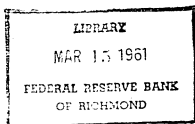


H.14

March 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

Corporate security financing continues to be very small, while State and local government financing is moderately heavy. Large State and local government issues totaled \$87 million last week and are expected to total \$40 million this week. Subscription rights are scheduled to expire this week on a \$40 million convertible debenture issue; this will be the first corporate offering with proceeds over \$15 million that has been offered to the public in nearly a month. In contrast, large State and local government bond sales have aggregated nearly \$300 million during the past three weeks.

Long-term bond yields - Changes in bond yields were mixed again last week. Yields on seasoned corporate and U. S. Government bonds declined slightly, reaching new lows for the year, while those on State and local government bonds increased considerably, to new highs for 1961.

Short- and intermediate-term interest rates - Yields on Treasury bills and 3-5 year Government issues declined substantially last week. Rates on bills, however, were still well above both their January lows and those reached last fall. Yields on intermediate-term Government issues reached a new low for the year, but were slightly higher than at the end of 1960. Reflecting the full effect of increases announced two weeks ago the weekly average of rates on finance company paper was the highest this year. Other major short-term money rates were unchanged last week.

Stock prices - Stock prices, as measured by Standard and Poor's index of 500 stocks, declined, on balance, last week, after rising steadily for three weeks. The index closed at 63.48 on March 10, 1 per cent lower than a week earlier. Trading activity continued at a record pace, averaging 5.8 million shares a day.

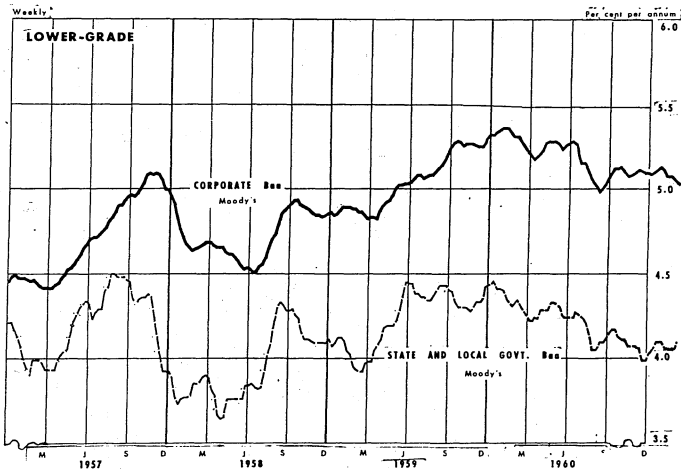
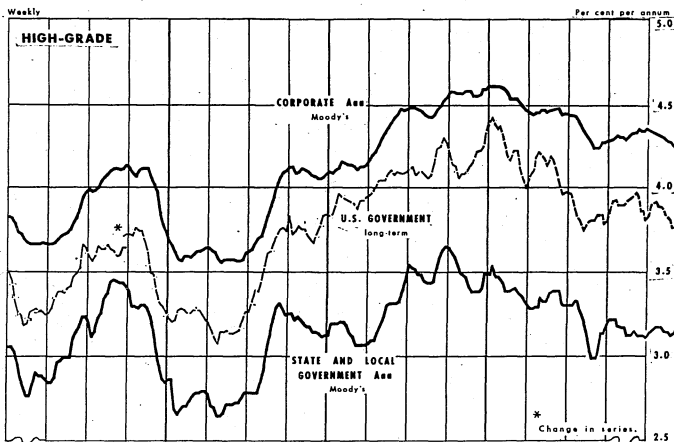
More detailed information concerning recent capital market developments is presented in the attached exhibits.

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



## 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
1960 - Low	4.23 (9/9)	3.75 (8/5)	2.99 (9/1)	.19	.53
1961 - High	4.34 (1/6)	3.92 (1/20)	3.18 (3/9)	.50	.76
Low	4.22 (3/10)	3.75 (3/10)	3.12 (2/23)	.40	.57
Feb. 10	4.28	3.84	3.14	.44	.70
Feb. 17	4.27	3.81	3.14	.46	.67
Feb. 24	4.25	3.76	3.12	.49	.64
Mar. 3	4.23	3.77	3.13	.46	.64
Mar. 10 p/	4.22	3.75	3.18	.47	.57

## 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
1960 - Low	4.98 (9/9)	3.98 (12/29)	.71	.86
1961 - High	5.12 (1/27)	4.09 (3/9)	.81	.93
Low	5.02 (3/10)	4.03 (1/5)	.74	.90
Feb. 10	5.07	4.05	.79	.91
Feb. 17	5.07	4.05	.80	.91
Feb. 24	5.06	4.05	.81	.93
Mar. 3	5.04	4.05	.81	.92
Mar. 10 p/	5.02	4.09	.81	.91

p/ Preliminary.

