u>	<u>Liquidity ratio</u>
Level in Nov. 1958	1,983	2,151	33.7
Annual changes:			
Nov. 1958 - Nov. 1959	+ 701	- 421	- 0.1
Nov. 1959 - Nov. 1960	+ 470	- 447	- 2.3
Nov. 1960 - Nov. 1961	+ 4	- 159	+ 3.4
Changes from preceding month:			
September	- 128	+ 2	+ 1.4
October	- 30	+ 50	+ 0.7
November	- 28	+ 16	- 0.3

Installment credit. There was some expansion in new hire-purchase extensions in October but total outstanding credit declined by £11 million, compared to a decline of £18 million in September and a rise of £3 million in August. Recent figures on installment credit are as follows:

Total Credit Outstanding

	<u>Shops</u>	<u>Finance houses</u>	<u>Total</u>	<u>Change</u>
1960 - Sept.	324	628	952	--
Oct.	322	623	945	- 7
1961 - July	306	662	968	+ 23
Aug.	305	666	971	+ 3
Sept.	303	650	953	- 18
Oct.	303	639	942	- 11

Foreign trade. Seasonally adjusted exports dropped from £311 million in October to £305 million in November and re-exports rose from £12 million to £14 million. There was a considerable fall in imports from £379 million to £360 million and as a result the trade deficit declined from £56 million to £41 million.

Foreign exchange reserves. British reserves of gold and convertible currencies increased by \$25.2 million in November to a level of \$3,556 million. A repayment of \$140 million was made to the IMF at the end of November. After adjustment for this repayment, Britain's reserves position showed an improvement of \$165 million compared to an adjusted improvement for October estimated at \$311 million by the press. During the latter part of November the United Kingdom made a large purchase of gold from the U.S., which represented most of a \$300 million gold loss by the United States in a single week.

Foreign exchange market. The most significant development in the exchange market during November and early December was an unexpected drop in the rate for spot sterling toward the end of the week of December 1. This sudden fall coincided with rumors in European markets that the Italian lira was about to be revalued. In one day the rate dropped from 281.29 to 280.20 U.S. cents, the lowest level for sterling since July. However as a result of official support and market buying, sterling recovered to 281.27 U.S. cents by December 5. Between November 1 and November 28, sterling fluctuated narrowly between 281.41 and 281.56. Forward sterling remained at a discount of 2.5 per cent to 2.9 per cent per annum so that the incentive to move Treasury bill funds on a covered basis from New York to London remained well under 50 per cent. Indeed, on December 1 there was an incentive of .16 per cent to move funds from London to New York.

Bullion. Following the termination of U.S. silver sales on November 28, silver prices rose to a high of \$1.0033 per ounce on the London market on December 4. Gold prices were little affected by the rise in silver prices and the gold quotation for December 4 was \$35.16 per ounce.

Stock market. The index of industrial stock prices rose to 298.0 by November 30, representing a rise of 10 points over the late October low. However, earlier in November the index had stood as high as 306.8. The rise in stock prices that would be expected from the inflationary implication of a threat to the pay pause appears to have been countered by a fear of a further profit squeeze (intensified by a series of adverse profit and dividend statements) and by concern over other developments affecting Britain's economic outlook.

British Commonwealth Section.

## II. Eight 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 - Short-term Interest Rates
- Chart 5 - Long-term Bond Yields
- Chart 6 - Industrial Stock Indices
- Chart 7 - Major Currencies in Terms of  
Spot United States Dollar
- Chart 8 - 3-month Forward Rate --- London Quotations

