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CAPITAL MARKET DEVELOPMENTS ABROAD

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FEDERAL RESERVE BANK
OF RICHMOND

- I. Japan
- II. Nine Charts on Financial Markets Abroad

I. Japan: Money and Capital Markets in June

With a considerable improvement in the Japanese balance of payments in May and June, the Ministry of Finance announced on July 25 that the waiting period for remittance of capital by foreign investors would be reduced from two years to six months on August 1, 1962. The rate of Japanese foreign borrowing showed signs of slackening during the second quarter. For example, Japanese liabilities to U.S. banks totalled \$1,678 million in May compared with the peak of \$1,698 million in March. The reduced borrowing may have reflected in part the improved trade account in May and June. Should the trend over the past few months continue into the future, Japan may achieve balance-of-payments equilibrium in the second half of this year.

Money market conditions through June remained relatively tight and call loan rates were higher. A sharp expansion in central bank credit eased strong seasonal cash demands in connection with tax and bonus payments. Average interest rates remained relatively steady through May. The reduced level of new capital issues in May reflected in part the attractive rates in the call loan market.

Money Market.--A very large increase in Bank of Japan credit in June had the effect of easing somewhat money market conditions; nevertheless, call loan rates continued to remain firm. Because of the large cash demands for June summer bonus payments and certain tax obligations falling due, bank notes in circulation rose ¥98 billion and the Treasury had a surplus of ¥28 billion. These contractionary developments were more than offset by an ¥18 billion increase in Bank of Japan bond holdings and a ¥241 billion expansion in Bank of Japan loans and discounts.

Interest Rates.--The average interest rate for bank loans and discounts rose only slightly in April to 8.220 per cent per annum from 8.216 per cent in March. Since December 1961, the average rate has risen only 0.02 percentage points. This contrasts with a substantial rise during the last half of 1961 following increases in the Bank of Japan's basic discount rate in July and September. While interest rates have leveled off, it is possible that stricter enforcement of compensatory balance requirements may have added to monetary stringency this year.

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DECONTROLLED AFTER SIX MONTHS

Average Monthly Interest Rates on
Bank Loans and Discounts

	<u>1959</u>	<u>1960</u>	<u>1961</u>	<u>1962</u>
March	8.18	8.21	7.92	8.22 1/2
June	8.08	8.22	7.88	
September	8.06	8.14	8.00	
December	8.11	8.08	8.20	

1/ April

Call loan rates increased somewhat in June, as the rate for loans callable at a day's notice rose to 11.68 per cent from 10.95 per cent in May.

Bank Loans and Discounts.--Bank credit in May rose at about the same rate as a year earlier. Because of the heavy increase in holdings of securities in April, the April-May increase in bank credit was 3.1 per cent, somewhat higher than the 2.4 per cent increase a year earlier. As indicated in the table below, the rate of increase in loans and discounts in April-May was less than a year earlier, but this was more than offset by the 12.5 per cent increase in security holdings. Deposits in the April-May period rose only 0.6 per cent compared to 1.4 per cent a year earlier.

Commercial Banks: Quarterly Changes in Deposits and Principal Assets
(In billions of yen)

	M A I N A S S E T S							
	Deposits		Loans		Bills		Securities	
	Change	Per cent	Change	Per cent	Discounted	Change	Per cent	Change
1960 I	+249	3.4	+176	3.8	+ 54	2.5	+ 78	6.5
II	+ 96	1.3	+167	3.5	+ 87	3.9	+ 75	5.8
III	+506	6.5	+244	4.9	+172	7.5	+ 35	2.6
IV	+607	7.3	+347	6.7	+185	7.5	+127	9.1
1961 I	+502	5.7	+326	5.9	+ 48	1.8	+103	6.8
Apr.-May	+133	1.4	+ 92	1.6	+ 85	3.1	+ 69	4.2
II	+169	1.8	+206	3.5	+133	4.9	+104	6.4
III	+359	3.8	+216	3.6	+206	7.3	+ 43	2.5
IV	+430	4.3	+232	3.7	+220	7.2	+122	6.9
1962 I	+128	1.2	+256	3.9	+ 14	0.4	- 64	-3.4
Apr.-May	+ 59	0.6	+ 63	0.9	+ 75	2.3	+229	12.5

The proportion of bank loans and discounts extended for purchases of equipment remained at 17.4 per cent in May, the same level as in April.

