

H. 13  
No. 98

March 8, 1963

CAPITAL MARKET DEVELOPMENTS ABROAD

LIBRARY

MAR 15 1963

FEDERAL RESERVE BANK OF ST. LOUIS

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

I. Canada: Money and Capital Markets During February

Canadian foreign exchange and money markets reacted with considerable outward calm to the fall of the Diefenbaker Government in early February. Political uncertainties in Ottawa led to some uneven selling pressures on the Canadian dollar, while periodic strengthening in the market came from the movement of the proceeds of Canadian local-government financing in the U.S. market.

Periodic intervention by the Bank of Canada on both sides of the market moderated fluctuations in the market rate on the Canadian dollar. During the first week in the month the rate weakened slightly--from about 92.9 to 92.7 U.S. cents--but strengthened thereafter and remained generally stable at 92.8 U.S. cents during the rest of February. Net reserve losses of \$68.6 million were incurred during February, primarily during the first week of the month.

Sales of new Canadian securities in the U.S. market have continued to be exceedingly large during the first two months of 1963. Two very large issues by Quebec Hydro and Trans-Canada Pipeline alone accounted for nearly \$400 million--more than the total amount of new issues payable in U.S. funds sold by Canadians in either 1960 or 1961. Other smaller issues brought the total for January and February to \$467 million (see Table 4).

Canadian money and securities markets were also little affected by political events. The yield curve on the spectrum of Treasury securities from short-term bills to long-term bonds showed little change during February, and yields at the end of the month remained very near the levels of late January (see Table 9). Incomplete data suggest that the market for non-government bonds was similarly stable; the D.B.S. index of industrial stock prices eased slightly (less than 2 per cent) during the month.

Despite the uncertain political atmosphere, on February 19 Finance Minister Nowlan announced the third and most comprehensive reduction in the import surcharges imposed as part of the emergency stabilization program last June. Including this latest reduction, the surcharges have now been removed from almost two-thirds of the trade originally affected. Emergency surcharges are still in effect on about one-fifth of Canada's total imports.

OFFICIAL USE ONLY

DECONTROLLED AFTER SIX MONTHS

Money market. Short-term money rates in Canada were quite stable through February at the recent low levels reached in late January. The yield on three-month Treasury bills remained at 3.68 per cent at the end of February, almost unchanged from the end of December; movements in the six-month Treasury bill yield were similarly small (see Tables 8 and 9 and Chart 1).

The uncovered spread of the Canadian bill (weekly auction) rate over the U.S. Treasury bill also held steady at the late-January low of about 3/4 per cent. On a fully-covered basis, the U.S. and Canadian bills remained at approximate parity after a slight advantage enjoyed by the U.S. bill was eliminated during the first half of the month by a decrease in the cost of cover (see Table 8 and Chart 1).

The uncovered spread between U.S. and Canadian finance paper rates remained at just under 1 per cent during February. Net incentives on a fully covered basis were slight and varied with the cost of forward cover. In the latter part of the month, a narrowing in the discount on the forward Canadian dollar permitted a slight covered advantage in favor of Canadian paper to reappear (see Table 1). Moderate amounts of covered U.S. funds have reportedly been moving into Canadian finance paper of various maturities.

Table 1. U.S. and Canadian Finance  
Paper Rates and Arbitrage Calculation  
(in per cent per annum)

	<u>Oct. 5</u>	<u>Nov. 9</u>	<u>Dec. 7</u>	<u>Jan. 4</u>	<u>Feb. 8</u>	<u>Feb. 20</u>
Canada	5.00	4.25	4.00	4.00	4.00	4.00
United States	2.50-3.00	2.50-3.00	3.00-3.13	3.00-3.13	3.00-3.13	3.00-3.13
Spread	2.25	1.50	0.94	0.94	0.94	0.94
90-day forward exchange	-1.68	-1.01	-0.74	-0.61	-0.88	-0.74
Net incentive	+0.57	+0.49	+0.20	+0.33	+0.06	+0.20

Bond market. During February, yields on Canadian Government securities showed little or no change from late January levels (see Table 9).

The chartered banks made Government bond purchases during the early part of February amounting to \$119 million, more than absorbing a February increase in outstanding Treasury securities of \$68 million (see Tables 2 and 5). During the four-month period from November to February, the chartered banks have bought a total of \$324 million in Treasury bonds.

In contrast to the extraordinary pace of Canadian borrowing in the U.S. market, sales of new securities in the Canadian market during the first two months of this year were reportedly near the level of sales during the same period of last year. A. E. Ames & Co. reports that new Canadian-currency issues sold during January and February amounted to about \$1,600 million in 1963, as compared with \$1,634 million in 1962 (see Table 3).

