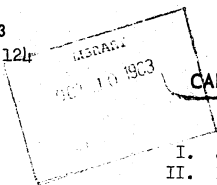


H. 13

No. 121r



October 2, 1963.

CAPITAL MARKET DEVELOPMENTS ABROAD

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

I. Japan: Money and Capital Markets in August-September

Effective August 29, the Government of Japan reduced the maximum permissible interest rates which foreign exchange banks may pay on Euro-dollar deposits. (See Table 1). This is designed to discourage the inflow of Euro-dollar funds, which had been expanding at an increasing rate since the level of permitted interest rates was increased on July 19. According to the Nihon Keizai, outstanding Euro-dollar deposits rose from a low of \$370 million at the end of June to \$390 million at the end of July and further to \$420 million by August 20. It also reports that a large part of the increase is due to the influx of short-term Euro-dollar funds of Soviet origin.

Table 1. Japan: Maximum Authorized Rates on Euro-dollar Deposits
(in per-cent per annum)

<u>Term</u>	<u>Before July 19</u>	<u>July 19-August 28</u>	<u>Current</u>
Less than 30 days	3.875	4.125	3.875
1-3 months	4.000	4.250	4.125
3-6 months	4.125	4.375	4.375
6-12 months	4.375	4.625	4.625
1 year and over	4.625	4.875	4.875

The latest change affects only Euro-dollar deposits of 3 months or less. This category has been the major area in which the largest increases are found in total Euro-dollar deposits; it is estimated that the proportion of the total in this category has risen from 30 to 40 per cent.

On August 31, the Japanese authorities are reported to have freed an additional 35 import items, including raw sugar, from direct restrictions. As a result, the ratio of trade liberalization has risen to 92.1 per cent. In August, imports continued to increase but the rise was more than offset by a large export expansion. As a result, the trade deficit fell by \$19 million. International reserves rose by \$26 million in August, and declined by \$3 million in September.

New Japanese security issues in the U.S. totaled \$27 million in August; however, there were no reported issues in September. U.S. bank loans to Japan rose by \$3 million in July, after falling by \$29 million in June. (See Table 2).

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(Decontrolled after 6 months)

Table 2. Japan: Short- and Long-term Borrowings

	Change during yr.			Change during period											
	1960	1961	1962	1962				1963							
				J	F	M	A	M	J	J	Aug	Sept	Oct	Nov	
Bank loans ^{1/}	180	722	212	250	-90	-17	20	11	116 ^{2/}	20	-29 ^{2/}	33 ^{2/}	n.a.		
Securities ^{2/}	30	58	111	23	30	22	27	51	71	25	21	23	27		
	512	780	353	273	16	8	56	61	202	45	5	36	n.a.		

1/ Short-term liabilities to U.S. banks.

2/ New security flotations.

3/ Preliminary.

Money market. Call loan rates remained unchanged in August despite a net contractionary impact from monetary developments. The expansionary influence in August of a \$22 billion increase in Bank of Japan loans and a \$13 billion decline in bank notes in circulation was more than offset by a \$4 billion decline in Bank of Japan bond holdings and net Treasury receipts of ¥153 billion.

Interest rates. The unconditional call loan rate (for loans repayable at a day's notice) remained unchanged at 7.3 per cent during August and through the first three weeks of September. The rate for overnight money remained at 6.9 3/4 per cent.

The average interest rate on bank loans and discounts continued its steady decline in June. (See Table 3). The June rate of 7.75 per cent was the lowest average interest rate in recent years.

Table 3. Japan: Average Monthly Interest Rates on Bank Loans and Discounts

	1959	1960	1961	1962	1963
March	8.18	8.21	7.82	8.22	8.22
June	8.28	8.22	7.88	8.23	7.75
September	8.06	8.11	8.00	8.24	
December	8.11	8.08	8.20	8.08	

Bank loans and discounts. Bank credit rose 1.7 per cent in July, compared to a rise of 1.3 per cent a year earlier. This is in line with the general tendency in five of the past seven months for bank credit to rise at a faster rate than in the corresponding months of 1962. In July, loans and bills discounted rose by 2. and 3.0 per cent, respectively, compared with increases of 1.1 and 0.7 per cent in July 1962. The rate of increase in security holdings in July 1963 was much smaller than a year earlier: 0.1 per cent as compared to 1.6 per cent. Deposits rose by 0.7 per cent in contrast to a 0.2 per cent increase a year earlier.

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The proportion of bank loans and discounts extended for purchases of equipment was 16.6 per cent in July, slightly higher than in June, but still less than the May ratio.

