

November 13, 1963

H. 13  
No. 129

**CAPITAL MARKET DEVELOPMENTS ABROAD**

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

I. Canada: Money and Capital Markets, October 1963

After four successive months of dramatic change, stability was the predominant characteristic of Canadian money and capital markets during the month of October. (See Table 1.) There were no new events comparable in impact to the Gordon Budget in June, the U.S. interest-equalization tax proposal and rise in Federal Reserve discount rate in July, the increase in the Bank of Canada's own discount rate in August, or the announcement of the \$500-million wheat contract with the U.S.S.R. in September. Instead, the favorable and adverse effects of these various events appear to have neutralized each other during October. One important development, the new export incentive program announced for automobiles and auto parts by the Minister of Industry on October 25, was designed more as a long-term measure than for any immediate impact on the Canadian scene, although it openly risked retaliatory action by the U.S. at any early date.

Table 1. Selected Indicators of Stability in Canadian Financial Conditions, October 1963

Indicator	/Details in Table No. : 7	Units	End-Month Level		Change %
			Sept. '63	Oct. '63	
Foreign Exchange Rate		U.S. cents	92.81	92.79	-0.02
Gold and Foreign Exch. Reserves		\$ mill. (U.S.)	2,568	2,581	+0.51
New Canadian Bond Issues <u>1/</u>	2	\$ mill. (U.S.)	670	670	0
Treasury Bill Yields:					
3 months	10	% p.a.	3.56	3.59	+0.84
covered differ'l over U.S.	10	% p.a.	--	+4.02	....
6 months	4	% p.a.	3.71	3.77	+1.62
Prime Cdn. Fin. Co. Paper (90 days):					
in Canadian dollars	3	% p.a.	4.00	4.00	0
fully hedged	3	% p.a.	3.47	3.47	0
Cash Ratio of Chartered Banks <u>2/</u>		per cent	8.12	8.14	+0.25
Government Bond Yields:					
Sept. 1965	4	% p.a.	4.17	4.11	-1.44
June 15, 1967-68	4	% p.a.	4.32	4.37	+1.16
Jan. 15, 1975-78	4	% p.a.	5.08	5.08	0
Sept. 15/96-Mar. 15/98	4	% p.a.	5.08	5.01	-1.38
Non-Federal Bond Yield Index	5	% p.a.	5.54	5.51	-0.54
DBS Index of Indust. Stock Prices	7	1956=100	137.7	136.9	-0.58

1/ Payable in U.S. dollars; cumulative total, year to date.2/ Average for month.

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(Decontrolled after six months)

Foreign exchange position. Official holdings of gold and foreign exchange rose marginally (See Table 1), for the second successive monthly increase following the sharp June-August decline. The Canadian dollar held above par throughout the month, varying within the narrow range of 92.70-92.82 U.S. cents (See Chart 8). A discount of .07 per cent on the 3-month forward Canadian dollar, with which the month opened, was soon converted into a comparably small premium, which had been reduced to zero by the month's end.

This strength in the Canadian dollar was sustained notwithstanding the complete absence of new issues of Canadian bonds payable in U.S. dollars throughout October. Indeed, in the wake of the U.S. interest-equalization tax proposal, no new flotations were reported between September 16 and October 28 (See Table 2), and less than \$10 million worth since August 5. By contrast, new flotations during the comparable period of 1962 aggregated \$322.3 million, of which \$250 million was a special issue of the Government of Canada and most of the remainder was in the form of corporate bonds.

Table 2. Cumulative Annual Sales of New Canadian Bonds, Payable in U.S. Dollars, Selected Dates 1962 - 1963  
( \$ million)

	1962			1963		
	Aug. 6	Sept. 17	Oct. 29	Aug. 5	Sept. 16	Oct. 28
Govt. of Canada	--	250	250	0	0	0
Provincial	--	--	15	45	45	45
Prov. Guaranteed	--	8	8	368	373	373
Municipal	15.3	26.1	27.9	29.7	29.7	29.7
Corporate	<u>126.8</u>	<u>127.8</u>	<u>163.5</u>	<u>217.7</u>	<u>222.4</u>	<u>222.4</u>
Total	142.1	411.8	464.4	660.4	670.0	670.0

Treasury bills and short-term finance-company paper. The average tender yield on Treasury bills, which had reached a recent peak on September 12, declined fairly steadily through mid-October. (See Table 4.) Thereafter, a moderate rise set in, which carried yields somewhat above those prevailing at the end of September. As of November 7, the yield on the 3-month and 6-month bills stood, respectively, at 3.63 per cent and 3.79 per cent, or substantially below the corresponding September peaks of 3.78 per cent and 3.98 per cent.

When the yield on the Canadian 3-month bill is converted to a fully-comparable basis with the U.S. Treasury bill,<sup>1/</sup> the uncovered spread in favor of the Canadian bill is observed to have reached a high of 0.33 percentage points per annum as of September 12. It declined steadily until October 17, at which date the U.S. bill stood .03 points above the equivalent Canadian quotation. Meanwhile, the forward discount on the Canadian dollar, which stood at .41 per cent as of September 5, declined abruptly and by October 10 had been converted into a

<sup>1/</sup> For back data beginning with July 1963, see Table 10.

small premium. The net effect of these developments was to reduce the net covered incentive in favor of the Canadian bill from a high of 0.34 per cent in mid-September to 0.04 per cent as of mid-October. With the elimination of the forward premium in late October and a somewhat larger increase in the U.S. than in the equivalent Canadian bill, the net incentive on a fully-covered basis favored New York over Montreal by a trivial amount as of November 7. (See Charts 1 and 2.)

