

H. 13

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No. 147

CAPITAL MARKET DEVELOPMENTS ABROAD

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

I. Japan: Money and Capital Markets in March-April

Several important economic developments for Japan occurred in March and April. On March 18 the Bank of Japan increased its basic discount rate 0.73 percentage points to 6.57 per cent, and at the same time increased advance import deposit requirements for raw materials and industrial machinery from 1 to 5 per cent, and for foodstuffs and specified non-essential imports from 5 to 35 per cent. Through these, and earlier measures, Japan hopes to reduce the current pressures on international reserves. On April 1 Japan moved to an Article VIII status in the IMF, thus making the yen freely convertible for current international transactions. Japan also obtained on April 1 a stand-by arrangement with the IMF for \$305 million. Later in the month on April 28, Japan became the first Asian member of the Organization for Economic Cooperation and Development.

Japan has continued to increase both its short- and intermediate-term debt to U.S. banks, as well as float further securities issues in Europe. In February, Japan's short-term indebtedness to U.S. banks increased \$94 million, bringing the total increase since last October to \$441 million. (See Table 1).

Table 1. Japan: Short- and Long-Term Borrowings in the U.S.

	<u>Change during year</u>				<u>Change during period</u>							
	1960	1961	1962	1963	1963				1964			
					I	II	III	IV	Jan.	Feb.		
Bank loans ^{1/}	480	722	212	397	11	118	- 7	287	a/	74	a/	94
Securities ^{2/}	30	58	141	200	51	84	60	5		0		0
	512	780	353	597	62	202	53	287	a/	74	a/	94

^{1/} Short-term liabilities to U.S. banks.^{2/} New security flotations.

a/ Preliminary.

During March and April, Japan also raised \$46.9 million in securities issues in Europe. (See Table 6). European bankers are reported to have informed the Japanese Ministry of Finance that the European market can absorb about \$500 million in new foreign offerings yearly and Japan should be able to account for 25 to 33 per cent of the total. This would be equivalent to about \$125 to \$167 million per year. Currently the Ministry of Finance is allowing about \$30 million in offerings every few months to the best qualified Japanese borrowers.

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Japan's balance of payments continued to remain under pressure in April as reserves fell \$21 million. In March, the seasonally adjusted trade balance narrowed for the second consecutive month, but remained relatively large at \$121 million. (See Table 4).

On the domestic side, bank credit expanded at a slower rate in January-February. Money market conditions tightened sharply in March, but subsequently eased in April. The stock market continued to remain depressed through early May.

Money market. Money market conditions tightened in March, but were substantially easier during most of April. A net expansion of Bank of Japan credit in March of ¥56 billion was more than offset by the contractionary impact of a ¥50 billion increase in bank notes in circulation and net Treasury receipts of ¥33 billion.

Interest rates. Call loan rates rose in March due to the increase in the Bank of Japan's basic discount rate by 0.73 percentage points on March 18 and a seasonally heavy demand for funds as firms window-dressed their balance sheets late in March, the end of the fiscal year for many firms. The rate for unconditional (repayable at a day's notice) call loan money increased from 8.760 per cent early in March to 9.855 per cent after the hike in the discount rate, and subsequently to 10.220 per cent later in the month. On April 1, the rate declined to 9.125 per cent and remained at that level through April 25. Other call loan rates changed by the same percentage amounts at the same time during this period.

The average interest rate for bank loans and discounts was 6.67 per cent in January, the same as in December. (See Table 2). Because of the boost in the Bank of Japan's basic discount rate, the Federation of Bankers' Associations of Japan approved an increase on March 23 in the general structure of commercial bank interest rates except for export trade bills.

Table 2. Japan: Average Monthly Interest Rate on Bank Loans and Discounts

	<u>1959</u>	<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>1964</u>
March	8.18	8.21	7.92	8.22	7.92	7.67 ^{1/}
June	8.28	8.22	7.88	8.23	7.75	
September	8.06	8.14	8.00	8.24	7.68	
December	8.11	8.08	8.20	8.09	7.67	

^{1/} January.

Bank loans and discounts. Bank credit in February continued to increase at a slower rate than a year earlier, rising 0.7 per cent as against 1.9 per cent in February 1963. In January, the rate of expansion was also much slower than a year earlier. The slower rate of expansion reflects the measures of monetary restraint taken in December and January. Loans and bills discounted rose in February but holdings of securities declined. Deposit liabilities rose 0.3 per cent.

Bank of Japan "window guidance" restraints on commercial bank lending were not fully effective in the first quarter. The 13 large city banks exceeded their "loan quotas" by ¥12.2 billion or 5.2 per cent. The three long-term credit banks exceeded their "quotas" by ¥1.1 billion or 1.6 per cent.