Bond market. New issues of domestic bonds totaled ¥117 billion in July, down ¥2 billion from June, but still higher than a year ago. New issues of public corporate debentures totaled ¥25 billion, ¥5 billion more than in May. New issues of bank debentures totaled ¥73 billion and industrial debentures ¥20 billion, marking a rise of ¥4 billion and a decline of ¥3 billion, respectively, from the May level.

The average yield of government securities and public corporation bonds was unchanged in July. However, the yield on industrial bonds fell to its lowest level of the year.

Stock market. During July and August, stock prices declined steadily. This decline was brought to a halt during the second week of September, after the Dow Jones stock index had fallen to the year's low of ¥1296. Between September 9 and 17, the price index rose by 8 per cent. However, this sharp spurt in prices was short-lived, and by the end of the month stock prices were almost down to the yearly low.

Table 4. Japan: Dow Jones Average of 225 Stocks, First Section of Tokyo Stock Exchange

August 5	¥1,392	September 2	¥1,344	1962	High	¥1,590
12	1,403	9	1,295		Low	1,216
19	1,372	17	1,402			
26	1,314	23	1,356	1963	High	1,634
30	1,351	30	1,301		Low	1,295

Foreign trade. The seasonally adjusted deficit on trade account declined in August from the very high July level as exports rose by 12 per cent and imports by 6 per cent. (See Table 5). The reduced deficit, representing an annual rate of \$1.5 billion, was still quite sizeable in comparison with previous months. The trade deficit was running at an annual rate of \$1.2 billion in the second quarter of the year and at a rate of \$0.9 billion in the first quarter. The trade figures in Table 5 are based on customs returns and have been seasonally adjusted by factors computed by the Board of Governors of the Federal Reserve System.

Table 5. Japan: Seasonally Adjusted Foreign Trade
(in millions of dollars)

	1962				1963				
	I	II	III	IV	I	II	June	July	Aug.
Imports	494	468	452	464	488	545	535	579	611
Exports	378	408	428	419	415	442	436	436	487
Trade Balance	-116	-60	-24	-99	-73	-103	-99	-143	-124

Exchange reserves and capital flows. International reserves declined by \$3 million in September to a level of \$1,906 million. This follows a rise of \$26 million in August. According to preliminary reports, Japanese short-term liabilities to U.S. banks rose by \$3 million in July, (See Table 6), as compared to a \$27 million decline in June.

There have been no reports of Japanese security issues in the U.S. during September.

Table 6. Short-term Claims by U.S. Banks on Japan
(in millions of U.S. dollar)

	<u>Jan.</u>	<u>Feb.</u>	<u>Mar.</u>	<u>Apr.</u>	<u>May</u>	<u>June</u>	<u>July.</u>	<u>Aug.</u>	<u>Sept.</u>	<u>Oct.</u>	<u>Nov.</u>	<u>Dec.</u>
1959	168	175	204	224	242	260	256	269	262	262	275	324
1960	362	372	420	250	488	467	586	628	660	693	711	806
1961	875	952	1,069	1,159	1,196	1,272	1,341	1,335	1,288	1,281	1,292	1,528
1962	1,601	1,685	1,778	1,775	1,762	1,758	1,765	1,767	1,711	1,710	1,662	1,740
1963	1,697	1,691	1,751	1,876	1,896	1,869 ^{a/}	1,872 ^{a/}					

NOTE: Data for 1962 and 1963 recently revised.

a/ Preliminary.

Foreign exchange. The yen strengthened in the spot market towards the end of August, but then weakened during the first half of September. (See Table 7). In the three-month forward market, the yen remained unchanged from August 22 through September 12, but at a slightly more depreciated level than previously. The forward discount widened considerably on August 29 as the spot rate was appreciated, but narrowed to earlier levels by mid-September.

Table 7. Japan: Customer's T. T. Exchange Rates of Bank of Tokyo in Tokyo

		Yen-dollar		Three-month		Forward discount in per cent per annum
		Spot	Middle	forward	middle	
		Rate		rate		
July	26	362.35		362.53		.20
Aug.	2	362.35		362.53		.20
	9	362.35		362.58		.25
	15	362.25		362.58		.36
	22	362.30		362.60		.33
	29	361.95		362.60		.72
Sept.	5	362.20		362.60		.44
	12	362.30		362.60		.33

II. India: Money and Capital Markets During August 1963

During August, bank deposits increased but more slowly than previously. Bank credit did not decline as much as in July and there was a slight tightening in the market for short-term money, although the call money rate was still relatively low. With enlarged financial resources the banks greatly expanded their holdings of government securities. To do so, they also increased their borrowings from the Reserve Bank.

