

H. 13

No. 46

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**CAPITAL MARKET DEVELOPMENTS ABROAD**

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

I. Canada: Money and Capital Markets During January

The sharp rise in Canadian short-term interest rates registered in December moderated in January, while yields on intermediate- and long-term bonds showed only slight changes. The Treasury bill rate reached 3.08 per cent on January 4 and, after fluctuating narrowly, stood at 3.07 per cent on February 1. Despite fairly sizeable purchases of both Treasury bills and other securities by the chartered banks, the average liquid asset ratio declined further, from 18.7 per cent of deposits in December to 17.9 per cent in January.

In the bond market, yields rose fractionally during January although prices for short bonds within the 1965-70 range were maintained during the first half of the month as a result of buying by the chartered banks and other investors. Two short Government issues were offered during the month. Market reports state that provincial bonds have been sought after despite a steady flow of new issues and that prices have moved up in the corporate sector for outstanding issues since there has been an absence of new offerings in recent weeks.

Despite the favorable development of Canadian exports, the Canadian dollar weakened further, declining from 95.8 on January 2 to 95.5 on February 1. Year-end dividend transfers were the principal cause of the loss of \$23 million in reserves in December, following a decline of \$32 million in official reserves in the previous month.

Money market. Although the December rise in Canadian short-term interest rates moderated in January, tight money market conditions continued to prevail. After reaching 3.08 on January 4, the average auction yield on the 3-month Treasury bill fluctuated within narrow limits and stood at 3.07 on February 1 (see Table). The bill rate is thus still slightly more than one-half per cent higher than the level preceding the rise which began in November (see Table and Chart 1). The 6-month bill rate moved from 3.24 per cent on January 4 to 3.26 per cent on February 1 (see Table). Although weekly average closing rates for day-to-day money declined from 3.00 per cent on January 3 to 2.45 per cent on January 21, the monthly average (2.69 per cent) remained higher than the average level of 2.37 per cent in December.

During the four weeks ending February 1, the chartered banks bought \$48 million of Treasury bills, reversing the pattern of purchases,

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DECONTROLLED AFTER SIX MONTHS

in roughly comparable amounts, during the two preceding months. The banks also continued to purchase government bonds, absorbing sales by the general public as well as a portion of a new issue of short-term securities. The Bank of Canada reduced its bill holdings by \$69 million, after no net changes during December. Although the chartered banks reduced the volume of outstanding day-to-day loans during the month, authorized investment dealers evidently experienced no need for temporary borrowing accommodations by the Bank of Canada, and there were no "purchase and resale" agreements recorded after the last repayment of such transactions recorded on the January 3 reporting date.

For the month, the spread favoring the Canadian bill widened very slightly as a result of a somewhat lower U.S. bill rate at the end of the month. The net incentive to hold the Canadian bill was reduced from 0.29 to 0.25 per cent during January, although there was an increase in the discount on the forward Canadian dollar in early January (see Table and Chart 1).

After rising rapidly during December, yields on Canadian short-term finance paper stabilized. With U.S. rates moving higher during the month, the yield spread in favor of Canadian paper fell from 56 basis points on December 29 to 31 basis points on January 26. Yields for 30- to 89-day paper for leading acceptance houses in Canada and the United States were as follows, on the dates shown (in per cent per annum):

	<u>Canada</u>	<u>U.S.</u>	<u>Spread</u>
December 1	2.75	2.63	0.12
29	3.25	2.63 - 2.75	0.56
January 26	3.00 - 3.25	2.75 - 2.88	0.31

Bond market. Yields on Canadian Government bonds with maturities of 3 years and over changed little during January (see Table). The following comparison shows yields on selected maturities for the first and last reporting dates in January.

<u>Maturity</u>	<u>Jan. 4</u>	<u>Jan. 31</u>
May 1964	3.76	3.75
Jan. 1975-78 <sup>c</sup>	4.96	4.98
Sept. 1983	5.00	5.04

During January, the chartered banks purchased government bonds, although less than the unusually large volume acquired in December. For the four weeks ending February 1, the banks purchased \$57 million in bonds while the general public sold \$19 million in bonds (see Table). Although the Bank made some switches from maturities of over two years to shorter bonds in order to moderate the yield rise in short maturities, there was no net change in its aggregate bond holdings for the month. Total outstanding Government bonds rose by \$72 million.

Yield spreads between comparable Canadian and U.S. Government bonds showed little change during January (see Table). The recent spreads in favor of Canadian issues for several maturities of selected comparable Canadian and U.S. Government bonds were (in per cent per annum):

	<u>Nov. 29</u>	<u>Jan. 3</u>	<u>Jan. 31</u>
8-year bond	0.14	0.09	--
20-year bond	0.78	0.78	0.75
30-35 year bond	1.13	1.11	1.15

According to A. E. Ames & Co., \$796 million of new securities were issued in the period ending January 29, about half of which represented the roll-over of Treasury bills. None of the remainder, which consisted for the most part of new issues of Provincial and Municipal bonds, were reportedly sold on the U.S. market.