For purposes of evaluating the incentive for actual short-term arbitrage flows of funds to and from Canada, the corresponding computations on prime finance company paper are even more relevant. Such paper was quoted at 4-1/4 per cent from August 16 through September 13 and, except for a dip to 3-7/8 per cent in late September, held steadily at 4.00 per cent thereafter to date. (See Table 3.) On a fully-hedged basis, Canadian paper had a yield advantage of 0.375 per cent over prime commercial paper of U.S. finance companies as of September 20, the highest differential in many months except for a very temporary peak of +.505 per cent prevailing in early August. (See Chart 1.) The differential fell sharply in late September and, after recouping a portion of the decline in early October, then fell gradually throughout the month to a low of +.125 per cent as of November 1. Paralleling the early-November rise in the Canadian bill rate, it increased slightly during the following week.

Table 3. Canadian Prime Finance Company Paper: Interest Arbitrage Computation, August-November 1963  
(per cent per annum on 90-day paper)

	Aug.	September			Oct.	November	
	16	13	20	27	4	1	8
Canadian Paper	4.25	4.25	4.00	3.875	4.00	4.00	4.00
Cdn. Paper (Fully hedged)	3.80	3.90	4.00	3.80	3.85	3.875	3.90
U.S. Finance Companies	<u>3.50</u>	<u>3.625</u>	<u>3.625</u>	<u>3.625</u>	<u>3.625</u>	<u>3.75</u>	<u>3.75</u>
Net Covered Differ'l							
(+) in favor Canada	+ .30	+ .275	+ .375	+ .175	+ .225	+ .125	+ .15

Government securities market. After climbing quite sharply during July and August and continuing at high levels in early September, yields on Government of Canada medium and long-term bonds declined abruptly. (See Table 4.) The low point for the very longest-term issues was reached early in October, after which there was a modest and temporary mid-month increase. The time pattern of yield changes on one shorter-term issue during October was the complete converse, as June 1967-68 bonds declined in mid-month but subsequently recovered. The yield on the January 1975-78 issue (See Chart 6) rose gently throughout the month, but by November 6 had merely regained its late-September level.

As of November 6, the yield on the September 1966-March 1968 issue was identical with what it had been on April 3, 1963, but the shape of the yield curve had undergone a marked transformation over the interim period. So far as Treasury bills and the longer-term bonds are concerned, yields were marginally higher in early November than they had been in early April. The yield on bonds due in September 1965, however, was markedly (and that due in June 1967-68 somewhat) below the corresponding April figure.

Table 4. Canada: Market Yields on Selected Government Securities,  
Selected Dates, April - November 1963  
(per cent per annum)

Dates	Treasury Bills <sup>1/</sup>		B o n d s					
	3 mos.	6 mos.	Sept. 1965	June 1967-68	Jan. 1975-78	Oct. 1979	Sept. '96 March '98	
April	3	3.60	4.51	4.45	5.07	5.01	5.01	
	24	3.66	3.80	4.51	4.41	5.00	4.92	4.97
June	12	3.19	3.30	4.07	4.07	4.88	4.84	4.90
	26	3.24	3.34	4.09	4.03	4.91	4.85	4.88
September	11	3.78	3.98	4.60	4.48	5.27	5.22	5.14
	25	3.56	3.71	4.17	4.32	5.08	5.03	5.08
October	2	3.61	3.76	4.09	4.33	5.02	4.97	5.02
	9	3.56	3.69	3.97	4.32	5.03	4.97	5.04
	16	3.54	3.69	4.00	4.29	5.03	4.98	5.04
	23	3.56	3.73	4.13	4.34	5.07	5.01	5.05
	30	3.59	3.77	4.11	4.33	5.08	5.01	5.01
November	6	3.63	3.79	4.08	4.37	5.08	5.03	5.01
Net Change:								
April 3-								
Nov. 6								
		+03	+06	-.43	-.08	+01	+02	0

<sup>1/</sup> Average Tender, Thursday dates.

Figures on Federal Budgetary revenues and expenditures are available only through September. Because expenditures have been rising somewhat more rapidly than receipts, the cumulative deficit in the 1963/64 fiscal year (beginning April) had mounted to \$96.4 million. At a comparable date in the previous fiscal year, the deficit had reached a cumulative figure of only \$67 million, although that fiscal year ended with a total deficit of \$692 million. In September 1962 alone, however, the deficit was some \$15 million higher than in this September.

Between October 2 and November 6, the outstanding volume of Government of Canada securities increased from \$19.53 billion to \$19.65 billion, exceeding the previous all-time peak attained in early June. As a partial offset, balances held by the Government of Canada at the Bank of Canada or the chartered banks also rose somewhat, from \$399 million to \$434 million. The Bank of Canada added only \$11 million to its total holdings of Government of Canada direct and guaranteed securities, and put some upward pressure on shorter-term interest rates by reducing its holdings of Treasury bills from \$354 million to \$321 million.

