

H.14

February 13, 1961.

CAPITAL MARKET DEVELOPMENTS
IN THE UNITED STATES AND CANADA

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

Part I - United States

The volume of large public security financing for new capital was quite small during the week ending February 10, but is expected to be much larger this week, particularly for corporations. Last week, one large utility issue for \$45 million and two State government issues with total proceeds of \$23 million were sold. One of the State and local government issues--\$12.5 million by the Texas Veterans' Land Board--had been originally scheduled for sale in early December, but postponed in anticipation of better market conditions.

The calendar for this week includes corporate issues with aggregate proceeds of \$215 million and State and local issues totaling \$48 million.

Long-term bond yields - Yields declined last week for all categories of outstanding bonds. Yields on corporate and U. S. Government bonds reached new lows for the year, while those on State and local government bonds remained slightly above their early January levels.

A new A-rated first mortgage electric utility bond issue was offered to investors last week to yield 4.60 per cent--45 basis points below the yield for the last comparable issue, an offering made in mid-November.

Short- and intermediate-term interest rates - Rates on Treasury bills--both 3-month and 6-month--increased to new highs for the year. Yields on intermediate-term Government issues and rates on 3 to 6 month directly placed finance company paper declined slightly. Other major short-term money rates were unchanged.

Mortgage and bond yields - Average secondary market yields on selected unseasoned 5-3/4 per cent FHA new home mortgages declined 4 basis points in January to 6.00 per cent. Yields on new corporate bonds declined much more and the spread between mortgage and bond yields widened to 165 basis points.

FHA rates and FNMA purchase prices - As announced in the President's Economic Message to Congress of February 2, the Federal Housing Administration reduced from 5-3/4 to 5-1/2 per cent the maximum permissible interest rate on home mortgages insured under most of its programs. The new maximum applies to all mortgages insured

pursuant to applications received after February 1. At the same time FNMA raised by one-half point the price at which it purchases mortgages, lowering the corresponding yield.

The Federal National Mortgage Association established a new schedule of buying prices for FHA mortgages under both the Secondary Market Operation and the Special Assistance Function and reduced the amount of FNMA stock that sellers will be required to buy under the Secondary Market Operation from 2 per cent of the mortgage amounts involved to 1 per cent. The new Secondary Market prices set for mortgages for immediate delivery are: for 5-1/2 per cent mortgages; 98-1/2 to 96-1/2; 5-3/4 per cent mortgages, 100-98-1/2; and 5-1/4 per cent mortgages, 96-1/2 to 94-1/2. Purchase of 4-3/4 per cent mortgages has been discontinued.

Stock prices - Standard and Poor's index of 500 common stocks closed at 61.50 on February 10, one per cent lower than a week earlier. Trading activity, continuing to be very heavy although somewhat less than the previous week, averaged 4.7 million shares a day.

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

Developments in the Canadian capital market are presented in Part II of this report and a special review of financial developments in the United Kingdom is appended.

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

EXHIBIT A

LONG-TERM BOND YIELDS

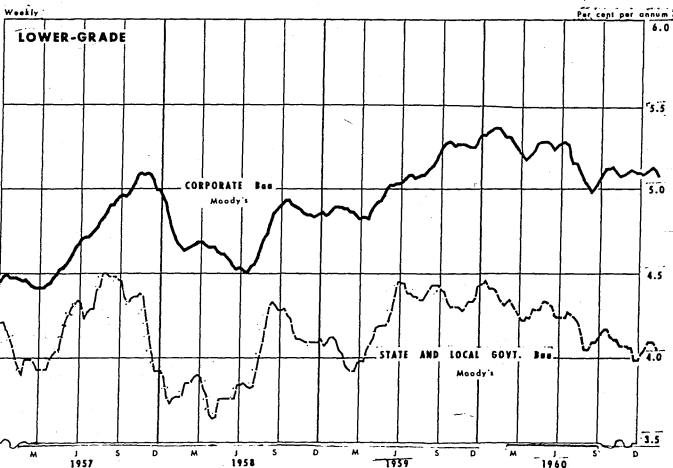
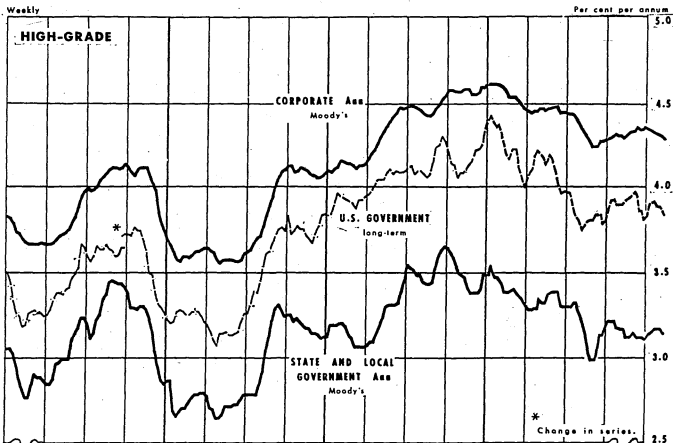


Exhibit B - Tables for Exhibit A

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Long-term Bond Yields

High-grade

Date	Corporate Aaa 1/	U. S. Govt. long-term 2/	State and local government 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	.50
1958 - Low	3.55 (5/2)	3.07 (4/25)	2.64 (5/1)	.22	.34
1959-60 - High	4.61 (1/29/60)	4.42 (1/8/60)	3.65 (9/24/59)	.59	.92
1961 - High	4.34 (1/6)	3.92 (1/20)	3.16 (2/2)	.50	.76
Low	4.28 (2/10)	3.84 (2/10)	3.13 (1/5)	.40	.70
Jan. 13	4.33	3.90	3.14	.43	.76
Jan. 20	4.32	3.92	3.16	.40	.76
Jan. 27	4.31	3.89	3.16	.42	.73
Feb. 3	4.30	3.88	3.16	.42	.72
Feb. 10 p/	4.28	3.84	3.14	.44	.70

