

H. 13
No. 161

August 19, 1964

CAPITAL MARKET DEVELOPMENTS ABROAD

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

I. United Kingdom: Money and Capital Markets in July 1964

Both the Treasury bill and the gilt-edged markets in the United Kingdom reacted in mid-July to weakness in the spot exchange rate and to the announcement on July 18 of a substantial adverse trade deficit for the month of June. Between July 10 and July 31, the Treasury bill yield increased about 17 basis points, yields on intermediate bonds by about 18 basis points and those on undated bonds by about 6 basis points. (See Table 1) During the final week of July, however, both the Treasury bill and gilt-edged yields stabilized. (See Tables 11 and 12.) Prices on industrial stocks rose continuously during the month.

Table 1. United Kingdom: Selected Financial Indicators, 1964
(In per cent per annum)

	June 19	July 10	July 31	Changes:	
				June 19- July 10	July 10- July 31
<u>MONEY MARKET</u> (3-mo. yields)					
Treasury bill tender	4.44	4.48	4.65	+0.04	+0.17
Local authorities deposits (covered)	4.43	4.41	4.39	-0.02	-0.02
Euro-dollar deposits	3.38	3.88	3.88	+0.50	--
<u>COVERED ARBITRAGE</u> (favor U.K.)					
U.K./U.S. Treasury bills	+0.28	+0.36	+0.39	+0.08	+0.03
<u>SECURITIES PRICES</u> ^{a/} (April 10, 1962=100)					
Industrial stocks	113.45	115.10	116.43	+1.65	+1.33
Long-term Government bonds	104.13	105.05	103.88	+0.92	-1.17
<u>GOVERNMENT BOND YIELDS</u> ^{a/}					
5% 1967	5.08	5.05	5.40	-0.03	+0.35
5% 1971	5.48	5.50	5.68	+0.02	+0.18
5-1/2% 2008-12	6.20	6.12	6.18	-0.08	+0.06
3-1/2% War Loan	6.29	6.18	6.24	-0.11	+0.06
<u>EXCHANGE RATES</u>					
Spot (U.S. cents)	279.42	279.11	278.81	-0.31	-0.30
3-month forward discount(-)	-0.57	-0.53	-0.67	+0.04	-0.14

^{a/} Previous Thursdays.OFFICIAL USE ONLY
(Decontrolled after six months)

At the end of July, the auction rate on the 3-month Treasury bill had stabilized at around 4.65 per cent -- about 35 basis points below the Bank of England discount rate. In mid-July, "outside" investors withdrew from the bill market awaiting a rise in Bank rate, and the discount houses were awarded 52 per cent of the Treasury bill tender on July 24 and 43 per cent on July 31. The covered arbitrage in favor of the U.K. Treasury bill widened from about 28 basis points in mid-June to 39 basis points at the end of July, but developments in the foreign-exchange and Treasury bill markets do not indicate any significant inflow of funds.

The pound weakened continuously during the period under review. The spot rate fell from 279.42 U.S. cents on June 19 to 278.81 cents on July 31. (See Table 1.) The discount on the three-month pound also widened. Official reserves declined \$28 million in July compared with \$56 million in June. The trade deficit widened from 167 million in May to 1113 million in June, owing mainly to heavier imports of both basic materials and manufactured goods.

New U.S. dollar bond issues in London in July came to \$38 million, bringing the total for the first seven months of 1964 to \$213 million. Offerings of these bonds may begin to show the effects of steps taken by both the Danish and Japanese authorities to reduce their dollar borrowings in London; borrowers in these two countries accounted for nearly half the total new offerings since January.

Money market. Conditions in the money market tightened during the period under review. On June 30, for the first time since January, the discount market had to borrow from the Bank of England. The auction rate for the Treasury bill was at 4.47 per cent at the July 3 and 10 tenders but rose sharply to 4.58 per cent on July 17 and to 4.65 per cent on July 24. (See Table 1.) It remained at this level on July 31 and August 7.

In the local authorities funds market, the 90-day deposit rate eased from 5.00 per cent in June to 4.94 per cent but, with the rise in the Treasury bill rate, advanced to 5.09 per cent on July 24. (See Table 11 and Chart 3.) With reports of an impending change in Bank rate, some local authorities sought funds for 6 months or longer.

By contrast, yields on Euro-dollar deposits eased after mid-July. The 90-day deposit rate declined from 4.38 per cent on July 17 to 4.25 per cent on July 31 (See Table 11 and Chart 5)

Arbitrage yield spreads. By the end of July, the arbitrage spreads between United States and United Kingdom short-term money rates had declined from mid-July levels even though the uncovered yield spreads had widened. For example, the U.K. Treasury bill was 1.06 per cent above the U.S. bill but the covered yield spread was only 0.39 per cent. (See Table 2.) At the same time, the Euro-dollar rate exceeded the certificate of deposit rate in New York by 0.45 per cent on July 31 compared with 0.53 per cent on June 12. (See Chart 1.)

