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CAPITAL MARKET DEVELOPMENTS ABROAD

I. Euro-dollar Markets for Deposits and Long-term Bonds, January-February 1966

Yields on U.S. dollar-denominated assets in European financial centers advanced steadily in January and February, contrary to the usual seasonal pattern. Tightening monetary conditions in the United States and continued borrowing in Europe by U.S. firms were primarily responsible for the increased yields. In the short-term deposit market, yields on most maturities of deposits had risen by the end of February to a level about 100 basis points higher than they had been six months earlier. (See Table 1.) In the long-term bond market, yields on representive dollar bonds traded in London ranged between 6.1 and 6.4 per cent in February compared with 5.5 to 5.9 in the summer of 1965. (See Table 1[illegible].)

Table 1. Euro-dollar Deposit Rates (London): Changes Between Selected Dates, September 1965-February 1966
(per cent per annum)

	Rate Sept. 3 1965	Changes from previous date: Oct. 15	Nov. 19	Dec. 10	Jan. 7	February 4	February 25	Rate Feb. 25 1966
Call (2-day)	4.00	+.25	.00	+ .25	+.25	+.25	0	5.00
7-day	4.13	+.25	.00	+ .37	+.13	+.24	0	5.12
30-day	4.19	+.43	-.12	+1.12	-.50	+.07	+.25	5.44
90-day	4.38	+.68	-.06	+ .56	-.44	+.26	+.06	5.44
180-day	4.75	+.37	-.06	+ .56	-.37	+.25	0	5.50

Source: Federal Reserve Bank of New York.

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In the Euro-dollar deposit market, bid rates in London in February on the very short-dated deposits (call and 7-day funds) rose to new all-time highs. Market reports indicate that bidding by branches of U.S. banks for dollar funds contributed materially to the demand pressures in this sector of the market. Bid rates on these funds were about 50 basis points higher in early February than they had been at year-end. (See Table 1 and Chart 2.) Rates for longer-term deposits, however, rose somewhat less than for the shorter maturities.

The increases in Euro-dollar deposit rates were generally in line with rate advances in New York, and the spread between New York certificate of deposit and London dollar deposit rates has remained relatively stable since the beginning of the year. (See Chart 1.) For 90-day funds, this differential has remained largely between 32 and 36 basis points. (See Table 2.)

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

	1965			1966			
	Sept. 15	Oct. 6	Dec. 1	Jan. 5	February 2	February 23	Mar. 2
Euro-dollars over CD's							
90-day Euro-$ Deposit	4.44	4.88	5.25	5.18	5.31	5.38	5.25
90-day CD	4.35	4.45	4.49	4.86	4.95	5.05	5.11
Difference	.09	.43	.76	.32	.36	.33	.14
180-day Euro-$ Deposit	4.88	5.06	5.25	5.25	5.50	5.50	5.44
180-day CD	4.44	4.52	4.57	4.92	5.08	5.18	5.19
Difference	.44	.54	.68	.33	.42	.32	.25

Source: Federal Reserve Bank of New York.

At the moment, the advancing level of rates may not be attracting new funds from various sources into the Euro-dollar deposit market as high rates have done in the past. Italian banks are no longer acting as major suppliers to the market as they were during the late summer and fall months. On the demand side, tightening monetary conditions in both the United States and Canada are thought to be attracting dollar funds from European and other foreign holders.

In the Euro-dollar bond market, the heavy offerings of long-term issues which developed in the latter part of 1965 have continued. In January and February, new issues averaged about $100 million a month. U.S. firms were the heaviest borrowers, accounting for about 63 per cent of the activity in these two months. European press reports suggest that American firms may continue to dominate this market for the remainder of this year.

However, increased signs of strain are appearing in the long-term Euro-dollar bond market. On non-convertible offerings, coupon rates crept up on most new issues between 25 and 50 basis points in the two months under review. In addition, offering prices had to be substantially pared to attract buyers. Several borrowers either reduced the size of announced offerings or decided to postpone them indefinitely.

In the London secondary market, prices on outstanding issues reflected this pinch on dollar funds. At the end of February, prices on most of the non-convertible dollar bonds were at all-time lows. (See Table 12.)

London Euro-dollar deposit rates up sharply in January-February

Bid rates for U.S. dollar deposits in overseas financial markets advanced sharply in January and February and were at new all-time highs for very short-term maturities. Heavy bidding by foreign branches of U.S. banks for short-term funds have contributed materially to current demand pressures. Between December 31 and February 4 bid rates in London for call and 7-day funds rose 50 basis points; they have since eased slightly. (See Table 1 and Chart 2.)

For longer-term deposits, rates recovered sharply from a late December slump. Between December 31 and February 25, 90-day and 180-day deposit rates rose from 5.25 per cent to around 5.50 per cent. (See Table 1 and Chart 2.)

New York—Euro-dollar differential stable. The spread between New York and London deposit rates has remained relatively stable since the beginning of the year. Increases in Euro-dollar rates in London have been generally in line with rising deposit rates in the United States, and between January 5 and February 23, the differential on 90-day deposit rates was practically unchanged at around 32 basis points. (See Table 2 and Chart 1.)

Higher interest rates in the U.S. major factor affecting Euro-dollar rates. Euro-dollar rates during January-February seem to have responded mainly to higher rates in the United States and perhaps to increased demand for funds from U.S. commercial banks. At the same time, monetary policies in most European countries and in Canada continued to be restrictive and credit conditions tight.

In the United States, financial market conditions have continued to tighten since the Federal Reserve rediscount rate increase on December 6. The market yield on U.S. Treasury bills rose from 4.31 per cent at mid-December to 4.66 per cent on February 25. Conditions in U.S. money markets have also pushed up yields on certificates of deposit. (See Chart 1 and Table 3.) As conditions tightened, U.S. banks reportedly drew funds from the Euro-dollar market in volume in January-February.

Table 3. Short-term Interest Rates in Selected Financial Centers, 1965-66

1965	New York 1/	London 2/	Frankfurt 3/5/	Paris 6/	Zurich 4/5/	Canada 1/	Euro-$ London 7/
Oct. 29	4.03	5.27	6.62	4.75	3.94	4.07	5.00
Nov. 26	4.09	5.24	6.50	4.75	4.00	4.06	5.12
Dec. 3	4.10	5.24	6.25	4.81	4.00	4.08	5.25
10	4.31	5.33	6.25	4.62	4.00	4.34	5.56
17	4.40	5.36	6.25	3.69	4.00	4.44	5.56
31	4.45	5.36	6.25	4.69	4.00	4.41	5.25
1966							
Jan. 7	4.52	5.36	5.03	3.75	3.81	4.47	5.12
14	4.58	5.36	4.88	3.50	3.81	4.48	5.25
21	4.56	5.36	4.88	3.63	3.75	4.54	5.25
28	4.53	5.36	5.19	4.13	3.81	4.51	5.31
Feb. 4	4.61	5.39	5.16	4.63	3.94	4.53	5.38
11	4.63	5.42	5.13	4.44	4.00	4.54	5.50
18	4.63	5.54	5.13	3.69	4.00	4.53	5.38
25	4.66	5.54	5.50	4.62	4.00	4.54	5.44

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.
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.

