

H. 13

October 13, 1965.

No. 217

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 August-September

With domestic interest rates continuing to ease in Japan, it now appears that Japan will not be able to float this year the full \$100 million in bonds which the U. S. has exempted from the Interest Equalization Tax. The Japanese would reportedly have to pay about 7 per cent for U. S. capital at this time and this is regarded as too high. A prospective \$50 million (DM 200 million) issue in Germany has also been postponed indefinitely, largely because of the currently high interest rates in Germany. Fortunately for Japan, the excellent export performance in recent months has reduced somewhat the need for additional foreign capital.

According to preliminary data, Japanese borrowing in the U. S. rose \$60 million in June, but declined \$43 million in July. The large rise in June resulted partly from Japan's second bond issue this year in the U. S. The decline in July was due primarily to a reduction in short-term claims on Japan. (See Table 1.)

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

	Change during yr.			Change during period									
	1962	1963	1964	1964				1965					
				I	II	III	IV	I	II	Apr. May	June July		
Short-term claims ^{1/}	212	431	626 ^{a/}	229	69	24	304 ^{a/}	57	14	-29	-1	44 ^{p/}	-46 ^{p/}
Long-term claims ^{1/}	50	175	181 ^{b/}	62	14	26	79 ^{b/}	42	7	7	4	4 ^{p/}	3 ^{p/}
TOTAL	262	606	806	291	83	50	383	99	21	-22	3	40 ^{p/}	-43 ^{p/}
Securities ^{2/}	141	200	0	0	0	0	0	0	23	23	0	20	0
TOTAL	403	806	806	291	83	50	383	99	44	1	3	60 ^{p/}	-43 ^{p/}

^{1/} Bank-reported liabilities to the U. S.

^{2/} New security flotations.

^{a/} Includes \$144 million newly reported in December.

^{b/} Includes \$45 million newly reported in December.

^{p/} Preliminary.

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)

Maximum authorized rates that Japanese foreign exchange banks may pay on Euro-dollars continued to decline in September, but then increased early in October. Between June and September, rates for deposits of over one year fell from 6.0 to 5.5 per cent. (See Table 2).

Table 2. Japan: Maximum Authorized Rates on Euro-dollar Deposits

Effective:	6/16/65	7/14/65	8/2/65	9/3/65	9/9/65	10/5/65
Less than 30 days	4.375	4.375	4.375	4.375	4.25	4.25
1 - 3 months	5.125	4.875	4.75	4.75	4.5	4.625
3 - 6 months	5.25	5.125	5.0	4.875	4.625	5.0625
6 - 12 months	5.375	5.5	5.375	5.25	5.125	5.25
1 year and over	6.0	5.875	5.875	5.625	5.5	5.5

Japan's balance of payments improved in August and September as international reserves rose \$19 million. Exports increased dramatically in August to break the previous month's record trade surplus. However, the yen continued to remain relatively weak in the foreign exchange market through mid-September.

On the domestic side, money market conditions remained relatively easy. Interest rates declined further in August and September; on August 31 call loan rates fell below the previous lows set last June. The average rate of interest on commercial bank loans and discounts fell again in July. Bank credit in June expanded at a lower rate than a year earlier. In July, however, it expanded a shade more than in July of last year. The stock market rallied from its July 12 low, and by September 9 the Dow-Jones average had risen 25 per cent.

Money market. Money market conditions continued to remain relatively easy in July and August. During July there was a slight contractionary impact from developments as a Bank of Japan credit expansion of ¥102 billion failed to completely offset the contractionary impact from net Treasury receipts of ¥101 billion and an expansion in bank notes in circulation of ¥5 billion. During August the contractionary impact from net Treasury receipts of ¥130 billion was more than offset by the expansionary effect from a ¥93 billion rise in Bank of Japan credit and a ¥45 billion decrease in bank notes in circulation.

Interest rates. At the end of August call loan rates were cut again to the lowest levels since 1956. Rates were reduced by 0.365 percentage points twice in June, and again by this amount on August 31. The rates then remained unchanged through most of September. (See Table 3). Rates were reportedly reduced in late August in the expectation of a further easing in the money market in connection with heavy Government subsidy payments for rice.

Table 3. Japan: Average Call Loan Money Rates in Tokyo
(per cent)

		<u>Overnight</u> ^{1/}	<u>Unconditional</u> ^{2/}	<u>Over-month-end</u> ^{3/}
July	31	6.205	6.570	7.300
August	7	6.205	6.570	7.300
	14	6.205	6.570	7.300
	21	6.205	6.570	7.300
	28	6.205	6.570	7.300
September	4	5.840	6.205	6.935
	11	5.840	6.205	6.935
	18	5.840	6.205	6.935
	25	5.840	6.205	6.935

^{1/} For settlement on the following day.

^{2/} Repayable at a day's notice.

^{3/} Repayable at a day's notice in the following month.

The average rate of interest on commercial bank loans and discounts fell again in July to 7.78 per cent from 7.83 per cent in June and 7.99 per cent at the end of last year.

