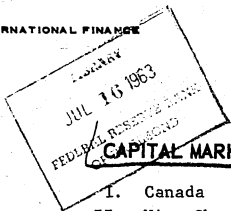


H. 13  
No. 112

July 10, 1963

**CAPITAL MARKET DEVELOPMENTS ABROAD**

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

I. Canada: Money and Capital Markets in May and June 1963

Financial markets eased moderately during the period between the reduction in the discount rate from 4 to 3-1/2 per cent on May 6 and the Budget Message of June 13. Controversial features of the latter, intended to reduce the degree of U.S. control over Canadian industries, proved seriously unsettling to the stock market and also induced some speculation against the Canadian dollar in the foreign-exchange market. With the announcement on June 19 that the most objectionable proposal had been withdrawn, both markets recovered their previous levels. Under the new budget for 1963-64, governmental pressure on capital markets is expected to be somewhat reduced in the new fiscal year ending March 31, 1964, chiefly because advances to the Exchange Fund Account (included in "non-budgetary transactions") are likely to be sharply below those required last year. (See Table I.)

Table I. Canada: Budgetary Accounts, Fiscal Years 1962-64  
(In millions of Canadian dollars)

|                                      | Actual  |         | Estimate |
|--------------------------------------|---------|---------|----------|
|                                      | 1961-62 | 1962-63 | 1963-64  |
| <u>Cash Requirements</u>             |         |         |          |
| Budgetary transactions               |         |         |          |
| Revenue                              | 5,730   | 5,876   | 6,260    |
| Expenditure                          | -6,521  | -6,585  | -6,845   |
| Deficit (-)                          | - 791   | - 709   | - 585    |
| Non-Budgetary transactions (net)     | 313     | - 758   | - 265    |
| Net cash requirements (-)            | - 478   | - 1,467 | - 850    |
| <u>Financing</u>                     |         |         |          |
| Government bank balances (increase-) | - 417   | 403     | } 850    |
| Public debt                          |         |         |          |
| Bonds                                | 928     | 736     |          |
| Treasury bills                       | - 50    | 280     |          |
| Other                                | 17      | 48      |          |
| Total                                | 478     | 1,467   | 850      |

Source: Canada, House of Commons, Budget Speech delivered by  
The Honourable W. L. Gordon, June 13, 1963 and Budget Papers.

OFFICIAL USE ONLY  
(Decontrolled After Six Months)

Money market. Canadian short-money rates fell gradually but steadily throughout the month of May, at least partially in response to the bank rate cut from  $4$  to  $3\frac{1}{2}$  per cent on May 6. By the end of the month, the auction rate on the 3-month treasury bill had fallen to 3.19 from 3.66 on April 25. It rose slightly in early June, whether in sympathy with the rise in U.S. short-term rates or in anticipation of the Budget Message, but had eased to 3.22 by June 20. (See Table 11 and Chart 5.)

As Canadian short-term yields declined, the uncovered spread of the Canadian over the U.S. treasury bill fell from 0.77 per cent on April 25 to settle at about 0.20 per cent by the end of May. The fully-hedged arbitrage incentive favoring the Canadian bill has remained little changed at about  $1\frac{1}{4}$  -  $1\frac{1}{3}$  per cent per annum since early May, as declines in Canadian Treasury-bill yields have been offset by the shift of the forward Canadian dollar from discount to a slight premium. (See Table 11 and Chart 1.)

Canadian finance-paper yields shared the decline in short rates from late April to mid-May. But the declining cost of forward Canadian cover more than offset the decline in yields on finance paper, and the fully-covered spread over U.S. financed paper widened from parity at the beginning of May to about  $1\frac{1}{3}$  per cent near the end of the month. By late June, the fully-hedged finance-paper incentive remained at  $1\frac{1}{4}$  per cent (see Table 2). Some funds are reported to have moved into Canada on an uncovered basis.

Table 2. U.S. and Canadian 3-month Finance Paper Arbitrage Calculation  
(in per cent per annum)

|   | March | April | May   |      |      | June  |
|---|-------|-------|-------|------|------|-------|
|   | 29    | 12    | 3     | 17   | 24   | 21    |
| Canada  | 3.87  | 3.63  | 3.50  | 3.37 | 3.43 | 3.38  |
| United States                                   | 3.12  | 3.06  | 3.06  | 3.06 | 3.06 | 3.19  |
| Difference                                      | 0.65  | 0.57  | 0.44  | 0.31 | 0.37 | 0.19  |
| Three-month forward discount on Canadian dollar | -0.67 | -0.54 | -0.44 | --   | --   | +0.06 |
| Favor Canada                                    | 0.02  | 0.03  | +     | 0.31 | 0.37 | 0.25  |

Bank loans and bank liquidity. General loans by Canadian chartered banks maintained a rapid advance from late April to early June, but they have not recovered to the peak of September 1962. Between April 24 and June 5, the total of these loans outstanding by the chartered banks increased by \$259 million. (See Table 2.) However, on a seasonally-adjusted basis, general loans declined by \$26 million to mid-June. Press reports indicate that a major part of the increases in loans during May can be attributed to an expansion of consumer credit, notably in automobile financing.

Table 3. Canadian Chartered Banks: Changes in Deposits and Selected Assets, 1962-63  
(Can. \$ million or per cent)

|                                   | Change during Quarter |       | Change during month |         |         | Level on June 12 |        |
|-----------------------------------|-----------------------|-------|---------------------|---------|---------|------------------|--------|
|                                   | 1962                  |       | 1963                |         |         |                  |        |
|                                   | III                   | IV    | I                   | Mar.    | Apr.*   |                  | May*   |
| 1. Reserves                       |                       |       |                     |         |         |                  |        |
| Cash Reserves                     | - 53                  | + 17  | --                  | - 8     | + 16    | - 16             | 1,158  |
| Liquid Assets                     | - 81                  | +298  | + 51                | - 36    | - 53    | +130             | 2,654  |
| 2. Ratios a/                      |                       |       |                     |         |         |                  |        |
| Cash Ratio                        | 8.16                  | 8.16  | 8.11                | 8.09    | 8.13    | 8.15             | 8.10   |
| Liquid Asset Ratio                | 15.87                 | 17.96 | 18.32               | 18.30   | 17.51   | 17.66            | 18.56  |
| 3. General Loans                  | +198                  | -299  | + 35                | +145    | + 24    | +195             | 6,693  |
| 4. Other Assets b/                |                       |       |                     |         |         |                  |        |
| Treas. Bills                      | - 71                  | +196  | +145                | c/ + 4  | c/ -109 | c/ + 74          | 1,323  |
| Govt. Bonds                       | -560                  | +337  | + 86                | c/ - 11 | c/ + 21 | c/ - 31          | 2,412  |
| Total, Govt. Securities           | -631                  | +533  | +231                | c/ - 15 | c/ - 69 | c/ + 43          | 3,735  |
| 5. Total Canadian dollar deposits | -642                  | +1016 | -745                | + 99    | +266    | +293             | 14,437 |

a/ Ratios given are averages for the periods shown.

b/ Amortized value.

c/ Par value.

