Not for Publication

DECONTROLLED AFTER SIX MONTHS

H.14

July 25, 1960.

CAPITAL MARKET DEVELOPMENTS IN THE UNITED STATES AND CANADA

Part I - United States

(Including Monthly Review of Financial Developments in the United Kingdom)

Public security financing for new capital during the week ending June 22 included a large corporate issue for $20 million and large State and local government issues totaling $55 million. The calendar for this week includes large corporate offerings with aggregate proceeds of $113 million and an $11 million State and local government bond issue.

Long-term bond yields - Yields declined last week for all categories of seasoned bonds, except those for high-grade State and local government bonds, which remained stable. High-grade corporate and U. S. Government bond yields reached new lows for the year, while yields on State and local government and lower grade corporate bonds were about 4 basis points above their lows reached in early April.

Offering yields on new corporate issues also declined last week. A new A-rated, first mortgage electric utility bond issue was offered to investors last Wednesday to yield 4.80 per cent--8 basis points lower than the yield on a comparable offering made a week earlier.

Short- and intermediate-term interest rates - Yields on Treasury bills and intermediate-term issues also declined last week with the latter reaching a new 1960 low. The rate for directly placed finance company paper, 3 to 6 months, was lowered last week, while other major money market rates remained stable.

Stock market credit - Total customer credit in the stock market excluding borrowing on U. S. Government securities, increased $82 million in June. This is the first increase since last November, but the total had been nearly constant since March. Stock market credit, totaling $4.2 billion at the end of June, was 5 per cent lower than at the end of 1959. Net debit balances increased $61 million in June, while bank loans to other than brokers and dealers rose $21 million.

Borrowing by member firms of the New York Stock Exchange maintaining margin accounts, excluding borrowing on U. S. Government securities declined very slightly in June to total $2.1 billion at the end of the month. Customers' net free credit balances increased last month. These and other data on stock market credit for June and May are shown in the following table.

	End of month		Change
	June	May	
	(Millions of dollars)		
Customer credit			
Excluding U. S. Government securities - total	4,214	4,132	+82
Net debit balances	3,082	3,021	+61
Bank loans to "others"	1,132	1,111	+21
Net debit balances secured by U. S. Govt. securities	106	130	-24
Bank loans to "others" for purchasing or carrying U. S. Government securities	135	139	-4
Broker and dealer credit			
Money borrowed except on U. S. Government securities	2,110	2,115	-5
On customer collateral	1,831	1,820	+11
Money borrowed on U. S. Government securities	162	r/208	-46
Customers' net free credit balances	1,017	970	+47

r/ Revised.

Stock prices - Standard and Poor's index of 500 common stock prices decreased 2 per cent again last week. Prices are currently back to the levels of mid-May and only 2 per cent above the lows reached in early March.

Housing starts - Private housing starts in farm and nonfarm areas during June again held steady at a seasonally adjusted annual rate of 1,334,000 units, according to preliminary Census Bureau estimates. This was one-sixth below the high in April of last year. Conventionally-financed units continued to account for over seven-tenths of total starts, a slightly higher proportion than a year earlier.

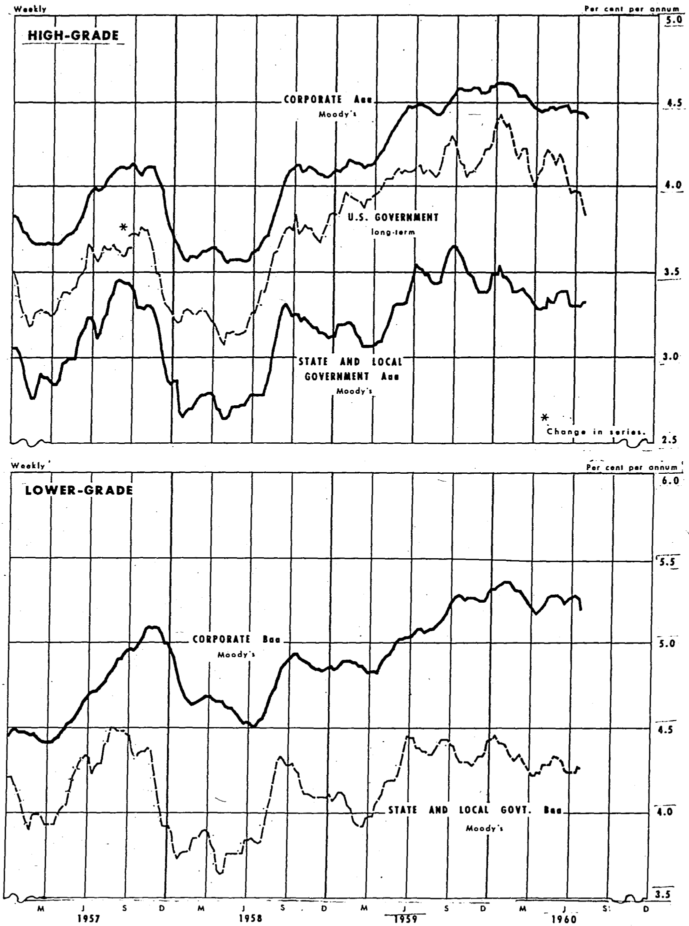
More detailed information concerning recent capital market developments in presented in the attached exhibits.

Developments in the Canadian capital markets are presented in Part II at the end of this report.

Capital Markets Section,
Division of Research and Statistics,
Board of Governors of the Federal Reserve System.

