

H. 13

No. 195

MAY 12 1965

May 12, 1965.

**CAPITAL MARKET DEVELOPMENTS ABROAD**

- I. Japan  
 II. Nine Charts on Financial Markets Abroad  
 III. Latest Figures Plotted in H. 13 Chart Series

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

A further major relaxation in Japan's tight money policy and the first Japanese bond issue in the United States in 19 months were the major financial developments in Japan during April. On April 3, the Bank of Japan lowered its basic discount rate from 6.205 to 5.84 per cent, the second reduction in four months. Advance import deposit requirements were also reduced on April 1 to the level prevailing prior to the establishment of the tight money policy. Since the quarterly credit expansion quotas for the major city banks have also been substantially liberalized, virtually all of the monetary and credit restraints instituted in late 1963 and early 1964 have been removed.

In mid-April, Japan floated its first bond issue in the United States under the new \$100 million exemption from the Interest Equalization Tax granted by the U.S. in February. The issue was for \$22.5 million and carried a coupon rate of 5-3/4 per cent. Preliminary data indicate that Japan increased its borrowing in the U.S. \$5 million in February. (See Table 1). This compares with a decrease of \$41 million in January.

Table 1. Japan: Short- and Long-term Borrowings in the U.S.  
 (in millions of U.S. dollars)

	Change during year					Change during period						
	1960	1961	1962	1963	1964	1964				1965		
						I	II	III	IV	Dec.	Jan.	Feb.
Short-term claims <sup>1/</sup>	482	722	212	431	573 <sup>3/</sup>	229	69	24	251 <sup>3/</sup>	248 <sup>3/</sup>	-63 <sup>a/</sup>	7 <sup>a/</sup>
Long-term claims	3	5	50	175	174 <sup>4/</sup>	61	15	26	72 <sup>4/</sup>	54 <sup>4/</sup>	22 <sup>a/</sup>	-2 <sup>a/</sup>
TOTAL	485	727	262	606	747	290	84	50	327	312	-41 <sup>a/</sup>	5 <sup>a/</sup>
Securities <sup>2/</sup>	30	58	141	200	0	0	0	0	0	0	0	0
TOTAL	515	785	403	806	747	290	84	50	327	312	-41 <sup>a/</sup>	5 <sup>a/</sup>

<sup>1/</sup> Bank-reported liabilities to the U.S.

<sup>2/</sup> New security flotations.

<sup>3/</sup> Includes \$91 million newly reported in December.

<sup>4/</sup> Includes \$36 million newly reported in December.

NOTE: Data on short- and long-term claims since early 1962 have recently been revised substantially by the U. S. Treasury.

OFFICIAL USE ONLY  
 (Decontrolled after 6 months)

International reserves fell \$34 million in April reflecting primarily adverse long-term capital developments. This was the first major decline since last fall. The trade balance improved sharply in March, although part of this improvement may have been due to the U.S. dock strike that occurred between mid-January and mid-February. The yen remained under strong pressure in the foreign exchange market and through mid-April showed no signs of appreciating.

On the domestic side, money market conditions eased in March and April. Call loan rates fell substantially in April due both to a seasonal slackening in loan demand and a reduction in the Bank of Japan's basic discount rate. Bank credit in February continued to expand at a slower rate than a year earlier. The volume of bond issues declined in both January and February, and the stock market remained generally depressed through May 1.

Money market. Money market conditions eased sharply in April following the end of the fiscal year on March 31 for many business firms, and the reduction in the Bank of Japan's basic discount rate. Since last October, the money market has progressively eased, particularly in January and April. In March, the tightening effect of an increase in bank notes in circulation of ¥27 billion, and net Treasury receipts of ¥78 billion, was offset by an increase in Bank of Japan credit of ¥104 billion.

Interest rates. Call loan rates fell sharply during the first three days of April, thus continuing the general decline in call loan rates from the peak levels reached in September of last year. The unconditional call loan rate (repayable at a day's notice) declined from 8.395 per cent at the end of March to 7.665 per cent on April 1 as business demands for funds eased following the end of the fiscal year on March 31. The cut in the Bank of Japan's basic discount rate triggered a further decline in the rate on April 3 to 7.300 per cent. Through April 24, there were no further changes in call loan rates. (See Table 2).

Table 2. Japan: Average Call Loan Money Rates in Tokyo

		<u>Overnight</u> <sup>1/</sup>	<u>Unconditional</u> <sup>2/</sup>	<u>Over-month-end</u> <sup>3/</sup>
February	27	8.030	8.395	9.125
March	6	8.030	8.395	9.125
	13	8.030	8.395	9.125
	20	8.030	8.395	9.125
	27	8.030	8.395	9.125
April	3	6.935	7.300	8.030
	10	6.935	7.300	8.030
	17	6.935	7.300	8.030
	24	6.935	7.300	8.030

<sup>1/</sup> For settlement on the following day.

<sup>2/</sup> Repayable at a day's notice.

<sup>3/</sup> Repayable at a day's notice in the following month.

The recent declines in call loan rates have brought the rates to the levels prevailing in January of 1964.

The average monthly interest rate on bank loans and discounts, which was 7.99 per cent during July-December of 1964, declined slightly to 7.98 in January 1965. This decline reflected mainly the January reduction in the Bank of Japan's basic discount rate. In view of the further reduction in April in the discount rate, the average rate of interest probably continued to ease during the first part of this year.