The Indian authorities withdrew some of the financial restrictions put in effect after the Chinese invasion last year. The gold market was allowed to reopen but transactions comprised 14 carat gold instead of bullion. The September modification of the Gold Control Rules in effect removes a large part of the restrictions on the gold trade. Official data indicate a continuation of the downward price trend on gold. The Compulsory Deposit Scheme included in the 1963-64 budget by former Finance Minister Desai was rescinded on September 21, 1963, by the new Finance Minister Kushnamachari. Stock prices remained depressed but stable during August.

Money market. The August rate on day-to-day money was slightly higher than the July low. (See Table 1). The call money rate fell temporarily at the end of the month to 1.34 per cent, but increased sharply in the first part of September.

Table 1. India: Inter-Bank Call Money Rate in Bombay

Monthly average:

<u>1962</u>			<u>1963</u>		
	June	2.88		June	3.51
	July	1.80		July	1.55 ^{a/}
	August	2.20		August	1.97 ^{a/}

Selected dates - 1963:

August	2	1.00	September	6	2.72
	9	2.84		13	3.12
	16	2.66			
	23	2.03			
	30	1.34			

^{a/} Average of Fridays.

Gold market. The modification of the Gold Control Rules on September 21, 1963, permits making ornaments purer than 14 carats from existing gold ornaments, but not from new stocks. On August 28, 1963, gold price quotations were officially resumed. They indicate a continuation of the downward price trend. The average price in June was \$74.19 per fine ounce (converted at par value), but on August 30, 1963, it had fallen to the fine ounce equivalent of \$71.47, and on September 20, 1963, to \$67.05. In contrast, the gold price had reached a high of \$82.82 per fine ounce in August 1962.

Stock market. Stock prices during August were stabilized at a slightly lower level than in July (See Table 2) but in the first two weeks of September the index increased to the May level. However, stock prices continue to remain depressed apparently due to heavy taxes, particularly on profits.

Table 2. India: Price Index of Variable Dividend Industrial Securities
(1952-53 = 100)

Monthly average:

<u>1962</u>	June	189.9	<u>1963</u>	June	161.5
	July	184.0		July	162.2
	August	187.0		August	161.4

Selected dates - 1963:

August	3	160.0	September	7	163.3
	10	160.1		14	164.2
	17	160.4			
	24	160.7			
	31	161.9			

Banking developments. In August the trend of the previous three months continued with some modifications: bank deposits increased, bank credit fell, holdings of government securities rose sharply and borrowings from the Reserve Bank increased slightly. (See Table 3). Total deposits were 7.4 per cent higher than August 1962. In August 1963, bank deposits rose by less than in July. The decline in bank credit was reduced in August.

Increased holdings of government securities rose almost double that of the previous month. This reflects the influence of the Central Government's borrowing program for fiscal 1963-64. Borrowings from the Reserve Bank reversed the declining trend of the past three summer months.

Table 3. India: Scheduled Banks-Monthly Changes in Deposits, Borrowing from Reserve Bank and Principal Assets

	(in millions of rupees)						
	<u>Deposits</u>	<u>Per cent Change</u>	<u>Bank Credit</u>	<u>Per cent Change</u>	<u>Holdings of Gov't Securities</u>	<u>Per cent Change</u>	<u>Borrowings from Reserve Bank</u>
<u>1962</u>							
August	+21	+ .1	+114	+8.2	+402	+ 6.1	+153
<u>1963</u>							
June	+387	+1.8	-238	-1.5	+248	+ 3.9	-149
July	+398	+1.9	-435	-2.8	+342	+ 5.2	- 12
August	+230	+1.1	-251	-1.7	+738	+10.7	+ 50

Exchange reserves. During August, India's international reserves fell \$13 million to \$446 million which is not an unusual seasonal decline when compared to corresponding changes in the previous year. (See Table 4).

Table 4. India: International Monetary Reserves of Reserve Bank
(in millions of dollars - last Friday of month)

Month:

<u>1962</u>	June	452	<u>1963</u>	June	471
		464		July	459
		445		August	446

Selected dates - 1963:

August	2	454	September	6	449
	9	448		13	452
	16	446			
	23	453			
	30	446			

Asia, Africa and Latin America Section.

