

H. 13

No. 2341

February 9, 1966.

CAPITAL MARKET DEVELOPMENTS ABROAD

- I. Canada
 II. Ten Charts on Financial Markets Abroad
 III. Latest Figures Plotted in H.13 Chart Series, 1966

I. Canada: Money and Capital Market Developments, December 1965-January 1966

Since late December, credit conditions in Canada have remained tight. Interest movements have been modest and mixed: the Treasury bill yield continued to rise, and long-term rates increased slightly but those on short-term Government bonds eased. (See Table 1.) In the foreign exchange market, the spot Canadian dollar displayed sustained strength throughout the period, ranging between 93.00 and 93.15 U.S. cents while the discount on the forward

Table 1. Canada: Selected Financial Market Indicators,
December, 1965-January, 1966
 (in per cent per annum)

	Actual December 22	Changes from preceding date to				Actual February 2
		Dec. 29	January 19	26	Feb. 2	
A. Interest rates						
Day-to-day loans <u>a/</u>	4.28	- .65	+ .62	- .40	+ .05	3.90
90-day prime finance paper <u>b/</u>	5.88	0	- .19	+ .06	0	5.75
91-day Treasury bills <u>c/</u>	4.56	- .02	+ .10	- .01	+ .03	4.66
Government bonds <u>d/</u>						
4.50% 1966	5.11	- .03	- .11	- .16	+ .05	4.86
5.00% 1968	5.38	- .03	- .04	- .06	+ .02	5.27
4.25% 1972	5.40	- .03	+ .03	0	+ .09	5.49
4.50% 1983	5.48	- .03	+ .01	- .01	+ .06	5.51
5.25% 1990	5.46	- .02	+ .02	- .01	+ .05	5.50
B. Stock index <u>e/</u>	197.2	+2.2	+7.3	+1.2	n. a.	<u>f/</u> 207.9
C. Canadian dollar						
Spot (U.S. cents)	93.03	- .03	+ .06	0	- .01	93.02
3-month forward	-0.74	+ .07	0	- .24	0	-0.54

a/ Average of daily closing rates for week ending Wednesday.

b/ Friday data.

c/ Average tender rate.

d/ Wednesday data; mid-market yields at close.

e/ Financial Post's Industrials, (1958=100).

f/ January 26.

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(Decontrolled after six months)

Canadian dollar narrowed from a high of 0.81 per cent per annum on January 19 to 0.54 per cent per annum on February 2. The Canadian authorities took steps to reduce official reserves in accordance with understandings between Canadian and U.S. officials.

In mid-January the Ministry of Finance announced a \$300 million Government cash offering, divided among three maturities--1967, 1970 and 1980. The long-dated security was priced at the market and the two shorter ones below the market. As a result, long-dated yields remained stable while rates on the 1- and 3-year issues continued to decline through late January. (See Table 1.) The lower priced short bonds reportedly attracted buying interest from banks and trust companies. In early February, however, yields on most outstanding government securities rose slightly.

In the money market, persistent selling of Treasury bills by the Bank of Canada throughout January contributed to the rise in the bill yield in that month. (See Chart 4.) However, yields on other money market instruments continued to ease until late January when they too moved up.

In the foreign exchange market, the spot Canadian dollar remained above 93.00 (U.S. cents) during the period under review, and the forward discount dropped 30 basis points to 0.54 per cent per annum between January 19 and February 2. (See Charts 4 and 9.)

Canada's holdings of gold and foreign exchange declined by \$102.1 million (U.S. dollars) in January to \$2,562.4 on January 31. Part of this decline represented Canadian action to prevent reserve growth in 1966. Some \$40 million from Canada's Exchange Fund Account holdings of U.S. dollars were used to purchase Canadian bonds from private U.S. investors. In addition, the United States "swapped" approximately \$40 million of its \$100 million IMF drawing of Canadian dollars with the Bank of Canada for U.S. dollars.

In a complementary action designed to boost the U.S. gold stock, Canada sold \$50 million worth of gold to the U.S. in January and invested the U.S. dollar proceeds in short-term interest-bearing securities. The Canadian authorities also stated that a further \$50 million of gold would be sold to the U.S. in February. These transactions do not affect the total of Canadian holdings of gold and U.S. dollars, because the fall in gold is offset by the rise in Canada's foreign exchange holdings.

Money market tightness persists. Canadian money market conditions continued tight during the period under review, and most rate movements were modest, although somewhat mixed. (See Table 1 and Chart 4.) Between December 29 and January 19 the Treasury bill tender rate moved up 10 basis points to 4.64 per cent, but the 90-day prime finance paper rate dropped 19 basis points to 5.69 per cent. However, by early February both rates had moved slightly above these levels. Day-to-day loans rates fluctuated widely from a low of 3.50 per cent on December 29 to a high of 4.58 per cent on January 12. On February 2 the rate stood at 3.90 per cent.

Bank of Canada operations contribute to rise in Treasury bill yield. Seasonal sales of Treasury bills by the Bank of Canada contributed to the rise in the Treasury bill rate between late December and early February. Between December 29 and February 2, these sales totaled \$130 million, or about equal to net acquisitions by the chartered banks during this period. (See Table 2.) The heaviest sales occurred during the first week in January and helped to reverse a slight easing in the Treasury bill tender yield which occurred in the latter part of December. (See Tables 1 and 2 and Chart 2.)