Debt-management program. The \$150 million issue of short-term bonds, dated on January 15 and maturing April 1, 1963, was successfully marketed for cash, according to an announcement by the Ministry of Finance. A simultaneous issue of \$100 million of 6-year 4-1/4 per cent bonds, priced to yield about 4.35 per cent was acquired, by previous agreement, by the Bank of Canada, in exchange for two lots of \$50 million each of issues maturing in May and June of this year. As a result of this exchange operation, the May and June maturities will each be \$50 million smaller, while the \$150 million cash issue will reduce borrowing needs in the current fiscal year by an equal amount. These debt operations reflect the Government's policy of offering frequent issues in fairly modest amounts in order to effect a better spacing of maturities and to avoid disturbances which larger issues might produce in Canadian markets. These intermittent issues have also concentrated on short-term maturities in order to free the long-term sector for corporate and local government borrowing. The Bank of Canada has facilitated this program by advance purchases of maturing issues and by exchanging these maturities for new refunding issues. These bank holdings have been used for the purpose of stabilizing prices of new issues during marketing periods.

Bank loans and money supply. January witnessed further upward movements in general bank loans and the money supply seasonally adjusted. Loans rose by \$142 million in January, or by 2.5 per cent, as compared with an increase of 1.8 per cent in December. Despite the rise in loans and a reduction in the liquid asset ratio from 18.7 per cent in December to 17.9 per cent in January, bank liquidity was almost 3 percentage points over the required minimum (see Table).

Despite the expansion of bank loans, the effects of the customary post-Christmas return flow of cash to the banking system held the expansion in the money supply during January to less than one-half of 1 per cent (see Table).

Foreign trade. In October, the last month for which seasonally adjusted data are available, imports continued the rise recorded in the third quarter, in response to rising levels of domestic demand. While exports had risen by 11.1 per cent in the third quarter, however, they dropped in October by 7.6 per cent below the September peak level, and 4.1 per cent below the third-quarter monthly average.

	<u>Exports</u>	<u>Imports</u>	<u>Trade balance</u>
1960	451.1	458.0	- 6.9
1961 - I	466.9	463.8	+ 3.1
II	466.9	443.2	+23.2
III	519.1	497.3	+21.8
August	493.0	513.7	-20.7
September	539.1	507.8	+31.3
October	498.1	530.7	-32.6

Foreign exchange. The Canadian dollar continued to weaken slightly in January. The exchange rate declined from 95.8 U.S. cents on January 2 to 95.6 U.S. cents on the 15th, but moved rather erratically from day to day during the rest of the month; toward the close of January the rate fell below 95-1/2 cents for the first time but remained at 95.5 U.S. cents on February 1. The \$32 million reserve loss in November was followed by a decline of \$23 million in reserves in December as customary year-end dividend transfers to nonresidents were effected. A continuation of these payments, combined with increased commercial demand for foreign exchange, is believed to explain the further depreciation of the Canadian dollar in January.

<u>End of month</u>	<u>Gold</u>	<u>U.S. dollars</u>	<u>Total</u>	<u>Change during period</u>
1960 - Dec.	885.3	943.9	1,928.2	
1961 - 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
Dec.	946.2	1,109.6	2,055.8	- 23.0

With a further slight widening of the spread favoring Canadian short-term yields, the small discount on the 3-month forward Canadian dollar which developed in early January increased somewhat. On balance, the net incentive to hold Canadian bills, covered for exchange risk, changed very little between the beginning and end of January, and on February 1 was still below levels at which funds are induced to move.

Stock exchange. Industrial stock prices declined rather markedly in January and more than offset the moderate rise registered in

December. The weekly average for the index of industrial stock prices on January 25 was 4.6 per cent below the end of December, matching the decline (also by 4.6 per cent) in the New York Standard & Poor industrial index during the same period (see Chart 6).

<u>Average for</u> <u>week ending</u>	<u>DBS</u> <u>industrials</u>	<u>N.Y. Standard &amp;</u> <u>Poor Industrials</u>
1961 - June 15	329.7	69.55
Dec. 30	353.1	75.70
1962 - Jan. 4	355.6	74.65
11	349.3	73.19
18	340.9	72.70
25	336.8	72.25

Europe and British Commonwealth Section.

