

H. 13

September 8, 1965

No. 212

CAPITAL MARKET DEVELOPMENTS ABROAD

- I. Canada
 II. Nine Charts on Financial Markets Abroad
 III. Latest Figures Plotted in H.13 Chart Series, 1965

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

Canadian financial markets continued to reflect tight credit conditions during the period under review. (See Table 1.) During August, government bond yields rose from 3 to 11 basis points while money market rates oscillated around their high, end-July levels. In the foreign exchange market, the spot Canadian dollar showed further improvement, partly in response to regular commercial and seasonal tourist demand and partly as a result of the announcement of substantial wheat sales to the Soviet Union.

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

	July				August				Sept. 2
	1	7	14	29	5	12	19	26	
A. Interest rates									
Day-to-day loans <u>a/</u>	3.48	3.47	3.78	3.98	3.83	3.98	3.98	3.83	4.05
30-day Prime commercial paper <u>b/</u>	4.69	4.69	4.69	4.69	4.81	4.81	4.81	4.81	4.81
90-day Prime finance paper <u>c/</u>	4.75	4.75	4.75	4.88	4.88	5.12	5.12	5.12	5.00
91-day Treasury bills <u>d/</u>	3.93	3.97	3.97	4.05	4.08	4.09	4.08	4.08	4.09
Government bonds <u>e/</u>									
4.50 % 1966	4.41	4.61	4.63	4.67	4.71	4.81	4.97	4.92	4.72
5.00 % 1968	4.89	4.95	5.04	4.98	5.00	4.98	5.11	5.06	4.91
4.25 % 1972	5.12	5.19	5.23	5.25	5.27	5.20	5.31	5.28	5.20
4.50 % 1983	5.15	5.23	5.27	5.30	5.30	5.27	5.36	5.36	5.33
5.25 % 1990	5.13	5.20	5.25	5.27	5.26	5.24	5.37	5.38	5.38
B. Stock index <u>f/</u>	193.9	192.0	189.8	187.9	192.4	194.0	197.0	195.3	n.a.
C. Canadian dollar									
Spot (U.S. cents)	92.31	92.25	92.19	92.51	92.59	92.79	92.78	92.90	92.94
3-month forward premium	+27	+27	+14	-14	-27	+20	.07	-.07	-.40

a/ Average of daily closing rates for week ending Wednesday.b/ Friday data; mid-range.c/ Friday data.d/ Average tender.e/ Wednesday data; mid-market yield at close.f/ From Financial Post, (1958=100).

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(Decontrolled after six months)

The continued strength of the Canadian business expansion, which will be given an additional boost by the \$450 million wheat sale to the Soviet Union, is forcing the authorities to augment the mildly restrictionist financial policy initiated last April. During the period under review, Canadian officials helped to push up long-term yields when they announced a \$450 million Treasury offering on August 16 which was priced below the market. Yields on local government, public utility and industrial bonds also advanced from end-June to end-July. (See Table 3.)

Conditions also tightened in short-term credit markets. Treasury bill and finance paper yields advanced further in the period under review. (See Table 1.) Uncertainties created by the failure of the Atlantic Acceptance Corporation continued to dominate short-term credit markets. This Corporation, a medium-sized sales finance house, defaulted on a \$5 million note on June 14 and went into receivership on June 17. The authorities were concerned to prevent the spread of an air of crisis growing out of this failure. To this end, the chartered banks were encouraged to accommodate the finance companies: as a result, their loans to them rose by \$120 million from June 16 to August 11. Further, the authorities in the Province of Ontario announced in late July a guarantee of up to \$3 million to maintain the solvency of a small trust company which had experienced serious losses in its holdings of obligations of the defaulted corporation.

With the rise in Canadian Treasury bill yields, a differential in favor of Canadian over United States bills developed but was offset by a decline in the premium on the forward Canadian dollar: as a result, the net incentive in favor of Canadian bills was actually less in July and August than it had been in June. (See Chart 2.) However, the further advances in Canadian finance paper in August widened the differential over comparable United States paper which reached a peak of 94 basis points on August 12 (see Table 9). By September 2, the gap had narrowed to 47 basis points.

The pressures which developed in short-term credit markets in Canada in part reflected the withdrawal of United States resident funds from that market. No statistics are available on the volume of such withdrawals.

In August, however, for the first time, the Bank of Canada released statistics on the United States dollar deposits of Canadian chartered banks; these figures relate to the time deposits of U.S. residents with these banks, not to purchases of Canadian short-term obligations. Between January and June, United States residents reduced their deposits in Canadian banks by \$742 million (from \$1,948 to \$1,206 million); other foreigners increased their deposits by \$173 million, and Canadian residents reduced theirs by \$231 million. (See Table 6.) To finance the withdrawals, Canadian banks reduced their U.S. dollar assets in the United States by \$248 million and their claims on "other" foreign centers by \$541 million.

Money market stays tight. During August, money market rates remained at or above their high end-July levels. (See Table 1 and Charts 1, 2 and 5.) Closing rates on day to day loans which were at 3.98 per cent on July 28 fluctuated between 3.80 per cent and 4.00 per cent throughout August; rates on 30-day prime commercial paper advanced to 4.69 per cent by the end of July and then rose to 4.81 per cent by the end of August; and 90-day finance paper yields rose fractionally above 5 per cent. The average tender on Treasury bills generally held steady at 4.08 per cent throughout August.

