

H. 13

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CAPITAL MARKET DEVELOPMENTS ABROADCanada: Money and Capital Markets During March

April 3, 1961

During March bill yields remained at end of February levels but interest rates on short-term bonds moved up sharply following a new Government of Canada short-term issue. Yields on longer maturity bonds moved up more slowly. Yields on all Government securities were considerably above the lows of mid-February. Foreign interest in Canadian Treasury bills picked up as Canadian and U.S. bill yields continued to diverge and the spread favoring the Canadian bill reached about 1.0 per cent on March 23. Stock prices continued to rise through the month and trading activity on the Canadian exchanges increased.

A new \$275 million short-term Government of Canada issue tended to dominate the capital market during March. The chartered banks bought sizeable amounts but public interest was lacking. A substantial increase in Treasury cash needs in 1961-62 is now expected. During March, the money supply increased further.

Money market. After declining sharply from early December to mid-February and then recovering in late February, Canadian short-term interest rates were unchanged in March. The average yield on the 3-month Treasury bill on March 23, was 3.28 per cent, only 7 basis points above the 3.21 per cent level of March 3, but 42 basis points above the 2.86 per cent of February 16. The average yield on the 6-month bill was 3.44 per cent at end-March compared with 3.43 per cent early in the month and 3.15 per cent in mid-February. Recent changes in yields (in per cent per annum) were:

	3-months bill	Change during period	6-months bill	Change during period
Dec. 1	3.95	--	4.07	--
Feb. 16	2.86	-1.09	3.15	-0.92
Mar. 2	3.21	0.35	3.43	0.28
Mar. 23	3.28	0.07	3.44	0.01

The chartered banks sold \$36 million of bills to improve their liquidity during the first 22 days of March, and the public bought \$30 million (see Table). The major part of this shift took place late in March when the chartered banks improved their cash ratio from the 8.0 per cent minimum to 8.1 per cent on March 23. The Bank of Canada holdings declined \$47 million, mostly during the week of March 16 when outstanding Treasury bills were reduced by \$50 million.

The spread of the Canadian 3-month bill over the U.S. bill widened throughout March and was at 0.7% on March 30 (see Table). With fluctuations in the forward Canadian dollar rate, the net incentive in favor of the Canadian bill was around 0.84 to 0.89 per cent during most of the month (see Table). Changes in the net incentive since early October (in per cent per annum) are:

	<u>Spread over U.S.</u>	<u>Forward exchange discount (-), premium (+) as per cent per annum</u>	<u>Net incentive on covered basis</u>
Dec. 1	+1.62	-0.43	+1.19
Jan. 5	+1.07	-0.44	+0.63
Feb. 2	+0.82	-0.25	+0.57
Feb. 16	+0.48	-0.06	+0.42
Mar. 2	+0.67	-0.06	+0.61
Mar. 23	+0.99	-0.12	+0.87

The Canadian press reports substantial foreign interest in Treasury bills at these yields.

Bond market. Yields rose in the bond market in March, especially in the short and intermediate maturities. This was the sector of the market affected by the \$275 million short-term Canadian Government offering in early March. At March 23, the level of yields was comparable with yields in mid-January, as the following table shows (in per cent per annum):

<u>Maturity</u>	<u>Dec. 1</u>	<u>Jan. 12</u>	<u>Feb. 23</u>	<u>Mar. 23</u>	<u>Change during last period</u>
Oct. 1962	3.81	3.60	3.07	3.64	+0.57
Sept. 1965	4.74	4.67	4.47	4.79	+0.32
Jan. 1975-78	5.40	5.29	5.07	5.18	+0.11
Sept. 1983	5.47	5.28	5.09	5.28	+0.19

The spread between yields on comparable Canadian and United States securities widened somewhat during the month, especially in the shorter maturities. Changes in spreads between comparable Canadian and United States securities (in per cent) were as follows :

