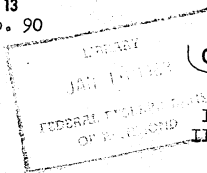


H. 13  
No. 90

January 11, 1963

CAPITAL MARKET DEVELOPMENTS ABROAD

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

I. United Kingdom: Money and Capital Markets  
During the Fourth Quarter 1962

The substantial declines in yields in British money and capital markets which occurred during the third quarter came to an end during the final three months of 1962. For example, the 11 per cent rise in the index of Government bond prices in the third quarter came to an end in early October and year-end prices were at about the early October level. Only in early 1963 after Bank rate had been cut from 4-1/2 to 4 per cent on January 3 did Treasury bill and bond yields move toward somewhat lower levels.

This stability in market yields was maintained even though the authorities took steps during the fourth quarter to augment credit availabilities and to expand demand in the face of a deteriorating business situation. Special Deposits released to the banks in early October were used by them not to expand their loans to the private sector but to acquire Treasury securities: the banks made substantial additions to their bond holdings in October and to their money-market assets (call loans and Treasury bills) in December. (See Table 2.) In late October, there was a general rise in yields in London financial markets during the Cuban crisis and yields drifted down slowly during late November and December.

The January 3 cut in Bank rate was followed by advances in the prices of Treasury bills, spot sterling and industrial shares. Recent changes in key financial indicators have been:

	1 9 6 2			1 9 6 3	
	Sept. 28	Oct. 26	Dec. 28	Jan. 4	Jan. 9
Treasury bills (per cent)	3.56	3.78	3.66	3.50	3.50
War Loan (per cent)	5.70	5.91	5.75	5.68	5.70
Spot pound (U.S. cents)	280.11	280.04	280.26	280.42	280.61
Industrial shares (Index)	269.8	270.7	284.2	288.7	a/294.9

a/ January 8.

OFFICIAL USE ONLY

DECONTROLLED AFTER SIX MONTHS

The advances in the spot pound since late November (see Table 9) have come on the heels of unsatisfactory export figures for November and of further gains in official reserves in December. These developments were similar to trends in the third-quarter as reflected in the seasonally-adjusted balance of payments figures: the goods and service account showed a deficit of \$45 million, the first since the fourth quarter of 1961, but the overall balance had a £18 million surplus, largely because of a £128 million inflow in the error and omissions which is thought to have been largely an inflow of unrecorded private capital.

At the time Bank rate was reduced, the Bank of England announced that it would reserve the right to charge more than Bank rate on penal loans to the discount market. This technical innovation, a reintroduction of an arrangement in effect in the 1920's, is designed to provide the Bank with an additional instrument when it seeks to maintain the Treasury bill rate in the face of downward market pressures; in particular, the new measure may help keep the bill rate closer to Bank rate than has been the case at times during the past few years. At present, the discount houses can obtain accommodation at the Bank by rediscounting bills at Bank rate but for a 21-day minimum average life of the bills or by direct advances against securities usually for a 7-day period. By raising the rate on advances, the Bank could make more costly what has been the least costly means of temporary accommodation available to the discount houses.

Money market. The level of short-term rates at the end of the fourth quarter 1962 was close to what it had been in early October. (See Table 9 and Chart 2.) The Treasury bill rate, which had been falling steadily for the seven months, abruptly rose on October 19. On that date, the discount houses lowered their bid at the tender. The post-tender market rate rose from 3.53 per cent of the previous week to 3.69 per cent, but gradually fell from a November 2 peak through the remainder of the month. By mid-December the rate had dropped to 3.53 per cent in anticipation of a cut in Bank rate. Therefore, when the Bank rate was reduced from 4-1/2 to 4 per cent on January 3, the after-tender rate on January 4 was only 16 basis points below the market rate of previous Friday.

During and after the Cuban crisis, when the bill rate was up, the forward discount narrowed, creating covered arbitrage opportunities in favor of the U.K. Treasury bill. (See Table 9.) Some funds moved to London from the U.S. early in November.

Rates on Euro-dollar deposits in London were relatively high throughout the entire third quarter, and did not fall until after the New Year. (See Table 1.) During the Cuban crisis, rates moved up sharply from 1/4 to 1/2 percentage points. Some funds which would ordinarily have been loaned in this market were shifted into gold or into Swiss francs. Speculators may also have borrowed Euro-dollars to convert into gold or Swiss francs. After the Cuban crisis had passed, rates moved up in late November once again on borrowing by Italian banks which, under new legislation, were allowed to

shift into lira assets Euro-dollar borrowings to improve their domestic liquidity. In addition, expected year-end stringencies in the market affected rate levels; Continental banks repatriated funds from the market in December for window-dressing purposes. After January first, the rates moved down after the money was returned.