Bank loans and discounts. Bank credit was up by only 0.3 per cent in February, compared to a rise of 0.7 per cent a year earlier and 1.1 per cent in January of this year. This slowing down of the growth in bank credit continues the trend evident throughout most of 1964. Holdings of securities fell 2.4 per cent, compared to an increase of 6.5 per cent in January. Bills discounted also fell slightly. Loans, however, were up by 1.2 per cent, compared to a very slight rise in January. Deposits increased 0.6 per cent in contrast to a decline of 3.3 per cent in January.

The proportion of bank loans and discounts extended for purchases of equipment was up slightly in February to 17.2 per cent from 17.1 per cent in January. Since the previous cyclical low of 16.3 per cent in March of 1963, the ratio has generally increased.

Bank of Japan operations in March, as in February, tended to be expansionary as the Bank purchased (net) ¥39 billion in securities and expanded its loans by ¥65 billion. In contrast with February, however, the expansion was primarily on the loan side rather than in purchases of securities.

Table 3. Japan: Changes in Bank of Japan Loans and Holdings of Securities  
(in billions of yen)

Period	(1)	(2)	(3)
	Net increase (+) or decrease (-)	Loans: increase (+) or decrease (-)	Net purchases (+) or sales (-) of securities
<u>1963</u>			
I Quarter	+ 158.2	+ 59.1	+ 99.1
II Quarter	- 109.2	- 198.7	+ 89.2
III Quarter	+ 202.4	+ 91.3	+ 129.1
IV Quarter	+ 18.0	+ 81.2	+ 99.2
<u>1964</u>			
I Quarter	+ 203.3	+ 36.7	+ 166.6
II Quarter	- 75.7	+ 121.0	- 196.7
III Quarter	+ 106.1	+ 97.5	+ 8.6
IV Quarter	- 329.6	- 300.5	- 29.1
<u>1965</u>			
I Quarter	+ 217.5	+ 216.5	+ 1.0
January	- 42.2	+ 114.8	- 157.0
February	+ 155.2	+ 36.4	+ 118.8
March	+ 104.5	+ 65.3	+ 39.2

In early April the Bank of Japan announced that the credit expansion quotas for the city banks would be applied over a six-month, rather than a three-month, period, and that credit expansion in the second and third quarters this year is to be limited to 13 per cent above the actual expansion in the same period last year.

Bond market. Following a sharp increase in December, new bond issues fell by ¥18 billion in January and another ¥10 billion in February to ¥148 billion. New issues of bank debentures were ¥94 billion in February, down ¥2 billion from January. New issues of public corporation bonds were also down ¥5 billion to ¥31 billion. New issues of industrial debentures fell ¥2 billion to ¥23 billion. Total new issues of bonds have thus been tapering off since the high for the year reached last December.

In February, average yields on local government securities, public corporation bonds, and one-year bank debentures remained the same as throughout 1964 at 7.354, 7.053 and 6.224 per cent, respectively. The yield on long-term bank debentures was unchanged at 7.285 per cent after a slight fall in January from December. The yield on industrial bonds, however, fell to 7.476 per cent from 7.482 per cent in January.

Stock market. The stock market remained generally depressed in March-April following a decline on March 8 in the Dow Jones average below the ¥1,200 support level. The decline in the stock average was attributed primarily to the announcement of the financial failure of Sanyo Special Steel Company, the country's major producer of bearing steel. Stock prices continued to weaken during March and sank to a new low for the year on April 3. Prices rallied somewhat during the rest of April but by May 1 were still below the ¥1,200 level.

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

February	22	¥1,225	April	5	¥1,124	1964	High	¥1,369
				12	1,163		Low	¥1,203
March	1	1,206		19	1,136			
	8	1,191		26	1,144	1965	High	¥1,290
	15	1,188					Low	¥1,115
	22	1,170	May	1	1,177			
	29	1,119						

Foreign trade. The seasonally adjusted trade balance improved dramatically during March, continuing the trend set in January and February. From a trade deficit of \$92-million in December, Japan moved to a trade surplus of \$55 million in March. In March, exports increased 3 per cent and imports fell 5 per cent. Between the fourth quarter of 1964 and the first quarter of 1965 there was a \$99 million improvement in the trade account. Of this, \$38 million represents a decline in imports, and \$61 million an increase in exports. The trade figures in Table 5 below are monthly, or monthly averages, on a customs basis, seasonally adjusted.

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

	1963			1964					1965			
	II	III	IV	I	II	III	IV	Dec.	I	Jan.	Feb.	Mar.
Imports	539	576	643	664	655	632	697	697	659	663	674	639
Exports	<u>438</u>	<u>469</u>	<u>484</u>	<u>485</u>	<u>534</u>	<u>571</u>	<u>618</u>	<u>605</u>	<u>679</u>	<u>668</u>	<u>674</u>	<u>694</u>
Balance	-101	-107	-159	-179	-121	-61	-79	-92	+20	+5	0	+55

Foreign reserves and capital flows. International reserves rose \$3 million in March but fell \$34 million in April to \$2,019 million. The March increase was due to a \$2.5 million rise in Japan's gold tranche with the International Monetary Fund in connection with an Indian drawing of yen currency since the over-all balance of payments was exactly in balance in March. (See Table 7). The decline of \$34 million in April, which incidentally is the first substantial decline since last fall, reportedly reflected a drying-up in the inflow of impact loans, the maturing of a large volume of import bills, and a relatively low volume of bond issues in April.

The ratio of Japan's gold and foreign exchange holdings to note issues by the Bank of Japan fell from 37.2 per cent in January and 37.0 per cent in February to 36.6 per cent in March. The decline continues the general downtrend in recent years indicated in the data in Table 6 below.

