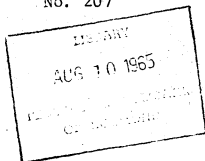


H. 13
No. 207

August 4, 1965

CAPITAL MARKET DEVELOPMENTS ABROAD

- I. Canada
 II. Nine Charts on Financial Markets Abroad
 III. Latest Figures Plotted in H. 13 Chart Series

I. Canada: Money and Capital Markets, June-July 1965

Credit conditions in Canada tightened further in July, after easing somewhat in late June. (See Table 1.) Between July 1 and 29, yields on government bonds increased by 9 to 14 basis points, and the Treasury bill rate rose 12 basis points. In the foreign exchange market, the spot Canadian dollar fell gradually between mid-June and mid-July, to 92.19 (U.S. cents), but subsequently rose sharply to 92.51 (U.S. cents) by month's end, reportedly on strong commercial demand. The forward dollar changed gradually from a premium of 54 basis points on June 17 to a discount of 14 basis points on July 29.

Table 1. Canada: Selected Financial Market Indicators, June-July 1965

	June		July				
	<u>17</u>	<u>24</u>	<u>1</u>	<u>8</u>	<u>15</u>	<u>22</u>	<u>29</u>
A. Interest rates							
3-month Treasury							
bills <u>a/</u>	3.98	3.94	3.93	3.97	3.97	3.95	4.05
Day-to-day loans <u>b/</u>	4.05	3.60	3.48	3.47	3.78	3.80	3.98
Government bonds: <u>c/</u>							
5.0% 1968	4.93	4.89	4.89	4.95	5.04	4.98	4.98
4.25% 1972	5.12	5.10	5.12	5.19	5.23	5.21	5.25
4.5% 1983	5.17	5.16	5.15	5.23	5.27	5.26	5.30
5.25% 1990	5.16	5.14	5.13	5.20	5.25	5.23	5.27
B. Stock index <u>d/</u>	200.6	198.6	193.9	192.0	189.8	185.6	n.a.
C. Canadian dollar							
Spot (U.S. cents)	92.39	92.37	<u>e/</u> 92.31	92.25	92.19	92.30	92.51
3-month forward							
premium	.54	.54	<u>e/</u> .27	.27	.14	.14	-.14

a/ Average tender.b/ Average of daily closing rates for week ending preceding Wednesday.c/ Wednesday data; mid-market yield at close.d/ From Financial Post, (1958=100).e/ As of July 2. July 1 was a holiday.OFFICIAL USE ONLY

(Decontrolled after six months)

The easier market conditions of late June apparently resulted from official efforts aimed at neutralizing the disruptive impact of the failure of the Atlantic Acceptance Corporation. On June 17 the A.A.C. (a medium-sized sales finance house) went into receivership, having defaulted on a \$5 million note on June 14. According to the financial press, the bank of Canada assured the chartered banks that it would meet their needs for funds for lending to finance houses. In addition, some chartered banks lowered the fees they charge on banker's acceptances.

By early July money market conditions became more settled and the Canadian authorities reverted to pursuit of the restrictive monetary policies, aimed at moderating an excessive pace of domestic economic expansion, which had been initiated in early April. However, the aim of the authorities in bringing about a necessary degree of money market tightness has probably been facilitated by the effects on credit stringency of the withdrawal of U.S. dollar deposits from Canada. The withdrawal has been quite large, totalling over \$700 (Canadian) million in the three-month period through May 1965. (See Table 5.)

Bank of Canada eases market conditions in June. After the failure of the Atlantic Acceptance Corporation in mid-June, the Bank of Canada reportedly assured the chartered banks that enough money would be made available to allow them to lend to finance companies. Chartered bank loans to installment finance companies did, in fact, rise considerably. (See Table 2.) From June 16 to July 21, loans outstanding rose from \$280 million to \$377 million. By contrast, bank loans to finance companies averaged about \$260 million in June and July, 1964, and about \$248 million in June and July, 1963. Further expansion of loans in the month ending

Table 2. Canada: Chartered Bank Indicators, 1965
(millions of dollars or per cent)

	<u>March</u>	<u>April</u>	<u>May</u>	<u>June</u>
Currency outside banks ^{a/}	3,896	3,967	3,988	4,092
Chartered bank deposits held by general public ^{a/}	13,769	13,954	13,989	14,118
Total ^{a/}	17,665	17,921	17,977	18,210
General loans ^{b/}	6,411	8,610	8,754	9,134
Loans to installment finance companies ^{b/}	288	295	281	347
Average cash reserve ratio ^{c/}	8.08	8.08	8.68	8.09
Average liquid asset ratio ^{c/}	16.97	16.92	16.77	16.39

^{a/} Seasonally adjusted, end of month.

^{b/} End of month.

^{c/} Daily average, minimum cash ratio is 8 per cent; minimum liquid asset ratio is 16 per cent.

July 21 is reflected in the increase in the money supply of \$325 million from June 17 to July 21; by comparison, the money supply increased by only \$46 million during the same period in 1964. Seasonally adjusted, the money supply increased 1.3 per cent in June 1965, compared with 0.3 per cent in May. (See Table 2.)

