DIVISION OF INTERNATIONAL FINANCE

AUG 8 1961

H.13
No. 19

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

August 7, 1961.

CAPITAL MARKET DEVELOPMENTS ABROAD

I. Canada
II. Nine Charts on Financial Markets Abroad

I. Canada: Money and Capital Markets During July

Canadian financial markets showed a steadying tendency in July following the sharp reactions in June when the Government's expansionary fiscal and monetary program was presented to the Parliament. Interest rates fluctuated narrowly around the levels to which they dropped in mid-June. Moreover, there was little change in the spread between Canadian and U.S. yields after a narrowing of up to 43 basis points in June. The 3-month Treasury bill fluctuated around 2.60 per cent exceeding the U.S. bill by 35 to 40 basis points. A discount on the forward Canadian dollar reduced the difference for covered investments to 20 to 30 basis points. Industrial stock prices rose early in the month and leveled off through the remaining weeks.

The Bank of Canada took easing actions during the month, thus permitting an expansion of bank loans and the flotation of a new Government bond issue without any tightening of the market. Bank of Canada security holdings rose $90 million in July while the public sold $155 million. The money supply seasonally adjusted rose over 1 per cent and general bank loans rose fractionally. The new Government issue of 1 and 3-1/2 year bonds was successfully placed, half with the Bank of Canada and half was sold on the market.

The Canadian dollar, which has varied between 96 and 97 U.S. cents since mid-June, strengthened some in mid-July and fluctuated narrowly around 97 U.S. cents in recent weeks.

<u>Money market</u>. Short-term interest rates showed little fluctuation in July and appear to have steadied at a level somewhat below those which prevailed earlier in the year. The average Thursday auction yield on the 3-month Treasury bill in July fluctuated narrowly around 2.60 per cent, the level to which it dropped in mid-June, and eased to 2.55 per cent on July 27. The 6-month bill also steadied at a lower level and yielded 2.79 per cent at the end of July, just above the 2.75 per cent in mid-June.

Despite the issue of a new Government bond, there was little evidence of tightening on the market. Day-to-day loans eased somewhat, though the average closing rate rose from 2.40 per cent at the end of June to 2.63 per cent at the end of July. While the chartered banks had borrowed

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$11 million from the Bank of Canada in the week ending July 5, there was no Bank borrowing in July by the chartered banks or the investment dealers.

The general public made large sales of Treasury bills during the month thus reducing their bill holdings by $95 million. The Bank of Canada purchased $69 million and the chartered banks took $16 million. Another $11 million was taken by the Government accounts.

The decline in Canadian bill yields was little different from changes in the yield on the U.S. bill, with the result that the spread favoring the Canadian bill varied little, between 30 and 40 basis points. On July 27 this spread was 0.35 per cent per annum compared with 0.30 per cent at the end of June. Some variation in the forward discount, however, moved the incentive slightly against the Canadian bill on July 6, but through the remainder of the month the Canadian bill showed an advantage of 20 to 30 basis points on a covered basis (see Chart and Tables). On August 3, the net incentive was reduced to 0.04 per cent per annum due largely to a rise in the U.S. bill yield.

Bond market. Bond yields showed little change in July after declining sharply in June. Short- and intermediate-term maturities eased a bit while longer maturities showed a very slight tendency to rise, as noted in the following table:

Maturity	June 1	June 15	June 29	July 27
Oct. 1962	3.27	2.78	2.10	2.04
Sept. 1965	4.78	4.63	4.53	4.41
Jan. 1975-78	5.19	5.14	4.99	5.00
Sept. 1983	5.20	5.10	4.96	4.99

The McLeod, Young, Weir 40 bond yield average for maturities from 8 months to 14 years, shows a very slight decline from June 30 to August 1 as noted in the following table:

	June 30	Aug. 1
10 Provincials	5.37	5.39
10 Municipals	5.71	5.62
10 Public utilities	5.37	5.35
10 Industrials	5.47	5.42
40 Bond yield average	5.48	5.45

The yield spread favoring Canadian over U.S. Government securities also changed little during July after narrowing sharply in June. Changes in the spread between comparable Canadian and U.S. securities in July were:

	Change Mar. 31 to June 29	June 29	July 27	Change June 29 to July 27
91-day bill	- 0.47	0.30	0.35	+ 0.05
182-day bill	- 0.43	0.28	0.33	+ 0.05
8-year bond	- 0.43	0.53	0.48	- 0.05
20-year bond	- 0.48	0.88	1.01	+ 0.13
35-year bond	- 0.29	1.14	1.23	+ 0.09

During the month the general public sold $37 million of Government bonds of which $21 million were purchased by the Bank of Canada and $11 million by the chartered banks.

