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CAPITAL MARKET DEVELOPMENTS ABROAD

I. Canada
II. Eight Charts on Financial Markets Abroad

I. Canada: Money and Capital Markets During December

Short-term interest rates rose sharply in Canada during December but yields on intermediate and long-term bonds showed little change. The Treasury bill yield rose from 2.50 per cent on November 30 to 3.08 per cent on January 4. During this period, general public purchases of Treasury bills were sufficient to absorb substantial bill sales by the chartered banks. These sales reduced the liquid asset ratio of the banks from almost 19.5 per cent of deposits in late November to 18.7 per cent at the end of December. With some tightening in Canadian money markets, some investment dealers found it necessary to borrow from the central bank.

During the month, the banks were unusually large purchasers of Government bonds, absorbing heavy sales by the public and part of a recent Treasury offering. The Bank of Canada made some switches from long to short maturities to cushion the sharp rise in rates in the shorter end of the market but only a minor net addition was made to its bond portfolio and none to its bill holdings during the month.

The tightening of credit conditions during the past month took place against a background of a further drop in seasonally-adjusted unemployment in November and press reports of an accelerated pace of Canadian business expansion. Rising exports, particularly to the United States, have contributed to the rise in activity. Exports in the third quarter were up 11 per cent to a new high level. However, rising domestic demand also brought imports up 12 per cent in spite of the lower Canadian dollar.

Despite the favorable export position, the Canadian dollar declined from 95.9 U.S. cents at the end of November to 95.7 U.S. cents on January 9, and there are indications of some further reserve declines. Heavier imports and year-end dividend transfers contributed to the weakening of the currency.

Money market. Although high levels of liquidity continued to prevail through December, there was some tightening in Canadian money markets and short-term interest rates rose. The average auction yield on the 3-month Treasury bill rose from 2.50 per cent at the end of November to 3.08 per cent by January 4. (See Table and Chart 1) The 6-month bill rose from 2.73 per cent to 3.24 per cent. (See Table) Weekly average closing rates for day to day money moved up from 2.23 per cent to 3.00 per cent.

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DECONTROLLED AFTER SIX MONTHS

During the five weeks ending January 4, the chartered banks sold $56 million of Treasury bills and the general public purchased $45 million. The Bank of Canada made no net changes in its bill holdings. (See Table) However, the chartered banks reduced their outstanding day-to-day loans in early December and authorized investment dealers borrowed temporarily from the Bank of Canada. The Bank's "purchase and resale" agreements reached $22.9 million on December 20, but these were repaid by January 3.

The yield on the Canadian 3-month Treasury bill rose to 36 basis points above the U.S. bill yield by early January, after remaining below the U.S. bill through November. The net incentive to hold the Canadian bill, covered for exchange risk, rose to about 0.50 per cent per annum in mid-December, but declined to about 30 basis points in early January as the forward Canadian dollar shifted from a premium to a small discount. (See Table and Chart 1)

Yields on short-term finance paper in Canada also rose more rapidly in Canada than in the United States during December. As a result, the yield spread widened from about 12 basis points on December 1 to over 50 basis points on December 29. Canadian and U.S. yields for 30 to 89 day paper for leading acceptance houses in Canada and the United States were as follows (in per cent per annum):

	Canada	U.S.	Spread
December 1	2.75	2.63	0.12
29	3.25	2.63-2.75	0.56

Bond market. Bond yields showed a slight rising tendency during December, but, except for some shorter-term maturities, rates were up only a few basis points. The McLeod, Young Weir & Co., 40 Bond Yield Average, showed an increase of 3 basis points for non-government bonds (with maturities of about 15 years) from December 1 to December 29 as noted in the following table:

	Dec. 1	Dec. 29
10 Provincials	5.30	5.36
10 Municipals	5.52	5.53
10 Public Utilities	5.27	5.29
10 Industrials	5.32	5.33
40 Bond Yield Average	5.35	5.38

Canadian Government bonds with maturities of 3 years and over also rose only a few basis points. (See Table) However, some shorter maturities rose as much as 19 basis points. A comparison of yields on some selected maturities for end-November and early January are shown below:

