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CAPITAL MARKET DEVELOPMENTS ABROAD

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

I. United Kingdom: Money and Capital Markets,
August 1 through September 20

Conditions in London financial markets remained easy during August and early September as industrial output and exports for August showed further expansion. With British short-term money rates stable in the face of higher U.S. Treasury bill rates, the spot pound slipped fractionally below par in late August and official gold and dollar reserves fell by \$20 million in August. However, the market on Euro-dollar deposits remained firm and rates for 3-month deposits reached a recent high of 4.19 per cent on September 6. Commercial bank liquidity did not tighten even though mid-September bank advances increased much more than seasonally.

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

	May 17	July 19	August 16 23 30			September 6 13 20		
<u>TREASURY BILLS (3-mo.)</u>								
United Kingdom	3.56	3.69	3.62	3.62	3.62	3.62	3.62	3.62
United States	2.88	3.15	3.31	3.35	3.38	3.32	3.34	3.38
Favor U.K.	+0.68	+0.54	+0.31	+0.28	+0.24	+0.30	+0.28	+0.24
3-mo. £ discount (-)	-0.68	-0.30	-0.24	-0.11	-0.15	-0.03	-0.03	-0.05
Favor U.K., covered	--	+0.24	+0.07	+0.17	+0.09	+0.27	+0.25	+0.19
<u>TIME DEPOSITS (3-mon.)</u>								
Euro-dollar (London)	3.84	4.06	3.94	4.00	4.00	4.19	4.09	4.06
Certificate of deposit (N.Y.) 1/	3.16	3.42	3.54	3.58	3.58	3.60	3.60	3.70
Favor Euro-dollar	+0.68	+0.64	+0.40	+0.42	+0.42	+0.59	+0.49	+0.36
<u>LOCAL AUTHORITIES 3-mo.</u>								
<u>DEPOSITS (covered)</u>	3.75	4.01	3.95	4.01	3.97	4.03	4.03	4.01

1/ Secondary market offering rates for negotiable time certificates of deposits. Rates are for previous Wednesdays.

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Other financial markets also responded favorably to the domestic business expansion. Stock prices rose sharply to a high of 329.8 on September 4 compared with 312.7 on August 1 as investors reacted to the favorable business outlook and to optimistic corporate reports. Bond yields declined from 5 to 16 basis points between August 1 and September 12, with short-term bonds registering the large declines. Taking advantage of bond market conditions, the Treasury announced on September 25 a £500 million 4 per cent Exchequer Loan due in 1968 available in bearer form with tax exemption for non-residents to encourage foreign purchases.

Despite the narrower spread between U.S. and British Treasury bills, the net covered yield in favor of the British bill showed very little change as the discount on the forward pound narrowed: the net incentive was below 20 basis points in August and about 25 basis points in the first two weeks in September.

Throughout August, demand remained firm in the London gold market in reaction to President Kennedy's balance-of-payments message in mid-July. However, the price at the daily fixing drifted downward in September with large-scale Russian gold sales reported.

Money market. Money was relatively easy in August and early September; there was no borrowing from the Bank of England from August 14 through September 6. However, conditions were somewhat tighter in the week ended September 13. In part because larger amounts of Treasury bills were offered at the weekly bill auctions, the discount houses were under no pressure to raise their bids in order to obtain an adequate proportion of the offerings as they had done in the first half of the year when rates moved down. From August 16 through September 13, the Treasury bill market rate was steady at 3.62 per cent. (See Table 9 and Charts 2 and 5.)

In the Euro-dollar market, however, funds were in active demand. Rates moved up in August, in part in response to higher U.S. money market rates. Between August 9 and 23, the 3-month deposit rate rose 12 basis points to 4.00 per cent and climbed further to a recent peak of 4.19 per cent on September 6. (See Table 9 and Chart 5.)

In the local authority market, rates eased between mid-August and mid-September as substantial sums were offered by British non-financial corporations. (See Table 9.) In addition, the British authorities have been encouraging local authorities to obtain funds in the bond market.

Bond market. Bond prices rose in the first half of August, bringing down yields on medium-term Government securities by about 10 basis points and long-term and undated securities by about 5 basis points. (See Table 10 and Chart 6.) In the week ending August 23, the market became hesitant when confronted with a new £12 million loan floated by the County Borough of Salford. (See Table 2.) The market recovered at the end of the month, but 61 per cent of the Salford loan was left with the underwriters. Bond prices inched upward again in early September and a loan by the Huddersfield County Borough was successful.