Table 2. Canada: Net Purchases (+) or Sales (-) of Government Securities

	1962		1963			
	Sept. 26-Dec. 26		Dec. 26-Jan. 31		Jan. 31-Feb. 27	
	Treasury Bills	Other	Treasury Bills	Other	Treasury Bills	Other
Bank of Canada	+ 47	+351	- 45	-51	-41	- 34
Chartered Banks	+123	+312	+172	+13	-12	+119
Government Accounts	+ 49	+ 8	- 11	-16	+66	- 27
General Public	- 60	a/+323	-125	b/+56	-13	c/- 11
Change in Total Outstanding d/		+1155		-9		+66

a/ Includes an increase of \$773 million in holdings of Canada Savings Bonds.

b/ Includes a decrease in holdings of Canada Savings Bonds of \$11 million.

c/ Includes a decrease of \$1 million in holdings of Canada Savings Bonds.

d/ Components may not add to total due to rounding.

Table 3. Canada: Sales of New Securities Payable in Canadian Funds <sup>a/</sup>

	1963 to Feb. 25	1962 to Feb. 26	1961 to Feb. 27
Government	\$1,400.0	\$1,360.0	\$1,100.0
Government Guaranteed	--	--	--
Provincial	12.0	85.0	85.0
Provincial Guaranteed	60.0	80.0	150.6
Municipal	44.6	69.3	33.7
Corporation	83.4	39.2	64.3
Total	\$1,600.0	\$1,633.5	\$1,433.6

a/ Total reported security sales less those reported as being payable in U.S. funds.

Source: A. E. Ames & Co., "Weekly Bond Sales Summary."

Borrowing in the United States. Borrowing in the U.S. capital market by Canadians during 1963 has been in extraordinary heavy volume. Two large issues alone during January--Quebec Hydro (\$300 million) and Trans-Canada Pipe Line (\$93 million)--amounted to more than 2-1/2 times the total Canadian U.S. dollar securities sold during 1961. In addition, Ames & Co. lists five other smaller issues during January and February in the U.S. market ranging from \$1.5 to \$25 million and bringing the total to \$467 million (see Table 4).

It is difficult to determine how long Canadian financing in the U.S. market can be expected to continue at the record levels of late 1962 and early 1963. Press reports of preparations for U.S. bond issues by local units of Canadian government have recently declined perceptibly but this may in part reflect the unprecedented volume of recent offerings.

A cost differential of the order of 1/4 - 1/2 per cent favoring U.S. financing continues to exist, however, and may continue to sway a large number of potential Canadian borrowers. Quebec Hydro, for example, was able to place \$300 million of 25-year bonds in the U.S. market at a reported price of 99.00 U.S. to yield 5.07 per cent; at the same time (February 14), an issue of 19-year Quebec Hydro bonds was selling on the Canadian market at a price yielding 5.45 per cent. The \$93 million (20-year) issue by Trans-Canada Pipe was reportedly placed in the U.S. at a price yielding 5.70 per cent; at about the same time, \$45 million of that firm's bonds (same maturity) were placed in Canada at a price yielding 6.20 per cent.

Table 4. Sales of New Canadian Securities Payable in U.S. Funds  
(Can. \$ millions)

	<u>Total</u>	<u>Provincial</u>	<u>Provincial Guaranteed</u>	<u>Municipal</u>	<u>Corpora- tion</u>
1963 to Feb. 25	467.0	25.0	320.0	25.0	97.0
1962 to Feb. 26	--	--	--	--	--
1961 to Feb. 27	5.0	--	--	--	5.0

Source: A. E. Ames & Co., "Weekly Bond Sales Summary."

Bank loans and bank liquidity. The decline in general loans by Canadian Chartered banks slowed during February. The Chartered banks acquired nearly \$100 million in new Government securities during the first week of February and some modest purchases from the market thereafter (see Table 5). The Chartered banks continue to be in a liquid position, with liquid asset ratios remaining above 18 per cent, well above the 15 per cent agreed minimum (see Table 5).

