

H. 13
No. 119

August 28, 1963.

CAPITAL MARKET DEVELOPMENTS ABROAD

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

I. United Kingdom: Money and Capital Markets in July and August

Money market conditions eased after a short period of tightness in June, and short-term domestic rates fell gradually from early July through mid-August. The Euro-dollar market however, remained firm. Reserves increased by \$20 million in July. In the foreign exchange market sterling eased below par in August in a delayed reaction to the increase in the Federal Reserve discount rates.

After the Federal Reserve discount rates increased in July, the differential between British and U.S. Treasury bills narrowed by some 20 basis points. (See Table 1.) As the 3-month forward discount on sterling was relatively constant from mid-July through mid-August, the covered yield in favor of the U.K. bill was reduced to an insignificant margin. Since mid-July,

Table 1. Short-term U.S. and U.K. Yield Spreads, May-August, 1963
 (In per cent per annum)

	May	July			August			
	17	12	19	26	2	9	16	27
<u>TREASURY BILLS (3-mo.)</u>								
United Kingdom	3.56	3.72	3.69	3.69	3.69	3.59	3.62	3.62
United States	2.88	3.19	3.15	3.18	3.21	3.27	3.31	3.39
Favor U.K. (+)	+0.68	+0.53	+0.54	+0.51	+0.48	+0.32	+0.31	+0.23
3-mo. £ discount (-)	-0.68	-0.43	-0.30	-0.36	-0.36	-0.36	-0.24	-0.12
Favor U.K. (+), covered	--	+0.10	+0.24	+0.15	+0.12	-0.04	+0.07	+0.11
<u>TIME DEPOSITS (3-mo.)</u> ^{1/}								
Euro-dollar (London)	3.84	3.94	4.06	4.00	3.94	3.88	3.94	4.00
TCD (N.Y.) ^{2/}	3.16	3.36	3.42	3.44	3.47	3.48	3.54	3.57
Favor Euro-dollar	+0.68	+0.58	+0.64	+0.56	+0.47	+0.40	+0.40	+0.43
<u>LOCAL AUTHORITIES 3-mo.</u>								
<u>DEPOSITS (COVERED)</u>	3.11	3.15	3.21	3.20	3.17	3.95	3.07	n.a.

^{1/} Notes for previous Thursdays.^{2/} Prime negotiable time certificates of deposit.

the interest differential in favor of 3-month Euro-dollar deposits over yields on U.S. negotiable time certificates of deposits (TCD) have fallen steadily. The TCD rate has increased parallel with the U.S. bill rate, while the Euro-

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(Decontrolled after six months)

dollar rate has been relatively constant. However, the differential on August 21 was still 43 basis points. The yield on 3-month local authorities deposits, adjusted for forward cover, had fallen insignificantly from mid-July through mid-August, and on August 16 remained about 60 basis points above the prime TCD rate.

On the British bond market, yields were steady in July, but they resumed their downward trend in August. The stock market, which had been quiet for two months, recovered in the third week of July, but this revival was halted later in the month partly in reaction to the proposed U.S. interest equalization tax. Stock prices revived early in August following news of continued economic expansion in Britain and a steady growth of exports.

New issues on the bond market totaled £66 million in July, the largest figure since June 1962. Among these issues was a £5 million Japanese sterling loan. This issue does not represent any significant liberalization of the London capital market, as the bulk of the proceeds will be used to repay a sterling loan coming due this year.

Money market. Money was tight in the early part of July, but conditions eased from mid-July through mid-August. A shortage of money at the end of June forced the discount houses to lower their bid at the July 5 Treasury bill auction, pushing the tender rate up to 3.76 per cent from 3.70 per cent on June 28. However, by July 20 money was so ample that the Treasury bill tender was covered twice over. Between July 13 and August 3, there was no borrowing at the Bank of England.

In June and July the discount houses had been allotted an average of only 30 per cent of their applications at the weekly Treasury bill tender, whereas normally they had been receiving about 45 per cent. At the tender on August 9, the discount houses were apparently short of Treasury bills. Their higher bid at the auction on that day lowered the average tender to 3.67 per cent (from 3.76 per cent on the previous Friday), and the after-tender market rate slipped to 3.59 per cent. The Bank of England reacted by forcing the market to borrow at Bank rate in the afternoon, a move which the Financial Times described as ". . . an unusual step for a Friday." Despite this move, the auction rate on the following Friday (August 16) rose only fractionally.

Euro-dollar deposit rates for 30, 90, and 180 day money all rose in early July, reflecting the general tightness in the money market. However, even though money was generally easier in mid-July, the Euro-dollar rates continued to rise. Between July 5 and July 26, deposit rates for call money rose from 3.50 to 3.56 per cent, 90 day deposits rates rose from 3.91 to 4.00 per cent, and rates for 180 day funds rose from 4.13 per cent to 4.37 per cent. The Euro-dollar rates remained firm just above the July 26 level through the first three weeks of August, partly as the consequence of a shortage of dollars on offer--a delayed reaction to the increase in the Federal Reserve discount rate.