Table 2. Canada: Holdings of Central Government Direct and Guaranteed Debt, December, 1965-January, 1966
(millions of dollars)

	Actual December 22	Change from previous date to					Actual February 2	
		Dec. 29	5	January 12	19	26		Feb. 2
Bank of Canada								
Treasury bills	644	0	-54	-32	-5	-14	-26	512
Bonds	2857	0	-1	+2	-3	0	-68	2786
Total	3501	0	-55	-30	-8	-14	-94	3298
Government accounts								
Treasury bills	14	+1	+24	0	-7	-11	-8	13
Bonds	535	0	+7	+1	+41	0	+58	642
Total	549	+1	+31	+1	+36	-11	+50	655
Chartered banks								
Treasury bills	1328	+16	+32	-18	+30	+70	+5	1463
Bonds	2347	+12	-5	-12	+1	-5	-29	2309
Total	3675	+28	+27	-30	+31	+65	-24	3772
General public								
Treasury bills	165	-17	-2	+50	-19	-44	+29	161
Bonds	6919	-13	-27	+7	-39	+4	+29	6380
Total	7084	-30	-29	+57	-58	-40	+58	7041
Canadian Savings Bonds	5884	-11	-9	-1	-3	-13	-11	5847
Net new issues	--	-13	-35	-3	-2	-12	-21	--

Source: Bank of Canada, Weekly Financial Statistics.

Quiet conditions in Government bond market. During the period under review, movements in Government bond yields were uneven. Between December 22 and January 26 short-term rates eased, but long-term yields showed little change. However, in early February most rates moved up. (See Tables 1 and 2.)

Market trends in late January appeared in part to reflect investors' response to the terms of the Government's \$300 million cash offering on January 17. The offering was divided into three maturities-- 1967, 1970 and 1980. The two short issues, which were priced below the market, reportedly attracted substantial interest from banks and trust companies; after the offering, short yields continued to move down. The 1980 security was priced at the market and thereby contributed to the stability of long-dated issues.

Table 3. Canada/U.S. Comparative Bond Yields,^{a/} December, 1965-January, 1966
(per cent per annum)

	December		January				Feb.
	22	29	5	12	19	26	2
<u>1-year:</u>							
U.S. 11/15/66, 4%	4.84	4.88	4.87	4.85	4.87	4.89	4.91
Canada 12/15/66, 4.5%	5.11	5.08	5.08	5.03	4.97	4.81	4.86
Differential (+ favors Canada)	+ .27	+ .20	+ .21	+ .18	+ .10	-0.08	-0.05
<u>3-year:</u>							
U.S. 8/68, 3.75%	4.90	4.93	4.94	4.83	4.89	4.92	4.93
Canada 10/68, 5.0%	5.38	5.35	5.35	5.33	5.31	5.25	5.27
Differential	+ .48	+ .42	+ .41	+ .50	+ .42	+0.33	+0.34
<u>7-year:</u>							
U.S. 8/72, 4.0%	4.70	4.71	4.76	4.69	4.75	4.78	4.89
Canada 9/72, 4.25%	5.40	5.37	5.39	5.40	5.40	5.40	5.49
Differential	+ .70	+ .66	+ .63	+ .71	+ .65	+0.62	+0.60
<u>18-year:</u>							
U.S. 78-83, 3.25%	4.51	4.51	4.51	4.46	4.45	4.47	4.57
Canada 9/83, 4.5%	5.48	5.45	5.47	5.46	5.46	5.45	5.51
Differential	+ .97	+ .94	+ .96	+1.00	+1.01	+0.98	+0.94
<u>25-year:</u>							
U.S. 2/90, 3.5%	4.50	4.50	4.50	4.46	4.47	4.51	4.59
Canada 5/90, 5.25%	5.46	5.44	5.44	5.44	5.46	5.45	5.50
Differential	+ .96	+ .94	+ .94	+ .98	+ .99	+0.94	+0.91

a/ Canadian bonds, mid-market yield at close; U.S. bonds, yields on the bid side.

Sources: Federal Reserve System; Bank of Canada, Weekly Financial Statistics.

Movements in the differentials between comparable United States and Canadian Government securities were also uneven during the December-February period. (See Table 3.) The spread on very short-term issues narrowed by nearly 35 basis points as Canadian yields fell while U.S. rates advanced. By January 26, in fact, yields on 1-year obligations were actually higher in the United States than in Canada. For the medium term issues and spreads on long-term securities, however, the differentials in favor of Canadian securities were only slightly less on February 2 than they had been on December 22.

Local government and private bond yields continue limited advance.

Yields on provincial, municipal, public utility and industrial bonds advanced moderately in December after Bank rate was raised but they eased slightly in January. (See Table 4.) The McLeod 40-bond yield average rose from 5.91 per cent on December 1 to 6.00 per cent on December 31 and returned to 5.96 per cent on January 31. Each of the individual averages of 10 bond yields advanced during the period; public utilities and industrials showed the largest gains.

Table 4. Canada: Municipal, Provincial, and Private Bond Yields,
December, 1965-January, 1966
(per cent per annum)

	Level on August 31	Change from previous date to:					Level on January 31
		Sept. 30	Nov. 1	December 1 31		Jan. 31	
10 Provincials	5.68	+0.08	+0.01	+0.06	+0.07	-.03	5.87
10 Municipals	5.82	+0.14	+0.02	+0.04	+0.01	-.03	6.00
10 Public Utilities	5.74	+0.10	-.03	+0.09	+0.13	-.09	5.92
10 Industrials	5.79	+0.04	+0.03	+0.06	+0.13	-.02	6.03
40 Bond Yield Average	5.76	+0.09	+0.01	+0.05	+0.09	-.04	5.96

Source: McLeod, Young, and Weir.

Stock market buoyed by rise in New York market. Between December 22 and January 26 the Financial Post's index of industrials advanced by 10.7 points--from 196.2 to 207.9--or by 5.4 per cent. (See Table 1 and Chart 7.) The advance was broadly based and evidently reflected the year-end rally on Wall Street, favorable economic forecasts for both countries for 1966, and upward commodity price adjustments for copper and steel.

Chartered bank activities reflect usual seasonal pattern. In January, there was an easing in the pressures on bank liquidity which developed late in 1965, and the ratio of liquid assets to deposits rose to 17.02 per cent from 16.76 per cent in December. (See Table 5.)