Maturity	Nov. 29	Jan. 4
May 1964	3.57	3.76
Jan. 1975-78	4.92	4.96
Sept. 1983	4.97	5.00

The chartered banks continued to make unusually large purchases of Government bonds and thus absorbed heavy sales by the general public. In the five weeks ending January 4, the banks bought $115 million and the general public sold $112 million of bonds. The Bank purchased $26 million for the Government Account and $16 million for its own portfolio. (See Table) The Bank also made some switches from maturities of over-2-years to shorter bonds to hold down the sharp yield rise in shorter maturities. Total outstanding Government bonds rose by $46 million.

Yield spreads between comparable Canadian and U.S. Government bonds showed little change through the month. (See Table) The following table compares these changes for several maturities of selected comparable Canadian and U.S. securities:

	Nov. 29	Jan. 3
8 year bond	0.14	0.09
20 year bond	0.78	0.78
25 year bond	0.80	0.81
35 year bond	1.13	1.11

According to A. E. Ames & Co., $911 million of new securities were issued during November, about half of which represented the roll-over of Treasury bills. Most of the remainder consisted of new issues of Provincial and Municipal bonds. None of these were reportedly sold on the U.S. market.

Debt management program. On January 2, the Minister of Finance announced the details of a new $250 million issue of short- and medium-term bonds to be dated January 15, 1962. The new issue will include two maturities as follows:

1. $150 million of 1 year 2-1/2 month, 2-3/4 per cent bonds due April 1, 1963, priced at 99.15 to yield about 3.47 per cent to maturity;

2. $100 million of 6-year, 4-1/4 per cent bonds, due January 15, 1968, priced at 99.50 to yield about 4.35 per cent to maturity.

The $150 million of 2-3/4 per cent bonds, will be offered for cash. The Bank of Canada has agreed to acquire the $100 million of 4-1/4 per cent bonds in exchange for $50 million of the 3 per cent bonds due May 1, 1962, and $50 million of the 3 per cent bonds due June 14, 1962. As a result of this new issue, the May 1 maturity will be reduced to $100 million and the June 15 maturity to $190 million, and new cash needs for the current fiscal year will be reduced by $150 million.

The Canadian authorities have pursued a policy of offering "... more frequent issues of smaller size ..." since late 1960, to space maturities better and to avoid the disturbances which larger issues tend to produce in Canadian markets. These offerings have also been concentrated on the short-term sector to free the long-term sector for corporate and local-government borrowing. The Bank of Canada has facilitated this program by purchasing in advance a sizable portion of maturing issues and exchanging these maturities for new refunding issues. These holdings have been used by the Bank to contribute to price stability of the new issue during the issuing period.

Since April, 1961, the Minister of Finance has been able to refinance over $1 billion of securities and to sell another $420 million for cash. With a net sale of $517 million of Savings Bonds since last April total new cash raised has exceeded $900 million. The authorities had anticipated $1 billion of new cash needs but current fiscal year needs are estimated to be between $1 and $1.5 billion on the basis of the current rate of Treasury spending and receipts.

Bank loans and the money supply. The upward movement of general bank loans and the money supply continued through December. Seasonally adjusted loans rose $100 million, or 1.8 per cent, in December. The total rise since the end of June has been 8.9 per cent, most of which took place in October-December when loans rose $342 million, almost 6.5 per cent. (See Table) Despite some rise in loans, the chartered banks continued to enjoy a liquid asset ratio nearly 4 percentage points over the required minimum.

As a result of the loan expansion and the Government's cash deficit, the seasonally adjusted money supply (held by the public) rose 2 per cent in December. Since end of June, the money supply has risen 6.3 per cent. (See Table)

Foreign trade. Seasonally adjusted exports continued to move to new peak levels. Third-quarter exports rose 11.1 per cent (in terms of Canadian dollars), largely as a result of continued increases in sales to the United States. However, imports rose 12.2 per cent in the third quarter reflecting expanding domestic demand; in October the monthly rate jumped another 4.5 per cent over September to a new record level. During the 9 month period, the seasonally adjusted trade surplus was $142.5 million compared with $10.3 million in the same period of 1960. This improvement reflects a 7.3 per cent increase in monthly average exports over the monthly average for the whole year 1960, while average monthly imports rose only 2.2 per cent.