Table 1. Interest Rates on U.S. Dollar Deposits in London  
(per cent per annum)

	1 9 6 2				1963
	Oct. 5	Nov. 1	Nov. 30	Dec. 31	Jan. 8
Call	3.50	3.75	3.37	3.50	3.37
7-day	3.50	3.75	3.50	3.50	3.37
30-day	3.75	3.81	4.12	4.00	3.62
90-day	3.94	4.31	4.12	4.00	3.75
180-day	4.19	4.44	4.25	4.19	3.94

In the local authorities funds market, interest rates eased momentarily in October but moved up sharply at year-end when European funds were repatriated. (See Table 9.) During and after the Cuban crisis, some foreign funds were shifted into Euro-dollars, mainly because of the higher yields. At the end of December, the rate of three-months deposits with local authorities rose to 4.87 per cent, but was back to 4.25 per cent in early January.

Gilt-edged market. The main development in the gilt-edged market during the fourth quarter of 1962 was the interruption of the steady upward movement in the prices of Government bonds in the preceding quarter. (See Table 10 and Chart 6.) Between June 28 and October 4, the Government securities price index rose by 11 per cent, but bond prices then leveled off. During the critical days of the Cuban crisis, from October 22 through 24, a general wave of selling took place, but prices gradually recovered in the following week and, despite a sluggish market, also during November.

Stock market. Stock prices were fairly stable in October, except for a 5 per cent decline during the Cuban crisis. (See Table 10 and Chart 7.) By the end of October, prices had recovered and they rose a further 6-1/2 per cent between November 6 and 26. The announcement of the new depreciation allowances for business and the rally on Wall Street contributed to these gains. After November 26, stock prices began to drift downwards again and on December 31 were 4-1/2 per cent below the November 27 high. The Financial Times (December 18, 1962, p. 1) attributed the weakness ". . . more <sup>to</sup> the lack of support than any pressure to sell." However, prices moved sharply upward in early January after the Bank rate was cut.

London clearing banks. The special deposits with the Bank of England which were released in October and again in December were used mainly to provide additional finance to the public sector during the fourth quarter. (See Table 2.)

These releases of reserve balances and the removal of restrictions on bank lending to finance personal consumption and real estate development had little effect on lending to the private sector in the quarter. There was a jump in advances in October, but this was because, according to The Economist (October 27, 1962) ". . . there were a number of proposals on the banks' books merely waiting for the removal of the restraint on property, personal, and hire purchase lending." In the two months ending December 12, advances to the private sector increased by only £22 million. The quarterly summary of British bank loans ending in mid-November show a decline in industry loans.

Table 2. London Clearing Banks: Net Deposits and Selected Assets, 1962  
(In millions of pounds)

	Changes					Outstanding December 12
	July- Sept.	Oct.- Dec.	Oct.	Nov.	Dec.	
Net Deposits	+77	+106	+ 86	-12	- 32	6,575
Loans to Public Sector:	+96	+223	+126	+ 5	+103	3,690
Government securities	+48	+ 81	+ 83	- 9	+ 7	1,204
Treasury bills	+50	+ 12	- 25	+17	+ 26	986
Cash	- 3	+ 21	+ 22	-11	+ 10	644
Call loans	-18	+ 94	+ 43	- 9	+ 60	786
Loans to Nationalized Industries	+19	+ 15	+ 3	+ 7	+ 5	70
Loans to Private Sector:	+ 8	+ 56	+ 39	- 3	+ 20	3,816
Advances	+ 8	+ 64	+ 42	+12	+ 10	5,436
Commerical bills	--	- 8	- 3	-15	+ 10	268
Other investments	--	--	--	--	--	112
Special Deposits with Bank of England	+ 1	-112	- 75	+ 2	- 39	38
Reserve ratios (end of period):						
Liquid assets	33.7	34.0	33.5	33.3	34.0	
Cash	8.2	8.2	8.3	8.2	8.2	
Special deposits	2.0	0.5	1.0	1.0	0.5	

Installment credit. Installment credit outstanding declined by £3 million in October, reflecting the reduction in retail sales during the month. New credit extended by finance houses expanded as is normal for October, but the rise in credits extended by household goods shops was somewhat less than was to be expected for the autumn. The Board of Trade said that this indicates some further loss in impetus in the stimulus to sales afforded by the June 5th reduction in minimum down-payment requirements for a wide range of appliances. Installment credit outstanding has remained practically unchanged since the end of the first quarter of 1962. (See Table 3.)

Table 3. United Kingdom: Changes in Hire Purchase Credit  
(in millions of pounds)

	Changes 1962						Outstanding October 1962
	Jan.- Mar.	Apr.- June	July- Sept.	Aug.	Sept.	Oct.	
Shops	-13	-2	+6	+2	+3	+4	304
Finance houses	-26	+1	-3	-4	-3	-7	583
Total	-39	-1	+3	-2	--	-3	887

Balance of payments. Britain's seasonally-adjusted payments balance moved into deficit in the third quarter for the first time since the fourth quarter of 1961. However, about two-thirds of the deficit was due to seasonal influences. (See Table 4.) Despite a £45 million deficit on goods and services account, there was an overall balance of payments surplus of £18 million during the quarter, reflecting an unexplained credit (errors and omissions) of £128 million, the bulk of which is thought to have been unrecorded net inflows of private capital. Nonetheless, reserves declined during the quarter because foreigners reduced their sterling holdings and because Britain repaid the balance of the August 1961 drawing from the IMF. Even though Britain has enjoyed balance of payments' surpluses since the third quarter of 1961, the level of reserves at the end of 1962 is still £152 million below that of end-1960.