Table 5. Canada: Selected Banking and Money Supply Data
October, 1965-January, 1966 ^{a/}
(millions of dollars)

	Actual	Change since preceding period			Actual
	October	November	December	January	January
1. Selected assets:					
Liquid assets	3,076	- 75	+ 25	+137	3,163
Investments	3,553	+ 20	- 44	- 1	3,528
Loans ^{b/}	11,502	+128	+181	-171	11,640
2. Selected liabilities:					
Demand deposits	4,674	+ 55	+ 57	- 39	4,747
Personal saving	9,740	- 3	- 95	+ 58	9,700
Other ^{c/}	2,432	- 61	- 68	- 30	2,273
3. Liquid assets ratio	17.03	-0.23	-0.04	+0.26	17.02
4. Money supply of the public					
Chartered bank deposits ^{d/}	14,414	+ 52	- 38	+ 19	14,447
Currency outside banks	2,258	+ 38	+ 48	- 95	2,249
Total	16,672	+ 90	+ 10	- 76	16,696

^{a/} Average of Wednesday reporting dates.

^{b/} Excluding day-to-day and call loans.

^{c/} Non-personal term and other notice deposits.

^{d/} Demand and personal savings deposits less float.

This improvement, largely seasonal, was primarily due to two factors: the \$171 million repayment of bank loans and the \$95 million reduction in the general public's holdings of currency. (See Table 5.) With the seasonal decline in currency in circulation, the Canadian money supply declined. (See Table 5.)

With the improvement in their liquidity base the banks are now in a position to expand their loan portfolios in the months ahead.

International reserves show decline. Canada's official holdings of gold and U.S. dollars fell by \$118.7 million in December and January to a level of \$2562.4 million on January 31. (See Table 6.) Most of the decline occurred in January and was due to two special transactions. First, the Canadian Government purchased (with U.S. dollars from the official Exchange Fund Account) \$40 million of its own securities from U.S. residents. Secondly, the U.S. swapped \$40 million (equivalent) of Canadian dollars for U.S. dollars with the Bank of Canada.

Table 6. Canada: Official Foreign Exchange Holdings and International Monetary Fund Positions, September, 1965-January, 1966
(millions of U.S. dollars)

	Level on September 30	Change during the month of:				Level on January 31
		October	November	December	January	
Foreign Exchange						
Gold	1111.9	+11.8	+13.8	+13.3	n. a.	n. a.
U.S. Dollars	1502.2	+17.9	+23.5	-29.9	n. a.	n. a.
Total	2614.1	+29.7	+37.5	-16.6	-102.1	2562.4
Gold as a percentage of U.S. Dollars	42.5	0	0	+ 0.7	n. a.	n. a.
I.M.F. Positions						
Reserve position <u>a/</u>	402.5	-16.0	-23.1	-10.0	n. a.	n. a.
Super gold tranche <u>b/</u>	265.0	-16.0	-23.1	-10.0	+ 60.5	276.4

a/ Gold tranche position.

b/ Net I.M.F. sales of Canadian dollars.

Source: Bank of Canada, Statistical Summary.

In January, Canada also sold \$50 million worth of gold to the United States for U.S. dollars and invested the proceeds in short-term U.S. securities. This transaction had no effect on the total Canadian foreign exchange position. The Canadian authorities have indicated their intention of selling an additional \$50 million in gold to the United States in February.

Spot Canadian dollar remains strong in the foreign exchange market. The tone of the foreign exchange market for Canadian dollars remained firm during the period under review, and the spot rate fluctuated between 93.00 and 93.15 U.S. cents. (See Table 7 and Chart 4.) The discount on the forward Canadian dollar remained quite large through mid-January, but narrowed sharply from 0.81 on January 19 to 0.54 per cent per annum on February 3 and further to 0.45 per cent on February 8.

Table 7. Canada/U.S. Exchange Rates and Arbitrage Calculations,
December, 1965 and January, 1966

	December		5	January			Feb.
	23	29		12	19	26	3
Exchange rates:							
Spot (U.S. cents)	93.03	93.01	93.07	93.06	93.06	93.03	93.00
Forward (p.c. p.a.)	-0.74	-0.67	-0.74	-0.74	-0.81	-0.54	-0.54
3-month yields and differentials							
Treasury bills							
Canada (covered)	3.68	3.74	3.67	3.73	3.69	3.89	3.96
U.S.	<u>4.44</u>	<u>4.45</u>	<u>4.53</u>	<u>4.57</u>	<u>4.62</u>	<u>4.57</u>	<u>4.62</u>
Differential (+ in favor Canada)	-0.76	-0.71	-0.86	-0.84	-0.93	-0.68	-0.66
Finance paper							
Canada (covered)	5.19	5.26	5.12	5.26	5.19	5.40	5.46
U.S.	<u>4.75</u>	<u>4.75</u>	<u>4.75</u>	<u>4.75</u>	<u>4.88</u>	<u>4.88</u>	<u>4.88</u>
Differential (+ in favor Canada)	+0.44	+0.51	+0.37	+0.51	+0.31	+0.52	+0.58

a/ Friday data through January 7; Wednesday data thereafter.

Source: Federal Reserve System.

Between December 23 and January 19 yields on U.S. Treasury bills moved up more rapidly than the covered yields on Canadian bills and widened the spread favoring New York. Later, the sharp narrowing of the forward discount substantially reduced the spread favoring New York, from 93 basis points on January 19 to 66 basis points on February 3. (See Table 7 and Chart 4.)

Covered differentials on finance paper continued to favor Canada as the high rates north of the border more than offset the discount on the forward Canadian dollar. A slight increase in U.S. finance paper rates during the week ended January 19 in part accounted for a narrowing of the differential in favor of Canada from 44 basis points on December 23 to 31 basis points January 19. The narrowing of the forward discount on the Canadian dollar after January 19 widened the covered differential in favor of Canada to 0.58 per cent per annum on February 3. (See Table 7 and Chart 4.)

