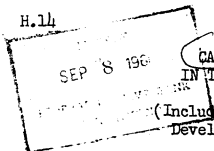


H.14

September 6, 1960.



CAPITAL MARKET DEVELOPMENTS
IN THE UNITED STATES AND CANADA

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

Part I - United States

One large corporate bond issue with proceeds of \$125 million-- by Republic Steel Corporation--and a State and local government bond issue for \$13 million were sold last week. This week, ending September 9, no large corporate issues are scheduled for sale, but three large State and local government bond issues with aggregate par value of \$82 million are on the calendar.

Long-term bond yields - Yields on high-grade corporate and State and local government bonds were stable last week. Yields on long-term U. S. Government bonds rose slightly while those on lower grade corporate bonds declined.

Short- and intermediate-term interest rates - Yields on short- and intermediate-term Treasury securities increased last week. The yield on three- to six-month directly placed finance company paper was raised from 2-7/8 - 3 per cent to 3 - 3-1/8 per cent.

September new security volume - Corporate securities publicly offered and takedowns on privately placed securities are expected to total \$700 million in September, about the same as a year earlier but one-fourth less than in August. State and local government bond sales are estimated at \$600 million during September, the same volume as in August but one-fourth larger than in September 1960.

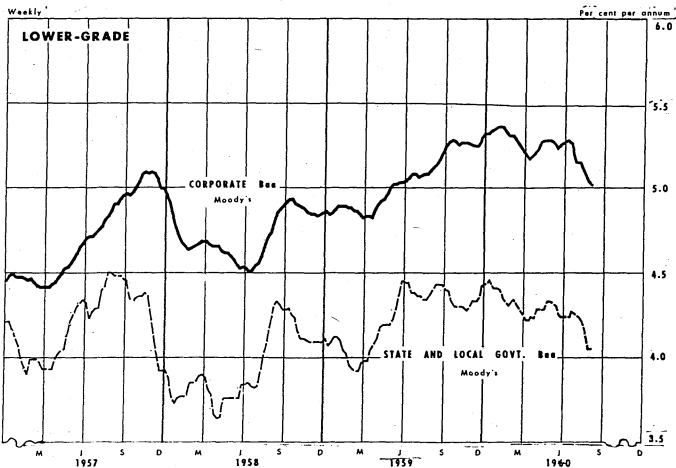
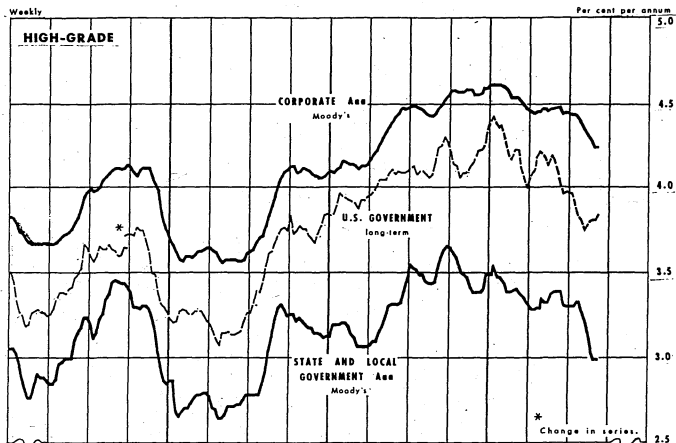
FNMA secondary market operations - Offerings to FNMA under its secondary market operation program declined moderately in July to the lowest level since June 1959. Purchases, which had declined sharply in June, rose again to about the May level reflecting in part the increase in purchase prices announced early in June. The Association again raised its purchase prices in mid-August. On August 30, FNMA sold \$125 million of 10-year 4-1/8 per cent secondary market operation debentures priced to yield 4.25 per cent. The proceeds were used to refund in part an issue of maturing securities.

Stock prices - Stock prices, as measured by Standard and Poor's index of 500 common stocks, declined last week closing on Friday at 57.00. Trading volume continued moderate, averaging 3.0 million shares per day.

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 | 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) | .59 | .92 |
| Low | 4.23 (9/2) | 3.75 (8/5) | 2.99 (9/1) | .19 | .53 |
| Aug. 5 | 4.34 | 3.75 | 3.22 | .59 | .53 |
| Aug. 12 | 4.30 | 3.78 | 3.14 | .52 | .64 |
| Aug. 19 | 4.26 | 3.81 | 3.03 | .45 | .79 |
| Aug. 26 | 4.23 | 3.81 | 2.99 | .42 | .82 |
| Sept. 2 p/ | 4.23 | 3.84 | 2.99 | .39 | .85 |

Lower-grade

| Date | Corporate Baa 1/ | State and local govt. Baa 3/ | Spread between Aaa and Baa | |
|-------------|---------------------|------------------------------------|-------------------------------|--------------------------|
| | | | Corporate | 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 | 1.09 |
| Low | 5.01 (9/2) | 4.05 (9/1) | .71 | .92 |
| Aug. 5 | 5.15 | 4.24 | .81 | 1.02 |
| Aug. 12 | 5.11 | 4.21 | .81 | 1.07 |
| Aug. 19 | 5.06 | 4.11 | .80 | 1.09 |
| Aug. 26 | 5.03 | 4.05 | .80 | 1.06 |
| Sept. 2 p/ | 5.01 | 4.05 | .78 | 1.06 |

p/ Preliminary.

1/ Weekly average of daily figures. Average term of bonds included is 25-26 years.

