BOARD OF GOVERNORS
OF THE

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January 22, 1964

CAPITAL MARKET DEVELOPMENTS ABROAD

I. Canada

II. Nine Charts on Financial Markets Abroad

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

Conditions in Canadian money and capital markets were rather quiet during November and December, particularly in comparison with the pace of the preceding five months. During the period under review, rates on short-term Treasury bills tended to rise moderately and the spreads between Canadian and comparable U.S. Government securities widened somewhat. But, on average, bond yields moved within an extremely narrow range, as did the exchange rate for the Canadian dollar and the level of official foreign-exchange reserves.

A sustained demand for funds by Canadian finance companies pushed up finance paper rates and stimulated a modest but continuing flow of funds from New York. Prime Canadian finance companies raised rates on 90-179 day paper from 4 to 4-1/8 per cent on November 18 and to 4-1/4 per cent on December 9. Offering rates of other finance companies were about 1/8 to 1/4 per cent higher than rates for prime names. By mid-January, the cash position of these companies became easier and they rapidly reduced their rates to 4-1/8 per cent on January 20 and to 4 per cent on January 27.

The current relative ease in Canadian financial markets has been accentuated by injections of liquidity associated with the enlarged current export surplus (attributable in part to the Russian cash wheat sales). Two underlying factors, however, have been tending to push up Canadian bond yields and to widen the spread between comparable United States and Canadian market yields on Canadian securities: Canadian efforts to reduce foreign ownership in Canadian industries and U.S. efforts to reduce Canadian borrowings in U.S. markets. Since early July, prior to the announcement of the U.S. interest equalization tax, Canadian yields have risen by an additional 10 to 20 basis points above comparable U.S. yields for 4 to 20 year government securities and for provincial securities. (See Table 1.) The more attractive Canadian yields, especially on local government bonds, (in the absence of new offerings of U.S.-pay bonds in New York) led one Canadian market report to note in mid-December that "buying interest from U.S. investors has now become a major factor in the placement of Canadian municipals."

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Table 1. United States and Canada: Bond Yields, Selected Dates 1963-64 (in per cent per annum)

	July	Oct.	November		December		Jan.
	_3	24	6	_20	18	31	16
I. Federal Govt. Securities:							
Bonds - 4 years issued in:							
Canada (2-3/4/68)	4.01	4.34	4.37	4.37	4.37	4.42	4.47
U.S. (2-1/2/68)	3.80	3.78	3.91	3.84	3.92	3.91	3.91
	. 21	.56	.46	.53	.45	.51	.56
Bonds - 8 years issued in:			-				
Canada (4-1/4/72)	4.75	4.95	4.93	5.00	4.99	4.96	5.05
U.S. (2-1/2/72)	3.96	3.98	4.07	4.02	4.04	4.03	4.09
	. 79	.97	.86	. 98	. 95	.93	. 96
Bonds - 20 years issued in:							
Canada (4-1/2/83)	4.95	5.11	5.11	5.16	5.17	5.14	5.21
U.S. (3-1/4/83)	4.03	4.03	4.08	4.09	4.18	4.19	4.20
	.92	1.08	1.03	1.07	. 99	. 95	1.01
Bonds - 35 years issued in:							
Canada (3-3/4/98)	4.88	5.05	5.01	5.04	5.02	5.02	5.01
U.S. (3/95)	$\frac{3.69}{1.10}$	$\frac{3.73}{1.32}$	$\frac{3.77}{1.07}$	$\frac{3.77}{1.07}$	3.84	3.85	3.88
TT Pm. d - 1 C 1 C 1	1.19	1.32	1.24	1.27	1.18	1.17	1.13
II. Provincial Securities: Ontario issued in:							
Canada (5-1/2/81)	5.21	5.36	5.37	5,37	5,43	n.a.	5.48
U.S. (4-3/4/84)	4.43	4.56	4.56	4.57	4.56	n.a.	4.56
0.0. (4-3/4/04)	. 78	.80	.81	.80	.87	n. a.	.92
Quebec Hydro issued in:					07	11. 0.	
Canada (5-1/2/82)	5.34	5, 53	5.61	5.63	5.63	n.a.	5,68
U.S. (5/84)	4.62	4.69	4.74	4.68	4.66	n.a.	4.68
	. 72	. 90	.87	. 95	.97	n.a.	1.00
Metro Toronto issue in:							
Canada (5-1/2/82)	5.34	5.52	5.52	5.52	5.52	n.a.	5.52
U.S. (5/79)	4.44	4.66	4.66	4.55	4.61	n.a.	4.58
	. 90	.86	.86	.97	.91	n.a.	. 94
III. Govt. of Canada Securities							
Issued in:					12.00		
Canada (5-1/2/75)	4.99	5.13	5.13	5.19	5.19	n.a.	5.21
U.S. (2-3/4/74)	4.30	4.58	4.41	4.41	4.70	n.a.	4.63
	. 69	.55	. 72	. 78	.49	n.a.	. 58