Table 5. Canadian Chartered Banks: Changes in Cash Reserves and Other  
(Can. \$ million or per cent)

	Change during Quarter				Change during Month		Level on Feb. 27
	I	II	III	IV	Jan.	Feb.	
1. Reserves							
Cash Reserves	+ 19	+ 65	- 53	+ 17	+ 3	+ 2	1,139
Liquid Assets	+ 53	-165	- 81	+298	+131	- 12	1,272
2. Ratios a/							
Cash Ratio	8.11	8.13	8.16	8.16	8.13	8.08	8.10
Liquid Asset Ratio	17.99	16.77	15.87	17.96	18.20	18.45	18.28
3. General Loans	-543	+644	+198	-299	-105	d/+ 3	e/6,325
4. Other Assets b/							
Treas. Bills	+ 7	-162	- 71	+196	c/+ 48	c/- 12	c/1,272
Govt. Bonds	+476	-253	-560	+337	c/+ 13	c/+129	c/2,336
Total, Govt. Securities	+483	-415	-631	+533	+ 61	c/+117	c/3,608
5. Total Canadian dollar deposits	-813	+439	-642	+1016	-897	d/+215	e/13,802

a/ Ratios given are averages for the periods shown.

b/ Amortized value.

c/ Par value.

d/ To February 20. e/ February 20.

Foreign exchange. The market for the Canadian dollar was strong throughout most of February. The rate on the dollar weakened slightly and only temporarily during the week when the Diefenbaker government fell, declining from slightly over 92.9 U.S. cents to about 92.7 U.S. cents on February 6. By the day following, however, the rate returned to slightly above 92.8 U.S. cents and remained there during the rest of the month.

Official reserve figures indicate a loss in exchange reserves of \$68.6 million during the month of February (see Table 6). Most of this loss apparently occurred during the few days surrounding the fall of the government, when the Bank of Canada intervened to moderate selling pressures in the market.

Table 6. Changes in Official Holdings of Gold and U.S. Dollars  
(U.S. \$ million)

	Period of Reserve Losses- Nov. 1961 to June 22	1962				
		June 22- October	November	December	January	February
Gold	n.a.	n.a.	+ 7.6	+ 6.2	+ 5.9	n.a.
U.S. dollars	n.a.	n.a.	-14.0	-74.3	+117.2	n.a.
Total	-1,010.6	1513.9	-6.4	-68.1	+123.1	-68.6

OFFICIAL USE ONLY

Surcharge reduction. On February 19 Finance Minister Nowlan announced the third--and by far the most sweeping--reduction in the import surcharges imposed last June as a part of the emergency austerity program. This reduction eliminated the surcharges on \$950 million in imports, primarily machinery. At the same time, surcharges were reduced on other imports amounting to an additional \$235 million.

This reduction left emergency surcharges on about one-fifth of Canada's total imports--just over one-third of the trade originally affected.

Stock market. The reaction of stock prices to the political crisis in Canada was apparently very mild. The Canadian D.B.S. industrials index dipped only slightly over 1 per cent during the week the government was toppled. On February 21, this index stood at about the same level it had been five weeks earlier (see Table 7).

Table 7. Canadian and U.S. Stock Prices

	Average for week ending:							
	January 1963				February 1963			
	10	17	24	31	7	14	21	28
DBS Industrials <sup>a/</sup>	129.6	129.6	131.4	131.6	130.0	130.0	129.1	n.s.
N.Y. Standard and Poor Industrials <sup>b/</sup>	67.49	67.99	68.58	69.18	69.26	69.07	69.10	67.77

<sup>a/</sup> 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.

<sup>b/</sup> Average for the week ended on Friday.

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 8. Canada: Treasury Bill Yields and Exchange Rates

		3-mo. Treas. bill arbitrage calculation						Finance paper	
		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	-2.13	-0.11	91.73	--	--
1962-July	19	5.51	2.93	2.58	-2.02	+0.56	92.72	--	--
1963-Jan.	3	3.94	2.86	1.08	-0.54	+0.54	92.86	4	4-1/4
	10	3.85	2.89	0.96	-0.74	+0.22	92.64	4	4-1/4
	17	3.84	2.91	0.93	-0.81	+0.12	92.86	4	4-1/4
	24	3.78	2.94	0.84	-0.61	+0.23	92.92	--	--
	31	3.65	2.93	0.72	-0.94	-0.22	92.80	3-3/4-4	4-4-1/4
Feb.	7	3.72	2.95	0.77	-1.01	-0.24	92.81	3-3/4-4	4-4-1/4
	14	3.66	2.92	0.74	-0.74	0.00	92.75	3-3/4-4	4-4-1/4
	21	3.65	2.87	0.78	-0.74	+0.04	92.80	3-3/4-4	4-4-1/4
	28	3.68	2.90	0.78	-0.81	-0.03	92.84	--	--

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.

