

H. 13
No. 80

October 12, 1962

CAPITAL MARKET DEVELOPMENTS ABROAD

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FEDERAL RESERVE BANK
OF RICHMOND

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

II. Canada: Money and Capital Markets in September

In the Speech from the Throne on September 27 before the new Canadian Parliament, the Government indicated its intention of continuing the present austerity program. Without being specific, the Government further announced that it "will continue to take positive constructive measures to strengthen Canada's balance of international payments," although pledged to remove the import surcharges included in the June emergency program "as soon as circumstances permit."

Meanwhile, the Canadian dollar continued to show considerable strength during September and the first half of October. The Bank of Canada continued to make sizeable additions to foreign exchange reserves during September, although at rates somewhat below those experienced during July and August. Official reserve accruals during September amounted to \$114 million, following additions of \$306 million in July and \$216 million in August. Assessment of this decline in the rate of reserve accruals, however, is made difficult by an undetermined amount of unwinding of forward commitments undertaken by the Bank of Canada during the June crisis.

Nonbank investors continued to make substantial purchases of Government bonds in September, although on a scale much reduced from the high July and August levels. After net purchases of \$315 million during July and \$309 million during August, the nonbank sector added \$72 million to its holdings of Government bonds during the first two weeks of September, and an additional \$110 million during the week ended October 3. Also on a reduced scale, the Bank of Canada continued to be a net supplier of bonds to the market, partially offsetting its sales with purchases of Treasury bills. In a move toward increased liquidity during the last half of September, the chartered banks curtailed the expansion of general loans and added \$85 million to their holdings of Treasury bills. Changes in holdings of Treasury Securities during the period August 29 - October 3 were as follows (in millions of Canadian dollars):

Net Purchases(+) or Sales(-) of Government
Securities, August 29--October 3, 1962

	<u>Government of Canada Securities</u>		
	<u>Treasury Bills</u>	<u>Bonds</u>	<u>Canada Savings Bonds</u>
Bank of Canada	+53	- 77	
Chartered Banks	+45	- 27	
Government Accounts	-17	+ 16	
General Public	-19	+201	-50

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DECONTROLLED AFTER SIX MONTHS

Canadian Treasury bill yields rose early in September with larger-than-usual offerings, but had returned to late August levels by October 4. The short end of the yield curve for Government of Canada bonds continued a decline which began after the first week in August, while long-term yields remained at the high levels attained in mid-July.

		3 months	Bonds				
		Treasury bills	1964	1965	1967-68	1975-78	1996-98
April	12	3.04	3.58	3.93	4.13	4.80	4.88
June	20	4.92	5.12	5.32	4.74	5.07	5.04
July	18	5.51	5.76	5.58	5.11	5.42	5.15
August	1	5.39	5.75	5.58	5.03	5.44	5.19
	8	5.26	5.72	5.58	5.01	5.40	5.19
	15	5.05	5.62	5.57	5.01	5.40	5.17
	23	5.12	5.57	5.60	5.05	5.40	5.20
	30	4.95	5.41	5.44	5.08	5.43	5.19
September	6	5.07	5.46	5.43	5.09	5.43	5.19
	13	4.98	5.38	5.31	5.04	5.35	5.17
	20	5.06	5.43	5.36	5.08	5.38	5.18
	27	4.99	5.26	5.22	5.08	5.38	5.19
October	4	4.94	4.97	4.99	4.98	5.36	5.20

In the corporate and local-government sectors of the bond market, average yields declined only fractionally during September, as may be seen from the following averages reported by McLeod, Young, Wier and Company (in per cent per annum):

	1961	1962		
	Sept. 30	Mar. 30	Aug. 31	Sept. 28
10 Provincial	5.45	5.20	5.86	5.69
10 Municipal	5.63	5.44	5.98	5.87
10 Public utilities	5.37	5.18	5.62	5.61
10 Industrials	5.42	5.18	5.67	5.66
40 Bond yield average	5.47	5.25	5.78	5.71

Money market. Short-term interest rates experienced only very slight mixed movements during September. Rates on Canadian Treasury bills moved slightly upward with a larger-than-usual offering early in September, but by the end of the month had returned to late-August levels. The rate on 3-month Treasury bills rose from 4.95 per cent on August 30 to slightly over 5 per cent the week following, but returned to 4.94 per cent by October 4. After increasing slightly during September, the rate on 6-month Treasury bills on October 4 was once again at 5.51 per cent, the same as it had been on August 29.