Table 2. U.K./U.S. Short-term Money Market Yields and Yield Spreads
(In per cent per annum)

	1 9 6 4								
	June			July					
	12	19	26	6	10	17	24	31	
TIME DEPOSITS (3-month)									
U.S. dollar:									
N.Y. - Certf. deposit <u>a/b/</u>	3.85	3.85	3.85	3.85	3.85	3.86	3.88	3.86	
London - Euro-\$	4.38	4.38	4.38	4.31	4.38	4.38	4.31	4.25	
Sterling (covered)									
Local authorities	4.40	4.43	4.51	4.55	4.41	4.44	4.36	4.39	
Finance Houses	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.20	
YIELD SPREADS (Favor U.K.)									
Treasury bills (3-month) <u>c/</u>									
Uncovered	.86	.86	.90	.89	.89	1.05	1.07	1.06	
Covered	.25	.28	.41	.41	.36	.55	.34	.39	
Euro-\$ - N.Y. C/D <u>a/</u>	.53	.53	.53	.46	.53	.52	.43	.45	
Euro-\$ - Local Authority (covered)	.02	.05	.13	.24	.03	.06	.05	.14	

a/ Previous Wednesdays.

b/ Secondary market offering rates for negotiable certificates of time deposits.

c/ U.S. and U.K. bill rates are shown in Table 11. See also Charts 1 and 3.

Bond market. In the last week of June and the first three weeks of July the government bond market recovered from the set-back experienced in early June when sterling came under strong selling pressure. The revived demand was concentrated on the long end of the market. However, in mid-July, yields once again advanced further (See Table 12 and Chart 6).

Stock market. The recovery of stock market prices from their mid-June low continued throughout the period under review (see Table 12 and Chart 7), in part because corporate earnings continued favorable. Shares of capital goods industries, steel in particular, were especially buoyant.

New issues. New stock and bond issues (net of redemptions) in July totalled £76.2 million in contrast with £55.7 million in May and £50.3 million in June. For the first seven months of 1964, new funds raised were almost double the amount secured in the first half of 1963 (see Table 3).

In a major change in policy, all local authorities can now issue 1-year bonds, subject to Bank of England approval of the amount and the timing. Two such groups of bonds issued in July are detailed in Table 4.

Table 3. United Kingdom: Capital Issues, Net of Redemptions, 1963-64
(In millions of pounds)

	1963	Jan.-July		May	June	July
		1963	1964			
U.K. borrowers ^{1/}						
Public companies	429.4	246.9	376.5	48.9	34.0	65.0
Local authorities	92.5	33.6	53.6	4.5	7.1	10.3
Overseas borrowers						
Commonwealth	15.8	1.6	51.9	-0.1	9.2	0.9
Other countries	0.7			2.4		
Total	538.4	282.1	482.0	55.7	50.3	76.2
of which						
Gross issues	(646.9)	(328.3)	(539.8)	(65.6)	(54.6)	(89.0)
Gross redemptions	(108.5)	(46.2)	(57.8)	(9.9)	(4.3)	(12.8)

^{1/} Excluding government securities.

Source: Bank of England.

Table 4. U.K. Local Authority Bond Issues, July 1964

	No. of issues	Coupon	Issue price	Value
<u>Placed with Discount Houses</u>				
1-year bonds	10	5%	par	£4.5 mn.
2-year bonds	1	5-1/2%	par	2.0
Total				£6.5 mn.
<u>Issued on the Gilt-Edged Market</u>				
<u>1-year and Related Issues</u>				
1-year bonds	5	5%	par	£5.0 mn.
2-year bond	1	5-1/2%	par	0.5
4-year bond	1	5-3/4%	par	1.0
Total				£6.5 mn.
<u>Other</u>				
Stockton-on-Tees 1974-75	1	5-3/4%	97-1/2	3.0
Total				£16.0

Further issues were planned for July, but these issues were postponed owing to deteriorating market conditions. At the end of July, the Bank of England is reported to have 80 applications on hand for 1-year bond issues.

Aside from the 1-year and related issues, Stockton-on-Tees floated a £3 million 5-3/4% 1974-75 bond on July 9 at 97-1/2. It was heavily oversubscribed and was traded at a premium.

Later in the month, when the bond market deteriorated, the Agricultural Mortgage Corporation, Ltd. (owned by nine London clearing banks) £12 million 6-1/4% 1992-94 issue could not be floated at par on July 17 as planned, 59 per cent of the issue was left with the underwriters, and it traded at a 7/8 per cent discount in the following week.

Dollar denominated loans The Portuguese Government secured a \$20 million 5-3/4% 1979-84 loan on July 6. Two days later an \$8 million 5-3/4% 15-year bond issue was placed for the Midtkraft Electricity Co. of Denmark, and on July 15 a Japanese corporation, Hitachi, Ltd., floated a 15-year \$10 million 6-1/4% bond issue with conversion rights. Table 5 lists the dollar bonds floated in London in 1963 and in the first half of 1964.

Table 5. U.S. Dollar Loans Floated in London, 1963-July 1964

<u>Issue date</u>	<u>Borrowers</u>	<u>Coupon</u>	<u>Maturity</u>	<u>Value (\$ Mns.)</u>
<u>1963</u>				
May	Government of Belgium	5%	1966	20.0
June	Concessione e Costruzioni Autostrade (Italy)	5-1/2%	1978	15.0
Dec.	Government of Belgium	5-1/4%	1966	20.0
<u>1964</u>				
January	15 Norges Kommunalbank	5-3/4%	1974-84	10.0
	23 Government of Austria	6%	1979-84	18.0
February	6 Wofson Clore Mayer Corp (Israel)	6-1/2%	1983-88	5.0
	17 City of Oslo	5-3/4%	1979	15.0
	13 Copenhagen Telephone Co (Denmark)	5-3/4%	1984	12.0
March	10 Teijin Kabushki Kaisha (Japan)	6-1/4%	1974-84	10.0
	24 Aktieselskabet Tyssefaldene (Norway)	6%	1974-84	10.0
	26 C. Itoh and Co. (Japan)	6-1/4%	1984	10.0
	26 Taisho Marine and Fire Insurance Co. (Japan)	(Common Stock)		2.0
April	6 Kingdom of Denmark	5-1/2%	1984	25.0
May	4 Jutland Telephone Co. (Denmark)	5-3/4%	1984	10.0
	11 Kingdom of Norway	5-1/2%	1984	25.0
June	8 Toyo Ryon (Japan)	6-1/4%	1979	15.0
	22 Rautaruuki oy (Finland)	6-1/4%	1979	8.0
July	6 Republic of Portugal	5-3/4%	1979-84	20.0
	7 Midtkraft Electricity (Denmark)	5-3/4%	1979	8.0
	15 Hitachi, Ltd. (Japan)	6-1/4%	1979	10.0