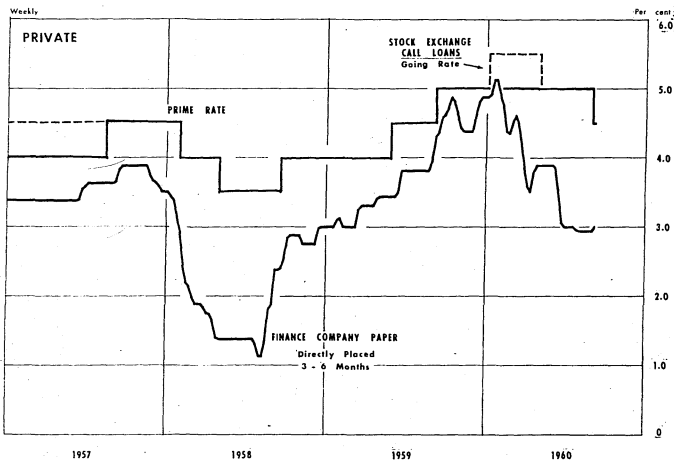
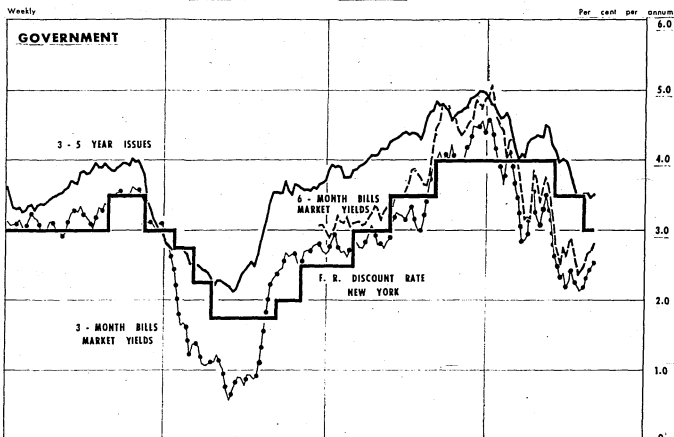
2/ Weekly average of daily figures. The series includes bonds due or callable in 10 years or more.

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



1957

1958

1959

1960

4

FRASER

Short- and Intermediate-term Interest Rates

Government

| Date | Discount rate 1/ | Yields | | | Spread between yields on | |
|-------------|------------------|------------------|------------------|--------------------|---|----------------|
| | | 3-month bills 2/ | 6-month bills 2/ | 3-5 year issues 2/ | 3-month bills and yields on 6-mo. bills | 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 | 3.00 | 2.13 (8/5) | 2.39 (8/5) | 3.47 (8/26) | .16 | .38 |
| Aug. 5 | 3.50 | 2.13 | 2.39 | 3.49 | .26 | 1.36 |
| Aug. 12 | 3.00 | 2.18 | 2.48 | 3.52 | .30 | 1.34 |
| Aug. 19 | 3.00 | 2.31 | 2.66 | 3.52 | .35 | 1.22 |
| Aug. 26 | 3.00 | 2.43 | 2.70 | 3.47 | .27 | 1.04 |
| Sept. 2 p/ | 3.00 | 2.53 | 2.82 | 3.51 | .29 | .98 |

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 | 4.50 | 4.50 | 2.94 (8/26) | .22 (4/15) |
| Aug. 5 | 5.00 | 5.00 | 2.94 | .81 |
| Aug. 12 | 5.00 | 5.00 | 2.94 | .76 |
| Aug. 19 | 5.00 | 5.00 | 2.94 | .63 |
| Aug. 26 | 4.50 | 4.50 | 2.94 | .51 |
| Sept. 2 p/ | 4.50 | 4.50 | 3.01 | .48 |

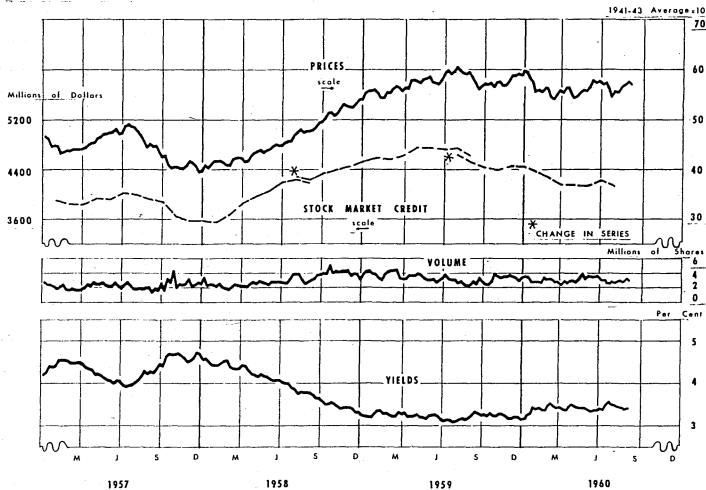
1/ Weekly rate shown is that in effect at end of period. Discount rate is for Federal Reserve Bank of New York. Stock exchange call loan rate is going rate on call loans secured by customers' stock exchange collateral at New York City banks. Prime rate is that charged by large banks on short-term loans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

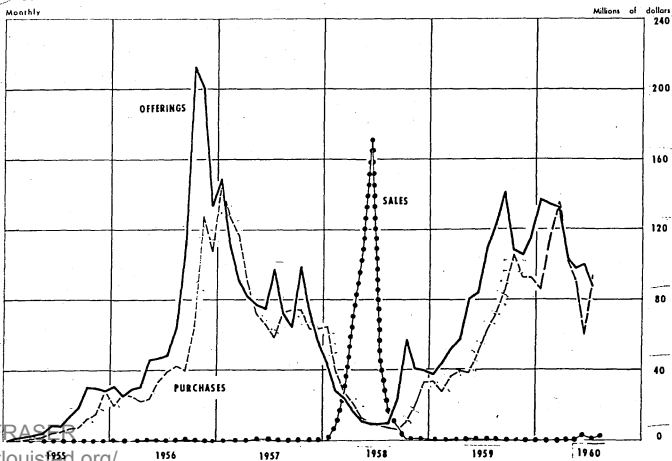
3/ Average of daily rates published by finance companies for directly placed paper for varying maturities in the 90-179 day range.

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.

