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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 May and June

Credit became more freely available in Britain as the clearing banks sought outlets for the £72 million special deposits which the Bank of England released on May 31. Heavy clearing bank purchases of Government securities contributed to a substantial decline in yields on Treasury bills and bonds which occurred recently. On June 20 the liquidity ratio of the clearing banks stood at 33.4 per cent well above the minimum ratio of 30 per cent, and bank loans showed a slight increase. Considerable scope for additional bank lending exists should the demand for loans increase.

The decline in prices of industrial stocks on the London stock exchange, which had begun on April 27, ceased on June 26. Prices remained stable through the middle of July, but they began to decline again on July 17. However, the stock market has been quiet through June and the early part of July with substantial funds being invested in the gilt-edged market. Investors apparently feel that the relatively high yields on Government securities makes them attractive in light of the current yields on stocks and the poor prospects for the growth in profits and in capital values. With the sharp falls in stock prices in May and early June, the average yield on industrial stocks was 6.01 per cent on June 19 (see Table). On that day the stock yield rose above the bond yield for the first time since 1959.

In the foreign exchange markets, sterling was slightly stronger in June than in May, fluctuating around one quarter of 1 per cent above par. Reserves increased by £6 million after adjustments for special transactions.

During July, the price of gold in the London market rose to $35.14-1/2 per ounce compared with the $35.08 level prevailing in April and May. The financial press reported "big European buying" and estimated that around July 20 "sales are thought to be running in the region of $25 million daily." (Financial Times, July 21, 1961, p. 1.) However, on July 25, the gold price fell to 35.12.

During the period of heavier activity in the gold market, the rate of interest on U.S. dollar deposits in London (Euro-dollars) has gone up, despite the declining tendencies in the interest rate structure in British financial markets. The average rate for the 3-month deposit was maintained at approximately 3.67 per cent from June 1 to July 6 but on July 13 went to 3.94 per cent. On July 20 it declined to 3.72 per cent, but it rose further during the week of July 23.

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Money market. Short-term rates, which had been declining since March, remained steady during the first half of June and then rose at the end of the month. (See Table and Chart 1.) Money was short on June 30 when financial institutions sought to increase their cash position for the "half year make-up" and the Bank of England assisted the market both by purchasing Treasury bills and by lending to the discount houses. The Treasury bill rate, at 3.69 per cent at the beginning of June, reached 3.84 per cent at the end of the month, but it declined only to 3.81 per cent on July 13. There were no covered arbitrage opportunities during the first half of June, but a small covered margin in favor of the United Kingdom developed during the last half of the month. (See Table and Chart 1.) It was eliminated by the fall in the British bill rate during the first week of July.

The rates offered on three-months local authority deposits fluctuated between 3.50 and 3.60 per cent during the first three weeks of June. (See table.) As the demand for money increased at the end of June, the rate went up to 3.75 per cent. The Financial Times reports that there was an inflow of foreign funds into the local authorities market during the week ending June 27 but that there were no significant sums of foreign money moving either in or out of this market during the rest of June or during the first two weeks of July. Covered arbitrage opportunities for holders of Euro-dollar deposits to switch into local-authority deposits were infrequent and insignificant. The differentials (in per cent per annum) were as follows:

May 4	+0.06	June 1	-0.17	June 29	+0.06
11	+0.13	8	-0.18	July 6	+0.07
18	+0.11	15	-0.09	13	-0.32
25	-0.04	22	-0.17	20	-0.07

In the week of July 13, the sharp rise in the rate on Euro-dollar deposits brought this rate substantially above the local authority-deposit rate.

British Treasury officials have been meeting with representatives of local authorities to seek methods to prevent a repetition of the embarrassing situation which took place in March when substantial short-term foreign funds were channeled into the local authorities market just at the time when the authorities desired to reduce the inflow of foreign short-term capital. The reductions in Bank rate led to a fall in bank deposit rates and in the Treasury bill rate, but the local authorities were bidding rates up as they urgently required funds at the end of their financial year. However, it is not likely that this problem will be solved until arrangements are made for the local authorities to secure short-term and other funds from sources other than by separate borrowings in the money market.

Stock market. The fall in stock prices was arrested during the last week of June. (See Chart 7.) From April 27 through June 25, stock prices fell on every day but two. The prices declined in this period by 18 per cent.

However, following a revival of buying in the New York Stock Exchange, prices in London recovered on June 26. On June 27, the Financial Times Ordinary share index rose by 10 points to 257, and the index fluctuated narrowly about that level until July 17. On the following three days the rate declined, reaching 258 on June 20. The market was fairly quiet during the period of recovery. The sudden and the rapid recovery at the end of June is reported to have occurred on a thin market.

