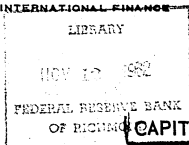


H. 13
No. 84

November 9, 1962

CAPITAL MARKET DEVELOPMENTS ABROAD

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

I. Canada: Money and Capital Markets in October

Yields were abruptly lower in Canadian money and capital markets during October. Market yields on Treasury securities underwent a general decline, with particularly sharp drops recorded in the shorter-term range of maturities. These declines were much sharper in October than they had been between July 19 and September 20 (see Table 1). On October 12, the Bank of Canada cut discount rate from 5-1/2 to 5 per cent.

Table 1. Canada: Changes in Market Yields of
Treasury Securities, Selected Dates
(in per cent per annum)

	<u>July 19 to September 20</u>	<u>September 20 to November 1</u>
Treasury bills:		
3-months	-0.45	-0.90
6-months	-0.48	-0.96
Bonds:		
1964	-0.33	-1.20
1965	-0.22	-1.03
1967-68	-0.03	-0.52
1975-78	- .04	-0.27
1996-98	+ .03	-0.06

Treasury bills purchases by the chartered banks and acquisition of marketable bonds by nonbank investors have been major factors in this general fall in yields. Chartered bank purchases of \$71 million of Treasury bills (see Table 2) during October increased liquid assets to 18.12 per cent of deposits by the end of the month, compared with the recent low of 15.40 per cent on August 8. This build-up of liquid assets reflected seasonal "window dressing" by the banks (for most of whom the fiscal year ends on October 31); it may also, in part, reflect the erratic fluctuations accompanying the seasonal decline in the loans of the banks during the past two months. On October 17, general loans were no higher than they were in early July.

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Table 2. Canada: Net Purchases(+) or Sales(-) of Government Securities, October 3 - October 24, 1962

	Government of Canada Securities		
	Treasury Bills	Bonds	Canada Savings Bonds
Bank of Canada	-29	+ 8	
Chartered Banks	+71	- 27	
Government Accounts	- 9	+ 11	
General Public	+11	+144	-13
Change in Total Outstanding	+44	+136	-13

Purchases of bonds by nonbank investors continued in substantial amounts during the month. Total purchases of marketable bonds amounted to \$144 million between October 3 and October 24 (see Table 2) compared with purchases of about \$677 million between July 18 and October 3. During October, the Bank of Canada sold some bills, perhaps to slow down the sharp fall in bill yields, but withdrew as a major supplier of bonds to the market. Between July 18 and October 3, the Bank purchased \$219 million of Treasury bills and sold \$292 million of bonds.

Continued strength of the Canadian dollar in foreign exchange markets during October brought a rise in the spot rate from 92.91 U.S. cents to 92.98-U.S. cents and the addition of \$(US) 169 million in official reserve accruals. Adjusted for special official transactions but including receipts of about \$125 million from a Federal bond placement with United States insurance companies, official reserve accruals amounted to \$314 million.

On October 17, temporary import surcharges put in effect in the June 24 emergency program were withdrawn on imports amounting to some \$250 million annually. In addition, the Cabinet has decided to delay the definitive budget for the current fiscal year (ending on March 31, 1963) until a later date and, instead, has reintroduced a slightly altered version of the budget introduced in April (which was not acted upon because of the June foreign-exchange crisis).

Money market. Canadian short-term interest rates dropped sharply during October. Between late September and the first of November the yield on 91-day Treasury bills fell from 4.99 to 4.16 per cent and the yield on 6-month Treasury bills fell from 5.20 to 4.30 per cent (see Tables 9 and 10 and Chart 5).

Steady purchases of bills by the chartered banks for the purpose of augmenting their liquidity position during October induced the Bank of Canada to alter its recent policies and to offer some bills to the market. Previously, the Bank has been offsetting sales of marketable bonds by buying bills. (See Tables 2 and 5.)

During the month, the spread of the Canadian bill rate over the U.S. rate narrowed from 2.18 per cent on October 4 to 1.44 per cent on November 1. (See Table 9 and Chart 1.) However, the net incentive (allowing for the cost of foreign exchange cover) in favor of the Canadian bill ranged from +0.43 per cent to -0.34 per cent in the past five weeks. (See Table 9 and Chart 1.)

The spread between yields on Canadian and U.S. finance paper narrowed substantially during October as Canadian paper shared in the general downward movement in Canadian yields. Although this narrowing in the rate spread was largely offset by a decrease in the cost of forward cover, the fully-covered advantage for Canadian finance paper declined from 0.57 per cent on October 5 to 0.35 per cent on October 26. (See Table 3.)

