DIVISION OF INTERNATIONAL FINANCE

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

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CAPITAL MARKET DEVELOPMENTS ABROAD

I. Canada
II. Nine Charts on Capital Market Developments Abroad

I. Canada: Money and Capital Market Developments in July

Policy developments in both the U.S. and Canada combined to tighten Canadian financial market generally during the latter half of July. Early in the month, the Bank of Canada withdrew its standing price support of certain government securities, and bond prices fell in all sections of the market. Later in the month, prices fell (yields rose) further after seven Federal Reserve Banks raised their discount rates on July 16 and the President announced that he was recommending an interest equalization tax to limit foreign borrowing in the United States as part of a general attack upon the U.S. balance-of-payments deficit. Finally on August 11, the Bank of Canada raised its discount rate from 3-1/2 to 4 per cent.

Table 1. Selected Yields on Treasury securities in Canada and the United States
(in per cent per annum)

	Canada			United States			Spread in favor of Canada	
	June 26	July 24	change	June 26	July 24	change	June26	July 24
Treasury bills:								
3-month	3.24	3.41	+0.17	2.99	3.21	+0.22	+0.23	+0.20
6-month	3.34	3.56	+0.22	3.07	3.36	+0.29	0.27	0.20
Bonds:								
8 year	4.03	4.33	+0.33	3.72	3.83	+0.11	0.31	0.50
20 year	4.85	5.08	+0.23	4.00	4.02	+0.02	0.85	1.06
35 year	4.88	4.95	+0.07	4.03	4.02	-0.01	0.85	0.93
Finance paper: a/								
30-89 days	3.38	3.50	+0.12	3.19	3.31	+0.12	+0.19	0.19
Canadian dollar: b/								
Spot	92.80	92.45	-0.35	--	--	--	--	--
3-month forward	+0.06	-0.20	--	--	--	--	--	--
Covered spread on: b/								
Treasury bills	--	--	--	--	--	--	+0.30	Flat
Finance paper	--	--	--	--	--	--	+0.25	-0.01

a/ Dates shown are June 21 and July 22.
b/ Dates shown are June 27 and July 25.

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As a result of these developments, there were general increases in interest rates in both Canada and the United States during July. In the short-term sector, yields on Treasury bills moved closely together in the two countries and the differential in favor of the Canadian bill narrowed only slightly to 0.20 per cent on July 24. (See Table 1.) Because the forward Canadian dollar shifted from a slight premium to a discount, however, the covered differential of 0.30 per cent in favor of the Canadian Treasury bill on June 27 had been eliminated on July 25. (See Table 1.) In the bond market, the differential in favor of Canadian yields widened slightly.

After the change in the Bank rate announced on August 11, yields on Canadian Government securities of all maturity lengths advanced further. (See Table 2.) In addition, rates on commercial paper and one-year notes of a major chartered bank also increased by 3/8 of 1 per cent.

Table 2. Canada: Recent Yields on Government Securities
(in per cent per annum)

	July 24	August 7	August 12
3-month treasury bills a/	3.41	3.52	3.55
Bonds:			
3-3/4 Sept. 1/65	4.43	4.52	4.56
2-3/4 June 15/67-68	4.33	4.34	4.43
4-1/4 Sept. 1/72	4.91	4.95	5.01
3-1/4 Oct. 1/79	5.08	5.12	5.17
4-1/4 Sept. 1/83	5.10	5.18	5.21
3-3/4 Sept. 15/96-Mar. 15/98	4.95	4.99	5.09

a/ Thursday auction yields.

With rising interest rates, the general public made substantial sales of government bonds during the month. These sales, which exceeded $200 million between June 19 and July 24, were offset by purchases of $118 million by the Bank of Canada and $97 million by the chartered banks. (See Table 3.) A decline in seasonally-adjusted general loans in June apparently encouraged the chartered banks to buy bonds.

Table 3. Canada: Net Purchases (+) or Sales (-) of Government Securities
($ millions, par value)

	1963					
	May 1-May 29		May 29-June 19		June 19-July 24	
	Treasury Bills	Other	Treasury Bills	Other	Treasury Bills	Other
Bank of Canada	-29	-34	-45	+61	+32	+118
Chartered banks	+64	-16	+60	+91	-38	+ 97
Government accounts	- 3	- 2	+21	- 1	+52	- 5
General public	- 6	a/+27	- 8	b/-13	-45	c/-257
Change in total outstanding d/	---		+192		-47	

a/ Includes a decrease of $23 million in holdings of Canada savings bonds.
b/ Includes a decrease of $80 million in holdings of Canada savings bonds.
c/ Includes a decrease of $30 million in holdings of Canada savings bonds.
d/ Components may not add to total due to rounding.