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

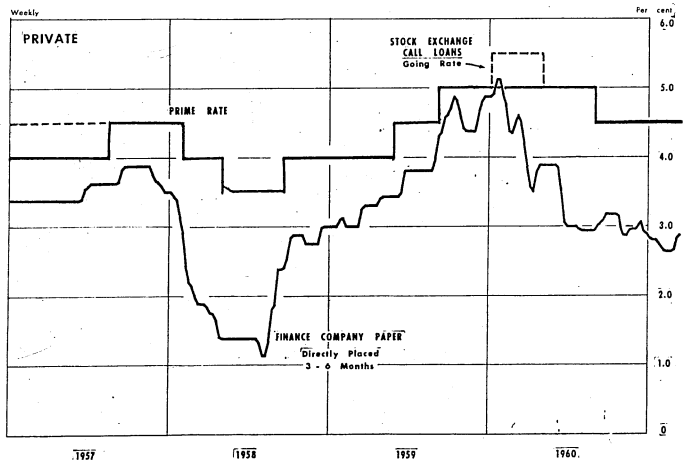
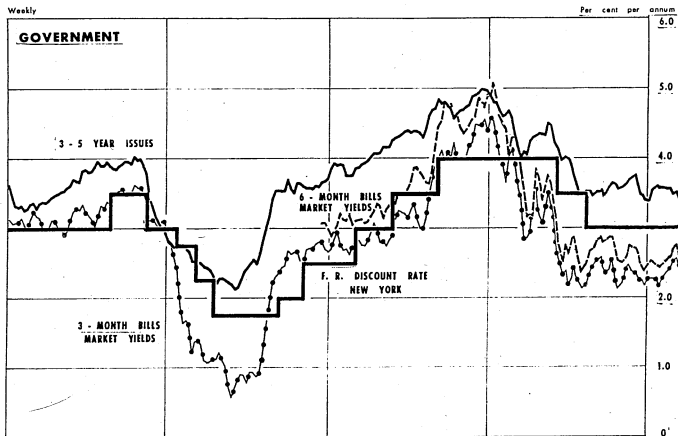
2/ Weekly average of daily figures. The series includes bonds due or callable in 10 years or more.

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**



1957

1958

1959

1960

## 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 (12/28)	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
1960 - Low	3.00	2.11 (10/28)	2.38 (12/30)	3.40 (12/30)	.16	.38
1961 - High	n.a.	2.56 (3/3)	2.75 (3/3)	3.59 (1/20)	.25	1.40
Low	n.a.	2.17 (1/27)	2.42 (1/27)	3.36 (3/10)	.12	.92
Feb. 10	3.00	2.35	2.55	3.56	.20	1.21
Feb. 17	3.00	2.40	2.59	3.56	.19	1.16
Feb. 24	3.00	2.51	2.68	3.46	.17	.97
Mar. 3	3.00	2.56	2.75	3.49	.19	.93
Mar. 10 p/	3.00	2.44	2.56	3.36	.12	.92

## 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 (8/27)	
1959-60 - High	5.50	5.00	5.13 (1/??/60)	1.02 (3/25/60)	
1960 - Low	4.50	4.50	2.88 (12/30)	.22 (4/15)	
1961 - High	n.a.	n.a.	2.88 (3/10)	.56 (1/20)	
Low	n.a.	n.a.	2.63 (2/17)	.15 (2/24)	
Feb. 10	4.50	4.50	2.63	.28	
Feb. 17	4.50	4.50	2.63	.23	
Feb. 24	4.50	4.50	2.66	.15	
Mar. 3	4.50	4.50	2.84	.28	
Mar. 10 p/	4.50	4.50	2.88	.44	

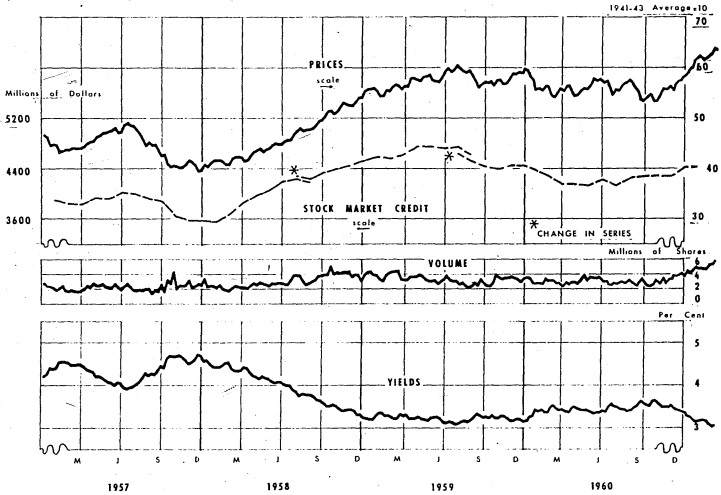
1/ Weekly rate shown is that in effect at end of period. Discount rate is for Federal Reserve Bank of New York. Stock Exchange call loan rate is going rate on call loans secured by customers' stock exchange collateral at New York City banks. Prime rate is that charged by large banks on short-term loans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

