

H. 13
No. 132

January 8, 1964

CAPITAL MARKET DEVELOPMENTS ABROAD

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

I. United Kingdom: Money and Capital Markets, November-December 1963

A sharp rise in long-term bond yields in the first half of November and a leveling off of the 18-month rise in industrial stock prices were the dominant developments in London financial markets in November and December. By contrast, short-term yields remained close to late-September levels, and the hedged U.K.-U.S. Treasury bill differentials have moved only narrowly since mid-September. At the same time, rates on Euro-dollar deposits advanced rapidly from 4.12 per cent on November 29 to a peak of 4.62 per cent for December 13 and 20; by January 3, however, after the year-end, the rate had returned to 4.12 per cent. (See Table 1 and Chart 5.)

Table 1. United Kingdom: Selected Money and Capital Market
Statistics, 1961-63
(in per cent per annum or index)

	1961	1962		1963				
	Aug. 4	Sept. 27	Feb. 28	Aug. 15	Oct. 25	Nov. 14	Nov. 28	Dec. 24
<u>Treasury bills</u>	6.71	3.56	3.34	3.69	3.61	3.61	3.61	3.61
<u>Bonds:</u>								
1964	6.55	3.98	3.86	3.77	3.70	3.73	3.66	3.81
1965-75	6.65	4.98	5.44	4.90	4.83	5.14	5.16	5.33
1982-84	--	5.35	5.77	5.28	5.25	5.53	5.60	5.66
2008-12	6.65	5.80	6.00	5.45	5.50	5.73	5.81	5.93
War loan	6.92	5.70	6.12	5.49	5.55	5.83	5.85	5.98
Consols	6.78	5.51	5.98	5.35	5.41	5.71	5.70	5.83
<u>Stock price index:</u>								
Industrials	323.4	269.8	306.4	320.4	342.6	342.6	343.5	347.7
<u>Euro-dollar rates: a/</u>								
3-month deposits	3.38	3.81	3.56	4.12	4.12	4.12	4.12	4.62

a/ Friday data.

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(Decontrolled after six months)

Turnabout in bond yields. Between October and December gilt-edged yields rose about 40 to 50 basis points. These rises seem to have brought to an end the steady fall in British market rates from the record highs reached in August 1961, after Bank rate was raised as an emergency measure to 7 per cent. (See Table 1 and Chart 6.) Expectations that interest rates are likely to rise in Britain in the near future have grown out of a number of factors: the upward drift in market rates in the United States and in several European countries; the broadly-based continuing domestic business recovery; the Government's publicized plans for substantial further increases in capital spending; and, finally, the recent decision that the local authorities will again borrow directly from the Treasury may add some £300 million per year of new Treasury borrowing from financial markets within the next four years. Market factors have also contributed to the turn-about in gilts: the sharp rises in equities prices and earnings; the rather heavy volume of new issues; and the present electoral uncertainties in Britain.

At the time, the climb in U.S. Treasury bill rates in early November was widely reported in the British press as a major factor responsible for triggering the increased selling of gilts. It was feared that U.S. rates would move up to a level where U.K. bill rates would have to be raised to avoid an outflow of short-term funds from Britain. However, the action by the U.S. Treasury to reduce the Treasury bill offering on November 13 helped to quiet these fears. The U.K. authorities had been selling gilt-edged securities to the market in the third quarter, and (according to The Economist) they stood aside in the second week of November, when the bond market broke sharply.

Hedged interest differentials remain small. Movements in long-term yields have not affected short-term rates. On the contrary, the U.K. bill rate has moved only narrowly since mid-September, reflecting the determination of the authorities to keep the New York-London hedged yield differential narrow. At the end of the year, a moderate rise in the forward discount raised the covered yield in favor of New York to 14 basis points, a shift of 35 points against London since mid-September. However, these differentials are too small to affect short-term capital flows materially. (See Chart 2 and Table 2.)

Table 2. Selected U.S.-U.K. 3-Month Yield Spreads:
September 1963-January 1964
(per cent per annum)

	Sept.	Oct.	Nov.	December				Jan.
	13	18	15	6	13	20	27	3
<u>TREASURY BILLS (Plus favors U.K.)</u>								
United Kingdom	3.58	3.61	3.61	3.64	3.61	3.61	3.61	3.61
United States	3.34	3.47	3.52	3.49	3.49	3.51	3.50	3.51
Favor U.K. (+)	.24	.14	.09	.15	.12	.10	.11	.10
Forward f discount(-)	-.03	-.26	-.22	-.19	-.14	-.16	-.16	-.24
Net incentive	.21	-.12	-.13	-.04	-.02	-.06	-.05	-.14
<u>FULLY HEDGED YIELD SPREADS (Plus favors U.K.)</u>								
Treasury bills	.21	-.12	-.13	-.04	-.02	-.06	-.05	-.14
Time deposits	.46	.37	.30	.62	.80	.80	.39	.26
Local Authority less								
Euro-dollar	-.03	-.26	-.09	-.32	-.38	.10	.15	.08

Local authority rates rising. Local authority 3-months (7-days call) rates gradually have risen 82 basis points since mid-September to 4.88 per cent in mid-December. The announcement of Treasury restrictions on local authority borrowing has had little impact, partly because the regulations were long-anticipated, and partly because the local authorities will have an extended period of adjustment. At present, after allowing for forward cover, there is a small premium on local authority bills over Euro-dollars. (See Table 2.)

