

H. 13

No. 306

July 5, 1967.

**CAPITAL MARKET DEVELOPMENTS ABROAD**

- I. Japan
- II. Ten Charts on Financial Markets Abroad
- III. Latest Figures Plotted in H. 13 Chart Series, 1967

**I. Japan: Money and Capital Markets in the Second Quarter**

1. Introduction. Money market conditions were easier in late March and April, but then tightened in May and June. There were also signs of some tightening in capital markets as bond prices eased and yields rose slightly. Stock prices at the end of May were equal to the previous high for the year reached on March 1.

The tightening in the money market was reflected in a rise in call loan rates in June. By mid-June, the rates were back to the same high levels as had prevailed in March.

On the other hand, the average bank lending rate continued to ease very slightly through April. Further substantial declines in the rate appear unlikely since loan demand has been strong. Since mid-1966, bank credit expansion has generally been accelerating, and this trend continued through April.

Except for the month of April, Bank of Japan credit operations have been expansionary this year. These operations have helped to offset heavy net receipts by the Treasury generated by the rising level of economic activity. Both city and local banks have been short of liquid funds as a result of heavy loan demands by business for capital expansion, as well as for tax and bonus payments. To ease their liquidity position, banks have sold national bonds and this has tended to weaken the bond market. The Ministry of Finance has agreed to ease the situation somewhat by having the Government Trust Fund absorb an additional ¥20 billion in bonds which had been purchased earlier by the banks.

The impact of the foreign sector has generally been expansionary as international reserves rose to a post-war high of \$2,110 million at the end of May. Recent reserve gains have partly reflected short-term capital inflows (mainly a rise in acceptance credits), rather than an improving trade position. Exports have been at lower levels than late last year, and imports have generally been rising. The gain in reserves, however, has helped to strengthen the yen moderately in foreign exchange markets.

Early in June the Government announced a modest liberalization of its regulations on direct foreign investment in Japan.

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(Decontrolled after 6 months)

2. Money market. Money market conditions eased somewhat in April, partly as a result of heavy net payments by the Treasury. Call loan rates fell and remained unchanged throughout April. In May, the Treasury had large net receipts which were only partly offset by an increase in Bank of Japan credit and a reduction in bank notes in circulation. As a result, money market conditions firmed somewhat, and in June call loan rates increased.

3. Interest rates. As indicated in Table 1, all three types of call loan rates declined on April 1 following an easing of money market conditions in March. Call rates remained unchanged in April, but increased on June 1 and 13 following a tightening of conditions in May.

Table 1. Japan: Average Call Loan Money Rates in Tokyo  
(in per cent per annum)

<u>1967</u>	<u>Overnight 1/</u>	<u>Unconditional 2/</u>	<u>Over-Month-End 3/</u>
March 25	5.840	6.205	6.935
April 1	5.475	5.840	6.570
8	5.475	5.840	6.570
15	5.475	5.840	6.570
22	5.475	5.840	6.570
28	5.475	5.840	6.570
May 6	5.475	5.840	6.570
13	5.475	5.840	6.570
20	5.475	5.840	6.570
27	5.475	5.840	6.570
June 3	5.475	5.840	6.935
10	5.475	5.840	6.935
17	5.840	6.205	6.935

NOTE: Rates quoted are for lenders.

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 bank loans and discounts continued its downward trend, falling to 7.31 per cent in April. The rate decline has lasted longer than in any past period. The margin of decrease, which is now 0.68 percentage points from the previous high of 7.99 per cent in late 1964, also establishes a record for the largest decline in any past period.

Although domestic bank lending rates have been declining, some overseas rates have fallen even faster, with the result that in recent months there has been an increase in the volume of dollar import acceptance credits. Currently the interest rate on dollar import acceptances (4-months, with letters of credit) is 7.125 per cent, which is less than the 7.30 per cent rate for domestic ordinary bills. A representative interest rate on foreign bank loans is reportedly now 6.150 per cent, substantially less than the 7.118 per cent rate (lender's rate plus broker's fee) for borrowers in the over-month-end call loan market.

