

H. 13
No. 145

April 8, 1964.

CAPITAL MARKET DEVELOPMENTS ABROAD

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

I. United Kingdom: Money and Capital Markets in March, 1964

During March, the pace of activity in British financial markets appears to have slowed down as investors and traders awaited the 1964-65 budget which will be introduced on April 14. In general, adjustments to the February 27 rise in Bank Rate had been completed by early March. During the course of the month, bond yields drifted steadily down especially on long-term and undated issues; on April 3 yields on typical Treasury securities were lower than they had been on February 26, just before the Bank Rate action. (See Table 1.) By contrast, short-term money rates were at a higher level; but the Treasury bill yield rose only about 60 basis points (compared with the 1 per cent rise in Bank Rate) and the arbitrage incentive actually remained fractionally in favor of the U.S. Treasury bill throughout March. (See Table 1.) Stock prices were stable during the month.

Table 1. United Kingdom: Selected Money Market and Bond Yields

	January 24-1964		February 26-1964		March 6-1964		April 3-1964
	24	26	28	6	20	3	
<u>MONEY MARKET</u>							
Bank rate	4.00	4.00	5.00	5.00	5.00	5.00	
Treasury bill (tender)	3.72	--	4.30	4.30	4.30	4.30	
Day-to-day money	3.00	3.75	3.75	4.25	4.12	4.12	
Local authority deposits (3-month)	4.31	--	5.19	5.12	5.12	5.06	
Euro-dollar (3-month), London	4.00	4.06	4.12	4.31	4.25	4.25	
<u>COVERED ARBITRAGE</u> (favor U.K.)							
U.K./U.S. Treasury bills	-.23	-.28	-.09	-.02	-.07	-.11	
<u>STOCK PRICES</u> (April 10, 1962=100) ^{a/}							
	111.6	111.9	111.6	113.6	113.2	113.8	
<u>GOVERNMENT BOND YIELDS</u>							
5% 1967	4.72	5.10	5.18	5.08	5.00	4.95	
5% 1971	5.02	5.30	5.35	5.38	5.31	5.30	
5-1/2% 2008-12	5.92	6.08	6.10	6.05	5.98	5.88	
3-1/2% War Loan	5.98	6.18	6.20	6.12	6.06	5.95	
<u>EXCHANGE RATES</u>							
Spot (U.S. cents)	279.79	279.52	279.77	279.78	279.82	279.88	
3-month Forward discount (in per cent per annum):	-.35	-.40	-.69	-.66	-.71	-.77	

^{a/} Financial Times-Actuaries 500 share index. April 10, 1962=100OFFICIAL USE ONLY
(Decontrolled after six months)

The repercussions of the Bank Rate action began to be seen outside organized financial markets. Most hire-purchase companies are reported to be reviewing their rates and many have already decided to raise the charges on new car financing from 7-1/2 to 8 per cent per annum. The hire-purchase companies appear to have raised their rates on fully-hedged U.S. dollar deposits in search for funds. (See Chart 1.) In the housing field, the building societies have apparently decided to hold mortgage rates firm; earlier there had been an easier tendency in this area.

In the foreign-exchange market, the spot pound climbed from 279.52 U.S. cents on February 26 to 279.77 cents on February 28 and to 279.88 cents on April 3. Official reserves rose \$34 million in March.

Two new U.S. dollar bonds were offered in London during March, one a \$10 million Norwegian hydro-electric power company offering. A strong demand for U.S. dollar securities developed from the Continent between March 23 and 25 (after the proposed German withholding tax on bonds held by non-residents had been announced) and facilitated the private placing of a \$25 million 20-year 5-1/2 per cent Kingdom of Denmark offering.

Money market. Money was seasonally tight throughout March, as tax payments were transferred from the commercial banks to the Treasury. The Bank of England relieved credit shortages by buying Treasury bills, and the discount market was at no time required to borrow from the Bank of England. A very large amount of assistance was required on March 24 and 31, the last two Tuesday's of the month. Day-to-day lending rates remained close to the 4-1/4 per cent maximum, but they eased slightly during the course of the month. (See Table 1.)

Since the Bank Rate action, the Treasury bill average tender rate has remained steady at 4.30 per cent and the market rate for bills has held at 4.16 per cent. (See Table 8 and Chart 3.) The gap of 70 basis points between the Treasury bill tender rate and the Bank rate (5%) is considered a more normal one than the 25-30 point differential which prevailed during the past year.

In the Euro-dollar market, rates remained steady throughout March, with 3-month deposits yielding 4-1/4 per cent. (See Table 8 and Charts 1 and 5.)

Virtually no business was done in the local authority mortgage market in March, in view of the fact that loans would be available from the Public Works Loan Board commencing April 1.

Arbitrage yield spreads between U.S. and U.K. 3-month money market assets changed little during March. (See Chart 1.) The covered Treasury bill differential continued to favor New York by a fractional amount. (See Table 2 and Chart 3.) The uncovered differential is now 64 points in favor of London. Local authority deposits (fully-hedged) have maintained a 16-point advantage over Euro-dollar deposits. The differential of Euro-dollar deposits in London over negotiable certificates of time deposits in New York diminished slightly in March, but it still remains some 10 basis points above the February level.