Table 6. Japan: Rates of Reserve to Bank Notes

End of Period	International Reserves	Bank Notes Issued	Reserves/ Bank Notes
1959	¥520.9 billion	¥1,029.4 billion	50.6 per cent
1960	701.6 billion	1,234.1 billion	56.9 per cent
1961	599.8 billion	1,480.1 billion	40.5 per cent
1962	727.9 billion	1,745.9 billion	41.7 per cent
1963	740.9 billion	2,057.4 billion	36.0 per cent
1964			
March	718.6 billion	1,774.8 billion	40.5 per cent
June	697.3 billion	1,860.6 billion	37.5 per cent
September	698.0 billion	1,836.1 billion	38.0 per cent
December	719.6 billion	2,298.8 billion	31.3 per cent
1965			
January	729.7 billion	1,961.2 billion	37.2 per cent
February	738.0 billion	1,995.2 billion	37.0 per cent
March	739.1 billion	2,022.3 billion	36.6 per cent

There was an over-all balance in the international accounts in March, as measured on an exchange transactions basis, primarily because of a substantial long-term capital outflow. (See Table 7). The current account surplus of \$77 million was exactly balanced by net capital outflow of \$70 million and a negative errors and omissions item of \$7 million. The net outflow of \$39 million in long-term capital in March is a relatively rare phenomenon for Japan. Normally there is a surplus of \$20 to \$70 million. In March, long-term capital receipts were relatively low at \$33 million, and long-term capital payments were high at \$72 million, reportedly due to a heavy postwar debt payment and an \$11 million payment in settlement of the Sanyo Special Steel Company's foreign debts.

Table 7. Japan: Balance of Payments on an Exchange Transactions Basis  
(in millions of dollars)

	1963	1964						1965		
	IV	I	II	III	IV	Nov.	Dec.	Jan.	Feb.	Mar.
Trade account balance	- 13	- 93	- 37	71	94	71	131	- 77	95	134
Services balance	- 38	- 36	- 37	-39	-42	-41	- 47	- 33	- 42	- 57
Current account	- 51	-129	- 74	33	51	30	84	-110	53	77
Net long-term capital receipts	34	23	42	28	33	29	32	27	26	- 39
Net short-term capital receipts	<u>18</u>	<u>99</u>	<u>42</u>	<u>-54</u>	<u>-55</u>	<u>-28</u>	<u>- 52</u>	<u>128</u>	<u>- 63</u>	<u>- 31</u>
Net balance on capital account	52	122	84	-26	-22	1	- 22	155	- 37	- 70
Errors and omissions	- 11	- 14	- 30	- 5	-16	-14	- 7	- 17	7	- 7
Over-all balance of payments	- 9	- 21	- 20	1	13	18	55	28	23	0

NOTE: Quarterly data are monthly averages. Data may not add exactly because of rounding.

The \$11 million in foreign loans obtained from three overseas banks by the Sanyo Special Steel Co., Ltd. (which went bankrupt in March) were paid back in April by two Japanese commercial banks before they fell due. The Ministry of Finance in early April asked the Mitsubishi Bank of Tokyo to take early steps to repay these three loans acquired under their guarantee. The three loans were \$5 million from Banque Lambert of Belgium and \$3 million each from the Bank of London and South America, and the Chartered Bank, both of Britain. The Ministry of Finance asked for early repayment in order to maintain the credit reputation of Japanese corporations on the international market. It is understood that the Ministry of Finance will in the future exercise more rigorous supervision in screening qualifications of Japanese corporations in induction of foreign capital either through acquisition of impact loans or flotation of foreign debentures.

Preliminary data indicate that Japanese short-term liabilities to the U.S. (as reported by U.S. banks) rose \$7 million in February to a level of \$2,688 million.

Table 8. Short-term Claims on Japan Reported by U.S. Banks  
(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	326	372	420	456	488	497	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	1,898	1,872	1,877	1,798	1,890	1,904	2,017	2,171
1964	2,247	2,340	2,400	2,394	2,421	2,469	2,416	2,472	2,493	2,488	2,496	2,744
1965	2,681 <sup>a/</sup>	2,688 <sup>a/</sup>										

NOTE: Data for 1962, 1963 and 1964 have been revised and include \$52 million reported by banks initially as of December 31, 1961. The December 1964 figure includes \$91 million in newly reported data.

<sup>a/</sup> Preliminary.

There were no reported foreign bond issues in March, but in April, Japan returned to the American market with its first issue since September of 1963. In mid-April the Nippon Telegraph and Telephone Corporation floated a \$22.5 million, 15-year, 5-3/4 per cent bond. The issue was fully subscribed at a price of \$97.25, giving a final interest yield to subscribers of 6.031 per cent. This bond issue is the first one eligible for the \$100 million per year exemption from the Interest Equalization Tax granted by the United States to Japan in February. Reports indicate that Japan will fully utilize the allowed amount, and will place mainly government and government-guaranteed issues in Europe, although some private debentures may be placed in Europe beginning some time in the fall.

In early April it was announced that Japan and the United States had jointly agreed to increase the amount of their reciprocal currency arrangement from \$150 to \$250 million. The arrangement was originally concluded in October of 1963. So far Japan has drawn twice, \$50 million in April and \$30 million in July last year; both drawings have been repaid.

Foreign exchange. During March and the first half of April the yen weakened substantially in the spot market. From even parity, i.e., ¥360.00 to the dollar, on March 1, the spot middle rate depreciated to ¥361.95 on April 15. The yen also weakened in the forward market, but to a lesser degree. The net result was a diminishing in the forward discount and a changeover to a premium during April 7-15. This weakening of the yen has been attributed primarily to increased strength of the dollar as a result of the United States' recent balance-of-payments measures.