4. Bank loans and discounts. During the first four months of this year bank credit expansion continued to accelerate. Seasonally adjusted loans and discounts rose at an annual rate of 14.3 per cent in the fourth quarter of last year, at a rate of 15.3 per cent in the first quarter this year, and at 16.3 per cent in April. (See Table 2).

Table 2. Japan: Seasonally Adjusted Bank Loans and Discounts Outstanding  
(in billions of yen)

	1965	1966				1967	
	IV	I	II	III	IV	I	Apr.
Amount outstanding <sup>1/</sup>	186.8	192.4	198.2	206.3	213.5	221.8	227.9
Per cent change over year earlier	13.8	13.4	13.1	14.0	14.3	15.3	16.3

<sup>1/</sup> End-of-month, or averages of ends-of-month.

In April, the Bank of Japan sold ¥108 billion in securities to help offset the expansionary effect of heavy Treasury payments. (See Table 3). In May, Bank of Japan operations were moderately expansionary as a result of net purchases of securities of ¥13 billion. Except for April, Bank of Japan operations have generally been expansionary since mid-1966.

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

Period	(1)	(2)	(3)
	Loans: Increase (+) or decrease (-)	Net purchases (+) or sales (-) of securities	(1) + (2) Net Increase (+) or decrease (-)
<u>1965</u>			
I Quarter	+216.5	+ 1.0	+217.5
II Quarter	- 14.4	-109.6	-124.0
III Quarter	+133.1	- 43.3	+ 89.8
IV Quarter	-182.0	-311.8	-129.8
<u>1966</u>			
I Quarter	- 3.2	+279.2	+276.0
II Quarter	- 29.3	- 0.6	- 29.9
III Quarter	+ 17.1	+171.3	+188.4
IV Quarter	+128.7	- 4.2	+124.5

Table 3. (cont).

Period	(1)	(2)	(3)
	Loans: Increase (+) or decrease (-)	Net purchases (+) or sales (-) of securities	(1) + (2) Net increase (+) or decrease (-)
1967 January	+ 6.8	+ 70.9	+ 77.7
February	- 2.6	+279.8	+277.2
March	- 27.7	+ 59.9	+ 32.2
I Quarter	- 23.5	+410.6	+387.1
April	- 24.0	-107.9	-131.9
May	- 1.7	+ 12.8	+ 11.1

5. Bond Market. The volume of new bond issues declined to ¥263 billion and ¥267 billion in January and February, respectively, after reaching ¥283 billion in December. The volume of December issues was the second highest in 1966. Most of the decline occurred as a result of reduced issues of bank debentures.

Downward pressures on bond prices have developed in recent months. Because of heavy loan demand, both for business expansion and tax payments, banks have been liquidating their holdings of national government bonds. In addition, businesses have had to make higher tax payments to the Government as business incomes have increased.

However, it has become increasingly difficult to find purchasers for the bonds, in part because the smaller commercial banks are now also facing heavy loan demands. As a result, bond prices have eased, and as indicated in Table 4, yields have increased slightly. Most banks have reportedly taken capital losses on their bonds since April.

Table 4. Japan: Average Yields on Selected Bonds 1/

End of Month	Govt. Securities	Local Govt. Securities	Govt. Guar- anteed Bonds	Bank Debentures	Indus- trial Bonds	Interest Bearing Telephone & Telegraph Bond
1966 April	n.a.	7.53	7.37	7.44	7.53	7.85
May	.	.	.	.	.	.
June	.	.	.	.	.	.
Dec.	6.86	7.43	7.29	7.30	7.42	7.54
1967 Jan.	6.85	7.44	7.26	7.30	7.42	7.56
Feb.	6.86	7.44	7.28	7.33	7.42	7.58
Mar.	6.87	7.46	7.32	7.37	7.45	7.62
Apr.	6.87	7.49	7.32	7.43	7.47	7.66

1/ Yields represent arithmetic averages of simple interest yields for listed bonds on the basis of closing quotations at the end of the month.