Gilt-edged market. At the end of the first week in July, there was widespread demand for gilt-edged securities. July 6 was described by The Times as the "best day in years" for the gilt-edged securities. Purchases were initiated in June by the clearing banks, which invested a large amount of the funds released from Special Deposits in the gilt-edged market (see below). They concentrated their purchases on the short end of the market and in maturities from five to 10 years. As prices in these ranges moved up, other investors were encouraged to switch into long maturities and undated bonds.

The unexpected gilt-edged activity lowered yields throughout the range of Treasury securities. (See Table and Chart 6.) Between June 28 and July 12, changes in yields on representative bonds were:

2-year	4 basis points
13-year	40 " "
40-year	20 " "
War loan	21 " "
Consols	22 " "

The Government Broker tried to slow down the price rises of Treasury bonds by lowering the pace of the 5 per cent Treasury bond 1986-89 (which is available as on top basis in official portfolios) below those of comparable maturities.

London clearing banks. The June 20 balance sheet of the London clearing banks reveals that the additional special deposits called up last July and which were released at the end of June were invested principally in gilt-edged securities. Advances to the nationalized industries declined by £20 million. The £44 million increase in other loans shown in the table below reflects in substantial part--perhaps £30 to £40 million--the debiting of half-yearly interest charges, according to the Economist of June 30, 1962 (p. 1368). So new loans may have been only from £4 to £14 million. Should the demand for advances increase, the banks are in a favorable position for making additional loans, as the liquidity ratio stood at 33.4 per cent on June 20.

Recent changes in the net deposit liabilities and selected assets of the London clearing banks are as follows:

London Clearing Banks: Net Deposit Liabilities and Selected Assets
(In millions of pounds)

	Changes							Outstanding June 1962
	July-Sept. 1961	Oct.-Dec. 1961	Jan.-Mar. 1962	April - June 1962				
				Apr.	May	June	Total	
Net Deposits	- 44	+ 24	- 90	- 6	+16	+121	+131	6,381
Liquid Assets								
Cash	- 8	+ 24	- 16	+ 7	-16	- 25	+ 16	626
Call money	- 5	+ 81	+ 33	-44	+34	- 16	- 26	713
Treasury bills	+112	+ 2	-287	+52	+15	+ 56	+123	917
Other bills	+ 29	- 4	+ 21	--	-10	+ 13	+ 3	276
Loans and other investments								
Gilt-edged	- 36	+ 71	- 23	+14	+ 3	+ 74	+ 91	1,075
Other market investments	--	--	--	--	--	--	--	112
Advances:								
Nationalized industries	+ 1	+ 6	- 3	- 9	--	- 20	- 29	36
Other (net)	-180	- 75	+169	+ 3	- 3	+ 44	+ 44	3,354
Special deposits with Bank of England	+ 76	--	- 1	--	+ 1	- 72	- 71	149
Selected assets as percentage of gross deposits (end of period)								
Total liquid assets	34.[illegible]	35.[illegible]	32.6	32.6	32.6	33.4	33.4	33.4
Cash	8.2	8.3	8.1	8.3	8.0	8.3	8.3	8.3
Special deposits	3.0	2.9	3.0	3.0	2.9	2.0	2.0	2.0

Installment credit. Outstanding installment credit of the finance houses rose for the first time since July 1961. This was due entirely to new credit extended for financing automobile purchases. Credit advanced by finance houses for the purchase of other durables continued to decline in May. The outstanding installment credit of shops also fell in May. Changes in credit outstanding since June 1961 (in millions of pounds) were:

	Total June 1961	Changes					
		1961		1962			
		July-Sept.	Oct.-Dec.	Jan.-Mar.	Mar.	Apr.	May
Shops	306	- 3	+ 6	-13	- 5	- 3	- 1
Finance houses	651	- 1	-32	-26	- 6	- 2	+ 3
Total	957	- 4	-26	-39	-11	- 5	+ 2

Foreign trade. Exports in June showed the largest monthly change (seasonally adjusted) this year, and imports were down from May. The seasonally adjusted trade balance for June was the lowest monthly deficit for the year. The rise in imports in May can be attributed to heavy food and animal feedstuffs requirements from abroad as the result of poor crops in Britain. Seasonally adjusted trade figures (monthly averages in millions of pounds) for recent months were:

			1962					
	1960	1961	Jan.	Feb.	Mar.	Apr.	May	June
Imports c.i.f.	-380	-367	-380	-362	-358	-359	-380	-369
Exports f.o.b.	296	307	300	307	312	314	316	328
Re-exports	12	13	12	11	11	14	15	14
Trade balance	- 72	- 47	- 68	- 44	- 35	- 31	- 49	- 27

Foreign exchange reserves. The gold and foreign exchange reserves fell in June by £33 million. However, this figure must be adjusted upwards by £36 million to take into account the foreign exchange cost of the aid to Canada and by £3 million to offset the interest payment on the U.S. loan of 1946. Recent monthly changes in reserves (in millions of pounds) are as follows:

	1961		1962					
	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June
Reported figure	+ 9	-85	+33	+ 5	+10	+ 7	+19	-33
Adjusted for special transactions	+59	-18	+33	+80	+72	+32	+26	+ 6

Foreign exchange market. The spot rate remained above 280.93 cents during the middle of June, but declined somewhat towards the end of the month. (See Table and Charts 8 and 9.) The Economist attributes this fall to the improvement of the Canadian dollar. British traders have made purchases of Canadian dollars that they had postponed. On July 10 there was a decline to 280.52 cents caused by a rumor that currencies were to be realligned. The rate returned to 280.70 two days later, and it has gradually increased to 280.78 cents on July 20. Selected recent daily rates for spot sterling (in U.S. cents per pound) were:

May	4	281.28	June	1	280.97	July	6	280.66
	11	281.24		8	280.80		13	280.75
	18	281.29		15	280.97		20	280.78
	25	281.15		22	280.93			
				29	280.86			

Security sterling fluctuated within a one-half per cent range during the period under consideration, from 279.75 - 280.30. Selected daily rates for security sterling (in U.S. cents per pound) were:

May 4	281.25	June 1	279.75	July 6	279.75
11	281.25	8	280.00	13	280.12
18	281.13	15	280.30	20	280.13
25	281.06	22	280.19		
		29	280.00		

Bullion market. In June and July private demand for gold became exceptionally strong in the London gold market. The price at the daily London fixing climbed from around \$35.08 per ounce on May 4 to \$35.091 on May 25, \$35.106 on June 29 and as follows during July:

July 6	35.113
13	35.122
20	35.143

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 Bond Yields
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

United Kingdom: Treasury Bill Yields and Exchange Rates

	3-mo. Treasury bill arbitrage calculation					Spot pound (U.S. cents)	London deposit rates	
	U.K.	U.S. a/	Difference	3-mo. pound a/	In favor U.K. bill		U.S. dollar (3-mo.)	Local authority (3-mo.)
1961 - High	6.74	2.74	4.45	-0.79	1.13	281.62	4.00	7.50
Low	4.17	2.16	1.88	-4.36	-2.12	278.47	3.13	6.00
April 20	4.19	2.73	1.46	-1.71	-0.25	281.45	3.50	5.31
27	4.03	2.74	1.29	-1.48	-0.19	281.25	3.50	5.00
May 4	3.97	2.73	1.24	-1.32	-0.08	281.28	3.56	4.94
11	3.88	2.63	1.25	-1.07	+0.18	281.24	3.63	4.81
18	3.78	2.68	1.10	-1.04	+0.06	281.29	3.56	4.70
25	3.72	2.69	1.03	-0.91	+0.12	281.15	3.69	4.56
June 1	3.69	2.69	1.00	-1.01	-0.01	280.97	3.72	4.56
8	3.69	2.65	1.05	-1.05	--	280.80	3.69	4.56
15	3.66	2.71	0.95	-0.87	+0.08	280.97	3.66	4.44
22	3.78	2.74	1.04	-0.83	+0.21	280.93	3.66	4.32
29	3.84	2.90	0.94	-0.81	+0.13	280.86	3.69	4.56
July 6	3.81	2.93	0.88	-0.83	+0.05	280.66	3.66	4.56
13	3.81	2.96	0.85	-0.88	-0.03	280.75	3.94	4.50
20	3.88	2.91	0.97	-0.85	+0.12	280.78	3.72	4.50

a/ Spread between spot and 3-month forward rate in per cent per annum. Discount equals (-).

