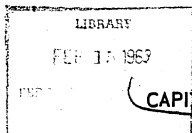


H. 13
No. 94

February 8, 1963

CAPITAL MARKET DEVELOPMENTS ABROAD

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

I. Canada: Money and Capital Markets During December and January

During the period under review, the Canadian dollar has remained strong in foreign exchange markets except for a brief relapse several days early in February caused by political uncertainties. The spot rate declined from 92.95 U.S. cents on January 30 to a low of 92.67 cents on February 6 but was at 92.81 cents on February 8.

Continued substantial borrowings in the United States by Canadian local governments and corporations and the transfer of funds borrowed in October by the Federal Government supported the Canadian currency. In addition, U.S. statistics through November suggest that Canada's trade balance with this country has been improving since the middle of 1962. Nonetheless, reserve statistics for December and January indicate that the period of rapid reserve accruals by the Bank of Canada appears to be past for the present.

The November 13 cut in Bank rate has not been followed by any appreciable decline in bond yields in Canadian markets. Yields have in fact eased only fractionally. Government of Canada bonds were about as high in late January as they were in late October. (See Table 1.) Yields in local government and corporate bonds declined only from a 40-bond coverage of 5.51 per cent on October 31 to 5.41 per cent on January 31.

Table 1. Canada: Selected Security Yields.
End of Month or Last Wednesday in Month
(in per cent per annum)

	1 9 6 2			1963
	Oct.	Nov.	Dec.	Jan.
Federal Government:				
Treasury bills	4.27	3.71	3.91	3.65
Bonds:				
1964	4.23	3.98	4.00	3.98
1967-68	4.56	4.11	4.30	4.36
1975-78	5.11	5.06	5.07	5.05
1996-98	5.12	5.07	5.07	5.01
Other bond yields:				
Provincials	5.48	5.44	5.44	5.36
Municipals	5.63	5.59	5.59	5.54
Public utilities	5.46	5.39	5.32	5.43
Industrials	5.45	5.42	5.38	5.29
Average	5.51	5.46	5.43	5.41

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The yield on Treasury bills jumped in late December to 3.91 per cent from a mid-November low of 3.71 per cent but by January 31 had reached 3.65 per cent. Continuing purchases by the chartered banks which utilized the proceeds from a run-off of loans accounted for the pressure on bill rates in January. The Bank of Canada added to its security portfolio in December but was a seller of securities during January, in part to absorb the post-Christmas reflow of currency.

Short-term funds continued to flow into Canadian finance paper in modest amounts during the period under review. On an arbitrage basis, the differential in favor of the Canadian Treasury bill in December shifted by early February into a differential in favor of the U.S. bill. (See Table 10 and Chart 1.)

During 1962, Canadian banks appear to have added some (C)\$450 million to their non-Canadian dollar (mostly U.S. dollar) assets and some (C)\$570 million to their liabilities. (See Table 5.) On the liability side, non-bank deposits rose by nearly (C)\$500 million. On the asset side, loans and deposits with other banks were sharply higher with call loans in New York moderately down on the year.

Money market. Canadian short-term money rates dropped abruptly in the wake of the sharp November 13 cut in the Bank rate. (See Chart 1 and Table 10.) From 4.09 per cent the week preceeding, the weekly auction rate on 91-day Treasury bills fell to 3.62 per cent on November 15. The bill yield partially recovered to about 3.8 per cent by the following week, and, with some slight further increase, held fairly steady at around 3.9 per cent through December. The rate declined gradually but steadily during January, and reached 3.65 per cent by January 31 (see Tables 10 and 11 and Chart 5).

By mid-November, for the first time since early June, the spread of the Canadian bill (weekly auction) rate over the U.S. Treasury bill narrowed to less than one per cent. With further declines in the Canadian bill rate during January, and a modest rise in the U.S. bill rate, this spread narrowed further to 0.72 per cent by the end of January. The covered incentive in favor of the Canadian bill was negligible by the end of January. (See Table 10 and Chart 1.)

Canadian finance paper rates during November-January followed the fluctuations in Treasury bill yields. The uncovered spread between U.S. and Canadian rates remained around one per cent following the mid-November decline in short-term rates. The covered incentive in favor of Canadian finance paper fell from 0.51 per cent on November 21 to a -0.06 per cent on February 1. (See Table 2.)

Table 2. U.S. and Canadian Finance Paper Rates
and Arbitrage Calculation
 (in per cent per annum)

		Canada	U. S.	Spread	90-day Forward Exchange	Net Incentive
October	5	5.00	2.50-3.00	2.25	-1.68	+0.57
	26	4.25	2.63-2.88	1.49	-1.14	+0.35
November	9	4.25	2.50-3.00	1.50	-1.01	+0.49
	16	3.75	2.50-3.00	1.00	-0.81	+0.19
	23	4.00	2.50-3.00	1.25	-0.74	+0.51
December	7	4.00	3.00-3.13	0.94	-0.74	+0.20
	14	4.00	3.00-3.25	0.88	-0.54	+0.34
January	4	4.00	3.00-3.13	0.94	-0.61	+0.33
	11	4.00	3.00-3.13	0.94	-0.81	+0.13
	18	4.00	3.00	1.00	-0.87	+0.13
	25	4.00	2.88-3.00	1.06	-0.81	+0.25
February	1	3.75	3.00	0.75	-0.81	-0.06

Bond market. Yields on short- and intermediate-term Canadian Treasury securities shared in the general mid-November decline in Canadian interest rates, but moved up later in the month. (See Tables 1 and 11 and Chart 6.) During December and January these yields moved slightly and irregularly lower. At the end of January, yields on Treasury bonds stood at levels which were, in general, only slightly above the recent low level which followed the mid-November Bank action. (See Table 10.) Yields in the corporate and local government sectors also eased moderately during the period.