Bond Market.--New issues of debentures in May, totaling ¥83 billion, were at the lowest level since April 1961 and were off ¥3 billion from the level in the previous month. There was a general decline in the volume of issues for all categories between April and May as new issues of bank debentures fell ¥2 billion to ¥56 billion, public corporate debentures dropped ¥1 billion to ¥16 billion and industrial debentures declined ¥1 billion to ¥11 billion. This probably reflects in part the increasing attractiveness of the call loan market where yields are substantially above those for bonds and debentures.

The average yields on various bonds and debentures remained unchanged in May from the levels since January, but the yield on industrial debentures rose slightly in May from the April level.

Stock Market.--Stock prices moved up in June and the first nine days of July, but declined during the rest of July. The rise from the low of May 30 to the high of July 9 was 9 per cent. Following a 5 per cent decline through July 28, stocks were up slightly in the following three trading days.

Dow Jones Average of 225 Stocks
Tokyo Stock Exchange

May 30	¥1,362	July 4	¥1,474	1961 High	¥1,830
		11	1,468	Low	¥1,250
June 6	1,417	18	1,479		
13	1,435	25	1,450	1962 High	¥1,590
20	1,433			Low	¥1,342
27	1,430	Aug. 1	1,412		

Foreign Trade.--In May and June there was a substantial narrowing in Japan's trade deficit as indicated by the seasonally adjusted data in the table below. The trade deficit, at a seasonally adjusted annual rate, fell to \$0.7 billion in the second quarter compared to \$1.5 billion in the first quarter. If past favorable trends continue, it is likely that balance of payments equilibrium will be achieved in the last half of this year. The seasonally adjusted trade figures (monthly, or monthly averages, on a customs basis in millions of dollars) in the table below are based on seasonal adjustment factors computed by the Bank of Japan under the U.S. census method.

		<u>Exports</u>	<u>Imports</u>	<u>Trade Balance</u>
1960	Year	338	374	- 36
	IV	355	395	- 40
1961	Year	353	484	-131
	I	343	427	- 84
	II	351	464	-113
	III	357	506	-149
	IV	364	516	-182
1962	I	471	492	-121
	Jan.	354	497	-143
	Feb.	382	498	-116
	Mar.	378	481	-103
	II	409	466	- 57
	Apr.	361	482	-121
	May	447	477	- 30
	June	420	439	- 19

Exchange Reserves and Capital Flows.--Japan's international reserves rose \$37 million in June to \$1,623 million. While reserves have been rising steadily since last December, a large part of the rise reflects foreign short-term borrowing.

The balance of payments, as measured on an exchange transactions basis, continued to improve in June. The current account deficit declined from \$45 million in May to \$4 million in June. This improvement, which was largely on trade account, more than offset a decline in both net short-term, and long-term, capital receipts from \$75 million in May to \$59 million in June. With net outpayments of \$18 million under errors and omissions, the over-all balance of payments registered a surplus of \$37 million compared to \$27 million in May.

Japanese short-term liabilities to the United States as reported by U.S. banks have declined from a high point reached in March. In the five months preceding the end of March, liabilities rose \$417 million to \$1,698 million. After dropping \$34 million in April, Japanese short-term liabilities rose \$14 million in May to \$1,678 million, a level still below the March peak.

	<u>1959</u>	<u>1960</u>	<u>1961</u>	<u>1962</u>		<u>1959</u>	<u>1960</u>	<u>1961</u>
Jan.	168	362	875	1,511	July	256	586	1,341
Feb.	175	372	952	1,598	Aug.	269	628	1,335
Mar.	204	420	1,069	1,698	Sept.	262	660	1,288
Apr.	224	456	1,159	a/1,664	Oct.	262	693	1,281
May	242	488	1,196	a/1,678	Nov.	275	711	1,292
June	260	497			Dec.	324	806	1,445

a/ Preliminary estimate.

The evident slackening in the rate of Japanese foreign borrowing during the second quarter of this year was reflected in figures released on the level of Japanese Euro-dollar borrowings. On July 12 the Bank of Japan announced that during June, Japanese bank deposits of Euro-dollars fell \$2 million to a total of \$316.5 million. In part this decline was also due to window-dressing operations of European banks at mid-year.

On July 25, Japan announced that effective August 1, 1962, the two-year waiting period for withdrawal of non-resident funds from investment in Japan would be reduced to six months. This applies to the proceeds from the sale of stocks, bonds, and investment trusts which were originally purchased with foreign exchange. Because the new waiting period is retroactive, all foreign investors may withdraw their funds if they have already completed the six-month waiting period.