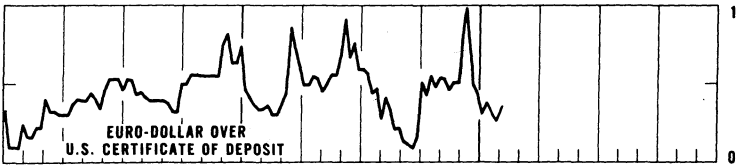
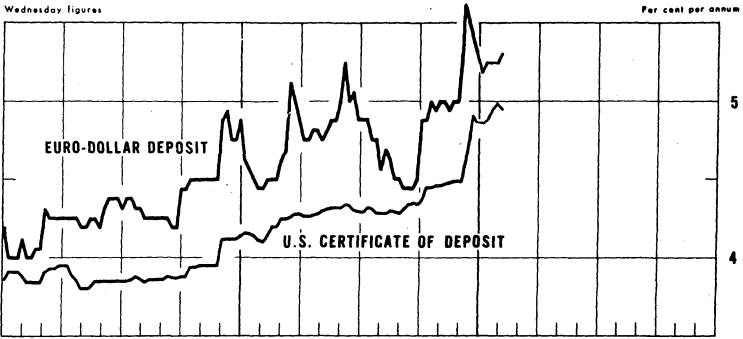
II. Ten Charts on Financial Markets Abroad

- Chart 1 - New York, London, Montreal: Yields for U.S. Dollar Investors on 3-month Funds
- Chart 2 - London: Yields for U.S. Dollar Investors on 3-month Funds
- Chart 3 - London, Frankfurt, Zurich: Yields on 3-month Bank Funds; Price of Gold in London
- Chart 4 - Interest Arbitrage, New York/Canada
- Chart 5 - Interest Arbitrage, New York/London
- Chart 6 - Short-term Interest Rates
- Chart 7 - Long-term Bond Yields
- Chart 8 - Spot Exchange Rates - Major Currencies Against U.S. Dollar
- Chart 9 - 3-month Forward Exchange Rates
- Chart 10 - Industrial Stock Indices

Europe and British Commonwealth Section.

Chart 1

**NEW YORK, LONDON, MONTREAL:
YIELDS FOR U.S. DOLLAR INVESTORS ON 3-MONTH FUNDS
DOLLAR DEPOSIT RATES: NEW YORK-LONDON**



FINANCE CO. PAPER RATES (covered): QUOTED IN NEW YORK

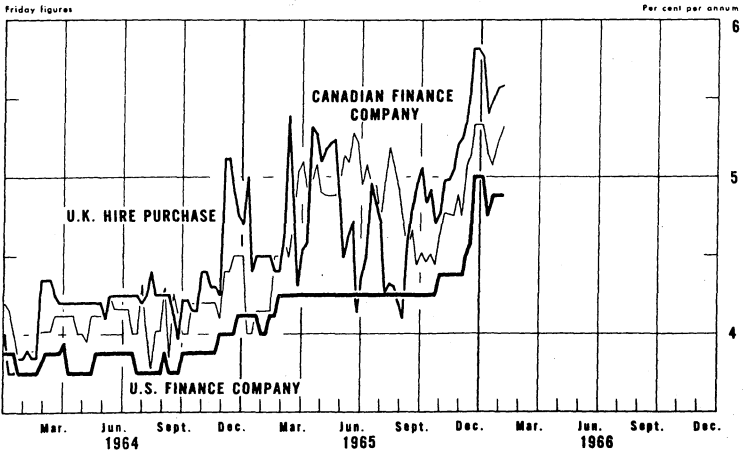
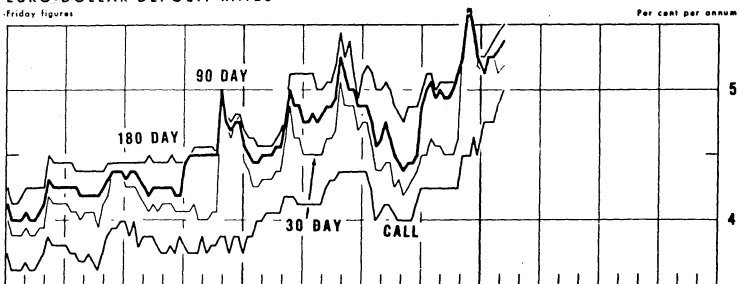


Chart 2

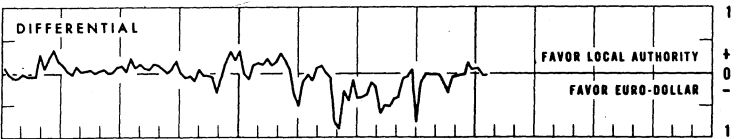
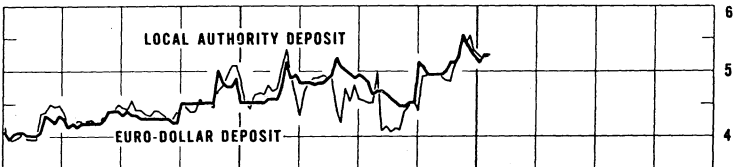
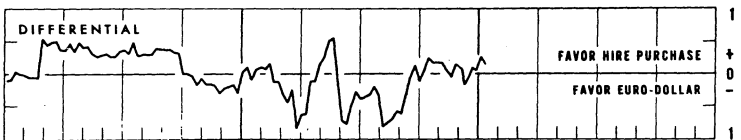
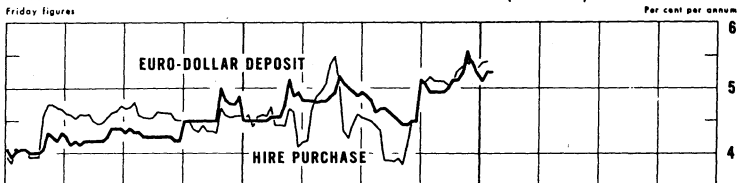
**LONDON: YIELDS FOR U.S. DOLLAR INVESTORS ON 3-MONTH FUNDS
EURO-DOLLAR DEPOSIT RATES**