The proportion of bank loans and discounts extended for purchases of equipment rose to 16.9 per cent in February as against 16.8 per cent in January. This compares with a cyclical low of 16.3 per cent in March of 1963.

In April the Ministry of Finance and the Bank of Japan began an intensive examination and study of the compensatory balance requirements of commercial banks. The Government is anxious to have banks reduce or eliminate these requirements in order to bring the real rate of interest closer to the level in Western money and capital markets. It is not yet clear, however, how successful this program will be, and the program unfortunately moves in the opposite direction of the current tight money policy.

Bond market. New issues of domestic bonds totaled ¥137 billion in February, up ¥7 billion from the low January level. New issues of public corporation bonds totaled ¥36 billion, or ¥9 billion higher than a month earlier, and new issues of bank debentures were up ¥1 billion to ¥77 billion in February. Issues of industrial debentures were ¥24 billion, down ¥3 billion from the January level.

Average yields in February on local government securities, public corporation bonds, and one-year bank debentures remained the same as in January and in 1963 at 7.354, 7.053, and 6.224 per-cent, respectively. Yields on longer-term bank debentures were 7.283 per cent in February, unchanged from the January level, and yields on industrial bonds eased slightly from 7.482 per cent in January to 7.477 per cent in February.

Stock market. Stock prices eased during the first half of March and on March 18 (when the Bank of Japan increased its basic discount rate) they were only slightly above the previous low for the year of ¥1,204 on January 4. During the rest of March and in early April the market recovered moderately but then sank to a new low for the year of ¥1,203 on April 9. By May 4, the average had moved up to ¥1,246.

Table 3. Dow Jones Average of 225 Stocks, First Section of Tokyo Exchange

February 24	¥1,264	April 6	¥1,211	1963	High	¥1,634
March 2	1,254	13	1,217		Low	¥1,201
9	1,263	20	1,222			
16	1,221	27	1,217	1964	High	¥1,338
23	1,214	May 4	1,246		Low	¥1,203
30	1,215					

Foreign trade. The seasonally adjusted trade deficit narrowed in March for the second consecutive month to \$121 million. Exports rose 4 per cent and imports fell 5 per cent. Although less than the unusually large deficit in January of \$244 million, the March trade gap was still substantial, being \$1.5 billion at an annual rate. The trade figures (monthly, or monthly averages, on a customs basis) in Table 4 are based on seasonal adjustment factors computed by the Board of Governors of the Federal Reserve System.

Table 4. Japan: Seasonally Adjusted Foreign Trade
(in millions of dollars)

	1962				1963				1964			
	I	II	III	IV	I	II	III	IV	I	Jan.	Feb.	Mar.
Imports	494	468	452	464	488	545	582	643	659	689	659	628
Exports	378	408	428	419	415	442	462	489	479	445	486	507
Balance	-116	-60	-24	-99	-73	-103	-120	-154	-180	-244	-173	-121

Effective April 1, Japan replaced its foreign exchange allocation system with an "import quota system." Goods were formerly imported under three separate arrangements: automatic approval (AA), automatic fund allocation (AFA), and fund allocation (FA). The AA has been discontinued and the AFA and FA have been replaced by automatic import quota (AIQ) and import quota (IQ), respectively. A comprehensive import budget will no longer be compiled and only a negative import list will be used for either limiting specific imports (IQ system) or allocating exchange on a virtually automatic basis (AIQ system).

Foreign reserves and capital flows. International reserves rose \$15 million in March but fell \$21 million in April. Since March, Japan's IMF gold tranche position of \$180 million has been included in the official reserves.

End of Period	Old Basis	New Basis ^{1/}	Change
1964 Jan.	\$1,855 million	\$2,035 million	-\$23 million
Feb.	1,801 million	1,981 million	-\$54 million
Mar.	1,816 million	1,996 million	+\$15 million
Apr.	1,795 million	1,975 million	-\$21 million

^{1/} Includes Japan's IMF gold tranche position of \$180 million.

The Government recently reported that the reserve figure for the end of March excludes \$375 million in Government foreign exchange on deposit with Japanese foreign exchange banks and \$84 million in bilateral account credits. Reserves have generally been declining since last October when they reached a peak of \$1,922 million.

The balance of payments current account deficit, as measured on an exchange transactions basis, was \$99 million in March compared to \$131 million in February. Net capital receipts at \$119 million were relatively high consisting of \$39 million in net long-term receipts and \$80 million in net short-term receipts. In February, net capital receipts were \$85 million. Since reserves increased \$15 million in March, while recorded net receipts totaled \$20 million, errors and omissions totaled \$5 million.