Bank loans and discounts. Bank credit in July was up by 1.2 per cent, just above the 1.1 per cent rate in July last year. The increase in securities holdings in July was 1.3 per cent, whereas a year earlier there had been no change. Loans increased by about the same rate as a year earlier, but bills discounted increased at a considerably lower rate. Deposits were down by 0.1 per cent in July, compared with an 0.2 per cent decline in July 1964.

The proportion of bank loans and discounts extended for purchases of equipment in June and July remained at the 17.4 per cent rate established in May. This ratio compares with the recent low of 17.0 per cent last December.

In both July and August, Bank of Japan operations were expansionary. (See Table 4). Net purchases of securities in July were ¥39 billion, less than the ¥60 billion level of July 1964. Loans were much higher, rising by ¥63 billion in July compared to a ¥16 billion increase a year earlier. In August the Bank sold (net) ¥2 billion in securities, in contrast to net purchases of ¥59 billion a year earlier. Loans in August expanded at a rate well above a year earlier, increasing by ¥94 billion as against an increase of ¥55 billion in the earlier period.

Table 4. 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
II Quarter	- 124.0	- 14.4	- 109.6
May	- 85.1	- 15.0	- 70.1
June	+ 185.7	+ 26.5	+ 159.2
July	+ 101.8	+ 62.8	+ 39.0
August	+ 92.6	+ 94.4	- 1.8

Bond market. New issues of bonds rose in June to ¥178 billion from the May level of ¥160 billion. The increase was accounted for by a rise in new issues of bank debentures from ¥100 to ¥110 billion, and a rise in new issues of public corporation bonds from ¥33 billion to ¥42 billion. New issues of industrial debentures fell by ¥2 billion between May and June.

Complete data is not yet available on July, but new issues of industrial debentures rose ¥1 billion to ¥26 billion. New issues of bank debentures rose by ¥6 billion in July.

Bond yields in July were unchanged to lower. Average yields on local government securities, public corporation bonds and one-year bank debentures remained at the 1964 rates of 7.354, 7.053, and 6.224 per cent, respectively. The yield on long-term bank debentures was down slightly to 7.278 per cent, while the yield on industrial bonds fell from the June rate of 7.481 to 7.466 per cent.

Stock market. The stock market continued to rally from its five-year low on July 12. On September 9 the Dow-Jones stock average was ¥1,277, or 25 per cent above the July low. (See Table 5). The rising stock prices have been attributed to easier credit, recovery in the commodity market, and to buying operations by Japan Joint Securities Company. After September 9 the stock average fell somewhat, as some shareholders sold to take profits. Also, effective September 14, margin requirements on stocks purchased with securities as collateral were increased.

Table 5. Japan: Dow-Jones Average of 225 Stocks, First Section of Tokyo Exchange

June	28	¥1,072	August	16	¥1,158	1964	High	¥1,369
				23	1,171		Low	¥1,203
July	5	1,049		30	1,245			
	12	1,020				1965	High	¥1,290
	19	1,038	September	6	1,236		Low	¥1,020
	26	1,034		13	1,250			
				20	1,272			
August	2	1,021		25	1,244			
	9	1,151						
			October	2	1,205			

Foreign trade. The seasonally-adjusted trade surplus in August soared to a record-breaking level. Between July and August exports increased from \$750 to \$780 million. There was a much smaller increase in imports, so that the trade surplus increased from \$98 million to \$121 million. This is \$100 million higher than the average surplus on trade account during the first six months of the year.

Table 6. Japan: Seasonally-Adjusted Foreign Trade, Monthly or Monthly Averages ^{a/}
(in millions of dollars)

	1965					1965					
	IV	I	II	III	IV	I	II	May	June	July	Aug.
Imports	643	664	655	632	697	659	689	675	726	652	659 ^{b/}
Exports	484	485	534	571	618	679	711	723	727	750	780 ^{b/}
Balance	-159	-179	-121	-61	-79	+20	+22	+48	+1	+98	+121

^{a/} All figures on a customs basis.

^{b/} Preliminary.

Foreign reserves and capital flows. International reserves rose \$14 and \$5 million in August and September, respectively, to a level of \$1,969 million. This marks a reversal in the general downtrend during April-July when reserves fell \$103 million. The recent rise in reserves reflects primarily the sharp rise in exports.

The ratio of international reserves to the Bank of Japan's note issue fell from 34.3 per cent in June to 33.7 per cent in July, but then increased in August to 34.7 per cent.

