

H. 13
No. 110

June 19, 1963


CAPITAL MARKET DEVELOPMENTS ABROAD

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

I. United Kingdom: Money and Capital Markets in May 1963

Government securities prices rose modestly and industrial common stocks fluctuated erratically in London financial markets during May, but both bond and equity prices broke sharply during the week of June 10 in reaction to the Profumo affair. On the external side, official reserves rose by £29 million in May. The spot pound declined about one U.S. cent in mid-May and then fluctuated narrowly around the \$2.80 parity. The discount on the forward pound narrowed in late May.

During May and early June, there was a continuing but modest rise in bond prices (fall in bond yields) over the entire range of Treasury securities. (See Table 1) In the stock market, prices moved only narrowly. On June 10, however, the stock index dropped by seven points, the sharpest decline experienced since the Cuban crisis, and bond yields rose by between 7 and 13 basis points by mid-June. Applications for Treasury bills at the June 14 auction were more than double the value of bills on offer.

Table 1. United Kingdom: Selected Securities Yields, May-June

	Change in weeks ending						Yields June 13, 1963
	May				June		
	9	16	23	30	6	13	
<u>Security price indices^{a/}</u>							
Industrial common stocks	-3.7	+3.6	-3.1	--	--	-7.3	303.7
Government securities	+.30	+.67	+.06	+.62	+.14	-1.02	85.94
<u>Government securities yields^{b/}</u>							
Treasury bills (tender)	+ .01	-.08	-.01	--	-.05	--	3.68
3% Savings Bonds, 1965-75	-.02	-.08	-.01	-.08	-.03	+.10	5.13
3-1/2% Funding Stock, 1999-2004	-.02	-.03	-.03	-.05	-.05	+.07	5.32
2-1/2% Consuls	-.03	-.10	+.04	-.08	-.01	+.13	5.54

^{a/} The Financial Times. Changes are absolute changes.^{b/} Per cent per annum. Changes are absolute changes.OFFICIAL USE ONLY

(DECONTROLLED AFTER SIX MONTHS)

Credit availabilities to the private sector have continued to grow since the early months of this year; but the rate of credit expansion has been restrained, despite official efforts to accelerate business recovery. New installment credit extended by finance companies rose in March and April mainly as a result of booming automobile sales on the home market. Bank advances to the private sector climbed from mid-March to mid-May. Seasonally-adjusted estimates of loans to the private sector (available this month for the first time) show a steady expansion at a monthly rate of \$40 to \$45 million since the beginning of this year. Despite easier tendencies in interest rates and the continuing expansion in bank loans, the clearing banks continue to face liquidity pressures. The ratio of liquid assets to deposits was only 30.7 per cent in mid-May compared with 30.5 per cent in both mid-March and mid-April.

The spot pound remained close to the \$2.80 par value during most of the period under review. (See Table 9 and Chart 8). The increase in the Federal Reserve-Bank of England swap from \$50 to \$500 million, announced on May 30, contributed to a drop in the forward discount on May 31 and June 7. (See Table 9).

Considerable activity was reported in U.S. dollar transactions in London. In early June it was announced that a syndicate of European banks would offer \$15 million of 5-1/2 per cent bearer bonds in London in early July to finance road-building in Italy. This new offering, the first foreign industrial loan floated in London since 1939, follows a privately-placed \$20 million Belgian Government dollar loan announced a month earlier. (See "Capital Market Developments Abroad," May 22, 1963). Over the past six years, continental banks have been offering U.S. dollar loans to European investors beginning in 1957 with a \$20 million Petrofina issue (which had an exchange option into D-marks, guilders and Swiss and Belgian francs). According to the Statist, these loans have totalled around \$170 million, some with and some without a D-mark option, and all negotiable in Brussels; Belgian private investors are reported to have been the main subscribers to these offerings. (May 24, 1963, p. 577)

The two recent offerings in London of U.S. dollar bonds reflect efforts being made in the United Kingdom to extend the international banking activities of London firms. Earlier steps taken have been reported in recent issues in this series. In June, the Stock Exchange Council has proposed that brokers reduce the commission from 3/4 to 1/2 per cent on certain types of issues which foreigners might be interested in floating in London.

London market rates on 3-month U.S. dollar deposits climbed from 3.66 per cent in late April to 3.91 per cent in early June. By mid-June, the rate had eased to 3.84 per cent. (See Table 9). The strengthened Euro-dollar market in May reflected the impact of developments in several European financial centers: tight money-market conditions in Germany, the Netherlands and France (Euro-dollars being a cheap and readily available source of temporary credit); mid-year window-dressing by private European banks; and added recourse by Italian banks to dollar funds (to offset the heavy capital outflow from Italy caused by political uncertainty).

Money market. The Treasury bill rate fell from 3.73 to 3.65 per cent at the May 17 auction, as the discount market attempted to restore its depleted stock of bills following three weeks when its allotment averaged only 19 per cent of the bills offered. (See Table 2.) More active bidding by the market on May 24 and 31 kept the bill yield lower despite pressures from the Bank of England (i.e.--forcing the market to borrow at Bank rate). Finally, on June 7, after the market had been forced to borrow at Bank rate six time during the preceding week, the tender rate inched up to 3.69 per cent where it remained at the June 14 auction.