Table 2. United Kingdom: Selected New Bond Issues: August 1
Through September 20, 1963

<u>Date</u>		<u>Borrower</u>	<u>Coupon</u>	<u>Maturity</u>	<u>Value (\$ ths.)</u>
August	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
September	6	County Borough of Huddersfield	5-1/4%	1974-76	4,000
	18	City of Manchester	5-1/4%	1974-75	10,000

Stock market. The Financial Times industrial common stock index rose from 312.7 on August 1 to 329.8 on September 4, the highest level attained since August 1961. (See Table 10 and Chart 7.) Investors were encouraged by the growth of industrial production in July and the continued growth of exports. Announcement of interim dividends by a number of companies has tended to encourage the view that profits will grow with the current economic expansion. Stock prices at the end of August and early September rose at a rapid pace. A significant factor in the trading was purchases by small investors of shares in companies whose growth prospects are currently considered good.

Between September 4 and 13 stock prices fell, lowering the Financial Times index by 5 points. The decline was arrested by news of expanded steel production in August.

London clearing banks. Bank advances, on a seasonally adjusted basis, rose sharply in August - by £63 million, almost double the increase experienced in July. The banks also acquired some additional Treasury bills. However, since the actual (non-adjusted) increase in advances was small (advances normally decline in August), there was no additional pressure placed upon bank liquidity. (See Table 3.)

Installment credit. The value of new installment credit extended recovered in July along with retail sales. The net addition to total installment indebtedness, however, was relatively modest - only £2 million for household goods shops. (See Table 4.)

Foreign trade. Exports reached a new record in August (See Table 5.) The July-August monthly average exceeded the third quarter 1962 monthly average by roughly 7 per cent. At the same time, imports dropped from the July peak to just below the June level.

Detailed trade figures for July reveal that the increase of imports during the past few months consisted mainly of food, beverages and tobacco, not industrial materials as had been generally believed. Imports of fuels and industrial materials accounted for only a third of the increase in imports in May through July (monthly averages, seasonally adjusted) from the February through April period. (See Table 5.)

Table 3. United Kingdom: London Clearing Banks, Net Deposits
and Selected Assets
(in millions of pounds)

	C h a n g e s ^{a/}						Outstanding Aug. 21, 1963
	Mar.	Apr.	May	June	July	Aug.	
<u>NET DEPOSITS</u>	+ 11	-94	+148	+106	+58	+34	6,761
<u>SELECTED ASSETS</u>							
Claims on Public Sector	-151	-20	+ 2	+ 83	+30	+21	2,728
Government securities	- 35	-33	+ 3	- 2	+ 3	+ 2	1,094
Treasury bills and call loans	-105	+28	- 4	+ 99	+14	+11	1,563
Loans to nationalized industries	- 11	-15	+ 3	- 14	+13	+ 8	71
Claims on Private Sector	+146	+31	+ 41	+ 25	+52	- 4	4,331
Advances (net)	+117	+28	+ 42	+ 20	+62	+ 8	3,923
Other	+ 29	+ 3	- 1	+ 5	-10	-12	408
Special Deposits at Bank of England	--	--	--	--	--	--	--
<u>SEASONALLY ADJUSTED:</u>							
Net Deposits	+ 26	-99	+148	+ 6	+18	+84	
Net Advances	+ 45	+43	+ 47	--	+32	+63	
<u>LIQUIDITY RATIO</u>	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, 1963

	C H A N G E S :						Outstanding July 31
	Jan.- Mar.	Apr.- June	Apr.	May	June	July	
<u>New Credit Extended, Index of value (1957=100)</u>							
Household goods shops	97	109	101	114	111	122	--
Finance houses	132	182	177	201	169	189	--
<u>Credit Outstanding (£ mns.)</u>							
Household goods shops	-8	+ 2	- 3	+ 3	+ 2	+ 2	315
Finance houses	-5	+30	+10	+11	+ 9	+10	603
Total	-13	+32	+ 7	+14	+11	+12	918

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

	1 9 6 2			1 9 6 3					P/
	2nd Qtr.	3rd Qtr.	4th Qtr.	Feb.- Apr.	May- July	June	July	Aug.	
Imports, c.i.f.									
Food, beverages, and tobacco	-138	134	-123	-132	-147	-148	-155	n.a.	
Fuels and Industrial materials	-186	-200	-197	-197	-203	-199	-209	n.a.	
Other	-49	-51	-54	-55	-55	-53	-55	n.a.	
Total	-373	-385	-374	-384	-405	-400	-419	-398	
Exports, f.o.b.	320	320	317	330	342	345	339	351	
Re-exports, f.o.b.	14	12	14	13	13	14	14	13	
Trade gap	-39	-53	-43	-41	-50	-41	-66	-34	

P/ Preliminary.