Table 7. Japan: Ratio of Reserves to Bank Notes

<u>End of Period</u>	<u>International Reserves</u> (billions of yen)	<u>Bank Notes Issued</u> (billions of yen)	<u>Reserves/ Bank Notes</u>
1959	¥520.9	¥1,029.4	50.6
1960	701.6	1,234.1	56.9
1961	599.8	1,480.1	40.5
1962	727.9	1,745.9	41.7
1963	740.9	2,057.4	36.0
1964 March	718.6	1,774.8	40.5
June	697.3	1,860.6	37.5
September	698.0	1,836.1	38.0
December	719.6	2,298.8	31.3
1965 March	739.1	2,022.3	36.5
April	726.8	2,032.8	35.8
May	724.7	1,975.4	36.7
June	712.8	2,078.3	34.3
July	702.0	2,083.1	33.7
August	707.0	2,038.2	34.7

The over-all balance of payments (as measured on an exchange transactions basis) again registered a deficit of \$23 million in July. (See Table 8). The high trade surplus was more than offset by a deficit for services, an outflow of both long-term and short-term capital, and a negative item under errors and omissions. In August, the trade surplus was even larger and, with a decline in the capital outflow, the over-all balance was a plus \$34 million. Because of changes in Japan's gold tranche position with the IMF in July and August, officially reported reserves differ from the over-all balance of payments figures contained in Table 8.

Table 8. Japan: Balance of Payments on an Exchange Transactions Basis
(in millions of dollars)

	1964				1965					
	I	II	III	IV	I	II	May	June	July	Aug.
Trade account balance	- 93	- 37	71	94	51	85	102	123	152	175
Services balance	- 36	- 37	- 39	- 42	- 44	- 58	- 61	- 55	- 51	- 59
Current account	- 129	- 74	33	51	7	27	41	68	101	116

Table 8 (Cont.)

	1964				1965					
	I	II	III	IV	I	II	May	June	July	Aug.
Net long-term capital receipts	23	42	28	33	5	-10	6	-22	-15	-19
Net short-term capital receipts	<u>99</u>	<u>42</u>	<u>-54</u>	<u>-55</u>	<u>11</u>	<u>-44</u>	<u>-44</u>	<u>-104</u>	<u>-90</u>	<u>-61</u>
Net balance on capital account	122	84	26	-22	16	-54	-38	-126	-105	-80
Errors and omissions	-14	-30	-5	-16	-6	-11	-39	20	-19	-2
Over-all balance of payments	-21	-20	1	13	17	-37	-36	-38	-23	34

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

Preliminary data indicate that Japanese short-term liabilities to the U. S., as reported by U. S. banks, rose \$44 million in June to \$2,868, but then fell \$46 million in July to the lowest level since February.

Table 9. Short-term Claims on Japan Reported by U. S. Banks
(in millions of U. S. dollars)

	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
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	2,797
1965	2,732	2,737	2,854	2,825	2,824	2,868 ^{a/}	2,822 ^{a/}					

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 \$144 million in newly reported data.

^{a/} Preliminary

Japanese long-term liabilities to the U. S., as reported by U. S. banks, declined \$4 million in June, but then rose \$3 million in July, according to preliminary reports. (See Table 10).

Table 10. Long-term Claims on Japan Reported by U. S. Banks
(in millions of U. S. dollars)

	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
1959	13	14	15	15	17	17	16	15	16	15	16	16
1960	16	16	14	14	14	14	18	18	21	21	19	19
1961	19	19	18	19	18	19	20	19	25	23	25	24
1962	24	25	31	28	29	49	50	54	54	62	69	74
1963	74	74	76	83	104	111	119	136	143	146	170	249
1964	280	295	311	319	323	325	329	332	351	352	269	430
1965	455	454	472	479	483	479 ^{a/}	482 ^{a/}					

NOTE: Data for recent years have been revised and the December 1964 figure includes \$45 million in newly reported data.

^{a/} Preliminary.

There were no reported Japanese bond issues in the American capital market in the July-September period. Earlier, Japan floated a \$22.5 million issue in April and a \$20.0 million issue in June.

Foreign exchange. After remaining below 362 yen to the dollar after June 10, the spot middle rate depreciated in early July, recovering temporarily in the second week of September. The forward rate rose to 362 yen to the dollar on July 13, but improved to 361.5 on July 20, and to 361.1 (the best rate since April 1) on September 14. Since June 28 the yen has remained at a premium in the forward market. On September 15 this premium was the highest since August 24.

Table 11. Japan: Customer's T.T. Exchange Rate of Bank of Tokyo in Tokyo

		Yen-dollar spot middle rate	Three-month forward middle rate	Forward discount in per cent per annum
June	28	361.60	361.65	.06
July	5	362.10	361.75	.39*
	12	362.30	361.80	.55*
	19	362.25	362.00	.28*
	26	362.30	361.65	.72*
August	2	362.20	361.65	.61*
	9	362.30	361.45	.94*
	16	362.15	361.50	.72*
	23	362.20	361.35	.94*
	30	362.30	361.70	.66*
September	6	362.05	361.45	.66*
	13	362.15	361.20	1.05*

* Premium.