Table 2. United Kingdom: Weekly Treasury Bill Auctions, April-June 1963

	April		May				June	
	19	26	3	10	17	24	31	7
Tender rate ^{1/}	3.69	3.71	3.71	3.72	3.65	3.65	3.64	3.69
Allotted to the discount market (%)	50	14	19	24	61	47	49	27

^{1/} Per cent per annum.

From early May through June 7, there was no covered interest differential between U.S. and U.K. Treasury bills. (See Table 9 and Chart 2.) Changes in the U.K. bill rate were offset by reductions in the forward discount on sterling in mid-May and by rises in the U.S. bill rate in the latter part of May and in early June.

In the local authorities funds market, demand for temporary funds was light in the first half of May as substantial tax revenue was received. Demand became somewhat brisk at the end of the month. Funds were offered from foreign sources after mid-May when the differential between the Paris Euro-sterling rate and local authorities rate narrowed. The three-month local authorities rate fell from 4.56 per cent (where it had remained from early April through May 3) to 4.44 per cent on May 17. This rate was sustained through June 7. (See Table 9.)

Local treasurers had difficulty in obtaining mortgage funds in May unless they were prepared to pay more than the Public Works Loan Board rate of 5-3/4 per cent. Therefore, little mortgage business was done. However, business picked up in early June when the yield on gilt-edged securities fell to the point where funds were offered in this market.

The Euro-dollar market strengthened in May, with three-month rates rising from 3.66 per cent on April 19 to 3.91 per cent on May 24 (see Table 9). This has been attributed to: (a) continental bank borrowing for mid-year window dressing purposes; (b) tight money market conditions in Germany, the Netherlands and France, making Euro-dollars a relatively cheap and easily available source of temporary funds; and (c) Italian banks renewing their maturing positions in addition to borrowing dollars to cover an outflow of funds caused by political uncertainty.

Gilt-edged market. Government bond prices gradually rose in May. Demand was particularly strong in the last three trading days of the month when the Government bond price index rose from 86.2 on May 28 to 86.8 on May 30. The entire range of government securities was affected. (See Table 10 and Chart 6 below.) However, prices broke sharply in the week of June 10 because of domestic political developments in Britain.

Stock market. Stock prices showed little change from May 1 through June 7, with The Financial Times Industrial Ordinary index fluctuating around 311. (See Table 10 and Chart 7.) On May 3, this index reached 315, the highest level since August 1961 but depressing and favorable influences alternated during the weeks which followed. Trading was dull during the week ending May 10, because of Labour gains in local governments elections. The following week, however, was characterized as the busiest week in the Stock Exchange for nearly twelve months. Renewed business optimism was stimulated in part by an optimistic economic outlook published by the National Institute of Economic and Social Research. The following week (ending May 24) was again a dull one, in the absence of any new stimulus for investors. Then, in the week ending May 31, market activity was revived by favorable reactions to the Government's aid to shipbuilding program and by the announcement of the enlarged swap arrangements concluded with the Federal Reserve System.

On June 10, however, the stock market reacted strongly to the Profumo case and the Industrial Ordinary index fell seven points to 302.6. Although the loss was partially made up on the following day, by June 18 the index recovered only to 308.7.

London clearing banks. Bank advances continue to increase in the month ending May 15, at about the same rate as was recorded for the first quarter of this year. (See Table 3.) The figures in Table 3 are seasonally adjusted figures for net advances (other than to nationalized industries) made available for the first time in the Bank of England Quarterly Bulletin for June.

Table 3. United Kingdom: Changes in bank loans, seasonally-adjusted,

1961 to 1963 ^{a/}
(in millions of pounds; monthly averages)

1961		1962				1963		
July- Sept.	Oct.- Dec.	Jan.- Mar.	Apr.- June	July- Sept.	Oct.- Dec.	Jan.- Mar.	Apr. ^{b/}	May ^{b/}
-29	-4	+3	+17	+38	+45	+40	+43	+47

^{a/} Unadjusted clearing bank figures for May are shown in Table 4.

^{b/} Estimates by The Economist.

The problem of bank liquidity continues to exist, even though the liquidity ratio rose to 30.7 per cent. However, the banks' liquidity strains may be eased by cash receipts from government securities maturing in June and from the release of funds to taxpayers in July as the reduction in personal income tax takes effect.

Table 4. United Kingdom: London Clearing Banks, Net Deposits and Selected Assets
(in millions of pounds)

	C h a n g e s					Outstanding May 15, 1963
	1961-62 ^{a/}	1962-63 ^{a/}	1963 Mar.	Apr.	May	
<u>NET DEPOSITS</u>	+106	+258	+ 9	-94	+148	6,564
<u>SELECTED ASSETS</u>						
1. Claims on Public Sector	+ 33	+ 30	-151	-20	+ 2	2,594
Government securities	- 90	+137	- 35	-33	+ 3	1,091
Treasury bills and call loans	£/+120	-118	-105	+28	- 4	1,439
Loans to nationalized industries	+ 3	+ 11	- 11	-15	+ 3	64
2. Claims on Private Sector	+117	+491	+146	+31	+ 41	4,258
Advances (net)	£/ 58	+453	+117	+28	+ 42	3,833
Other	59	+ 38	+ 29	+ 3	- 1	425
3. Special Deposits at Bank of England	+ 77	-220	--	--	--	--
<u>LIQUIDITY RATIO</u>	c/33.6	c/33.0	30.5	30.5	30.7	30.7

^{a/} Fiscal years ending mid-March. Bank balance sheets are normally prepared for the third Wednesday of each month.