II. Nine Charts on Financial Markets Abroad

- Chart 1 - Interest Arbitrage, United States/Canada
- Chart 2 - Interest Arbitrage, New York/London
- Chart 3 - Interest Arbitrage for German Commercial Banks
- Chart 4 - Interest Arbitrage, Frankfurt/London
- Chart 5 - Short-term Interest Rates
- Chart 6 - Long-term Bond Yields
- Chart 7 - Industrial Stock Indices
- Chart 8 - Spot Exchange Rates -- Major Currencies  
Against U.S. Dollar
- Chart 9 - 3-month Forward Exchange Rates

Selected Canadian Money Market and Related Data

	3-mo. Treas. bills			Canadian dollar			Net incen- tive to hold Can. bills/
	Canada a/	U.S. b/	Spread over U.S.	Spot c/	3-mo. forward	discount premium(+) d/	
1961 - High	3.34	2.66	0.68	101.72	--	0.45	0.89
Low	2.26	2.17	-0.13	95.91	--	-0.56	-0.20
Dec. 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
11	3.04	2.78	0.26	95.64	95.61	-0.13	0.13
18	3.09	2.71	0.38	95.75	95.67	-0.33	0.05
25	3.10	2.66	0.44	95.66	95.59	-0.26	0.18
Feb. 1	3.07	2.69	0.38	95.47	95.44	-0.13	0.25

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			
	Canada a/	Spread over U.S. b/	Canada c/	Spread over U.S. d/	(20 year)		(35 year)	
					Canada e/	Spread over U.S. f/	Canada g/	Spread over U.S. h/
1961 - High	3.63	1.15	4.75	1.16	5.19	1.40	5.23	1.59
Low	2.35	-0.11	4.17	0.04	4.80	0.78	4.92	1.14
Dec. 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
10	3.20	0.19	4.17	0.03	4.90	0.76	4.95	1.12
17	3.26	0.39	4.17	--	4.91	0.77	4.95	1.14
24	3.26	0.33	4.19	0.05	4.91	0.78	4.98	1.18
31	3.26	0.33	4.18	--	4.91	0.75	4.95	1.15

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)

	<u>Bank of Canada</u>		<u>Government Total</u>	<u>Chartered banks</u>		<u>General public</u>		
	<u>Treas. bills</u>	<u>Bonds</u>		<u>Treas. bills</u>	<u>Bonds</u>	<u>Savings bonds</u>	<u>Treas. bills</u>	<u>Bonds</u>
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	+ 20	+ 48	- 67
Dec.	- 3	+ 32	+ 21	- 48	+111	- 24	+ 47	- 77
1962-Jan.	- 69	- 1	+ 88	+ 48	+ 57	- 10	- 20	- 19

Source: Bank of Canada, Weekly Financial Statistics.

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

	<u>Aug.</u>	<u>Sept.</u>	<u>Oct.</u>	<u>Nov.</u>	<u>Dec.</u>	<u>Jan.</u>
1. Money supply: <sup>a/</sup>						
Currency and deposits	14,368	14,486	14,399	14,695	14,915	14,990
Less: Govt. deposits	312	473	312	452	634	558
Equals: Privately held	14,056	14,013	14,087	14,243	14,381	14,432
Change in period	+ 224	- 43	+ 74	+ 156	+ 138	+ 51
2. General bank loans: <sup>a/</sup>	5,367	5,378	5,499	5,620	5,720	5,862
Change in period	+ 98	+ 11	+ 121	+ 121	+ 100	+ 142
3. Total Govt. securities: <sup>c/</sup>	17,885	18,061	18,061	18,584	18,648	18,720
Of which: Treas. bills	1,885	1,885	1,885	1,885	1,885	1,885
Bonds	12,577	12,776	12,729	12,590	12,676	12,758
Savings bonds	3,423	3,400	3,404	4,109	4,087	4,078
4. New security issues: <sup>b/</sup>	600	1,024	640	1,159	911	796
Of which sold in U.S.	0	0	0	7	0	0
5. Chartered bank liquidity: <sup>d/</sup>						
Cash reserve	1,039	1,062	1,072	1,071	1,082	1,114
Cash ratio	8.1	8.1	8.1	8.1	8.1	8.1
Liquidity assets	2,415	2,465	2,473	2,516	2,504	2,453
Liquid asset ratio	18.9	18.8	18.8	19.0	18.7	17.9

<sup>a/</sup> Seasonally adjusted (average of Wednesdays).

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

<sup>c/</sup> Last Wednesday of month.

<sup>d/</sup> Commulative average through last Wednesday of month.