Table 6. Investment Dollar Premium, May 31 - September 13

May 31	June 14 28		July 12 26		August 9 23		September 6 20	
9.12%	9.62%	10.00%	10.12%	9.00%	7.25%	6.50%	9.50%	8.25%

Foreign exchange. Between August 12 and September 4, the spot rate eased downward from 280.08 to 279.73 US cents. At the same time, the forward discount was reduced from about 0.24 to 0.03 per cent per annum. (See Table 9 and Charts 8 and 9.) These adjustments in part reflect rising money-rates on US bills and on Euro-dollar deposits and in part a demand for dollars on the Continent, causing dealers to shift temporarily from sterling to dollar assets. During the first three weeks of September, the spot rate fluctuated between 279.70 and 279.78 cents per pound. The improved forward pound suggests market optimism towards sterling in the next few months.

The investment dollar premium declined from mid-July through August 23. (See Table 6.) This has been attributed to constant small selling of Canadian securities by British investors disturbed by the proposed U.S. interest equalization tax. The premium rose in September after these selling pressures eased.

Gold and foreign exchange reserves. Reserves fell by \$20 million in August. (See Table 7.) However, since this figure includes a \$28 million payment to Germany as partial settlement of Britain's indebtedness to EPU, the reserve movement for August was considered favorable. Seasonal pressures tend to weaken sterling in August.

Table 7. United Kingdom: Reserve Position, 1963
(in millions of U.S. dollars)

	C H A N G E S :						Outstanding Aug. 31. 1963
	Jan.- Mar.	Apr.- June	May	June	July	Aug.	
<u>GOLD AND CONVERTIBLE</u>							
<u>CURRENCY</u>	+ 8	-101	+81	-216	+20	-20	2,713
Less:							
Central bank loans a/	250	-250	--	-250	--	--	--
Adjusted Reserves	-242	+149	+81	+ 34	+20	-20	2,713
<u>DRAWING RIGHT ON IMF</u>	--	- 8	--	--	- 1	n.a.	b/ 2,444

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

b/ As of July 31, 1963.

Recently published figures on the United Kingdom's net external sterling liabilities reveal that Britain had a balance of payments surplus of \$141 million in the second quarter of 1963 as compared with a deficit of \$228 million in the first quarter of 1963 and a surplus of \$101 million in the second quarter of 1962. (The balance of payments is here measured by changes in gold and foreign exchange reserves, net sterling liabilities to foreign central monetary institutions (including the IMF) and compensatory loans received or repaid to foreign central banks.)

Bullion market. Private demand for gold continued to be moderate to heavy during August, mainly in response to President Kennedy's balance of payments message in July. The gold fixing price reached \$35.112 per fine ounce on August 30. (See Table 8.) This demand subsided, however, after August 20. On September 3, the Russians began to sell substantial quantities of gold, causing the after-fixing trading price in London to fall from \$35.112 to \$35.08 per fine ounce. More Russian gold was sold on September 4th and 11th, with the Bank of England acquiring substantial sums.

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

June 28	35.083	July 26	35.086	August 23	23.096
July 5	35.089	August 2	35.094	30	35.112
12	35.085	9	35.097	September 6	35.080
19	35.081	16	35.097	13	35.079
				20	35.079

Europe and British Commonwealth Section.

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

-7-

		3-mo. Treasury bill arbitrage calculation					Spot pound (U.S. cents) b/	London deposit rates U.S. dollar (3-mo.)	Local authority
		U.K.	U.S.	Difference	3-mo. pounds/	In favor U.K. bill			
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	-0.92	-0.11	279.97	3.44	4.19
June	7	3.59	2.97	0.62	-0.57	-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	-0.56	+0.11	280.04	3.78	4.25
	28	3.63	2.97	0.66	-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	4.31
	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
	23	3.62	3.35	0.28	-0.11	+0.17	279.54	4.00	4.12
	30	3.62	3.38	0.24	-0.15	+0.09	279.80	4.00	4.12
Sept.	6	3.62	3.32	0.30	-0.03	+0.27	279.78	4.19	4.06
	13	3.62	3.34	0.28	-0.03	+0.25	279.73	4.09	4.06

a/ Market quotation for Friday.

