

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

September 11, 1961.

H.13

No. 24

24

CAPITAL MARKET DEVELOPMENTS ABROAD

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

I. Canada: Money and Capital Markets During August

The monetary authorities took further steps in August to stimulate the economy after a summer of slow improvement in Canadian business conditions. Early in the month the Bank of Canada made large switches in its portfolio from short to long maturities to reduce upward pressure on long-term rates. As a result, these rates were up only a few basis points at the end of the month, despite the delivery of a new short-term Government bond in the first week of August. Moreover, at the end of the month, Treasury bill yields dropped sharply, with the 3-month bill at 2.26%, the lowest since last October. General bank loans rose \$89 million above seasonal requirements, and the money supply, seasonally adjusted, was up over \$175 million.

Chartered bank holdings of Government securities expanded sharply in August as sales were made by the general public and the new issue came to the market. Chartered bank holdings of bills and Government bonds together rose \$255 million in August. Total Government securities outstanding went up a net of \$139 million early in the month, and the general public sold \$122 million. The Bank and Government Accounts together took \$53 million of Governments.

During August there was a further narrowing of the spread favoring Canadian over United States securities. During most of the month the yield spread between Canadian and U. S. short Treasury bills was held within 12 basis points. On August 20, for the first time in a year, the spread moved 9 basis points in favor of the U. S. bill. The rate on the 3-month forward Canadian dollar moved narrowly around the spot rate. Long-term rate differentials narrowed slightly during the month because of higher U. S. Yields.

The Canadian dollar has held unusually steady at about 97 U. S. Cents during August. The authorities gave some official support to the exchange rate in July, judged by reported losses of official reserves, but is not clear whether additional support was given in August. The forward discount on the Canadian dollar began to decline in mid-June, when the interest rate spread narrowed, and was eliminated in early August.

Money Market. There was a sharp drop in money market rates in late August, after about three months of little change. Despite a rise in

NOT FOR PUBLICATION

DECONTROLLED AFTER SIX MONTHS

both day-to-day loans and call loans early in the month, when the new Government bond was delivered, the money market showed few signs of tightening. The average closing rate on day-to-day loans dropped from 2.67% at the end of July to 1.95% in the last week of August.

Late in the month, Canadian Treasury bill yields fell to the lowest level since last October (see Table and Chart 1). The average yield of the 3-month bill in the Thursday auction on August 30 fell to 2.26% compared with 2.52% earlier in the month and over 3% in early June. The average yield on the 6-month bill showed a similar trend and fell to 2.55% in late August compared with yields just above 2.70% during the previous 3 months and over 3% in early June. The following table compares bill rate trends since the June 20 budget presentation:

	<u>3-month</u>	<u>6-month</u>
June 8	3.05	3.18
June 22	2.55	2.70
July 27	2.55	2.79
Aug. 3	2.52	2.73
Aug. 30	2.26	2.55

The chartered banks made large purchases of Treasury bills in August while the general public and the Bank of Canada reduced their bill holdings. The banks showed a \$107 million increase in Treasury bill holdings, the general public sold \$87 million, and the Bank of Canada sold \$10 million.

There was little incentive for the movement of short-term funds between Canada and the United States during August. Spreads between Canadian and U. S. bill yields narrowed further during the month and, for the first time in a year, was in favor of the U. S. bill at the end of the month. The discount on the forward Canadian dollar was eliminated early in the month when the forward rate moved to flat with the spot rate (see Table and Chart 1).

**Bond market.** Canadian bond yields showed little change during August with the shorter maturities easing slightly and longer maturities moving up a few basis points. Early in the month, there were reports of strong upward pressure on long-term rates, attributed by the press to a delay in decisions to buy longer maturities because of summer vacations. However, yields stayed well below the levels prevailing before the the June 20 budget presentation. At the end of the month, longer maturities were up no more than 6 basis points (see Table). The McLeod, Young, Weir 40-bond average yield of non-Government securities (with maturities averaging 14 years, 8 months) showed no change in August. A comparison of selected Canadian Government securities shows the relative change in yields over this period:

<u>Maturity</u>	<u>June 15</u>	<u>June 22</u>	<u>July 27</u>	<u>Aug. 30</u>
Sept. 1965	4.63	4.55	4.41	4.39
Sept. 1972	4.98	4.80	4.86	4.83
Jan. 1975-78	5.14	5.00	5.00	5.01
Sept. 1983	5.10	4.93	4.99	5.01
Sept. 1996-98	5.08	5.02	4.92	4.98

Compared with the pre-budget period in early June, yields of Canadian securities have come much closer to those in the United States and the spread narrowed further in August. This smaller differential was more pronounced in the shorter maturities where Canadian yields showed the greatest declines (see Table). The following table compares the yield spread between comparable Canadian and U. S. Government securities for August 23 as well as the change in spreads from mid-June and end-July:

	<u>Change from</u>		
	<u>Aug. 30</u>	<u>June 15</u>	<u>July 27</u>
91-day bill	- 0.09	- 0.37	- 0.44
182-day bill	- 0.11	- 0.38	- 0.44
8-year bond	0.39	- 0.48	- 0.09
20-year bond	0.89	- 0.29	- 0.12
35-year bond	1.20	- 0.13	- 0.03

Chartered bank holdings of bonds rose sharply during the month, and the Bank of Canada made switches within its portfolio to hold down interest rates. With the delivery of the new short-term Government bond early in the month, outstanding Government bonds rose by \$173 million. The chartered banks increased their bond holdings by \$139 million and the general public sold \$35 million (see Table). While the Bank of Canada purchased \$21 million net of bonds, it sold \$84 million of under-2-year maturities and purchased \$71 million of over-2-year maturities in the first week of August to reduce upward pressure on long-term rates.

Some of the larger new non-Government issues reported by the press in August include the following:

Canadian Hydrocarbon, Ltd., \$3.5 million, 6-1/2 per cent, 20-year debentures, offered at par;

B. C. Electric, \$100 million, 5 per cent parity bonds, due September, 1965, guaranteed by the British Columbia Government;

Province of Nova Scotia, 5-1/4 per cent debenture, priced at \$98.25 to yield 5.39 per cent, maturing September 1, 1982.

On September 5, the Minister of Finance announced the details of a new \$400 million short-term bond issue. Of this amount, \$200 will be

offered for cash and \$200 million will be taken by the Bank in exchange for the following maturities:

\$100 mil. of 3% bonds due Dec. 1, 1961;  
40 mil. of 3% bonds due May 1, 1962;  
60 mil. of 3% bonds due June 15, 1962.

The new issues will consist of the following:

- (1) \$225 million (of which \$200 will be offered for cash and \$25 million for advance refunding) of 10-1/2 month, 3% bonds due August 1, 1966 priced at 99.75 to yield 3.29% to maturity,
- (2) \$175 million (for advance refunding) of 5 year and 3 month, 4-1/2% bonds due December 15, 1966, priced at 99.25 to yield 4.66% to maturity.

This exchange with the Bank will reduce current year refinancing needs to about \$460 million.

The Minister of Finance also announced that the 1960 series of Canada savings bonds will be withdrawn from sale on August 31. A new series of bonds will be offered in October, and details regarding the new issue will be announced in September. Total holdings of Canada savings bonds by the general public on August 23 were \$3.4 billion, about \$400 million over a year ago. With current year new cash needs close to \$1 billion, the authorities will undoubtedly depend heavily upon another successful savings bond drive to meet part of their financing needs.

Foreign exchange. In early August with the Canadian dollar close to 97 U. S. Cents, the Government expressed its satisfaction with the prevailing rate and it remained unusually close to this level through the rest of the month. While June reserves rose \$36 million as a result of official intervention to depress the rate, there was some weakening of the Canadian dollar in July and reserves declined \$25 million in support of the exchange rate. This weakening of the dollar was reportedly due to large liquidations of nonresident holdings of Canadian securities, following the announcement on June 20 of the new expansionary monetary and fiscal policies.

The total volume of transactions in Canadian dollars on the foreign exchange markets continues to be but a fraction of the normal volume. Presumably this reflects heavy forward dealing in late June to avoid uncertainties emanating from the expressed policy of direct Government intervention in the exchange market.

The 3-month forward rate on the Canadian dollar moved from a small discount to flat with the spot rate in early August. The reduction of the discount in July and its elimination in August was consistent with

the gradual reduction in the spread between Canadian and U. S. yields which took place during the July-August period.

Money supply and bank loans. General bank loans, seasonally adjusted, rose further in the early weeks of August without any tightening of bank reserves. Loans expanded \$89 million during the first 23 days of the month to over 5 per cent above the end of December level and over 11 per cent above June 1960 when the expansion started. In spite of this rise, however, cash reserves of the chartered banks remained at 8.1 per cent of deposit liabilities and liquid assets rose to 18.9 per cent compared with 18.3 per cent in July, well above the 15 per cent minimum required.

The seasonally adjusted money supply (excluding Government deposits but including savings deposits) was also up sharply again in the first three weeks of August. The increase in deposits and currency through August 23 was \$176 million, a rise of 1.3 per cent over July to about 5.5 per cent above the end of December 1960.