Lower grade

Date	Corporate Baa 1/	State and local government 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
1959-60 - High	5.36 (2/12/60)	4.46 (1/7/60)	.84	1.08
1961 - High	5.12 (1/27)	4.09 (2/2)	.81	.93
Low	5.07 (2/10)	4.03 (1/5)	.74	.90
Jan. 13	5.10	4.04	.77	.90
Jan. 20	5.11	4.09	.79	.93
Jan. 27	5.12	4.09	.81	.93
Feb. 3	5.10	4.09	.80	.93
Feb. 10 p/	5.07	4.05	.79	.91

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

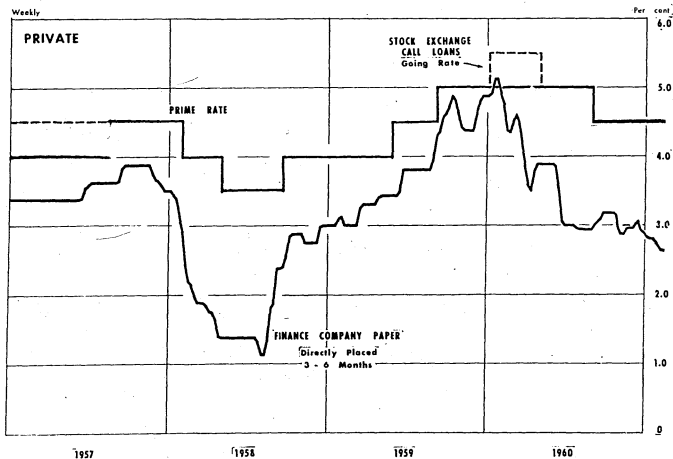
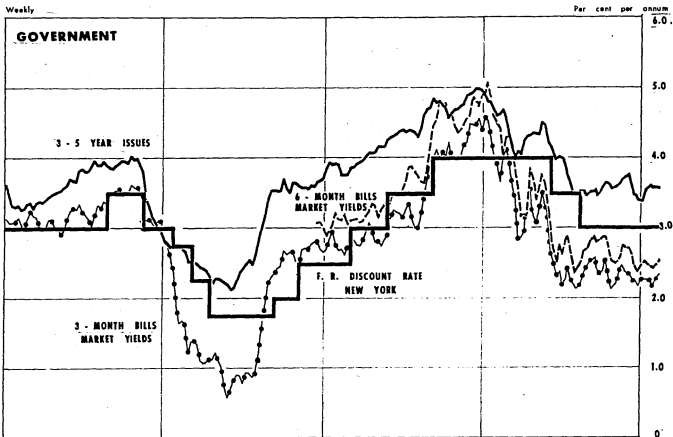


Exhibit D - Tables for Exhibit C

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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 (6/6)	.26	.04
1959-60 - High	4.00	4.59 (1/8/60)	5.07 (1/8/60)	5.00 (12/24/59)	.79	1.81
1961 - High	n.a.	2.35 (2/10)	2.55 (2/10)	3.59 (1/20)	.25	1.40
Low	n.a.	2.17 (1/27)	2.42 (1/27)	3.39 (1/6)	.20	1.11
Jan. 13	3.00	2.28	2.51	3.52	.23	1.24
Jan. 20	3.00	2.25	2.46	3.59	.21	1.34
Jan. 27	3.00	2.17	2.42	3.57	.25	1.40
Feb. 3	3.00	2.29	2.49	3.57	.20	1.28
Feb. 10 p/	3.00	2.35	2.55	3.56	.20	1.21

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 (11/15)	.63 (11/22)
1958 - Low	3.50	3.50	1.13 (8/8)	-.35 (8/29)
1959-60 - High	5.50	5.00	5.13 (1/22/60)	1.02 (3/25/60)
1961 - High	n.a.	n.a.	2.83 (1/6)	.56 (1/20)
Low	n.a.	n.a.	2.63 (2/10)	.28 (2/10)
Jan. 13	4.50	4.50	2.81	.53
Jan. 20	4.50	4.50	2.81	.56
Jan. 27	4.50	4.50	2.71	.54
Feb. 3	4.50	4.50	2.64	.42
Feb. 10 p/	4.50	4.50	2.63	.28

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.

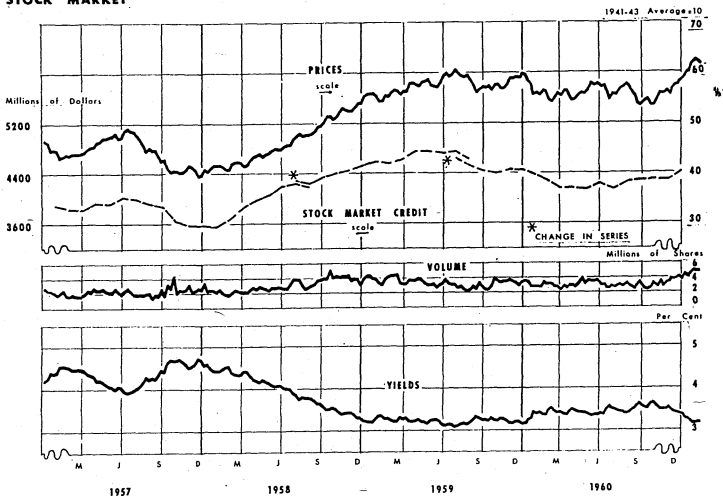
2/ Market yields weekly averages computed from daily closing bid prices. Series of 3-5 year issues consists of selected notes and bonds.