Financial conditions in Canada continued to be tight, and yields rose along with those in the United States. Sales of Treasury bills by the Bank of Canada have kept pressure on bank liquidity. Between December 31 and February 25, Treasury bill yields rose from 4.41 per cent to 4.54 per cent. (See Table 3.)

In Britain, the central bank adopted a more restrictive policy on bank lending, and installment credit regulations were tightened. Also, financial markets tightened further: between January 28 and February 25, Treasury bill yields increased from 5.36 per cent to 5.54 per cent. There has been an arbitrage margin (with exchange risk covered) of about 20 basis points in favor of shifting from Euro-dollar into hire-purchase deposits since the beginning of the year. However, there has been no net incentive to shift into local-authority deposits. (See Chart 2.) Local authorities have reduced their short-term borrowings, and rates on these deposits have fallen since December.

Tight credit conditions in Germany kept the Frankfurt inter-bank loan rate substantially above the (covered) Euro-dollar deposit rate in the last half of 1965. (See Chart 3.) But because of the special facility of using money market assets abroad to offset reserve requirements on foreign-owned DM deposits, German banks have found it profitable to maintain funds abroad. From March to September 1965, German banks drew more dollar funds than they placed in the London market. (See Table 4.) During December, they also drew on the Euro-dollar market substantially to meet year-end liquidity needs; market reports suggest that much of this inflow was not reversed during the first two months of 1966.

At the same time, Italian commercial banks--which supplied large volumes of funds to the Euro-dollar market during the late summer and autumn months (see Table 4)--have not added any significant amount of funds to the market during 1966. At the beginning of January, the Bank of Italy ceased to make available any new foreign exchange swap facilities except to those banks in a position of net indebtedness to foreigners, although it will continue to renew all outstanding swaps. In addition, the winter and spring months are seasonally unfavorable to Italian reserve gains. From June to September, however, Italian banks increased their dollar claims on British banks from $283 million to $456 million. (See Table 4.)

Table 4. U.S. Dollar Claims and Liabilities on London Banks
(millions U.S. dollars)

	1965			
End of Month:	March	June	September	December
GERMAN Residents				
Claims	84	118	67	95
Liabilities	92	95	145	188
Net Claims (- net liabilities)	- 8	23	-78	-93
ITALIAN Residents				
Claims	255	283	456	588
Liabilities	294	314	260	428
Net Claims (- net liabilities)	-39	-31	196	160
SWISS Residents				
Claims	815	846	829	1,039
Liabilities	120	134	162	193
Net Claims	695	712	667	846

Source: Bank of England, *Quarterly Bulletin*.

On the other hand, money market reports from Switzerland indicate that the large commercial banks redeposited substantial funds in the Euro-dollar market in January which they had withdrawn in December to meet year-end liquidity needs. But renewed tightness in the Swiss money market in February pushed rates in Zurich up to their December peaks, and there have been reports of recent switching from Euro-dollars into Swiss francs. Throughout most of 1965, tightening liquidity conditions in Switzerland discouraged Swiss banks from adding very much to their dollar claims in the London market. (Compare Table 4 and Chart 3.)

Short-term dollar funds flow from Europe to North America in 1965. The withdrawal of dollar funds by U.S. residents in the spring of 1965 in response to the U.S. balance-of-payments program produced a $680 million decline in U.S. claims on Canadian banks. (See Table 5.) In addition, U.S. banks increased their borrowings from U.K. banks by about $400 million from December 1964 to December 1965, mostly in the first quarter before the U.S. measures were announced. As a result, the net liabilities of U.S. residents to these two countries nearly doubled during the year.

Table 5. United States Residents: Claims and Liabilities on British and Canadian Banks
(millions of U.S. dollars)

End of Month:	1964 December	1965 March	1965 June	1965 September	1965 December
On U.K. Banks:					
Liabilities	1210	1464	1425	1702	1596
Claims	535	501	501	524	552
Net liabilities	675	963	924	1178	1044
On Canadian Banks:					
Liabilities	1946	1758	1686	1926	1748
Claims	1659	1356	1116	1086	980
Net liabilities	287	402	570	840	768
Total:					
Liabilities	3156	3222	3111	3628	3344
Claims	2194	1857	1617	1610	1532
Net liabilities	1962	1365	1494	2018	1812

To compensate for the withdrawal of U.S.-owned deposits from Canada, the chartered banks reduced their dollar claims and increased their borrowings in the London market. U.S. dollar claims of these banks on London financial institutions were reduced from \$601 million to \$438 million between the end of March and the end of December (1965). Between these two dates, total liabilities of these banks were stable, so that the reduced deposits of U.S. residents were offset by increased deposits of British and Continental (included under "other") holders. (See Table 6.)

Table 6. Canadian Chartered Banks: U.S. Dollar Claims and Liabilities
(millions of U.S. dollars)

End of Month:	1965 March	1965 June	1965 September	1965 December
Claims on Residents of:				
U.S.	1758	1686	1926	1748
U.K.	601	388	450	438
Other 1/	1100	1131	1153	1306
Total	3459	3205	3529	3492
Liabilities to Residents of:				
U.S.	1356	1116	1086	980
U.K.	45	80	157	137
Other 1/	2040	1979	2284	2370
Total	3441	3175	3527	3487
Net Claims	18	30	2	5

1/ Includes positions vis-a-vis Canadian residents.
Source: Bank of Canada, Statistical Summary.

Banks in the U.K., on the other hand, reduced their net borrowings in the Euro-dollar market from the peak in the first quarter of 1965 when there was substantial switching from Euro-dollar to sterling local-authority deposits. The net liabilities of London banks in U.S. dollars decreased from $1,126 million at the end of March (1965) to $728 million at the end of September. (See Table 7.)

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

	1964	1965			
End of Month:	December	March	June	September	December
Liabilities	4379	4556	4410	4752	5261
Claims	3696	3430	3536	4024	4547
Net liabilities	683	1126	874	728	714

Source: Bank of England, Quarterly Bulletin.

Other Euro-currency deposit rates climb higher

Deposit rates in foreign markets for the major European currencies rose in line with higher Euro-dollar rates in January-February since these rates are closely tied to Euro-dollar rates by the cost of forward dollar cover. However, some Euro-currency deposit rates rose more sharply than others. For example, Euro-sterling deposit rates increased from 6.25 per cent on January 7 to only 6.31 per cent on February 18 or by 20 basis points less than the corresponding increase in the Euro-dollar rate. This was because there was a falling premium on the forward dollar against sterling during the period, and the "dollar derived equivalent"[1/] of a Euro-sterling deposit stayed pretty much in line with the actual Euro-sterling deposit rate. (See Table 8.)