**Other bond markets.** The index of average yields on bonds, (other than those of the Government of Canada), which fell rather sharply in September registered a minor decline in October. (See Table 5.) Except for the end-of-August peak, it still remained higher than at any time during the preceding year. Among the component items, public utilities were down 8 basis points and industrials and municipals by an even smaller margin, while the yield on provincial bonds averaged 1 point higher than on September 30, 1963. As compared with a year ago, the largest movement was in the industrials component, which was down 5 points, but not enough to completely offset small increases throughout the remainder of the list.

Table 5. End-Month Average Yields on Canadian Bonds 1/

	1962		1963				Net Changes	
	July	Oct.	July	Aug.	Sept.	Oct.	Sept. '63- Oct. '63	Oct. '62- Oct. '63
	10 Provincials	5.87	5.48	5.44	5.67	5.50	5.51	+01
10 Municipals	6.17	5.63	5.59	5.88	5.67	5.66	-.01	+03
10 Public Utilities	5.74	5.46	5.50	5.61	5.56	5.48	-.08	+0.02
10 Industrials	5.77	5.45	5.43	5.49	5.44	5.40	-.04	-.05
40 Bond Average	5.89	5.50	5.49	5.66	5.54	5.51	-.03	+01

1/ Excluding Government of Canada.

Source: McLeod, Young, Weir & Company.

From January 1 through October 28, the reported flotation of new long-term issues payable in Canadian funds amounted to a cumulative total of \$2737 million, as compared with \$2259 million to the corresponding date a year ago. Of the October 1963 issues, some \$105 million were in individual amounts of \$1,000,000 or more. (See Table 6.)

Table 6. Large Long-Term Bond Issues During October 1/

Issuing Unit	Amount	Coupon Rate	Due Date	Note
University of Manitoba	3,500,000	5-3/8%	Nov. 1, 1983	Prov. Guarant.
Municip. of Toronto, Ont.	3,125,000	5-1/4%	Oct. 1, 1973	
	22,950,000	5-1/4%	Oct. 1, 1983	
	2,144,000	5-1/4%	Oct. 1, 1993	
	2,321,000	5-1/4%	Oct. 1, 1964-73	
Prov. of Prince Ed. Island	2,500,000	5-1/4%	Nov. 15, 1983	
City of Montreal, P. Q.	4,000,000	5-1/2%	Nov. 15, 1964-73	
	6,000,000	5-1/2%	Nov. 15, 1968	
	12,000,000	5-3/4%	Nov. 15, 1983	
	13,000,000	5-3/4%	Nov. 15, 1988	
Coronation Credit Corp. Ltd.	2,400,000	6 %	Oct. 31, 1971	Sinking Fund
Credit Foncier Franco-Cdn.	7,000,000	5-1/2%	Nov. 15, 1968	Debentures
Manitoba Telephone Comm.	12,500,000	5-1/2%	Dec. 2, 1986	Prov. Guarant.
City of Kingston, Ontario.	1,254,344	5-1/2%	Dec. 1, 1964-68	
Greater Vancouver Sewerage & Drainage District, B. C.	3,500,000	5-1/2%	Dec. 2, 1965-88	
Laurentide Financial Corp. Ltd.	6,000,000	4-3/4%	Nov. 1, 1969	Debentures

1/ \$1 million or more, payable in Canadian funds.

Source: A. E. Ames & Company Weekly Bond Sales Summary (through Oct. 28, 1963).

Stock market. Prices of securities on Canadian stock exchanges, which had been rising fairly steadily from mid-August through late September, varied within a relatively narrow range during October. (See Table 7 and Chart 7.) The DBS Index of Industrial Stock Prices, which stood at 137.4 (1956=100) for the week of October 3, closed the month at 136.9 after having attained a mid-month high of 138.5. That figure was somewhat below the all-time peak of 140.6, reached in the week of May 9. By contrast, the Standard & Poor index of industrial stock prices on the New York Stock Exchange climbed steadily throughout the month (on a weekly-average basis) and by October 25 had exceeded its previous all-time high of a month earlier. The increase in the New York index over its early-May level was more than 6 per cent.

Table 7. Indexes of Stock Market Prices, Canada and the U.S., May-November 1963

	May a/	July	Aug.	Sept.	October				
	9	4	29	26	3	10	17	24	31
Canada (1956=100)									
DBS Industrials	140.6	135.3	131.8	137.7	137.4	137.3	138.5	137.7	136.9
U.S. (1941-43=10)									
Standard & Poor Industrials	73.49	73.04	75.56	76.57	76.25	76.31	76.88	77.46	78.45

a/ Both quotations are weekly averages for week incorporating date indicated.

Commercial bank credit and liquidity. The general stability that characterized Canadian financial and capital markets during the month was not entirely shared by the chartered banking system. (See Table 8.) To be sure, only fractional changes occurred in their security portfolios, and in their loans to municipalities, grain dealers, and instalment finance companies, while their holdings of insured mortgages remained unchanged. But their major Canadian assets registered an over-all rise of \$334 million, mainly because of substantial increases in general loans extended and in holdings of Treasury bills. Their Canadian deposit liabilities increased almost as much, chiefly in the form of personal savings and Government of Canada deposits. Otherwise, there was little change in the total money supply. (See Table 9.)

Despite a small decline in the absolute level of cash reserves, the cash reserve ratio in October averaged 8.14 per cent, as compared with 8.12 per cent in September. Liquid assets on a monthly average basis rose from \$2524 million to \$2666 million, and the liquid asset ratio from 17.22 to 18.32 per cent.

