

MAY 9 1961

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No. 16 FEDERAL RESERVE BANK
OF RICHMOND

May 8, 1961

CAPITAL MARKET DEVELOPMENTS ABROAD

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

I. Canada: Money and Capital Markets During April

Canadian bond yields continued to rise during April but Treasury bill yields eased slightly in the latter part of the month. Further large Treasury refinancing offerings in 1- to 3-year bonds caused shorter bond yields to move up more than intermediate and long maturities.

With bond and bill yields declining in the United States, the spread of Canadian over U.S. yields widened further. During April, the yield on the Canadian short Treasury bill exceeded that of the United States bill by more than 1 per cent. With a wider discount on the forward Canadian dollar, however, the net incentive to hold the Canadian bill declined from an April 6 high of 0.87 per cent to 0.58 per cent on April 27.

While most Canadian indicators continue to lag, general bank loans expanded more than seasonally in April, making a total expansion of 7.6 per cent since February 1960. There was only a small increase in money supply in the first three weeks of April although large increases in the January-March quarter were above seasonal needs.

Industrial stock prices continued to rise for the seventh straight month. While this rise has been interpreted as a sign of the coming upswing, in part, it is associated with the upward movement in stock prices in the United States.

The Canadian dollar remained stable through April with only minor fluctuations just above 101 (U.S. cents).

Money market. There was little net change in Canadian short-term interest rates during the month of April. Short-term rates continued a slight upward movement through the early part of April but eased slightly later in the month. The average yield for the 3-month bill in the weekly auction rose from 3.21 per cent at the end of March to 3.34 per cent in mid-April, the highest since early January (see Table). By the end of the month, however, the short bill yield declined to 3.28 per cent, just slightly above the end of March level, but still 42 basis points above the mid-February low (see Chart 1). The average yield on the 6-month bill also

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rose slightly early in April, but declined to 3.40 per cent at the end of the month, just below the 3.44 per cent level of end-March.

	<u>3-months bill</u>	<u>Change during period</u>	<u>6-months bill</u>	<u>Change during period</u>
Feb. 16	2.86	--	3.15	--
Mar. 2	3.21	+0.35	3.43	+0.28
Mar. 23	3.28	+0.07	3.44	+0.01
April 13	3.34	+0.06	3.49	+0.05
April 27	3.28	-0.06	3.40	-0.09

During the month there were large sales of Treasury bills by the chartered banks to ease the tight cash liquidity situation which developed in early April. In the second week of April the cash ratio of the chartered banks fell to 7.8 per cent of deposits, and the banks sold \$70 million of bills during April to raise their monthly average to the 8 per cent cash minimum. The major part of these sales, \$42 million, took place in the early weeks, and contributed to the upward movement in yields. The Bank of Canada purchased only \$9 million during the month while the general public purchased \$64 million. Weekly changes in Treasury bill holdings in April were:

	<u>Bank of Canada</u>	<u>Govt. Accounts</u>	<u>Chartered banks</u>	<u>General public</u>
April 6	- 6	+ 2	- 6	+ 10
13	+ 13	0	- 36	+ 23
20	+ 2	- 1	- 18	+ 17
27	0	- 4	- 10	+ 14
Total	+ 9	- 3	- 70	+ 64

With declining U.S. bill yields, the spread between the Canadian and U.S. bill widened. This general widening has been taking place since mid-February with the spread reaching a high for the year of 1.10 per cent on April 20, the largest since last December. At the same time, the discount on the forward Canadian dollar continued to widen, probably reflecting some inflow of U.S. funds into Canada, and tended to offset the diverging rate movements. The net incentive to hold the Canadian bill on a covered basis declined from 0.70 per cent on March 30 to 0.58 per cent per annum on April 27 (see Chart 1).

Bond market. In April bond yields continued the rise which began in late February but at a much reduced rate. The rise in April was from 6 to 12 basis points compared with increases of up to 62 basis points in March. As in the previous month, the shorter maturities showed a greater tendency to rise in spite of sizeable purchases by the Bank of Canada. New short-term Treasury refunding offerings were largely responsible for this increase in short-term yields.