Table 9. 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/	
1962-High	5.74	2.84	5.20	1.33	5.48	1.47	5.20	1.29	
Low	3.18	0.19	4.04	0.00	4.73	0.73	4.81	0.86	
1962-July	19	5.74	2.59	5.11	1.16	5.48	1.44	5.15	1.03
1963-Jan.	2	4.06	1.12	4.48	0.97	5.08	1.21	5.10	1.17
	9	3.96	1.02	4.36	0.88	5.03	1.16	5.02	1.09
	16	3.98	1.02	4.33	0.88	5.01	1.17	5.03	1.10
	23	3.88	0.94	4.37	0.78	5.00	1.12	5.01	1.03
	30	3.77	0.78	4.29	0.76	4.99	1.12	5.01	1.05
Feb.	6	3.85	0.85	4.35	0.82	5.02	1.13	5.01	1.02
	13	3.77	0.78	4.37	0.83	5.07	1.19	5.02	1.05
	20	3.76	0.83	4.36	0.84	5.06	1.18	5.04	1.06
	27	3.79	0.85	4.36	0.84	5.05	1.15	5.04	1.05

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.

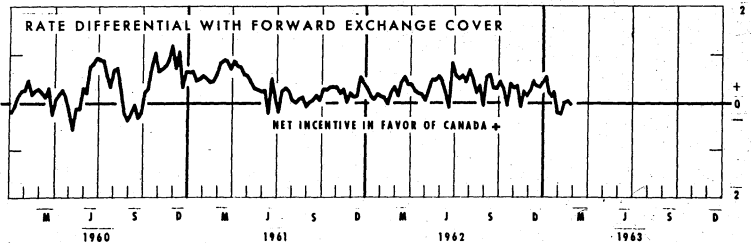
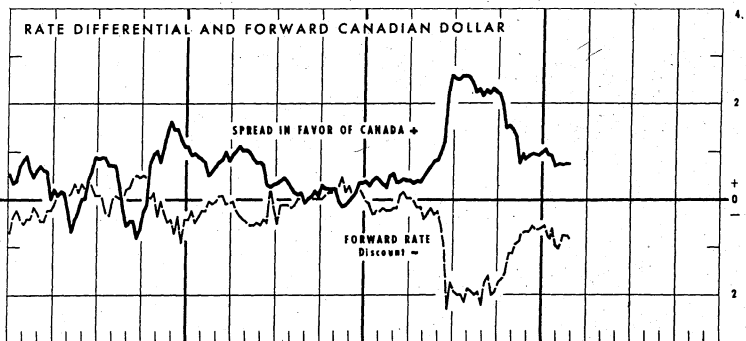
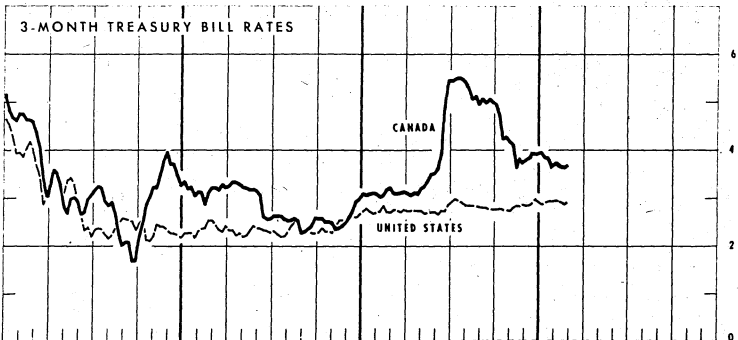
h/ Spread over U.S. Government of 1995.