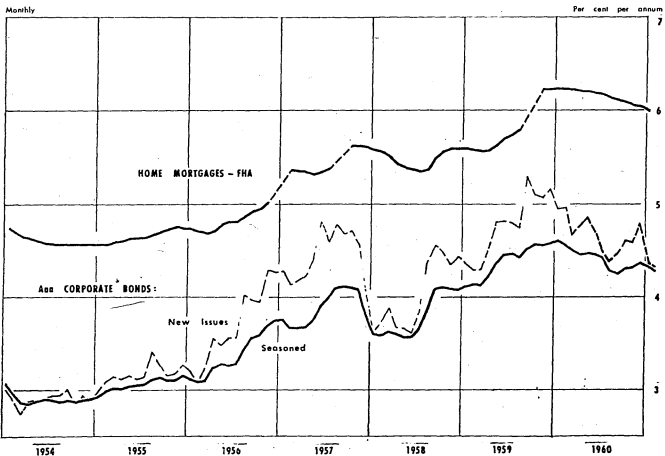
3/ Average of daily rates published by finance companies for directly placed paper for varying maturities in the 90-179 day range.

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.

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 (12/30/57)	4.72	1.4	3,554 (1/58)	2,482 (12/57)	1,060 (11/57)
1961 - High	63.95 (3/3)	3.04	5.8	n.a.	n.a.	1,172 (1/6)
Low	58.48 (1/6)	3.32	3.6	n.a.	n.a.	1,159 (2/17)
January	59.72	3.28	4.2	4,416	3,253	1,163
February	62.17	3.13	4.9	n.a.	n.a.	1,166
Feb. 24	62.84	3.10	5.2	n.a.	n.a.	1,166
Mar. 3	63.95	3.04	5.4	n.a.	n.a.	1,165
Mar. 10 p/	63.48	3.06	5.8	n.a.	n.a.	n.a.

n.a.--Not available.

1/ 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 now 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 - 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
February	n.a.	4.31	4.27	n.a.	.04

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 semi-annual 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 mutual gas and foreign companies) weighted by size of issue. Yields on Aa and A issues are first adjusted to an Aaa basis and then compared to 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.

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/650	715	738	e/600	623	858
March	e/500	860	646	e/650	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		874	879		339	597
November		959	864		502	519
December		876	900		e/481	455
1st quarter	e/1,650	2,151	2,204	e/1,975	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		2,709	2,642		e/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		9,655	9,392		e/7,444	7,793
	Excluding finance companies 3/					
1st quarter	e/1,350	1,722	1,599			
2nd quarter		2,150	2,412			
3rd quarter		2,017	1,716			
4th quarter		e/2,309	2,503			
Year		e/8,198	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.



Other Security Offerings <sup>1/</sup>

(In millions of dollars)

	Long-term					
	Foreign government <sup>2/</sup>			Federal agency <sup>3/</sup>		
	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	41	70	74	181	86	--
Year	533	547	992	1,672	707	2,321
	Short-term					
	State and local government <sup>4/</sup>			Federal agency <sup>3/</sup>		
	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	241	733	154
November	499	343	415	282	471	114
December	279	358	243	177	288	137
Year	4,006	4,179	3,910	4,817	6,047	3,098

<sup>1/</sup> Preliminary.<sup>2/</sup> 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.<sup>3/</sup> Includes securities offered in the United States by foreign governments and their subdivisions and by international organizations. Sources: Securities and Exchange Commission.<sup>4/</sup> Issues not guaranteed by the U. S. Government. Sources: Long-term, Securities and Exchange Commission; short-term, Federal Reserve.<sup>5/</sup> Principally tax and bond anticipation notes, warrants or certificates and Public Housing Authority notes. In some instances PHA notes included may have a somewhat longer term than one year. Source: Bond Buyer.

## Exhibit I

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

## Proceeds of Large Issues Offered

(In millions of dollars)

Month	Corporate	State and local government	Other <u>2/</u>
1960 - 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	46	77
November	465	186	150
December	260	222	99
1961 - January	147	391	--
February	267	360	--

## Large Individual Issues Offered March 1 through 10

Issuer	Type <u>3/</u>	Amount (millions of dollars)	Maturity	Coupon rate or net interest cost	Offering yield	Rating
<u>CORPORATE</u>						
None						
<u>STATE AND LOCAL GOVERNMENT</u>						
Commonwealth of Puerto Rico	G.O.	40.0	1962-81	3.89	1.75-4.00	A
Denver, Colorado	G.O.	15.0	1972-99/81	3.55	2.85-3.60	Aa
State of New Jersey	G.O.	20.9	1968-88/79	3.16	2.40-3.30	Aaa
St. Paul, Minnesota	G.O.	10.6	1962-91	3.35	1.60-3.50	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 - 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	--	335	560	--
Dec. 30	91	412	--	1,036	682	--
1961 - Jan. 31	110	181	--	1,046	360	--
Feb. 28	55	307	--	1,125	638	--