III. Nine Charts on Financial Markets Abroad

- Chart 1 - Interest Arbitrage, United States/Canada
- Chart 2 - Interest Arbitrage, New York/London
- Chart 3 - Interest Arbitrage for German Commercial Banks
- Chart 4 - Interest Arbitrage, Frankfurt/London
- Chart 5 - Short-term Interest Rates
- Chart 6 - Long-term Bond Yields
- Chart 7 - Industrial Stock Indices
- Chart 8 - Spot Exchange Rates - Major Currencies
Against U.S. Dollar
- Chart 9 - 3-month Forward Exchange Rates

INTEREST ARBITRAGE, UNITED STATES / CANADA

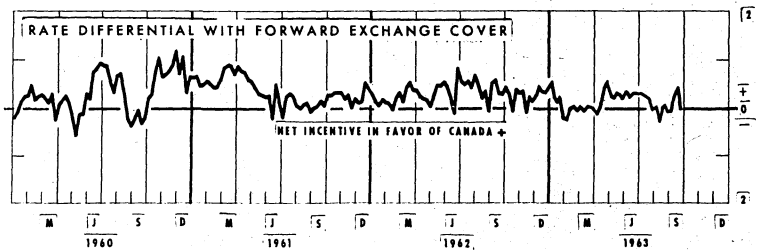
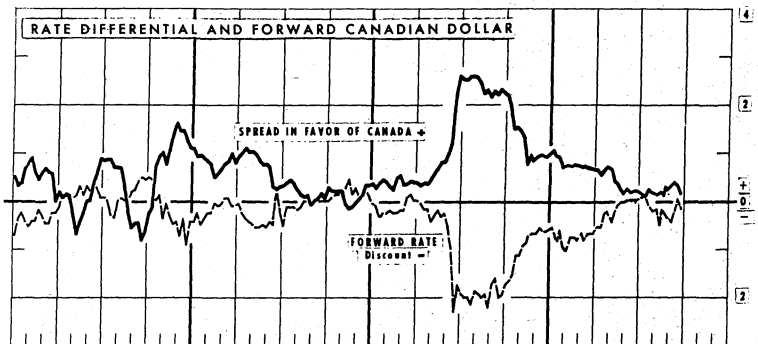
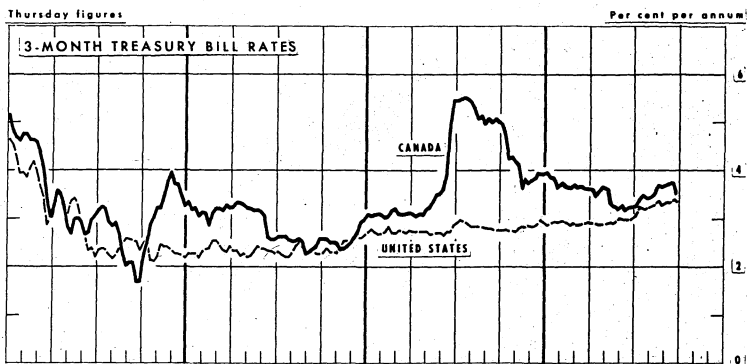
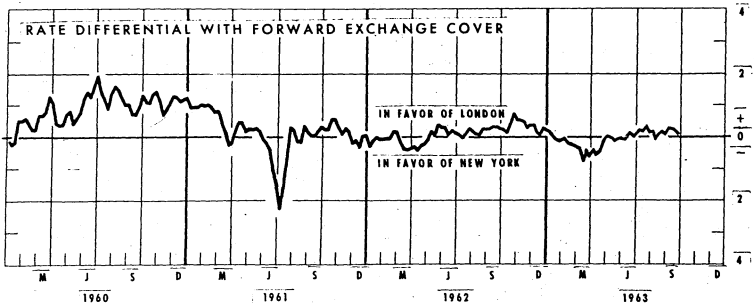
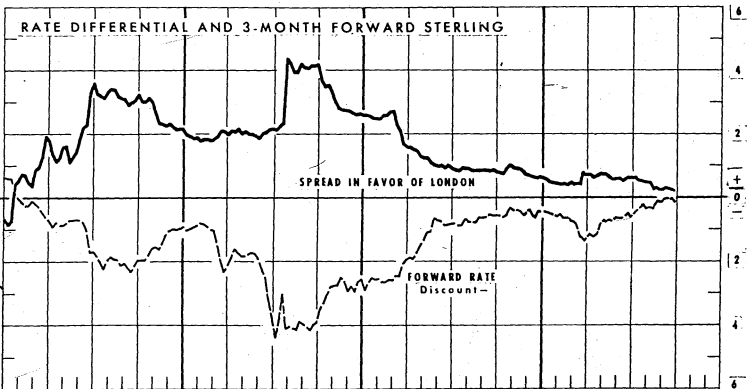
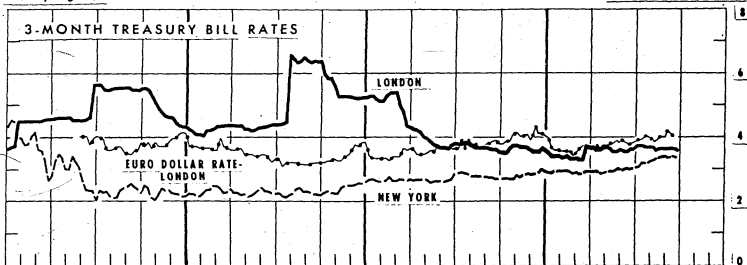