Table 3. U.S. and Canadian Finance Paper Rates
and Arbitrage Calculation
(in per cent per annum)

		<u>Canada</u>	<u>U. S.</u>	<u>Spread</u>	<u>90-day Forward Exchange</u>	<u>Net Incentive</u>
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
October	5	5.00	2.50-3.00	2.25	-1.68	+0.57
	12	4.75	2.75-3.00	1.87	-1.68	+0.19
	19	4.75	2.75-2.88	1.93	-1.28	+0.65
	26	4.25	2.63-2.88	1.49	-1.14	+0.35

Bond market. Short- and intermediate-term Canadian Treasury bond yields continued to decline throughout October while long-term yields remained close to their high July levels. Short- and intermediate-term yields have been declining gradually since early August and, while still relatively high by earlier standards, are now at the lowest levels since early June (see Table 2 and Chart 6).

Nonbank demand for Canadian Government securities continued very active during October. During the three weeks from October 3 to October 24, this sector added \$144 million to its holdings of Government bonds. These purchases included delivery on October 1 of the \$150 million new issue offered on September 11 in two maturities:

2-1/2 year 4-1/2 per cent bonds priced at 97 to yield 5.55 per cent; and
6-1/2 year 5-1/2 per cent bonds priced at 99-1/2 to yield 5.59 per cent.

During the last week in October, the Bank made purchases of \$100 million of bonds to steady the market at the peak of the Cuban crisis. As a result of these operations and of a relaxation of political tensions, bond prices moved up somewhat in the last few days of the month.

Borrowings in the United States. Some \$125 million of the Federal Government's \$250 million bond placement with United States insurance companies was transferred to Canada during October. The 5 per cent coupon on the 25-year placement in this country can be compared with the 5.55 per cent yield to maturity on an April 1, 1965 bond and of 5.59 per cent yield to maturity on an April 1, 1969 bond offered in Canada in mid-September.

Table 4. Sales of New Canadian Securities Payable in U.S. Funds
(Can. \$ millions)

	<u>Total</u>	<u>Government</u>	<u>Provincial, Direct and Guaranteed</u>	<u>Municipal</u>	<u>Corpora- tion</u>
<u>1960</u>					
I	144.1	--	37.0	82.1	25.0
II	93.9	--	40	28.6	25.3
III	.2	--	--	.2	--
<u>1961</u>					
I	11.0	--	--	--	11.0
II	106.4	--	--	26.4	80.0
III	24.0	--	--	--	24.0
<u>1962</u>					
I	3.0	--	--	--	3.0
II	101.5	--	--	1.5	100.0
III	307.3	250.0	8.0	24.6	24.8
<u>Monthly:</u>					
April	1.5	--	--	1.5	--
May	100.0	--	--	--	100.0
June	--	--	--	--	--
July	37.6	--	--	13.8	23.8
August	9.8	--	--	8.9	1.0
September	259.9	250.0	8.0	1.9	--
October	52.5	--	15.0	1.8	35.7

Source: A. E. Ames & Co., Weekly Bond Sales Summary.

Provincial and municipal governments and private borrowers are continuing to show considerable interest in United States financing. Apparently, financing in Canadian markets has been costing about 1/2 per cent more than comparable financing in this country, according to these published terms of several recent issues (in millions of dollars):

Placements in United States:

	<u>Amount</u>	<u>Maturity</u>	<u>Coupon</u>	<u>Price</u>	<u>Yield</u>
St. George Golf Club	0.75	1964-82	6	-	6
Province of Nova Scotia	15.0	20-year	5-1/4	par	5-1/4
Province of New Brunswick	8.0	25-year	5-1/4	par	5-1/4

Placements in Canada:

	<u>Amount</u>	<u>Maturity</u>	<u>Coupon</u>	<u>Price</u>	<u>Yield</u>
St. George Golf Club	0.25	1964-82	6-1/2	--	6-1/2
Province of Saskatchewan	15.0	Nov. 1982	5-1/2	98-3/4	5.61
Metropolitan Ontario	30.0	20-year	5-1/2		5.58
		30-year			5.55
		1-10 year			5.46

Reports of several negotiations are found in the financial press. The Metropolitan Corporation of Montreal is reported to be offering \$30 million and it is rumored that in 1963 Trans Canada Pipe Lines, Ltd. will offer about \$100 million in the United States and about \$45 million in Canada. The United States portion is expected to be priced to yield 5.70 per cent (with a 5-3/4 per cent coupon) compared with a Canadian yield of 6.20 per cent (6-1/4 per cent coupon).