\* Preliminary. May figures cover period April 24-May 22.

As general loans expanded, the chartered banks added about \$125 million to their holdings of Canadian treasury bills between May 1 and June 20, and raised the liquid asset ratio by about 1/2 per cent to 18.53 per cent, well above the 15 per cent agreed minimum (see Table 3 and 4). Between the end of May and mid-June, the chartered banks and the Bank of Canada acquired substantial amounts of government bonds. (See Table 4.)

Bond market. Government bond yields declined throughout most of May, although a good deal less than did bill yields. Bond-yield declines were noticeably less in long maturities than at the short end of the yield curve. The very slight decline in long yields had stopped by the middle of May, while very short maturities continued to share (at a reduced pace) the decline in money rates (see Tables 5 and 11 and Chart 6).

Table 4. Canada: Net Purchases (+) or Sales (-) of Government Securities  
(\$ millions, par value)

|                     | 1 9 6 3           |          |                   |         |                   |        |
|---------------------|-------------------|----------|-------------------|---------|-------------------|--------|
|                     | March 27-May 1    |          | May 1-May 29      |         | May 29-June 20    |        |
|                     | Treasury<br>Bills | Other    | Treasury<br>Bills | Other   | Treasury<br>Bills | Other  |
| Bank of Canada      | + 140             | - 5      | - 29              | - 34    | -45               | +61    |
| Chartered Banks     | - 90              | + 21     | + 64              | - 16    | +60               | +91    |
| Government Accounts | - 26              | - 132    | - 3               | - 2     | +21               | - 1    |
| General Public      | + 96              | a/ - 114 | - 6               | b/ + 27 | - 8               | c/ -13 |
| Change in Total     |                   |          |                   |         |                   |        |
| Outstanding d/      |                   | -109     |                   | ---     |                   | +192   |

a/ Includes a decrease in holdings of Canada Savings Bonds of 87 million.

b/ Includes a decrease of \$23 million in holdings of Canada Savings Bonds.

c/ Includes a decrease of \$80 million in holdings of Canada Savings Bonds.

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

Table 5. Canada: Changes In Selected Securities Yields, May-June 1963  
(In per cent per annum)

|   | Changes:        |                 |                   |                     |
|---|-----------------|-----------------|-------------------|---------------------|
|   | May 2-<br>May 9 | May 9<br>May 23 | May 23<br>June 20 | Level on<br>June 20 |
| <u>Treasury bills</u>                         |                 |                 |                   |                     |
| 3-month                                       | -0.27           | -0.10           | -0.01             | 3.22                |
| 6-month                                       | -0.34           | -0.09           | +0.01             | 3.32                |
| <u>Government bonds</u>                       |                 |                 |                   |                     |
| 2-3/4 per cent of June 1967-68                | -0.18           | -0.03           | -0.09             | 4.02                |
| 3-1/4 per cent of October 1979                | -0.05           | -0.04           | +0.03             | 4.85                |
| 3-3/4 per cent of February 1996<br>March 1998 | -0.03           | -0.04           | --                | 4.90                |

Corporate and local-government bond yields also declined slightly during May. During the month, the McLeod, Young, Weir and Co. average of 40 such bonds edged downward from 5.38 to 5.32 per cent (see Table 6).

Table 6. Canadian Corporate and Local Government  
Bond Yields  
(In per cent per annum)

|                          | 1 9 6 2 |         | 1 9 6 3  |          |        |
|--------------------------|---------|---------|----------|----------|--------|
|                          | May 31  | Nov. 30 | March 29 | April 30 | May 31 |
| <u>Local Government:</u> |         |         |          |          |        |
| 10 Provincials           | 5.43    | 5.44    | 5.39     | 5.32     | 5.29   |
| 10 Municipals            | 5.05    | 5.59    | 5.51     | 5.47     | 5.39   |
| <u>Corporate:</u>        |         |         |          |          |        |
| 10 Public utilities      | 5.27    | 5.39    | 5.49     | 5.39     | 5.34   |
| 10 Industrials           | 5.39    | 5.42    | 5.42     | 5.33     | 5.20   |
| 40 Bond average yield    | 5.44    | 5.46    | 5.45     | 5.38     | 5.32   |

Source: McLeod, Young, Weir and Co., Ltd. (Toronto), Press release, June 3, 1963.

Stock Market. After rising steadily for a month, Canadian stock prices leveled off in early May. The DBS index of 76 industrials rose from 130.9 in the week ending April 4 to 140.6 five weeks later. Prices stabilized thereafter at around the 140 level until the presentation of the Budget. (See Table 7 and Chart 7)

In reaction to Canadian dissatisfaction with the degree of U.S. control over Canadian industry, the Speech from the throne on May 16 had incorporated proposals for marshalling the nation's savings in an effort to relieve Canada's dependence on New York for capital. Two new financial intermediaries are to be created: (a) A National Development Corporation, channel funds into new Canadian industries or increase Canadian ownership in existing industries; and (b) A Municipal Development and Loan Board, authorized to purchase municipal bonds out of a \$400 million Treasury loan fund.

These positive measures were followed in the Budget Message of June 13, by punitive tax proposals aimed explicitly at reducing the incentive for American "takeover" direct investment, which had been occurring in particularly heavy volume during the last half of 1962.

- a. The 15 per cent withholding tax applied to all dividends paid to non-residents since 1960 is to be modified. The withholding rate will be raised to 20 per cent for corporations in which Canadian ownership is less than 25 per cent. For corporations where Canadian ownership is 25 per cent or more the tax will be lowered to 10 per cent. A partial refund will be made to corporations which achieve Canadian ownership of 25 per cent by 1967.

