

H. 13

December 22, 1965.

No. 227

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 November-December 1965

The main reactions in Japan to the December 5 increase in the Federal Reserve's discount rate included an increase of 0.25 percentage points in the rate on dollar import bills, and increases in the maximum rates payable on Euro-dollar deposits.

On December 9 Japanese foreign exchange banks raised the principal rate on U.S. dollar import acceptance bills from 7.00 to 7.25 per cent. This contrasts with the current rate of 6.94 per cent for comparable domestic financing. As a result of the increased relative attractiveness of the domestic bills, manufacturers and leading commercial houses may make greater use of domestic bills instead of the dollar import bills, thus placing some downward pressures on Japanese international reserves as Japan finances less of its trade overseas.

On December 7 and 8, the authorities raised the maximum interest rates which Japanese foreign exchange banks may pay on Euro-dollars. The largest change over the December 1 level was three-eighths percentage points for two categories. (See Table 1). This move was taken in response to a substantial increase in the level of Euro-dollar rates in other financial centers, following the Federal Reserve's discount rate increase, and was prompted by Japan's desire to maintain its current level of Euro-dollar deposits.

Table 1. Japan: Maximum Authorized Rates on Euro-dollar Deposits

Effective:	9/9/65	10/5/65	10/11/65	12/1/65	12/7/65	12/8/65
Less than 30 days	4.25	4.25	4.25	4.25	4.25	4.25
1 - 3 months	4.5	4.625	4.75	5.375	5.675	5.75
3 - 6 months	4.625	5.0625	5.25	5.375	5.675	5.75
6 - 12 months	5.125	5.25	5.375	5.5	5.675	5.75
1 year and over	5.5	5.5	5.625	5.75	5.75	6.0

In November, Japan floated its third bond issue of the year in the United States for \$20 million, bringing the total amount issued in 1965 to \$62.5 million, far short of the \$100 million that Japan could have issued this year under its exemption

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from the Interest Equalization Tax. Preliminary data for September show that Japanese short-term borrowing fell by \$73 million while long-term borrowings declined by \$4 million. (See Table 2). There has been a general decline in Japanese borrowings, as reported by U.S. banks, since mid-year.

Table 2. 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	June	July	Aug.	Sept.
Short-term claims ^{1/}	212	431	632 ^{a/}	229	69	24	310 ^{a/}	-47	15	15	-49	1 ^{P/}	-73 ^{P/}
Long-term claims ^{1/}	50	175	181 ^{b/}	62	14	26	79 ^{b/}	42	7	-4	3	-7 ^{P/}	-4 ^{P/}
TOTAL	262	606	813	291	83	50	389	-5	22	11	-46	-6 ^{P/}	-77 ^{P/}
Securities ^{2/}	141	200	0	0	0	0	0	0	23	20	0	0	0
TOTAL	403	806	813	291	83	50	389	-5	45	31	-46	-6 ^{P/}	-77 ^{P/}

^{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.

International reserves continued their uptrend in November, rising \$88 million to a level of \$2,086 million. On the other hand, the seasonally adjusted trade balance turned negative in November, and there is now evidence that Japan's trade surplus may be disappearing. In the foreign exchange market, the yen strengthened in both the spot and forward markets during the first half of November, and the premium in the forward market narrowed substantially.

On the domestic side, most interest rates continued to decline moderately in response to easy money market conditions. Bank credit expansion slackened in October as the business outlook continued generally dull. The bond market was active, with large amounts of new bonds issued in August and September. The stock market also recovered in August-November, reaching a new two-year high on December 2.

Money market. Money market conditions continued easy in October-November as a result of net expansionary developments. In both months heavy net Treasury payments more than offset the contractionary impact from Bank of Japan operations and changes in

bank notes in circulation. In November, for example, the contractionary impact from a ¥205 million reduction in Bank of Japan credit and a ¥54 billion increase in bank notes in circulation was more than offset by net Treasury payments of ¥278 billion.

Interest rates. Call loan rates were reduced again on October 1 for the fourth time since last May. During October, November and the first part of December, rates remained unchanged. (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/}
September	25	5.840	6.205	6.935
Throughout October		5.475	5.840	6.570
Throughout November		5.475	5.840	6.570
December	4	5.475	5.840	6.570
	11	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 interest rate on commercial bank loans and discounts continued to decline through October, reaching 7.66 per cent. This contrasts with last December's peak of 7.99 per cent.