^{b/} Adjusted for the reclassification of £40 million from advances to money on call in October 1961.

^{c/} Monthly averages.

Installment credit. New installment credit extended by finance companies rose more than seasonally in April, mainly as the result of automobile sales. (See Table 5.) Outstanding debt owed to finance companies increased by £10 million. New credit extended by household goods shops, on the other hand, showed only a small increase, and it was mainly seasonal.

Table 5. United Kingdom: Installment Credit

	1962	1963				Outstanding April 30, 1963
		Jan.- Mar.	Feb.	Mar.	Apr.	
New credit extended, index of value (1957=100)						
Household goods shops	111	97	93	99	101	--
Finance houses	140	132	116	164	177	--
Credit outstanding (In millions of pounds)						
Household goods shops	+ 9	- 8	- 3	- 2	+ 3	308
Finance houses	<u>-49</u>	<u>- 5</u>	<u>- 3</u>	<u>+ 4</u>	<u>+10</u>	<u>573</u>
Total	-40	-13	- 6	+ 2	+ 7	881

Foreign trade. Actual British exports in May amounted to £364 million compared with £338 million in May 1962. (See Table 6.) On a seasonally-adjusted basis, the May figure was actually £8 million below exports in March. However, the unusually severe winter and the settlement of the U.S. dock strike in early March raise a question about whether the March export figure can be considered comparable to the May figure. On the import side, seasonally-adjusted imports were £21 million higher than in April, the high price of sugar contributing to the rise in May import values. The adjusted trade deficit for May was about the same as the monthly average for the fourth quarter of 1962 and the first quarter of 1963.

Table 6. United Kingdom: Foreign Trade
(In millions of pounds, seasonally-adjusted monthly averages)

	1962				1963			
	Jan.- Mar.	Apr.- June	July- Sept.	Oct.- Dec.	Jan.- Mar.	Mar.	Apr.	May
Imports c.i.f.	-365	-373	-385	-374	-375	-383	-389	-394
Exports f.o.b.	306	319	320	318	326	349	320	341
Re-exports f.o.b.	<u>12</u>	<u>14</u>	<u>12</u>	<u>14</u>	<u>12</u>	<u>12</u>	<u>13</u>	<u>13</u>
Balance	- 47	- 40	- 53	- 42	- 37	- 22	- 56	- 40

Foreign exchange market. The spot rate weakened for a few days around May 6, as some foreigners converted sterling assets into dollars for investment in the Euro-dollar market, where attractive rates were being offered. (See Table 9.) In mid-May, the spot rate recovered. Towards the end of the month increases in the spot rate were restrained by Bank of England purchases of dollars. The forward discount fell from 0.73 per cent on May 3 to 0.64 per cent on May 31, reflecting increased confidence in sterling. A slight widening of the forward discount took place on June 7 in reaction to the Profumo case.

Gold and foreign exchange reserves. British reserves increased by \$81 million in May. (See Table 7.) Reports on foreign exchange market activities suggest that they were acquired during the latter part of the month. In the May issue of Financial Statistics, the British Central Statistical Offices commenced publication, with a three-months lag, of the distribution of reserves between gold and foreign exchange. In December 1962, 92 per cent of British reserves consisted of gold as contrasted with 68 per cent in December 1961 and 76 per cent in June 1962. The relatively low proportion of gold held on these earlier dates are the consequence of Britain's drawings of foreign currencies from the IMF.

Table 7. United Kingdom: Gold and Foreign Exchange Reserves
(in millions of U.S. dollars)

	1962		1963				Outstanding May 31, 1963
	Jan.- June	July- Dec.	Jan.- Mar.	Mar. Apr.	Apr. May	May	
Gold and convertible currency	+115	-626	+ 9	+ 17	+34	+81	2,929
Adjusted for special transactions	+690	- 20	-241	-183	3/ +34	+81	---
Gold as a percentage of total reserves (end of period)	76%	92%	77%	77%	n.a.	n.a.	n.a.

Bullion market. From May 14, through May 22 the demand in the London gold market was above average. On May 17, very heavy speculative demand from Switzerland was reported, although the nationality of the ultimate buyers was not known. The fixing price rose to \$35.083 on May 17. (See Table 8.) From May 1 through May 13 and from May 23 through June 12 the market was quiet. However, a substantial demand for gold was reported on June 13.

Table 8. United Kingdom: Fixing Price for Gold Bullion
(in U.S. dollars per fine ounce)

March 29	35.111	April 26	35.082	May 24	35.079
April 5	35.103	May 3	35.076	31	35.073
11	35.120	10	35.076	June 7	35.078
19	35.091	17	35.083	14	35.084

a/ Revised. It was originally thought that U.K. gold and dollar reserves had been affected in April by Argentine and Australian sterling transactions with the Fund.

Europe and British Commonwealth Section.