## United Kingdom: Treasury Bill Yields and Exchange Rates

	3-mo. Treasury bill			Rate for	Net	Spot	3-month
	U.K. a/	U.S. a/	Differ- ence	3-mo. forward sterling <sup>b/</sup>	incentive to hold U.K. bill <sup>c/</sup>	sterling (U.S. cents)	Euro-dollar deposits in London
1960 - High	5.68	4.95	3.63	0.64	1.95	281.58	--
Low	2.13	2.08	-0.84	-2.33	-.23	279.83	--
1961 - High	6.74	2.55	4.45	-0.79	1.13	281.62	4.00
Low	4.17	2.16	1.88	-4.36	-2.12	278.47	3.13
Sept. 15	6.44	2.27	4.15	-4.12	0.03	281.28	3.25
22	6.41	2.25	4.16	-3.95	0.21	281.31	3.25
29	6.44	2.23	4.21	-3.89	0.32	281.43	3.25
Oct. 6	6.00	2.31	3.69	-3.45	0.24	281.48	3.25
13	5.88	2.37	3.51	-3.25	0.26	281.56	3.31
20	5.88	2.30	3.58	-3.00	0.58	281.62	3.31
27	5.63	2.29	3.34	-2.78	0.56	281.56	3.38
Nov. 3	5.31	2.28	3.03	-2.73	0.30	281.41	3.31
10	5.31	2.47	2.84	-2.73	0.11	281.51	3.31
17	5.31	2.53	2.78	-2.49	0.29	281.53	3.44
24	5.31	2.55	2.76	-2.60	0.16	281.56	3.50
Dec. 1	5.28	2.52	2.76	-2.92	-0.16	280.90	3.63
8	5.25	2.55	2.70	-2.77	-0.07	281.12	3.81

a/ Market quotation for Friday.

b/ Spread between spot and 3-month forward rate in per cent per annum. Discount equals (-).

c/ Net of difference in bill yield less discount on 3-month sterling.

## United Kingdom: Selected Capital Market Yields

	4-1/2%	3%	3-1/2%	2-1/2%	Share	Yield	Share
	bond	bond					
	1964	1965-75					
1960 - High	6.20	6.11	5.94	5.70	4.96	1.49	294.6
Low	4.68	4.93	5.53	5.02	3.74	0.63	228.6
1961 - High	6.65	6.68	6.92	6.78	5.48	1.90	365.3
Low	5.15	5.95	5.95	5.70	4.22	0.86	287.7
Sept. 14	6.51	6.61	6.70	6.48	5.14	1.34	307.3
21	6.53	6.60	6.72	6.48	5.12	1.36	308.4
28	6.44	6.61	6.75	6.53	5.25	1.28	300.6
Oct. 5	6.11	6.50	6.72	6.44	5.25	1.19	300.5
12	5.96	6.44	6.73	6.43	5.46	0.97	288.9
19	5.93	6.32	6.65	6.34	5.42	0.92	288.0
26	5.83	6.10	6.59	6.34	5.48	0.86	287.7
Nov. 2	5.73	6.10	6.62	6.35	5.35	1.00	294.7
9	5.82	6.10	6.64	6.36	5.29	1.07	298.3
16	5.83	6.15	6.70	6.43	5.44	1.29	306.8
23	5.98	6.29	6.82	6.55	5.38	1.17	293.4
30	5.90	6.23	6.77	6.49	5.29	1.20	298.0
Dec. 7	5.97	6.29	6.84	6.58	5.41	1.17	291.8

a/ Financial Times.

b/ Difference between yield on 2-1/2 per cent Consols and share yield.