Table 2. U.S./U.K. Short-term Money Market Yields and Yield Spreads
(in per cent per annum)

	1963		1964							
	Nov.	Jan.	Feb.		March					
	29	31	21	28	6	13	20	26		
<u>TIME DEPOSITS (3-month)</u>										
U.S. dollar:										
N.Y. - Certif. deposit <u>a/b/</u>	3.82	3.88	3.84	3.84	3.91	3.92	3.93	3.95		
London - Euro-\$	4.12	3.94	4.06	4.12	4.31	4.25	4.25	4.25		
Sterling (covered)										
Local authorities	4.12	3.97	4.01	4.53	4.46	4.29	4.41	4.41		
Finance Houses	4.10	3.85	3.85	4.35	4.35	4.35	4.25	4.20		
<u>YIELD SPREADS (Favor U.K.)</u>										
Treasury bills (3-month) <u>c/</u>										
Uncovered	.14	.13	.12	.60	.64	.63	.64	.64		
Covered	-.05	-.18	-.25	-.09	-.02	-.02	-.07	-.07		
Euro-\$ - N.Y. C/D <u>a/</u>	.30	.24	.22	.22	.40	.32	.32	.30		
Euro-\$ - Local Authority (covered)	--	.13	-.11	.22	.15	.06	.16	.16		

a/ Previous Wednesdays.

b/ Secondary market offering rates for negotiable time certificates of deposits.

c/ U.S. and U.K. bill rates are shown in Table 8. See also Chart 3.

In the local authorities market, the demand for short-term funds was strong throughout March to meet end-year requirements. Ample supplies were available during the first half of the month from both domestic and foreign sources; towards the end of the month, however, money became relatively scarce as the inflow of funds from abroad ceased. The yield on three-month deposits was steady for most of the month at 5.12 per cent. (See Table 8 and Chart 3.)

The City of Manchester offered on March 11 a second one-year bond, carrying a 5 per cent coupon and sold at par. This issue, like its predecessor of February 26, has a maturity of one day more than the loans controlled under the new arrangements which went into effect on April 1. Both the Treasury and the Bank of England expressed displeasure with the one-year bonds; the Bank stated that it would not accept them as collateral for loans to the discount market, but most of the joint-stock banks have agreed to accept them as collateral on their own money loans to the discount market. Therefore, Manchester was able to distribute this new loan to all the discount houses, and not limit placement to only one or two as with the first issue.

Bond Market. The government securities market was generally quiet throughout the month, mainly because of uncertainties about the forthcoming budget and the impending election. However, after the middle of the month, bond prices generally rose. By the end of March, yields fell to levels slightly below those prevailing in mid-February. (See Table 9 and Chart 6.) The recovery was strongest in the long-term and undated issues.

The first large purchases have been reported of the long-term tap issue placed February (the 5-1/4 per cent 1978-80 Bond). In the week ending March 20, institutional buyers made heavy purchases, mainly switching out of the 5-1/2 per cent 1982-84 issue.

New issues in March were very substantial, although not as large as in January (see Table 3); but the value of new issues in the first quarter was two thirds larger than the value of new issues in the comparable period of 1963.

Table 3. United Kingdom: Capital Issues and Redemptions
(in millions of pounds)

	1962	1963	Jan.-March		Jan.	Feb.	March
			1963	1964			
U.K. borrowers 1/							
Public companies	432.1	429.4	108.7	177.2	68.2	45.3	63.7
Local authorities	135.6	92.5	19.9	16.1	8.9	- .7	7.9
Overseas borrowers							
Commonwealth	8.2	15.8	10.0	27.9	{ 6.0 6.1 }	11.7	4.1
Other countries	-10.0	0.7	- 7.2				
Total	565.9	538.4	131.4	221.2	89.2	56.3	75.7
of which							
Gross issues	(631.6)	(646.9)	(150.4)	(249.9)	(100.4)	(60.9)	(88.6)
Gross redemptions	(65.7)	(108.5)	(19.0)	(28.7)	(11.2)	(4.6)	(2.9)

1/ Excluding government securities.

A major feature of new issues in March was the appearance of the Newcastle-upon-Tyne's £10 million 5-1/2 per cent 1975-77 bond on March 25. Somewhat to the surprise of the market, over 70 per cent of the issue was left with the underwriters. This was the first new local authority bond since difficulties were encountered in placing the London County Council's £10 million issue in January. The only overseas issue in March was a £1.5 million 6-1/2 per cent Barbados Government 1975-77 bond which offered a 7.10 per cent gross redemption yield shortly after trading began. The major industrial new issues in March were stock and bond flotations by English Electric, amounting to about £16 million.

Two new dollar-denominated security issues were floated in London in March. On March 24, dealings began in a \$10 million 6 per cent 1974-84

First Mortgage Loan of Aktieselskabet Tyssefaldene, a Norwegian hydro-electric power company. This is the first dollar bond issue to be floated in London by an industrial company without any connection with a governmental unit. The Taisho Marine and Fire Insurance Company (Japan) offered \$2 million of Common stock on March 26 in 10 share unites at 50 yen per share. While this is the equivalent of 17s 6d (\$2.45) per unit, they were made available in U.S. dollars at \$2.20, a discount of 10 per cent. Taisho, therefore, absorbed the investment dollar premium instead of the U.K. investor.

Between March 23 and March 25, there was a strong Continental demand for dollar loans in London following the proposal in Germany of a 25 per cent withholding tax on the yield on fixed interest bonds held by non-residents. This is said to have made possible the completion of private placings for \$25 million Kingdom of Denmark 5-1/2 per cent 20-year dollar bonds. The details of this issue are to be announced in April. A \$20 million issue for the City of Tokyo is expected in the latter part of April.