Table 9. United Kingdom: Treasury Bill Yields and Exchange Rates

	3-mo. Treasury bill arbitrage calculation					Spot pound (U.S. cents) ^{b/}	London deposit rates	
	U.K.	U.S.	Difference	3-mo. pounds/ U.K. bill	In favor U.K. bill		U.S. dollar (3-mo.)	Local authority
1962 - High	3.78	2.73	1.05	-0.31	0.74	281.75	4.13	4.87
Low	4.25	2.74	1.51	-1.92	-0.41	279.97	3.44	4.19
Feb. 21	3.34	2.86	0.48	-0.79	-0.31	280.30	3.44	4.31
Mar. 1	3.34	2.90	0.44	-0.53	-0.11	280.25	3.53	4.31
8	3.31	2.86	0.45	-0.81	-0.36	280.05	3.63	4.31
15	3.31	2.85	0.46	-1.08	-0.62	280.01	3.72	4.44
22	3.72	2.88	0.84	-1.29	-0.45	280.00	3.69	4.44
29	3.66	2.90	0.76	-1.31	-0.55	279.96	3.69	4.50
Apr. 5	3.66	2.89	0.77	-1.09	-0.32	280.09	3.69	4.56
11	3.59	2.88	0.71	-1.19	-0.48	280.07	3.69	4.56
19	3.59	2.87	0.72	-1.13	-0.41	280.10	3.66	4.56
26	3.66	2.87	0.79	-0.89	-0.10	280.06	3.72	4.56
May 3	3.66	2.87	0.79	-0.73	-0.06	280.97	3.73	4.56
10	3.63	2.89	0.74	-0.74	--	280.90	3.81	4.50
17	3.56	2.88	0.68	-0.69	--	280.94	3.84	4.44
24	3.56	2.93	0.73	-0.73	--	279.97	3.91	4.44
31	3.61	2.97	0.64	-0.64	--	280.01	3.84	4.44
June 7	3.59	2.97	0.62	-0.67	-0.05	280.04	3.91	4.44

^{a/} Market quotation for Friday. The 1963 figures, assembled for arbitrage calculations, are the premiums on the U.S. dollar. ^{b/} Noon buying rate in New York.

Table 10. United Kingdom: Selected Capital Market Yields

	U.K. Government bond yields					Share yield ^{a/}	Yield gap ^{b/}	Share prices ^{a/}
	4-1/2%	3%	5-1/2%	3-1/2%	2-1/2%			
	1964	1965-75	2008-12	War Loan	Consols			
1962 - High	5.85	6.28	6.35	6.77	6.57	5.15	1.42	309.6
Low	3.90	5.00	5.45	4.80	5.51	5.78	-0.27	261.3
Feb. 28	3.86	5.44	6.00	6.12	5.98	5.04	0.94	306.2
Mar. 7	3.85	5.39	5.95	6.06	5.91	5.07	0.84	304.5
14	3.89	5.42	5.95	6.05	5.91	5.05	0.86	305.4
21	3.97	5.38	5.90	5.95	5.82	5.11	0.71	302.0
28	4.05	5.37	5.87	5.93	5.80	5.05	0.75	305.6
Apr. 4	4.01	5.32	5.85	5.90	5.76	5.03	0.73	303.3
10	3.87	5.27	5.83	5.87	5.72	5.09	0.63	304.3
18	3.80	5.21	5.70	5.75	5.60	4.93	0.67	311.3
25	3.75	5.27	5.73	5.77	5.62	4.91	0.71	313.1
May 2	3.65	5.25	5.73	5.74	5.59	4.89	0.70	314.2
9	3.72	5.23	5.68	5.70	5.56	4.95	0.61	310.5
16	3.70	5.15	5.63	5.65	5.46	4.94	0.52	314.1
23	3.72	5.14	5.60	5.66	5.50	4.99	0.51	311.0
30	3.67	5.06	5.55	5.60	5.42	4.99	0.43	311.0
June 6	3.65	5.03	5.52	5.59	5.41	5.02	0.39	311.0

^{a/} Financial Times.

^{b/} Difference between yield on 2-1/2 per cent Consols and share yield.