Stock market. The index of industrial stock prices on the Canadian exchanges continued to rise in August paralleling the upward movement of prices in the U. S. exchanges. Since last October when prices began to move upward the Canadian index rose 41.5 per cent while the Standard & Poor index rose only 29 per cent. Since the devaluation of the Canadian dollar in mid-June, Canadian prices have risen 4.5 per cent and U. S. prices by 3.3 per cent. The following table compares Canadian and U. S. industrial stock indices:

	<u>DBS Industrials</u>	<u>NY Standard &amp; Poor Industrials</u>
Sept. 29	243.6	55.69
June 15	329.7	69.55
June 22	333.8	68.71
July 27	334.8	70.40
August 3	343.5	71.17
August 17	344.6	71.83

Trade account. The seasonally adjusted trade balance showed a surplus of \$112.2 million in April when exports moved to record levels and imports fell off sharply. During the first four months of this year the trade surplus was \$116.4 million compared with a deficit of \$31.6 million in the January-April period of 1960. The improved trade position reflects rising exports to all areas while imports have been declining. Although exports to the United States have been moving upward since early 1961, partially reflecting economic recovery, they continue to be somewhat below the levels a year ago. The following table gives seasonally adjusted trade for 1961 in million of Canadian dollars:

<u>1961</u>	<u>Exports</u>	<u>Imports</u>	<u>Trade balance</u>
Jan.	474.7	465.2	+ 9.5
Feb.	443.8	452.4	- 8.6
March	478.8	475.5	+ 3.3
April	527.5	415.3	+ 112.2

Mortgage market. The Central Mortgage and Housing Corp. (CHMC) has announced its second offering of mortgage holdings issued under the NHA program as a further step in developing a secondary mortgage market (see Capital Market Development No. 11, June 12, 1961, and No. 19, August 7, 1961). The new offering is for \$17.5 million, broken up into 41 lots, 29 carrying a face value of \$500,000 each, and the balance about \$250,000. All mortgages will be at 6-3/4%, with a duration of 25 to 30 years. In the first offering last June, of \$15 million, \$12.5 million was purchased by the public.

While the press has announced some hesitancy on the part of purchasers to take the NHA offerings, strong interest has been shown by several private organizations. The Old Brook Financial Co., a private Ontario investment firm, has announced its intention to buy NHA mortgages and sell bonds secured by these mortgages. Other organizations have already been created specifically for the purpose of purchasing these mortgages as reported earlier.

British Commonwealth Section.

## II. Nine Charts on Financial Markets Abroad

- Chart 1 - Interest Arbitrage U.S./Canada
- Chart 2 - Interest Arbitrage New York/London
- Chart 3 - Interest Arbitrage New York/Frankfurt
- Chart 4 - Interest Arbitrage Frankfurt/London
- Chart 5 - Short-term bond Yields
- Chart 6 - Long-term Bond Yields
- Chart 7 - Industrial Stock Indices
- 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

- 7 -

	3-mo. Treas. bills			Canadian dollar			Net incentive to hold Can. bills <sup>e</sup>
	Canada <sup>a</sup>	U.S. <sup>b</sup>	Spread over U.S.	Spot <sup>c</sup>	3-mo. forward	discount premium(+/-) <sup>d</sup>	
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	2.26	2.17	-0.09	96.81	--	-0.56	-0.20
July 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
10	2.54	2.42	0.12	96.92	96.89	-0.13	-0.01
17	2.58	2.50	0.08	96.97	96.97	0.0	+0.08
24	2.51	2.39	0.12	96.98	96.98	0.0	+0.12
30	2.26	2.35	-0.09	96.97	96.97	0.0	-0.09

<sup>a</sup>/ Average yield at weekly tender on Thursday.

<sup>b</sup>/ Composite market yield for the U.S. Treasury bill on Thursday close of business.

<sup>c</sup>/ In U.S. cents.

<sup>d</sup>/ Spread between spot rate and 3-month forward Canadian dollar on Thursday closing, expressed as per cent per annum.

<sup>e</sup>/ 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 <sup>a</sup>	Spread over U.S. <sup>b</sup>	Canada <sup>a</sup>	Spread over U.S. <sup>b</sup>	(20 year)	Spread over U.S. <sup>b</sup>	(35 year)	Spread over U.S. <sup>b</sup>
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	2.35	-0.11	4.42	0.25	4.85	0.88	4.92	1.14
July 27	2.79	0.33	4.49	0.48	4.90	1.01	4.92	1.23
Aug. 3	2.78	0.25	4.46	0.39	4.90	0.95	4.94	1.21
10	2.80	0.12	4.47	0.25	4.94	0.87	4.96	1.17
17	2.83	0.03	4.52	0.36	4.96	0.92	4.98	1.21
24	2.77	0.09	4.49	0.36	4.95	0.92	4.99	1.22
30	2.55	-0.11	4.45	0.39	4.93	0.89	4.98	1.20

<sup>a</sup>/ Average yield at weekly tender on Thursday.

<sup>b</sup>/ Spread between Canadian auction rate and composite market yield of U.S. bill on close of business Thursday.

<sup>c</sup>/ Government of Canada 2-3/4 per cent of June 1967-68.