Foreign Exchange.--Yen-dollar exchange rates remained relatively stable during June and the first half of July. Throughout June, the yen-dollar spot rate remained at the official support level. In the first week of July, the rates for the yen against the dollar strengthened slightly in both the spot and the forward markets, but in the second week of July the rates returned to their June levels. From June 4 through July 11, the three-month forward rate remained at par with the spot rate.

Customer's T.T. Exchange Rates of Bank of Tokyo in Tokyo

<u>Date</u>	<u>Yen-dollar spot middle rate</u>	<u>Three-month forward middle rate</u>	<u>Forward discount in per cent per annum</u>
May 25	361.10	361.25	.17
June 1	361.10	361.25	.17
8	361.10	361.10	--
15	361.10	361.10	--
22	361.10	361.10	--
29	361.10	361.10	--
July 6	361.05	361.05	--
13	361.10	361.10	--

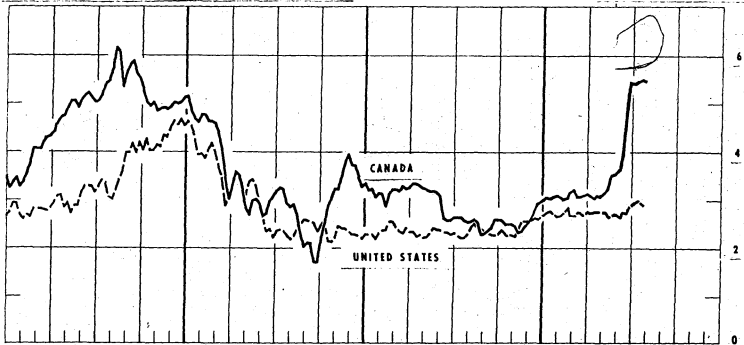
Asia, Africa, and Latin America Section.