Chart 1

INTEREST ARBITRAGE, UNITED STATES / CANADA

Thursday figures

Per cent per annum

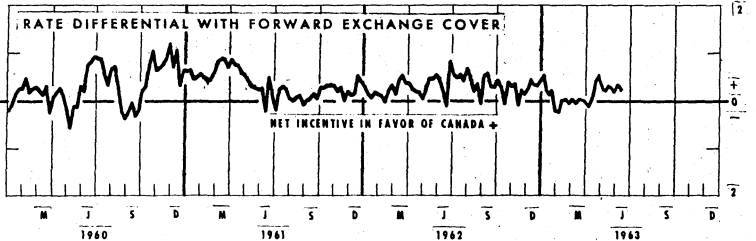
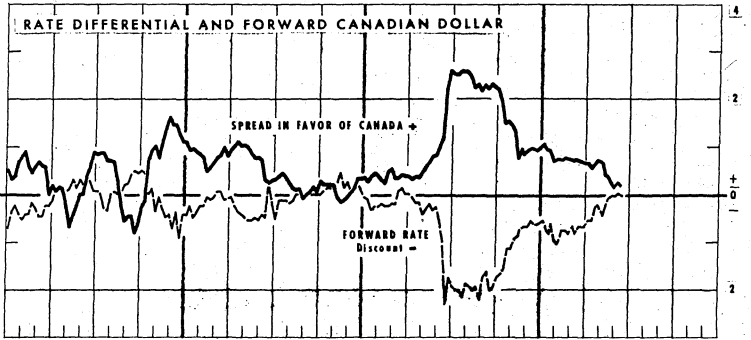
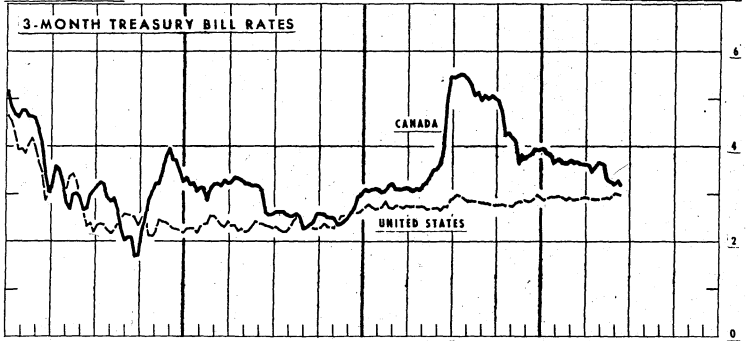
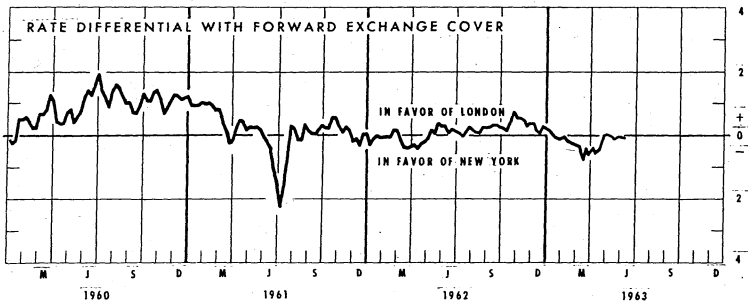
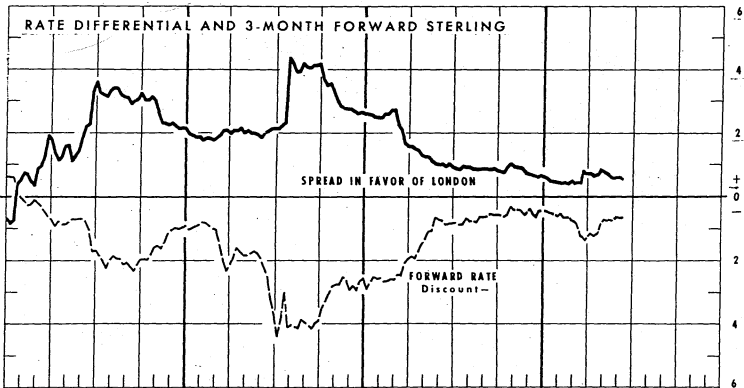
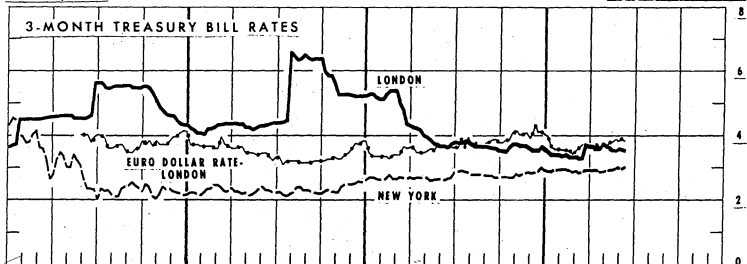


Chart 2

INTEREST ARBITRAGE, NEW YORK/LONDON

Friday figures

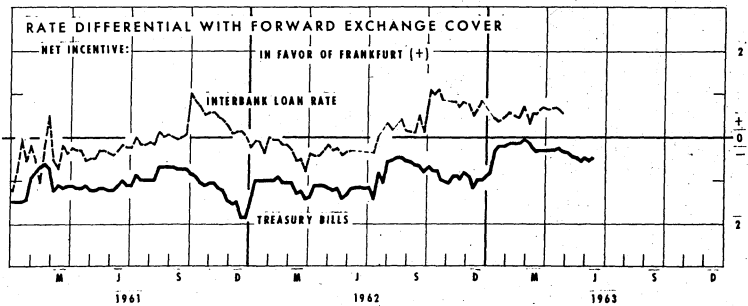
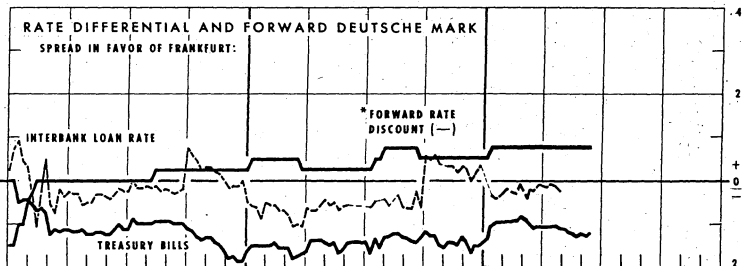
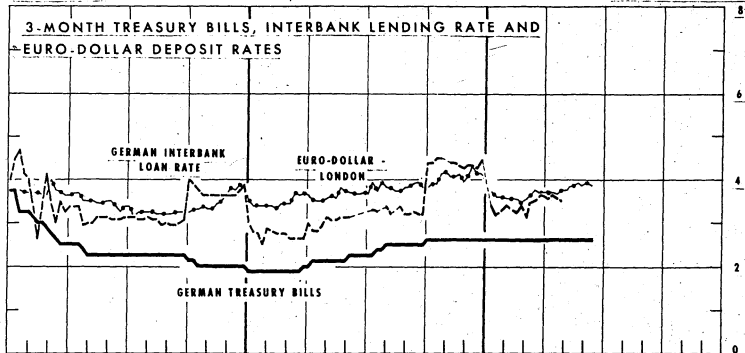
Per cent per annum