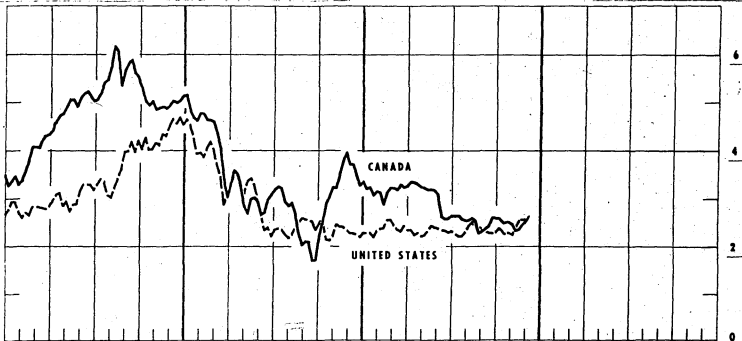
Chart 1

### INTEREST ARBITRAGE, UNITED STATES / CANADA

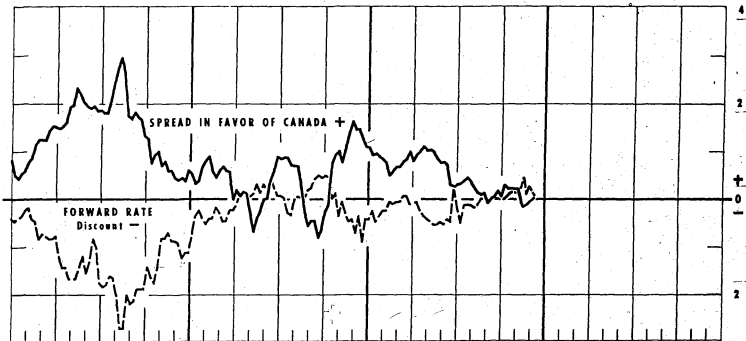
Thursday figures

#### THREE-MONTH TREASURY BILL RATES

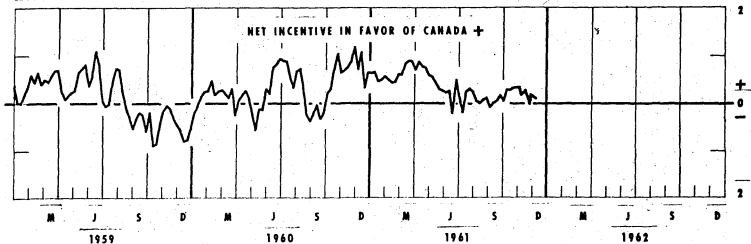
Per cent per annum



#### RATE DIFFERENTIAL AND FORWARD CANADIAN DOLLAR



#### RATE DIFFERENTIAL WITH FORWARD EXCHANGE COVER

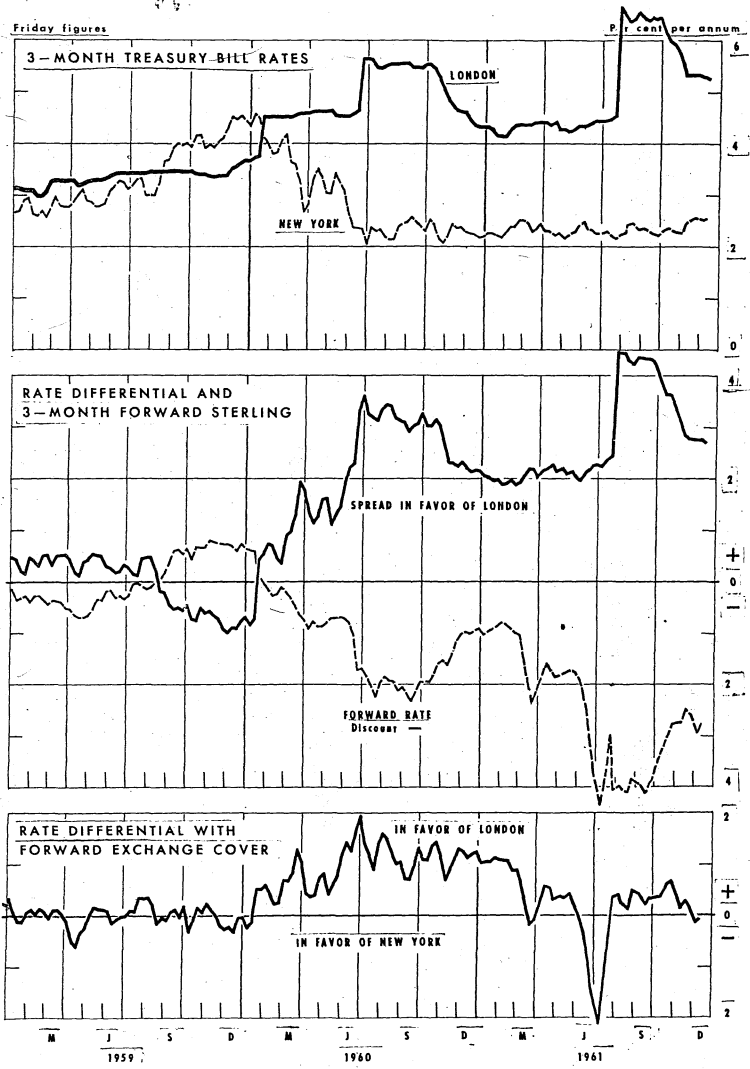




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Chart 2

### INTEREST ARBITRAGE, NEW YORK / LONDON

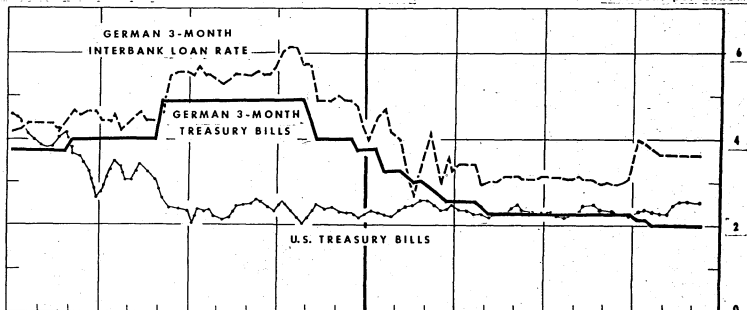