Prior to the announcement of the U.S. interest equalization tax, A.E. Ames & Co. reported $25.3 million in new Canadian issues sold in the U.S. between June 10 and July 22, primarily by corporations. By July 22, new Canadian issues in the U.S. reported by Ames in 1963 amounted to a cumulative total of $628 million, nearly 4-1/2 times the amount sold during the same period last year. (See Table 4.)

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

	Total	Provincial	Provincial Guaranteed	Municipal	Corporation
1963 to July 22	628.4	45.0	368.0	29.7	185.7
1962 to July 30	142.1	--	--	15.3	126.8
1961 to July 31	135.4	--	--	26.4	109.0

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

Throughout most of the period under review, conditions in the foreign exchange market were unsettled. In the forward market, the Canadian dollar shifted to a discount in mid-July. The spot rate eased from 92.80 U.S. cents on June 27 to 92.45 U.S. cents on August 1 but the losses in official reserves for July, announced by the Canadian authorities on August 6, suggest support operations by the Bank of Canada. Total losses for July amounted to $191 million including a $79.7 million repayment to the International Monetary Fund.

Money market. Canadian money rates rose about 1/4 per cent between mid-June and late July. From a low of 3.19 per cent on June 13, the weekly auction yield on three-month Canadian treasury bills rose each week to reach 3.48 per cent on July 18 and was at 3.43 per cent on August 1. (See Table 13 and Chart 5.) There was a parallel trend in the yield on six-month treasury bills.

U.S. short-term yields rose about as much as Canadian rates between mid-June and late July, and left the uncovered yield spread between U.S. and Canadian treasury bills almost unaffected. Because the forward Canadian dollar shifted to a discount in July, the incentive in favor of the Canadian over the U.S. bill disappeared late in the month. (See Table 12 and Chart 1.)

Short-term finance paper rates rose in both the U.S. and Canada by about 1/8 per cent between late June and late July. As a result, the uncovered yield spread remained about the same but the appearance of a discount on forward Canadian cover late in July removed any incentive to move funds into Canadian finance paper on a fully-hedged basis. (See Table 5.)

Table 5. U.S. and Canadian 3-month Finance Paper Arbitrage Calculation, 1963
(in per cent per annum)

	March 1	May 3	June 21	July 5	July 12	July 22
Canada	4.13	3.50	3.38	3.38	3.38	3.50
United States	3.06	3.06	3.19	3.19	3.31	3.31
Difference	1.07	0.44	0.19	0.19	0.07	0.19
Three-month forward discount on Canadian dollar	-0.81	0.44	+0.06	+0.23	+0.13	-0.20
Favor Canada	+0.26	--	+0.25	+0.42	+0.20	-0.01

Bond market. Prices fell sharply on Canadian bond markets on July 8 when the Bank of Canada withdrew its standing prices and fell further after the U.S. discount rate was increased on July 16. Bond yields in the short and intermediate areas rose between 19 and 35 basis points between June 19 and July 24, and despite sizeable purchases by the Bank of Canada. (See Table 6.)

Table 6. Canada: Changes in Selected Securities Yields, May-July 1963
(in per cent per annum)

	Changes: May 8-May 22	Changes: May 22-June 19	Changes: June 19-July 24	Level on July 24
Treasury bills				
3-month	-0.10	-0.01	+0.19	3.41
6-month	-0.09	+0.01	+0.24	3.56
Government bonds				
4 per cent of May 1964	-0.09	-0.09	+0.35	3.96
2-3/4 per cent of June 1967-68	-0.03	-0.09	+0.31	4.33
3-1/4 per cent of October 1979	-0.04	+0.03	+0.23	5.08
3-3/4 per cent of February 1996 March 1998	-0.04	--	+0.05	4.95

Yields on corporate and local-government bond issues in Canada also rose quickly with the increase in the U.S. discount rate and uncertainties regarding the U.S. "equalization tax" to be levied on foreign security issues.

Stock market. Uncertainties associated with the presentation of the budget on June 13 caused Canadian stock prices to fall abruptly during the last half of June. Following the announcement of the U.S. program, the Dominion Bureau of Statistics index of industrial stock prices fell almost 4 per cent between July 3 and July 24, about twice the decline in the New York Standard and Poor's Industrials index. (See Table 7.)

Table 7. Canadian and U.S. Stock Prices

	May	June				July			
	30	5	12	19	26	3	10	17	24
DBS Industrials a/	139.4	140.4	140.1	135.3	133.8	135.3	135.9	130.3	130.4
N.Y. Standard and Poor Industrials b/	73.7	74.1	73.7	73.0	73.0	73.0	73.3	72.2	71.5

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.

Bank loans and bank liquidity. General loans by Canadian chartered banks reversed their rapid advance of April and May and declined by $41 million during June. (See Table 8.) On a seasonally-adjusted basis, the decline was somewhat greater, amounting to $60 million (based on Wednesday averages). During the first two weeks of July, however, these loans again expanded by $113 million.