On January 16, the Minister of Finance marketed a new \$350 million issue of two Government of Canada short-term bonds divided between:

- \$125 million of 3-1/4 per cent bonds due February 1, 1964; and
- \$225 million of 3-1/2 per cent bonds due February 1, 1966,

to yield 4.02 and 4.49 per cent. Part of this loan will be used to make advances to the Canadian National Railways in connection with a \$250 million debt maturity to be met in February and the remainder will be for general Treasury purposes.

On January 9, the Minister announced that only \$12 million of the \$449 million 5-1/2 per cent bond due on April 1 (1963) will have to be redeemed for cash. Some \$437 million of these bonds were exchanged for a 5-1/2 per cent issue due April 1, 1976.

Borrowings in the United States. As a result of conditions in the Canadian market in the second half of last year, Canadian corporations and local governments borrowed heavily in the U.S. markets, as compared with moderate level of borrowing during the first six months of the year. New

Canadian issues payable in U.S. funds amounted to over \$700 million during 1962--between four and five times the total for 1961 (see Table 3), according to estimates of A. E. Ames and Company. Total Canadian issues payable in U.S. funds during 1962 were estimated at \$840 million, as compared with \$130 million in 1961, by Woods, Gundy, and Company Limited, in the Canada Gazette (January 4, p. 16).

Table 3. Canada: Sales of New Government, Municipal, and Corporation Bonds Payable in U.S. Funds

Time Period	Total	Gov't.	Provincial		Municipal	Corporation
			Direct	Guaranteed		
<u>Year to Dec. 31</u>						
1962	700.7	250.0	17.5	92.0	44.7	296.5
1961	148.4	--	--	--	26.4	122.0
1960	283.2	--	25.0	67.0	110.9	80.3
<u>January - June:</u>						
1962 to July 9	103.5	--	--	--	1.5	103.0
1961 to July 10	117.4	--	--	--	26.4	91.0
1960 to July 13	238.0	--	25.0	52.0	110.7	50.3
<u>1962</u>						
September	259.9	250.		8.0	1.9	--
October	52.5	--		15.0	1.8	35.7
November	212.9	--		79.0	.8	133.0
December	23.5	--		7.5	16.0	--

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

It was recently announced that, the Quebec Hydro Electric Commission has arranged for a loan of \$300 million--the largest loan negotiated by a foreign group in the U.S. since the end of World War I, and the largest loan ever received by Canadians from the United States. The funds will be used to finance the nationalization of 11 private electric firms in Quebec. The issue consisted of 25-year 5 per cent bonds reportedly sold to yield 5.12 per cent; it was sold through 40 U.S. investment houses and placed principally with large life insurance companies. Proceeds of the issue reportedly will be credited to Quebec in a series of draw-downs over the next several months.

In addition, many smaller Canadian borrowers continue to be active in the New York market. Yields on Canadian local-government and private securities have declined in recent months by about 1/4 to 1/2 per cent (see Table 4); but prospective borrowers continue to find a financing-cost differential in favor of New York in the order of 1/2 per cent.

During October, trade in outstanding securities between Canada and the U.S. resulted in a net flow into Canada of approximately \$26.8 million. United States residents were net purchasers of both Canadian (\$24 million) and foreign (primarily U.S.--\$3 million) securities in October. During November, however, flows of outstanding securities reversed, and Canadians made net repurchases from the U.S. of both Canadian (\$13.1 million) and foreign (\$9.5 million) issues, amounting to a total of \$22.6 million. No information is available on securities transactions since November.

Bank loans and bank liquidity. General loans of Canadian chartered banks declined somewhat more than seasonally during November and December, thus ending an uninterrupted advance (seasonally adjusted) of some two and one-half years. On an unadjusted basis, a mild decline in general loans continued through January 11. As loans declined, the chartered banks acquired Treasury bonds and (particularly in January) Treasury bills. Although somewhat eased from the levels of November and early December, cash reserves remain near the 8 per cent legal minimum. Continued purchases of Treasury bills moved the liquid asset ratio to almost 18-1/2 per cent, well above the agreed minimum of 15 per cent (see Table 4).