	Exports	Imports	Trade balance
1960	451.1	458.0	- 6.9
1961 I	466.9	463.8	+ 3.1
II	466.4	443.2	+23.2
III	518.5	497.3	+21.2
July	525.2	470.5	+54.7
Aug.	491.3	513.7	-22.4
Sept.	539.1	507.8	+31.3
Oct.		530.7	

Foreign exchange. There was some further weakening of the Canadian dollar through December and early January. After a 1 per cent decline in the exchange rate and a $32 million decline in reserves in November, the Canadian dollar declined from 95.85 U.S. cents in early December to 95.66 U.S. cents on January 9. There are also indications of further declines in foreign reserves during this period. During the 3-1/2 months following the Finance Minister's announcement that official efforts would be taken to lower the exchange rate, the dollar moved down from 100.6 U.S. cents to 97.1 U.S. cents. There was a sharp upward pressure on the rate in October and reserves went up $186 million to hold the rate down. Heavy dividend payments in November and December resulted in a downward pressure. The early January decline is believed to reflect a continuation of these payments abroad combined with increasing commercial demand for foreign exchange.

End of month	Gold	U.S. dollars	Total	Change during period
1960 - Dec.	885.3	943.9	1,028.2	
1961 - June	905.9	1,079.3	1,985.2	+156.0
Sept.	926.6	997.7	1,924.3	- 60.9
Oct.	931.6	1.179.0	2,110.6	+186.3
Nov.	941.1	1,137.7	2,078.8	- 31.8

With the widening of the spread favoring Canadian short-term securities, the premium on the 3-month forward Canadian dollar declined in December and a small discount developed in early January. (See Table)

Stock exchange. Industrial stock prices rose slightly further in January despite some leveling in the second week. The weekly average for the index of industrial stock prices in late December was 0.7 per cent above the end of November compared with a rise of about 0.3 per cent in the New York Standard & Poor industrial index during the same period. (See Chart 6)

	Average for week ending	DBS industrials	NY Standard & Poor Industrials
1960	Sept. 29	243.6	55.69
1961	June 15	329.7	69.55
	Oct. 26	328.6	71.64
	Nov. 30	342.5	75.46
	Dec. 7	344.5	75.89
	14	343.2	76.36
	21	344.9	75.70

During the first two weeks of December the volume of trading continued high, at about $19 million a week, but down from the end of December highs of over 32 million.

British Commonwealth, Europe and Soviet Area.

II. Eight Charts on Financial Markets Abroad

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	2.55	1.10	101.72	--	0.45	0.89
Low	2.26	2.17	-0.13	95.91	--	-0.56	-0.20
Nov. 30	2.50	2.55	-0.05	95.91	95.97	0.26	0.20
Dec. 7	2.62	2.58	0.04	95.98	96.00	0.07	0.11
14	2.73	2.61	0.12	95.83	95.84	0.03	0.15
21	2.93	2.60	0.33	95.88	95.92	0.20	0.53
28	2.99	2.66	0.33	95.88	95.89	0.07	0.40
Jan. 4	3.08	2.72	0.36	95.75	95.73	-0.07	0.29

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	2.35	-0.11	4.22	0.25	4.80	0.78	4.92	1.14
Nov. 29	2.73	-0.06	4.15	0.14	4.85	0.78	4.91	1.13
Dec. 6	2.87	+0.02	4.17	0.11	4.89	0.79	4.95	1.14
13	2.98	0.08	4.18	0.06	4.90	0.79	4.95	1.13
20	3.08	0.22	4.17	0.05	4.89	0.79	4.95	1.14
27	3.14	0.23	4.17	0.04	4.89	0.78	4.95	1.13
Jan. 3	3.24	0.28	4.16	0.09	4.89	0.78	4.93	1.11

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		Government	Chartered banks		General public		
	Treas. bills	Bonds	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
Oct.	-105	+ 14	- 39	+109	+ 4	+ 4	- 3	- 31
Nov.	- 9	+ 3	-125	- 42	+ 56	+720	+ 48	- 67
Dec. a/	0	+ 16	+ 35	- 56	+115	- 33	+ 45	-112

Source: Bank of Canada, Weekly Financial Statistics.

a/ Includes changes through January 4, 1962.