In the local authorities market, rates were fairly steady throughout July and the first half of August. The three-month deposit rate remained at

4.31 per cent per annum (See Table 8) until the end of July when end of month demands had to be met. Towards the middle of August substantial sums were offered for short-term deposits by industry and the three-month rate fell to 4.19 per cent per annum. There was little movement of foreign funds in or out of this market during the period under review.

Bond market. Government securities prices were stable in July, but the earlier upward movement which prevailed from mid-March through June was resumed early in August. Demand was strongest for medium-dated issues, but the demand spread to long-terms and undated bonds as well. The yield on the 3 per cent savings bonds of 1965-75 fell from 5.00 on July 4 to 4.90 per cent on August 15. In the same period, the 3-1/2 per cent War Loan yield fell from 5.53 per cent to 5.49 per cent. (See Table 9 and Chart 6.)

New issues in July came to almost £66 million, the largest amount of new money raised on the London market since June 1962. Local government and foreign issues are set forth in Table 2. The £5 million sterling loan to the Japanese Government, which is the second sterling loan to be floated in London since the war, attracted particular interest. Most of the funds will be used to repay sterling bonds maturing this year. The issue was far more successful than the underwriters had expected. It was offered with a 6 per cent coupon and at a 4 per cent discount; it was heavily oversubscribed, and on August 19 was trading at a 2 per cent premium.

Table 2. United Kingdom: Selected New Bond Issues, July and August, 1963.

Date	Borrower	Coupon	Maturity	Value (£ ths.)
July 3	County Borough of Derby	5-1/4%	1975-77	6,000
11	Agricultural Mortgage Corp. Ltd.	5-1/2%	1993-95	10,000
11	Govt. of Dominica	6-1/2%	1974-76	435
11	Govt. of St. Christopher Nevis and Anguilla (St. Kitts)	6-1/2%	1974-76	105
11	Govt. of St. Vincent	6-1/2%	1974-76	315
19	Govt. of the Federation of Malaya	6-1/2%	1973	5,000
24	Buckinghamshire County Council	5-1/4%	1975	10,000
Aug. 13	County Borough of Sunderland	5-1/2%	1979-81	6,000
15	Japanese Government (sterling loan)	6%	1983-88	5,000
22	County Borough of Salford	5-1/2%	1986-88	12,000

Stock market. The stock market revived in the week July 15-19, under the influence of encouraging news regarding the development of industrial production and exports. However, two unsettling developments cut this brief revival after the Financial Times industrial common stock index had risen by four points during the week. These two factors were the announcement of the proposed interest equalization tax and publication of a U.K. National Incomes Commission report which stated that an effective incomes policy requires restraint on the growth of profits as well as wages. This restraint, in the Commission's view, should operate to encourage price cuts as productivity increases.

Stock prices did not recover from this setback until the first week of August, after public opinion polls indicated a revival of Conservative political popularity. Steel and life insurance stocks, which in Britain are politically sensitive, led the recovery. By mid-August, the revival of activity was general. On August 23, the Financial Times's industrial common stock index reached 225.3, the highest level since August 4, 1961, following the announcement of a sharp increase in the output of manufacturing industry.

London Clearing Banks. Bank advances to the private sector rose by £65 million in July (See Table 3.) However, according to The Economist about £20 million represent the debiting of semi-annual service charges to customers' accounts. Adjusted in this manner, advances in July rose by about £45 million in contrast to June, when the increase of £17 million represented only the debiting of interest charges. The revival of bank lending in July appears to confirm an earlier impression that the virtual absence of net new lending in June was accounted for by the repayment of loans secured during the severe winter months.

Installment credit. In June, sales financed by installment credit declined from the high level reached in May, as retail sales also dropped. (See Table 4.) However, installment credit outstanding increased by £11 million in June, mainly due to a lower level of repayments.

The slower increase in installment credit in the past year is explained by the growing preference for bank credit by purchasers of consumer durables. This development has been reflected in the relatively rapid increase in "personal and professional" bank loans.

Foreign trade. The trade gap widened to £66 million in July, as compared with monthly averages of £37 million and £47 million for the first and second quarters of this year, respectively. (See Table 5.) Exports fell from the June high of £345 million to £339 million, which is still 5.6 per cent above the third quarter 1962 monthly average. Imports, however, which had been rising gradually since February, jumped sharply in July. Import figures for this year are somewhat distorted because sugar imports are entered in the trade returns at the present high "free world price," whereas they appear in the balance of payments at a lower price fixed under the Commonwealth Sugar Agreement. Apart from this technicality, the rise in imports this year probably reflects increased purchases of industrial raw materials required by the expansion in output.