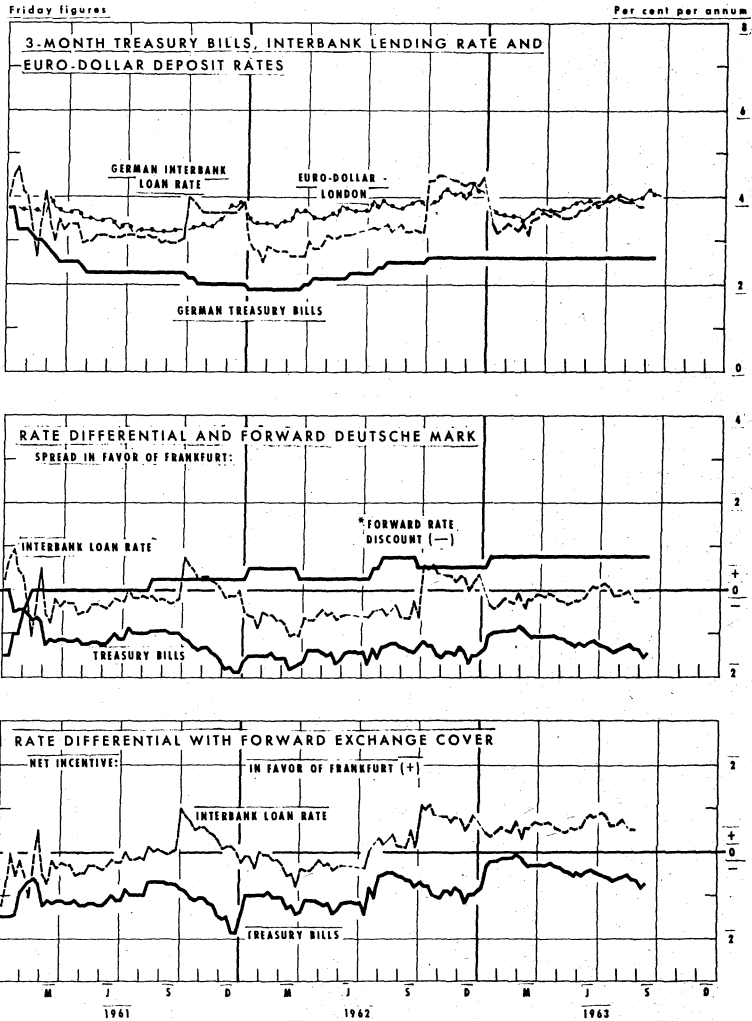
Chart 2

INTEREST ARBITRAGE, NEW YORK/LONDON

Friday figures

Per cent per annum



INTEREST ARBITRAGE FOR GERMAN COMMERCIAL BANKS

*Note: Special forward rate available to German commercial banks

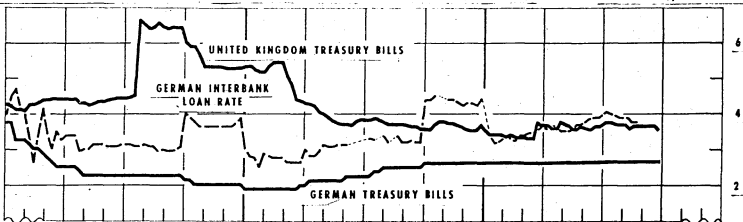
Chart 4

INTEREST ARBITRAGE, FRANKFURT / LONDON

Friday figures

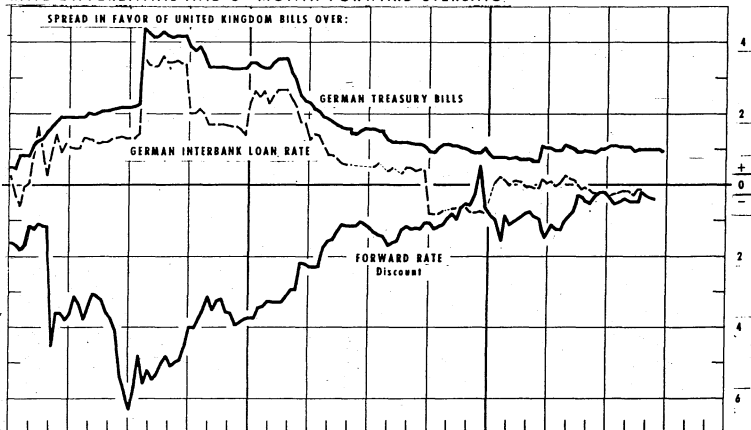
3—MONTH TREASURY BILLS AND INTERBANK LENDING RATES

Per cent per annum