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

	July	Aug.	Sept.	Oct.	Nov.	Dec.
1. Money supply: a/						
Currency and deposits	14,011	14,368	14,368	14,399	14,695	14.915
Less: Govt. deposits	179	312	473	312	452	389
Equals: Privately held	13,882	14,056	14,013	14,087	14,243	14,526
Change in period	+ 171	+ 224	- 43	+ 74	+ 156	+ 283
2. General bank loans a/	5,269	5,367	5,378	5,499	5,620	5,720
Change in period	+ 17	+ 98	+ 11	+ 121	+ 121	+ 100
3. Total Govt. securities:	17,739	17,885	18,061	18,061	18,584	18,599
Of which: Treas. bills	1,885	1,885	1,885	1,885	1,885	1,885
Bonds	12,404	12,577	12,776	12,729	12,590	12,636
Savings bonds	3,452	3,423	3,400	3,404	4,109	4,079
4. New security issues b/	1,086	600	1,024	640	1,159	911
Of which sold in U.S.	12	0	0	0	7	0
5. Chartered bank liquidity:						
Cash reserve	1,025	1,039	1,062	1,072	1,071	1,082
Cash ratio	8.1	8.1	8.1	8.1	8.1	8.1
Liquid assets	2,317	2,415	2,465	2,473	2,516	2,504
Liquid asset ratio	18.3	18.9	18.8	18.8	19.0	18.7

