

H. 13

No. 223

November 24, 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 September-October

Since early September the Japanese authorities have taken several important decisions in the financial field. On the international side, the Ministry of Finance has decided to float a third bond issue in the United States this year. Domestically, the authorities have decided to turn to an expansionary fiscal policy.

The third Japanese bond issue in the United States this year is to be floated in November. This will be a \$20.0 million, 6.5 per cent, 15-year issue by the Japan Development Bank. Earlier, in April and June, Japan placed in the American market issues totaling \$22.5 million and \$20.0 million, respectively. All of these issues are exempt from the Interest Equalization Tax.

Since the November issue is likely to be the last Japanese issue this year, this means that Japan will not have been able to float the full \$100 million in bonds in 1965 allowed under the exemption from the Interest Equalization Tax. The Japanese were reportedly reluctant to place new issues during the July-October period because they would have had to pay about 7 per cent for funds, a rate which Japanese borrowers consider excessive. It is estimated that the latest issue will be placed at a price providing an initial yield to investors of about 6.7 per cent.

The major changes in domestic fiscal policy include the decision: (1) to finance the current deficit in the general account budget by the issue of bonds rather than by reducing expenditures; and (2) to present a deficit budget to parliament next year instead of the legally-required balanced budget. In late October, the Minister of Finance announced that the original ¥300 billion estimate of total bond flotations by the Government during the 1965 financial year (ending March 31, 1966) to stimulate economic recovery, had been revised downward to ¥250 billion (\$694 million). The bond issues will now be limited to financing a shortage in tax revenues. New budget requests in November totalling ¥150 billion will be met, he said, by cutting expenditures and transferring various Government funds to the general account. The Government is expected to introduce in November a special one-year law to allow it to float bonds to finance a deficit in the general account next year. This practice is expressly forbidden in the 1947 Public Finance Law which prohibits the floating of long-term government bonds for any purpose except public works and government investments. The Finance Minister also plans to cut taxes by ¥200 billion (\$556 million) during the next fiscal year.

According to preliminary data, Japanese borrowing in the U. S. fell \$6 million in August as long-term claims declined by \$7 million.

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(Decontrolled after 6 months)

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	May	July	Aug.	
Short-term claims ^{1/}	212	431	632a/	229	69	24	310a/	-47	15	29	15	-49p/	1p/
Long-term claims ^{1/}	50	175	181b/	62	14	26	79b/	42	7	4	-4	3p/	-7p/
TOTAL	262	606	813	291	83	50	389	-5	22	33	11	-46p/	-6p/
Securities ^{2/}	141	200	0	0	0	0	0	0	23	0	20	0	0
TOTAL	403	806	813	291	83	50	389	-5	45	33	31	-46p/	-6p/

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

^{2/} New security flotations.

a/ Includes \$150 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.

The maximum authorized rates that Japanese foreign exchange banks may pay on Euro-dollars continued to decline in September, but then increased during the first half of October. The increase in Japanese authorized rates in October reportedly reflected a general tightening in the Euro-dollar market and the desire by the Japanese to avoid any substantial loss of Euro-dollars. (See Table 2).

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

Effective:	<u>7/14/65</u>	<u>8/2/65</u>	<u>9/3/65</u>	<u>9/9/65</u>	<u>10/5/65</u>	<u>10/11/65</u>
Less than 30 days	4.375	4.375	4.375	4.25	4.25	4.25
1 - 3 months	4.875	4.75	4.75	4.5	4.625	4.75
3 - 6 months	5.125	5.0	4.875	4.625	5.0625	5.25
6 - 12 months	5.5	5.375	5.25	5.125	5.25	5.375
1 year and over	5.875	5.875	5.625	5.5	5.5	5.625

International reserves continued to rise, increasing \$5 million in September and \$29 million in October to \$1,998 million. The gain in September was aided substantially by a large trade account surplus. In the foreign exchange market, the rate for spot yen weakened in September, creating the highest premium in the forward market in years.

On the domestic side, interest rates continued to ease, both in the call market and for commercial bank loans and advances. Bank credit expanded at a slightly faster pace in July and August than a year earlier after remaining rather dull earlier this year. The stock market continued to recover from its five-year low in July, and

by November 12 had reached a new high for the year.

Money market. Conditions in the money market remained easy in September. The impact of a contraction in Bank of Japan credit of ¥105 billion was more than offset by the expansionary impact of ¥111 billion in net Treasury payments and a ¥5 billion decline in bank notes in circulation. Japan's money market is likely to remain easy for some time in the future because of slack capital investment and an expansionary government budget.