In contrast, the Euro-Swiss franc and Euro-DM deposit rates rose more sharply than both the Euro-dollar and Euro-sterling rates between January 7 and February 18. This was because the discount on the forward dollar against each of these currencies--the Swiss franc and the DM--was reduced. Their "dollar derived equivalents" were only seldom out of line with the actual deposit rates. (See Table 8.)

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.

Table 8. 90-day Euro-currency Deposit Rates
(per cent per annum)

Date 1965		U.S. Dollars (London)	Sterling (Paris)*	Swiss Franc*	D-mark*
October	29	5.00	6.25 (6.29)	4.75 (4.77)	5.69 (5.58)
November	26	5.12	6.31 (6.22)	5.00 (4.97)	5.50 (5.43)
December	3	5.25	6.44 (6.32)	5.37 (5.23)	5.75 (5.56)
	10	5.56	6.56 (6.53)	5.56 (5.54)	5.88 (5.84)
	17	5.56	6.56 (6.58)	5.50 (5.54)	5.88 (5.94)
	31	5.25	6.19 (6.34)	4.94 (4.95)	5.00 (4.95)
1966					
January	7	5.12	6.25 (6.15)	4.38 (4.38)	4.94 (4.85)
	14	5.25	6.31 (6.28)	4.31 (4.23)	4.88 (4.90)
	21	5.25	6.31 (6.20)	4.38 (4.23)	5.08 (4.97)
	28	5.31	6.19 (6.14)	4.38 (4.44)	5.08 (5.11)
February	4	5.38	6.31 (6.24)	4.94 (5.06)	5.08 (5.14)
	11	5.50	6.25 (6.37)	4.81 (5.04)	5.12 (5.15)
	18	5.38	6.31 (6.30)	4.81 (4.85)	5.25 (5.18)
	25	5.44	6.38 (6.43)	4.75 (4.78)	5.38 (5.37)

* The figures in parenthese indicate the "cost of obtaining" the foreign currency deposit by borrowing U.S. dollars in the Euro-dollar market and swapping 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.

Long-term dollar bond flotations in Europe continue at peak level

Offerings of long-term U.S. dollar-denominated bonds in overseas financial markets in January and February continued at the rapid rate which developed in late 1965. During the two month period, offerings averaged approximately $100 million per month, about equal to average monthly offerings in October-December 1965 but almost five times greater than in the comparable year-earlier period. (See Table 9.)

Table 9. U.S. Dollar Bonds: New Issues Sold Outside the United States, January-February 1966

Borrower	Coupon (%)	Price (%)	Term (yr.)	Amount ($ mil.)	Underwritten in
January					
Mortgage Bank of Denmark	6.25	96.50	20	12	London and Copenhagen
*Societa Generale Immobiliare Int'l Holdings, S.A. (Luxembourg) (with attached warrants)	6.50	99.50	15	15	New York, London and Rome
**Avon Overseas Capital Corp.	6.25	97.50	15	15	New York
**Phillips Petroleum Int'l Investment Co.	6.00	98.00	15	25	New York
February					
Ente Nazionale Idrocarburi (Italy)	6.00	95.75	15	20	New York and Rome
**Honeywell Int'l Finance Co., S.A. (Luxembourg)	6.00	96.00	15	15	New York
Transalpine Finance Holdings, S.A. (Luxembourg)	6.50	100.00	20	27.5	New York and London
**Int'l Standard Electric Holdings, S.A. (Luxembourg) (convertible)	4.50	97.50	20	15	New York
**Int'l Standard Electric Corp.	6.00	97.50	20	15	New York
**Marathon Int'l Finance Co. (convertible)	4.50	100	20	25	New York
**Warner-Lambert Int'l Capital Corp. (convertible)	4.25	100	15	15	New York

* Subsidiary of Italian firm.
** Subsidiary of American firm.

TOTAL VOLUME

	1965	1966
Jan.-Feb.	45.0	199.5
May-June	127.0	
July-Sept.	85.0	
Oct.-Dec.	301.0	
TOTAL	$558.0	

Continued heavy borrowing by U.S. firms is still the major factor in the increased activity in the long-term dollar market overseas. Of the approximately $200 million raised in the first two months of this year, U.S. firms accounted for $125 million or almost 63 per cent of the total. Western European borrowers accounted for approximately one-third of the total volume of funds raised, while Scandinavian borrowers--which were the major factor in the market during the first half of 1965--accounted for only 6 per cent of the total funds raised. (See Table 10.)

In line with the extended restraint program on the use of domestic funds for overseas operations, U.S. firms continue to form European-based holding companies and subsidiaries (primarily in Luxembourg) or U.S. incorporated financing subsidiaries for the purpose of issuing bonds abroad. In fact, 1966 is expected to be the busiest year since the Euro-dollar bond market developed in late 1963 when foreign borrowers were closed out of the New York market by the Interest Equalization Tax. Some underwriters involved in the business expect American firms alone to raise between $900 million and $1 billion in Europe this year. Approximately $500 million of this is expected to be in long-term dollar-denominated public loans; the remainder will be acquired through the placement of notes or bonds on a private basis and through loans from European financial institutions.

Supplies of foreign dollars, however, are expected to get tighter as the year goes on, and the cost of long-term funds could rise even higher than currently. Some market observers also foresee a re-entry of Japanese residents as borrowers during the year. With the growing domestic capital requirements in Europe in addition, conditions in the European dollar capital market may well continue to tighten.

Coupon rates edge higher, signs of congestion in the market. In January and February coupon rates on most non-U.S. issues edged generally higher to a range between 6.25 per cent and 6.50 per cent, compared with a general 6 per cent level in October and November 1965. However, on non-convertible American issues, coupon rates held largely about 6 per cent.

Yields to maturity climbed higher, also, as issue prices were pared to attract buyers. Among the non-convertible issues, most were sold at discounts yielding between 6.50 and 6.60 per cent to maturity, except for the Honeywell issue (an American firm), which was able to get by with a 6 per cent coupon and a 6.38 per cent yield to maturity. (See Table 9.)

Table 10. U.S. Dollar Bonds Issued Outside the United States*
(millions U.S. dollars)

Borrowing Country	Whole Year 1965		Jan.-Feb. 1966	
Scandinavia		198 (35.5%)		12 (6.1)
Denmark	35		12	
Norway	93			
Sweden	60			
Finland	10			
Western and Southern Europe		82 (14.7%)		62.5 (31.2)
France	30			
E.E.C.	20			
Italy	20		35	
Austria	12			
Austria-Italy-Germany**			27.5	
British Commonwealth		70 (12.5%)		
Australia	50			
New Zealand	20			
U.S. Subsidiaries		208 (37.2%)		125 (62.7)
Total		558 (100%)		199.5 (100%)

* Compare primarily percentage distribution.
** Transalpine Pipeline issue. Funds borrowed by international consortium of 13 oil companies to use in construction of pipeline from Italy to Germany through Austria.