STOCK MARKET



**FEDERAL NATIONAL MORTGAGE ASSOCIATION
SECONDARY MARKET OPERATIONS**



Stock Market

| Date | Stock price index <u>1/</u> | Common stock yields <u>2/</u> (per cent) | Trading volume <u>3/</u> (millions of shares) | Stock market customer credit | | |
|-----------------------|-----------------------------|--|---|------------------------------|-------------------------------------|----------------------------------|
| | | | | Total | Customers' debit balances <u>4/</u> | Bank loans to "others" <u>5/</u> |
| (Millions of dollars) | | | | | | |
| 1957 -59 - 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 | 3,004 | 1,111 |
| July | 55.84 | 3.45 | 2.7 | 4,133 | 3,004 | 1,129 |
| August | 56.51 | 3.43 | 2.8 | n.a. | n.a. | 1,133 |
| Aug. 19 | 57.01 | 3.41 | 2.7 | n.a. | n.a. | 1,127 |
| Aug. 26 | 57.60 | 3.38 | 3.1 | n.a. | n.a. | 1,133 |
| Sept. 2 <u>p/</u> | 57.00 | 3.40 | 3.0 | 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.

Federal National Mortgage Association Secondary Market Operations 1/

| Date | Estimated Offerings to FNMA | | | Purchases by FNMA | Sales by FNMA |
|-----------------------|-----------------------------|--------------------|--------------------|-------------------|---------------|
| | Total | Immediate purchase | Standby commitment | | |
| (Millions of dollars) | | | | | |
| 1959 - July | 109.5 | 92.5 | 17.1 | 62.3 | .3 |
| Aug. | 123.1 | 105.9 | 13.3 | 71.7 | .3 |
| Sept. | 141.3 | 134.8 | 6.5 | 85.4 | -- |
| Oct. | 108.3 | 101.8 | 6.5 | 105.5 | -- |
| Nov. | 105.6 | 100.3 | 5.3 | 92.6 | * |
| Dec. | 116.3 | 111.4 | 4.9 | 92.2 | * |
| 1960 - Jan. | 137.6 | 128.3 | 9.3 | 86.1 | -- |
| Feb. | 135.8 | 128.9 | 6.9 | 116.7 | -- |
| Mar. | 133.2 | 124.6 | 8.6 | 135.0 | -- |
| Apr. | 103.4 | 96.1 | 7.3 | 102.6 | * |
| May | 98.5 | 93.8 | 4.7 | 91.9 | 3.6 |
| June | 100.2 | 94.0 | 6.1 | 60.8 | 1.0 |
| July <u>p/</u> | 88.0 | 82.9 | 5.1 | 93.7 | 3.2 |

*--Less than \$50,000.

1/ Data represent unpaid principal balances of the mortgages involved, exclusive of premiums, discounts, or other charges. Offerings are amounts of applications received during the period from sellers proposing that FNMA execute purchasing contracts. An immediate purchase contract covers existing mortgages which the seller must deliver to FNMA within 45 days. A standby commitment contract relates to proposed mortgages, on housing not yet under construction, which the seller must usually deliver within one year. Purchases include those under both immediate purchase and standby commitment contracts. Data exclude FNMA activity under Special Assistance and Management and Liquidating Programs.

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 | 766 | 894 | 1,140 | 729 | 932 | 798 |
| May | 567 | 785 | 597 | 551 | 593 | 895 |
| June | 1,034 | 887 | 887 | p/970 | 1,006 | 551 |
| July | e/800 | 535 | 1,107 | e/550 | 567 | 806 |
| August | e/925 | 740 | 540 | e/600 | 516 | 403 |
| September | e/700 | 703 | 1,114 | e/600 | 465 | 651 |
| October | | 879 | 862 | | 537 | 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 | 2,367 | 2,567 | 2,623 | p/2,249 | 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 | 4,519 | 4,771 | 5,762 | p/4,183 | 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/2,067 | 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.

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 | 72 | 50 | 198 | 354 | -- | -- |
| June | 40 | 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/} | | |
| | 1960 | 1959 | 1958 | 1960 | 1959 | 1958 |
| 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 | 351 | 411 | 354 | 632 | 675 | 161 |
| June | 297 | 245 | 264 | 435 | 289 | 329 |
| July | 207 | 246 | 289 | 312 | 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 | | 286 | 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.

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 - 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 |
| July | 303 | 191 | -- |

Large Individual Issues Offered August 1 through September 2

| Issuer | Type 3/ | Amount (millions of dollars) | Maturity | Coupon rate or net interest cost | Offering yield | Rating |
|---|--------------------|------------------------------|------------|----------------------------------|----------------|--------|
| <u>CORPORATE</u> | | | | | | |
| Southwestern Bell Tel. Co. | Deb. | 100.0 | 1995 | 4-5/8 | 4.55 | Aaa |
| Texas Eastern Trans. Corp. | S.F. deb. | 25.0 | 1980 | 5-3/8 | 5.38 | Ba |
| El Paso Natural Gas Co. | Com. stk. | 33.0 | | | | |
| Consumers Power Co. | Conv. deb. | 38.1 | 1975 | 4-3/8 | 4.38 | Aa |
| Michigan Bell Telephone Co. | Deb. | 35.0 | 1996 | 4-5/8 | 4.53 | Aaa |
| General Motors Accept. Corp. | Deb. | 150.0 | 1982 | 4-5/8 | 4.68 | -- |
| Southern Calif. Edison Co. | 1st ref. mtg. bds. | 60.0 | 1985 | 4-3/8 | 4.38 | Aa |
| McKesson & Robbins, Inc. | Deb. | 15.0 | 1980 | 4-5/8 | 4.61 | A |
| Republic Steel Corp. | S.F. deb. | 125.0 | 1985 | 4-3/8 | 4.44 | Aa |
| <u>STATE AND LOCAL GOVERNMENT</u> | | | | | | |
| Chesapeake Bay Bridge and Tunnel Commission | Rev.-Ut. | 70.0 | 2000 | 5.62 | 4.88 | -- |
| " | Rev.-Ut. | 30.0 | 2000 | 5.62 | 5.50 | -- |
| " | Rev.-Ut. | 81.3 | 2000 | 5.62 | 5.75 | -- |
| Los Angeles Co., Calif. | G.O. | 11.0 | 1961-80 | 3.31 | 1.70-3.45 | Aa |
| State of California | G.O. | 15.0 | 1965-90/85 | 3.31 | 2.40-4.00 | Aa |