**INTEREST ARBITRAGE FOR GERMAN COMMERCIAL BANKS**

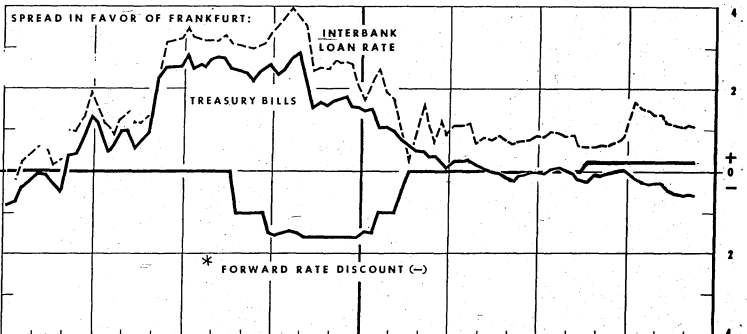
Friday figures

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

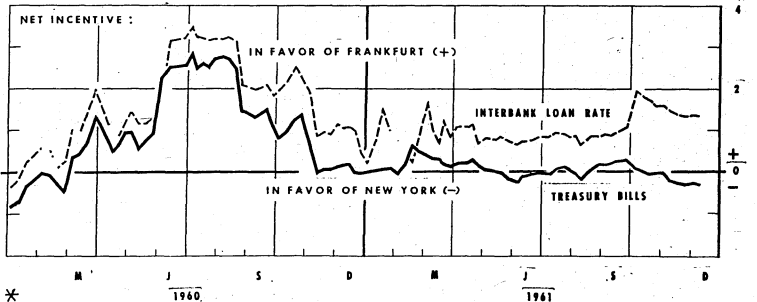
Per cent per annum



**RATE DIFFERENTIAL AND FORWARD DEUTSCHE MARK**



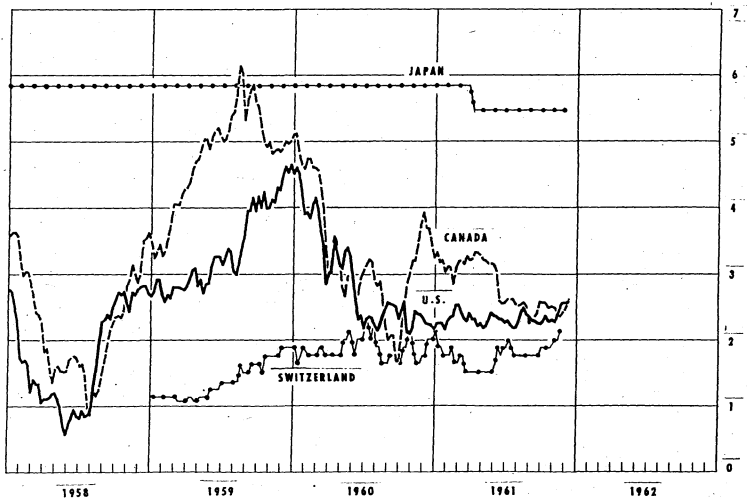
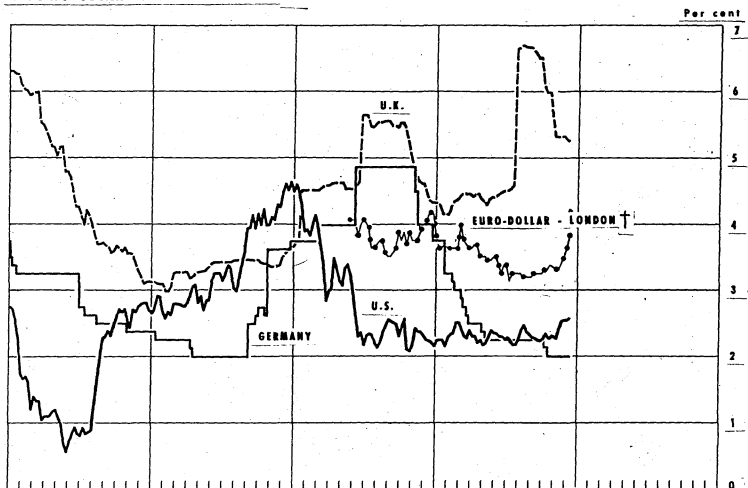
**RATE DIFFERENTIAL WITH FORWARD EXCHANGE COVER**



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Note: Special forward dollar rate available to German commercial banks.