Yields on Government bonds higher after Treasury's cash offering. During the period under review, Canadian government bond yields advanced beyond the highs posted in late-July. (See Tables 1 and 2 and Chart 6.) The upward drift in market rates was given fresh impetus in mid-August when the Treasury's \$450 million cash offering was priced below the market. By the end of August yields were from 7 to 11 basis points above their month earlier levels.

Yields on comparable Government securities in the United States also advanced during August, so there was little change during the month in the large differential between U.S. and Canadian bonds. (See Table 2.) It is likely, however, that U.S. investors were inhibited from investment in Canadian bonds by the expectation that yields there would go higher. Canadians, on the other hand, have raised \$325 million from the U.S. in the first six months of 1965 through Canadian issues in U.S. markets. (American Banker, August 31, quoting Secretary of the Treasury Fowler.)

Local government and private bond yields also continue to advance. After remaining unchanged in April, yields on bonds of municipal and provincial governments and of public utilities and industrial corporations began to advance in May. (See Table 3.) The pace of the advance quickened in June and was sustained in July as the 40 bond yield average moved up from 5.52 per cent at the end of May to 5.62 per cent at the end of June and to 5.74 per cent on July 30.

Stock market shows new strength. In contrast to the lower level of bond prices, stock prices on the Toronto exchange advanced steadily during the period under review. (See Table 2.) The Financial Post's index of total industrials advanced from 185.6 on July 22 to 197.0 on August 19.

Bank of Canada's holdings of central government debt decline in August. In August, the Bank of Canada sold \$38.5 million from its bond portfolio and acquired only \$2.7 million in Treasury bills. (See Table 4.) On balance, the general public and government agencies bought bonds, and the chartered banks sold long-term government obligations.

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Table 2. Canada/U.S. Comparative Bond Yields, July 28-August 25, 1965
(per cent per annum; Wednesday data; Canadian bonds;
mid-market yield at close; U.S. bonds, yields on bid side)

	<u>July</u>	<u>August</u>			
	<u>28</u>	<u>4</u>	<u>11</u>	<u>18</u>	<u>25</u>
3-year:					
U.S. 8/68, 3.75%	4.10	4.14	4.15	4.18	4.17
Can. 10/68, 5.0%	<u>4.98</u>	<u>5.00</u>	<u>4.98</u>	<u>5.11</u>	<u>5.06</u>
Differential					
(+ in favor Can.)	+ .88	.86	.83	.93	.89
7-year:					
U.S. 8/72, 4.0%	4.16	4.19	4.21	4.25	4.25
Can. 9/72, 4.25%	<u>5.25</u>	<u>5.27</u>	<u>5.20</u>	<u>5.31</u>	<u>5.28</u>
Differential	+1.09	+1.08	+ .99	+1.06	1.03
19-year:					
U.S. 78-83, 3.25%	4.18	4.20	4.23	4.25	4.28
Can. 9/83, 4.5%	<u>5.30</u>	<u>5.30</u>	<u>5.27</u>	<u>5.36</u>	<u>5.36</u>
Differential	+1.12	+1.10	+1.04	+1.11	1.08
25-year:					
U.S. 2/90, 3.5%	4.18	4.20	4.22	4.23	4.25
Can. 5/90, 5.25%	<u>5.27</u>	<u>5.26</u>	<u>5.24</u>	<u>5.37</u>	<u>5.38</u>
Differential	+1.09	+1.06	+1.02	+1.14	1.13

Source: Federal Reserve System.

Table 3. Canada: Municipal, Provincial, and Private Bond Yields,
April-July 1965
(per cent per annum)

	<u>April</u>		<u>May</u>	<u>June</u>	<u>July</u>
	<u>1</u>	<u>30</u>	<u>31</u>	<u>30</u>	<u>30</u>
10 Provincials	5.41	5.37	5.44	5.50	5.68
10 Municipals	5.55	5.58	5.59	5.69	5.81
10 Public Utilities	5.46	5.48	5.52	5.63	5.74
10 Industrials	5.50	5.50	5.52	5.64	5.73
40 Bond Yield					
Average	5.48	5.48	5.52	5.62	5.74

Source: McLoed, Young, Weir.

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Table 4. Canada: Holdings of Central Government Direct and
Guaranteed Debt, ^{1/} April-August, 1965
(millions of dollars)

	Actual	Change from previous date				Actual
	April 28	May 26	June 30	July 28	August 25	August 25
Bank of Canada						
Treasury bills	458	+ 1	+ 14	- 37	+ 3	439
Other	2643	+109	- 1	+ 52	-40	2763
Total	3101	+110	+ 13	+ 14	-37	3202
Government Accounts						
Treasury bills	1286	- 21	+ 5	+ 46	+44	1360
Other	2426	+ 8	+ 18	-105	-10	2337
Total	3712	- 13	+ 23	- 59	+34	3697
Chartered banks						
Treasury bills	18	- 7	+ 5	+ 6	- 3	19
Other	505	-101	+ 92	- 56	+22	462
Total	522	-107	+ 97	- 51	+20	481
General Public						
Treasury bills	378	+ 27	- 24	- 14	-45	322
Other	7063	- 30	- 94	+ 53	+50	7042
Total	7441	- 3	-118	+ 39	+ 5	7364
Net new issues ^{2/}	--	- 13	+ 15	- 57	+23	--

Note: Totals may not add due to rounding.

^{1/} Omits Canadian Savings Bonds.

^{2/} Net of retirements.

Expansion of money supply and bank credit less rapid in July-August.