As general loans contracted during June, the chartered banks made purchases of government bonds amounting to $97 million. During the same period, the banks made sales of $38 million in Canadian treasury bills, reducing the average cash ratio from 8.13 to 8.09, only marginally above the 8 per cent minimum. (See Table 8.) After the increase in lending activity of early July, the liquid asset ratio remained (on July 18) at 17.69 per cent, well above the 15 per cent agreed minimum.

Table 8. Canadian Chartered Banks: Changes in Deposits and Selected Assets, 1962-63
(Can. $ million or per cent)

	Change during Quarter				Change during month		Level on
	1962		1963		1963		
	III	IV	I	II*	May	June*	July 18
1. Reserves							
Cash Reserves	- 53	+ 17	--	+ 27	+ 1	+ 10	1,168
Liquid Assets	- 81	+298	+ 51	+ 89	+ 41	+135	2,549
2. Ratios a/							
Cash Ratio	8.16	8.16	8.11	8.12	8.13	8.09	8.11
Liquid Asset Ratio	15.87	17.96	18.32	17.94	17.80	18.49	17.6[illegible]
3. General Loans	+198	-299	+ 35	+209	+232	- 41	6,802
4. Other Assets b/							
Treas. Bills	- 71	+196	+128	+ 13	- 7	+ 97	c/1,308
Govt. Bonds	-560	+337	+ 86	+133	- 31	- 18	c/2,495
Total, Govt. Securities	-631	+533	+214	+146	- 38	+ 79	c/3,803
5. Total Canadian dollar deposits	-642	+1016	-587	+414	+ 65	+ 80	14,619

a/ Ratios given are averages for the periods shown.
b/ Amortized value.
c/ Par value
* Preliminary.

Canadian bank operations in non-Canadian currencies. The Canadian commercial banks continued in May to add to their non-Canadian dollar assets and liabilities. For the first five months of 1963, total assets increased about $170 million and total deposits by $230 million. (See Table 9.) On the asset side, the new funds were invested chiefly in call loans in New York. Loans by these banks declined by $80 million. On the liability side, most of the deposits have come from nonbank investors rather than from banking customers.

Foreign agencies added $62 million (U.S.) to their call loans in New York during the first quarter, the latest available data (See Table 10). As a rough estimate, perhaps about $26 million came from Canadian banks and $26 million from non-Canadian foreign agencies.

Table 9. Canadian Bank Operations in Non-Canadian Currencies
(changes in non-Canadian-currency assets and liabilities in millions of Canadian dollars)

	1960	1961	1962	1963 I	1963 April	1963 May
Assets						
Deposits with banks	+170.7	+475.8	+196.7	+138.7	-111.1	-19.9
Call loans	+103.4	+ 29.3	-160.1	+ 27.9	+ 62.9	+93.7
Securities	+ 30.8	+115.9	+ 32.5	+ 46.5	+ 25.9	-12.7
Other loans	+ 18.8	+255.0	+297.2	- 9.5	- 38.3	-33.2
Total	+323.7	+876.0	+366.3	+203.6	- 60.6	+27.9
Liabilities						
Deposits by banks	+117.3	+ 55.6	- 8.7	+ 73.2	- 33.6	+ 7.1
Other deposits	+165.2	+778.5	+478.2	+141.5	- 10.0	+53.0
Total	+282.5	+834.1	+469.5	+214.7	- 43.6	+60.1

Table 10. Call Loans in the New York Market
($ million)

	Change during 1961	1962	1963 I	1963 II	1963 July to 10th
U.S. banks a/	+467	+655	-893	+446	-207
Foreign agencies					
Canadian b/	- 20	-175	+ 26	n.a.	n.a.
Other c/	+ 30	+ 25	+ 36	n.a.	n.a.
Total a/	+ 10	-150	+ 62	n.a.	n.a.

a/ Estimates by New York State Banking Department.
b/ Call loans, as reported by Canadian banks, converted into U.S. dollars at month-end exchange rate.
c/ Residual.

Foreign exchange. After a quiet beginning in July, conditions in the foreign exchange market were unsettled. The Canadian dollar weakened moderately after the July 16 discount rate change; selling pressures intensified following the President's "interest equalization tax" request on July 19. On July 18, the market rate on the Canadian dollar momentarily reached its lowest level since the crisis of June, 1962: it closed at 92.1 U.S. cents in spite of substantial apparent market support by the Bank of Canada. The rate strengthened again to 92.6 U.S. cents on July 22 after it was revealed that new Canadian issues would be exempted from the tax but weakened once again the following day after Secretary Dillon's statement before a Congressional committee that the Canadian authorities had agreed to bring about a modest decline in Canadian interest rates.

The premium on the 3-month forward Canadian dollar also disappeared, and the discount which emerged in mid-July has remained at about 1/5 per cent into early August.

