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No. 76

September 14, 1962

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FEDERAL RESERVE BANK
OF RICHMOND

CAPITAL MARKET DEVELOPMENTS ABROAD

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

I. Canada: Money and Capital Markets in August

During August, a substantial flow of funds into Canada, representing the continued unwinding of earlier commercial leads and lags and some investment demand, held the market rate for the Canadian dollar above par throughout the month and the Bank of Canada added \$216 million to official reserves.

Credit conditions in Canada remained extremely tight during the month but the authorities took advantage of a general easing of short-term money rates to cut the Bank of Canada's discount rate from 6 to 5-1/2 per cent on September 7. However, official spokesmen stressed that this action did not signal modification of the June 24 austerity program. During the Parliamentary session commencing on September 27, the Finance Minister is expected to introduce some of the longer-term policies which are to replace the temporary measures announced on June 24 to improve Canada's balance of payments position.

The Treasury bill rate has declined gradually from a high of 5.51 per cent on July 18 to 4.95 per cent at the end of August. As the Bank of Canada moved to supply a continuing heavy market demand with large net sales of bonds, it made offsetting bills purchases which contributed to the fall in short-term rates. The chartered banks have also been buying bills for liquidity purposes. Bond purchases by nonbank investors between July 18 and September 5 amounted to \$515 million, as may be seen in the following figures on changes in Treasury security holdings (in millions of Canadian dollars):

Net Purchases(+) or Sales(-) of Government
Securities, July 18--September 5, 1962

	Government of Canada Securities			
	Treasury	Canada		
	<u>Bills</u>	<u>Bonds</u>	<u>Savings</u>	<u>Bonds</u>
Bank of Canada	+205	-251		
Chartered Banks	+ 22	-350		
Government Accounts	-100	+ 23		
General Public	- 42	+515		-84

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On September 6, yields on long-term bonds remained virtually unchanged from their early-August highs. Intermediate- and short-term yields, however, began to decline after the first week of August.

		3 months	Bonds				
		<u>Treasury bill</u>	<u>1964</u>	<u>1965</u>	<u>1967-68</u>	<u>1975-78</u>	<u>1996-98</u>
April	12	3.04	3.58	3.93	4.13	4.80	4.88
June	20	4.92	5.12	5.32	4.74	5.07	5.04
July	18	5.51	5.76	5.58	5.11	5.42	5.15
August	1	5.39	5.75	5.58	5.03	5.44	5.19
	8	5.26	5.72	5.58	5.01	5.40	5.19
	15	5.05	5.62	5.57	5.01	5.40	5.17
	23	5.12	5.57	5.60	5.05	5.40	5.20
September	6	5.07	5.46	5.43	5.09	5.43	5.19

In the corporate and local-government sectors, long-term bond yields declined by about 13 basis points from an average of about 5.89 per cent on July 31 to 5.76 per cent on August 31, as may be seen in the following McLeod, Young, Wier and Company bond index (in per cent per annum):

		1 9 6 2			
		<u>May 31</u>	<u>June 29</u>	<u>July 31</u>	<u>Aug. 31</u>
10 Provincial		5.43	5.67	5.87	5.86
10 Municipal		5.65	5.98	6.17	5.90
10 Public utilities		5.27	5.70	5.74	5.62
10 Industrials		5.39	5.71	5.77	5.67
40 Bond yield average		5.44	5.77	5.89	5.76

As a result of Canadian market conditions, Canadian corporate and local-government borrowers have become more active in the United States. In addition, the Finance Minister announced on September 13 that the Government of Canada has negotiated the sale of a \$250 million of 25-year, 5 per cent bonds to a group of five U.S. insurance companies. At the same time, he announced the cancellation of \$250 million of the \$400 million stand-by credit with the Export-Import Bank arranged last June. No drawings have been made against this credit.

Money market. Short-term interest rates continued during August the gradual decline begun in mid-July. After reaching a peak of 5.51 per cent on July 18, the rate on 3-month Canadian Treasury bills declined from 5.39 to 4.95 per cent between August 1 and August 29. (See Table and Chart 1.) During the same period, the rate on 6-month Treasury bills declined from 5.67 to 5.13 per cent. With a larger-than-usual offering of Treasury bills on September 5, the rates on both 3- and 6-month bills rose slightly but on September 13, the 91-day bill fell below 5 per cent.

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During the month of August, the Bank of Canada was a substantial buyer of bills but the chartered banks altered their holdings irregularly in accordance with liquidity requirements, and ended the month with net additions of \$15 million in Treasury bills (see Table). The Bank of Canada offset large sales of bonds with net purchases of \$134 million in Treasury bills during August and another \$39 million during the first week in September.

