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CAPITAL MARKET DEVELOPMENTS ABROAD

I. U.S. Dollar Assets in Foreign Financial Centers, April-June 1965

Rates on U.S. dollar deposits in foreign financial markets fluctuated erratically between April and early July but, on balance, moved to higher levels. (See Table 1 and Chart 1.) Reflecting primarily seasonal factors, deposit rates climbed in late May substantially above their previous peak on March 12, when these markets reacted to the U.S. foreign credit restraint program. However, since early June, rates on over-30-day deposits have eased considerably, although they continue at higher levels than before the recent increase.

Table 1. Euro-dollar Deposit Rates (London): Changes Between Selected Dates January-June 1965
(per cent per annum)

	Rate	Changes from previous date							Rate
	Jan. 1, 1965	Jan. 22	Feb. 26	Mar. 12	April 2	April 30	May 28	July 2	July 2, 1965
Call (2-day)	3.75	+.25	+.06	+.13	-.07	0	+.26	0	4.38
7-day	4.00	+.12	+.13	+.13	-.13	+.06	+.19	0	4.50
30-day	4.44	-.19	+.13	+.50	-.38	0	+.56	-.31	4.75
90-day	4.56	-.12	+.12	+.44	-.25	+.06	+.44	-.37	4.88
180-day	4.69	-.13	+.13	+.43	0	-.12	+.44	-.32	5.12

Source: Federal Reserve Bank of New York.

Euro-dollar rates have been pushed--for the first time in the eight-year history of the market--above conventional New York lending rates. Several factors have contributed to this rising trend: the slower rate of increase in Euro-dollar offerings (if not an actual decrease) during the first-half of the year, tightening credit conditions in some of the major foreign financial centers, and demand for credit from overseas subsidiaries of U.S. firms. At the same time the gap between rates paid on U.S. certificates of deposit and Euro-dollar rates widened to its widest point yet recorded. (See Table 2.)

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Table 2. Euro-dollar Deposit Rates vs. New York Certificates of Deposit
(per cent per annum)

	1965 Jan. 6	Feb. 17	Mar. 10	Apr. 7	May 5	June 2	June 16	June 30
Euro-dollars over CD's								
90-day Euro-$ Deposit	4.56	4.50	5.12	4.75	4.81	5.25	5.06	4.82
90-day CD	4.15	4.20	4.26	4.26	4.31	4.34	4.30	4.29
Difference	.41	.30	.86	.49	.50	.91	.76	.53
180-day Euro-$ Deposit	4.62	4.62	5.25	5.12	5.06	5.38	5.12	5.00
180-day CD	4.25	4.29	4.35	4.36	4.40	4.42	4.38	4.36
Difference	.37	.33	.90	.76	.66	.96	.74	.64

Source: Federal Reserve Bank of New York.

According to market reports, pressure to accept shorter-term funds has greatly increased, even on the largest and most reputable banks, and the development of 2- to 3-year maturities has virtually come to a halt. Credit scrutiny has been tightened, and dealers, who have reportedly been told that they can no longer rely on their credit lines with New York banks for backup, have moved to make their positions much more liquid. This has put the greatest pressure on the over-six-month sector of the maturity range.

In the London market, the supply of new dollar deposits was cut sharply in the first quarter, and indications are that total business may have been cut significantly in the second; this was due in part to withdrawals by Canadian banks and U.S. residents. U.K. banks switched U.S. dollar deposits into sterling as domestic credit conditions tightened. The net dollar liabilities of U.K. banks, vis-a-vis non-residents (that is, total dollar liabilities to foreigners less total assets) rose from $683 million at the end of 1964 to $1,126 million on March 31.

During the first half of the year, the volume of dollar-denominated bonds offered in foreign markets was considerably below year-earlier levels. Most of those sold were for Scandinavian borrowers. However, many new issues are reportedly waiting to be brought out, and market circles expect more attractive coupons and selling prices. Thus far in 1965, U.S. based underwriters have participated more actively in offering dollar bonds in foreign centers; of the 10 issues sold through early July, half were offered by groups headed by New York houses compared with only 16 per cent of the issues sold in 1964.

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Foreign deposit rates for U.S. dollars continue to rise

Rates reach peak in May. Increased pressures on the international loan market for U.S. dollars in May pushed rates up dramatically to their highest levels in the eight-year history of the market. Between April 30 and May 28, bid rates for dollar deposits in foreign financial centers increased sharply in all maturities--from 19 basis points on 7-day funds to 56 basis points on 30-day funds. (See Table 1 and Chart 1.) At these levels, they were significantly above those of the previous peak on March 12. The 180-day deposit rate was 5.44 per cent (per annum) in London (bid) on May 28, compared with 5.12 per cent on March 12; the 90-day rate 5.25 per cent, compared with 5.00; and the 30-day rate 5.06 per cent, compared with 4.88 per cent. (See Appendix: Table I.)

Although rates on shorter-term deposits maintained their late May peaks, rates on over-30-day funds fell during June. More recently, however, they have moved up slightly.

Wider differential over U.S. rates. The rapid rise in Euro-dollar deposit rates, at a time when those on time certificates of deposit in New York remained practically unchanged, greatly increased the differential between the two. For deposits of 90 days, the difference between London and New York rates rose to 91 basis points on June 2, and, on 180-day deposits, the difference increased to almost 1 percentage point, the highest yet recorded. (See Table 2.)

Factors effecting Euro-dollar rates. Seasonal factors played a major role in the spurt in Euro-dollar rates in May, as the subsequent decline suggests. In addition, reduced dollar availabilities abroad and increased strain on foreign financial resources resulting from the U.S. foreign credit restraint program and more stringent credit conditions in such countries as Germany and the United Kingdom put continuing upward pressure on Euro-dollar rates throughout the spring.

The over-30-day sector of the market came under particular pressure when German and Swiss banks failed to renew deposits in preparation for their end-June liquidity build-up. Canadian banks also failed to renew deposits--due in turn to the withdrawal of deposits by U.S. residents from Canada--and, reportedly, even at times were bidding for dollars in London, an unusual reversal of their normal position in the market. Because of the window-dressing pressures in June, rates on shorter-term maturities remained firm. But, after June 1, rates on the over-30-day sector of the market declined.

The abrupt late May rise in foreign dollar deposit rates followed a similar sharp rise in rates in March. But even when these short periods of sharp increases are excluded, the general trend in the level of Euro-dollar rates in the first half of 1965 has been sharply upward throughout the entire maturity range of deposits. (See Chart 1.) Between January 29 (when most rates reached

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lows following their seasonal year-end rise) and June 25, rates for every maturity of deposit rose by 38 basis points.