After a sharp rise of \$683 million in the money supply in June, more moderate increases of \$100 million and \$91 million occurred in July and the first 18 days of August respectively. (See Table 5.) Similarly, an increase in total loans of \$415 million in June was followed by an increase in July of \$285 million and of \$146 million in the first 18 days of August. One consequence of the more moderate increase in the money supply has been the restoration of the chartered banks liquid asset ratios from a low of 16.39 for the week ending June 30 to 16.67 for the week ending August 18.

Table 5. Canada: Selected Chartered Bank Statistics, April-August, 1965
(millions of dollars or per cent)

	Actual April 28	Changes from previous date				Actual August 18
		May 26	June 30	July 28	August 18	
Currency outside banks	2,120	+ 4	+173	- 68	+ 12	2,241
Chartered bank deposits held by general public	15,932	-174	+510	+168	+ 79	16,515
Total	18,054	-170	+683	+100	+ 91	18,756
General loans <u>a/</u>	8,544	+166	+424	+209	+ 49	9,392
Loans to instalment finance companies <u>a/</u>	293	- 10	+ 64	+ 22	+ 5	374
Average cash reserve ratio <u>b/</u>	8.08	--	+ .01	- .02	+ .02	8.09
Average liquid asset ratio <u>b/</u>	16.92	- .15	- .38	+ .34	- .06	16.67

a/ End of the month.

b/ Daily average, minimum cash ratio is 8 per cent; minimum liquid asset ratio is 16 per cent.

Source: Bank of Canada, Weekly Financial Statistics.

U.S. residents continue to withdraw dollar deposits from Canadian banks. The Bank of Canada has recently published new data on the U.S. dollar deposits of Canadian banks. According to this information, U.S. residents have steadily drawn down their dollar deposits in Canadian banks ever since the President's balance of payments message of last February. (See Table 6.) Between January and June of this year U.S. residents have withdrawn a total of \$742 million. In addition, Canadian residents have decreased their U.S. dollar deposits by \$231 million while residents of other countries have increased their dollar deposits in Canadian banks by \$173 million.

Foreign trade position continues moderate improvement through May.

Canada's merchandise trade position remained in surplus, on a seasonally adjusted basis, through the first five months of 1965. Although the value of exports and re-exports in May fell by \$11 million, imports dropped by \$30 million. Consequently, the surplus in the foreign trade balance expanded in May by \$19 million to \$42.4 million. However, the cumulative surplus of \$119.0 million in the trade accounts for the first five months of 1965 was only about one-half of the surplus recorded in the same period last year. (See Table 7.)

Table 6. Canada: United States Dollar Assets and Liabilities of Chartered Banks,
January-June, 1965
(millions of dollars)

	Level at end	Change from the previous date					Level at end
	of January 1965	Feb.	Mar.	Apr.	May	June	of June 1965
Assets							
With residents of:							
United States	2171	+66	-337	+ 85	+ 13	-175	1823
Other countries	1383	-84	-216	-189	-102	+ 21	822
Sub-total	3554	-18	-553	-104	- 89	-154	2645
Canada	647	+28	+ 71	- 31	+ 29	+ 75	819
Total	4201	+10	-482	-135	- 60	- 79	3464
Liabilities							
With residents of:							
United States	1948	-89	-393	-123	- 35	- 98	1206
Other countries	1027	+57	+ 9	+124	- 23	+ 6	1200
Sub-total	2975	-32	-384	+ 1	- 58	- 92	2406
Canada	1257	+55	-151	-122	- 24	+ 11	1026
Total	4232	+23	-535	-121	- 82	- 81	3432

Source: Bank of Canada, Statistical Summary, August, 1965.

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

	1964	1965					
	January- May	January- May	January	February	March	April	May
Foreign trade, seasonally adjusted							
Exports and re-exports	3,352.5	3,489.8	666.5	693.0	707.9	716.8	705.6
Imports	3,118.8	3,370.8	647.7	662.2	704.5	693.2	663.2
Balance	233.7	119.0	18.8	30.8	3.4	23.6	42.4

Source: Dominion Bureau of Statistics.

The agreement to export \$450 million of Canadian wheat to the U.S.S.R., announced on August 11, will materially improve Canada's trade position. Imports can be expected to rise somewhat as a result of the rise in consumer

incomes, so that the impact of the sale on the trade account will be an expansion of both exports and imports with the balance of the account improving by somewhat less than the full \$450 million. Consequences of the transaction will include both a reduced need to borrow from U.S. capital markets and an increased capacity for expanding imports.

Reserves rise. The gold and U.S. dollar holdings of Canada increased by \$11.4 million during the month of July, and \$106.5 million in August, interrupting a downward trend in evidence since the latter part of 1964. Over the first six months of 1965, Canada's holdings of gold and U.S. dollars had fallen by \$(U.S.)194.2 million. (See Table 8.) The recent improvement reflects among other factors the combined result of Canadian bond flotations in the U.S., and U.S. tourist expenditures in Canada which are seasonally high at this time of the year.

Table 8. Canadian Official Holdings of Gold and U.S. Dollars,
February-July, 1965
(millions of U.S. dollars)

	Level on February 28	Change during the month of:					
		Mar.	Apr.	May	June	July	Aug.
Gold	1040.6	+ 3.5	+ 0.6	+ 36.7	+ 7.7	+ 7.2	n.a.
U.S. dollars	1608.1	-98.1	+11.8	-104.5	-26.3	+ 4.2	n.a.
Total	2648.7	-94.6	+12.4	- 67.8	-18.6	+11.4	+106.5
Initial drawing right position in I.M.F.	212.5	+27.5	+ 5.0	+ 81.5	--	+15.0	n.a.
Gold as a percentage of total reserves	39.3	40.9	40.7	43.2	43.9	44.0	n.a.