Numerous additional signs of congestion appeared in the market. In early January, Honeywell International Finance--the Luxembourg subsidiary of the American Honeywell firm--had to reduce its previously announced $20 million issue to $15 million. A $15 million issue for the Mortgage Bank of Denmark, underwritten in London by Hambros Bank, was pared at the last minute to $12 million when it was brought to market in late January, and the coupon was raised from 6.00 per cent to 6.25 per cent. Furthermore, the American Sanitary and Radiator Company deferred indefinitely its previously proposed $15 million issue because it was unwilling to pay the unexpectedly high interest rates necessary to make the marketing successful.

On the other hand, funds were successfully attracted when amply rewarded. For example, a large amount of interest was aroused in the $15 million issue for the Società Generale Immobiliare International Holdings, a Luxembourg subsidiary of the Società Generale Immobiliare of Italy. So heavy was the demand for this issue that a further $5 million is expected to be announced shortly. Each of the 15-year bonds carried two detachable warrants for the purchase of shares in the parent company, and a now-rising Italian stock market makes these options look extremely favorable.

The most publicized issue during the period was the first instalment of the $138 million financing for the Transalpine Oil Pipeline project. Bonds totaling $27.5 million were issued in late February by Transalpine Finance Holdings, a Luxembourg firm formed specifically to assist in this financing by a consortium of European and American underwriters. In terms of value this is the largest corporate underwriting undertaken in recent European history; the selling group alone consists of 68 international banking and underwriting concerns, the largest ever put together in Europe. The remaining $110.5 million needed for the project is expected to be raised in instalments over the next 18 months.

The most ambitious and unique bond issue to date for an American firm was a $30 million offering by two subsidiaries of the International Telephone and Telegraph Corporation. One subsidiary offered $15 million worth of 6 per cent, 20-year sinking fund debentures, while the other subsidiary--a newly created Luxembourg holding company--sold $15 million of 4.5 per cent, 20-year convertible debentures. These issues were offered in $1,000 units consisting of $500 of each and priced at a discount of 2.5 per cent from par.

Because of tightening market conditions, U.S. firms turned increasingly to bonds with convertible features. Of the seven bonds issued by American firms in January-February, three were convertible into common stock of the parent company.

Although offering dates have not yet been set, several new issues--both for U.S. and foreign firms--have already been announced. These are expected to total between $145 million and $150 million and for the most part be convertible debentures. (See Table 11.)

Secondary market prices continue to slide

Prices of outstanding U.S. dollar bonds quoted in London slid to new lows in February, also reflecting the increased demand for foreign dollars. (See Table 12.) Yields on the Government of Austria, 6 per cent (1979-1984) bond reached 6.2 per cent in late February, compared with 5.9 per cent as late as last October and

Table 11. U.S. Dollar Bonds Announced for Issue in Foreign Markets

Borrower	Amount ($ mil.)	Features	Underwritten in
*Pepsico Overseas Corporation	30	Convertible debentures	New York and Europe
*Joy Manufacturing Co.	10-15	Convertible debentures	New York
Telefonaktiebolaget L.M. Ericsson (Sweden)	25	20-year bonds	London and Copenhagen
*Int'l Utilities Overseas Capital Corp.	15	Convertible 20-year debentures	London
*Clark Equipment Overseas Finance Corp.	15	Convertible 15-year debentures	New York and Europe
*Chrysler Overseas Capital Corp.	50	Convertible 20-year debentures	New York
TOTAL	145-150		

* American firm or subsidiary of American firm.

5.8 per cent in July of 1965. Most of the Scandinavian issues also dipped to new lows; the Government of Denmark 5.5 per cent (1970-1984) issue fell $1.25 between the end of December and January to a new low of $91.75.

According to recent reports, European and American investment bankers are showing new concern over the relatively underdeveloped trading conditions in the secondary market for dollar bonds in Europe. There is a large volume of bonds outstanding in the market now and many of the firms actively engaged in underwriting the issues feel that a more sophisticated market would make it easier to price new issues and to develop greater interest in the securities on the part of European investors. So far, trading conditions in the market have been rather sticky with facilities somewhat limited and large spreads existing between the bid and asked prices of the bonds, both in London and in Luxembourg. Some houses believe that the market offers an

Table 12. 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	97.75	102.12	93.00	112.0	92.75	101.12	92.50
1966	97.75	97.25	93.12	91.62	93.88	92.00	94.75	93.50
	Price	Yield to maturity	Price	Yield to maturity	Price	Yield to maturity	Price	Yield to maturity
Last Friday of:								
October 1965	99.38	5.9	97.12	5.7	94.25	6.3	96.88	6.0
November	99.00	6.0	96.25	5.7	94.25	6.3	96.25	6.0
December	97.75	6.1	93.00	6.0	93.75	6.3	94.00	6.2
January 1966	97.50	6.2	91.75	6.1	92.00	6.5	93.75	6.3
February	97.38	6.2	91.75	6.1	92.50	6.4	92.88	6.4

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	92.34	102.25	92.00	100.25	78.00	107.0	88.00
1966	93.75	92.50	93.38	92.00	92.50	89.25	101.25	99.75
	Price	Yield to maturity	Price	Yield to maturity	Price	Yield to maturity	Price	Yield to maturity
Last Friday of:								
October 1965	96.00	5.9	98.25	5.8	87.00	7.4	96.25	6.2
November	95.00	6.0	97.38	5.9	88.75	7.2	98.50	6.0
December	92.75	6.1	92.00	6.3	90.50	7.0	100.75	5.8
January 1966	92.62	6.2	92.00	6.3	90.00	7.2	100.75	5.8
February	92.75	6.2	91.75	6.4	88.50	7.4	96.00	6.2

Prices are bid.

opportunity for trading profits also. The First Boston Corporation has set up an operation in London to trade in these dollar bonds, and Hambros Bank, one of London's major merchant banks, has transferred its bond dealing department to Zurich to specialize in the new international dollar and foreign currency issues. Reports are also out that several other London merchant banks are considering getting together to take advantage of the trading opportunities that are developing along with the market.