	<u>Feb. 23</u>	<u>Mar. 23</u>	<u>Change during period</u>
91-day bill	0.57	0.99	+0.42
182-day bill	0.65	0.96	+0.31
8-year bond	0.95	0.98	+0.03
20-year bond	1.30	1.36	+0.06
35-year bond	1.50	1.45	-0.05

Substantial shifts in the Bank of Canada's portfolio occurred in March, probably in connection with the Treasury offering. Its bond holdings rose by \$120 million, \$42 million in under-2-year and \$78 million in over-2-year maturities. Chartered bank holdings increased by \$50 million in March but the general public holdings by only \$6 million.

Ames and Co. estimates of new issues of securities show an increase in March of offerings of the Government of Canada and municipal securities but declines in those of provinces and corporations. New issues (in millions of Canadian dollars) were:

	<u>Jan. 1-30</u>	<u>Feb. 1-27</u>	<u>Feb. 27- Mar. 20</u>
1. <u>Government of Canada:</u>			
Direct	630	470	635
Guaranteed	0	0	0
Total	<u>630</u>	<u>470</u>	<u>635</u>
Less short-term	480	480	360
Long-term issues	<u>150</u>	<u>-10</u>	<u>275</u>
2. <u>Other issues:</u>			
Provincial-direct	65	20	0
-guaranteed	51	100	6
Municipal	20	14	67
Corporation	23	47	29
Total	<u>159</u>	<u>181</u>	<u>102</u>
3. <u>Net long-term issues</u>	<u>309</u>	<u>171</u>	<u>377</u>

Sales of \$6 million in the United States market was reported.

The new \$275 million Canadian Government issue in early March consisted of two maturities; \$175 million of 3-1/2 per cent noncallable bonds due December 15, 1962, priced at 99.40 to yield 3.86 per cent, and \$100 of 4 per cent noncallable bonds due May 1, 1964, priced at 98.75, to yield 4.43 per cent to maturity. About \$75 million of the total went to the market. The Bank of Canada agreed beforehand to take \$175 million of the new issue on an exchange for 1961 bonds and 1-year Treasury bills. In addition, the Bank stood ready to purchase \$25 million of the \$100 million which was offered for cash. According to the press, the Bank did purchase \$25 million.

The new issue is a further step in the debt-management policy, announced in the latter part of 1960, of more frequent and shorter-term offerings. The Government stated that further refunding will be announced in April for the \$300 million maturity of May 1, 1961.

Major non-Government offerings in March included:

	Amount mill. of Can. \$'s	Coupon (per cent)	Maturity	Price
Province of Saskatchewan	10.0	5-1/2	1981	99.186
Catholic School Comm.	2.7	5-1/4 - 5-1/2	(1962-71 1972-81)	97.675
Montreal Catholic School Comm.	10.5	5-1/2	1971 & 1981	100 & 97.05
City of Lachine	3.5	(5-1/4 5-3/4)	1962-71 1972-81	99.079 99.079
Municipality of Toronto	34.0	5-1/4 - 5-1/2	10-30 yrs.	
City of Winnipeg	3.5	5-1/2 - 5-3/4	10-20 yrs.	99.832
Canadian Breweries	20.0	5-1/2	1986	96.50
Imperial Investment Corp., Ltd.	6.0	--	1971	--

In mid-March the Australian Government floated a \$20 million, 5-3/4 per cent, 20-year bond in Canada, priced at 98-1/2, to yield 5.88 per cent. This is the second borrowing by Australia in the Canadian market, the first such borrowing took place in 1955.

Canadian security transactions abroad in 1960. Canadian statistics show that the foreign capital inflow has dried up since mid-1960. There was almost no net inflow in the third quarter and a net outflow of \$85 million in the fourth quarter. For the year as a whole, foreigners bought \$218 million of net securities compared with between \$600 and \$750 million per year in the preceding four years. On a net basis, U.S. security purchases dropped from \$469 million in 1959 to \$218 million in 1960. Between July and December, there was a net outflow of \$31 million from security sales between Canada and the U.S.