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

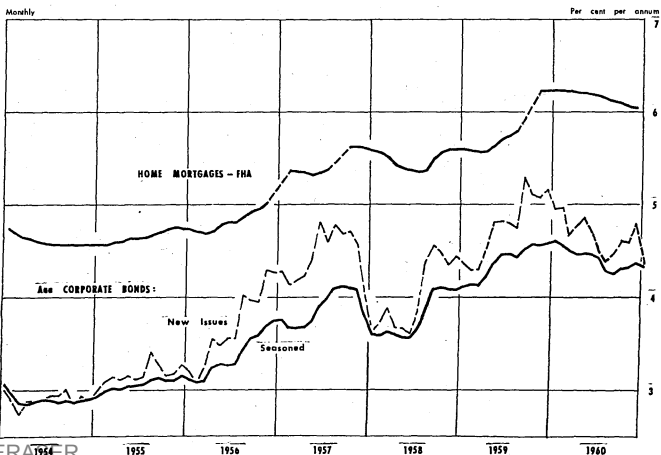
Note.--Highs and lows are for individual series and may be on different dates for different series. For spreads, high refers to widest, and low to narrowest.

EXHIBIT E

STOCK MARKET



MORTGAGE AND BOND YIELDS



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/
(In millions of dollars)						
1957-60 - High	60.51 (7/31/59)	3.08	4.9	4,764 (4/59)	3,401 (4/59)	1,373 (5/59)
Low	39.48 (12/23/57)	4.72	1.4	3,554 (1/58)	2,482 (12/57)	1,060 (11/57)
1961 - High	62.22 (2/3)	3.12	4.9	n.a.	n.a.	n.a.
Low	58.48 (1/6)	3.32	3.6	n.a.	n.a.	n.a.
December	56.80	3.41	3.7	4,406	3,222	1,184
January	59.72	3.28	4.2	n.a.	n.a.	1,163
Jan. 27	61.24	3.18	4.4	n.a.	n.a.	1,163
Feb. 3	62.22	3.12	4.9	n.a.	n.a.	1,168
Feb. 10 p/	61.50	3.17	4.7	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 Friday's only. Highs and lows are for Friday's 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.

Mortgage and Bond Yields 1/

Date	FHA mortgages 2/	Aaa corporate bonds 1/		Spread between new corporate bonds and	
		New 3/	Seasoned 4/	FHA mortgages	Seasoned bonds
1953-58 - High	5.63 (11/57)	4.81 (6/57)	4.12 (9/57)	1.96	.90
Low	4.56 (2/55)	2.74 (3/54)	2.84 (4/54)	.54	-.12
1959-60 - High	6.24 (1/60)	5.29 (9/59)	4.61 (1/60)	1.76	.77
Low	5.57 (3/59)	4.29 (2/59)	4.12 (1/59)	.83	.08
1960 - September	6.11	4.45	4.25	1.66	.20
October	6.09	4.60	4.30	1.49	.30
November	6.05	4.59	4.31	1.46	.28
December	6.04	4.79	4.35	1.25	.44
1961 - January	6.00	4.35	4.32	1.65	.03

1/ Neither mortgage nor bond yields take into account servicing costs which are much higher for mortgages than bonds. Generally, bonds pay interest semi-annually; mortgages, monthly. Mortgage yields, if computed as equivalent to a semiannual interest investment, would be slightly higher than given in the table.

2/ Based on FHA field-office opinions about average bid prices in the private secondary market for new-home mortgages for immediate delivery. Since late 1955, data relate only to 25-year mortgages with downpayments of 10 per cent or more, weighted by probable volume of transactions. Yields computed by FRB, assuming 25-year mortgages are paid off in 12 years. Dashed lines indicate periods of adjustment to changes in the contractual interest rate.

3/ First National City Bank of New York. Averages of offering yields of all new issues of publicly-sold bonds rated Aaa, Aa or A by Moody's Investors Service (except serial and convertible issues and offerings of natural gas and foreign companies) weighted by size of issue. Yields on Aa and A issues are first adjusted to an Aaa basis by the spread between yields of outstanding bonds in these categories and those on Aaa-rated bonds. The series reflects changes in industrial composition, maturity, type, etc. of new offerings.

4/ Moody's Investors Service. Monthly averages of daily data. See Exhibit B.

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/		
	1961	1960	1959	1961	1960	1959
January	e/500	577	821	e/725	739	639
February	e/130	715	738	e/500	623	858
March		860	646		582	646
April		766	894		731	932
May		567	785		550	593
June		1,034	887		1,033	1,006
July		727	535		572	567
August		962	740		602	516
September		738	703		689	465
October		p/965	879		339	597
November		p/927	864		502	519
December		e/850	900		p/481	455
1st quarter		2,151	2,204		1,943	2,143
2nd quarter		2,367	2,567		2,316	2,531
3rd quarter		2,427	1,979		1,863	1,548
4th quarter		e/2,742	2,642		p/1,322	1,571
1st half		4,519	4,771		4,259	4,674
Three quarters		6,945	6,750		6,122	6,222
Year		e/9,687	9,392		p/7,444	7,793
		Excluding finance companies 3/				
1st quarter		1,722	1,999			
2nd quarter		2,150	2,412			
3rd quarter		2,017	1,716			
4th quarter		e/2,342	2,503			
Year		e/8,231	8,630			

e/ Estimated. p/ Preliminary.