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 - Interest Arbitrage: Frankfurt/London Zurich/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 I

NEW YORK, LONDON, MONTREAL:

YIELDS FOR U.S. DOLLAR INVESTORS ON 3-MONTH FUNDS

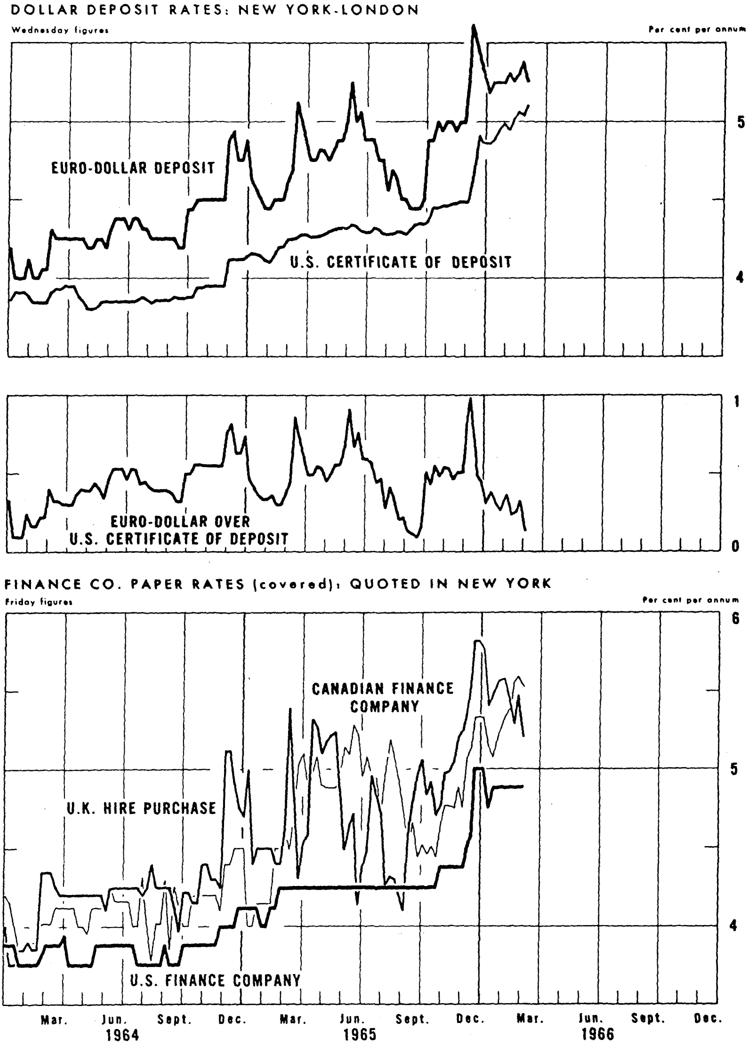


Chart 2

LONDON: YIELDS FOR U.S. DOLLAR INVESTORS ON 3-MONTH FUNDS

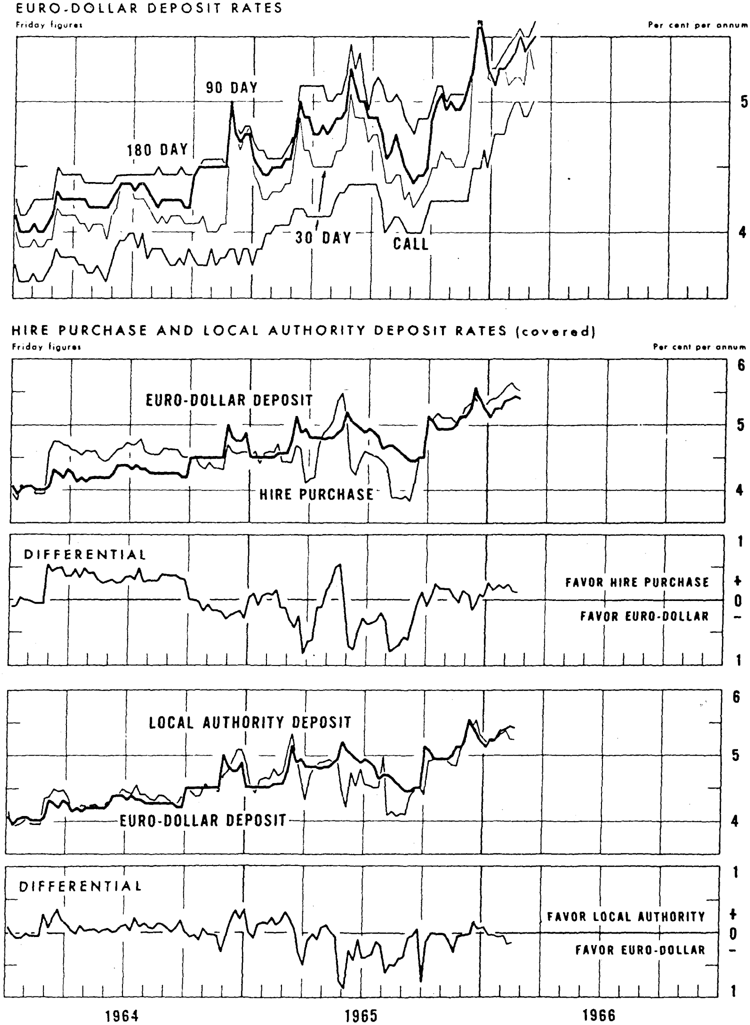
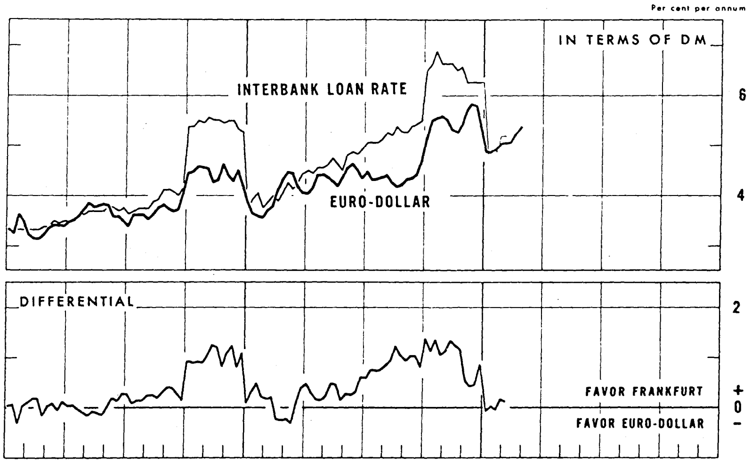