On November 29 the Ministry of Finance ordered a cut, effective January 1, 1966, of 0.3 percentage point in the standard long-term interest rate charged by the government-owned Japanese Development Bank, and the Hokkaido-Tohoku Development Finance Corporation. The Finance Minister asked other long-term lending institutions to reduce their rates by a comparable amount, and the Industrial Bank of Japan and the Japan Long-term Credit Bank have reportedly complied. This move, the first such action since April 1961, is aimed at further stimulating economic recovery. Table 4 below indicates the current level of rates.

Table 4. Japan: Long-term Interest Rates
(In per cent per annum)

Japan Development Bank	<u>1/</u>	8.7
Long-term Credit Bank	<u>1/</u>	8.7
Prospective Dividend for		
Loans in Trust	<u>2/</u>	7.37
Electric Power Bonds	<u>3/</u>	7.487
Bank bonds	<u>4/</u>	7.285

Table 4 (Continued)

Gov't Guaranteed Bonds	3/	7.053
Gov't Bonds--		
Short-term	3/	6.685
Long-term	3/	6.432
Bank Bonds	5/	6.224
Time Deposits	6/	5.00
Postal Savings	7/	5.00

NOTE: (1) standard rates; (2) five-year term; (3) interest yields to subscribers; (4) interest-bearing; (5) discounted; (6) six-month term; (7) time deposits under 1 year.

Bank loans and discounts. Bank credit in September, and in the July-September quarter, expanded at almost exactly the same rate as during the corresponding periods in 1964. This year, however, the credit increase was more in direct lending, and less in discounting of bills. Deposits rose at a faster rate than in 1964.

In October, the rate of bank credit expansion slackened substantially. Total credit rose only 0.7 per cent compared to 1.5 per cent a year earlier. Bank loans fell 0.2 per cent in contrast to a rise of 0.7 per cent a year earlier. Deposits fell 2.4 per cent compared to a drop of 2.7 per cent a year earlier.

Since a cyclical low in December of last year, the proportion of bank credit extended for purchases of capital equipment has generally increased. After dipping to 17.4 per cent in September, the ratio increased to 17.5 per cent in October, the same level as in August.

Bank of Japan operations were sharply contractionary in October and November. (See Table 5). The siphoning-off of liquidity resulting from sales of securities was only partially offset by an increase in loans. As indicated earlier, however, net Treasury payments more than offset this contraction in Bank of Japan credit.

Table 5. Japan: Changes in Bank of Japan Loans and Holdings of Securities
(in billions of yen)

Period	(1)	(2)	(3)
	(2) + (3) Net increase (+) or decrease (-)	Loans: Increase (+) or decrease (-)	Net purchases (+) or sales (-) of securities
1963			
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

Table 5 (Continued)

Period	(1)	(2)	(3)
	Net increase (+) or decrease (-)	Loans: Increase (+) or decrease (-)	Net purchases (+) or sales (-) of securities
<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
September	- 104.6	- 24.1	- 80.5
October	- 124.9	+ 65.3	- 190.2
November	- 205.3	+ 21.0	- 226.3

Bond market. The monthly value of new bond issues continued to rise in August and September. In August, new bond issues rose to ¥205 billion, up from the July level of ¥180 billion. Most of the increase was accounted for by a rise from ¥37 billion to ¥56 billion in new issues of public corporation bonds. In September, new issues of public corporation bonds rose further to ¥84 billion, boosting total bond issues to ¥241 billion. New issues of industrial debentures were ¥7 billion higher than in August and issues of bank debentures increased ¥2 billion.

Bond yields in October were unchanged or 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 6.244 per cent, respectively. The yield on long-term bank debentures was down slightly to 7.277 per cent, and the yield on industrial bonds also fell slightly to 7.487 per cent.

Heavy selling of bonds by city banks between September and early November slowed down at the end of November. The banks have been anxious to reduce their holdings of long-term securities in order to minimize the impact on their assets of the impending underwriting of large amounts of government bonds.

The first parcel of long-term government bonds for 1966, amounting to about ¥80 billion, is expected to be offered in the second week of January. At the request of the Ministry of Finance, a syndicate of Japanese governmental and private institutions is underwriting the issue. Members of the syndicate will negotiate with the Bank of Japan regarding the issue price. The Finance Ministry has decided on an interest rate of 6.75 per cent exclusive of commission.

