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No. 34

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**CAPITAL MARKET DEVELOPMENTS ABROAD**

- I. United Kingdom  
II. Nine Charts on Financial Markets Abroad

I. United Kingdom: Money and Capital Markets in October

Continuing inflows of foreign funds, two reductions in Bank rate, and "the sudden spreading of the gilt-edged fashion to the wider investing public" made October and early November a period of unusual activity in British financial markets. The capital inflow induced the authorities to reduce Bank rate from 7 to 6-1/2 per cent on October 5 and to 6 per cent on November 2. By mid-October an unexpected boom in the gilt-edged market led to general price advances all along the line and to substantial trading in government bonds. The expectation that market yields had reached a peak and were to move to a lower level contributed to the activity in gilt-edged securities.

A general downward drift in interest rates was evident in October. The declines in yields on government securities between the early August peak and early November were:

|                |     |              |
|----------------|-----|--------------|
| Treasury bills | 128 | basis points |
| Bonds: 6-month | 106 | " "          |
| 3-year         | 82  | " "          |
| 14-year        | 55  | " "          |
| War Loan       | 30  | " "          |
| Consols        | 33  | " "          |

Money rates also declined in the private sector. Clearing bank charges and deposit rates were automatically cut when Bank rate was reduced:

|                                 | <u>October 1</u> | <u>November 4</u> |
|---------------------------------|------------------|-------------------|
| Bank rate                       | 7                | 6                 |
| Bank overdrafts                 | 7-1/2 - 8-1/2    | 6-1/2 - 7-1/2     |
| Deposit rates (7-days' notice): |                  |                   |
| Clearing banks                  | 5                | 4                 |
| Discount houses                 | 5 - 5-1/4        | 4 - 4-1/4         |
| Local authorities               | 7                | 6-1/8             |

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DECONTROLLED AFTER SIX MONTHS

Even with declining interest rates, however, credit availabilities were further reduced in the period under review. After declining by £104 million in August and by £128 million in September, bank loans fell by £30 million in October. Hire-purchase credit outstanding declined by £12 million in September and a substantial reduction in new credit extended occurred. The decline in the Board of Trade's seasonally-adjusted index of retail sales from 117 in August to 116 in September indicates that credit and fiscal restraints are now having a marked effect on almost all sections of retail trade.

The official reserve figures reveal that the inflow of foreign funds in October was the largest for any month in 10 years. Published reserves declined by £8 million but Britain made special repayments during the month of at least £120 million. The foreign trade figures for October showed a rise in imports and in the trade deficit. On November 10, a Board of Trade spokesman announced in Parliament that possible ways of easing interest rates for exporters were under "the most active review."

A United States Department of Commerce survey estimates the current value of British industry's direct investment in the United States at no less than \$2.25 billion in 1960 compared with estimated U.S. holdings in United Kingdom industry of \$3.2 billion in 1960. These figures (which are based on book and not market value) reveal the extent to which British firms have rebuilt their holdings in this country after their substantial wartime sales of U.S. assets. The \$2.2 billion figure excludes between \$3.7 and 4.0 billion of U.S. dollar securities now held by the British Treasury and by private British investors. British industry's direct investment in Canada is estimated at close to \$1.4 billion.

Money market. Treasury bill yields declined rapidly during October as domestic and foreign investors competed with the discount houses for available supplies (see Table and Chart 2). During the month, bill yields declined from 6.44 per cent on September 29 to 5.31 per cent on November 3 (see Table) <sup>1/</sup>. The bill houses acquired an unusually large proportion of bills at the weekly tender as the following percentages show:

|         | <u>Per cent</u> |        | <u>Per cent</u> |
|---------|-----------------|--------|-----------------|
| Sept. 1 | 48              | Oct. 6 | 57              |
| 8       | 60              | 13     | 59              |
| 15      | 59              | 20     | 51              |
| 22      | 65              | 27     | 66              |
| 29      | 39              | Nov. 3 | 63              |

The net incentive to hold the U.K. bill against the U.S. bill was reduced to only 0.11 per cent by early November (see Table).

<sup>1/</sup> With this issue the Treasury bill rate quoted in this report is the market selling rate for bills (as reported by U.S. commercial banks) and not the weekly tender rate formerly used.