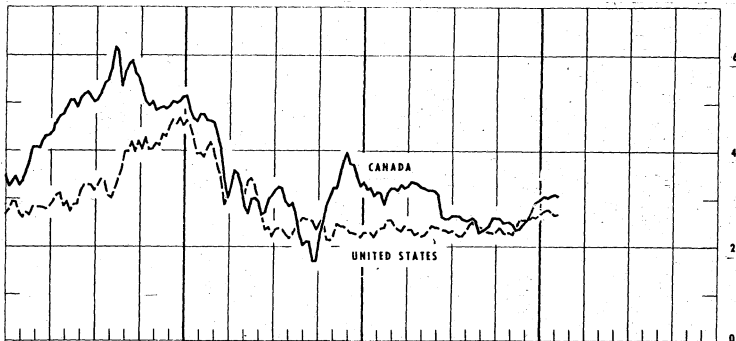
Chart 1

### INTEREST ARBITRAGE, UNITED STATES / CANADA

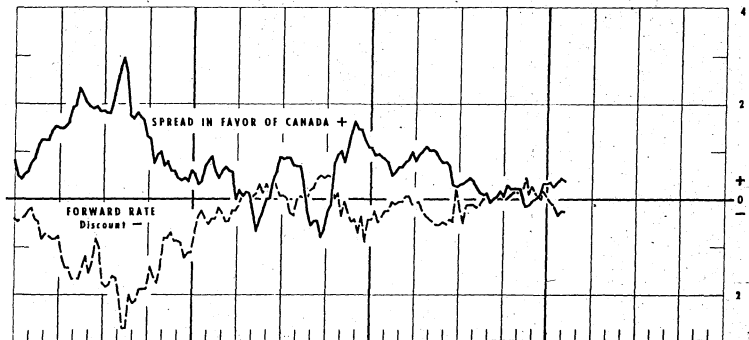
Thursday Figures

#### THREE-MONTH TREASURY BILL RATES

Per cent per annum



#### RATE DIFFERENTIAL AND FORWARD CANADIAN DOLLAR



#### RATE DIFFERENTIAL