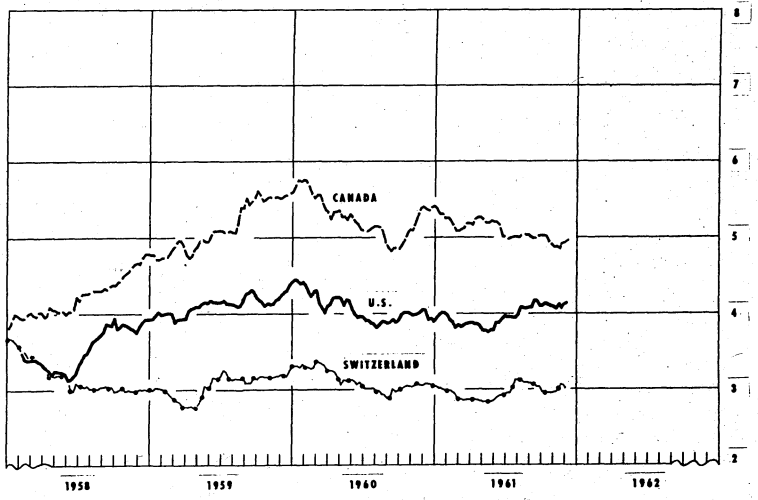
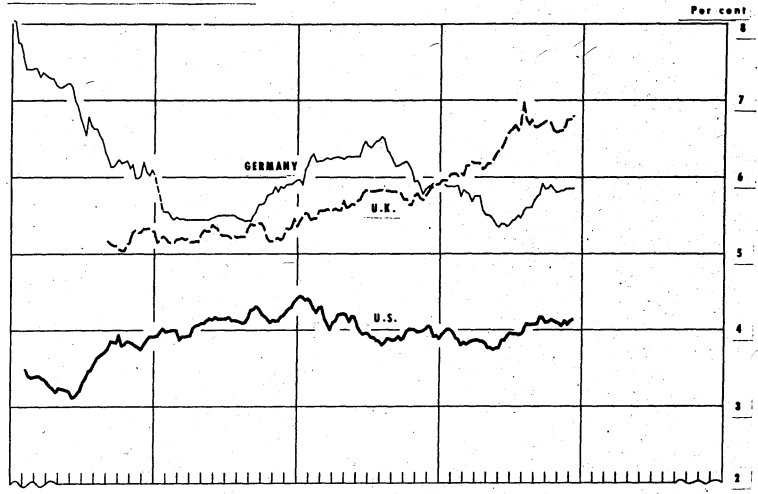
Chart 4

**SHORT-TERM INTEREST RATES \***

\* 3-month treasury bill rates for all countries except Japan (1-month interbank deposit rate) and Switzerland (1-month deposit rate).  
† 3-month rate for U. S. dollar deposits in London.