<sup>d</sup>/ Spread over U.S. Government 2-1/2 per cent of 1963-68.

<sup>e</sup>/ Government of Canada 3-1/4 per cent of October 1979.

<sup>f</sup>/ Spread over U.S. Government 3-1/4 per cent of 1978-83.

<sup>g</sup>/ Government of Canada 3-3/4 per cent of September 1996 - March 1998.

<sup>h</sup>/ 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>Total</u>	<u>Treas. bills</u>	<u>Bonds</u>	<u>Savings bonds</u>	<u>Treas. bills</u>	<u>Bonds</u>
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
Aug.	0	+21	+32	+107	+148	- 29	-87	-35

**Source: Bank of Canada, Weekly Financial Statistics.**

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

	<u>April</u>	<u>May</u>	<u>June</u>	<u>July</u>	<u>Aug.</u>
1. Money supply: <sup>a/</sup>					
Currency and deposits	13,876	13,866	13,861	14,011	d/ 14,368
Less: Govt. deposits	253	153	200	179	360
Equals: privately held	13,623	13,713	13,661	13,832	14,008
Change in period	- 29	+ 90	- 52	+ 171	+ 176
2. General bank loans: <sup>a/</sup>	5,207	5,224	5,252	5,269	d/ 5,358
Change in period	- 2	+ 17	+ 28	+ 17	+ 89
3. Total Govt. securities:	17,780	17,695	17,763	17,739	17,885
Of which: Treas. bills	1,935	1,935	1,885	1,885	1,885
Bonds	12,308	12,258	12,404	12,402	12,577
Savings bonds	3,537	3,502	3,474	3,452	3,423
4. New security issues: <sup>b/</sup>	926	891	725	1,086	e/ 140
Of which sold in U.S.	0	95	11	12	6
5. Chartered bank liquidity:					
Cash reserve	1,017	1,018	1,027	1,025	1,039
Cash ratio	8.1	8.1	8.1	8.1	8.1
Liquid assets	2,170	2,226	2,312	2,317	2,415
Liquid asset ratio	17.3	17.7	18.3	18.3	18.9

a/ Seasonally adjusted.