Table 4. United Kingdom Balance of Payments  
(in millions of pounds)

	1961		1962		
	Jan.- June	July- Sept.	Jan.- Mar.	Apr.- June	July- Sept.
<u>Balance of Payments:</u>					
A) Goods, services, and transfer payments, seasonally adjusted					
Exports, f.o.b.	1,931	1,932	960	1,010	1,006
Imports, f.o.b.	-2,048	-1,958	-985	-1,003	-1,039
Trade balance	-117	-26	-25	7	-33
Services and transfer payments	30	36	34	30	20
Total, seasonally adjusted	-87	10	9	37	-13
Seasonal influences	27	-27	11	39	-32
Total	-60	-17	20	76	-45
B) Long-term capital	-72	8	19	-60	-53
C) Private short-term capital	-435	18	90	21	-12
D) Net errors and omissions	39	41	94	-1	128
Surplus or deficit (-)	-528	50	223	36	18
<u>Financed by:</u>					
A) Extraordinary aid	368	-278	--	--	--
B) Sterling liabilities to foreign official	10	34	-86	48	-52
C) Reserve movements:					
IMF position	-15	389	-89	-91	-195
Gold and foreign exchange (increase -)	165	-195	-48	7	229
Total	150	194	-137	-84	34
Total financing	528	-50	-223	-36	-18

Trade balance. British exports in the past three months have failed to rise above the level reached during the second quarter. (See Table 5.) The September-November monthly average (seasonally adjusted) is only £2 million above the April-June monthly average.

Table 5. United Kingdom: Seasonally Adjusted Foreign Trade  
(monthly, or monthly averages, in millions of pounds)

	Jan.- Mar.	Apr.- June	July- Sept.	Sept.- Nov.	Sept.	Oct.	Nov.
Imports c.i.f.	-367	-369	-385	-381	-378	-393	-375
Exports f.o.b.	306	319	320	321	325	336	304
Re-exports f.o.b.	12	14	13	13	12	13	15
Trade balance	- 49	- 36	- 52	- 47	- 41	- 44	- 56

Foreign exchange market. Sterling fluctuated within a narrow range throughout the fourth quarter of 1962. (See Table 9 and Charts 8 and 9.) The spot rate was little affected by the Cuban crisis, dropping from 280.22 U.S. cents per pound on October 22 to 280.01 cents on October 24. The rate quickly recovered during the following week. During the Cuban crisis, the demand for forward sterling increased, reducing the forward discount from 0.54 per cent on October 19 to a low of 0.27 per cent on October 24. This made possible some covered arbitrage movements of funds from the U.S. . The forward discount remained low, in relation to the U.K.-U.S. Treasury bill interest differentials, providing an incentive to move funds to London in the early part of November. Throughout November and December, the spot rate remained firm, rising to 280.41 cents on December 14 and falling to 280.26 cents on December 28, as some foreign banks repatriated funds for window-dressing at the end of the year. The spot rate rose to above 280.40 cents during the first week of January.

Security sterling, which had remained steady at 279.88 cents during September and early October, declined to 278.88 cents during the Cuban crisis. (See Table 6 below.) In November, the security sterling rate gradually climbed until it reached par, where it remained through December 26. Since then, it has held steady at 279.88 cents.

Table 6. Security Sterling Rate  
(In U.S. cents per pound)

October 5	279.88	November 2	279.25	December 7	280.00
11	279.88	9	279.38	14	280.00
19	279.63	16	279.50	21	280.00
23	279.58	23	279.75	28	279.88
26	279.88	30	280.00	January 4	279.88

Bullion market. The London gold market was quiet from October through December, except for the week of the Cuban crisis. Very heavy purchases of gold were made between the critical days of October 22 and 24. The Financial Times (November 3, 1962) estimates turnover in the market to have been roughly \$60 million. Substantial official support of the market was reported on those days. Demand subsided thereafter and the gold fixing price declined steadily during November and December. (See Table 7.) On January 9, the fixing price fell to \$35.055 the lowest price since December 28, 1959. Some downward pressure on the price of gold was exerted late in December by sales of Russian gold.