The supply of funds to the call market fell during the June-September period. From a level of ¥1,341 billion at the end of May, the average monthly balance declined to ¥1,226 billion in September. This represents a reversal of the general expansion of the call money market up to May. The chief reason for the turnaround is the improving fund position of city banks, major borrowers of call loans, partly as a result of the Bank of Japan's expansion of credit. Also, business and industry have reduced their demand for new funds, and the lower cost of call market funds has improved bank liquidity.

Interest rates. For the fourth time since May, call loan rates were reduced again in early October. Already at their lowest levels since 1956, rates were reduced by 0.365 percentage points on October 1. (See Table 3).

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/
August	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
October	2	5.475	5.840	6.570
	9	5.475	5.840	6.570
	16	5.475	5.840	6.570
	23	5.475	5.840	6.570
	30	5.475	5.840	6.570
November	6	5.475	5.840	6.570

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 declined again in August and September. From last December's high of 7.99 per cent, the rate fell to 7.73 in August and 7.68 per cent in September.

Bank loans and discounts. Bank credit in August continued to expand at a slightly faster rate than a year earlier. During the April-June period, bank credit expansion lagged behind the pace a year earlier. In August, bank credit rose 1.1 per cent in contrast to a rise of 0.9 per cent a year earlier. The increase in securities holdings in August was 2.1 per cent against a decline of 0.4 per cent a year earlier. Loans increased at about the same rate as in August of last year, but bills discounted increased by only 0.5 per cent in contrast to a rise of 3.2 per cent the year before. Deposits were up by 0.8 per cent in August compared to 0.6 per cent a year earlier.

Since the end of last year a rising proportion of bank credit has been extended for purchases of capital equipment. The proportion of bank loans and discounts extended for purchases of equipment in August rose to 17.5 per cent, as against 17.4 per cent in July and 17.0 per cent last December.

In September, Bank of Japan operations were contractionary. (See Table 4). According to preliminary data, loans and discounts were reduced ¥24 billion and there were net sales of securities totaling ¥81 billion. For the third quarter, Bank of Japan credit registered a net increase of ¥90 billion, lower than the ¥106 billion figure for the same period a year earlier.

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
III Quarter	+ 89.8	+ 133.1	- 43.3
July	+ 101.8	+ 62.8	+ 39.0
August	+ 92.6	+ 94.4	- 1.8
September	- 104.6	- 24.1	- 80.5

Bond market. The monthly volume of new bond issues has generally risen since April. New issues of bonds rose in July to ¥180 billion from the June level of ¥178 billion. The increase resulted chiefly from a rise in new issues of bank debentures from ¥110 to ¥116 billion.

Complete data for August are not yet available, but it is known that new issues of industrial debentures were ¥4 billion higher than in July. New issues of bank debentures were also higher by ¥2 billion.

Bond yields in August were mostly unchanged. 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 up very slightly to 7.279 per cent, while the yield on industrial bonds fell from the July rate of 7.466 per cent to 7.464 per cent.

Stock market. Rallying from its five-year low in July, the Dow-Jones stock average rose by 25 per cent to ¥1,277 on September 9. Thereafter it fell erratically to ¥1,192 on October 5. By November 12 the index had more than regained the lost ground reaching ¥1,323. (See Table 5).

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

August	30	¥1,245	October	4	¥1,204	1964	High	¥1,369
				11	1,219		Low	¥1,203
September	6	1,236		18	1,249			
	13	1,250		25	1,233	1965	High	¥1,323
	20	1,272					Low	¥1,020
	27	1,233	November	1	1,268			
				8	1,284			
				15	1,304			

The July-September rally has been attributed to increased confidence by the securities companies and other institutions in the Japanese Government's readiness to increase spending to halt the recession. The temporary decline from the early September peak was reportedly due to profit-taking and an increase on September 14 in the margin required on stocks purchased with securities as collateral. Most issues reportedly increased only slightly in October and early November, but sharp gains for the issues of color TV, real estate, and beer companies helped boost the total stock average.

Foreign trade. The tradition-defying chain of trade surpluses which Japan had forged since the beginning of this year was broken in September when the seasonally-adjusted trade balance registered a negative balance of \$5 million. Between August and September imports increased by \$34 million and exports declined by \$66 million. Despite the poorer performance in September, the third quarter surplus was probably the highest in Japanese history.