Bank loans and bank liquidity. The chartered banks added substantially to their liquid assets during October. With additional purchases of Treasury bills, the banks brought their liquid asset ratio more than 3 per cent above the 15 per cent agreed minimum. (See Table 5.) They also added to their cash and to their holdings of government securities.

Table 5. Canadian Chartered Banks: Cash Reserves & Other Assets
(In millions of dollars or per cent)

	<u>Cash Reserves</u>	<u>Cash Ratio</u>	<u>Liquid Assets</u>	<u>Liquid Asset Ratio</u>	<u>General Loans a/</u>	<u>Treasury Bills a/</u>	<u>Canadian Government Bonds a/ (Par value)</u>
<u>Average of Wednesdays:</u>							
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
September	1,113	8.14	2,205	16.12	6,718	989	1,892
<u>Average for week ending:</u>							
Sept. 5	1,108	8.10	2,197	16.06	6,752	969	1,930
Oct. 3	1,100	8.14	2,316	17.12	6,783	1,032	1,905
10	1,100	8.14	2,309	17.07	6,704	1,066	1,887
17	1,098	8.12	2,351	17.39	6,660	1,074	1,885
24	1,097	8.11	2,390	17.68	6,638	1,103	1,878
31	1,131	8.37	2,451	18.12	n.a.	1,119	1,893

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

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

The improved liquidity position in part reflected the decline in general loans from the October 3 peak. Loans rose sharply during the first half of the year but monthly average loans have changed little since July. (See Table 5.)

Foreign exchange. Market demand for the Canadian dollar remained very strong throughout October. (See Chart 8.) While the market rate remained well above par (at almost 93.0 U.S. cents), the Bank of Canada has continued to make substantial additions to reserves.

October reserve figures indicate official reserve accruals during the month of U.S. \$169.3 million, despite net outpayments of \$20 million resulting from special transactions (see Table 6). Special receipts included in the reserve figures are the debt prepayment by the Dutch amounting to approximately \$30 million and receipt of \$125 million of the proceeds of the recent Government of Canada loan completed in the United States. On the other side, and tending to reduce the reserve figures by \$175 million were the termination on October 31 of half of the \$250 million swap with the U.S. Federal Reserve System and half of the comparable \$100 million swap with the Bank of England.

Table 6. Canada: Official Holdings of Gold and 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	688.6	1,756.0	2,444.6	+114.0
October	n.a.	n.a.	2,613.9	+169.3

Confirmation of earlier reports of the resumption of long-term capital flow can be found in the net sales by Canadians to foreigners of securities during the month of August, the first net sales reported since January of this year. Net sales by Canadians in August amounted to \$14 million, in contrast to net purchases of \$144.6 million from February to August, and over \$19 million in July alone. Of the \$14 million capital inflow from security sales during August, \$11.6 million resulted from trade in outstanding Canadian securities.

Canadian banks operations in U.S. dollars. Deposits in Canadian banks in non-Canadian currency increased by \$126 million in August and \$8 million in September (following declines of \$92 million in June and \$135 million in July). During August, Canadian agencies increased their call loans in New York by about \$250 million. (See Table 7.) In September, Canadian call loans declined slightly.

Table 7. Call Loans in the New York Market, end of Month
(\$ millions)

<u>Date</u>	<u>U.S. a/</u> <u>Banks</u>	<u>Foreign Agencies</u>		
		<u>Total a/</u>	<u>Canadian b/</u>	<u>Other c/</u>
1960-December	1,496	849	829	20
1961-December	1,963	859	809	50
1962: April	1,828	959	848	111
May	1,430	752	727	25
June	1,361	610	541	69
July	1,042	487	473	14
August	1,141	778	734	44
September	1,640	819	708	111

a/ Estimates by New York State Banking Department.

b/ Call Loans, as reported by Canadian banks, converted into U.S. dollars at end-of-month exchange rates.

c/ Residual.

Stock market. The Canadian D.B.S. industrials index recovered in early October only a small part of the drop it experienced during the week of September 27. After a week of little change, the Canadian index shared a world-wide reaction to the Cuban crisis and experienced the sharpest drops since early June. As was the case elsewhere, however, the impact of Cuba was not enduring, and prices seemed to be recovering by early November (see Table 8 and Chart 7).