Friday figures



HIRE PURCHASE AND LOCAL AUTHORITY DEPOSIT RATES (covered)

Friday figures



1964

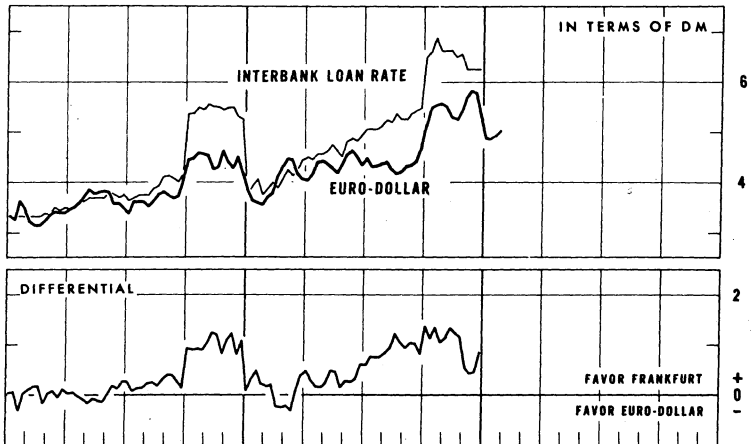
1965

1966

I LONDON, FRANKFURT, ZURICH: YIELDS ON 3-MONTH BANK FUNDS

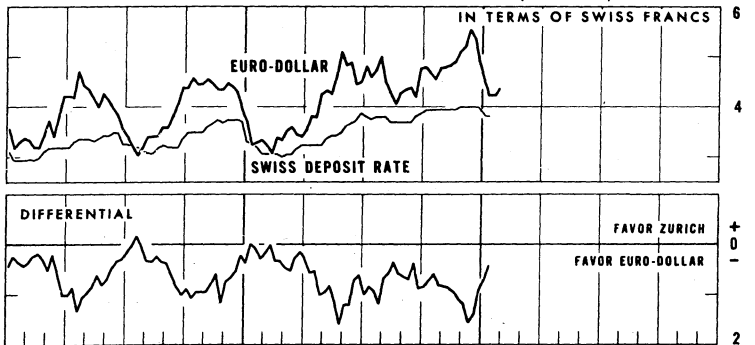
FRANKFURT INTERBANK LOAN RATE VS. LONDON EURO-DOLLAR RATE (COVERED)

Per cent per annum

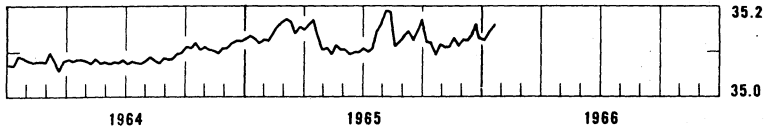


ZURICH DEPOSIT RATE VS. LONDON EURO-DOLLAR RATE (COVERED)

IN TERMS OF SWISS FRANCS

**II PRICE OF GOLD IN LONDON**

U.S. dollar equivalent per fine ounce



13

Chart 4
INTEREST ARBITRAGE, UNITED STATES/CANADA
Friday figures

Per cent per annum

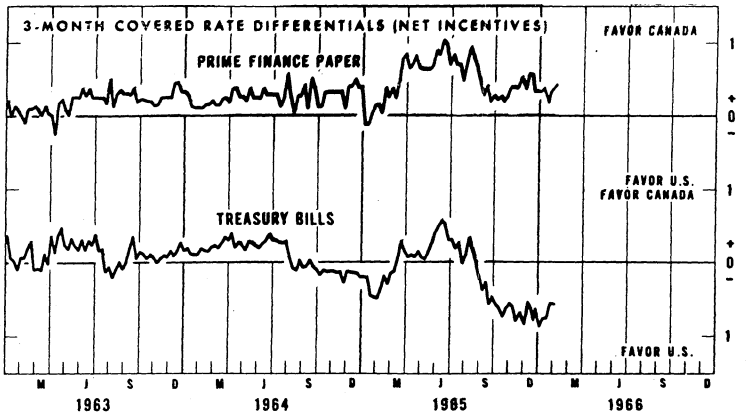
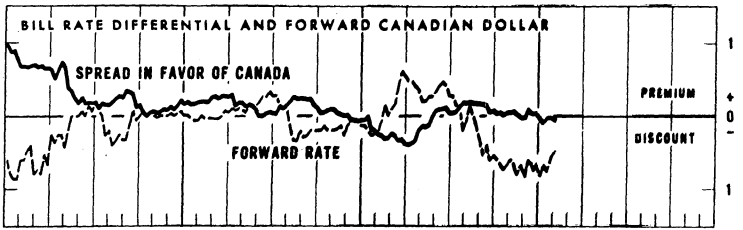
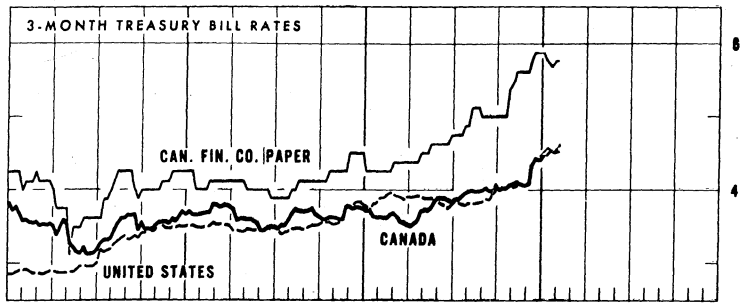