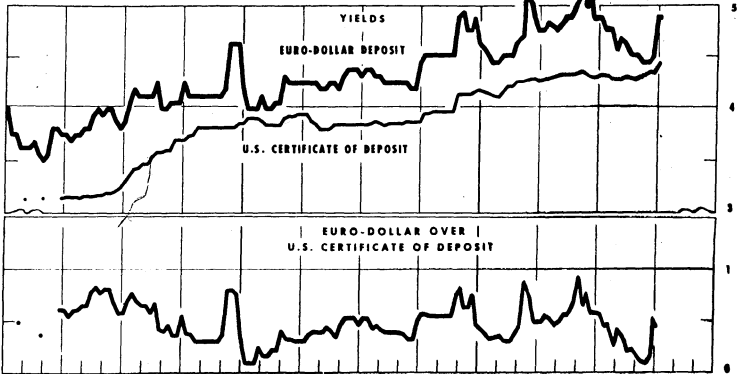
Asia, Africa and Latin America Section.

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

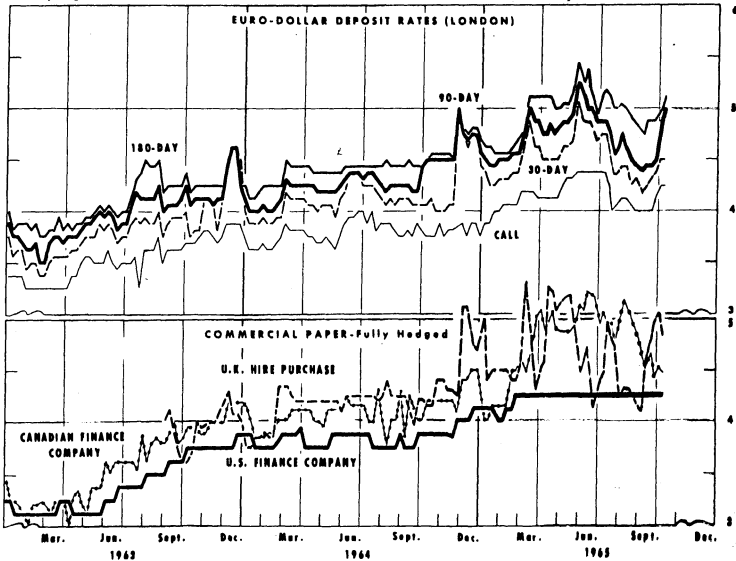
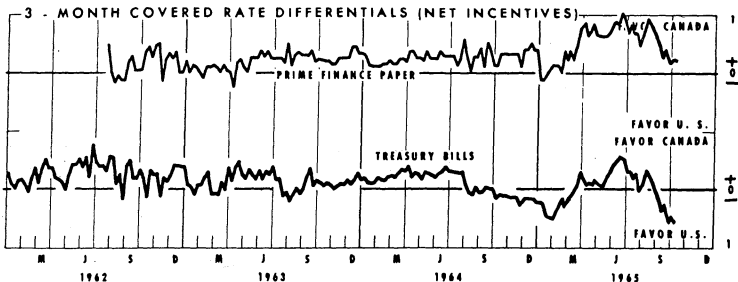
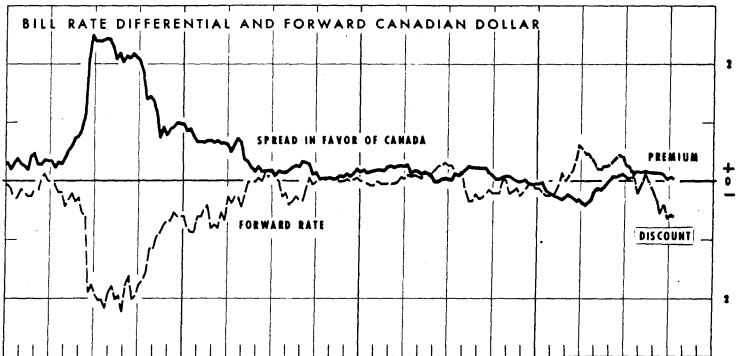
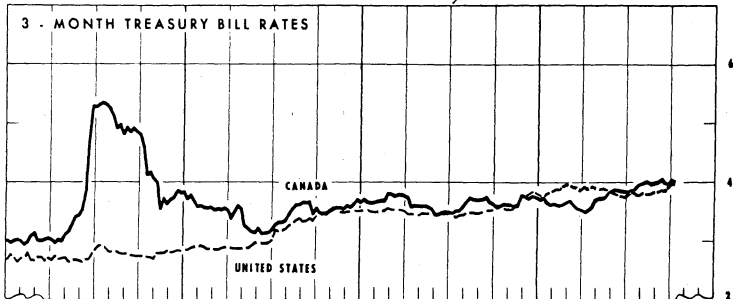


Chart 2

INTEREST ARBITRAGE, UNITED STATES / CANADA

Friday figures*

Per cent per annum



Thursday figures 1962, Friday thereafter.

