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OF THE
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CAPITAL MARKET DEVELOPMENTS ABROAD

I. Canada
II. Nine Charts on Financial Markets Abroad

I. Canada: Money and Capital Markets During September

During September, Treasury bill rates rose about 30 basis points but bond yields were virtually unchanged in Canadian markets. This reversal in bill rates appears to reflect some caution on the part of the monetary authorities following the considerable expansion in credit availabilities in recent months. The chartered banks were sellers of bills but did add substantially to their holdings of short bonds during the month. The Bank of Canada acquired bonds and some bills, probably in connection with the $200 million short bond issue delivered by the Treasury in mid-September.

In the intermediate and long-term sectors, yields remained stable throughout the month. Similarly, yields in the corporate and local government sectors of the bond market were practically unchanged.

The commercial banks continue to enjoy a liquid asset ratio almost 4 percentage points above the required minimum. During the month, bank loans continued to expand (after allowing for seasonal factors) but the rate of increase was much below the unusually heavy expansion during August.

The Canadian dollar continued to hold at about 97 U.S. cents with only limited fluctuation during the month. The forward rate remained flat with the U. S. dollar for the eighth consecutive week.

Money Market. During September, Treasury bill yields rose about 30 basis points above August lows. (See Table.) Pressures on the cash position of security dealers in connection with the delivery of a new Treasury bond issue accounted for a large expansion in day-to-day loans and led to dealer borrowings directly from the Bank of Canada. As a result, day-to-day loan rates rose 45 basis points from 1.95 to 2.40 per cent during the month. The average auction yield on the 3-month Treasury bill rose 33 basis points from 2.26 to 2.59 per cent and the 6-month bill yield rose 34 basis points from 2.55 to 2.89 per cent. (See chart 1 and Table.) However, Canadian bill rates were still well below early June lows before monetary policy was shifted to active ease, as the following rates indicate:

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	3-month Treasury bill	6-month Treasury bill
June 1	3.14	3.30
15	2.60	2.75
Aug. 31	2.26	2.55
Oct. 5	2.57	2.84

The chartered banks reduced their Treasury bill holdings $58 million and the general public purchased $40 million. The Bank of Canada cushioned demand pressures in the short credit sectors by purchases of $16 million of Treasury bills; the Bank also advanced $22.5 million to dealers through re-sale agreements after the Treasury's new issue had been delivered to the market.

The rise in Canadian rates caused the spread between Canadian and US bill yields to widen to 34 basis points. This widened the incentive to hold Canadian bills on a covered basis, since the 3-month forward dollar continued to be about flat with the spot rate for the eighth straight week.

Bond Market. Bond yields remained stable in both the Government and non-Government sectors during September. (See Table.) According to McLeod, Young, Weir, Ltd., non-Government bond yields averaged 5.47 per cent on October 1 compared with 5.45 per cent on September 1, and with 5.63 per cent in early June. The following table compares yield changes between June and October for these sectors of the bond market:

	June 1	Sept. 1	Oct. 2
10 Provincials	5.62	5.38	5.45
10 Municipals	5.82	5.60	5.63
10 Public Utilities	5.48	5.39	5.37
10 Industrials	5.60	5.43	5.42
40 Bond Yield Average	5.63	5.45	5.47

Yields on government bonds of longer maturities were also steady but rates on some shorter maturities declined slightly. Selected Canadian Government bond yields have changed since June 15 as follows:

Maturity	June 15	Aug. 30	Sept. 28	Oct. 4
Sept. 1965	4.63	4.39	4.36	4.29
Sept. 1972	4.98	4.83	4.88	4.87
Jan. 1975-78	5.14	5.01	5.02	5.01
Sept. 1983	5.10	5.01	5.03	5.02
Sept. 1996-98	5.08	4.98	5.00	5.00

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With higher Canadian yields, the yield spread favoring Canadian Government securities over comparable US securities widened during the month. However, yield differences for intermediate term securities are still significantly below mid-June differences, as noted in the following table:

	Sept. 28	Oct. 4	Aug. 30-Oct. 4	June 15-Oct.4
8-year bond	0.47	0.45	+0.06	-0.42
20-year bond	0.91	0.91	+0.02	-0.27
35-year bond	1.24	1.23	+0.03	-0.10

The Bank of Canada bought $44 million of bonds, the banks bought $72 million and the general public bought $42 million during the month. (See Table.)

A. E. Ames and Co. estimated total new securities issued in September at $1,024 million. There were no offerings in the United States.