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

c/ Through Aug. 8

d/ Through Aug. 23



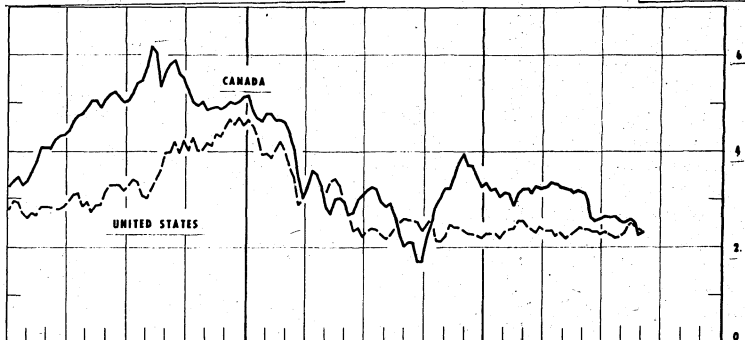
Chart 1

# INTEREST ARBITRAGE, UNITED STATES / CANADA

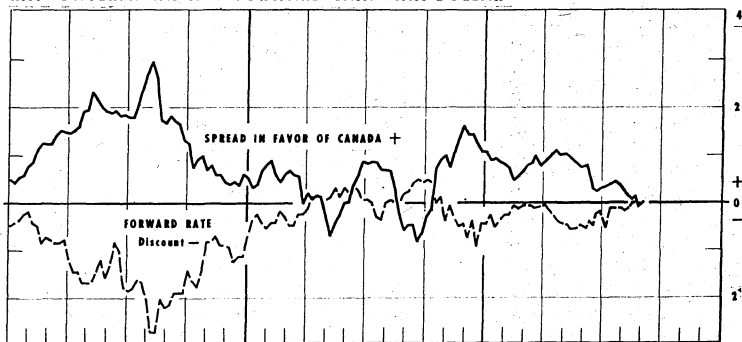
Thursday figures

## THREE-MONTH TREASURY BILL RATES

Per cent per annum



## RATE DIFFERENTIAL AND FORWARD CANADIAN DOLLAR



## RATE DIFFERENTIAL WITH FORWARD EXCHANGE COVER

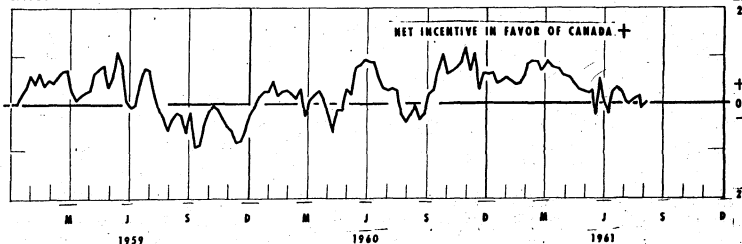
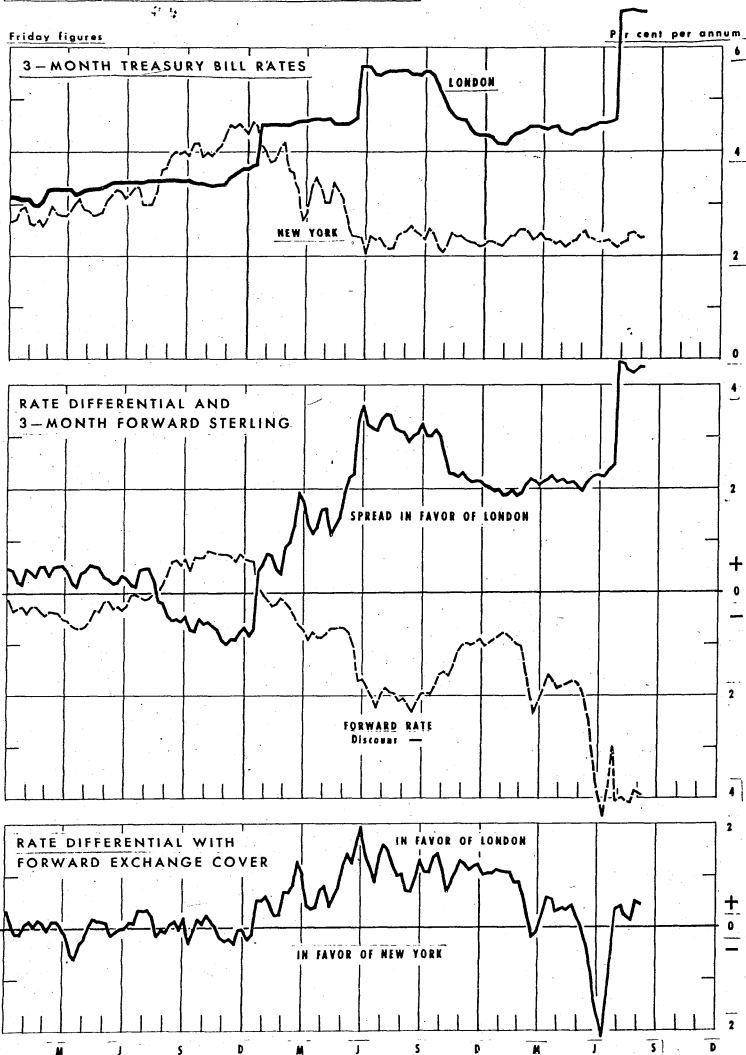


Chart 2

**INTEREST ARBITRAGE, NEW YORK / LONDON**

Friday figures

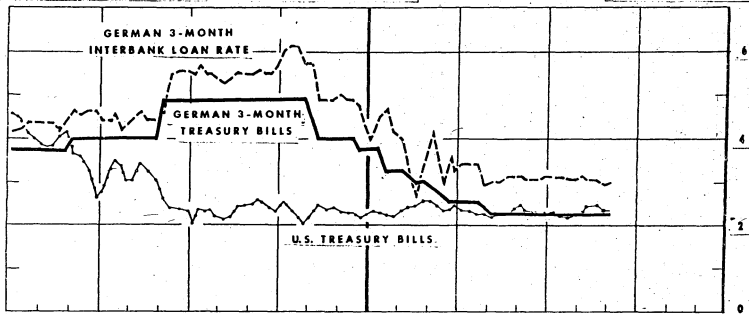
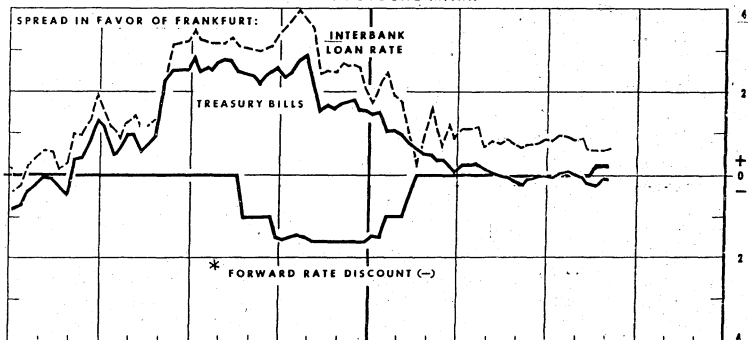
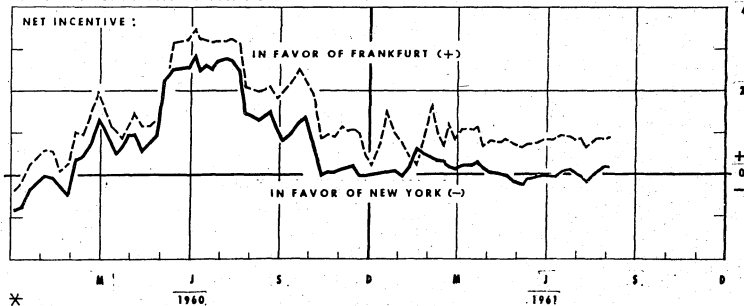