Table 8. Major Canadian Assets and Deposit Liabilities of  
Chartered Banks, September 30 and October 30, 1963  
(millions of dollars)

	<u>September 30</u>	<u>October 30</u>	<u>Net Change</u>
<u>Assets</u>			
Bank of Canada Notes and Deposits	1,205	1,233	+ 28
Treasury Bills	1,202	1,301	+ 99
Other Govt. Securities (Amortized Value)	2,546	2,573	+ 27
Loans to Municipalities	277	299	+ 22
Grain Dealers	262	236	- 26
Instalment Finance Cos.	215	220	+ 5
General Loans	6,942	7,074	+132
Insured Mortgages	902	902	0
Provincial Securities	409	398	- 11
Municipal Securities	280	283	+ 3
Corporate Securities	459	465	+ 6
Grand Total <u>1/</u>	<u>14,909</u>	<u>15,233</u>	<u>+334</u>
<u>Liabilities</u>			
Personal Savings Deposits	8,495	8,634	+139
Other Notice Deposits	1,186	1,205	+ 19
"All other" Deposits (less float)	4,153	4,202	+ 49
Total held by General Public	(13,834)	(14,041)	(+207)
Government of Canada Deposits	260	379	+119
Total Deposits	(14,094)	(14,420)	(+326)
Estimated Float	<u>498</u>	<u>492</u>	<u>- 6</u>
Total Canadian Deposits	<u>14,593</u>	<u>14,912</u>	<u>+319</u>

1/ Including unspecified items, net foreign assets among them.

Source: Bank of Canada, Statistical Summary and Weekly Financial Statistics.

Table 9. Canada: Currency and Chartered Bank Deposits,  
September 30-October 30, 1963  
(million dollars)

	<u>September 30</u>	<u>October 30</u>	<u>Net Change</u>
Currency outside Banks - coin	189	190	+ 1
notes	1,802	1,812	+ 10
Deposits held by General Public	13,834	14,041	+207
Total held by General Public	(15,825)	(16,043)	(+218)
Government of Canada Deposits	260	379	+119
Grand Total <u>1/</u>	<u>16,086</u>	<u>16,422</u>	<u>+336</u>

1/ Less float.

Source: Bank of Canada, Statistical Summary, and Weekly Financial Statistics.

Table 10. Canadian-U.S. Arbitrage Computations on 3-Months Treasury Bills,  
 July-November 1963  
 (per cent per annum)

	Canadian Bills		U. S. Bills, N. Y.	Spread in favor Canada (uncovered)	Premium (+) or Discount (-) on 3-months forward Canadian dollar	Net Covered Incentive in favor Canada
	Average Tender Rate	Adjusted Rate <sup>1/</sup>				
July						
3	2/3.26	3.17	3.01	+0.16	+0.10	+26
11	3.39	3.28	3.21	.07	.20	+27
18	3.48	3.32	3.20	.12	.07	+19
25	3.41	3.37	3.19	.18	-.34	-16
Aug.						
1	3.43	3.28	3.25	.03	-.07	-.04
8	3.52	3.35	3.26	.09	-.41	-.32
15	3.62	3.52	3.29	.23	-.27	-.04
22	3.70	3.52	3.35	.17	-.27	-.10
29	3.71	3.58	3.38	.20	-.34	-.14
Sept.						
5	3.75	3.62	3.34	.28	-.41	-.13
12	3.78	3.67	3.34	.33	-.14	+19
19	3.68	3.66	3.39	.27	+0.07	+34
26	3.56	3.52	3.34	.18	-.18	--
Oct.						
3	3.61	3.48	3.41	.07	-.07	--
10	3.56	3.50	3.42	.08	+0.07	+15
17	3.54	3.44	3.47	-.03	+0.07	+04
24	3.56	3.42	3.42	--	+0.07	+07
31	3.59	3.47	3.45	+0.02	--	+02
Nov.						
7	3.63	3.50	3.51	-.01	--	-.01

<sup>1/</sup> 360-day year, discount basis.

<sup>2/</sup> July 4.

Source: Federal Reserve Bank of New York.

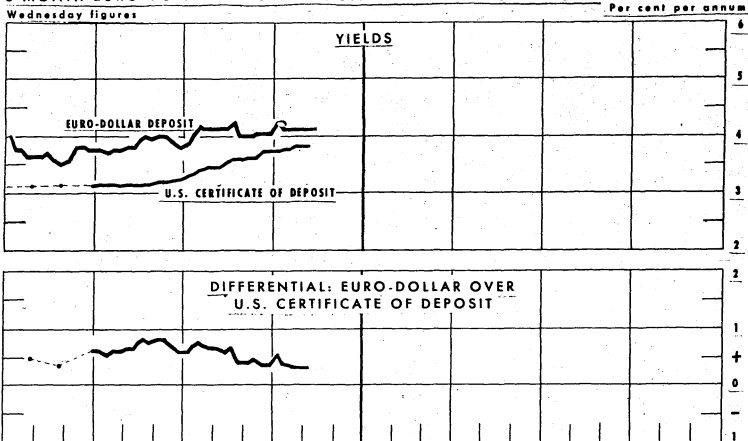
European and British Commonwealth Section.