During the month of July, Canada repaid $79.7 million to the International Monetary Fund on its $300 million drawing made during the exchange crisis in mid-1962. In addition to this repayment, the Bank of Canada lost 110.9 million in official reserves during July. (See Table 11.)

Table 11. Canada: Changes in Official Reserves March 1962-May 1963
(in millions of U.S. dollars)

	Changes						Total
	1962	1963					July 31,
	IV	I	April	May	June	July	1963
Gold and U.S. Dollars	+ 94.8	+ 60.7	+71.3	+41.0	-20.4	-190.6	2,501.0
Special net non-market receipts (-)	a/+195.0	b/-125.0	--	--	--	c/+79.7	
Adjusted change	+289.8	- 64.3	+71.3	+41.0	-20.4	+110.9	

a/ 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.
b/ Covers the balance of a Government of Canada loan floated in the U.S.
c/ Repurchase from the International Monetary Fund.

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 12. Canada: Treasury Bill Yields and Exchange Rates

	3-mo. Treas. bill arbitrage calculation						Finance paper	
	Canada a/	U.S. a/	Difference	3-mo. Can.$ b/	In favor Can. bill c/	Spot Can.$ (U.S. cents)	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	--	--
1963 May 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	3-1/8 - 1/4	3-1/2-5/8
13	3.19	2.98	0.21	+0.07	+0.28	92.67	3-3/8 -	3-5/8
20	3.22	2.98	0.24	+0.07	+0.31	92.75	3-3/8 -	3-5/8
27	3.24	2.99	0.23	+0.07	+0.30	92.80	3-3/8 -	3-5/8
July 4	~~3.26~~	3.07	0.19	+0.13	+0.32	92.72	3-3/8 -	3-5/8
11	3.39	3.24	0.15	+0.13	+0.28	92.70	3-1/4 - 1/2	3-5/8-3/4
18	3.48	3.20	0.28	-0.07	+0.21	92.53	--	--
25	3.41	3.21	0.20	-0.20	--	92.58	--	--
Aug. 1	3.43	3.25	0.18	-0.13	+0.05	92.45	--	--

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 13. Selected Government of Canada Security Yields

	6-mo. Treas. bills		Intermediate bonds (8 yr.)		Long-term bonds (20 year)		Long-term bonds (35 year)	
	Canada a/	Spread over U.S. b/	Canada c/	Spread over U.S. d/	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
1963 May 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
26	3.34	0.27	4.03	0.31	4.85	0.85	4.88	0.85
July 3	3.36	0.18	4.01	0.21	4.87	0.84	4.88	0.83
10	3.48	0.12	4.18	0.33	5.01	0.96	4.96	0.90
17	3.68	0.32	4.10	0.23	5.00	0.96	4.93	0.89
24	3.56	0.20	4.33	0.50	5.08	1.06	4.95	0.93