Forthcoming Large Offerings, as of March 10

Issuer	Type	Amount (millions of dollars)	Approximate date of offering
<u>CORPORATE</u>			
American Machine & Foundry Co.	Conv. deb.	39.5	Mar. 16 (rights expire)
Southwestern Public Service Co.	1st mtg. bds.	15.0	Mar. 23
Southern Calif. Edison Co.	1st ref. mtg. bds.	30.0	Apr. 5
*Flinkote Co.	Deb.	35.0	Apr. 5
*Tennessee Gas Trans. Co.	Pfd. stk.	20.0	Apr. 6
American Telephone & Telegraph Co.	Com. stk.	e/975.0.	Apr. 14 (rights expire)
*Mead Corp.	Deb.	25.0	Apr. 18
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>			
Duval Co., Florida	G.O.	15.0	Mar. 14
Pennsylvania Gen. State Auth.	Rev.-rent.	25.0	Mar. 14
*Columbus, Ohio	G.O.	12.8	Mar. 20
State of Massachusetts	G.O.	62.5	Mar. 21
Wash. Sanitation Dist., Md.	G.O.	10.0	Mar. 28
Detroit Sch. Dist., Mich.	G.O.	10.0	Mar. 28
Commonwealth of Kentucky	G.O.	100.0	March
*State of Michigan	Rev.-ut.	25.0	Apr. 4

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

Issuer	Type	Amount (millions of dollars)	Approximate date of offering
<u>STATE AND LOCAL GOVERNMENT (Cont'd)</u>			
*State of California	G.O.	190.0	Apr. 5
Mass. Turnpike Auth.	Rev.	175.0	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 (12/8/59)	87	5.65 (9/18/59)	123
Low	2.93 (3/31/54)	-8	3.00 (3/17/54)	-15
1959 - Oct.	5.13 <sup>2/</sup>	36	5.33	43
Nov.	*5.08	42		
Dec.	*5.30	63	5.45	51
1960 - Jan.			*5.30 <sup>2/</sup>	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 <sup>2/</sup>	17		
Oct. 5	4.63 <sup>2/</sup>	24		
21	4.67 <sup>2/</sup>	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
16			4.65	-5
16			4.47	13

\*--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.

March 13, 1961

Part II - Canada

-15-

Money and capital markets showed little change last week. Bill and bond yields remained at, or close to, the levels of the preceding week. During the week only minor changes occurred in the security holdings of the Bank of Canada, the chartered banks and the general public.

However, the press reported increased American interest in Canadian short-term investments. During the week, the incentive in favor of the Canadian Treasury bill over the New York bill increased by about one-fourth of one per cent as the forward Canadian dollar shifted from a discount to a premium.

Stock prices continued to rise with increased trading on Canadian exchanges. The Canadian dollar strengthened slightly during the week.

Money market. There was no change in Canadian Treasury bill yields during the week. The average yield of the 3-month bill at last Thursday's auction remained constant at 3.21 per cent. The 6-month bill eased only slightly to 3.41 per cent. The Bank of Canada increased its holdings of Treasury bills by \$2 million while the chartered banks sold \$2 million and the general public sold \$1 million.

As a result of the decline in the U.S. 3-month bill yield, the spread favoring the Canadian bill widened to 0.78 per cent on March 9, compared with 0.67 per cent on March 2. Despite the widening of the spread, the forward Canadian dollar went to a premium last week for the first time since end-October, thus making the return on the Canadian bill covered for exchange risk greater than on an uncovered basis. At last Thursday's auction, this return rose to 0.84 per cent per annum from 0.61 per cent on March 2.

The press reported increasing American interest in Canadian short-term Treasury bills, finance company paper, and commercial paper since the beginning of the year. Although the amounts now being sold are not known, it is reported to be a record level. This increased interest is said to have emanated in fact from certain tax incentives which permit pooling of earnings for manufacturing with earnings from short-term paper, subject to lower tax rates.

Bond market. There was little change in Canadian bond yields during the week with only slight easing in the shortest maturities. The spread favoring the Canadian securities widened some as a result of declines in U.S. yields. The spread between comparable Canadian and U.S. securities follows (figures in parentheses refer to the previous week):

0.78 per cent on a 91-day bill (0.67)  
0.91 per cent on a 182-day bill (0.69)  
1.04 per cent on a 8-year bond (0.99)  
1.31 per cent on a 30-year bond (1.30)  
1.49 per cent on a 35-year bond (1.48)

The Bank of Canada sold \$11 million of over-2-year bonds and offset them by buying \$12 million of under-2-year maturities. The Government Accounts purchased \$5 million of bonds while the chartered banks sold \$5 million and the general public sold \$1 million.