Large Individual Issues Offered August 1 through September 2 (Cont'd)

| Issuer | Type ^{3/} | Amount (millions of dollars) | Maturity | Coupon rate or net inter- est cost | Offering yield | Rating |
|---|--------------------|---------------------------------------|------------|---|-------------------|--------|
| <u>STATE AND LOCAL GOVERNMENT</u> (Cont'd) | | | | | | |
| State of Vermont | G.O. | 13.7 | 1962-80 | 2.65 | 1.30-2.80 | Aaa |
| State of Washington | Rev.-S.T. | 34.0 | 1961-80/70 | 3.59 | 1.70-3.70 | A |
| East Bay Mun. Util. Dist., California | G.O. | 30.0 | 1961-95/75 | 3.30 | 1.50-3.95 | Aa |
| Atlanta, Georgia | G.O. | 12.7 | 1960-86 | 3.15 | 1.25-3.30 | Aa |
| <u>OTHER</u> | | | | | | |
| Fed. Nat. Mtg. Assoc. | Deb. | 75.0 | 1971 | 4-1/8 | 4.10 | -- |

- 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.

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 - 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 |
| July 29 | 596 | 275 | -- | 1,006 | 324 | -- |
| Aug. 31 | 216 | 283 | -- | 731 | 283 | -- |

Forthcoming Large Offerings, as of September 2

| Issuer | Type | Amount (millions of dollars) | Approximate date of offering |
|--------------------------------------|--------------------|------------------------------|------------------------------|
| <u>CORPORATE</u> | | | |
| Virginia Electric & Power Co. | 1st ref. mtg. bds. | 25.0 | Sept. 14 |
| Public Service Co. of Colorado | Pfd. stk. | 15.0 | Sept. 15 |
| Utah Power & Light Co. | 1st mtg. bds. | 16.0 | Sept. 15 |
| Public Service Electric and Gas Co. | 1st ref. mtg. bds. | 50.0 | Sept. 21 |
| Pacific Power & Light Co. | 1st mtg. bds. | 20.0 | Sept. 22 |
| *New York Telephone Co. | Ref. mtg. bds. | 60.0 | Sept. 29 |
| *Continental Can Co. | Deb. | 30.0 | Sept. 30 |
| *San Diego Gas & Electric Co. | 1st mtg. bds. | 30.0 | Oct. 5 |
| Columbia Gas System | Deb. | 30.0 | Oct. 7 |
| Union Electric Co. | 1st mtg. bds. | 50.0 | Oct. 19 |
| American Telephone and Telegraph Co. | Deb. | 250.0 | Oct. 25 |
| Trustors' Corp. | Partic. certif. | 40.0 | Indefinite |
| Commerce Oil Refining Corp. | Deb., bds. & com. | 45.0 | Indefinite |
| Liberian Iron Ore, Ltd. | Bds. & stk. | 30.0 | Indefinite |
| Natural Gas Pipeline of America | 1st mtg. bds. | 25.0 | Indefinite |
| Natural Gas Pipeline of America | Pfd. stk. | 15.0 | Indefinite |

Forthcoming Large Offerings, as of September 2 (Cont'd)

| Issuer | Type | Amount (millions of dollars) | Approximate date of offering |
|---|----------|------------------------------------|---------------------------------|
| <u>STATE AND LOCAL GOVERNMENT</u> | | | |
| Alameda-Contra Costa Transit Dist., California | Rev.-Ut. | 16.5 | Sept. 7 |
| Alabama Highway Authority | Rev. | 15.0 | Sept. 7 |
| New York State Thruway Auth. | Rev.-Ut. | 50.0 | Sept. 8 |
| City & Co. of San Francisco, Calif. | G.O. | 21.5 | Sept. 12 |
| Pa. State Highway & Bridge Auth. | Rev.-Ut. | 10.0 | Sept. 13 |
| State of Ohio | G.O. | 31.0 | Sept. 13 |
| Public Housing Authorities | G.O. | 48.9 | Sept. 14 |
| *Puerto Rico Aquaduct & Sewer Auth. | Rev. | 10.0 | Sept. 15 |
| Milwaukee, Wisconsin | G.O. | 10.8 | Sept. 20 |
| *State of Connecticut | G.O. | 35.4 | Sept. 21 |
| Buffalo, New York | G.O. | 12.3 | Sept. 22 |
| *Detroit, Michigan | G.O. | 11.2 | Sept. 27 |
| *Detroit, Michigan School Dist. | G.O. | 10.0 | Sept. 27 |
| <u>OTHER</u> | | | |
| None | | | |

*--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

-11-

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 ^{2/} | 51 |
| 1960 - Jan. 7 | | | 5.30 ^{2/} | 28 |
| Feb. 25 | 5.08 | 44 | | |
| 26 | 5.10 | 46 | | |
| Mar. 15 | 4.90 ^{2/} | 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 |

*--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

Canadian bill yields continued to decline to new lows for the year while the United States bill rates rose, resulting in a further increase in the incentive to hold the United States bill. The Canadian press has attributed much of the decline in the Canadian bill rate to the increased liquidity of the chartered banks and the anticipation of a new Government guaranteed security (GNR) issue in the near future. Canadian bond yields also declined to new lows for the year and the spread between comparable Canadian and United States issues narrowed. During the week there was no change in the Bank of Canada's holdings of Government securities while the chartered banks bought \$20 million and the general public sold \$19 million. Industrial stock prices declined sharply at the end of August but rose again on September 1. While there was some decline in the Canadian dollar it remained above 103 (U.S. cents).