On September 18, the Minister of Finance announced that the new Canadian savings bonds, dated November 1, 1961, will provide an average yield of 4.60 per cent with a 10-year maturity. Interest will be payable at 4-1/4 per cent the first year, 4-1/2 per cent for the next six years, and 5 per cent for the remaining three years. The yield to maturity for last year's savings bonds was 4.71 per cent. The bonds may be cashed in at any time for full face value and accrued interest. The issue is available only for residents of Canada and the limit per buyer is $10,000. Total savings bonds held by the general public on October 4 were $3.4 billion, about $400 million over a year ago.

Unemployment Insurance Fund Holdings. The Minister of Finance announced on October 2 that the Treasury had taken over the entire portfolio of the Unemployment Insurance Fund in exchange for non-marketable securities. This measure, announced in the Minister's budget speech last June 20, was designed to remove the threat of large sales of the Fund's holdings at times of high unemployment which had had the effect of holding interest rates up at a time when the Bank's activities were directed toward reducing interest rates. The Fund now holds $138.5 million of a non-marketable 3-3/4 per cent Government of Canada bond. Some $99 million of the proceeds from the retirement of the Fund's holdings was used to repay the Treasury for outstanding advances to the Fund.

Money Supply and Bank Loans. In September, general bank loans continued to rise more than seasonally but much less than in August. (See Table.) Outstanding seasonally adjusted loans were up $11 million in September to $5378 million. Chartered bank cash reserves rose $23 million and continued at 8.1 per cent of outstanding deposits; the liquid assets of the chartered banks rose $50 million and continued at almost 19 per cent

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of deposits, well over the 15 per cent minimum requirements. In December 1960, the average ratio was 16.8 per cent.

The seasonally-adjusted privately-held money supply in September declined $43 million as a result of the new Treasury bond offering, but was still 5.8 per cent above December 1960. The delivery of the new Government bond resulted in transfers of deposits from private to Government accounts and increased seasonally-adjusted Government deposits by $163 million. Together, private and Government holdings of currency and deposits rose $118 million in the month.

Foreign Exchange. The Canadian dollar fluctuated narrowly around 97 U. S. cents during the month. In fact, the exchange rate has held unusually steady at this level since mid-June when the authorities announced their intention to use the Exchange Fund to reduce the value of the Canadian dollar. Official foreign exchange reserves rose $36 million in June, compared with the decline of $41 million in July and August to support the Canadian dollar. Although there was heavy spot and forward trading in Canadian exchange markets shortly before and after the June 20 announcement, the market has been unusually quiet since that time. The 3-month forward rate on the Canadian dollar has held at the level of the spot rate since early August. (See Table and chart 1.)

Stock Market. During September, weekly turnover reached highs for the year even though industrial stock prices declined. The Canadian index of industrial prices for the week ending September 21 was about 1 per cent below the end of August figure while the NY Standard and Poor industrial index fell by less than 1 per cent. The total value of trade in the Canadian exchanges rose to $12.2 million in the week ending September 21 and to $26.1 million in the week ending September 28, compared with an average of less than $8 million a week in July and August. Canadian and US industrial stock indicies moved as follows:

Average for week ending	DBS Industrials	N.Y. Standard & Poor Industrials
September 29, 1960	243.6	55.69
June 15, 1961	329.7	69.55
July 27, 1961	334.8	70.40
August 31, 1961	344.1	71.86
September 21, 1961	340.2	71.39

British Commonwealth, Scandinavia and Near East 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 Yields
Chart 6 - Long-term 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

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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	2.26	2.17	-0.09	96.81	--	-0.56	-0.20
Aug. 30	2.26	2.35	-0.09	96.97	96.97	0.0	-0.09
Sept. 7	2.31	2.30	0.01	97.00	97.00	0.0	0.01
14	2.36	2.29	0.05	97.00	97.03	0.0	0.05
21	2.42	2.26	0.16	97.05	97.06	0.0	0.16
28	2.59	2.25	0.34	97.06	97.08	0.0	0.34
Oct. 5	2.57	2.29	0.28	97.08	97.08	0.0	0.28

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	4.53	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	4.39	0.25	4.85	0.88	4.92	1.14
Aug. 30	2.55	-0.11	4.45	0.39	4.93	0.89	4.98	1.20
Sept. 6	2.61	-0.05	4.43	0.38	4.90	0.85	4.97	1.21
13	2.70	0.01	4.39	0.38	4.91	0.81	4.98	1.19
20	2.75	0.06	4.39	0.39	4.92	0.85	4.98	1.20
27	2.89	0.21	4.41	0.47	4.95	0.91	5.00	1.24
Oct. 4	2.84	0.24	4.39	0.45	4.96	0.91	5.00	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.