Money market rates resume rise in July. Largely in response to the activities of the Bank of Canada, money market conditions eased in the latter part of June. (See Table 1.) The average tender rate on 3-month Treasury bills moved from 3.98 on June 17 to a low of 3.93 on July 1, and rates on day-to-day loans dropped from 4.05 to 3.48. Market conditions were further eased by the fact that some chartered banks lowered the fees they charge on banker's acceptances for the most credit-worthy borrowers, from a minimum of 1-1/4 per cent per annum to a minimum of 1/2 of 1 per cent. By encouraging some corporate borrowers to make use of the banker's acceptance, the banks were in a better position to accommodate the borrowing needs of finance houses. Banker's acceptances have seldom been used in recent years, but non-financial corporate borrowers may find this instrument increasingly attractive as a form of short-term financing. No data are available on the volume of banker's acceptances.

However, market rates began to rise in early July and by the end of the month were back to their levels of mid-June. (See Table 1.)

Chartered bank bond sales push yields upward. In an effort to maintain liquidity positions in the face of continued vigorous loan demand, the chartered banks have converted some of their long-term securities into Treasury bills. From June 16 to July 28, the chartered banks' holdings of securities fell by \$103 million, from \$2,444 million to \$2,341 million. Their holdings of Treasury bills increased during that period by \$87 million, from \$1,229 million to \$1,316 million. (See Table 3.)

As a result of these sales, yields on Canadian bonds rose during the period under review. From June 16 to July 28, yields on 3-year bonds rose 5 points to 4.98; on 7-year bonds, yields rose 13 points to 5.25; on 19-year bonds, yields rose 13 points to 5.30; and on 25-year bonds, yields rose 11 points to 5.27. The increase since May 12 has been even greater. (See Table 4.) Given the stability of yields on comparable U.S. bonds, yield differentials, in favor of Canada, have also been increasing, with the differential exceeding 1 per cent on all of the longer-term bonds throughout July. (See Table 4.)

Table 3. Canada: Holdings of Central Government
Direct and Guaranteed Debt, 1965
 (par values; millions of dollars)

	Level as of:		Change
	June 16	July 28	
Bank of Canada			
Treasury bills	497	436	- 61
Other	<u>2,725</u>	<u>2,803</u>	+ 78
Total	3,222	3,239	+ 17
Chartered banks			
Treasury bills	1,229	1,316	+ 87
Other	<u>2,444</u>	<u>2,341</u>	-103
Total	3,673	3,657	- 16
General Public			
Treasury bills	393	367	- 26
Canadian Savings bonds	5,449	5,395	- 54
Other	<u>6,976</u>	<u>6,998</u>	+ 22
Total	12,817	12,760	- 58

Source: Bank of Canada.

Stock market declines steadily. Between June 17 and July 22, the Financial Post's index of total industrials fell 15 points--a decline of about 7-1/2 per cent. (See Table 1.) This decline is attributable in part to the movements on Wall Street, and the subsequent, less optimistic, prospects for continued U.S. prosperity. The Canadian financial press reports that the decline is also due, in some measure, to the failure of the Atlantic Acceptance Corporation.

Foreign deposits in chartered banks continue to fall. Foreign currency deposits in Canadian chartered banks fell by \$72.9 million in May, bringing the total decrease in deposits in the three months ending May 31 to \$709.8 million. (See Table 5.) As in previous months, the banks reacted by reducing their foreign currency assets. However, whereas in March and April they reduced primarily their call loans and deposits in foreign banks, in May holdings of foreign securities were largely affected. (See Table 5.) This change probably represents a desire to achieve balance in their foreign portfolio.

Table 4. Canada/U.S. Comparative Bond Yields, 1965
(per cent per annum; Wednesday data; Canadian bonds;
mid-market yield at close; U.S. bonds, yields on bid side)

	May	June		July			
	12	16	30	7	14	21	28
3-year:							
U.S. 8/68, 3.75%	4.12	4.10	4.07	4.05	4.10	4.10	4.10
Can. 10/68, 5.0%	4.65	4.93	4.89	4.95	5.04	4.98	4.98
Differential							
(+ in favor Can.)	+ .53	+ .83	+ .82	+ .86	+ .94	+ .88	+ .88
7-year:							
U.S. 8/72, 4.0%	4.17	4.17	4.15	4.15	4.15	4.16	4.16
Can. 9/72, 4.25%	4.92	5.12	5.12	5.19	5.23	5.21	5.25
Differential	+ .75	+ .95	+ .97	+1.04	+1.08	+1.05	+1.09
19-year:							
U.S. 78-83, 3.25%	4.15	4.16	4.16	4.17	4.17	4.17	4.18
Can. 9/83, 4.5%	5.07	5.17	5.15	5.23	5.27	5.26	5.30
Differential	+ .92	+1.01	+ .99	+1.06	+1.10	+1.09	+1.12
25-year:							
U.S. 2/90, 3.5%	4.17	4.18	4.17	4.18	4.18	4.18	4.18
Can. 5/90, 5.25%	5.09	5.16	5.13	5.20	5.25	5.23	5.27
Differential	+ .92	+ .98	+ .96	+1.02	+1.07	+1.05	+1.09

Foreign reserve losses continue. Official holdings of gold and U.S. dollars declined by another \$(U.S.)18.6 million in June, after falling \$(U.S.)67.8 million in May, bringing the total loss in the first half of 1965 to \$(U.S.)194.2 million. (See Table 6.) As in previous months, this loss consisted entirely of U.S. dollars, with gold holdings continuing to rise. Since the first of the year, gold as a percentage of total official gold and dollar holdings rose from 38.4 per cent to 43.9 per cent in June. (See Table 6.)