<u>Maturity</u>	<u>Change Feb. 23 to Mar. 30</u>	<u>Change Mar. 30 to Apr. 27</u>
Oct. 1962	+0.62	+0.12
Sept. 1965	+0.29	+0.04
Jan. 1975-78	+0.11	+0.08
Sept. 1983	+0.16	+0.06

The Bank of Canada purchased \$71 million of bonds with maturities of under-2-years and sold \$18 million of over-2-year maturities, for a net purchase of \$59 million (see Table). The chartered banks sold \$52 million and the general public sold \$12 million.

With some decline in yields on U.S. bonds, the spread between Canadian and U.S. bonds widened. Changes in the spread between yields on comparable Canadian and U.S. securities (in per cent per annum) were as follows:

	<u>Mar. 30</u>	<u>Apr. 27</u>	<u>Change during period</u>
91-day bill	0.79	1.01	+0.22
182-day bill	0.76	1.02	+0.26
8-year bond	0.94	1.07	+0.13
20-year bond	1.32	1.38	+0.06
35-year bond	1.41	1.48	+0.07

New issues of long-term securities (1 year and over) in the first half of April totaled \$400 million, according to estimates by Ames & Co. As in the previous month, the major part of the new issue reflects Government of Canada financing. There was also a continued heavy volume of new Provincial issues. A monthly comparison of new issues by borrowers (in millions of Canadian dollars) follows:

	<u>Jan. 1-30</u>	<u>Feb. 1-27</u>	<u>Feb. 27- Mar. 27</u>	<u>Mar. 27- Apr. 17</u>
1. Government of Canada:				
Direct	630	470	755	660
Guaranteed	0	0	0	0
Total	<u>630</u>	<u>470</u>	<u>755</u>	<u>660</u>
Less short-term	<u>480</u>	<u>480</u>	<u>480</u>	<u>366</u>
Long-term issues	<u>150</u>	<u>10</u>	<u>275</u>	<u>294</u>
2. Other issues:				
Provincial-direct	65	20	50	65
-guaranteed	51	100	6	9
Municipal	20	14	73	8
Corporation	23	47	29	24
Total	<u>159</u>	<u>181</u>	<u>158</u>	<u>106</u>
3. Net long-term issues	309	171	433	400

As part of its policy to issue shorter-term securities at more frequent and manageable intervals, in April the Minister of Finance announced another new \$300 million issue of 1- to 3-year bonds to complete the re-financing of 3 per cent bonds maturing May 1, 1961. The new issue was successfully placed as follows:

- (a) \$190 million of 1-year, 3 per cent noncallable bonds due May 1, 1962, priced to yield 3.77 per cent to maturity;
- (b) \$110 million of 3-year, 4 per cent noncallable bonds due May 1, 1964, priced to yield 4.63 per cent to maturity.

The Bank of Canada took \$50 million of each issue in exchange for maturing securities. The remaining \$200 million was taken by the public for cash.

Since November 1960 the Government has issued \$925 million of new securities to refinance issues maturing in the current fiscal year. Of this, only \$375 million was taken by the general public and \$550 million was taken by the Bank, mostly in exchange for maturing bonds and 1-year Treasury bills.

The new \$300 million issue will reduce current fiscal year re-financing needs to about \$675 million. However, the current year budget, which has not yet been presented, is expected to bring new cash requirements to about \$700 million, thus raising total remaining financing needs to about \$1.4 billion for the current year.

Some of the larger issues of bonds during April, outside the Government of Canada bonds, were as follows:

Province of Nova Scotia	\$10.0 million
Eaton Acceptance Co., Ltd.	15.0 "
Provincial Transport Co.	3.5 "
Saskatchewan Savings Bonds	13.8 "
Manitoba Savings Bonds	40.8 "
Sanatorium Board of Manitoba	1.0 "
Greater Winnipeg Gas Co.	5.0 "

Money supply and bank loans. During the early weeks of April, general bank loans continued to increase at a rate which appears to exceed seasonal requirements. There has been a steady increase in loans beginning in March 1960, and the total expansion since that time exceeded seasonal needs by some \$360 million.