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

Chart 1

INTEREST ARBITRAGE, UNITED STATES/CANADA

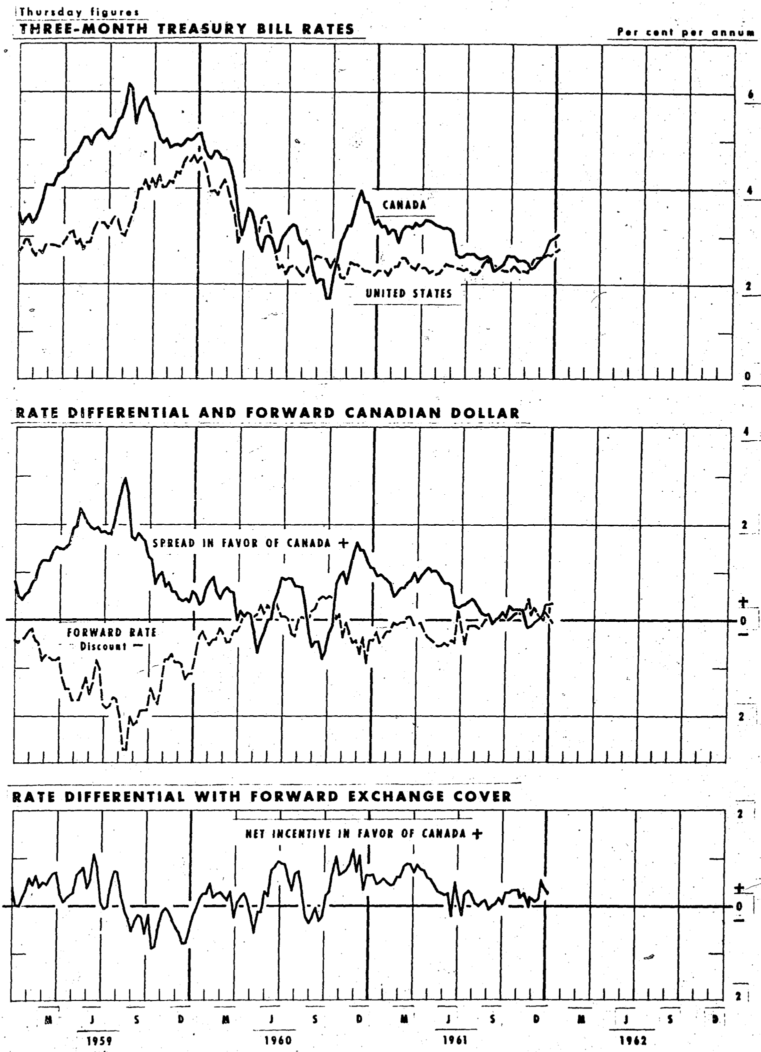

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Chart 2

INTEREST ARBITRAGE, NEW YORK/LONDON

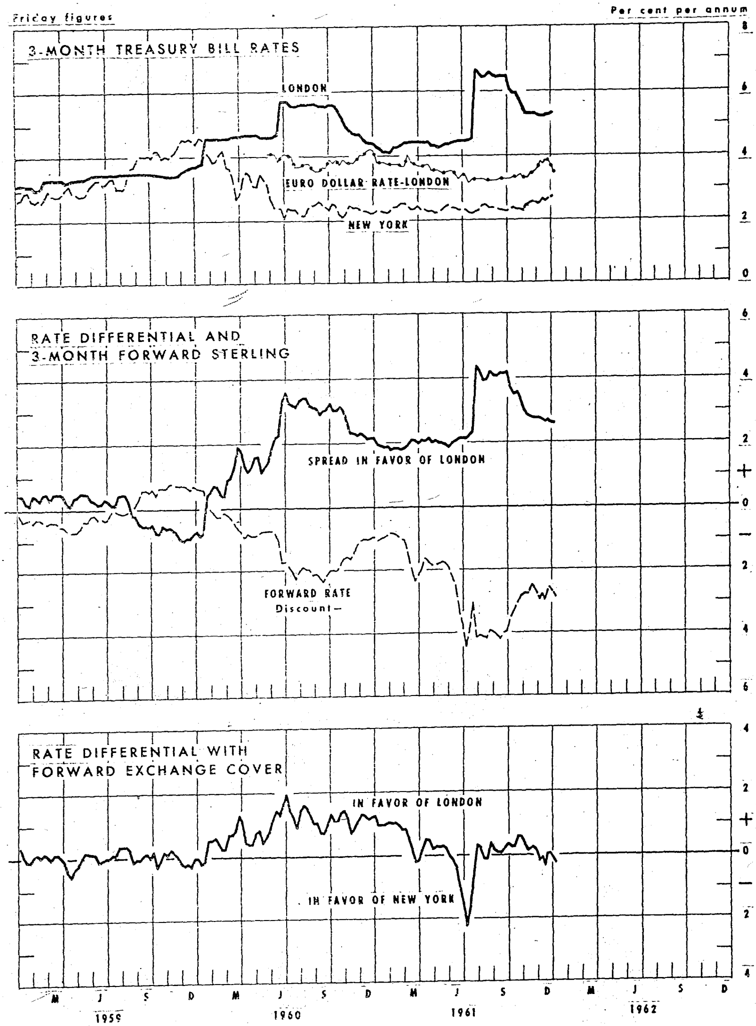
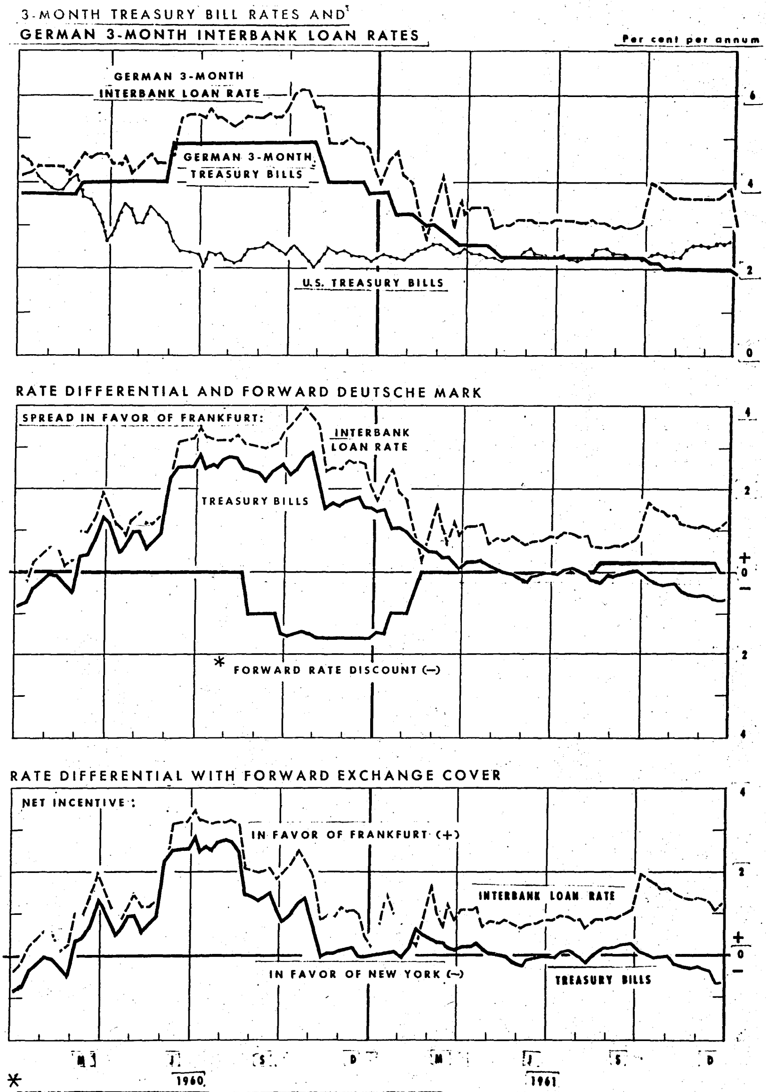