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

	1964				1965						
	I	II	III	IV	I	II	III	June	July	Aug.	Sept.
Imports	664	655	632	697	659	690	675 ^{b/}	725	652	670	704 ^{b/}
Exports	485	534	571	618	679	711	738 ^{b/}	727	750	765	699 ^{b/}
Balance	-179	-121	-61	-79	+20	+23	+63 ^{b/}	+2	+98	+95	-5

a/ All figures on a customs basis.

b/ Preliminary.

Foreign reserves and capital flows. International reserves rose \$5 million in September and a further \$29 million in October bringing total reserves to \$1,998 million. The reserve gain reflects the continued good performance on trade account.

The ratio of international reserves to the note issue of the Bank of Japan continued the rise from the July low of 33.7 per cent and reached 35 per cent at the end of October. This reflects a rise in reserves and a decline in note issue.

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
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
September	708.8	2,033.2	34.8
October	719.3	2,053.2	35.0

The current account surplus in September increased to \$135 million, but an accompanying rise in capital outflow reduced the over-all balance of payments surplus to \$8 million. Because of changes in Japan's gold tranche position with the IMF in September, the official reserve gain was only \$5 million. (See Table 8).

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

	1964			1965						
	II	III	IV	I	II	III	June	July	Aug.	Sept.
Trade account balance	- 37	71	94	51	85	173	123	152	175	192
Services balance	- 37	-39	- 42	-44	-58	-56	-55	-51	-59	-57
Current account	- 74	33	51	7	27	117	68	101	116	135
Net long-term capital receipts	42	28	33	5	-10	-24	-22	-15	-19	-37
Net short-term capital receipts	42	-54	-55	11	-44	-80	-104	-90	-61	-88
Net balance on capital account	84	26	-22	16	-54	-103	-126	-105	-80	-125

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Table 8. (Cont.)

	1964			1965						
	II	III	IV	I	II	III	June	July	Aug.	Sept.
Errors and omissions	- 30	- 5	-16	- 6	-11	- 8	20	-19	- 2	- 2
Over-all balance of payments	- 20	1	13	17	-37	6	-38	-23	34	8

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

According to preliminary data, Japanese short-term liabilities to the U.S., as reported by U.S. banks, rose by \$1 million in August to \$2,823 million. This contrasts with the peak level reached so far this year in June of \$2,871.

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	2,803
1965	2,738	2,741	2,856	2,827	2,856	2,871	2,822 ^{a/}	2,823 ^{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 \$150 million in newly reported data.

^{a/} Preliminary.

Long-term Japanese liabilities to the United States, as reported by U.S. banks, declined \$7 million between the end of July and the end of August, according to preliminary reports. (See Table 10). This decline brought long-term claims close to the level prevailing at the end of the first quarter.

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	482 ^{a/}	475 ^{a/}				

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

^{a/} Preliminary.

Early in November the Japanese Minister of Finance revealed that the World Bank would extend credits of only up to \$50 million during Japan's next fiscal year which begins in April. Japan had requested \$100 million and for the current fiscal year was earlier allocated \$150 million.

Foreign exchange. The spot middle rate for the yen in terms of dollars strengthened briefly in the second week of September, but weakened again by the end of the month. During the first half of October the rate strengthened slightly. In the forward market, where the yen has been at a premium since June, the yen appreciated moderately after the first week of September, but then weakened later in the second week of October. Because of the weakening of the yen in the spot market, the premium reached its highest level in recent years at the end of September when it was at 1.38 per cent annum.

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

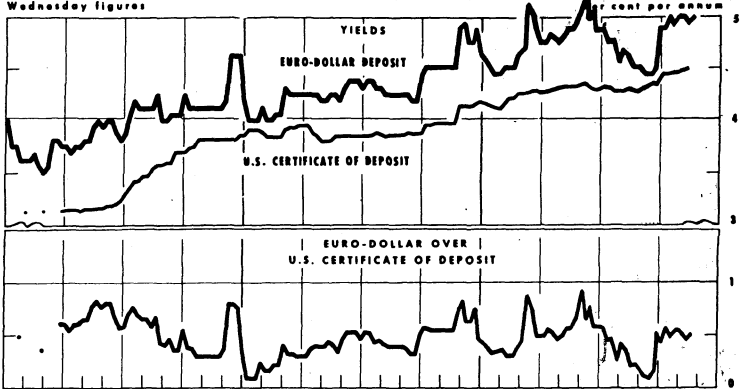
		<u>Yen-dollar spot middle rate</u>	<u>Three-month forward middle rate</u>	<u>Forward premium in per cent per annum</u>
August	30	362.30	361.70	.66
September	6	362.05	361.45	.66
	13	362.15	361.20	1.05
	20	362.25	361.20	1.16
	27	362.35	361.20	1.27
October	4	362.10	361.20	.99
	11	362.30	361.20	1.21
	15	362.25	361.40	.94