The money supply showed little net change in the first three weeks of April after rising in the January-March quarter. Large changes in the first and second week of April appeared to reflect the adjustments of the market to the new Government loan issue. During the previous three months when money supply usually declines, there was a \$263 million increase in money supply (see Table).

Mortgage loans. Mortgage loans approved under the National Housing Authority in March were 5,929, the highest for any March with the exception of 1958. However, the January-March level fell below the October-December level of approvals as noted in the following table:

	<u>NHA</u>	<u>Other</u>	<u>Total</u>
1960-Jan.-Mar.	1,802	9,835	11,637
Apr.-June	9,142	12,664	21,806
July-Sept.	10,813	10,832	21,645
Oct.-Dec.	15,988	8,833	24,821
1961-Jan.-Mar.	12,350	n.a.	n.a.

The maximum interest charge on N.H.A. loans continues at 6.75 per cent, the rate set in early 1960; a 6 per cent rate prevailed before that time. While new housing starts in March were 82.9 per cent over a year ago, completions were down 27.6 per cent and houses under construction were 11 per cent less than a year ago.

Stock exchanges. The Toronto and Montreal indices for industrial stock prices rose further in April for the seventh straight month to about 18-20 per cent above the level of late September 1960. During April the Toronto and Montreal indices rose by 3.1 per cent and 2.3 per cent, respectively; by contrast, the New York Standard & Poor industrial index rose less than 1 per cent in this period. The Toronto industrial index at 576 is 3.9 per cent above the previous peak of mid-1959. A comparison of these indices follows:

	<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	271.1	56.43
Nov. 11	499.88	266.3	59.39
Dec. 16	510.94	296.6	60.70
1961 - Jan. 20	540.63	292.1	63.46
Feb. 17	246.25	295.3	65.60
Mar. 30	558.81	303.9	68.78
Apr. 14	568.25	310.8	70.28
Apr. 28	576.00	311.0	69.07

There was a further rise in the volume of activity on the Canadian exchanges in April with an average weekly turnover of about \$14.6 million during the first three weeks compared with an average of about \$10.8 million in March.

Foreign exchange. The Canadian dollar strengthened in April. During the month the rate in New York fluctuated narrowly just above 101 (U.S. cents) and closed at 101.266 at the end of the month. However, the discount on the forward Canadian dollar widened considerably as the spread favoring the Canadian Treasury bill widened. The 3-month forward discount was 0.43 per cent per annum on April 27 compared with 0.09 per cent on March 30.

British Commonwealth Section.

II. Six Charts on Financial Markets Abroad

- Chart 1 - Interest Arbitrage US/Canada
- Chart 2 - Interest Arbitrage New York/London
- Chart 3 - Interest Arbitrage Frankfurt/New York
- Chart 4 - Short-term Interest Rates
- Chart 5 - Industrial Stock Indices
- Chart 6 - 3-month Euro-dollar Rates

**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>Total</u>	<u>Treas. bills</u>	<u>Bonds</u>	<u>Savings bonds</u>	<u>Treas. bills</u>	<u>Bonds</u>
1960-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
April	+ 9	+ 59	- 2	- 70	- 52	- 37	+ 64	- 12

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>Jan.</u>	<u>Feb.</u>	<u>Mar.</u>	<u>Apr. 5</u>	<u>Apr. 12</u>	<u>Apr. 19</u>
1. Money supply:						
Currency and deposits	13,763	13,798	13,851	13,837	13,827	13,798
Less: Govt. deposits	354	415	325	209	303	257
Equals: privately held	13,409	13,383	13,526	13,628	13,524	13,541
Change in period	+ 146	- 26	+ 143	+ 102	- 104	+ 17
2. General bank loans	a/5,076	a/5,113	a/5,057	5,071	5,098	5,104
Change in period	- 41	+ 37	+ 21	- 5	+ 27	+ 6
3. Total Govt. securities:	17,239	17,729	17,808	17,803	17,787	17,780
Of which: Treas. bills	1,985	1,985	1,935	1,935	1,935	1,935
Bonds	12,161	12,160	12,309	12,308	12,308	12,308
Savings bonds	3,493	3,581	3,564	3,560	3,543	3,573
4. New security issues ^{b/}	788	661	913	n.a.	c/282.8	c/482.1
Of which sold in U.S.	1	4	6	n.a.	0	0
5. Chartered bank liquidity:						
Cash reserve	1,027	1,016	1,009	974	999	1,027
Cash ratio	8.2	8.2	8.1	7.8	8.0	8.2
Liquid assets	2,189	2,284	2,263	2,213	2,168	2,171
Liquid asset ratio	17.4	18.2	18.2	17.6	17.3	17.3