Table 9. 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	22	359.10	361.15	2.28
March	1	360.00	361.10	1.22
	8	360.30	361.55	1.39
	15	360.55	361.35	.89
	22	360.60	360.95	.39
	27	361.30	361.05	.28*
April	5	361.10	361.15	.06
	12	361.80	361.65	.17*
	15	361.95	361.55	.44*

\* Premium.

Asia, Africa and Latin America Section.

II. Nine Charts on Financial Markets Abroad

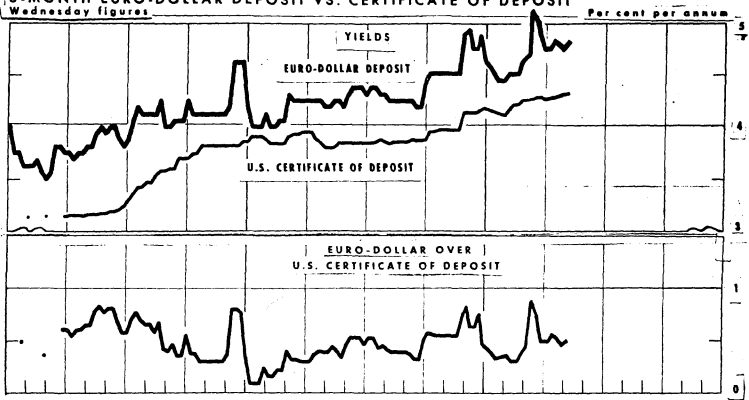
- Chart 1 - International Money Market Yields for U.S. Dollar Investors
- Chart 2 - Interest Arbitrage, United States/Canada
- Chart 3 - Interest Arbitrage, New York/London
- Chart 4 - Interest Arbitrage for German Commercial Banks
- Chart 5 - Short-term Interest Rates
- Chart 6 - Long-term Bond Yields
- 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

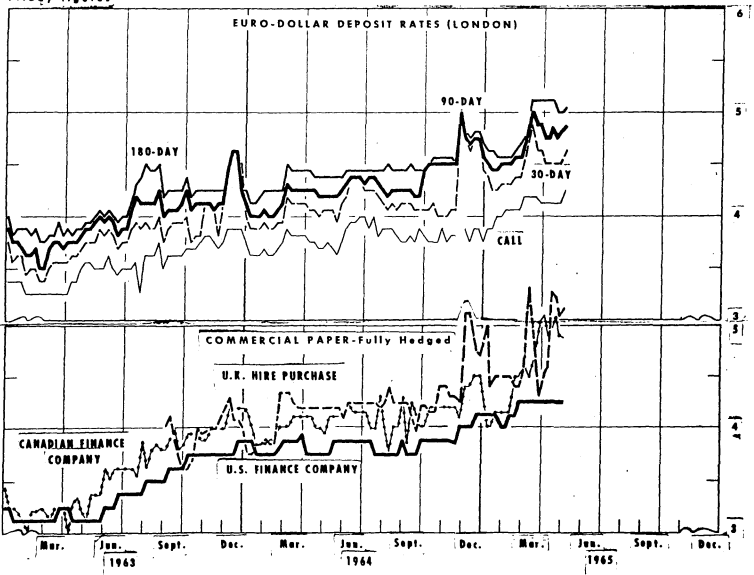
INTERNATIONAL MONEY MARKET YIELDS FOR U.S. DOLLAR INVESTORS

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



SELECTED INTERNATIONAL MONEY RATES

Friday figures



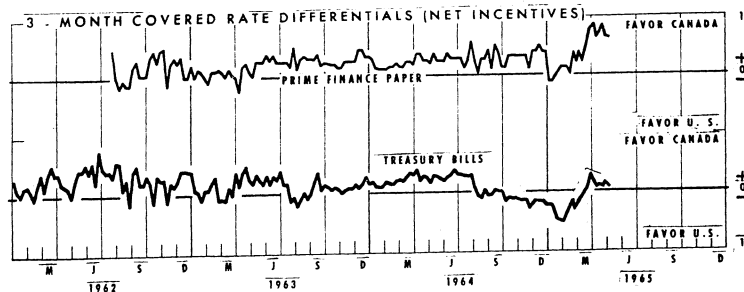
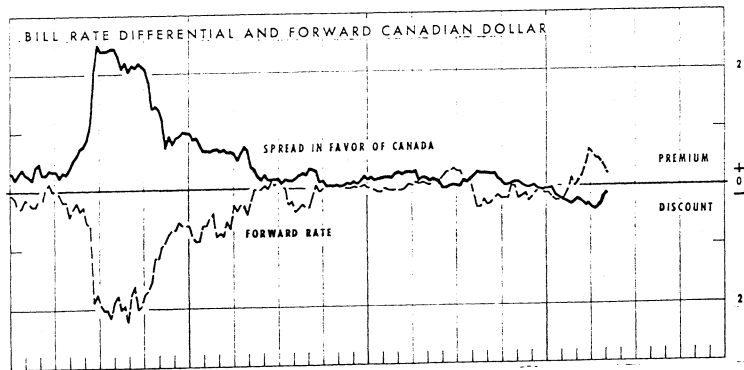
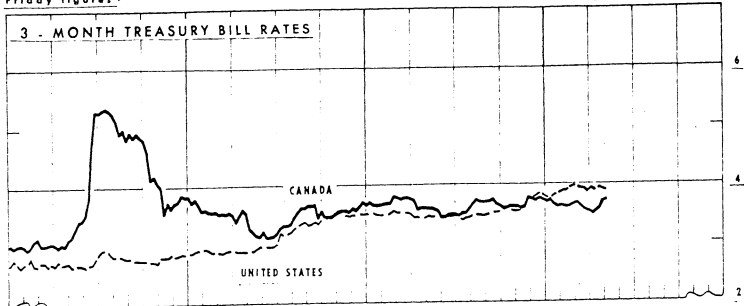
10

Chart 2

### INTEREST ARBITRAGE, UNITED STATES / CANADA

Per cent per annum

Friday figures\*



\*Thursday figures 1962, Friday thereafter.