INTEREST ARBITRAGE, UNITED STATES / CANADA

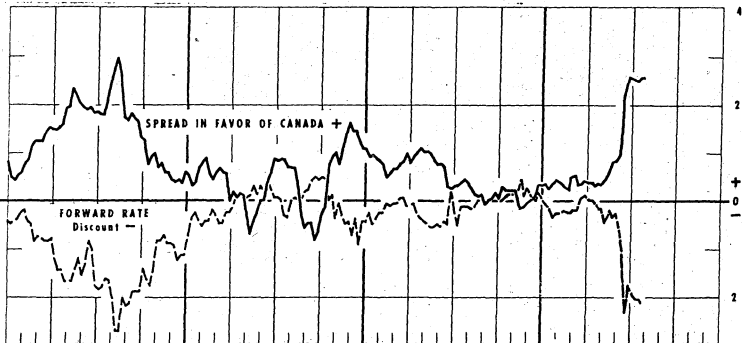
Thursday figures

THREE-MONTH TREASURY BILL RATES

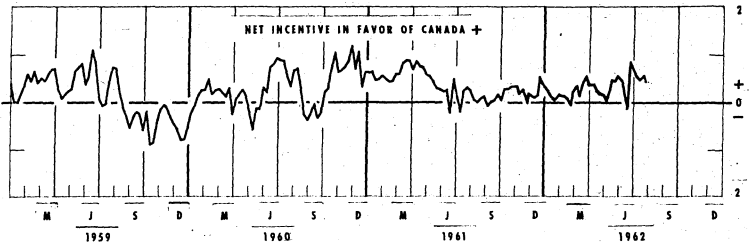
Per cent per annum



RATE DIFFERENTIAL AND FORWARD CANADIAN DOLLAR



RATE DIFFERENTIAL WITH FORWARD EXCHANGE COVER



INTEREST ARBITRAGE, NEW YORK/LONDON

Friday figures

Per cent per annum

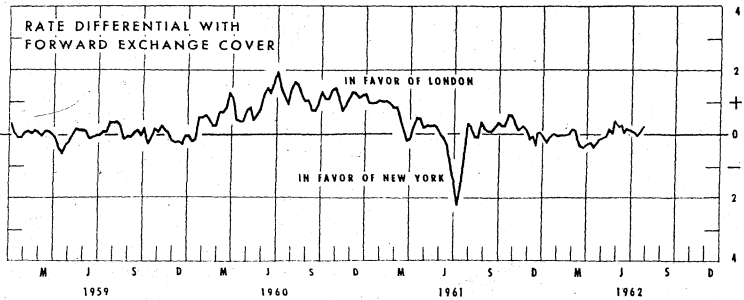
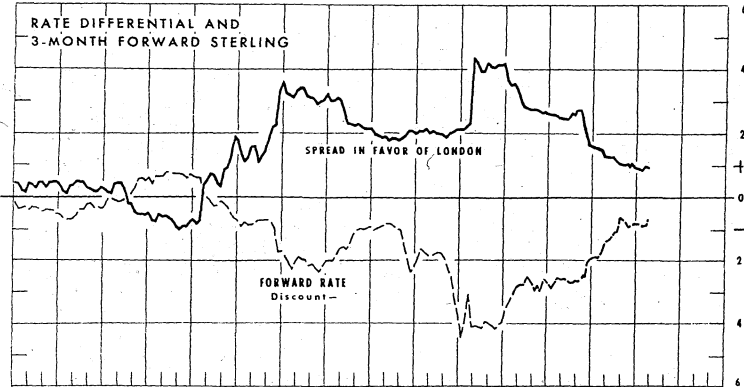
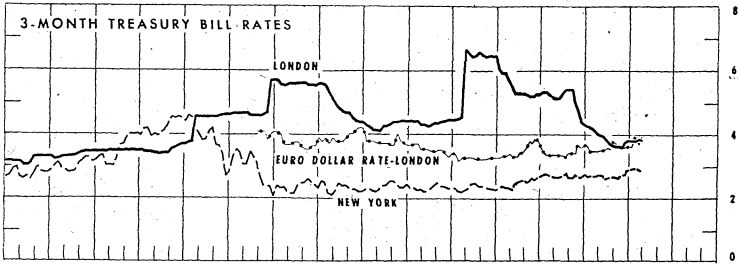
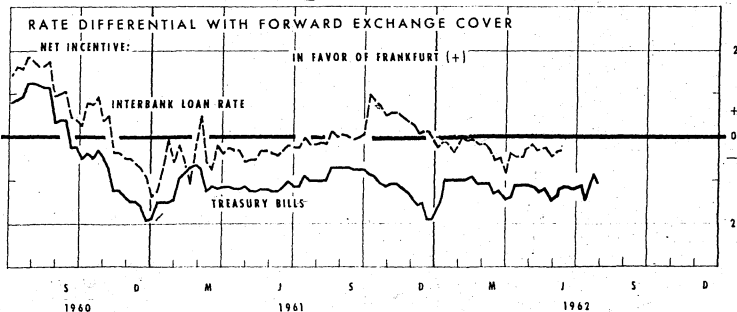
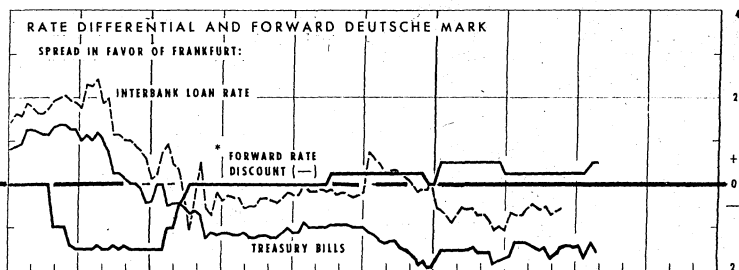
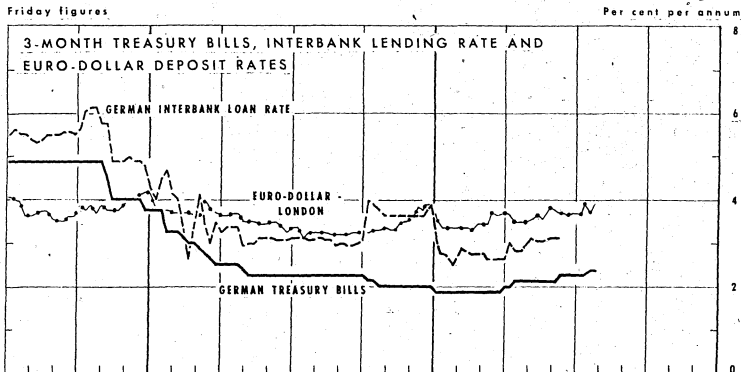