Stock prices on high plateau. The Financial Times ordinary stock index rose 22 per cent during 1963 and was at 347.7 at end-December or about 5 per cent below the all-time May 1961 peak. (See Chart 7.) The increase in stock prices reflects a rise in dividends and a favorable outlook for corporate earnings. However, the stock-price index has fluctuated narrowly in the 340's during the past two months.

New issues rise sharply. From September through November new capital issues were sharply above the year-ago levels. The recent heavy volume of new issues has contributed to the turn in gilt-edged prices. For 1963 as a whole, however, the total is only £35 million (about 6 per cent) over the 1962 level. New issues by industry are up sharply over year-ago levels, both in recent months and for all 1963; new issues by government and public authorities in 1963 were £48 million lower (a fall of about 25 per cent) than the comparable 1962 total.

Table 3. New U.K. Capital Issues

	<u>£ million per month</u>					1963	1962
	<u>Aug.</u>	<u>Sept.</u>	<u>Oct.</u>	<u>Nov.</u>	<u>Dec.</u>	<u>£ mn.</u>	<u>£ mn.</u>
New capital total	42	83	67	70	42	635	606
Industry	19	48	57	65	42	475	397
Government & Public Authority	23	35	10	5	--	160	209

Source: Financial Times, Wednesday, January 1, 1964; Monday, December 2, 1963; Friday, November 1, 1963; Tuesday, October 1, 1963; Monday, September 2, 1963.

Slow private credit expansion continues. During the fourth quarter the London clearing banks added £137 million to holdings of Treasury bills and bonds and some £78 million to their (seasonally adjusted) advances to the private sector. (See Table 4.) Deposits rose by about £136 million or at about the third-quarter rate.

Table 4. United Kingdom: London Clearing Banks, Net Deposits
and Selected Assets a/
(in millions of pounds)

	C h a n g e s					Total Mid-December 1963 ^{c/}
	1962	1963				
	IV ^{c/}	I	II	III	IV ^{c/}	
<u>NET DEPOSITS</u>	106	- 67	160	125	199	6,993
<u>SELECTED ASSETS</u>						
Claims on Public Sector	208	-434	63	141	137	2,955
Government securities	81	- 83	-32	24	50	1,163
Treasury bills and call loans	112	-357	123	109	80	1,727
Loans to nationalized industries	15	6	-28	8	7	65
Claims on Private Sector	55	370	97	10	27	4,320
Advances (net)	63	329	90	26	18	3,897
Commercial bills and other	- 8	43	7	-16	9	423
<u>SEASONALLY ADJUSTED CHANGES:</u>						
Net Deposits	78	51	55	130	b/136	--
Net Advances	135	121	90	122	b/ 78	--
<u>RESERVE RATIOS</u>						
Liquid Assets	34.0	32.2	30.9	31.6	32.6	--
Cash	8.3	8.1	8.1	8.1	8.2	--

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

b/ Estimated by FRB staff.

c/ December bank statements are as of the second Wednesday, because of the holidays; hence data for December and for the 4th quarter are short one week.

In October, installment credit outstanding rose both in volume and compared to year-ago levels, continuing the fairly steady rise begun in the second quarter. Total installment credit outstanding in October was £939 million, up 6 per cent over year-ago levels.

Table 5. United Kingdom: Installment Credit, 1963 ^{a/}
(months or monthly averages)

	<u>I</u>	<u>II</u>	<u>III</u>	<u>Sept.</u>	<u>Oct.</u>
<u>New Credit (1957=100)</u>					
Household goods shops sales <u>b/</u>	97	109	121	126	131
Finance Houses credit <u>c/</u>	132	182	165	154	175
<u>Credit Outstanding (£ mn.)</u>					
Household goods shops	313	311	319	323	324
Finance Houses	<u>562</u>	<u>583</u>	<u>607</u>	<u>611</u>	<u>615</u>
Total:	875	894	926	934	939
Change/year-ago (%)	(-3)	(+1)	(+4)	(+5)	(+6)

a/ Data seasonally unadjusted.

b/ Weekly average.

c/ Monthly average.

Source: United Kingdom Board of Trade.

Foreign trade deficit increases. The trade deficit for October/November was somewhat higher than the average for the third quarter, principally because the value of export shipments declined. (See Table 6.) For 1963 as a whole, the trade deficit has grown continuously, largely because of substantially heavier imports. Because Britain's import figures value sugar at world market prices and not at the actual costs to Britain under the Commonwealth Sugar Agreement, the trade figures overstate the extent to which Britain's trade accounts in the balance of payments have deteriorated.

Table 6. United Kingdom: Foreign Trade
(Seasonally adjusted £ millions, monthly averages)

	1962	1963				
	<u>IV</u>	<u>I</u>	<u>II</u>	<u>III</u>	<u>Oct.-Nov.</u>	<u>Nov.</u>
Exports, f.o.b. <u>a/</u>	331	339	348	359	354	355
Imports, c.i.f. <u>a/</u>	<u>374</u>	<u>375</u>	<u>395</u>	<u>412</u>	<u>414</u>	<u>423</u>
Trade balance <u>b/</u> deficit (-)	<u>-43</u>	<u>-36</u>	<u>-47</u>	<u>-53</u>	<u>-60</u>	<u>-68</u>

a/ Includes re-exports, which also are reflected in imports data.

b/ Trade data differ from those published in the balance of payments, where imports are entered f.o.b., and insurance and freight are included as non-commodity trade.