Foreign exchange market. The spot rate eased in mid-July but remained firm at a level just above par through early August. (See Table 8 and Chart 8.) In mid-August, the spot rate fell to just below par. This weakness was attributed to a delayed reaction to the Federal Reserve discount rate increase, which stimulated a return of dollars to the U.S., thus reducing the supply of dollars on offer. The forward discount continued to narrow in July, falling to 0.30 per cent per annum on July 19. (See Table 8 and Chart 9) From then until mid-August, the discount on forward sterling fluctuated narrowly around this level. In the security sterling market, the rate fluctuated around 278.95 cents per pound in July and gradually firmed during August, holding steady at 279.30 cents per pound in the middle of the month.

Table 3. United Kingdom: London Clearing Banks, Net Deposits and Selected Assets

	(in millions of pounds)					Outstanding July 17, 1963
	Changes a/					
	1963					
	Mar.	Apr.	May	June	July	
NET DEPOSITS	+ 11	-94	+149	+104	+60	6,728
SELECTED ASSETS						
1. Claims on Public Sector	-151	-20	+ 2	+ 83	+30	2,707
Government securities	- 35	-33	+ 3	- 2	+ 3	1,092
Treasury bills and call loans	-105	+28	- 4	+ 99	+14	1,552
Loans to nationalized industries	- 11	-15	+ 3	- 14	+13	63
2. Claims on Private Sector	+146	+31	+ 41	+ 22	+55	4,335
Advances (net)	+117	+28	+ 42	+ 17	+65	3,915
Other	+ 29	+ 3	- 1	+ 5	-10	420
3. Special Deposits at Bank of England	--	--	--	--	--	--
LIQUIDITY RATIO	30.5	30.5	30.7	31.6	31.4	31.4

a/ Bank balance sheets are normally prepared for the third Wednesday of each month.

Table 4. United Kingdom: Installment Credit

	1962	1963					Outstanding May 31, 1963
		Jan- Mar.	Mar.	Apr.	May	June	
New Credit Extended, Index of value (1957=100)							
Household goods shops	111	97	99	101	114	111	--
Finance houses	140	132	164	177	201	169	--
Credit Outstanding (£ mns.)							
Household goods shops	+ 9	- 8	- 2	- 3	+ 3	+ 2	313
Finance houses	-49	- 5	+ 4	+10	+11	+ 9	593
Total	-40	-13	+ 2	+ 7	+14	+11	906

Table 5. United Kingdom: Foreign Trade
(In millions of pounds, seasonally adjusted monthly averages)

	1962			1963				
	Apr.- June	July- Sept.	Oct.- Dec.	Jan.- Mar.	Apr.- June	May	June	July
Imports, c.i.f.	-373	-385	-374	-375	-395	-391	-401	-419
Exports, f.o.b.	319	320	318	326	335	341	345	339
Re-exports, f.o.b.	14	12	14	12	13	13	14	14
Balance	-40	-53	-42	-37	-47	-40	-42	-66

Gold and foreign exchange reserves. In July, reserves increased by \$20 million, somewhat less than in each of the three preceding months, bringing total reserves to 2,733 million dollars. (See Table 6.) The United Kingdom's drawing rights in the IMF remained unchanged in June.

Table 6. United Kingdom: Reserve Position, 1963
(in millions of U.S. dollars)

	C H A N G E S						Outstanding July 30, 1963
	Jan.- Mar.	Apr.- June	Apr.	May	June	July	
A. Gold and convertible currency	+ 8	-101	+34	+81	-216	+20	2,733
Less: Central bank loans b/ Adjusted reserves	250 -242	-250 119	-- +34	-- +81	-250 + 34	-- +20	-- 2,733
B. Drawing right on IMF	--	n.a.	- 8	--	--	n.a.	a/ 2,445
Total	-242	n.a.	+22	+81	n.a.	n.a.	5,178

a/ As of June 30, 1963.

b/ Loans received (+) from four continental central banks in February and March and repaid (-) in June.

Bullion market. There has been a steady private demand for gold in the London gold market in July and August, with demand moderate to heavy since the increase in the Federal Reserve discount rates and the balance of payments message. Consequently, the gold fixing price rose from \$35.073 on May 31 to \$35.097 per fine ounce on August 9. (See Table 7.)