Chart 3

INTEREST ARBITRAGE, NEW YORK/LONDON

Friday figures

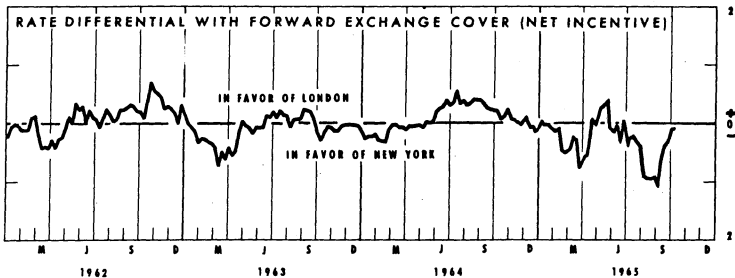
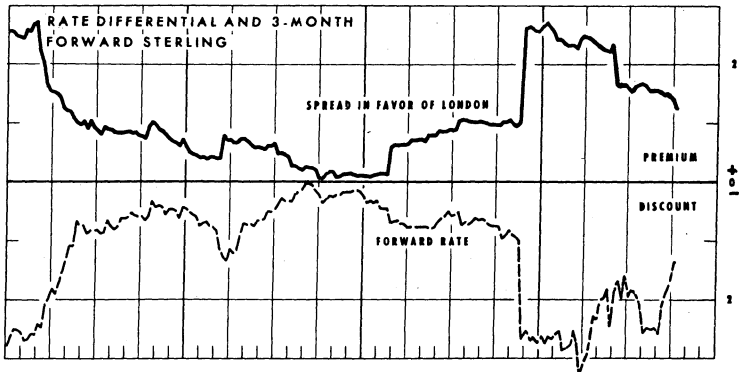
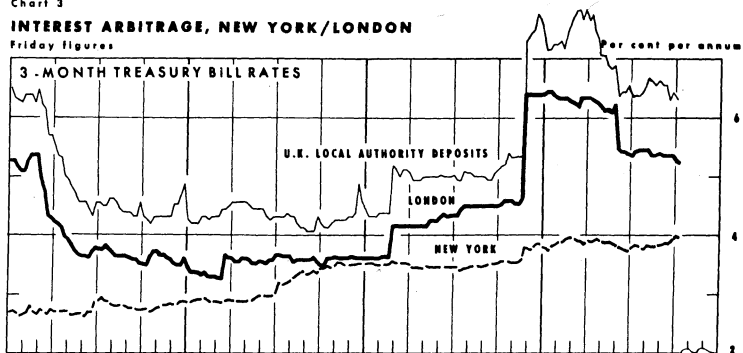


Chart 4

INTEREST ARBITRAGE FOR GERMAN COMMERCIAL BANKS

Friday figures

Per cent per annum

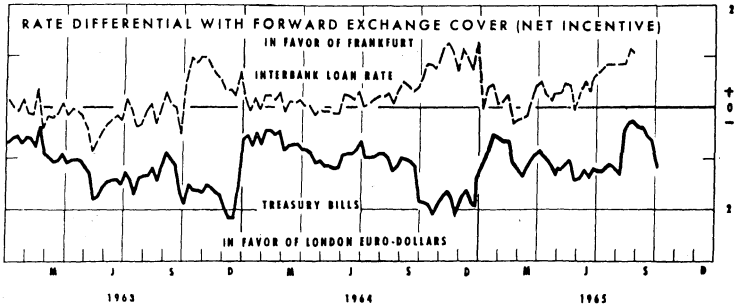
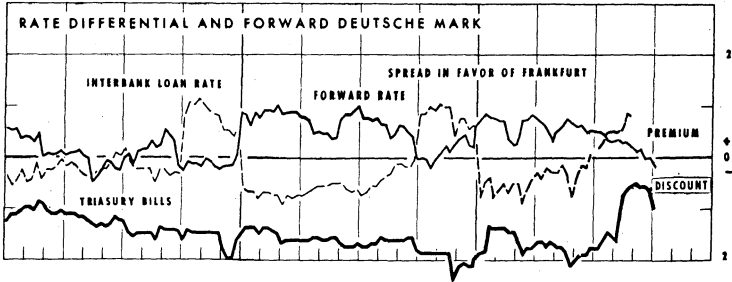
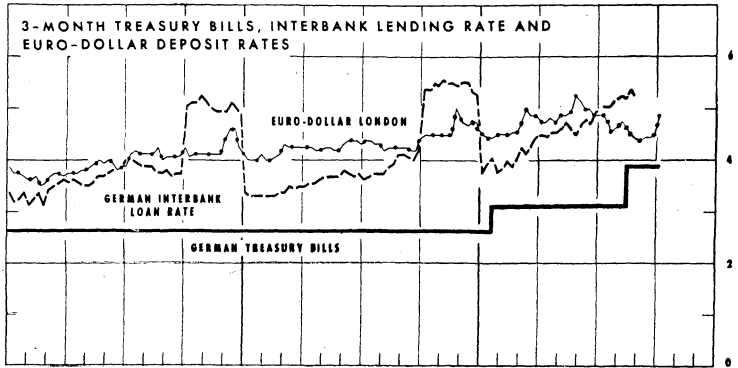
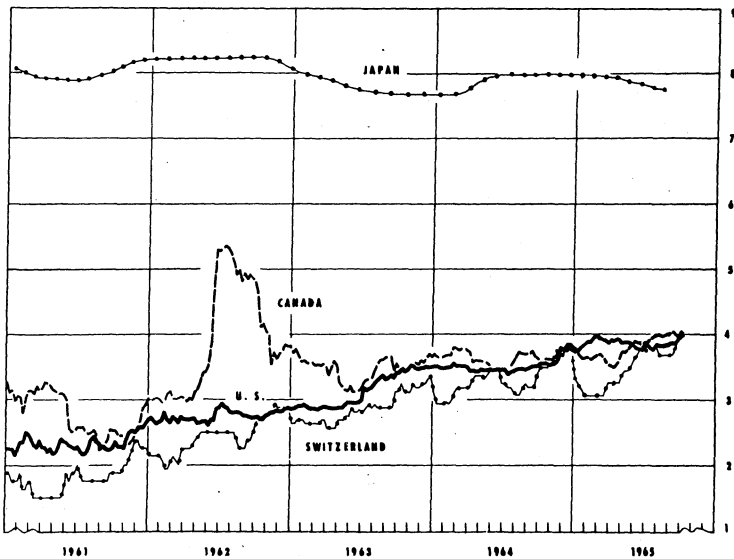
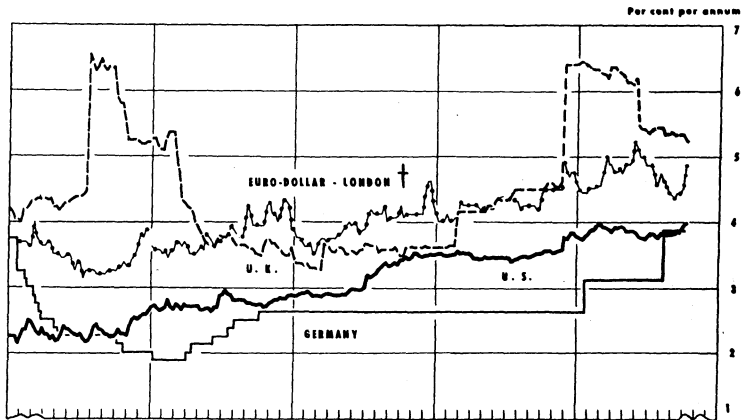