Source: United Kingdom Board of Trade.

Britain's reserves rise modestly. During December, Britain's reserves (adjusted for special official transactions) rose some \$23 million, the tenth consecutive month of reserve accrual. (See Table 7.) Nonetheless, reserve gains later in the year were insufficient to offset the \$275 million reserve losses recorded during the foreign-exchange difficulties in the first three months of 1963.

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

	C h a n g e s						Outstanding end-Dec. 1963
	I	II	III	IV	Nov.	Dec.	
<u>Gold and Convertible Foreign Exchange</u>	+ 8	-101	+22	- 78	+ 17	-115	2,657
Less:							
Central bank loans a/ U.S. Official foreign exchange operations b/	+250	-250	--	--	--	--	
U.K. Recov. Loan Repay. German Military Prepay.	+ 33	+ 18	-17	c/ -186	c/ + 48	-186 + 48	
Adjusted Reserve Changes	-275	+131	+39	+ 60	+ 17	+ 23	

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

b/ Federal Reserve Bulletin, September 1963 pp. 1219-20.

c/ Operations for Nov. 22 crisis liquidated within month.

Year-end Euro-dollar rates rise. Rates in the Euro-dollar market began moving up in early December as they usually do in response to year-end window dressing. (See Table 8.) As a result, the differential of Euro-dollars over New York Certificates of Deposit widened from 30 basis points on November 29 to 80 points in mid-December. However, this differential narrowed to 39 basis points on December 27 and to 26 basis points on January 3 as Euro-dollar deposit rates dropped rapidly after mid-December. (See Table 11.) The rapidity with which Euro-dollar rates declined from mid-December peaks took place against a background of growing international concern about the credit risks in this market, in part because Euro-dollar loans were involved in the recent Vegetable Oil Case, as well as in the Stinnes failure. A wider spread of lending rates based on considerations of credit quality has been developing in the market.

Table 8. Rates on Euro-Dollar Deposits: Dec. 1962 and Dec. 1963
(per cent per annum)

Week of:	Call		30-days		90-days		180-days	
	1962	1963	1962	1963	1962	1963	1962	1963
November 21	2.88	3.69	3.63	3.81	4.00	4.12	4.12	4.25
December 4	3.38	3.88	4.19	4.31	4.25	4.31	4.25	4.38
December 19	3.38	3.88	4.38	4.69	4.38	4.62	4.31	4.50
January 2	3.69	3.75	3.94	3.88	4.00	4.19	4.12	4.25

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Several long-term foreign-currency bond issues were also floated through the London market during November and December, including:

<u>Borrower</u>	<u>Amount</u>	<u>Rate</u>	<u>Month</u>	<u>Comment</u>
Belgian Government	\$20 mn.	5%	May	
Auto strada	\$15 mn.	5-1/2%	July	Italian State Owned-
Japanese Government	£ 5 mn.	6%	Aug.	replace exist. loan
Cassa peril Mezzogiorno	\$18 mn.	5-1/4-5-1/2%	Nov.	Unit of Acct.
City of Copenhagen	£ 5 mn.	5%	Nov.	Swiss Francs loan
Banco de Fomento Nacional	\$13 mn.	5-1/2%	Nov.	Unit Acct.
Canon Camera	\$ 5 mn.	6-1/4%	Nov.	Japanese firm
Takeda Chemical Inc.	\$15 mn.		Dec.	Japanese firm
Taisho Insurance	£ 1 mn.	Japanese Equities issue in London		
Belgian Government	\$20 mn.	5-1/4%	Jan.	

Exchange rates stable. During December, both the spot and forward pounds were slightly easier but were higher in early January than they had been in late November. (See Table 9 and Charts 8 and 9.)

Table 9. Selected Spot and Forward Sterling-Dollar Rates
1963-64
(cents per pound)

	<u>Spot</u>	<u>3-months Forward</u>		<u>Spot</u>	<u>3-months Forward</u>
Oct. 31	279.83	279.62	Dec. 6	279.67	279.56
Nov. 8	279.80	279.78	Dec. 13	279.69	279.60
Nov. 15	279.83	279.81	Dec. 20	279.67	279.57
Nov. 21	279.84	279.82	Dec. 27	279.66	279.62
Nov. 26	279.78	279.64	Jan. 3	279.75	279.59
Nov. 29	279.73	279.58	Jan. 7	279.88	279.66

Gold prices easier in December. The fixing price for bullion in London eased downward during November and December from the \$35.109 per ounce quoted on October 31. During December, the price fluctuated narrowly between \$35.070 and 35.089 per ounce. (See Table 10.)

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Table 10. United Kingdom: Fixing Price for Gold, November and December
(U.S. dollars per ounce)

<u>1963:</u>			
Oct. 31	35.109	Dec. 6	35.085
		13	35.081
Nov. 8	35.080	20	35.084
15	35.072	27	35.077
21	35.073		
25	35.093	<u>1964:</u>	
29	35.078	Jan. 3	35.072
		7	35.070

According to estimates of London bullion dealers, Soviet sales increased from \$220 million in calendar 1962 to \$506 million in 1963. (See Table 11.) As a result, new gold available to the Free World was about \$351 million greater in 1963 than in 1962.