b/ Noon buying rate in New York

Table 10. United Kingdom: Selected Capital Market Yields

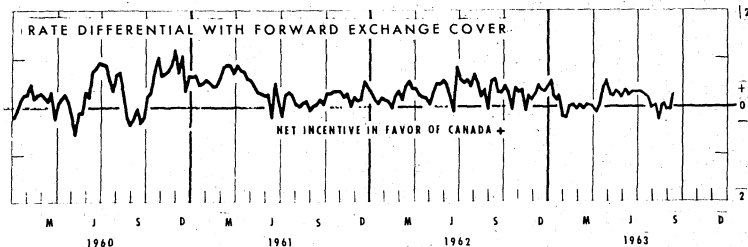
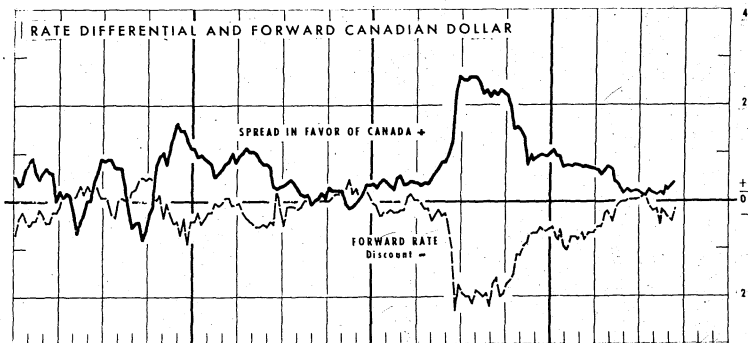
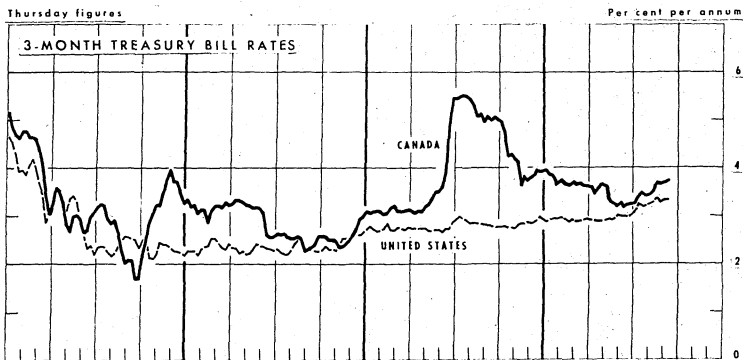
		U.K. Government bond yields					Share yield a/	Yield gap b/	Share prices a/
		4-1/2% 1964	3% 1965-75	5-1/2% 2008-12	3-1/2% War Loan	2-1/2% Consols			
1962	High	5.85	6.28	5.35	6.77	6.57	5.35	1.42	309.6
	Low	3.90	5.00	5.45	4.80	5.51	5.78	-0.27	261.3
June	6	3.65	5.03	5.32	5.59	5.41	5.02	0.39	311.0
	13	3.67	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	5.39	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	5.55	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
	22	3.76	4.91	5.45	5.51	5.38	4.85	0.43	324.0
	29	3.74	4.90	5.47	5.53	5.40	4.84	0.44	324.8
Sept.	5	3.72	4.88	5.45	5.52	5.34	4.77	0.57	329.3
	12	3.70	4.83	5.45	5.53	5.37	4.84	0.53	324.3

a/ Financial Times.

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

Chart 1

INTEREST ARBITRAGE, UNITED STATES / CANADA



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Chart 2
INTEREST ARBITRAGE, NEW YORK/LONDON