According to preliminary data, Japanese short-term liabilities to U.S. banks increased \$94 million in February. During the four-month period November-February, Japanese liabilities increased \$441 million. (See Table 5 below).

Table 5. Short-term Claims by U.S. Banks on Japan
(in millions of U.S. dollars)

	<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	1,872	1,793	1,862	1,876	1,995	2,149
1964	2,223 ^{a/}	2,317 ^{a/}										

NOTE: Data for 1962 and 1963 have been revised and include \$52 million reported by banks initially as of December 31, 1961.

^{a/} Preliminary.

In mid-April the city of Tokyo floated a \$22.5 million bond issue in Europe. An American underwriting firm participated in this issue and it has been listed on the New York Stock Exchange. The issue, however, is not registered with U.S. Securities and Exchange Commission, and it will not be sold in the U.S. By this device, American underwriters still participate in the flotation of foreign dollar bond issues, and they hope that this will help to keep the door open for direct issues in the U.S. once Congress has completed action on the interest equalization tax.

Table 6. Japan: Long-Term Borrowings in Europe Reported in Financial Press^{a/}

<u>Borrower</u>	<u>Amount</u>	<u>Month Floated</u>	<u>Terms</u>	<u>Capital Markets</u>
Bank of Tokyo	\$ 7.0 m.	Jan. 1962	Two 5-yr. credits from 3 Swiss banks at 5-1/2-5-3/4% in Sw francs.	Switz.
Osaka City and Prefecture	\$25.0 m.	Feb. 1962	6-1/2%, DM bond issue.	Germany
Osaka City and Prefecture	\$25.0 m.	March 1963	6-1/2%, DM bond issue.	Germany

Table 6. (cont.)

<u>Borrower</u>	<u>Amount</u>	<u>Month Floated</u>	<u>Terms</u>	<u>Capital Markets</u>
Gov't. of Japan	£ 5 mill. (\$14.5 m.)	Aug. 1963	6%, US dollar, 20-25 yrs., conversion of 1899 bond issue.	U.K.
Takeda Chemical Co.	\$15.0 m.	Dec. 1963	6%, US dollar, 20 yr. con- vertible debentures.	Luxembourg
Canon Camera Co.	\$ 5.0 m.	Dec. 1963	6-1/4%, US dollar, 15 yr. convertible debentures.	U.K.
Osaka City and Prefecture	\$25.0 m.	Jan. 1964	6-1/2%, DM, 15 yr. bond issue.	Germany
Gov't. of Japan	\$11.5 m.	Feb. 1964	5.5%, Sw Francs, 10-15 yrs.	Switz.
Teijin Ltd.	\$10.0 m.	Mar. 1964	6-1/4%, US dollar, 20 yr. convertible debentures.	Luxembourg
C. Itoh & Co.	\$10.0 m.	Mar. 1964	6-1/4%, US dollar, 20 yr. convertible debentures.	London
Taisho Marine and Fire Ins. Co.	\$ 4.4 m.	Mar. 1964	Equity issue (London Depos- itary Receipts), 20 mil. shares at \$0.22 per share.	London
Metropolis of Tokyo	\$22.5 m.	Apr. 1964	5-3/4%, US dollar, 15 yr. guaranteed dollar bonds.	Europe

a/ Although this list is believed to be complete, some issues may have been omitted.

Late in March a \$1.013 million (5 million French francs) firm was formed in France for investing exclusively in Japanese securities. Entitled Japan Investments, participants include the Industrial Bank of Japan, and various French and European banks. On April 22, Japan also obtained a \$50 million loan from the World Bank to finance part of a toll express highway between Toyokawa and Komaki.

Foreign exchange. Primarily because of window-dressing operations which led to an increased demand for yen, the rate in the spot market strengthened between March 7 and March 27. During this period the spot middle rate fell from ¥362.35 to the dollar to ¥361.00 to the dollar. Since the three-month forward rate remained relatively unchanged, the forward discount widened from .14 to 1.61 per cent. After March 27, the yen weakened in the spot market and the discount narrowed to .17 per cent on April 9 where it remained through April 15.

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

		<u>Yen-dollar spot middle rate</u>	<u>Three-month forward middle rate</u>	<u>Forward discount in per cent per annum</u>
February	28	362.35	362.48	.14
March	6	362.35	362.48	.14
	13	362.30	362.50	.22
	21	361.90	362.45	.61
	27	361.00	362.45	1.61
April	3	362.00	362.45	.50
	10	362.30	362.45	.17
	15	362.30	362.45	.17

Asia, Africa and Latin America Section.