a/ Seasonally adjusted.

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

c/ Includes first two weeks of April.

Selected Canadian Money Market and Related Data

	3-mo. Treas. bills			Canadian dollar			Net incentive to hold Can. bills ^e
	Canada a/	U.S. b/	Spread over U.S.	Sppt 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	1.10	101.72	--	0.06	0.89
Low	2.86	2.17	0.48	100.47	--	-0.50	0.42
March 30	3.21	2.42	0.79	101.11	101.09	-0.09	0.70
April 6	3.25	2.32	0.93	101.11	101.09	-0.06	0.87
13	3.34	2.33	101.1	101.13	101.06	-0.25	0.76
20	3.32	2.22	1.10	101.17	101.08	-0.37	0.73
27	3.28	2.27	1.01	101.27	101.16	-0.43	0.58

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	1.07	5.19	1.38	5.23	1.59
Low	3.15	0.58	4.63	0.78	5.06	1.29	5.04	1.37
March 30	3.37	0.76	4.68	0.94	5.13	1.32	5.04	1.41
April 6	3.44	0.88	4.69	0.89	5.12	1.29	5.05	1.39
13	3.49	0.97	4.71	0.89	5.14	1.33	5.07	1.42
20	3.47	1.09	4.33	0.93	5.17	1.35	5.07	1.44
27	3.40	1.02	4.74	1.07	5.17	1.38	5.09	1.48

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.