Government finance through National Savings. In the first quarter of the current fiscal year (April through June), the U.K. Treasury raised £48.3 million through non-marketable borrowing from the public -- about four times as much as was raised in April-June 1963 (See Table 6). This reflected the substitution of the 5 per cent National Development Bond for the 4-1/2 per cent Defense Bond and the increase in the limit of premium bonds any one person may hold from £800 to £1,000.

Table 6. U.K.: National Savings (Net)
(In millions of pounds)

	Fiscal Year ending March 31			April-June	
	1962	1963	1964	1963	1964
	National savings certificates	-88.2	-46.0	-86.9	-15.3
Defense/National development bonds	+16.4	+48.6	+17.1	+4.4	+28.1
Post office and trustee savings banks	+31.8	+76.6	+123.5	+15.3	+23.7
Premium savings bonds	+43.3	+42.7	+43.8	+8.4	+13.8
<u>Total</u>	+3.3	+121.9	+97.5	+12.7	+48.3

Source: U.K. Treasury.

Bank lending. Advances by the London clearing banks and net deposits rose substantially in the month ending July 15. The significance of the data is uncertain, however, since they were affected by the postal labor dispute which caused delays in clearings and unintended delays in settlement of commercial debts. Advances (seasonally adjusted) rose by £70 million in contrast with an average monthly increase of £42 million for May and June. Deposits (also seasonally adjusted) rose by £126 million, which was as much as the cumulative increase from January through June of this year.

Instalment credit. Credit outstanding in May increased by £21 million (See Table 7), mainly due to seasonally high financing of automobile purchases. Department store credit increased by only £1 million, an increase regarded as normal for this time of the year.

Table 7. United Kingdom: Instalment Credit
(end of period)

	1963	1 9 6 4					Outstanding May 31, 1964
		Jan.	Feb.	March	April	May	
New Credit Extended, Index of value (1957=100)							
Department stores	145	110	107	105	110	111	
Finance houses	129	174	184	209	236	230	
Credit Outstanding (£ millions)							
Department stores	+22	-1	-1	-1	-2	+1	336
Finance houses	+45	+4	+13	+17	+20	+20	688
Total	+67	+3	+12	+16	+18	+21	1,024

Source: U.K. Board of Trade.

Foreign exchange market. Sterling was under intermittent pressure in July. The spot rate eased gradually from 279.23 cents on July 1 to 279.03 cents on July 15, and to 278.81 cents on July 31 (See Table 11 and Chart 8). The 3-month forward discount widened gradually in July (See Table 11 and Chart 9).

The investment dollar premium dropped from 13 per cent in June to 11-1/4 per cent on July 10 and fluctuated narrowly around this rate during the remainder of the month.

The Bank of England has taken steps to block certain illegal investment dollar transactions. It is believed that some foreigners, or other temporary residents of the U.K., have been selling dollar proceeds from security sales abroad at the investment dollar premium and re-purchasing dollars at the spot rate through so-called "external accounts". Effective July 13, foreigners and temporary residents must secure written permission from the Bank of England in order to convert the proceeds of foreign security sales into sterling via the investment dollar pool.

Foreign trade. The trade balance deteriorated from £67 million in May to £113 million in June (See Table 8). Imports have fluctuated narrowly in the first five months of this year; but rose by £23 million in June. Exports were down in June, reflecting wide fluctuations in recent months. For May-June of this year, exports were only 4.7 per cent higher than in May-June 1963 in contrast with the 16.2 per cent growth of imports.

Table 8. U.K.: Foreign Trade, 1963-64
(Millions of pounds; seasonally adjusted; months or monthly averages)

	1963	1 9 6 4					
	May	Jan.-	Mar.-	May-	Apr.	May	June
	June	Feb.	Apr.	June			
Imports, c.i.f.	398	454	454	462	457	450	473
Exports, f.o.b.	343	349	355	359	337	370	348
Re-exports, f.o.b.	14	12	13	12	12	13	12
Trade balance	-41	-93	-86	-91	-108	-67	-113

Source: U.K., Board of Trade.

Reserve movements. Gold and foreign exchange reserves fell by \$28 million in July as contrasted with a \$56 million decline in June (See Table 9). The \$1 billion stand-by arrangement with the International Monetary Fund, which expired on August 8, was renewed for another year.

Table 9. United Kingdom: Reserve Position
(in millions of U.S. dollars)
Changes:

	1963					1964			Outstanding July 31, 1964
	I	II	May	June	July	July	August	September	
A. Gold and convertible currencies	-149	+3	-39	+48	-56	-28			2,677
B. Drawing rights on IMF	-13	+1	+1	-1	+2	n.a.			a/ 2,441
Total	b/ -195	+4	-38	+47	-54	n.a.			

a/ June 30.

b/ Total is reduced by \$33 million to take into account the increase in reserves resulting from U.S. operations in sterling. See: Federal Reserve Bulletin, September 1963 and March 1964.