INTEREST ARBITRAGE FOR GERMAN COMMERCIAL BANKS

Friday figures

Per cent per annum



* Note: Special forward rate available to German commercial banks.

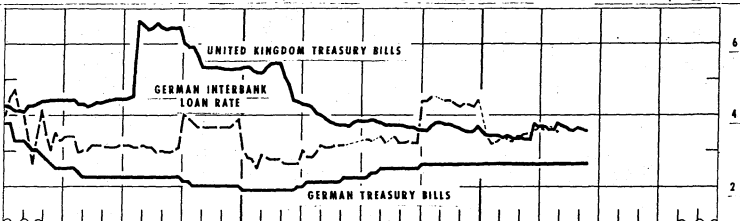
Chart 4

INTEREST ARBITRAGE, FRANKFURT / LONDON

Friday figures

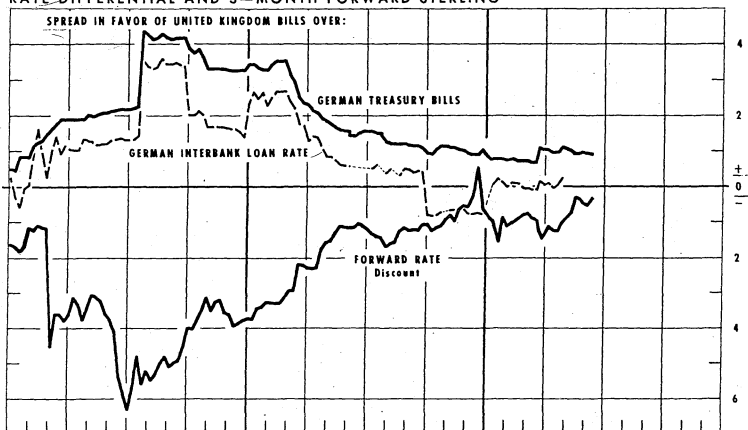
3—MONTH TREASURY BILLS AND INTERBANK LENDING RATES

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:

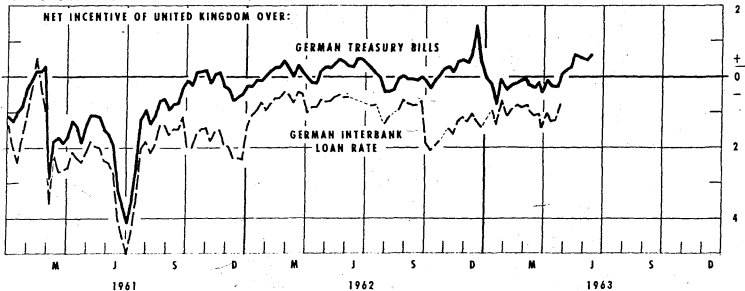
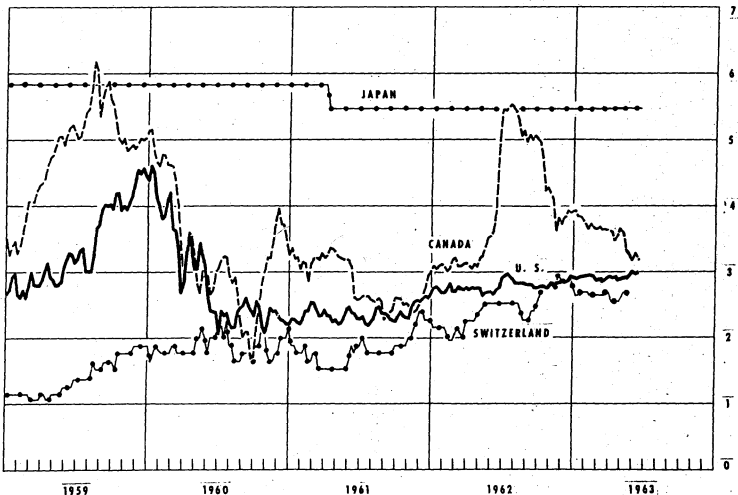
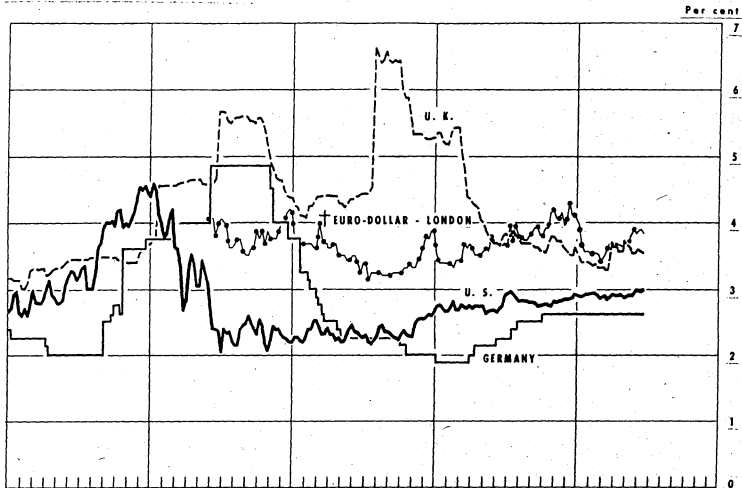