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

May 31	35.073	June 28	35.083	July 26	35.086
June 7	35.078	July 5	35.089	Aug. 2	35.094
14	35.084	12	35.085	9	35.097
21	35.082	19	35.081	16	35.097

Table 8. United Kingdom: Treasury Bill Yields and Exchange Rates

		3-mo. Treasury bill arbitrage calculation					Spot pound	London deposit rates	
		U.K.	U.S.	Differ- ence	3-mo. pound ^{a/}	In favor U.K. bill	(U.S. cents) ^{b/}	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
May	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
	14	3.56	2.97	0.59	-0.64	-0.05	280.00	3.84	4.31
	21	3.63	2.96	0.67	-0.55	+0.11	280.04	3.78	4.25
	28	3.63	2.97	0.55	-0.53	+0.13	280.06	3.84	4.31
July	5	3.72	3.01	0.71	-0.49	+0.22	280.12	3.91	4.31
	12	3.72	3.19	0.53	-0.43	+0.10	280.11	3.94	--
	19	3.69	3.15	0.54	-0.30	+0.24	280.02	4.06	4.31
	26	3.69	3.18	0.51	-0.36	+0.15	280.04	4.00	4.37
Aug.	2	3.69	3.21	0.48	-0.36	+0.12	280.04	3.94	4.31
	9	3.59	3.27	0.32	-0.36	-0.04	280.07	3.88	4.31
	16	3.62	3.31	0.31	-0.24	+0.07	279.97	3.94	4.19

a/ Market quotation for Friday.

b/ Noon buying rate in New York.

Table 9. United Kingdom: Selected Capital Market Yields

		U.K. Government bond yields					Share	Yield	Share
		4-1/2%	3%	5-1/2%	3-1/2%	2-1/2%	yield	gap	prices
		1964	1965-75	2008-12	War Loan	Consols	a/	b/	a/
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
May	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	0.43	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
	13	3.67	5.13	5.57	5.68	5.54	5.14	0.40	303.7
	20	3.65	5.03	5.53	5.60	5.44	5.06	0.38	308.7
	27	3.56	5.01	5.52	5.54	5.39	5.08	0.31	307.3
July	4	3.65	5.00	5.50	5.53	5.39	5.01	0.38	311.6
	11	3.75	5.00	5.50	5.57	5.43	5.00	0.43	312.3
	18	3.77	4.99	5.50	5.58	5.43	4.95	0.48	316.5
	25	3.75	4.96	5.50	5.57	5.42	4.98	0.44	315.6
Aug.	1	3.81	4.99	5.50	5.56	5.42	5.02	0.40	312.7
	8	3.79	4.95	5.45	5.51	5.38	4.89	0.49	321.1
	15	3.77	4.90	5.45	5.49	5.35	4.90	0.45	320.4

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

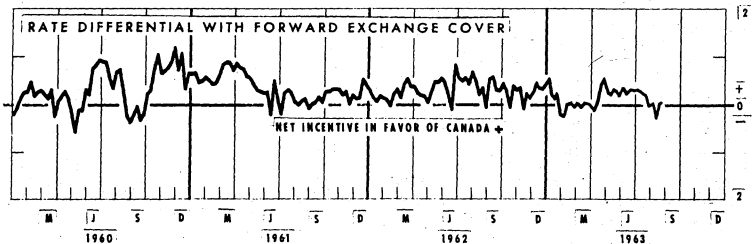
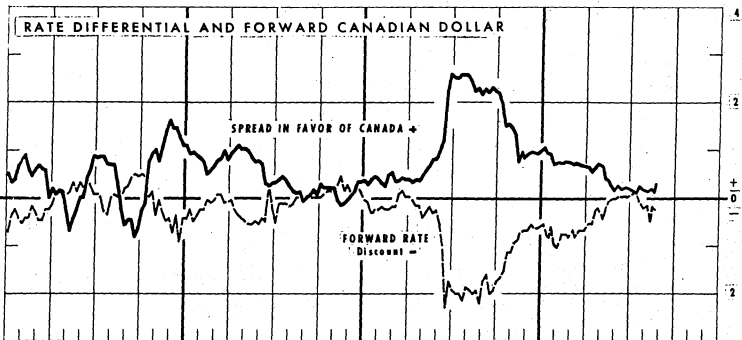
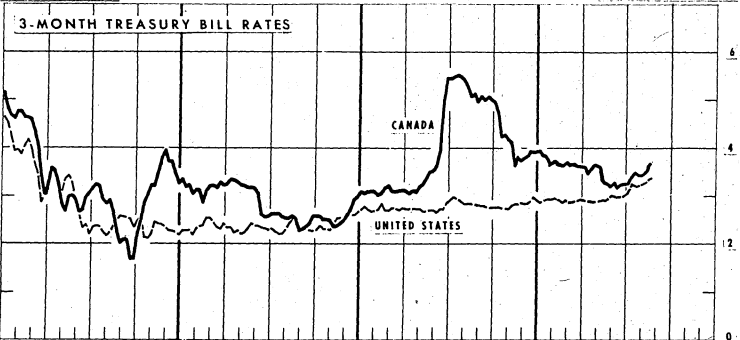