Table 8. Canadian and U.S. Industrial Stock Prices

<u>Average for week ending</u>	<u>DBS Industrials a/</u>	<u>N.Y. Standard and Poor</u> <u>Industrials</u>
<u>1962:</u>		
July 19	112.3	59.41
August 16	123.2	61.23
September 6	120.3	61.03
27	113.9	58.87
October 4	113.9	58.82
11	114.5	59.61
18	114.1	59.10
25	112.7	56.98

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.

Table 9. Canada: Treasury Bill Yields and Exchange Rates

	3-mo. Treas. bill arbitrage calculation						Spot Can.\$ (U.S. cents)	Finance paper	
	Canada a/	U.S. a/	Differ- ence	In		30-89 days		90-179 days	
				3-mo. Can.\$ b/	favor Can. bill c/				
1962-High	5.51	2.98	2.59	0.13	0.84	95.75	--	--	
Low	3.01	2.64	0.22	-2.31	-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	
Sept. 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	5 --1/4	5-1/4--1/2	
11	4.72	2.77	1.95	-1.68	+0.27	92.92	4-3/4--5	5 --1/4	
18	4.22	2.74	1.48	-1.82	-0.34	92.88	4-1/4--1/2	4-3/8--3/4	
25	4.27	2.74	1.53	-1.14	+0.39	92.94	--	--	
Nov. 1	4.16	2.72	1.44	-1.14	+0.30	92.97	--	--	

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.

Table 10. 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
Sept. 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
10	4.88	2.03	4.85	1.16	5.16	1.28	5.17	1.26
17	4.36	1.52	4.56	0.89	5.00	1.13	5.10	1.18
24	4.42	1.59	4.69	1.02	5.08	1.20	5.17	1.27
31	4.16	1.44	4.56	0.96	5.04	1.19	5.12	1.23

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.