Chart 5
SHORT-TERM INTEREST RATES *



* 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

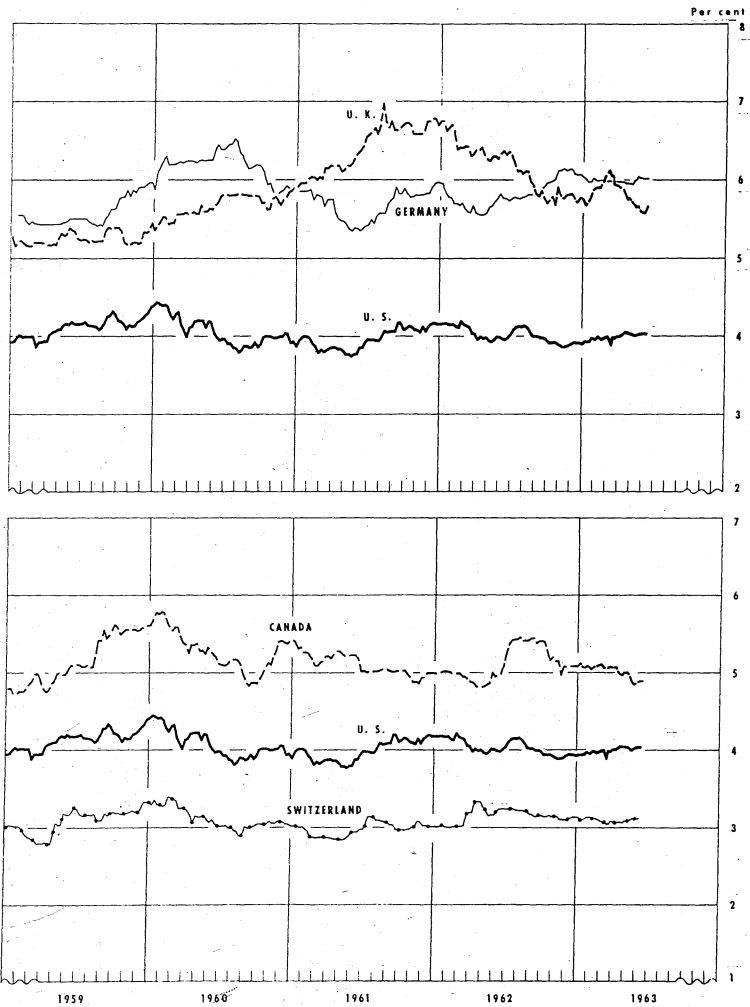
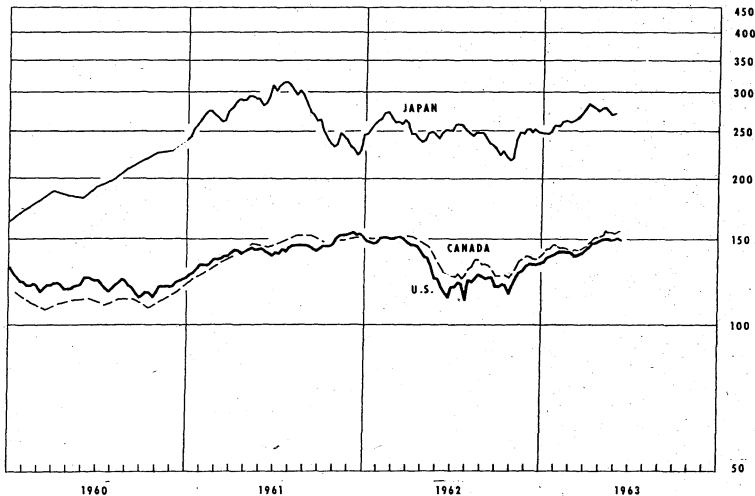
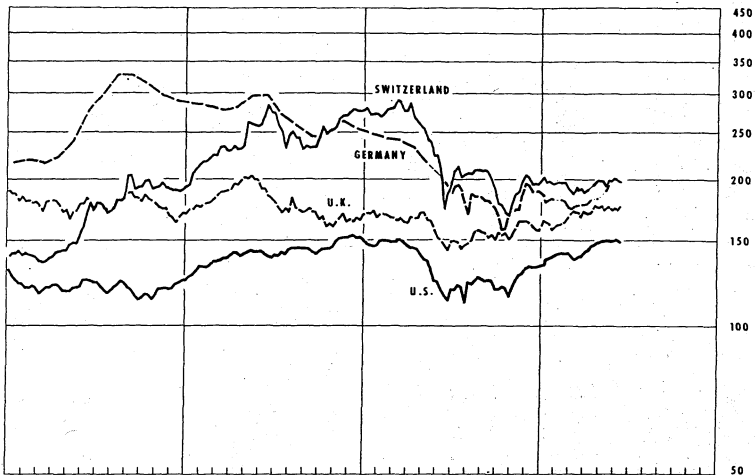