Money market conditions. At last Thursday's auction, the average yield on the 3-month Treasury bill again dropped sharply by 2½ basis points to 2.01 per cent per annum from 2.25 per cent a week ago (see Table). The yield has fallen by 90 basis points over the past 3 weeks and is at the lowest point since September 11, 1958. The 6-month bill yield also declined sharply for the third week in succession to 2.24 per cent per annum from 2.44 per cent last week. The chartered banks purchased \$11 million of Treasury bills and the Government account purchased \$4 million while the general public sold \$10 million.

The Canadian press has linked the recent decline in Canadian Treasury bill yields with the increased liquidity of the banking system and the expectation of a new Canadian National Railway bond issue in the near future. The liquid assets ratio of the chartered banks has increased from 16.6 per cent on August 10 to 17.2 per cent on August 31. Over the past month the Bank of Canada purchased \$11 million net of Government securities while the Government accounts purchased \$79 million. It is also reported that the Bank of Canada has withdrawn offerings of a number of outstanding issues from the market.

The net incentive to hold the U.S. short Treasury bill compared with the Canadian bill increased to 0.38 per cent per annum from 0.24 per cent in the previous week. While the spread favoring the United States bill widened, the premium on the forward Canadian dollar rose substantially during the week.

According to Wood, Gundy and Company Ltd., rates on Canadian commercial paper by leading Canadian acceptance houses decreased over the last month. The rates on 3-month to 6-month paper declined to 2-3/4 per cent on September 1 compared with 3-1/2 per cent for most houses on August 5 (see Table). The 60-day rate on prime Canadian commercial paper declined to 3-1/8 per cent on September 1 compared with 3-1/4 per cent a week ago at 3-5/8 per cent on August 5.

Bond market. The rate of decline of bond yields increased during the week with falls of 25 to 30 basis points at the short end and 7 to 12 basis points in the longer maturities. The spreads between selected comparable Canadian and United States securities (Thursday yield for bills and Wednesday yield for bonds) were as follows (figures in parentheses refer to the previous week):

-0.57 per cent on a 91-day bill (-0.24)
 -0.63 per cent on a 182-day bill (-0.35)
 0.54 per cent on an 8-year bond (0.69)
 0.88 per cent on a 20-year bond (1.00)
 1.03 per cent on a 35-year bond (1.15)

The general public sold \$9 million of bonds and \$5 million of savings bonds while the chartered banks purchased \$9 million of bonds. There was no change in the holdings of the Bank of Canada.

A \$25 million Manitoba Hydro 21-year issue was placed on the market during the week and immediately went to a one point premium. The issue was priced at 97-1/2 to yield 5.45 per cent with a 19-year noncall feature.

Exchange rate. During the week, the Canadian dollar declined to 103.03 (U.S. cents) on Thursday from 103.20 the week before (see Table). The 3-month forward Canadian dollar closed the week at a premium of 0.19 per cent per annum.

In July there was a \$46.7 million rise in Canada's official gold and foreign exchange holdings, compared with an increase of \$33.6 million in June and a loss of \$101 million in May.

Stock exchange. Industrial stock prices on the Canadian exchanges fell sharply at the end of August but they showed some tendency to rise. On September 1 there was a sharp rise in the Toronto Index to the highest since mid-February while Montreal prices showed moderate gains.

| | <u>Toronto</u> | <u>Montreal</u> | <u>New York Standard & Poor</u> |
|-------------|----------------|-----------------|---|
| January 4 | 532.58 | 318.9 | 64.50 |
| March 1 | 494.71 | 290.6 | 59.83 |
| May 2 | 484.60 | 280.9 | 57.59 |
| July 5 | 485.50 | 272.0 | 60.65 |
| August 2 | 475.06 | 259.3 | 58.41 |
| 24 | 501.81 | 274.5 | 61.67 |
| 26 | 504.44 | 274.3 | 61.12 |
| 29 | 503.56 | 273.3 | 60.93 |
| 30 | 502.00 | 271.0 | 60.25 |
| 31 | 500.63 | 270.3 | 60.37 |
| September 1 | 505.56 | 271.1 | 60.51 |

Selected Canadian Money Market and Related Data

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| | 3-mo. Treas. bills | | | Canadian dollar | | | Net incentive to hold Can. bills/ |
|-------------|--------------------|---------|---------------------|-----------------|---------------|-------------------------------|-----------------------------------|
| | 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 | 2.01 | 2.15 | -0.69 | 101.31 | -- | -0.72 | -0.57 |
| Aug. 11 | 2.91 | 2.24 | 0.67 | 103.31 | 103.33 | 0.06 | 0.73 |
| 18 | 2.66 | 2.38 | 0.28 | 103.13 | 103.13 | -- | 0.28 |
| 25 | 2.25 | 2.49 | -0.24 | 103.20 | 103.20 | -- | -0.24 |
| 31 | 2.01 | 2.58 | -0.57 | 103.03 | 103.08 | 0.19 | -0.38 |

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 | | | |
|-------------|--------------------|---------------------------|----------------------------|---------------------------|-----------------|---------------------------|--------------|---------------------------|
| | Canada a/ | Spread over U.S. b/ | Canada c/ | Spread over U.S. d/ | (20 year) | | (35 year) | |
| | | | | | 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 | 2.24 | -0.63 | 4.15 | 0.21 | 4.65 | 0.87 | 4.75 | 0.98 |
| Aug. 10 | 3.13 | 0.58 | 4.54 | 0.96 | 4.89 | 1.14 | 4.90 | 1.29 |
| 17 | 2.89 | 0.17 | 4.45 | 0.85 | 4.87 | 1.09 | 4.86 | 1.20 |
| 24 | 2.44 | -0.35 | 4.25 | 0.69 | 4.77 | 1.00 | 4.83 | 1.15 |
| 31 | 2.24 | -0.63 | 4.15 | 0.54 | 4.65 | 0.88 | 4.75 | 1.03 |

