

H. 13
No. 141

March 11, 1964

CAPITAL MARKET DEVELOPMENTS ABROAD

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

I. Canada: Money and Capital Markets, January-February 1964

Except for a gradual hardening of Treasury Bill rates, the relative stability that had characterized major components of Canadian money and capital markets in November and December 1963 continued to be the general pattern in January and February 1964. There were, however, further indications that the hiatus in new security flotations in New York has come to an end. In addition, rather fundamental changes in the structure of the Canadian banking system appear to be under way. Finally, the pattern of interest-rate differentials between U.S. and comparable Canadian securities continues to bear watching.

Table 1. Canada: Market Yields on Government Securities
Selected Dates January 1963 - February 1964

<u>Dates</u>	<u>Bonds</u>					
	<u>Treasury Bills</u>		<u>Sept.</u>	<u>June</u>	<u>Jan.</u>	<u>Sept. 1996-</u>
	<u>3-mos.</u>	<u>6-mos.</u>	<u>1965</u>	<u>1967-68</u>	<u>1975-78</u>	<u>March 1998</u>
<u>1963</u>						
Jan. 2	3.94	4.06	4.48	4.48	5.12	5.10
June 12	3.19	3.30	4.07	4.07	4.88	4.90
Sept. 11	3.78	3.98	4.60	4.48	5.27	5.14
Oct. 16	3.54	3.69	4.00	4.29	5.03	5.04
Dec. 31	3.74	3.93	4.20	4.42	5.16	5.02
<u>1964</u>						
Jan. 8	3.80	3.96	4.31	4.43	5.17	5.01
15	3.77	3.95	4.26	4.47	5.18	5.01
22	3.74	3.92	4.25	4.50	5.18	5.01
29	3.77	3.94	4.33	4.51	5.19	5.01
Feb. 5	3.77	3.93	4.30	4.51	5.21	5.02
12	3.78	3.95	4.22	4.43	5.16	5.03
19	3.80	3.96	4.26	4.47	5.16	5.02
26	<u>3.88</u>	<u>4.02</u>	<u>4.29</u>	<u>4.48</u>	<u>5.20</u>	<u>5.02</u>
<u>Net change</u>						
Jan. 1963-						
Feb. 1964	-.06	-.04	-.19	--	+.08	-.08
Sept. 1963-						
Feb. 1964	+.10	+.04	-.31	--	-.07	-.12

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Government security rates continue to advance moderately. The average tender rate on the 6-month Treasury bill rose above 4 per cent in late February for the first time since early January 1963. The increases beyond the rates prevailing prior to the Soviet wheat contract have, however, involved a considerable flattening of the yield curve, with the largest increase occurring for the 90-day bill and the longer-term bonds registering a notable decline. (See Table 1.) Between mid-September and late February, the spread on the 1996-98 bond over the 3-month bill had narrowed by 22 percentage points.

A moderate budgetary deficit of \$13.4 million in January contributed to an over-all deficit of \$55.6 million in the current fiscal year, by comparison with a cumulative figure of \$110.8 million to the same date a year ago. Budget revenues for the 10-month period in fiscal 1964 amounted to \$5,159 million 83 per cent of the original budget forecast, while expenditures of \$5,215 million represent 76 per cent of the budget forecast. Typically revenues are relatively larger in the earlier months of the year than are expenditures.

Estimates for the 1964-65 fiscal year, tabled in the House of Commons on March 3 by Finance Minister Gordon, provide for a record budget expenditure of \$6,703.5 million, compared with the current 1963-64 estimate of \$6,619 million. Most of the rise is accounted for by an increase of \$157 million in public debt charges, now estimated to absorb almost 1/6 of the over-all total, while reductions in excess of \$100 million each are in store for technical and vocational training assistance and for national defence. Payments to provinces under existing Federal-provincial tax arrangements should fall just short of a quarter of a billion dollars. The budget figures do not include expenditures from the Old Age Security Fund, estimated to exceed \$880 million in 1964/65, for a 10 per cent rise.

Provincial and municipal bond yields moderately higher. After the rather sharp decline in yields on provincial and municipal securities between late August and late October, these have tended to rise gently to date. The McLeod, Young, Weir and Company Average rose to 5.57 by the end of January, its highest level since September 1962 with the single exception of August 1963. As compared to late August, the net yield decline for municipals amounted to 16 points, for provincial and public utilities, 9 points, but for industrials only a single point. The 40-bond yield average increased a further 2 points in February.