Chart 5

INTEREST ARBITRAGE, NEW YORK/LONDON

Friday figures

Per cent per annum

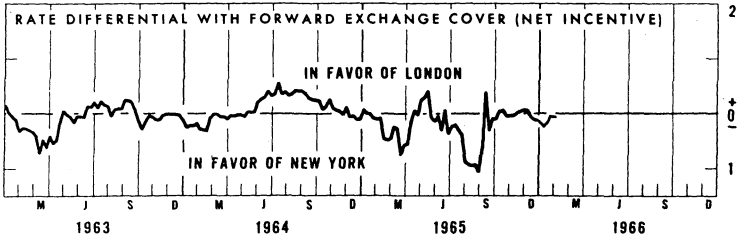
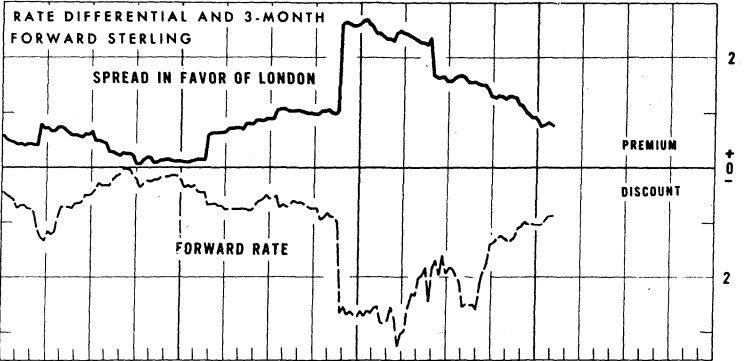
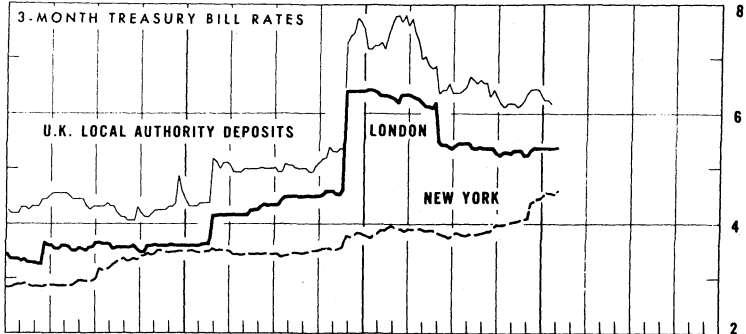
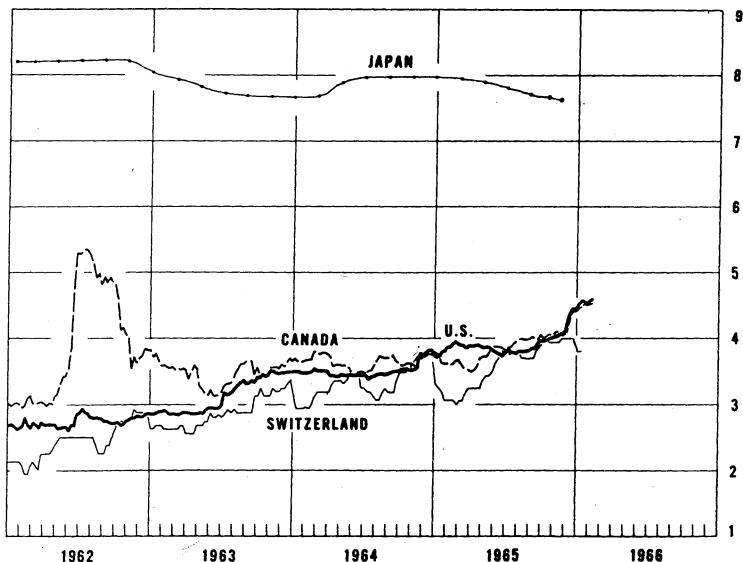
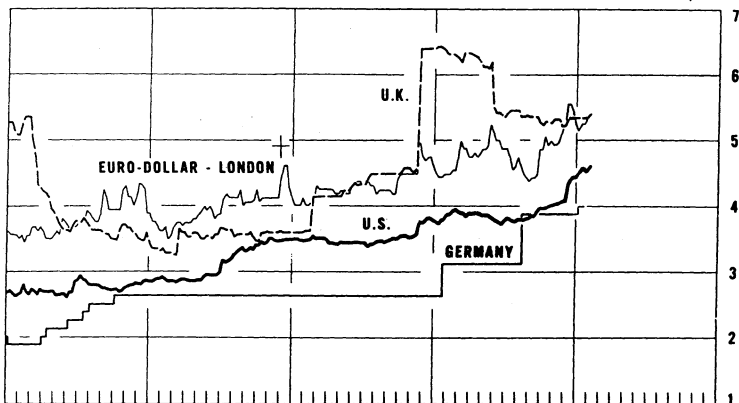


Chart 6

SHORT-TERM INTEREST RATES *

Per cent per annum



* 3 month treasury bill rates for all countries except Japan. (Average rate on bank loans and discounts)
and Switzerland (3 month deposit rate)
1 month rate for U.S. dollar deposits in London.