Stock Market. The stock market was restrained by the prospect that the new budget might increase taxes on corporate profits or might attempt to slow down the growth of personal consumption expenditures. The statement by Chancellor of the Exchequer Maudling early in March that there is a need for "substantially increased sums from the taxpayers" brought a perceptible dip in stock prices. (See Table 9 and Chart 7.) The market recovered in mid-March following the news of widespread increases in corporate profits, but at the end of the month the market once again was dull--partly because of the budget being so near at hand, but also because of labor unrest, political uncertainties and absorption of a considerable volume of new issues.

London Clearing Banks. Bank advances, seasonally adjusted, increased by about \$15 million in the month ending March 18, which was well below the extraordinarily large \$65 million in the previous month. (See Table 4.) Deposits, which normally fall this time of the year with the payment of end-fiscal year tax payments, rose in March by \$15 million. This reflects the expansion of credit to finance the current growth in production. The banks disposed of \$32 million of government bonds and \$59 million of Treasury bills and call loans to the discount houses.

Half of the expansion in bank advances during the three-months from mid-November through mid-February in this period was in consumer credit. It is believed that the commercial banks' loans for financing personal consumption have grown more rapidly than installment credit advanced by finance companies and department stores. Advances to manufacturing industries increased little more than seasonally in this period, mainly because companies raised substantial sums through new securities issues.

Foreign Trade. In February the trade balance recovered to the December level. (See Table 5.) The main feature continues to be the high level of fuel and industrial materials imports, which apparently are accompanying the current growth of inventories. At the same time, imports of finished manufactures in the months of December through February rose well above the levels sustained in the last nine months of 1963. Half of the growth in finished manufactures imports is accounted for by machinery.

Table 4. United Kingdom: London Clearing Banks' Net Deposits and Selected Assets
(In millions of pounds)

	Changes: ^{a/}						Outstanding March 18, 1964
	1963			1964			
	Oct.	Nov.	Dec.	Jan.	Feb.	March	
NET DEPOSITS	+107	+49	+65	+128	-247	+15	7,617
SELECTED ASSETS							
Claims on the Public Sector							
Government bonds	+21	+25	+ 4	+11	- 64	-32	1,079
Treasury bills and loans to the Discount Market	+37	+28	+30	+70	-313	-59	1,217
Loans to nationalized industries	+19	- 7	- 5	+ 8	+ 6	-10	68
Total	+77	+46	+29	+89	-371	-101	2,364
Claims on the Private Sector							
Advances (net)	- 2	+14	+ 5	+39	+154	+57	4,148
Other ^{b/}	- 7	--	+ 2	+12	- 7	+46	684
Total	- 9	+14	+ 7	+51	+147	+103	4,832
SEASONALLY ADJUSTED							
Advances (net)	+23	+39	+30	+14	+ 65	+15	
Deposits (net)	+72	+84	+ 5	+33	+ 13	+50	
LIQUIDITY RATIO	32.3	32.2	32.7	33.0	29.9	29.7	

a/ To the third Wednesday of the month, except in December when the change is to the second Wednesday.

b/ Includes commercial bills, call loans other than to the discount market, and other investments.

c/ Estimate.

The current trend in exports is difficult to assess in that the January export figures do not reflect a full month's trade, owing to a change in the procedures of compilation. (Exporters were given more time to file exchange control documents relating to exports to non-sterling countries.) Therefore, comparisons of the December through February figures with previous periods tend to understate the rate of growth.

Foreign-exchange market. The spot rate rose from 279.78 cents per pound on March 13 to 279.88 cents per pound on April 3, reflecting the strengthening of sterling in the latter part of the month. (See Table 8 and Chart 8.) Uncertainty, however, has led to a ten-point widening of the 3-month forward discount between early March and early April. (See Table 8 and Chart 9.) The investment dollar premium fluctuated between 11 and 12 per cent during March.

Table 5. United Kingdom: Foreign Trade
(Millions of pounds; seasonally adjusted; monthly averages)

	1963						1964			
	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.	Sept. Nov.	Dec. Feb.	Nov.	Dec.	Jan.	Feb.
Imports, c.i.f.										
Food, beverages, and tobacco	126	141	148	143	143	151	147	145	157	151
Fuels and industrial materials	195	200	209	220	215	233	216	235	233	231
Finished manufactures and other	53	56	57	59	57	67	58	63	67	68
Total a/	375	395	412	422	416	450	422	442	457	450
Exports, f.o.b.	327	335	346	348	344	352	342	362	326	369
Re-exports, f.o.b.	12	13	13	13	13	12	14	12	11	12
Trade balance, customs returns	-36	-47	-53	-61	-59	-86	-66	-68	-120	-69
Trade balance, balance of payments basis b/	+ 7	- 2	- 9	-12	-12	-33	-19	-13	-72	-12

a/ Details may not add to totals due to rounding.

b/ Customs returns adjusted for valuation and coverage, mainly revaluing imports from a c.i.f. to an f.o.b. basis. Fourth quarter and 1964 figures are preliminary and are subject to substantial revisions.

Gold and foreign exchange reserves. In spite of the deterioration of the trade balance, reserves rose by \$34 million in March to \$2,660.0 million. (See Table 6.) In the first quarter of 1964 as a whole, reserves inched up by \$3 million.

Bullion Market. Heavy gold purchases took place during the first week in March owing to the political uncertainties surrounding the Cyprus crisis. The fixing price accordingly, rose from \$35.080 per fine ounce on February 28 to \$35.096 per fine ounce on March 6. (See Table 7.) During the remainder of the month, the London gold market was dominated by Russian gold sales. Large-scale transactions were reported between March 6 and March 19 and again at the end of the month. The fixing price fell to \$35.060 per fine ounce on March 20.