- b. 30 per cent tax on large-block sales of Canadian corporation stock to non-residents.

Table 7. Canadian and U.S. Stock Prices

|  | April |       |       | May   |       |       | June  |       |      |
|--|-------|-------|-------|-------|-------|-------|-------|-------|------|
|  | 25    | 2     | 9     | 16    | 23    | 30    | 5     | 12    | 19   |
| DRS Industrials a/                       | 137.1 | 138.2 | 140.6 | 139.8 | 139.8 | 139.4 | 140.4 | 140.1 | n.a  |
| W.Y. Standard and<br>Poor Industrials b/ | 73.1  | 73.4  | 73.5  | 73.8  | 73.5  | 73.7  | 74.1  | 73.7  | 73.5 |

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.

b/ Average for the week ended on Friday.

These followed heavy sales of Canadian securities and a steady decline in stock prices. June 19 threatened to become "Black Wednesday" as this downward trend was sharply accelerated after the Exchange opened, reportedly due to sales by U.S. insurance companies and institutional portfolios. About an hour before the Toronto Exchange closed on that day, the Finance Minister announced the withdrawal of the 30 per cent "takeover" tax. Within minutes, almost chaotic buying caused prices in all sections of the market to experience a jump called by the Toronto Globe and Mail "the sharpest about-face in the memory of veteran traders." The record buying during this last half hour or so was reported to have come largely from Canadians. Because it happened within a single day, the wild market gyrations of June 19 will not show up in the statistical records. By 2 p.m. on that day, the Toronto Stock Exchange industrial index had made its sharpest drop since June 21, 1962. But recovery during the final half-hour of trading permitted the record to show that the market closed ahead for the day's trading. In the following week, market conditions became more settled.

**Budget Estimates.** A less transitory aspect of the Budget Message is the reduced Governmental pressure on capital markets foreseen for the new fiscal year. Estimated cash requirements for the year ending March 31, 1964 are only 58 per cent of the cash needs of the preceding fiscal year, when \$C 736 million in bonds and \$C 280 million in Treasury bills were issued to help finance cash needs amounting to \$C 1,467 million. (See Table 1) The reduction in the cash requirement will come from a proposed extension of the present 11 per cent sales tax to building materials and a sharp reduction in advances to the Exchange Fund Account (which in Fiscal 1963 accounted for \$C 563 million of the \$C 758 million net non-budgetary transactions). However, no estimates have yet been made for advances to the Exchange Fund Account that might be required during the last three quarters of fiscal 1964.

Balance of payments. In fact, the large overall balance of payments surplus of the fourth quarter of calendar 1962 gave way to a relatively small surplus in the first quarter of 1963. (See Table 8.) Part of the recorded deterioration, especially in the trade accounts, was seasonal. On a seasonally-adjusted basis, the first quarter trade balance was the most favorable quarter experienced in a decade. However, a sharp fall in the net inflow of foreign capital occurred from the fourth quarter of 1962 to the first quarter of 1963. Direct investment in Canadian industries fell from \$C 190 million to \$C 65 million, largely the abatement of the large inward transactions of funds to the petroleum and natural gas industries in "takeover" operations of the last half of 1962. In addition, Canadians increased their holdings of foreign exchange by \$C 78 million. (This is included in "other capital".) Foreign holdings of Canadian commercial and finance paper were reduced by \$C 28 million in the first quarter of the year in contrast with the increase experienced in 1962.

Flotations of Canadian bonds in the United States was in record volume in the first quarter. The bulk of these securities were Provincial issues (\$C 197 million) and Government of Canada obligations (\$C 140 million). These figures do not include the undelivered sales to U.S. residents (as of March 31) totalling \$C 401 million.

Borrowing in the U.S. From April 1 through May 20, four Canadian bond issues, valued at \$ 63.5 million, have been issued in the U.S. market, according to A.E. Ames & Co. The bulk of this sum is accounted for by a \$ 50 million loan placed by the Bell Telephone Company of Canada. Canadian issues reported sold in the U.S. during this period were:

In April:

Union acceptance Corporation, Ltd.: \$ 7.5 million secured notes due 4/1/74 - 78, placed privately.

In May:

British Columbia School Districts Capital Financing Authority;  
\$ 5.0 million guaranteed by the Province of British Columbia,  
5 per cent securities due 5/15/64 - 83 reportedly sold at a price of 100.55.

Bell Telephone Company of Canada: \$ 50 million first mortgage bonds due 5/1/88, placed privately.

Alliance Credit Corporation: \$ 1.0 million secured notes due April 1, 1978, placed privately.

A.E. Ames and Company, places sales of new securities in the U.S. at \$ 603 million during 1963 to June 10. This total is nearly six times the sales for comparable period of 1962 or 1961. (See Table 9).

Table 8. Canadian Balance of Payments Quarterly 1962 - March 1963 a/  
(In millions of Canadian dollars)