On July 17, the Minister of Finance announced a new $350 million short-term bond issue as part of the Government's program to refinance December 1, 1961 maturities. The new offering was successfully placed with no apparent tightening of the market. It consisted of two maturities as follows:

(a) One-year, 3 per cent, noncallable bonds due August 1, 1962, priced at 99.70 per cent to yield 3.31 per cent to maturity;

(b) 3 yrs. and 4 mos., 4 per cent, noncallable bonds due December 1, 1964, priced at 99 per cent to yield 4.32 per cent to maturity.

The Bank of Canada agreed to acquire $75 million of the 3 per cent bonds and $100 million of the 4 per cent bonds in exchange for an equal par value of the 3 per cent bonds maturing December 1, 1961. The remaining $175 million was offered for cash and taken as follows:

(a) $35 million, 3 per cent bonds, due August 1962;

(b) $130 million, 4 per cent bonds, due December 1964.

The proceeds of the cash offering will also be used to retire December 1961 maturities. Together they will reduce the December maturities outstanding to $546 million compared with $1,021 million of that maturity outstanding at the beginning of the year. Outstanding bonds which must be refinanced in the current fiscal year, ending next March 30, amounted to $600.5 million as follows:

$546.0 million	- December 1, 1961
54.5 million	- February 1, 1962
$600.5 million	

In addition to these refinancing needs, the anticipated budget deficit is expected to bring new cash requirements to about $1 billion in the current fiscal year ending next March 30.

According to A.E. Ames & Company, $320 million of new securities were issued in the first three weeks of July, not including the new Canadian Government bond issue (see Table). New Provincial offerings amounted to $50 million, municipals amounted to $7 million, and corporates $23 million.

Some of the larger new non-Government security issues in July include the following:

Union Gas Co. of Canada, $14 million, 5-3/4 per cent debentures due July 15, 1981;

Home Oil Co., and United Oils, Ltd., $20 million, 6-1/8 per cent, secured bonds, placed in New York;

Alberta Government Telephones, $15 million debentures, 4-3/4 per cent due August 1966, at 99-1/4 to yield 4.92 per cent and 5-1/2 per cent August 1981, at 98-1/2 yielding 5.37 per cent;

Province of Quebec, $50 million of debentures, as follows:
- 4-3/4 per cent due August 1967, at 99-1/4, to yield 4.90 per cent, and
- 5-1/4 per cent due August 1985, at 98, to yield 5.40 per cent;

British Columbia, $50 million of 5 per cent bonds, the largest bond sale ever made by the B.C. Government;

British Columbia Telephone Company, $20 million of first mortgage bonds, 5-3/4 per cent, at par, due July 15, 1986.

During the January-May period there was a net sale of securities abroad of $95.4 million compared with sales of $80.5 million in the first half of 1960 and net purchases of $33.8 million in the July-December period of 1960. The major part of the sales abroad in 1961, 54 per cent, was attributable to Canadian Government securities, of which 66 per cent was taken by the United States.

Stock market. Industrial stock prices rose in late June and early July and then leveled off through the remaining weeks of July. On July 27 Canadian prices were more than 36 per cent above their level on October 6 when the rise began, compared with a rise of 24 per cent in the New York Standard and Poor index during the same period.

	DBS	New York Standard & Poor
Oct. 6	246.1	56.63
Dec. 29	275.9	61.27
May 25	332.2	70.23
June 15	329.7	69.62
22	333.8	68.71
July 6	340.4	69.58
13	333.6	68.44
20	331.4	68.35
27	334.8	70.40

The volume of stock traded on the Canadian exchanges in July was somewhat below the last few months. The weekly average for July was $7.1 million compared with $10.9 million in June and $18.3 million in May.

General bank loans and money supply. The money supply seasonally adjusted rose $153 million in the first 3 weeks of July, a rise of over 1 per cent, to bring total currency and private deposits over 4 per cent above the end of 1960 and over 7.5 per cent above mid-1960. General bank loans seasonally adjusted also rose fractionally to new highs. After the first 3 weeks of July total outstanding loans were almost 3 per cent above year-end levels and almost 6.5 per cent above the 1959 peak.

Foreign exchange. The spot rate on the Canadian dollar strengthened some in mid-July and fluctuated narrowly around 97 U.S. cents during the latter part of the month. At the end of July and through August 3, the rate remained close to 97 U.S. cents compared with 96.42 U.S. cents at close of business on July 3. The Canadian dollar fell to a discount in mid-June following the announcement of the Government's intentions to lower the rate through the direct intervention of the Exchange Fund. Foreign exchange reserves rose $36 million in June as a result of these operations. While July figures are not yet available, there are indications that downward pressure on the rate is being sustained by some repatriation of capital by foreign residents.