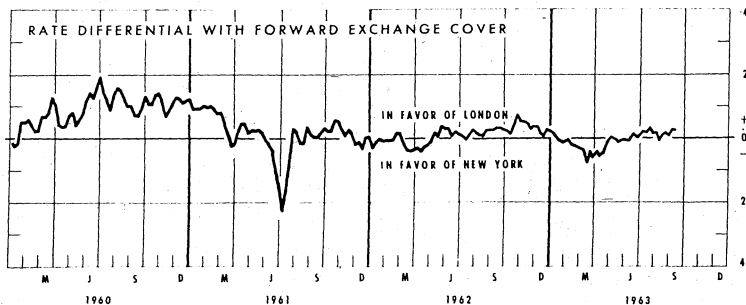
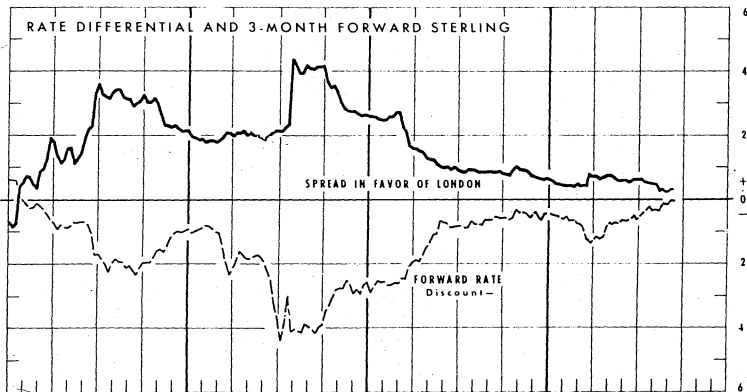
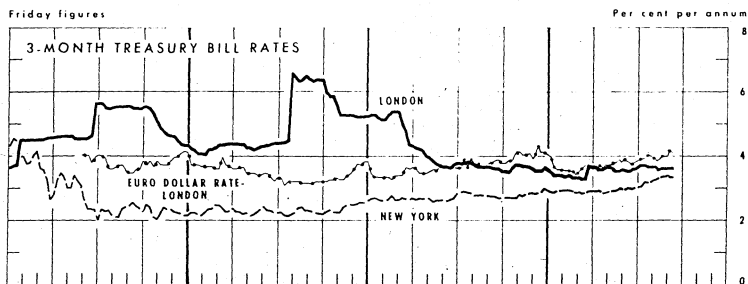
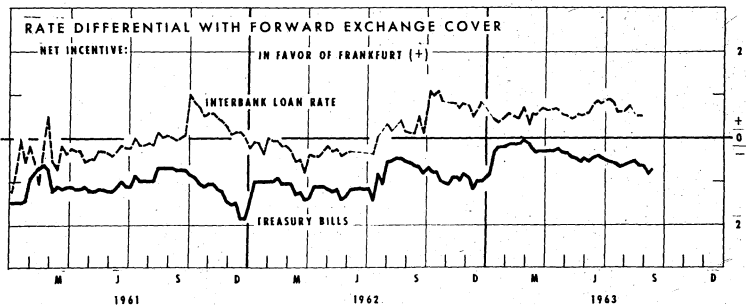
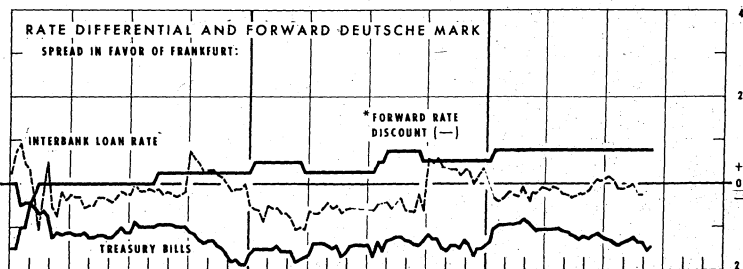
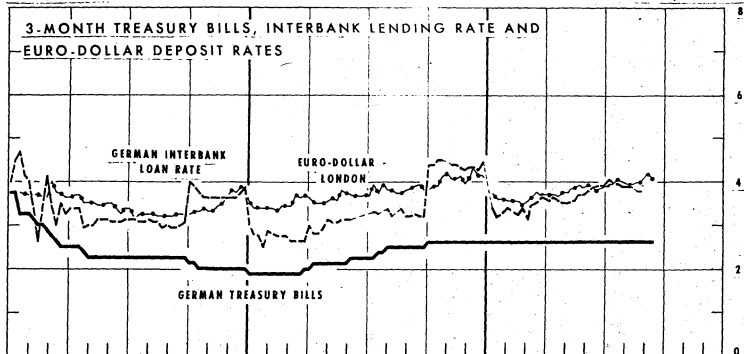