Government cash requirements. For the new fiscal year beginning April 1, the Canadian Government should double its cash requirements, according to estimates of the Canadian Tax Foundation. The Foundation has estimated a deficit of \$700 million for 1961-62 compared with about \$300 million for 1960-61; a \$12 million surplus had been expected. With the cash requirements of \$700 million and \$1.4 billion of maturing debt, total needs of about \$2.0 billion are expected, compared with less than \$1 billion in the current year. The large deficits largely reflect falling revenues.

Money supply and general bank loans. The money supply, excluding Government deposits, rose \$144 million during the first 15 days of March. This increase follows a rise of \$120 million in the January-February period when seasonal cash needs usually decline.

General bank loans seasonally adjusted showed little change in the early weeks of March after a rise of \$37 million in February. Aside from the \$41 million decline in loans in January, there has been continued expansion since March 1960. Total loans outstanding, seasonally adjusted, exceeded \$5.1 billion at beginning March compared with the previous high of just over \$5 billion in August 1959.

Stock exchange. Industrial stock prices continued to rise through March and on March 22 the indices on the Toronto and Montreal exchanges were from 1 to 2.5 per cent above the levels of March 1, compared with a rise of about 1.5 per cent in the Standard & Poor industrial index. This rise in stock prices has been continuous since late September and prices are now about 16 per cent above the levels which then prevailed.

	<u>Toronto</u>	<u>Montreal</u>	<u>New York Standard & Poor</u>
1960 - High	532.94	320.0	65.00
Low	472.38	258.5	55.34
Sept. 26	479.75	263.6	56.04
Oct. 21	486.06	261.1	56.43
Nov. 11	499.88	266.3	59.39
Dec. 16	510.94	269.6	60.70
1961 - Jan. 20	540.63	292.1	63.46
Feb. 17	546.25	295.3	65.60
Mar. 1	550.63	297.1	67.09
Mar. 17	559.75	307.1	68.42

There was a noticeable rise in the volume of activity on the Canadian exchanges in March, as noted in the table below. The average weekly amounts sold in March was \$10.8 million compared with \$9.8 million in February.

<u>Week ending</u>	<u>Millions of Canadian \$'s</u>
Feb. 3	9.764
10	9.493
17	9.756
24	10.206
Mar. 3	11.051
10	9.449
17	11.775
24	10.913

The Montreal exchange has recently instituted a monthly investment plan patterned after the New York Stock Exchange plan. While there continues to be some question as to the practicality of such a plan in Montreal because of the lower volume of sales, the plan has been accepted largely to offset the effects of a similar plan in Montreal by an American investment house, whereby Canadians are able to purchase by monthly installment but only on the New York Exchange, thus diverting business from the Canadian exchanges.

Foreign exchange. There was some strengthening of the Canadian dollar in early March from 101.484 (U.S. cents) on March 1 to 101.719 (U.S. cents) on March 9, but in late March the rate fell below 101 and closed at 101.109 on March 30. The forward rate on Canadian dollar showed a small discount in late March under the influence of the increasing spread of the Canadian bill yield over the U.S. yield.

British Commonwealth Section

Selected Canadian Money Market and Related Data

	3-mo. Treas. bills			Canadian dollar			Net incentive to hold Can. bills/
	Canada a/	U.S. b/	Spread over U.S.	Spot c/	3-mo. forward	discount premium (+d/)	
1960 - High	5.14	4.53	1.62	105.27	--	0.99	1.99
Low	1.68	2.10	-0.82	100.33	--	-0.91	-0.57
1961 - High	3.34	2.54	1.07	101.50	--	0.06	0.89
Low	2.86	2.17	0.40	100.47	--	-0.50	0.42
Mar. 2	3.21	2.54	0.67	101.50	101.48	-0.06	0.61
9	3.21	2.43	0.78	101.72	100.74	0.06	0.84
16	3.16	2.33	0.83	101.25	101.27	0.06	0.89
23	3.28	2.29	0.99	100.91	100.88	-0.12	0.87
30	3.21	2.42	0.79	101.11	101.09	-0.09	0.70