Table 11. New Free-World Gold Supplies in 1963
(millions of dollars)

	<u>1963</u>	<u>1962</u>
Free World Production	1,365	<u>a/1,300</u>
Soviet Sales to Free World	506	<u>a/ 220</u>
	<u>1,871</u>	<u>a/1,520</u>

a/ Corrected to accord with B.I.S. estimate in 33rd Annual Report, page 116.
Source: London Times, January 1, 1964.

Europe and British Commonwealth Section.

II. Nine Charts on Financial Markets Abroad

- Chart 1 - International Money Market Yields for U.S. Dollar Investors
- Chart 2 - Interest Arbitrage, United States/Canada
- Chart 3 - Interest Arbitrage, New York/London
- Chart 4 - Interest Arbitrage for German Commercial Banks
- 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. U.S.-U.K. 3-Month Covered Yield Comparisons

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		3-mo. Treasury bill arbitrage calculation					3-Mo. Dollar Deposit Rates		
		U.K.	U.S.	Differ- ence	3-mo. pound ^{a/}	(+)In favor U.K. bill	Covered Net in fav. London	London	New York (Cert. of Deposits)
<u>1962</u>									
	High	3.78	2.73	1.05	-0.31	0.74	--	4.13	--
	Low	4.25	2.74	1.51	-1.92	-0.41	--	3.44	--
<u>1963</u>									
	Oct. 4	3.48	3.42	.06	-.22	-.16	.55	4.25	3.70
	11	3.48	3.42	.06	-.35	-.29	.38	4.12	3.74
	18	3.61	3.47	.14	-.26	-.12	.37	4.12	3.75
	25	3.61	3.43	.18	-.24	-.06	.30	4.12	3.82
	Nov. 1	3.63	3.46	.17	-.25	-.08	.30	4.12	3.82
	8	3.61	3.53	.08	-.21	-.13	.30	4.12	3.82
	15	3.61	3.52	.09	-.22	-.13	.30	4.12	3.82
	22	b/3.61	b/3.48	.13	-.21	-.08	.30	4.12	3.82
	29	3.61	3.47	.14	-.19	-.05	.30	4.12	3.82
	Dec. 6	3.64	3.49	.15	-.19	-.04	.62	4.44	3.82
	13	3.61	3.49	.12	-.14	-.02	.80	4.62	3.82
	20	3.61	3.51	.10	-.16	-.06	.80	4.62	3.82
	27	3.61	3.50	.11	-.16	-.05	.39	4.25	3.86
<u>1964</u>									
	Jan. 3	3.61	3.51	.10	-.24	-.14	.26	4.12	3.86

^{a/} Certified N.Y. noon buying rate. ^{b/} Thursday data.

Table 13. United Kingdom: Selected Capital Market Yields

		U.K. Government bond yields					Share yield	Yield gap	Share prices
		4-1/2% 1964	3% 1965-75	5-1/2% 2008-12	3-1/2% War Loan	2-1/2% Consols	a/	b/	a/
<u>1962</u>									
	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
<u>1963</u>									
	Oct. 3	3.57	4.81	5.48	5.57	5.42	4.72	.70	333.8
	10	3.54	4.82	5.50	5.59	5.43	4.70	.73	334.7
	17	3.62	4.82	5.50	5.60	5.42	4.60	.82	341.4
	24	3.70	4.83	5.50	5.55	5.41	4.58	.83	342.6
	31	3.73	4.92	5.53	5.60	5.48	4.56	.92	345.7
	Nov. 7	3.76	4.98	5.58	5.66	5.53	4.58	.95	344.6
	14	3.73	5.14	5.74	5.83	5.71	4.61	1.10	342.6
	21	3.76	5.26	5.75	5.84	5.68	4.66	1.02	339.5
	28	3.66	5.16	5.81	5.85	5.70	4.61	1.09	343.5
	Dec. 5	3.69	5.27	5.91	5.95	5.79	4.63	1.16	341.9
	12	3.80	5.31	5.95	5.95	5.76	4.59	1.17	345.6
	19	3.77	5.33	5.93	5.99	5.84	4.60	1.24	344.2
	24	3.81	5.33	5.93	5.98	5.83	4.56	1.27	347.7
<u>1964</u>									
	Jan. 2	3.78	5.28	5.60	5.95	5.77	4.52	1.25	351.0

^{a/} Financial Times.

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

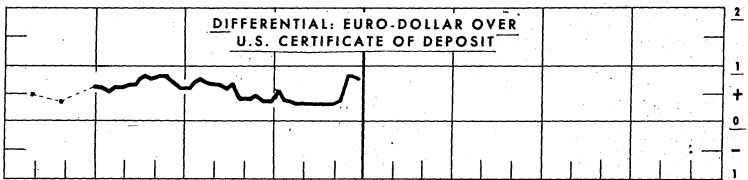
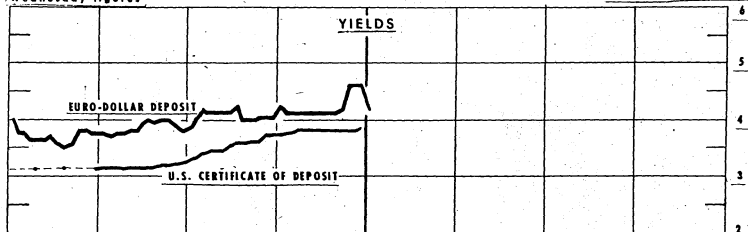
Chart 1