Chart 3

INTEREST ARBITRAGE FOR GERMAN COMMERCIAL BANKS

Friday figures

Per cent per annum



*Note: Special forward rate available to German commercial banks

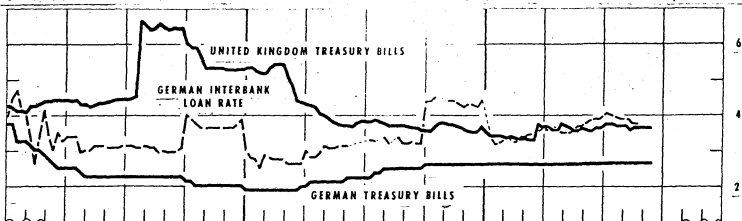
Chart 4

INTEREST ARBITRAGE, FRANKFURT / LONDON

Friday figures

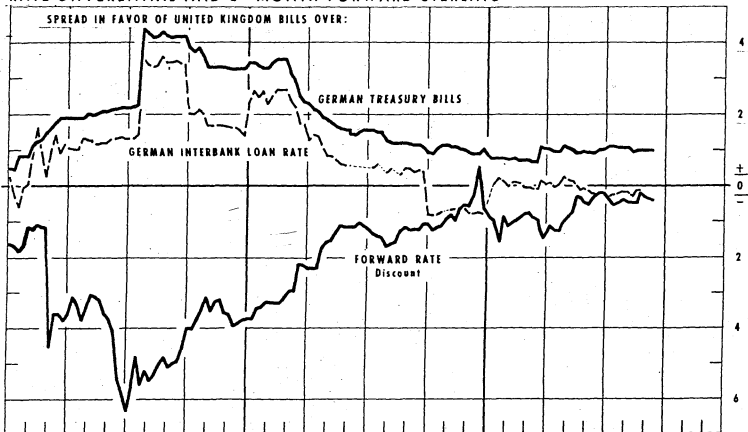
3—MONTH TREASURY BILLS AND INTERBANK LENDING RATES

Percent 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:

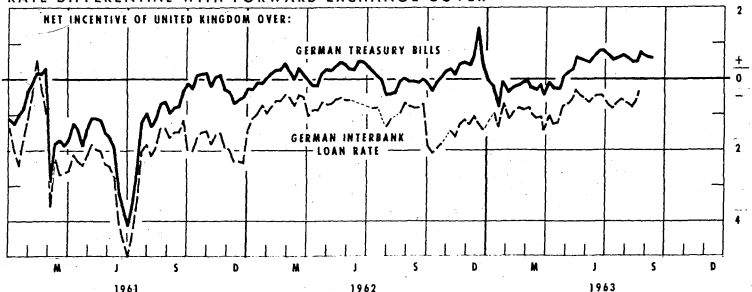
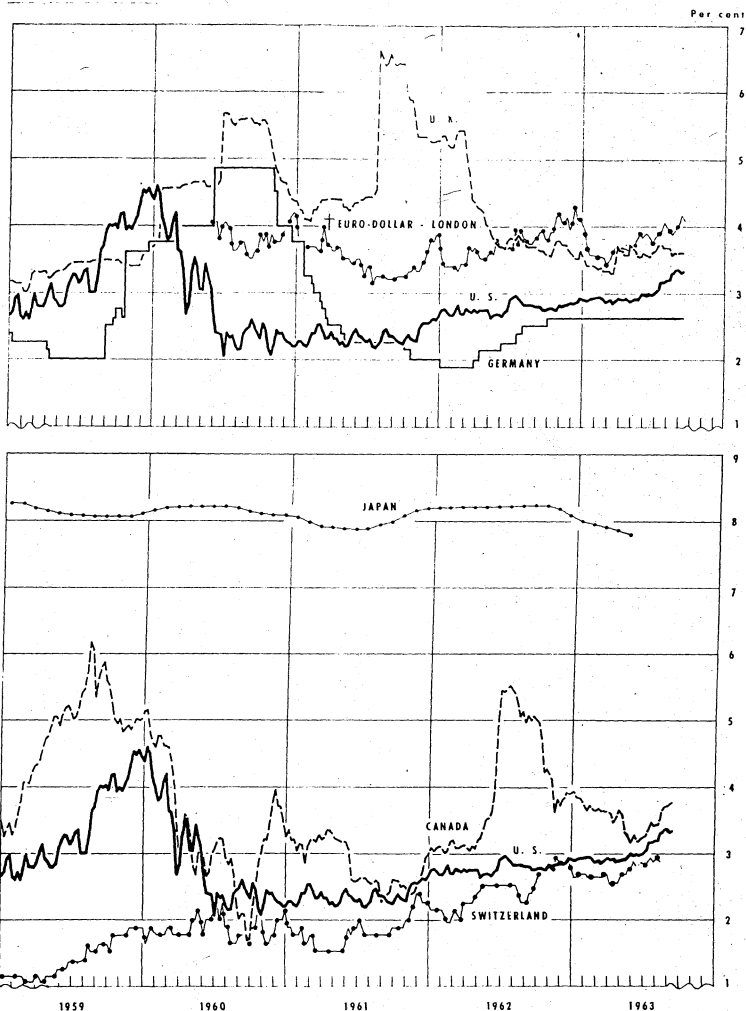


Chart 5
SHORT-TERM INTEREST RATES *



* 3 month treasury bill rates for all countries except Japan (Average rate on bank loans and discounts)
and Switzerland (3 month deposit rate)
† 3 month rate for U.S. dollar deposits in London