EXHIBIT A

LONG-TERM BOND YIELDS



Long-term Bond Yields
High-grade

Date	Corporate Aaa 1/	U. S. Govt. long-term 2/	State and local govt. Aaa 3/	Spread between U. S. Govt. and Corporate Aaa	Spread between U. S. Govt. and State and local Aaa
	(Per cent)				
1954 - Low	2.85 (4/23)	2.45 (8/6)	1.90 (9/2)	.30	.30
1957 - High	4.14 (9/27)	3.76 (10/18)	3.45 (8/29)	.60	.47
1958 - Low	3.55 (5/2)	3.07 (4/25)	2.64 (5/1)	.22	.34
1959 - High	4.61 (12/31)	4.37 (12/31)	3.65 (9/24)	.50	.92
Low	4.09 (1/9)	3.83 (1/2)	3.06 (3/26)	.16	.53
1960 - High	4.61 (1/29)	4.42 (1/8)	3.53 (1/7)	.56	.92
Low	4.40 (7/22)	3.84 (7/22)	3.28 (4/7)	.19	.53
June 24	4.45	3.97	3.30	.48	.67
July 1	4.44	3.96	3.30	.48	.66
July 8	4.44	3.91	3.30	.53	.61
July 15	4.43	3.87	3.32	.56	.55
July 22 p/	4.40	3.84	3.32	.56	.53

Lower-grade

Date	Corporate Baa 1/	State and local govt. Baa 3/	Spread between Aaa and Baa Corporate	Spread between Aaa and Baa State and local govt.
	(Per cent)			
1954 - Low	3.44 (12/31)	2.93 (8/5)	.52	.96
1957 - High	5.10 (11/29)	4.51 (8/29)	1.27	1.21
1958 - Low	4.51 (7/11)	3.64 (5/1)	.77	.93
1959 - High	5.32 (12/31)	4.46 (7/2)	.77	.98
Low	4.83 (4/17)	3.92 (3/26)	.56	.79
1960 - High	5.36 (2/12)	4.46 (1/7)	.84	.97
Low	5.17 (4/8)	4.22(4/7)	.71	.92
June 24	5.27	4.24	.82	.94
July 1	5.28	4.24	.84	.94
July 8	5.27	4.24	.83	.94
July 15	5.26	4.27	.83	.95
July 22 p/	5.20	4.26	.80	.94

p/ Preliminary.
1/ Weekly average of daily figures. Average term of bonds included is 25-26 years.
2/ Weekly average of daily figures. The series includes bonds due or callable in 10 years or more.
3/ Thursday figures. Only general obligation bonds are included; average term is 20 years.
Note.--Highs and lows are for individual series and may be on different dates for different series.

EXHIBIT C.

SHORT- AND INTERMEDIATE- TERM INTEREST RATES

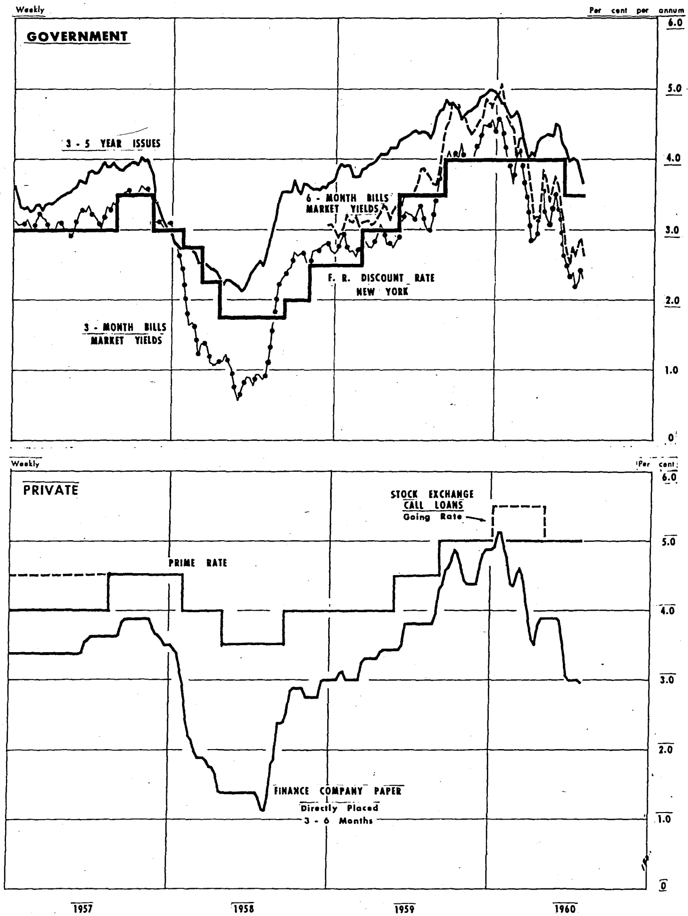


Exhibit D - Tables for Exhibit C

Short- and Intermediate-term Interest Rates

Government

Date	Discount rate 1/	Yields 3-month bills 2/	Yields 6-month bills 2/	Yields 3-5 year issues 2/	Spread between yields on 3-month bills and yields on 6-mo. bills	Spread between yields on 3-month bills and yields on 3-5 yr. issues
	(per cent)					
1954 - Low	1.50	.61 (6/11)	--	1.66 (4/30)	--	.66
1957 - High	3.50	3.64 (10/18)	--	4.04 (10/18)	--	.86
1958 - Low	1.75	.58 (5/29)	3.02 (12/26)	2.14 (6/7)	.26	.04
1959 - High	4.00	4.57 (12/26)	4.91 (12/31)	5.00 (12/24)	.79	1.42
Low	2.50	2.63 (2/20)	2.92 (1/2)	3.70 (1/2)	.19	.40
1960 - High	4.00	4.59 (1/8)	5.07 (1/8)	4.97 (1/8)	.58	1.81
Low	3.50	2.18 (7/11)	2.52 (6/17)	3.67 (7/22)	.16	.38
June 24	3.50	2.39	2.76	4.01	.37	1.62
July 1	3.50	2.18	2.64	3.99	.46	1.81
July 8	3.50	2.27	2.85	3.87	.58	1.60
July 15	3.50	2.41	2.87	3.76	.46	.89
July 22 p/	3.50	2.31	2.62	3.67	.31	1.36

Private

Date	Stock Exchange call loan 1/	Prime rate 1/	Finance company paper 3/	Spread between 3-month Treasury bill yield and finance company paper rates
	(per cent)			
1954 - Low	3.00	3.00	1.25 (12/31)	0 (12/18)
1957 - High	4.50	4.50	3.88 (11/16)	.59 (7/19)
1958 - Low	3.50	3.50	1.13 (8/8)	-.35 (8/29)
1959 - High	4.75	5.00	4.88 (12/31)	.86 (10/9)
Low	3.75	4.00	3.00 (4/6)	.13 (12/4)
1960 - High	5.50	5.00	5.13 (1/22)	1.02 (3/25)
Low	5.00	5.00	2.96 (7/22)	.22 (4/15)
June 24	5.00	5.00	3.00	.61
July 1	5.00	5.00	3.00	.82
July 8	5.00	5.00	3.00	.73
July 15	5.00	5.00	3.00	.59
July 22 p/	5.00	5.00	2.96	.65

1/ Weekly rate shown is that in effect at end of period. Discount rate is for Federal Reserve Bank of New York. Stock exchange call loan rate is going rate on call loans secured by customers' stock exchange collateral at New York City banks. Prime rate is that charged by large banks on short-term loans to business borrowers of the highest credit standing.