United Kingdom: Selected Capital Market Yields

	U.K. Government bond yields					Share yield a/	Yield gap b/	Share prices a/
	4-1/2% 1964	3% 1965-75	5-1/2% 2008-12	3-1/2% War Loan	2-1/2% Consols			
1961 - High	6.65	6.68	--	6.92	6.78	5.48	1.90	365.3
Low	5.15	5.95	--	5.95	5.70	4.22	0.86	287.7
April 19	5.07	6.22	6.25	6.31	6.15	5.25	0.90	298.6
26	4.95	6.22	6.20	6.27	6.13	5.15	0.98	305.1
May 3	5.02	6.23	6.20	6.25	6.13	5.17	0.96	305.5
10	4.95	6.25	6.20	6.30	6.20	5.31	0.91	297.5
17	4.84	6.22	6.20	6.30	6.15	5.28	0.87	296.5
24	4.81	6.22	6.15	6.28	6.14	5.50	0.64	284.3
31	4.76	6.26	6.20	6.33	6.19	5.71	0.48	273.8
June 7	4.55	6.28	6.25	6.37	6.23	5.85	0.38	267.4
14	4.54	6.25	6.20	6.32	6.17	5.95	0.22	262.9
21	4.62	6.22	6.20	6.36	6.21	5.98	0.23	261.4
28	4.54	6.22	6.20	6.31	6.16	5.86	0.30	266.9
July 5	4.52	6.14	6.15	6.24	6.18	5.80	0.38	269.6
12	4.50	5.82	6.00	6.10	5.94	5.86	0.08	266.9
19	4.50	5.81	6.05	6.12	5.97	6.01	-0.04	260.2

a/ Financial Times.
b/ Difference between yield on 2-1/2 per cent Consols and share yield.