Tighter credit conditions in the United Kingdom (although not reflected in the movement of the U.K. Treasury bill rate) and Germany and to a lesser extent in Switzerland and Canada contributed to the higher Euro-dollar rates. (See Table 3 and Charts 5 and 6.) In the United Kingdom a 7 per cent Bank Rate (lowered to 6 per cent on June 3), special deposit requirements for commercial banks, and selective credit controls have caused financial conditions to tighten. The squeeze on domestic liquidity in Germany was produced by the restrictive policies of the Bundesbank (the discount rate was increased from 3 per cent to 3-1/2 per cent in January), by the cessation of the inflow of foreign-owned funds, by the shifting of some German loan demand (formerly met by U.S. banks) to domestic sources, and by the continuing business expansion. In Switzerland, monetary tightness developed after mid-March in response to external factors: higher interest rates abroad attracted funds that had been repatriated during November and December. In addition, the foreign loan demand on Swiss banks increased.

Conditions in Canadian money markets tightened considerably between March and June, reflecting a more restrictive monetary policy and the withdrawal of U.S. funds. Between the end of February and the end of April, foreign currency deposits (mostly U.S. dollars) of Canadian banks fell $637 million. This large withdrawal was met almost entirely by adjusting the banks foreign assets, i.e., drawing down dollar deposits with London banks and U.K. local authorities by about $500 million and reducing call and other short-term loans abroad by about $170 million.

Deposit rate for other Euro-currencies also climb

The increased pressures on Euro-dollars in the first half of the year were present throughout all sectors of the international loan market in foreign currencies. Other foreign currency deposit rates (linked in the closely knit international money market to the dominant Euro-dollar rate primarily by the cost of forward cover against the dollar) moved upward along with the quotes on dollar deposits. (See Table 4.)

However, comparison of sterling, Swiss franc, and D-mark foreign deposit rates with their "dollar-derived equivalents"[1] would seem to indicate that the

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1/ Swiss franc, sterling, D-mark and other foreign currency deposits may be "derived" from dollar deposits, insured against exchange risk, by selling dollars spot for the desired foreign currency and buying them forward for the maturity of the original dollar deposit. This operation is commonly called a "swap." The cost of borrowing the foreign currency in this case is the cost of the original dollar deposit plus the cost of the forward cover.

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Table 3. Short-term Interest Rates in Selected Financial Centers, 1965

1965		New York 1/	London 2/	Frankfurt 3/5/	Paris 6/	Zurich 4/5/	Canada 1/	Euro-$ London 7/
January	8	3.77	6.44	3.75	4.00	3.31	3.71	4.50
	22	3.81	6.41	4.06	3.00	3.19	3.63	4.44
February	5	3.89	6.32	3.88	4.44	3.06	3.63	4.50
	19	3.94	6.32	3.88	3.88	3.06	3.62	4.56
March	5	3.93	6.26	4.25	4.75	3.06	3.69	4.75
	19	3.90	6.35	4.25	3.94	3.18	3.56	4.88
April	2	3.91	6.35	n.a.	5.25	n.a.	3.52	4.75
	9	3.90	6.32	4.50	3.94	3.25	3.50	4.75
	16	3.91	6.29	4.44	3.50	3.25	3.54	4.82
	23	3.92	6.26	4.56	3.19	3.25	3.59	4.75
	30	3.90	6.20	4.56	3.94	3.25	3.71	4.81
May	7	3.87	6.13	4.62	4.56	3.38	3.73	4.88
	14	3.88	6.13	4.75	3.75	3.44	3.72	4.88
	21	3.88	6.10	4.62	3.62	3.44	3.76	4.94
	28	3.85	6.20	4.50	4.69	3.50	3.84	5.25
June	4	3.82	5.49		4.88	3.62	3.89	5.12
	11	3.79	5.42		4.63	3.69	3.88	5.00
	18	3.77	5.42		3.62	3.69	3.87	5.00
	25	3.74	5.39		4.62		3.85	4.88
July	2	3.80	5.36				3.83	

1/ 11 a.m. Friday offer rate on 90-day Treasury bills.
2/ Opening Friday offer rate on 90-day Treasury bills.
3/ 90-day interbank loan rate.
4/ 3-month deposit rate at large Zurich banks.
5/ Average of rates for the week previous to reporting date; reported on 7, 15, 23 and last day of month.
6/ Day-to-day money against private paper; average of rates on Thursday each week.
7/ Friday bid rate for 90-day U.S. dollar deposits in London.

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pressures in late May and early June were most pronounced in the Euro-dollar sector of the market. Rates on sterling and Swiss franc deposits did not rise quite as much as did their dollar-derived equivalents; furthermore, since early June, rates on Swiss franc and D-mark deposits have not eased as much as on dollars, after taking into account the cost of forward cover. (See Table 4.)

Table 4. 90-Day Euro-Currency Deposit Rates
(per cent per annum)

Date 1965		U.S. Dollars (London)	Sterling (Paris) *	Swiss Franc *	D-Mark *
January	1	4.56	8.38 (7.28)	3.50 (3.85)	3.75 (3.93)
	22	4.44	7.00 (7.05)	3.12 (3.26)	3.38 (3.64)
February	26	4.56	7.25 (7.38)	3.25 (3.41)	4.12 (4.31)
March	12	5.00	7.75 (7.54)	3.75 (3.62)	4.38 (4.27)
April	2	4.75	7.75 (7.77)	3.75 (3.55)	4.18 (3.98)
	30	4.81	7.32 (7.14)	4.25 (4.26)	4.31 (4.31)
May	28	5.25	7.50 (7.69)	5.00 (5.20)	4.56 (4.56)
June	4	5.12	6.88 (6.94)	4.88 (4.87)	4.50 (4.52)
	11	5.00	6.75 (6.82)	4.94 (4.86)	4.50 (4.36)
	18	5.00	7.00 (6.96)	4.75 (4.75)	4.62 (4.50)
	25	4.88	6.69 (6.53)	4.56 (4.54)	4.56 (4.36)

* The figures in parentheses indicate the "cost of obtaining" the foreign currency deposit by borrowing U.S. dollars in the Euro-dollar market and swaping them into the foreign currency desired by buying the foreign currency spot in the exchange market and selling it forward for the maturity of the original U.S. dollar deposit. Rates on these "dollar derived" deposits may be compared with those paid on direct foreign currency deposits in the Euro-currency market.

Growth of London dollar liabilities slows in the first quarter; U.K. banks increase net dollar borrowings sharply

New U.S. dollar deposits in U.K. banks by non-residents during January-March were at their lowest level since the first quarter of 1964, when the market underwent a period of reaction to several corporate bankruptcies in which Euro-dollar credits were involved appreciably. This, no doubt, reflected in part the measures taken by U.S. authorities in February to discourage the outflow of funds from the United States and in part the very rapid expansion experienced by dollar deposit business during the final half of 1964. Total U.S. dollar liabilities of banks in the United Kingdom vis-a-vis foreign residents rose only $177 million in the first quarter of 1965 compared with increases of $473 million in the third and $487 million in the fourth quarter of 1964. (See Table 5.)

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Table 5. U.K. Commerical Banks: External U.S. Dollar Claims and Liabilities
(million U.S. dollars)

	1963		1964				1965
	June	Dec.	Mar.	June	Sept.	Dec.	March
End of period:							
Liabilities	3,010	3,002	3,097	3,419	3,892	4,379	4,556
Claims	2,783	2,870	2,817	2,937	3,220	3,696	3,430
Net Liabilities	227	132	280	482	672	683	1,126
Changes in:							
Liabilities 1/	+535	- 8	+ 95	+322	+473	+487	+177
Claims 1/	+535	+87	- 53	+120	+283	+476	-266
Net Liabilities	0	-95	+148	+202	+190	+ 11	+443

1/ From end 1962.
Source: Bank of England, Quarterly Bulletin.