Activity in the municipal debentures market has been fairly slow. In recent weeks, new issues have been concentrated in the Maritimes, and in Quebec (see Table 2) where the calendar of school financings is unusually heavy. Cumulative sales of new Municipal, Provincial and Corporate bonds in 1964 through mid-February amounted to \$317 million, as compared with \$358.7 million in 1963, but the amounts payable in U.S. funds had declined from \$170 million to \$22 million.

Table 2. Canada: Large Bond Issues, January-February 1964

	Amount (million \$)	Coupon Rate (%)	Maturity Date	offered at
1. Provincial Issues:				
Ontario Hydro	16	5	1971	99.375
	59	5-1/4	1984	97.25
Nova Scotia	12.5	5-1/2	1984	97.50
	7.5	5-1/2	1994	97.14
Quebec Hydro	10	5	1971	
	38	5-1/2	1984	97.25
	2	5-1/2	1994	97.25
2. Municipal Issuers:				
Consumers Gas Co.	11	5-3/4	1984	
Montreal P.O.	4.5	5-3/4	1989	98.75
	30.5	5-3/4	2004	97.25
Metro. Toronto	32.3	5-1/2	1965-94	
3. Corporate Issuers:				
Laurentide Finance Corp Ltd.	14	5-1/4	1978	(U.S.)
Consolidated Building Corp	5	6-1/4	1979	
Roy Nat Ltd.	15	6	1979	100
South Nelson Forest Products	6	6-3/4	1984	100
British American Construction and Materials	8		1979	(U.S.)
New Brunswick Telephone	5	5-3/4	1984	

Arbitrage incentive remains moderate. The incentive for the movement of short-term funds into Canada, after widening considerably in late December, has since returned to more moderate levels. (See Table 3 and Chart 2.) With the rate on the 3-months forward Canadian dollar fluctuating narrowly around the spot rate, but tending towards a slight discount, the covered incentive in favor of the Canadian Treasury bill in late February remained slightly lower than in early January, despite an almost 10 point widening in the uncovered spread. Covered differentials on prime finance company paper, like those on Treasury bills, declined considerably in late January. Following the change in U.K. Bank Rate on February 27, however, they have since recovered to a level in the neighborhood of 1/4 per cent per annum on both Treasury bills and on finance paper.

Table 3. Canadian-U.S. Arbitrage Computations on
Three Month Paper, Selected Dates
(per cent per annum)

Dates Week of	Treasury Bill					Prime Finance Company Paper			
	Can. Bill N.Y.	U.S. Bill N.Y.	Spread Favor Canada	Fwd. Canada Dollar	Canada Bill Diff'l.	Cdn. Paper Cdn. \$	Cdn. Paper Fully Hedged	U.S. Paper	Can. Paper Diff'l.
1963									
Dec. 13	3.59	3.49	+1.0	--	+1.0	4.25	4.20	3.75	+4.5
1964									
Jan. 3	3.66	3.51	+1.5	+0.7	+2.2	4.25	4.20	3.875	+3.25
24	3.66	3.49	+1.17	-.07	+1.0	4.00	3.85	3.75	+1.0
Feb. 14	3.68	3.51	+1.17	-.04	+1.3	4.00	3.90	3.75	+1.5
28	3.79	3.55	+2.4	-.04	+2.0	4.125	4.02	3.75	+2.7

Bond yields in Canada rise relatively more than in U.S. Yields on representative securities of Canadian authorities that borrow both in Canada and in the U.S. were higher in February than in July. (See Table 4 and Chart 6.) For the most part, the rise was relatively greater in Canada than in the U.S. In the case of Quebec Hydro, the differential had increased from 72 to 105 percentage points. Among the securities here presented, all except the Province of Ontario showed an increase in the difference as between mid-January and end-of-February dates.

Table 4. Differential Yields on Canadian Securities in U.S. and Canadian Markets, Selected Dates 1963-64

	July 3	November 20	January 16	February 27
Federal Government:				
in Canada (1975)	4.99	5.19	5.21	5.17
in U.S. (1974)	4.30	4.41	4.63	4.50
Difference	.69	.78	.58	.67
Province of Ontario:				
in Canada (1981)	5.21	5.37	5.48	5.40
in U.S. (1984)	4.43	4.57	4.56	4.52
Difference	.78	.80	.92	.88
Quebec Hydro:				
in Canada (1982)	5.34	5.63	5.68	5.70
in U.S. (1984)	4.62	4.68	4.68	4.65
Difference	.72	.95	1.00	1.05
Toronto Metro:				
in Canada (1982)	5.34	5.52	5.52	5.59
in U.S. (1979)	4.44	4.55	4.58	4.58
Difference	.90	.97	.94	1.01

Canadian stock markets less buoyant than U.S. Since early January, indexes of industrial stock prices have exceeded previous historical highs in both U.S. and Canadian markets. But the D.B.S. index, after reaching 147.5 (1956=100) in late January, tended to weaken slightly in the course of February, whereas the Standard and Poor index of U.S. stock prices attained record levels in each successive week.