Chart 3

### INTEREST ARBITRAGE, NEW YORK/LONDON

Friday figures

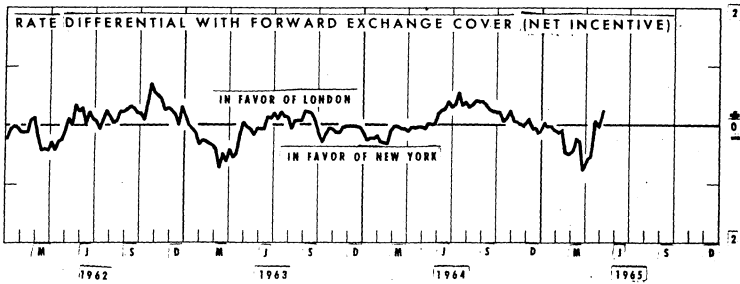
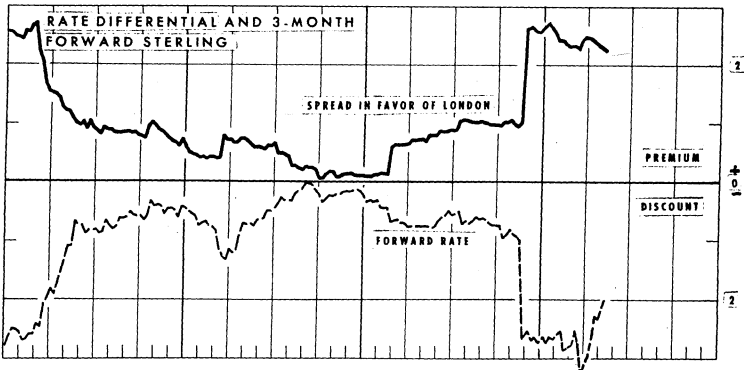
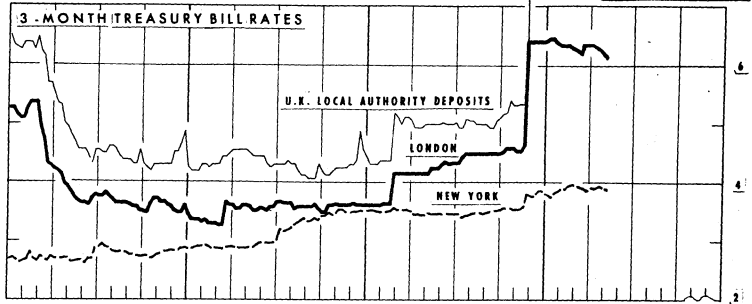


Chart 4

### INTEREST ARBITRAGE FOR GERMAN COMMERCIAL BANKS

Friday figures.