Chart 5
SHORT-TERM INTEREST RATES*



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

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

14

Chart 6
LONG-TERM BOND YIELDS

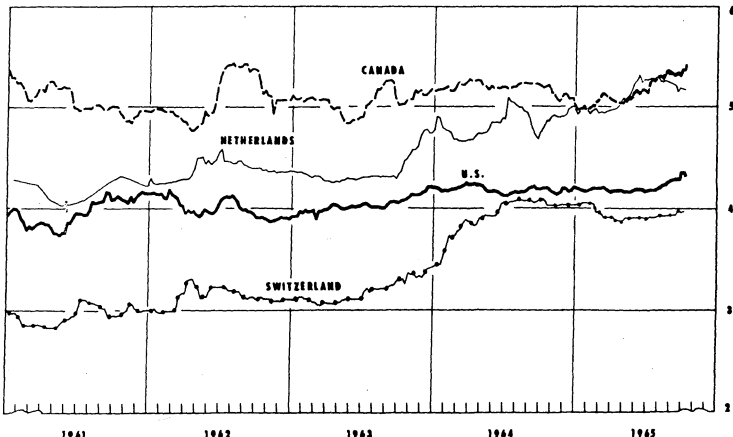
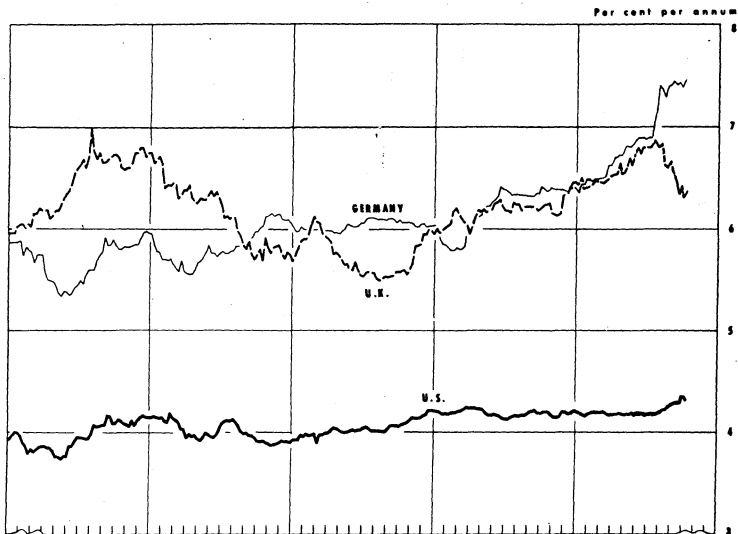
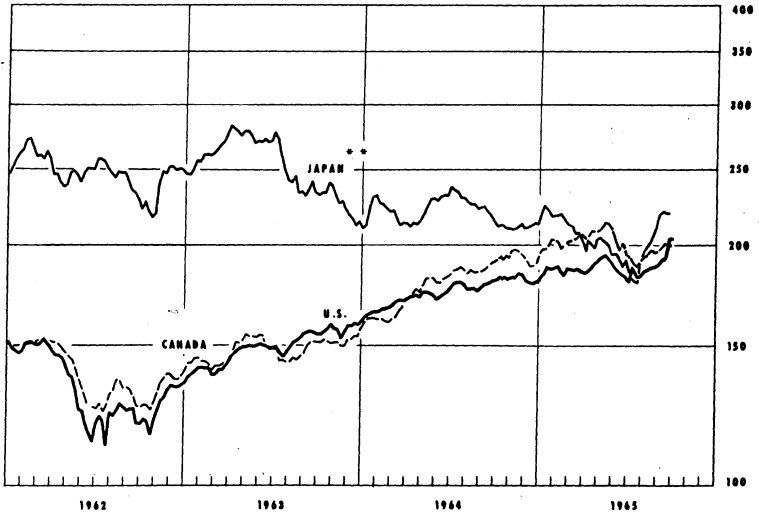
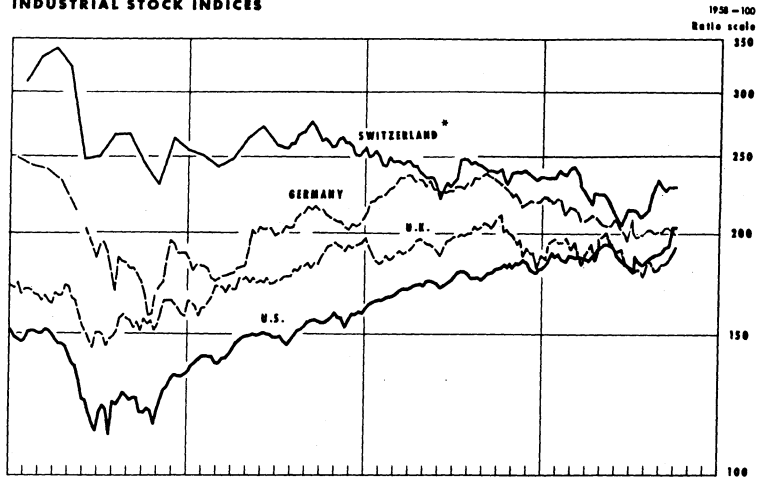