The discount on the 3-month forward Canadian dollar rose sharply to about 0.5 per cent per annum in early July and then declined to about 0.1 per cent for the remainder of the month.

Mortgage market. Since the establishment of a secondary mortgage market last June (see Capital Market Developments Abroad, No. 11, June 12, 1961) there have been reports of an increasing availability of mortgage funds and some reductions in mortgage rates. While NHA mortgage rates have been at 6-3/4 per cent for some time, conventional loans were quoted as high as 7-1/2 per cent last year but more recently at 7 per cent, with some offerings at 6-3/4 per cent for mortgages on prime property.

NHA insured mortgage loans in the first five months of 1961 totaled $287.5 million, more than three times the same period in 1960. Conventional loans in the January-March period, on the other hand, fell below the first quarter 1960 level. Housing starts seasonally adjusted during the first five months of 1961 were running 24 per cent above a year ago, but there was a sharp fall-off in April-May.

In July, a private organization, the General Mortgage Service Corporation of Canada, was established, which will further encourage the flow of funds into mortgage loans, the primary aim of the Government in establishing the secondary mortgage market. The new company will specialize in buying, selling, managing, and servicing of mortgages. To finance the operation two classes of mortgage backed bonds will be offered to the public. A series A bond will be secured and fully backed by NHA mortgages, and a series B will be backed by conventional mortgages and some income-producing real estate.

British Commonwealth Section.

II. Nine Charts on Financial Markets Abroad

Chart 1 - Interest Arbitrage U.S./Canada
Chart 2 - Interest Arbitrage New York/London
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Chart 6 - Long-term Bond Yields
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Chart 8 - Major Currencies in Terms of
Spot United States Dollar
Chart 9 - 3-month Forward Rate--London Quotations

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.	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	1.10	101.72	--	0.26	0.89
Low	2.52	2.17	0.23	96.81	--	-0.56	-0.20
June 29	2.57	2.27	0.30	96.80	96.75	-0.19	0.11
July 6	2.63	2.31	0.32	96.38	96.25	-0.52	-0.20
13	2.62	2.24	0.38	96.81	96.77	-0.13	0.25
20	2.63	2.19	0.44	96.86	96.83	-0.13	0.31
27	2.55	2.20	0.35	97.02	96.98	-0.13	0.23
Aug. 3	2.52	2.29	0.23	96.98	96.94	-0.19	0.04

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 (20 year)		Long-term bonds (35 year)	
	Canada a/	Spread over U.S. b/	Canada c/	Spread over U.S. d/	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	4.75	1.16	5.19	1.40	5.23	1.59
Low	2.70	0.19	4.42	0.48	4.85	0.88	4.92	1.14
June 29	2.74	0.28	4.49	0.53	4.86	0.88	4.94	1.14
July 6	2.77	0.27	4.45	0.51	4.85	0.93	4.93	1.23
13	2.77	0.30	4.47	0.50	4.87	0.94	4.93	1.18
20	2.81	0.40	4.42	0.49	4.87	0.97	4.92	1.24
27	2.79	0.33	4.49	0.48	4.90	1.01	4.92	1.23

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)

	Bank of Canada			Chartered banks		General public		
	Treas. bills	Bonds	Government Total	Treas. bills	Bonds	Savings bonds	Treas. bills	Bonds
1960-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
May	+17	-22	- 1	+ 63	+ 24	- 33	-80	+ 1
June	-74	+43	+ 5	+ 33	+ 62	- 22	- 7	+37
July	+69	+21	+16	+ 16	+ 11	- 23	-95	-37

Source: Bank of Canada, Weekly Financial Statistics.

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

	Mar.	April	May	June	July
1. Money supply:[a]					
Currency and deposits	13,939	13,876	13,866	13,861	[c]14,004
Less: Govt. deposits	287	253	153	200	190
Equals: privately held	13,652	13,623	13,713	13,661	13,814
Change in period	+ 104	- 29	+ 90	- 52	+ 153
2. General bank loans[a]	5,209	5,207	5,224	5,252	[c]5,260
Change in period	+ 5	- 2	+ 17	+ 28	+ 12
3. Total Govt. securities:	17,808	17,780	17,695	17,763	17,739
Of which: Treas. bills	1,935	1,935	1,935	1,885	1,885
Bonds	12,309	12,308	12,258	12,404	12,402
Savings bonds	3,564	3,537	3,502	3,474	3,452
4. New security issues[b]	913	926	891	725	[c]320
Of which sold in U.S.	6	0	95	11	0
5. Chartered bank liquidity:					
Cash reserve	1,009	1,017	1,018	1,027	1,025
Cash ratio	8.1	8.1	8.1	8.1	8.1
Liquid assets	2,263	2,170	2,226	2,312	2,317
Liquid asset ratio	18.2	17.3	17.7	18.3	18.3

a/ Seasonally adjusted.
b/ Source: A. E. Ames & Co., Ltd. (Includes public and private securities.)
c/ Through July 19.