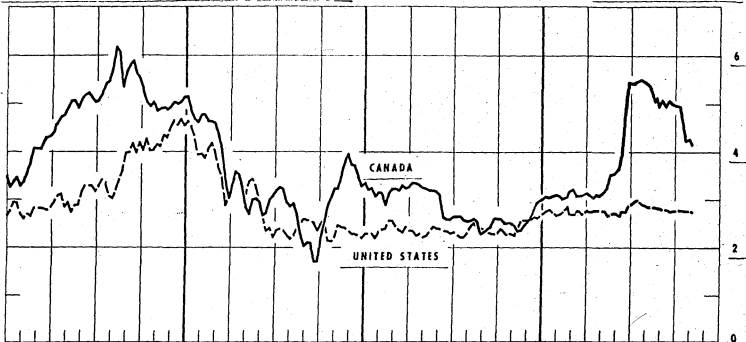
Chart 1

INTEREST ARBITRAGE, UNITED STATES / CANADA

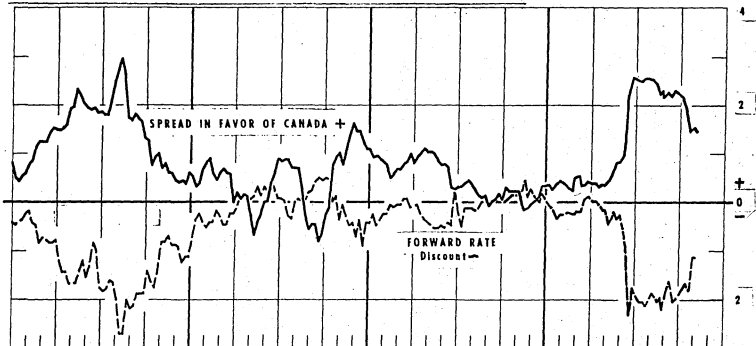
Thursday figures

THREE-MONTH TREASURY BILL RATES

Per cent per annum



RATE DIFFERENTIAL AND FORWARD CANADIAN DOLLAR



RATE DIFFERENTIAL WITH FORWARD EXCHANGE COVER

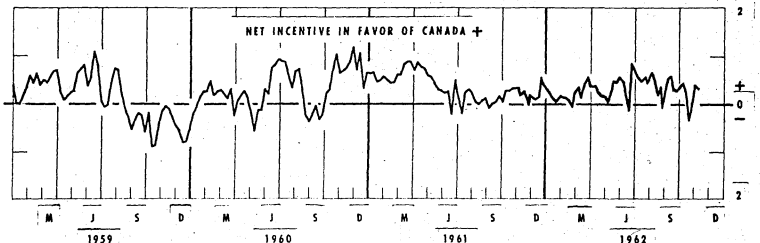


Chart 2

INTEREST ARBITRAGE, NEW YORK/LONDON

Friday figures

Per cent per annum

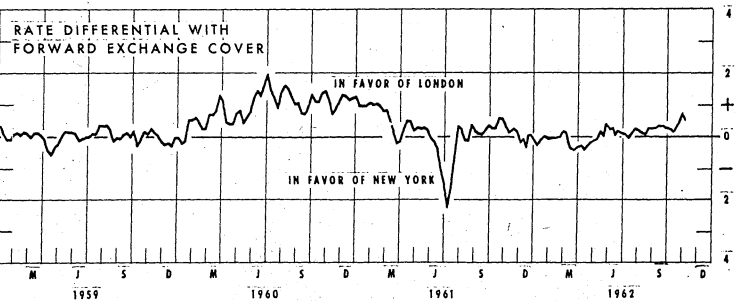
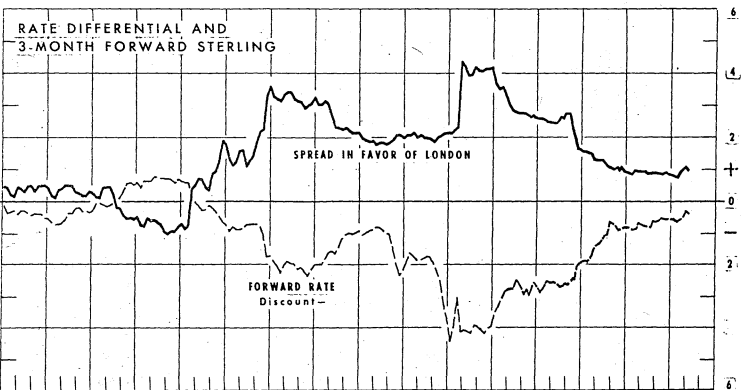
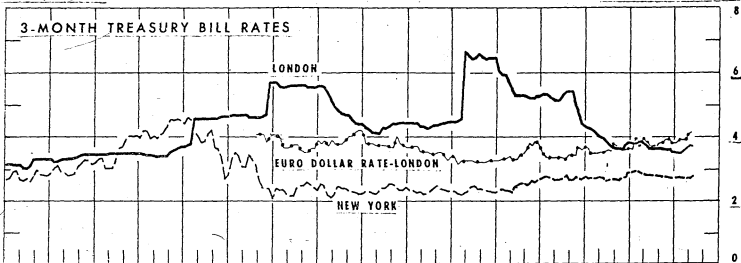
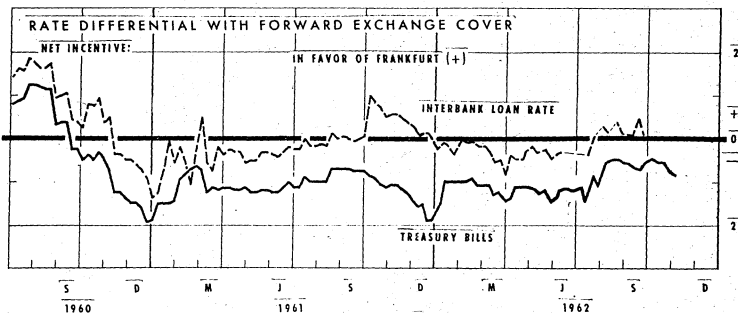
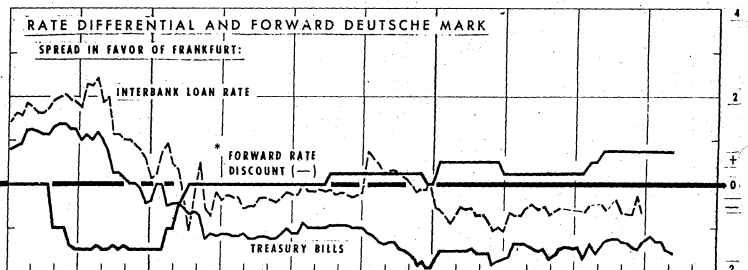
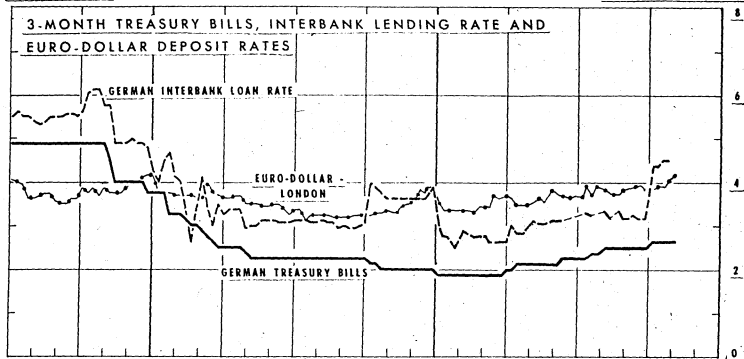


Chart 3
INTEREST ARBITRAGE FOR GERMAN COMMERCIAL BANKS

Friday figures

Per cent per annum



Note: Special forward rate available to German commercial banks.