As Canadian short-term rates declined during August, the fully-covered arbitrage incentive in favor of the Canadian Treasury bill against the U.S. bill declined from its recent high level (see Table and Chart 1). With a wider discount on forward cover, it disappeared altogether at the end of August. A narrowing of the cost of forward cover in early September pushed the covered arbitrage incentive in favor of the Canadian bill to 0.53 per cent on September 6 and to 0.61 per cent on September 13.

The spread in favor of Canadian finance paper narrowed somewhat during August as rates declined slightly more on Canadian than on U.S. paper. The net covered incentive in favor of Canadian finance paper, however, fluctuated with the changes in the cost of forward Canadian cover, as may be seen in the following comparative rates on prime 30- to 89-day paper (in per cent per annum):

		<u>Canada</u>	<u>U. S.</u>	<u>Spread</u>	<u>90-day Forward Exchange</u>	<u>Net Incentive</u>
July	27	5.25	3.00-3.13	2.18	-2.16	+0.02
August	10	5.25	2.88-3.00	2.31	-1.75	+0.56
	24	5.00	2.88-3.13	2.00	-2.02	-0.02
	31	5.00	2.75-3.00	2.12	-2.09	+0.03
September	7	5.00	2.75-3.00	2.12	-1.69	+0.43

It was announced during the week of September 3 that the City of Montreal would, during the week following, call for tenders for an issue of Treasury bills. The city has received the permission of the Quebec Government to raise up to \$30 million in this way. Its first issue will consist of \$1 million in 91-day bills, and will be the first such issue by a Canadian city.

Bond market. Bond yields were little changed during August from mid-July levels. The yield curve on Government of Canada securities remained virtually unchanged and very nearly flat at about 5-1/2 per cent.

Nonbank investors continued to provide a large and continuing demand for Government bonds. After net purchases of \$315 million in July, the nonbank sector added to its holdings of Government bonds \$309 million during August and an additional \$39 million during the first week of September. Rather than allowing yields to decline, the Bank of Canada has made large net sales of bonds since mid-July and largely offset these sales with purchases of Treasury bills. Between July 18 and September 5 these bond sales amounted to a total (net, par value) of approximately \$251 million: July 18 to August 1, \$51 million; August 1 to August 29, \$164 million; August 29 to September 5, \$36 million.

Yields in the corporate and local-government sectors of the bond market declined somewhat from the high levels attained in late July. McLeod, Young, Weir and Company reported yields in these sectors at the end of August, ranging from 5.62 per cent on public utilities to 5.90 per cent on municipals (see Table).

Borrowings in the United States. The high level of Canadian rates has encouraged municipal and provincial governments to turn to the United States for financing. Ames and Company report \$9.9 million borrowings in this country in August, \$8.9 million by municipalities and \$1.0 million by corporations. However, the Financial Post report two additional private placements in the month:

\$8 million of 25-year 5-1/4 per cent debentures by the New Brunswick Electric Power Commission; and \$10 million debenture by the Industrial Acceptance Corporation.

The Financial Post estimates that "during July and August, as many as 10 municipalities borrowed about \$30 million in New York. Yields ranged from 5-1/4 to 5-3/4 per cent." (September 8, p. 4). It is understood that a \$1.58 million of 5-1/4 per cent bonds of the City of Saskatoon was sold on the New York market at an effective yield of 5.44 per cent compared with yields of 6.5 to 6.65 per cent said by the City Commissioner to be available on the Canadian market.

A \$250 million borrowing of the Government of Canada from five U.S. life insurance companies in 25-year 5 per cent bonds was announced by the Finance Minister on September 13. The proceeds are to be paid in installments between October 5 and March 31, 1963.

A growing list of Canadian borrowers are reported to be interested in financing in this country. The City of Regina is reported to be sounding out the market on a \$1.4 million offering and Halton County, Ontario is presently in the process of offering a \$500,000 issue.

Bank loans and bank liquidity. During August, the chartered banks found their cash reserves only fractionally above the 8 per cent legal minimum, their liquid asset ratios very close to the agreed minimum of 15 per cent and their holdings of government bonds (at par value) at the lowest point in two years. As a result, the banks borrowed \$31 million from the Bank of Canada during the week ending August 29 to meet their August reserve requirements. In addition, the rapid expansion of their general loans was also sharply curtailed during the month. These loans rose in the first week of August but dropped more sharply during the second week of the month than during any week in 1962 and by August 29 had only regained the August 8 level. (See Table.) On a seasonally-adjusted basis, the increase in loans during August was the lowest monthly increase for at least two years. Meanwhile, Canadian papers have reports of considerable unsatisfied demand for bank loans as liquidity considerations forced the banks to turn away prospective borrowers.