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

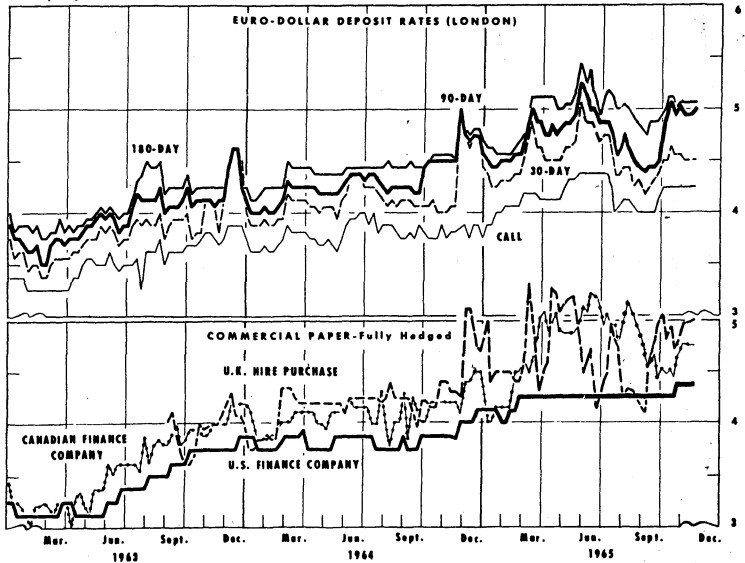
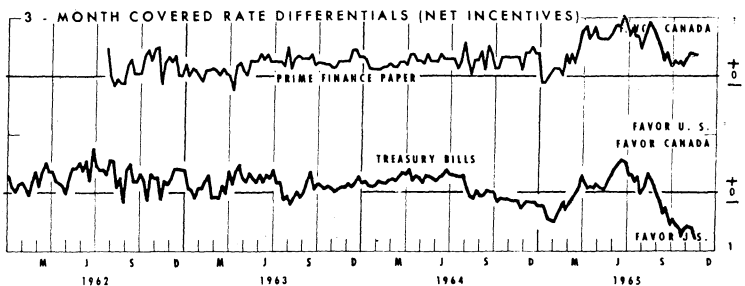
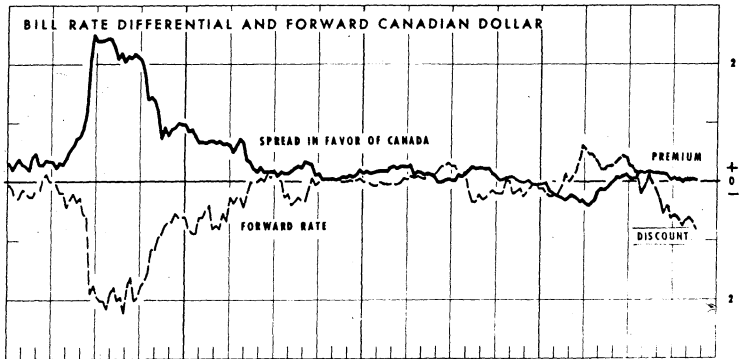
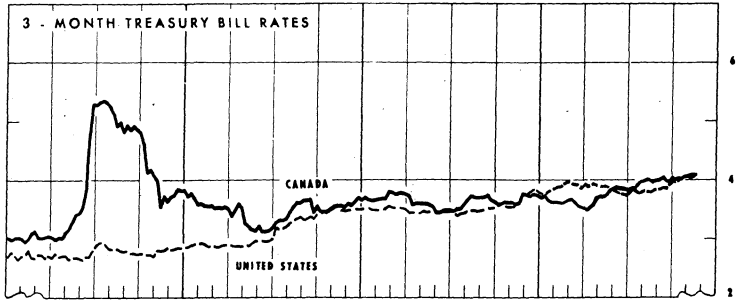