During October, the rate on 3-month Euro-dollar deposits in London moved slightly upward as follows:

|         | <u>Per cent</u> |        | <u>Per cent</u> |        | <u>Per cent</u> |
|---------|-----------------|--------|-----------------|--------|-----------------|
| Sept. 1 | 3.19            | Oct. 6 | 3.25            | Nov. 3 | 3.31            |
| 8       | 3.19            | 13     | 3.31            | 10     | 3.31            |
| 15      | 3.25            | 20     | 3.31            |        |                 |
| 22      | 3.25            | 27     | 3.38            |        |                 |
| 29      | 3.25            |        |                 |        |                 |

Gilt-edged market. The gilt-edged market had a firm tone in October and market trading was active as (in the words of The Economist) "the gilt-edged bandwagon ... /got/ on the move" despite efforts of the authorities to check the decline in bond yields (see Table and Chart 6). This unusual activity produced a general decline in market yields as the following yield figures show:

| <u>Bonds</u> | <u>Sept. 29</u> | <u>Oct. 6</u> | <u>Oct. 27</u> |
|--------------|-----------------|---------------|----------------|
| 6-month      | 6.13            | 5.49          | 5.14           |
| 3-year       | 6.44            | 6.11          | 5.83           |
| 14-year      | 6.61            | 6.50          | 6.10           |
| 51-year      | 6.76            | 6.77          | 6.65           |
| War Loan     | 6.75            | 6.72          | 6.59           |
| Consols      | 6.53            | 6.48          | 6.34           |

On October 12, the London County Council offered a £10 million issue of a 6-1/2 per cent bond, 1971-72, 96-1/2 to obtain cash to redeem a 3 per cent security with final maturity date of November 15, 1961. Holders of the old stock who converted at par were offered a £3-1/2 cash bonus per £100. On November 1, the Bootle Corporation offered £6 million of a 6-1/2 per cent bond, 1971-72 at a price of £99. Holders of a £1-1/2 million 5-1/2 per cent issue maturing on December 1, 1961 were given prior rights to the new issue. On November 10, the Agricultural Mortgage Corporation offered a £10 million, 6-1/2 per cent debenture bond, 1975-1977, at £99-1/2.

London clearing banks. Bank loans dropped further during the four weeks ending in mid-October although the £30 million decline was much below the combined £236 million reduction for August and September. The banks also bought £50 million of government bonds during the month, mostly in very short maturities, their first major purchases since mid-1958. Bank buying undoubtedly contributed to the firm tone of the gilt-edged market in October. Recent changes in clearing bank figures were as follows (in millions of pounds):

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|                                      | <u>Private<br/>advances</u> | <u>Invest-<br/>ments</u> | <u>Liquidity<br/>ratio</u> |
|--------------------------------------|-----------------------------|--------------------------|----------------------------|
| <u>Total</u> - 1958 - October        | 1,921                       | 2,193                    | 33.2                       |
| <u>Annual changes:</u>               |                             |                          |                            |
| 1959 - October                       | + 721                       | - 464                    | + 1.2                      |
| 1960 - October                       | + 517                       | - 554                    | - 0.6                      |
| <u>Changes from preceding month:</u> |                             |                          |                            |
| August                               | - 108                       | - 2                      | -                          |
| September                            | - 128                       | + 2                      | + 1.4                      |
| October                              | - 30                        | + 50                     | + 0.7                      |

Installment credit. A decline of £12 million during September brought total outstanding hire-purchase credit to a level of £953 million. New credit extended in September was sharply below the August level. Recent end of quarter figures on installment credit (in millions of pounds) are:

|                     | <u>Credit outstanding</u> |                           |              | <u>New credit extended</u> |                         |                           |
|---------------------|---------------------------|---------------------------|--------------|----------------------------|-------------------------|---------------------------|
|                     | <u>Shops</u>              | <u>Finance<br/>houses</u> | <u>Total</u> | <u>Total</u>               | <u>Repay-<br/>ments</u> | <u>Change in<br/>debt</u> |
| <u>1960</u> - June  | 335                       | 621                       | 956          | 231                        | 184                     | + 47                      |
| Sept.               | 324                       | 628                       | 952          | 183                        | 187                     | - 4                       |
| Dec.                | 325                       | 610                       | 935          | 173                        | 190                     | - 17                      |
| <u>1961</u> - March | 312                       | 622                       | 934          | 201                        | 202                     | - 1                       |
| June                | 306                       | 651                       | 957          | 235                        | 212                     | + 23                      |
| Sept.               | 303                       | 650                       | 953          | 194                        | 198                     | - 4                       |

Building societies. During the third quarter, the net inflow of new funds into the building societies was only £26.5 million compared with an inflow of £35.0 million in the second quarter. Results of third-quarter operations were (in millions of pounds):

|           | <u>Savings</u> |                          | <u>Lending</u> |                         | <u>Combined<br/>assets<br/>(end of quarter)</u> |
|-----------|----------------|--------------------------|----------------|-------------------------|---|
|           | <u>New</u>     | <u>With-<br/>drawals</u> | <u>Loans</u>   | <u>Repay-<br/>ments</u> |   |
| 1960: III | 106.2          | 80.1                     | 110.7          | 90.4                    | 2,390   |
| 1961: II  | 120.5          | 85.6                     | 110.4          | 93.8                    | 2,537   |
| III       | 120.4          | 94.0                     | 111.8          | 101.5                   | 2,603   |

The reduced inflow reflected the higher interest rates offered by competing media after the July 25 rise in Bank rates.