Canadian Chartered Banks:
Cash Reserves & Other Assets

(In millions of dollars or per cent)

	Cash Reserves	Cash Ratio	Liquid Assets	Liquid Asset Ratio	General Loans ^{a/}	Treasury Bills ^{a/}	Canadian Government Bonds ^{a/} (Par value)
<u>Average of Wednesdays:</u>							
March	1,101	8.1	2,451	18.04	5,905	1,181	2,708
April	1,113	8.1	2,351	17.12	6,033	1,075	2,679
May	1,114	8.1	2,358	17.13	6,261	1,048	2,719
June	1,165	8.18	2,286	16.05	6,519	1,009	2,457
July	1,159	8.20	2,195	15.53	6,649	908	2,212
August	1,151	8.12	2,204	15.56	6,709	987	1,932
<u>Average for week ending:</u>							
June 13	1,150	8.1	2,313	16.2	6,350	1,054	2,646
20	1,170	8.2	2,268	15.9	6,432	1,023	2,521
27	1,196	8.4	2,265	15.9	6,519	1,009	2,457
July 4	1,135	8.03	2,218	15.69	6,623	1,010	2,437
11	1,143	8.09	2,226	15.75	6,685	995	2,347
18	1,147	8.11	2,179	15.41	6,662	947	2,280
25	1,185	8.39	2,181	15.43	6,649	908	2,212
Aug. 1	b/ 1,146	b/ 8.09	b/ 2,187	b/ 15.44	6,684	972	2,107
8	1,159	8.18	2,181	15.40	6,708	955	2,038
15	1,147	8.10	2,183	15.41	6,677	942	1,991
22	1,145	8.08	2,195	15.50	6,679	960	1,956
29	1,156	8.16	2,250	15.89	6,709	987	1,932
Sept. 5	1,108	8.10	2,197	16.06	n.a.	969	1,930

a/ Monthly data are for the last Wednesday of the month. Weekly figures are holdings as of date indicated.

b/ Data are not averages, but reported levels as of August 1; other data are weekly averages.

Source: Bank of Canada, Weekly Financial Statistics and Statistical Summary, June 1962.

Foreign exchange. The Canadian dollar has shown continued strength throughout August and the first half of September. (See Chart 8.) The return-flow of funds into Canada begun in late June continued into August and September as previously-created leads and lags in commercial payments continued to "unwind". These flows, coupled with a strong commercial demand, have made it possible to keep the market rate on the Canadian dollar above par (at about 92.8 to 92.9

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U.S. cents) while at the same time the Bank of Canada has added almost continually to its exchange reserves. Recent totals of Canada's gold and foreign exchange reserves are (in millions of U.S. dollars):

	1962						
	Mar.	Apr.	May	June 24	June	July	August
Gold	963.7	963.2	913.0	n.a.	669.0	673.8	n.a.
U.S. dollars	745.7	631.6	579.8	n.a.	1,139.7	1,440.6	n.a.
Total	1,709.4	1,594.8	1,492.8	1,100.0	1,808.7	2,114.4	2,330.6
Change during period	-37.3	-114.6	-102.0	-392.8	+708.7	+305.7	+216.2

Stock market. The DBS industrials index and the New York Standard and Poors industrial index reflected generally higher prices on industrial stocks in both Canada and the U.S. in August than in July. Both series advanced early in August and then lost a part of these advances with declines toward the end of the month.

<u>Average for week ending</u>		<u>DBS Industrials a/</u>	<u>N.Y. Standard and Poor Industrials</u>
<u>1962:</u>			
June	28	113.8	55.85
July	5	113.3	58.93
	12	115.0	60.12
	19	112.3	59.41
	26	114.4	55.26
August	2	118.1	60.73
	9	119.5	60.22
	16	123.2	61.23
	23	122.6	62.37
	30	120.2	61.71

a/ This series is the recently-published DBS index of 76 industrials (1956=100), and replaces the older DBS index of 66 industrials (1935-1939=100) previously reported in Capital Markets Developments Abroad series for Canada.

Europe and British Commonwealth Section.