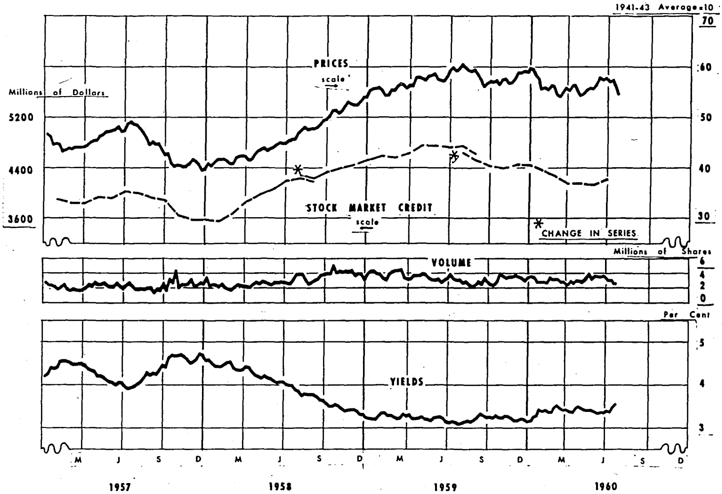
2/ Market yield; weekly averages computed from daily closing bid prices. Series of 3-5 year issues consists of selected notes and bonds.

3/ Average of daily rates published by finance companies for directly placed paper for varying maturities in the 90-179 day range.

Note.--Highs and lows are for individual series and may be on different dates for different series. For spreads, high refers to widest, and low to narrowest.

EXHIBIT E

STOCK MARKET



PRIVATE HOUSING STARTS

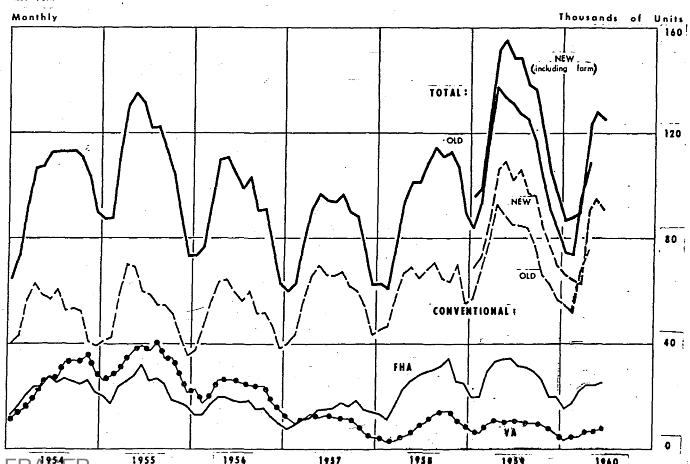


Exhibit F - Tables for Exhibit E

Stock Market

Date	Stock price index 1/	Common stock yields 2/ (per cent)	Trading volume 3/ (millions of shares)	Stock market customer credit		
				Total	Customers' debit balances 4/	Bank loans to "others" 5/
				(Millions of dollars)		
1957-1959 - High	60.51 (7/31/59)	3.07	4.3	4,764	3,401	1,373
Low	39.78 (12/27/57)	4.66	1.4	3,554	2,482	1,060
1960 - High	59.50 (1/8)	3.18	3.9	4,365	3,198	1,167
Low	54.24 (3/11)	3.51	2.4	4,132	3,021	1,111
May	55.22	3.42	3.3	4,132	3,021	1,111
June	57.26	3.35	3.5	4,214	3,082	1,132
July 8	57.38	3.36	3.0	n.a.	n.a.	1,134
July 15	56.05	3.46	2.6	n.a.	n.a.	1,148
July 22 p/	54.72	3.55	2.5	n.a.	n.a.	n.a.

n.a.--Not available. p/ Preliminary.

1/ Standard and Poor's composite index of 500 common stocks, weekly closing prices, 1941-43=10. Monthly data are averages of daily figures rather than of Fridays' only. Highs and lows are for Fridays' data only.

2/ Standard and Poor's composite stock yield based on Wednesday data converted to weekly closing prices by Federal Reserve. Yields shown are for dates on which price index reached its high or low.

3/ Averages of daily trading volume on the New York Stock Exchange.

4/ End of month figures for member firms of the New York Stock Exchange which carry margin accounts; excludes balances secured by U. S. Government obligations.

5/ Wednesday figures for weekly reporting member banks. Excludes loans for purchasing or carrying U. S. Government securities. Prior to July 1, 1959, such loans are excluded only at banks in New York and Chicago. Weekly reporting banks account for about 70 per cent of loans to others. For further detail see Bulletin.

Private Housing Starts 1/

Date	Seasonally adjusted annual rate		Unadjusted					
			Total		FHA	VA	Conventional	
	Nonfarm old series	Total new series	Nonfarm old series	Total new series			Nonfarm old series	Total new series
			(Thousand of units)					
1959 - June	1,368	1,577	131	148	35	11	85	102
July	1,375	1,578	127	148	32	11	85	106
Aug.	1,340	1,450	125	138	31	10	84	97
Sept.	1,323	1,509	117	136	30	10	77	97
Oct.	1,180	1,378	102	120	27	9	66	84
Nov.	1,210	1,356	91	105	20	8	62	76
Dec.	1,330	1,451	83	96	20	6	57	69
1960 - Jan.	1,216	1,366	75	87	16	4	55	67
Feb.	1,115	1,367	74	88	18	5	52	65
Mar.	1,125	1,112	95	90	22	5	68	63
Apr.	1,135	1,325	109	123	25	7	76	91
May p/	--	1,336	--	128	25	7	--	95
June p/	--	1,334	--	125	26	8	--	91

1/ Total starts are Census estimates, which are not strictly comparable with old nonfarm series developed by BLS. A dwelling unit is started when excavation begins; all units in an apartment structure are considered started at that time. FHA and VA starts are units started under commitments by these agencies to insure or guarantee the mortgages. As reported by FHA and VA, a unit is started when a field office receives the first compliance inspection report, which is made before footings are poured in some cases but normally after the foundations have been completed. Capehart military housing units are excluded. Conventional starts are derived as a residual, although total and FHA and VA starts are not strictly comparable in concept or timing; they include both units financed by conventional mortgages and units without mortgages.