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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
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
Sept.	+16	+44	+ 9	- 58	+ 72	- 24	+ 40	+42

Source: Bank of Canada, Weekly Financial Statistics.

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

	April	May	June	July	Aug.	Sept.
1. Money supply:a/						
Currency and deposits	13,876	13,866	13,861	14,011	14,368	14,486
Less: Govt. deposits	253	153	200	179	312	473
Equals: privately held	13,623	13,713	13,661	13,832	14,056	14,013
Change in period	- 29	+ 90	- 52	+ 171	+ 224	- 43
2. General bank loansa/	5,207	5,224	5,252	5,269	5,367	5,378
Change in period	- 2	+ 17	+ 28	+ 17	+ 98	+ 11
3. Total Govt. securities:	17,780	17,695	17,763	17,739	17,885	18,061
Of which: Treas. bills	1,935	1,935	1,885	1,885	1,885	1,885
Bonds	12,308	12,258	12,404	12,402	12,577	12,776
Savings bonds	3,537	3,502	3,474	3,452	3,423	3,400
4. New security issuesb/	926	891	725	1,086	660	1,024
Of which sold in U.S.	0	95	11	12	0	0
5. Chartered bank liquidity:						
Cash reserve	1,017	1,018	1,027	1,025	1,039	1,062
Cash ratio	8.1	8.1	8.1	8.1	8.1	8.1
Liquid assets	2,170	2,226	2,312	2,317	2,415	2,465
Liquid asset ratio	17.3	17.7	18.3	18.3	18.9	18.8

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

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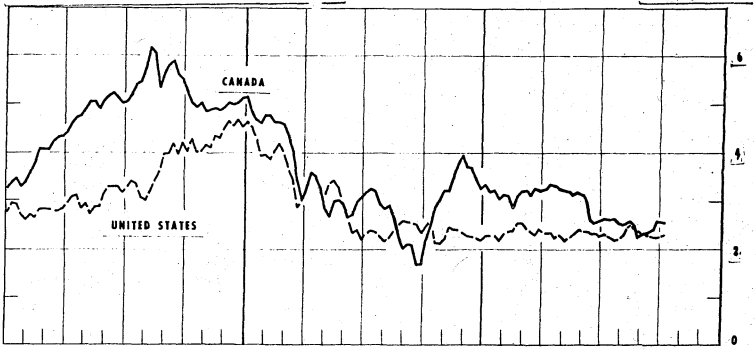
Chart 1