II. Nine Charts on Financial Markets Abroad

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Canada: Treasury Bill Yields and Exchange Rates3-mo. Treas. bill arbitrage calculation

	Canada a/	U.S. a/	Differ- ence	3-mo. Can.\$ b/	In favor Can. bill c/	Spot Can.\$ (U.S. cents)	Finance paper	
							30-89 days	90-179 days
1962-High	5.51	2.98	2.59	0.13	0.84	95.75	--	--
Low	3.01	2.64	0.22	-2.31	-0.11	91.73	--	--
1962-June 7	3.62	2.64	0.98	-0.55	0.43	91.73	3-3/8--1/2	3-5/8--3/4
July 19	5.51	2.93	2.58	-2.02	+0.56	92.72	--	--
26	5.47	2.89	2.58	-2.16	+0.42	92.75	5-1/4	5-5/8--3/4
Aug. 2	5.39	2.83	2.56	-1.88	+0.68	92.75	5-1/4	5-1/2--3/4
9	5.26	2.83	2.43	-1.95	+0.48	92.77	5-1/4	5-3/4
16	5.05	2.83	2.22	-2.02	+0.20	92.81	5	5-1/4--1/2
23	5.12	2.82	2.30	-1.95	+0.35	92.83	5	5-1/4--1/2
30	4.95	2.80	2.15	-2.22	-0.07	92.83	--	--
Sept. 6	5.07	2.79	2.28	-1.75	+0.53	92.86	--	--

a/ Thursday quotations.

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

c/ Net of difference in bill yield less discount on 3-month Canadian dollar.

d/ Friday quotations.

Selected Government of Canada Security Yields

	6-mo. Treas. bills		Intermediate bonds (8 yr.)		Long-term bonds			
	Spread		Spread		(20 year)		(35 year)	
	Canada a/	U.S. b/	Canada c/	U.S. d/	Canada e/	U.S. f/	Canada g/	U.S. h/
1962-High	5.74	2.84	5.20	1.29	5.48	1.45	5.19	1.10
Low	3.18	0.19	4.04	0.03	4.73	0.73	4.81	0.82
1962-June 6	3.83	1.10	4.31	0.64	4.95	1.10	4.94	0.98
July 19	5.74	2.59	5.11	1.16	5.48	1.44	5.15	1.03
26	5.65	2.54	5.07	1.13	5.48	1.45	5.19	1.08
Aug. 1	5.62	2.58	5.03	1.11	5.48	1.44	5.19	1.06
8	5.45	2.40	5.01	1.14	5.40	1.39	5.18	1.08
15	5.24	2.24	5.01	1.22	5.38	1.40	5.17	1.10
22	5.31	2.35	5.05	1.31	5.39	1.47	5.20	1.19
29	5.13	2.19	5.08	1.33	5.39	1.47	5.19	1.20
Sept. 5	5.27	2.29	5.09	1.31	5.39	1.46	5.19	1.19

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.

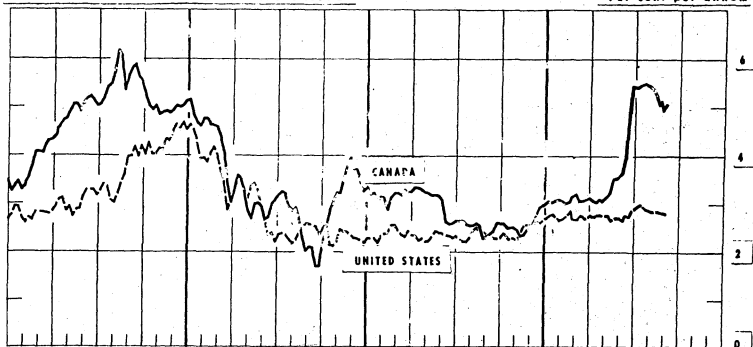
h/ Spread over U. S. Government of 1995.