Table 7. United Kingdom: Fixing Price for Gold Bullion  
(In U.S. dollars per fine ounce)

October	5	35.130	November	2	35.123	December	7	35.078
	11	35.137		9	35.100		14	35.074
	19	35.138		16	35.092		21	35.083
	24	35.187		23	35.087		28	35.069
	26	35.177		30	35.083	January	4	35.063

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

Table 9. 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.	Difference	3-mo. pound <sup>a/</sup>	In favor U.K. bill		U.S. dollar (3-mo.)	Local authority
1962 - High	3.78	2.73	1.05	-0.31	0.74	281.74	4.13	4.87
Low	4.25	2.74	1.51	-1.91	-0.41	280.04	3.44	4.19
Sept. 28	3.56	2.74	0.81	-0.56	+0.26	280.11	3.81	4.56
Oct. 5	3.55	2.76	0.79	-0.57	+0.22	280.10	3.81	4.31
11	3.53	2.77	0.76	-0.57	+0.14	280.24	3.91	4.25
19	3.69	2.74	0.95	-0.51	+0.41	280.24	3.91	4.19
26	3.78	2.73	1.05	-0.31	+0.74	280.04	4.13	4.31
Nov. 2	3.78	2.83	0.95	-0.41	+0.54	280.12	4.19	4.31
9	3.72	2.80	0.92	-0.40	+0.52	280.15	4.06	4.31
16	3.72	2.83	0.89	-0.43	+0.46	280.15	4.06	4.31
23	3.66	2.84	0.82	-0.54	+0.28	280.35	4.03	4.31
30	3.63	2.86	0.77	-0.44	+0.33	280.34	3.94	4.31
Dec. 7	3.56	2.84	0.72	-0.37	+0.35	280.37	4.06	4.53
14	3.53	2.85	0.68	-0.51	+0.17	280.41	4.31	4.53
21	3.53	2.89	0.64	-0.61	+0.03	281.38	4.11	4.69
28	3.66	2.98	0.68	-0.43	+0.25	280.26	4.11	4.87
1963 Jan. 4	3.50	2.90	0.60	-0.44	+0.16	280.41	3.77	4.19

<sup>a/</sup> Market quotation for Friday.

Table 10. United Kingdom: Selected Capital Market Yields

	U.K. Government bond yields					Share yield <sup>a/</sup>	Yield gap <sup>b/</sup>	Share prices <sup>c/</sup>
	4-1/2% 1964	3% 1965-75	5% 1968	3-1/2% War Loan	2-1/2% Consols			
1962 - High	5.85	6.18	6.35	6.11	6.57	5.13		309.6
Low	3.90	5.00	5.45	5.80	5.51	5.78		262.3
Sept. 27	3.98	4.98	5.80	5.70	5.51	5.78	-0.77	269.8
Oct. 4	4.03	4.79	5.75	5.75	5.56	5.54	-0.03	278.7
11	4.10	4.80	5.75	5.80	5.61	5.65	-0.44	273.8
18	4.13	4.81	5.65	5.69	5.51	5.65	-0.4	276.0
25	4.26	5.16	5.80	5.91	5.77	5.74	-0.11	270.7
Nov. 1	4.31	5.03	5.75	5.81	5.70	5.64	-0.06	276.2
8	4.37	5.00	5.70	5.76	5.63	5.44	0.27	285.3
15	4.43	5.07	5.75	5.83	5.75	5.31	0.45	293.7
22	4.09	5.00	5.75	5.83	5.71	5.31	0.44	295.2
29	4.02	5.11	5.75	5.84	5.70	5.31	0.43	295.6
Dec. 6	4.00	5.07	5.70	5.76	5.60	5.36	0.44	291.9
13	3.95	5.08	5.75	5.71	5.56	5.36	0.44	288.9
20	3.90	5.03	5.75	5.71	5.61	5.36	0.43	285.3
27	3.87	5.03	5.75	5.71	5.56	5.36	0.43	288.9
1963 Jan. 4	3.87	5.03	5.75	5.71	5.51	5.36	0.43	288.9

<sup>a/</sup> Financial Times.

<sup>b/</sup> Difference between yield on 2-1/2 per cent Consols and share yield.