Exhibit G

Long-term Corporate and State and Local Government
Security Offerings and Placements

(In millions of dollars)

	New capital					
	Corporate 1/			State and local 2/		
	1960	1959	1958	1960	1959	1958
January	577	821	728	736	639	812
February	715	738	857	623	858	953
March	860	646	1,553 3/	575	646	511
April	p/789	894	1,140	733	932	798
May	p/570	785	597	p/531	593	895
June	e/1,100	887	887	e/950	1,006	551
July	e/675	535	1,107	e/550	567	806
August		740	540		516	403
September		703	1,114		465	651
October		879	862		597	456
November		864	518		519	474
December		900	920		455	435
1st quarter	2,151	2,204	3,139	1,934	2,143	2,276
2nd quarter	e/4,459	2,567	2,623	e/2,214	2,531	2,244
3rd quarter		1,979	2,760		1,548	1,860
4th quarter		2,642	2,300		1,571	1,365
1st half	e/4,610	4,771	5,762	e/4,148	4,674	4,520
Three quarters		6,750	8,522		6,222	6,380
Year		9,392	10,823		7,793	7,746
	Excluding finance companies 4/					
1st quarter	1,722	1,999	2,899			
2nd quarter	e/2,159	2,412	2,586			
3rd quarter		1,716	2,731			
4th quarter		2,503	2,213			
Year		8,630	10,429			

e/ Estimated. p/ Preliminary.
1/ Securities and Exchange Commission estimates of net proceeds.
2/ Investment Bankers Association of America estimates of principal amounts.
3/ Includes $718.3 million AT&T convertible debenture issue.
4/ Total new capital issues excluding offerings of sales and consumer finance companies.

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Exhibit H

Other Security Offerings 1/

(In millions of dollars)

	Long-term					
	Foreign government 2/			Federal agency 3/		
	1960	1959	1958	1960	1959	1958
January	*	81	196	182	199	1,163
February	175	60	53	150	--	251
March	70	2	--	150	175	--
April	33	58	139	148	--	523
May	31	50	198	354	--	--
June		42	120		--	--
July		85	9		--	164
August		1	5		98	--
September		35	17		150	--
October		33	58		--	220
November		30	123		--	--
December		70	74		86	--
Year		547	992		707	2,321
	Short-term					
	State and local government 4/			Federal agency 3/		
January	268	190	233	479	359	371
February	345	428	460	463	500	208
March	365	295	273	512	489	144
April	365	563	357	509	486	209
May	p/267	411	354	632	675	161
June		245	264	435	289	329
July		246	289		727	437
August		467	423		365	206
September		399	369		665	330
October		235	231		733	454
November		343	415		471	114
December		358	243		288	137
Year		4,179	3,910		6,047	3,098

p/ Preliminary.

1/ Data presented in this exhibit differ from those in Exhibit E in that refunding issues, as well as new capital issues, are included. Long-term securities are defined as those maturing in more than one year.

2/ Includes securities offered in the United States by foreign governments and their subdivisions and by international organizations. Source: Securities and Exchange Commission.

3/ Issues not guaranteed by the U. S. Government. Source: long-term, Securities and Exchange Commission; short-term, Federal Reserve.

4/ Principally tax and bond anticipation notes, warrants or certificates and Public Housing Authority notes. In some instances PHA notes included may have a somewhat longer term than one year. Source: Bond Buyer.

Exhibit I

Large Long-term Public Security Issues for New Capital (Other than U. S. Treasury) 1/

Proceeds of Large Issues Offered

(Millions of dollars)

Month	Corporate	State and local government	Other 2/
1959 - June	284	635	60
July	110	194	50
August	363	263	98
September	199	214	175
October	400	294	20
November	421	163	--
December	230	217	70
1960 - January	279	388	100
February	262	283	320
March	384	225	191
April	309	370	71
May	139	234	28
June	442	561	30

Large Individual Issues Offered July 1 through 22

Issuer	Type 3/	Amount (millions of dollars)	Maturity	Coupon rate or net interest cost	Offering yield	Rating
CORPORATE						
Illinois Bell Telephone Co.	1st mtg. bds.	50.0	1997	4-7/8	4.75	Aaa
Commercial Credit Co.	Sr. notes	50.0	1979	4-3/4	4.83	--
Northern Illinois Gas Co.	1st mtg. bds.	30.0	1985	4-5/8	4.60	Aa
American Can Co.	Deb.	40.0	1990	4-3/4	4.70	--
State Loan & Finance Co.	S.F. deb.	20.0	1980	5.40	5.40	--
STATE AND LOCAL GOVERNMENT						
Salt River Proj. Agric. Imp. & Pwr. Dist., Ariz.	Rev.-Ut.	19.0	1963-92/69	3.92	2.90-4.05 4/	A
State of North Carolina	G.O.	10.7	1961-80	3.01	2.90-3.10 5/	Aaa
Dist. of Columbia Armory Board 6/	Rev.-Ut.	19.8	1979	4.19	4.15	Aaa
Chicago, Illinois	G.O.	37.0	1962-79	3.60	2.40-3.65	A
Santa Clara Co., Calif.	G.O.	11.5	1967-85	3.53	2.20-3.65 7/	Aa
Nassau Co., New York	G.O.	27.1	1961-89	3.86	2.20-4.00	A
Carmen-Smith Hydro-Elec. Proj., Oregon	Rev.-Ut.	25.0	1965-2004/71	3.93	3.10-4.30	A
Wash. Toll Bridge Auth.	Rev.-Ut.	30.0	2000/65	4.95	4.90	--
OTHER						
None						

Footnotes

1/ Includes corporate and other security offerings of $15 million and over; State and local government security offerings of $10 million and over.
2/ Includes foreign government and International Bank for Reconstruction and Development issues and non-guaranteed issues by Federal agencies.
3/ In the case of State and local government securities, G.O. denotes general obligations; Rev.-Ut., revenue obligations secured only by income from public utilities; Rev.-Q.Ut., revenue bonds secured only by revenue from quasi-utilities; Rev.-S.T., revenue bonds secured by revenue from specific taxes only; Rev.-Rent., revenue bonds secured solely by lease payments.
4/ 1992 maturities not reoffered.
5/ 1961-70 maturities not reoffered.
6/ Interest on these securities is not exempt from Federal income taxation.
7/ 1/4 per cent bonds of 1985 not reoffered.