Both the Bank of Japan and the Ministry of Finance have been concerned about these developments. To help ease pressures on the bond market, the Bank of Japan has lowered the ratio of newly-issued bonds that the securities firms are expected to accept, and has arranged for the Japan Securities Finance Company to extend special loans to the firms, with government bonds serving as the collateral. In view of the rise of Treasury receipts in line with the business boom, the Bank of Japan has also suggested to the Ministry of Finance that it either reduce the volume of planned bond issues, or that the Government Trust Funds absorb a larger share of the bond issues.

In response to this and other requests, the Ministry of Finance has agreed to have the Trust Funds absorb an additional ¥20 billion which had been purchased by the large city banks.

6. Stock market. Stock prices were generally higher in April and May. After reaching a low of ¥1,418 on April 12, the Dow Jones average increased slowly to ¥1,506 at the end of May. This was exactly the same as the earlier high for the year reached on March 1. During June, the stock average declined moderately and on June 26 was ¥1,489.

Table 5. Japan: Dow Jones Average of 225 Stocks, First Section Tokyo Exchange  
(May 16, 1949=100)

March 27	¥1,450	May 8	¥1,457	1966 High	¥1,589
		15	1,481	Low	¥1,364
April 3	1,439	22	1,475		
10	1,433	29	1,491	1967 High	¥1,506
17	1,432			Low	¥1,410
24	1,437	June 5	1,489		
		12	1,488		
May 1	1,441	19	1,469		
		26	1,489		

7. Foreign trade. In April, the foreign trade deficit was at about the same level as in January and February, but it increased sharply in May. (See Table 6). Imports during the first four months of this year stabilized at a relatively high level, but rose substantially in May. Exports, on the other hand, were at generally lower levels than in the fourth quarter of last year. The average monthly deficit of \$57 million in January-May is relatively large for Japan, and could lead to downward pressures on international reserves if the recent influx of short-term capital were to abate.

Table 6. Japan: Seasonally Adjusted Foreign Trade, Monthly Averages<sup>a/</sup>

	1965	1966				1967						
	IV	I	II	III	IV	I	Jan.	Feb.	Mar.	Apr.	May	
Exports	704	783	787	817	868	847	863	851	828	865	840	b/
Imports	687	744	762	810	864	908	911	893	919	908	952	b/
Balance	+17	+39	+25	+7	+4	-61	-48	-42	-91	-43	-112	b/

a/ All figures are on a customs basis.

b/ Preliminary.

8. Foreign reserves and capital flows. International reserves rose by \$15 and \$18 million in April and May, respectively, bringing the total level of reserves to \$2,110 million at the end of May. Reserves have generally been rising since last October, and May marked the first time in eleven months that reserves have risen above the \$2,100 million mark.

A substantial part of the increase in reserves has been due to the net inflow of short-term capital in recent months. This inflow has helped cushion the effect on reserves of a decrease in the trade surplus, much of which was seasonal, in the first quarter. In May, the trade account was in deficit for the first time this year. Gold and foreign exchange reserves, however, still increased \$18 million. Details are provided in Table 7 below.

Table 7. Japan: Balance of Payments on the IMF Basis  
(in millions of dollars)