Chart 1

INTEREST ARBITRAGE, UNITED STATES / CANADA

Thursday figures

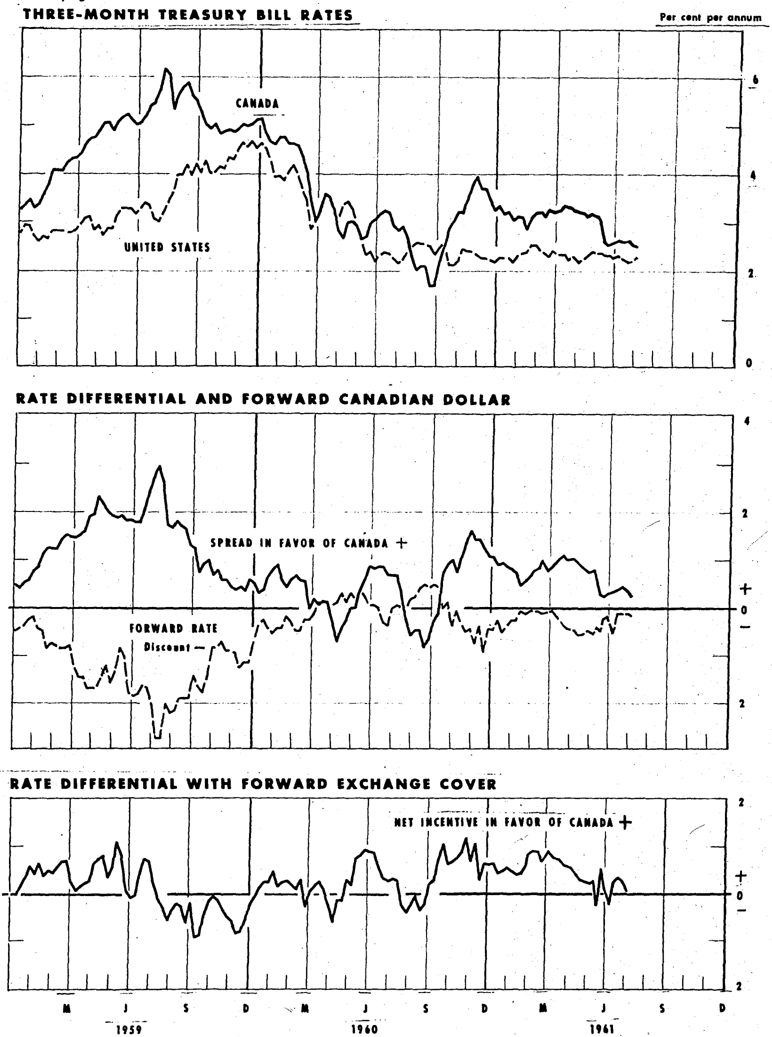

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