Chart 7
INDUSTRIAL STOCK INDICES



* 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

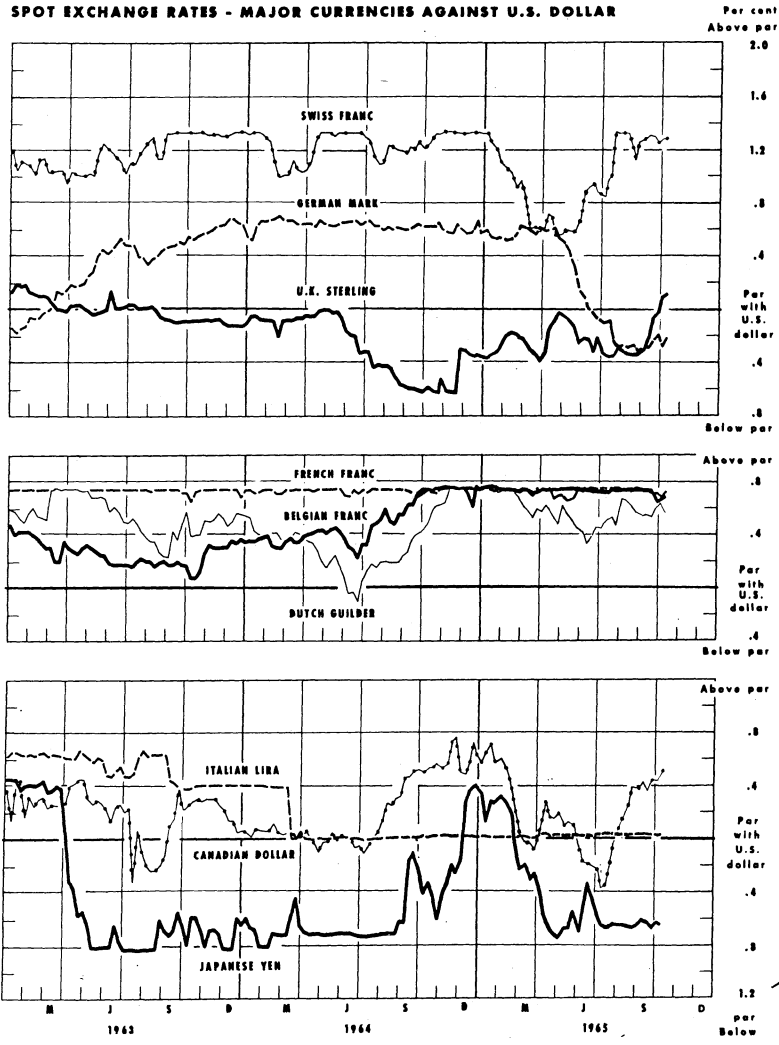
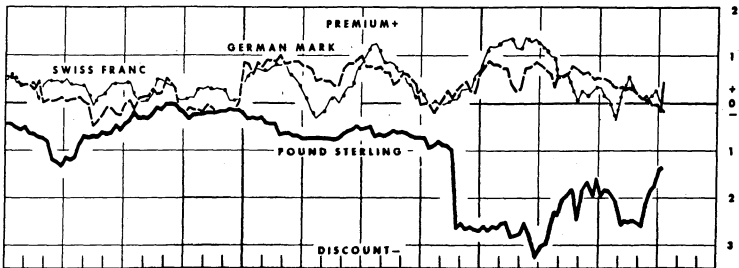