The Bank of Canada, on balance, continued to be a net buyer of Treasury bills during September, although on a scale much smaller than during August (see Table). During the first half of the month, the Bank of Canada continued to offset large net bond sales with purchases of Treasury bills. During the last two weeks of the month, however, as the Bank of Canada began

to acquire bonds, it became a net seller of modest amounts of Treasury bills. The chartered banks ended September with net additions of \$45 million in Treasury bills, as net purchases made during the last half of the month (\$85 million) more than offset earlier sales.

The uncovered spread in favor of the Canadian Treasury bill against the U.S. bill remained very nearly constant at about 2-1/4 per cent (see Table and Chart 1). The fully-covered arbitrage incentive in favor of the Canadian bill diminished from 1/2 to 1/4 per cent as the discount on forward cover widened at midmonth; as this discount narrowed once again, the covered advantage in favor of the Canadian bill increased once again, and stood at 43 basis points on October 4.

After disappearing during the last half of August, a fully covered incentive favoring Canadian finance paper reappeared early in September and fluctuated with the cost of forward cover, as may be seen in the following comparative rates on prime 30- to 89-day paper (in per cent per annum):

		Canada	U. S.	Spread	90-Day Forward Exchange	Net Incentive
August	24	5.00	2.88-3.13	2.00	-2.02	-0.02
September	7	5.00	2.75-3.00	2.12	-1.69	+0.43
	14	5.00	2.50-3.00	2.25	-1.62	+0.63
	21	5.00	2.50-3.00	2.25	-2.02	+0.23
	28	5.00	2.50-3.00	2.25	-1.75	+0.50

Bond market. The general level of bond yields in Canada changed only slightly during September. At the beginning of October, the yields on long-term Government of Canada bonds remained unchanged at the high levels attained in mid-July. The short end of the yield curve on Government securities, however, continued a gradual decline which began after the first week of August.

The nonbank sector continued to provide an active demand for Government bonds during early September. After two weeks with only very small shifts in holdings, the nonbank sector again added to its holdings \$110 million (during the week ended October 3) as the Government issued substantial quantities of new securities.

Yields in the corporate and local-government sectors of the bond market continued to move very slightly downward during September. By the end of the month, McLeod, Young, Weir and Company reported yields in these sectors which ranged from 5.61 per cent on public utilities to 5.87 per cent on municipals (see Table).

Canadian Finance Minister George Nowlan announced on September 13 that the 1962 issue of Canada Savings Bonds (to be dated Nov. 1) will carry a yield of 5.11 per cent if held 14 years to maturity. During the initial three years, the new bonds will carry an interest rate of 4-1/2 per cent. The rate will rise to 5 per cent for the second three-year period, and will remain at 5-1/2 per cent during the final eight years.

Borrowings in the United States. The high structure of Canadian bond yields continues to interest provincial and municipal governments in the possibility of U.S. financing. In addition to the \$250 million Government of Canada loan concluded in the U.S. during September, A. E. Ames & Co. reports \$9.9 million in new provincial and municipal issues payable in U.S. funds. Reported borrowing in the U.S. during September included issues by the New Brunswick Electric Power Commission (\$8 million, guaranteed by the Province of New Brunswick), the City of Sherbrooke, Quebec (\$1.1 million), and Halton County, Ontario.

The total of new Canadian issues payable in U.S. funds sold during the first nine months of 1962, as reported by Ames, amounted to \$412 million as compared with \$141 million during the same period of 1961.

Bank loans and bank liquidity. Chartered bank cash reserves remained very near the 8 per cent legal minimum during September. The banks moved toward increased liquidity as they curtailed general lending and picked up Treasury bills during the second half of the month. The decline of \$34 million in general loans during the three weeks following September 5 constitute the longest "pause" in the rapid expansion of these loans during 1962. Meanwhile, the chartered banks made net purchases of \$85 million in Treasury bills during the three weeks following September 12, causing the liquid asset ratio to climb steadily. By October 3, the liquid asset ratio was 17.12 per cent, its highest level since May, and well above the 15 per cent agreed minimum. (See Table, page 5.)

Foreign exchange. The Canadian dollar remained continually strong throughout September and the first half of October. The Bank of Canada has taken in substantial quantities of reserves from the market while the market rate on the Canadian dollar has been continually above par (at about 92.9 U.S. cents).