WITH FORWARD EXCHANGE COVER

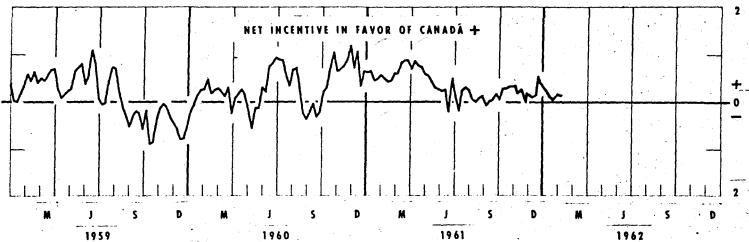




Chart 2  
**INTEREST ARBITRAGE, NEW YORK/LONDON**

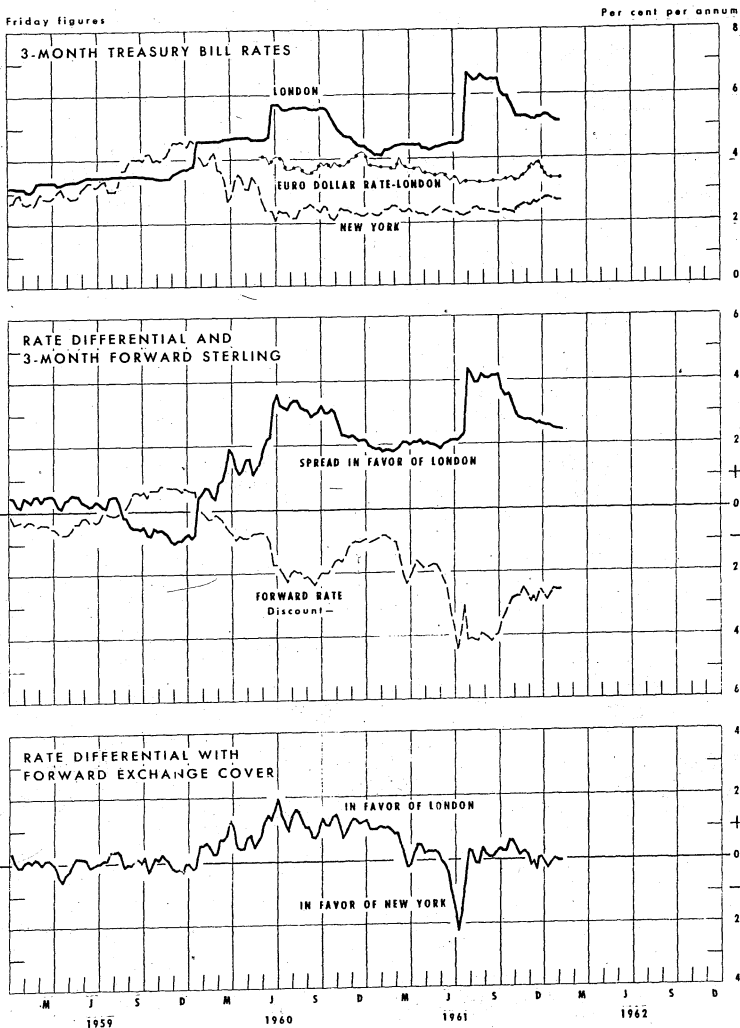
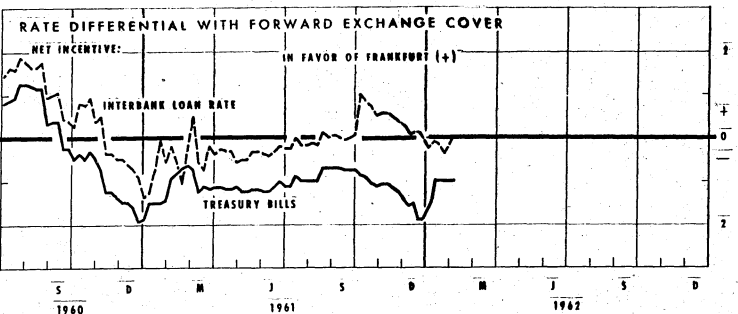
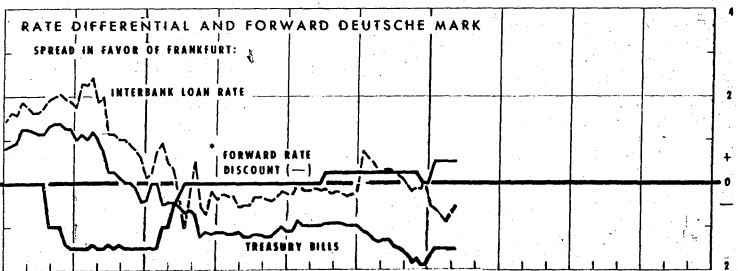
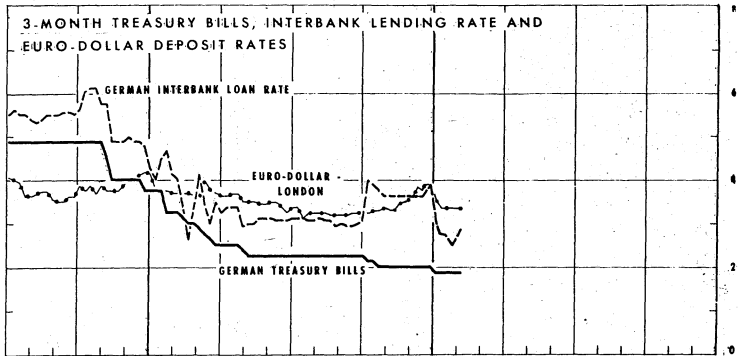