Chart 3
INTEREST ARBITRAGE FOR GERMAN COMMERCIAL BANKS



Notes: Special forward rate available to German commercial banks

Chart 4
INTEREST ARBITRAGE, FRANKFURT / LONDON

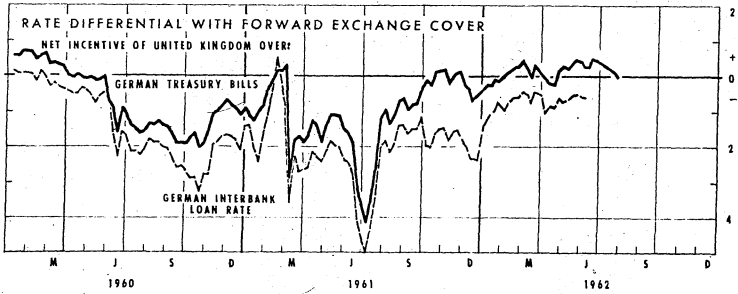
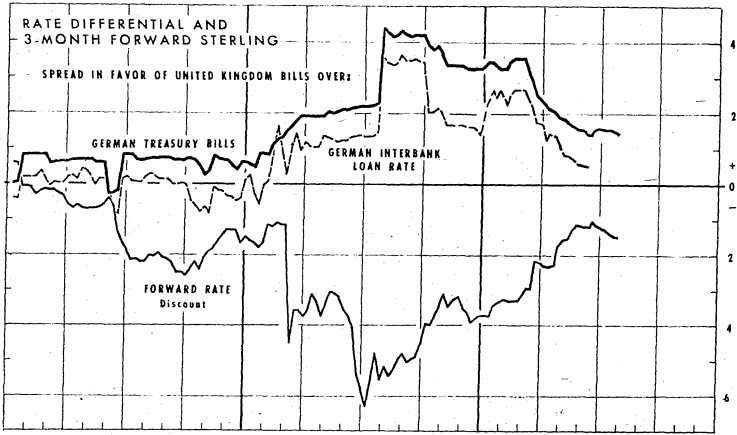
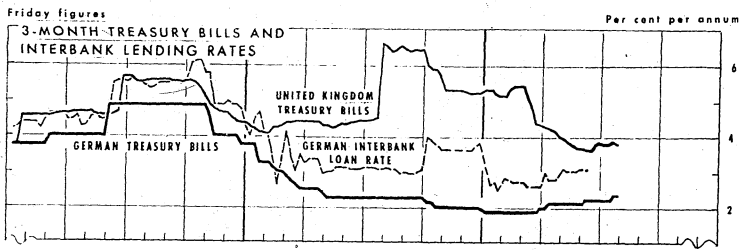
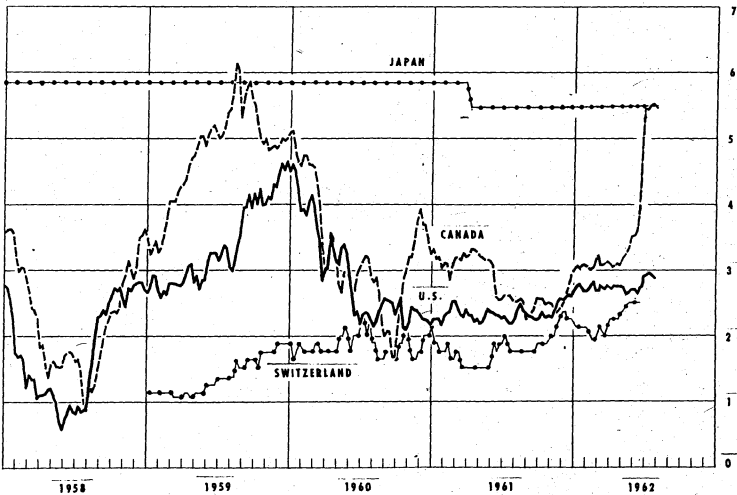
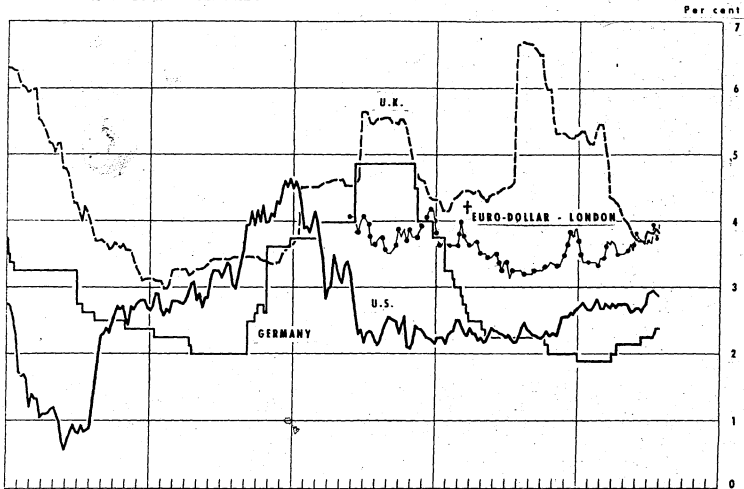