Canadian dollar holding steady in foreign-exchange market. The Canadian dollar, which had declined from 92.75 almost to its par value in the course of December, has since fluctuated within a moderate range of 92.54 to 92.65 U.S. cents throughout January and February. (See Chart 8.) Official holdings of gold and foreign exchange, after reaching a recent high of \$2631 million (U.S.) as of the end of November, declined in moderate amounts in December and January, to a level of \$2582.4 million. Canada's current foreign trade position continues to provide a degree of strength. (See Table 5.)

Table 5. Canada: Foreign Trade, December 1963^{a/} With Comparisons
(in millions of Canadian dollars)

	December		October-December		January-December	
	1962	1963	1962	1963	1962	1963
<u>Total Exports</u>						
United Kingdom	79.2	75.5	252.3	264.8	919.9	1,014.9
Other C'wealth & Pref.	29.1	37.7	101.2	104.5	335.6	399.1
United States	279.0	326.1	977.8	1,019.0	3,744.7	3,913.2
Others	<u>118.8</u>	<u>214.1</u>	<u>395.0</u>	<u>591.4</u>	<u>1,347.5</u>	<u>1,652.8</u>
Totals	506.1	653.5	1,726.3	1,979.7	6,347.7	6,980.0
<u>Imports</u>						
United Kingdom	34.9	47.8	131.1	145.3	563.1	527.5
Other C'wealth & Pref.	21.0	35.9	88.4	128.0	318.5	405.8
United States	296.9	372.2	1,042.8	1,189.4	4,299.5	4,457.0
Others	<u>84.6</u>	<u>107.2</u>	<u>299.2</u>	<u>340.6</u>	<u>1,076.7</u>	<u>1,177.1</u>
Totals	437.4	563.1	1,561.5	1,803.3	6,257.8	6,567.4

a/ Export values are final; import values for 1963 are estimates. Figures may not add due to rounding.

Inflow of long-term funds from New York is gradually being renewed. Manitoba, in disposing of \$28 million of Manitoba Hydro bonds on February 17, became the first Canadian province to sell bonds in the U.S. since the interest equalization tax was first proposed. The bonds, which carry a provincial guarantee, were sold at an effective cost of 4.34 per cent, compared to a 5.7 per cent cost if they had been sold in Canada. The 22-year bonds bear 4.25 per cent interest and were sold at a discount so as to yield 4.95 per cent interest if held to maturity.

Bank credit relatively stationary. Major Canadian assets of Canadian chartered banks have fluctuated within a narrow range since early December. General loans, for example, amounted to \$7077 million on November 27, as compared with \$7090 million on February 26. Over the same interval, total currency in circulation and deposit liabilities of the chartered banks, after rising somewhat at the year's end, registered no net change. (See Table 6.) Government of Canada deposit balances continue near their exceptionally high levels of the recent past, now just under \$900 million.

Table 6. Currency Outside Banks and Chartered Bank Deposits,
November 1963 - February 1964
(million dollars)

	Nov. <u>27</u>	Dec. <u>25</u>	Jan. <u>29</u>	Feb. <u>26</u>
Currency outside banks	1,984	2,087	1,930	1,939
Deposits held by: General Public	13,700	13,762	13,774	13,795
: Government of Canada	<u>946</u>	<u>1,038</u>	<u>990</u>	<u>895</u>
Total	16,630	16,887	16,694	16,629

If recently-announced plans materialize, the Canadian chartered banking system is in for a period of considerable competitive pressure. The Mercantile Bank of Canada, the smallest of the eight existing chartered banks, came under the control of the National City Bank of New York in the course of 1963. Plans have recently been announced that would add three further banks in Western Canada: one, by Laurentide Financial Corporation Ltd., with headquarters in Vancouver, controlled by the former owners of British Columbia and Quebec power utilities; a second, proposed to be controlled by the British Columbia Government; and the third, the Bank of Western Canada, to be headquartered in Winnipeg.

European and British Commonwealth Section.