Chart 2

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

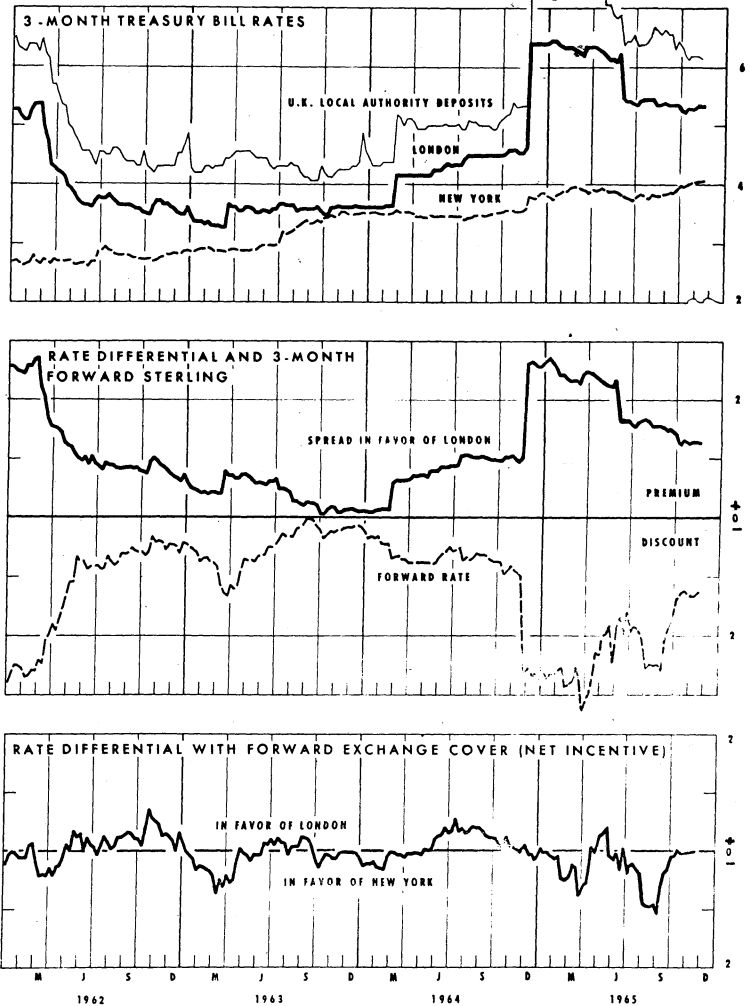
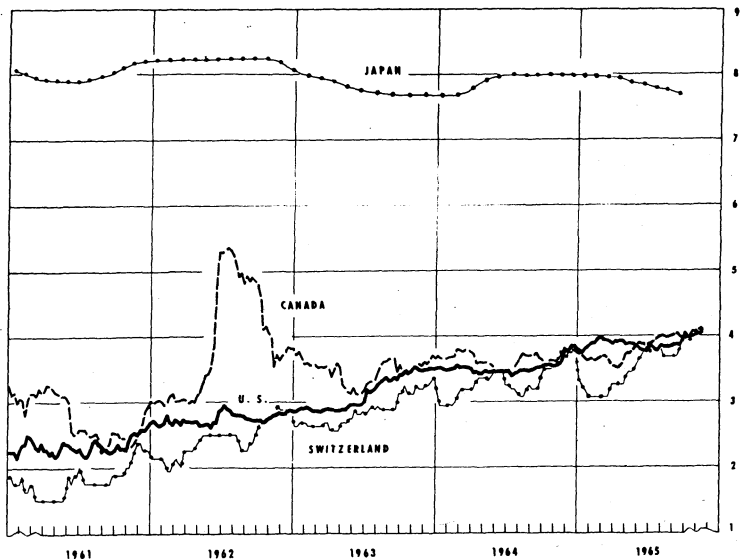
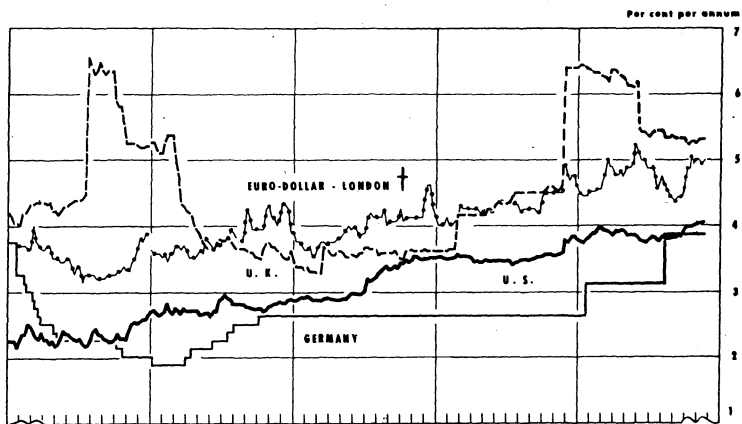


CHART 4 was not published in this issue.