Table 4. 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 Govern- ment Bonds ^{a/} (par value)
Average							
of Wednesdays:							
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
October	1,106	8.18	2,370	17.53	6,649	1,119	1,893
November	1,113	8.14	2,496	18.25	6,528	1,184	2,064
December *	1,129	8.16	2,502	18.09	6,445	1,112	2,204
January *	1,139	8.13	2,583	18.43	n.a.	1,284	2,217
Average for							
week ending:							
December 5	1,106	7.99	2,522	18.23	6,504	1,214	2,094
12	1,112	8.04	2,494	17.96	6,491	1,192	2,094
19	1,159	8.38	2,479	17.92	6,478	1,141	2,198
26	1,143	8.26	2,509	18.14	6,445	1,112	2,204
January 2	1,134	8.09	2,545	18.16	6,447	1,153	2,198
9	1,133	8.09	2,500	17.84	6,387	1,168	2,215
16	1,144	8.16	2,536	18.10	6,346	1,199	2,204
23	1,149	8.20	2,573	18.36	6,323	1,255	2,212
30	1,137	8.11	2,583	18.43	n.a.	1,284	2,217

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

^{*} Preliminary

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

Canadian banks operations in U.S. dollars. Non-Canadian-currency deposits in Canadian banks increased \$223 million during the month of October; then, following a month of negligible change, these deposits declined by \$240 million in December (see Table 5). Both of these shifts are probably explained by window-dressing operations of banks--the October inflow reflecting window-dressing operations by Canadian banks which prepare statements at the end of October, and the outflow over the year-end accounted for by a movement to banks outside Canada for similar purposes. After declining in December, Canadian banks apparently rebuilt their call loans in the New York market in January.

During 1962, Canadian banks increased their foreign-currency liabilities (probably largely U.S. dollars) by \$510 million and their assets by \$450 million (see Table 5).

Table 5. Canadian Chartered Banks: Non-Canadian-Currency Assets and Liabilities (millions of Canadian dollars)

	ASSETS					LIABILITIES		
	Deposits w/other Banks	Call Loans	Secu- rities	Other Loans	Total	Deposits by other Banks	Other Deposits	Total
Total Outstanding:								
Dec. 1960	531.5	814.5	556.8	813.7	2,716.5	46.9	2,007.4	2,654.3
Dec. 1961	1,007.3	843.8	672.7	1,068.7	3,592.5	702.5	2,785.9	3,488.4
Dec. 1962	1,204.0	683.7	705.2	1,365.9	3,958.8	693.8	3,264.1	3,957.9
Changes During:								
1961: I	+ 82.5	-113.9	+221.1	- 59.1	+130.6	- 11.1	+251.9	+180.7
II	+189.2	+261.7	- 68.2	+ 88.6	+471.3	- 16.9	+526.2	+509.3
III	+ 93.9	-137.5	+149.5	+ 32.5	+138.4	+ 31.9	+171.3	+203.2
IV	+110.2	+ 19.0	-186.5	+193.0	+135.7	+111.8	-170.9	- 59.1
1962: I	-106.2	- 20.1	+214.4	+ 14.5	+162.6	+ 78.6	+210.6	+289.2
II	+236.2	-231.6	+135.8	+ 45.5	+185.9	-129.1	+327.2	+198.1
III	-200.1	+170.1	-166.5	+147.2	- 49.3	+ 77.5	- 78.7	- 1.2
IV	+266.8	- 78.5	+151.2	+ 90.0	+127.1	- 35.7	+ 19.1	- 16.6
Oct.	+121.9	+ 78.6	+108.8	+ 9.8	+319.1	+ 76.7	+146.1	+222.8
Nov.	+ 89.8	- 79.9	- 9.8	+ 33.6	+ 33.7	- 50.1	+ 51.0	+ 0.9
Dec.	+ 55.1	- 77.2	-250.2	+ 46.6	-225.7	- 62.3	-178.0	-240.3

Table 6. Call Loans in the New York Market, end of Month

Date	U.S. a/ (\$ millions)		Foreign Agencies	
	Banks	Total a/	Canadian b/	Other c/
1960-December	1,496	849	829	20
1961-December	1,963	859	809	50
1962: June	1,361	610	541	69
July	1,042	487	473	14
August	1,141	778	734	44
September	2,020 r/	750 r/	708	42 r/
October	2,086	846	782	64
November	1,417	775	706	69
December	2,618	709	634	75
1963: January 23	2,003	763	n.a.	n.a.

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.

r/ Revised.

Foreign trade. There was no sign of significant improvement in Canada's commodity trade during the third quarter of 1962, the latest available statistics. On a seasonally-adjusted basis, the trade surplus of \$6 million was below the figure for the third quarter of 1961. (See Table 7.) However, a preliminary estimate suggests a marked rise in the trade surplus for the fourth quarter. U.S. trade statistics show that our export surplus for the third quarter of 1962 and for October and November was below the corresponding figures for 1961. (See Table 7.)

Table 7. Canada: Foreign Trade, Quarterly Monthly Average

	1961				1962			
	I	II	III	IV	I	II	III	IV
1. Canadian total trade (seasonally adjusted in millions of Can. \$; Canadian data):								
Exports	461	476	505	517	507	544	524	a/ 575
Imports	427	494	471	532	490	559	520	a/ 520
Balance	34	-18	34	-15	17	-15	6	a/ 55
2. U.S. trade with Canada (unadjusted in millions of U.S. \$; U.S. data):								
U.S. Exports	296	330	301	332	308	392	313	b/ 338
U.S. Imports	234	264	289	304	270	319	311	b/ 332
U.S. Surplus	62	66	12	28	38	73	2	b/ 6

a/ Estimated from annual data.

b/ Two months average.