**INTEREST ARBITRAGE, NEW YORK/FRANKFURT**

Friday figures

**3-MONTH TREASURY BILL RATES AND<sup>1</sup>  
GERMAN 3-MONTH INTERBANK LOAN RATES**

Per cent per annum

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

\* Special forward dollar rate available to German commercial banks.

Chart 4

# INTEREST ARBITRAGE, FRANKFURT/LONDON

Friday figures

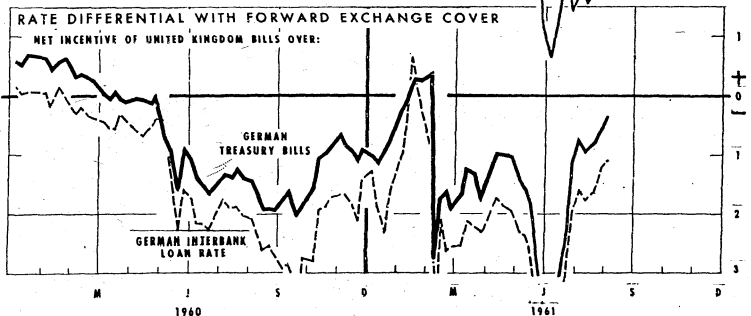
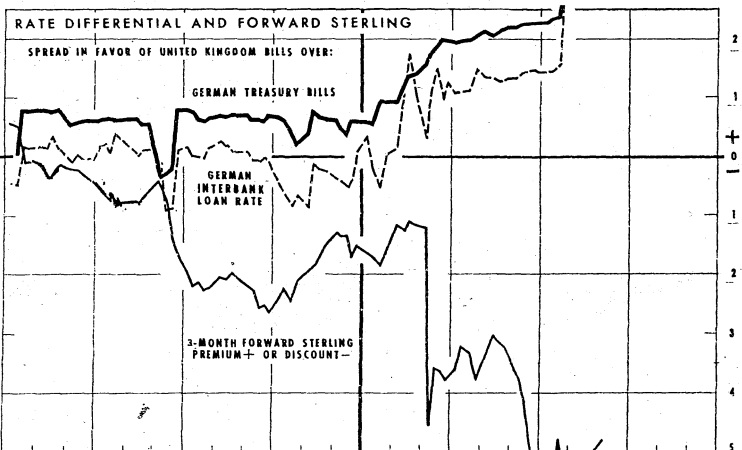
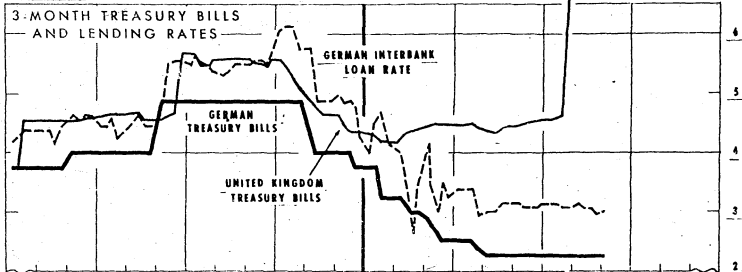
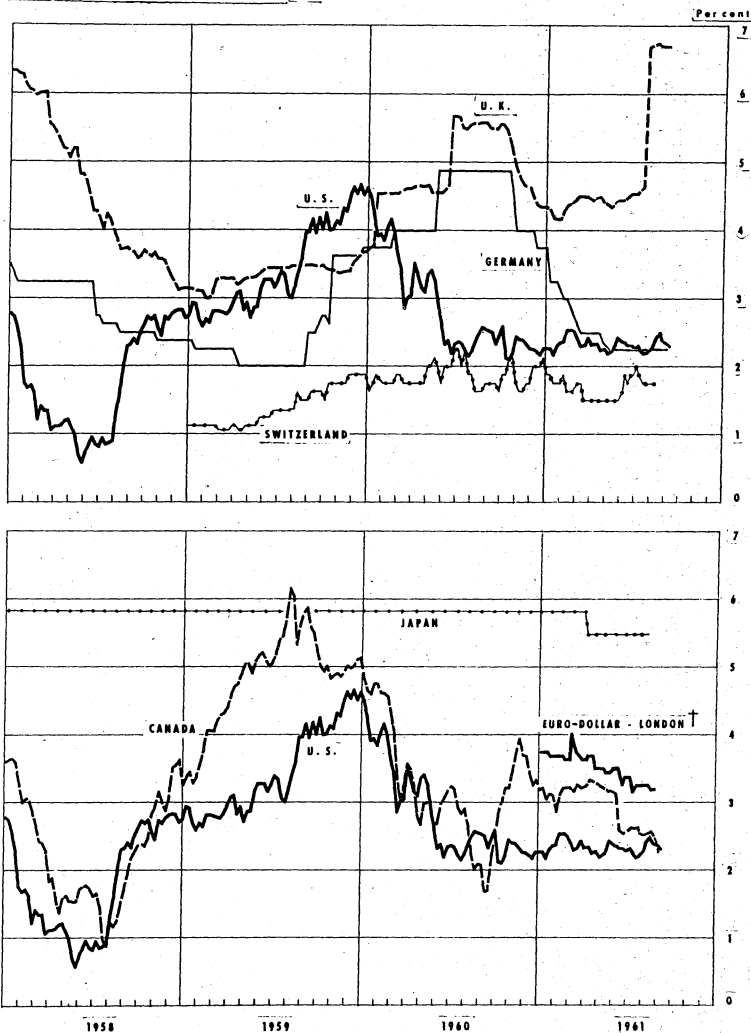