Table 6. United Kingdom: Reserve Position
(in millions of U.S. dollars)

	Changes:						Outstanding March 31, 1964
	1963			1964			
	Year	4th Qtr.	1st Qtr.	Jan.	Feb.	March	
A. Gold and convertible currencies	-149	-78	+ 3	+17	-48	+34	2,660.0
Less: Central bank loans	a/ --	--	--	--	--	--	
Less: U.S. opns. in sterling b/	+ 33	--	n.a.	--	--	n.a.	
Adjusted Reserves	-182	-78	n.a.	+17	-48	n.a.	
B. Drawing rights on IMF	- 13	--	n.a.	--	+ 3	n.a.	c/ 2,442.0
Total	-195	-78	n.a.	+17	-45	n.a.	5,102.0

a/ Covers \$250 million assistance received in February and March and repaid in June.

b/ As published in the Federal Reserve Bulletin, September 1963, and March 1964.

c/ As of February 29, 1964.

Table 7. London Fixing Price for Gold
(in U.S. dollars per fine ounce)

January 17	35.087	February 14	35.076	March 13	35.077
24	35.084	20	35.079	20	35.060
31	35.078	28	35.080	26	35.081
February 7	35.078	March 6	35.096	April 3	35.082

Europe and British Commonwealth Section.

Table 8. United Kingdom: Treasury Bill Yields and Exchange Rates

	<u>3-mo. Treasury bill arbitrage calculation</u>					<u>Spot pound (U.S. cents) ^{a/}</u>	<u>London deposit rates</u>		
	<u>U.K.</u>	<u>U.S.</u>	<u>Differ- ence</u>	<u>3-mo. pound</u>	<u>In favor U.K. bill</u>		<u>U.S. dollar (3-mo.)</u>	<u>Local authority</u>	
1963									
High	3.58	3.32	.26	-.03	+.23	280.59	4.62	4.88	
Low	3.31	2.85	.46	-1.08	-.62	279.59	3.56	4.06	
1964									
Jan.	3	3.61	3.51	.10	-.24	-.14	279.73	4.12	4.44
10		3.61	3.52	.09	-.35	-.26	279.87	4.00	4.31
17		3.61	3.52	.09	-.31	-.22	279.87	4.00	4.31
24		3.61	3.49	.12	-.35	-.23	279.79	4.00	4.31
31		3.61	3.48	.13	-.31	-.18	279.77	4.12	4.38
Feb.	7	3.64	3.49	.15	-.44	-.29	279.78	4.00	4.38
14		3.64	3.50	.14	-.45	-.31	279.74	4.00	4.38
21		3.64	3.52	.12	-.37	-.25	279.43	4.06	4.38
28		4.16	3.56	.60	-.69	-.09	279.77	4.12	5.19
March	6	4.16	3.52	.64	-.66	-.02	279.78	4.31	5.12
13		4.16	3.53	.63	-.65	-.02	279.78	4.25	5.00
20		4.16	3.52	.64	-.71	-.07	279.82	4.25	5.12
26		4.16	3.52	.64	-.71	-.07	279.81	4.25	5.12
April	3	4.16	3.50	.66	-.77	-.11	279.88	4.25	5.06

^{a/} Certified N.Y. noon buying rate.

Table 9. United Kingdom: Selected Capital Market Yields

	<u>U.K. Government bond yields</u>					<u>Share yield ^{a/}</u>	<u>Yield gap ^{b/}</u>	<u>Share prices ^{a/}</u>	
	<u>5%</u>	<u>3%</u>	<u>5-1/2%</u>	<u>3-1/2%</u>	<u>2-1/2%</u>				
	<u>1967</u>	<u>1965-75</u>	<u>2008-12</u>	<u>War Loan</u>	<u>Consols</u>				
1963									
High	5.02	5.44	6.00	6.12	5.98	5.06	--	117.2	
Low	4.38	4.76	5.45	5.68	5.39	4.13	--	95.6	
1964									
Jan.	2	4.72	5.28	5.88	5.95	5.77	4.15	1.62	117.5
9		4.75	5.30	5.88	6.00	5.86	4.23	1.63	116.2
16		4.70	5.22	5.93	5.96	5.81	4.35	1.46	113.4
23		4.72	5.22	5.90	5.99	5.85	4.37	1.48	112.3
30		4.70	5.26	5.93	6.00	5.86	4.43	1.43	110.3
Feb.	6	4.75	5.13	5.92	6.03	5.88	4.46	1.42	109.2
13		4.75	5.29	5.95	6.05	5.91	4.39	1.52	111.0
20		4.88	5.41	6.05	6.18	6.02	4.45	1.57	110.4
27		5.15	5.51	6.10	6.21	6.08	4.42	1.66	111.4
March	5	5.08	5.52	6.05	6.15	5.97	4.35	1.62	113.2
12		5.08	5.50	6.00	6.10	5.95	4.34	1.61	113.8
19		5.00	5.47	5.98	6.06	5.92	4.37	1.55	113.7
25		4.97	5.43	5.95	6.05	5.90	4.38	1.52	113.3
April	2	4.94	5.43	5.88	5.95	5.83	4.29	1.54	113.6

^{a/} Financial Times--Actuaries 500 Share Index (April 10, 1962=100). Share prices are wkly. avgs.
^{b/} Difference between yield on 2-1/2 per cent Consols and share yield.