1/ Securities and Exchange Commission estimates of net proceeds.

2/ Investment Bankers Association of America estimates of principal amounts.

3/ 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	2	81	196	182	199	1,163
February	175	60	53	150	--	251
March	70	2	--	150	175	--
April	34	58	139	148	--	523
May	72	50	198	354	--	--
June	40	42	120	--	--	--
July	25	85	9	--	--	164
August	1	1	5	199	98	--
September	36	35	17	--	150	--
October	34	33	58	160	--	220
November	2	30	123	149	--	--
December		70	74	p/181	86	--
Year		547	992	p/1,673	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	475	500	208
March	365	295	273	511	489	144
April	365	563	357	509	486	209
May	351	411	354	632	675	161
June	297	245	264	435	289	329
July	280	246	289	312	727	437
August	505	467	423	468	365	206
September	199	399	369	296	665	330
October	254	235	231	244	733	454
November	499	343	415	282	471	114
December	p/215	358	243	177	288	137
Year	p/3,942	4,179	3,910	p/4,817	6,047	3,098

^{1/} Preliminary.^{2/} Data presented in this exhibit differ from those in Exhibit F 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.^{3/} Includes securities offered in the United States by foreign governments and their subdivisions and by international organizations. Sources: Securities and Exchange Commission.^{4/} Issues not guaranteed by the U. S. Government. Sources: long-term, Securities and Exchange Commission; short-term, Federal Reserve.^{5/} Principally tax and bond anticipation notes, warrants or certificates and Public Housing Authority notes. In some instances FHA notes included may have a somewhat longer term than one year. Sources: Bond Buyer.

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

Proceeds of Large Issues Offered

(In millions of dollars)

Month	Corporate	State and local government	Other 2/
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	--
August	581	298	75
September	266	367	25
October	566	16	77
November	465	186	150
December	260	222	99
1961 - January	147	391	--

Large Individual Issues Offered February 1 through 10

Issuer	Type 3/	Amount (millions of dollars)	Maturity	Coupon rate or net inter- est cost	Offering yield	Rating
<u>CORPORATE</u>						
Consolidated Natural Gas Co.	Deb.	45.0	1986	4-3/8	4.33	Aaa
<u>STATE AND LOCAL GOVERNMENT</u>						
State of Connecticut	G.O.	29.0	1964-80	2.83	1.90-3.10	Aaa
Houston Ind. Sch. Dist., Texas	G.O.	14.0	1963-89	3.30	1.70-4.00	A
Milwaukee Co., Wisc.	Rev.-Ut.	10.3	1962-81	2.87	1.50-3.15	Aaa
Kentucky Turnpike Auth. Term	Rev.-Rent.	21.2	2000	4.86	4.80	--
Serial	Rev.-Rent.	17.8	1965-84	4.86	3.50-4.60	--
Chicago - O'Hare Int'l Airport	Rev.-Ut.	25.0	1999	4.66	4.50	--
State of North Carolina	G.O.	10.0	1962-80	2.86	1.40-3.00	Aaa
State of Texas	G.O.	12.5	1966-96/75	3.26	2.10-3.40	Aa
<u>OTHER</u>						
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.

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/
1960 - Jan. 29	207	210	45	372	310	45
Feb. 29	301	255	35	372	385	35
Mar. 31	299	259	--	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	--
Sept. 30	576	212	77	836	336	127
Oct. 31	440	258	50	585	391	50
Nov. 30	260	242	--	535	560	--
Dec. 30	91	412	--	1,036	682	--
1961 - Jan. 31	110	181	--	1,046	360	--

Forthcoming Large Offerings, as of February 10

Issuer	Type	Amount (millions of dollars)	Approximate date of offering
<u>CORPORATE</u>			
Southern Co.	Com. stk.	30.0	Feb. 15
Chesapeake & Potomac Telephone Co.	Deb.	20.0	Feb. 16
Puget Sound Pwr. & Light Co.	1st mtg. bds.	15.0	Feb. 16
General Motors Accept. Corp.	Deb.	150.0	Feb. 17
American Machine & Foundry Co.	Conv. deb.	40.5	Mar. 16 (rights expire)
*Southwestern Public Service Co.	1st mtg. bds.	15.0	Mar.
American Telephone & Telegraph Co.	Com. stk.	e/800.0	Apr. 14 (rights expire)
Commerce Oil Refining Corp.	Deb., bds. & com.	45.0	Indefinite
Realty Collateral Corp.	Coll. tr. notes	20.0	Indefinite
<u>STATE AND LOCAL GOVERNMENT</u>			
St. Louis, Missouri	G.O.	15.8	Feb. 15
Baltimore, Maryland	G.O.	32.6	Feb. 15
Dallas, Texas	G.O.	19.0	Feb. 20
*Alabama Education Auth.	Rev.-Q.Ut.	30.0	Feb. 28
*Prince Georges Co., Md.	G.O.	11.4	Feb. 28
*Shelby Co., Tenn.	G.O.	11.0	Feb. 28
*New York State Power Auth.	Rev.-Ut.	100.0	Mar. 1
Denver, Colorado	G.O.	15.0	Mar. 7
State of New Jersey	G.O.	20.9	Mar. 7
St. Paul, Minnesota	G.O.	10.6	Mar. 8

Forthcoming Large Offerings, as of February 10 (Cont'd)

Issuer	Type	Amount (millions of dollars)	Approximate date of offering
<u>STATE AND LOCAL GOVERNMENT</u> (Cont'd)			
Los Angeles Dept. of Wtr. & Pwr., California	Rev.-Ut.	12.0	Indefinite
Orleans Parish School Dist., La.	G.O.	10.0	Indefinite
Dade County, Florida	G.O.	46.0	Indefinite
New York State Housing Fin. Agency	Rev.	100.0	Indefinite
<u>OTHER</u>			
None			

*--Included in table for first time.

e/ Estimated.