Percent per annum

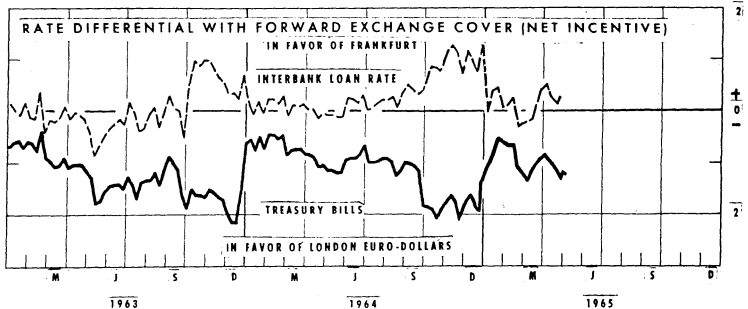
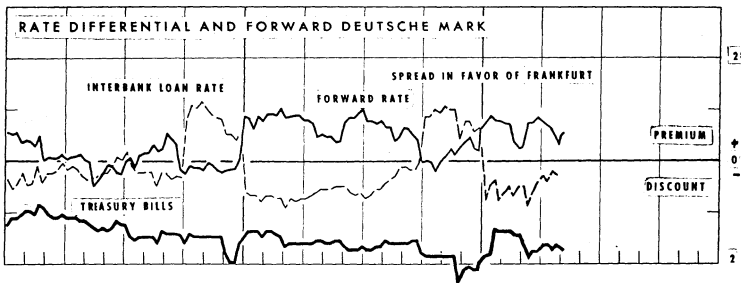
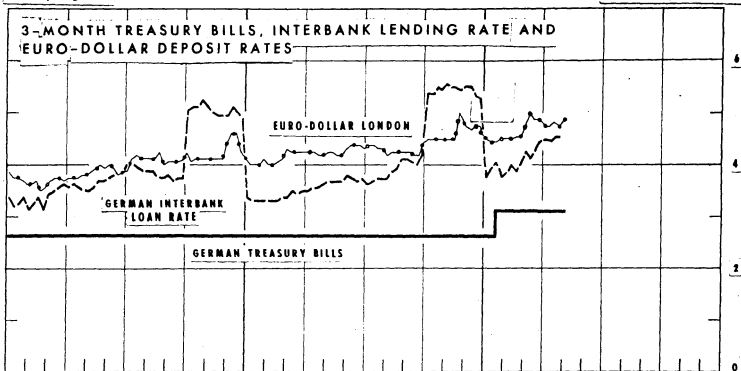
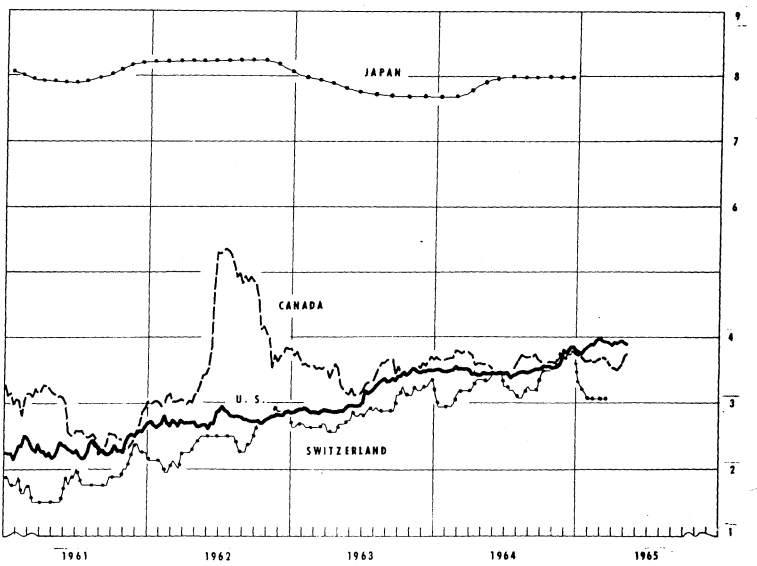
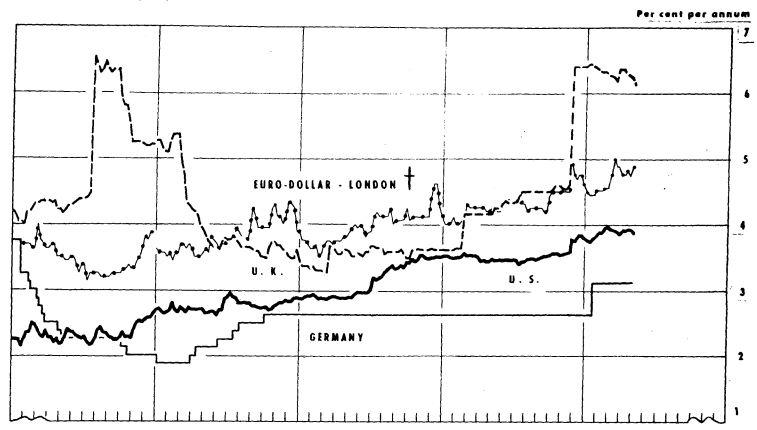