Chart 1

INTEREST ARBITRAGE, UNITED STATES / CANADA

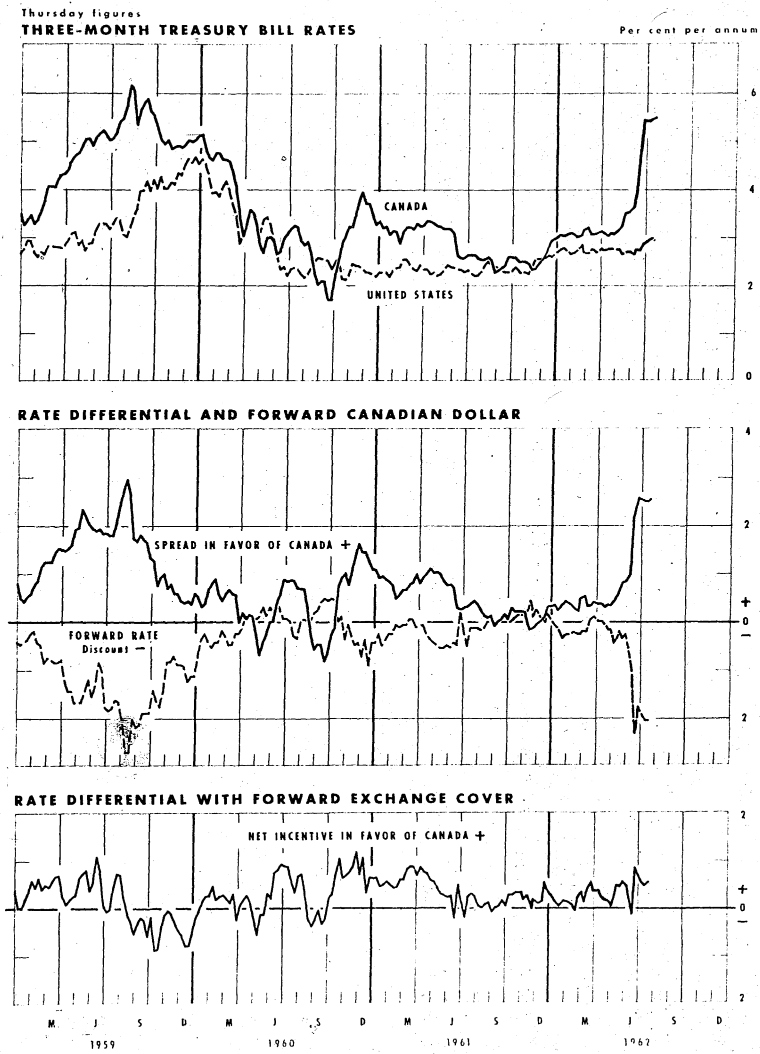

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Chart 2

INTEREST ARBITRAGE, NEW YORK/LONDON

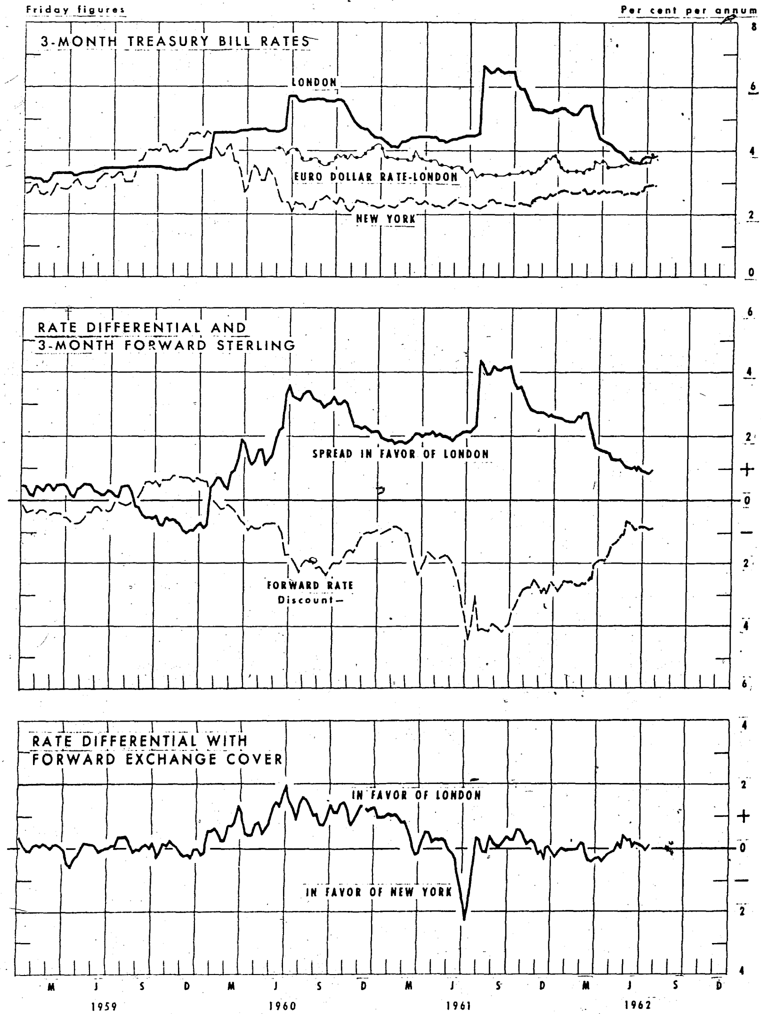
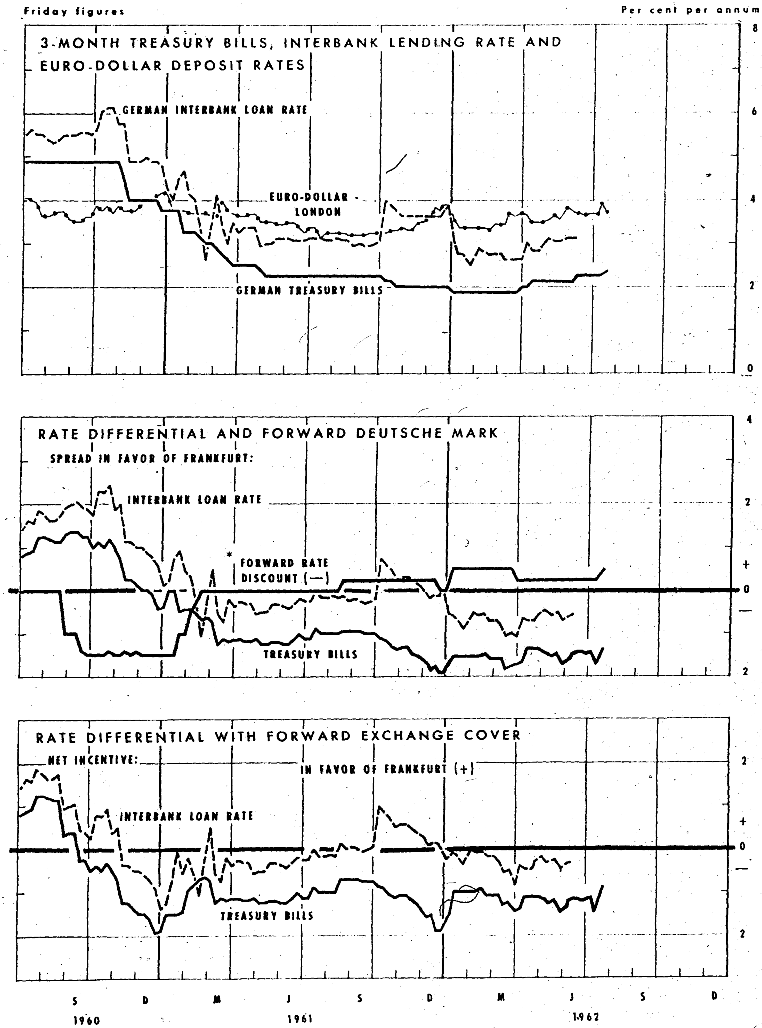