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Chart 4
INTEREST ARBITRAGE, FRANKFURT / LONDON

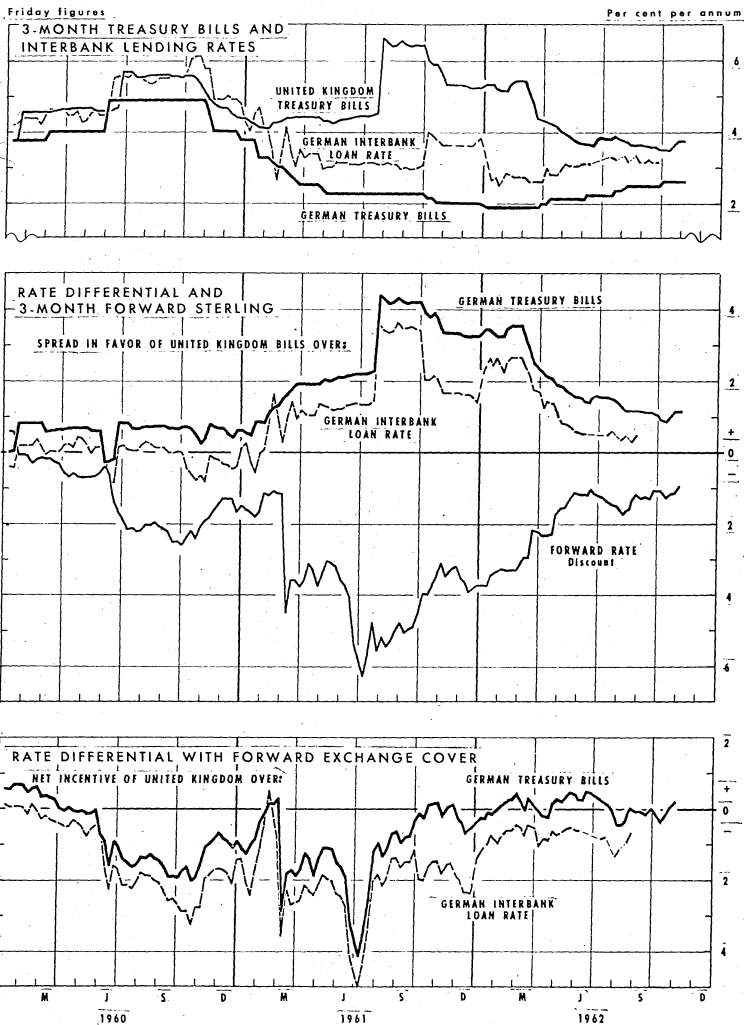
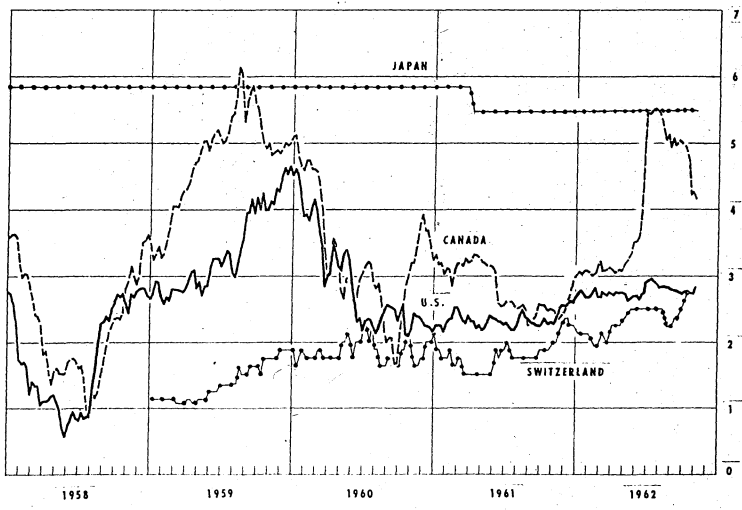
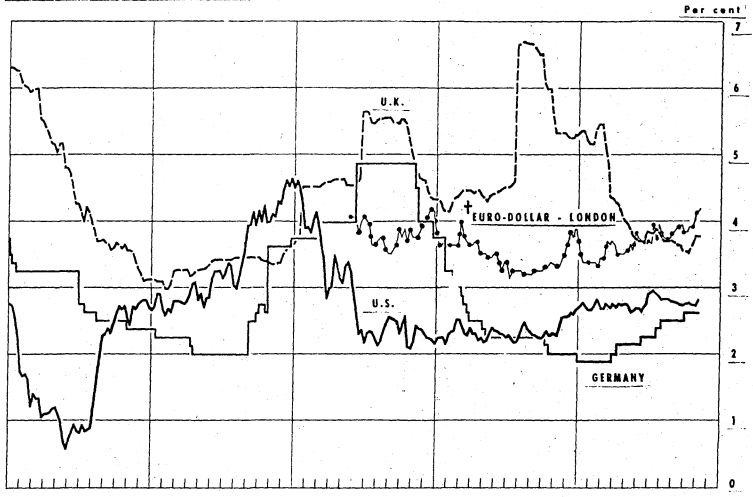