Money market yields continue to advance. During November and December, money market yields advanced further. The yield on 3-month Treasury bills climbed from 3.59 per cent on October 30 to 3.77 per cent on January 15. (See Table 2.) Rates on day-to-day money rose from 3-1/4 per cent in mid-November to 3-3/4 per cent in mid-December when dealers were reported to have borrowed from the Bank of Canada on several occasions at 3.91 per cent.

 $\frac{\text{Table 2. Canadian-U.S. Arbitrage on 3-Month Treasury Bills,}}{\frac{\text{Selected Dates}}{\text{(in per cent per annum)}}}$

								4 1
		Oct.	Nove	mber	D	ecember		Jan.
		24	6	20	4	18	27	16
I.	Treasury bill arbitrage:						-	
	Canadian bill:					100		
	Tender rate	3.56	3.63	3.63	3.68	3.71	3.78	3.77
	Adjusted rate $\underline{1}/$	3.42	3.50	3.57	3.56	3.59	3.71	3.69
	U.S. bill in New York	3.42	3.51	3.48	3.50	3.51	3.50	3.52
	Spread in favor of Canada		01	+.09	+.06	+.08	+. 21	+. 17
	Forward Canadian dollar	+.07			+.04	-=-	+.07	_=
	Net return on Canadian	+.07	01	+. 09	+. 10	+.08	+. 28	+.17

^{1/} Converted to 360-day year, discount basis.

Continued active demand for funds by finance companies pushed up rates on finance and commercial paper more rapidly than bill rates in Canada. Between October 25 and December 20, for example, the yield on the 3-month bill rose by 15 basis points but market sources estimate that the yield on 90-179 day finance paper was up by 25 points. (See Table 3.) On a covered basis, the advantage on finance paper as compared to Treasury bills widened from 47 basis points to 63 basis points. Consequently, funds moved from New York into finance paper in modest amounts throughout the period, at a time when the arbitrage calculation on Treasury bills provided only a small incentive to buy the Canadian bill. (See Table 2.)

Table 3. Canadian Prime Finance Company Paper: Interest

Arbitrage Computation, Selected Dates
(in per cent per annum on 90-day paper)

	-	1	9 6 3			. 196	54
	Oct.	Nov	ember	Dec	ember	Janı	ary
	25	8	22	6	20	3	17
Canadian market rates							
(uncovered):							
Finance paper	4.00	4.00	4.13	4.25	4.25	4.25	4.25
Treasury bill	3.56	3.63	3.63	3.68	3.71	$\frac{3.74}{+.51}$	3.77
Differential	+.44	+.37	+.50	+.57	+. 54	+.51	+.48
Fully-hedged yields: 1/							
Finance paper	3.94	3.90	4,00	4.00	4.20	4.20	4.00
Treasury bill	3.47	3.54	3.50	3.58	3.57	3.63	3.67
Differential	+.47	+. 36	+.50	+.42	+.63	+.57	+. 33
1 / Offering quetation of	2 Mora We	wir aamm	omain1 b	ani ba			

1/ Offering quotation of a New York commercial bank to U.S. investors.

Government bond yields remain relatively stable. Even though there were modest declines in early December, yields on intermediate and long-term Canadian Government bonds stood in mid-January close to the level they attained in mid-November. (See Table 4.) Bond yields jumped sharply in the second week of November throughout all maturities. After President Kennedy's assassination on November 22, bond trading was suspended; by November 28 when major financial markets were reopened, stability had been restored. Because the bond market opened firm, no support operations by the Bank of Canada were required.