INTERNATIONAL MONEY MARKET YIELDS FOR U.S. DOLLAR INVESTORS

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

Wednesday figures

Per cent per annum



NEW YORK OFFER RATES ON SELECTED 3-MONTH INVESTMENTS

Friday figures

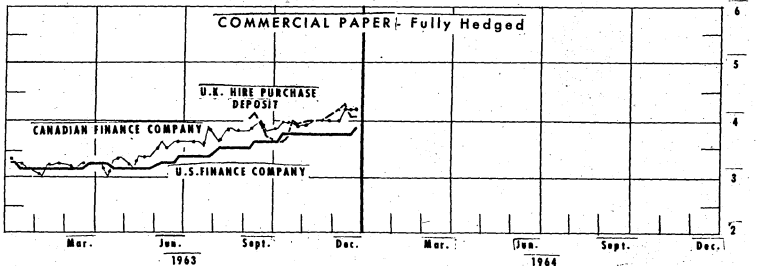
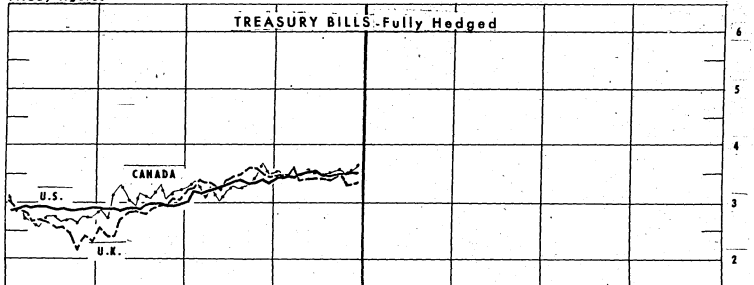


Chart 2

INTEREST ARBITRAGE, UNITED STATES / CANADA

Thursday figures

Per cent per annum

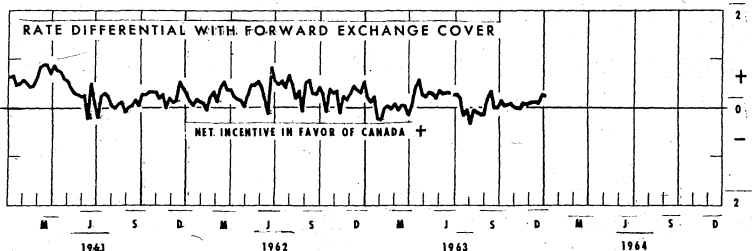
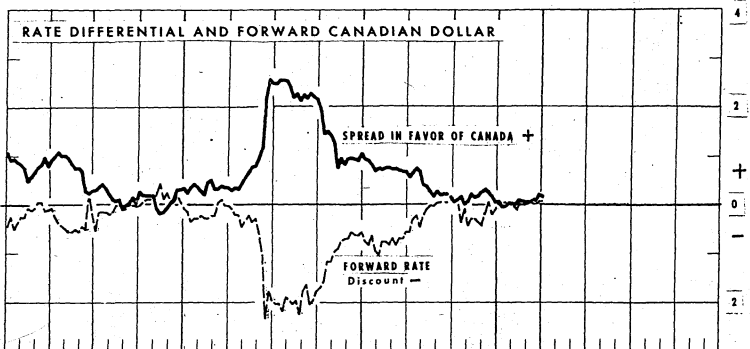
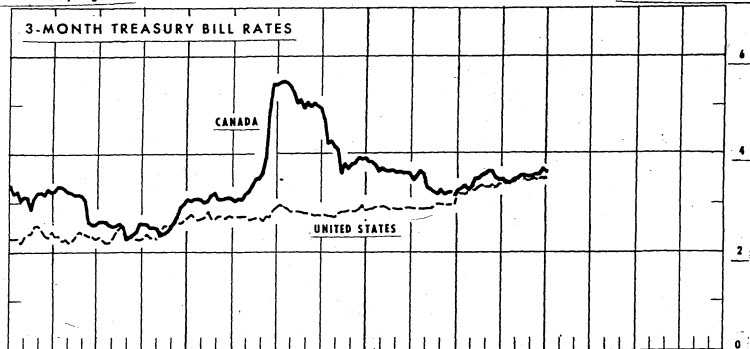
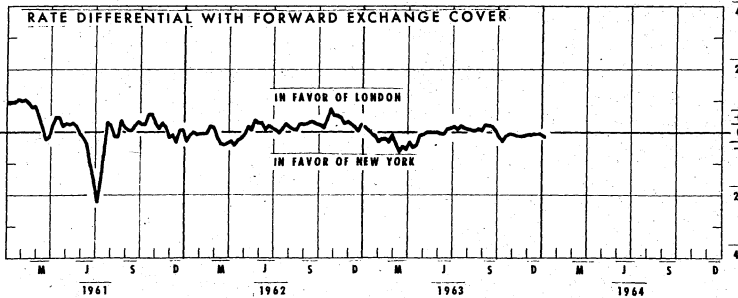
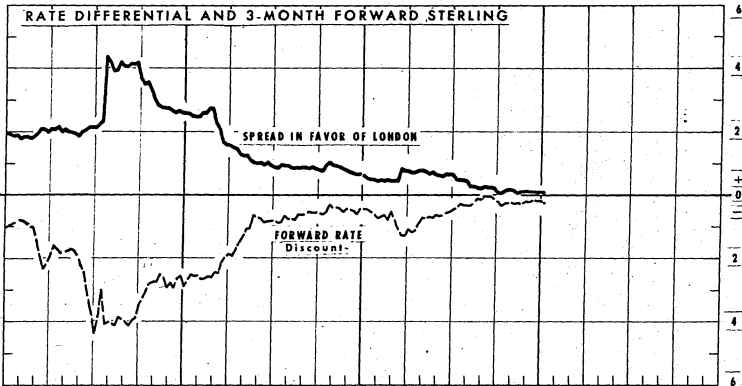
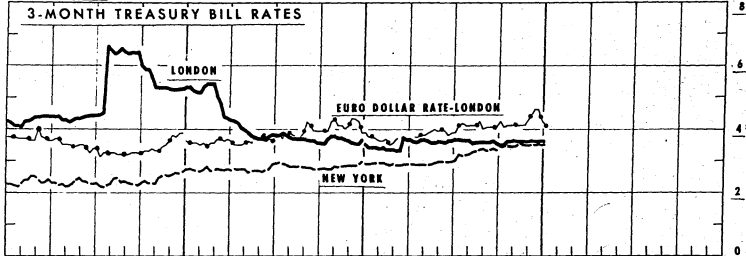