Foreign trade position remains weak. Canada's merchandise trade accounts showed continuing weakness through the first four months of 1965, compared to the same period last year, as export growth failed to match the rising trend of imports. (See Table 7.)

Table 5. Canadian Chartered Banks: Foreign Assets and Liabilities, 1965
(millions of Canadian dollars)

	Level end of Jan.	Change during month of:				Level end of May
		Feb.	Mar.	Apr.	May	
I. Assets						
Deposits w/other banks	1671.6	-21.2	-233.2	-242.6	+ 9.9	1184.5
Securities	654.4	+ 9.7	- 60.3	+ 32.7	-100.3	536.2
Call loans; other short loans	1034.5	+ 6.8	-217.6	+ 35.9	+ 34.7	894.3
Other loans	2051.3	+42.9	+ 42.4	- 10.5	- 24.0	2102.1
Total	5411.8	+38.2	-468.7	-184.5	- 79.7	4717.1
II. Liabilities						
Deposits by banks	945.6	+34.1	- 14.1	+ 60.3	- 17.1	1008.8
Other deposits	4390.6	+ 2.4	-455.3	-227.8	- 55.8	3654.1
Total	5336.2	+36.5	-469.4	-167.5	- 72.9	4662.9
III. Net position						
(I-II)	75.6	+ 1.7	+ 0.7	- 17.0	- 6.8	54.2

Source: Monthly supplement to Canada Gazette.

Table 6. Canadian Official Holdings of Gold and U.S. Dollars, 1964-65
(millions of U.S. dollars)

	Level as of Dec. '64	Change:		Level as of Jun. '65
		Dec. '64- Mar. '65	Mar. '65- Jun. '65	
Gold	1025.7	+ 18.4	+ 45.0	1089.1
U.S. dollars	1648.6	-138.6	-119.0	1391.0
Total	2674.3	-120.2	- 74.0	2480.1
Gold as percentage of total	38.4	--	--	43.9

Source: Bank of Canada.

Table 7. Canada: Merchandise Trade, 1964-1965
(millions of dollars)

	1964	1965				
	January- April	January- April	January	February	March	April
Not seasonally adjusted:						
Exports	2453.7	2515.7	586.8	557.3	706.4	665.2
Imports	2358.4	2545.7	559.8	555.0	731.1	699.8
Balance	+95.3	-30.0	+27.0	+2.3	-24.7	-34.6
Seasonally adjusted:						
Exports	2665.8	2761.1	654.1	687.8	704.0	715.2
Imports	2500.0	2707.6	647.7	662.2	704.5	693.2
Balance	+165.8	+53.5	+6.4	+25.6	-0.5	+22.0

Source: Dominion Bureau of Statistics.

Taking account of seasonal factors, Canada's trade surplus was reduced to \$53.5 million in the January-April period this year, compared to \$165.8 million for the same four months in 1964. (See Table 7.)

Generally, Canada's merchandise trade receipts in 1965 are not expected to reach last year's high level because wheat sales to the Soviet bloc are likely to be much reduced in volume, and because continued Canadian domestic expansion will boost imports.

Spot Canadian dollar strengthens in July. The spot Canadian dollar, which had been falling steadily since April, reached a low of 92.19 (U.S. cents) on July 15, reflecting to some extent the deterioration in Canada's trade balance. However in mid-July the rate began to strengthen, reportedly in response to an increase in commercial demand, and on July 29 reached 92.51 (U.S. cents). (See Table 8.)

During the period under review there were also large rate movements in the forward market. Between June 17 and July 29, the forward Canadian dollar moved from a premium of 54 basis points to a discount of 14 basis points. (See Table 8.) The particularly large declines in the last two weeks of July might have been due to normal hedging operations as the spot rate moved up.

Covered differentials on 3-month Treasury bills and finance paper followed movements in the forward dollar. From June 17 to July 29, covered differentials in favor of Canada narrowed from 0.66 to 0.01 per cent on Treasury bills, and from 1.03 to 0.48 per cent on finance paper. (See Table 8.)

Table 8. Canada/U.S. Exchange Rates and Arbitrage Calculations, 1965

	As of:	July		
	June 17	2	15	29
Exchange rates:				
Spot (U.S. cents)	92.39	92.31	92.19	92.51
Forward premium on Canadian dollar	.54	.27	.14	-.14
3-month yields and differentials (p.c. p.a.):				
Treasury bills				
Canada (covered)	4.43	4.10	4.05	3.79
U.S.	3.77	3.80	3.84	3.78
Differential (+ in favor Canada)	+ .66	+ .30	+ .21	.01
Finance paper (p.c. p.a.): <u>a/</u>				
Canada (covered)	5.28	4.95	4.95	4.73
U.S.	4.25	4.25	4.25	4.25
Differential	+1.03	+ .70	+ .70	+ .48

a/ Friday data.