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)

| | <u>Bank of Canada</u> | | <u>Government</u> | <u>Chartered banks</u> | | <u>General public</u> | | |
|---------|-----------------------|--------------|-------------------|------------------------|--------------|-----------------------|---------------------|--------------|
| | <u>Treas. bills</u> | <u>Bonds</u> | | <u>Treas. bills</u> | <u>Bonds</u> | <u>Savings bonds</u> | <u>Treas. bills</u> | <u>Bonds</u> |
| June 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 |
| 28 | + 18 | - 13 | + 25 | + 4 | - 3 | - 6 | - 37 | - 10 |
| Aug. 4 | - 3 | + 11 | + 57 | - 12 | - 34 | - 5 | 0 | - 35 |
| 11 | - 12 | + 5 | + 15 | - 8 | + 1 | - 5 | + 11 | - 9 |
| 18 | - 3 | + 17 | + 2 | + 21 | + 10 | - 5 | - 19 | - 23 |
| 25 | - 6 | + 1 | + 1 | + 24 | + 2 | - 6 | - 14 | - 4 |
| 31 | 0 | 0 | + 4 | + 11 | + 9 | - 5 | - 10 | - 9 |

Source: Bank of Canada, Weekly Financial Statistics.

Rates on 3-month to 6-month Canadian Commercial Paper
(per cent per annum)

| | <u>Aug. 5</u> | <u>Aug. 12</u> | <u>Aug. 19</u> | <u>Aug. 26</u> | <u>Sept. 1</u> |
|-----------------------------|---------------|----------------|----------------|----------------|----------------|
| Canadian Acceptance Corp. | 3-1/2 | 3-1/2 | 3-1/4 | 3 | 2-3/4 |
| Continental Guarantee Corp. | 3-1/2 | 3-1/2 | 3-1/4 | 3 | 2-3/4 |
| United Dominions | 3-1/4 | 3-3/4 | 3-1/2 | 3 | 2-3/4 |
| Imperial Investments | 3-1/2 | 3-1/2 | 3-1/4 | 3 | 2-3/4 |
| Industrial Acceptance Corp. | 3-1/2 | 3-1/2 | 3-1/4 | 3 | 2-3/4 |
| Pacific Finance Corp. | 3-1/2 | 3-1/2 | 3-1/4 | 3 | 2-3/4 |
| Traders Finance Corp. | 3-1/2 | 3-1/2 | 3-1/4 | 3 | 2-3/4 |
| Union Acceptance Corp. | 3-1/2 | 3-1/2 | 3-1/4 | 3 | 2-3/4 |

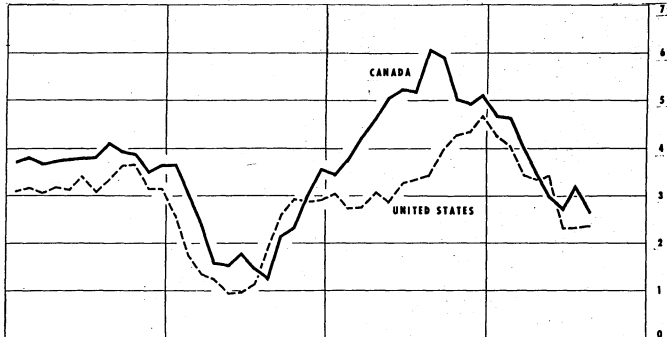
Source: Wood, Gundy and Company, Ltd.

CANADA - UNITED STATES

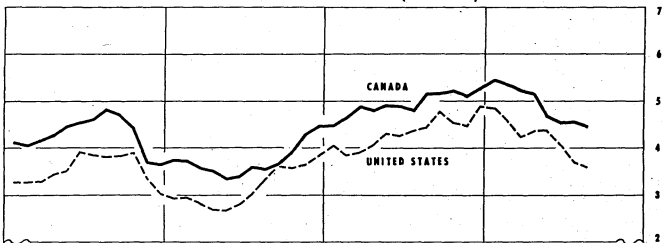
THREE-MONTH TREASURY BILL RATES

Monthly

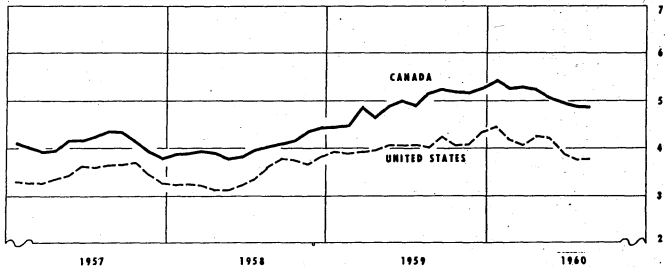
Per cent



GOVERNMENT INTERMEDIATE TERM BOND YIELDS (8 YEARS)



LONG TERM GOVERNMENT BOND YIELDS (20 YEARS)



September 6, 1960

Appendix 1

United Kingdom: Money and Capital Markets During August

A continuing inflow of capital from abroad, an outgrowth of the level of British interest rates and of restrictions against entry into Germany and Switzerland, dominated money and capital markets in Britain during August. As a result, Britain's foreign exchange reserves increased by \$75.6 million during August or \$115.6 million if special capital transactions are excluded; this accrual has occurred at the time when seasonal pressures on the pound (especially in payments to Europe and North America) are normally at a peak and when Britain's foreign trade has been seriously in deficit.

All major financial markets were affected by the inflow. In the foreign exchange market, the inflow kept the pound fractionally above \$2.81 against the U.S. dollar; blocked security sterling was also above \$2.81. In the stock market, rising reserves and the capital inflow contributed to a marked rise in the prices of industrial stocks; on August 26, the industrial stock index was close to the all-time high reached in January 1960. In the bond market, however, these factors produced only a slight easing in bond yields during August and Treasury bill rates were unaffected by the inflow.

Outside financial markets, a noteworthy development was the sharp fall in bank loans between mid-July and mid-August reported by the London clearing banks which is the first evidence that the credit squeeze is having results. This is the first month-to-month decline in bank loans since the lifting of restrictions on bank lending 24 months ago. During August, interest rates outside capital markets continued to rise.