	1965				1966				1967			
	I	II	III	IV	I	II	III	IV	Mar.	I	Apr.	May
Exports	604	689	733	752	690	769	833	921	877	743	842	808
Imports	<u>542</u>	<u>555</u>	<u>515</u>	<u>532</u>	<u>567</u>	<u>620</u>	<u>603</u>	<u>664</u>	<u>-742</u>	<u>-689</u>	<u>-726</u>	<u>-825</u>
Trade Balance	62	134	217	220	123	149	230	257	135	54	116	-17
Services Balance	-65	-82	-69	-80	-83	-76	-63	-74	-107	-86	-96	-100
Transfers Balance	<u>-9</u>	<u>-5</u>	<u>-4</u>	<u>-11</u>	<u>-12</u>	<u>-9</u>	<u>-8</u>	<u>-16</u>	<u>-42</u>	<u>-21</u>	<u>-15</u>	<u>-11</u>
Current Account	-11	47	144	130	-28	64	159	167	-14	-53	5	-128
Net Long-Term Capital	-6	-36	-55	-42	-106	-72	-43	-52	-77	-63	-72	-47
Net Short-Term Capital	-3	12	-17	-13	4	-5	-4	-15	51	30	48	60
Errors & Omissions	<u>9</u>	<u>-4</u>	<u>1</u>	<u>-23</u>	<u>18</u>	<u>2</u>	<u>-5</u>	<u>-28</u>	<u>-28</u>	<u>-6</u>	<u>-63</u>	<u>42</u>
Overall Balance	-10	19	74	53	2	19	78	17	-68	-92	-82	-73
<u>Monetary Movements</u>												
Gold & Foreign Exchange Reserves	18	-24	-4	46	1	-2	-20	10	27	1	15	18
Others	-28	43	77	7	-3	20	98	7	-95	-96	-97	-91

NOTE: Data may not total due to rounding. Quarterly data are monthly averages. These data are not seasonally adjusted and therefore differ from those in an earlier table on foreign trade.

Japanese short-term borrowing in the U. S. continued to rise through April of this year. After reaching a low of \$2,389 million in November of last year, short-term claims on Japan reported by U. S. banks increased by \$113 million in December. During the January-April period, claims rose a further \$144 million to a level of \$2,732 million. (See Table 8).

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>
1961	875	952	1,069	1,159	1,196	1,272	1,341	1,335	1,288	1,281	1,292	1,528 b/
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	2,810 b/
1965	2,742	2,746	2,861	2,833	2,834	2,880	2,831	2,830	2,755	2,656	2,683	2,768 b/
1966	2,698	2,699	2,783	2,782	2,759	2,733	2,588	2,536	2,487	2,400	2,389	2,588 b/
1967	2,509	2,507	2,626 <sub>a</sub>	2,732 <sub>a</sub>								

a/ Preliminary.

b/ Includes newly reported data totaling \$52 million in December 1961, \$157 million in December 1964, \$17 million in December 1965, and \$86 million in December 1966.

A substantial part of this increased borrowing reflected an accelerated rise in foreign acceptance credits in recent months. According to the Japan Economic Journal of June 20, 1967, the outstanding balance of foreign import acceptances fell from \$2,150 million at the end of June last year to \$1,862 million at the end of October, and then increased, rising to \$2,280 million at the end of May this year. This rise in acceptances outstanding reflects not only an increase in the volume of Japanese imports, but also a shift in recent months from domestic yen financing of imports, to dollar acceptance financing.

On the other hand, long-term claims on Japan, as reported by U. S. banks, have been declining generally since mid-1965 and fell a further \$48 million during the January-April period this year. (See Table 9). Japan has now reduced its long-term indebtedness to U. S. banks by \$205 million since the record high of \$483 million in May of 1965.

Table 9. Long-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>
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 <sub>b</sub>	111	119	136	143	146	170	249 <sub>b</sub>
1964	280	295	311	319	323	325	329	332	351	352	269	430 <sub>b</sub>
1965	455	454	472	479	483	479	482	475	471	464	462	445
1966	438	441	434	430	425	406	403	393	374	355	339	326
1967	312	301	287 <sub>a</sub>	278 <sub>a</sub>								

a/ Preliminary.

b/ Includes newly reported claims totaling \$1 million in May 1963, \$46 million in December 1963 and \$45 million in December 1964.

Japan will reportedly delay its proposed mid-year issue of U. S. dollar bonds until later this year. The reasons for the delay include unsettled market conditions following the Middle Eastern conflict, a continued large volume of U. S. domestic bond issues, and a recent rise in long-term bond yields in the U.S. Japan Development Bank bonds, which were issued in November of 1965 in the U. S. at a price of \$96.50 per par value of \$100 and yielded 6.4 per cent, are now hovering around \$95.00 and yield about 6.6 per cent.