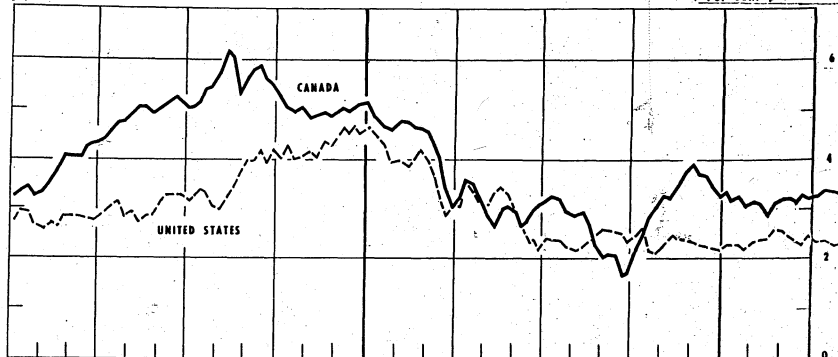
Chart 1

CANADA - UNITED STATES

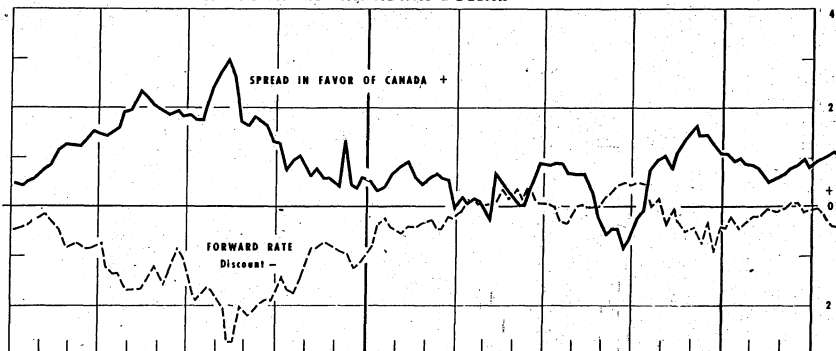
THREE-MONTH TREASURY BILL RATES

Thursday figures

Per cent per annum



RATE DIFFERENTIAL AND FORWARD CANADIAN DOLLAR



RATE DIFFERENTIAL WITH FORWARD EXCHANGE COVER

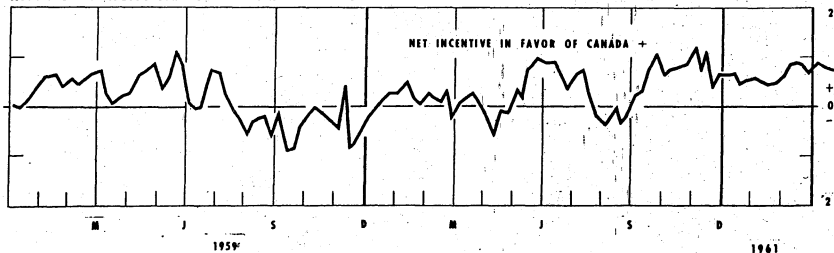


Chart 2

INTEREST ARBITRAGE, NEW YORK / LONDON

Friday figures

Per cent per annum

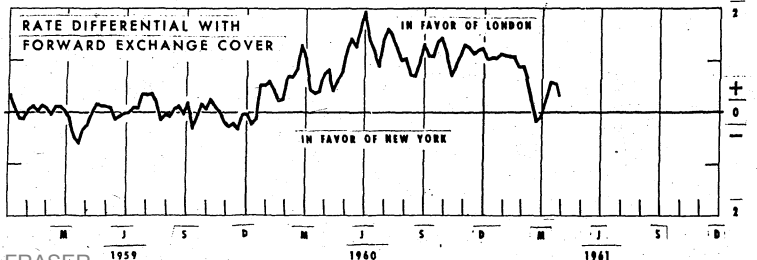
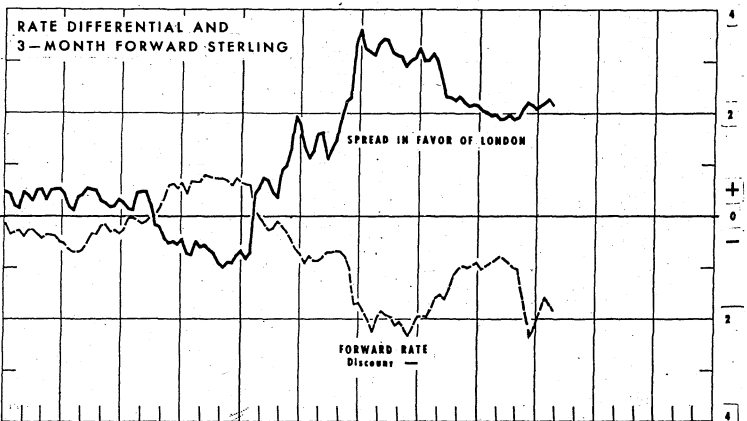
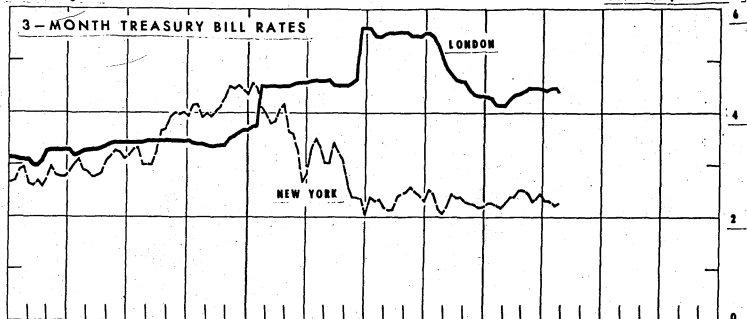
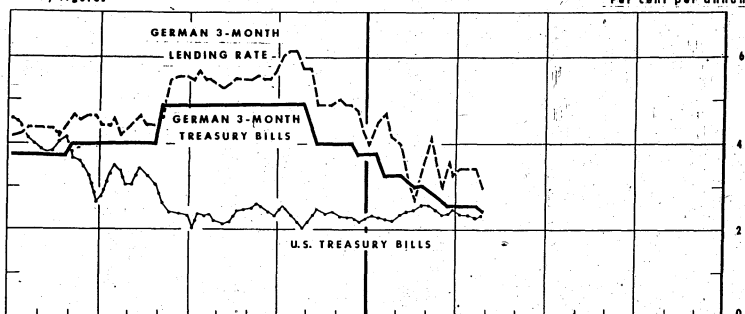
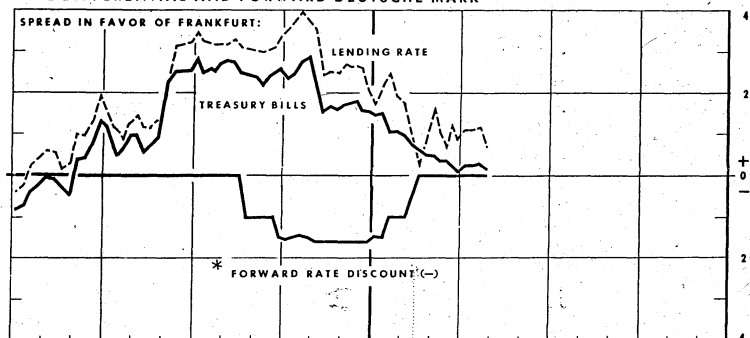
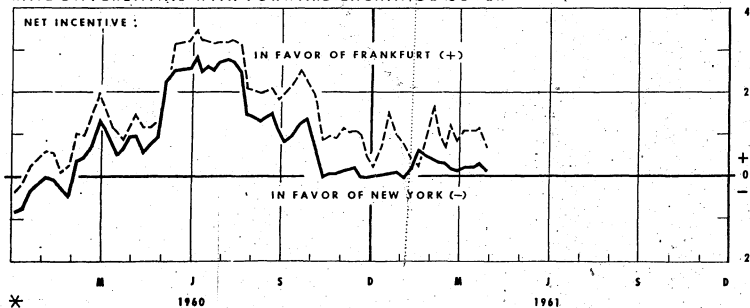