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The building societies expect their net growth in savings to be enlarged in the fourth quarter. Effective October 1, their interest on shares was raised from 3-1/2 to 3-3/4 per cent tax-paid (equivalent to 6-1/8 per cent for minimum-bracket tax payers). The two cuts in Bank rate in October and November will reduce returns offered by several competing savings media.

Foreign trade. With an appreciable rise in imports, the seasonally adjusted trade deficit during October was considerably above the monthly average for the second and third quarter of this year but well below the monthly average for 1960. Exports remained at about the rates achieved earlier this year. Recent monthly averages of seasonally-adjusted trade figures are (in millions of pounds):

|         | <u>Exports</u> | <u>Re-exports</u> | <u>Imports</u> | <u>Trade balance</u> |
|---------|----------------|-------------------|----------------|----------------------|
| 1960    | 296            | 12                | 380            | - 72                 |
| 1961: I | 309            | 12                | 385            | - 64                 |
| II      | 307            | 13                | 362            | - 42                 |
| III     | 309            | 15                | 358            | - 34                 |
| October | 311            | 12                | 379            | - 56                 |

Foreign exchange reserves. Britain's published reserves declined by £8 million to £1,261 million during October. However the United Kingdom repaid £100 million to the International Monetary Fund, £4 million on an European Payments Union obligation and an undisclosed "small" amount to European central banks. With an £18 million obligation to Switzerland consolidated into a 3-year loan the United Kingdom has now repaid "all the debts incurred ... under the Basle agreement," according to The Financial Times, November 3, 1961, page 1. During the month, Nigeria drew £11 million in U.S. dollars from the United Kingdom.

Foreign exchange market. Sterling remained in good demand through-out October. The spot rate fluctuated narrowly around 281.50 U.S. cents and the discount on 3-month pounds declined with the decline in British money rates (see Table and Charts 8 and 9). Security sterling also remained strong, the rate fluctuating between 280.38 and 281.63 during the month.

Stock market. The index of industrial stock prices continued its post-July decline early in October but reached a bottom of 287.7 late in the month. Prices moved up sharply, however, and the index had returned to 298.3 by November 9 (see Table and Chart 7).

British Commonwealth Section.

## II. Nine Charts on Financial Markets Abroad

United Kingdom: Treasury Bill Yields and Exchange Rates

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| Date        | 3-mo. Treasury bill |                    |                 | Discount<br>on 3-mo.<br>sterling <sup>c/</sup> | Net<br>incentive<br>to hold<br>U.K. bill <sup>d/</sup> | Exchange rate          |  |
|-------------|---------------------|--------------------|-----------------|--|--|------------------------|--|
|             | U.K. <sup>a/</sup>  | U.S. <sup>b/</sup> | Differ-<br>ence |  |  | Spot<br>sterling<br>e/ | Discount<br>on 3-mo.<br>sterling <sup>f/</sup> |
| 1960 - High | 5.68                | 4.95               | 3.63            | 2.33   | 1.95   | 281.58                 | 1.64   |
| Low         | 2.13                | 2.08               | -0.84           | (P).64   | -.23   | 279.83                 | (P).47   |
| 1961 - High | 6.74                | 2.52               | 4.45            | 4.36   | 1.13   | 281.62                 | 3.04   |
| Low         | 4.17                | 2.16               | 1.88            | 0.79   | -2.12  | 278.47                 | 0.55   |
| Sept. 15    | 6.44                | 2.27               | 4.15            | 4.12   | 0.03   | 281.28                 | 2.90   |
| 22          | 6.41                | 2.25               | 4.16            | 3.95   | 0.21   | 281.31                 | 2.78   |
| 29          | 6.44                | 2.23               | 4.21            | 3.89   | 0.32   | 281.43                 | 2.72   |
| Oct. 6      | 6.00                | 2.31               | 3.69            | 3.45   | 0.24   | 281.48                 | 2.43   |
| 13          | 5.88                | 2.37               | 3.51            | 3.25   | 0.26   | 281.56                 | 2.29   |
| 20          | 5.88                | 2.30               | 3.58            | 3.00   | 0.58   | 281.62                 | 2.11   |
| 27          | 5.63                | 2.29               | 3.34            | 2.78   | 0.56   | 281.56                 | 1.96   |
| Nov. 3      | 5.31                | 2.28               | 3.03            | 2.73   | 0.30   | 281.41                 | 1.92   |
| 10          | 5.31                | 2.47               | 2.84            | 2.73   | 0.11   | 281.51                 | 1.92   |

a/ Based on market selling price after Friday tender.

b/ Closing market yield for Friday in New York.

c/ Spread between spot and forward rate in per cent per annum.

d/ Net of difference in bill yield less discount on 3-month sterling.

e/ Spot rate in New York market in U.S. cents.

f/ Spread between spot and forward rates in U.S. cents.