INTEREST ARBITRAGE, UNITED STATES / CANADA

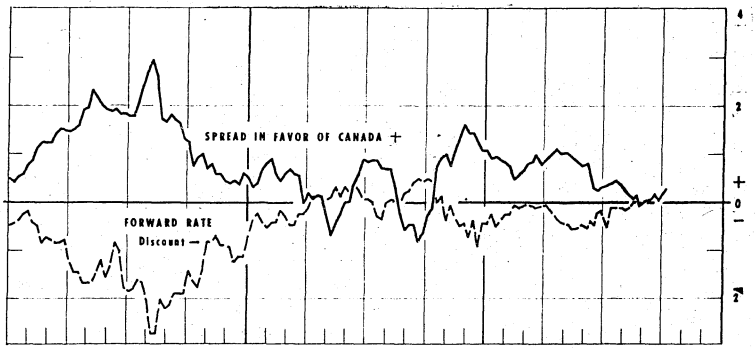
Thursday figures

THREE-MONTH TREASURY BILL RATES

Per cent per annum



RATE DIFFERENTIAL AND FORWARD CANADIAN DOLLAR



RATE DIFFERENTIAL WITH FORWARD EXCHANGE COVER

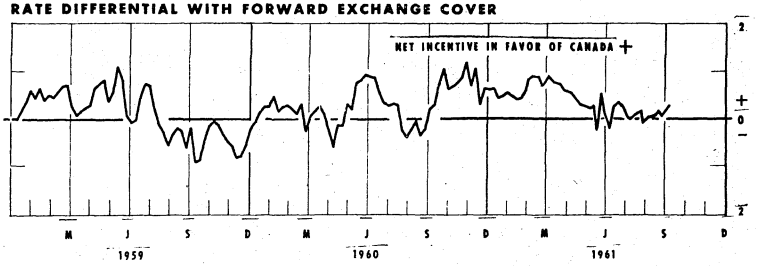


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Chart 2

INTEREST ARBITRAGE, NEW YORK / LONDON

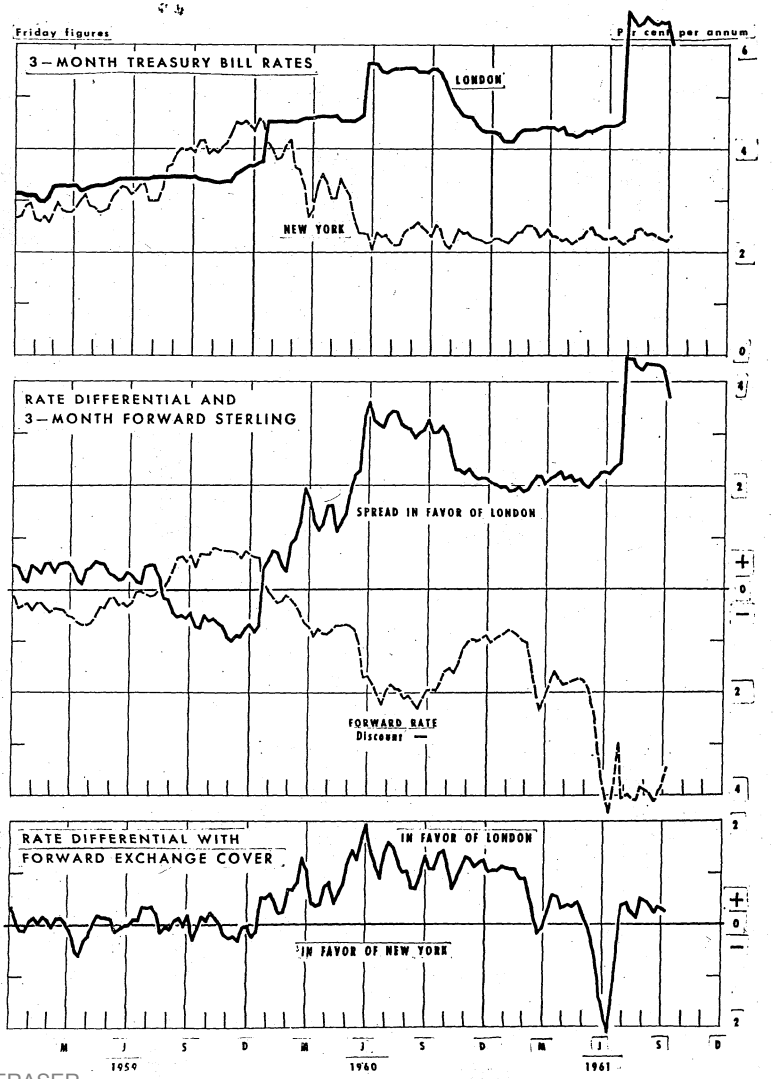

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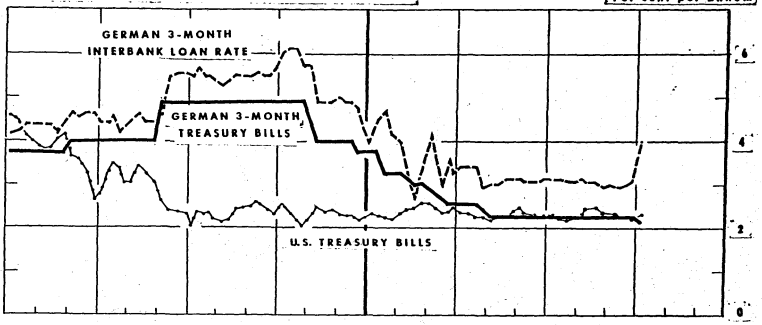
Chart 3