Foreign exchange. Official reserve figures indicate a loss in exchange reserves during December of \$68.1 million and a gain of \$123.1 million during January. Special transactions reflected in these changes include the reversal, during December, the \$75 million in reciprocal currency arrangements remaining with the Federal Reserve System and the Bank of England, and receipt in January of the remaining \$125 million in proceeds of the Government of Canada borrowing in the U.S. If these special non-market transactions had not taken place, official reserves would have increased approximately \$7 million during December and declined about \$2 million in January (see Table 8).

Table 8. Canada: Official Holdings of Gold and U.S. Dollars

	Gold	U.S. dollars (thousands)	Total (US\$ thous.)	Change during period (US \$ million)
1962: 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	694.7	1,919.2	2,613.9	+169.3
November	702.3	1,905.2	2,607.5	- 6.4
December	708.5	1,830.9	2,539.4	- 68.1
1963: January	n.a.	n.a.	2,662.5	+123.1

Stock market. Movements in the Canadian D.B.S. industrials index and the New York Standard and Poor Industrials index showed considerable similarity during December and January. Both indices declined slightly in early December and required the remainder of that month to recover the slight loss. Both advanced strongly throughout January, however, and by January 24 had reached levels about 5 per cent above those of late November (see Table 9).

Table 9. Canadian and U.S. Industrial Stock Prices

<u>Average for week ending</u>	<u>DBS Industrials a/</u>	<u>N.Y. Standard and Poor Industrials b/</u>
<u>1962:</u>		
November 1	115.5	59.36
8	118.6	61.31
15	122.3	62.93
22	124.0	63.55
29	125.5	64.97
December 6	124.8	65.71
13	123.4	65.38
20	123.3	65.43
27	124.7	65.82
<u>1963:</u>		
January 3	126.8	66.28
10	129.6	67.49
17	129.6	67.99
24	131.6	68.58
31	n.a.	69.18

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.

b/ Average for the week ended on Friday.

Table 10. Canada: Treasury Bill Yields and Exchange Rates

		3-mo. Treas. bill arbitrage calculation					Finance paper		
		Canada	U.S.	Differ- ence	3-mo. In Can.\$ favor Can. bill c/	Spot Can.\$ (U.S. cents)	30-89 days	90-179 days	
	a/	a/		b/	c/				
1962-High	5.51	2.98	2.59	0.13	0.84	95.75	--	--	
Low	3.01	2.64	0.22	-2.13	-0.11	91.73	--	--	
1962-July	19 5.51	2.93	2.58	-2.02	+0.56	92.72	--	--	
Dec.	6 3.81	2.84	0.97	-0.67	+0.30	93.00	4-4-1/4	4-1/4-4-1/2	
	13 3.84	2.85	0.99	-0.54	+0.45	92.94	--	--	
	20 3.94	2.89	0.96	-0.60	+0.35	92.98	--	--	
	27 3.91	2.98	0.93	-0.61	+0.31	92.84	--	--	
1963-Jan.	3 3.94	2.86	1.08	-0.54	+0.54	92.86	4	4-1/4	
	10 3.85	2.89	0.96	-0.74	+0.22	92.64	4	4-1/4	
	17 3.84	2.91	0.93	-0.84	+0.12	92.86	4	4-1/4	
	24 3.78	2.94	0.84	-0.61	+0.23	92.92	--	--	
	31 3.65	2.93	0.72	-0.64	+0.08	92.80	3-3/4-4	4-4-1/4	

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.

Table 11. Selected Government of Canada Security Yields

	6-mo. Treas. bills	Intermediate bonds (8 yr.)		Long-term bonds				
		Canada	Spread over U.S. b/	Canada	Spread over U.S. d/	(20 year)		(35 year)
	a/		c/	d/	e/	Spread over U.S. f/	g/	Spread over U.S. h/
1962-High	5.74	2.84	5.20	1.33	5.48	1.47	5.20	1.29
Low	3.18	0.19	4.04	0.00	4.73	0.73	4.81	0.86
1962-July	19 5.74	2.59	5.11	1.16	5.48	1.44	5.15	1.03
Dec.	5 3.94	1.03	4.43	0.83	5.06	1.16	5.09	1.17
	12 3.96	1.08	4.39	0.87	5.06	1.18	5.07	1.16
	19 4.08	1.17	4.39	0.92	5.05	1.18	5.07	1.16
	26 4.01	1.10	4.39	0.92	5.06	1.21	5.07	1.17
1963-Jan.	2 4.06	1.12	4.48	0.97	5.08	1.21	5.10	1.17
	9 3.96	1.02	4.36	0.88	5.03	1.16	5.02	1.09
	16 3.98	1.02	4.33	0.88	5.01	1.17	5.03	1.10
	23 3.88	0.94	4.37	0.78	5.00	1.12	5.01	1.03
	30 3.77	0.78	4.29	0.76	4.99	1.12	5.01	1.05

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.