Chart 5
SHORT-TERM INTEREST RATES *



* 3-month treasury bill rates for all countries except Japan (1-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

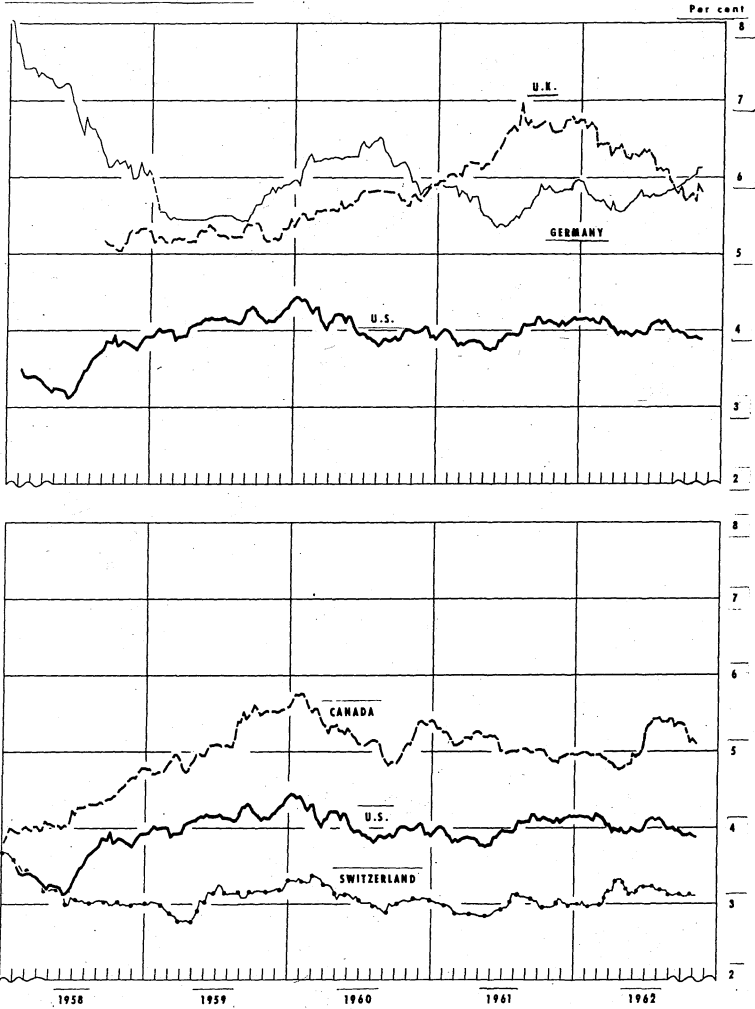
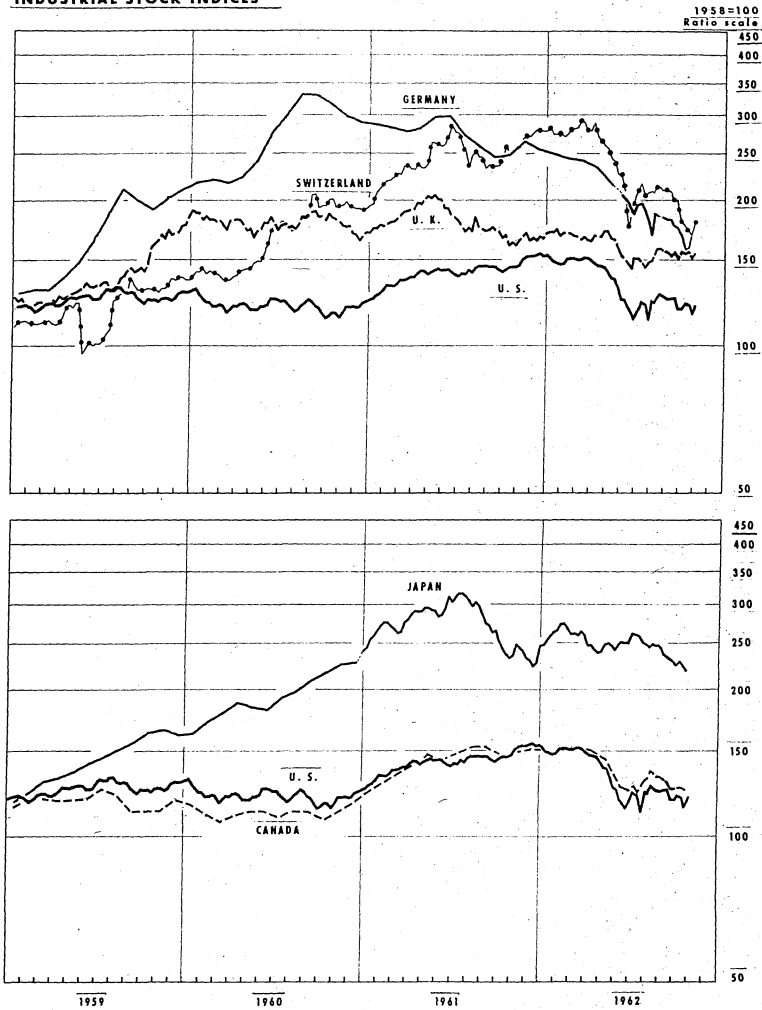