Chart 7
LONG-TERM BOND YIELDS

Weekly figures

Per cent per annum

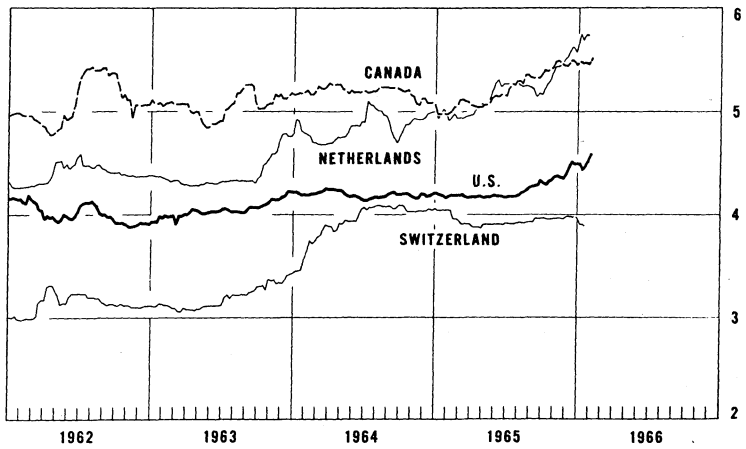
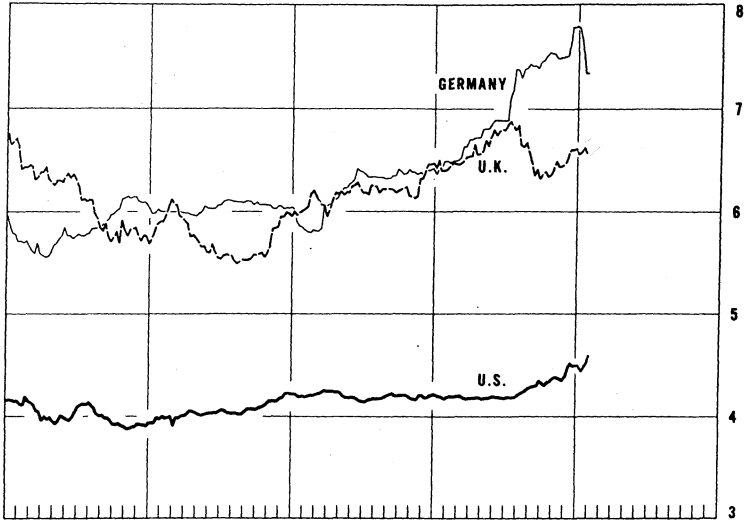


Chart 8

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

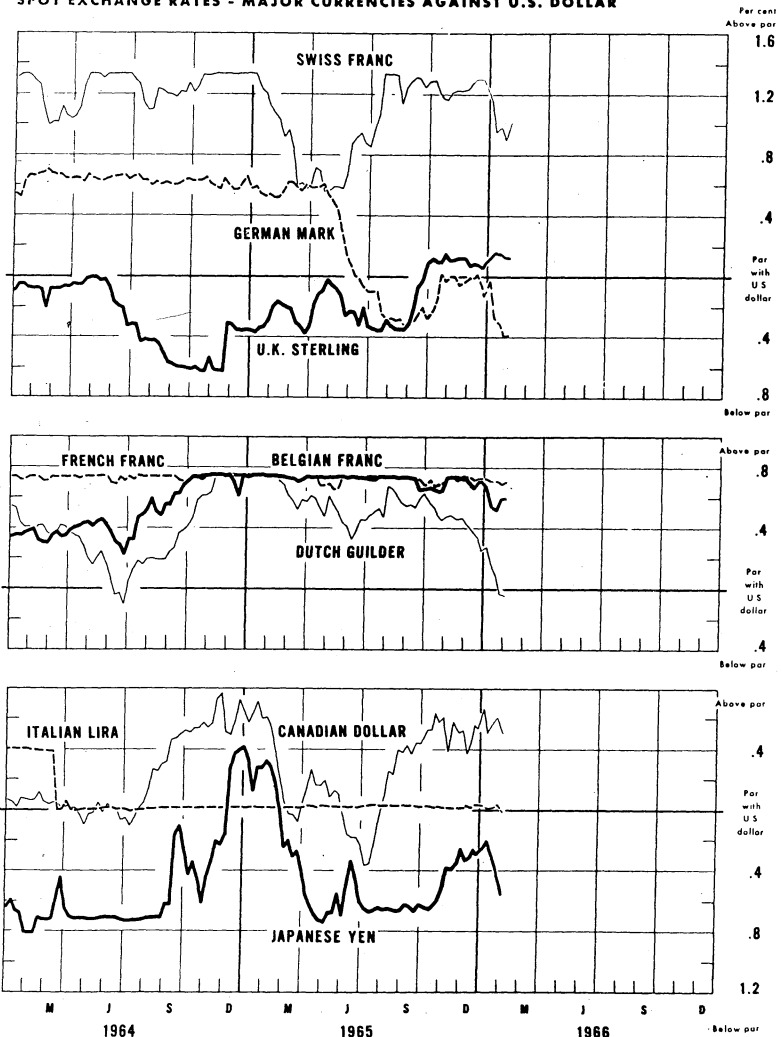
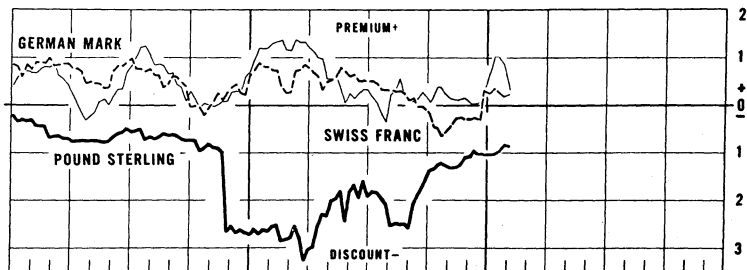