Chart 3

INTEREST ARBITRAGE FOR GERMAN COMMERCIAL BANKS

Friday figures



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

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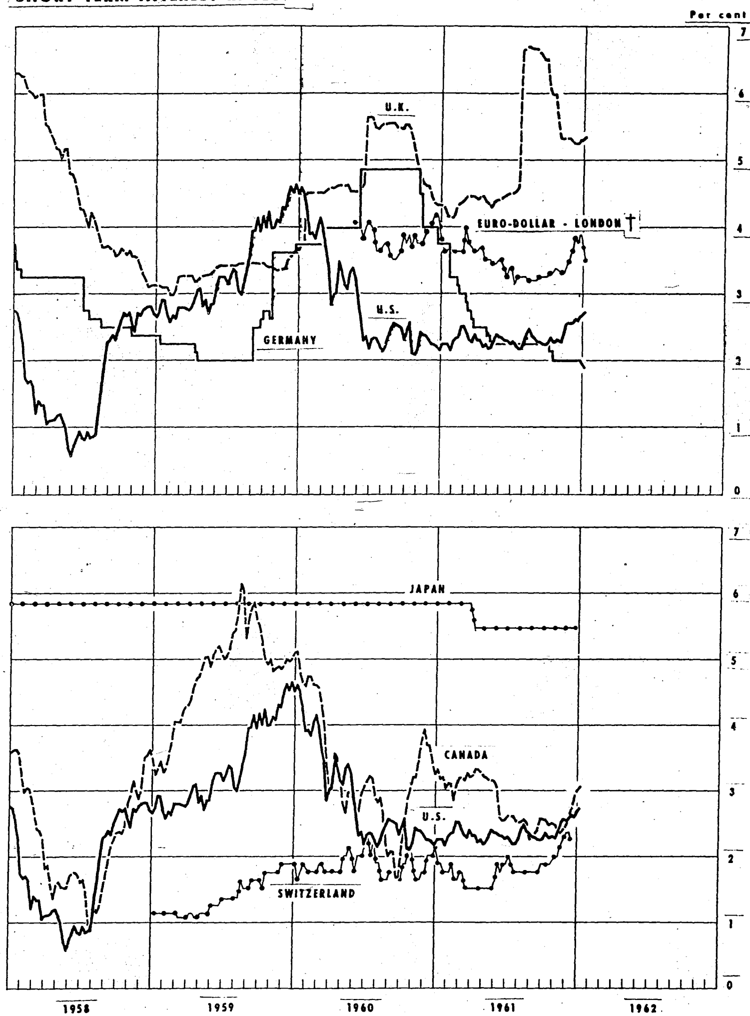
Chart 4