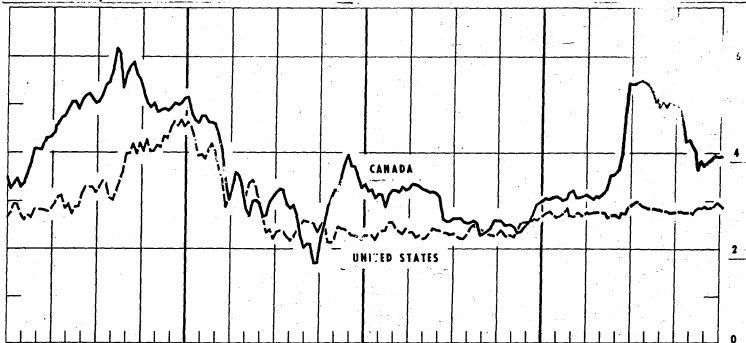
Chart 1

**INTEREST ARBITRAGE, UNITED STATES / CANADA**

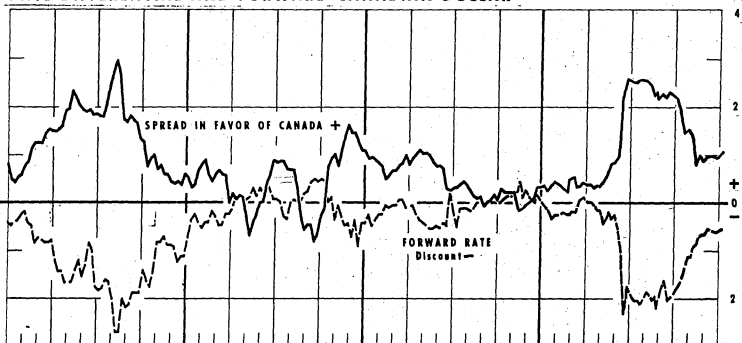
Thursday figures

**THREE-MONTH TREASURY BILL RATES**

Per cent per annum



**RATE DIFFERENTIAL AND FORWARD CANADIAN DOLLAR**



**RATE DIFFERENTIAL WITH FORWARD EXCHANGE COVER**

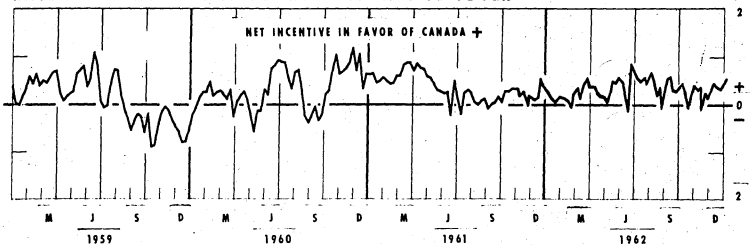
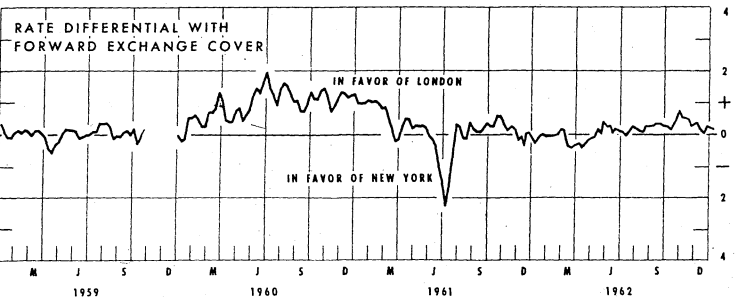
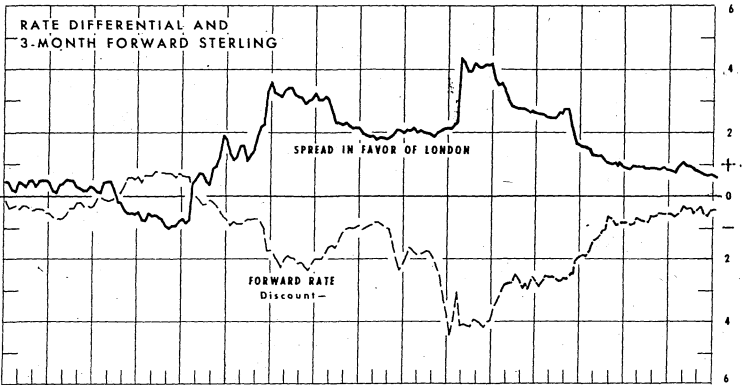
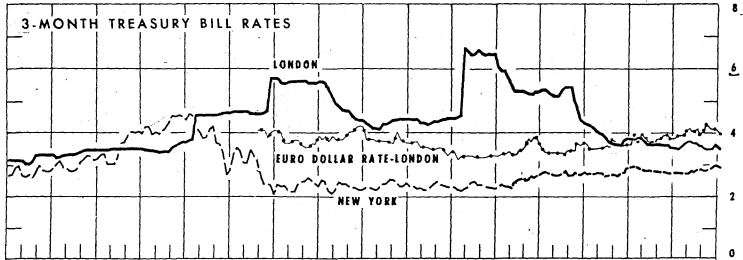