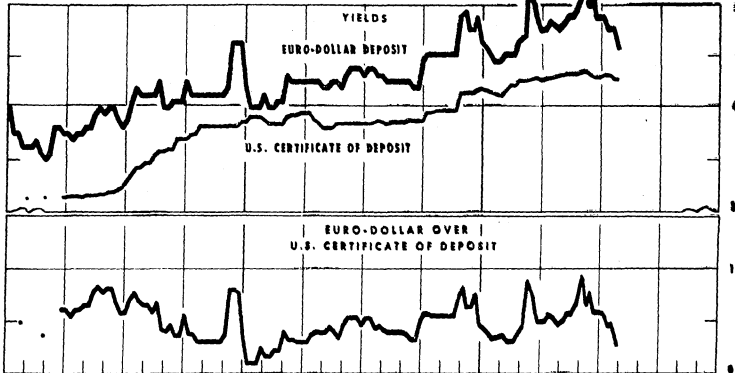
Europe and British Commonwealth Section.

Chart 1

INTERNATIONAL MONEY MARKET YIELDS FOR U.S. DOLLAR INVESTORS

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

Wednesday figures



SELECTED INTERNATIONAL MONEY RATES

Friday figures

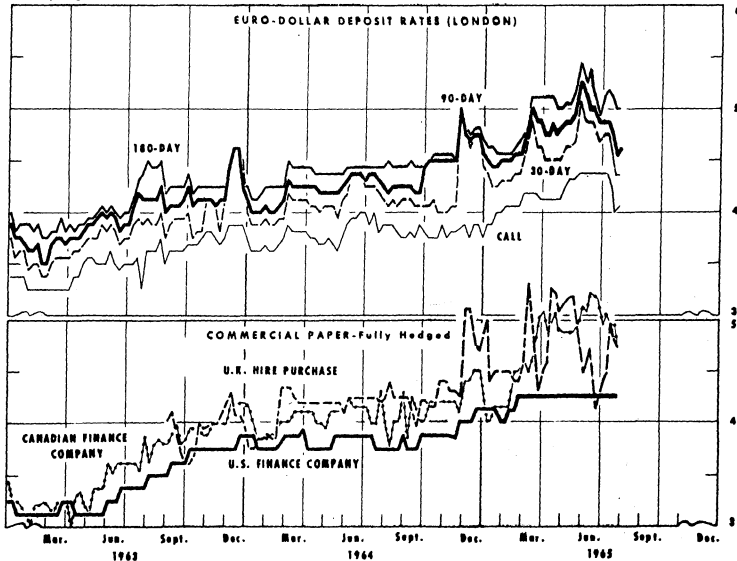
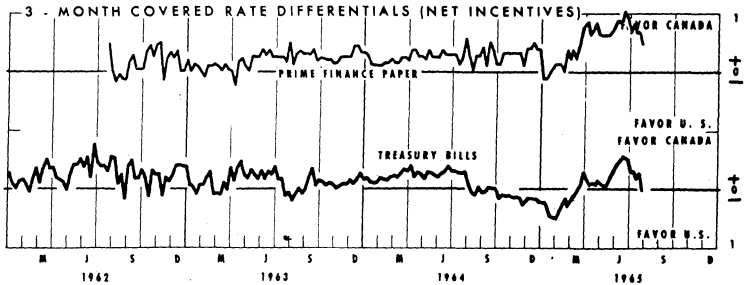
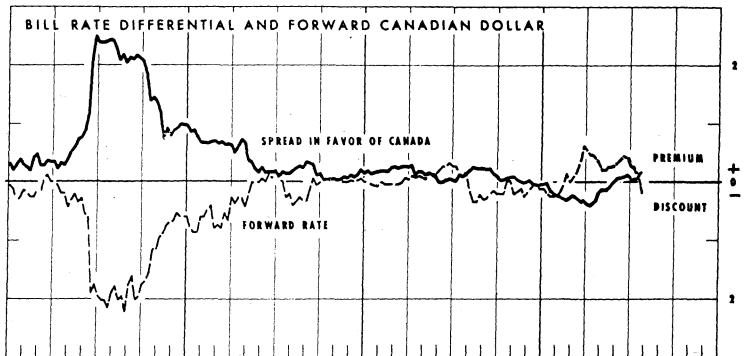
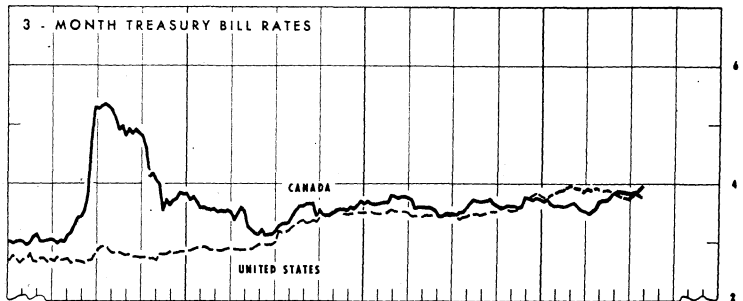