INTEREST ARBITRAGE, UNITED STATES / CANADA

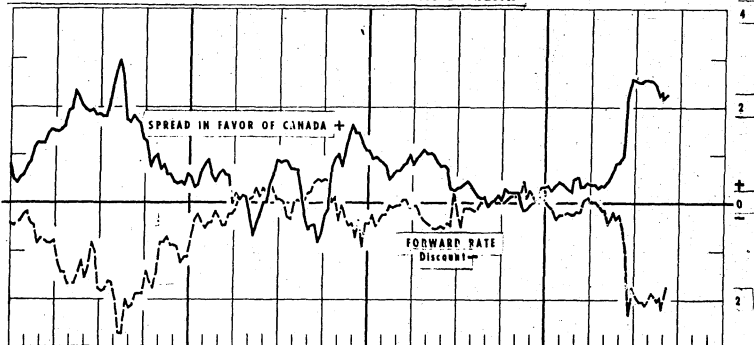
Thursday figures

THREE-MONTH TREASURY BILL RATES

Per cent per annum



RATE DIFFERENTIAL AND FORWARD CANADIAN DOLLAR



RATE DIFFERENTIAL WITH FORWARD EXCHANGE COVER

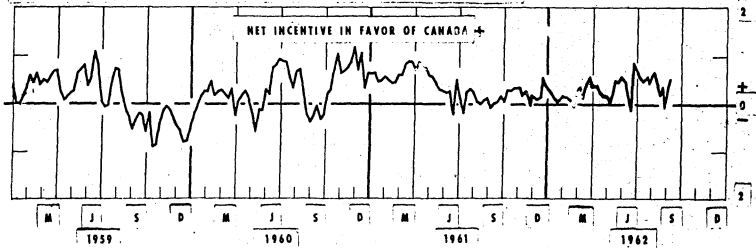


Chart 2

INTEREST ARBITRAGE, NEW YORK/LONDON

Friday figures

Per cent per annum

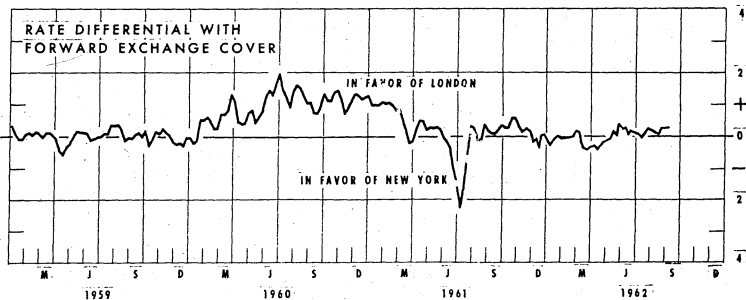
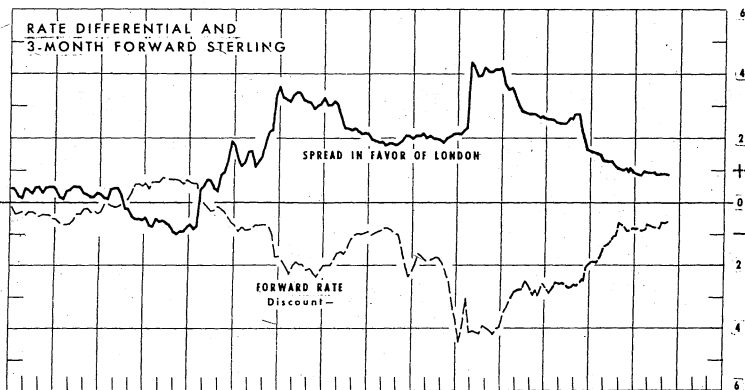
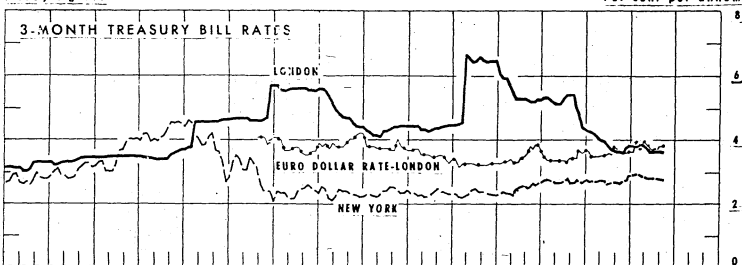
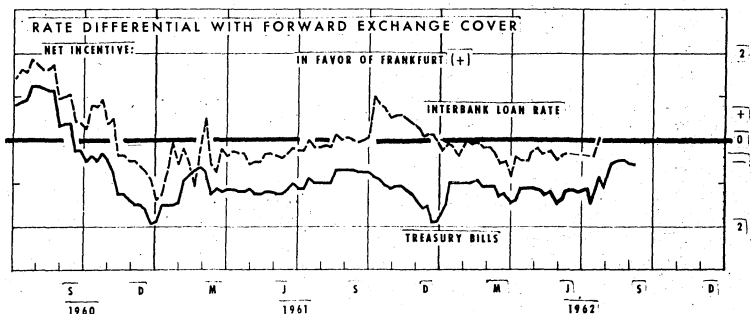
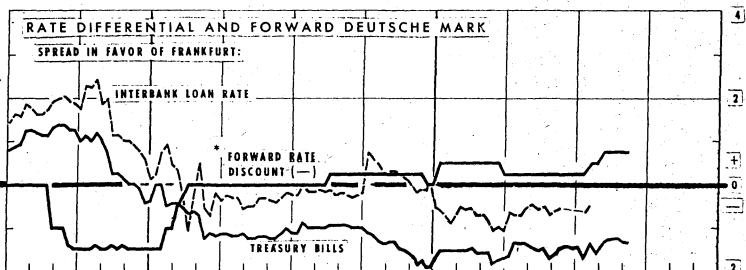
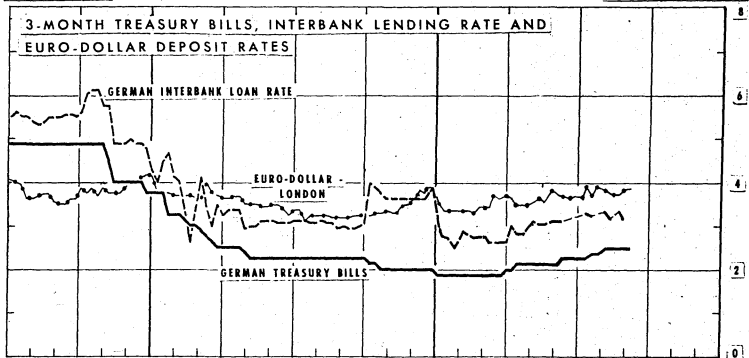