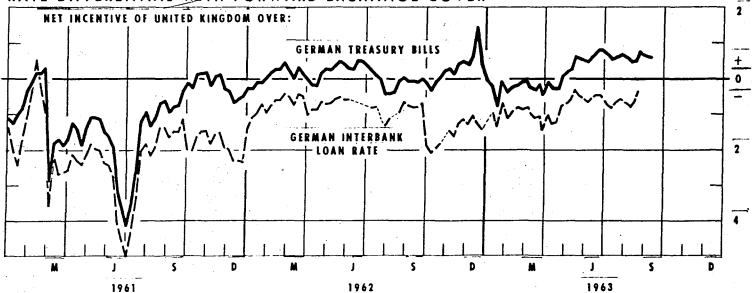
RATE DIFFERENTIAL AND 3—MONTH FORWARD STERLING

SPREAD IN FAVOR OF UNITED KINGDOM BILLS OVER:



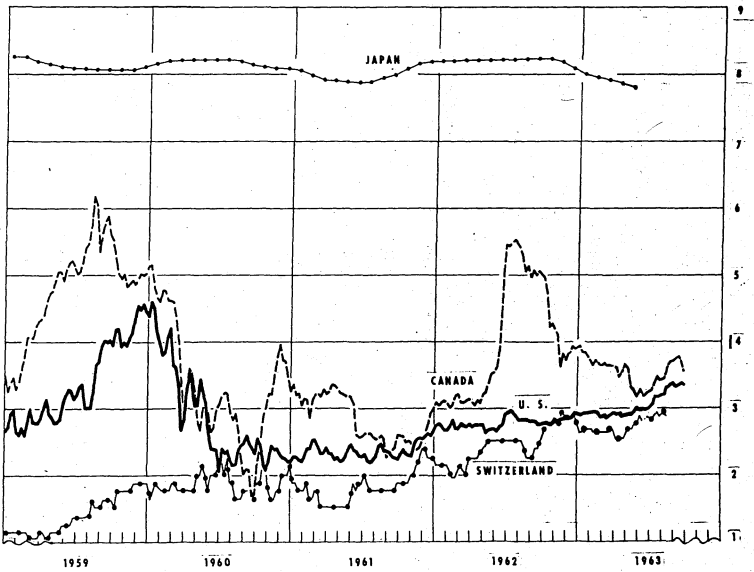
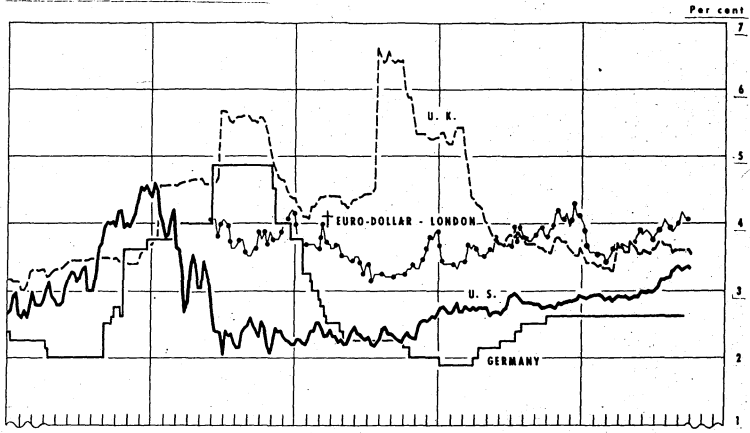
RATE DIFFERENTIAL WITH FORWARD EXCHANGE COVER

NET INCENTIVE OF UNITED KINGDOM OVER:



SHORT-TERM INTEREST RATES *

12



* 3 month treasury bill rates for all countries except Japan (Average rate on bank loans and discounts) and Switzerland (3 month deposit rate)