United Kingdom: Selected Capital Market Yields

|             | 14-year<br>bond <sup>a/</sup> | 51-year<br>bond <sup>b/</sup> | War<br>loan <sup>c/</sup> | Consols<br>d/ | Share<br>yield <sup>e/</sup> | Yield<br>gap <sup>f/</sup> | Share<br>prices <sup>g/</sup> |
|-------------|-------------------------------|-------------------------------|---------------------------|---------------|------------------------------|----------------------------|-------------------------------|
| 1960 - High | 6.11                          | 6.00                          | 5.94                      | 5.70          | 4.96                         | 1.49                       | 228.6                         |
| Low         | 4.93                          | 5.33                          | 5.53                      | 5.02          | 3.74                         | 0.63                       | 294.6                         |
| 1961 - High | 6.68                          | 6.77                          | 6.92                      | 6.78          | 5.48                         | 1.90                       | 365.3                         |
| Low         | 5.95                          | 5.97                          | 5.95                      | 5.70          | 4.22                         | 0.86                       | 287.7                         |
| Sept. 14    | 6.61                          | 6.75                          | 6.70                      | 6.48          | 5.14                         | 1.34                       | 307.3                         |
| 21          | 6.60                          | 6.76                          | 6.72                      | 6.48          | 5.12                         | 1.36                       | 308.4                         |
| 28          | 6.61                          | 6.76                          | 6.75                      | 6.53          | 5.25                         | 1.28                       | 300.6                         |
| Oct. 5      | 6.50                          | 6.77                          | 6.72                      | 6.44          | 5.25                         | 1.19                       | 300.5                         |
| 12          | 6.44                          | 6.75                          | 6.73                      | 6.43          | 5.46                         | 0.97                       | 288.9                         |
| 19          | 6.10                          | 6.70                          | 6.59                      | 6.34          | 5.42                         | 0.92                       | 288.0                         |
| 26          | 6.10                          | 6.65                          | 6.59                      | 6.34          | 5.48                         | 0.86                       | 287.7                         |
| Nov. 2      | 6.10                          | 6.65                          | 6.62                      | 6.35          | 5.35                         | 1.00                       | 294.7                         |
| 9           | 6.10                          | 6.65                          | 6.64                      | 6.36          | 5.29                         | 1.07                       | 298.3                         |

a/ 3 per cent Savings Bond 1965-75.

b/ 5-1/2 per cent Treasury 2000-12.

c/ 3-1/2 per cent War Loan (undated).

d/ 2-1/2 per cent Consol (undated)

e/ Financial Times.

f/ Difference between yield on 2-1/2 per cent Consols and share yield.

g/ Financial Times.