Switching from dollars into sterling. Dollar claims of commercial banks in the United Kingdom (both British and branches of foreign banks) against non-residents, however, decreased $266 million during the January-March quarter. (See Table 5.) Consequently, U.K. banks' net liabilities in U.S. dollars vis-a-vis non-residents rose from $683 million at the end of 1964 to $1,126 million. This means that the banks converted some $443 million of dollar deposits placed with them into sterling for investment in the London money market in response to tightening credit conditions there.

Until the final week of March, when the discount on the 3-month forward pound increased sharply, it was profitable to switch dollar deposits into sterling (covered with purchases of forward dollars) and put the sterling into London money market investments. (See Table 6.) Indeed, during late February and early March, switching into sterling and investing in local authority deposits was quite profitable and probably explains the large volume of switching that actually did take place.

Sources of dollar inflow. The dollar inflow into the London market in the first quarter came in small amounts, primarily from Swiss, Middle Eastern, French and Italian sources. Canadian and U.S. residents, on the other hand, drew down their dollar deposits with London banks--Canadian by the largest sum, $126 million. (See Table 7.)

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Table 6. Comparison Between 3-month U.K. Local Authority Deposit Rates and the "Cost" of Dollar-Derived Sterling

1965		Euro-$ rate (1)	Prem. on 3-mo. fwd. $ (2)	Total "cost" of £ 1/ (3)	L A deposit rate 2/ (4)	Net gain 3/ (5)
January	8	4.50	2.61	7.11	7.18	.07
	15	4.44	2.71	7.15	7.18	.03
	22	4.44	2.61	7.05	7.25	.20
	29	4.50	2.65	7.15	7.25	.10
February	5	4.50	2.55	7.05	7.31	.26
	11	4.50	2.52	7.02	7.18	.16
	19	4.56	2.85	7.41	7.44	.03
	26	4.56	2.82	7.38	7.63	.25
March	5	4.75	2.78	7.53	7.80	.27
	12	5.00	2.54	7.54	7.81	.27
	19	4.88	2.74	7.62	7.68	.06
	26	4.88	3.25	8.13	7.82	4/(.31)

1/ The sum of (1), the rate paid per annum on 3-month Euro-$ deposits, and (2), the cost of 3-month forward dollar cover.
2/ Rate paid by U.K. local authorities for deposits.
3/ The difference between columns (4) and (3).
4/ Net loss.

Placements of dollar funds. At the same time, London-resident banks made dollar placements principally in the United States. Small amounts were put in Japan and Switzerland. Withdrawals were made primarily from Italy and Germany, and to a lesser extent from France, the Netherlands and Belgium. (See Table 7.)

Net borrowers and lenders to London market. U.S. residents took considerably more dollars from the London market than they placed there during January-March. Their dollar liabilities relative to their dollar assets vis-a-vis London increased by $287 million, the largest increase since the first quarter of 1964. (See Table 8.) Much of this large flow represented the activities of London branches of U.S. banks, which borrowed substantial amounts of dollars in London to transfer to their head offices. Throughout much of the first quarter, U.S. banks borrowed (especially short-term money) in the Euro-dollar market to back up their own lending operations, which were under heavy pressure by an unseasonally large demand for loans--both domestic and foreign.

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Table 7. U.K. Commercial Banks: External U.S. Dollar Claims and Liabilities by Country
(million U.S. dollars)

End of Period:	1964 March	1964 June	1964 Sept.	1964 Dec.	1965 March	Change Dec. '64 Mar. '65
	C L A I M S	O N				
United States	1,072	986	1,184	1,210	1,464	+254
Italy	330	350	361	454	294	-160
Japan	277	302	347	389	414	+ 25
France	118	165	157	174	101	- 73
Germany	106	134	157	280	92	-188
Netherlands	84	129	120	157	104	- 53
Belgium	174	118	109	182	140	- 42
Switzerland	67	87	104	104	120	+ 16
(% of total claims)	(79%)	(77%)	(79%)	(80%)	(80%)	
	L I A B I L I T I E S	T O				
Switzerland	736	806	997	750	815	+ 65
United States	319	490	493	534	501	- 33
Canada	375	470	521	739	613	-126
Middle East	291	339	347	392	454	+ 62
Austria	202	199	230	221	165	- 56
Italy	92	73	134	204	255	+ 51
France	73	62	118	210	274	+ 64
Germany	132	67	80	70	84	+ 14
(% of total liabilities)	(72%)	(73%)	(75%)	(71%)	(69%)	

Source: Bank of England, Quarterly Bulletin.

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German and Italian residents reduced their net dollar liabilities to London in the first quarter. (See Table 8.) Seasonal ease in domestic money markets in January and February contributed to reduced German borrowings. In addition, it is thought that some of the large outflow of funds from the U.S. preceding the restraint program probably went into Germany, reducing their need for foreign dollar credits. In Italy much easier credit conditions since mid-1964 have made ample funds available to the commercial banks, which in turn have used these new resources to reduce their relatively high-cost (relative to the cost of lire funds) foreign borrowings, mainly their borrowings in the Euro-dollar and other Euro-currency markets. To assist them in this operation, the Bank of Italy makes foreign exchange available to the banks on a swap basis at no cost.

With the withdrawal of $126 million of Canadian deposits during the March quarter, Switzerland became the largest net dollar depositor in London. (See Table 8.) Swiss dollar deposits, which had been drawn down almost a quarter billion dollars during the uncertain fourth quarter of 1964, increased only slightly between January and March as continued apprehension about international monetary conditions and a very high premium on the forward Swiss franc worked to keep funds in Switzerland. Canadian withdrawals appear to have been because of, or in anticipation of, reduced U.S. deposits in Canadian banks.

French residents improved their net lending position in dollars in London considerably during the quarter--due about equally to reduced borrowings and increased deposits. And Belgium and Dutch residents switched columns--from being net borrowers to being net depositors, although their positions are very small. (See Table 8.)

Long-term dollar bonds: new sales reduced in 1965

Although total international loan issues in foreign markets were up in January-June from the volume of the year-earlier period, uncertainty about the effects of the U.S. foreign credit restraint program on the availability of dollar funds abroad dampened enthusiasm for denominating new international issues in dollars.[2/] The volume of U.S. dollar denominated bonds issued in foreign markets for non-resident borrowers was down to $172 million in the first half of the year, compared with $240 million in the same period of 1964. (See Table 9.)

2/ Increased offerings of bonds denominated in D-marks have been responsible for the growth in the international loan business so far this year. According to the Economist, (April 24, 1965, p. 441) D-mark issues in the first quarter were equivalent to $140 million, compared with only $15.4 million equivalent in the January-March 1964 period.