Source: Bank of Canada, Statistical Summary.

Canadian dollar continues to improve in foreign exchange markets.

The spot Canadian dollar continued its strong advance during the period under review. (See Table 9.) Between July 29 and September 2, the rate rose 43 points to a level of 92.94 (U.S. cents). Sustained commercial demand as well as the announcement of the large wheat sales to the Soviet Union were reported to be the most important factors behind the recent advance.

Table 9. Canada/U.S. Exchange Rates and Arbitrage Calculations,
July-September, 1965

	July		August			September
	29	5	12	19	26	2
Exchange rates:						
Spot (U.S. cents)	92.51	92.59	92.79	92.78	92.90	92.94
Forward (p.c. p.a.)	-.14	-.27	+ .20	+ .07	-.07	-.40
3-month yields and differentials						
Treasury bills						
Canada (covered)	3.79	3.68	4.19	4.05	3.87	3.58
U.S.	3.78	3.83	3.81	3.80	3.84	3.85
Differential (+ in favor Canada)	.01	-.15	.38	.25	.03	-.27
Finance paper ^{a/}						
Canada (covered)	4.73	4.98	5.19	5.06	4.92	4.72
U.S.	4.25	4.25	4.25	4.25	4.25	4.25
Differential	+ .48	+ .73	+ .94	+ .81	+ .67	+ .47

^{a/} Friday data.

Over the same period the forward rate fluctuated widely moving from a discount (in per cent per annum) of 14 basis points on July 29 to a premium of 20 basis points on August 12, and then to a discount of 40 basis points on September 2. (See Table 9.)

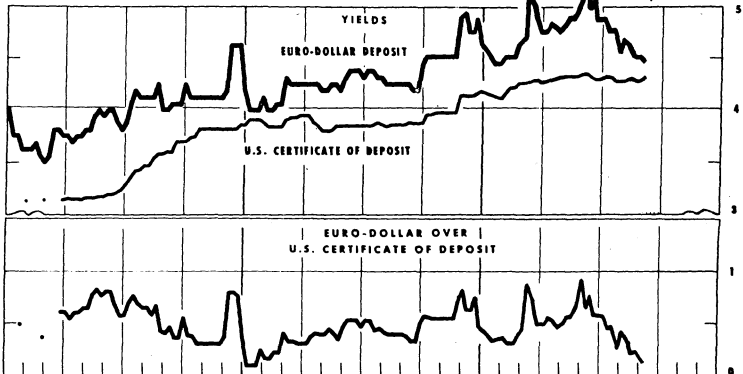
Yield spreads on Treasury bills fluctuated from 38 basis points in favor of Canada on August 12 to 27 basis points in favor of the U.S. on September 2. Spreads on finance paper continually favored Canada, although they ranged from 48 to 94 basis points. (See Table 9.)

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

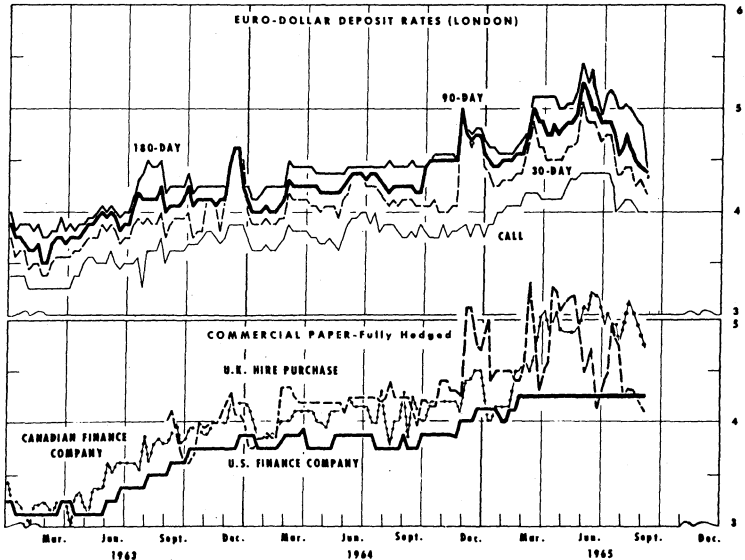
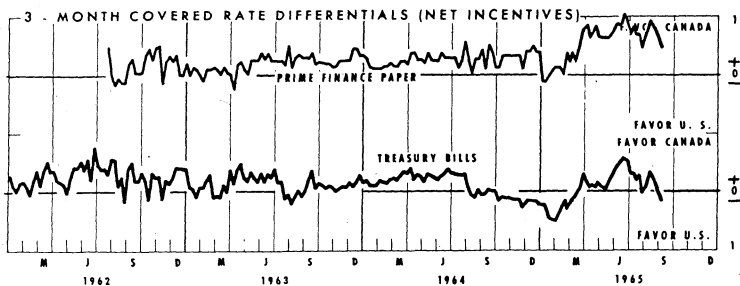
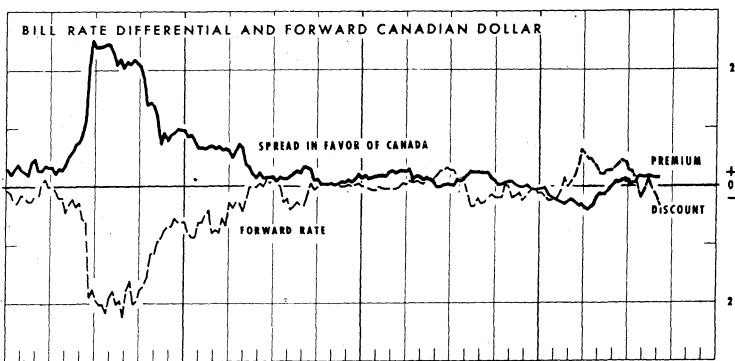
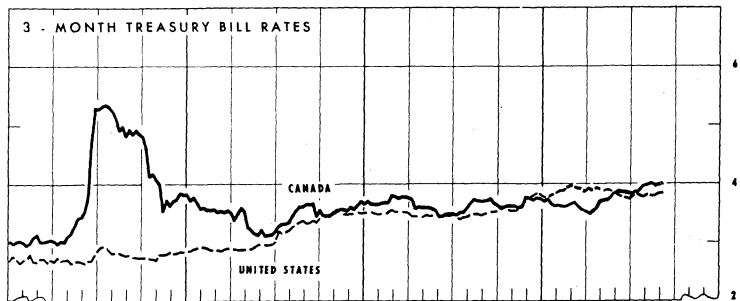