Chart 5  
SHORT-TERM INTEREST RATES\*



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

14

Chart 6  
**LONG-TERM BOND YIELDS**

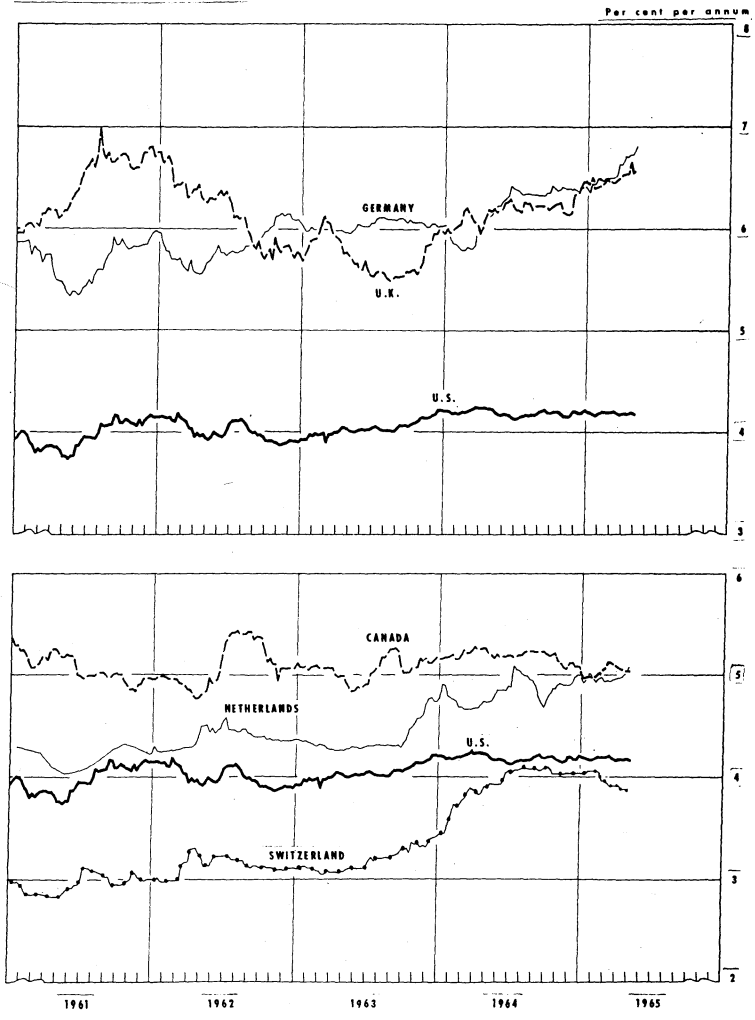
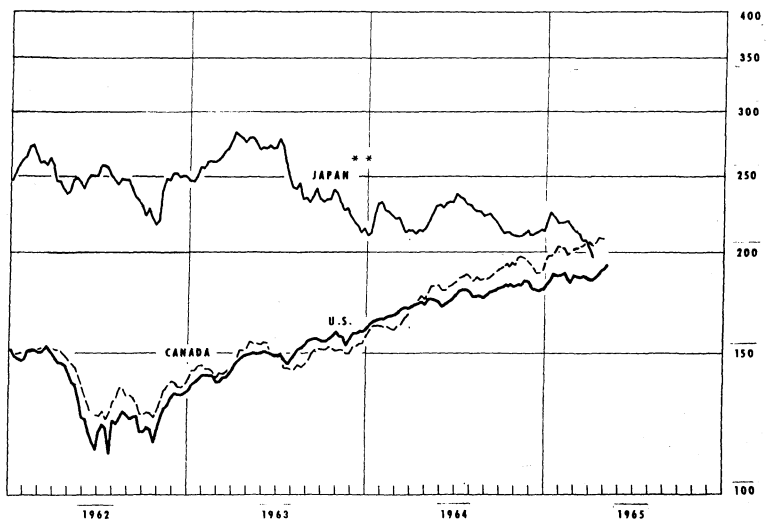
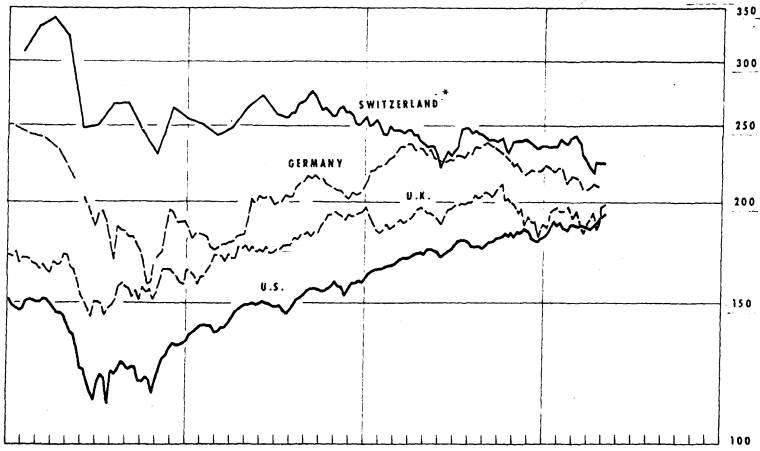


Chart 7  
**INDUSTRIAL STOCK INDICES**

1958 = 100  
Ratio scale



\* Swiss Bank Corporation industrial stock.

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

16

Chart 8  
SPOT EXCHANGE RATES - MAJOR CURRENCIES AGAINST U.S. DOLLAR

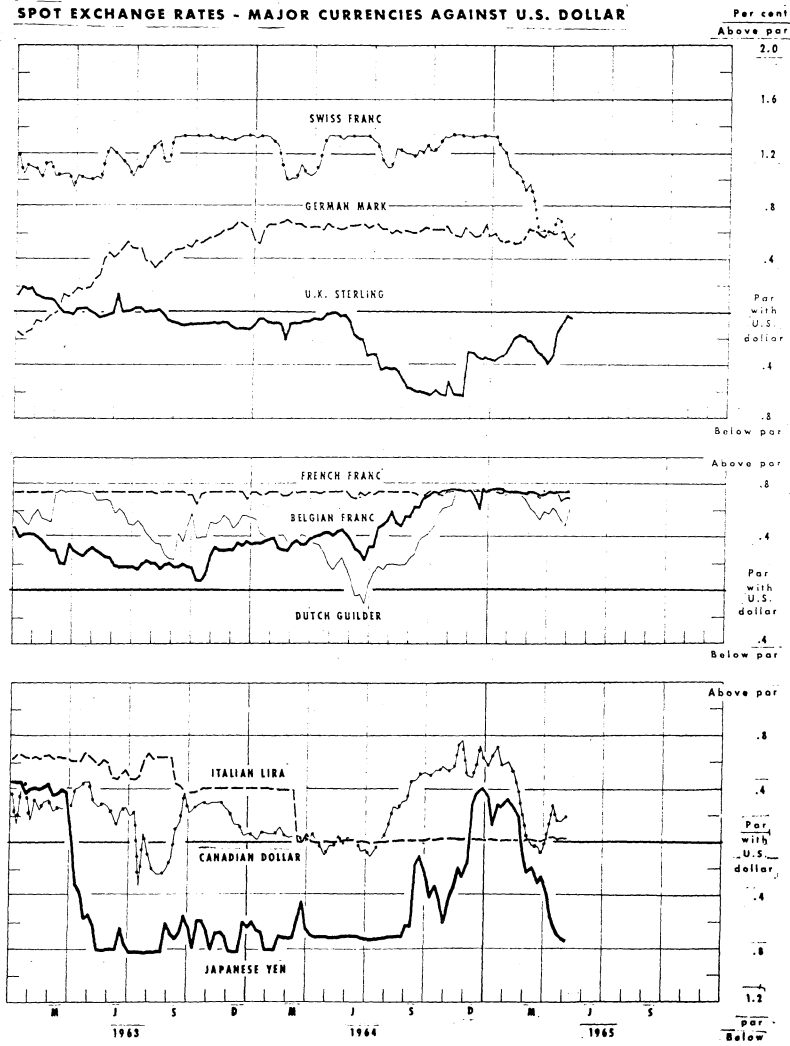
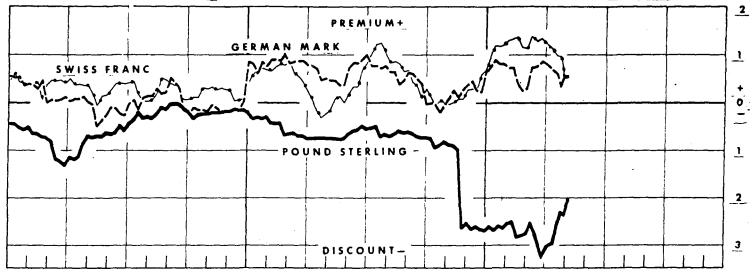