II. Nine Charts on Financial Markets Abroad

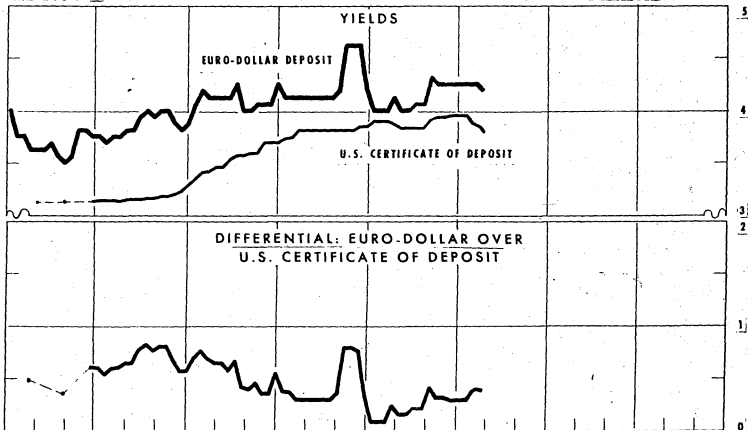
- Chart 1 - Interest Arbitrage, United States/Canada
- Chart 2 - Interest Arbitrage, New York/London
- Chart 3 - Interest Arbitrage for German Commercial Banks
- Chart 4 - Interest Arbitrage, Frankfurt/London
- Chart 5 - Short-term Interest Rates
- Chart 6 - Long-term Bond Yields
- Chart 7 - Industrial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

Chart 1
INTERNATIONAL MONEY MARKET YIELDS FOR U.S. DOLLAR INVESTORS.

3-MONTH EURO-DOLLAR DEPOSIT VS. CERTIFICATE OF DEPOSIT

Wednesday figures

Per cent per annum



NEW YORK OFFER RATES ON SELECTED 3-MONTH INVESTMENTS

Friday figures

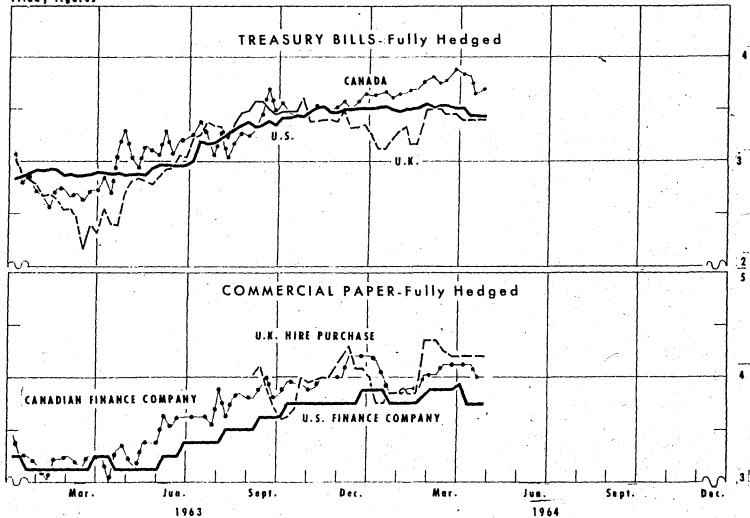


Chart 2

INTEREST ARBITRAGE, UNITED STATES / CANADA

Thursday figures

Per cent per annum

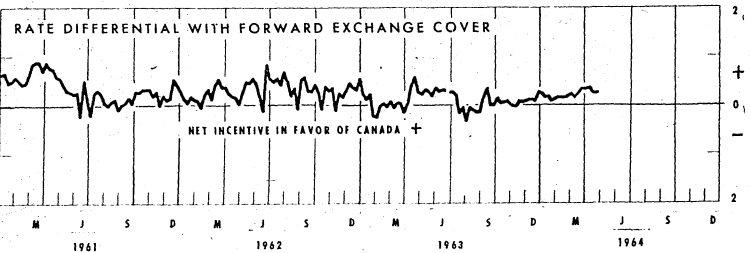
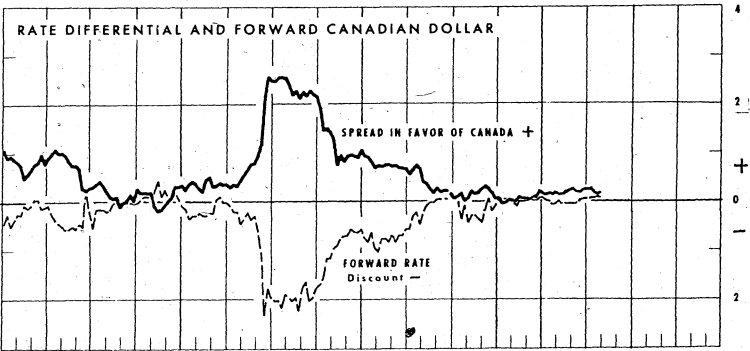
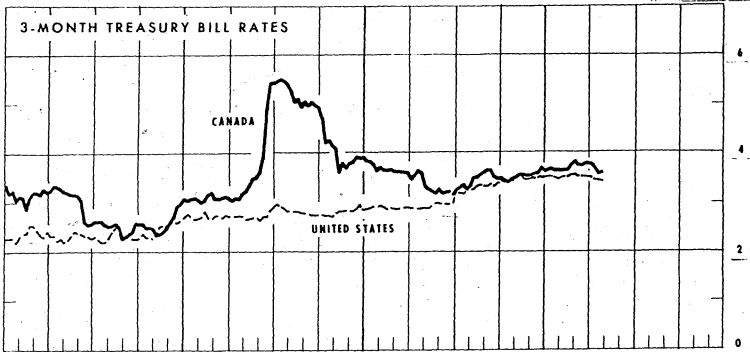