Early in June the Japanese announced details of the long-awaited program for liberalizing direct foreign capital investment in Japan. In general, investment approvals were grouped into three categories:

- Category I: Foreign investment of up to 100 per cent foreign ownership will be approved automatically for 17 specified industries.
- Category II: Foreign investment of up to 50 per cent of foreign ownership will be approved automatically for 33 specified industries.
- Category III: Foreign investment in all other industries will be approved on a case-by-case basis as in the past.

The above program applies only to new ventures and is to be operative from mid-1967 to mid-1972.

In addition to the above measures, the authorities also increased the automatic approval limits on foreign investment in securities. The automatic approval limit for nonrestricted industries was raised from 15 to 20 per cent, and for restricted industries (e.g. mining, transportation, banking) from 10 to 15 per cent. The automatic approval limit for an individual foreign investor was raised from 5 to 7 per cent.

Although the moves are regarded as a step in the right direction, only a moderate increase in investment is expected. It has been reported that no foreign firms have applied in the past for entrance into industries included in Category II, and the industries in Category I are closely held by Japanese interests.

9. Foreign exchange. The yen was moderately stronger in foreign exchange markets in April-June than earlier in the year. In the spot market, the yen weakened in the first half of April, but strengthened sharply during the third week. It then remained at this moderately stronger level during May and the first half of June. In the three-month forward market, the yen also strengthened substantially in the third week of April and remained at even more appreciated levels in May and June. These developments created a moderate premium in the forward market which prevailed generally from May 6 through June 15.



Table 10. Japan: Bank of Tokyo's T. T. Exchange Rate for Customers in Tokyo

		Yen per U. S. dollar		
		Yen-dollar spot middle rate	Three-month Forward middle rate	Forward premium in per cent per annum
March	15	362.40	362.45	.06*
	20	361.95	362.30	.39*
	27	361.60	362.30	.72*
April	3	361.85	362.33	.53*
	10	362.05	362.28	.25*
	17	362.10	362.18	.09*
	24	361.80	362.15	.39*
May	1	361.85	362.10	.28*
	8	361.95	361.90	.06*
	15	361.75	361.70	.06
	22	361.80	361.75	.06
	29	361.90	361.75	.17
June	5	361.90	361.85	.06
	12	361.85	361.80	.06
	15	361.90	361.80	.11

\* Forward discount.

Prepared by:

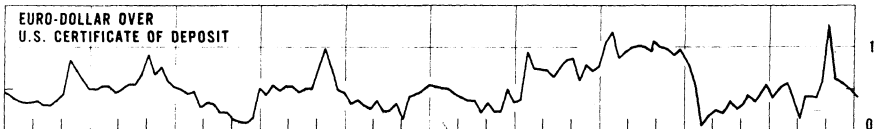
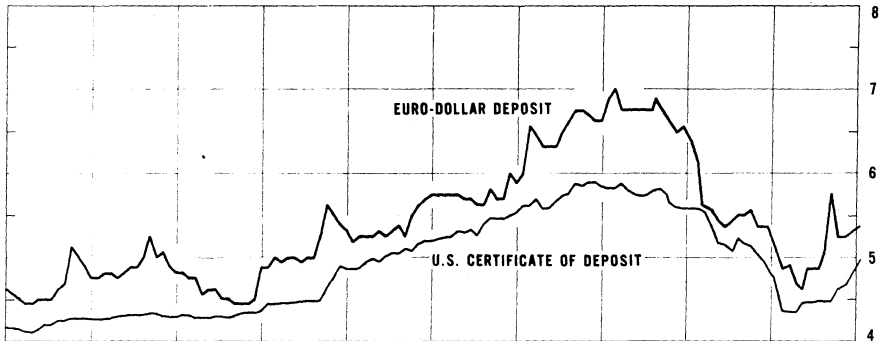
Robert F. Emery,  
 Asia, Africa and Latin America Section,  
 Division of International Finance.