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

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Chart 6
LONG-TERM BOND YIELDS

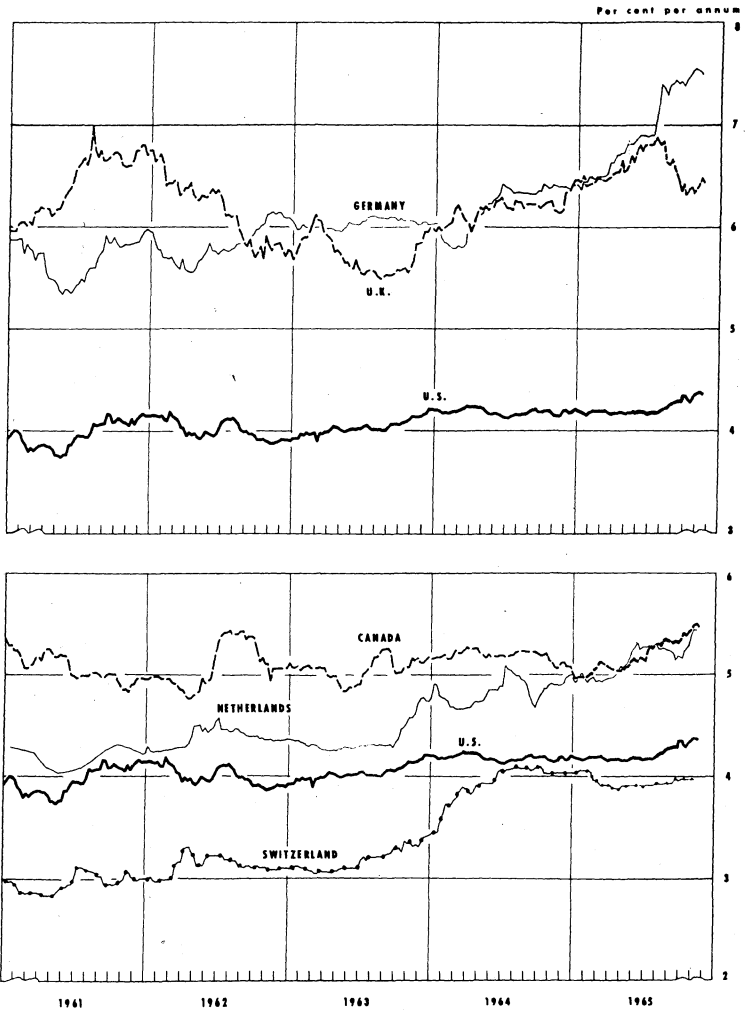
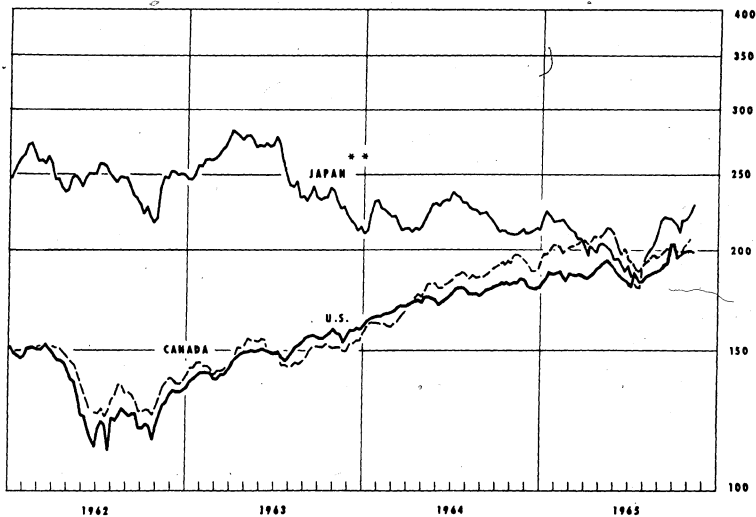
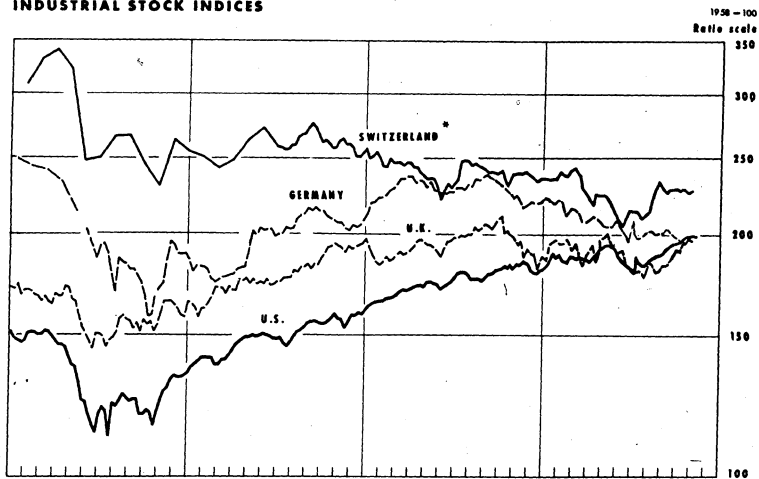