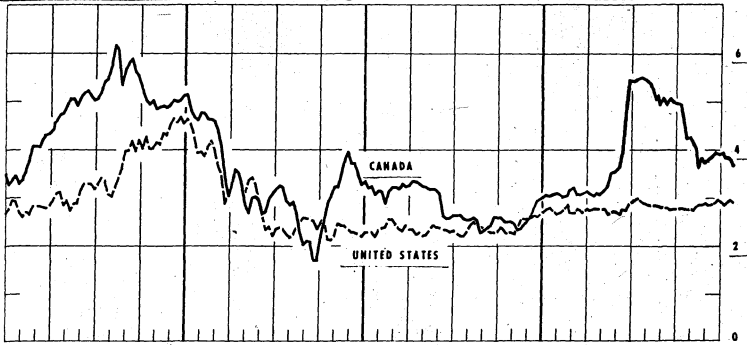
Chart 1

INTEREST ARBITRAGE, UNITED STATES / CANADA

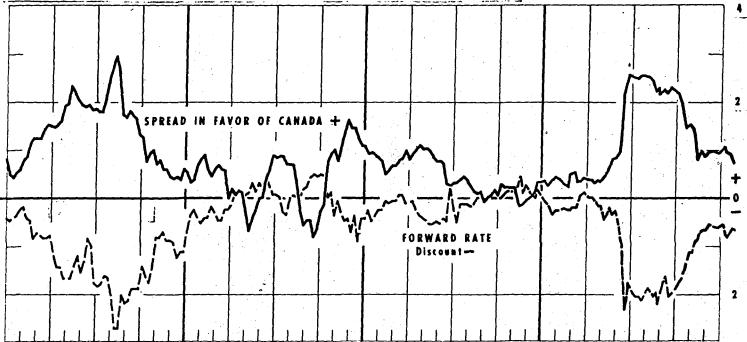
Thursday figures

THREE-MONTH TREASURY BILL RATES

Per cent per annum



RATE DIFFERENTIAL AND FORWARD CANADIAN DOLLAR



RATE DIFFERENTIAL WITH FORWARD EXCHANGE COVER

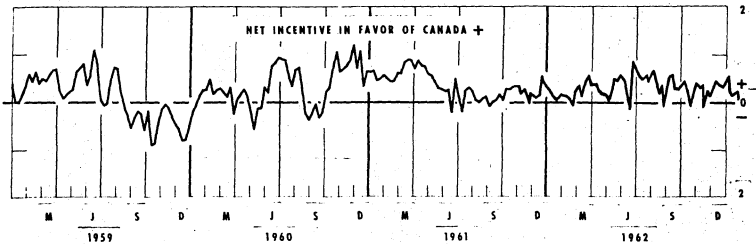


Chart 2

INTEREST ARBITRAGE, NEW YORK/LONDON

Friday figures

Per cent per annum

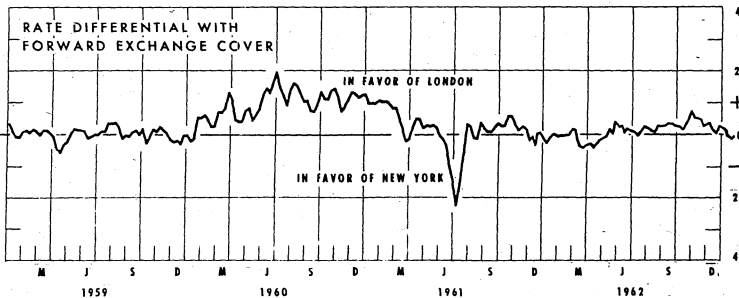
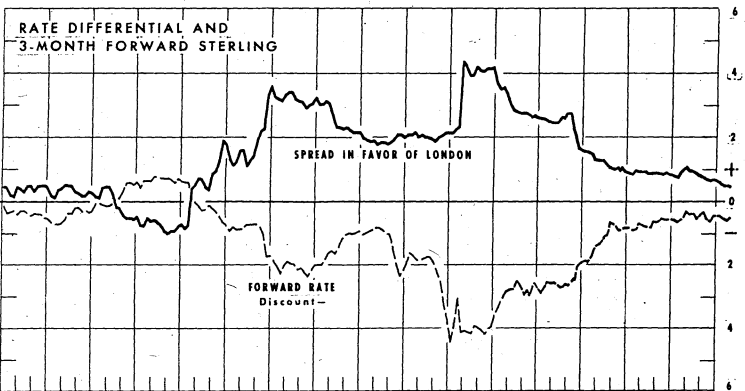
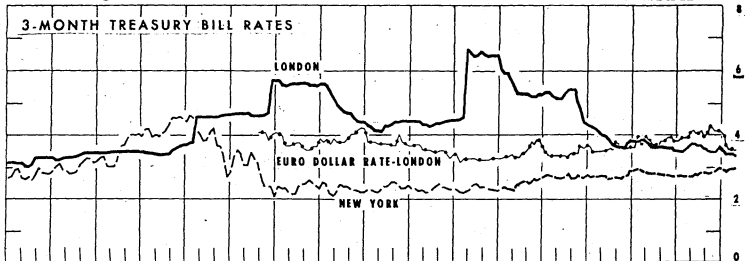
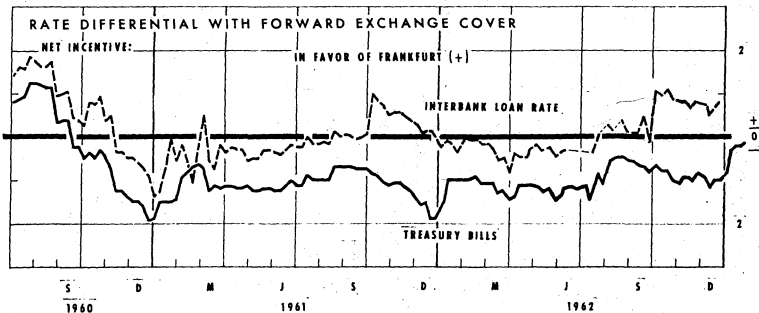
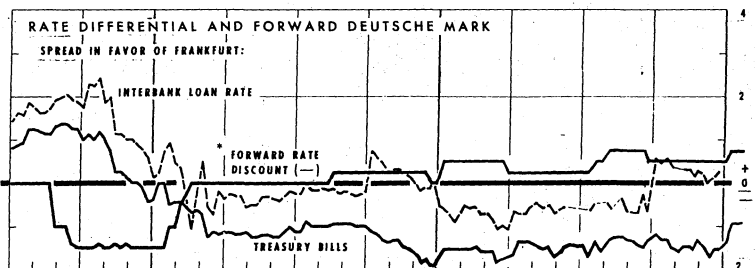
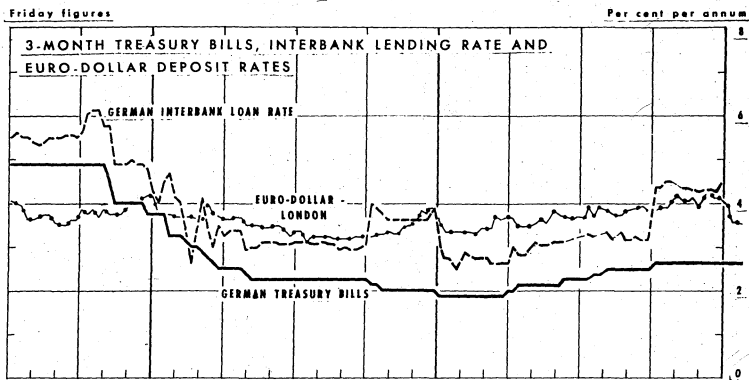