Chart 5

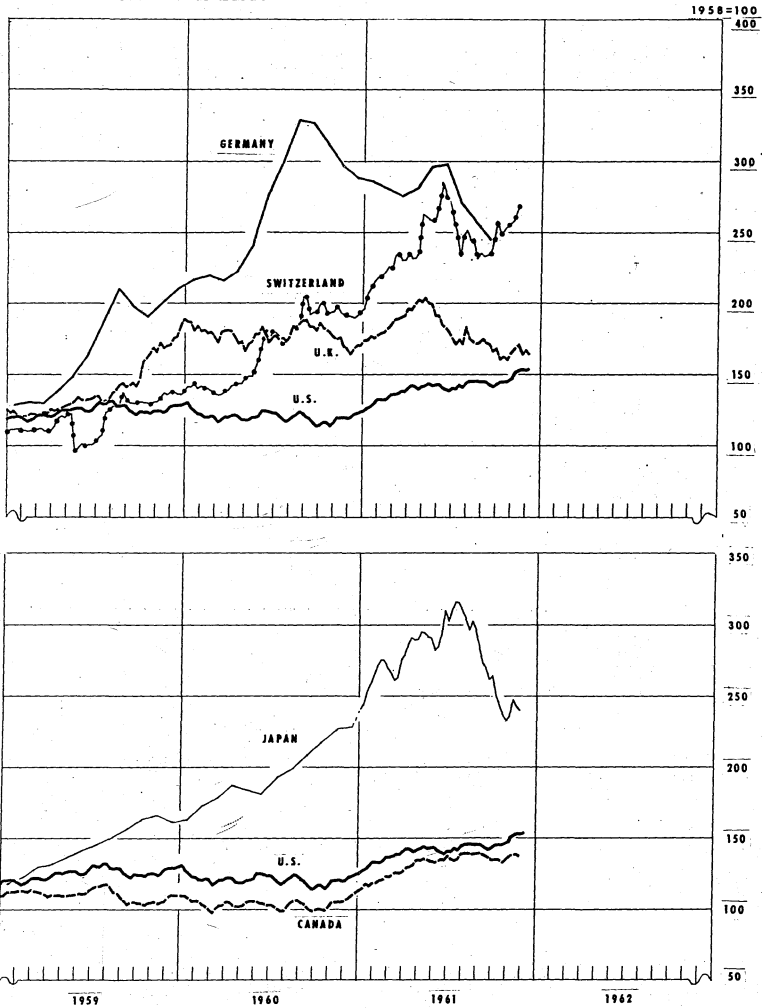
**LONG-TERM BOND YIELDS**



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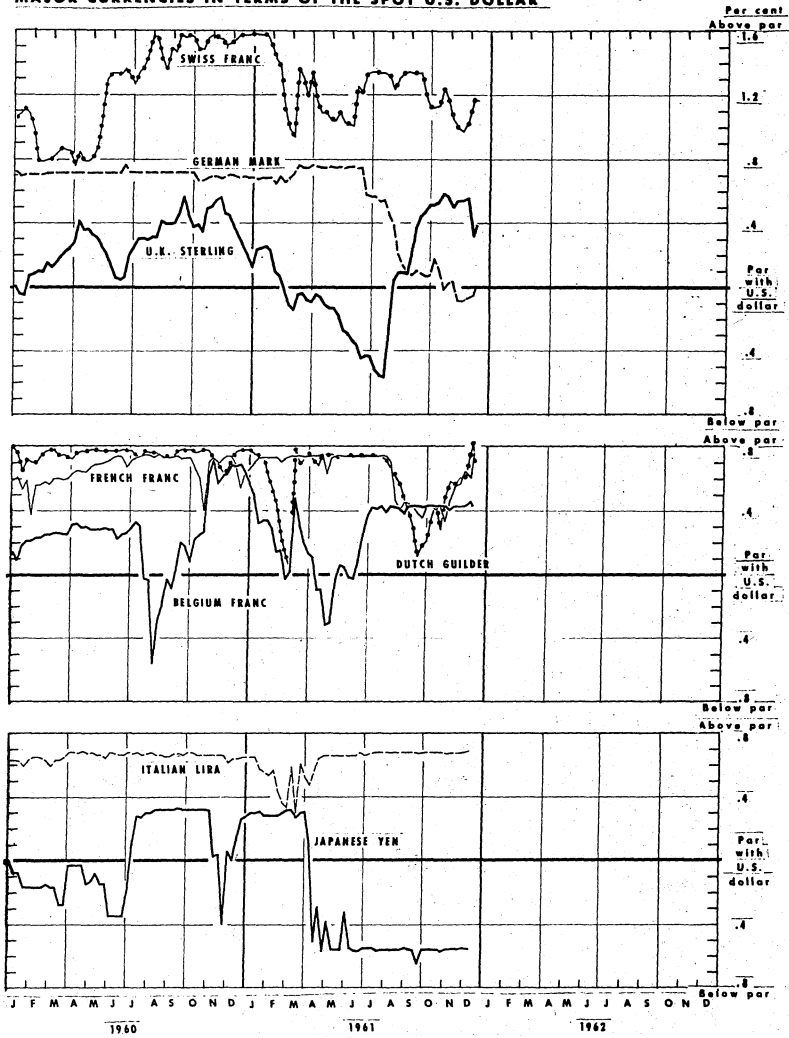
Chart 6

**INDUSTRIAL STOCK INDICES\***



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

Chart 7  
**MAJOR CURRENCIES IN TERMS OF THE SPOT U.S. DOLLAR**



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Chart 8

**3-MONTH FORWARD RATES - LONDON QUOTATIONS**