II. Nine Charts on Financial Markets Abroad

- Chart 1 - International Money Market Yields for U.S. Dollar Investors
- Chart 2 - Interest Arbitrage, United States/Canada
- Chart 3 - Interest Arbitrage, New York/London
- Chart 4 - Interest Arbitrage for German Commercial Banks
- 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

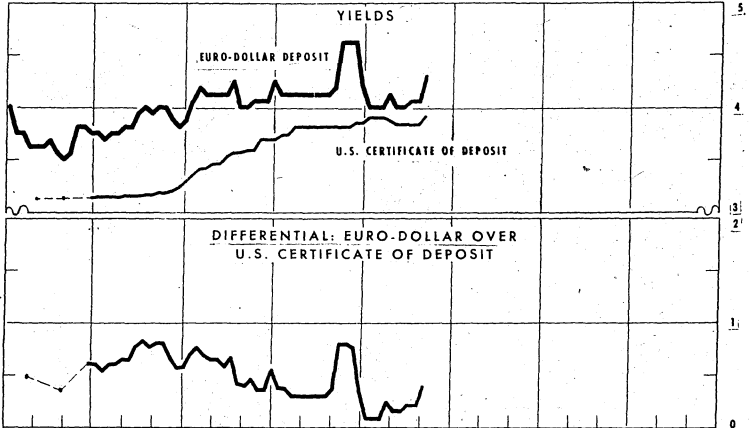
Chart 1

INTERNATIONAL MONEY MARKET YIELDS FOR U.S. DOLLAR INVESTORS

3-MONTH EURO-DOLLAR DEPOSIT VS. CERTIFICATE OF DEPOSIT

Wednesday figures

Per cent per annum



NEW YORK OFFER RATES ON SELECTED 3-MONTH INVESTMENTS

Friday figures

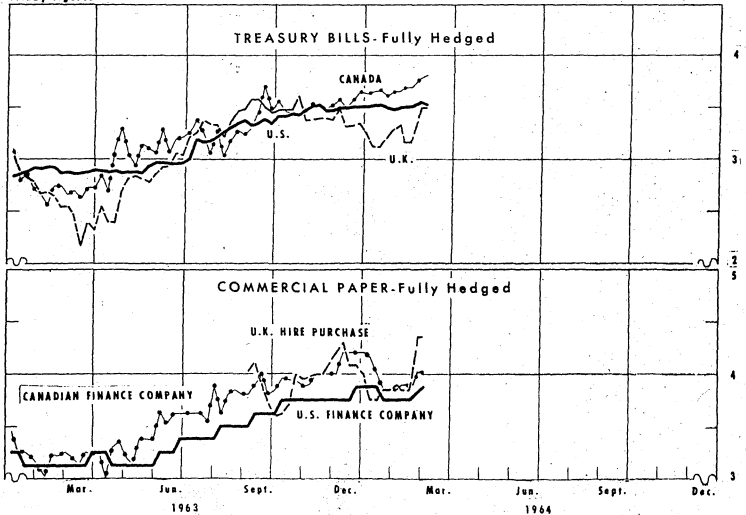


Chart 2

INTEREST ARBITRAGE, UNITED STATES / CANADA

Thursday figures

Per cent per annum

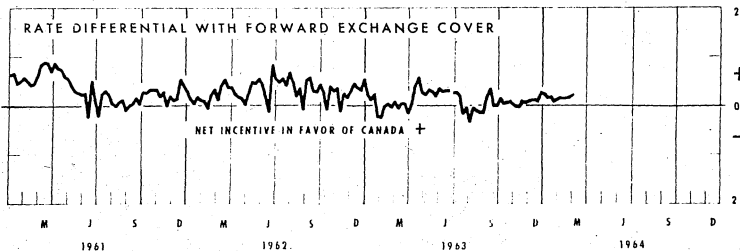
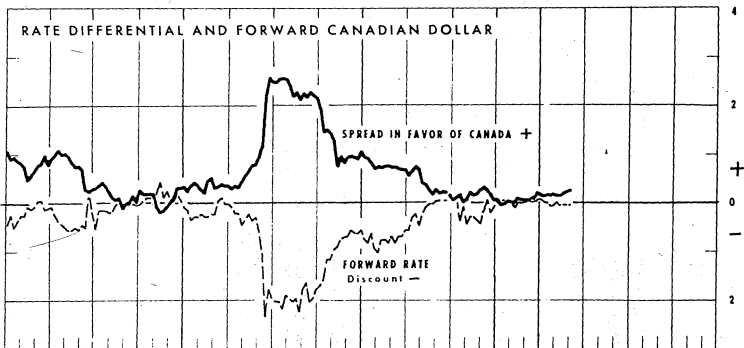
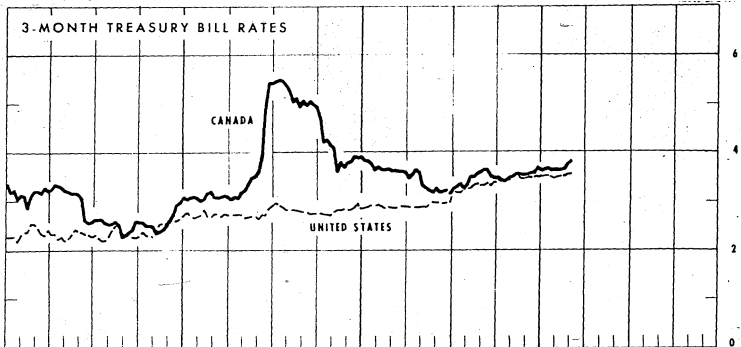