Chart 2

INTEREST ARBITRAGE, UNITED STATES / CANADA

Friday figures*

Per cent per annum

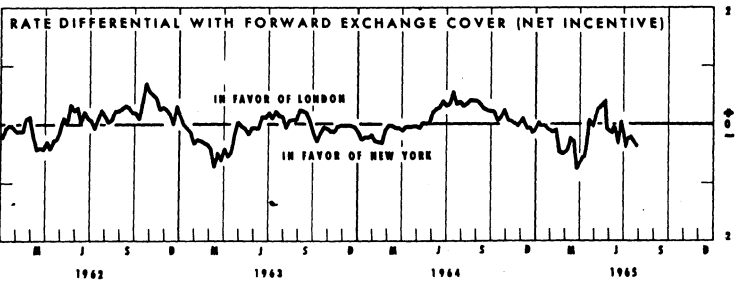
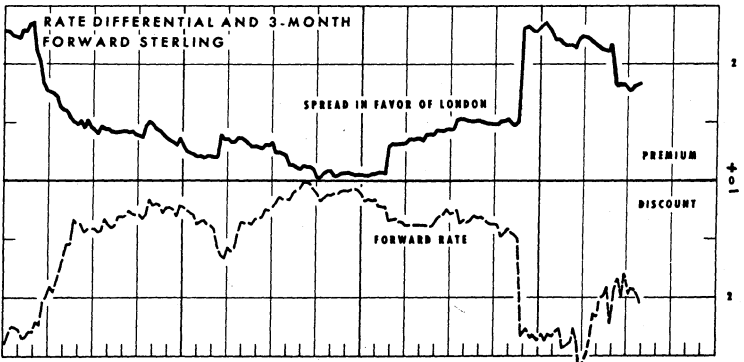
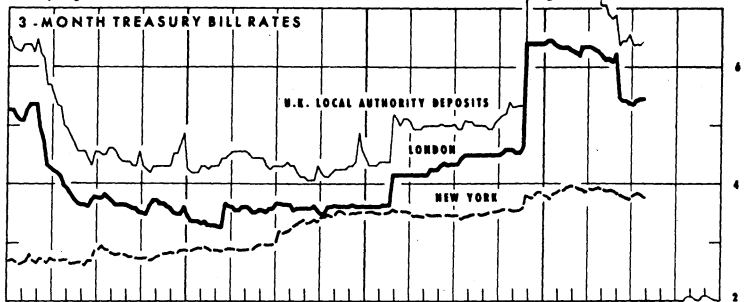


Thursday figures 1962, Friday thereafter.

Chart 3

INTEREST ARBITRAGE, NEW YORK/LONDON

Friday figures



12

Chart 4

INTEREST ARBITRAGE FOR GERMAN COMMERCIAL BANKS

Friday figures

Per cent per annum

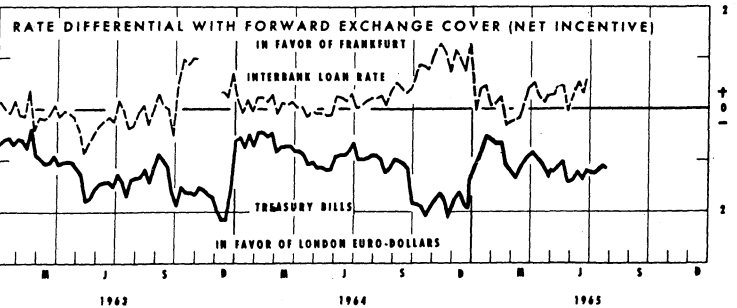
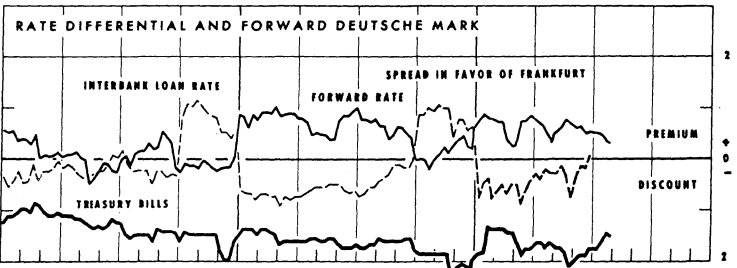
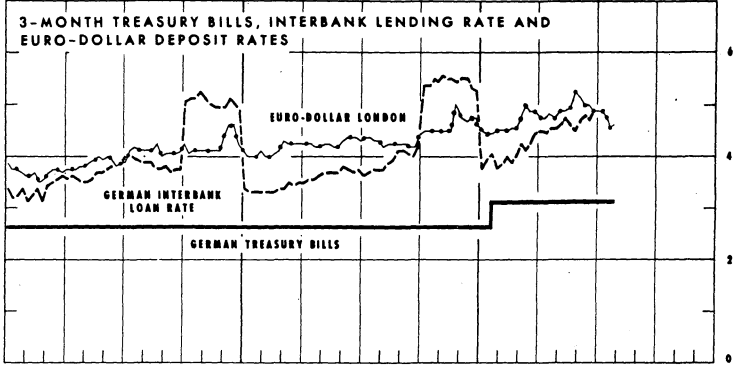
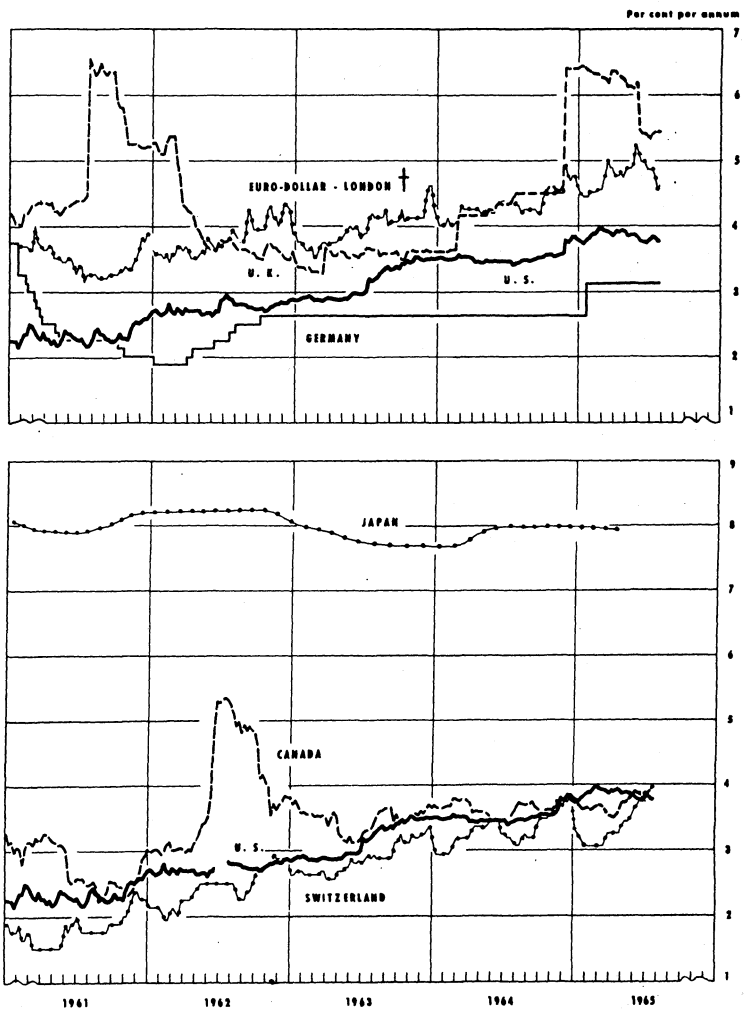