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Table 8. Major Net Borrowers and Lenders of Dollars in London
(Millions of U.S. dollars)

	Net U.S. Dollar Liabilities to London Banks						
		Changes					
		1964				1965	
Net Borrowers	Dec. 1963	I	II	III	IV	I	Mar. 1965
Residents of:							
United States	411	+342	-257	+195	- 15	+287	963
Italy	338	-100	+ 39	- 50	+ 23	-211	39
Japan	235	+ 31	+ 22	+ 42	+ 42	+ 23	395
Germany	132	-158	+ 93	+ 10	+133	-202	8
Net Lenders	Net U.S. Dollar Assets in London Banks						
Residents of:							
Canada	286	+ 36	+ 98	+ 59	+218	-109	588
Switzerland	537	+132	+ 50	+174	-247	+ 48	694
Middle East	264	- 7	+ 20	0	+ 45	+ 67	389
Austria	216	- 17	- 8	+ 31	- 23	- 45	154
France	1/(56)	2/+ 11	3/- 58	2/+ 64	+ 75	+138	174
Netherlands	8	3/- 22	3/- 28	3/- 5	2/+ 10	+ 79	42
Belgium	1/(123)	2/+ 25	2/+ 53	2/+ 3	- 31	+ 81	8

1/ Net liability position.
2/ Decrease in net dollar liabilities in London.
3/ Increase in net dollar liabilities in London.
Source: Bank of England, Quarterly Bulletin.

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Table 9. U.S. Dollar Bonds: New Issues Placed in Europe, Jan.-June 1965

Borrower	Coupon (%)	Price	Term (yr.)	Amount ($ mil.)	Listing
January					
Sira-Kvina Kraftselskap (Norwegian power consortium)	5.75	97.75	20	25	London
February					
Cassa per il Messogiorno (development fund for South Italy)	6.0	97.50	20	20	London Luxembourg
March					
Kingdom of Norway	5.5	98.00	20	30	London Luxembourg
April					
City of Helsinki (Finland)	6.25	97.25	12	10	New York
May					
Commonwealth of Australia	5.5	98.50	20	25	London New York
June					
Allmänna Svenska Elektriska A.B. (ASEA) (Swedish electric company)	6.0	97.00	15	15	London Luxembourg
Oesterreichisch-Alpine Montangesellschaft (Austrian-Alpine Mining Comp[illegible]	5.75	97.00	20	12	London
City of Oslo (Norway)	5.75	98.75	20	15	New York
Kingdom of Denmark	6.00	99.00	20	20	New York
July					
Commonwealth of New Zealand	5.75	97.5	20	20	New York

TOTAL VOLUME: (millions)	[illegible]	Jan.-Mar.	$111.5	1965	Jan.-[illegible]	$[illegible]
		Apr.-June	$128.5		Apr.-June	$97
		July-Sept.	$118.0			
		Oct.-Dec.	$132.0			

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Limited new issues. In the first quarter of the year, the foreign market for new dollar issues was in a considerable state of flux and the number of new issues was sparse. Several bonds reportedly in the works did not come to market or were delayed. The mid-March temporary softness in the prices of outstanding issues (traded mostly in London and Luxembourg) was responsible for a rather sharp reduction in the size of the borrowing for the Kingdom of Norway in late March.

In April and May, only two issues were put on the market. The issue for the City of Helsinki (headed by a New York house and offered early in April) was made very attractive compared with former issues with a 6-1/4 per cent coupon, 12-year maturity, and 97.25 per cent offering price. (See Table 9.) Business then picked up, and four new issues were brought to market in June.

The comparison of the June City of Oslo (Norway) issue with an offering made nine months ago for the same borrower indicates the extent to which costs have risen. The most recent issue--$20 million for 20 years--carried a coupon of 5.75 per cent and was sold at 98.75 per cent. This compares with a September, 1964, $15 million, 15-year offering for Oslo with a coupon of 5.50 per cent and an offering price of 98.81 per cent. An issue of $20 million of 5-year promissory notes was also made for the Regie des Telegraphes et des Telephones (Belgium). These notes carried a 6 per cent rate and were placed privately by a London house and could, perhaps, be indicative of the borrower's desire to wait until a more propitious time to raise long-term capital.

Bond borrowers. Borrowers so far this year have been predominately Scandinavian; governments, municipalities and businesses took 67 per cent of the total volume of funds raised. The government of Australia and the South Italy Development Fund borrowed most of the remainder. However, the British Commonwealth share of the borrowing will be increased when the Government of New Zealand offers a $20 million loan issue in early July.

Underwriting by U.S. houses. Euro-dollar bond activity appears to indicate a shift in the initiative for organizing new foreign dollar bond issues from London to New York underwriters. Of the 10 issues sold through early July of this year, 50 per cent have been offered by underwriting groups headed by New York based houses, compared with only 16 per cent of the issues sold in 1964. Some commentators feel that U.S. underwriters, apparently showing more aggressiveness toward this business than previously, will continue to enhance their position in this sector of the international capital market.

Bond prices ease. Prices of outstanding U.S. dollar bonds quoted in London eased significantly in mid-June, probably reflecting the general tightening of foreign dollar availabilities as well as the relatively large volume of new issues put on the market. For example, the Mortgage Bank of Denmark, 5-5/8 per cent bond, dropped $1.75 between the end of

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May and the end of June, raising its yield to maturity about 20 basis points. Most of the outstanding issues are presently at prices very close to their lowest prices since issue. The Japanese issues, most of which have convertible features, have been drifting lower in line with the lower stock prices in Tokyo. (See Table 10.)

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Table 10. Prices and Yields of Selected U.S. Dollar Bonds Traded in London

Issue	Gov't of Austria 6%, 1979-1984 High	Low	Gov't of Denmark 5-1/2%, 1970-1984 High	Low	IRI 5-3/4%, 1975-1979 High	Low	City of Oslo 5-3/4%, 1969-1979 High	Low
1964	103.62	101.25	103.62	100.38	109.12	105.75	103.0	101.25
1965	101.75	99.38	102.12	97.00	112.0	92.75	101.12	97.75

Last Friday of:	Price	Yield to maturity	Price	Yield to maturity	Price	Yield to maturity	Price	Yield to maturity
January 1965	101.38	5.8	101.00	5.3	106.00	5.0	100.50	5.6
March	99.50	5.9	97.00	5.7	112.00	4.1	97.75	5.9
April	101.00	5.8	100.00	5.4	94.38	6.1	99.50	5.7
May	100.00	5.9	98.75	5.5	94.25	6.3	98.75	5.8
June 18	99.50	5.9	97.25	5.6	93.00	6.4	97.75	5.9
25	100.25	5.9	97.50	5.6	92.75	6.4	97.75	5.9

Issue	Mort. Bk. Denmark 5-5/8%, 1970-1984 High	Low	Copenhagen Telephone 5-3/4%, 1970-1984 High	Low	Itoh 6-1/4%, 1984 High	Low	Takeda 6%, 1984 High	Low
1964	101.38	99.50	102.62	100.12	100.0	94.75	105.5	98.5
1965	100.25	95.75	102.25	97.25	100.25	79.50	107.0	93.00

Last Friday of:	Price	Yield to maturity	Price	Yield to maturity	Price	Yield to maturity	Price	Yield to maturity
January 1965	100.00	5.5	101.12	5.6	96.50	6.7	105.00	5.4
March	98.12	5.7	100.00	5.7	88.00	7.3	98.50	6.0
April	99.62	5.6	100.75	5.6	86.00	7.4	99.00	5.9
May	97.75	5.7	99.75	5.7	83.00	7.8	97.00	6.1
June 18	95.75	5.9	97.75	5.9	81.00	8.2	94.00	6.4
25	96.00	5.9	97.50	5.9	79.50	8.3	93.00	6.4

Prices are bid.