Chart 1

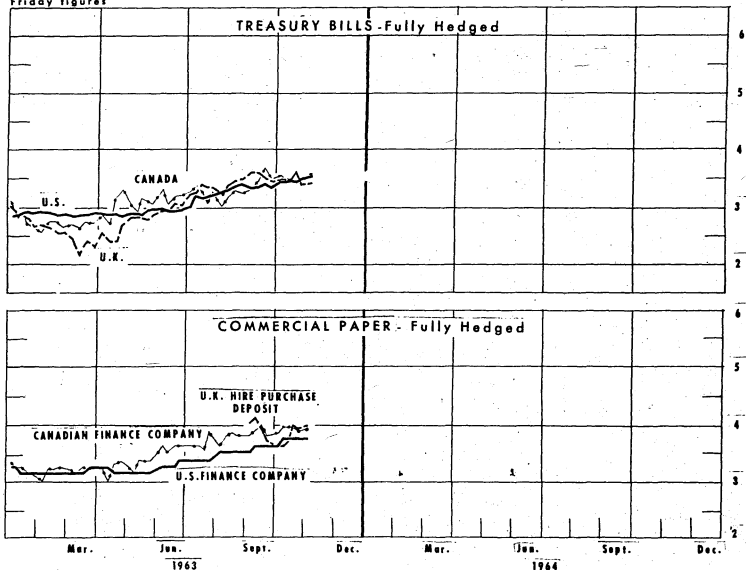
**INTERNATIONAL MONEY MARKET YIELDS FOR U.S. DOLLAR INVESTORS**

**3-MONTH EURO-DOLLAR DEPOSIT VS. U.S. CERTIFICATE OF DEPOSIT**



**NEW YORK OFFER RATES ON SELECTED 3-MONTH INVESTMENTS**

Friday figures



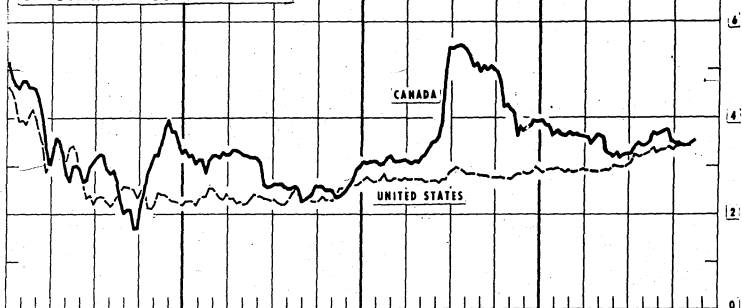
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Chart 2

### INTEREST ARBITRAGE, UNITED STATES / CANADA

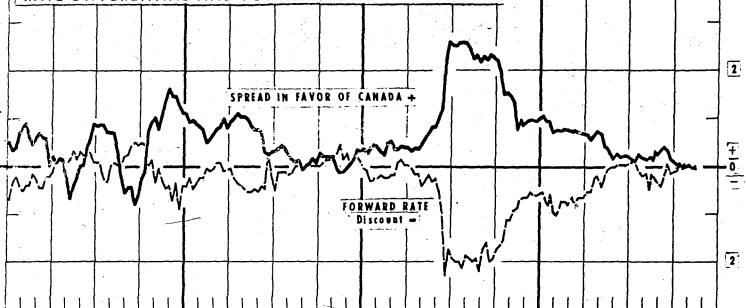
Thursday figures

Per cent per annum

3-MONTH TREASURY BILL RATES



RATE DIFFERENTIAL AND FORWARD CANADIAN DOLLAR



RATE DIFFERENTIAL WITH FORWARD EXCHANGE COVER

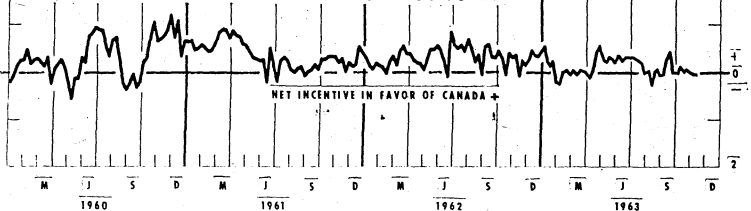
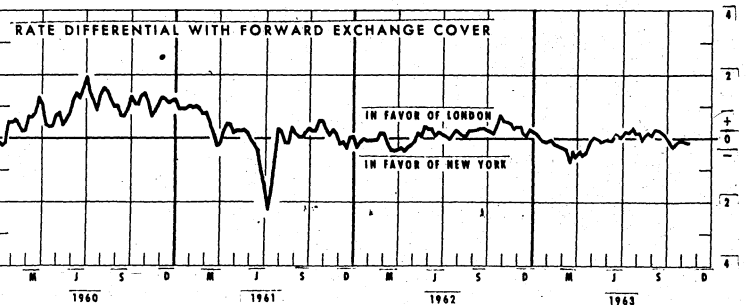
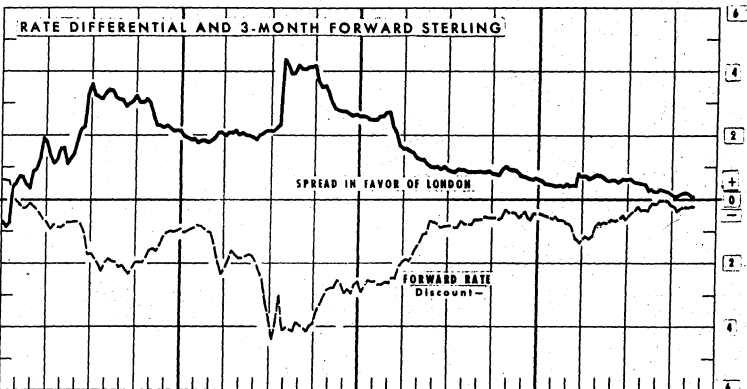
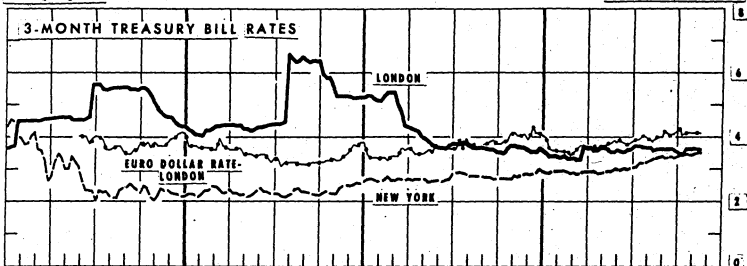