Chart 5
SHORT-TERM INTEREST RATES*



* 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

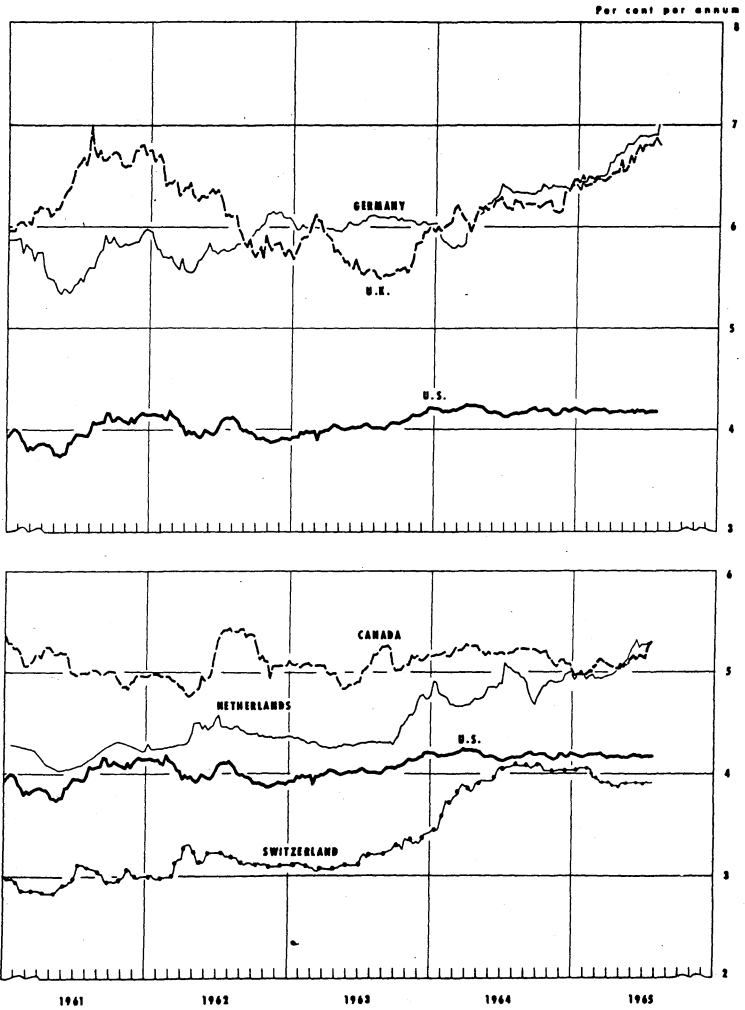
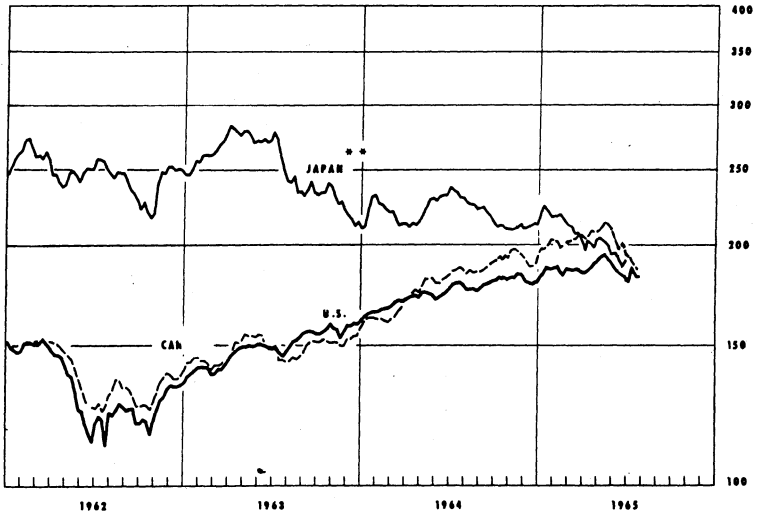
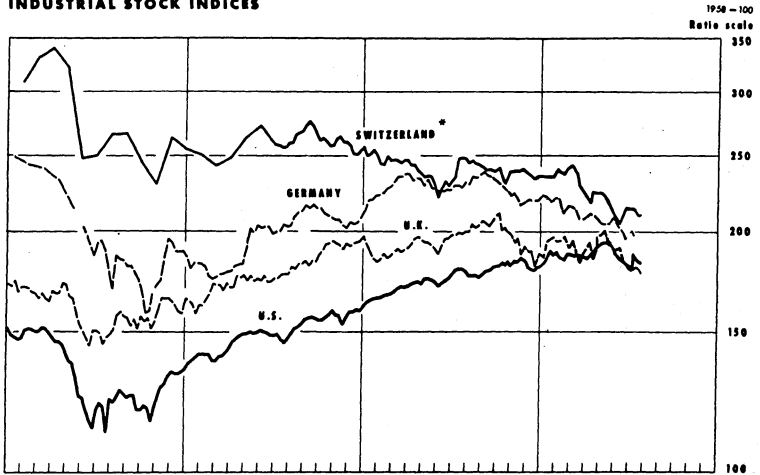