- a/ Average yield at weekly tender on Thursday.
- b/ Composite market yield for the U.S. Treasury bill on Thursday close of business.
- c/ In U.S. cents.
- d/ Spread between spot rate and 3-month forward Canadian dollar on Thursday closing, expressed as per cent per annum.
- e/ Spread over U.S. Treasury bill (column 3), plus 3-month forward discount or premium (column 6).

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/
1960 - High	5.33	1.37	5.55	1.11	5.42	1.36	5.28	1.61
Low	1.99	-0.86	4.09	0.21	4.63	0.85	4.68	0.95
1961 - High	3.63	1.15	4.73	1.04	5.19	1.37	5.23	1.59
Low	3.15	0.58	4.63	0.78	5.06	1.29	5.04	1.37
Mar. 2	3.43	0.69	5.66	0.99	5.06	1.30	5.06	1.48
9	3.41	0.91	4.65	1.04	5.06	1.31	5.04	1.49
16	3.34	0.85	4.66	0.97	5.09	1.30	5.50	1.46
23	3.44	0.96	4.70	0.98	5.16	1.36	5.07	1.45

- 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.

**Canada: Changes in Distribution of Holdings of Canadian
Government Direct and Guaranteed Securities**
(millions of Canadian dollars, par value)

	<u>Bank of Canada</u>		<u>Government</u>	<u>Chartered banks</u>		<u>General public</u>		
	<u>Treas. bills</u>	<u>Bonds</u>		<u>Treas. bills</u>	<u>Bonds</u>	<u>Savings bonds</u>	<u>Treas. bills</u>	<u>Bonds</u>
1960-April	+ 69	+ 23	- 9	- 40	- 4	- 26	- 11	+ 30
May	- 9	+ 14	- 8	+ 78	+ 9	- 29	- 97	- 18
June	- 74	+ 77	- 40	- 59	+ 27	- 31	- 8	+ 46
July	+ 19	+ 40	+ 51	- 3	- 28	- 19	- 58	- 54
Aug.	- 23	+ 34	+ 78	+ 36	- 12	- 26	- 42	- 80
Sept.	- 43	- 2	+ 6	+ 90	+ 45	- 14	- 41	- 36
Oct.	+ 66	+ 6	+ 37	- 54	+126	- 5	0	+ 72
Nov.	- 8	+ 1	+ 15	- 4	+ 29	+630	+ 55	- 46
Dec.	+ 9	- 8	- 87	- 17	- 34	- 32	+ 12	- 78
1961-Jan.	- 41	- 38	+ 15	+111	- 37	- 2	- 46	+ 23
Feb.	- 7	68	- 96	+ 67	+ 88	- 6	- 26	+ 39
Mar.	- 47	+120	- 25	- 36	+ 50	- 18	+ 30	+ 6

Source: Bank of Canada, Weekly Financial Statistics.

Selected Canadian Financial Statistics
(in millions of Canadian dollars or per cent)