Chart 3
INTEREST ARBITRAGE, NEW YORK/LONDON
Friday figures

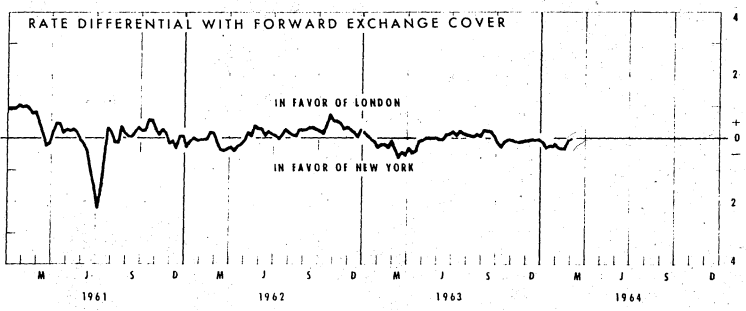
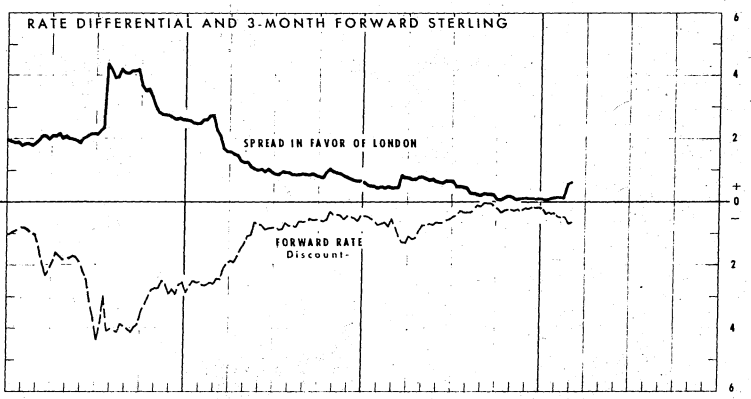
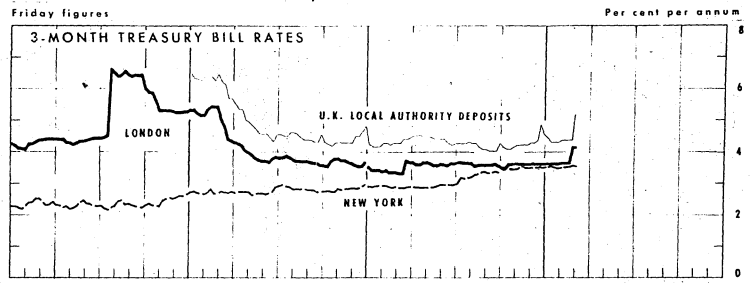