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 (1-/8/59)	87	5.65 (9/18/59)	123
Low	2.93 (3/31/54)	-8	3.00 (3/17/54)	-15
1959 - Oct.	5.13 ^{2/}	36	5.33	43
Nov.	*5.08	42		
Dec.	*5.30	63	5.45	51
1960 - Jan.			*5.30 ^{2/}	28
Feb.	5.09	45		
Mar.	4.82	25	4.97	9
Apr.	4.91	37	5.14	35
May	*4.88	32	5.15	29
June	4.83	26	*4.95	11
July 8			4.93	11
13			4.88	8
Sept. 15			4.80	24
23	4.65	27		
28	4.55 ^{2/}	17		
Oct. 5	4.63 ^{2/}	24		
21	4.67 ^{2/}	22		
Nov. 4			4.88	26
16	4.78	33		
17	4.85	40		
18			5.05	43
Dec. 7	5.00	49		
1961 - Jan. 12	4.60	11		
18	4.55	7		
25	4.44	-2		
Feb. 8			4.60	-2

*--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.

There was a slight easing of interest rates in Canada during the week. However, the yield on the Canadian 3-month Treasury bill covered for forward arbitrage, continued to exceed the yield on the U.S. bill by almost one-half of one per cent. The Bank of Canada showed little change in its holdings of Government securities during the week, but made some small switches from bonds to Treasury bills, while the chartered banks increased their holdings of all Government securities and the general public made net sales. Industrial stock prices began to level off early in February but remained over one per cent above the high of early 1960. The Canadian dollar showed little fluctuation during the week and closed just below 101.2 (U.S. cents) last Thursday.

Money market. The average yield on the Canadian 3-month and 6-month Treasury bills eased slightly at last Thursday's auction. The 3-month bill declined 3 basis points to 3.10 per cent on February 9 compared with 3.13 per cent on February 2. The 6-month bill declined 5 basis points to 3.43 per cent on February 9 compared with 3.48 per cent on February 2. During the week the chartered banks purchased \$33 million of Treasury bills while the general public sold \$31 million and the Government Accounts sold \$7 million. The Bank of Canada purchased \$5 million of bills during the week.

The net incentive to hold the Canadian 3-month Treasury bill over the United States bill declined slightly as a result of the narrowing of the spread between the bill yields as the U.S. yield rose slightly and the Canadian yield declined slightly. There was no change in the discount on the forward Canadian dollar and the incentive to hold the Canadian bill on a covered basis was 0.49 per cent compared with 0.57 the week before.

Bond market. Yields on Government bonds eased slightly last week. The spread between selected comparable Canadian and United States securities (Thursday yields for bills and Wednesday yields for bonds) were as follows (figures in parenthesis refer to the previous week):

0.74 per cent on a 91-day bill (0.82)
 0.86 per cent on a 182-day bill (0.98)
 0.89 per cent on an 8-year bond (0.82)
 1.32 per cent on a 30-year bond (1.29)
 1.55 per cent on a 35-year bond (1.50)

During the week the chartered banks purchased \$8 million of bonds while the general public sold \$6 million and the Bank of Canada sold \$4 million.

Stock market. Prices of industrial stock on the Canadian exchange continued to rise through the week ending February 3, but fell off slightly on February 3 and February 6, still about 1.5 to 4.5 per cent over the high of 1960. The total value of shares sold on the Canadian exchanges during the week ending February 3 was \$9.8 million compared with the \$10.6 million high of several weeks ago.

	<u>Toronto</u>	<u>Montreal</u>	<u>New York Standard & Poor</u>
1960 - High	532.56	277.1	61.49
Low	672.38	250.3	55.98
1961 - Jan. 3	524.13	276.1	60.87
17	535.94	287.0	62.77
23	542.08	292.5	63.86
Feb. 2	544.13	293.6	65.89
3	542.81	291.8	65.81
6	540.69	289.9	65.31

Foreign exchange. The spot rate on the Canadian dollar fluctuated within narrow limits through the week around 101 (U.S. cents). On Thursday, February 9, the Canadian dollar closed at 101.16 (U.S. cents). There was little change in the discount on the forward Canadian dollar at about 0.25 per cent per annum.

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Selected Canadian Money Market and Related Data

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	3-mo. Treas. bills			Canadian dollar			Net incen- tive to hold Can. bills/
	Canada	Spread over U.S.	Spot c/	3-mo. forward	discount premium(+)/d/	(-)	
	a/ U.S. b/						
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	1.62	105.27	--	0.99	1.99
Low	1.68	2.10	-0.82	100.33	--	-0.91	-0.57
Jan. 12	3.18	2.27	0.91	100.63	100.56	-0.25	-0.66
19	3.22	2.27	0.95	100.66	100.53	-0.50	0.45
26	3.04	2.17	0.87	101.05	100.95	-0.37	0.50
Feb. 2	3.13	2.31	0.82	100.88	100.81	-0.25	0.57
9	3.10	2.36	0.74	101.16	101.09	-0.25	0.49