Chart 3

### INTEREST ARBITRAGE, NEW YORK/LONDON

Friday figures

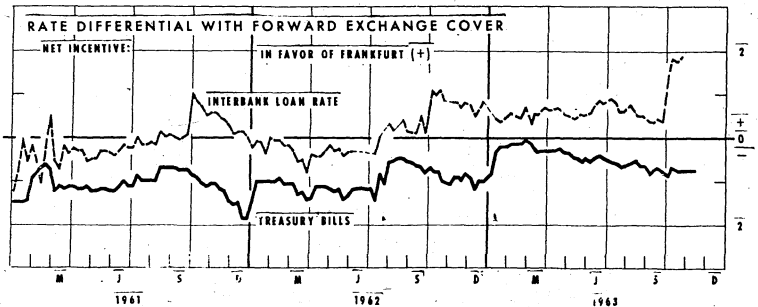
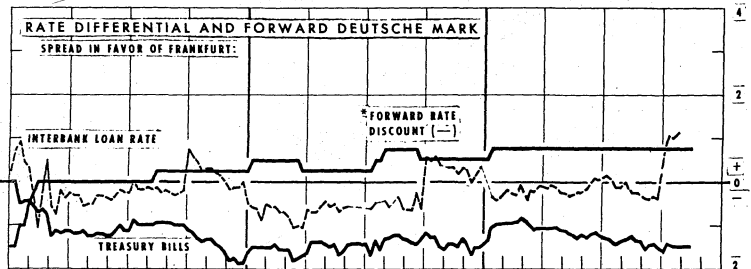
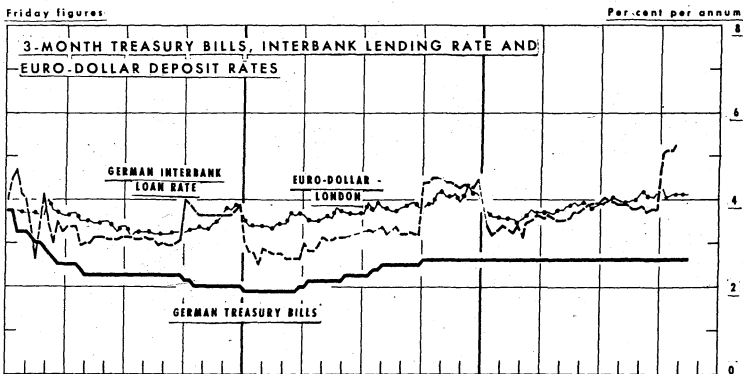
Per cent per annum