Stock market. The stock market seems to have recovered fully from its midsummer slump. On December 2 the Dow-Jones stock average reached a two-year high of ¥1,409, but then eased moderately through December 20. (See Table 6). The advance

has not been widespread but rather has been led by such stock issues as real estate, shipping, soft drinks and construction.

Table 6. Japan: Dow-Jones Average of 225 Stocks, First Section of Tokyo Exchange

September	27	¥1,233	November	8	¥1,284	1964	High	¥1,369
				15	1,304		Low	¥1,203
October	4	1,204		22	1,344			
	11	1,219		29	1,360	1965	High	¥1,409
	18	1,249					Low	¥1,020
	25	1,233	December	6	1,315			
November	1	1,268		13	1,340			
				20	1,367			

The Japanese Government has been concerned that much of the recent upsurge has been due to unstable, speculative purchasing. Reflecting this concern, the Ministry of Finance increase stock margin requirements for various issues from 30 to 40 per cent on November 10 and again, on December 2, from 40 to 50 per cent.

Foreign trade. There are signs that Japan's trade surplus may be disappearing. In both September and November there were deficits on trade account--the first since December 1964; and the November deficit of \$30 million was substantially larger than the modest deficit of \$5 million incurred in September. (See Table 7.)

Table 7. Japan: Seasonally-Adjusted Foreign Trade, Monthly or Monthly Averages ^{a/}
(in millions of dollars)

	1964				1965							
	I	II	III	IV	I	II	III	July	Aug.	Sept.	Oct.	Nov.
Imports	664	655	632	697	659	690	676	652	670	705	677	734 ^{b/}
Exports	485	534	571	618	679	711	738	750	765	700	698	704 ^{b/}
Balance	-179	-121	61	-79	+20	+23	+62	+98	+95	-5	+21	-30 ^{b/}

a/ All figures on a customs basis.

b/ Preliminary.

After reaching a peak in August, seasonally-adjusted exports have been at substantially lower levels. At the same time, imports picked up in September and in November reached an all-time high.

Foreign reserves and capital flows. International reserves rose \$29 million in October, reflecting the generally good performance on trade account. In November reserves increased a further \$88 million to a level of \$2,086 million.

The ratio of international reserves to the note issue of the Bank of Japan continued to rise from the July low of 33.7 per cent and reached 35.6 per cent at the end of November, reflecting a rise in reserves and a decline in note issue.

Table 8. 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 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 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
November	751.0	2,107.4	35.6

Although the current account surplus of \$129 million in October was less than the \$135 million achieved in September, over-all reserves increased in October, primarily because of a reduction from \$125 to \$109 million in the deficit on capital account. (See Table 9.)

Table 9. Japan: Balance of Payments on an Exchange Transactions Basis
(in millions of dollars)

	1964		1965							
	III	IV	I	II	III	June	July	Aug.	Sept.	Oct.
Trade account balance	71	94	51	85	173	123	152	175	192	186
Services balance	-39	-42	-44	-58	-56	-55	-51	-59	-57	-57
Current account	33	51	7	27	117	68	101	116	135	129
Net long-term capital receipts	28	33	5	-10	-24	-22	-15	-19	-37	-13
Net short-term capital receipts	-54	-55	11	-44	-80	-104	-90	-61	-88	-96
Net balance on capital account	26	-22	16	-54	-103	-126	-105	-80	-125	-109
Errors and omissions	-5	-16	-6	-11	-8	-20	-19	-2	-2	9
Over-all balance of payments	1	13	17	-37	6	-38	-23	34	8	29

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, fell by \$73 million in September, reducing the liabilities by \$121 million below the peak level reached in June. (See Table 10.)

Table 10. 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	2,823 ^{a/}	2,750 ^{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, fell \$4 million in September to \$471 million according to preliminary data. (See Table 11.) Long-term claims are now \$12 million below a peak level reached last May.

Table 11. 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	475 ^{a/}	471 ^{a/}			

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

^{a/} Preliminary.