Chart 3

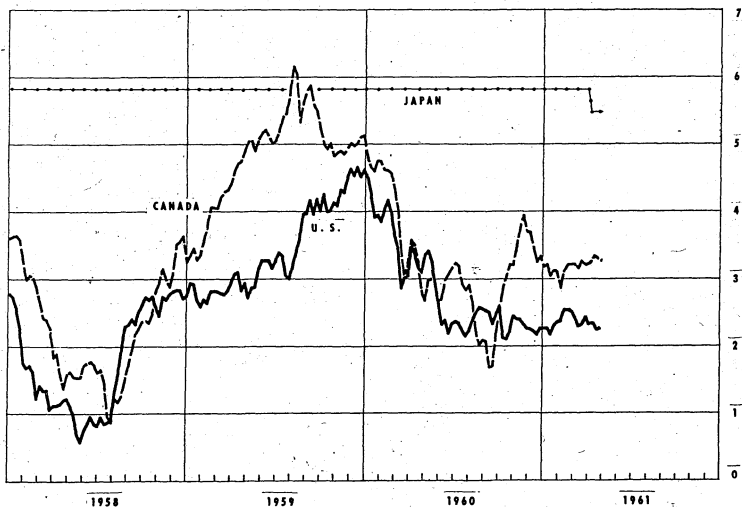
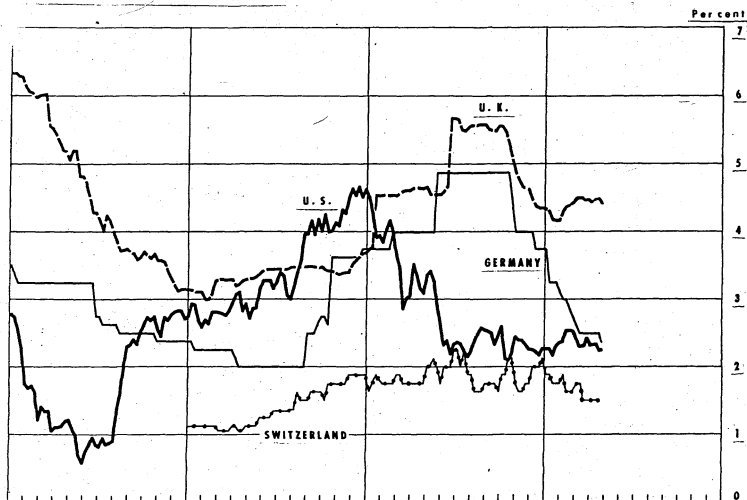
INTEREST ARBITRAGE, NEW YORK / FRANKFURT