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 5

LONG-TERM BOND YIELDS

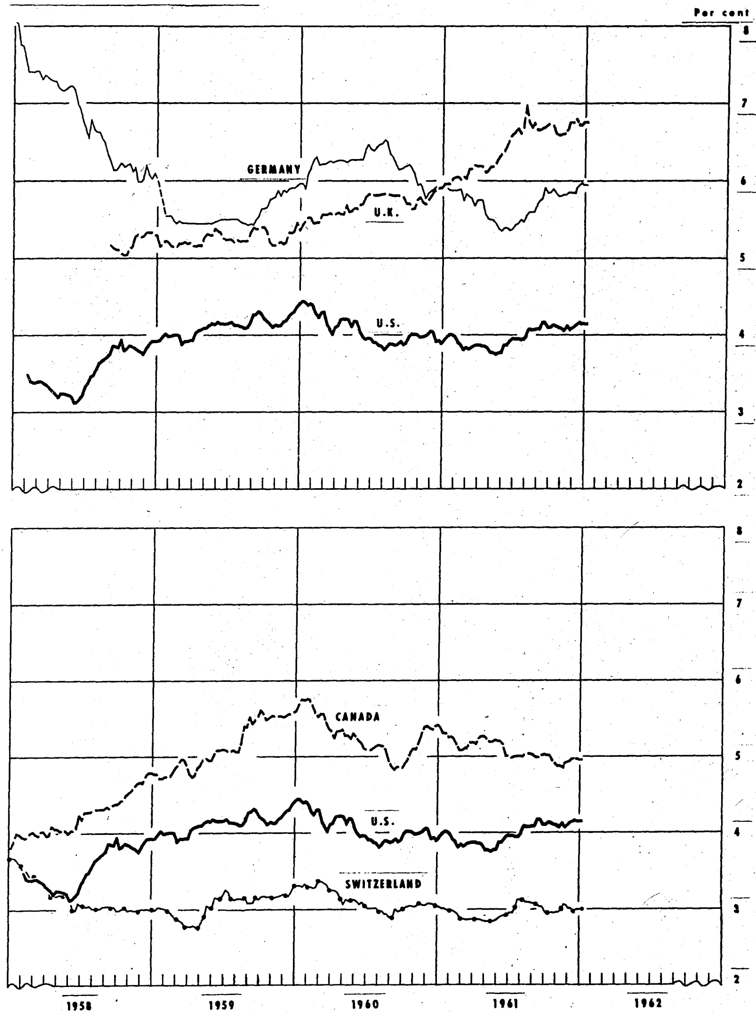


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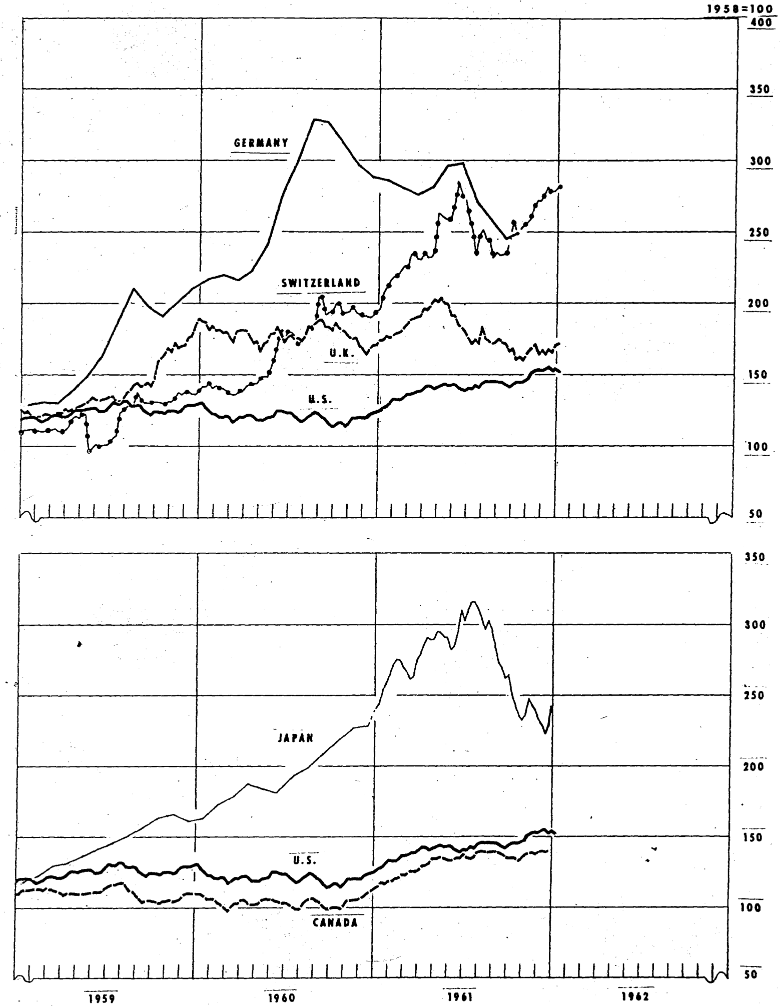
Chart 6