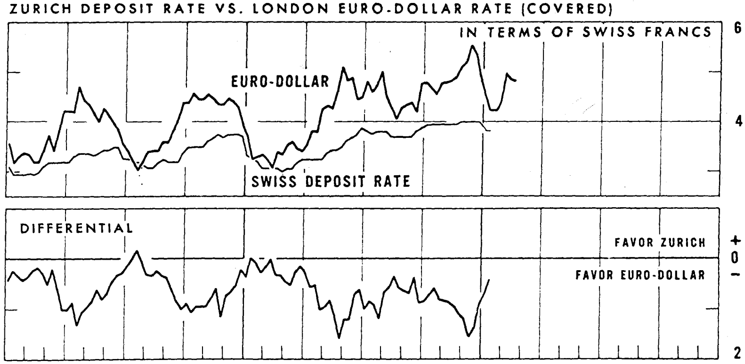
Chart 3

INTEREST ARBITRAGE: FRANKFURT/LONDON, ZURICH/LONDON

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



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



II PRICE OF GOLD IN LONDON

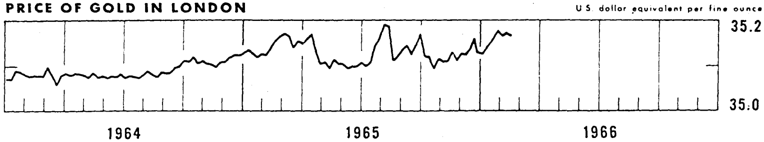


Chart 4

INTEREST ARBITRAGE, UNITED STATES/CANADA

Friday figures

Per cent per annum

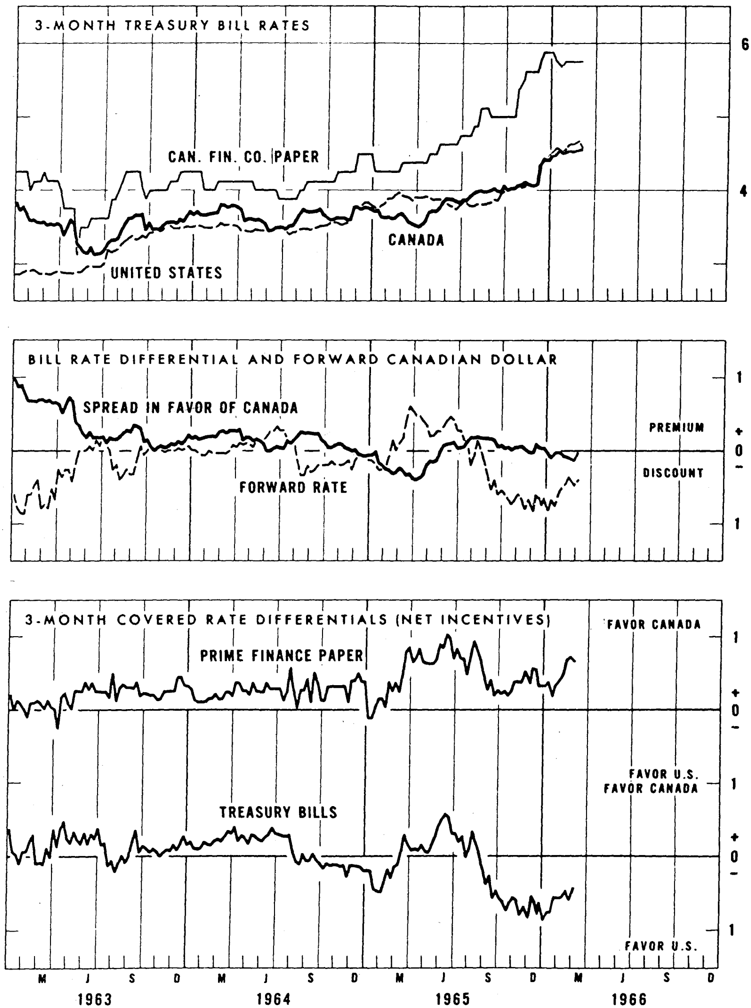


Chart 5

INTEREST ARBITRAGE, NEW YORK/LONDON

Friday figures

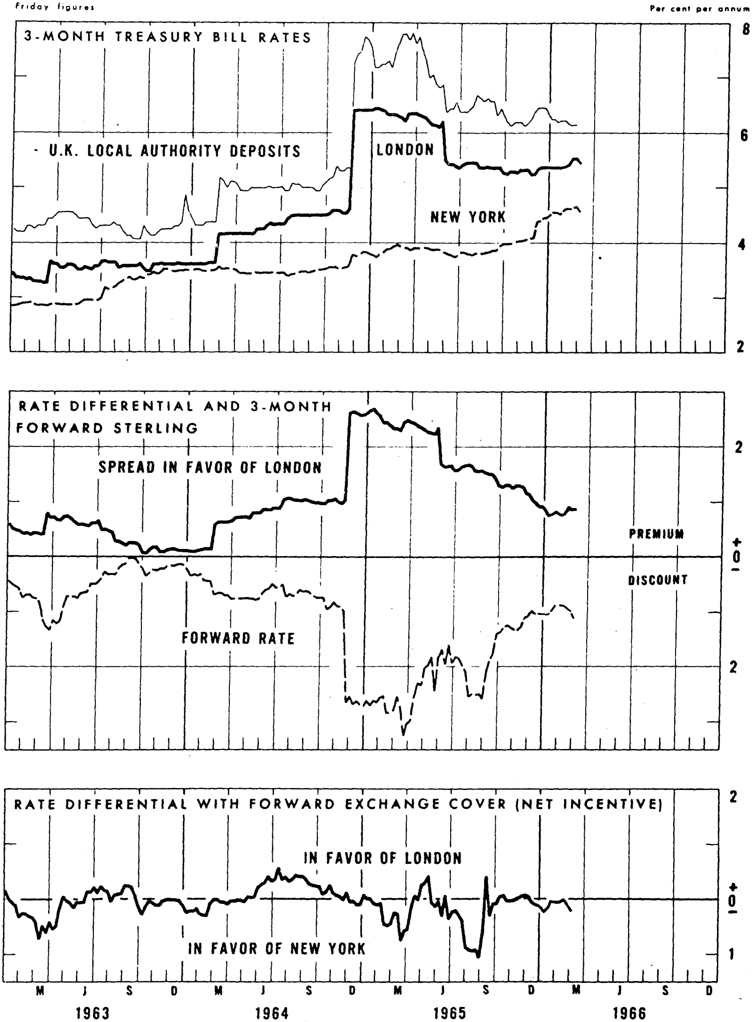
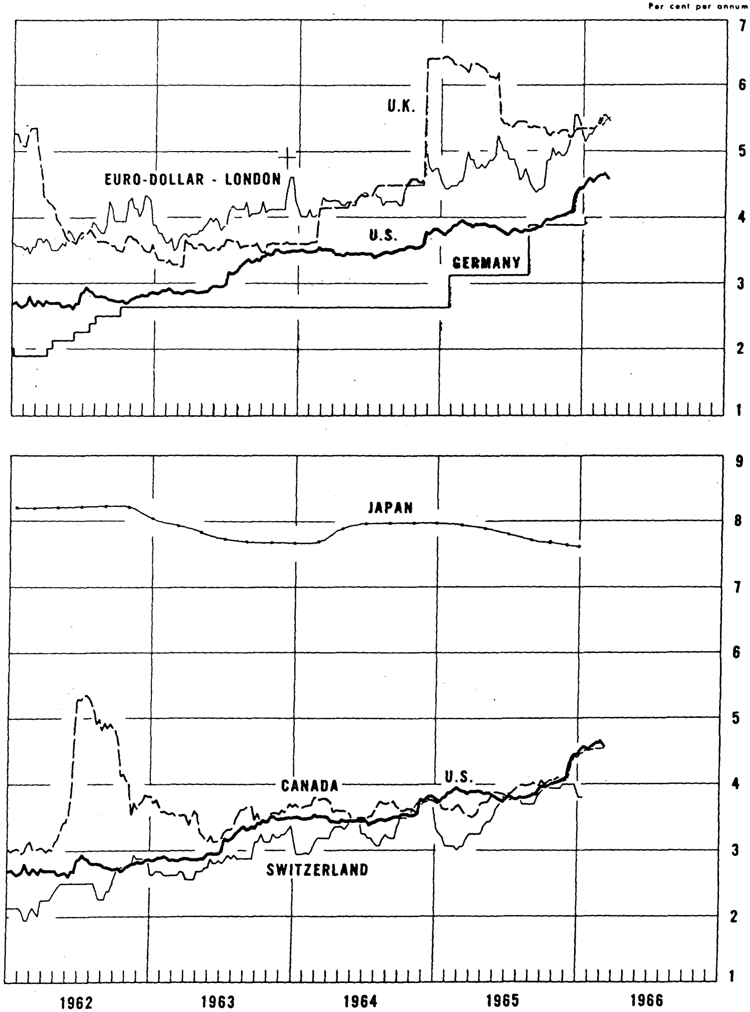