† 3 month rate for U.S. dollar deposits in London

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Chart 6

LONG-TERM BOND YIELDS

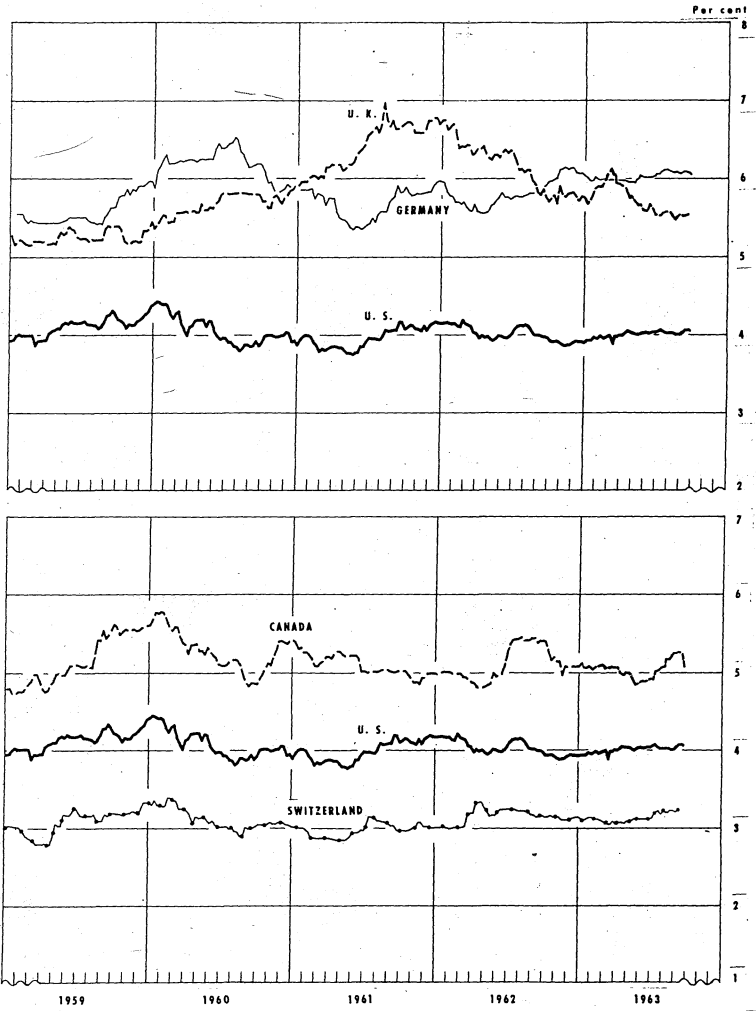
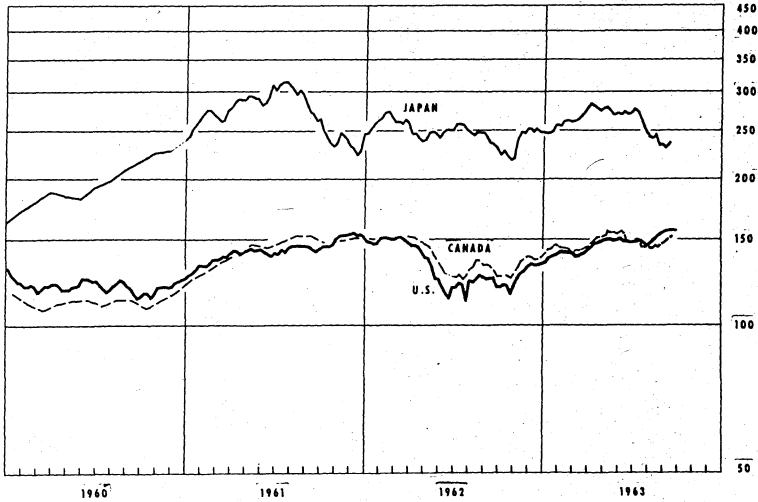
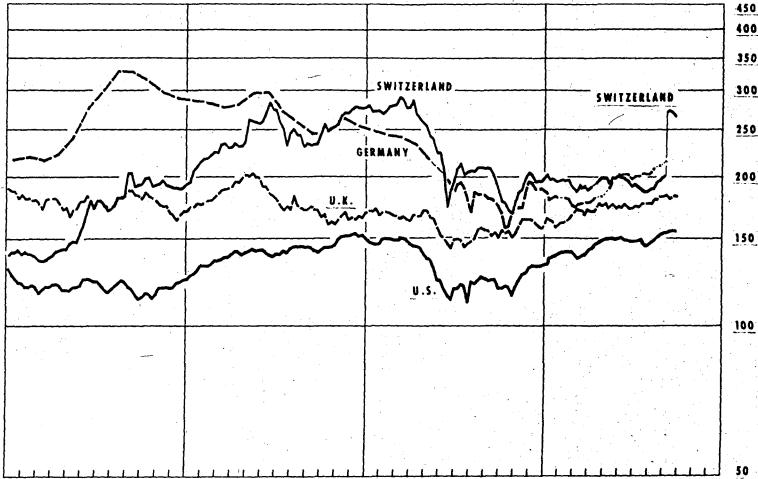