It is difficult to determine the rate at which the short-term forward commitments made by the Government of Canada during the exchange crisis last June have begun to mature and are being either met or "rolled over". At the official level, the Government announced in late September a renewal for another 90 days of the \$250 million swap with the U.S. Federal Reserve System. After the completion of arrangements for the \$250 million loan from private U.S. sources during September, the Government of Canada cancelled an equivalent portion of its \$400 million unused line of credit with the Export-Import Bank of Washington. To the extent that the Bank of Canada has been meeting maturing forward obligations undertaken in the market during the June crisis, however, the acquisition of reserves from the market may be higher than indicated in the following official totals of Canada's gold and foreign exchange reserves (in millions of U.S. dollars):

		<u>Gold</u>	<u>U.S. dollars</u>	<u>Total</u>	<u>Change during period</u>
1962:	March	963.7	745.7	1,709.4	= 37.3
	May	913.0	579.8	1,492.8	-102.0
	June 24	n.a.	n.a.	1,100.0	-392.8
	June	669.0	1,139.7	1,808.7	+708.7
	July	673.8	1,440.6	2,114.4	+305.7
	August	683.0	1,647.6	2,330.6	+216.2
	September	n.a.	n.a.	2,444.6	+114.0

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Canadian Chartered Banks:
Cash Reserves & Other Assets
(In millions of dollars or per cent)

	Cash Reserves	Cash Ratio	Liquid Assets	Liquid Asset Ratio	General Loans ^{a/}	Treasury Bills ^{a/}	Canadian Government Bonds a/ (Par value)
Average of Wednesdays:							
March	1,101	8.1	2,451	18.04	5,905	1,181	2,708
April	1,113	8.1	2,351	17.12	6,033	1,075	2,679
May	1,114	8.1	2,358	17.13	6,261	1,048	2,719
June	1,165	8.18	2,286	16.05	6,519	1,009	2,457
July	1,159	8.20	2,195	15.53	6,649	908	2,212
August	1,151	8.12	2,204	15.56	6,709	987	1,932
Average for week ending:							
June 13	1,150	8.1	2,313	16.2	6,350	1,054	2,646
20	1,170	8.2	2,268	15.9	6,432	1,023	2,521
27	1,196	8.4	2,265	15.9	6,519	1,009	2,457
July 4	1,135	8.03	2,218	15.69	6,623	1,010	2,437
11	1,143	8.09	2,226	15.75	6,685	995	2,347
18	1,147	8.11	2,179	15.41	6,662	947	2,280
25	1,185	8.39	2,181	15.43	6,649	908	2,212
Aug. 1	b/1,146	b/8.09	b/2,187	b/15.44	6,684	972	2,107
8	1,159	8.18	2,181	15.40	6,708	955	2,038
15	1,147	8.10	2,183	15.41	6,677	942	1,991
22	1,145	8.08	2,195	15.50	6,679	960	1,956
29	1,156	8.16	2,250	15.89	6,709	987	1,932
Sept. 5	1,108	8.10	2,197	16.06	6,752	969	1,930
12	1,108	8.10	2,183	15.96	6,755	947	1,931
19	1,109	8.11	2,200	16.09	6,738	964	1,906
26	1,112	8.13	2,214	16.19	6,718	989	1,892
Oct. 3	1,100	8.14	2,316	17.12	n.a.	1,032	1,905

a/ Monthly data are for the last Wednesday of the month. Weekly figures are holdings as of date indicated.

b/ Data are not averages, but reported levels as of August 1; other data are weekly averages.

Source: Bank of Canada, Weekly Financial Statistics and Statistical Summary, June 1962.

Stock market. The Canadian DBS industrials index declined 2.7 per cent during the second and third weeks of September, and recovered over half of that decline during the week following. During the week of September 28, while Canadian industrial stock prices were experiencing partial recovery from declines earlier in the month, the New York Standard and Poor's industrial index broke sharply and registered a decline of over 4 per cent.

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<u>Average for week ending</u>	<u>DBS Industrials a/</u>	<u>N.Y. Standard and Poor Industrials</u>
<u>1962:</u>		
June 28	113.8	55.85
July 5	113.3	58.93
12	115.0	60.12
19	112.3	59.41
26	114.4	55.26
August 2	118.1	60.73
9	119.5	60.22
16	123.2	61.23
23	122.6	62.37
30	120.2	61.71
September 6	120.3	61.03
13	119.3	61.45
20	117.1	61.40
27	118.9	58.87
October 5	n.a.	58.82

a/ This series is the recently-published DBS index of 76 industrials (1956=100), and replaces the older DBS index of 66 industrials (1935-1939=100) previously reported in Capital Markets Developments Abroad series for Canada.

Europe and British Commonwealth Section.