A new \$20 million debenture of the Japan Development Bank was marketed in the U.S. on November 22, and it was sold out immediately. The 15-year bond has a coupon rate of 6.5 per cent, and was sold at 97.75 per cent of par value, yielding 6.741 per cent. This yield to subscribers is reportedly the highest on any Japanese foreign bond issue in the post-war period.

Foreign exchange. The yen strengthened steadily in the spot market during October and the first half of November. The middle rate for the yen in terms of dollars fell to 361.25 on November 15. The yen weakened in the forward market during October, rising to an eight-week high at the end of the month. In November, however, the yen strengthened reaching 361.00 on November 15. The forward premium, which reached the very high level of 1.38 per cent at the end of September, narrowed gradually to 0.28 per cent on November 15.

Table 12. Japan: Customer's T.T. Exchange Rate of Bank of Tokyo in Tokyo

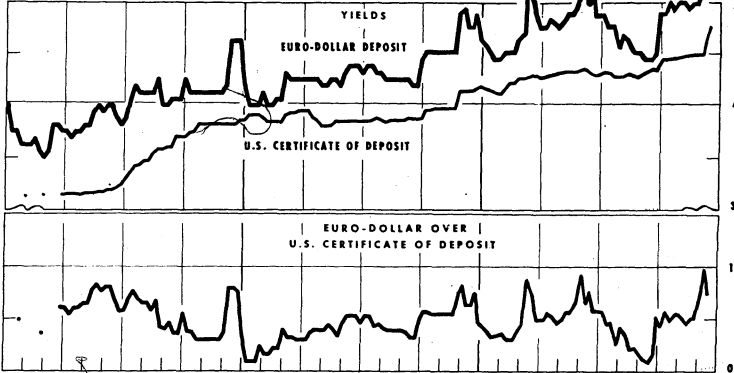
		<u>Yen-dollar spot middle rate</u>	<u>Three-month forward middle rate</u>	<u>Forward premium in per cent per annum</u>
September	27	362.35	361.20	1.27
October	4	362.10	361.20	.99
	11	362.30	361.20	1.21
	18	362.15	361.40	.83
	25	362.20	361.45	.94
November	1	362.10	361.60	.55
	8	362.80	361.40	.44
	15	361.25	361.00	.28

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

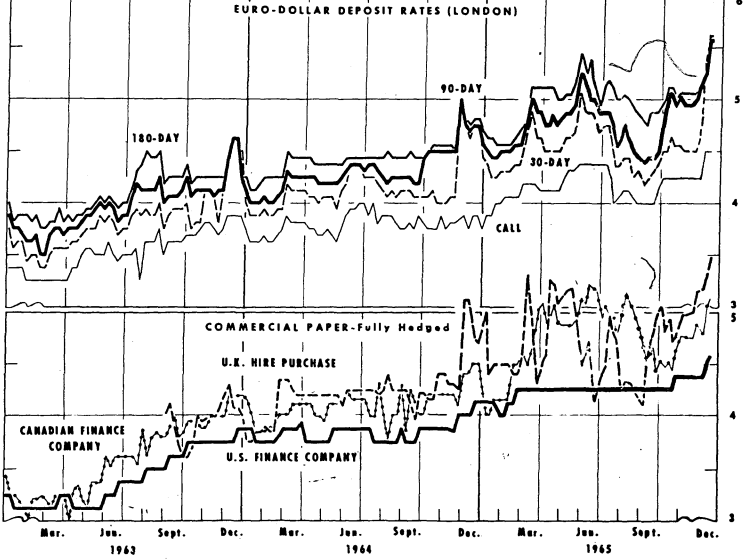
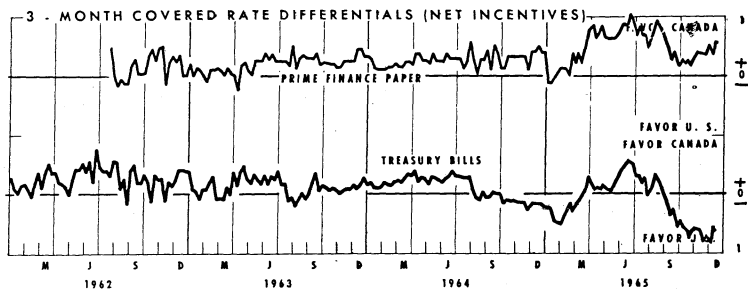
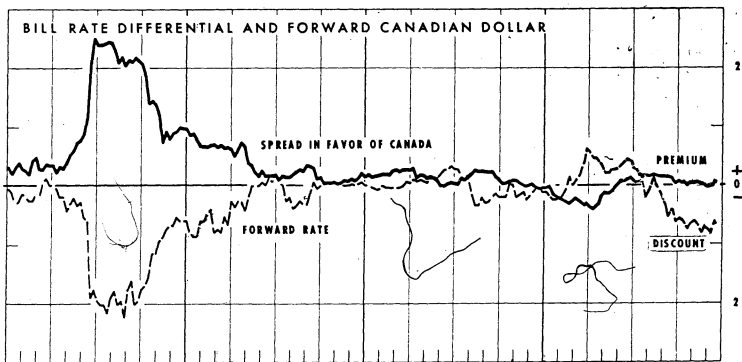
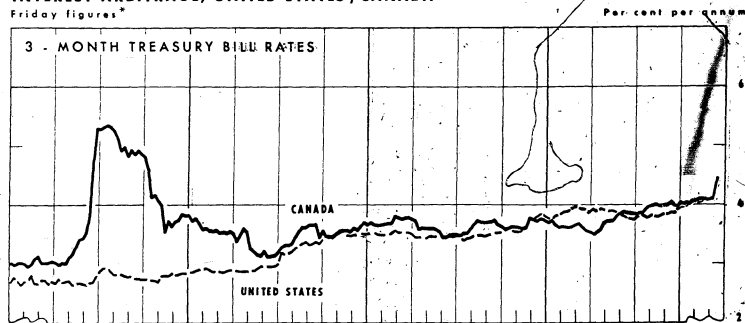