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Appendix: Table I

Bid Rates for U.S. Dollar Deposits in London

		TERM				
1964		Call	7-day	30-day	90-day	180-day
January	31	3.69	3.81	3.94	4.08	4.25
February	28	3.75	3.88	3.94	4.12	4.25
March	27	3.81	4.00	4.06	4.25	4.44
April	24	3.69	3.81	4.00	4.19	4.38
May	29	3.75	3.88	4.12	4.25	4.38
June	26	4.00	4.31	4.38	4.38	4.44
July	31	3.88	4.00	4.12	4.31	4.44
August	28	3.75	3.88	4.12	4.25	4.44
September	25	3.88	4.00	4.06	4.19	4.44
October	30	3.88	3.94	4.00	4.50	4.56
November	27	no market	no market	5.00	5.00	5.00
December	31	3.88	4.12	4.62	4.62	4.75
1965						
January	8	3.88	4.12	4.38	4.50	4.62
	15	3.88	4.12	4.25	4.44	4.62
	22	4.00	4.12	4.25	4.44	4.56
	29	4.00	4.12	4.31	4.50	4.56
February	5	4.06	4.19	4.31	4.50	4.44
	12	4.06	4.19	4.31	4.50	4.54
	19	4.06	4.25	4.38	4.56	4.60
	26	4.06	4.25	4.38	4.56	4 68
March	5	4.19	4.38	4.62	4.75	4.82
	10	4.19	4.62	5.00	5.12	5.25
	12	4.19	4.38	4.88	5.00	5.12
	19	4.19	4.31	4.62	4.88	5.12
	26	4.12	4.31	4.62	4.88	5.12
April	2	4.12	4.25	4.50	4.75	5.12
	9	4.12	4.31	4.50	4.75	5.12
	16	4.12	4.31	4.50	4.82	5.12
	23	4.12	4.31	4.50	4.75	5.00
	30	4.12	4.31	4.50	4.81	5.00
May	7	4.25	4.38	4.62	4.88	5.06
	14	4.31	4.38	4.62	4.88	5.06
	21	4.31	4.44	4.69	4.94	5.19
	28	4.38	4.50	5.06	5.25	5.44
June	4	4.38	4.50	4.88	5.12	5.25
	11	4.38	4.50	4.88	5.00	5.38
	18	4.38	4.50	4.88	5.00	5.12
	25	4.38	4.50	4.69	4.88	4.94
July	2	4.38	4.50	4.75	4.88	5.12

Source: Federal Reserve Bank of New York.

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Chart 1

INTERNATIONAL MONEY MARKET YIELDS FOR U.S. DOLLAR INVESTORS

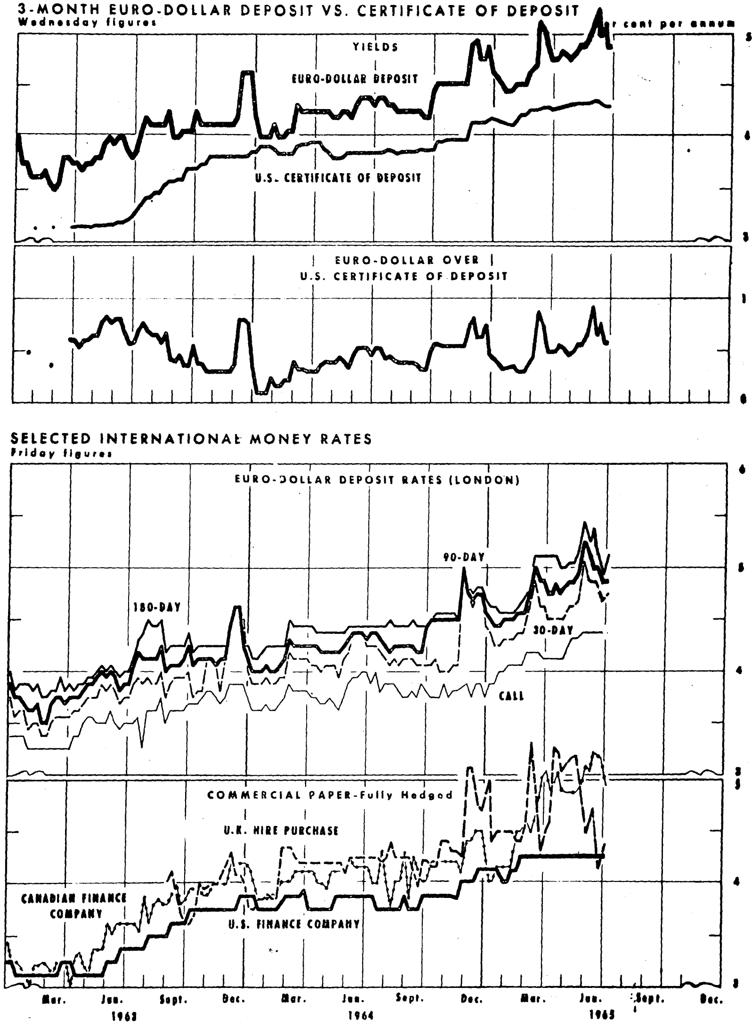

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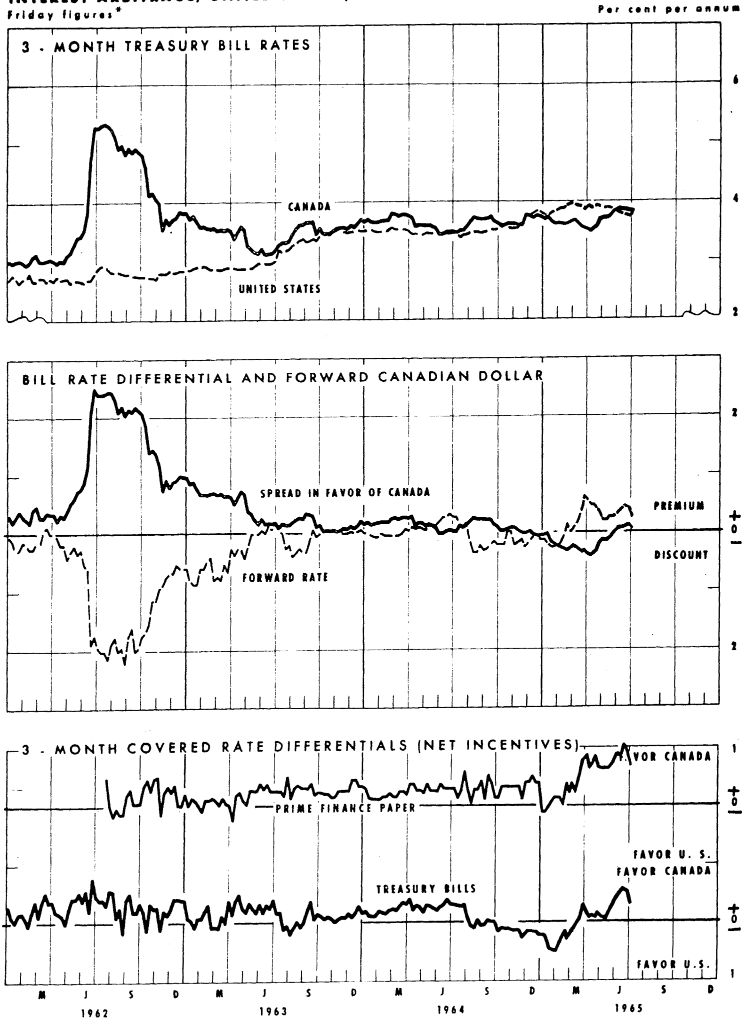
Chart 2