Chart 2

INTEREST ARBITRAGE, NEW YORK/LONDON

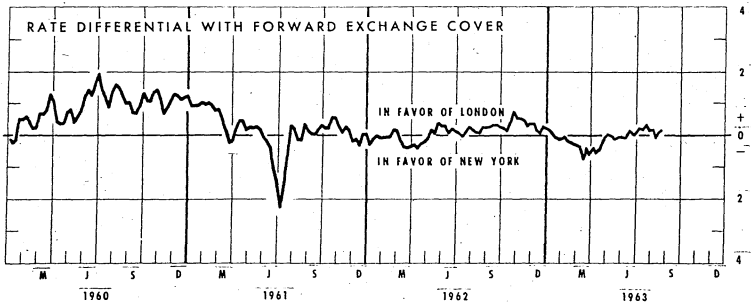
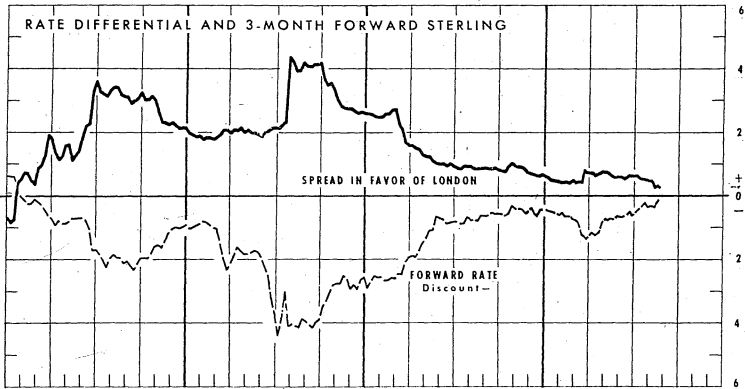
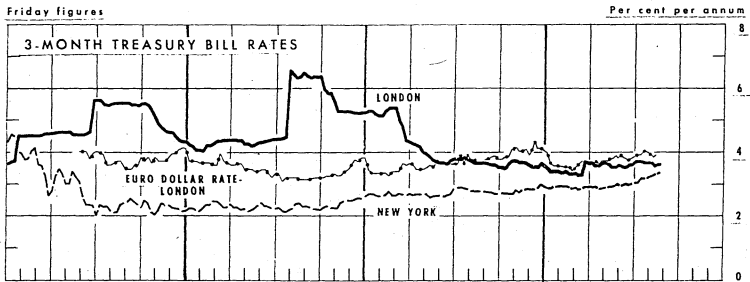
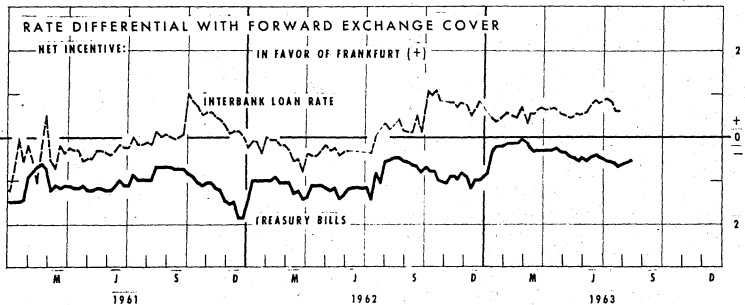
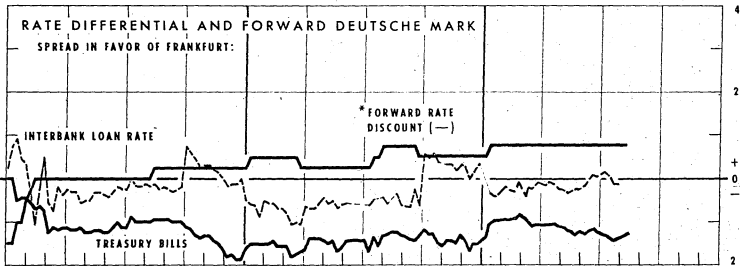
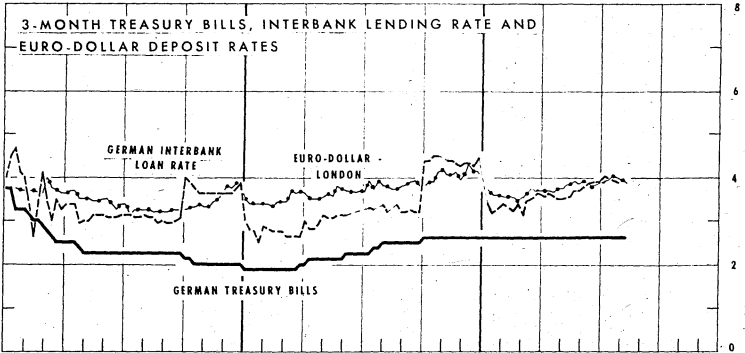