Chart 3

INTEREST ARBITRAGE FOR GERMAN COMMERCIAL BANKS

Friday figures

Per cent per annum



Note: Special forward rate available to German commercial banks

Chart 4

### INTEREST ARBITRAGE, FRANKFURT/LONDON

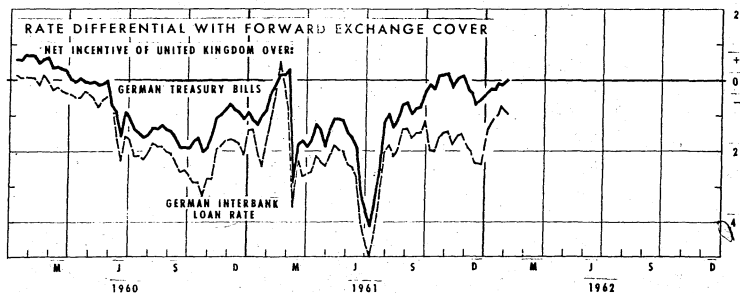
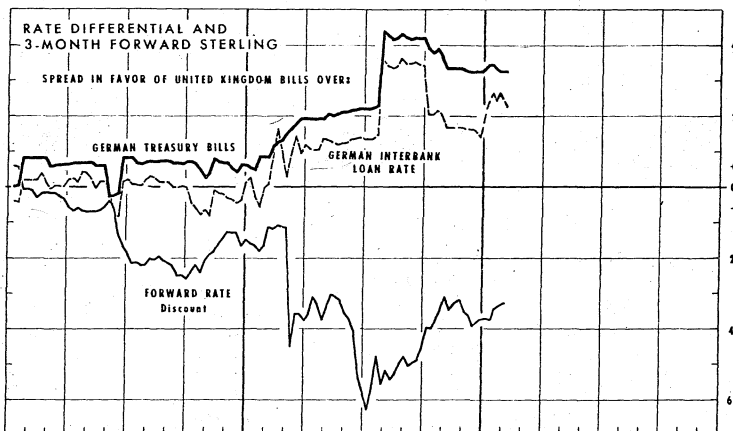
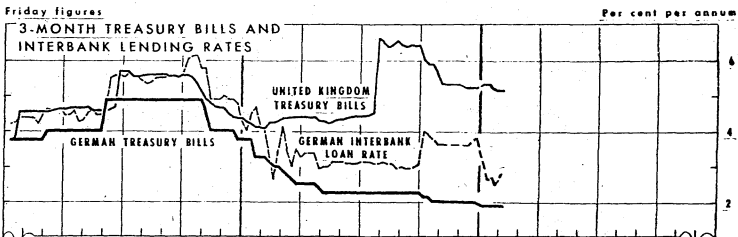
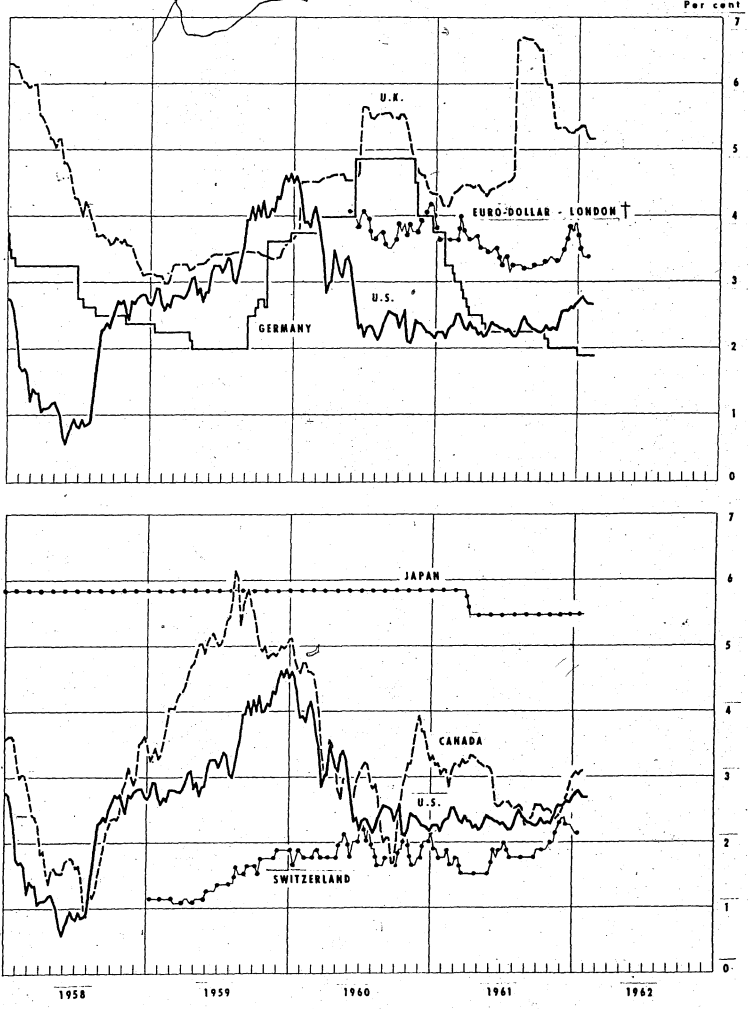


Chart 5

**SHORT-TERM INTEREST RATES \***



\* 3-month treasury bill rates for all countries except Japan (6 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**