Chart 2

INTEREST ARBITRAGE, UNITED STATES / CANADA

Friday figures*

Per cent per annum

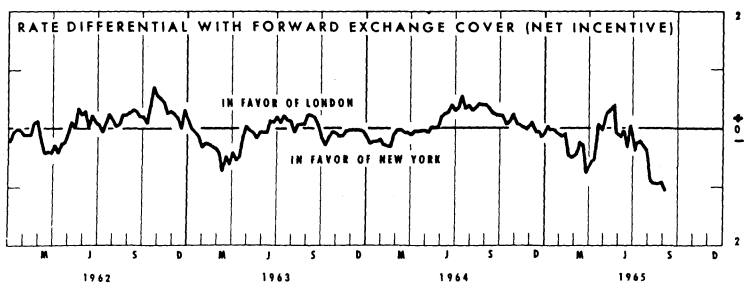
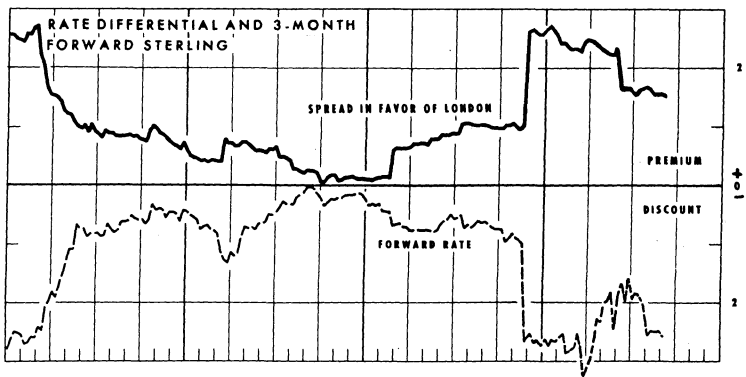
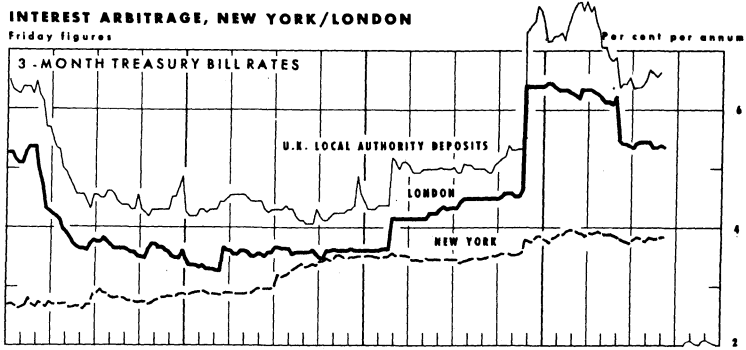


Thursday figures 1962, Friday thereafter.