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

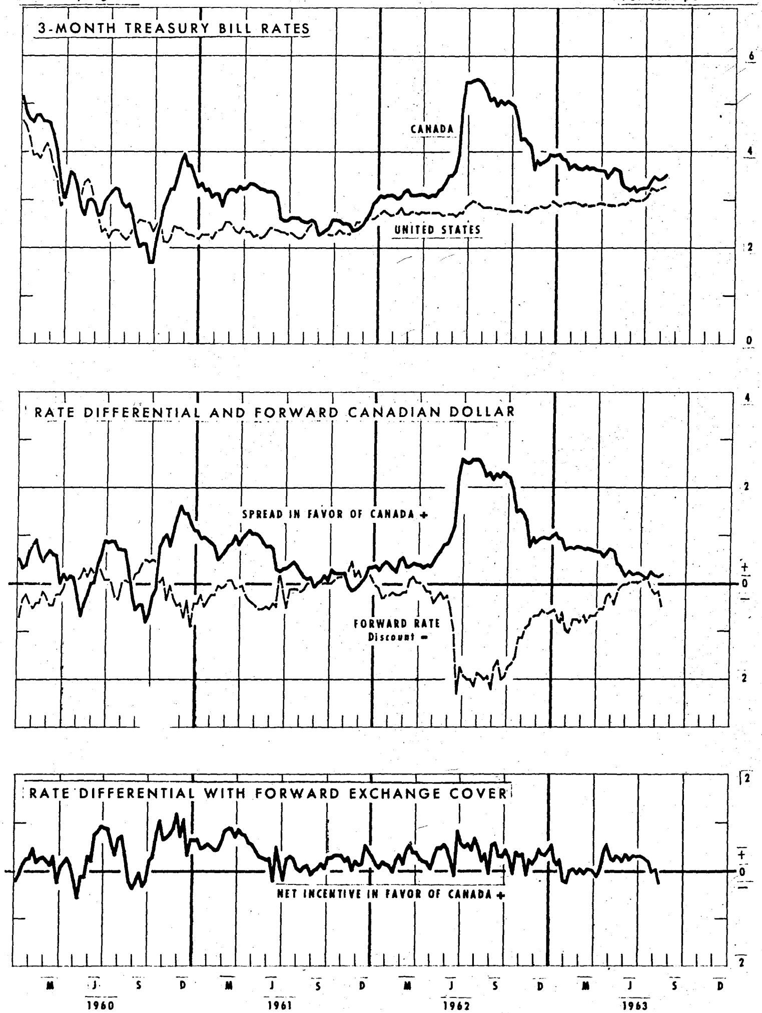

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Chart 2

INTEREST ARBITRAGE, NEW YORK/LONDON

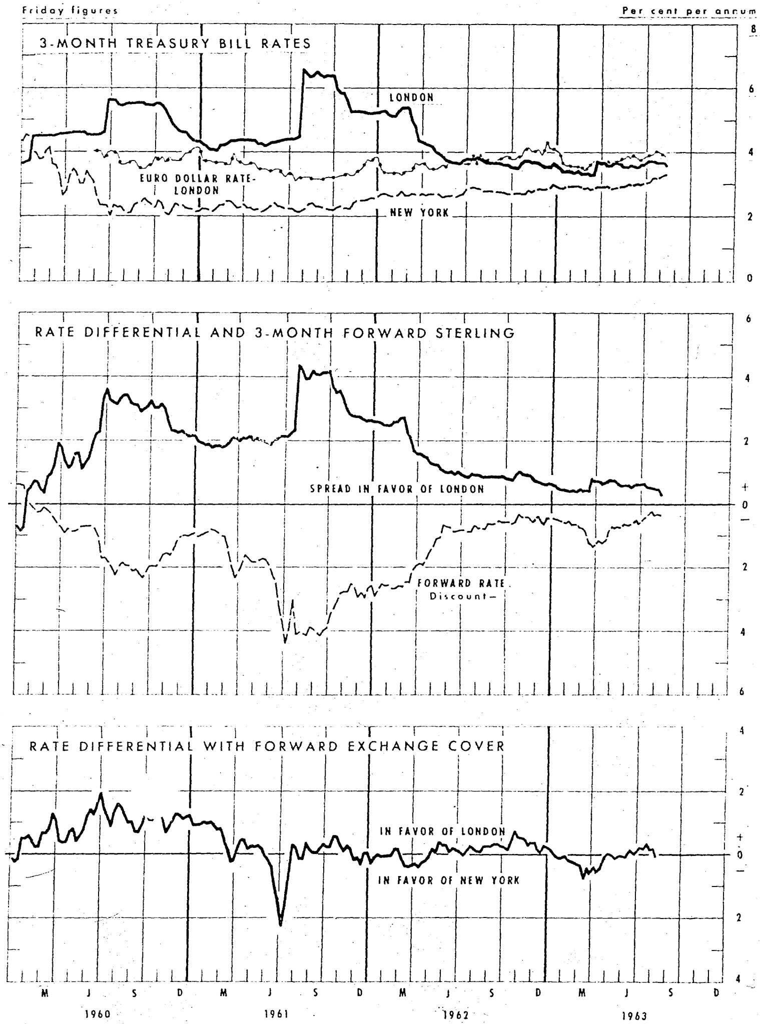
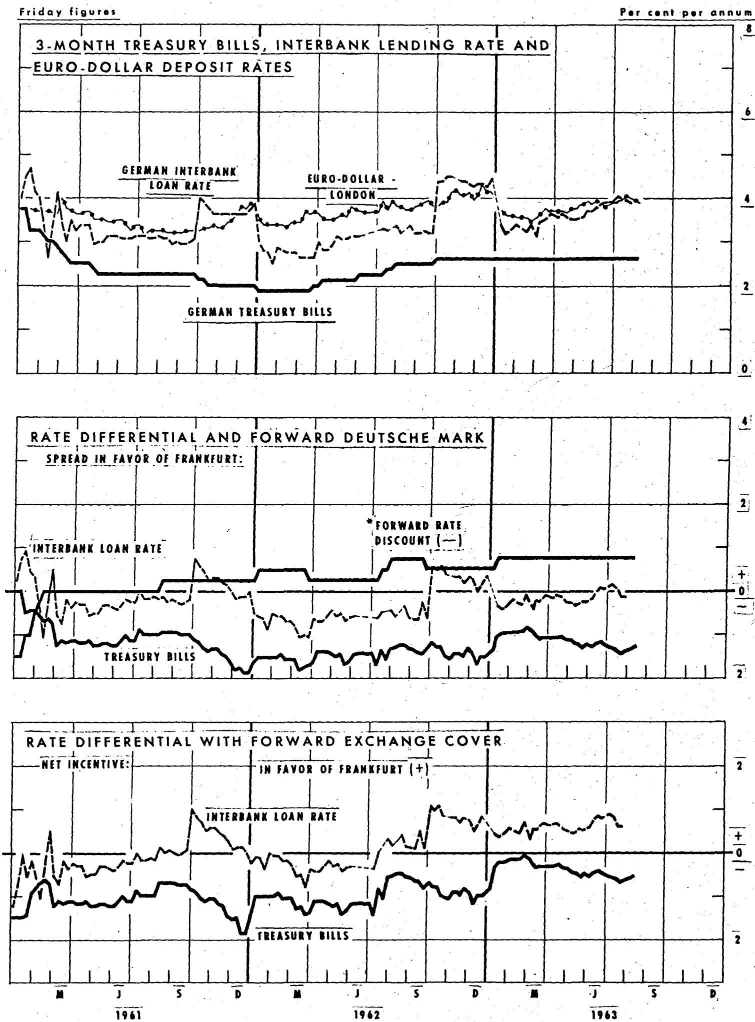