	<u>End of month</u>			<u>End of week</u>		
	<u>Dec.</u>	<u>Jan.</u>	<u>Feb.</u>	<u>Mar. 8</u>	<u>Mar. 15</u>	<u>Mar. 22</u>
1. Money supply:						
Currency and deposits	13,811	13,763	13,798	13,773	13,884	
Less: Govt. deposits	548	354	415	388	357	
Equals: privately held	13,263	13,409	13,383	13,385	13,527	
Change in period	+ 123	+ 146	- 26	+ 2	+ 142	
2. General bank loans ^{a/}	5,117	5,076	5,113	5,027		
Change in period	+ 90	- 41	+ 37	+ 24		
3. Total Govt. securities:	17,760	17,239	17,729	17,726	17,825	17,816
Of which: Treas. bills	1,985	1,985	1,985	1,985	1,935	1,935
Bonds	12,179	12,161	12,160	12,160	12,309	12,309
Savings bonds	3,596	3,493	3,581	3,581	3,581	3,572
4. New security issues ^{b/}	1,311	788	661	421	165	151
Of which sold in U.S.	14	1	4	0	0	6
5. Chartered bank liquidity:						
Cash reserve	1,017	1,027	1,016	1,001	1,009	1,013
Cash ratio	8.2	8.2	8.1	8.0	8.1	8.1
Liquid assets	2,093	2,189	2,284	2,282	2,222	2,258
Liquid asset ratio	16.8	17.4	18.2	18.3	18.3	18.2

a/ Seasonally adjusted.

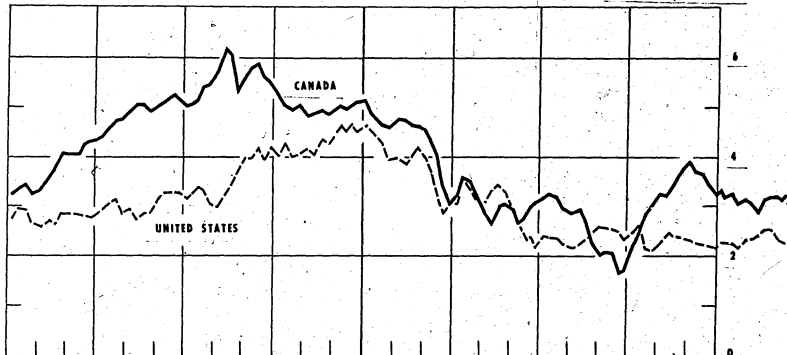
b/ Source: A. E. Ames & Co., Ltd. (Includes public and private securities.)

CANADA - UNITED STATES

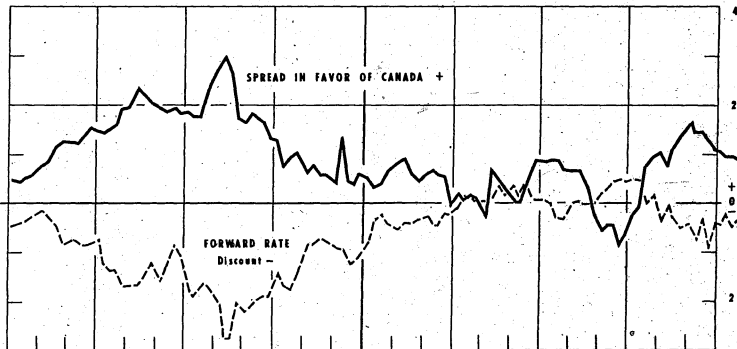
THREE-MONTH TREASURY BILL RATES

Thursday figures

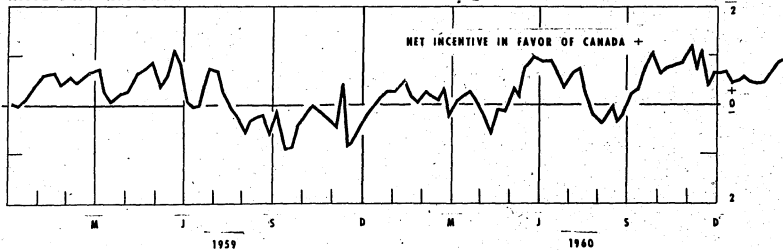
Per cent per annum



RATE DIFFERENTIAL AND FORWARD CANADIAN DOLLAR



RATE DIFFERENTIAL WITH FORWARD EXCHANGE COVER



INTEREST ARBITRAGE, NEW YORK / LONDON

Friday figures

Per cent per annum