Chart 2

INTEREST ARBITRAGE, NEW YORK / LONDON

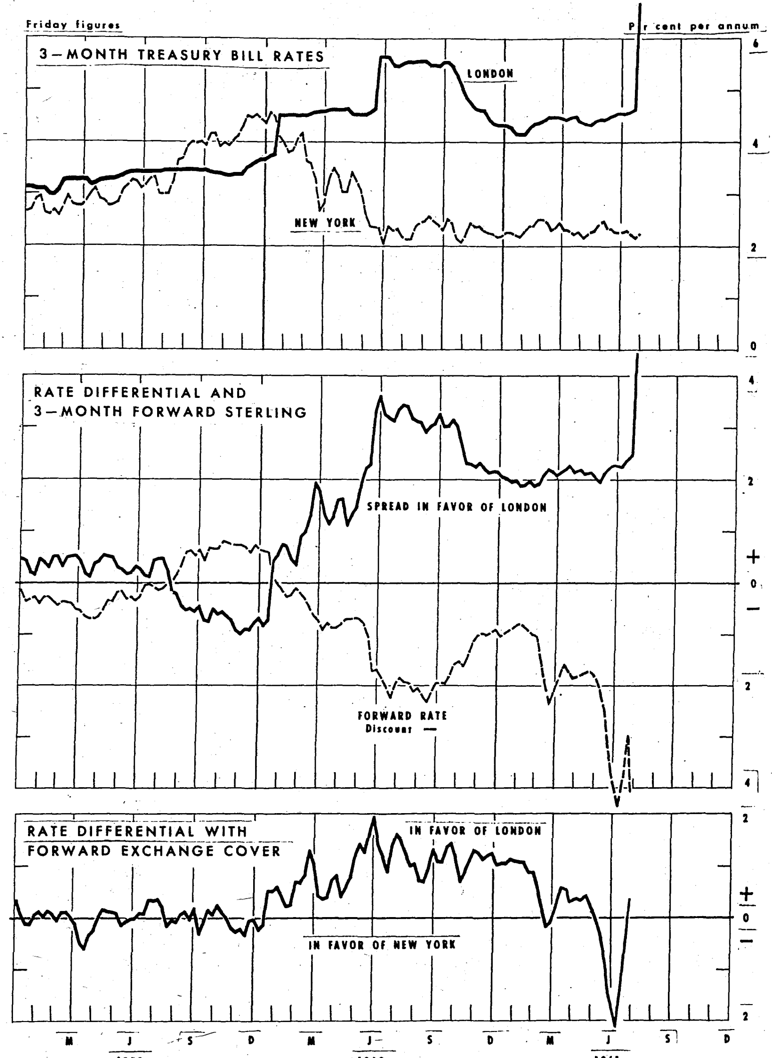
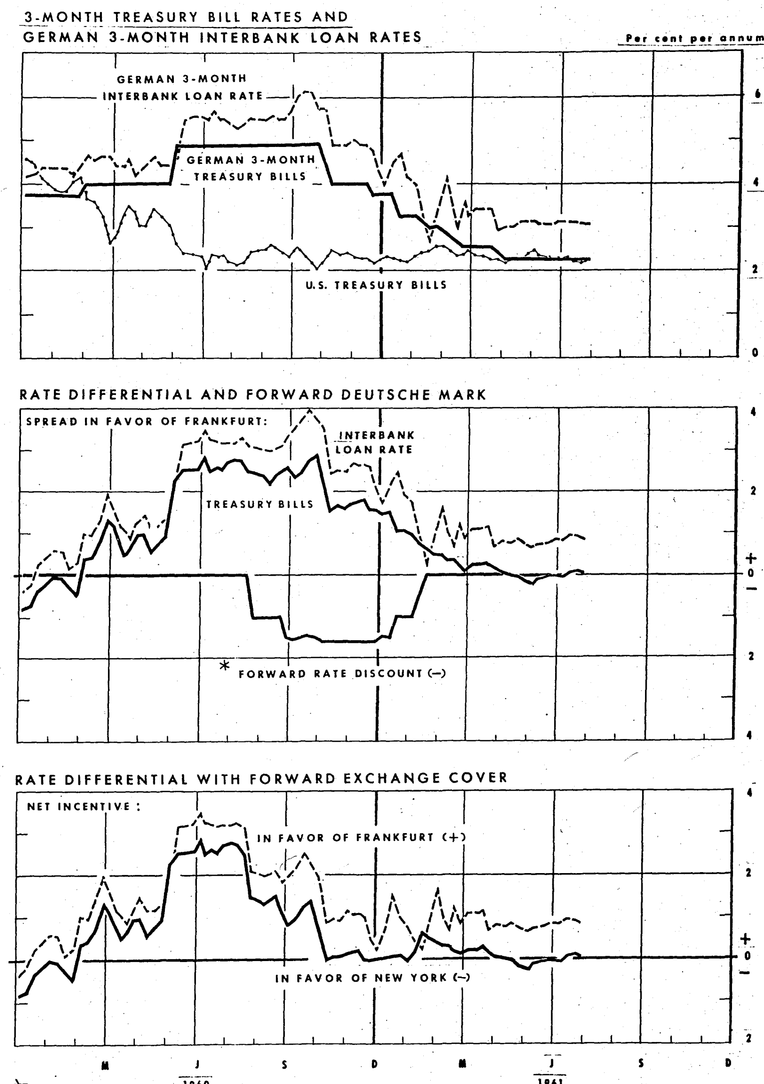