Chart 3

INTEREST ARBITRAGE, NEW YORK/LONDON

Friday figures



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Chart 4

INTEREST ARBITRAGE FOR GERMAN COMMERCIAL BANKS

Friday figures

Per cent per annum

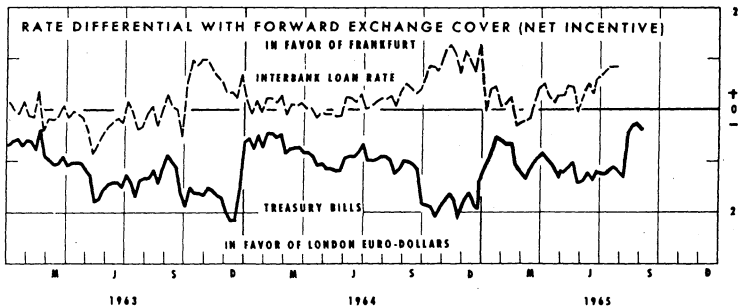
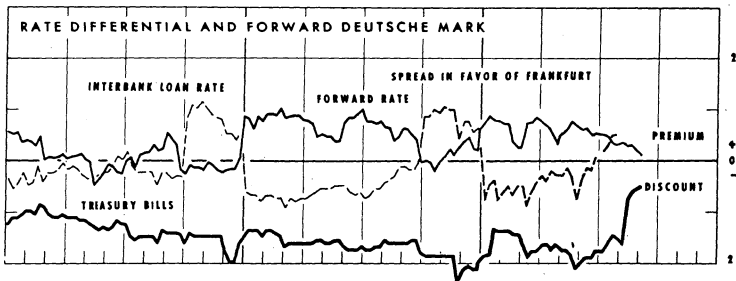
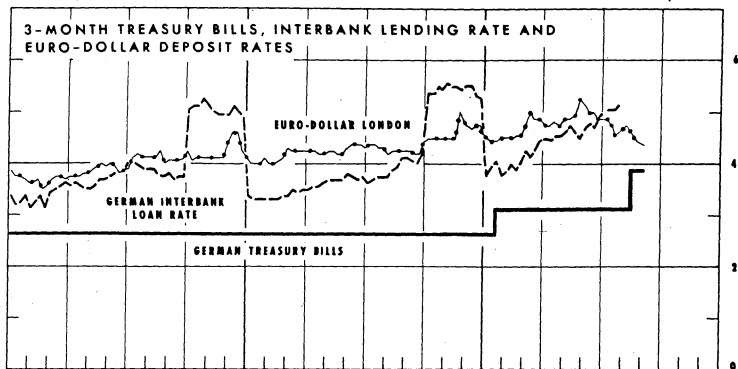
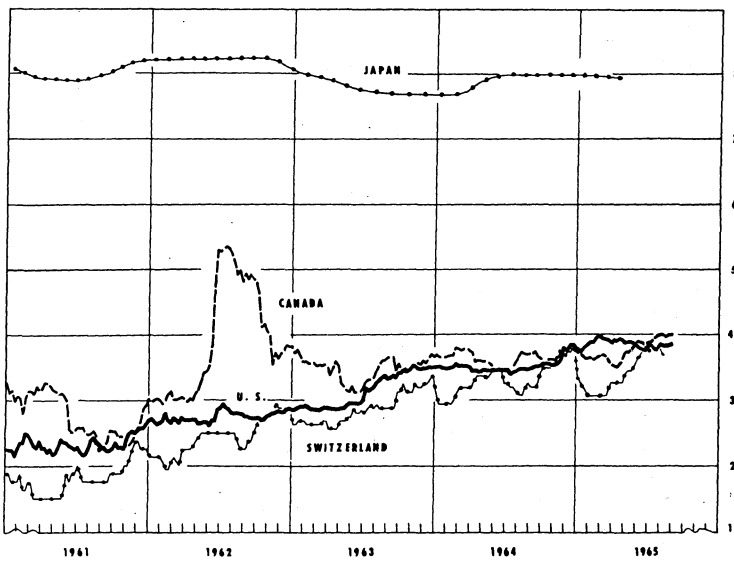
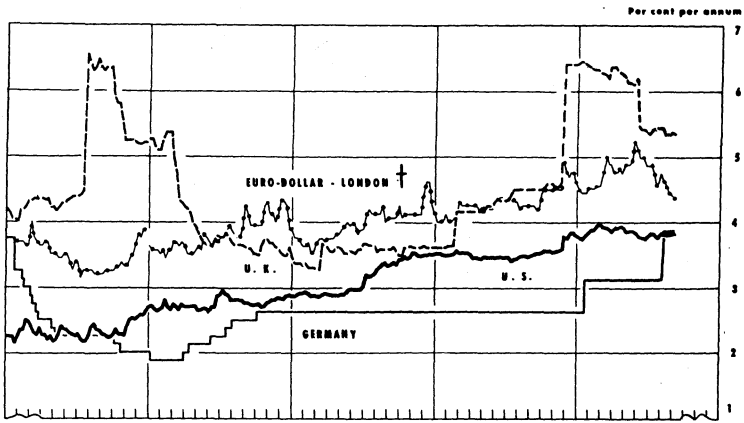


Chart 5
SHORT-TERM INTEREST RATES*



* 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.

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Chart 6
LONG-TERM BOND YIELDS