Chart 7

INDUSTRIAL STOCK INDICES*

1958 = 100
Ratio scale



*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

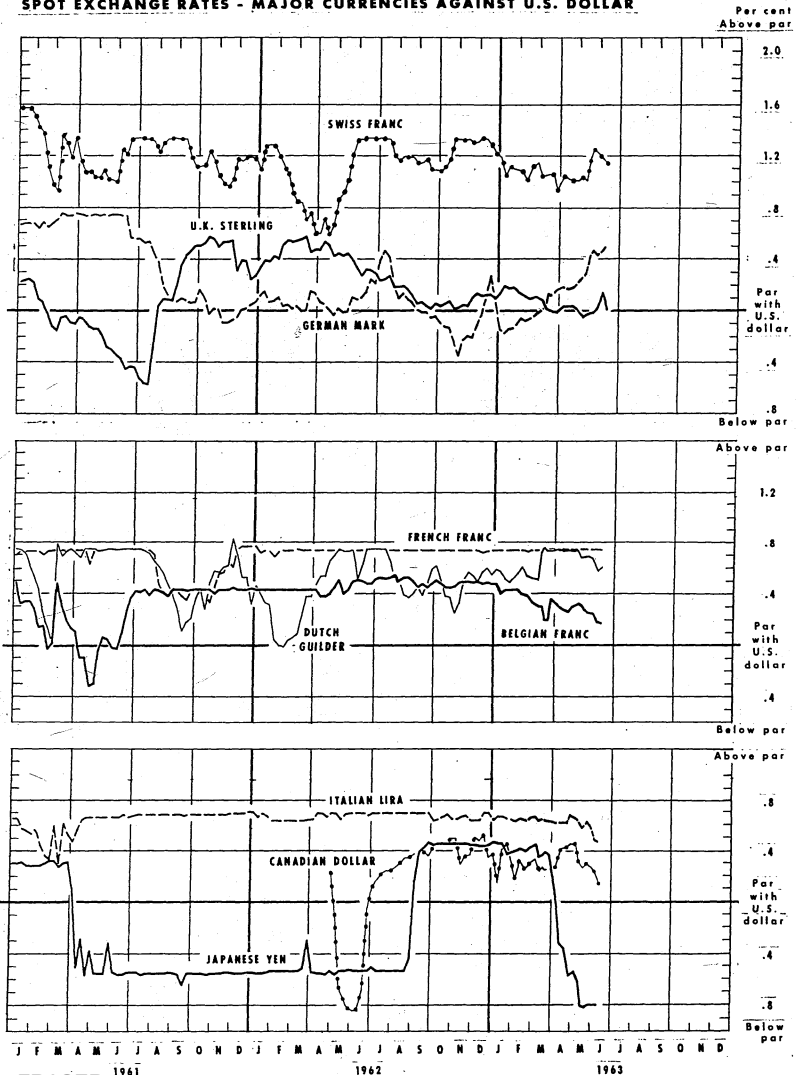


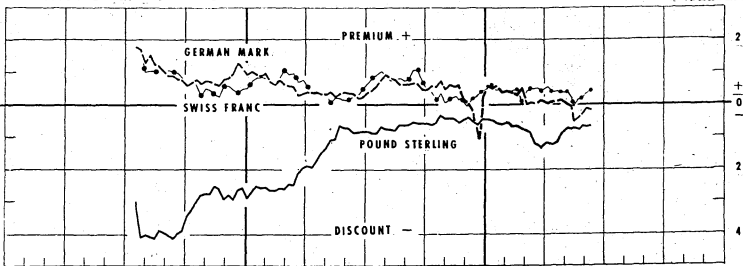
Chart 9

3-MONTH FORWARD EXCHANGE RATE

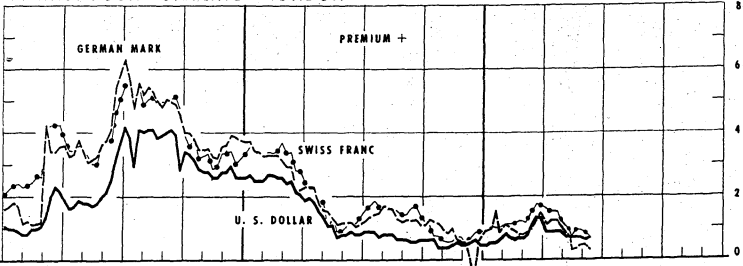
Friday figures

AGAINST U. S. DOLLARS

Per cent per annum



AGAINST POUND STERLING - LONDON



AGAINST POUND STERLING - LONDON