Chart 5
SHORT-TERM INTEREST RATES *



* 3-month treasury bill rates for all countries except Japan (3-month interbank deposit rate) and Switzerland (3-month deposit rate).
† 3-month rate for U. S. dollar deposits in London.

Chart 6

LONG-TERM BOND YIELDS

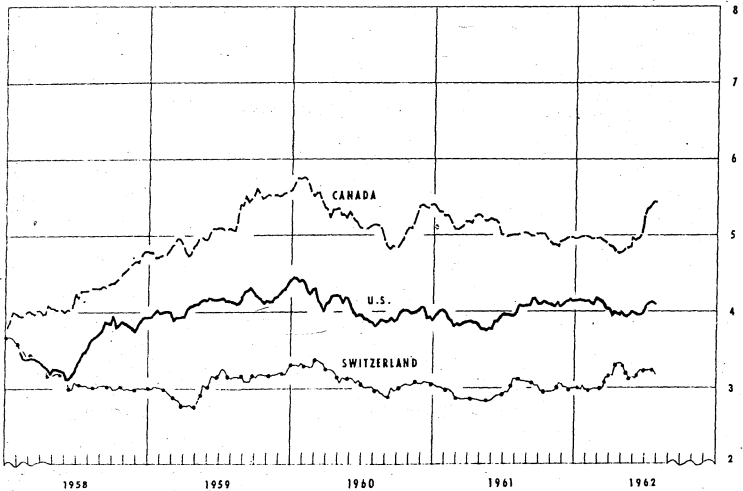