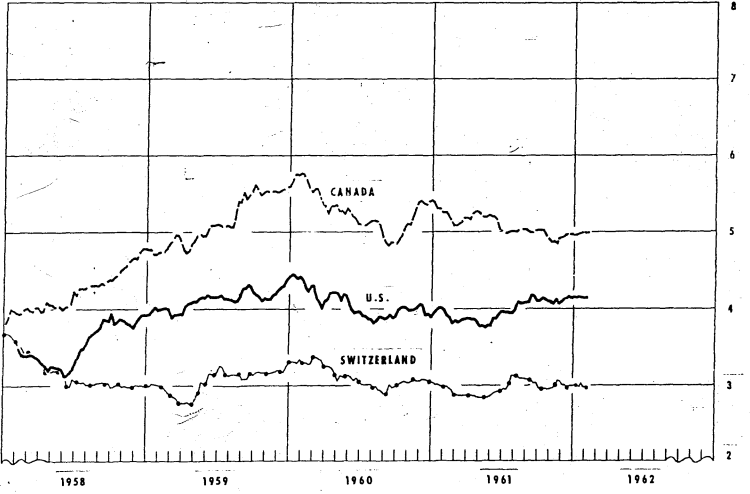
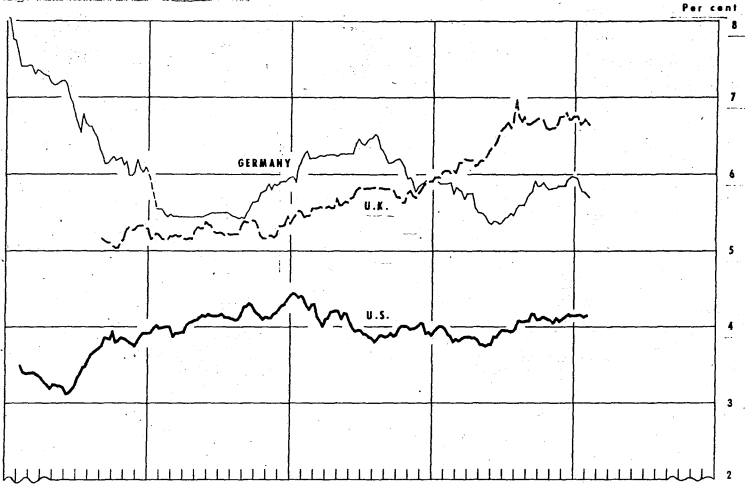
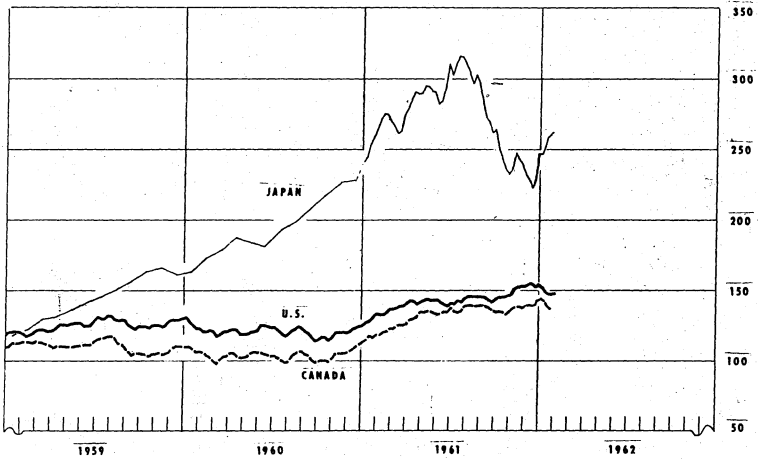
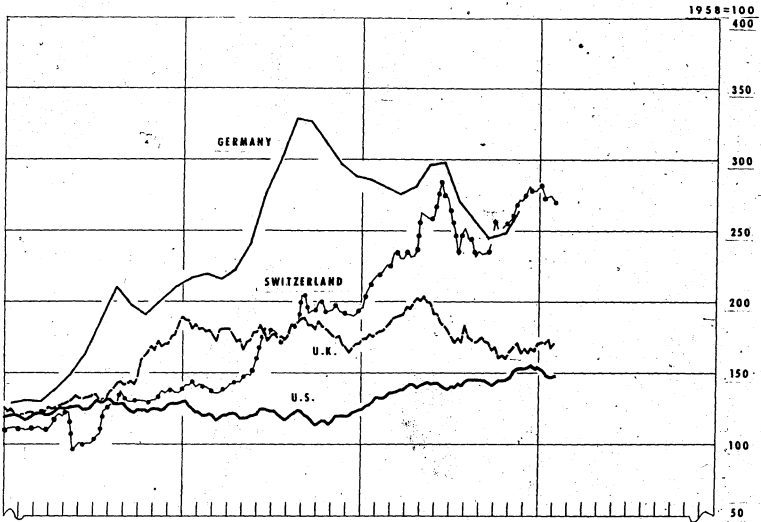


Chart 7

INDUSTRIAL STOCK INDICES\*



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

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Chart 8  
**SPOT EXCHANGE RATES - MAJOR CURRENCIES AGAINST U.S. DOLLAR**