Chart 1

**NEW YORK, LONDON, MONTREAL:  
YIELDS FOR U.S. DOLLAR INVESTORS ON 3-MONTH FUNDS  
DOLLAR DEPOSIT RATES: NEW YORK-LONDON**

Wednesday figures

Per cent per annum



**FINANCE CO. PAPER RATES (covered): QUOTED IN NEW YORK**

Friday figures

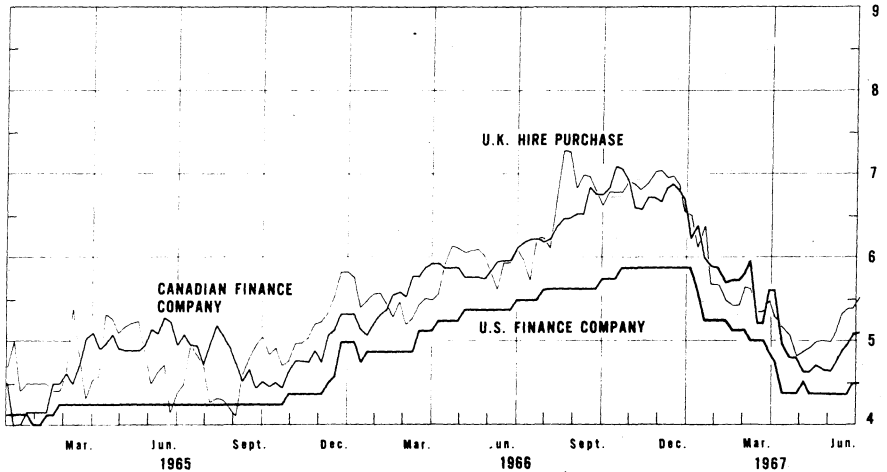


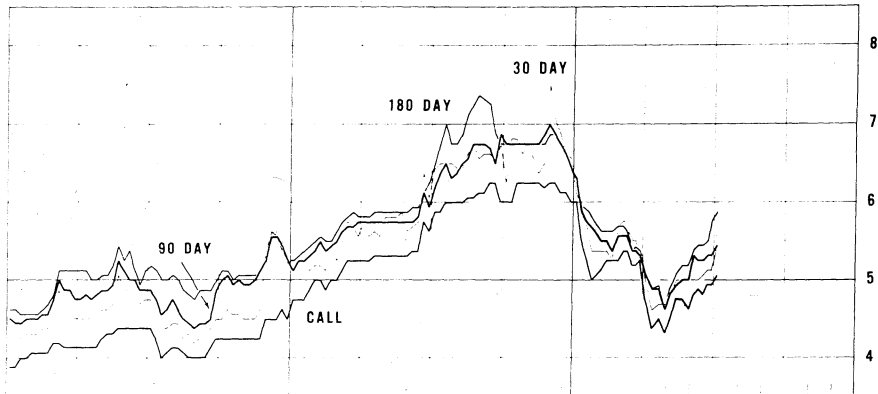
Chart 2

# LONDON: YIELDS FOR U.S. DOLLAR INVESTORS ON 3-MONTH FUNDS

## EURO-DOLLAR DEPOSIT RATES

Fraser figures

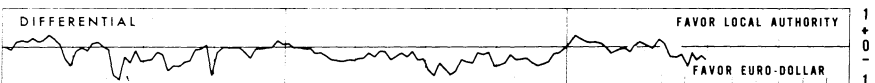
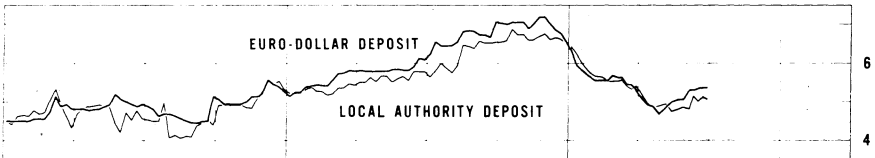
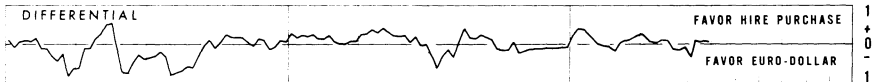
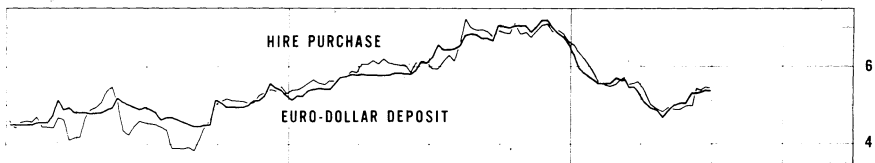
Per cent per annum