Chart 7

INDUSTRIAL STOCK INDICES*



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

Chart B

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

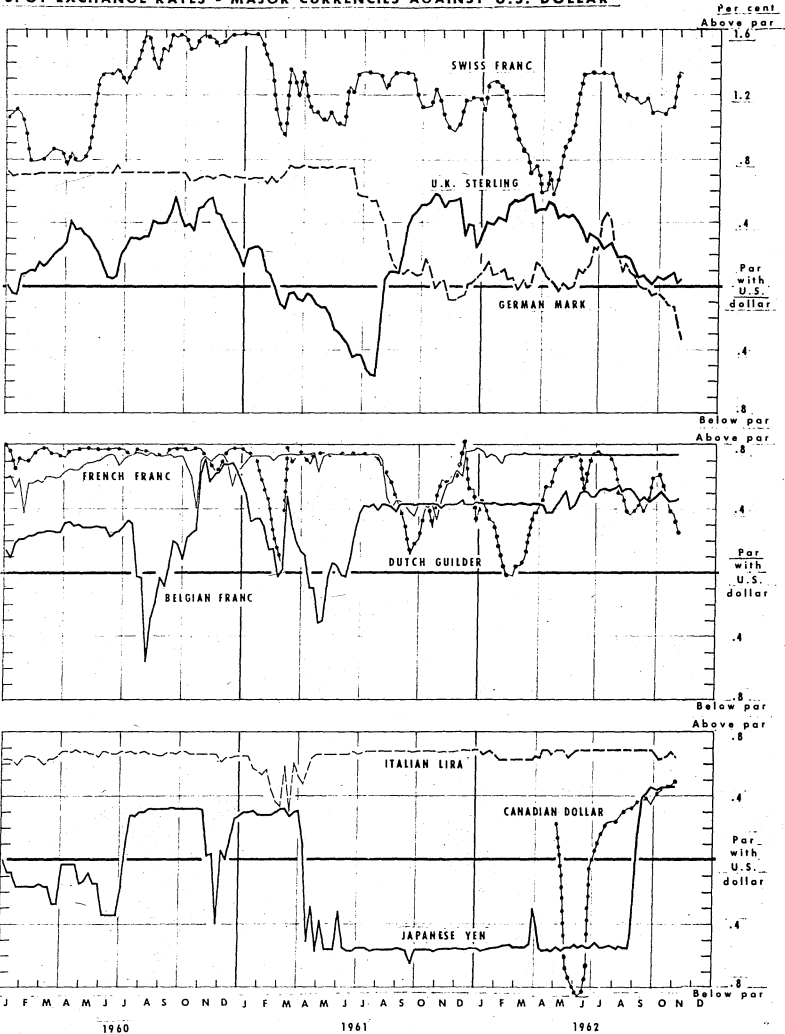


Chart 9

3-MONTH FORWARD EXCHANGE RATES

Per cent per annum