Chart 3

INTEREST ARBITRAGE FOR GERMAN COMMERCIAL BANKS

Friday figures

Per cent per annum



Note: Special forward rate available to German commercial banks

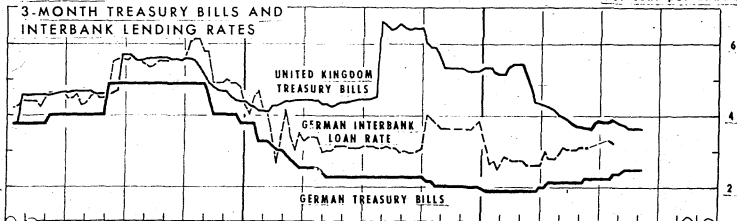
Chart 4

INTEREST ARBITRAGE, FRANKFURT/ LONDON

Friday figures

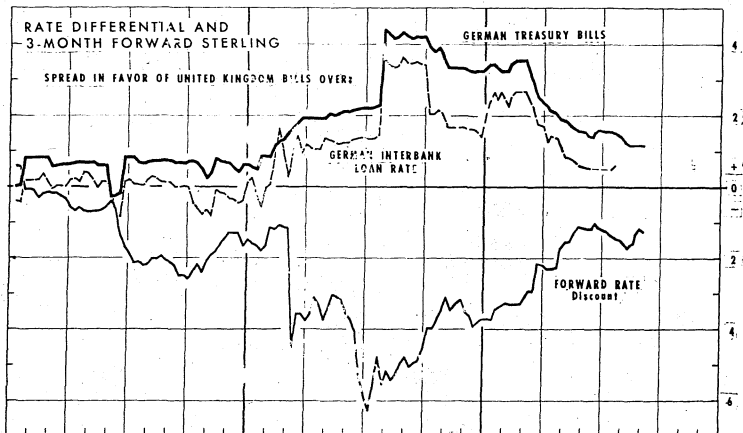
3-MONTH TREASURY BILLS AND
INTERBANK LENDING RATES

Per cent per annum



RATE DIFFERENTIAL AND
3-MONTH FORWARD STERLING

SPREAD IN FAVOR OF UNITED KINGDOM BILLS OVER:



RATE DIFFERENTIAL WITH FORWARD EXCHANGE COVER

NET INCENTIVE OF UNITED KINGDOM OVER:

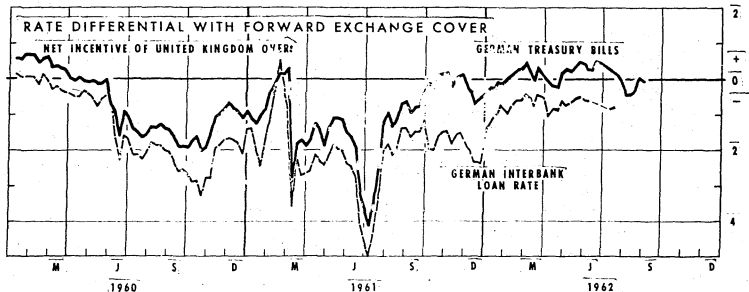
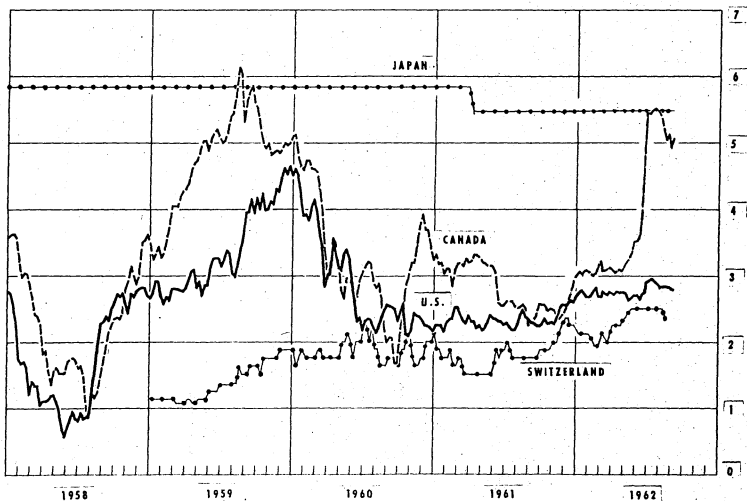
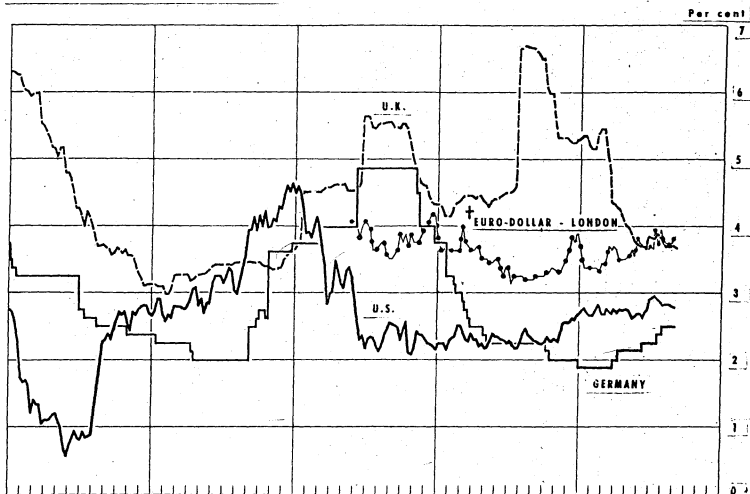