Chart 3

INTEREST ARBITRAGE, NEW YORK/LONDON

Friday figures

Per cent per annum

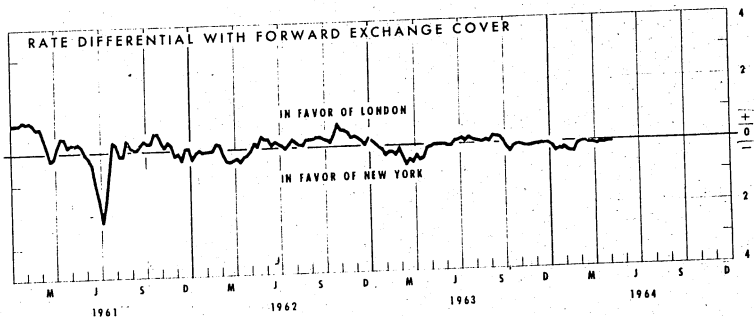
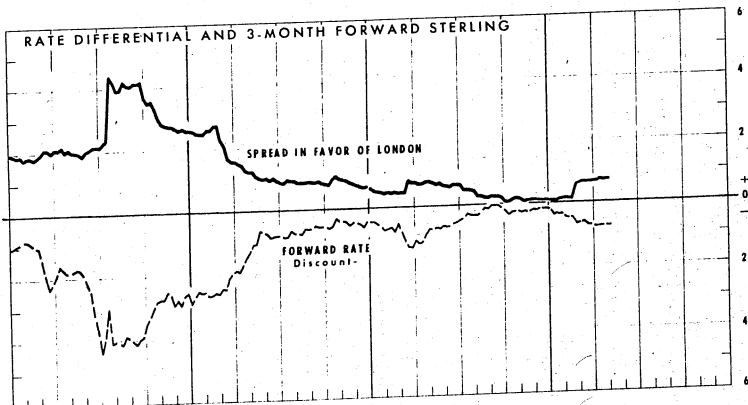
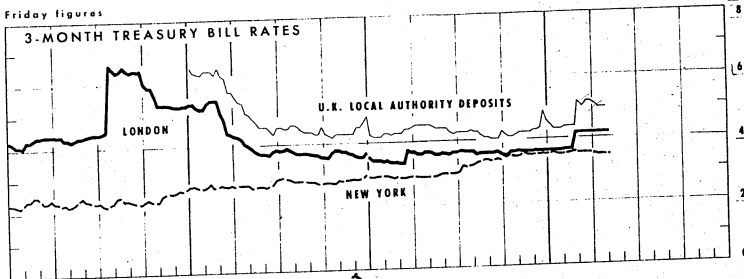