Source: Bank of England and International Monetary Fund.

Bullion market. The London gold market was quiet in July, although a moderate demand developed in the last week of the month. The fixing price moved from \$35.074 per fine ounce on July 3 to \$35.084 per fine ounce on July 31 (See Table 10).

Table 10. London Fixing Price for Gold
(In U.S. dollars per fine ounce)

May	June	July
8 35.083	5 35.071	3 35.074
15 35.082	12 35.075	10 35.075
22 35.081	19 35.076	17 35.077
29 35.082	26 35.085	24 35.080
		31 35.084

Source: Bank of England.

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 1., United Kingdom: Treasury Bill Yields and Exchange Rates

	3-mo. Treasury bill arbitrage calculation					Spot pound (U.S. cents) ^{a/}	London deposit rates		
	U.K.	U.S.	Difference	3-mo. pound ^{a/}	In favor U.K. bill		U.S. dollar (3-mo.)	Local authority	
1963									
High	3.58	3.32	.26	-.03	+.23	280.59	4.62	4.88	
Low	3.31	2.85	.46	-1.08	-.62	279.59	3.56	4.06	
1964									
April	24	4.16	3.43	.73	-.76	-.03	279.97	4.19	4.94
May	1	4.16	3.43	.73	-.76	-.03	280.00	4.19	5.00
	8	4.16	3.47	.69	-.76	-.07	279.96	4.25	5.00
	15	4.25	3.45	.80	-.77	+.03	279.92	4.25	5.00
	22	4.25	3.45	.80	-.79	+.01	279.95	4.19	5.00
June	1	4.25	3.45	.80	-.74	+.06	279.69	b/4.25	b/5.00
	5	4.32	3.45	.87	-.66	+.21	279.53	4.31	5.03
	12	4.32	3.46	.86	-.60	+.25	279.44	4.38	5.00
	19	4.32	3.46	.86	-.57	+.28	279.42	4.38	5.00
	26	4.35	3.45	.90	-.49	+.41	279.10	4.38	5.00
July	3	c/4.34	c/3.45	c/.89	c/-.48	c/+.41	279.12	4.31	5.03
	10	4.34	3.45	.89	-.53	+.36	279.11	4.38	4.94
	17	4.44	3.39	1.05	-.50	+.55	278.79	4.38	4.94
	24	4.50	3.43	1.07	-.73	+.34	278.84	4.31	5.09
	31	4.50	3.44	1.06	-.67	+.39	278.81	4.25	5.06

a/ Certified N. Y. noon buying rate b/ May 29 c/ July 6

Table 1. United Kingdom: Selected Capital Market Yields

	U.K. Government bond yields					Share yield a/	Yield gap b/	Share prices a/	
	5% 1967	3% 1965-75	5-1/2% 2008-12	3-1/2% War Loan	2-1/2% Consols				
1963									
High	5.02	5.44	6.00	6.12	5.98	5.06	--	117.2	
Low	4.38	4.76	5.45	5.68	5.39	4.13	--	95.6	
1964									
April	23	4.97	5.57	6.10	6.19	6.04	4.31	1.73	116.8
	30	4.95	5.57	6.10	6.17	6.05	4.31	1.74	116.9
May	7	4.95	5.60	6.12	6.20	6.08	4.39	1.69	115.3
	14	4.92	5.53	6.10	6.16	6.03	4.48	1.55	113.4
	21	4.92	5.60	6.12	6.19	6.08	4.61	1.47	112.8
	28	4.90	5.61	6.10	6.19	6.08	4.69	1.39	111.4
June	4	4.92	5.65	6.15	6.25	6.12	4.73	1.39	110.5
	11	4.95	5.65	6.20	6.27	6.12	4.68	1.44	111.9
	18	5.08	5.69	6.20	6.29	6.13	4.64	1.49	113.4
	25	5.08	5.70	6.18	6.22	6.07	4.65	1.42	113.3
July	2	5.05	5.67	6.15	6.18	6.02	4.57	1.45	115.6
	9	5.05	5.65	6.17	6.18	6.02	4.60	1.42	115.1
	16	5.05	5.65	6.16	6.16	5.99	4.53	1.46	117.3
	23	5.38	5.79	6.18	6.26	6.09	4.62	1.47	115.6
	30	5.40	5.81	6.18	6.24	6.06	4.58	1.48	116.4

a/ Financial Times. Actuaries 500 Share Index (April 10, 1962=100).