3-MONTH TREASURY BILL RATES AND GERMAN 3-MONTH BANK LENDING RATES
 Friday figures Per cent per annum

**RATE DIFFERENTIAL AND FORWARD DEUTSCHE MARK****RATE DIFFERENTIAL WITH FORWARD EXCHANGE COVER**

* Note: Special forward dollar rate (either flat or premium on spot) available to German commercial banks.

Chart 4
SHORT-TERM INTEREST RATES *

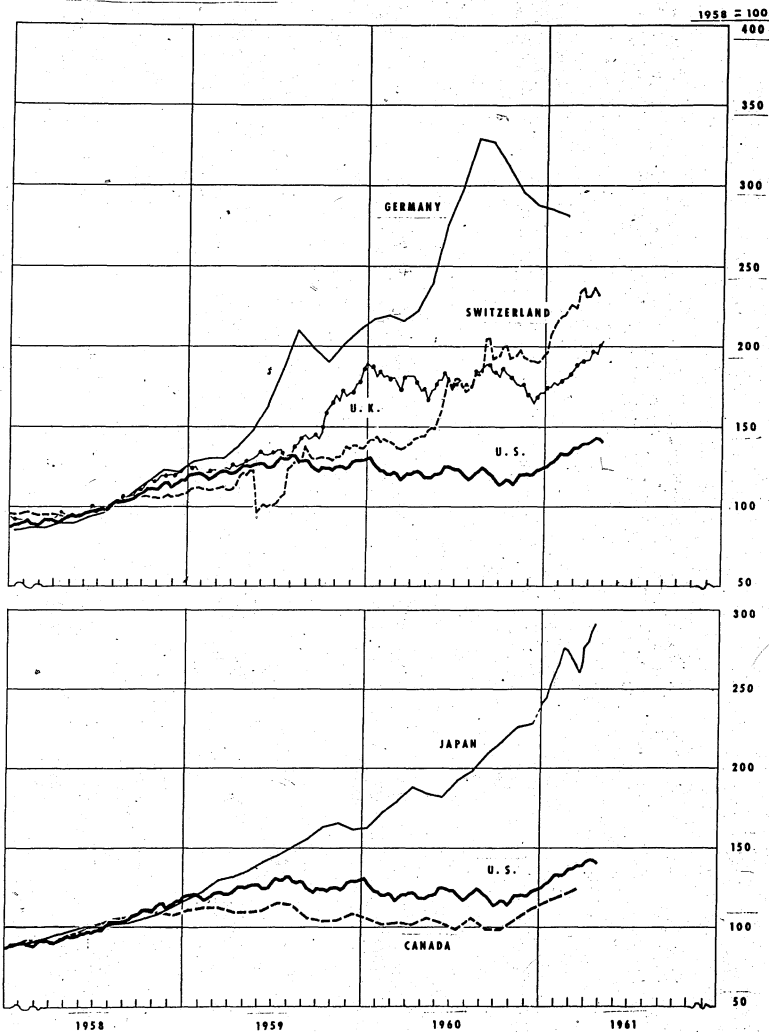


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Note: 3-month treasury bill rates for all countries except Japan (3-month interbank deposit rate) and Switzerland (3-month deposit rate).

Chart 5

INDUSTRIAL STOCK INDICES *



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

Chart 6

RATES PAID ON 3-MONTH EURO-DOLLAR DEPOSITS