According to the Canadian press, the new Canadian Government short-term issue (see Capital Market Developments, March 8, 1961) was well received. However the Bank of Canada purchased \$25 million of the \$100 million being offered to the public.

The press indicated that the City of Montreal is considering raising \$100 million through the sale of bonds, possibly in the United States. Some strengthening in the spot rate on the Canadian dollar followed this report.

Stock market. Industrial stock prices continued to rise through the week ending March 3, and fell off slightly early in the following week. The following table compares indices of industrial prices in Toronto, Montreal, and New York Standard & Poor:

	<u>Toronto</u>	<u>Montreal</u>	<u>New York Standard &amp; Poor</u>
1960 High	532.94	320.0	65.00
Low	472.38	258.5	55.34
1961 Feb. 24	547.94	296.1	66.38
27	547.75	295.2	66.98
28	550.75	295.8	67.08
Mar. 1	550.63	297.1	67.09
2	551.79	298.3	67.58
3	553.50	298.8	67.72
6	552.06	299.7	67.87
7	584.25	298.1	67.21

The quantity of stocks sold on all Canadian exchanges rose again during the week ending March 3, to \$11.1 million compared with \$10.2 million the previous week and \$9.8 million the week before.

Foreign exchange. The Canadian dollar continued to strengthen through the week and closed at 101.7 (U.S. cents) last Thursday compared with 101.5 (U.S. cents) the week before. In spite of a widening of the spread favoring the Canadian short Treasury bill, the forward rate on the Canadian dollar moved to a premium for the first time since October 1960. This trend would seem to indicate substantial investment in the Canadian bill is on an uncovered basis (see Chart).

British Commonwealth Section  
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Selected Canadian Money Market and Related Data

-17-

	3-mo. Treas. bills			Canadian dollar			Net incen- tive 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	4.53	1.62	105.27	--	0.99	1.99
Low	1.68	2.10	-0.82	100.33	--	-0.91	-0.57
Feb. 16	2.86	2.38	0.48	100.98	100.97	-0.06	0.42
23	3.11	2.54	0.57	101.45	101.42	-0.12	-0.45
Mar. 2	3.21	2.54	0.67	101.50	101.48	-0.06	0.61
9	3.21	2.43	0.78	101.72	100.74	0.06	0.84

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
Feb. 16	3.15	0.58	4.64	0.84	5.08	1.29	5.15	1.37
23	3.37	0.65	4.63	0.95	5.01	1.30	5.06	1.50
Mar. 2	3.43	0.69	4.66	0.99	5.06	1.30	5.06	1.48
9	3.41	0.91	4.65	1.04	5.06	1.31	5.04	1.49

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.</u> <u>bills</u>	<u>Bonds</u>		<u>Total</u>	<u>Treas.</u> <u>bills</u>	<u>Bonds</u>	<u>Savings</u> <u>bonds</u>	<u>Treas.</u> <u>bills</u>
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
16	+ 10	- 30	- 9	- 8	+ 22	+ 7	+ 6	+ 8
23	- 4	+ 12	- 6	+ 18	+ 7	- 7	- 9	- 19
Mar. 2	+ 4	+ 42	- 36	+ 3	+ 1	- 6	- 7	- 7
9	+ 2	+ 1	+ 4	- 2	- 5	- 3	+ 1	- 1

**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>Feb. 9</u>	<u>Feb. 2</u>	<u>Feb. 23</u>
1. Money supply:						
Currency and deposits	13,768	13,811	13,763	13,720	13,727	13,690
Less: Govt. deposits	628	548	354	519	507	467
Equals: privately held	13,140	13,263	13,409	13,201	13,220	13,223
Change in period	- 241	+ 123	+ 146	- 208	+ 19	+ 3
2. General bank loans	1/5,027	1/5,117	1/5,076	5,013	4,996	4,991
Change in period	+ 56	+ 90	- 41	+ 21	- 17	- 5
3. Total Govt. securities:	17,994	17,760	17,239	17,736	17,742	17,734
Of which: Treas. bills	1,985	1,985	1,985	1,985	1,985	1,985
Bonds	12,377	12,179	12,161	12,161	12,160	12,160
Savings bonds	3,632	3,596	3,493	3,590	3,597	3,589
4. New security issues:	1,044	1,311	788	159	390	131
Of which sold in U.S.	0	14	1	0	4	0
5. Chartered bank liquidity:						
Cash reserve	986	1,017	1,027	1,015	1,018	1,002
Cash ratio	8.1	8.2	8.2	8.1	8.1	8.0
Liquid assets	2,125	2,093	2,189	2,287	2,284	2,261
Liquid asset ratio	17.3	16.8	17.4	18.2	18.2	18.0

1/ Seasonally adjusted.