On December 2, the Ministry of Finance announced the terms of the refunding of the \$300 million of 4 per cent bonds maturing on December:

\$225 million, 3-1/4 per cent due December 15, 1964 offered at 99.15 to yield 4.13 per cent; and \$75 million, 4-1/2 per cent due December 15, 1966 offered

at 99.85 to yield 4.55 per cent.

Both issues were well received and quickly moved to a slight premium. In late December, bond yields moved up further in response to some holiday season selling.

During 1963, the outstanding volume of Covernment of Canada Direct and Guaranteed Securities increased some \$830 million, or at about the same yearly rate as in the period 1959-62. Of the total increase, only \$155 was absorbed by the Bank of Canada, as contrasted with a \$561 million increase in the holdings of the chartered Banks. The guaranteed-debt component actually registered a decline of \$252 million, and only \$85 million was added to the outstanding amount of Treasury Bills.

Table 4. Canada: Market Yields on Selected Government Securities,

Selected Dates, April 1963-January 1964

(per cent per annum)

		Treasur	y Bills			Bonds		
Dates		3 mos.	6 mos.	Sept. 1965	June 1967-68	Jan. 1975-78	Oct. 1979	Sept. '96 March '98
April	3 24	3.60 3.66	3.73 3.80	4.51 4.51	4.45 4.41	5.07 5.00	5.01 4.92	5.01 4.97
June	12 26	3, 19 3, 24	3.30 3.34	4.07 4.09	4.07	4.88	4.84	4.90
September		3. 78	3.98	4.60	4.03	4.91 5.27	4.85 5.22	4.88 5.14
	25	3.56	3. 71	4.17	4, 32	5.08	5.03	5.08
October	2 9	3.61 3.56	3.76 3.69	4.09 3.97	4.33 4.32	5.02 5.03	4.97 4.97	5.02 5.04
	16 23 30	3.54 3.56 3.59	3.69 3.73 3.77	4.00 4.13 4.11	4.29 4.34 4.33	5.03 5.07 5.08	4.98 5.01 5.01	5.04 5.05 5.01
November	6 13	3.63 3.66	3. 79 3. 81	4.08 4.35	4.37 4.41	5.08 5.17	5.03 5.12	5.01 5.04
	20 27	3.63 3.63	3. 78 3. 76	4.20 4.10	4.37 4.34	5.14 5.17	5.09 5.09	5.04 5.02
December	4 11	3.68 3.66	3.81 3.78	4.18 4.19	4.34 4.34	5.12 5.12	5.07 5.08	5.02 5.01
	18 24 31	3.71 3.78 3.74	3.88 3.99 3.93 -	4.26 4.26 4.20	4.37 4.42 4.42	5.15 5.18 5.16	5.09 5.13 5.11	5.02 5.02 5.02
January	8	3.80	3.96	4.31	4.43	5.17	5.11	5.01
	15	3. 77	3.95	4.26	4.47	5.18	5.13	5.01

On January 15, 1964, the Minister of Finance announced details of a \$350 million offering of Government non-callable bonds, of which \$300 million were in the form of:

- (1) 3-1/2 per cent bonds, due February 1, 1965 at a price of 99.15 per cent to yield about 4.38 per cent to maturity;
- (2) 3-1/2 per cent bonds due February 1, 1966, at a price of 98.10 per cent to yield about 4.50 per cent; and
- (3) 4-1/4 per cent bonds due January 15, 1968, at a price of 98.25 per cent to yield about 4.74 per cent.

The remaining \$50 million took the form of 5 per cent bonds due June 1, 1988 at a price of 96.25 per cent to yield about 5.27 per cent. The Bank of Canada acquired \$75 million of the 1968 issue.

Large flotations of provincial and municipal bonds

Yields in the provincial and municipal sectors of the bond market were stable during November and December, the McLeod, Young Weir bond yield average showing both series virtually unchanged:

	October 31	November 29	December 31
10 provincial s	5.51	5.53	5.53
10 municipals	5.66	5.72	5.67

Provincial borrowers were active in the market during the period under review. (See Table 5.) Some balances of a \$12 million Nova Scotia issue remained in dealer hands in early November and yields on two recent issues moved up: a Prince Edward Island issue from 5.50 to 5.65 per cent a University of Manitoba issue from 5.41 to 5.58 per cent. However, yields in this market stabilized by late November as several new offerings came to market. Finally, on January 7, a long-awaited major financing of the Ontario Hydro was announced. (For details, see Table 5.) Investor response, especially for the 1984 maturity, was slow, in part reflecting the larger than normal size of the issue.