Chart 3

INTEREST ARBITRAGE FOR GERMAN COMMERCIAL BANKS



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

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Chart 4

INTEREST ARBITRAGE, FRANKFURT / LONDON

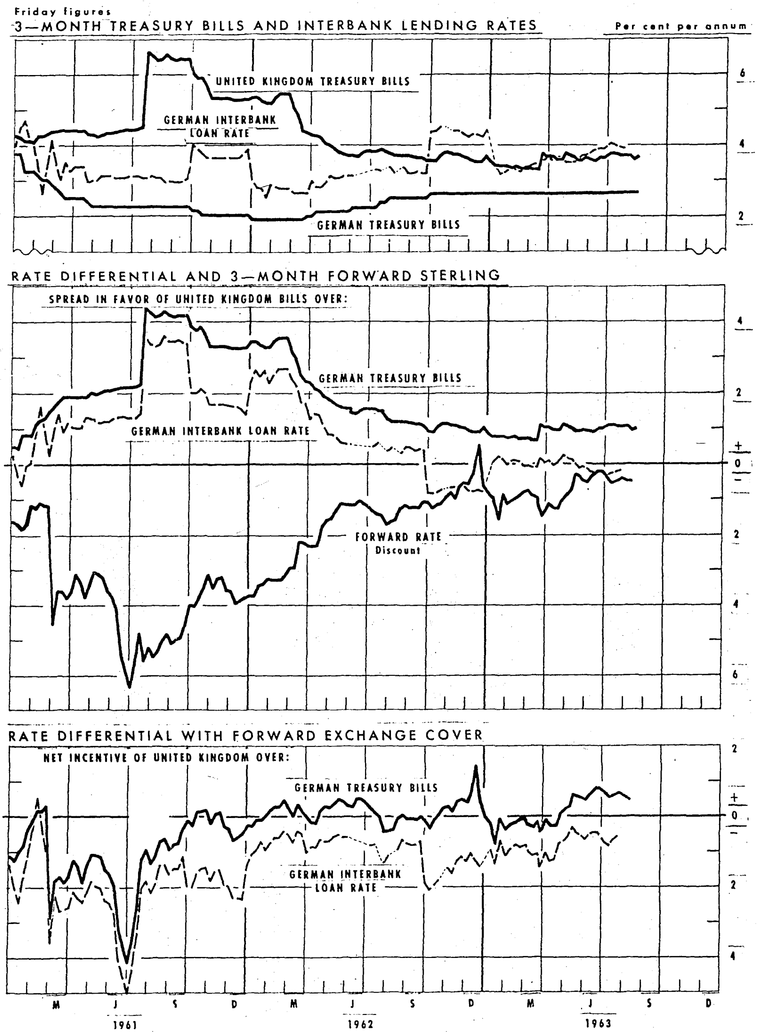
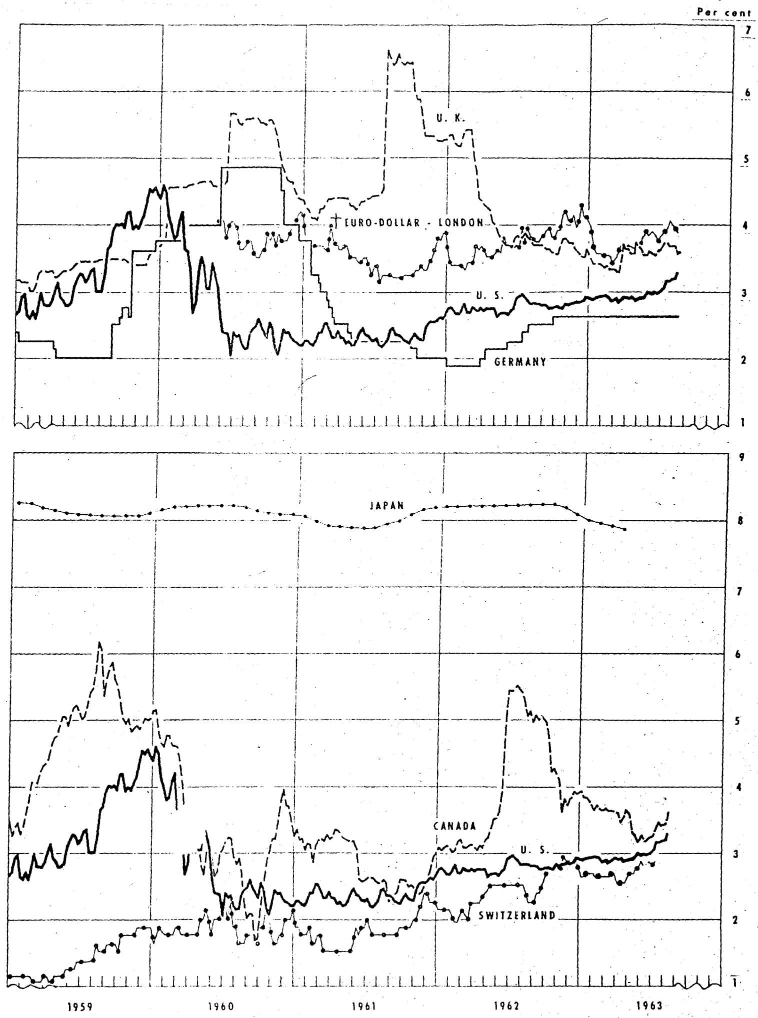