Chart 1

### INTEREST ARBITRAGE, UNITED STATES / CANADA

Thursday figures

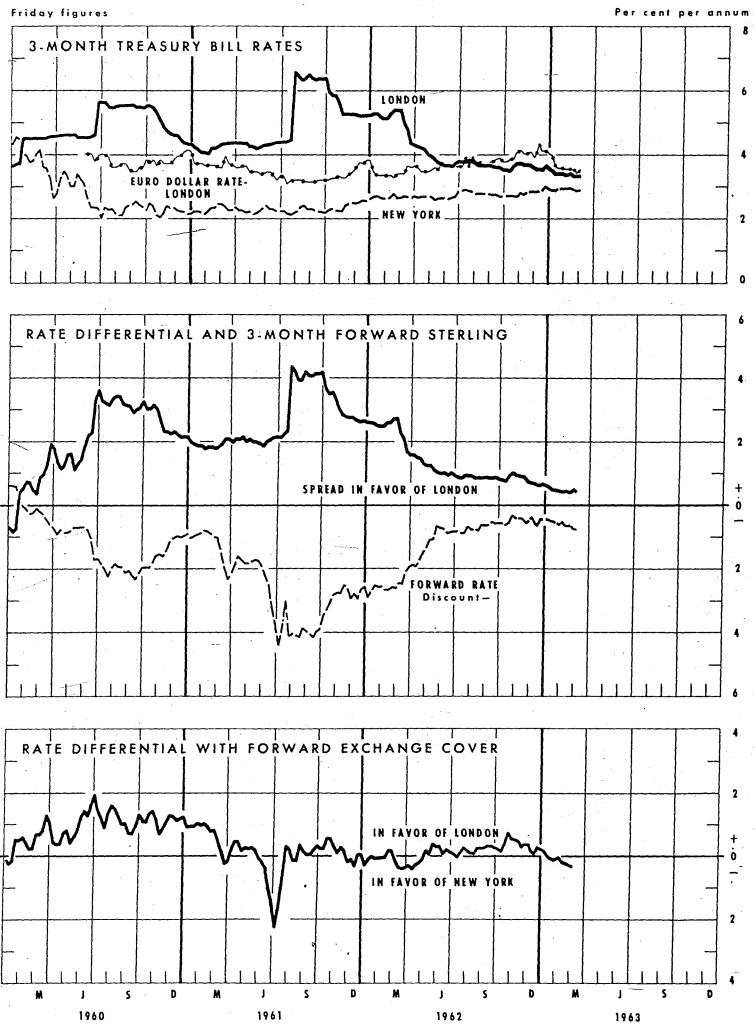
Percent per annum



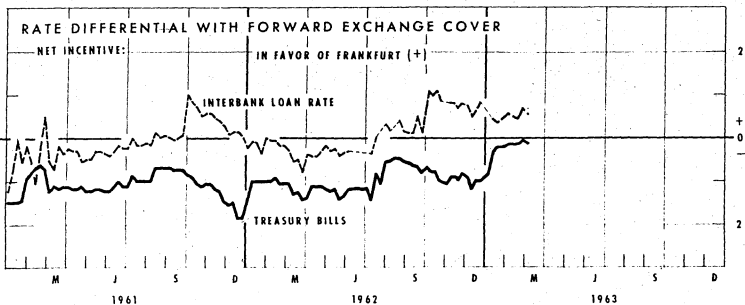
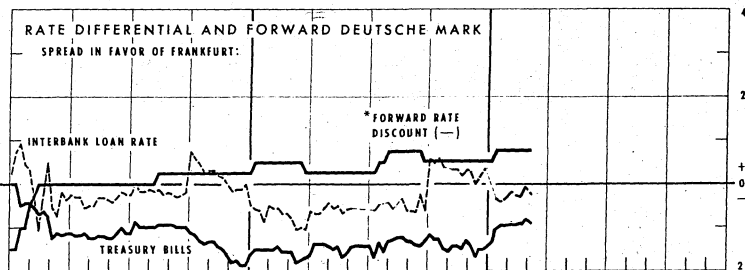
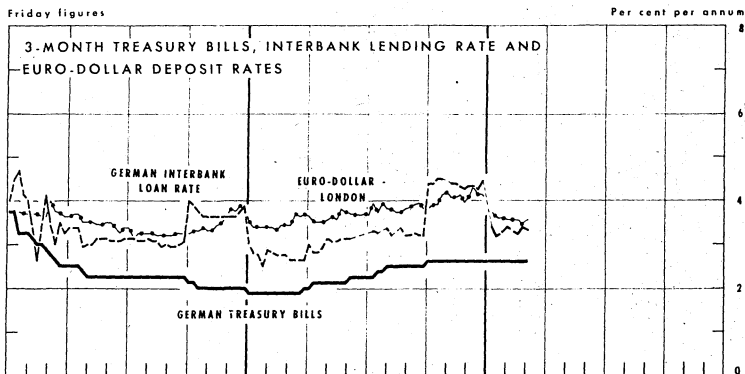