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

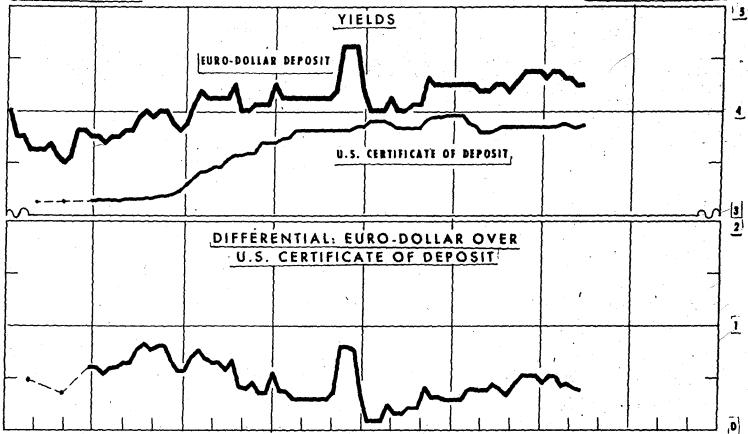
Chart 1

INTERNATIONAL MONEY MARKET YIELDS FOR U.S. DOLLAR INVESTORS

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

Wednesday figures

Per cent per annum



NEW YORK OFFER RATES ON SELECTED 3-MONTH INVESTMENTS

Friday figures

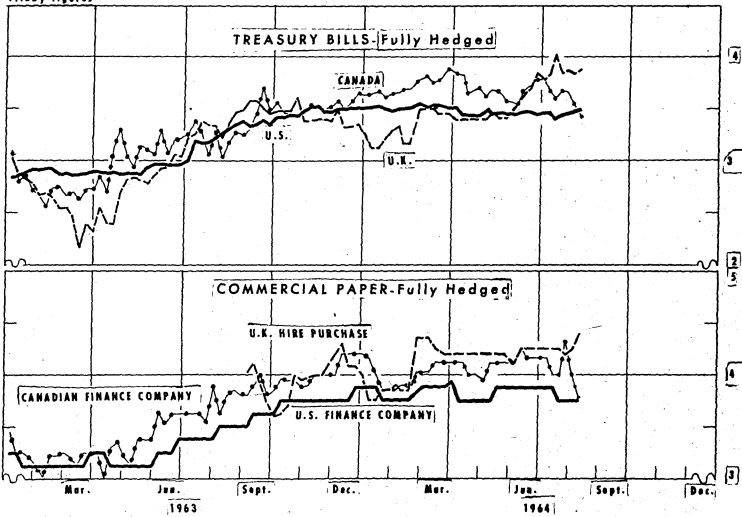
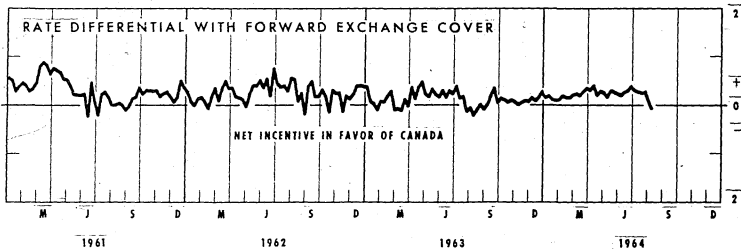
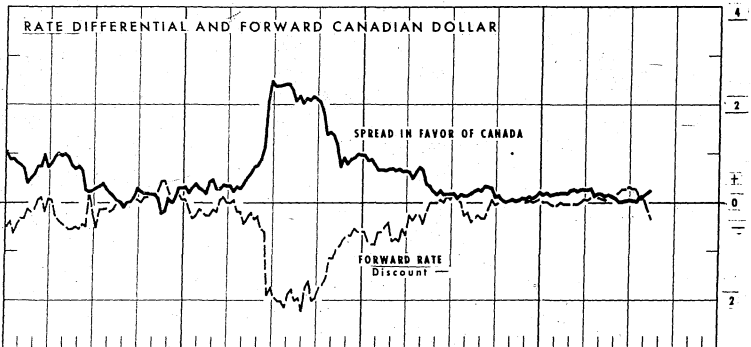
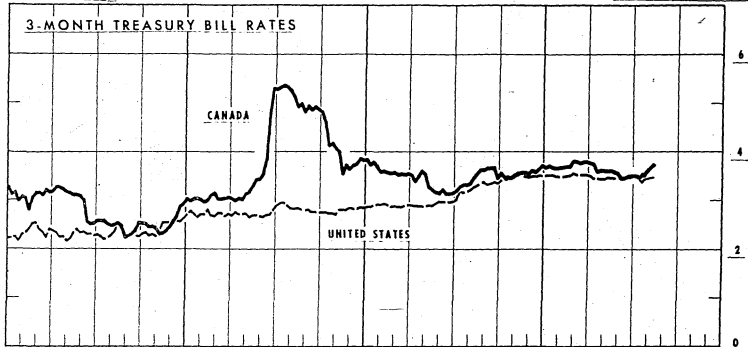