INTEREST ARBITRAGE, NEW YORK/FRANKFURT

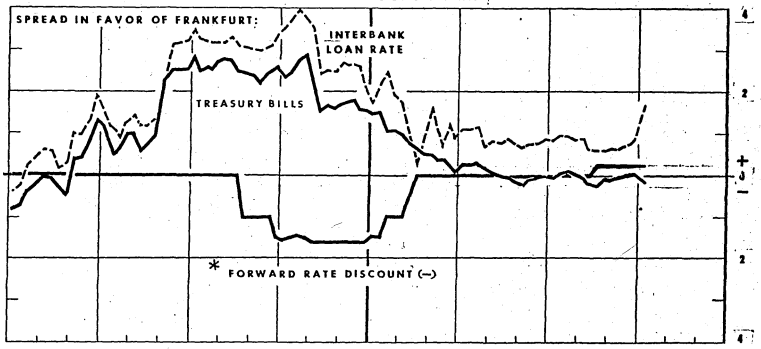
Friday figures

3-MONTH TREASURY BILL RATES AND GERMAN 3-MONTH INTERBANK LOAN RATES

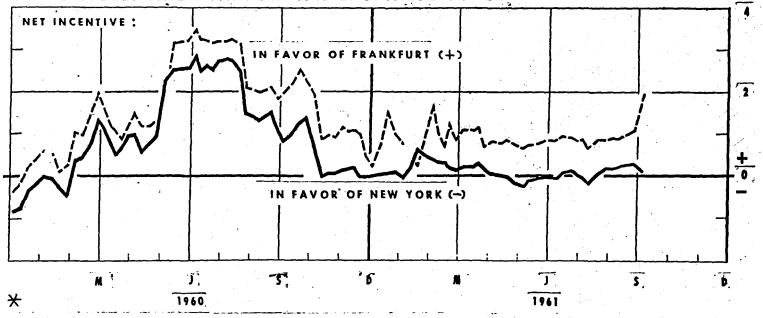
Per cent per annum



RATE DIFFERENTIAL AND FORWARD DEUTSCHE MARK



RATE DIFFERENTIAL WITH FORWARD EXCHANGE COVER