Chart 5

**SHORT-TERM INTEREST RATES\* \***



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

† 3-month rate for U.S. dollar deposits in London.

Chart 6

# LONG-TERM BOND YIELDS

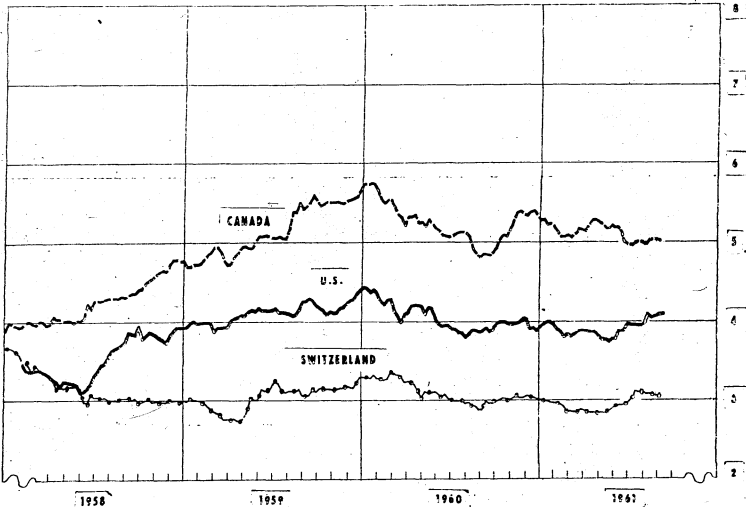
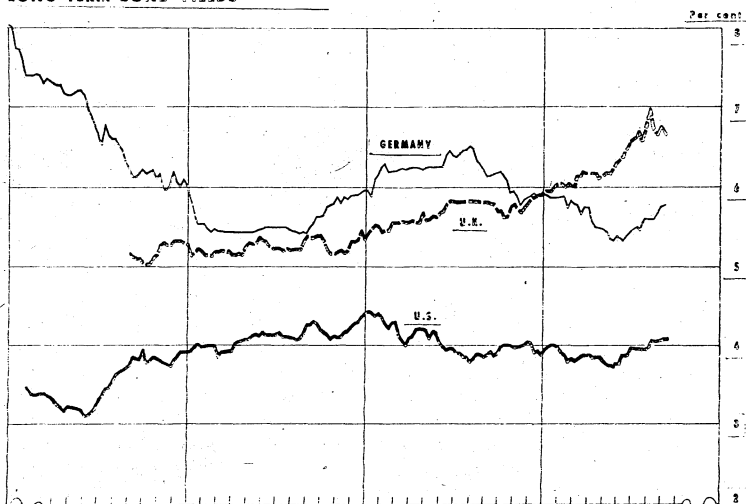
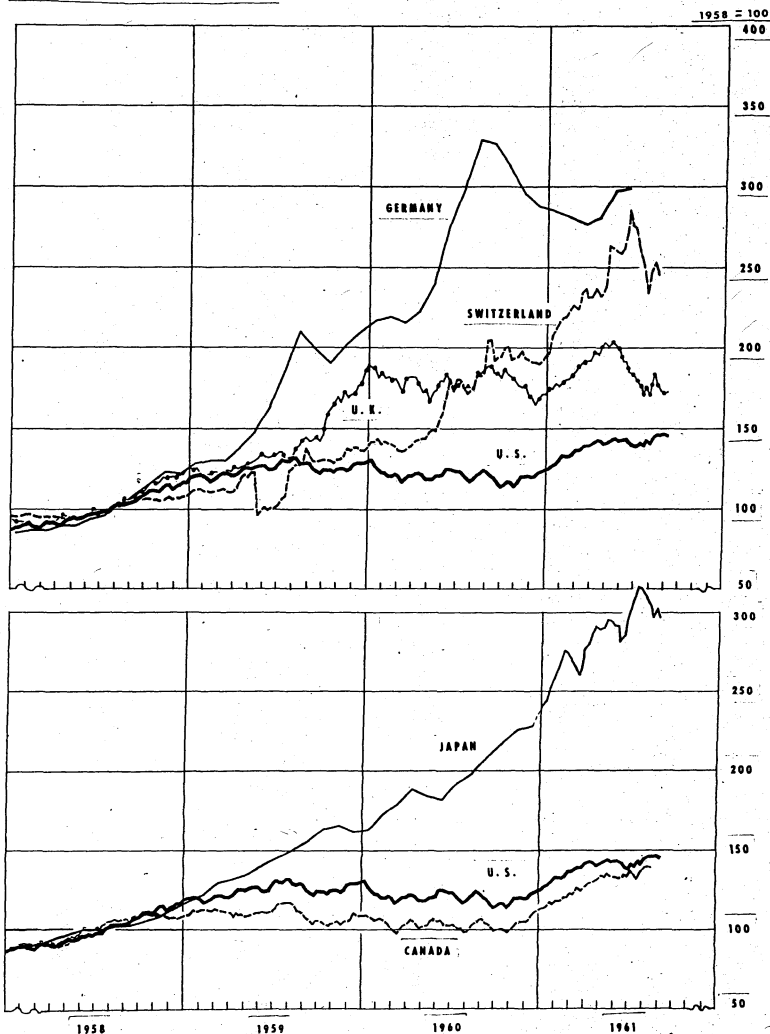