Chart 5

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.

Chart 6

LONG-TERM BOND YIELDS

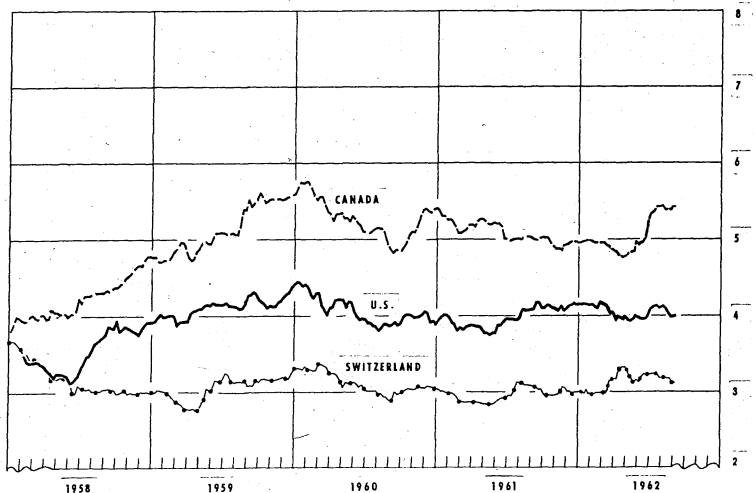
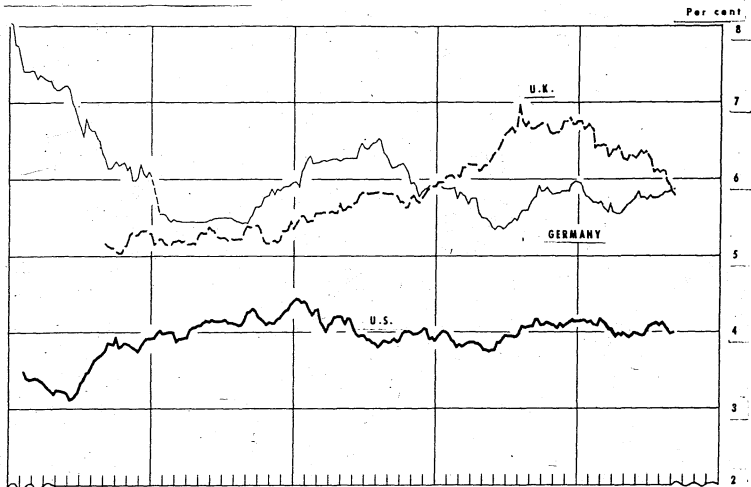
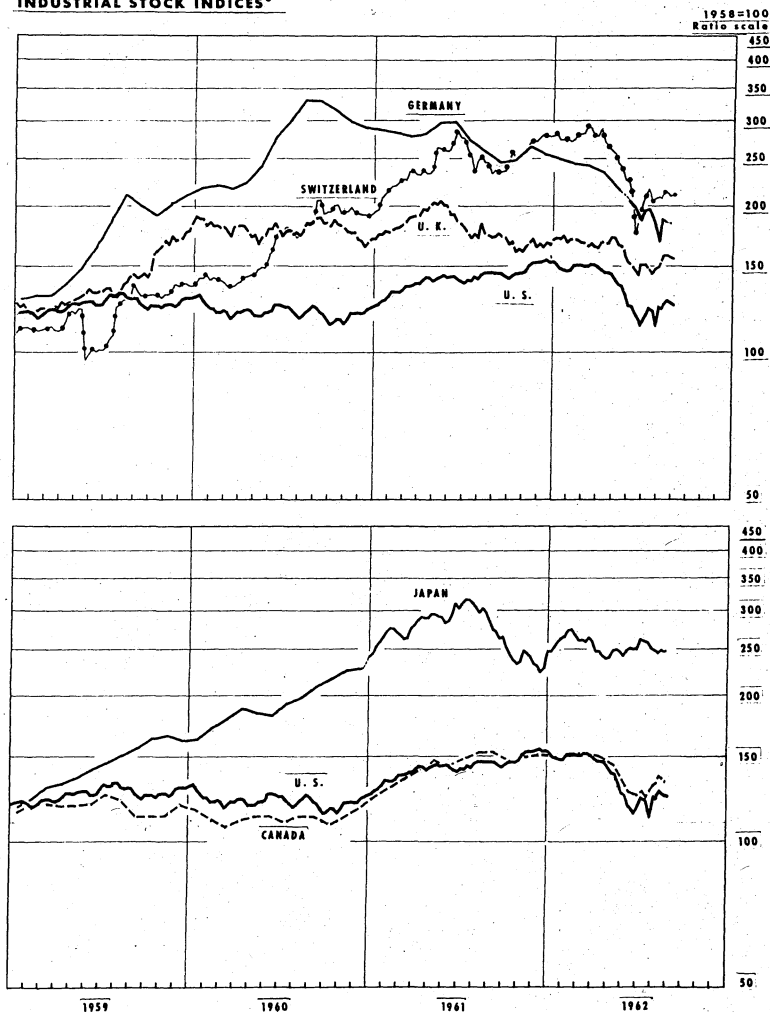