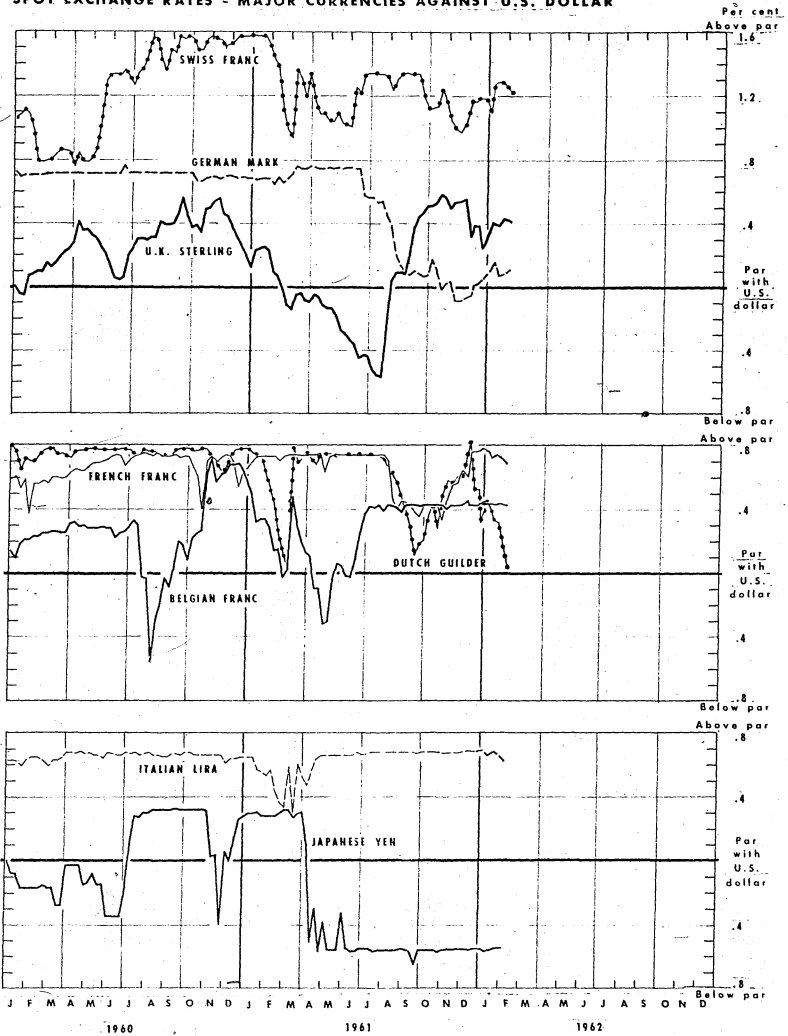
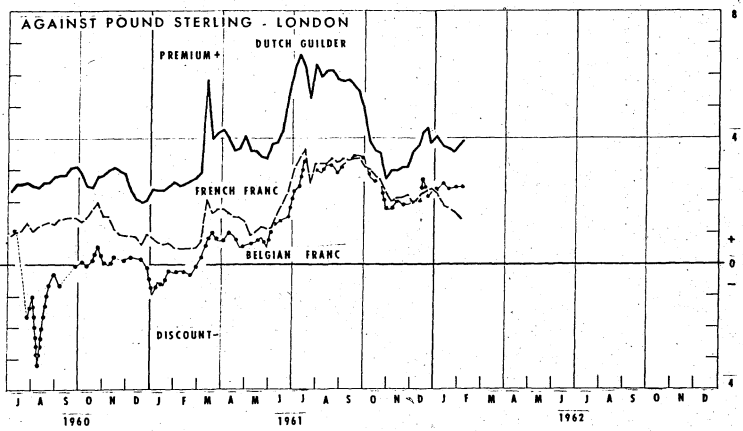
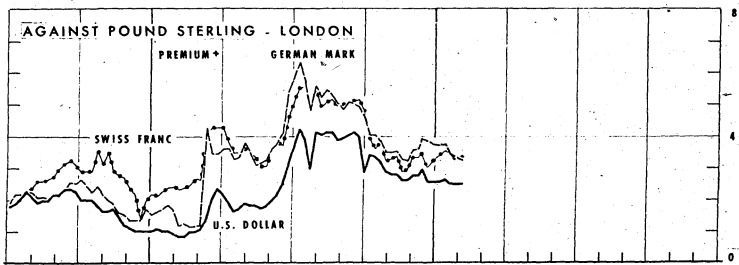
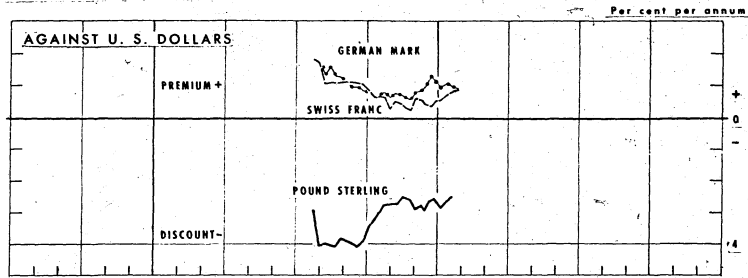


Chart 9  
3-MONTH FORWARD EXCHANGE RATES



J A S O N D J F M A M J J A S O N D J F M A M J J A S O N D

1960 1961 1962