Chart 7

INDUSTRIAL STOCK INDICES*

1958 = 100
Ratio scale

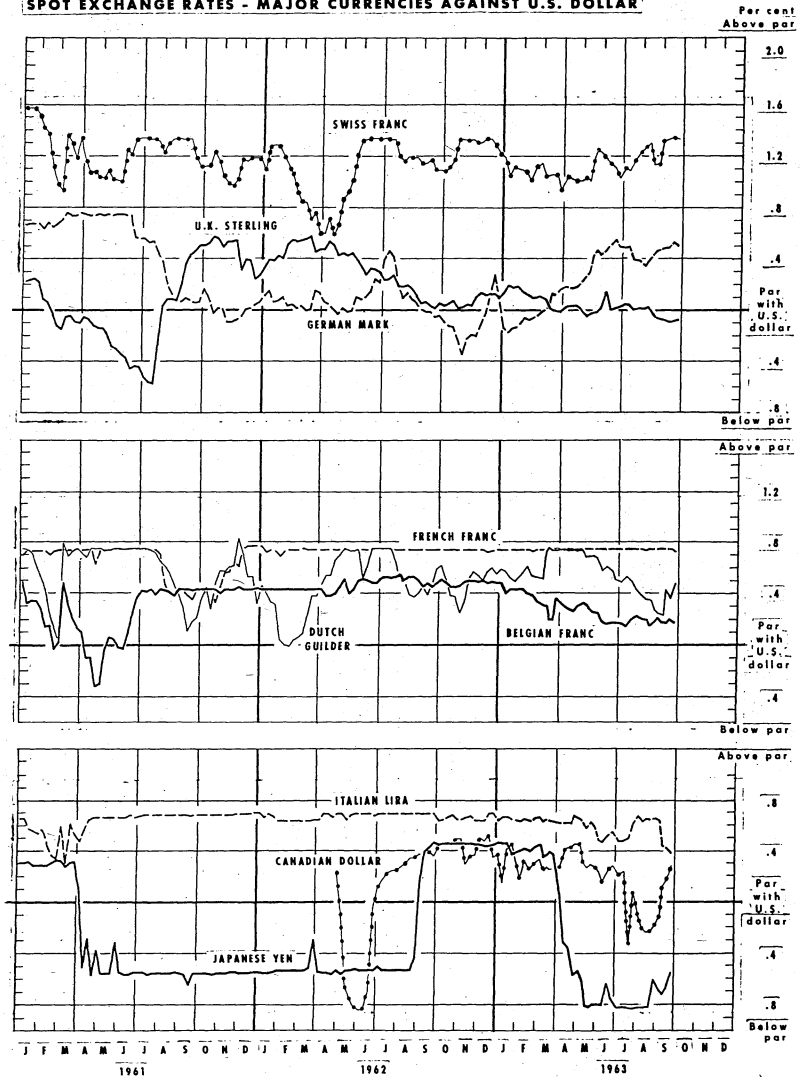
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*Note: Japan: index of 225 industrial and other stocks traded on the Tokyo exchange.

Chart 8

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

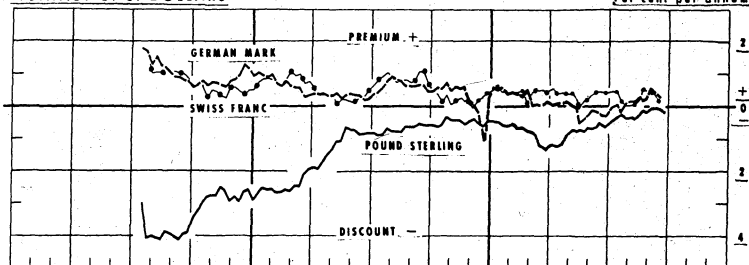


3-MONTH FORWARD EXCHANGE RATE

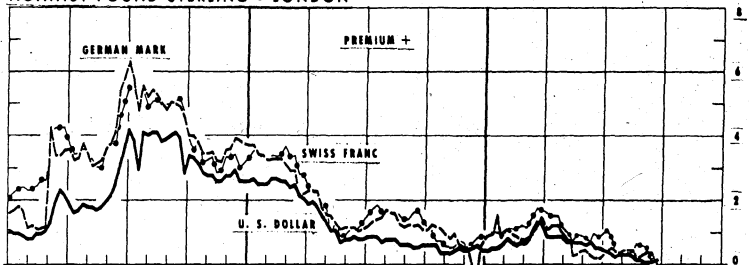
Friday figures

AGAINST U. S. DOLLARS

Per cent per annum



AGAINST POUND STERLING - LONDON



AGAINST POUND STERLING - LONDON