Activity continued heavy in the municipal market. Several large offerings were made during the period under review. (See Table 5.) Canadian market reports state that buying from U.S. investors has become a major factor in the placement of Canadian municipal securities in Canada. One market letter reported that "informed sources feel" that a maximum of \$400 million annually will be allowed for Canadian issues (both J.S. pay and Canadian bonds bought by U.S. investors).

However, a slowdown in municipal financing is expected during the next few months. Canadian local authorities will tend to tie their borrowing plans in with applications to the Federal Municipal Development and Loan Fund. Municipalities in Ontario have been asked to make applications to the Fund before March 31; allocations are to be made on a per capita and tax revenue basis. By mid-January, applications from Ontario processed by the Fund amounted only to \$500,000 out of over \$160 million allocated for that Province.

Several substantial borrowings are nevertheless in prospect. Metropolitan Toronto and the City of Montreal are expected before mid-February; the Montreal offering could range above \$30 million. It is expected to be timed with an expected flotation by Quebec Hydro which is anticipated before the end of January.

Table 5. Canada: Large Long-Term Bond Issues (in millions of Canadian dollars or per cent per annum)

		Amount	Coupon Rate	Maturity (years)	Yield	Note
1.	Provincial Issuers:					100
3	November-December Nova Scotia Ontario Saskatchewan Newfoundland New Brunswick January Ontario Hydro Municipal Issuers:	12.0 50.0 15.0 10.0 7.5 16.0 39.0	5-1/2 5-3/4	4 20 20-30 23 20-25 7 20		5.61
	November-December City of Ottawa Vancouver Sewage District City of London Metropolitan Winnipeg City of Vancouver	16.0 3.5 7.5 4.0 3.0	5-1/4/5-1/2 5-1/2 5-1/4 5-1/2 5-1/4/5-1/2	1-20 25	5.375 to 5.60 to 5.35 to 5.62 5.70	5.50 5.625 5.55
	City of Trois Rivieres (P.Q.) City of Hamilton (Ont.) City of St. Catherines (Ont.) City of Petersborough (Ont.) Verdan Catholic School Conv. (Ont.)	7.0 2.3	2 -1 -	1-20 1-20 1-20 1-20 1-2	5.70 to 5.40 to 5.60 5.65 6.00	5.80 5.60

Exports continue strong but Canadian dollar weakens slightly

Balance of payments data, now available through the third quarter, reflect an impressive improvement on current account even before the full impact of the Soviet wheat contract could make itself felt. During the first 9 months of the year, the current-account deficit felt to a cumulative total of \$423 million as compared with a 1962 level of \$729 million for the same months. Year-over-year comparisons on capital account are seriously distorted by the inflows and outflows associated with the emergence and resolution of last year's foreign exchange crisis. Long-term capital inflows declined in each of the first three quarters of 1963, to negligible levels in the quarter dominated by President Kennedy's announcement of the proposed interest equalization tax, while a small net outflow of short-term funds is indicated for the period January-September 1963. Due almost entirely to gains in export trade, gold and foreign exchange reserves rose from their recent (August) low of \$2470.5 million (U.S.) to \$2631.0 million by the end of November, before slipping back to \$2,595 million as of December 31.

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The Canadian dollar, which had reached a high of 92.93 U.S. cents soon after the announcement of the wheat contract with the Soviet Union and had fluctuated narrowly around 92.80 throughout most of October and November, fell steadily during December, closing the year barely above par. It continued at about that level during the first half of January. With the forward premium remaining negligible, the covered arbitrage advantage of Canadian over U.S. 90-day Treasury bills-widened around the turn of the year, reaching its recent peak of 28 percentage points in late December. (See Table 6.)