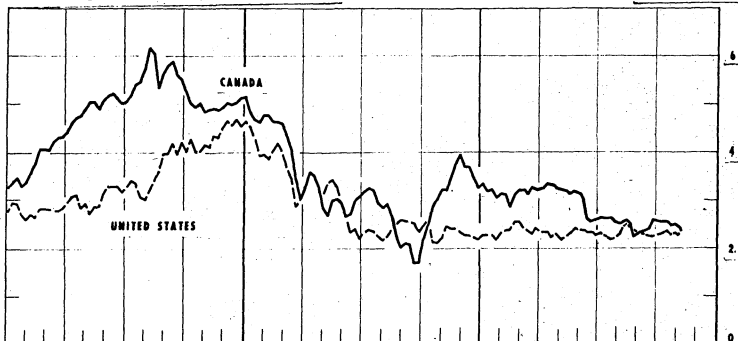
Chart 1

# INTEREST ARBITRAGE, UNITED STATES / CANADA

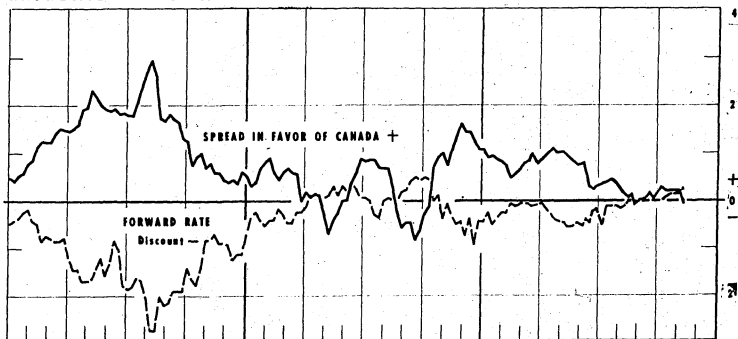
Thursday figures

## THREE-MONTH TREASURY BILL RATES

Per cent per annum



## RATE DIFFERENTIAL AND FORWARD CANADIAN DOLLAR



## RATE DIFFERENTIAL WITH FORWARD EXCHANGE COVER

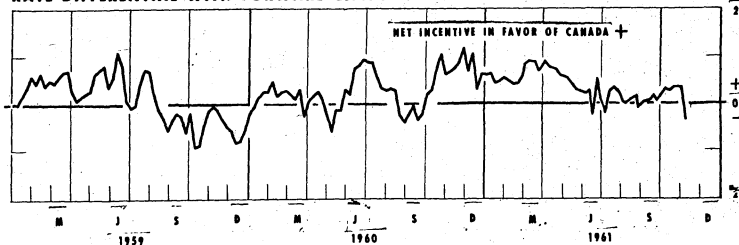


Chart 2

INTEREST ARBITRAGE, NEW YORK / LONDON

Friday figures

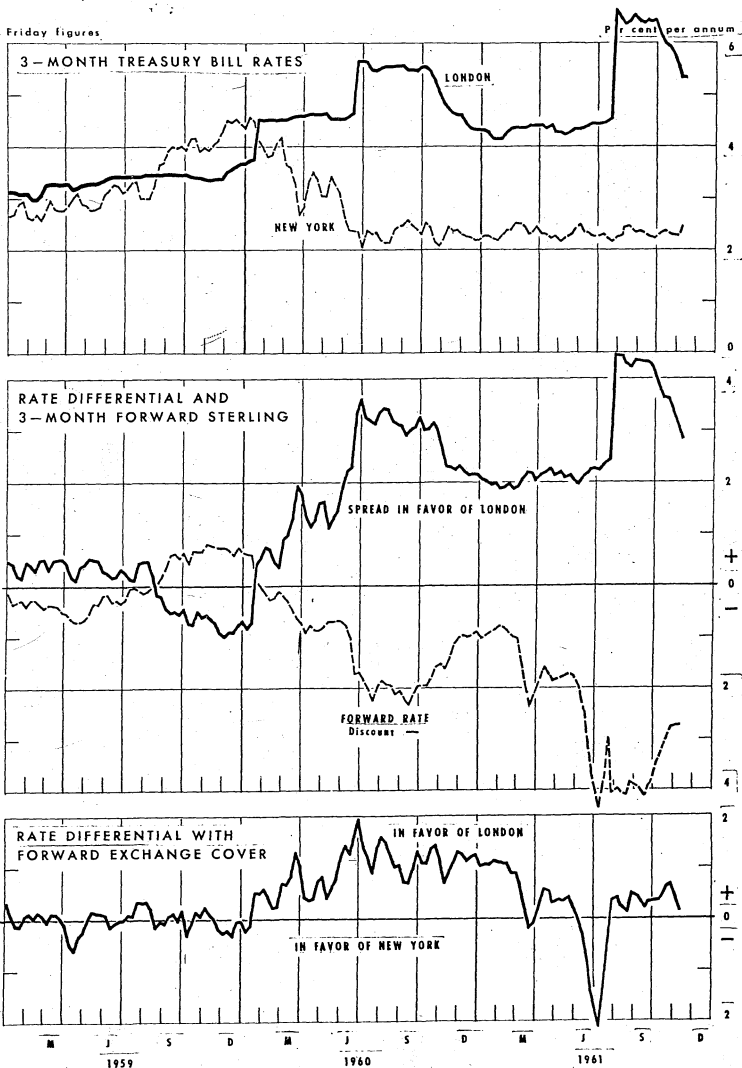
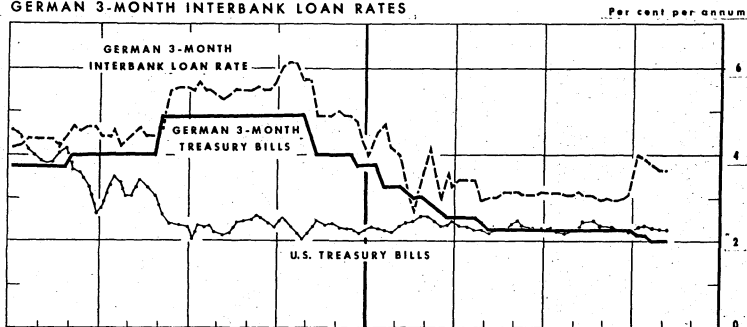
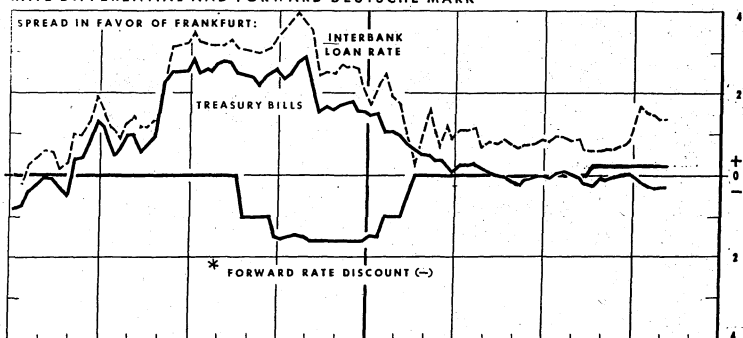
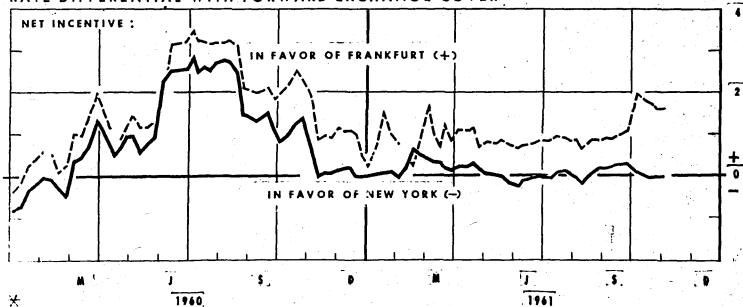