|  | 1962          |               |               |               | 1963          |
|--|---------------|---------------|---------------|---------------|---------------|
|  | I             | II            | III           | IV            | I             |
| A. CURRENT ACCOUNT                                   |               |               |               |               |               |
| Exports  | 1,395         | 1,620         | 1,628         | 1,721         | 1,477         |
| Imports  | <u>-1,402</u> | <u>-1,665</u> | <u>-1,559</u> | <u>-1,583</u> | <u>-1,415</u> |
| Trade balance  | - 7           | - 45          | 69            | 138           | 62            |
| Other  | <u>- 326</u>  | <u>- 317</u>  | <u>- 103</u>  | <u>- 257</u>  | <u>- 305</u>  |
| Total  | <u>- 333</u>  | <u>- 362</u>  | <u>- 34</u>   | <u>- 119</u>  | <u>- 243</u>  |
| B. DIRECT INVESTMENT<br>IN CANADA                    | 110           | 80            | 145           | 190           | 65            |
| C. SECURITIES TRANSACTIONS                           |               |               |               |               |               |
| Canadian securities:                                 |               |               |               |               |               |
| New issues,  | 52            | 200           | 87            | 369           | 435           |
| Retirement   | - 70          | - 68          | - 48          | - 109         | - 46          |
| Other  | - 46          | - 76          | 4             | - 13          | - 30          |
| D. CANADIAN COMMERCIAL<br>PAPER, ETC.                | 28            | 25            | 35            | 52            | - 28          |
| E. CANADIAN DOLLAR<br>HOLDINGS OF FOREIGNERS         |               |               |               |               |               |
| Treasury bills                                       | 18            | 50            | - 3           | - 61          | 9             |
| Deposits   | - 50          | - 16          | - 51          | 85            | - 31          |
| F. OTHER CAPITAL (including<br>errors and omissions) | <u>- 84</u>   | <u>- 469</u>  | <u>551</u>    | <u>84</u>     | <u>- 64</u>   |
| <u>SURPLUS OR DEFICIT (-)</u>                        | <u>- 375</u>  | <u>- 636</u>  | <u>686</u>    | <u>478</u>    | <u>67</u>     |
| G. FINANCED BY:                                      |               |               |               |               |               |
| Extraordinary aid                                    | --            | b/707         | --            | - 377         | --            |
| Drawing rights on IMF<br>(increase-)                 | 11            | b/ 43         | --            | --            | --            |
| Gold and foreign<br>exchange (increase-)             | <u>364</u>    | <u>- 114</u>  | <u>- 686</u>  | <u>- 101</u>  | <u>- 67</u>   |
| <u>TOTAL FINANCING</u>                               | <u>375</u>    | <u>636</u>    | <u>- 686</u>  | <u>- 478</u>  | <u>- 67</u>   |

a/ No sign indicates credit; minus major indicates debit.

b/ Canadian drawing from IMF is included with extraordinary aid.



Table 9. Sales of New Canadian SecuritiesPayable in U.S. Funds

(In millions of U.S. \$)

|                 | <u>Total</u> | <u>Provincial</u> | <u>Provincial<br/>Guaranteed</u> | <u>Municipal</u> | <u>Corporation</u> |
|-----------------|--------------|-------------------|----------------------------------|------------------|--------------------|
| 1963 to June 10 | 603.1        | 45.0              | 363.0                            | 29.6             | 165.5              |
| 1962 to June 11 | 104.5        | ---               | ---                              | 1.5              | 103.0              |
| 1961 to June 12 | 117.4        | ---               | ---                              | 26.4             | 91.0               |

Source: A.E. Ames & Company: Weekly Bond Sales Summary.

Foreign exchange. Demand for the Canadian dollar remained strong throughout almost all of May. During the month, official holdings of gold and U. S. dollars increased by \$41 million (see Table 12), while the market price of the dollar fluctuated narrowly around 92.8.

Some signs of weakness appeared in the foreign exchange market early in June as speculation centered around the nature of the forthcoming budget. During the first half of June, the market rate on the dollar weakened and may have received some support by the Bank of Canada. By the time the budget had been presented--and, more particularly, by the time the anti-takeover tax had been rescinded, the market once again firmed up. On June 25, the market rate on the Canadian dollar was 92.84 U.S. cents.

Table 10. Canada: Changes in Official Reserves March 1962-May 1963

(in millions of U.S. (?) dollars)

|  | C h a n g e s      |                     |          |          |       |       |       | Outstanding<br>May 31, 1963 |
|--|--------------------|---------------------|----------|----------|-------|-------|-------|-----------------------------|
|  | 1 9 6 2            |                     |          | 1 9 6 3  |       |       |       |                             |
|  | March 1<br>June 24 | June 24<br>Sept. 30 | IV       | I        | April | May   |       |                             |
| Gold and convertible<br>foreign exchange | -646.7             | +1,344.6            | + 94.8   | + 60.7   | +71.3 | +41.0 | 2,712 |                             |
| Special net non-market<br>receipts (-)   | ---                | a/- 711.0           | b/+195.0 | c/-125.0 | --    | --    |       |                             |
| Adjusted change                          | -646.7             | + 633.6             | +289.8   | - 64.3   | +71.3 | +41.0 |       |                             |

a/ Special assistance received: \$300 million drawings from the IMF, \$200 million from the Federal Reserve System; \$100 million from the Bank of England, and a \$61 million advance debt repayment from France.

b/ Includes repayment of half the assistance received from the Bank of England and the Federal Reserve (\$175 million), the receipt of a Netherlands balance debt repayment (\$30 million) and \$125 million of the proceeds of a Government of Canada loan floated in the U.S.

c/ Covers the balance of a Government of Canada loan floated in the U. S.

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 11. Canada: Treasury Bill Yields and Exchange Rates

|               | 3-mo. Treas. bill arbitrage calculation |            |                 |                       |                 |                                   | Finance paper |                |
|---------------|---|------------|-----------------|-----------------------|-----------------|-----------------------------------|---------------|----------------|
|               | Canada<br>a/                            | U.S.<br>a/ | Differ-<br>ence | In<br>favor           |                 | Spot<br>Can.\$<br>(U.S.<br>cents) | 30-89 days    | 90-179<br>days |
|               |   |            |                 | 3-mo.<br>Can.\$<br>b/ | Can.<br>bill c/ |                                   |               |                |
| 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                             | --            | --             |
| 1963 April 10 | 3.48                                    | 2.90       | 0.58            | -0.54                 | +0.04           | 92.92                             | 3-1/2 - 3/4   | 3-3/4 - 7/8    |
| 18            | 3.57                                    | 2.89       | 0.68            | -0.27                 | +0.41           | 92.91                             | 3-1/2 - 3/4   | 3-3/4 - 7/8    |
| 25            | 3.66                                    | 2.89       | 0.77            | -0.20                 | +0.57           | 92.94                             | 3-3/8 - 1/2   | 3-5/8 - 3/4    |
| May 2         | 3.60                                    | 2.90       | 0.70            | -0.44                 | +0.26           | 92.94                             | 3-1/2         | 3-3/4          |
| 9             | 3.33                                    | 2.91       | 0.42            | -0.20                 | +0.22           | 92.81                             | 3-1/4 - 1/2   | 3-1/2 - 5/8    |
| 16            | 3.28                                    | 2.90       | 0.38            | -0.06                 | +0.32           | 92.80                             | 3-3/8         | 3-1/2          |
| 23            | 3.23                                    | 2.95       | 0.28            | --                    | +0.28           | 92.81                             | 3-3/8 - 1/2   | 3-1/2          |
| 29            | 3.19                                    | 2.99       | 0.20            | +0.07                 | +0.27           | 92.80                             | 3 - 3-1/8     | 3-1/8          |
| June 6        | 3.28                                    | 2.99       | 0.29            | +0.06                 | +0.35           | 92.72                             | --            | --             |
| 13            | 3.19                                    | 2.98       | 0.21            | +0.07                 | +0.28           | 92.67                             | --            | --             |
| 20            | 3.22                                    | 2.98       | 0.24            | +0.07                 | +0.31           | 92.75                             | --            | --             |