Chart 5

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

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Chart 6

LONG-TERM BOND YIELDS

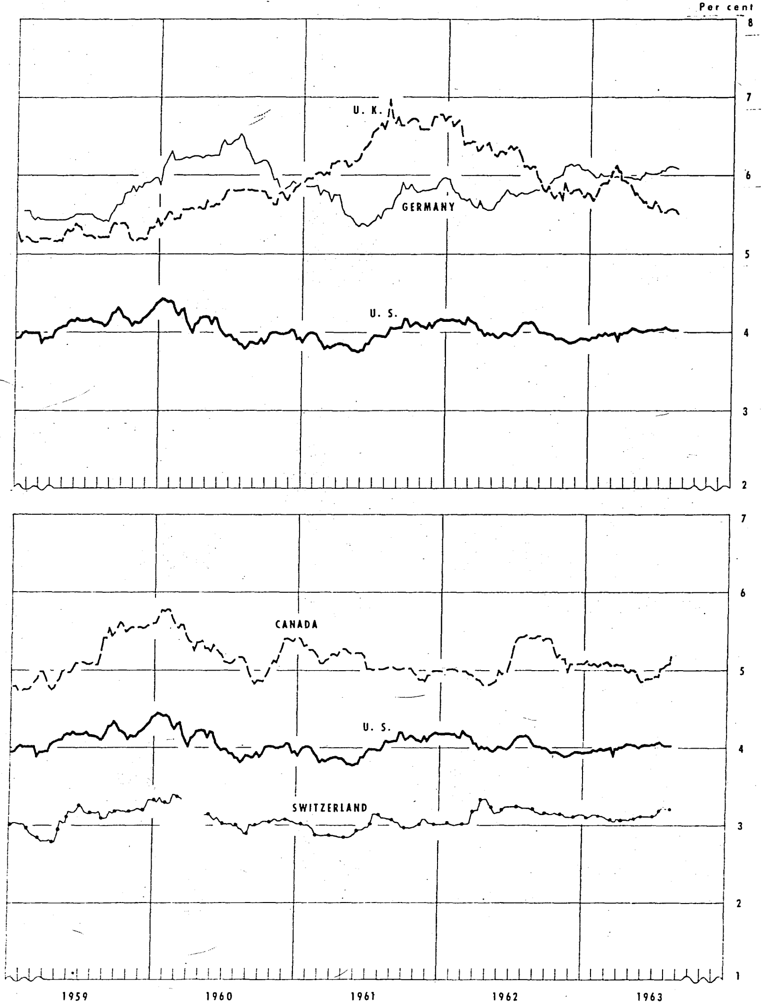
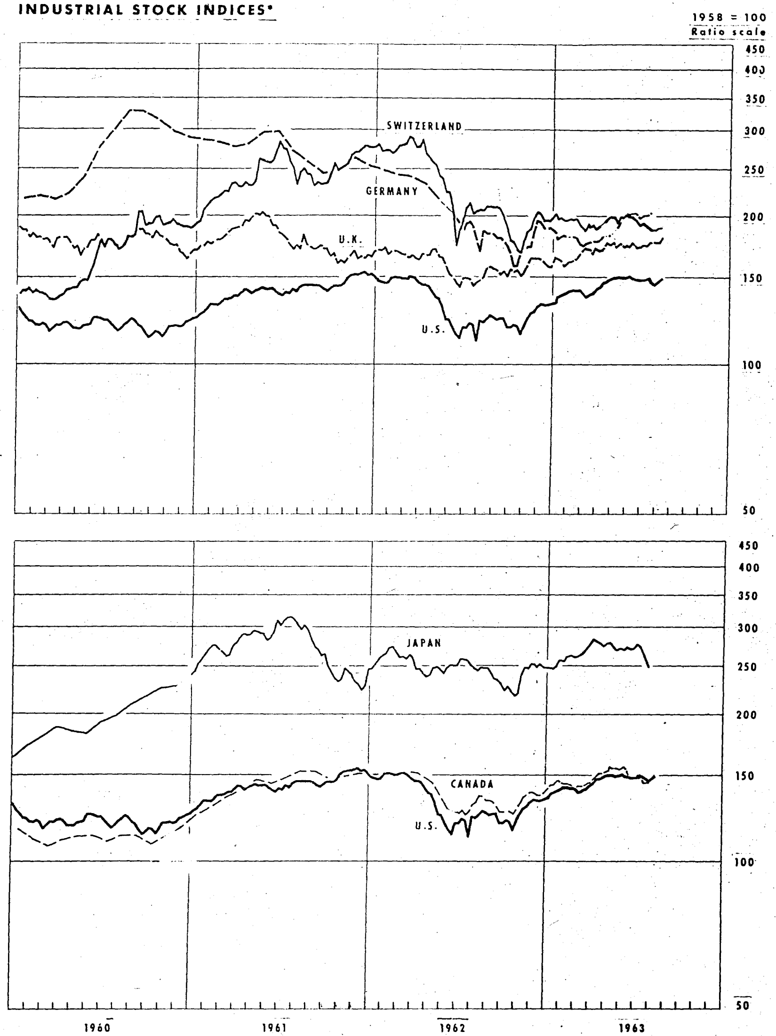