Chart 2

INTEREST ARBITRAGE, UNITED STATES / CANADA

Friday figures*



Thursday figures 1962, Friday thereafter.

Chart 3

INTEREST ARBITRAGE, NEW YORK/LONDON

Friday figures

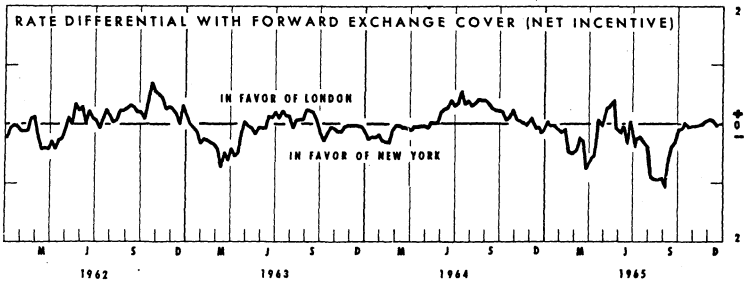
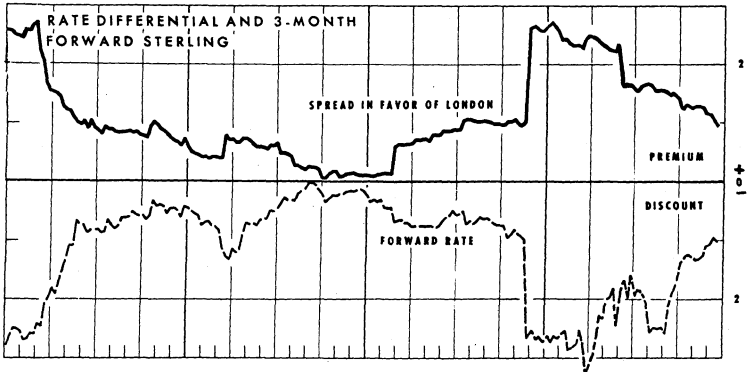
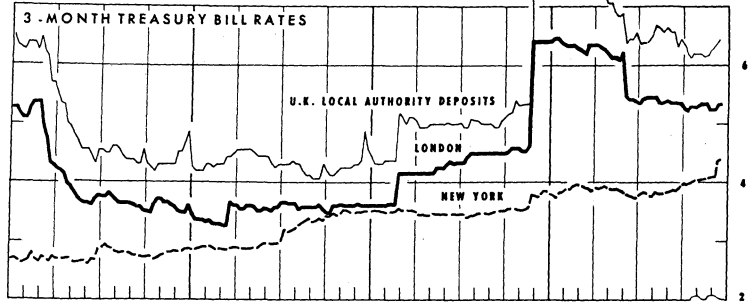
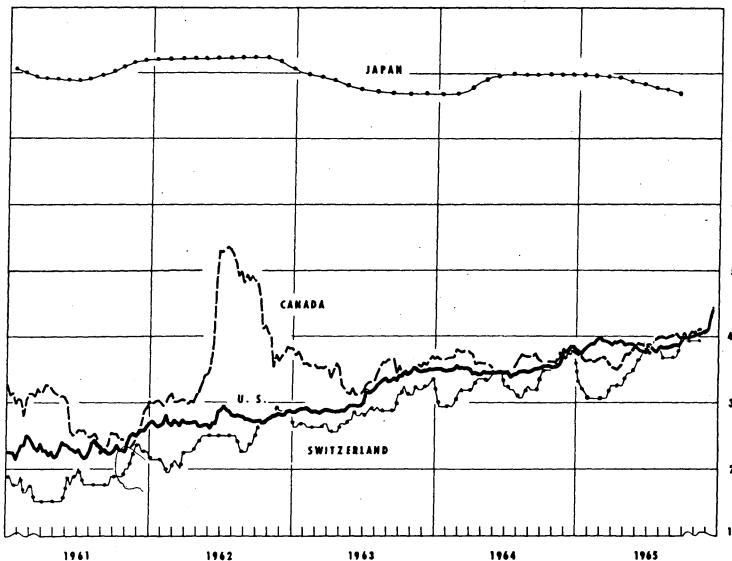
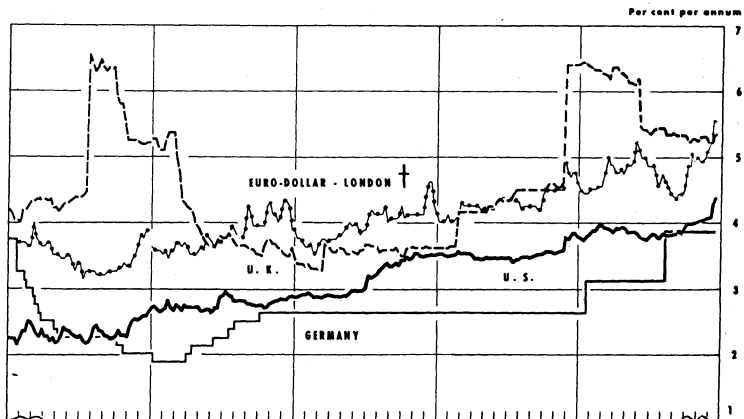


CHART 4 was not published in this issue.