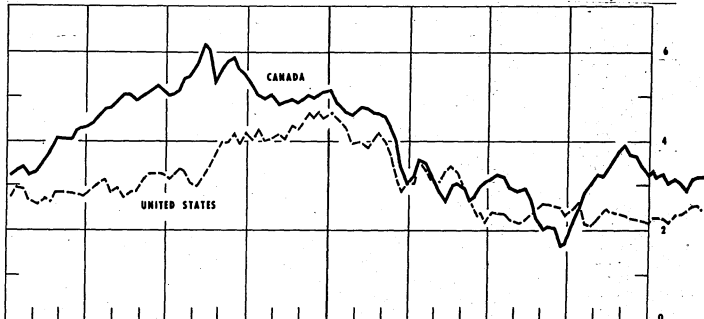
2/ Source: A. E. Ames & Co., Ltd. (Includes public and private securities.)

### CANADA - UNITED STATES

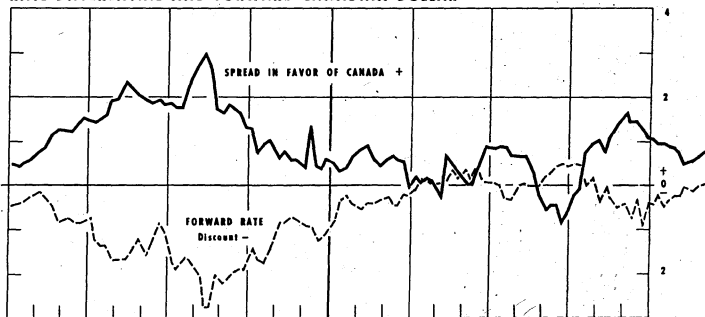
#### THREE-MONTH TREASURY BILL RATES

Thursday figures

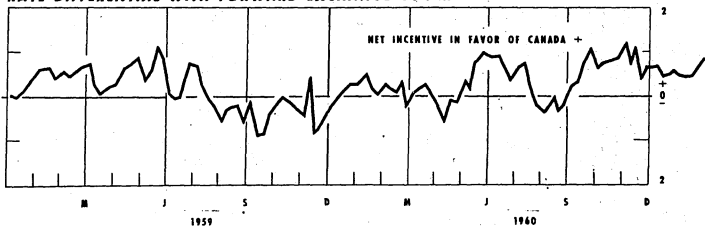
Per cent per annum



#### RATE DIFFERENTIAL AND FORWARD CANADIAN DOLLAR



#### RATE DIFFERENTIAL WITH FORWARD EXCHANGE COVER



March 13, 1961

## Appendix 1

United Kingdom: Money and Capital Markets During February

Interest rates moved up in London money and securities markets during January. The rise in Treasury bill rates brought to an end a 5-month decline. Bond yields were at record highs and bond prices in February and early March were below January levels.

Weakness of sterling in the foreign exchange market contributed to the general rise in interest rates. During the month the spot rate fell further by nearly 1.5 U.S. cents. A sharp fall in official reserves of £18 million (\$50.4 million) in February was the first fall since January 1960.

This weakness of the pound appears to have reflected a change in foreign attitude about the dollar rather than any general market concern about the pound. After British bond yields failed to fall in the wake of October and December cuts in Bank rate, foreign investors are reported to have sold British bonds. In turn, rising U.S. stock prices have attracted funds from the London market.

The return of the free gold price in London to the level prevailing before the October boom also reflected, among other factors, the improved status of the U.S. dollar. The foreign exchange and bullion markets were unsettled after the revaluation of the D-mark and the Dutch guilder was announced on March 4.

The Treasury bill yield in London continued to exceed the New York bill rate by 2 per cent. The net incentive in favor of London with the exchange risk covered remained above one per cent until mid-February but fell below 0.90 per cent per annum as the forward discount for the pound widened.

Money market conditions. After declining for the preceding 5 months, money market rates rose continually through February and early March. The yield on the United Kingdom 3-month Treasury bill rose from 4.17 per cent on February 3 to 4.44 per cent by March 3 (see Table). The spread between the British and U.S. Treasury bill yields continues to be just under 2 per cent.

The incentive to hold the London bill rather than the U.S. bill (with exchange risk covered) remained over one per cent until mid-February. Thereafter it declined by about 18-19 basis points because the discount on forward sterling widened (see Table and Chart).

Bond market. Yields on undated British Government bonds rose further in early February to new record highs. Thereafter they declined slightly but by early March yields had regained their earlier levels (see Table). The yield on undated 3-1/2 per cent War Loan stood at its all-time high of 6.18 per cent in early March and the yield on 2-1/2 per cent Consols was at its highest level since the summer of 1798.

Yields on intermediate Government bonds continued to rise following a slight decline in late February while yields on shorter-term issues eased slightly (see Table).

Details were announced on February 27 of the offer for sale by the Iron and Steel Holding and Realisation Agent of some £105 million of securities representing the hitherto nationalized steel industry.