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	--	5.27	--	5.30	--	5.05	--
Low	5.11	--	4.50	--	4.44	--	4.73	--
1960 - High	5.33	1.37	5.55	1.11	5.42	1.36	5.28	1.61
Low	1.99	-0.86	4.09	0.21	4.63	0.85	4.68	0.95
Jan. 12	3.48	0.98	4.68	0.82	5.17	1.29	5.20	1.50
19	3.53	1.06	4.73	0.78	5.20	1.29	5.20	1.47
26	3.36	0.96	4.72	0.84	5.18	1.29	5.18	1.48
Feb. 2	3.48	0.98	4.68	0.82	5.18	1.29	5.19	1.50
9	3.43	0.86	4.68	0.89	5.15	1.32	5.19	1.55

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>
Dec. 8	+ 9	- 3	- 4	- 7	- 28	- 4	+ 1	+ 31
15	- 2	+ 1	- 6	- 13	- 5	- 13	+ 19	+ 4
22	- 5	- 9	-103	+ 18	- 23	- 11	- 11	- 62
29	- 3	0	+ 2	+ 6	+ 14	- 8	--	- 24
Jan. 5	+ 2	- 2	- 11	+ 18	- 12	- 4	- 15	+ 10
12	- 9	- 12	+ 16	+ 39	- 2	+ 16	- 24	- 11
19	- 14	- 25	+ 25	+ 10	- 17	- 7	+ 3	+ 17
26	- 20	- 1	- 15	+ 44	- 6	- 7	- 10	+ 7
Feb. 2	- 18	- 46	- 61	+ 24	+ 51	- 3	- 8	+ 56
9	+ 5	- 4	- 6	+ 33	+ 8	- 3	- 31	- 6

Source: Bank of Canada, Weekly Financial Statistics.

Selected Canadian Financial Statistics
(in millions of Canadian dollars or per cent)

	<u>Monthly</u>			<u>Weekly</u>		
	<u>Nov.</u>	<u>Dec.</u>	<u>Jan.</u>	<u>Jan. 19</u>	<u>Jan. 26</u>	<u>Feb. 2</u>
1. Money supply:						
Currency and deposits	13,768	13,811	13,646	13,628	13,646	
Less: Govt. deposits	628	548	480	487	480	
Equals: privately held	13,140	13,263	13,166	13,141	13,166	
Change in period	- 241	+ 123	- 97	- 56	+ 25	
2. General bank loans	1/5,027	1/5,117	1/5,078	4,981	4,986	
Change in period	+ 56	+ 90	- 39	- 13	+ 5	
3. Total Govt. securities:	17,994	17,760	17,239	17,750	17,743	17,739
Of which: Treas. bills	1,985	1,985	1,985	1,985	1,985	1,985
Bonds	12,377	12,179	12,161	12,163	12,162	12,161
Savings bonds	3,632	3,596	3,493	3,603	3,596	3,593
4. New security issues ^{1/}	1,044	1,311		352		
Of which sold in U.S.	0	14		1		
5. Chartered bank liquidity:						
Cash reserve	998	1,017	1,027	1,024	1,030	1,027
Cash ratio	8.1	8.2	8.1	8.1	8.2	8.2
Liquid assets	2,125	2,093	2,189	2,165	2,193	2,309
Liquid asset ratio	17.3	16.8	17.4	17.2	17.4	18.4

^{1/} Seasonally adjusted.

^{2/} Source: A. E. Ames & Co., Ltd. (Includes public and private securities.)

Appendix 1

United Kingdom: Money and Capital Markets During January

Short- and long-term yields in London financial markets continued to diverge markedly through January and early February. The London Treasury bill rate eased further in January but the London bill continued to exceed the yield on the New York bill by nearly 2 per cent or (with exchange risk covered) by more than 1 per cent.

Long-term bond yields, on the other hand, continued to rise. In early February, yields on (undated) Consols and War Loan were the highest recorded since the summer of 1798 during the Napoleonic disturbances. Since December 2, the following increases in yield have occurred (in per cent per annum):

	<u>Dec. 2</u>	<u>Feb. 3</u>	<u>Change</u>
Treasury bills	4.63	4.17	-0.46
6-year bond	6.05	6.11	+0.06
15-year bond	5.83	6.05	+0.22
Consols (undated)	5.52	5.84	+0.32
War Loan (undated)	5.80	6.12	+0.32

Long-term rates rose despite declining bill rates and widespread signs of easing domestic demand, especially in consumer durable goods industries. Three factors have contributed to this trend: the unfavorable trade returns, bond sales by foreign investors who had expected the turn in short rates to be repeated in the gilt-edged market and possible clearing bank sales to bolster liquidity.

During December, new capital issues were sharply below December 1959; but the 1960 total was 16 per cent more than a year earlier.

The first installment-credit relaxation since last April took place in mid-January with an extension of the maximum repayment period for a wide range of goods. The authorities also announced that the Bank of England would promote medium-term export credit by discounting 18-month paper.

After mid-January, the London gold price fell sharply back and has since steadily declined. In early February, the price was below that of mid-October just before the gold boom got underway.

Market market conditions. Money market rates eased further in January. The yield on Treasury bills declined from 4.34 per cent on January 6 to 4.17 per cent on January 27 (see Table). The yield on British Treasury bills continues to exceed the U.S. Treasury bill yield by about 2 per cent.

The incentive to hold the London bill rather than the U.S. bill (with exchange risk covered) remained just over one per cent throughout the period (see Table and Chart).

Gilt-edged market. Yields on British Government securities continue to rise with long-term yields at their highest levels for nearly 200 years. On February 3 the yield on 2-1/2 per cent Consols (undated) was 5.84 per cent. This approaches the level of 3 per cent Consols which reached an all-time high of 6.25 per cent in July 1798, as may be seen in the following price and yield figures:

	<u>Price</u>	<u>Yield</u>
<u>3 per cent Consols</u>		
1798 (July)	48	6.25
1798 (October)	51	5.88
<u>2-1/2 per cent Consols</u>		
1921 (Low for year)	43-5/8	5.73
1956 (Dec. 1)	50-1/4	4.98
1957 (Sept. 20)	45	5.56
1961 (February 10)	42-15/16	5.84

Yields on intermediate Government securities continued to rise through January and early February but shorter-term issues were unchanged (see Table).