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 12. Selected Government of Canada Security Yields

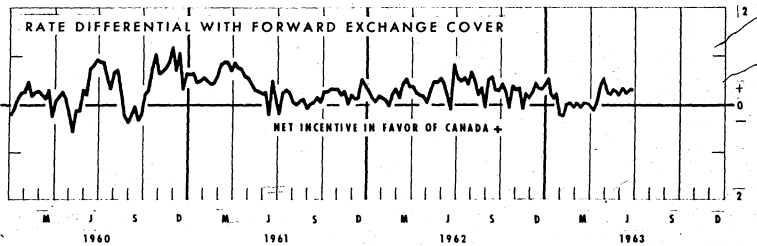
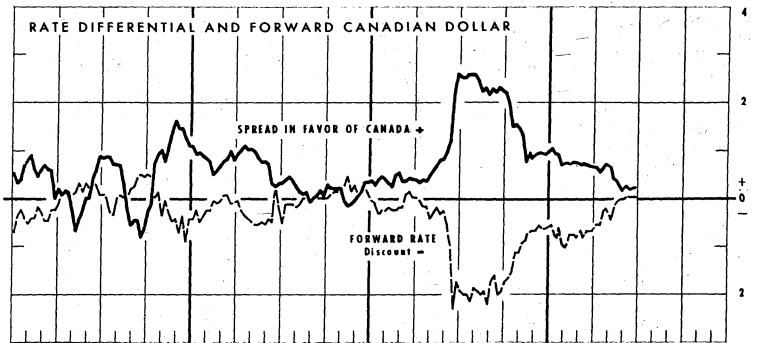
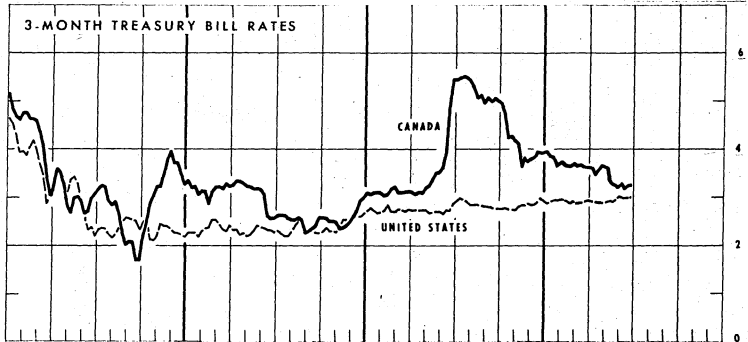
|               | 6-mo. Treas. bills |                           | Intermediate<br>bonds (8 yr.) |                           | Long-term bonds |                           |              |                           |
|---------------|--------------------|---------------------------|-------------------------------|---------------------------|-----------------|---------------------------|--------------|---------------------------|
|               | Canada<br>a/       | Spread<br>over<br>U.S. b/ | Canada<br>over<br>c/          | Spread<br>over<br>U.S. d/ | (20 year)       |                           | (35 year)    |                           |
|               |                    |                           |                               |                           | Canada<br>e/    | Spread<br>over<br>U.S. f/ | Canada<br>g/ | Spread<br>over<br>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                      |
| 1963 April 10 | 3.60               | 0.60                      | 4.39                          | 0.76                      | 4.93            | 1.02                      | 4.99         | 0.97                      |
| 17            | 3.67               | 0.68                      | 4.37                          | 0.72                      | 4.91            | 0.97                      | 4.97         | 0.92                      |
| 24            | 3.80               | 0.81                      | 4.41                          | 0.80                      | 4.92            | 0.98                      | 4.97         | 0.93                      |
| May 1         | 3.74               | 0.75                      | 4.32                          | 0.75                      | 4.91            | 0.98                      | 4.97         | 0.94                      |
| 8             | 3.40               | 0.41                      | 4.14                          | 0.58                      | 4.86            | 0.94                      | 4.94         | 0.93                      |
| 15            | 3.36               | 0.37                      | 4.11                          | 0.54                      | 4.82            | 0.90                      | 4.94         | 0.94                      |
| 22            | 3.31               | 0.28                      | 4.11                          | 0.50                      | 4.82            | 0.89                      | 4.90         | 0.89                      |
| 29            | 3.30               | 0.23                      | 4.12                          | 0.44                      | 4.84            | 0.89                      | 4.90         | 0.82                      |
| June 5        | 3.39               | 0.31                      | 4.14                          | 0.44                      | 4.84            | 0.87                      | 4.90         | 0.87                      |
| 12            | 3.30               | 0.23                      | 4.07                          | 0.36                      | 4.84            | 0.86                      | 4.90         | 0.88                      |
| 19            | 3.32               | 0.24                      | 4.02                          | 0.30                      | 4.85            | 0.86                      | 4.90         | 0.87                      |