Chart 2

INTEREST ARBITRAGE, UNITED STATES / CANADA

Friday figures*

Per cent per annum



* Thursday figures 1961-1962, Friday thereafter

Chart 3
INTEREST ARBITRAGE, NEW YORK/LONDON

Friday figures

Per cent per annum

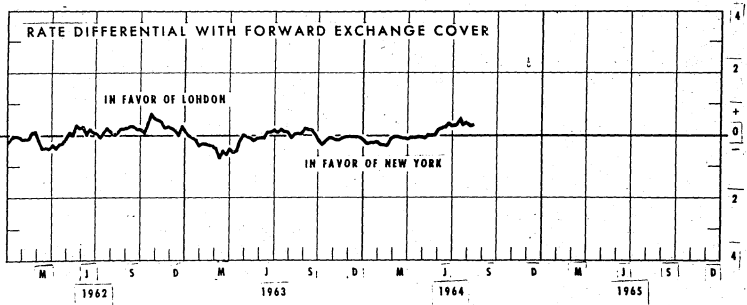
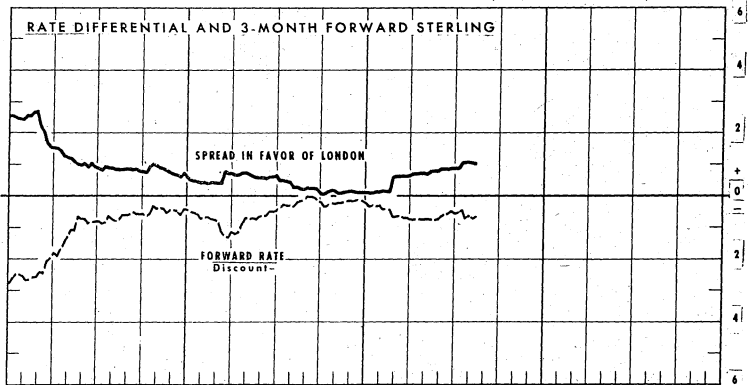
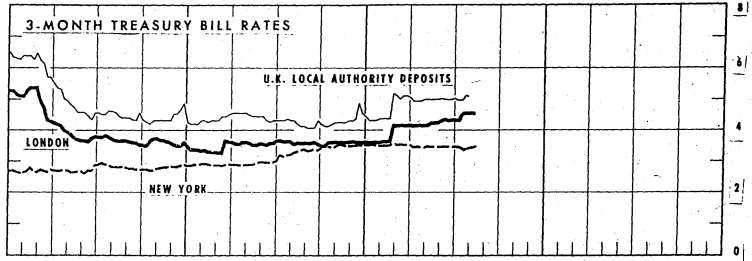


Chart 4
INTEREST ARBITRAGE FOR GERMAN COMMERCIAL BANKS

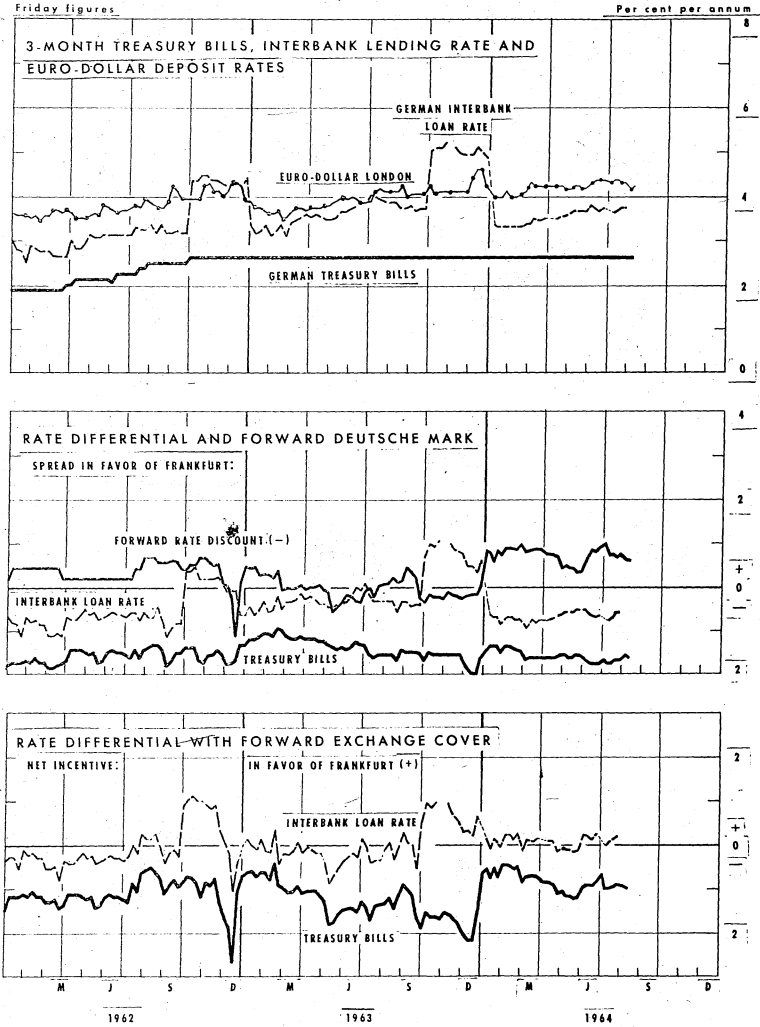
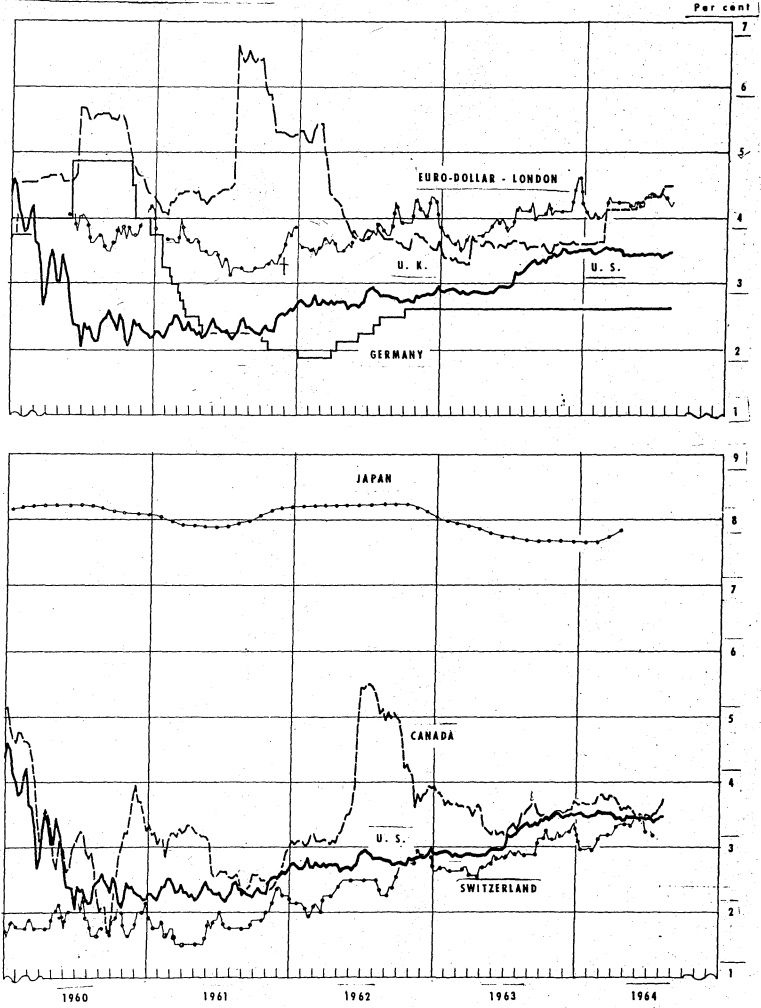