Exhibit J

Forthcoming Large Long-term Public Security Offerings for New Capital
(Other than U. S. Treasury) 1/

Expected Proceeds from Forthcoming Large Issues

Date of computation	During month following date shown			Subsequent to date shown		
	Corporate	State and local govt.	Other 2/	Corporate	State and local govt.	Other 2/
1959 - June 30	165	146	50	272	500	50
July 31	238	356	--	305	406	--
Aug. 31	198	385	25	517	402	25
Sept. 30	374	270	--	694	470	--
Oct. 30	385	115	--	509	336	--
Nov. 30	226	295	70	271	485	70
Dec. 31	210	445	30	280	545	30
1960 - Jan. 29	207	210	45	252	310	45
Feb. 29	301	255	35	372	385	35
Mar. 31	299	250	--	344	280	--
Apr. 29	202	243	--	357	258	--
May 31	483	277	30	553	502	60
June 30	237	180	30	455	380	30

Forthcoming Large Offerings, as of July 22

Issuer	Type	Amount (millions of dollars)	Approximate date of offering
CORPORATE			
Southern Counties Gas Co.	1st mtg. bds.	23.0	July 27
Seaboard Finance Co.	S.F. deb.	40.0	July 28
International Harvester Credit Corp.	Deb.	50.0	July 28
Southwestern Bell Telephone Co.	Deb.	100.0	Aug. 3
El Paso Natural Gas Co.	Com. stk.	30.0	Aug. 11 (rights expire)
Consumers Power Co.	Conv. deb.	38.1	Aug. 12 (rights expire)
Natural Gas Pipeline Co. of Am.	1st mtg. bds.	25.0	Aug. 18
Natural Gas Pipeline Co. of Am.	Pfd. stk.	15.0	Aug. 18
*Southern California Edison Co.	1st ref. mtg. bds.	60.0	Aug. 24
*American Telephone & Telegraph Co.	Deb.	250.0	Oct. 25
Texas Eastern Transmission Corp.	Deb.	25.0	Indefinite
Commerce Oil Refining Corp.	Deb., bds. & com.	45.0	Indefinite
Trustors' Corp.	Partic. certif.	40.0	Indefinite
Liberian Iron Ore, Ltd.	Bds. & stk.	30.0	Indefinite
STATE AND LOCAL GOVERNMENT			
Houston, Texas	G.O.	10.5	July 27
*State of Washington	G.O.	34.0	Aug. 23
*East Bay Municipal Util. Dist., Cal.	G.O.	30.0	Aug. 24
*Milwaukee, Wisconsin	G.O.	10.8	Sept. 20
Chesapeake Bay Bridge & Tunnel Comm.	Rev.-Ut.	200.0	Indefinite
OTHER			
None			

Footnotes

*--Included in table for first time.

1/ Includes corporate and other issues of $15 million and over; State and local government issues of $10 million and over.

2/ Includes foreign government and International Bank for Reconstruction and Development issues and non-guaranteed issues by Federal agencies.

Note.--Deletions for reasons other than sale of issue: None.

Exhibit K

Yields on New and Outstanding
Electric Power Bonds, Rated Aa and A 1/

Date	Aa-rated offering yields		A-rated offering yields	
	Actual (per cent)	Amount above seasoned yields (basis points)	Actual (per cent)	Amount above seasoned yields (basis points)
1952-1959 - High	5.30 (12/8/59)	87	5.65 (9/18/59)	123
Low	2.93 (3/31/54)	-3	3.00 (3/17/54)	-15
1959 - July	*4.93	31	5.07	17
Aug.	4.83	23		
Sept.			*5.65	60
Oct.	5.13 2/	36	5.33	43
Nov.	*5.08	42		
Dec.	*5.30	63	5.45	51
1960 - Jan. 7			5.30 2/	28
Feb. 25	5.08	44		
26	5.10	46		
Mar. 15	4.90	32		
16	4.73 2/	17		
18			5.00	11
29			4.93	7
Apr. 6	4.85	33		
8			4.98	21
14	4.94	39		
21			5.30	50
27	4.95	39		
May 10	4.88	32		
12			5.10	26
25			5.20	33
June 17			4.95	11
28	4.82	25		
29	4.84	27		
July 8			4.93	11
13			4.88	8
20			4.80	

*--Single observation, not an average.

1/ Covers only 30-year first mortgage bonds, as reported in Moody's Bond Survey. Except where indicated, the actual yield figure and the amount above seasoned yields are averages of offerings during the indicated period and of the differences between these new offering yields and yields on seasoned issues of similar quality for the same day. Average maturity for the seasoned issues varies from 26 to 28 years.

2/ Provides for a 5-year period during which issue may not be called for refunding at a lower coupon rate. Monthly averages so marked include one or more issues with such a provision. Other issues have no such provision.

Part II - Canada

The emergence of a substantial discount on the forward Canadian dollar accompanied a rise from 102 to 102.30 U.S. cents in the spot rate during the week. Since early April the forward Canadian dollar has been at a premium. As a result of the forward discount, the net incentive to hold the Canadian Treasury bill over the United States bill declined from 0.87 to 0.54 per cent per annum. This sharp increase in the forward discount may at least in part reflect foreign acquisition of Canadian Treasury bills during the week. Canadian bond yields have shown some rise during the week, and industrial stock prices continued to decline. Revised estimates for 1960 capital expenditures, although slightly below earlier estimates due largely to a drop in housing, continue at high investment levels. The Government has recently announced plans to increase assistance in mortgage financing and building loans by an additional $175 million this year.