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 Per cent per annum



13

Chart 2

### INTEREST ARBITRAGE, NEW YORK/LONDON

Friday figures

Per cent per annum

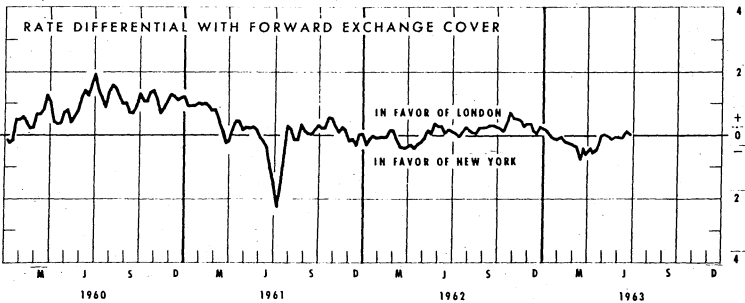
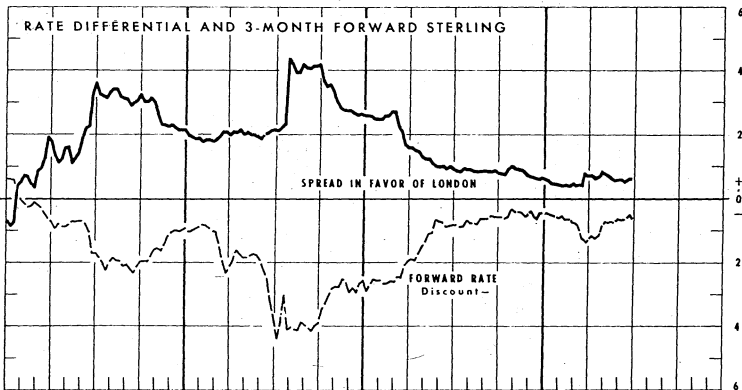
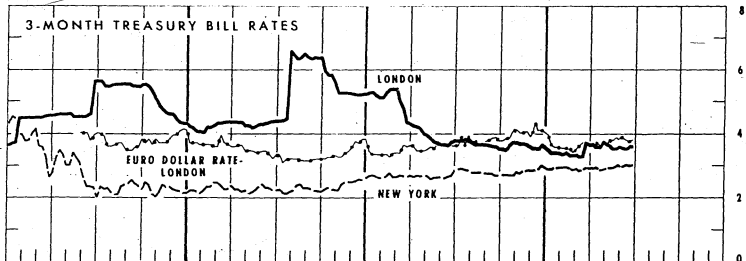
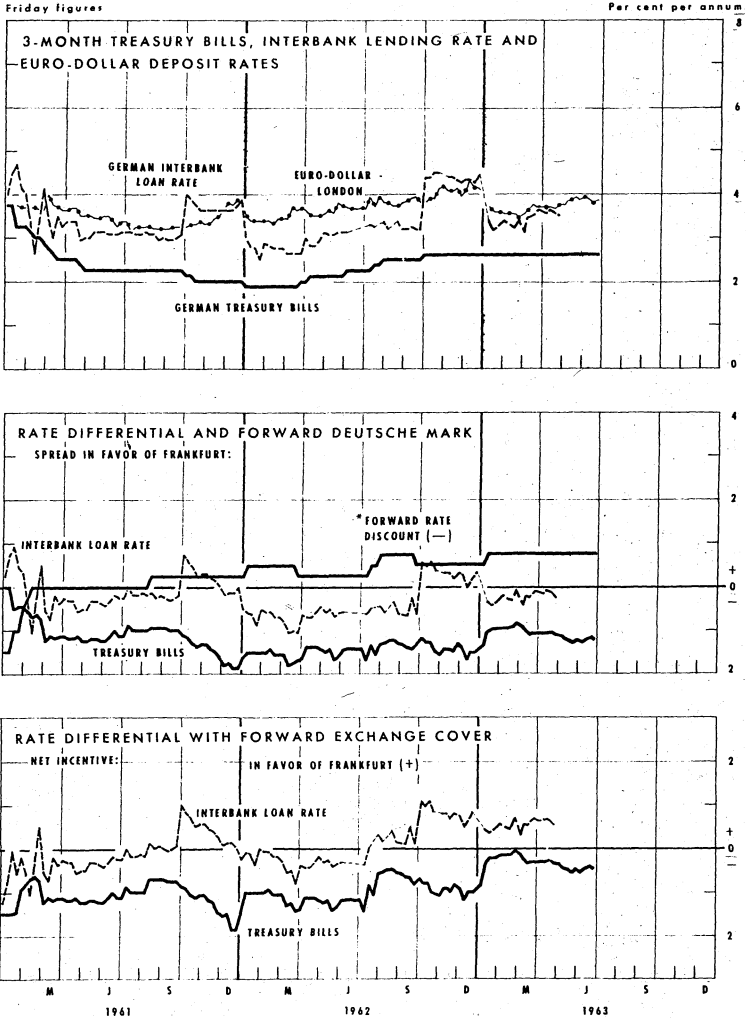


Chart 3

**INTEREST ARBITRAGE FOR GERMAN COMMERCIAL BANKS**



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

15

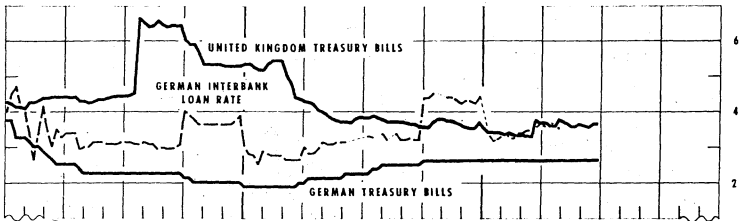
Chart 4

### INTEREST ARBITRAGE, FRANKFURT / LONDON

Friday figures

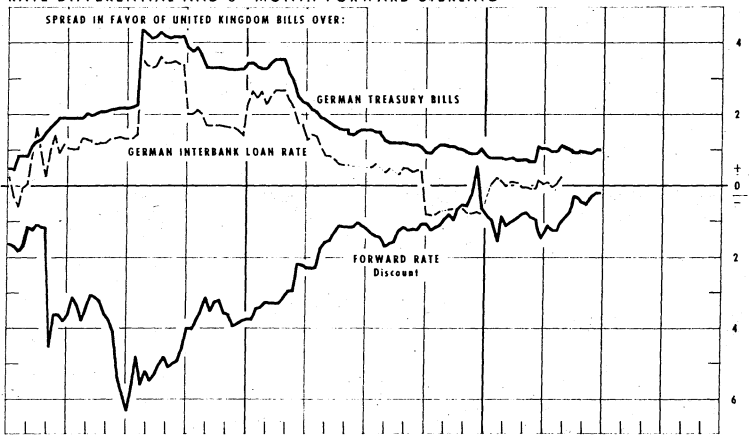
3-MONTH TREASURY BILLS AND INTERBANK LENDING RATES

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:

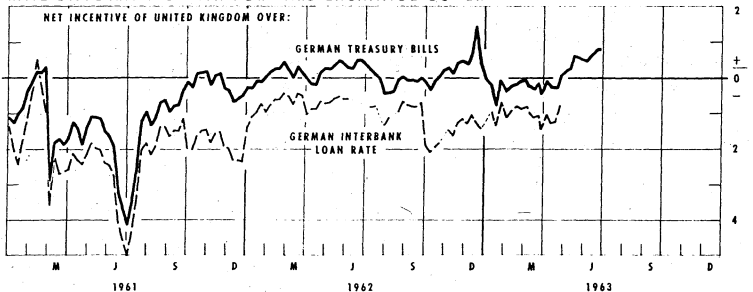
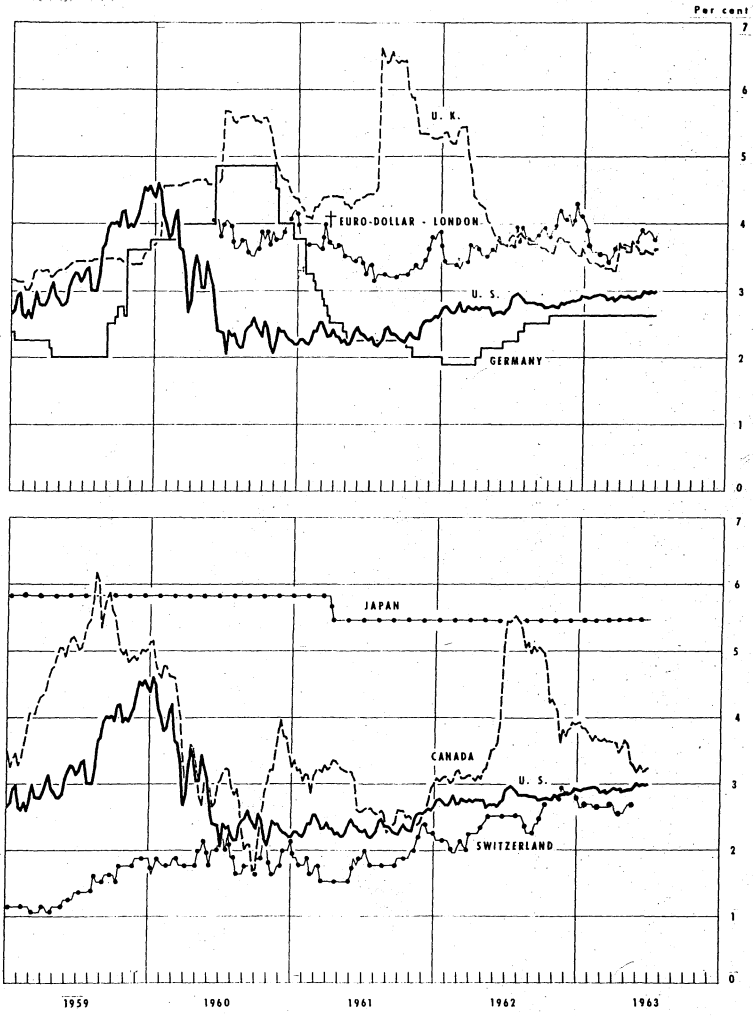


Chart 5  
SHORT-TERM INTEREST RATES \*



\* 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



17

Chart 6  
**LONG-TERM BOND YIELDS**

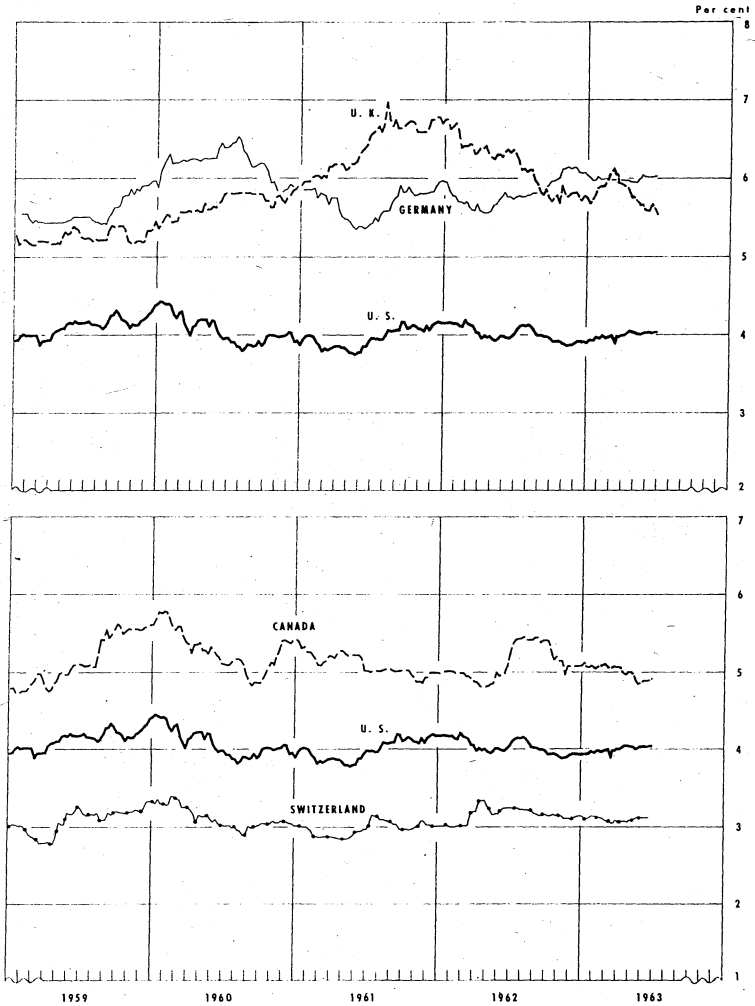
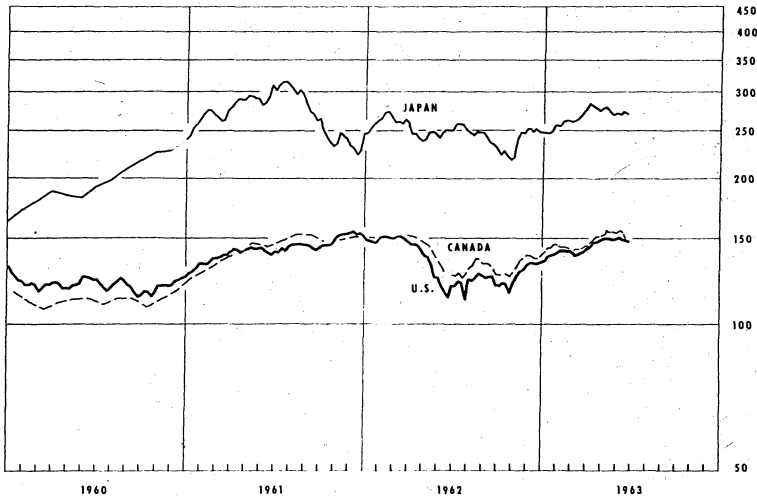
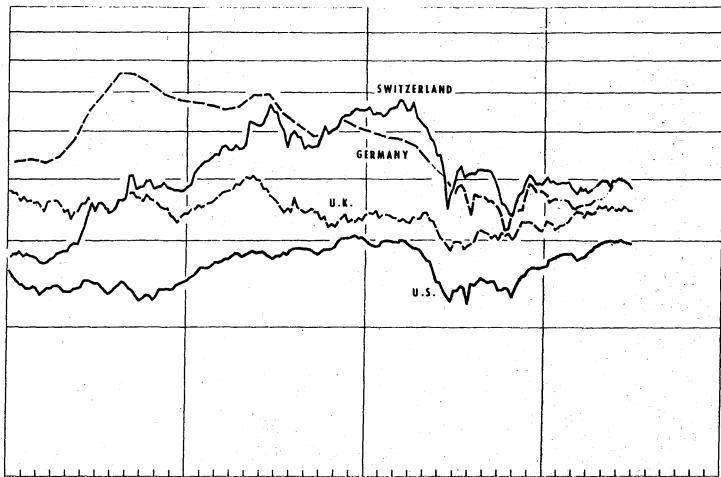