Chart 7

**INDUSTRIAL STOCK INDICES \***



\*

Japan: Index of all stocks traded on Tokyo exchange.

Chart 8

MAJOR CURRENCIES IN TERMS OF THE SPOT U. S. DOLLAR

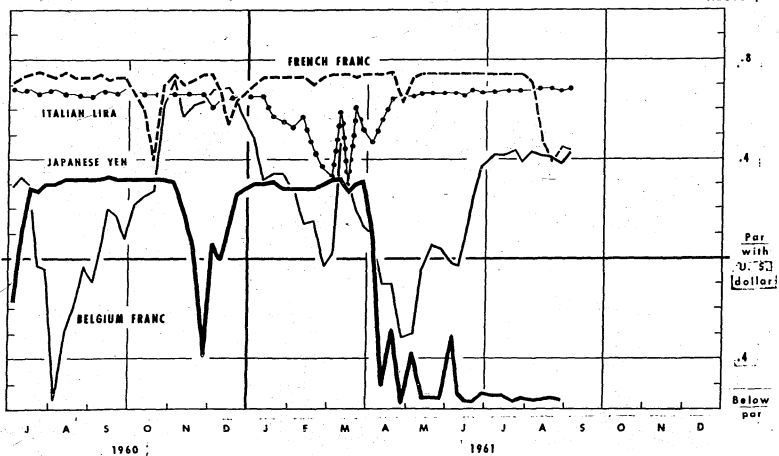
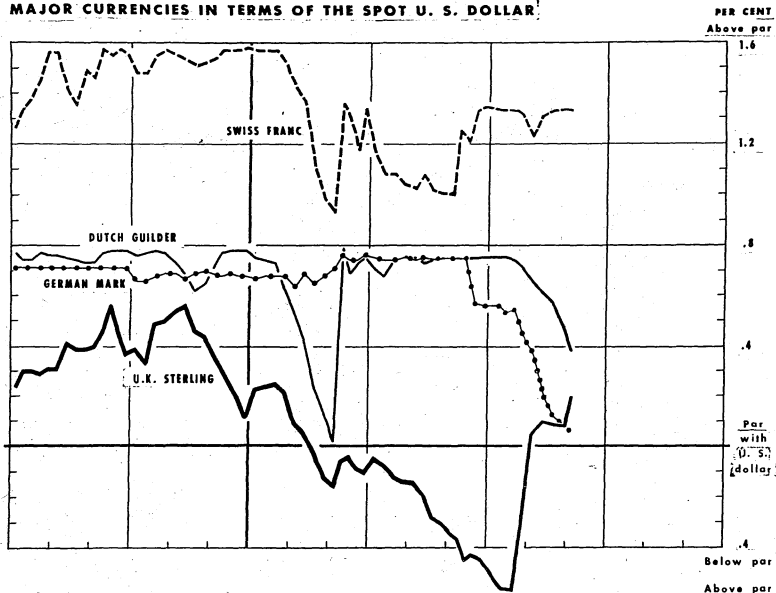




Chart 9

### 3-MONTH FORWARD RATES - LONDON QUOTATIONS