9

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



## INTEREST ARBITRAGE FOR GERMAN COMMERCIAL BANKS



\* Note: Spread forward rate would be 0.5% German commercial banks

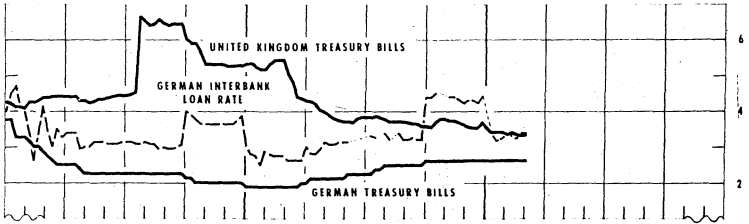
Chart 4

### INTEREST ARBITRAGE, FRANKFURT / LONDON

Friday figures

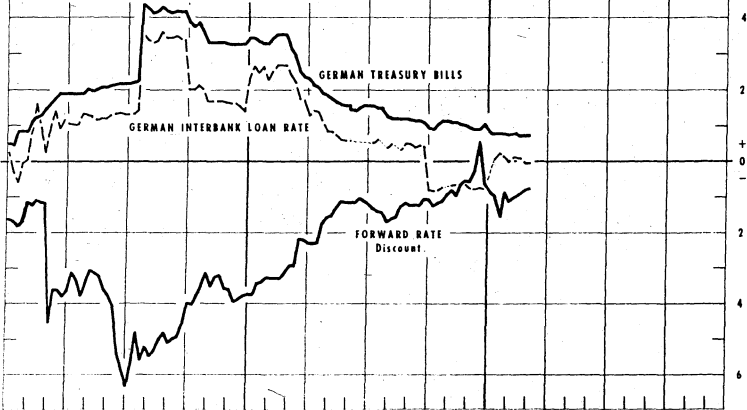
#### 3-MONTH TREASURY BILLS AND INTERBANK LENDING RATES

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:

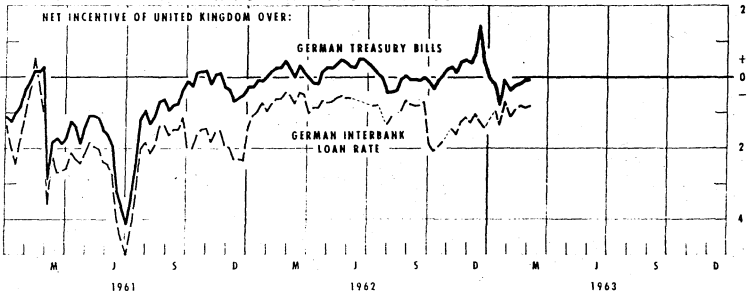
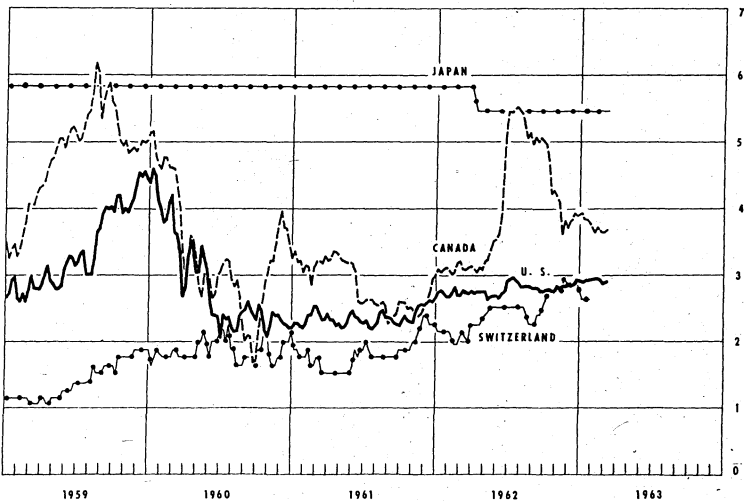
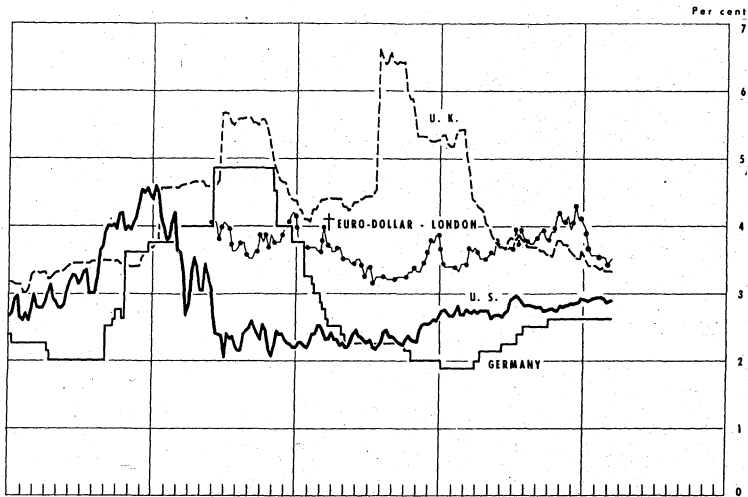


Chart 5  
SHORT-TERM INTEREST RATES \*



\* 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

13

Chart 6.