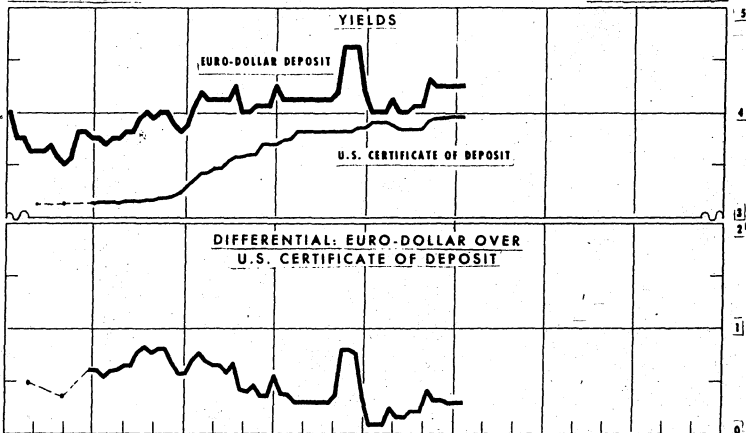
Chart 1

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

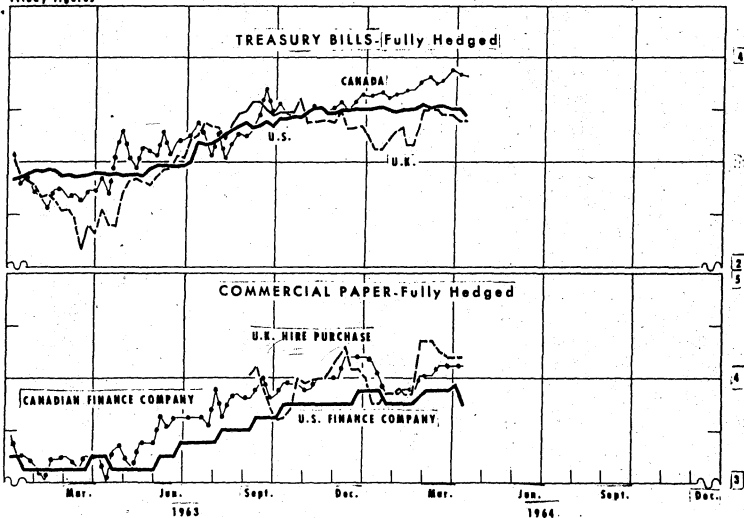


Chart 2

INTEREST ARBITRAGE, UNITED STATES / CANADA

Thursday figures

Per cent per annum

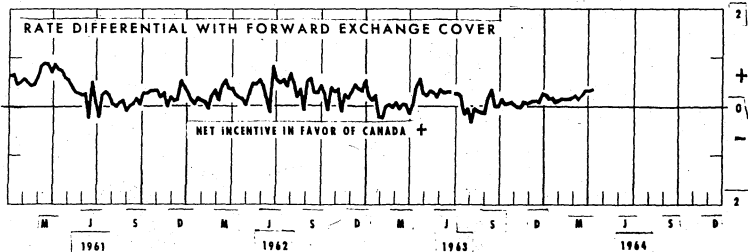
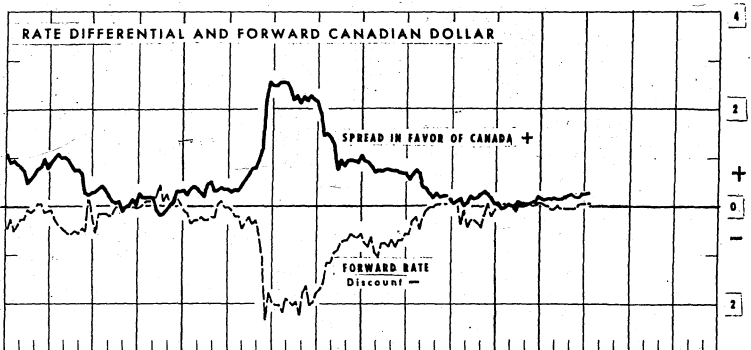
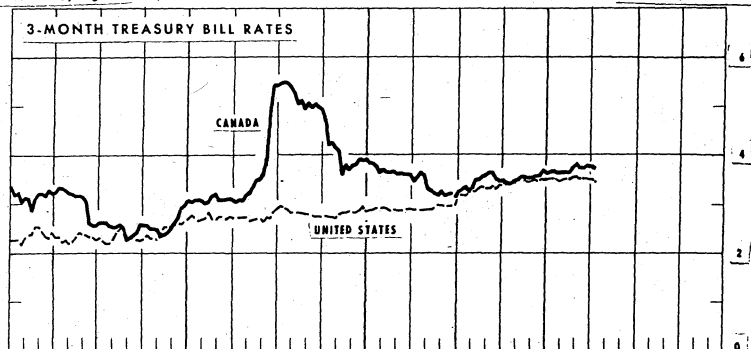