Money market conditions. The average yield on the 3-month Treasury bill declined at last Thursday's auction by 5 basis points to 3.19 per cent from 3.24 per cent the previous month. The 6-month bill rate also declined to 3.41 per cent from 3.45 per cent the previous week. During the week the Bank of Canada decreased its holdings of Treasury bills by $15 million, exactly offsetting the decrease in total Treasury bills outstanding. The general public increased its holdings by $4 million and the chartered banks were net sellers by an equivalent amount. The average closing rate on day-to-day loans during the week was 3.35 per cent compared with 3.28 per cent a week ago.

There was little change in the spread favoring the Canadian over the United States bill during the week, but the net incentive to hold the Canadian bill declined from 0.87 per cent per annum to 0.55 per cent as a result of the emergence of a discount on the 3-month forward dollar.

Bond market conditions. Bond yields rose last week in almost all maturities. The spread between selected comparable Canadian and United States securities (Thursday yields for bills and Wednesday yields for bonds) were as follows (figures in parentheses refer to the previous week):

0.85 per cent on a 91-day bill (0.87)
0.77 per cent on a 182-day bill (0.77)
0.85 per cent on an 8-year bond (0.86)
1.12 per cent on a 20-year bond (1.04)
1.24 per cent on a 35-year bond (1.23)

During the week the Canadian Government accounts purchased $12 million of bonds; the Bank of Canada sold $5 million, the chartered banks $4 million, and the general public $4 million.

The press has commented that the success of the Saskatchewan $9.1 million issue in Switzerland may start a new trend in Canadian borrowing. The 15-year 4-1/2 per cent issue was offered at par and oversubscribed; it is now at a premium of 1-1/2--2 points. The British Columbia Telephone Company 5-3/4 per cent 25-year bond will be offered in Canada this week at 99 to yield 5.82 per cent.

Exchange rates. The spot rate on the Canadian dollar rose slightly last week and closed at $1.0230 (U.S. dollars) on Thursday compared with $1.0230 the week before. The 3-month forward dollar was sold at a discount last week for the first time since beginning April when it moved to a premium.

Stock exchanges. Industrial stock prices on the Canadian exchanges declined early last week as noted in the following table:

	Toronto	Montreal	New York Standard & Poor
1960 - High	532.94	320.0	65.02
Low	481.31	268.3	57.00
July 12	484.06	272.3	59.70
13	484.75	271.4	59.52
14	486.38	271.8	59.54
15	488.06	270.9	59.44
18	484.62	271.2	58.98
19	481.31	268.3	59.00

Consumer Credit. Total consumer credit balances outstanding at the end of the first quarter were $1,775 million, down seasonally from the end year level, but 10 per cent above the level a year ago. (See table). Between March 1959 and March 1960, department store credit outstanding rose substantially; there was also a marked growth in consumer small loans. (See table).

Mid-year review of investment expectations. The Canadian Government's mid-year review of investment expectations in 1960 shows only slight revisions over the estimate made earlier in the year. Total investment is now expected to be about $8.7 billion compared with $8.8 billion in the earlier estimate. A slight rise is noted in business capital (from $5,010 million to $5,082 million), reflecting increases in spending on mineral, transportation and power development. Social capital, on the other hand, shows a decline from $8,770 million to $8,712 million, reflecting sharp declines in housing. There will be some increase in direct Government expenditures.

	Original	Revised
	(millions of Canadian dollars)	
Business capital	5,010	5,082
Housing and social capital	3,760	3,630
Total capital spending	8,770	8,712

Canadian-Government assistance in housing. The Canadian Government announced plans to increase residential construction where considerable unemployment has been in evidence (see Capital Market Developments July 18, 1960). The Government originally allocated $500 million for such financing in 1960, about half the amount actually spent in the previous year. The new program, includes the following:

1. An increase in the income ceiling for direct Government loans by $2,000 (to $7,000 -- $7,600 maximum depending on family size);

2. Building loans for construction if assurance is given that the houses will be occupied immediately and not added to the present stock of unsold houses.

The new measures which will involve an additional $175 million are expected to increase housing starts by about 120,000 to 125,000.

British Commonwealth Section
Division of International Finance

Selected Canadian Money Market and Related Data

	3-mo. Treas. bills			Canadian dollar			Net incentive to hold Can. bills e/
	Canada a/	U.S. b/	Spread over U.S.	Spot c/	3-mo. forward	discount (-) premium(+) d/	
1959 - High	6.16	4.49	2.96	105.51	--	--	--
Low	3.25	2.80	0.30	102.58	--	--	--
1960 - High	5.14	4.63	0.90	105.27	--	0.31	0.94
Low	2.65	2.19	-0.69	101.31	--	-0.72	-0.57
June 30	3.07	2.19	0.88	102.03	102.05	0.06	0.94
July 7	3.17	2.34	0.83	101.84	101.86	0.06	0.89
14	3.24	2.37	0.87	102.03	102.03	0.0	0.87
21	3.19	2.34	0.85	102.30	101.22	-0.31	0.54

a/ Average yield at weekly tender on Thursday.
b/ Composite market yield for the U.S. Treasury bill on Thursday close of business.
c/ In U.S. cents.
d/ Spread between spot rate and 3-month forward Canadian dollar on Thursday closing, expressed as per cent per annum.
e/ Spread over U.S. Treasury bill (column 3), plus 3-month forward discount or premium (column 6).

Selected Government of Canada Security Yields

	6-mo. Treas. bills		Intermediate bonds (8 yr.)		Long-term bonds (20 year)		Long-term bonds (35 year)	
	Canada a/	Spread over U.S. b/	Canada c/	Spread over U.S. d/	Canada e/	Spread over U.S. f/	Canada g/	Spread over U.S. h/
1959 - High	6.24	--	5.37	--	5.30	--	5.05	--
Low	5.11	--	4.50	--	4.44	--	4.73	--
1960 - High	5.33	0.85	5.55	1.11	5.42	1.22	5.28	1.61
Low	2.89	-0.69	4.49	0.21	4.85	0.87	4.86	0.98
June 30	3.23	0.62	4.50	0.45	4.85	1.01	4.94	1.25
July 7	3.35	0.42	4.54	0.60	4.85	1.02	4.94	1.27
14	3.45	0.77	4.54	0.86	4.85	1.04	4.90	1.23
21	3.41	0.77	4.55	0.85	4.88	1.12	4.86	1.24

a/ Average yield at weekly tender on Thursday.
b/ Spread between Canadian auction rate and composite market yield of U.S. bill on close of business Thursday.
c/ Government of Canada 2-3/4 per cent of June 1967-68.
d/ Spread over U.S. Government 2-1/2 per cent of 1963-68.
e/ Government of Canada 3-1/4 per cent of October 1979.
f/ Spread over U.S. Government 3-1/4 per cent of 1978-83.
g/ Government of Canada 3-3/4 per cent of September 1996 - March 1998.
h/ Spread over U.S. Government of 1995.