Chart 3

INTEREST ARBITRAGE, NEW YORK/FRANKFURT

Friday figures



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

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Chart 4

INTEREST ARBITRAGE, FRANKFURT/LONDON

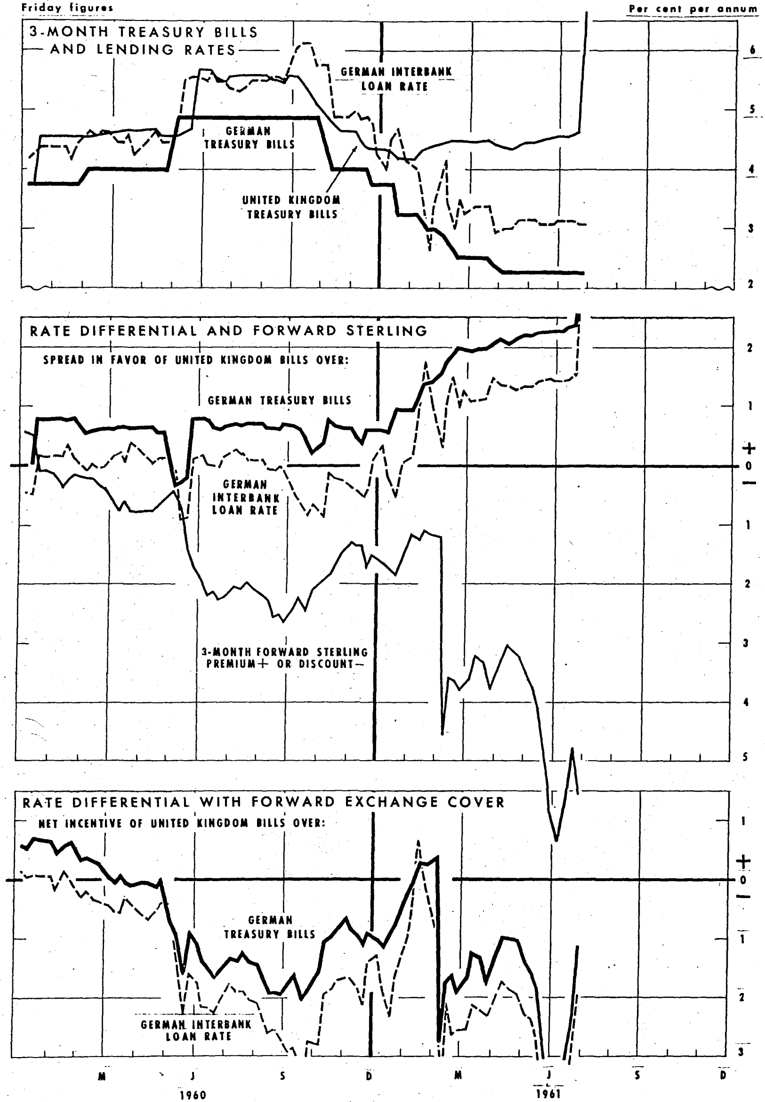
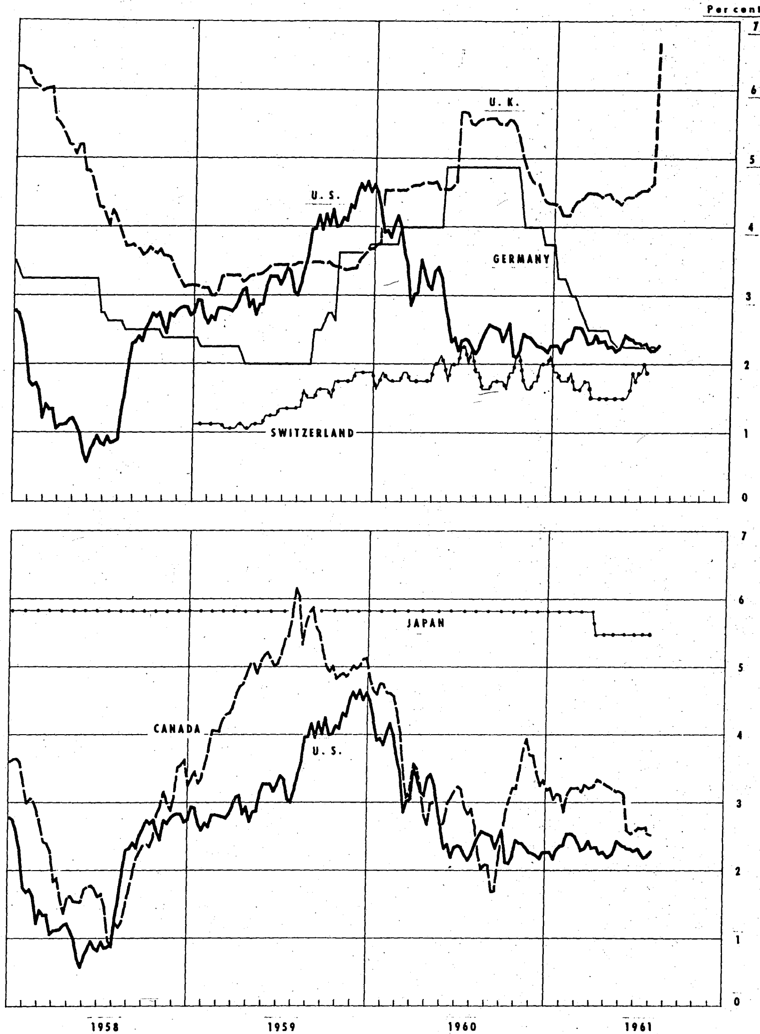