Chart 4

INTEREST ARBITRAGE FOR GERMAN COMMERCIAL BANKS

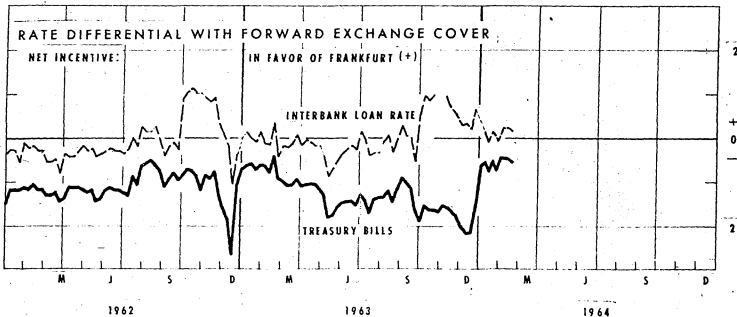
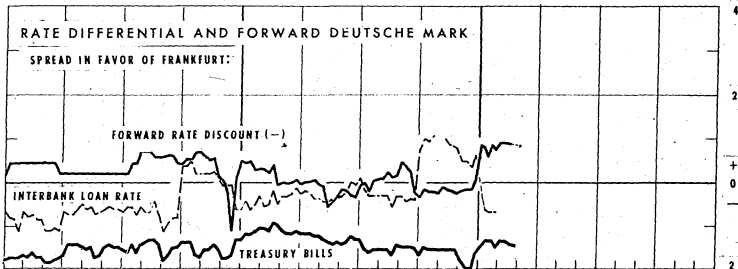
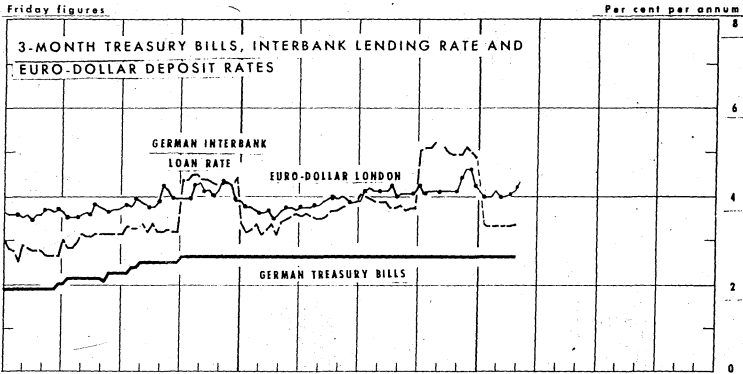
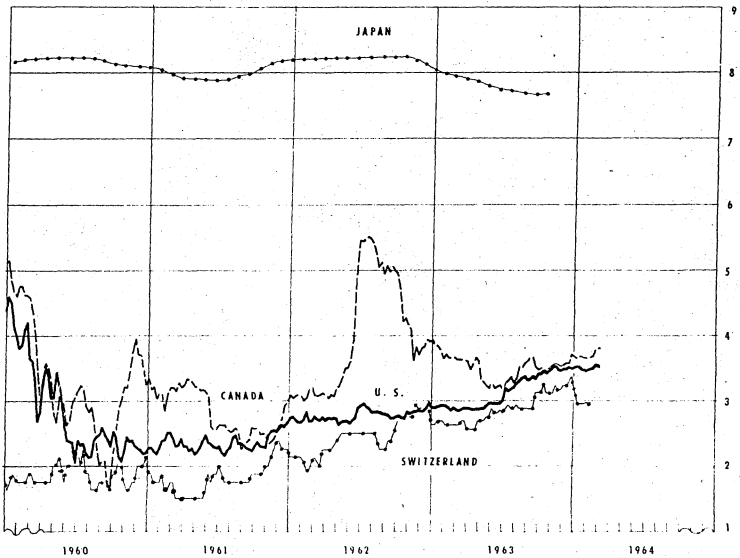
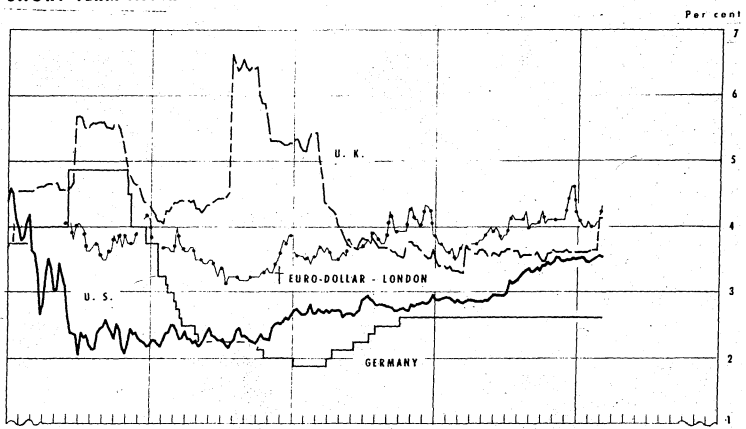


Chart 5
SHORT-TERM INTEREST RATES *



* 3 month treasury bill rates for all countries except Japan. (Japanese rate is bank 3 and 6 month and Switzerland 6 month deposit rates)
 † 3 month rate for U.S. on other deposits in banking