Chart 3
INTEREST ARBITRAGE FOR GERMAN COMMERCIAL BANKS



Note: Special forward rate available to German commercial banks

Chart 4

INTEREST ARBITRAGE, FRANKFURT / LONDON

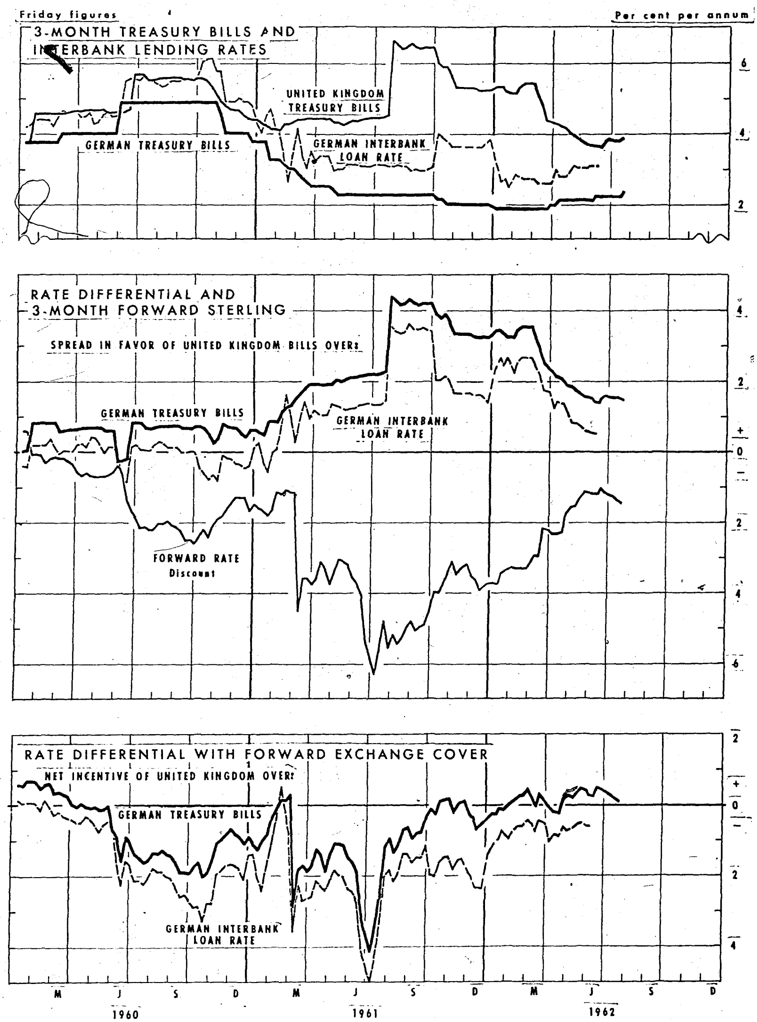
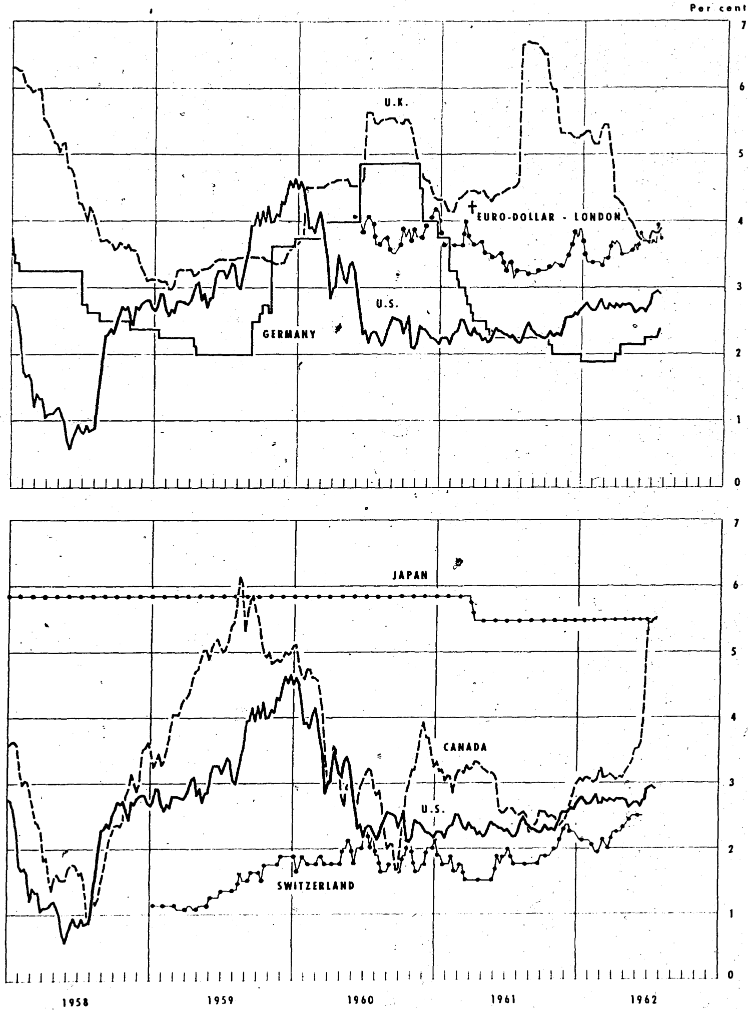