Chart 7
INDUSTRIAL STOCK INDICES



* Swiss Bank Corporation industrial stock.

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

Chart 8

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

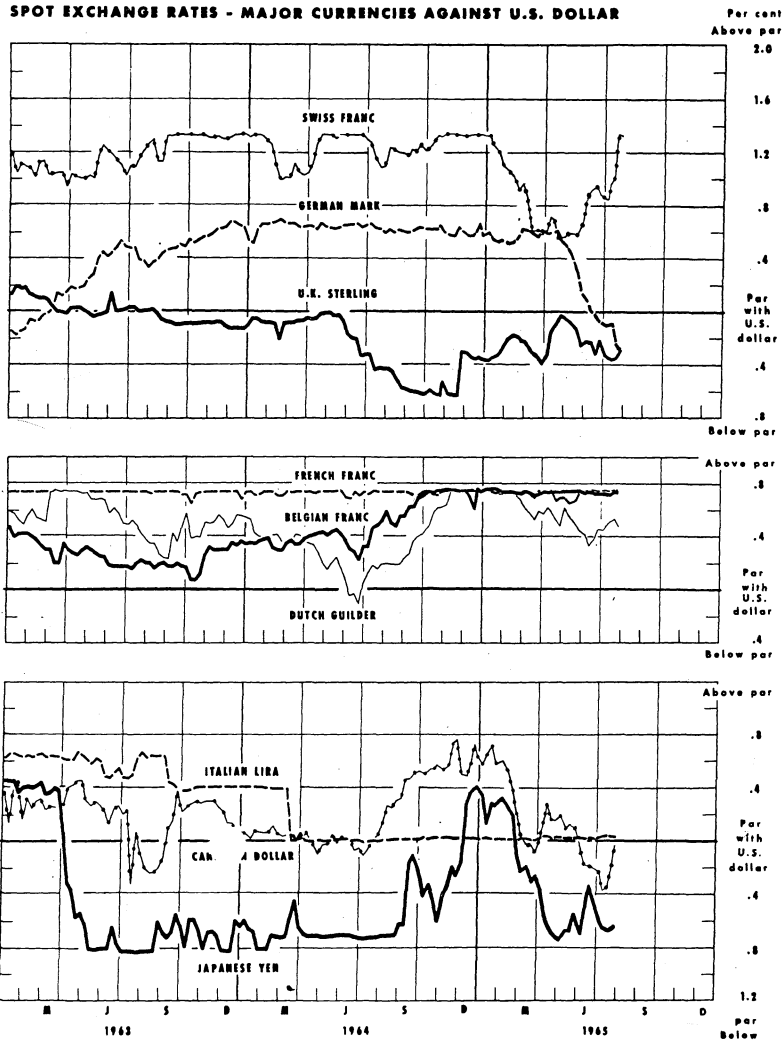
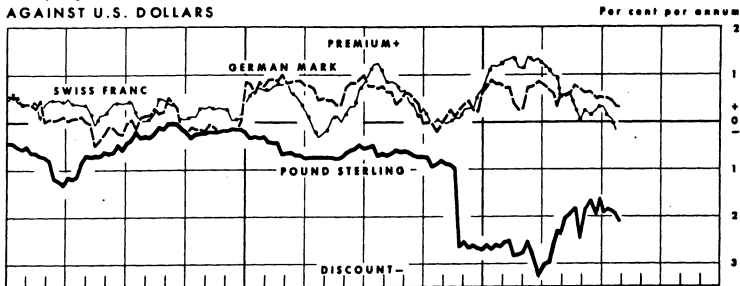
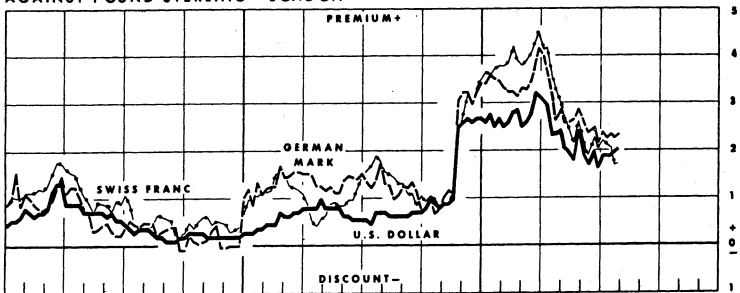