Chart 9
3-MONTH FORWARD EXCHANGE RATES

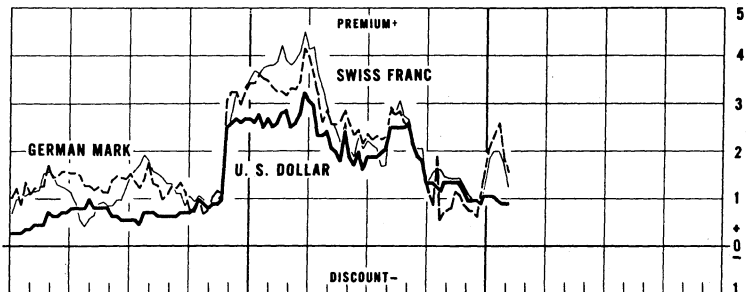
Friday figures

AGAINST U. S. DOLLARS

Per cent per annum



AGAINST POUND STERLING - LONDON



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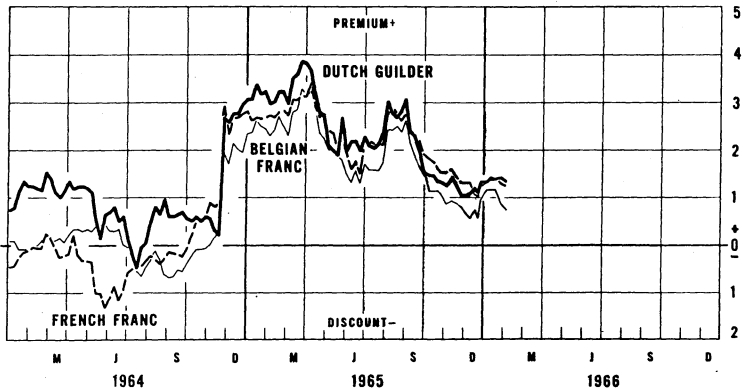
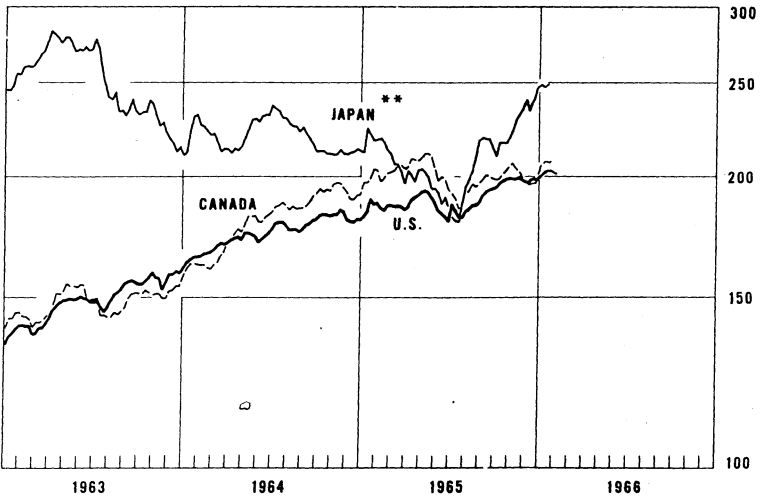
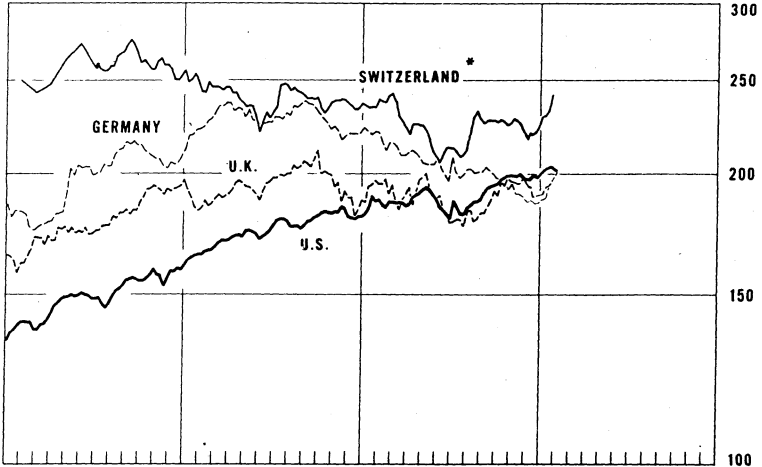


Chart 10

INDUSTRIAL STOCK INDICES

1958=100
Ratio scale



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

Chart 1
Upper panel
(Wednesday, February 2)

Euro-\$ deposit 5.31
U.S. certif. of deposit 4.95

Lower panel
(Friday, February 4)

Finance co. paper: U.S. 4.88
Canada 5.32
Hire-purchase paper, U.K. 5.58

Chart 2
(Friday, February 4)

Euro-\$ deposits:
Call 5.00 90-day 5.38
7-day 5.12 180-day 5.50
30-day 5.19
Hire-purchase paper 5.41
(January 14)
Local-authority deposit 5.23
(January 21)

Chart 3
Upper panel
(Period: December 24-31)

Interbank loan (mid point) 6.25
Euro-\$ deposit (average) 5.40

Lower panel
(Date: January 15)

Zurich 3-mo. deposit 3.81

Price of gold 35.159
(Friday, January 21)

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

Chart 4
(Friday, February 4)

Treasury bills: Canada 4.53
U.S. 4.61
Spread favor Canada -0.08
Forward Canadian \$ -0.49
Net incentive (Canada +) -0.57
Canadian finance paper 5.75

Chart 5
(Friday, February 4)

Treasury bills: U.K. 5.39
U.S. 4.61
Spread favor U.K. +0.78
Forward pound -0.86
Net incentive (U.K. +) -0.08

Chart 6
(Friday, February 4)

Treasury bills:
U.S. 4.61 Germany 4.00 (Jan. 21)
U.K. 5.39 Canada 4.53
Euro-\$ deposit (London) 5.38
Zurich 3-mo. deposit 3.81
(Date: January 15)
Japan composite rate 7.636
(Date: November 30)

Chart 7

U.S. Gov't. (Wed., Feb. 2) 4.59
U.K. War Loan (Thurs., Jan. 27) 6.56
German Fed. (Fri., Jan. 28) 7.33
Swiss Confed. (Fri., Jan. 21) 3.90
Canadian Gov't. (Wed., Feb. 2) 5.51
Netherlands Gov't. perpetual 3%
(Fri., January 28) 5.73