Chart 4

INTEREST ARBITRAGE FOR GERMAN COMMERCIAL BANKS

Friday figures

Per cent per annum

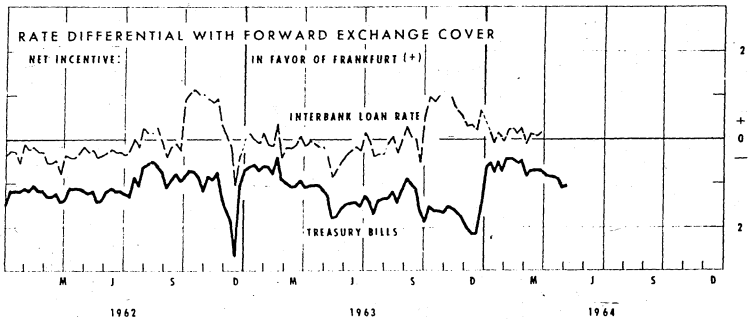
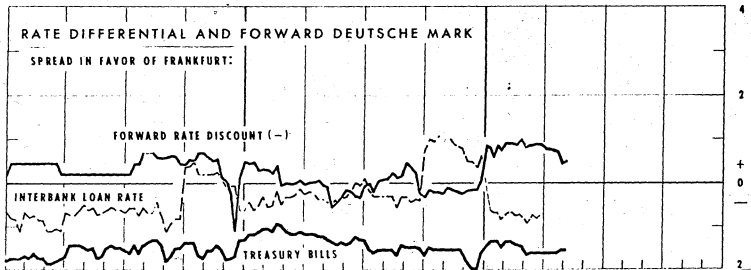
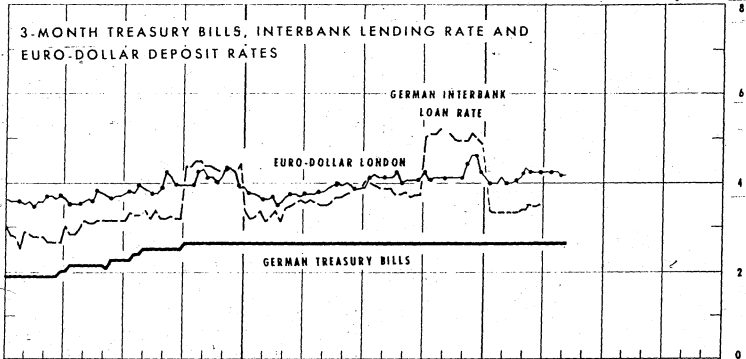
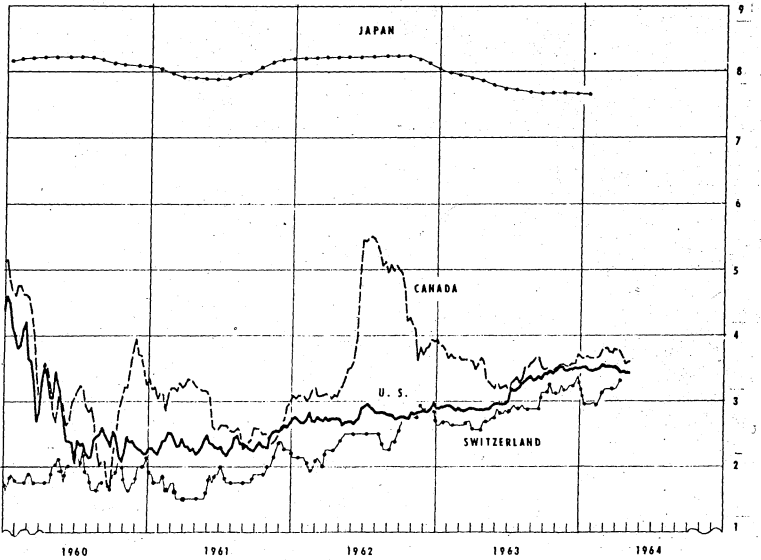
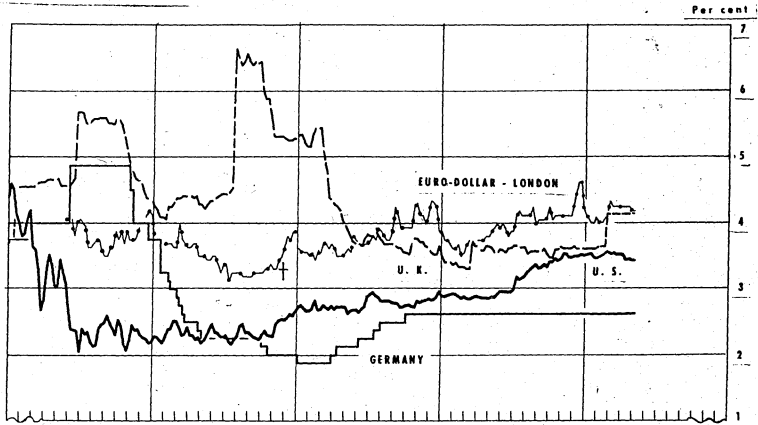


Chart 5
SHORT-TERM INTEREST RATES *



* 3-month treasury bill rates for all countries except Japan (Average rate on bank loans and discounts)
 † 3-month deposit rate (and Switzerland (3 month deposit rate) ———
 ‡ 3 month rate for U. S. dollar deposits in London