II. Nine Charts on Financial Markets Abroad

- Chart 1 - Interest Arbitrage, United States/Canada
- Chart 2 - Interest Arbitrage, New York/London
- Chart 3 - Interest Arbitrage for German Commercial Banks
- 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 - Spot Exchange Rates -- Major Currencies
Against U.S. Dollar
- Chart 9 - 3-month Forward Exchange Rates

Canada: Treasury Bill Yields and Exchange Rates

3-mo. Treas. bill arbitrage calculation									
	Canada a/	U.S. a/	Differ- ence	In		Spot Can.\$ (U.S. cents)	Finance paper		
				3-mo. Can.\$ b/	favor Can. bill c/		30-89 days	90-179 days	
1962-High	5.51	2.98	2.59	0.13	0.84	95.75	--	--	
Low	3.01	2.64	0.22	-0.31	-0.11	91.73	--	--	
1962-June 7	3.62	2.64	0.98	-0.55	0.43	91.73	3-3/8--1/2	3-5/8--3/4	
July 19	5.51	2.93	2.58	-2.02	+0.56	92.72	--	--	
Aug. 23	5.12	2.82	2.30	-1.95	+0.35	92.83	5	5-1/4--1/2	
30	4.95	2.80	2.15	-2.22	-0.07	92.83	5 --1/8	5-1/4--5/8	
Sept. 6	5.07	2.79	2.28	-1.75	+0.53	92.86	5 --1/8	5-1/4--5/8	
13	4.98	2.78	2.20	-1.62	+0.58	92.86	5	5-1/4--5/8	
20	5.06	2.75	2.31	-2.02	+0.29	92.88	5	5-1/4--5/8	
27	4.99	2.76	2.23	-1.95	+0.28	92.84	5	5-1/4--1/2	
Oct. 4	4.94	2.76	2.18	-1.75	+0.43	92.91	--	--	

a/ Thursday quotations. 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 Canadian dollar. d/ Friday quotations.

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/
1962-High	5.74	2.84	5.20	1.29	5.48	1.45	5.19	1.10
Low	3.18	0.19	4.04	0.03	4.73	0.73	4.81	0.82
1962-June 6	3.83	1.10	4.31	0.64	4.95	1.10	4.94	0.98
July 19	5.74	2.59	5.11	1.16	5.48	1.44	5.15	1.03
Aug. 22	5.31	2.35	5.05	1.31	5.39	1.47	5.20	1.19
29	5.13	2.19	5.08	1.33	5.39	1.47	5.19	1.20
Sept. 5	5.27	2.29	5.09	1.31	5.39	1.46	5.19	1.19
12	5.18	2.25	5.04	1.27	5.31	1.39	5.17	1.20
19	5.26	2.32	5.08	1.31	5.36	1.44	5.18	1.21
26	5.20	2.29	5.08	1.33	5.36	1.44	5.19	1.24
Oct. 3	5.13	2.23	4.98	1.33	5.30	1.42	5.20	1.29

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.

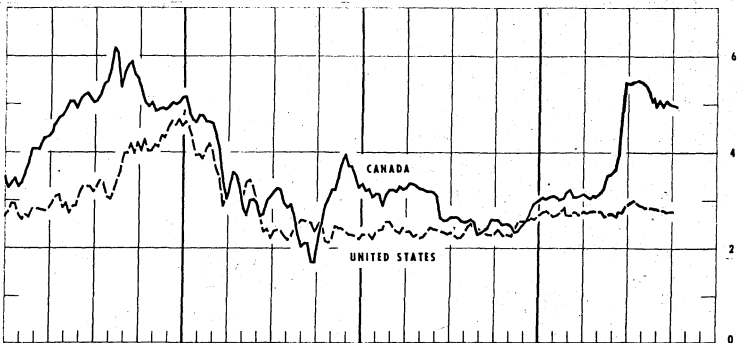
h/ Spread over U. S. Government of 1995.

INTEREST ARBITRAGE, UNITED STATES / CANADA

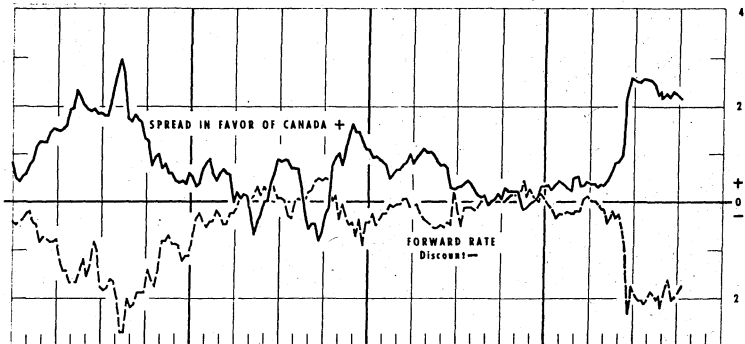
Thursday figures

THREE-MONTH TREASURY BILL RATES

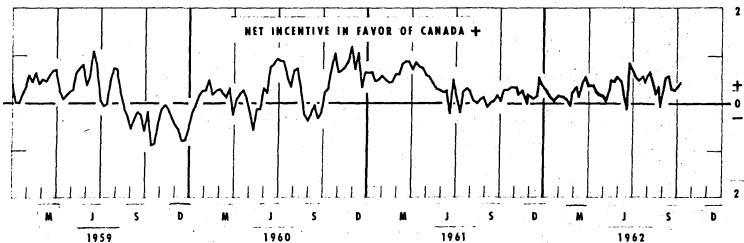
Per cent per annum



RATE DIFFERENTIAL AND FORWARD CANADIAN DOLLAR



RATE DIFFERENTIAL WITH FORWARD EXCHANGE COVER



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Chart 2
INTEREST ARBITRAGE, NEW YORK/LONDON