Chart 4

LONG-TERM BOND YIELDS

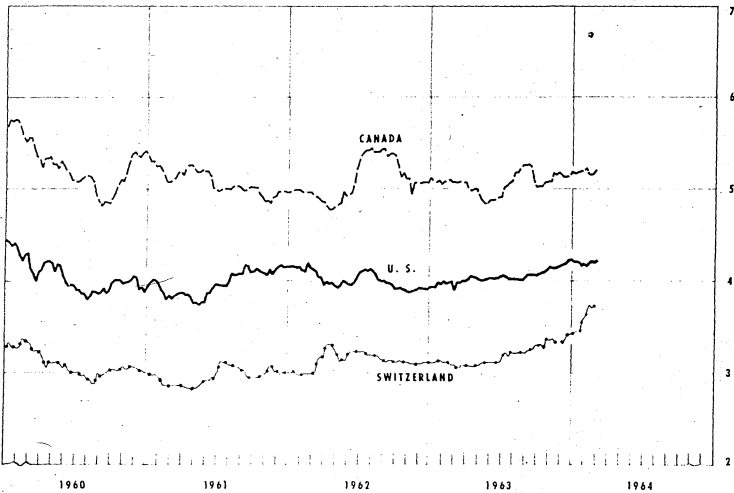
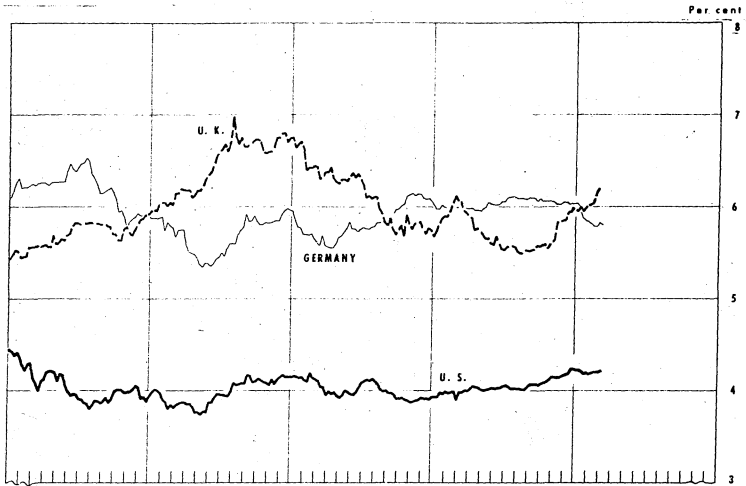
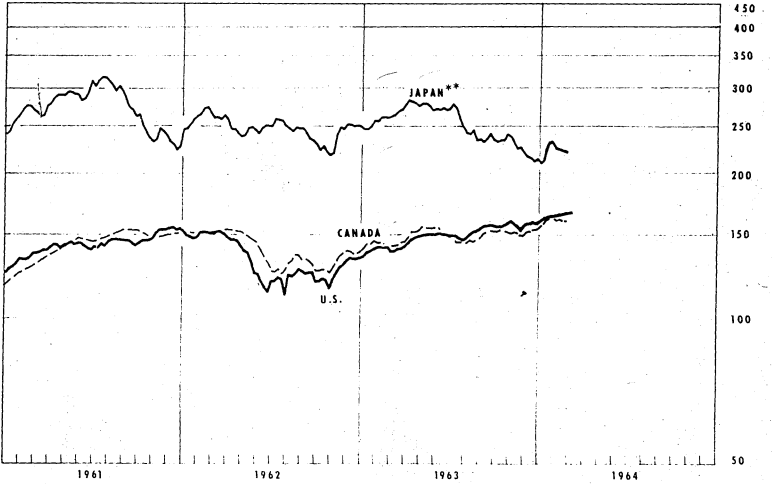
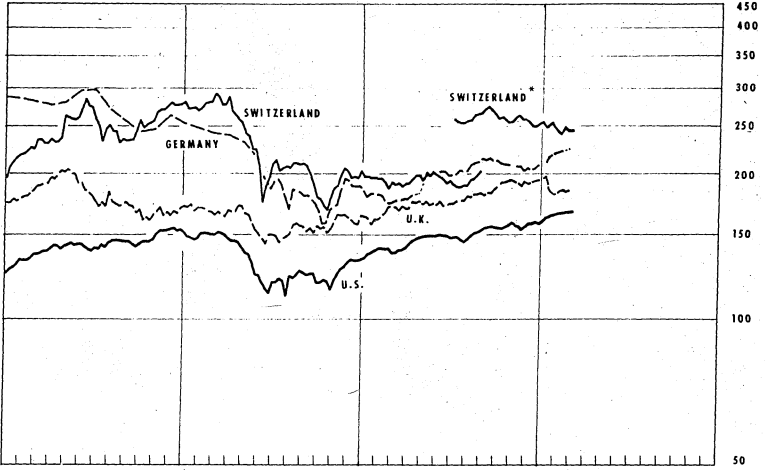


Chart 7

INDUSTRIAL STOCK INDICES

1958=100
Ratio scale



* New series Swiss Bank Corporation industrial stock index.
 ** Japan index of 225 industrial and other stocks traded on the Tokyo exchange.