Chart 7

INDUSTRIAL STOCK INDICES\*

1958 = 100  
Ratio scale



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

19

Chart 4

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

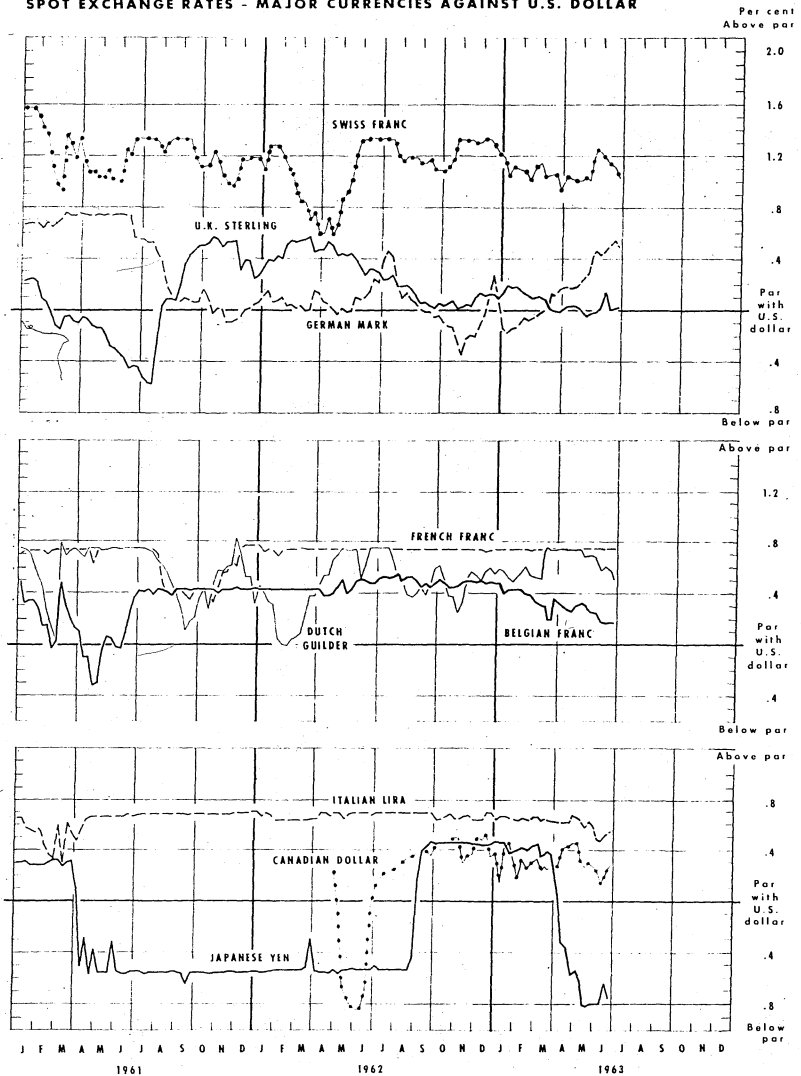


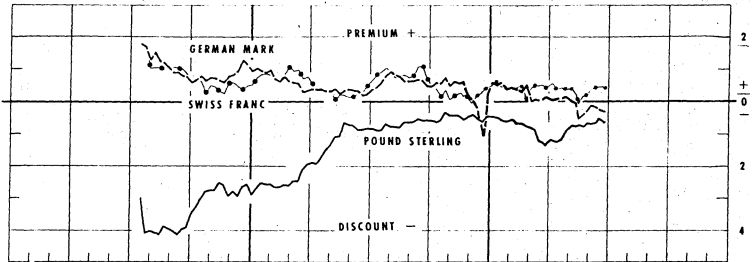
Chart 9

### 3-MONTH FORWARD EXCHANGE RATE

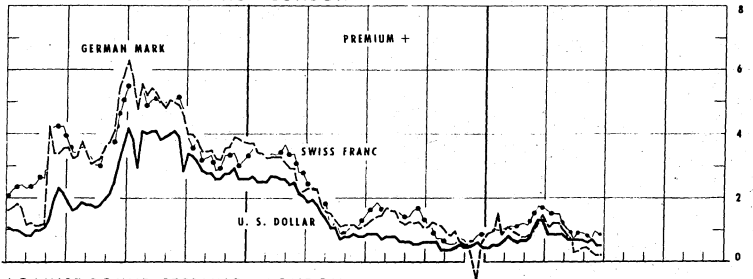
Friday figures

AGAINST U. S. DOLLARS

Per cent per annum



AGAINST POUND STERLING - LONDON



AGAINST POUND STERLING - LONDON