Friday figures Per cent per annum

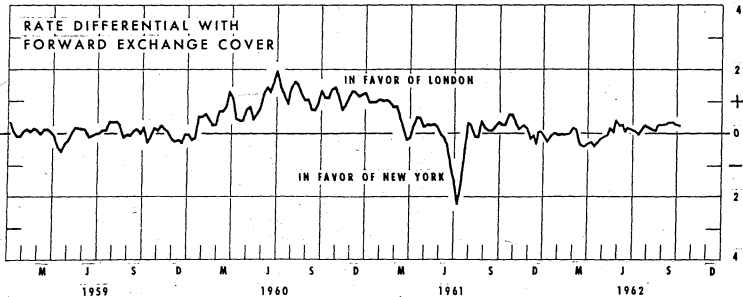
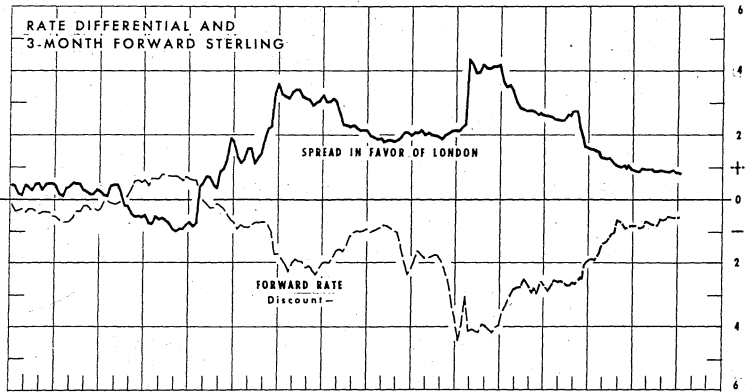
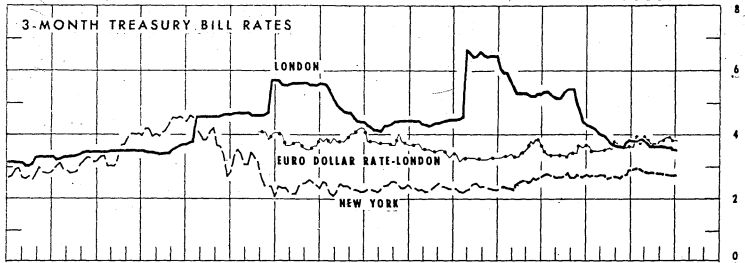
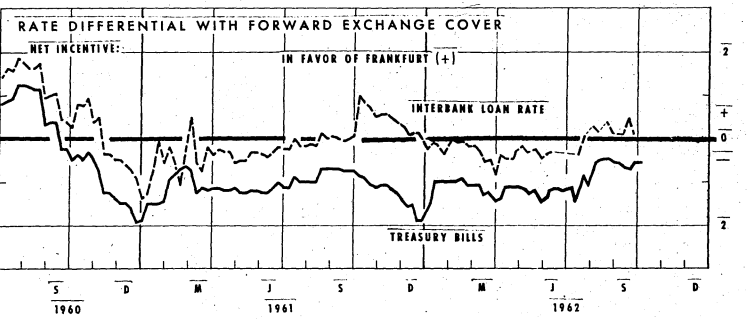
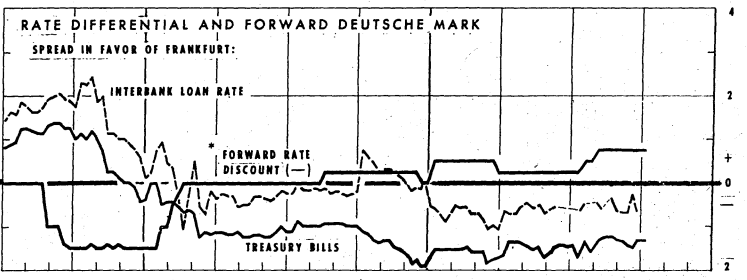
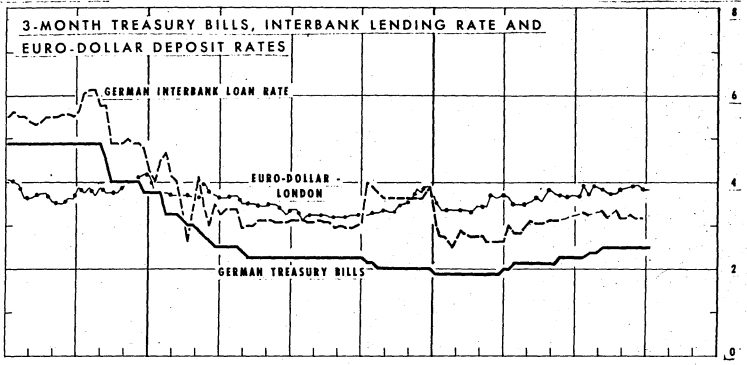