Chart 5
SHORT-TERM INTEREST RATES *



* 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

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Chart 6
LONG-TERM BOND YIELDS

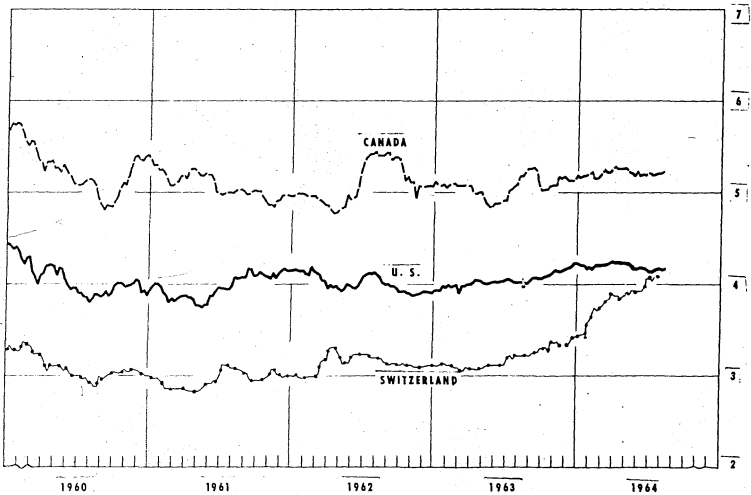
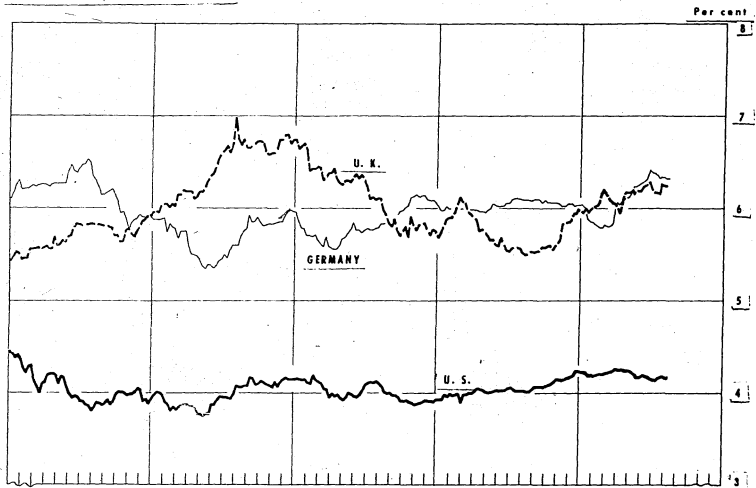
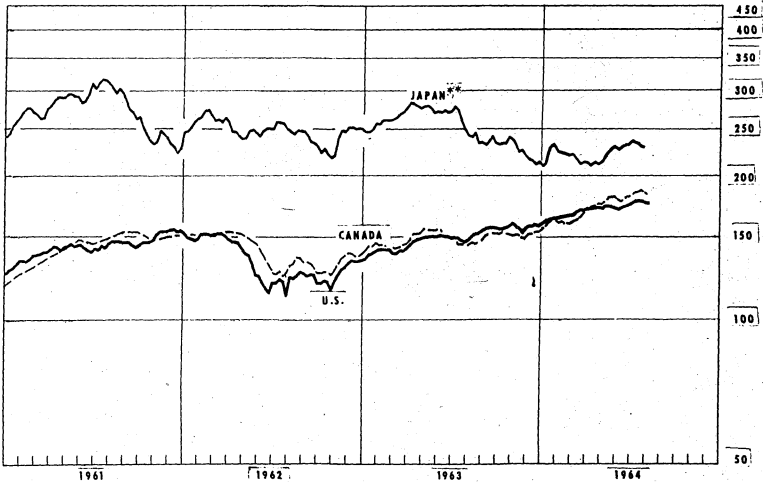
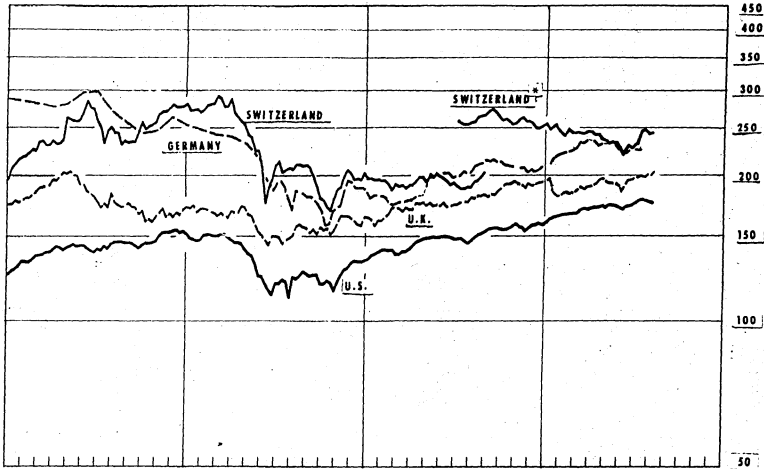