Chart 6

LONG-TERM BOND YIELDS

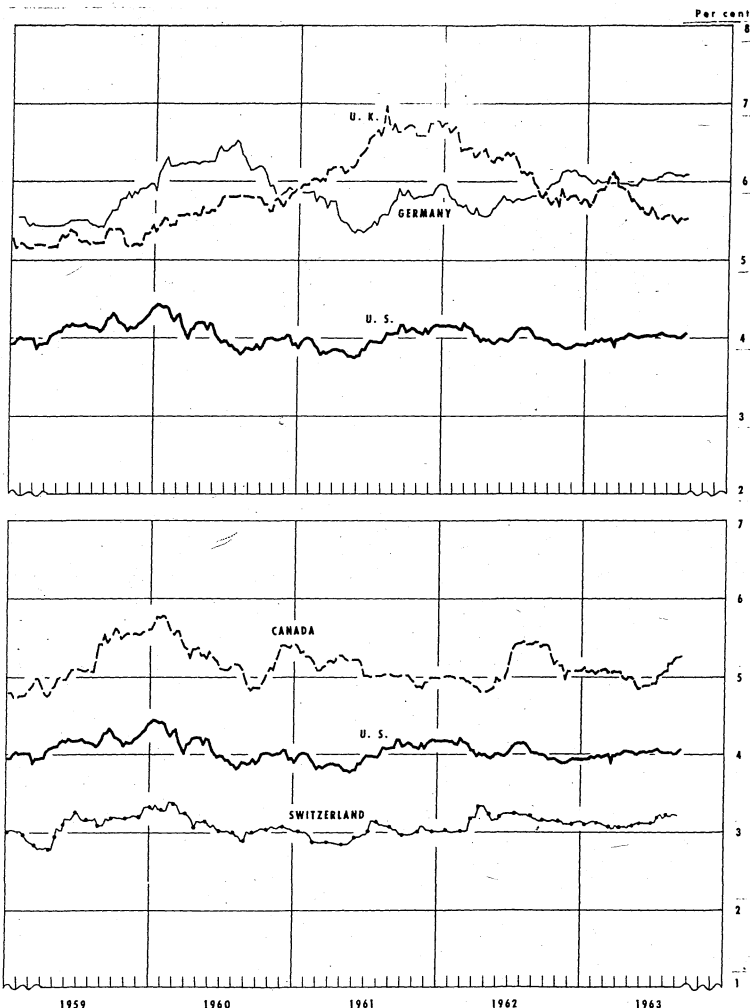
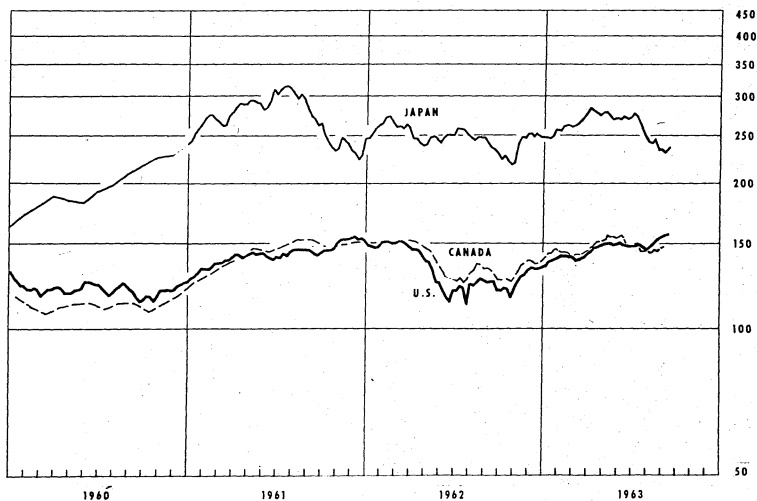
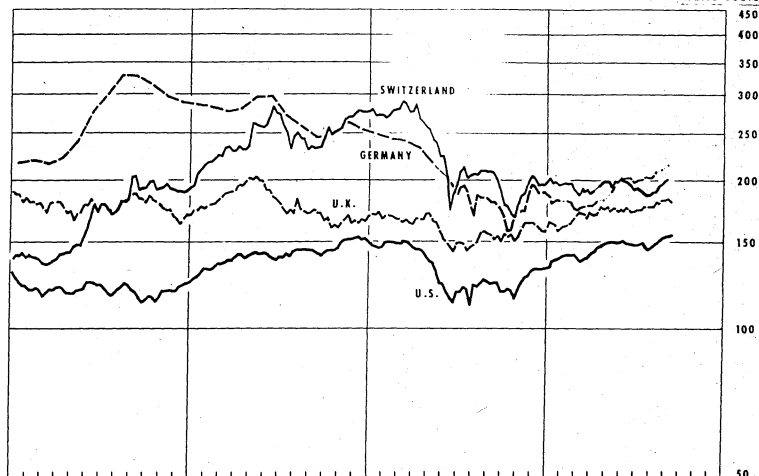