INTEREST ARBITRAGE, UNITED STATES/CANADA

Friday figures*



* Thursday figures 1962, Friday thereafter

Chart 3

INTEREST ARBITRAGE, NEW YORK/LONDON

Friday figures

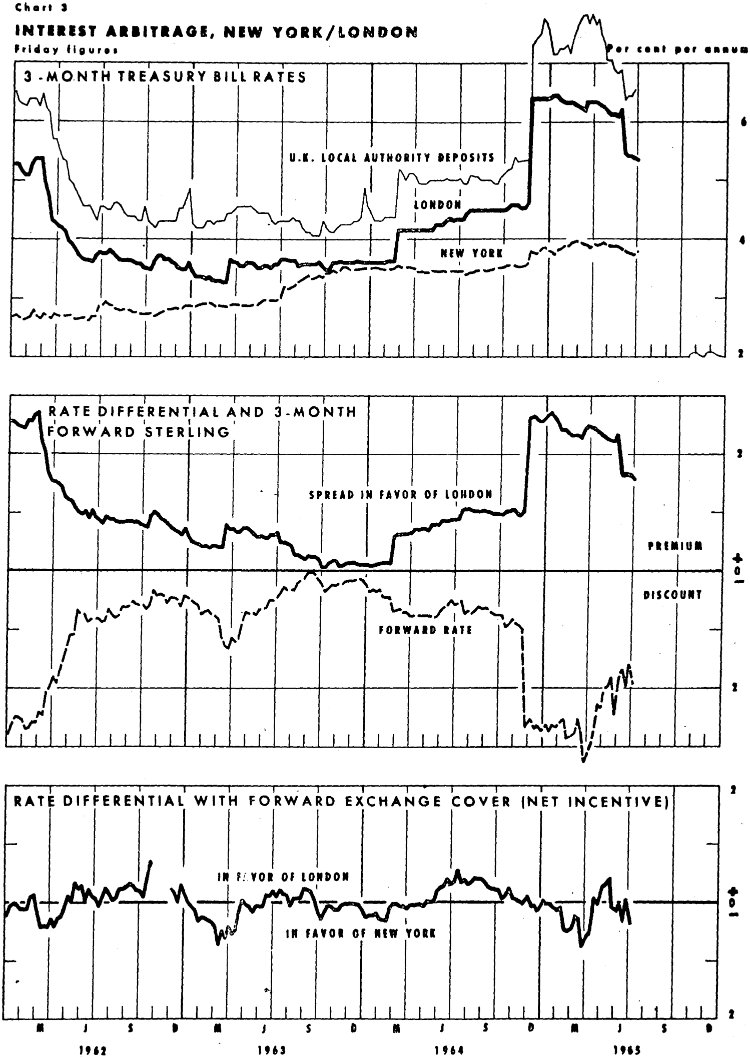


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Chart 4

INTEREST ARBITRAGE FOR GERMAN COMMERCIAL BANKS

Friday figures

Per cent per annum

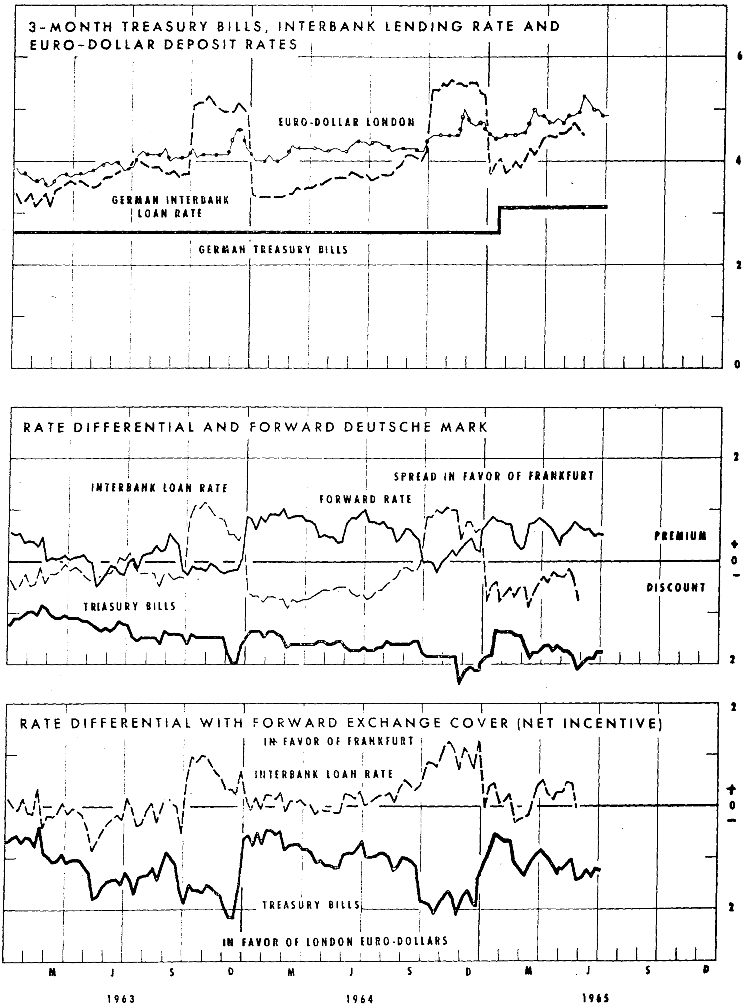