Chart 7

INDUSTRIAL STOCK INDICES

1958=100
Ratio scale



¹ New series, Swiss Bank Corporation industrial stock index

² Japan: index of 225 industrial and other stocks traded on the Tokyo exchange

Chart 8

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

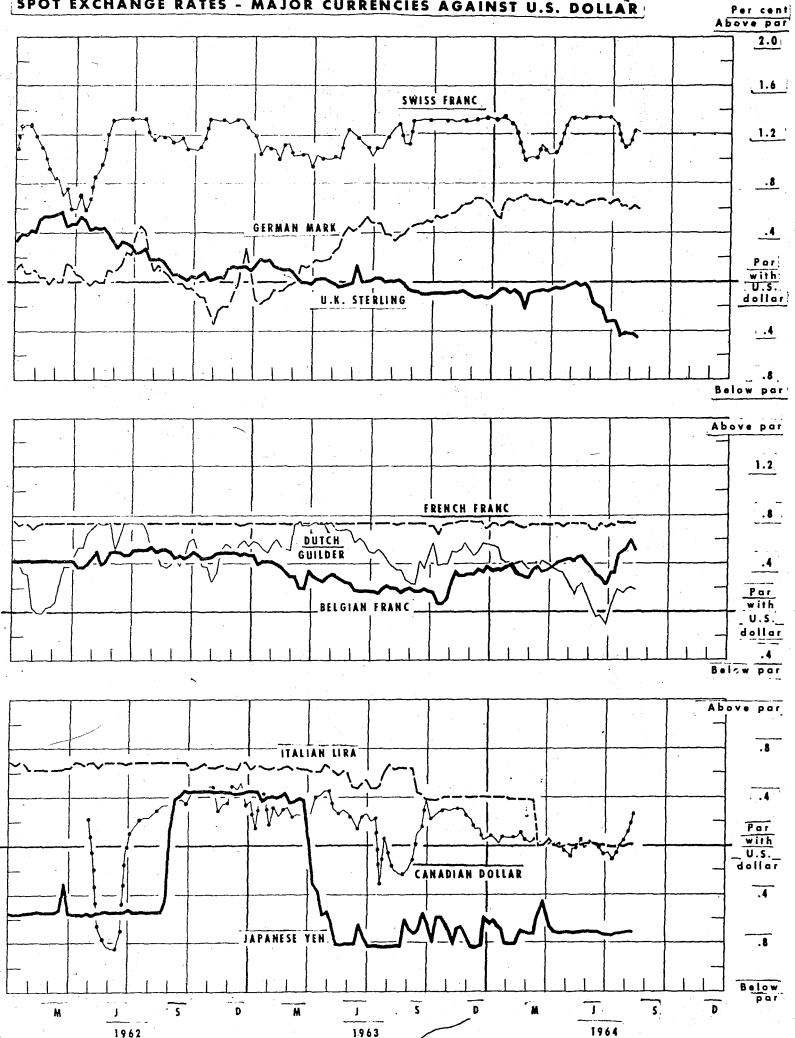


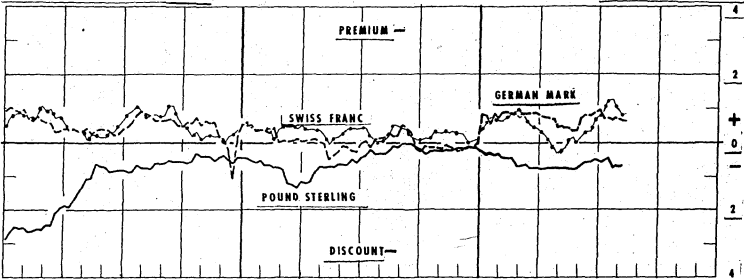
Chart 9

3-MONTH FORWARD EXCHANGE RATE

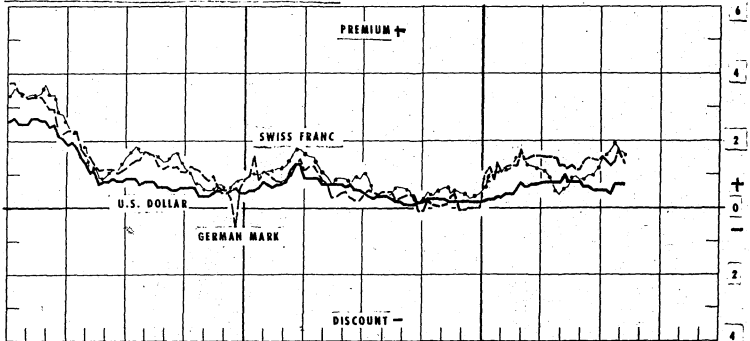
Friday figures

AGAINST U.S. DOLLARS

Per cent per annum



AGAINST POUND STERLING - LONDON



AGAINST POUND STERLING - LONDON