Chart 9
3-MONTH FORWARD EXCHANGE RATES

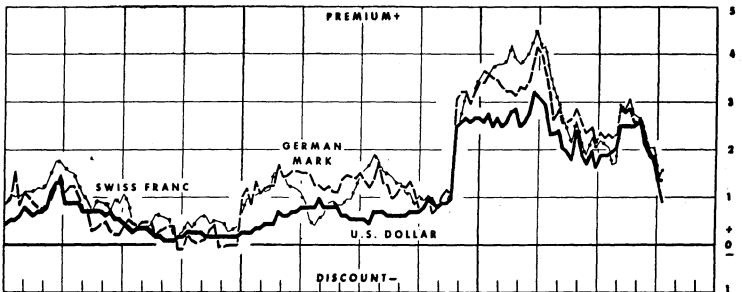
Friday figures

AGAINST U.S. DOLLARS

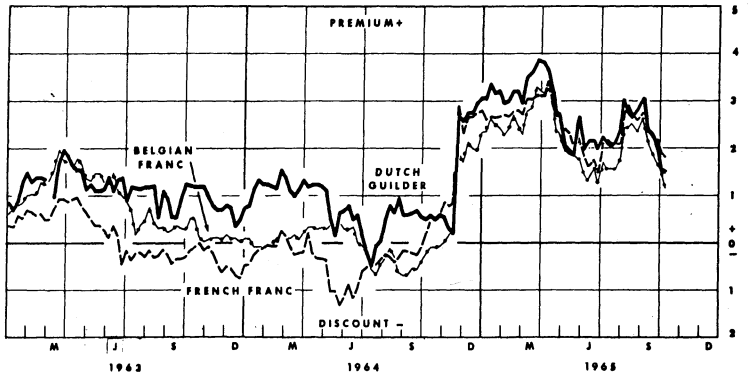
Per cent per annum



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>Oct. 8</u> , except as noted)	
(Wednesday, <u>Oct. 6</u>)		<u>Treasury bills:</u>	
Euro-\$ deposit	<u>4.88</u>	U.S.	<u>3.98</u>
U.S. certif. of deposit	<u>4.45</u>	U.K.	<u>5.24</u>
<u>Lower panels</u>		Germany (Oct. 1)	<u>3.88</u>
(Friday, <u>Oct. 8</u>)		Canada	<u>4.00</u>
Euro-dollar deposits: Call	<u>4.25</u>	Swiss 3-month deposits	
7-day	<u>4.38</u>	(Date: <u>Sept. 23</u>)	<u>3.82</u>
30-day	<u>4.50</u>	Euro-\$ deposit (London)	<u>4.88</u>
90-day	<u>5.00</u>	Japan: composite rate	
180-day	<u>5.12</u>	(Date: <u>August</u>)	<u>7.731</u>
Finance Co. paper: U.S.	<u>4.25</u>	<u>Chart 6</u>	
Canada	<u>4.46</u>	<u>Bonds:</u>	
Hire-purchase paper, U.K.	<u>4.84</u>	U.S. govt.	
<u>Chart 2</u>		(Wed., <u>Oct. 6</u>)	<u>4.31</u>
(Friday, <u>Oct. 8</u>)		U.K. war loan	
Treasury bills: Canada	<u>4.00</u>	(Thurs., <u>Oct. 7</u>)	<u>6.37</u>
U.S.	<u>3.98</u>	German Fed. Railway	
Spread favor Canada	<u>+0.02</u>	(Fri., <u>Oct. 1</u>)	<u>7.46</u>
Forward Canadian dollar	<u>-0.60</u>	Swiss Confederation	
Net incentive (Canada +)	<u>-0.58</u>	(Fri., <u>Oct. 6</u>)	<u>3.97</u>
<u>Chart 3</u>		Canadian govt.	
(Friday, <u>Oct. 8</u>)		(Wed., <u>Oct. 6</u>)	<u>5.41</u>
Treasury bills: U.K.	<u>5.24</u>	Netherlands government	
U.S.	<u>3.98</u>	perpetual	
Spread favor U.K.	<u>+1.26</u>	(Fri., <u>Oct. 1</u>)	<u>5.16</u>
Forward pound	<u>-1.35</u>		
Net incentive (U.K. +)	<u>-0.09</u>		