Money market conditions. Despite the inflow of foreign funds, money market rates were stable throughout August. The rate on the 3-month bill was virtually unchanged at 5.57 - 5.59 per cent (see Table). During the second half of the month, the discount houses were able to increase their proportion of the weekly bill tender in the face of foreign competition, as may be seen in the following data on the syndicate's weekly allotment (per cent of tender offering) and the average bill yield (in per cent per annum):

| | <u>Syndicate's allotment</u> | <u>Treasury bill yield</u> |
|----------|----------------------------------|--------------------------------|
| July 15 | 67 | 5.51 |
| 22 | 43 | 5.49 |
| 29 | 39 | 5.55 |
| August 5 | 40 | 5.58 |
| 12 | 45 | 5.57 |
| 19 | 50 | 5.59 |
| 26 | 48 | 5.59 |

Although the incentive narrowed in the latter part of August, the net incentive to hold the London bill against the New York bill exceeded 1.00 per cent throughout the month (see Table). The narrowing of the spread in favor of the London bill chiefly reflected the sizable rise in U.S. bill rates in late August (see Table). It is noteworthy that, despite the volume of covered funds moving into London, the discount on the forward pound did not materially widen during the month.

Gilt-edged market. There was only a slight easing in gilt-edged yields during the month. Short bonds were down 7 to 8 basis points and Consols down 11 basis points (see Table).

Gilt-edged conditions improved particularly during the latter part of the month (see Table). For example, underwriters of £13.9 million Australian 6 per cent 1977-80 bond were required to take 52 per cent when offered in late July; later a brisk market developed and the price rose from £98 to £99-1/2 by late August. The Australian issue showed a yield 0.33 per cent above the highest running yield on British Government securities (the 5 per cent Treasury bond 1986-89 with a 5.83 per cent yield). A Surrey County Council issue of £12 million 6 per cent 1978-80 bond priced at 99 was offered on August 31 showed a gross yield of 6.06 per cent.

In the corporate sector, there have been a series of disappointments on new issues of industrial debentures. In part, these difficulties have reflected the lag in corporate bond yields in the face of rising Treasury bond yields. Between early January (1960) and mid-June, corporate bond yields rose only between 31 and 39 basis points; by contrast yields in Treasury bonds rose between 44 and 49 basis points. Since mid-June, however, there has been an accelerated rise in yields on corporate debentures, as may be seen in the following statistics on bond yields in per cent per annum:

Comparative Redemption Yields on Debentures and Loans

| | 1960 early Jan. | 1960 mid-June | 1960 mid-Aug. | Change | |
|-------------------------------|--------------------|------------------|------------------|-----------------|-----------------|
| | | | | Jan. to June | June to Aug. |
| British Petroleum 5%, 1974-78 | 5.51 | 5.85 | 6.18 | 0.34 | 0.33 |
| ICI 4-1/2%, 1972-74 | 5.68 | 6.05 | 6.27 | 0.37 | 0.22 |
| Imperial Tobacco 4%, 1975-85 | 5.53 | 5.84 | 6.12 | 0.31 | 0.28 |
| Vickers 6%, 1977-80 | 5.55 | 5.94 | 6.18 | 0.39 | 0.24 |
| Treasury 3-1/2%, 1979-81 | 5.32 | 5.81 | 6.02 | 0.49 | 0.21 |
| Treasury 5%, 1986-89 | 5.29 | 5.73 | 6.03 | 0.44 | 0.30 |

Nonmarket interest rates. For the second time in the past month the rates of the Local Loan Fund have been raised. The most recent movements in rates have been:

| | 1960 Aug. 20 | 1960 July 16 | 1960 Jan. 30 | 1959 Mar. 28 |
|------------------------|-----------------|-----------------|-----------------|-----------------|
| Up to 5 years | 6-1/4 | 6-1/4 | 5-1/2 | 5 |
| Between 5 and 15 yrs. | 6-1/4 | 6-1/4 | 6 | 5-3/4 |
| Between 15 and 30 yrs. | 6-1/4 | 6-1/8 | 6 | 5-3/4 |
| Over 30 years | 6-1/8 | 6 | 5-7/8 | 5-3/4 |

The Times' City Editor comments that long-term rates in the local authority mortgage market (in relation to comparable Government securities) are not high enough to be attractive to investors; but they are already high enough to discourage long-term borrowing by the local authorities.

Many nonmarket borrowing and lending rates of banks, finance houses, building societies, and post office and trustee savings banks have increased generally since the June 23 Bank rate increase as noted in the following table (figures in parentheses refer to old rates):

Interest Rates
(per cent)

For borrowers:

| | |
|----------------------------|-----------------|
| Bank overdrafts | 7 - 7½ (6 - 6½) |
| Personal loans | 5 (unchanged) |
| Term business loans | 8 (7) |
| Term farm loans | 7 (6) |
| Building society mortgages | 6 (unchanged) |

For lenders:

| | |
|--|--|
| Bank deposits | 4 (3) |
| Finance house deposits | 6 upwards (5 upwards) |
| Building Society deposits | 3 (unchanged) |
| Building Society shares | 3½ (unchanged) |
| P.O. and Trustee Savings Bank Deposits | 2½ free of income tax on first £15 of interest (unchanged) |

| | <u>New</u> | <u>Old</u> |
|---|------------|------------|
| For hire-purchase (new and old maximum rates) | | |
| New vehicles | 9 | 7-1/2 |
| Second-hand vehicles | | |
| Up to 5 years | 10 | 8-1/2 |
| Over 5 years | 12 | 10-1/2 |
| Motorcycles | 12 | 10-1/2 |
| (most finance houses operate below maximum rates) | | |

Bank advances. Advances of the clearing banks fell by £45 million as revealed in their mid-August statement. This is the first fall in over two years since the end of the credit squeeze in August 1958. From August 1958, to July 1960, advances increased by £1,410 million. The pattern over the past four months is given in the following table:

Month ending:

| | |
|------------|---------------|
| mid-May | + £26 million |
| mid-June | + £3 million |
| mid-July | + £99 million |
| mid-August | - £44 million |

Foreign exchange. During August spot sterling continued to rise reaching its high for the year of 281.17 on August 12 and subsequently easing to 281.10 by the end of the month (see Table).