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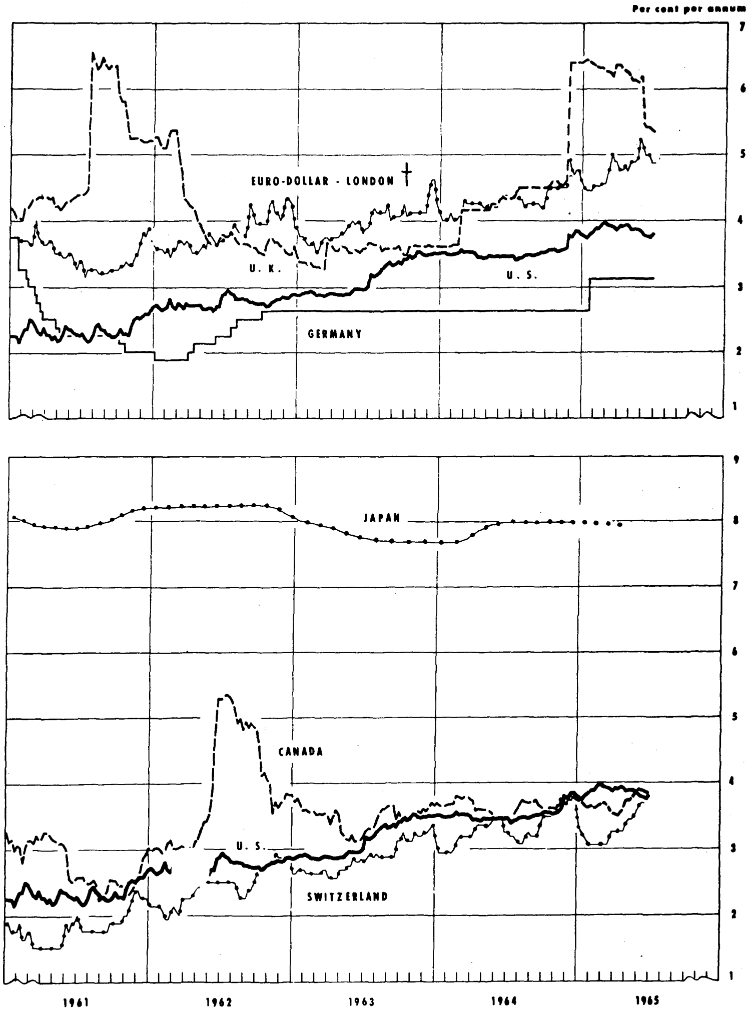
Chart 5
SHORT-TERM INTEREST RATES*



* 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

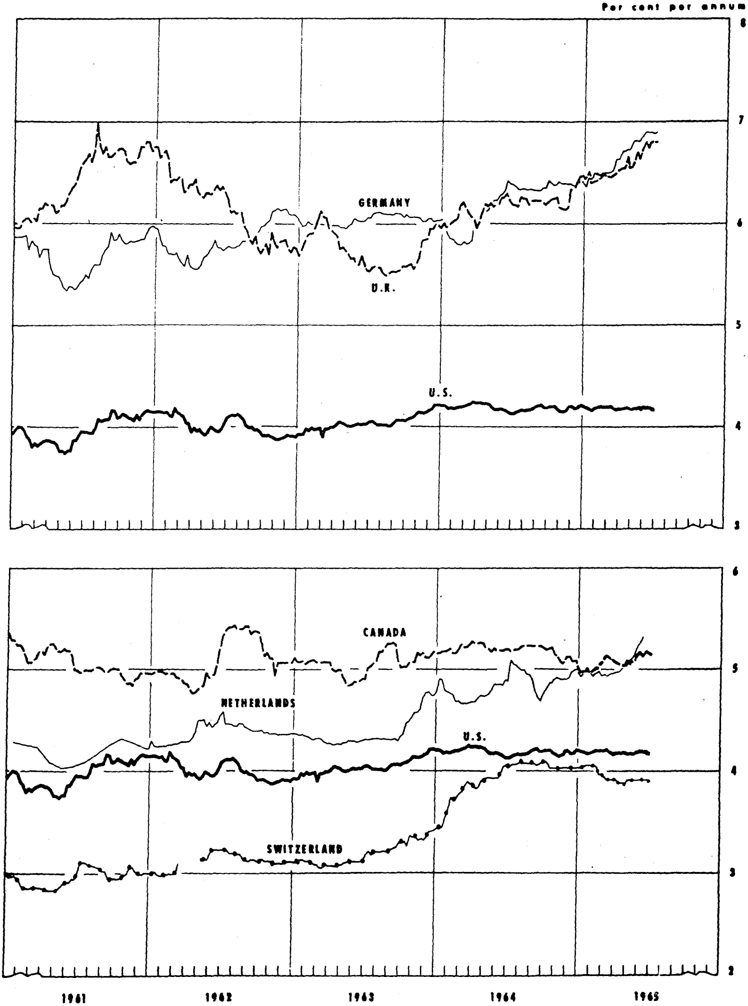

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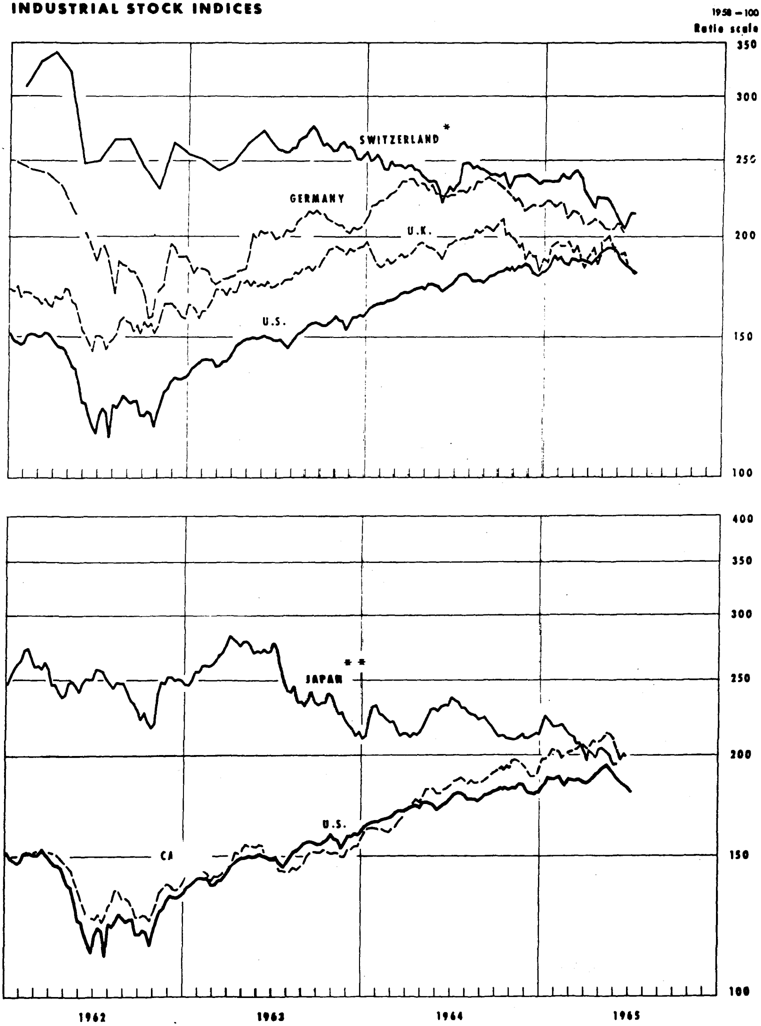
Chart 7

INDUSTRIAL STOCK INDICES



* Swiss Bank Corporation industrial stock.