Chart 3

INTEREST ARBITRAGE, NEW YORK/LONDON

Friday figures

Per cent per annum

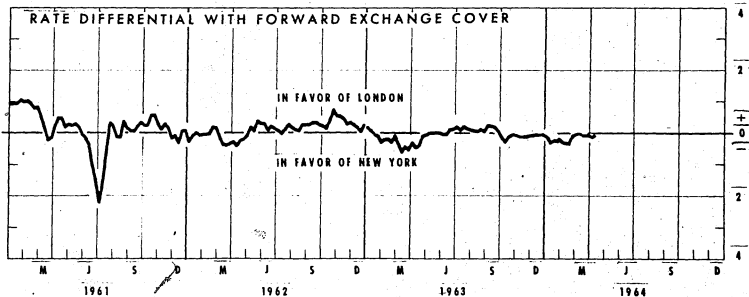
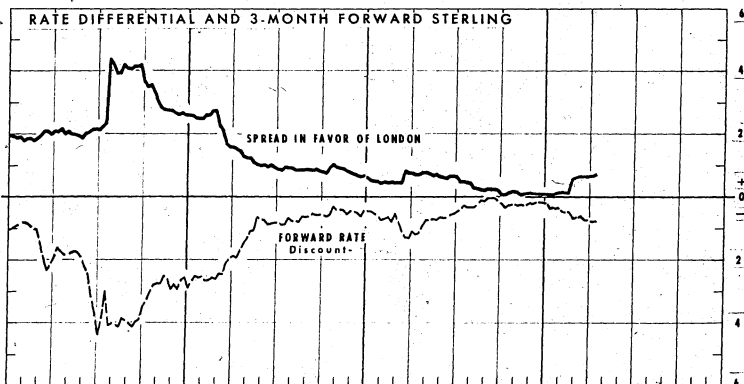
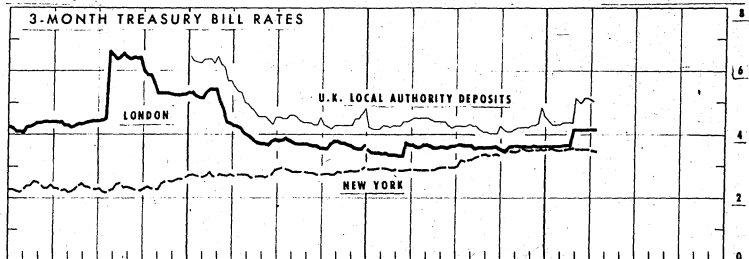


Chart 4

INTEREST ARBITRAGE FOR GERMAN COMMERCIAL BANKS

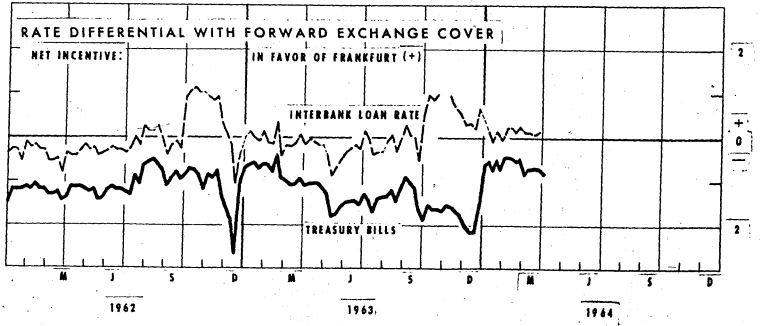
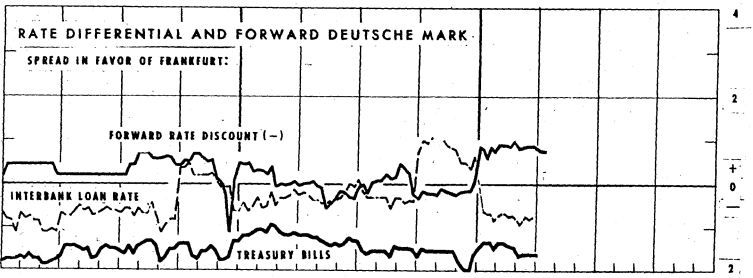
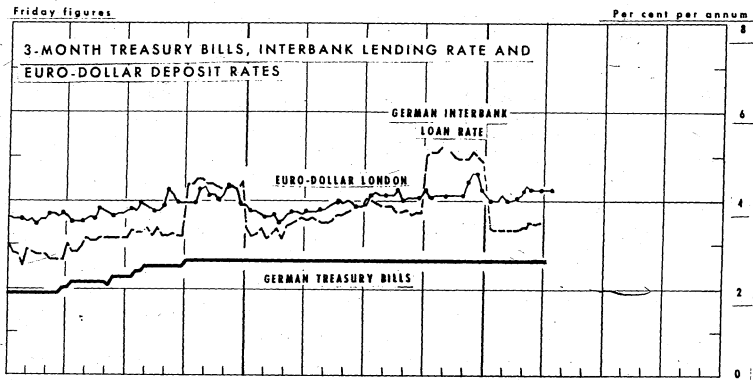
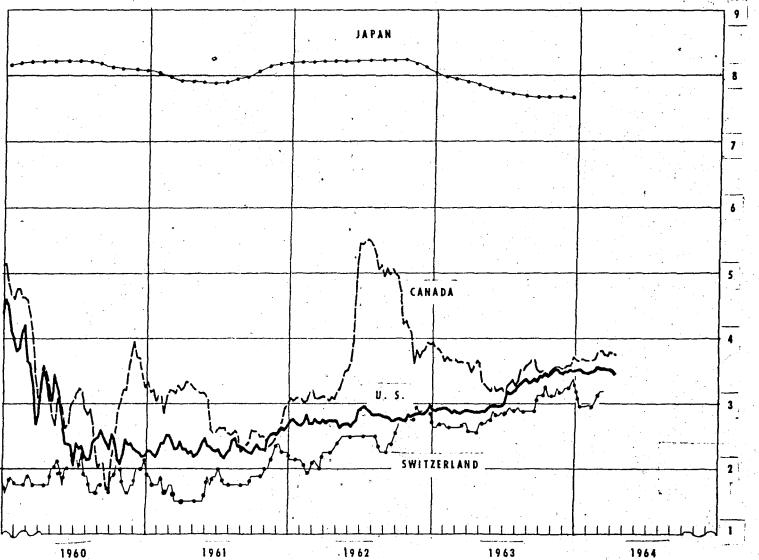
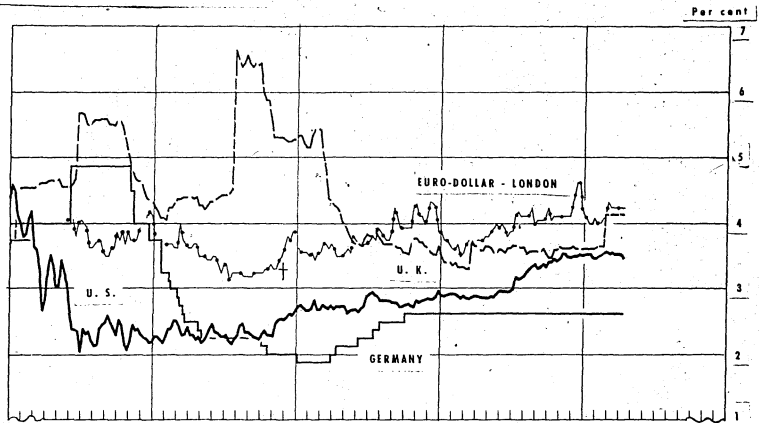