New capital issues. New capital issues on the London market (excluding Treasury operations) during January totaled £45.7 million compared with £36.0 million in January 1960, according to estimates of the Midland Bank. Total new issues were broken down as follows (in millions of pounds):

<u>Borrowers</u>	<u>Jan. 1960</u>	<u>Jan. 1961</u>
United Kingdom	32.8	45.4
Overseas	<u>3.2</u>	<u>0.3</u>
Total	36.0	45.7

Sterling balances. Over the year 1960, sterling liabilities to all countries increased by £380 million to a total of £4,436 million. Sterling area countries ran down their balances by £224 million and other countries invested an extra £604 million in London. Some £243 million came from North America and £312 million from Western Europe.

In the fourth quarter of 1960, sterling holdings rose by £89 million. Those of nonsterling countries went up by £241 million; this included a rise of £170 million in North American holdings, which was largely the acquisition of £131 million by the Ford Motor Co. in anticipation of payment in January for the minority interest in the U.K. Ford company. Holdings of the rest of the sterling area fell by £97 million. Those of nonterritorial organizations fell by £55 million, mainly because of the final repayment (£30 million) by the United Kingdom in October of the 1956 drawing from the IMF and a further voluntary repurchase (£17 million) in December. The principal increase in sterling balances held outside the sterling area was concentrated in the last three quarters of 1960 as may be seen in the following table (in millions of pounds):

<u>End of period</u>	<u>Rest of sterling area</u>		<u>No. America</u>		<u>Western Europe</u>		<u>Latin America</u>	
	<u>Offi- cial</u>	<u>Pri- vate</u>	<u>Offi- cial</u>	<u>Pri- vate</u>	<u>Offi- cial</u>	<u>Pri- vate</u>	<u>Offi- cial</u>	<u>Pri- vate</u>
Dec. 1959	2,165	539	5	55	99	288	8	4
Mar. 1960	2,156	514	8	50	102	306	25	-
June 1960	2,154	520	8	83	131	358	36	5
Sept. 1960	2,085	492	6	127	305	427	54	6
Dec. 1960	2,480		303		699		65	

End of period	Other		Nonterritorial organizations	Total	
	Official	Private		Official	Private
Dec. 1959	213	131	705	3,195	1,017
Mar. 1960	200	131	688	3,179	1,001
June 1960	212	107	611	3,202	1,073
Sept. 1960	202	139	604	3,156	1,191
Dec. 1960		340	549		4,436

Source: Bank of England Quarterly Bulletin, December 1960, and mimeographed Treasury release.

Trade balance. The seasonally adjusted trade gap in January remained at about the monthly average for 1960. Exports (including re-exports) rose from their December level of £314 million to £331 million in January, while imports rose from £387 million in December to £401 million in January.

Clearing bank loans. Loans of the London clearing banks rose by £43 million in the month to mid-February. However, this figure may not be comparable to previous figures because between £20 million and £30 million may have been transferred from loans to liquid assets as a result of new facilities offered by the Bank of England whereby medium-term export credits within eighteen months of maturity may be considered by the banks as liquid assets rather than loans. Thus there appears to have been a residual rise in the range of £55 million to £65 million in bank loans. Gilt-edged investments during the month were reduced by a further £18 million, while gross deposits fell by £180 million. The average liquidity ratio fell a full two points to 31.1 per cent from its level of 33.1 per cent in the month to mid-January. The mid-January figure was abnormally large because of technical factors due to the transfer of several of Lloyd's Eastern branches to another bank.

Installment credit. New credit extended by finance houses (mainly for motor vehicles) declined more than seasonally in December and was 33 per cent lower than a year ago. Despite a small seasonal increase in credit sales by household goods shops, total installment credit debt outstanding fell during the month by £7 million, to £935 million.

Building and loan associations. The Building Societies Association 77 per cent sample of all societies shows record home loans in 1960 of £417 million, indicating a figure for the whole movement of some £540 million, against £511 million in 1959. Combined assets of all societies at the end of 1960 are estimated at about £3,200 million, compared with £2,902 million a year earlier. For the final quarter net receipts from investors of £48 million compared with £26 million in the third quarter and £54.4 million in the final quarter of 1959. Final quarter (1960) advances of £108 million included £12.5 million lent on pre-1919 houses. The house mortgage rate is unlikely to fall below 6 per cent for many months to come, according to the Building Societies Associations.

Bullion market. The price of gold on the London bullion market continued to fall through February from \$35.2940 per fine ounce early in the month to \$35.0822 by early March. It is now at the level at which it tended to fluctuate narrowly about before the mid-October boom.

	<u>Sterling fixing price</u>	<u>Spot sterling</u>	<u>Dollar fixing price</u>
Feb. 3	251/9	280.39	35.2940
10	251/-	280.17	35.1613
17	250/11	279.95	35.1220
24	250/10	279.73	35.0828
Mar. 3	251/-	279.54	35.0822

Foreign exchange. Spot sterling has fallen steadily since mid-January (see Table). From 280.73 U.S. cents on January 29 spot sterling fell to 279.30 U.S. cents by March 7.