Chart 7
INDUSTRIAL STOCK INDICES



* Swiss Bank Corporation industrial stock.

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

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

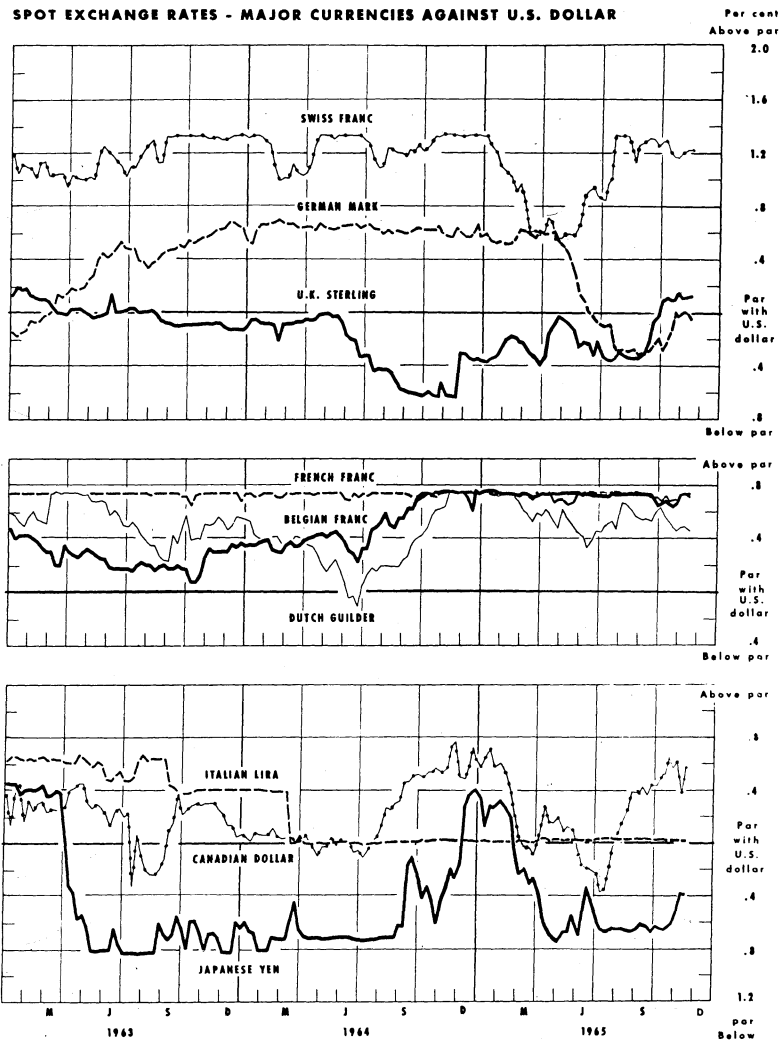
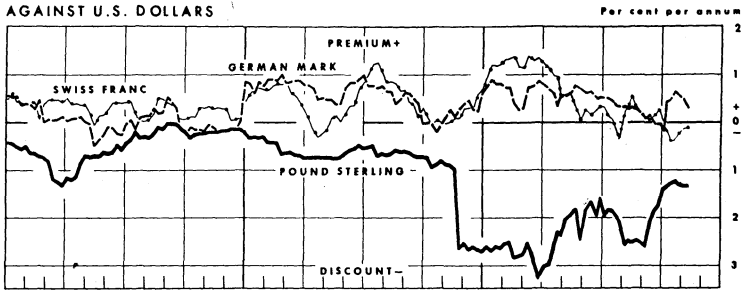
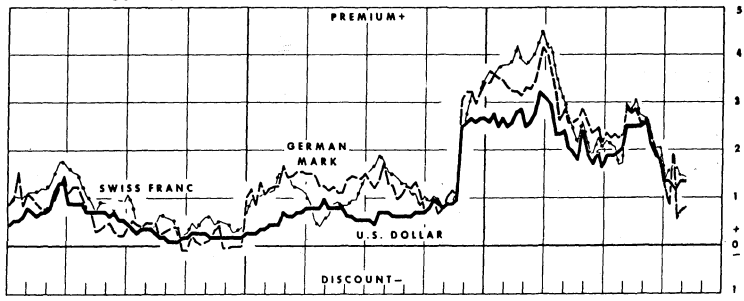