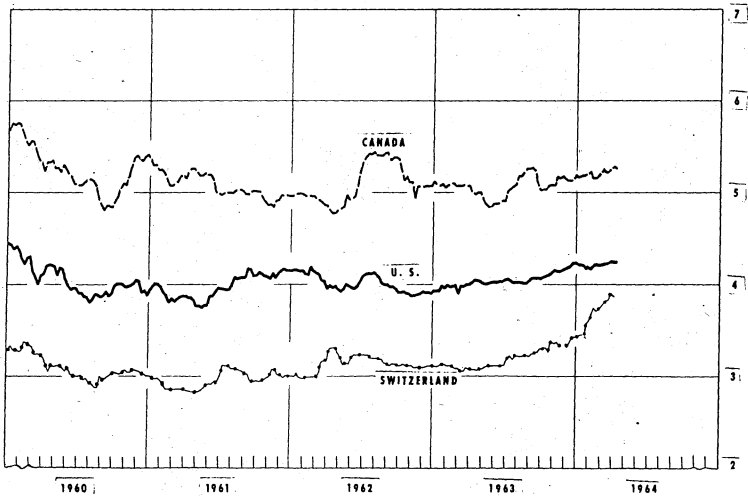
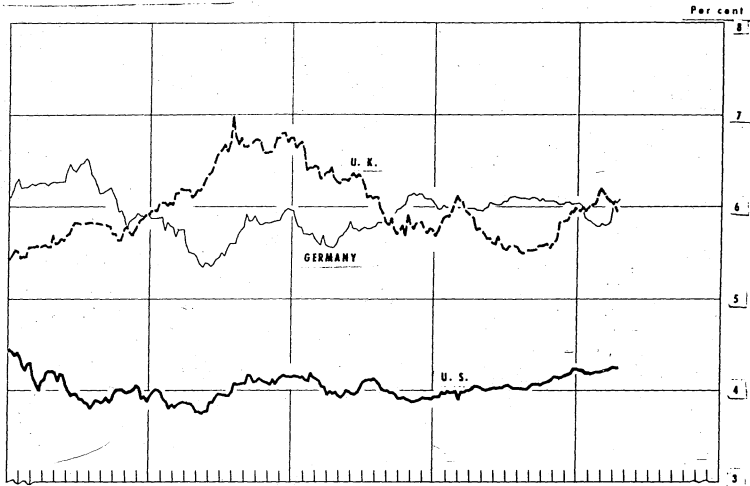
Chart 5
SHORT-TERM INTEREST RATES *



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

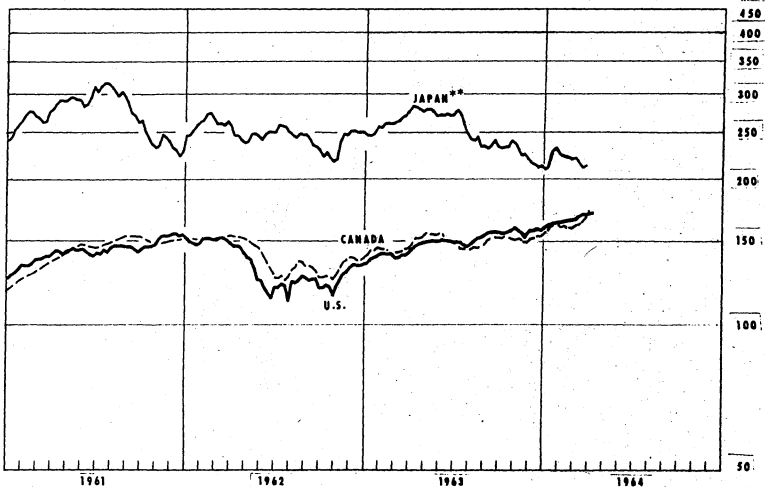
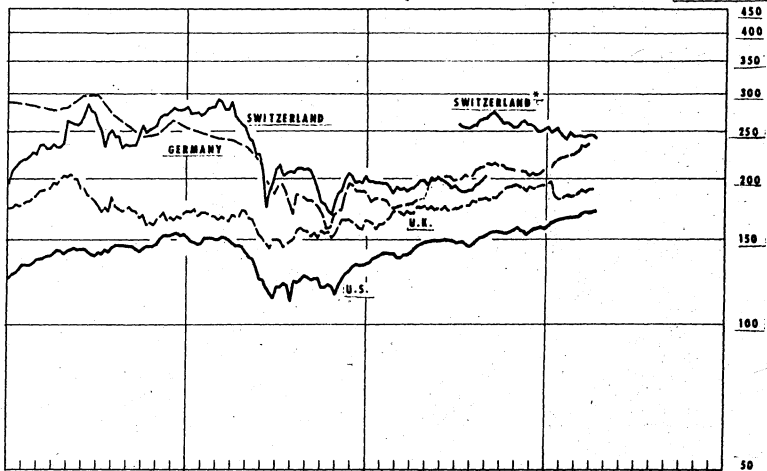
Chart 6