Chart 3

INTEREST ARBITRAGE FOR GERMAN COMMERCIAL BANKS

Friday figures

Per cent per annum



Note: Special forward rate available to German commercial banks.

Chart 4

INTEREST ARBITRAGE, FRANKFURT / LONDON

Friday figures

Per cent per annum

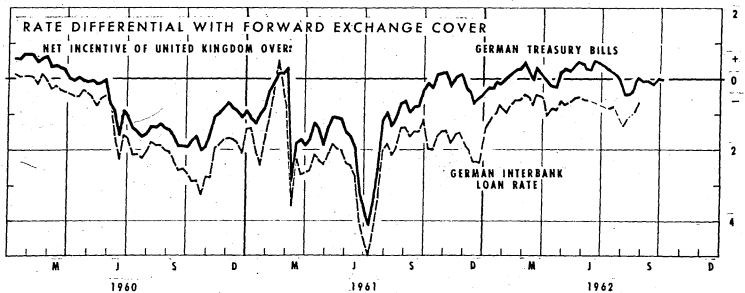
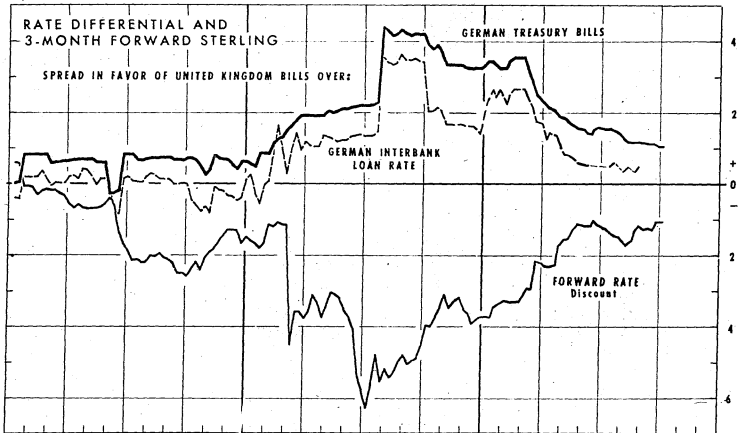
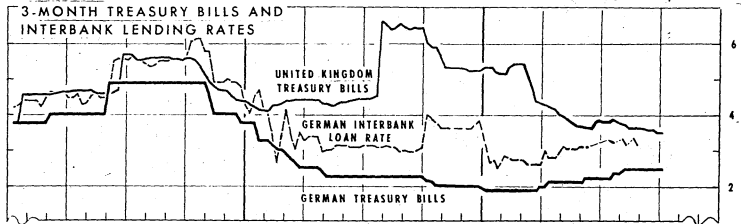
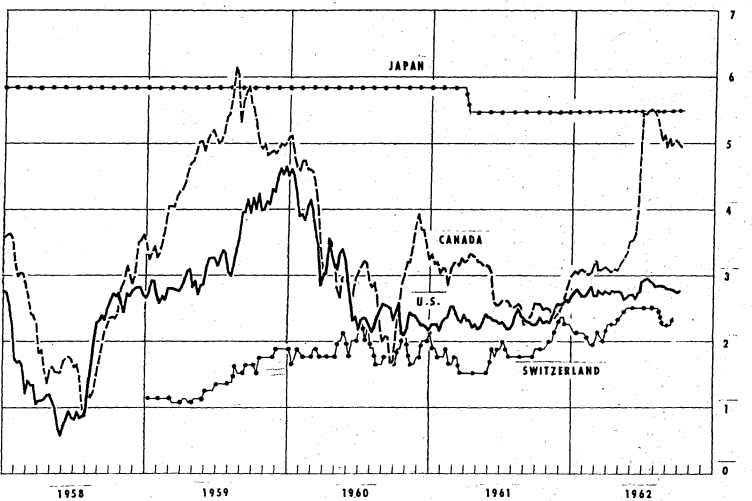
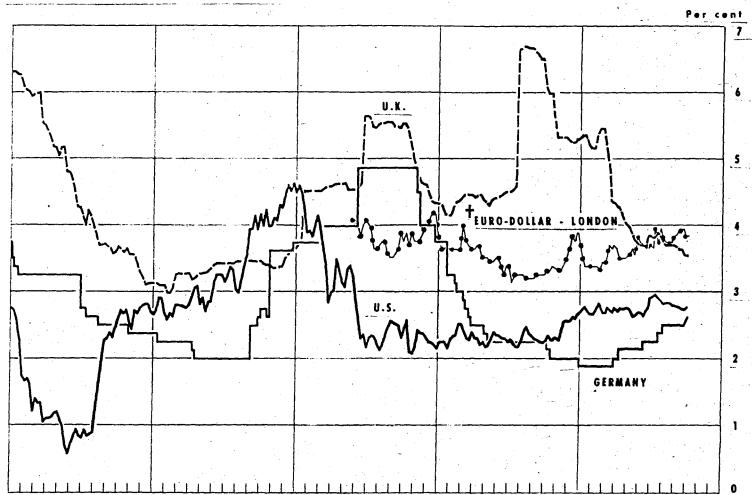