Chart 3

**INTEREST ARBITRAGE, NEW YORK / FRANKFURT**

Friday figures

**3-MONTH TREASURY BILL RATES AND  
GERMAN 3-MONTH INTERBANK LOAN RATES****RATE DIFFERENTIAL AND FORWARD DEUTSCHE MARK****RATE DIFFERENTIAL WITH FORWARD EXCHANGE COVER**

Note: Special forward dollar rate available to German commercial banks.

Chart 4

# INTEREST ARBITRAGE, FRANKFURT/LONDON

Friday figures

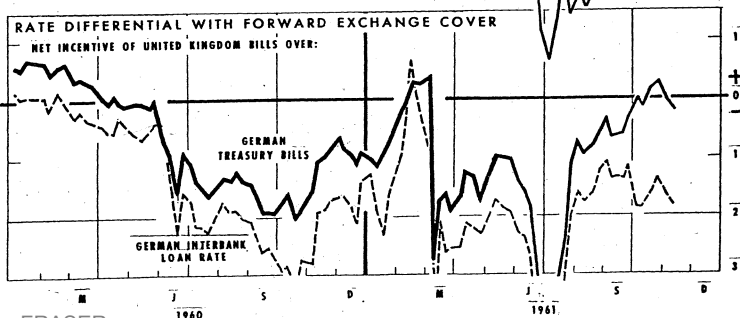
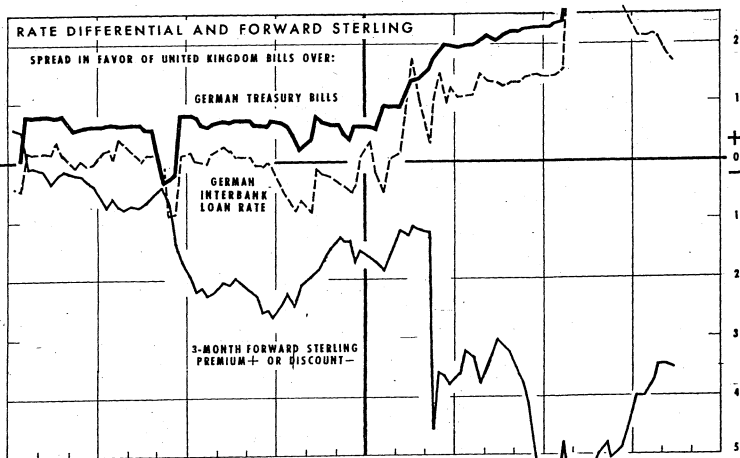
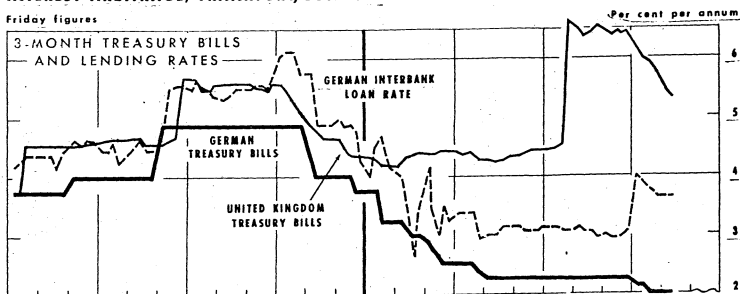
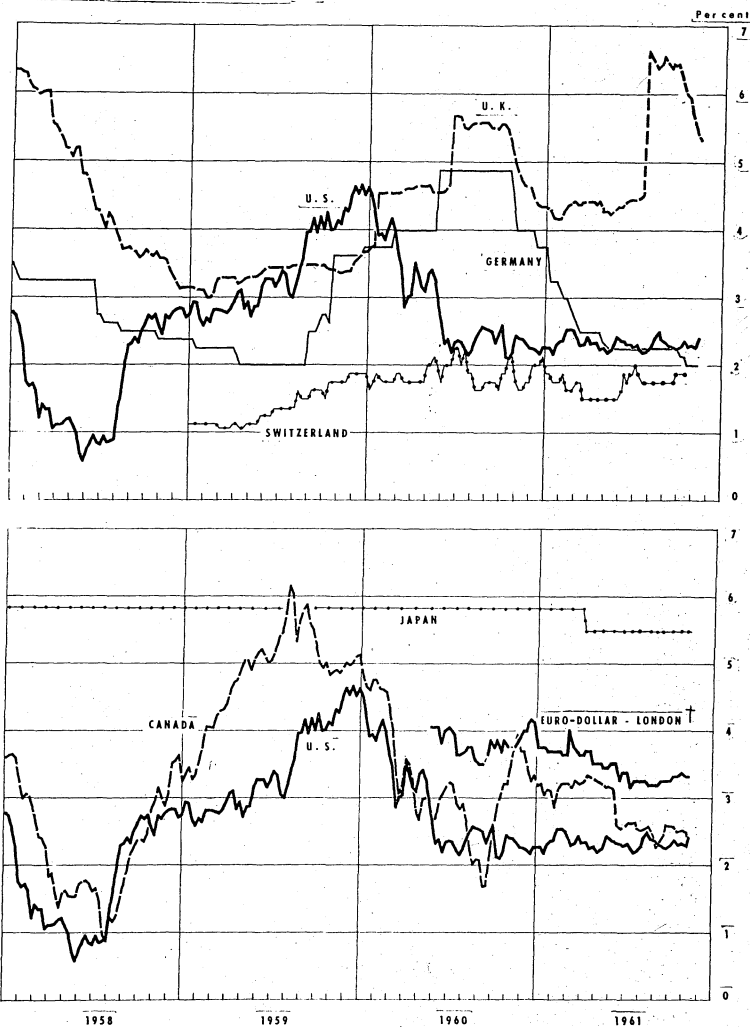