Chart 3

INTEREST ARBITRAGE FOR GERMAN COMMERCIAL BANKS

Friday figures

Per cent per annum



*Note: Special forward rate available to German commercial banks

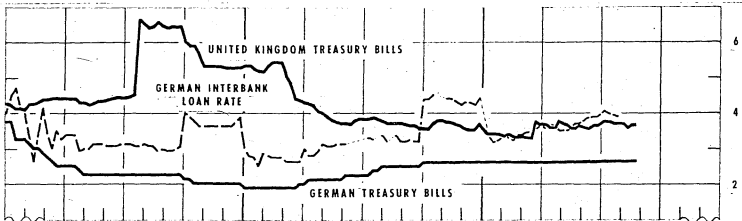
Chart 4

INTEREST ARBITRAGE, FRANKFURT / LONDON

Friday figures

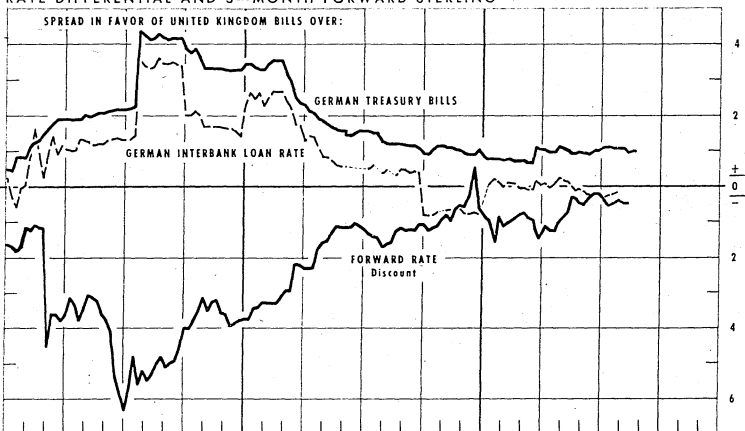
3—MONTH TREASURY BILLS AND INTERBANK LENDING RATES

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:

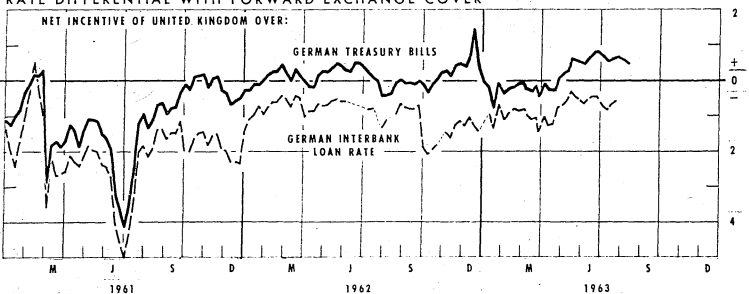
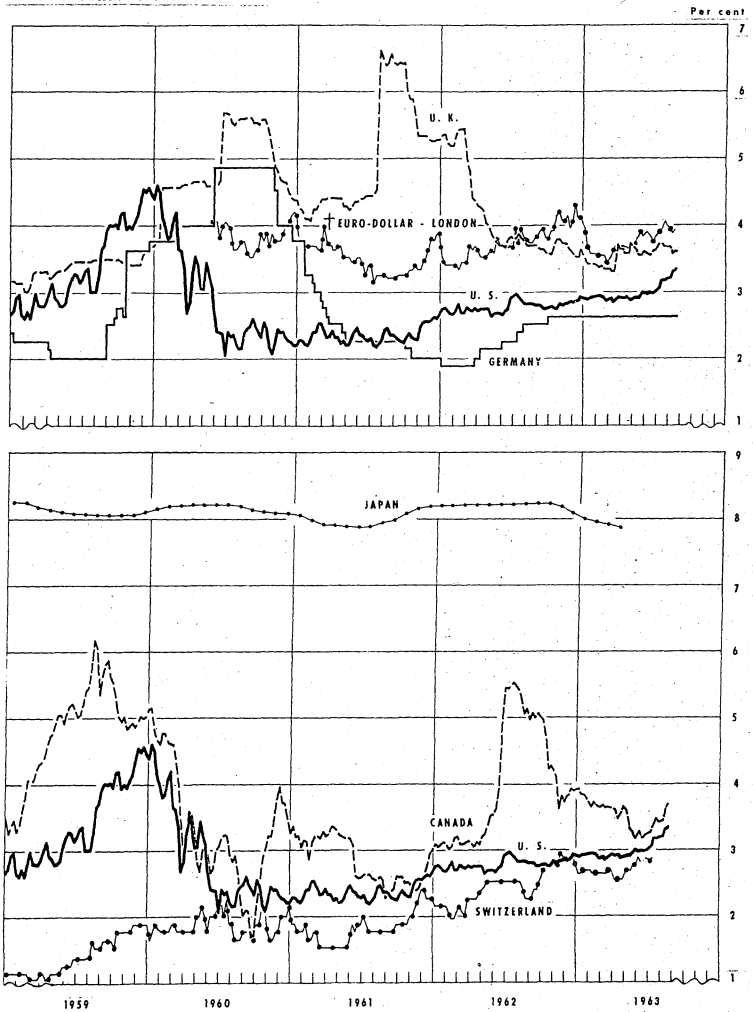