Chart 5
SHORT-TERM INTEREST RATES *



* 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 6

LONG-TERM BOND YIELDS

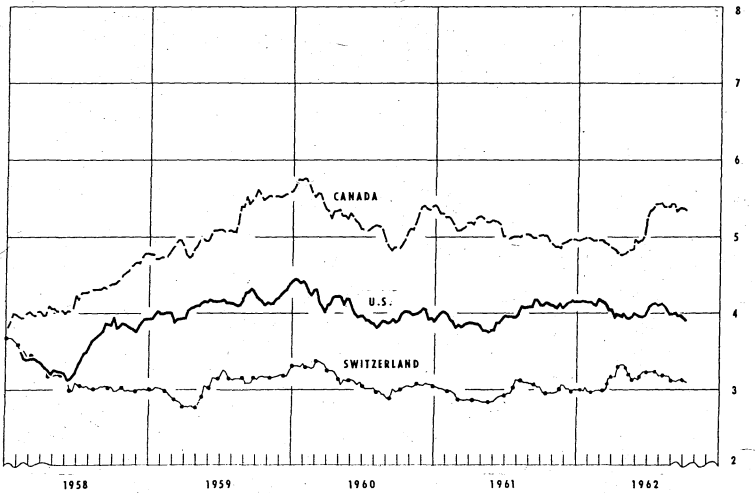
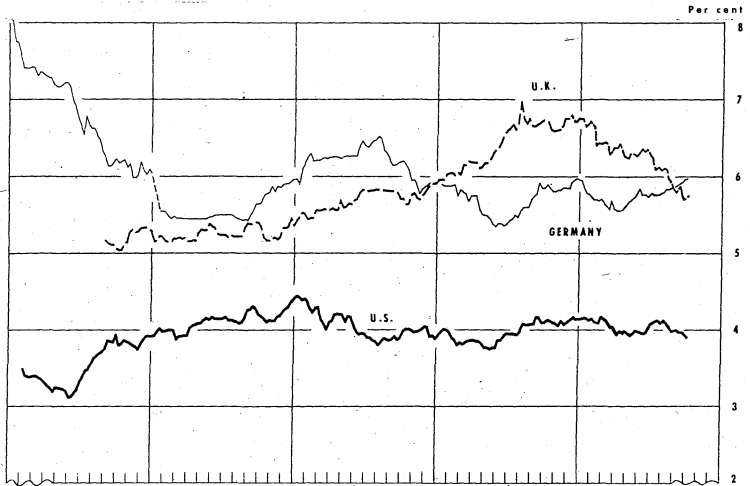
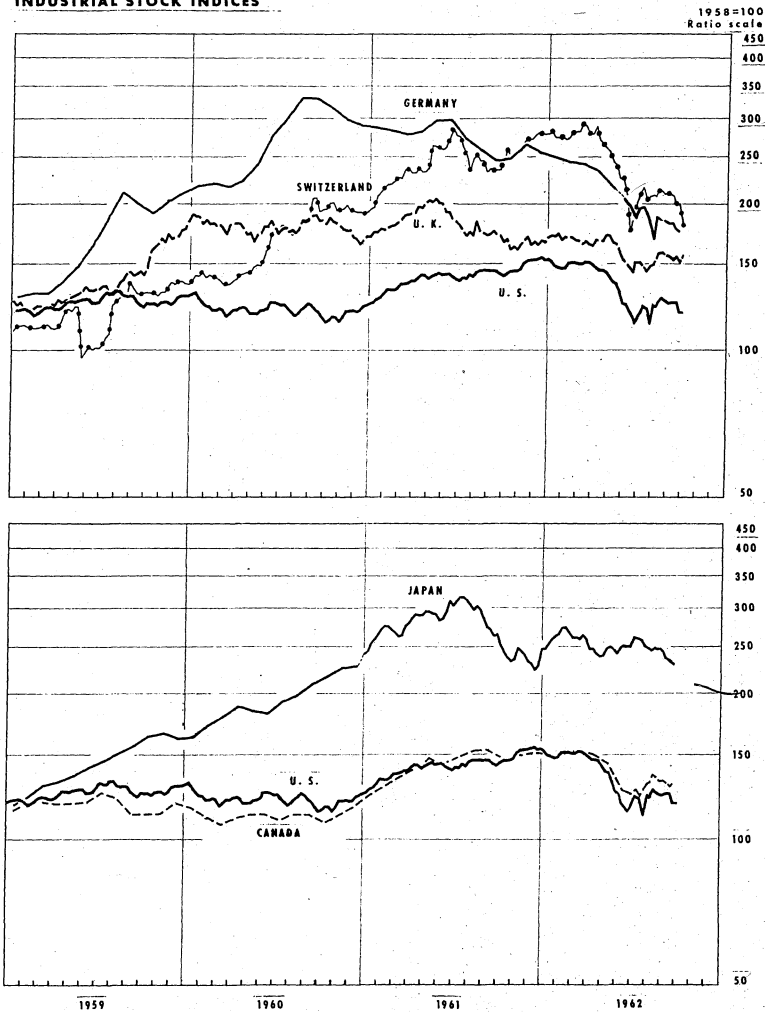