12

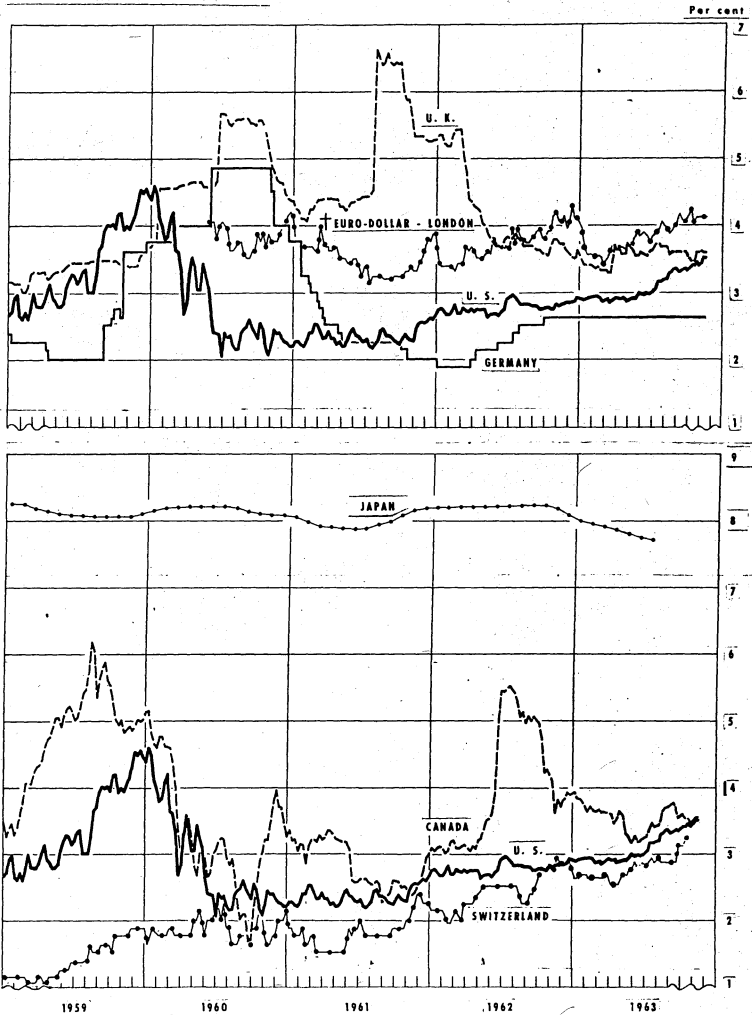
Chart 4

**INTEREST ARBITRAGE FOR GERMAN COMMERCIAL BANKS**



NOTE: Special forward rate available to German commercial banks.

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

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Chart 6

**LONG-TERM BOND YIELDS**

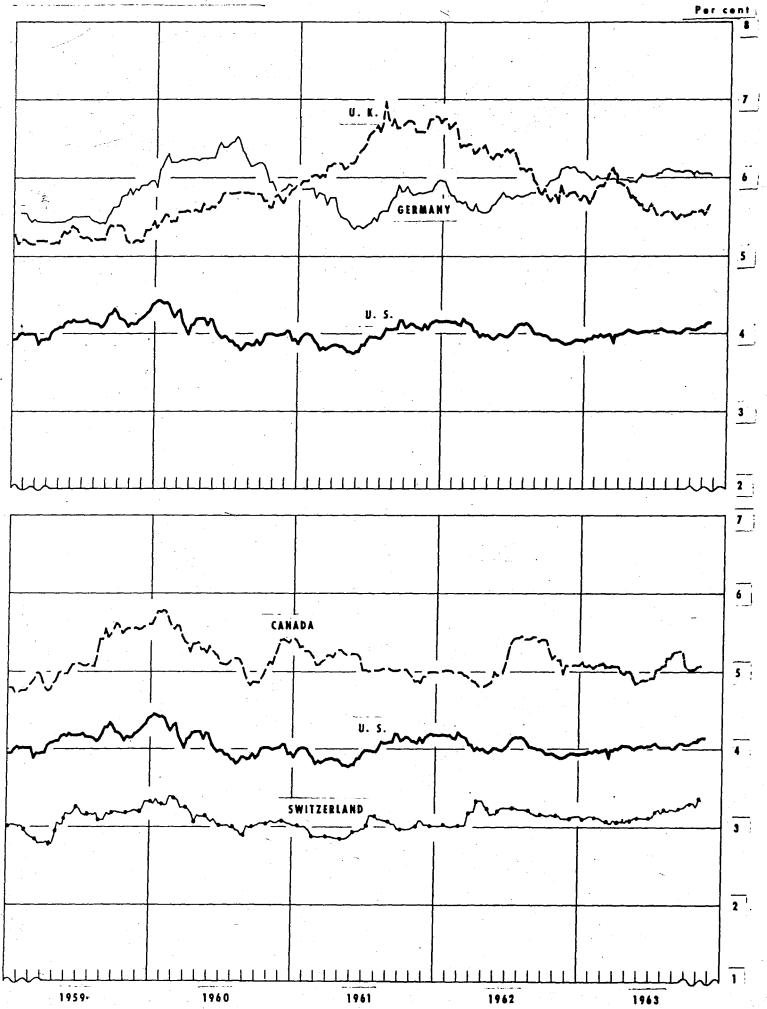
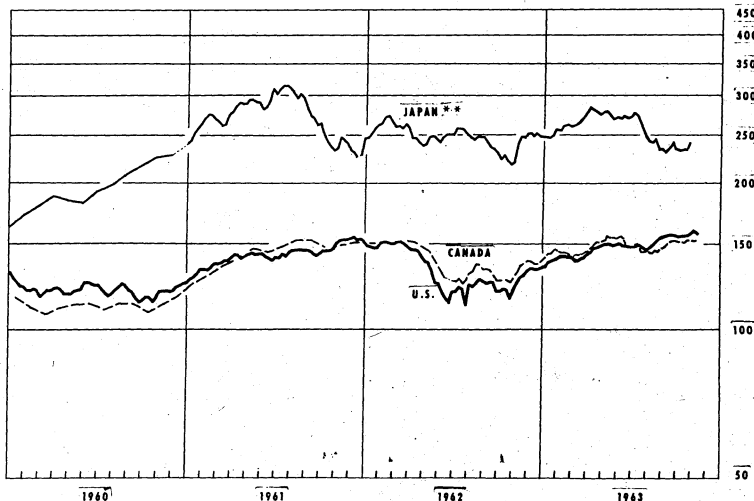
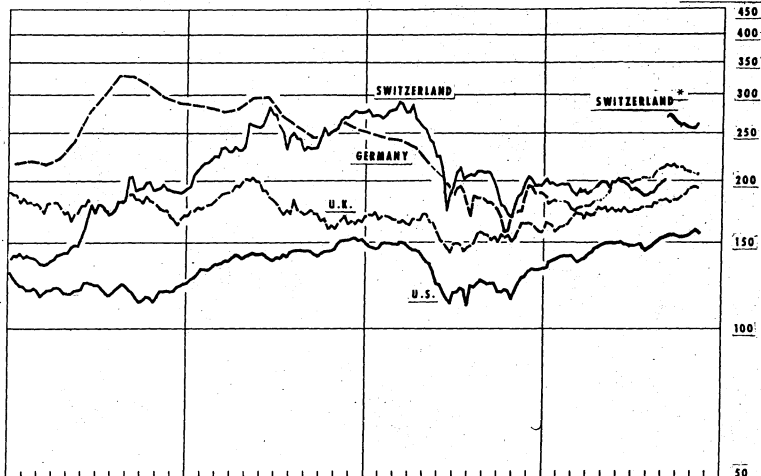