Chart 6

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 7

LONG-TERM BOND YIELDS

Weekly figures

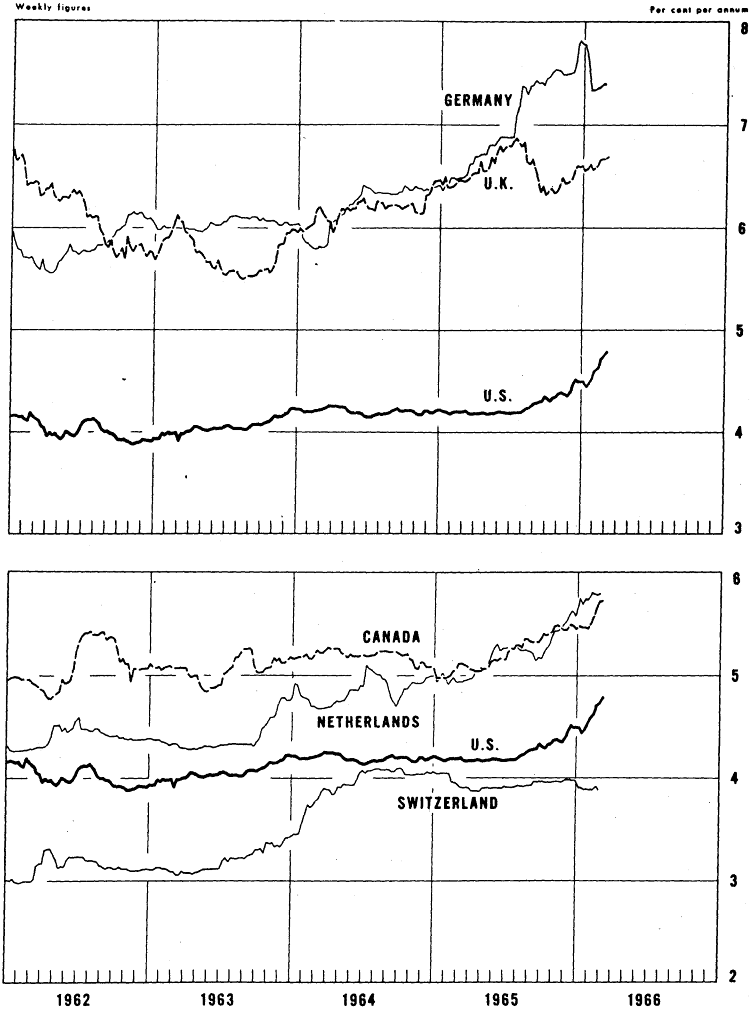


Chart 8
SPOT EXCHANGE RATES - MAJOR CURRENCIES AGAINST U.S. DOLLAR

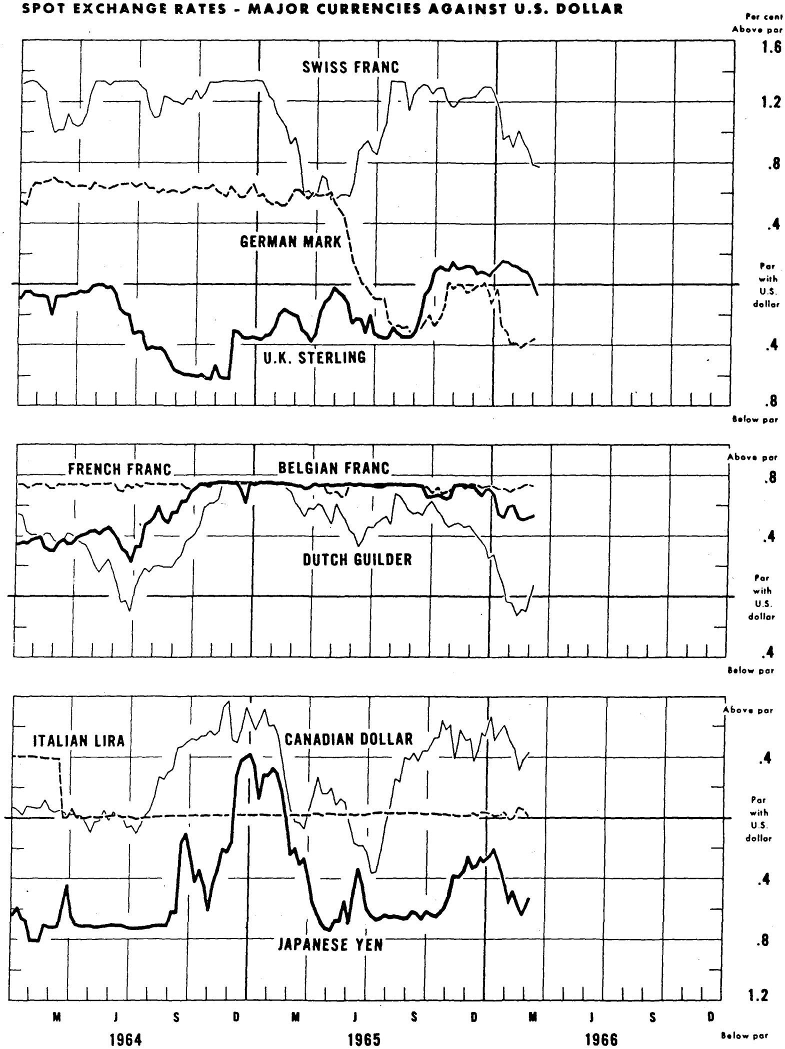


Chart 9

3-MONTH FORWARD EXCHANGE RATES

Friday figures

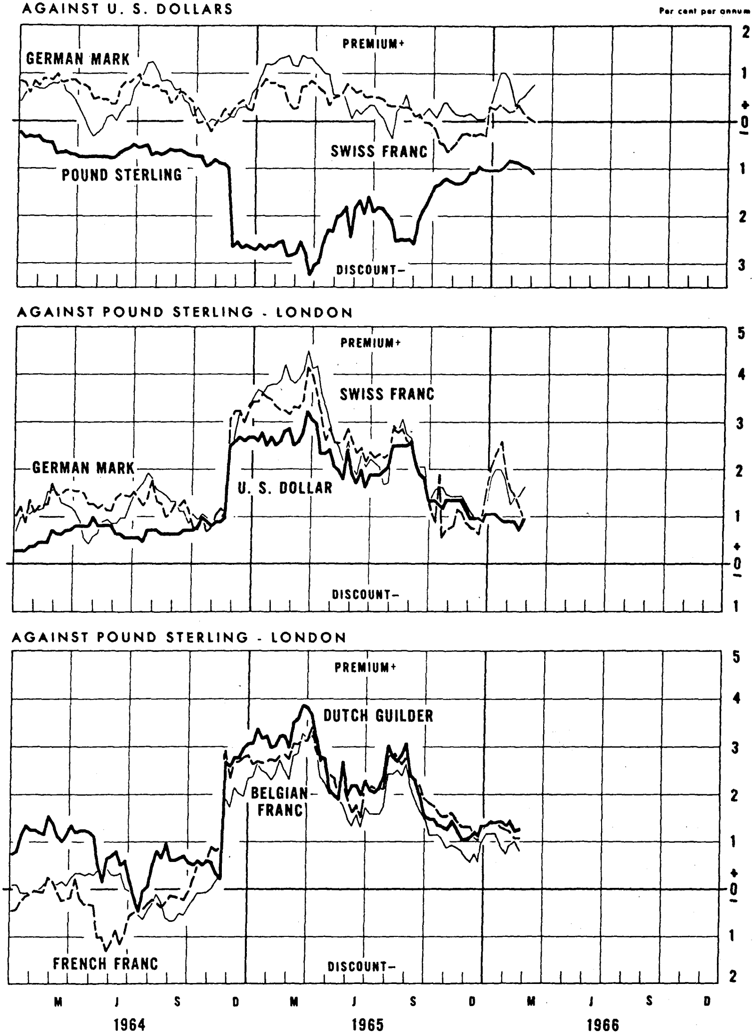
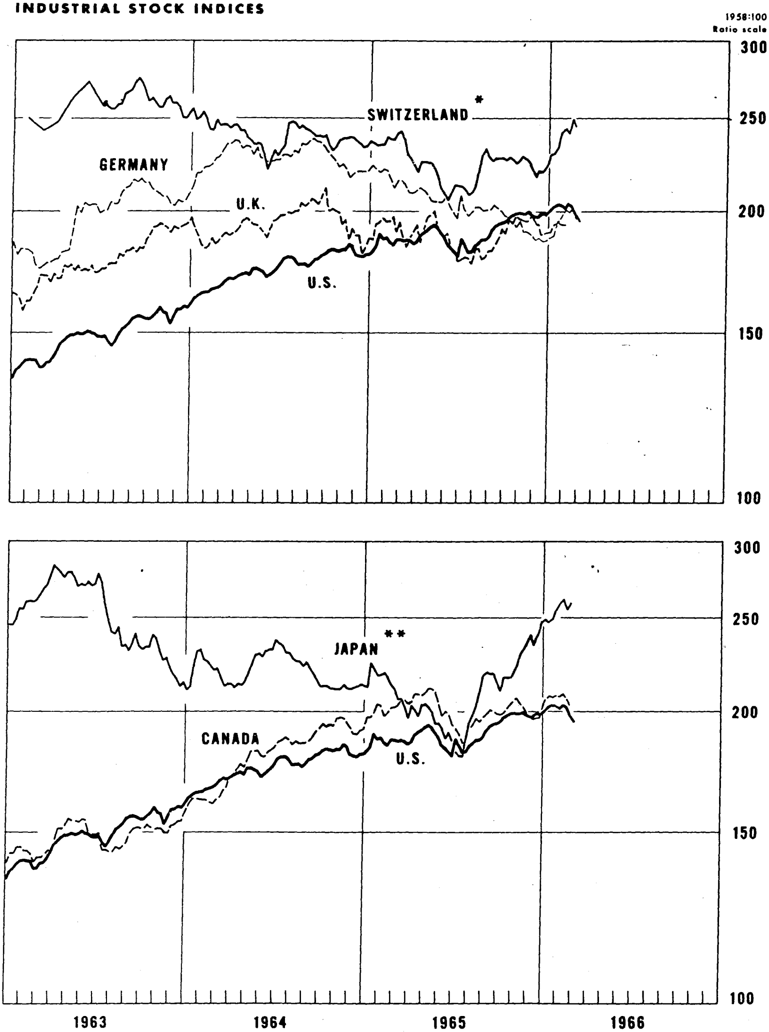


Chart 10

INDUSTRIAL STOCK INDICES



* Swiss Bank Corporation industrial stock index.

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

27.

Latest Figures Plotted in H. 13 Chart Series, 1966
(all figures per cent per annum)

March 9, 1966.

Chart 1

Upper panel
(Wednesday, March 2)

Euro-$ deposit	5.25
U.S. certif. of deposit	5.11

Lower panel
(Friday, March 4)

Finance co. paper:	U.S.	4.88
	Canada	5.53
Hire-purchase paper, U.K.		5.20

Chart 2

(Friday, March 4)

Euro-$ deposits:

Call	5.00	90-day	5.50
7-day	5.19	180-day	5.62
30-day	5.25		

Hire-purchase paper (February 18)	5.53
Local-authority deposit (February 18)	5.25

Chart 3

Upper panel