Table 6. Canadian-U.S. Arbitrage Computations on 3-Months Treasury Bills,

July 1963 - January 1964

(per cent per annum)

	Canadi Average Tender Rate	an Bills Adjusted Rate 1/	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
July 3	<u>2</u> /3.26	3.17	3.01	+0.16	+0,10	+. 26
Aug. 1	3.43	3.28	3.25	.03	07	04
Sept. 5 12	3. 75 3. 78	3.62 3.67	3. 34 3. 34	.28	41 14	13 +.19
19 26	3.68 3.56	3.66 3.52	3.39 3.34	.27	+ .07 18	+. 34
Oct. 3 10 17 24	3.61 3.56 3.54 3.56	3.48 3.50 3.44 3.42	3.41 3.42 3.47 3.42	.07 .08 03	07 + .07 + .07 + .07	 +. 15 +. 04 +. 07
31	3.59	3.47	3.45	+ .02		+.02
Nov. 7 14 21 28	3. 63 3. 66 3. 63 3. 63	3.50 3.58 3.57 3.54	3.51 3.52 3.48 3.49	01 + .06 + .09 + .05	 + .04	01 +.06 +.09 +.09
Dec. 5 12 19 27	3.68 3.66 3.71 3.78	3.56 3.59 3.59 3.71	3.50 3.49 3.51 3.50	+ .06 + .10 + .08 + .21	+ .04 + .07	+. 10 +. 10 +. 08 +. 28
Jan. 1	3.74	3.66	3.51	+ .15	+ .07	+. 22

^{1/ 360-}day year, discount basis.

Source: Federal Reserve Bank of New York

 $[\]overline{2}$ / July 4.

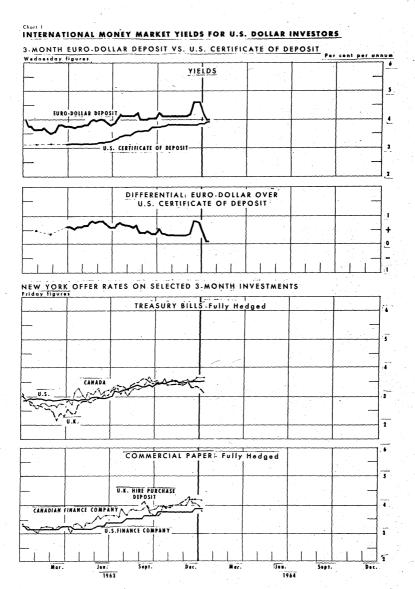
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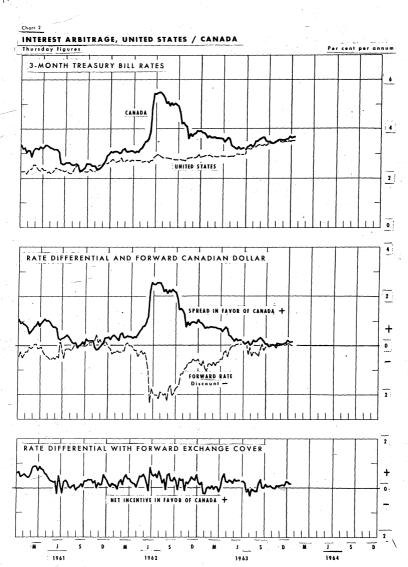
During the period under review, there again begin to be published reports of new public Canadian flotations in the United States. One announcement involved a \$14 million issue of collateral trust notes of Laurentide Financial Corporation, Ltd., due on October 1, 1978, privately placed and with a coupon yield of 5-1/4 per cent. During this period, yieldsoon Canadian provincial securities rose in Canadian markets but were relatively stable in United States markets. As a result, the yield spread on prime provincial bonds in Canadian markets over yields in U.S. markets were between 92 and 100 basis points higher in the United States on January 16 compared with a range of 72 to 90 basis points on July 3. (See Table 1.)

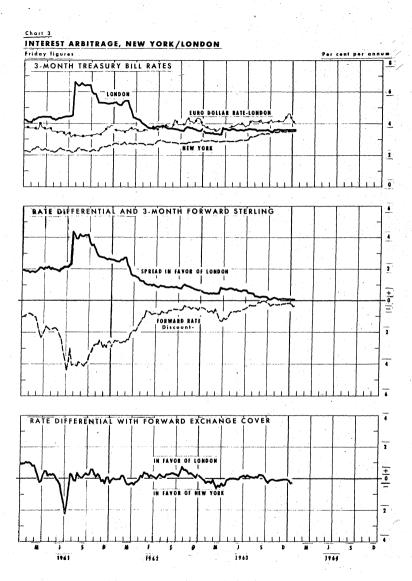
Europe and British Commonwealth Section.