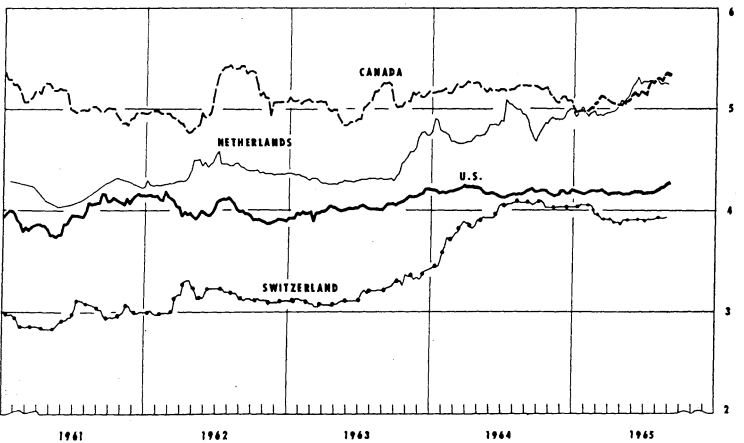
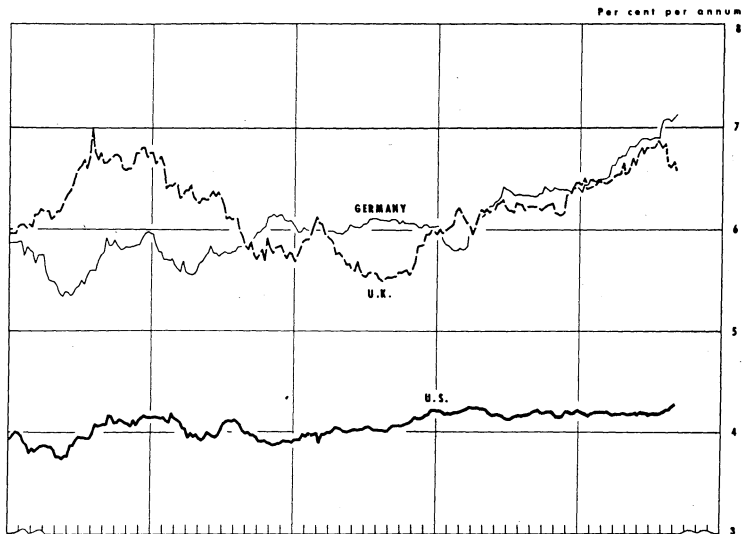
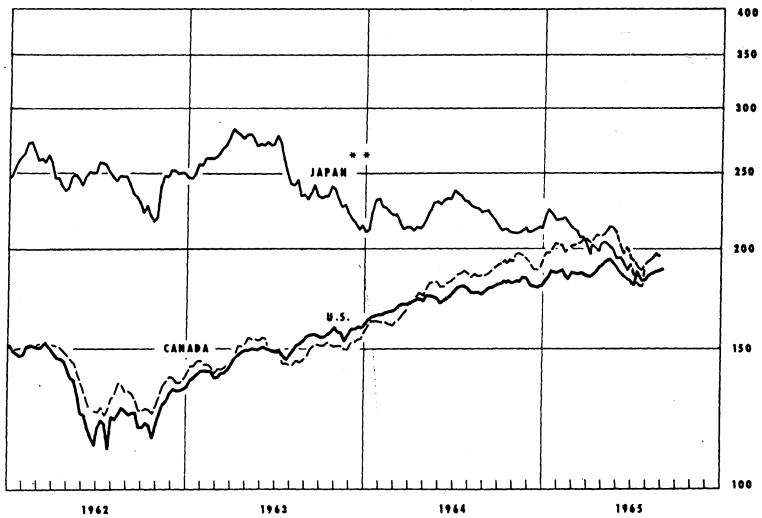
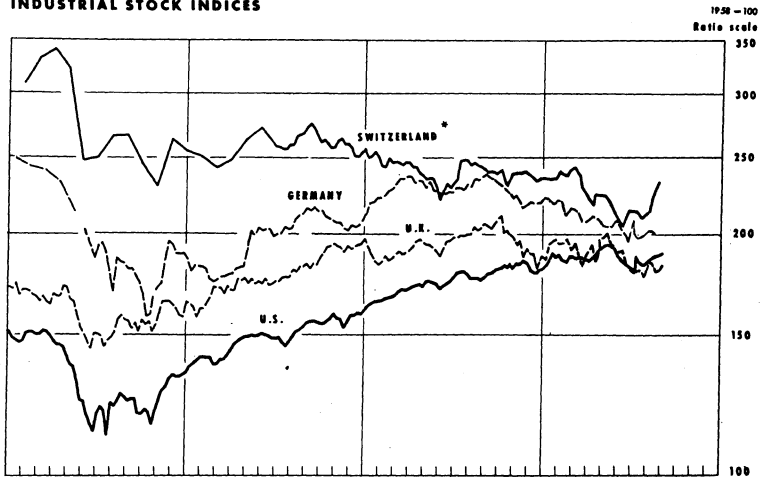