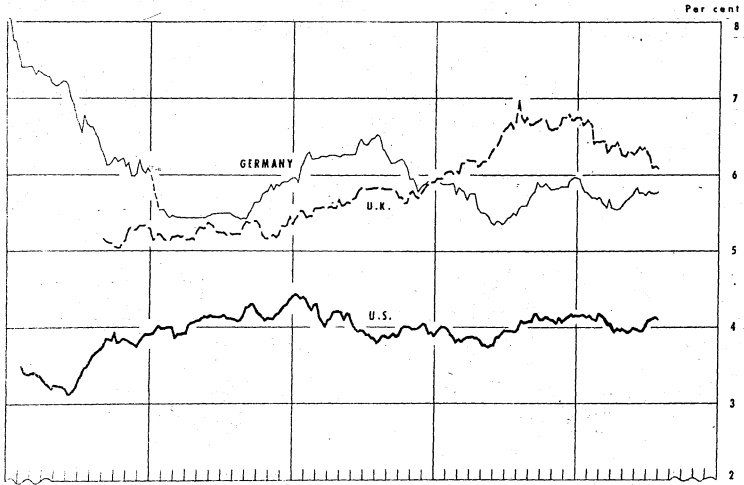
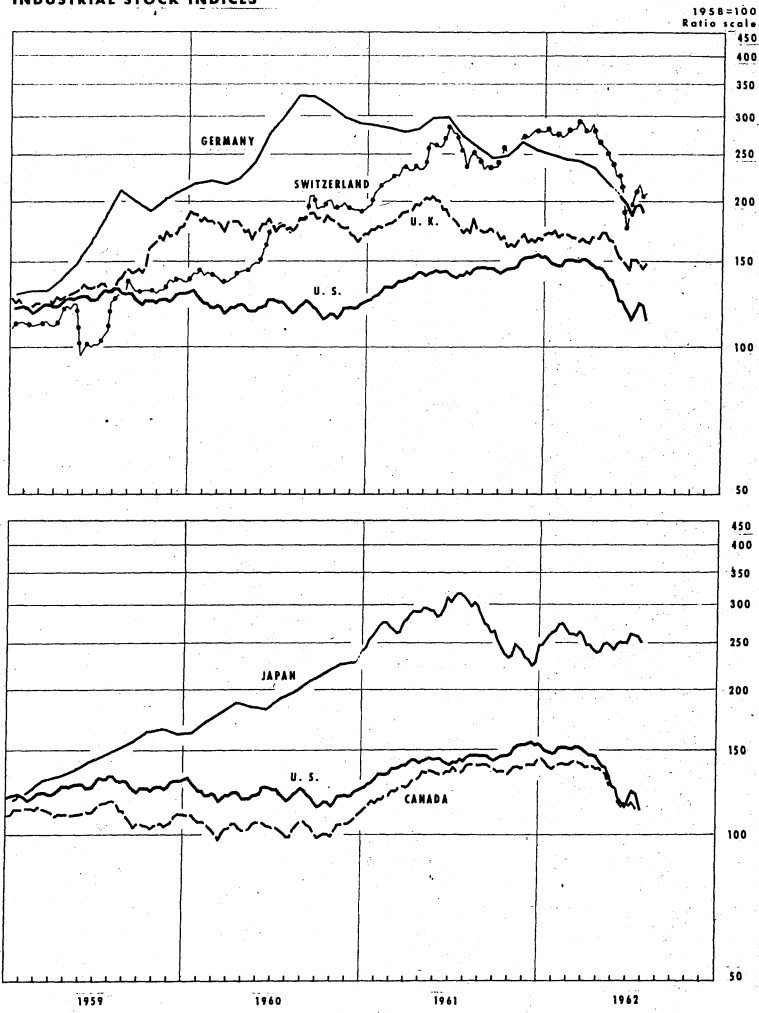
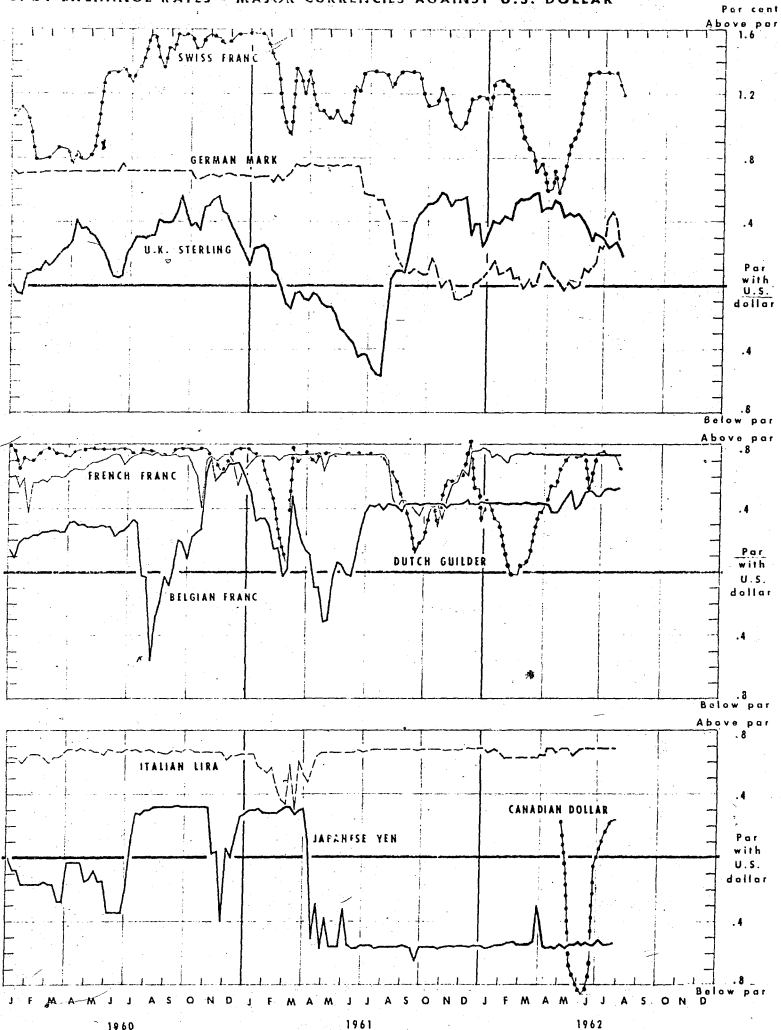


Chart 7
INDUSTRIAL STOCK INDICES*



* Note: Japan: index of all stocks traded on Tokyo exchange.

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



3-MONTH FORWARD EXCHANGE RATES