A further tranche of £300 million of 4-3/4 per cent Conversion Stock, 1963, was offered on February 3 at a price of 99-3/8 at a gross redemption yield of just over 5.00 per cent. Holders of the £800 million of 2-1/2 per cent Funding Loan, 1956-61, maturing on April 15, have been offered the opportunity to switch into an additional tranche of 5-1/2 per cent Exchequer Stock, 1966, on terms equivalent to a gross redemption yield of 5.65 per cent. The 1966 conversion offer is being made more attractive by the decision to deal with this stock as a "short," which will enable discount houses to participate. Some £500 million of the 1966 bond is outstanding.

The Government of the Commonwealth of Australia issued two new 6 per cent bonds, each for £10 million and at a price of 97-1/2, to deal with a maturing 3-1/4 per cent bond 1956-61. One 6 per cent is redeemable in 1975, the other in 1981-83. The gross redemption yield for the 1975 is 6.26 per cent and for the 1981-83 6.20 per cent. The amount of the 3-1/4 per cent stock falling due on June 1 is £20,578,700. The 1975 stock was a decided success but approximately 82 per cent of the 1981-83 tranche was left with the underwriters.

New capital issues. New capital issues on the London market (excluding Treasury operations) during 1960 were the second largest in recent years: £556.7 million compared with £480.3 million in 1959. In 1955 new capital issues amounted to £567.2 million. The substantial increase in new issues in 1960 over 1959 was concentrated between April, when bank advances began to be curtailed, and November. In December 1960 new issues

were 29 per cent below the figure for December 1959. Total new issues were broken down as follows (in millions of pounds):

<u>Borrowers</u>	<u>1956</u>	<u>1957</u>	<u>1958</u>	<u>1959</u>	<u>1960</u>
United Kingdom	264.6	321.0	255.1	435.1	514.4
Public	53.9	27.1	75.5	50.2	57.3
Private	210.7	293.9	179.6	384.9	457.1
Commonwealth	31.3	60.9	60.2	35.3	33.8
Public	13.8	13.0	48.7	13.6	15.2
Private	17.6	47.9	11.5	21.7	18.5
Foreign (Private)	--	1.4	1.2	0.2	8.5

The sharp increase in new issues by private concerns resident in the United Kingdom reflected borrowings by heavy industries and by property companies.

Installment credit. The Board of Trade announced on January 19 a relaxation of controls over installment credit transactions; the maximum repayment period of two years for a wide range of goods including cars, radio and television sets, furniture and most domestic appliances, has been lengthened to three years. Minimum initial deposits were unchanged.

Commercial bank loans. In the month to mid-January the London clearing banks sold £17 million of gilt-edged securities and reduced other investments by £15 million. Loans rose by £31 million and gross deposits fell by £99 million. With a sharp rise in the liquidity ratio from 31.9 in the month to mid-December to 33.1 per cent in mid-January, the banks' recent liquidity pressures were materially eased. To aid exports, the Bank of England announced that medium-term export credits within eighteen months of maturity may be considered by the banks as liquid assets and would be discountable at the Bank.

Trade balance. The seasonally adjusted trade gap in December remained at about the monthly average for 1960. Exports (including re-exports) declined from their high for the year of £441 million in November to £387 million in December, while imports declined from £341 million in November to £314 million in December. The monthly average trade deficit for 1960 was £76 million compared with a monthly average of £43 million in 1958 and 1959.

Bullion market. After rising in early January to \$35.80 per fine ounce, the price of gold in the London market dropped sharply after the ban, announced on January 14, on U.S. residents holding gold abroad. Statements by the new United States administration concerning future policies on gold and the domestic economy have further depressed the price. By February 10 the price of gold had declined to 35.16 per fine ounce, the lowest point since the mid-October boom.

	<u>Sterling fixing price</u>	<u>Spot sterling</u>	<u>Dollar fixing price</u>	<u>Trading range</u>
January 6	254/3	280.68	35.6814	35.680 - 35.684
13	254/10	280.73	35.7696	35.730 - 35.770
20	252/8	280.73	35.4655	35.450 - 35.550
27	252/5	280.65	35.4203	35.400 - 35.550
February 3	251/9	280.39	35.2940	35.240 - 35.300
10	251/-	280.17	35.1613	35.150 - 35.165

Foreign exchange. Spot sterling declined steadily from early January and fell sharply in early February to its lowest point since June 17. It declined from 280.73 U.S. cents on January 13 to 2.8065 U.S. cents on January 27. By February 3 the spot rate had dropped to 280.20 U.S. cents (see Table).

The discount on 3-month forward sterling remained steady in most of January at just over 280.00 U.S. cents but fell sharply in early February to 279.65 U.S. cents (see Table). After declining to 277.75 U.S. cents early in January security sterling strengthened to 280.625 U.S. cents by February 3.

Britain's gold and foreign currency reserves rose in January by £5 million to £1,159 million. Adjusted for a £4 million European Payments Union bilateral debt payment, the United Kingdom had a surplus of £9 million compared with a decline of £22 million in December (with the £121 million Ford transaction excluded).

Stock market. Stock prices have generally increased slightly through January and early February with the Financial Times index of share prices rising from 310.6 on January 6 to 315.0 by February 3 (see Table). With rising bond yields, Consold now yield 1.19 per cent more than industrial shares and War Loan 1.47 per cent more on February 3 (see Table).