Chart 3

INTEREST ARBITRAGE, NEW YORK/LONDON

Friday figures

Per cent per annum



12

Chart 4

INTEREST ARBITRAGE FOR GERMAN COMMERCIAL BANKS

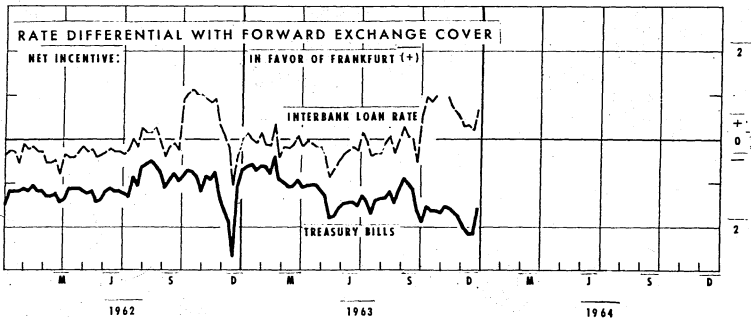
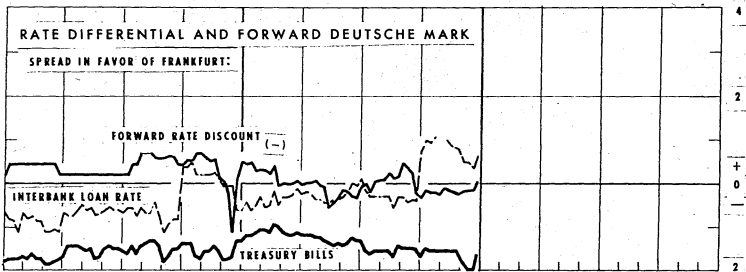
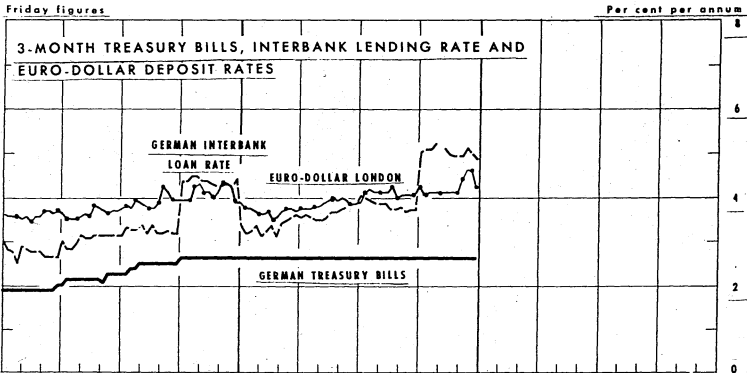
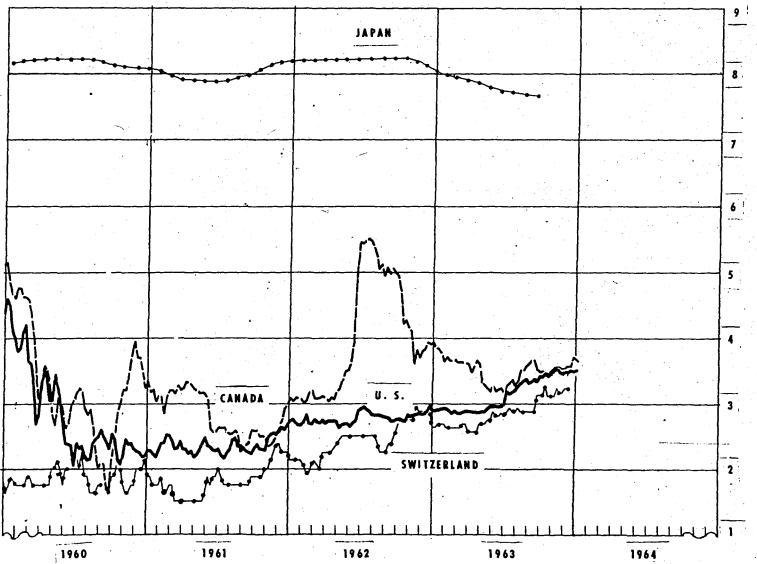
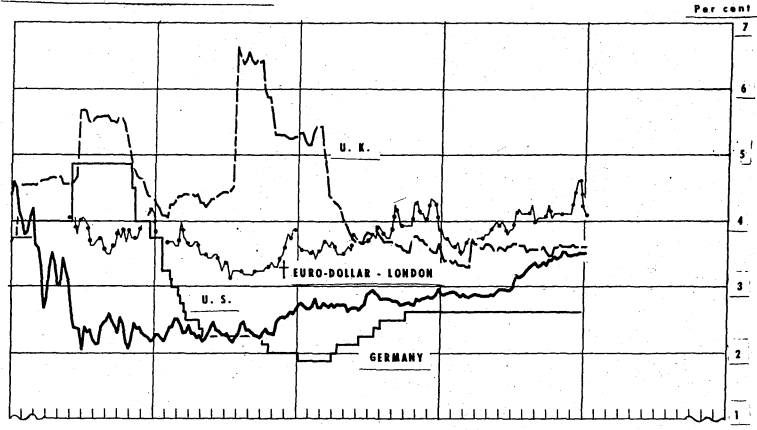