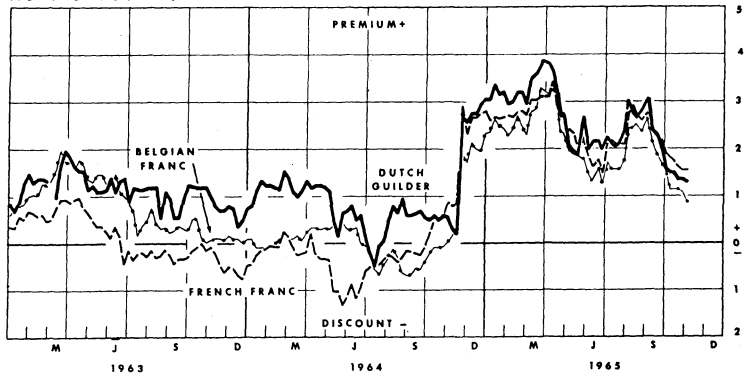
Chart 9
3-MONTH FORWARD EXCHANGE RATES
 Friday figures
 AGAINST U.S. DOLLARS



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>Upper panel</u>	
(Wednesday, <u>Nov. 17</u>)	
Euro- $\$$ deposit	<u>5.00</u>
U.S. certif. of deposit	<u>4.49</u>

<u>Lower panels</u>	
(Friday, <u>Nov. 19</u>)	
Euro-dollar deposits: Call	<u>4.25</u>
7-day	<u>4.38</u>
30-day	<u>4.50</u>
90-day	<u>5.00</u>
180-day	<u>5.06</u>
Finance Co. paper: U.S.	<u>4.38</u>
Canada	<u>5.05</u>
Hire-purchase paper, U.K.	<u>4.75</u>

<u>Chart 2</u>	
(Friday, <u>Nov. 19</u>)	
Treasury bills: Canada	<u>4.08</u>
U.S.	<u>4.07</u>
Spread favor Canada	<u>+0.01</u>
Forward Canadian dollar	<u>-0.81</u>
Net incentive (Canada +)	<u>-0.80</u>

<u>Chart 3</u>	
(Friday, <u>Nov. 19</u>)	
Treasury bills: U.K.	<u>5.33</u>
U.S.	<u>4.07</u>
Spread favor U.K.	<u>+1.26</u>
Forward pound	<u>-1.26</u>
Net incentive (U.K. +)	<u>0.0</u>

<u>Chart 5</u>	<u>Per cent per annum</u>
(Friday, <u>Nov. 19</u> , except as noted)	
<u>Treasury bills:</u>	
U.S.	<u>4.07</u>
U.K.	<u>5.33</u>
Germany	<u>3.88</u>
Canada	<u>4.08</u>
Swiss 3-month deposits (Date: <u>Oct. 15</u>)	<u>3.94</u>
Euro- $\$$ deposit (London)	<u>5.00</u>
Japan: composite rate (Date: <u>Sept. 30</u>)	<u>7.680</u>

<u>Chart 6</u>	
<u>Bonds:</u>	
U.S. govt. (Wed., <u>Nov. 17</u>)	<u>4.36</u>
U.K. war loan (Thurs., <u>Nov. 18</u>)	<u>6.43</u>
German Fed. Railway (Fri., <u>Nov. 19</u>)	<u>7.49</u>
Swiss Confederation (Fri., <u>Nov. 12</u>)	<u>3.97</u>
Canadian govt. (Wed., <u>Nov. 17</u>)	<u>5.47</u>
Netherlands government perpetual (Fri., <u>Nov. 12</u>)	<u>5.44</u>