Canada: Changes in Distribution of Holdings of Canadian Government Direct and Guaranteed Securities
(millions of Canadian dollars, par value)

	Bank of Canada			Chartered banks		General public		
	Treas. bills	Bonds	Government Total	Treas. bills	Bonds	Savings bonds	Treas. bills	Bonds
May 18	- 15	+ 4	- 8	+ 7	+ 17	- 7	- 6	- 15
25	0	- 4	- 3	+ 40	+ 1	- 7	- 39	+ 5
June 2	- 54	- 48	- 2	+ 32	+ 8	- 7	- 4	+ 73
9	- 1	0	- 9	- 9	+ 5	- 7	+ 9	- 3
16	+ 20	+ 13	- 12	- 41	+ 5	- 3	- 52	- 11
23	- 4	+ 13	- 17	+ 5	- 2	- 7	- 1	+ 4
30	+ 5	+ 5	0	- 46	+ 11	- 7	+ 40	- 17
July 7	+ 18	+ 48	+ 13	+ 21	- 27	- 5	- 49	- 25
14	- 2	+ 12	- 2	- 24	+ 6	- 2	+ 24	- 15
21	- 15	- 5	+ 13	- 4	- 4	- 6	+ 4	- 4

Source: Bank of Canada, Weekly Financial Statistics.

Outstanding Balances of Instalment Credit Extended to Consumers
(millions of Canadian dollars)

End month	Finance companies	Small loan co's. Instalment credit	Small loan co's. Cash loans	Department stores	Other retail dealers	Total
1958-Dec.	728	19	382	224	266	1,659
1959-Mar.	744	26	385	205	251	1,611
Apr.	759	28	390	204	n.a.	n.a.
Dec.	806	38	446	250	274	1,814
1960-Jan.	784	39	446	246	n.a.	n.a.
Feb.	788	41	447	240	n.a.	n.a.
Mar.	790	40	453	238	254	1,775
Apr.	804	42	463	242	n.a.	n.a.

Source: Bank of Canada Statistical Summary.

July 18, 1960

Appendix 1

United Kingdom: Money and Capital Markets During June

Interest rates in London money and capital markets rose sharply during June. To check domestic credit expansion and to strengthen Britain's external position, the Bank of England on June 23 raised its discount rate from 5 to 6 per cent and made a further call for Special Deposits from the commercial banks.

Yields in the gilt-edged market rose throughout the month. Bond prices fell before June 23 in anticipation of further restrictive measures; they fell further in reaction to the new restraints. By the end of June, intermediate bonds had breached the 6.00 per cent level and yields on long-term bonds reached postwar record levels. On June 25, for example, prices on Consols were lower than they have been since 1920. Treasury bill and other money market rates also rose by more than one per cent in June. These rate developments demonstrate the determination of the British authorities to allow interest rates to act as a principal tool of economic stabilization to keep the domestic business expansion under control.

A major inflow of short-term funds from abroad during the latter part of the month, attracted by the rising level of British money rates and the declining level of rates in the United States, transformed Britain's external economic position in June, despite a widening trade gap. Excluding special capital payments, Britain's official reserves increased by $59 million in June and the rate for the spot pound rose from $2.8014 in mid-June to $2.8069 on July 1. The inflow was stimulated by the unusually wide spread in favor of the Treasury bill in London over the United States bill; in addition the discount on 3-month forward sterling did not widen as rapidly as bill rates in London and New York diverged. On July 1, there was a net incentive of 1.95 per cent in favor of the London Treasury bill (with the exchange risk covered). Under these circumstances, foreign investors found London rates attractive and British resident banks found it profitable to employ U.S. dollar funds (including so-called European-dollar deposits which London banks have received in some volume over the last few years) in the London market on a covered basis. During early July, the incentive in favor of the London Treasury bill declined.

These favorable external developments, together with new evidence that Britain's domestic boom was responding to the restraint measures, contributed to a minor but general easing of yields in British financial markets in early July. Conditions in the gilt-edged market had improved sufficiently for the authorities to announce a new Treasury short bond offering for cash on July 12.

Outside financial markets, there was also a general rise in interest rates. Commercial bank and hire-purchase deposit and lending rates were automatically linked to bank rate.

Money market conditions. The 3-month Treasury bill rate rose from 4.56 per cent in early June to 5.68 per cent after the Bank rate action (see Table). There was a corresponding rise in money market rates for day-to-day money and for commercial bills.

With bill yields declining rapidly in the United States in June, the spread in favor of the London bill widened from 1.91 per cent on June 3 to 3.63 per cent on July 1 (see Table). Because the forward discount on 3-months only partly offset the higher London yields, the net incentive to hold United Kingdom bills increased from 0.79 per cent on May 27 to 1.95 per cent on July 1 (see Table). On July 8, it had narrowed to 1.43 per cent.

Gilt-edged market. Conditions in the gilt-edged market deteriorated in early June and yields rose appreciably in anticipation of further measures of credit restraint. When the new restraints were announced, a further shake-out in bond prices occurred. Between May 27 and July 1, bond yields rose by between 30 and 40 basis points for most maturities, as may be seen in the following selected Government security yields (in per cent per annum):

	1957 Nov.	1960 Jan. 1	1960 May 27	1960 June 17	1960 July 1	1960 July 8
Treasury bill	6.46	3.73	4.56	4.68	5.68	5.66
5-1/2 per cent bond 1966	n.a.	5.00	5.39	5.61	5.93	5.80
3 per cent bond 1965-75	5.99	5.30	5.62	5.80	6.00	5.95
3-1/2 per cent War Loan	5.71	5.39	5.62	5.77	5.86	5.85
2-1/2 per cent Consols	5.51	5.04	5.36	5.54	5.68	5.61

The extent to which the British authorities have allowed interest rates to rise this year is shown in the following increases in yields between January 1 and July 1, 1960:

Treasury bills	1.95 per cent per annum
6-year bond	0.93 per cent per annum
15-year bond	0.70 per cent per annum
War Loan	0.47 per cent per annum
Consols	0.64 per cent per annum

It is also significant that yields on July 1 exceeded the former postwar peak of yields for intermediate- and long-term bonds which had been reached in November 1957, as may be seen in the figures above.