**LONG-TERM BOND YIELDS**

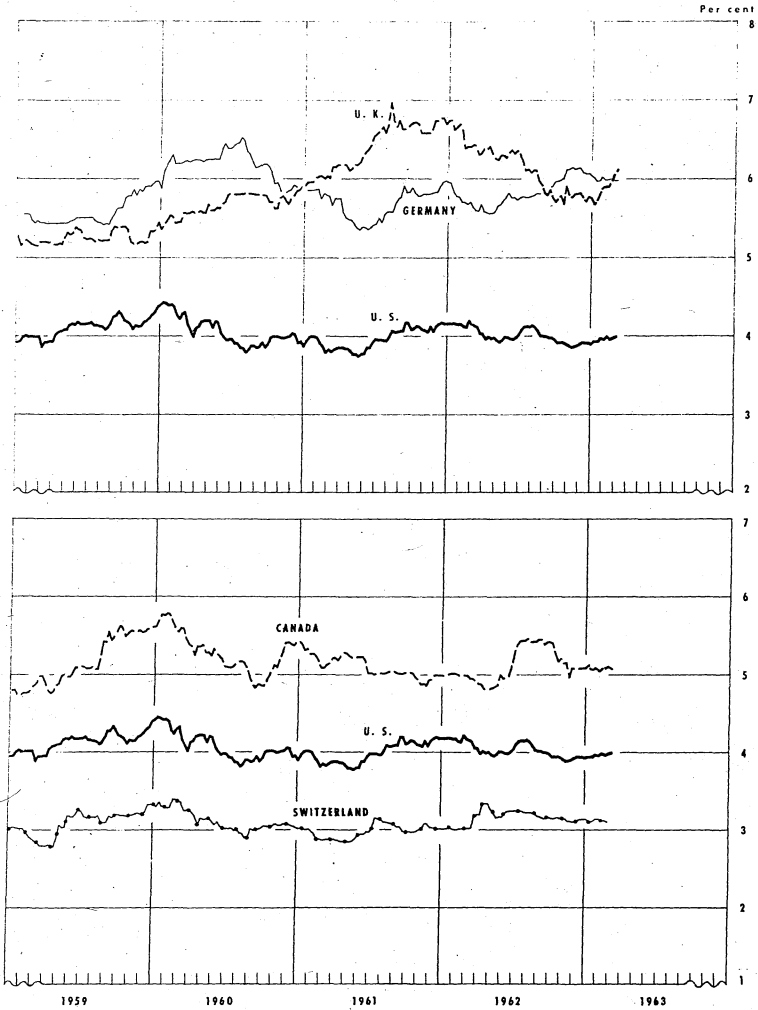
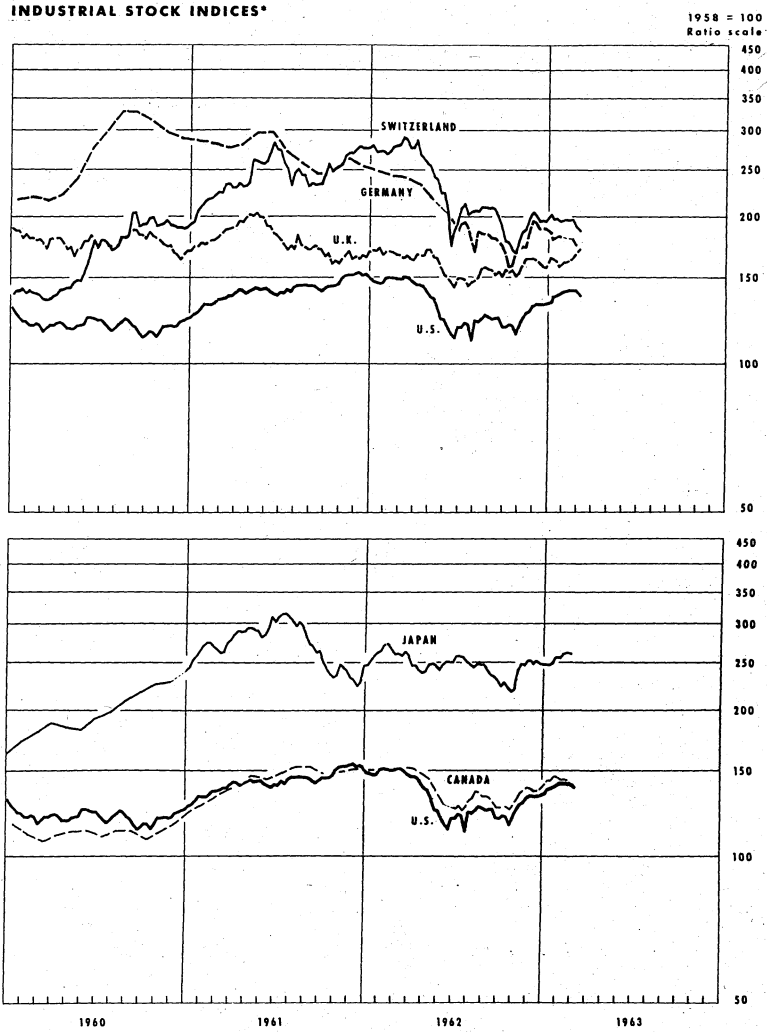


Chart 7  
**INDUSTRIAL STOCK INDICES\***



\*Note: Japan: index of 225 industrial and other stocks traded on the Tokyo exchange.