Chart 5
SHORT-TERM INTEREST RATES *



* 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

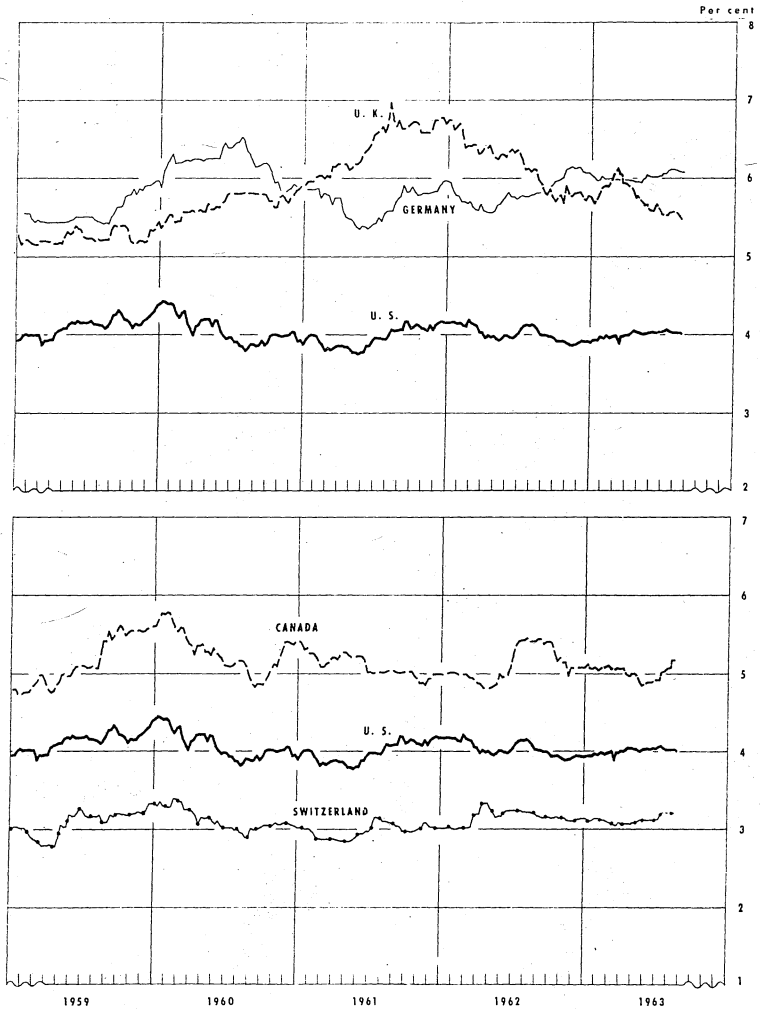
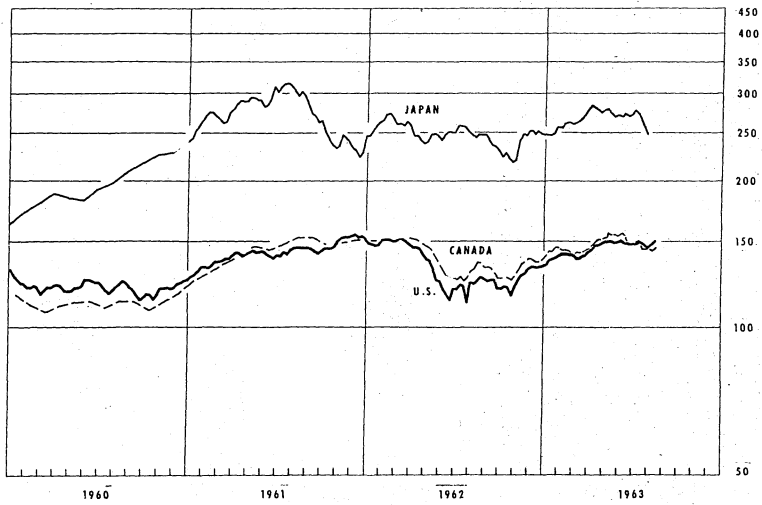
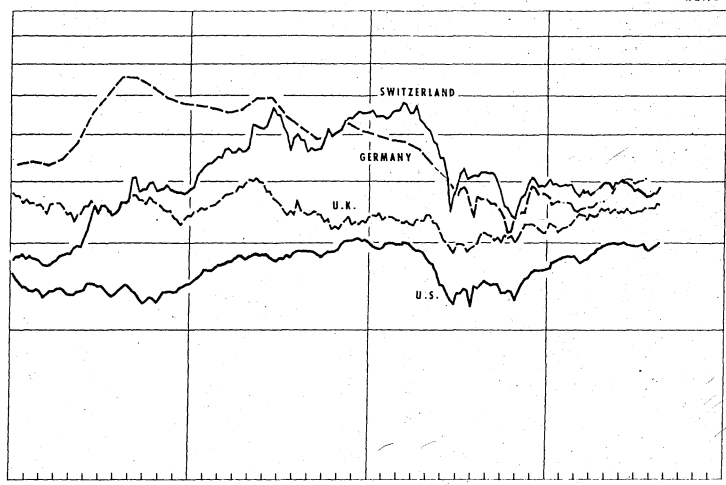