Chart 5
SHORT-TERM INTEREST RATES *



* 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.

Chart 6

LONG-TERM BOND YIELDS

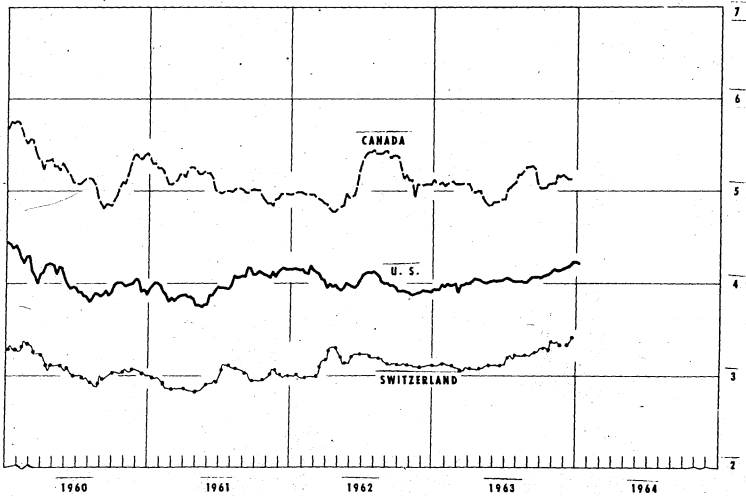
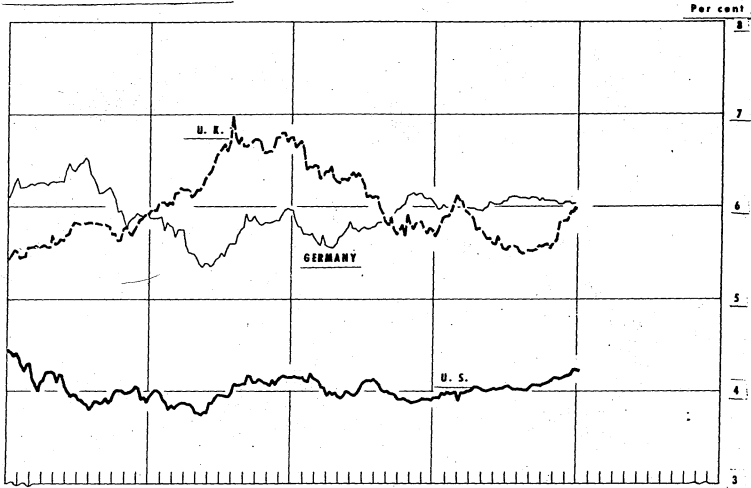
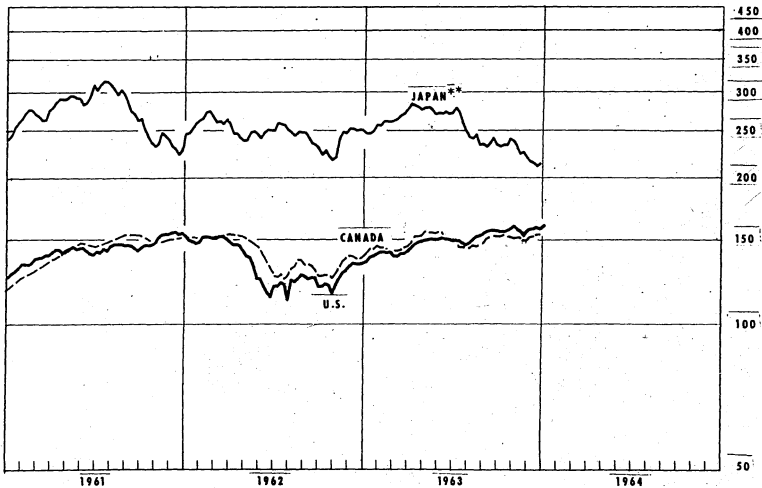
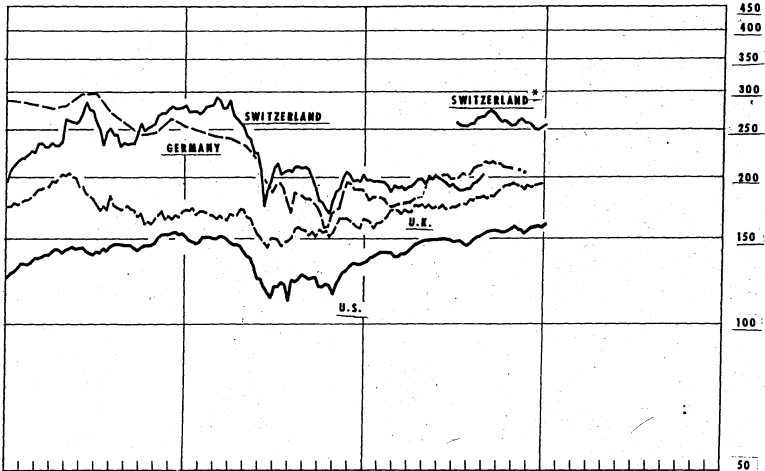