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

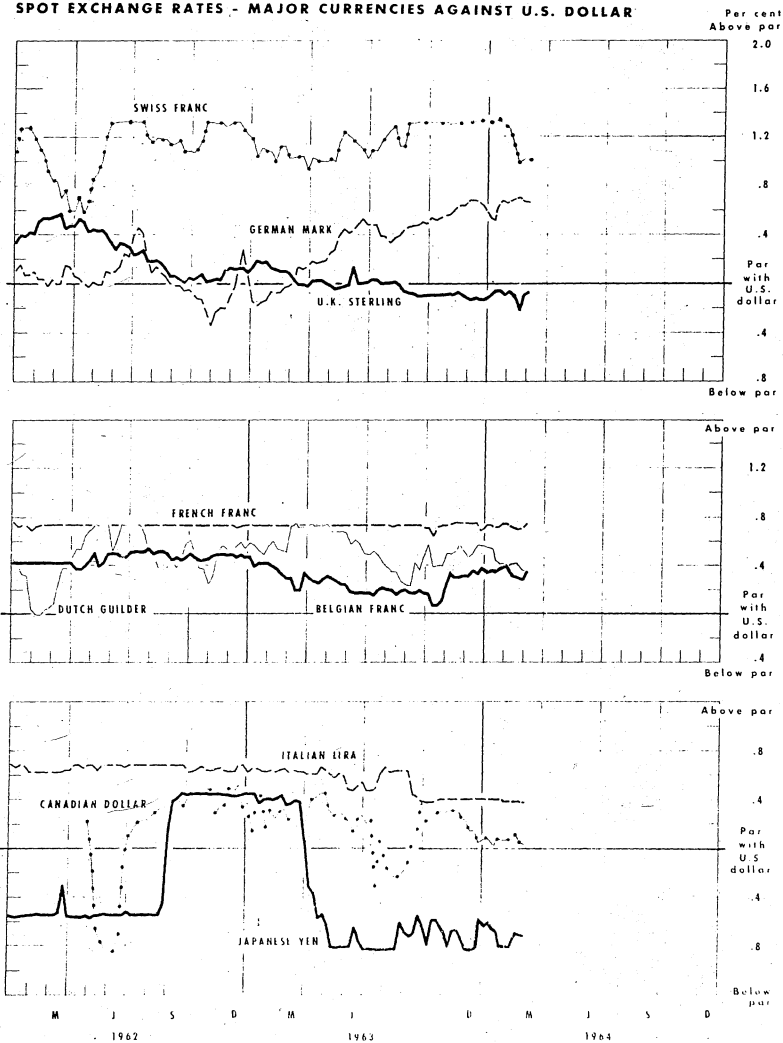
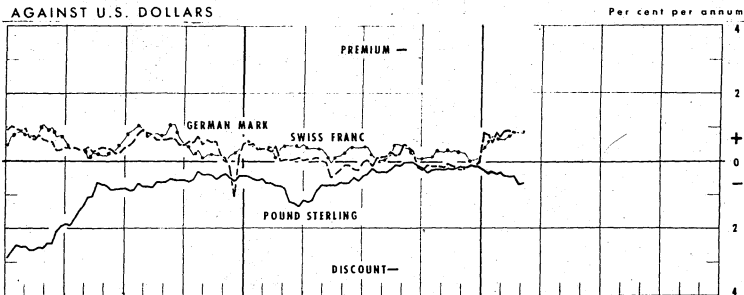


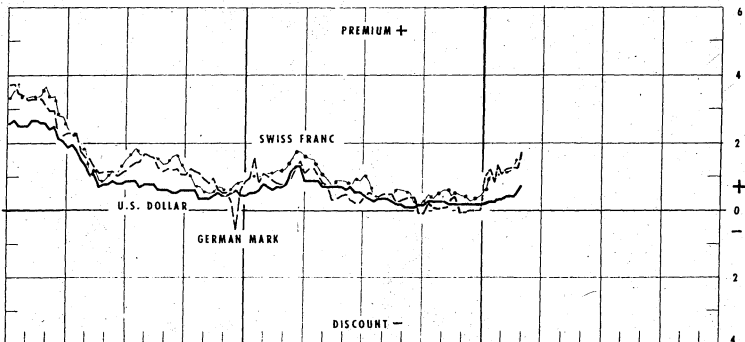
Chart 9
3-MONTH FORWARD EXCHANGE RATE

Friday figures

AGAINST U.S. DOLLARS



AGAINST POUND STERLING - LONDON



AGAINST POUND STERLING - LONDON