* Note Special forward dollar rate available to German commercial banks

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Chart 4

INTEREST ARBITRAGE, FRANKFURT/LONDON

Friday figures

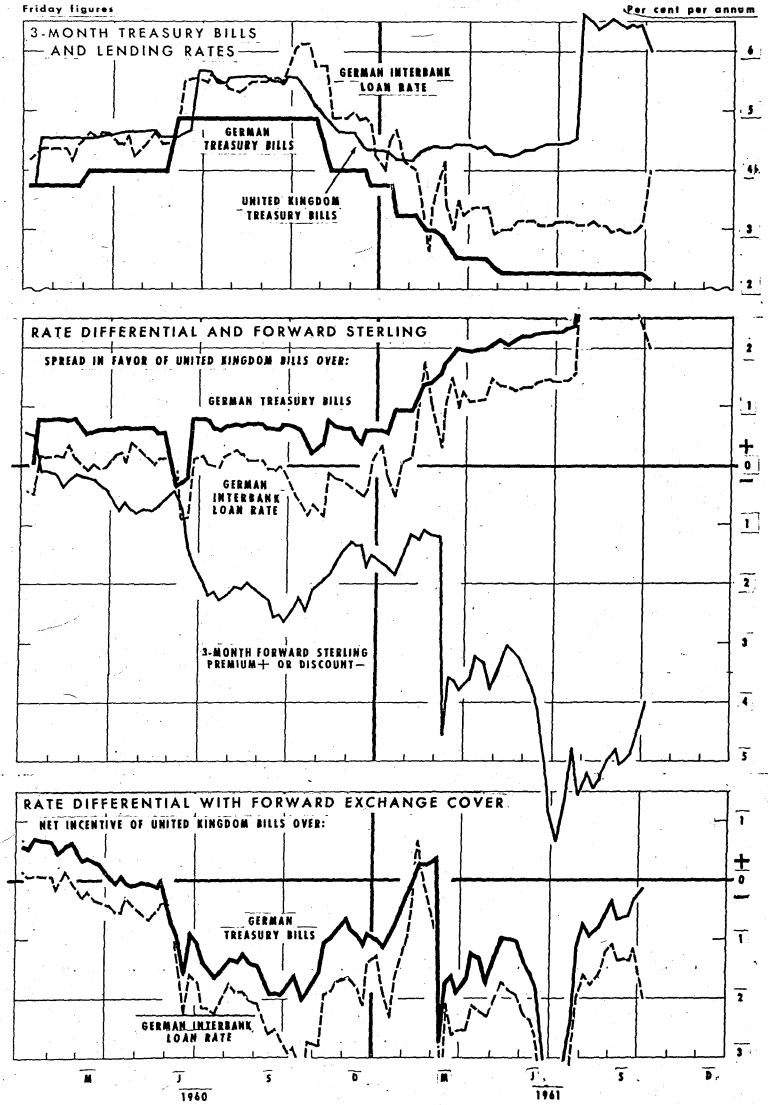

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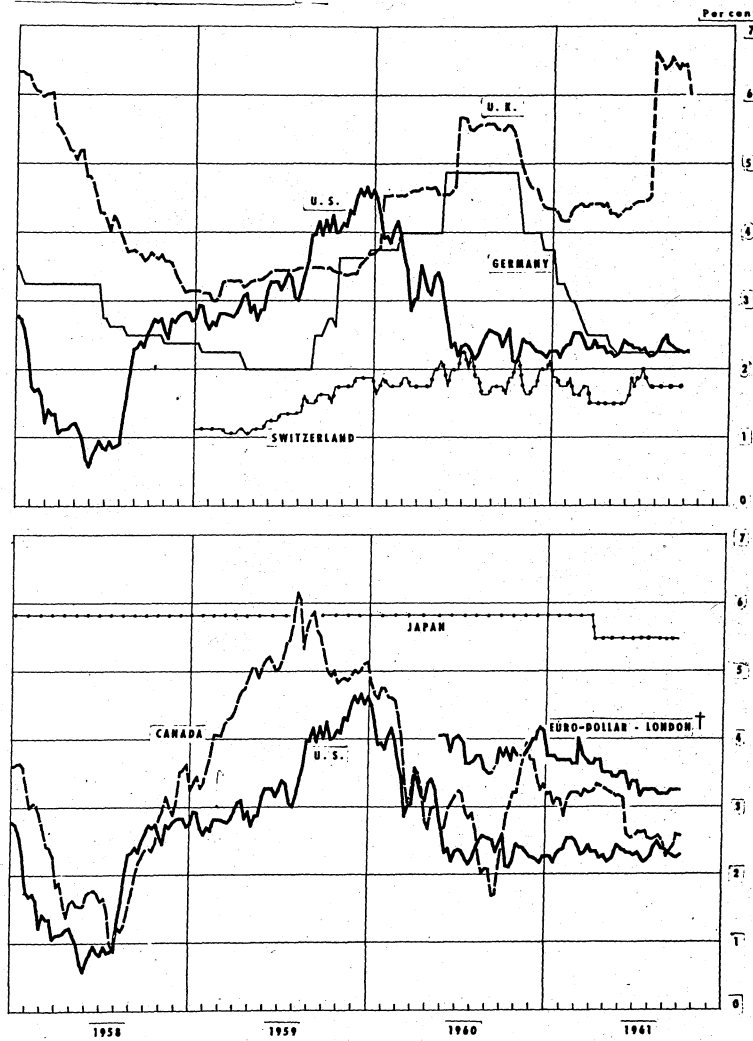
Chart 5

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.