Chart 5

## 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

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Chart 6

# LONG-TERM BOND YIELDS

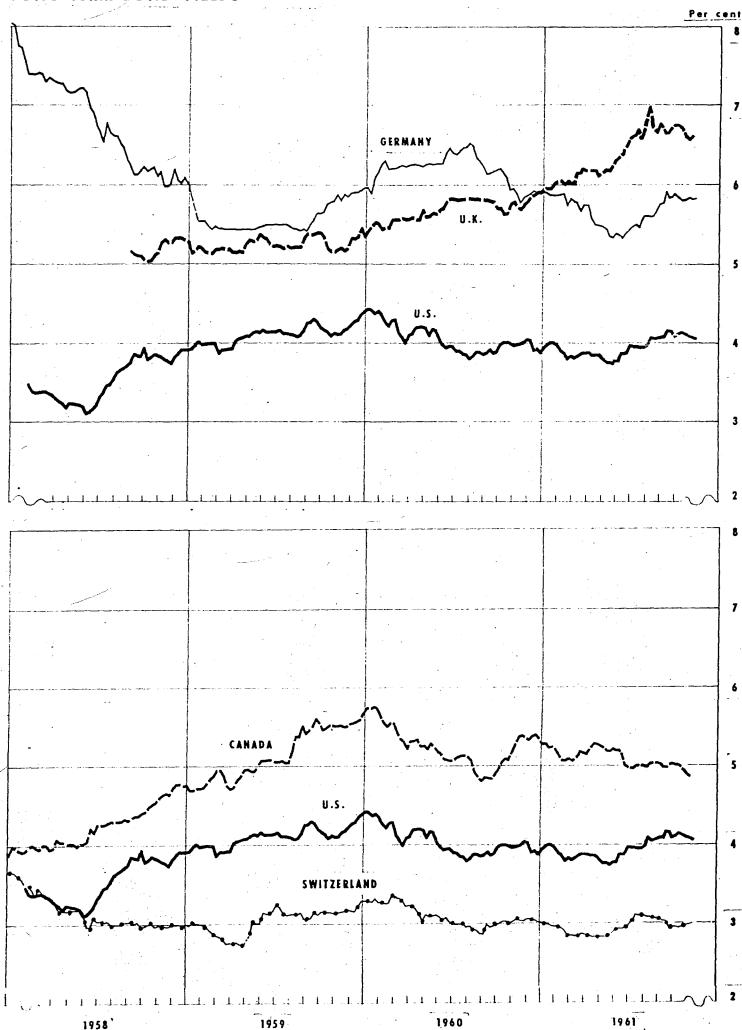
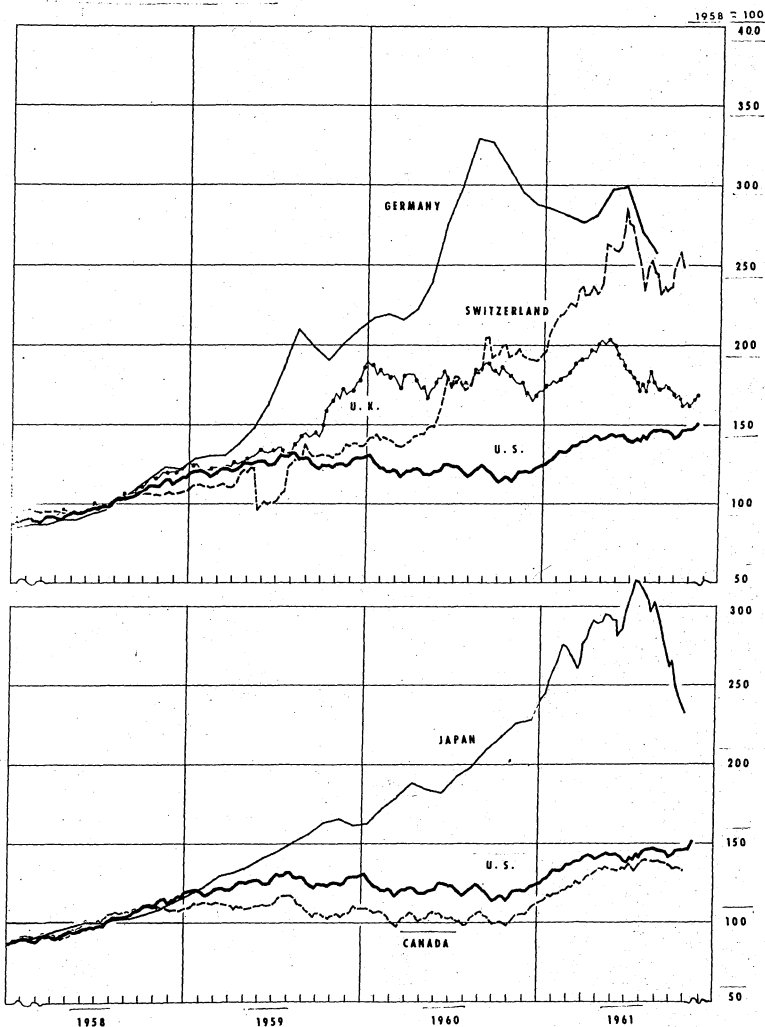