Chart 7

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

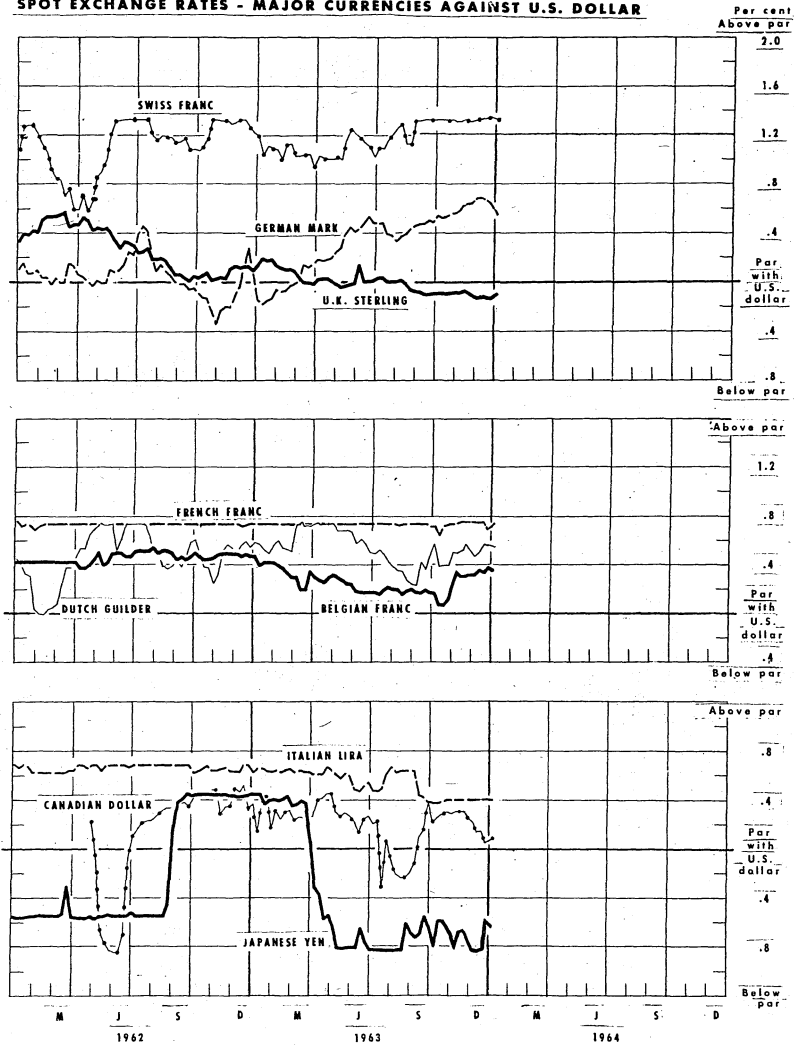


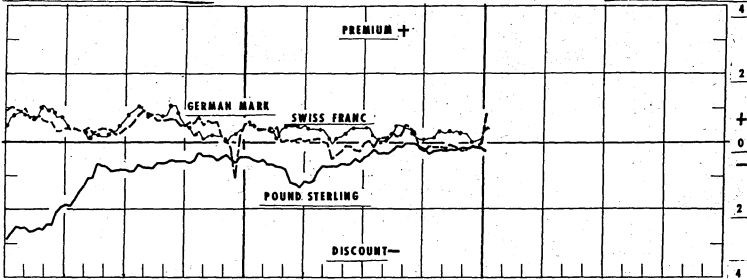
Chart 9

3-MONTH FORWARD EXCHANGE RATE

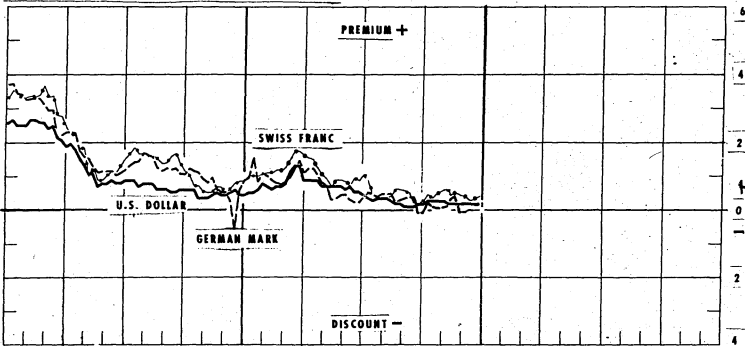
Friday figures

AGAINST U.S. DOLLARS

Per cent per annum



AGAINST POUND STERLING - LONDON



AGAINST POUND STERLING - LONDON