LONG-TERM BOND YIELDS



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.

Chart 8

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

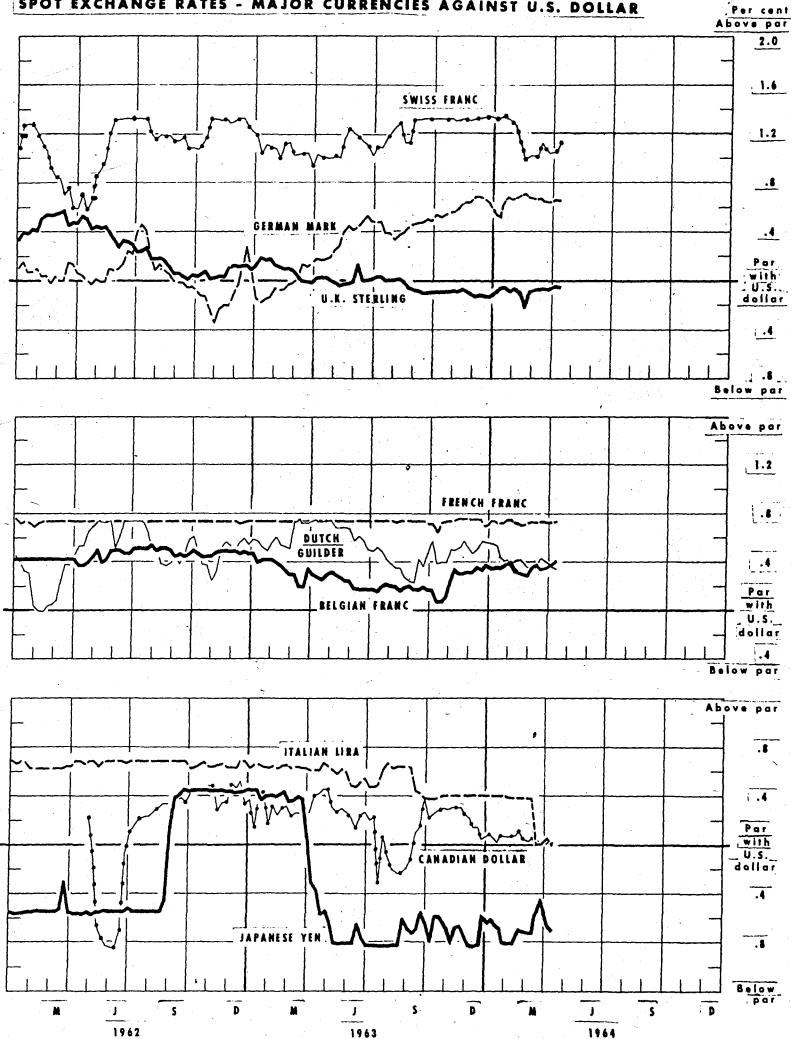


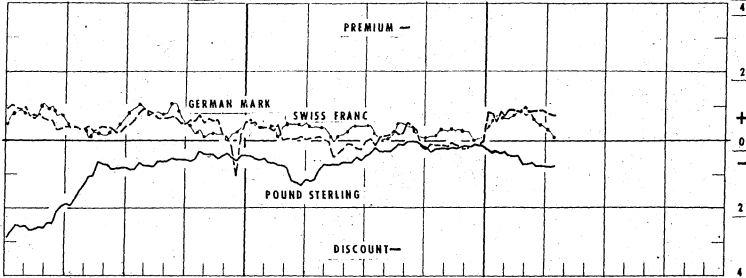
Chart 9

3-MONTH FORWARD EXCHANGE RATE

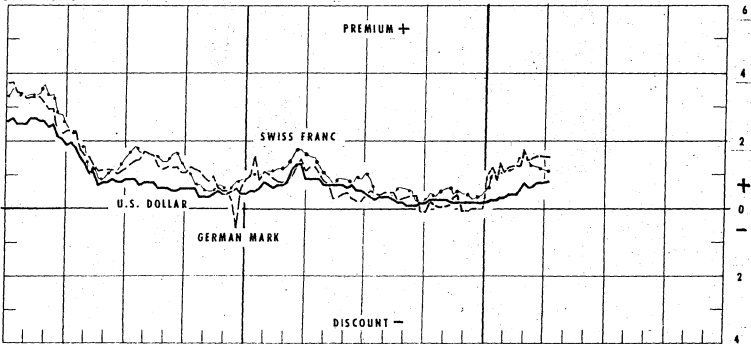
Friday figures

AGAINST U.S. DOLLARS

Per cent per annum



AGAINST POUND STERLING - LONDON



AGAINST POUND STERLING - LONDON