The discount on 3-month forward sterling widened in late February (see Table), while the discount on security sterling has narrowed (see Chart).

Britain's gold and foreign currency reserves fell by £18 million in February to £1,141 million. This is the first fall in over a year.

Stock market. Stock prices tended to rise generally through February and early March with the Financial Times index of share prices rising from 315.0 on February 3 to 328.9 on March 3 (see Table).

British Commonwealth Section  
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United Kingdom: Treasury Bill Yields and Exchange Rates

Date	3-mo. Treasury bill			Discount on 3-mo. sterling <sup>c/</sup>	Net incentive to hold U.K. bill <sup>d/</sup>	Exchange rate	
	U.K. <sup>a/</sup>	U.S. <sup>b/</sup>	Differ- ence			Spot sterling <sup>e/</sup>	Discount on 3-mo. sterling <sup>f/</sup>
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	1.23	279.83	(P) .47
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	4.78	2.22	1.56	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
10	4.30	2.39	1.91	0.83	1.08	280.20	0.58
17	4.38	2.40	1.98	0.91	1.07	280.00	0.64
24	4.40	2.52	1.88	1.00	0.88	279.63	0.70
Mar. 3	4.44	2.51	1.93	1.04	0.89	279.62	0.73

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

	6-year bond <sup>a/</sup>	15-year bond <sup>b/</sup>	War loan <sup>c/</sup>	Consols <sup>d/</sup>	Share yield <sup>e/</sup>	Yield gap <sup>f/</sup>	Share prices <sup>g/</sup>
1960 - High	6.11	6.00	5.94	5.70	4.96	1.49	338.6
Low	4.93	5.33	5.53	5.02	3.74	0.63	294.6
Jan. 6	6.11	5.97	5.85	5.70	4.73	0.97	310.6
13	6.10	6.26	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
10	6.10	6.08	6.15	5.85	4.61	1.24	322.5
17	6.07	6.07	6.18	5.86	4.60	1.26	319.9
24	5.96	6.26	6.13	5.80	4.56	1.24	323.4
Mar. 3	6.05	6.10	6.18	5.88	4.54	1.34	328.9

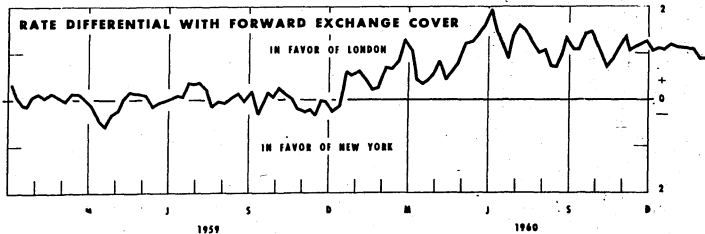
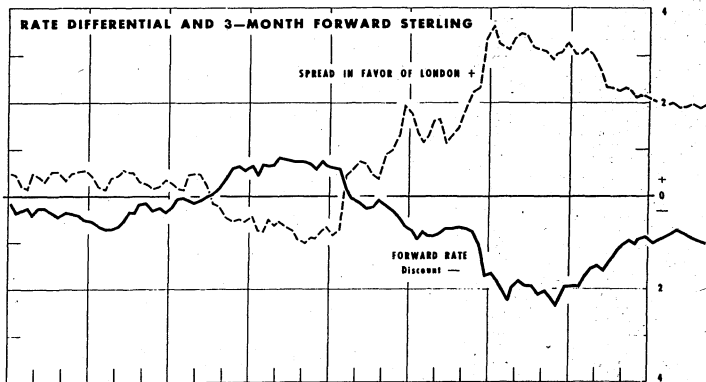
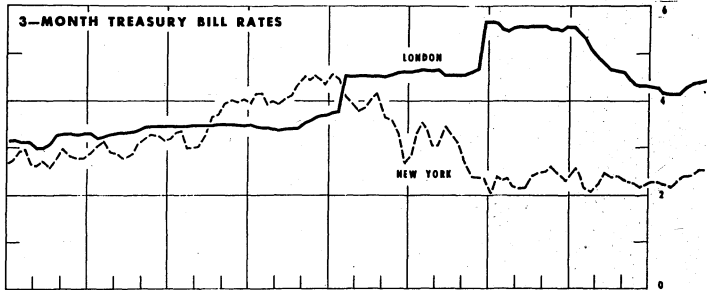
<sup>a/</sup> 5-1/2 per cent Exchequer, 1966.<sup>b/</sup> 3 per cent Savings Bond 1965-75.<sup>c/</sup> 3-1/2 per cent War Loan (undated).<sup>d/</sup> 2-1/2 per cent Consol (undated)<sup>e/</sup> Financial Times.<sup>f/</sup> Difference between yield on 2-1/2 per cent Consols and share yield.<sup>g/</sup> Financial Times.



### INTEREST ARBITRAGE, NEW YORK / LONDON

Friday figures

Per cent per annum



**UNITED KINGDOM**