Chart 7
INDUSTRIAL STOCK INDICES*



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

Chart B

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

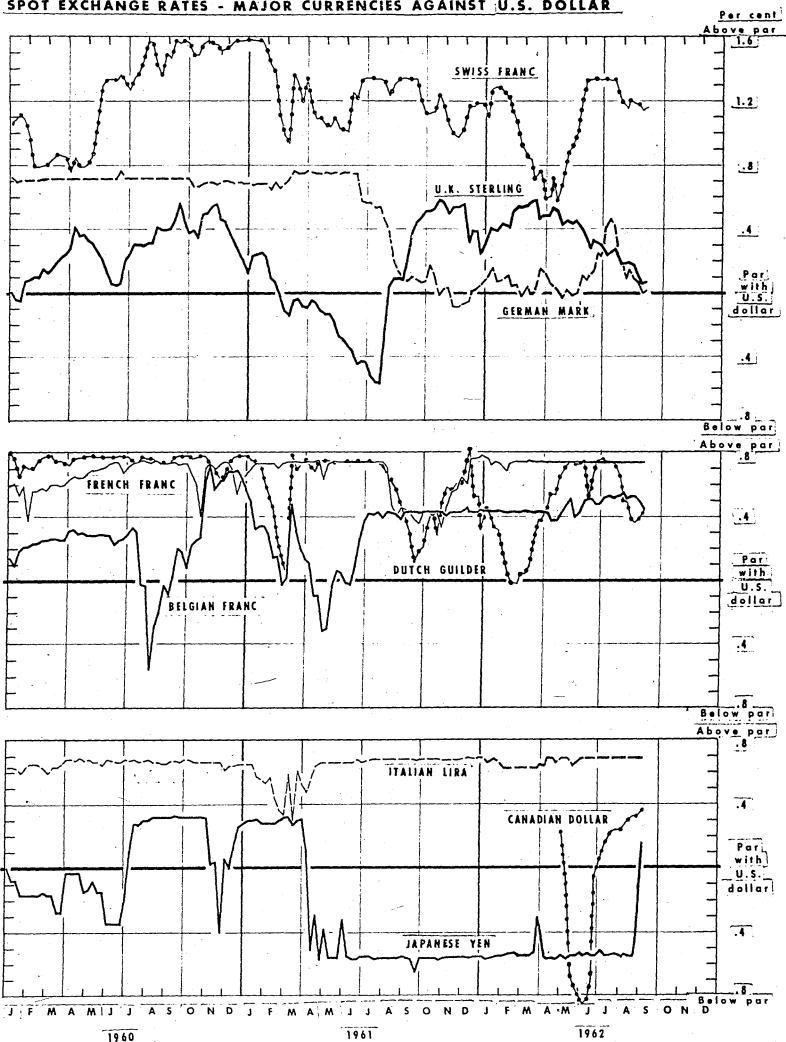


Chart 9

3-MONTH FORWARD EXCHANGE RATES