During early July, there was a marked improvement in the bond market and a minor but general easing in bond yields. In addition, the authorities felt that the market could take a new Treasury issue. On July 12, they announced an offering of £300 million of a 5-1/2 per cent bond, 1962, priced at 99 for cash. The terms of the offering produced a slight rise in yields in the short bond sector. The new issue will provide the Bank of England with supplies to help control the short end of the market. The Bank is expected to feed the new bonds out as market conditions permit in exchange for the 2-1/2 per cent Funding issue of 1956-61 which has a final redemption date in about nine months; the maturing issue amounts to £796 million.

Bank rate and Special Deposits. On June 23 the Bank of England announced an increase in the Bank rate from 5 per cent to 6 per cent and a doubling of the Special Deposits requirements established two months ago (see Capital Market Developments, May 16, 1960), from 1 per cent to 2 per cent for the London clearing banks and from one-half to one per cent for the Scottish banks. The new measures were aimed at checking the rising domestic demand evidenced by the growing shortage of labor and materials as well as a worsening of the seasonally-adjusted trade balance in May. The rise in the German Bank rate on June 2 and talk of a revaluation of the D-mark as well as the approaching summer period of seasonal weakness for the pound sterling influenced the British decision.

Even before the rise in Bank rate, there was evidence that earlier measures of credit restraint had begun to be effective. The mid-June statement for the London clearing banks showed that the 24-month expansion in bank lending was terminating. Since mid-1958, the banks have increased their loans from 29 per cent to about 46 per cent of deposits and reduced their holdings of Government securities from 33 per cent to about 20 per cent of deposits. Between mid-May and mid-June, bank loans increased by only £3 million. However, the banks reduced their securities holdings by a further £29 million to meet their June 15 call to Special Deposits of one per cent. The banks will have to meet half their new calls to Special Deposits on July 20 and half on August 17.

Instalment credit continued to grow in May but at a substantially reduced rate. Total debt rose by £15 million in May compared with increases of £29 million in April and £32 million in May 1959. These restrictions are checking credit purchases of automobiles and of consumer durable goods. Automobile credit in May 1960 was only 4 per cent above the May 1959 level while it was 26 per cent higher in January-April 1960 compared with the same months in 1959. Furthermore, total retail sales declined by one per cent in May but sales of consumer durables fell by 6 per cent.

General rise in interest rates outside financial markets. The rise in Bank rate automatically produced a general rise in the lending and deposit rates of the clearing banks. In addition, deposit rates of the hire-purchase companies tend to follow Bank rate automatically. The personal loan rates of the clearing banks were raised from 5 to 6 per cent and maximum hire-purchases charges were raised by 1-1/2 per cent nominal (between 9 per cent on new cars and 12 per cent on old cars). The building societies had raised their deposit and lending rates in May (see Capital Market Developments, June 13, 1960) and are not able to move further at this time. In the market for mortgages for local authorities, rates are close to the 6 per cent level; two-to-five-year mortgages are quoted at 6-1/4 to 6-1/2 per cent. Some 20-year mortgages have been placed at 6 per cent.

Stock prices. The stock market was unsettled during June. There was a fall in stock prices from 328.6 on June 10 to 308.3 on June 24 but the index had recovered to 317.6 on July 8 (see Table). By July 12, it had fallen back to 312.8.

United Kingdom: Treasury Bill Yields and Exchange Rates

Date	3-mo. Treasury bill U.K.a/	U.S.b/	Difference	Discount on 3-mo. sterlingc/	Net incentive to hold U.K. billd/	Exchange rate: Spot sterling e/	Discount on 3-mo. sterlingf/
1959 - High	3.6	4.7	-1.1	--	--	--	--
Low	3.0	2.6	0.4	--	--	--	--
1960 - High	5.68	4.59	3.63	(P).64	1.95	279.83	1.29
Low	3.75	2.05	-0.84	1.84	- .23	279.83	(P).47
June 3	4.56	2.65	1.91	.70	1.21	280.20	.49
10	4.61	2.38	2.23	.79	1.25	280.14	.55
17	4.68	2.37	2.31	1.04	1.44	280.18	.73
24	5.68	2.35	3.33	1.71	1.62	280.57	1.20
July 1	5.68	2.05	3.63	1.68	1.95	280.69	1.18
8	5.66	2.39	3.27	1.84	1.43	280.86	1.29

a/ Average yield at Friday weekly tender.
b/ Closing market yield for Friday in New York.
c/ Spread between spot and forward rate in per cent per annum.
d/ Net of difference in bill yield less discount on 3-month sterling.
e/ Spot rate in New York market in U.S. cents.
f/ Spread between spot and forward rates in U.S. cents.

United Kingdom: Selected Capital Market Yields

	6-year bonda/	15-year bondb/	War loanc/	Consols d/	Share yielde/	Yield gapf/	Share pricesg/
1960 - High	5.93	6.00	5.85	5.69	4.42	1.36	333
Low	4.93	5.33	5.53	5.03	3.74	0.76	297
June 3	5.53	5.72	5.69	5.46	4.23	1.23	319.7
10	5.58	5.75	5.71	5.49	4.15	1.34	328.6
17	5.61	5.80	5.79	5.60	4.29	1.31	317.7
24	5.88	5.94	5.83	5.69	4.42	1.27	308.3
July 1	5.93	6.00	5.82	5.67	4.32	1.35	315.2
8	5.83	5.95	5.85	5.61	4.30	1.31	317.6

a/ 5-1/2 per cent Exchequer.
b/ 3 per cent Savings Bond 1965-75.
c/ 3-1/2 per cent War Loan (undated).
d/ 2-1/2 per cent Consol (undated).
e/ Financial Times.
f/ Difference between yield on 2-1/2 per cent Consols and share yield.
g/ Financial Times.