Chart 3
INTEREST ARBITRAGE FOR GERMAN COMMERCIAL BANKS



Note: Special forward rate available to German commercial banks

Chart 4

INTEREST ARBITRAGE, FRANKFURT / LONDON

Friday figures

Per cent per annum

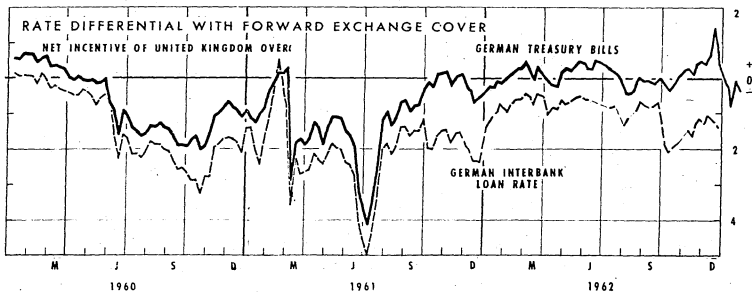
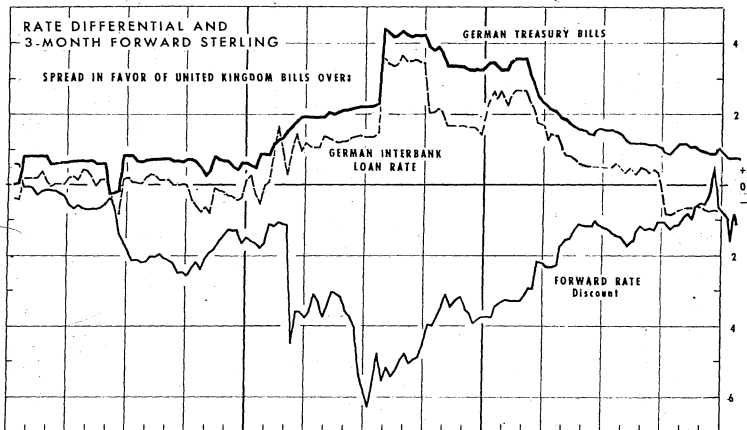
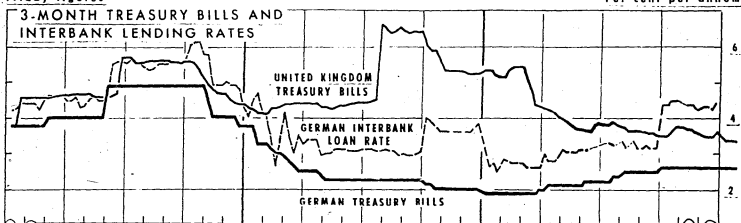
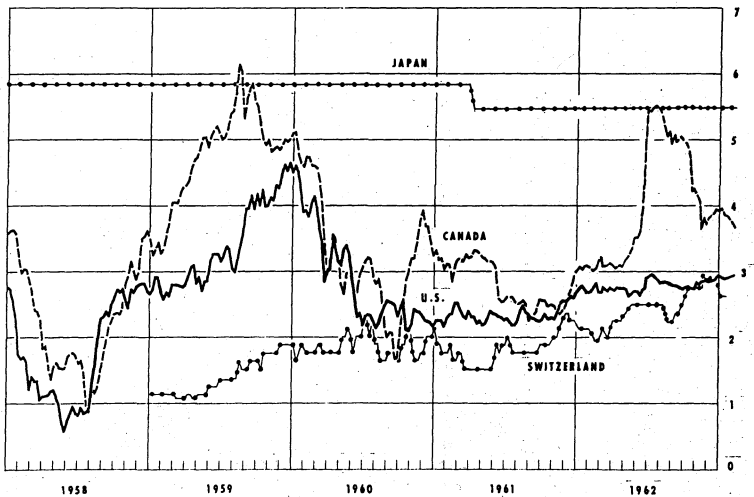
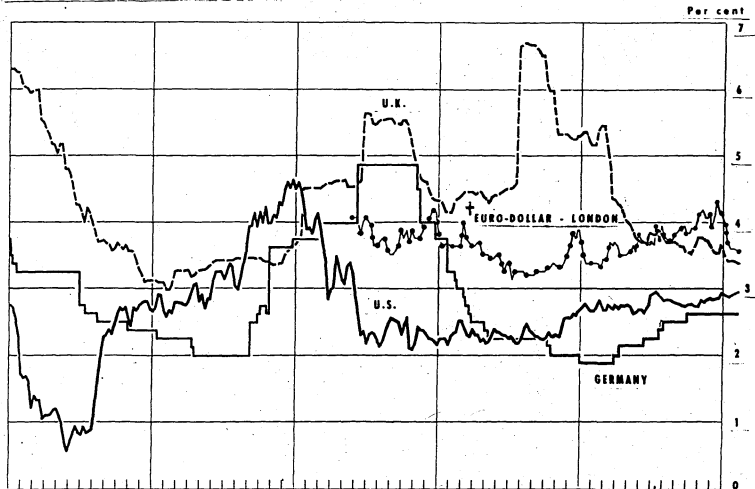