Security sterling strengthened through the month from 280.06 U.S. cents on August 1 to 281.13 U.S. cents on August 29, its highest point since May 18, 1959. The discount on 3-month sterling fell from 2.24 per cent on July 22 to 1.84 on August 5 and then rose to 2.12 per cent on August 26 (see Table).

The failure of the discount of the forward pound to widen sufficiently to materially reduce the incentive to move funds to London on a covered basis continues to be a noteworthy aspect of recent foreign exchange developments in London. In the past, relatively limited movements of funds have been brought to an end as forward rates widened. This process was described in the hearings of the Radcliffe Committee in these words:

Mr. Parsons. The point we always have to bear in mind is that when money comes here on interest rates considerations the majority of it . . . is in fact covered forward for the exchange risk, which costs something. The more money that comes in, the more expensive that cover tends to become. There is therefore a tendency towards an equilibrium position all the time. Unless there is something to prevent that equilibrium happening, the cost of cover would equal the difference between interest rates very quickly, so that this is not normally a very large and important factor in our total reserve position.

Given the known volume of funds moving into London, especially since June, the tendency for the discount on forward sterling to be narrower during the past month than it was on July 22 indicates unusual demands for forward pounds in the market. One source of offerings may have been foreign exchange banks and traders in the London market who might find it attractive to offer against U.S. dollars forward at the discount on forward pounds being quoted in the market. Some part of the inflow may also have come in on an uncovered basis.

Since June when the inflow into London commenced, the rates London banks have offered for 3-month U.S. dollar deposits have drifted downward, as may be seen in the following rates offered for U.S. dollar deposits in principal European centers:

| | <u>London</u> | <u>Paris</u> | <u>Rome</u> |
|----------|---------------|--------------|-------------|
| May 27 | 4-1/16 | 4-1/16 | 4 |
| June 24 | 4 | 3-15/16 | 3-13/16 |
| July 29 | 3-5/8 | 3-5/8 | 3-5/8 |
| August 5 | 3-11/16 | 3-11/16 | 3-5/8 |
| 12 | 3-3/4 | 3-5/8 | 3-3/4 |
| 19 | 3-3/4 | 3-9/16 | 3-5/8 |
| 26 | 3-9/16 | 3-9/16 | 3-1/2 |

British statistics show that foreign holdings of sterling rose by \$96 million between April and June. The rise was largely in holdings by North American and European residents: European holdings rose by \$81 million and North American by \$33 million during this period. Because the statistics end with June 30, they do not include the substantial inflows which occurred during July and August.

Stock market. The favorable foreign reserve developments and the inflow of foreign funds contributed to a rapid rise in prices in industrial stocks in London during the month. On August 25, the industrial stock index stood at 334.4 compared with 307.0 on July 29 and with the all-time high of 342.9 on January 4, 1960 (see Table). Foreigners interest in British stocks is reflected in the rise in the exchange rate on blocked security sterling to virtual parity with the convertible spot pound.

British Commonwealth Section
Division of International Finance
Board of Governors of the Federal Reserve System

United Kingdom: Treasury Bill Yields and Exchange Rates

| Date | 3-mo. Treasury bill | | | Discount on 3-mo. sterling ^{c/} | Net incentive to hold U.K. bill ^{d/} | Exchange rate | |
|-------------|---------------------|--------------------|-----------------|--|--|------------------------|--|
| | U.K. ^{a/} | U.S. ^{b/} | Differ- ence | | | Spot sterling e/ | Discount on 3-mo. sterling ^{f/} |
| 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 | 281.17 | 1.57 |
| Low | 2.13 | 2.05 | -0.84 | 2.24 | -.23 | 279.83 | (P).47 |
| July 22 | 5.49 | 2.35 | 3.14 | 2.24 | 0.90 | 280.88 | 1.57 |
| 29 | 5.55 | 2.19 | 3.36 | 1.97 | 1.39 | 280.89 | 1.38 |
| August 5 | 5.58 | 2.13 | 3.47 | 1.84 | 1.63 | 280.90 | 1.29 |
| 12 | 5.57 | 2.15 | 3.42 | 1.93 | 1.49 | 281.17 | 1.36 |
| 19 | 5.59 | 2.40 | 3.19 | 1.95 | 1.24 | 281.13 | 1.37 |
| 26 | 5.59 | 2.46 | 3.13 | 2.12 | 1.01 | 281.10 | 1.49 |

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 bond ^{a/} | 15-year bond ^{b/} | War loan ^{c/} | Consols d/ | Share yield ^{e/} | Yield gap ^{f/} | Share prices ^{g/} |
|-------------|------------------------------|-------------------------------|---------------------------|---------------|------------------------------|----------------------------|-------------------------------|
| 1960 - High | 6.04 | 6.00 | 5.90 | 5.69 | 4.49 | 1.49 | 334.4 |
| Low | 4.93 | 5.33 | 5.53 | 5.03 | 3.74 | 0.76 | 297 |
| July 22 | 5.98 | 5.96 | 5.87 | 5.65 | 4.41 | 1.24 | 315.5 |
| 29 | 6.03 | 5.99 | 5.89 | 5.66 | 4.49 | 1.17 | 307.0 |
| August 5 | 6.04 | 6.00 | 5.89 | 5.65 | 4.40 | 1.25 | 313.0 |
| 12 | 5.97 | 6.00 | 5.90 | 5.65 | 4.22 | 1.43 | 324.0 |
| 19 | 5.96 | 5.97 | 5.90 | 5.63 | 4.24 | 1.39 | 327.1 |
| 26 | 5.97 | 5.94 | 5.89 | 5.54 | 4.18 | 1.36 | 334.4 |

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.