Chart 5

SHORT-TERM INTEREST RATES *



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

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Chart 6

LONG-TERM BOND YIELDS

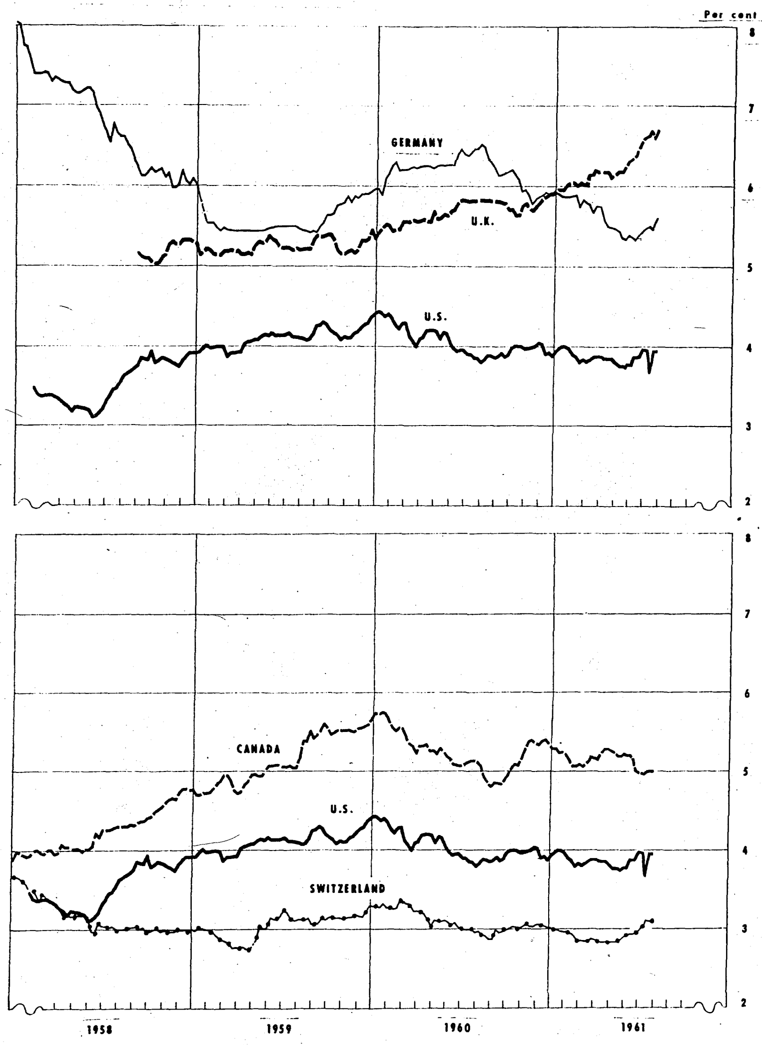
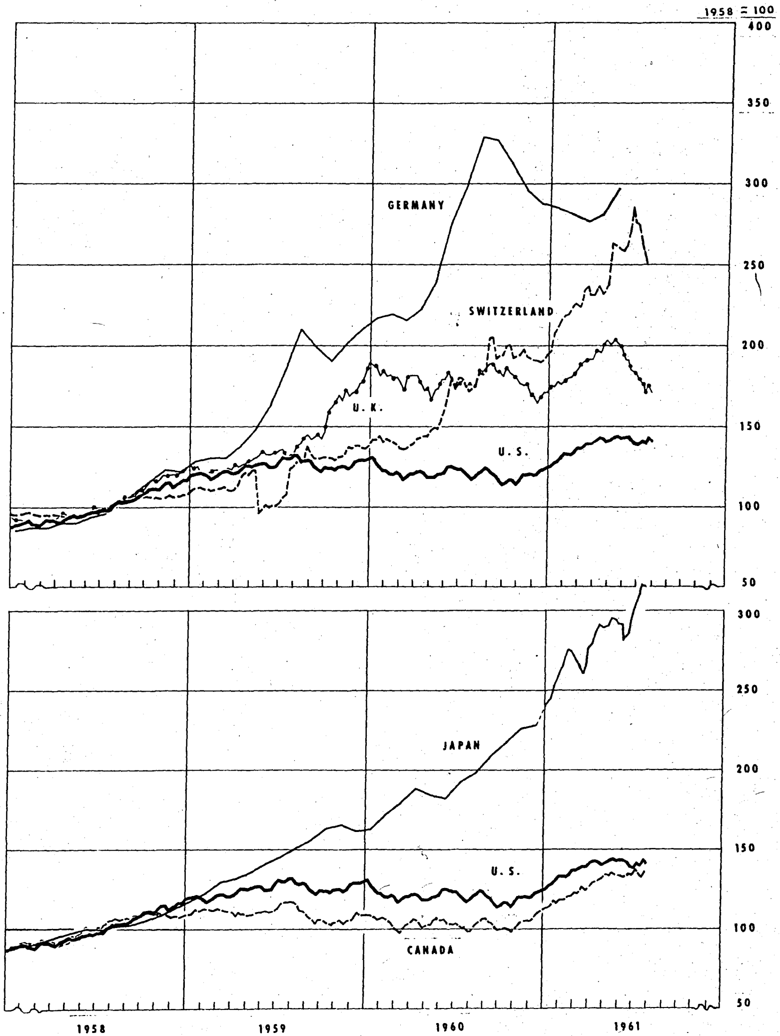