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United Kingdom: Treasury Bill Yields and Exchange Rates

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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	281.58	1.64
Low	2.13	2.05	-0.84	2.33	-.23	279.83	(P).47
Dec. 9	4.48	2.26	2.22	0.97	1.05	280.86	0.68
16	4.38	2.24	2.14	1.01	1.13	280.74	0.71
23	4.35	2.18	2.17	0.96	1.21	280.57	0.67
30	4.35	2.20	2.15	0.90	1.25	280.34	0.63
Jan. 6	4.34	2.28	2.06	1.03	1.03	280.72	0.72
13	4.30	2.27	2.03	0.97	1.06	280.73	0.68
20	4.18	2.22	1.96	0.91	1.05	280.73	0.64
27	4.17	2.18	1.99	0.86	1.13	280.65	0.60
Feb. 3	4.17	2.28	1.89	0.79	1.10	280.20	0.55

^{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	6.11	6.00	5.94	5.70	4.96	1.49	338.6
Low	4.93	5.33	5.53	5.03	3.74	0.63	294.6
Dec. 9	6.05	5.86	5.88	5.59	4.96	0.63	294.6
16	6.08	5.88	5.90	5.66	4.90	0.76	299.6
23	6.08	5.90	5.93	5.68	4.82	0.86	305.3
30	6.11	5.91	5.94	5.70	4.82	0.88	304.7
Jan. 6	6.11	5.97	5.95	5.70	4.73	0.97	310.6
13	6.10	6.06	6.01	5.74	4.73	1.01	308.5
20	6.10	6.07	6.02	5.75	4.67	1.08	314.2
27	6.12	6.08	6.08	5.80	4.71	1.09	312.7
Feb. 3	6.11	6.05	6.12	5.84	4.65	1.19	315.0

^{a/} 5-1/2 per cent Exchequer, 1966.

^{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.

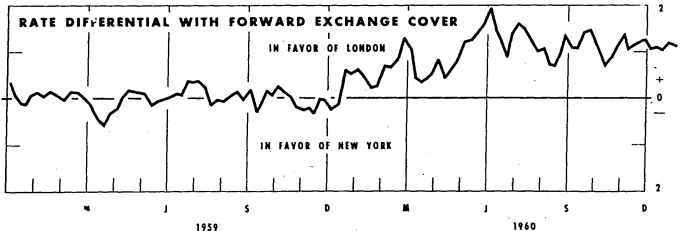
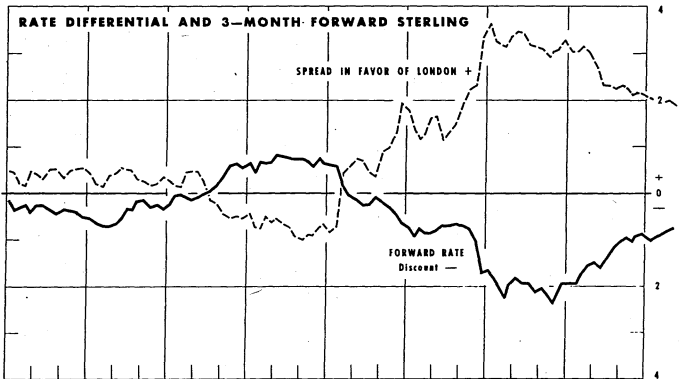
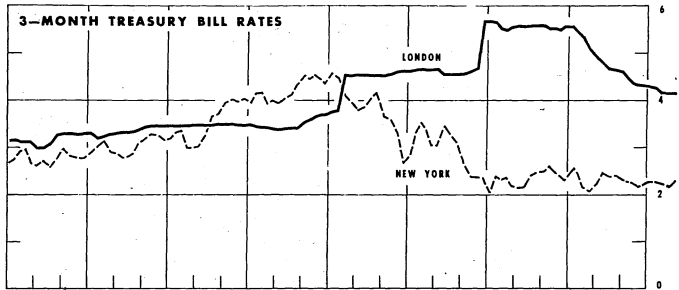
^{f/} Difference between yield on 2-1/2 per cent Consols and share yield.

^{g/} Financial Times.

INTEREST ARBITRAGE, NEW YORK / LONDON

Friday figures

Per cent per annum

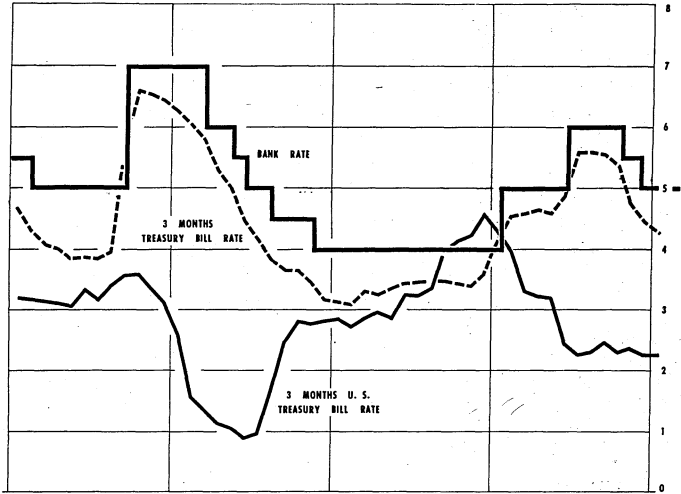


UNITED KINGDOM

MONTHLY AVERAGES

BANK RATE AND TREASURY BILL RATE

Per cent



BOND AND STOCK YIELDS