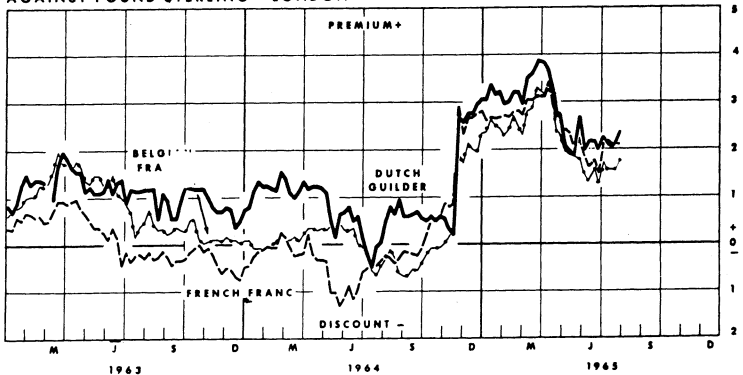
Chart 9
3-MONTH FORWARD EXCHANGE RATES
 Friday figures
 AGAINST U.S. DOLLARS



AGAINST POUND STERLING - LONDON



AGAINST POUND STERLING - LONDON



Latest Figures Plotted In H.13 Chart Series, 1965

<u>Chart 1</u>	<u>Per cent per annum</u>	<u>Chart 5</u>	<u>Per cent per annum</u>
<u>Upper panel</u>		(Friday, <u>July 30</u> , except as noted)	
(Wednesday, <u>July 28</u>)		Treasury bills:	
Euro-\$ deposit	<u>4.56</u>	U.S.	<u>3.78</u>
U.S. certif. of deposit	<u>4.28</u>	U.K.	<u>5.46</u>
<u>Lower panels</u>		Germany	<u>3.12</u>
(Friday, <u>July 30</u>)		Canada	<u>3.96</u>
Euro-dollar deposits: Call	<u>4.063</u>	Swiss 3-month deposits	
7-day	<u>4.125</u>	(Date: <u>July 15</u>) *	<u>3.75</u>
30-day	<u>4.375</u>	Euro-\$ deposit (London)	<u>4.62</u>
90-day	<u>4.625</u>	Japan: composite rate	
180-day	<u>5.000</u>	(Date: <u>April 30</u>)	<u>7.921</u>
Finance Co. paper: U.S.	<u>4.25</u>	<u>Chart 6</u>	
Canada	<u>4.73</u>	Bonds:	
Hire-purchase paper, U.K.	<u>4.72</u>	U.S. govt.	
<u>Chart 2</u>		(Wed., <u>July 28</u>)	<u>4.18</u>
(Friday, <u>July 30</u>)		U.K. war loan	
Treasury bills: Canada	<u>3.96</u>	(Thurs., <u>July 29</u>)	<u>6.79</u>
U.S.	<u>3.78</u>	German Fed. Railway	
Spread favor Canada	<u>+0.18</u>	(Fri., <u>July 23</u>)	<u>7.00</u>
Forward Canadian dollar	<u>-0.20</u>	Swiss Confederation	
Net incentive (Canada +)	<u>-0.02</u>	(Fri., <u>July 23</u>)	<u>3.91</u>
<u>Chart 3</u>		Canadian govt.	
(Friday, <u>July 30</u>)		(Wed., <u>July 28</u>)	<u>5.30</u>
Treasury bills: U.K.	<u>5.46</u>	Netherlands government	
U.S.	<u>3.78</u>	perpetual	
Spread favor U.K.	<u>+1.68</u>	(Fri., <u>July 23</u>)	<u>5.27</u>
Forward pound	<u>-2.09</u>	<hr/>	
Net incentive (U.K. +)	<u>-0.41</u>	* Additional rates:	
		June 18	3.75
		30	3.88
		July 7	3.81