Chart 2  
**INTEREST ARBITRAGE, NEW YORK/LONDON**

Friday figures

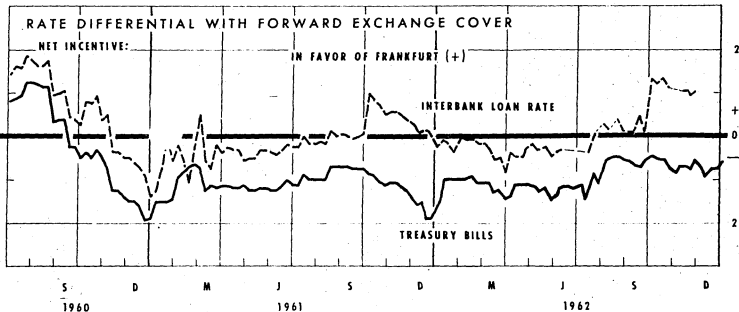
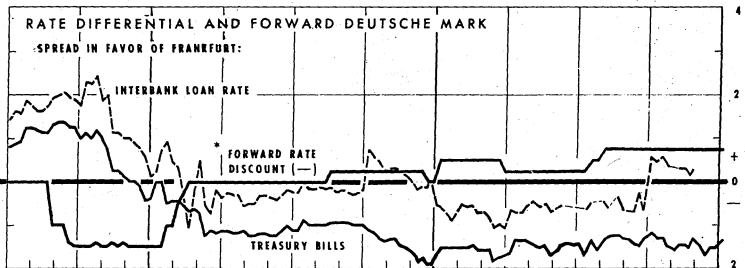
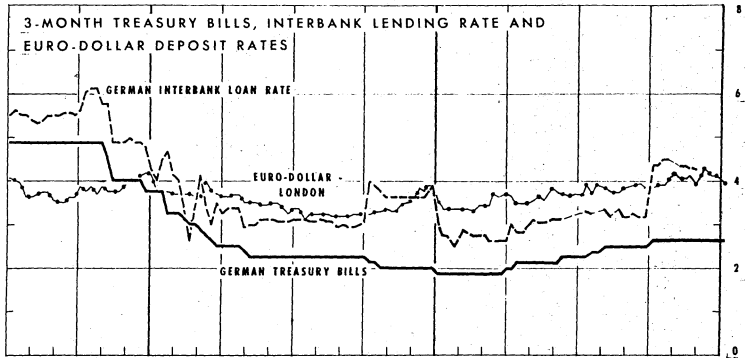
Per cent per annum



**INTEREST ARBITRAGE FOR GERMAN COMMERCIAL BANKS**

Friday figures

Per cent per annum



Note: Special forward rate available to German commercial banks

12

Chart 4  
**INTEREST ARBITRAGE, FRANKFURT/LONDON**

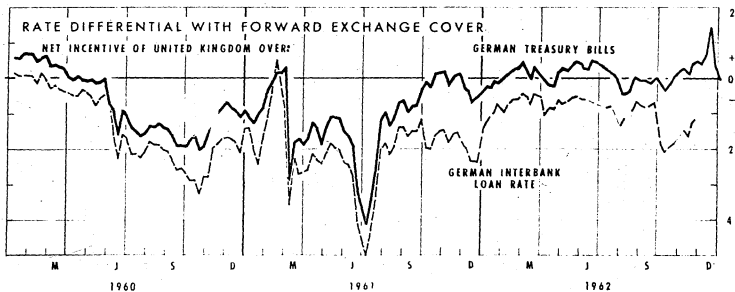
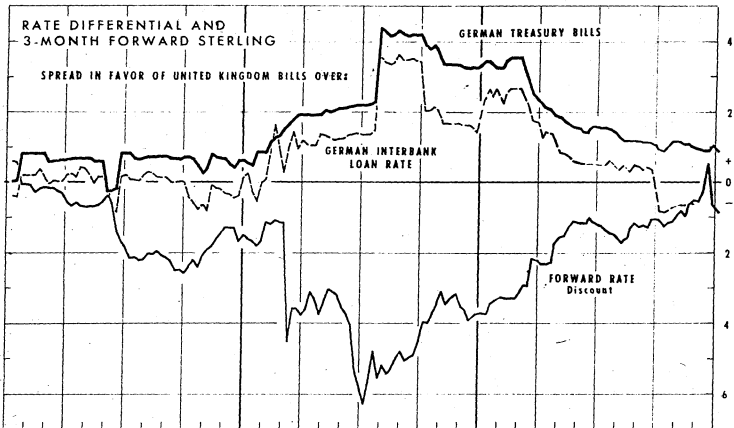
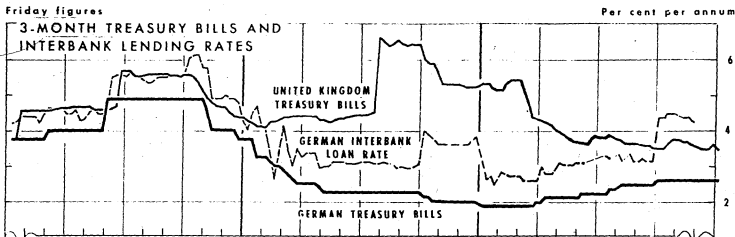
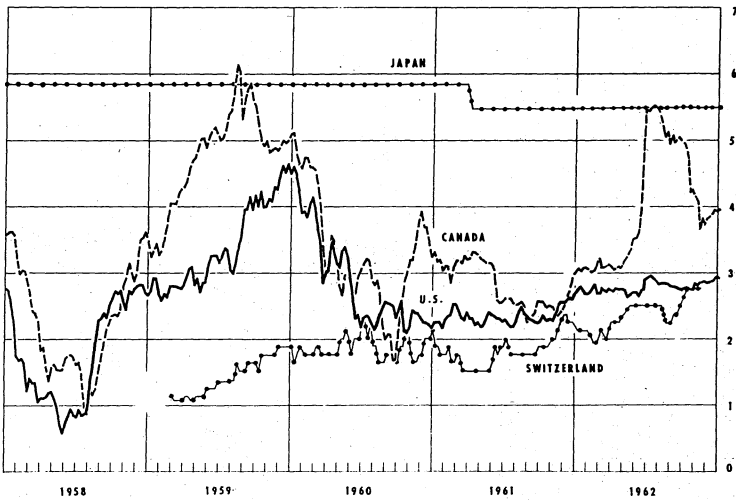
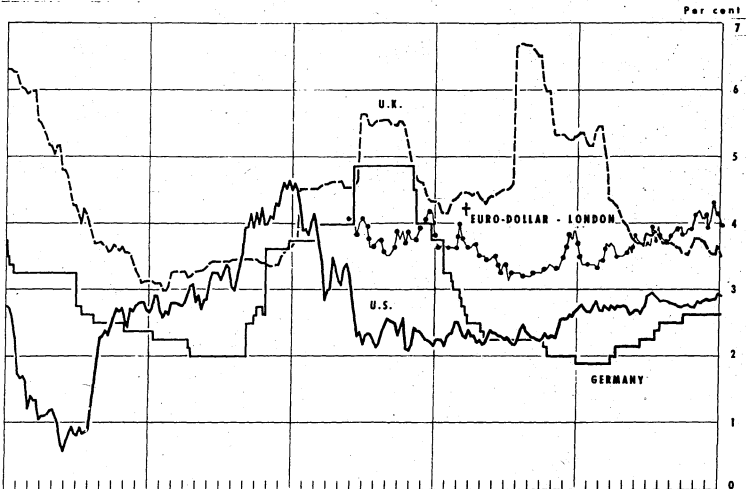