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Chart 6

LONG-TERM BOND YIELDS

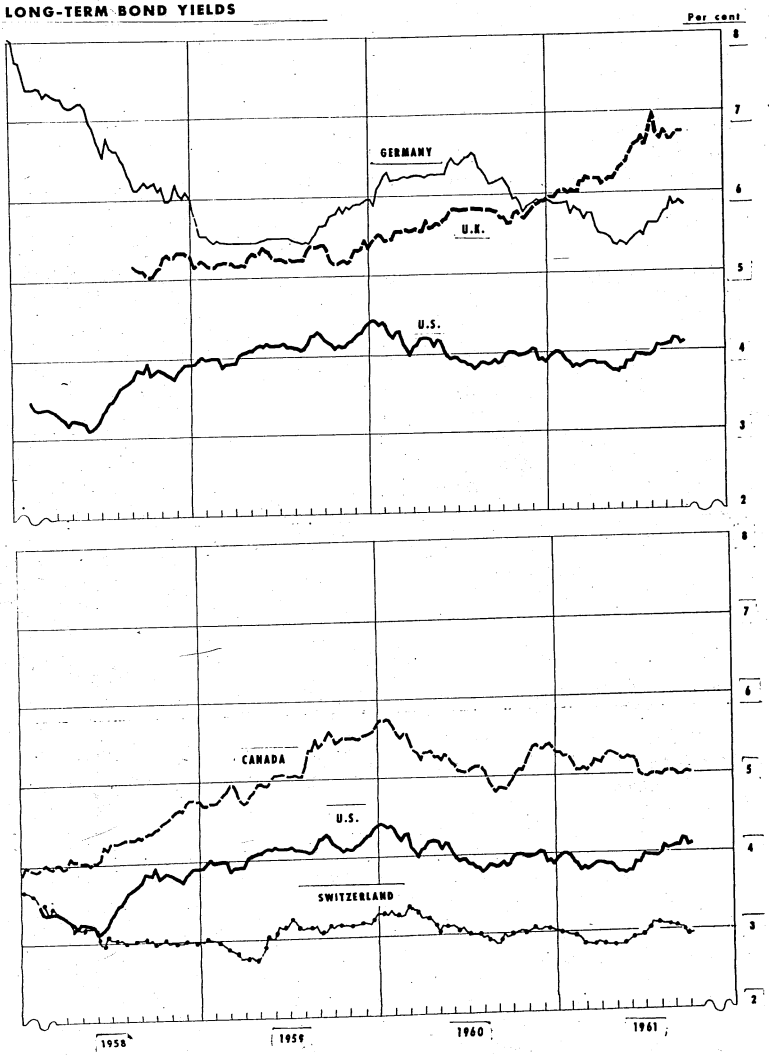

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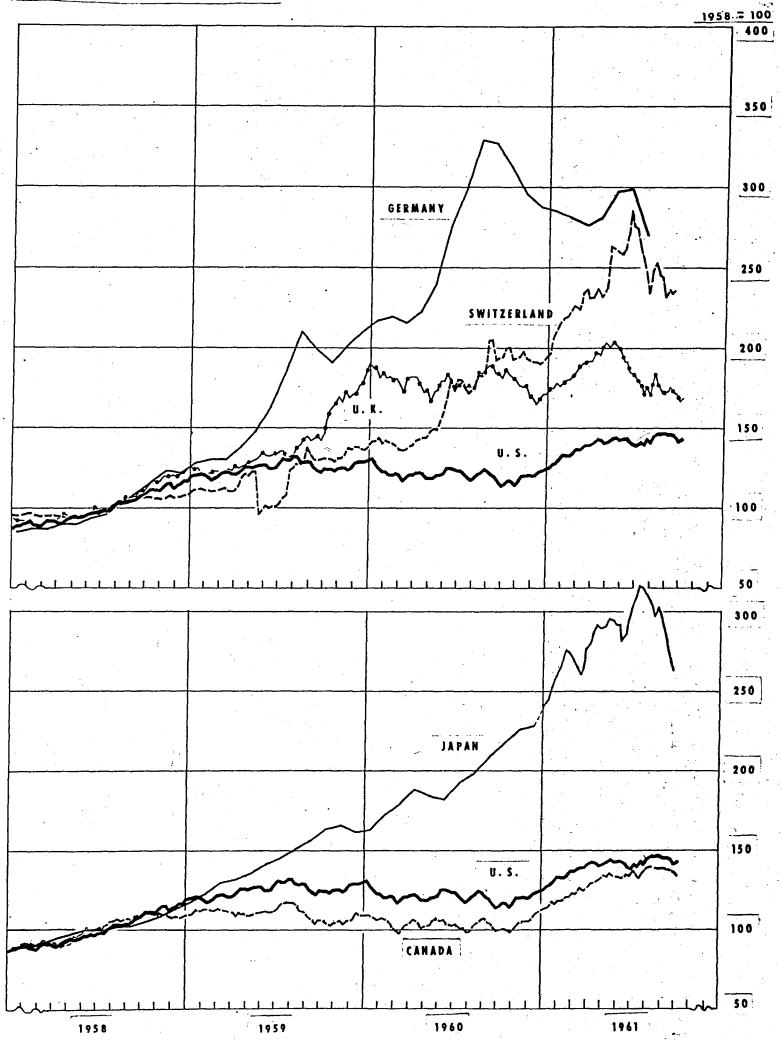
Chart 7