Chart 7

**INDUSTRIAL STOCK INDICES \***



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

Chart 8

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

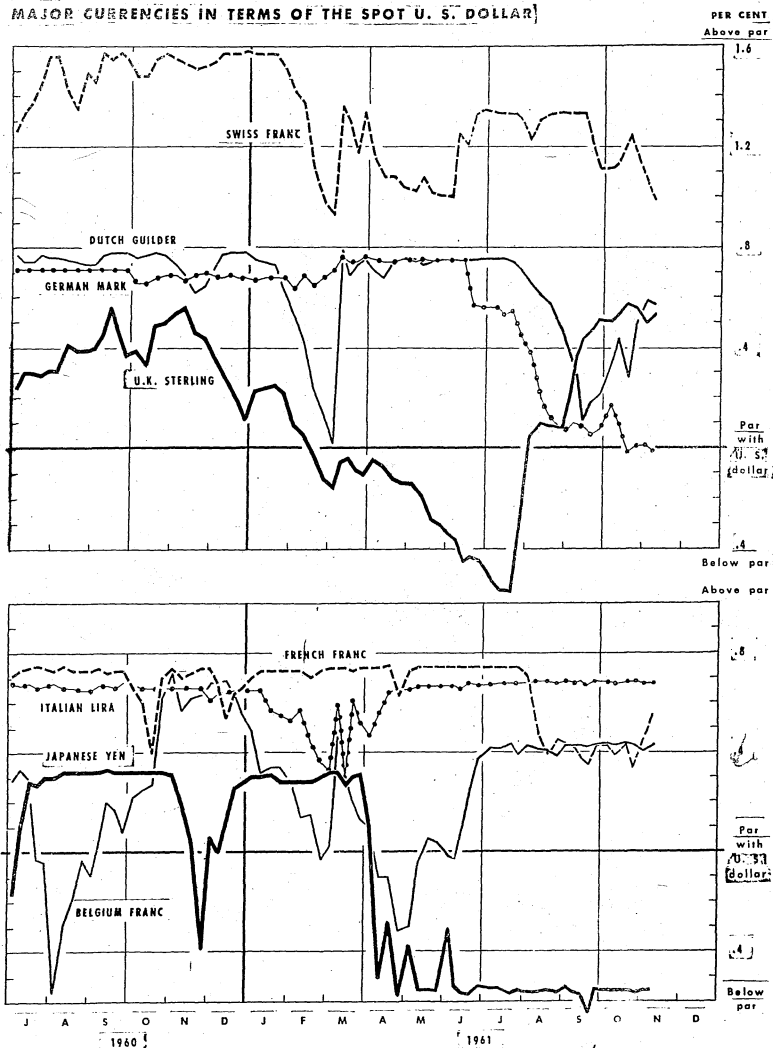


Chart 9

# 3-MONTH FORWARD RATES - LONDON QUOTATIONS