Chart 7
INDUSTRIAL STOCK INDICES*

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

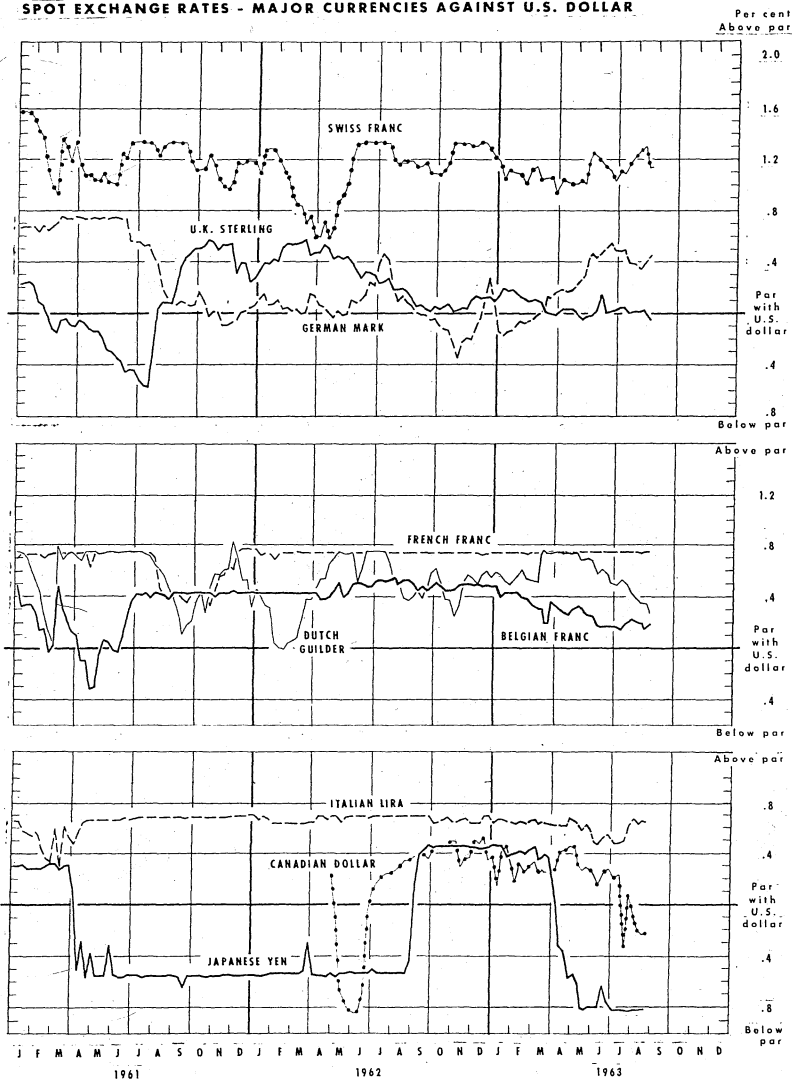


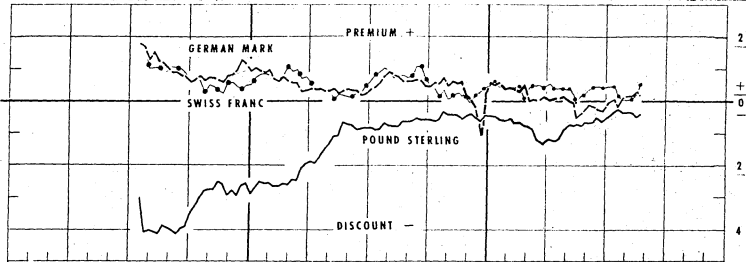
Chart 9

3-MONTH FORWARD EXCHANGE RATE

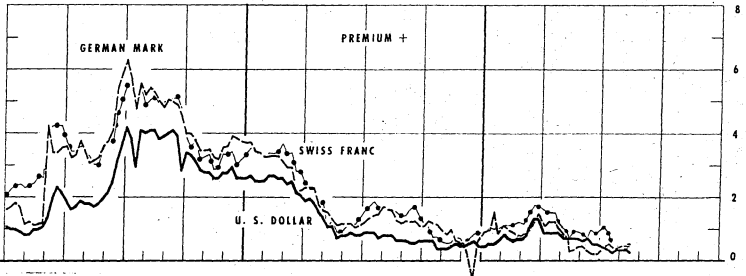
Friday figures

AGAINST U. S. DOLLARS

Per cent per annum



AGAINST POUND STERLING - LONDON



AGAINST POUND STERLING - LONDON