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

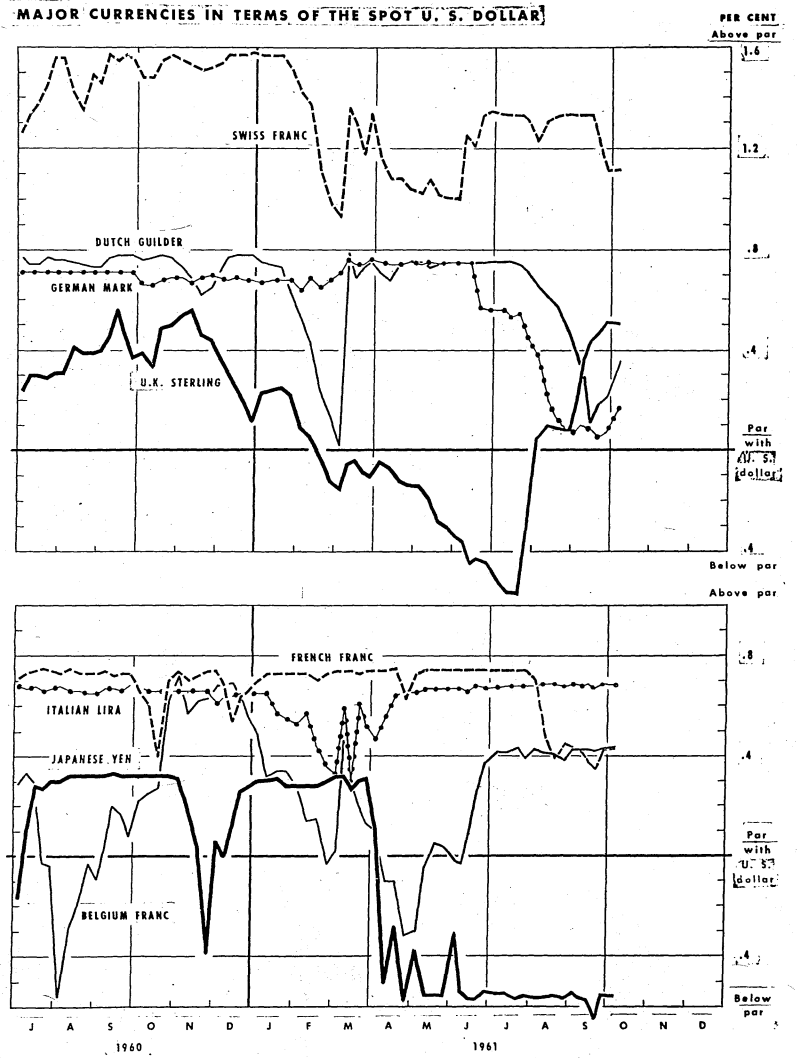

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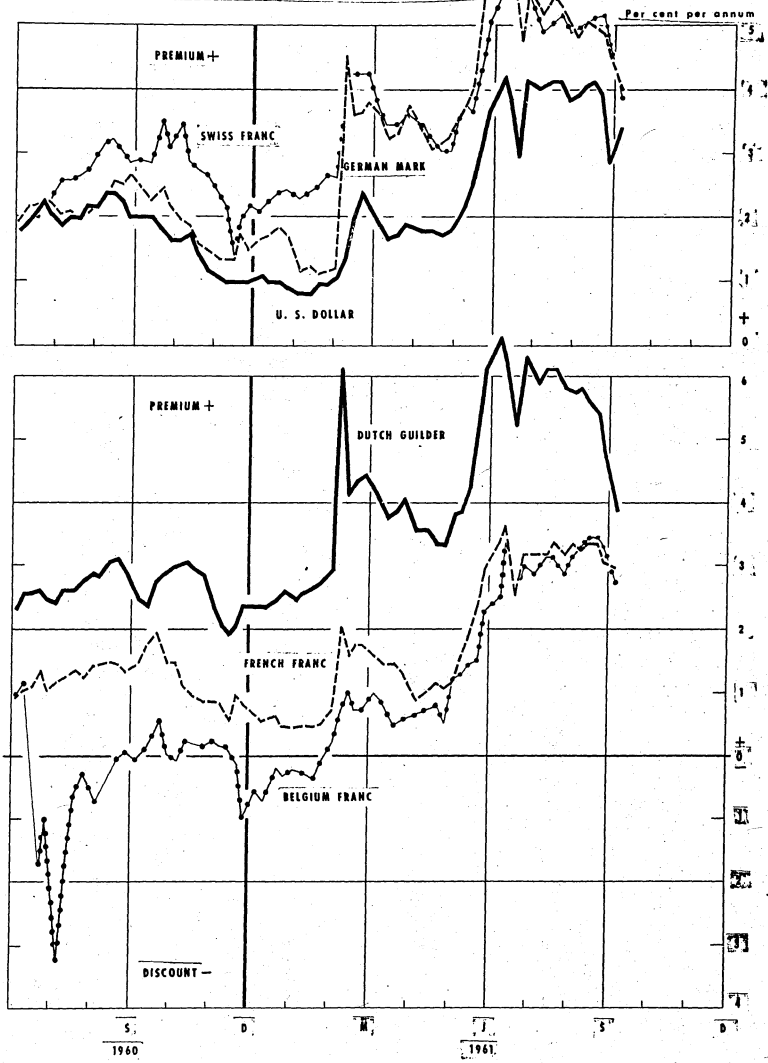
Chart 9

3-MONTH FORWARD RATES - LONDON QUOTATIONS



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