Chart 5

SHORT-TERM INTEREST RATES *



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

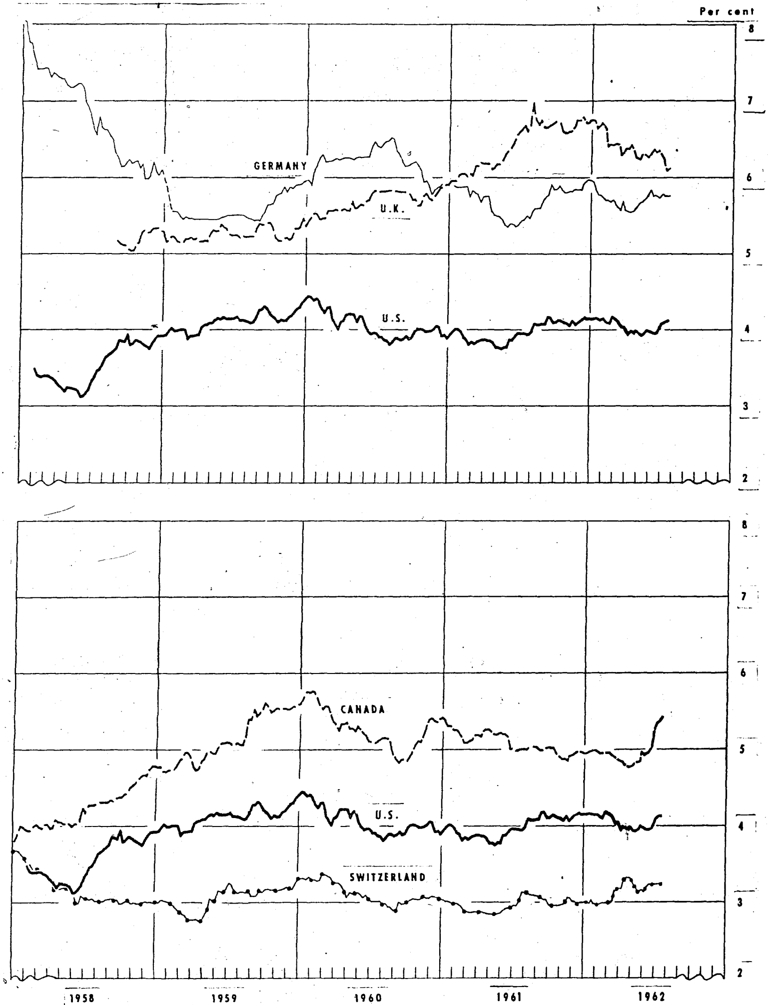
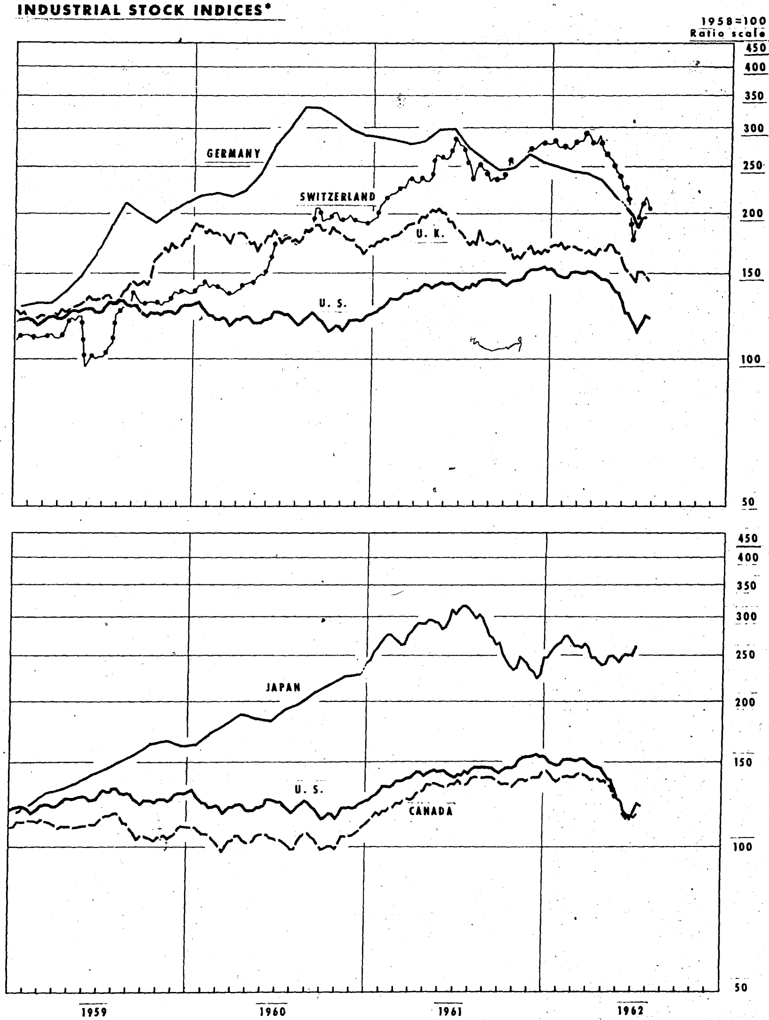