(Period: February 7)

Interbank loan (mid point)	5.19
Euro-$ deposit (average)	5.06

Lower panel
(Date: January 15)

Zurich 3-mo. deposit	3.81
Price of gold (Friday, February 18)	35.166

For description and sources of data see special annex to H. 13, Number 164, September 16, 1964.

Chart 4

(Friday, March 4)

Treasury bills:	Canada	4.55
	U.S.	4.57
Spread favor Canada		-0.02
Forward Canadian $		-0.40
Net incentive (Canada +)		-0.42
Canadian finance paper		5.75

Chart 5

(Friday, March 4)

Treasury bills:	U.K.	5.45
	U.S.	4.57
Spread favor U.K.		+0.88
Forward pound		-1.11
Net incentive (U.K. +)		-0.23

Chart 6

(Friday, March 4)

Treasury bills:

U.S.	4.57	Germany	4.00 (Feb. 18)
U.K.	5.45	Canada	4.55

Euro-$ deposit (London)	5.50
Zurich 3-mo. deposit (Date: January 15)	3.81
Japan composite rate (Date: December 31)	7.607

Chart 7

U.S. Gov't. (Wed., Mar. 2)	4.79
U.K. War Loan (Thurs., Mar. 3)	6.69
German Fed. (Fri., Feb. 25)	7.39
Swiss Confed. (Fri., Feb. 25)	3.89
Canadian Gov't. (Wed., Mar. 2)	5.72
Netherlands Gov't. perpetual 3% (Fri., February 25)	5.79