Chart 8

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

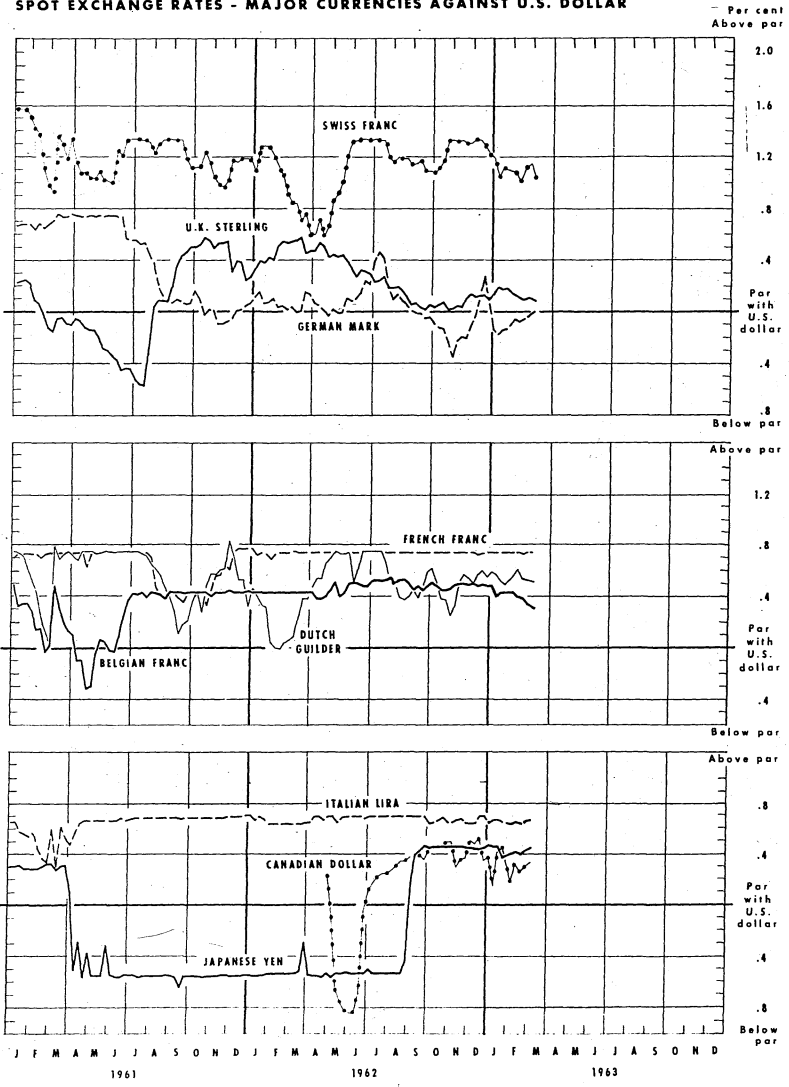


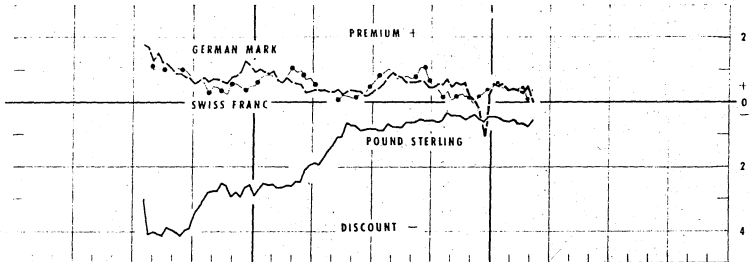
Chart V

### 3-MONTH FORWARD EXCHANGE RATE

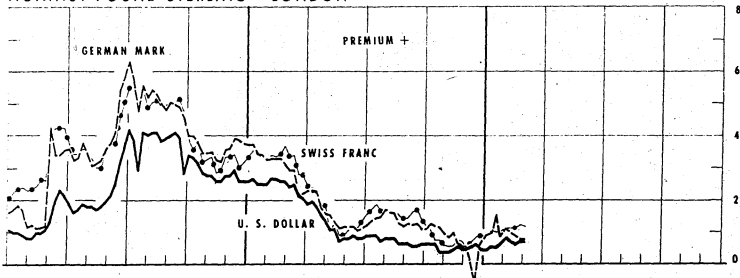
Friday figures

AGAINST U. S. DOLLARS

Per cent per annum



### AGAINST POUND STERLING - LONDON



### AGAINST POUND STERLING - LONDON