Chart 7
INDUSTRIAL STOCK INDICES



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

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Chart 8

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

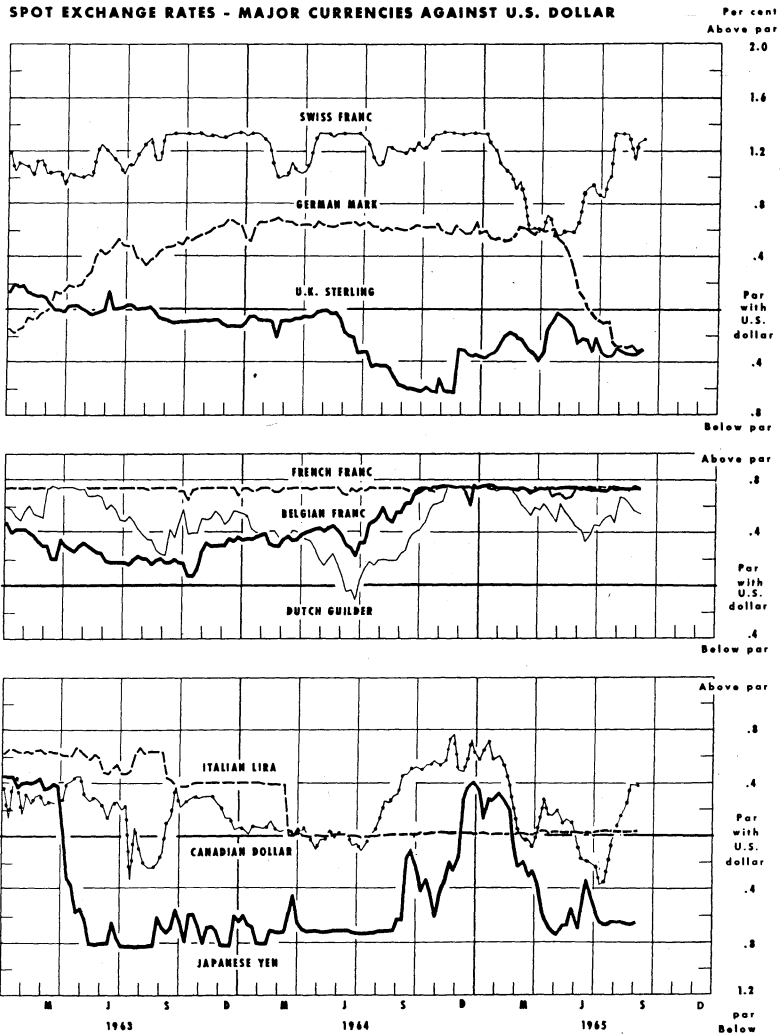


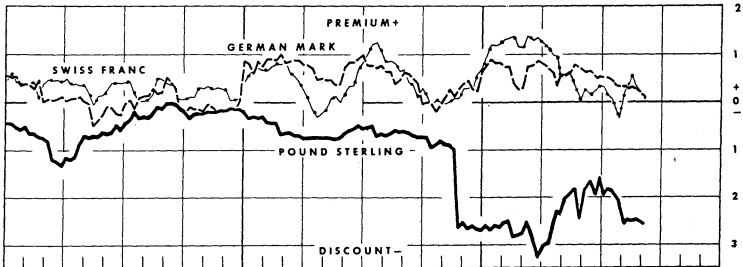
Chart 9

3-MONTH FORWARD EXCHANGE RATES

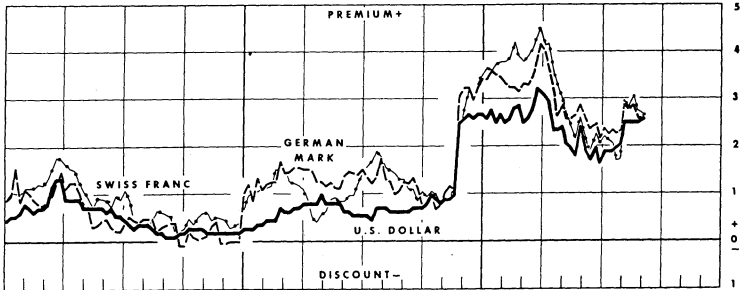
Friday figures

AGAINST U.S. DOLLARS

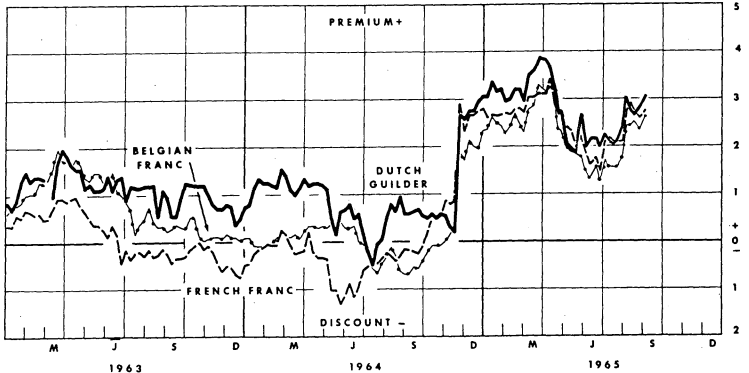
Per cent per annum



AGAINST POUND STERLING - LONDON



AGAINST POUND STERLING - LONDON



III. 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>		<u>(Friday, Sept. 3</u> <u>except as noted)</u>	
<u>(Wednesday, Sept. 1)</u>		<u>Treasury bills:</u>	
Euro-\$ deposit	<u>4.44</u>	U.S.	<u>3.84</u>
U.S. certif. of deposit	<u>4.31</u>	U.K.	<u>5.36</u>
<u>Lower panels</u>		Germany	<u>3.88</u>
<u>(Friday, Sept. 3)</u>		Canada	<u>4.00</u>
Euro-dollar deposits: Call	<u>4.00</u>	Swiss 3-month deposits	
7-day	<u>4.13</u>	(Date: <u>Aug. 15</u>)*	<u>3.69</u>
30-day	<u>4.19</u>	Euro-\$ deposit (London)	<u>4.38</u>
90-day	<u>4.38</u>	Japan: composite rate	
180-day	<u>4.34</u>	(Date: <u>Apr. 30</u>)	<u>7.92</u>
Finance Co. paper: U.S.	<u>4.25</u>	<u>Chart 6</u>	
Canada	<u>4.10</u>	<u>Bonds:</u>	
Hire-purchase paper, U.K.	<u>4.72</u>	U.S. govt.	
<u>Chart 2</u>		(<u>Wed., Sept. 1</u>)	<u>4.27</u>
<u>(Friday, Sept. 3)</u>		U.K. war loan	
Treasury bills: Canada	<u>4.00</u>	(<u>Thurs., Sept. 2</u>)	<u>6.58</u>
U.S.	<u>3.84</u>	German Fed. Railway	
Spread favor Canada	<u>+0.16</u>	(<u>Fri., Sept. 3</u>)	<u>7.13</u>
Forward Canadian dollar	<u>-0.34</u>	Swiss Confederation	
Net incentive (Canada +)	<u>-0.18</u>	(<u>Fri., Aug. 27</u>)	<u>3.93</u>
<u>Chart 3</u>		Canadian govt.	
<u>(Friday, Sept. 3)</u>		(<u>Wed., Sept. 1</u>)	<u>5.33</u>
Treasury bills: U.K.	<u>5.36</u>	Netherlands government	
U.S.	<u>3.84</u>	perpetual	
Spread favor U.K.	<u>+1.52</u>	(<u>Fri., Aug. 27</u>)	<u>5.24</u>
Forward pound	<u>-2.59</u>	<hr/>	
Net incentive (U.K. +)	<u>-1.07</u>	* Additional rates:	
		July 23	3.81
		30	3.81
		Aug. 7	3.81