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

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Chart 8

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

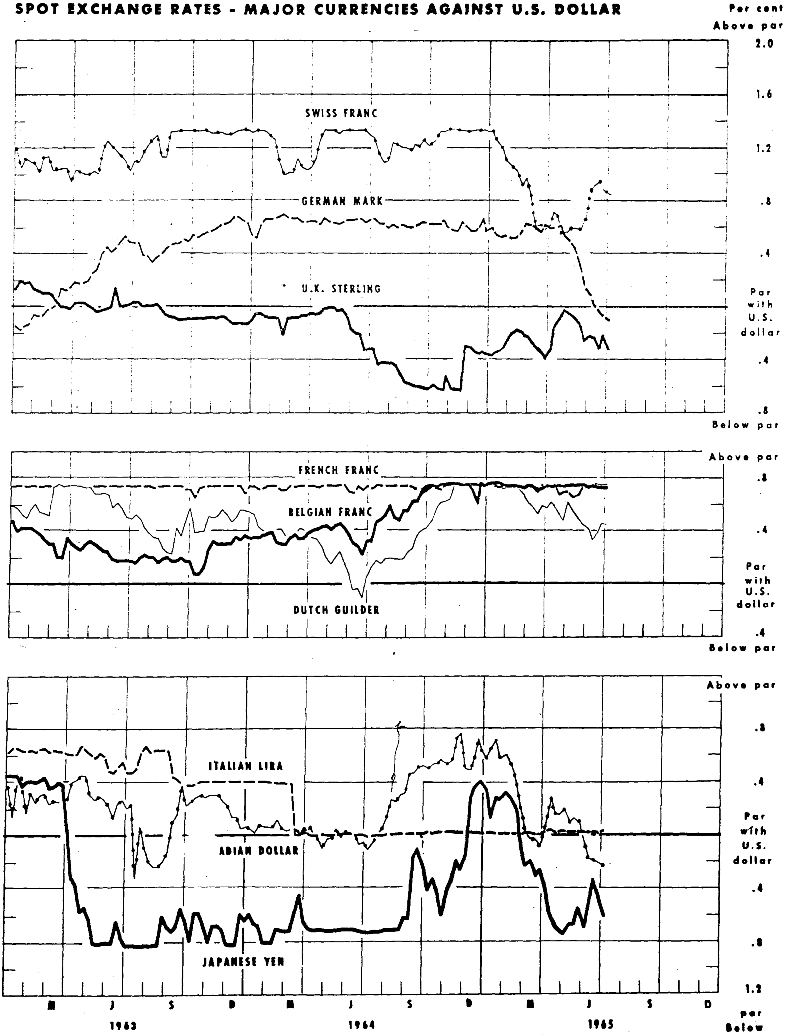

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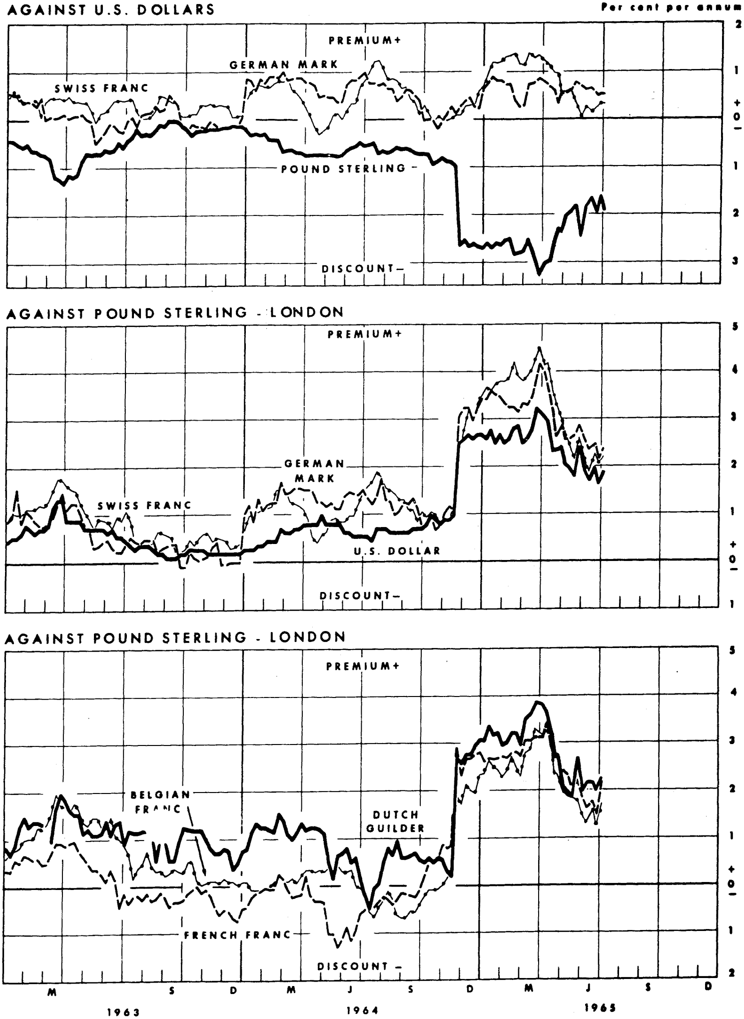
Chart 9

3-MONTH FORWARD EXCHANGE RATES

Friday figures



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III. Latest Figures Plotted In H.13 Chart Series, 1965

Chart 1	Per cent per annum
Upper panel	
(Wednesday, June 30)	
Euro-$ deposit	4.88
U.S. certif. of deposit	4.[illegible]
Lower panels	
(Friday, July 2)	
Euro-dollar deposits call	4.38
7-day	4.50
30-day	4.75
90-day	4.88
180-day	5.12
Finance Co. paper: U.S.	4.25
Canada	4.95
Hire-purchase paper, U.K.	4.38

Chart 2	Per cent per annum
(Friday, July 2)	
Treasury bills: Canada	3.83
U.S.	3.80
Spread favor Canada	+0.03
Forward Canadian dollar	+0.27
Net incentive (Canada +)	+0.30

Chart 3	Per cent per annum
(Friday, July 2)	
Treasury bills: U.K.	5.36
U.S.	3.80
Spread favor U.K.	+1.56
Forward pound	-1.93
Net incentive (U.K. +)	-0.37

Chart 5	Per cent per annum
(Friday, July 2, except as noted)	
Treasury bills:	
U.S.	3.80
U.K.	5.36
Germany	3.12
Canada	3.83
Swiss 3-month deposits (Date: June 25)	3.69
Euro-$ deposit (London)	4.88
Japan: composite rate (Date: April 30)	7.92

Chart 6	Per cent per annum
Bonds:	
U.S. govt. (Wed., June 30)	4.17
U.K. war loan (Thurs., July 1)	6.80
German Fed. Railway (Fri., July 2)	6.89
Swiss Confederation (Fri., June 25)	3.90
Canadian govt. (Wed., June 30)	5.15
Netherlands government perpetual (Fri., June [illegible])	5.31

For description and sources of data see special annex to H. 13 Number 164, September 23, 1964.

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