Chart 6

LONG-TERM BOND YIELDS

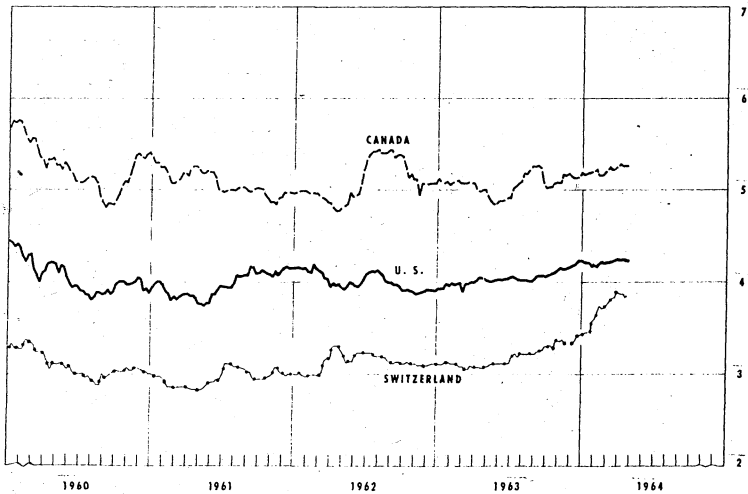
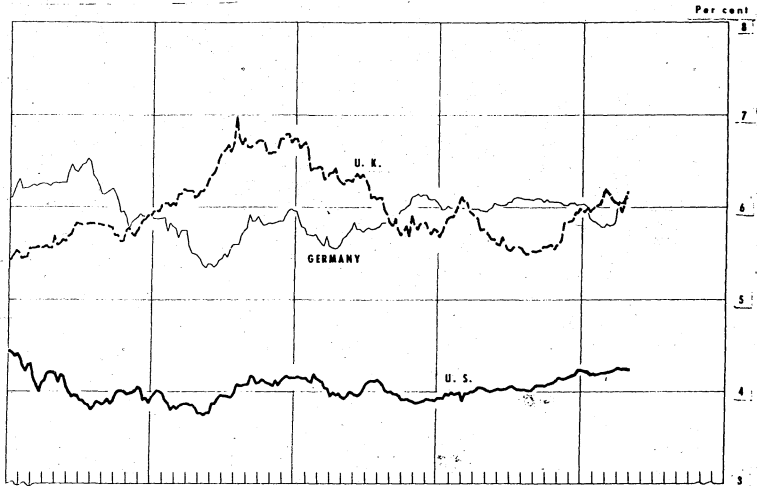
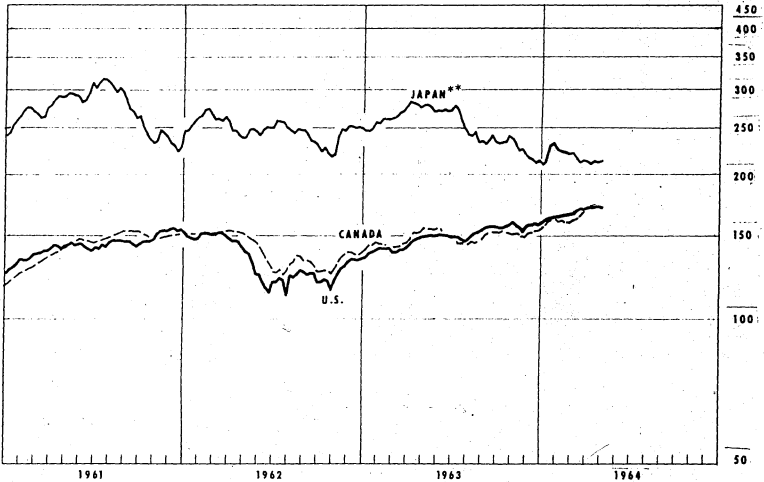
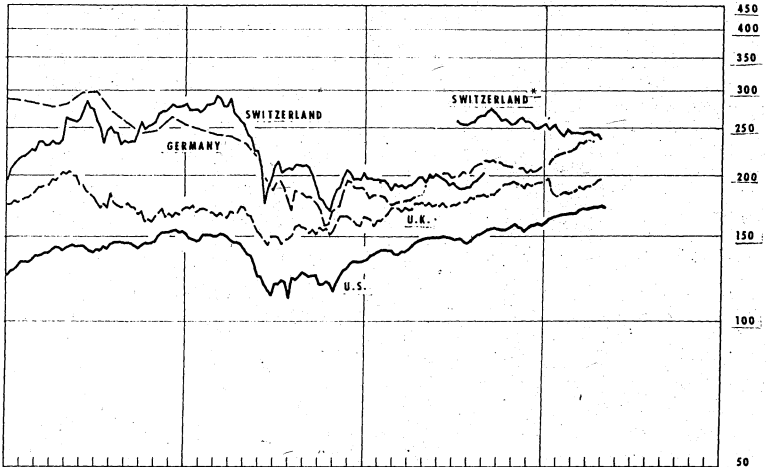