Chart 5  
**SHORT-TERM INTEREST RATES** \*



\* 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

Chart 6

**LONG-TERM BOND YIELDS**

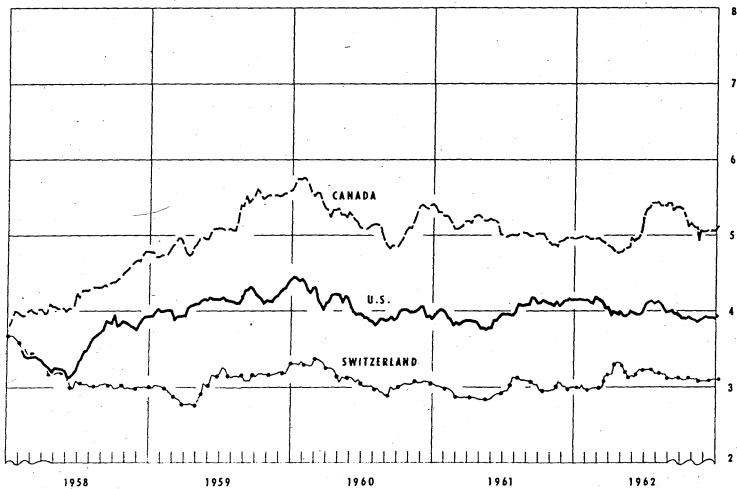
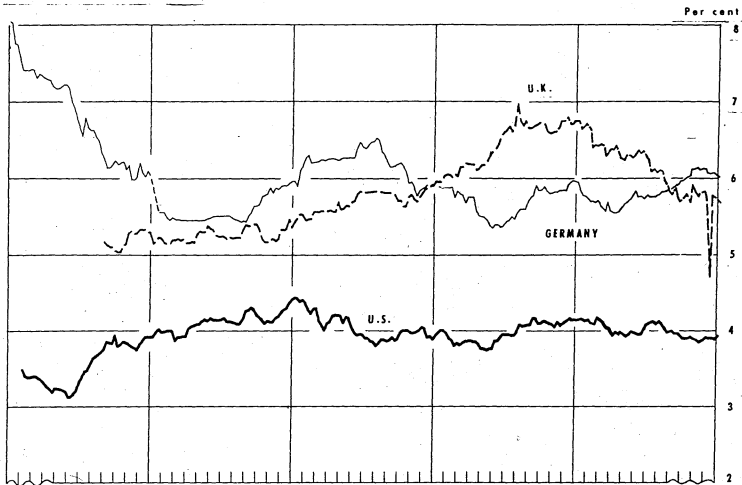
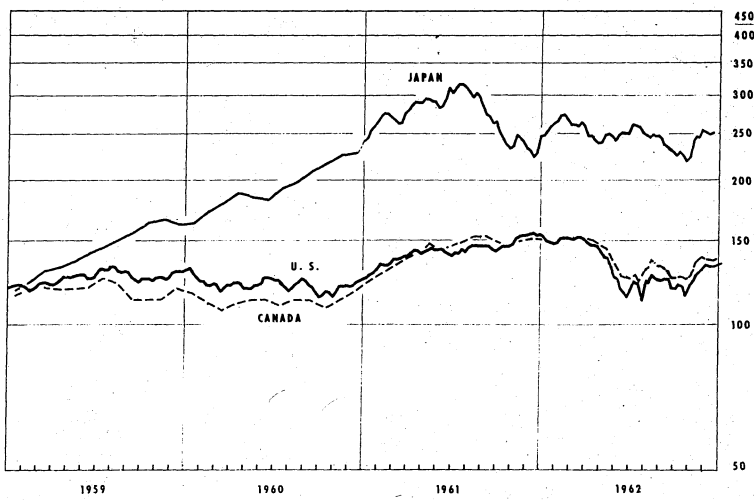
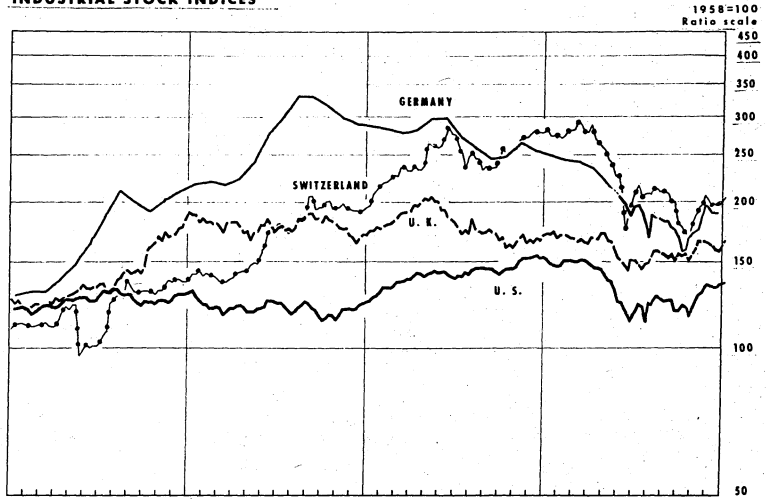