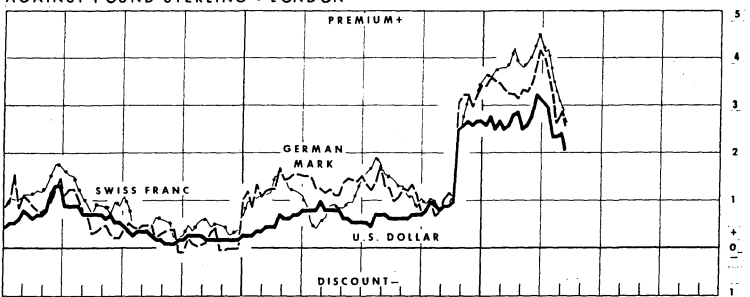
Chart 9  
**3-MONTH FORWARD EXCHANGE RATES**  
Friday figures

**AGAINST U.S. DOLLARS**

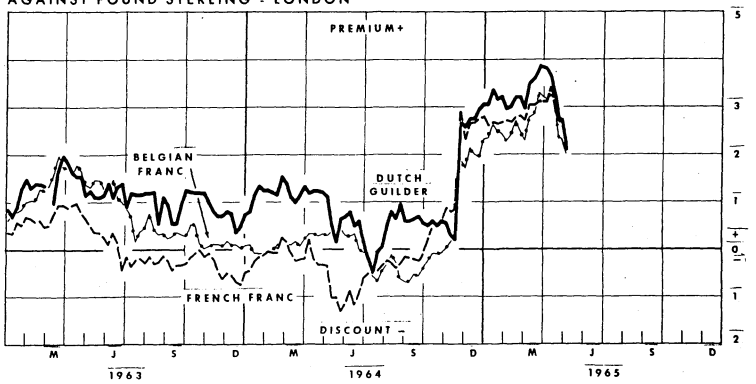
Per cent per annum



**AGAINST POUND STERLING - LONDON**



**AGAINST POUND STERLING - LONDON**



III. Latest Figures Plotted In H. 13 Chart Series, 1965

<u>Chart 1</u>	<u>Per cent per annum</u>	<u>Chart 5</u>	<u>Per cent per annum</u>
<u>Upper panel</u>		(Friday, <u>May 7</u> , except as noted)	
(Wednesday, <u>May 5</u> )		Treasury bills:	
Euro-\$ deposit	<u>4.81</u>	U.S.	<u>3.87</u>
U.S. certif. of deposit	<u>4.31</u>	U.K.	<u>6.13</u>
<u>Lower panels</u>		Germany	<u>3.12</u>
(Friday, <u>May 7</u> )		Canada	<u>3.73</u>
Euro-dollars: Call	<u>4.25</u>	Swiss 3-month deposits	
7-day	<u>4.38</u>	(Date: <u>March 15</u> )	<u>3.06</u>
30-day	<u>4.62</u>	Euro-\$ deposit (London)	<u>4.88</u>
90-day	<u>4.88</u>	Japan: composite rate	
180-day	<u>5.06</u>	(Date: <u>Dec. 31</u> )	<u>7.990</u>
Finance Co. paper: U.S.	<u>4.25</u>	<u>Chart 6</u>	
Canada	<u>4.88</u>	Bonds:	
Hire-purchase paper, U.K.	<u>5.18</u>	U.S. govt.	
<u>Chart 2</u>		(Wed., <u>May 5</u> )	<u>4.16</u>
(Friday, <u>May 7</u> )		U.K. war loan	
Treasury bills: Canada	<u>3.73</u>	(Thurs., <u>April 29</u> )	<u>6.56</u>
U.S.	<u>3.87</u>	German Fed. Railway	
Spread favor Canada	<u>-0.14</u>	(Fri., <u>May 7</u> )	<u>6.81</u>
Forward Canadian dollar	<u>+0.20</u>	Swiss Confederation	
Net incentive (Canada +)	<u>+0.06</u>	(Fri., <u>April 30</u> )*	<u>3.87</u>
<u>Chart 3</u>		Canadian govt.	
(Friday, <u>May 7</u> )		(Wed., <u>April 28</u> )	<u>5.04</u>
Treasury bills: U.K.	<u>6.13</u>	Netherlands government	
U.S.	<u>3.87</u>	perpetual	
Spread favor U.K.	<u>+2.26</u>	(Fri., <u>April 23</u> )	<u>5.04</u>
Forward pound	<u>-2.01</u>	(Thurs., <u>April 29</u> )	<u>5.08</u>
Net incentive (U.K. +)	<u>+0.25</u>	* Additional rates:	
		(Fri., <u>March 12</u> )	<u>3.91</u>
		(Fri., <u>March 19</u> )	<u>3.91</u>
		(Fri., <u>March 26</u> )	<u>3.91</u>