INDUSTRIAL STOCK INDICES*



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

Chart 7

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

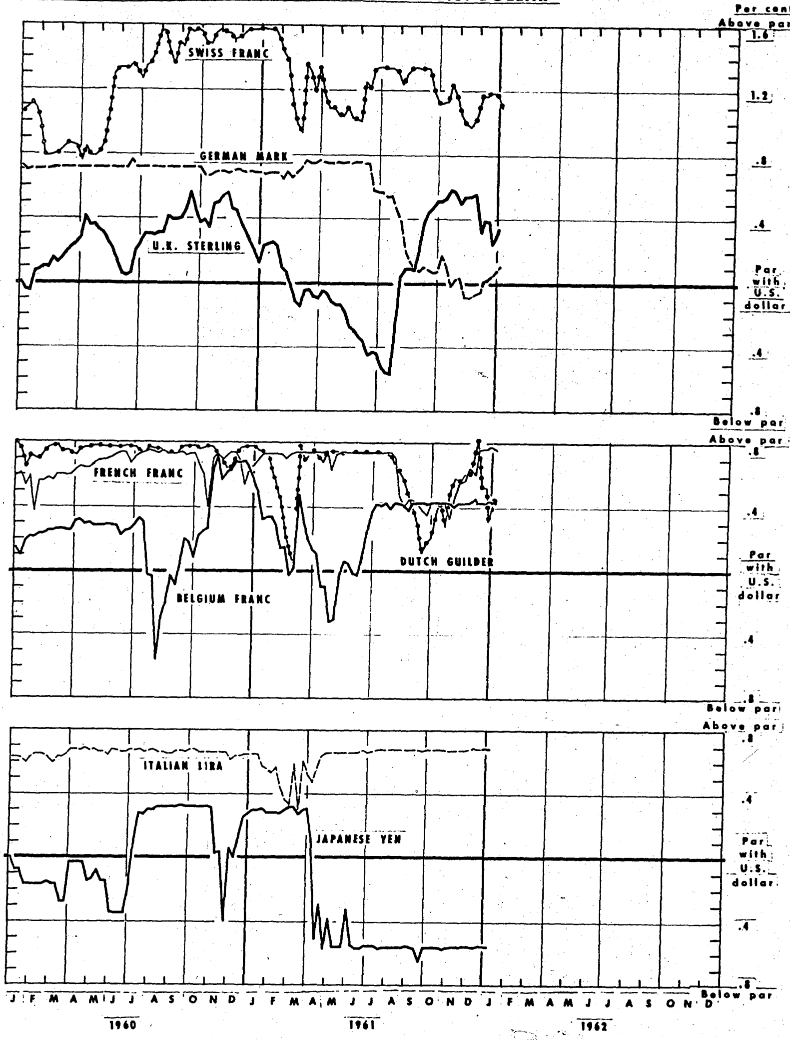


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Chart 8

3-MONTH FORWARD RATE