Chart 7

INDUSTRIAL STOCK INDICES*1958 = 100
Ratio scale

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

Chart B

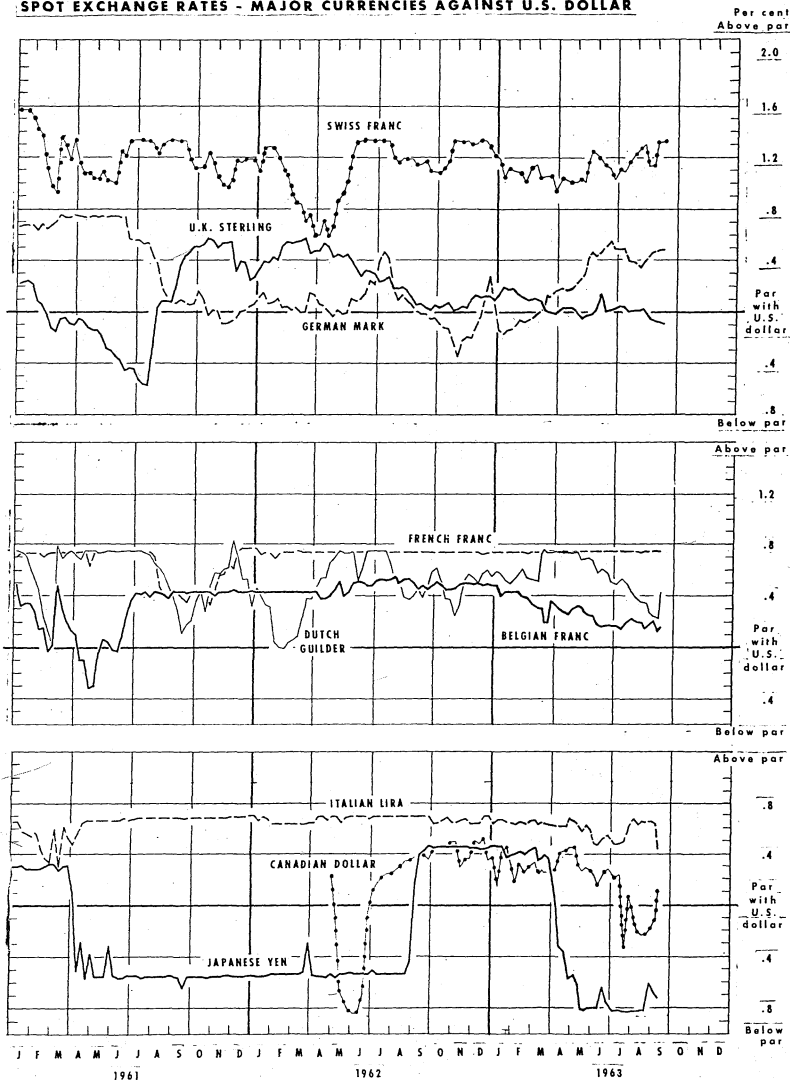
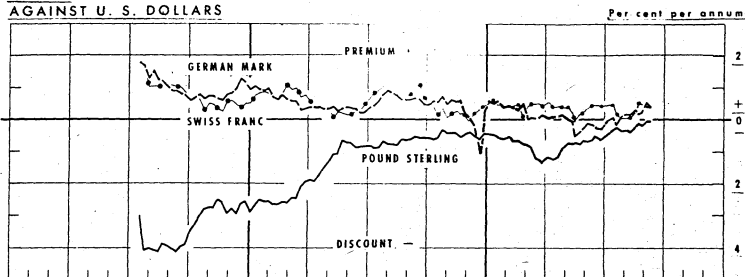
SPOT EXCHANGE RATES - MAJOR CURRENCIES AGAINST U.S. DOLLAR

Chart 9

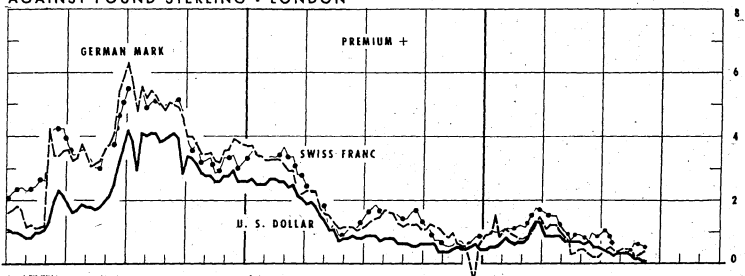
3-MONTH FORWARD EXCHANGE RATE

Friday figures

AGAINST U. S. DOLLARS



AGAINST POUND STERLING - LONDON



AGAINST POUND STERLING - LONDON