Chart 5

SHORT-TERM INTEREST RATES *



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

Chart 6

LONG-TERM BOND YIELDS

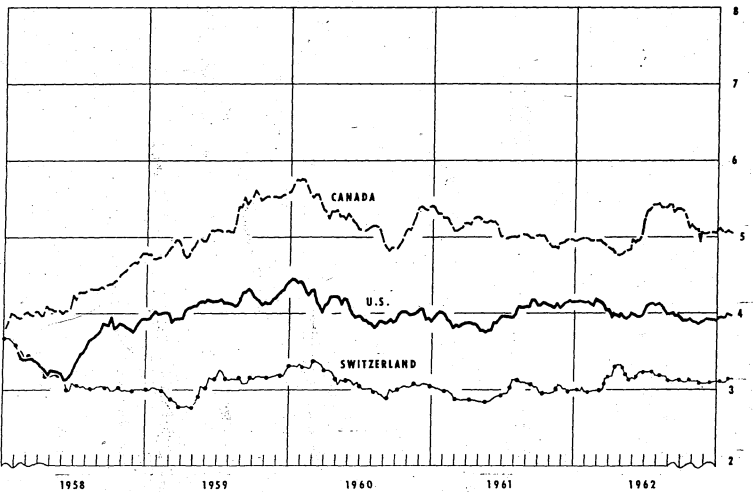
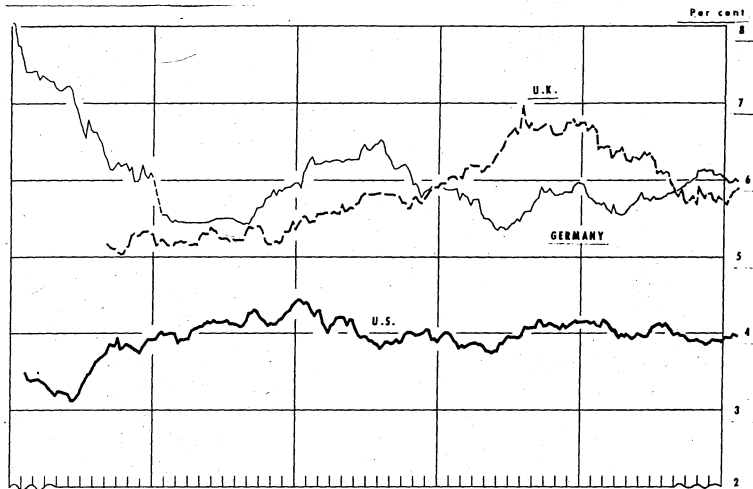
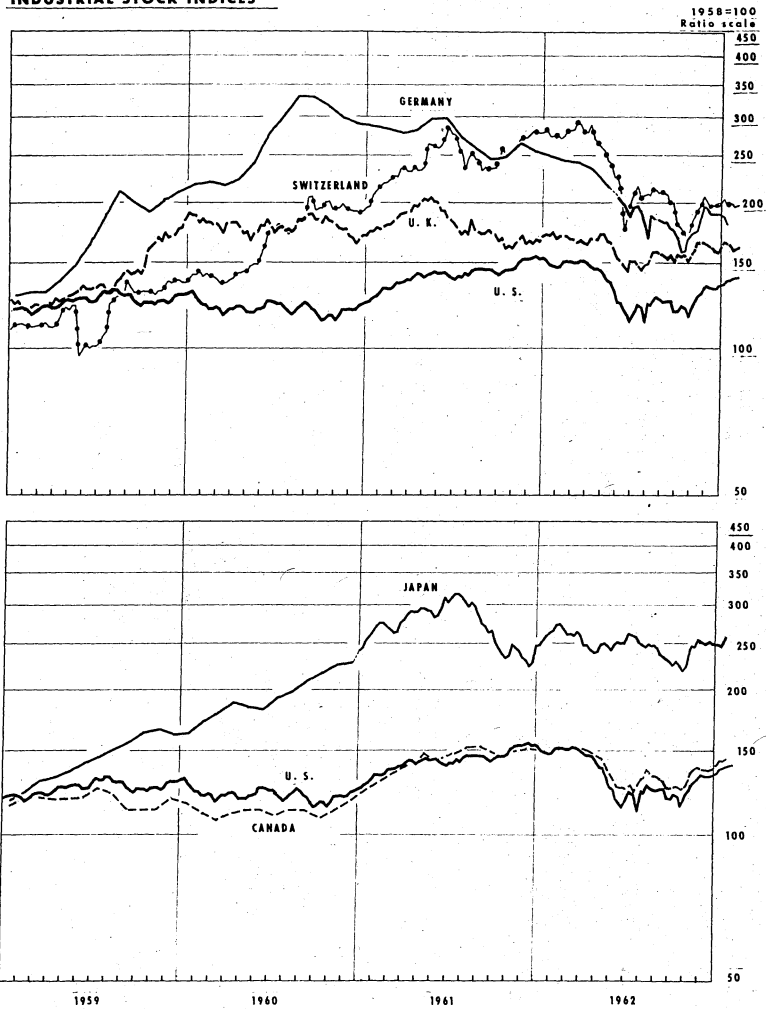