Chart 7

**INDUSTRIAL STOCK INDICES**

1958 = 100  
Ratio scale



\* New series Swiss Bank Corporation industrial stock index.  
 \*\* Japan: index of 225 industrial and other stocks traded on the Tokyo exchange.

Chart 8

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

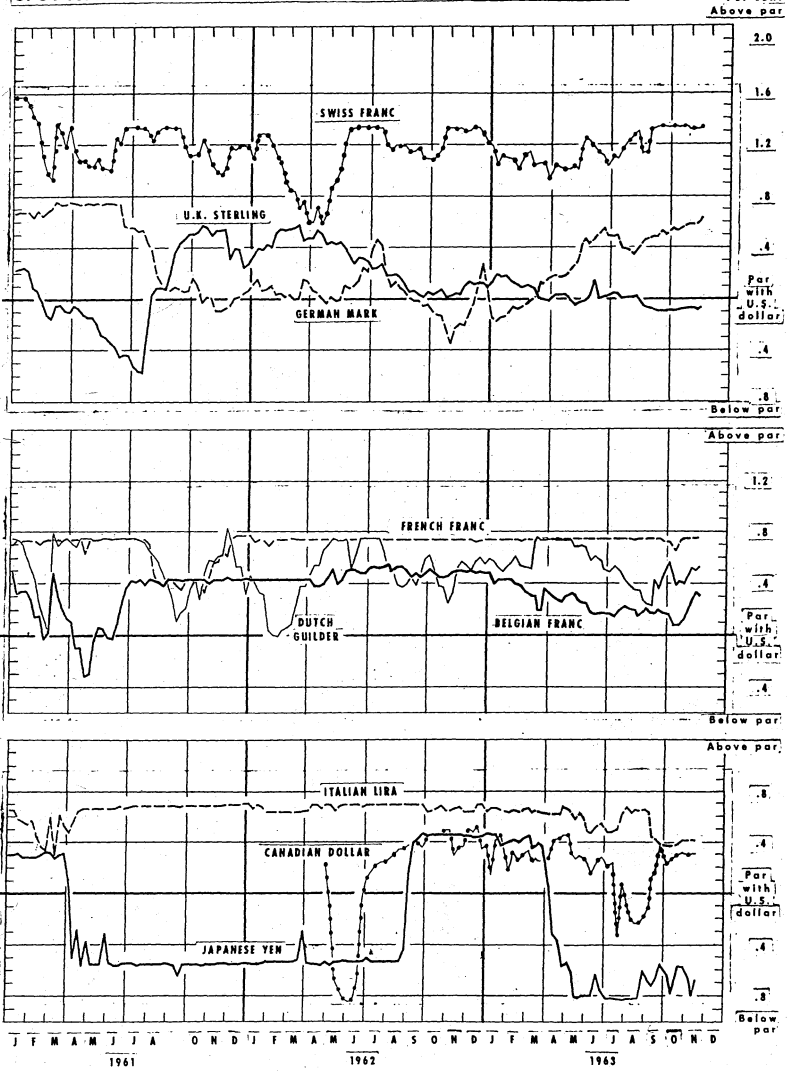




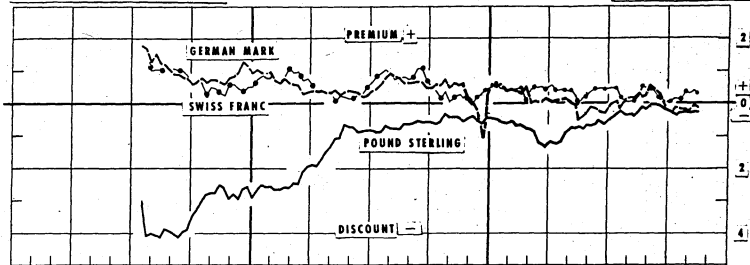
Chart 9

**3-MONTH FORWARD EXCHANGE RATE**

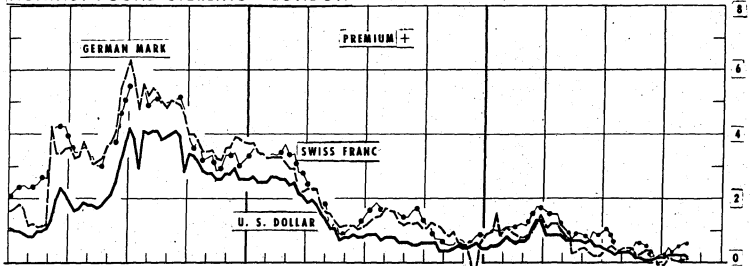
Friday figures

AGAINST U. S. DOLLARS

Per cent per annum



AGAINST POUND STERLING - LONDON



AGAINST POUND STERLING - LONDON