Chart 7

INDUSTRIAL STOCK INDICES *



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

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Chart 8

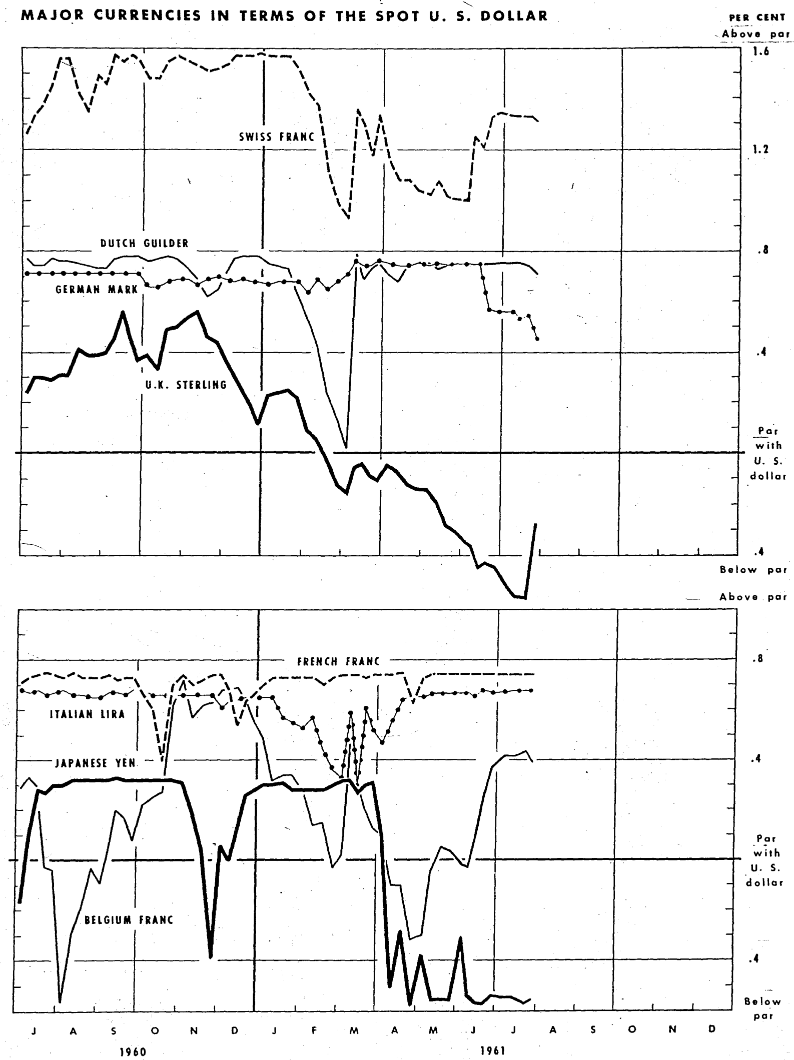
MAJOR CURRENCIES IN TERMS OF THE SPOT U. S. DOLLAR
PER CENT
Above par
1.6
1.2
.8
.4
Par with U. S. dollar
.4
Below par
Above par
.8
.4
Par with U. S. dollar
.4
Below par
SWISS FRANC
DUTCH GUILDER
GERMAN MARK
U.K. STERLING
FRENCH FRANC
ITALIAN LIRA
JAPANESE YEN
BELGIUM FRANC
J A S O N D J F M A M J J A S O N D
1960
1961

Chart 9

3-MONTH FORWARD RATES - LONDON QUOTATIONS