Chart 7

INDUSTRIAL STOCK INDICES*



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

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Chart 8

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

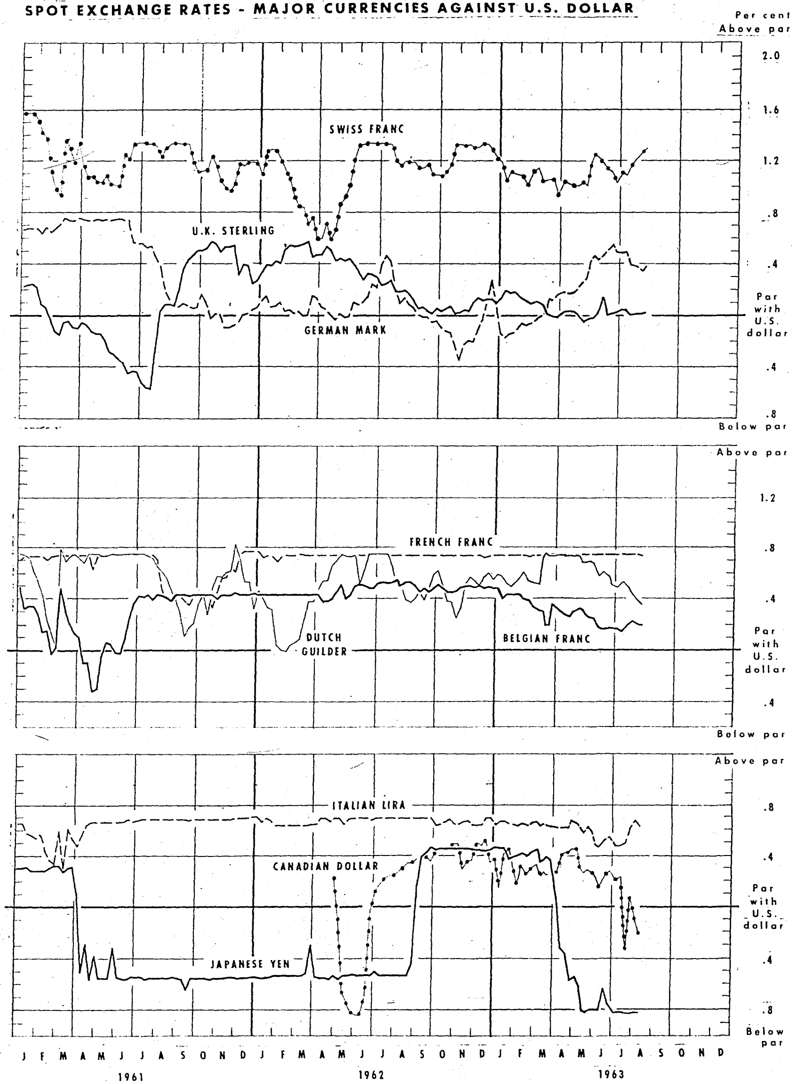

Chart 9

3-MONTH FORWARD EXCHANGE RATE

Friday figures