Chart 7  
**INDUSTRIAL STOCK INDICES\***



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

Chart 8

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

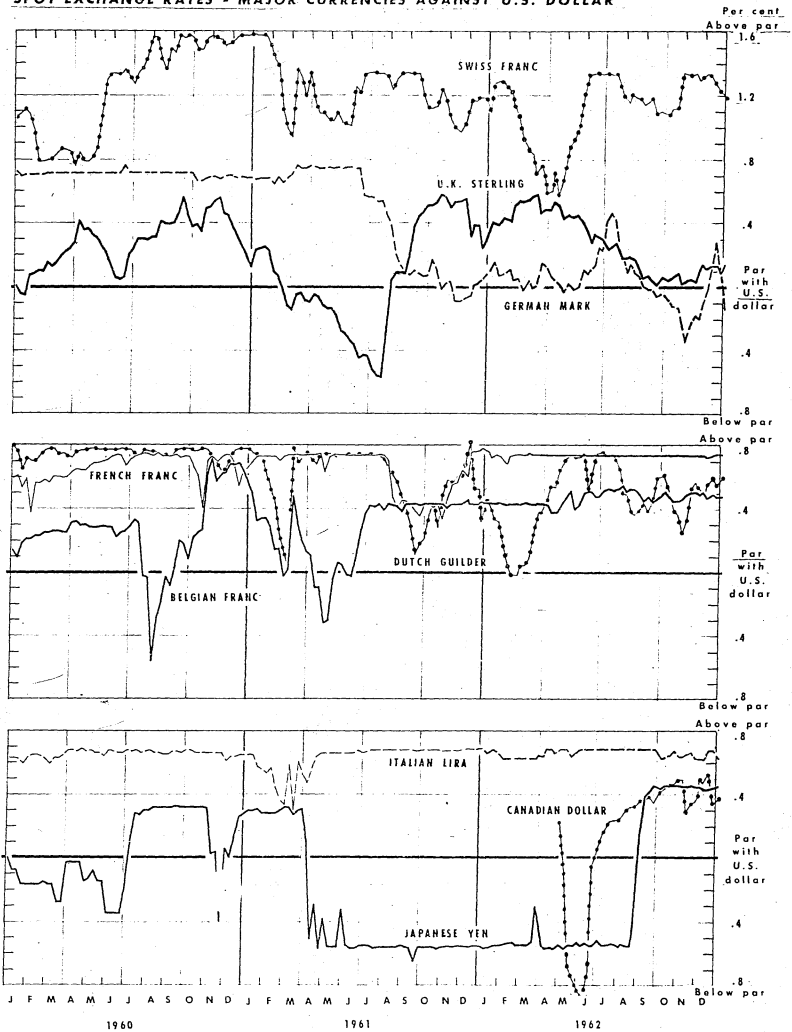




Chart 9

3-MONTH FORWARD EXCHANGE RATES