Chart 7

INDUSTRIAL STOCK INDICES*



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

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Chart 8

SPOT EXCHANGE RATES -- MAJOR CURRENCIES AGAINST U.S. DOLLAR

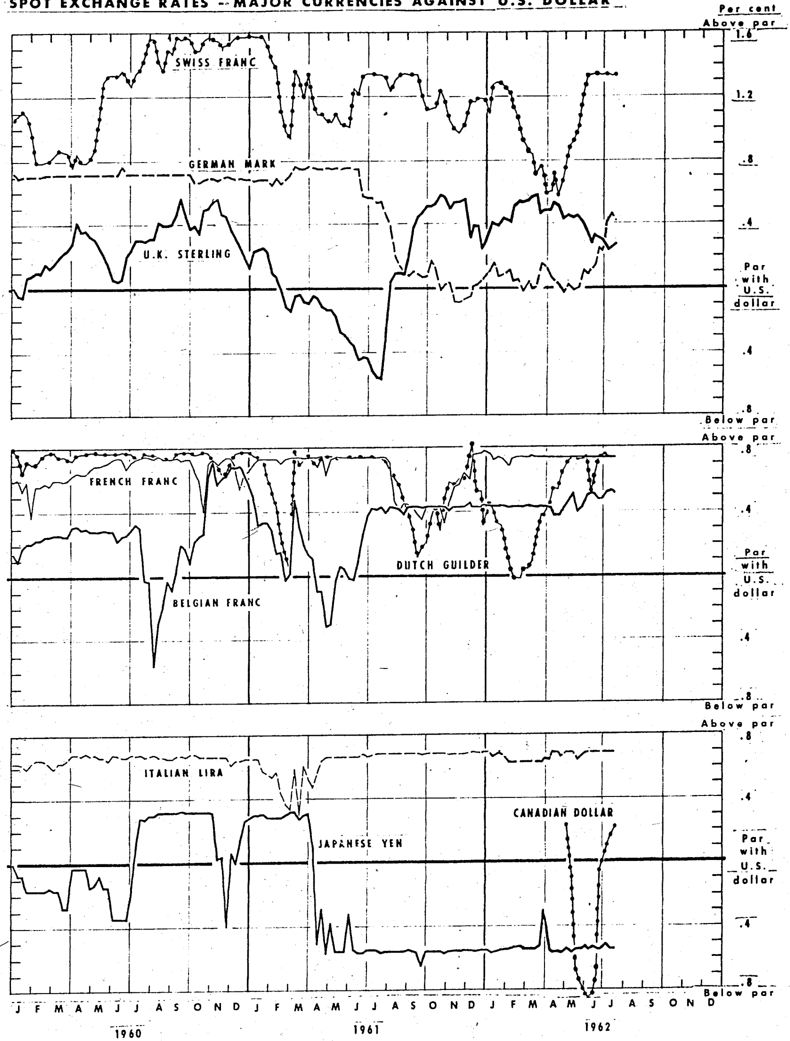

Chart 9

3-MONTH FORWARD EXCHANGE RATES