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

15

Chart 6
LONG-TERM BOND YIELDS

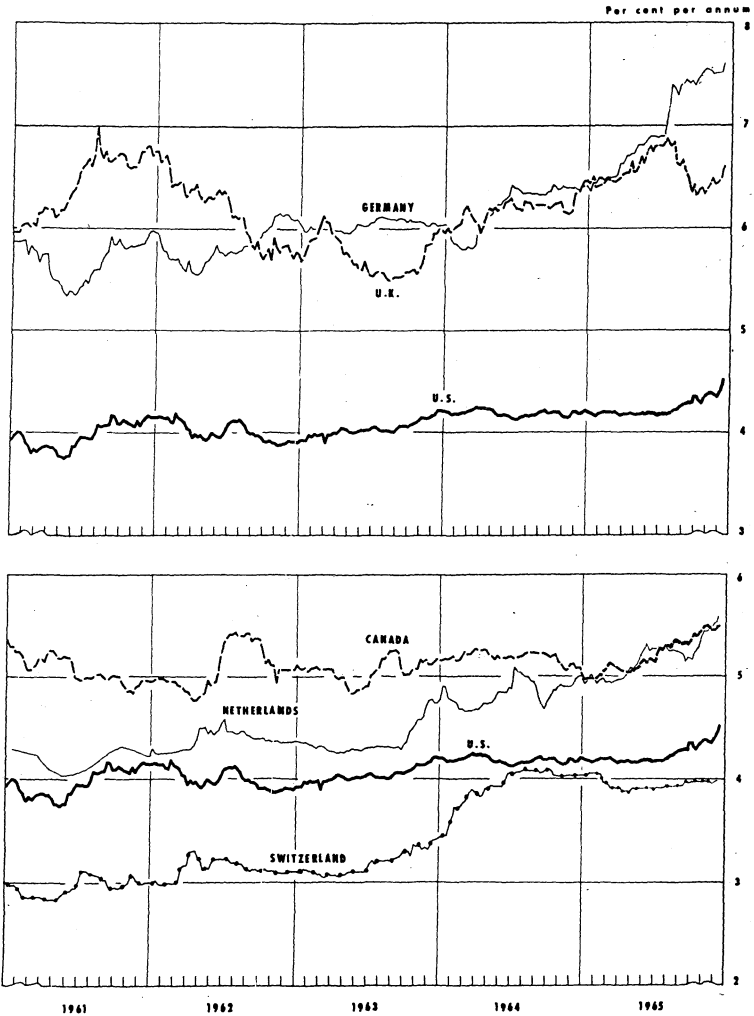
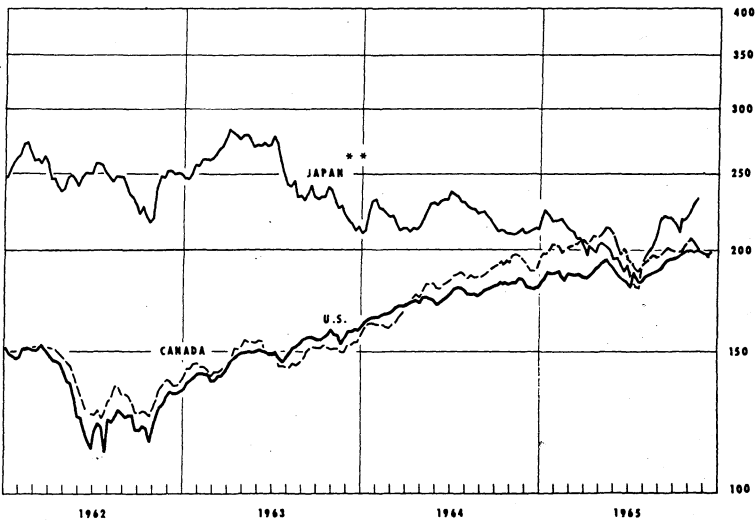
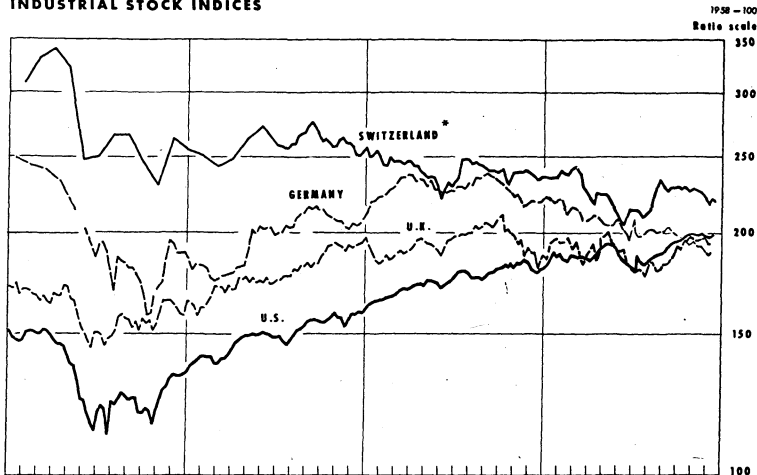