Chart 7

INDUSTRIAL STOCK INDICES

1958=100
Ratio scale



* New Series Swiss Bank Corporation industrial stock index

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

Chart B

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

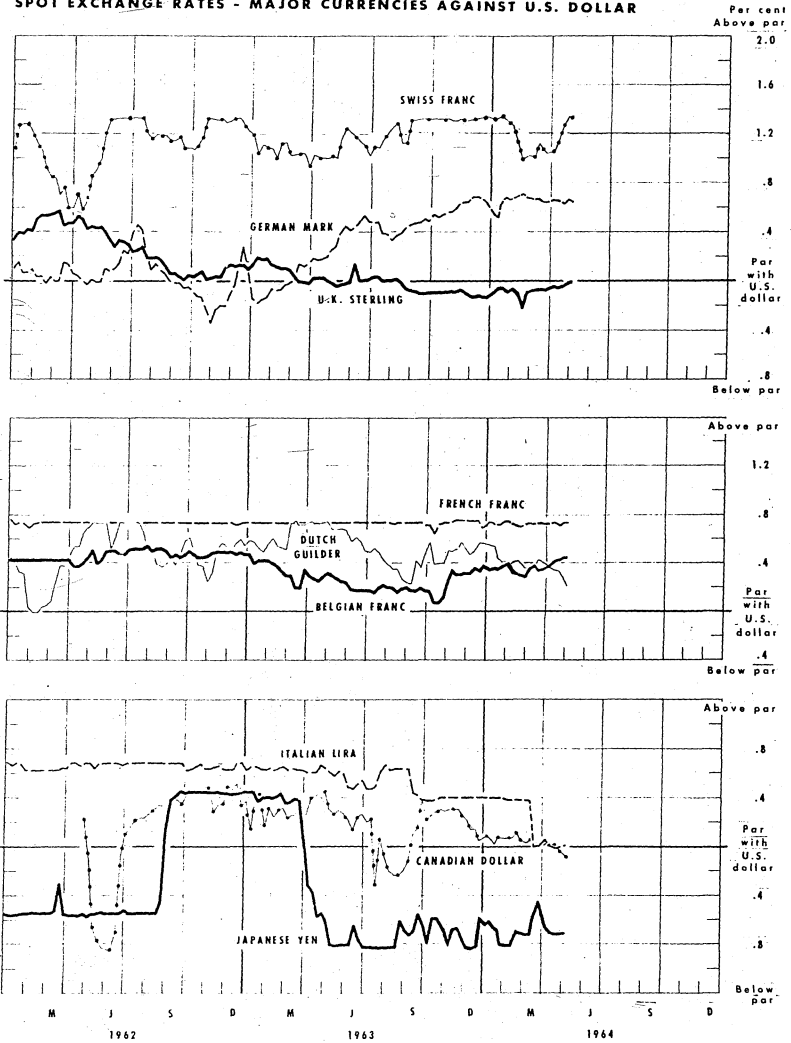
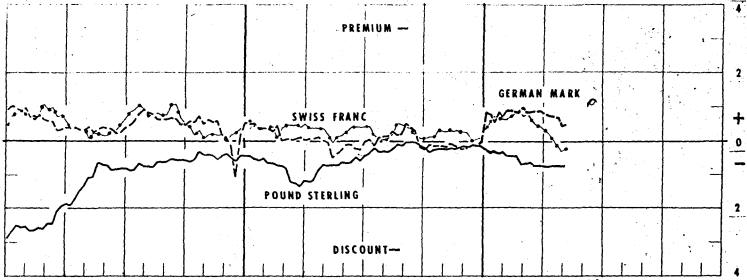


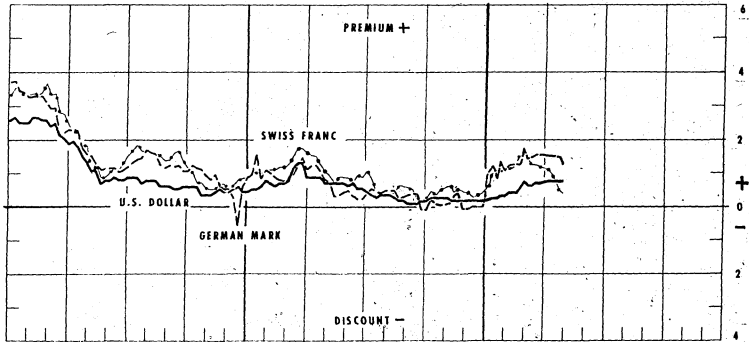
Chart V
3-MONTH FORWARD EXCHANGE RATE

Friday figures

AGAINST U.S. DOLLARS



AGAINST POUND STERLING - LONDON



AGAINST POUND STERLING - LONDON