Chart 7
INDUSTRIAL STOCK INDICES*



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

Chart 6
SPOT EXCHANGE RATES - MAJOR CURRENCIES AGAINST U.S. DOLLAR

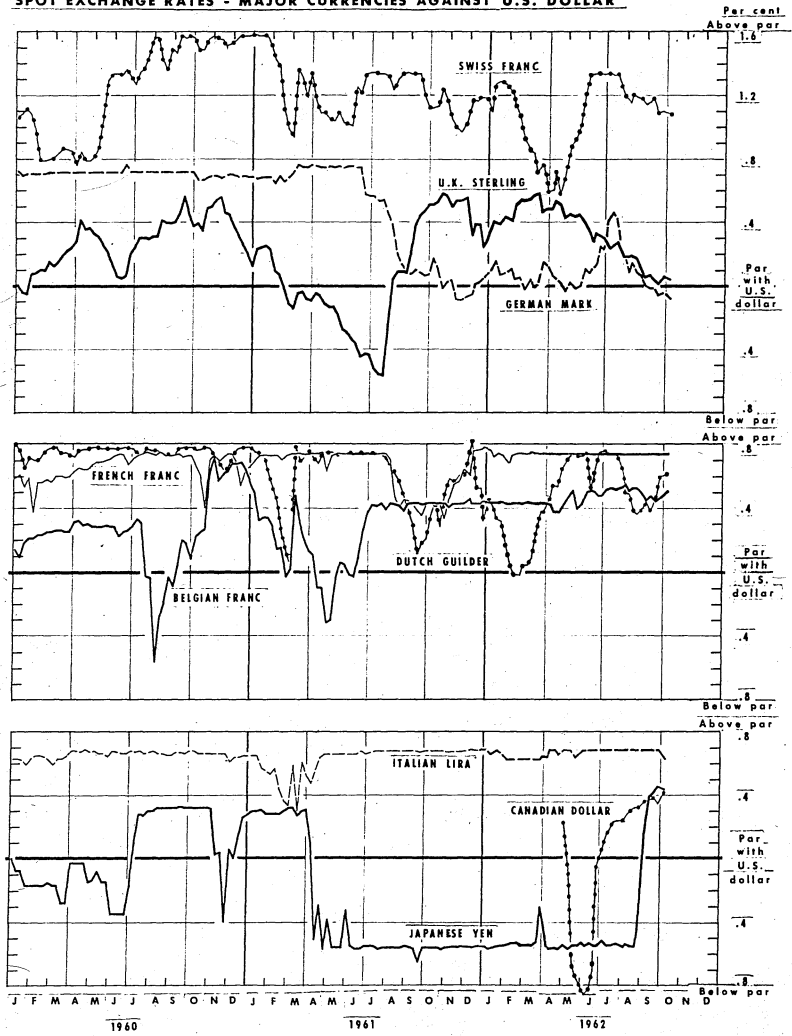


Chart 9
3-MONTH FORWARD EXCHANGE RATES