Chart 7
INDUSTRIAL STOCK INDICES

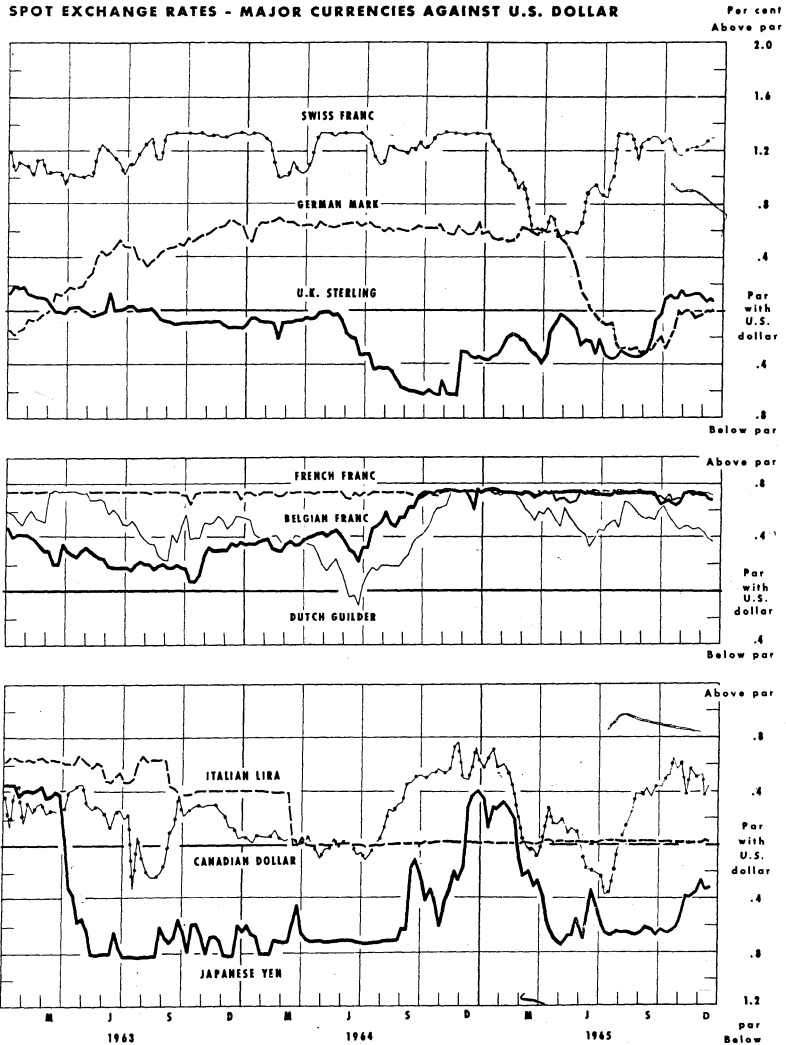


* Swiss Bank Corporation industrial stock.

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

Chart 8

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



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>		<u>(Friday, Dec. 17 , except as noted)</u>	
<u>(Wednesday, Dec. 15)</u>		<u>Treasury bills:</u>	
Euro- $\$$ deposit	<u>5.50</u>	U.S.	<u>4.40</u>
U.S. certif. of deposit	<u>4.76</u>	U.K.	<u>5.36</u>
<u>Lower panels</u>		Germany	<u>3.88</u>
<u>(Friday, Dec. 17)</u>		Canada	<u>4.44</u>
Euro-dollar deposits: Call	<u>4.50</u>	Swiss 3-month deposits (Date: Nov. 15)	<u>3.94</u>
7-day	<u>4.75</u>	Euro- $\$$ deposit (London)	<u>5.56</u>
30-day	<u>5.62</u>	Japan: composite rate (Date: Sept. 24)	<u>3.680</u>
90-day	<u>5.56</u>	<u>Chart 6</u>	
180-day	<u>5.56</u>	<u>Bonds:</u>	
Finance Co. paper: U.S.	<u>4.58</u>	U.S. govt. (Wed., Dec. 15)	<u>4.52</u>
Canada	<u>5.14</u>	U.K. war loan (Thurs., Dec. 16)	<u>6.61</u>
Hire-purchase paper, U.K.	<u>5.21</u>	German Fed. Railway (Fri., Dec. 10)	<u>7.61</u>
<u>Chart 2</u>		Swiss Confederation (Fri., Dec. 10)	<u>3.98</u>
<u>(Friday, Dec. 17)</u>		Canadian govt. (Wed., Dec. 15)	<u>5.50</u>
Treasury bills: Canada	<u>4.44</u>	Netherlands government perpetual (Fri., Dec. 10)	<u>5.59</u>
U.S.	<u>4.40</u>		
Spread favor Canada	<u>+0.04</u>		
Forward Canadian dollar	<u>-0.67</u>		
Net incentive (Canada +)	<u>-0.63</u>		
<u>Chart 3</u>			
<u>(Friday, Dec. 17)</u>			
Treasury bills: U.K.	<u>5.36</u>		
U.S.	<u>4.40</u>		
Spread favor U.K.	<u>+0.96</u>		
Forward pound	<u>-1.02</u>		
Net incentive (U.K. +)	<u>-0.06</u>		

For description and sources of data see special annex to H. 13 Number 164,
September 23, 1964.