II. Nine Charts on Financial Markets Abroad

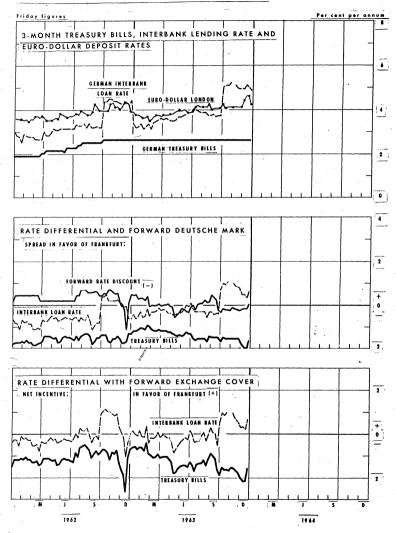
- $\hbox{Chart 1 International Money Market Yields for $U.S.} \\$
- Dollar Investors
- Chart 2 Interest Arbitrage, United States/Canada
- Chart 3 Interest Arbitrage, New York/London
- Chart 4 Interest Arbitrage for German Commercial Banks
- Chart 5 Short-term Interest Rates
- Chart 6 Long-term Bond Yields
- Chart 7 Industrial Stock Indices
- Chart 8 Spot Exchange Rates Major Currencies Against
- U.S. Dollar
- Chart 9 3-month Forward Exchange Rates

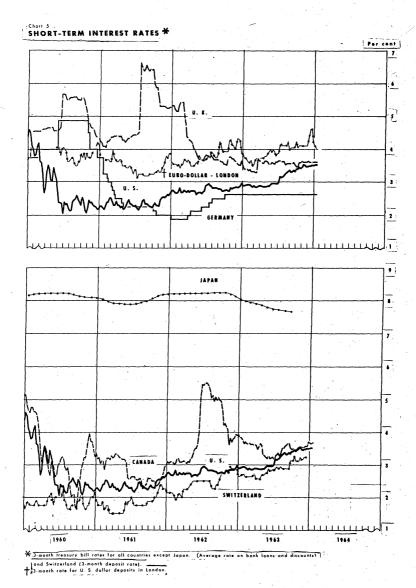




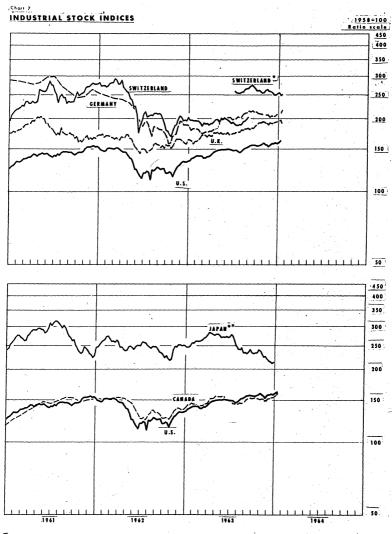


INTEREST ARBITRAGE FOR GERMAN COMMERCIAL BANKS





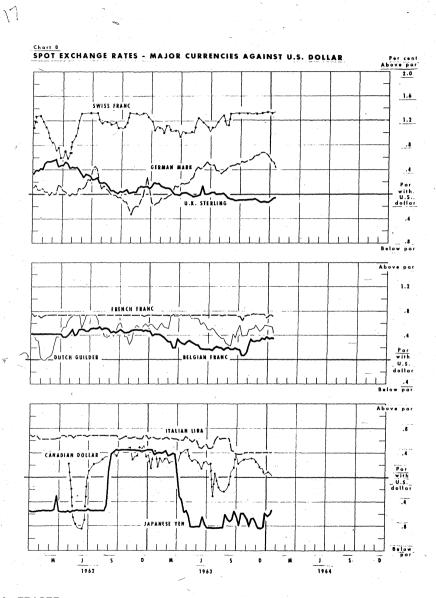
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^{*}Flapon: index of 225 industrial and other stacks traded on the Takya exchange.



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