Chart 7
INDUSTRIAL STOCK INDICES*



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

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Chart 8
SPOT EXCHANGE RATES - MAJOR CURRENCIES AGAINST U.S. DOLLAR

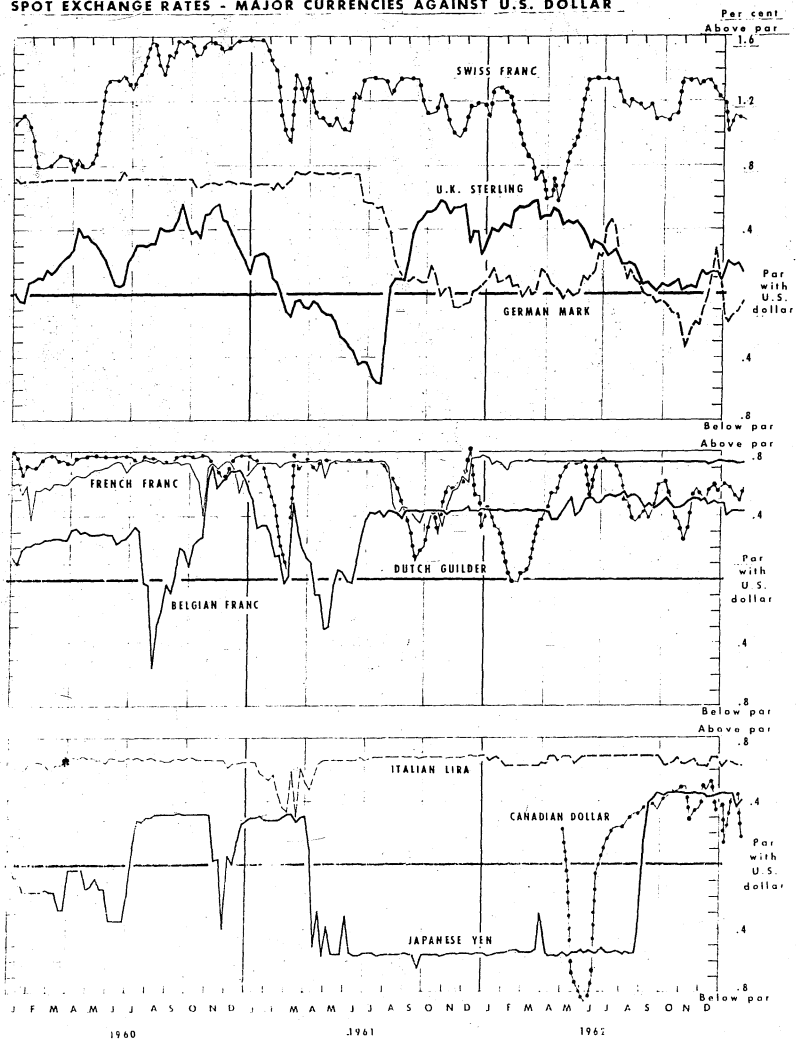


Chart 9

3-MONTH FORWARD EXCHANGE RATES

Per cent per annum