## HIRE PURCHASE AND LOCAL AUTHORITY DEPOSIT RATES (covered)

Fraser figures

Per cent per annum



1965

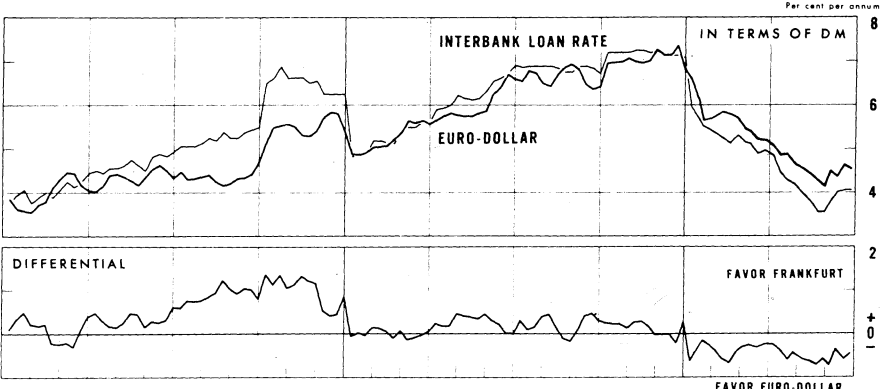
1966

1967

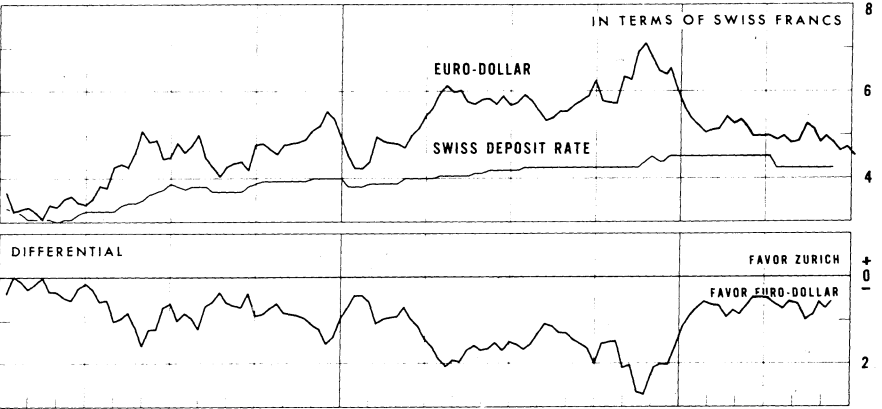
Chart 3

**I INTEREST ARBITRAGE: FRANKFURT/LONDON, ZURICH/LONDON**

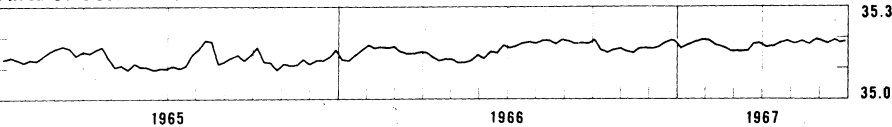
**FRANKFURT INTERBANK LOAN RATE VS. LONDON EURO-DOLLAR RATE (COVERED)**



**ZURICH DEPOSIT RATE VS. LONDON EURO-DOLLAR RATE (COVERED)**



**II PRICE OF GOLD IN LONDON**



Cherr 4

# INTEREST ARBITRAGE, UNITED STATES/CANADA

Friday figures

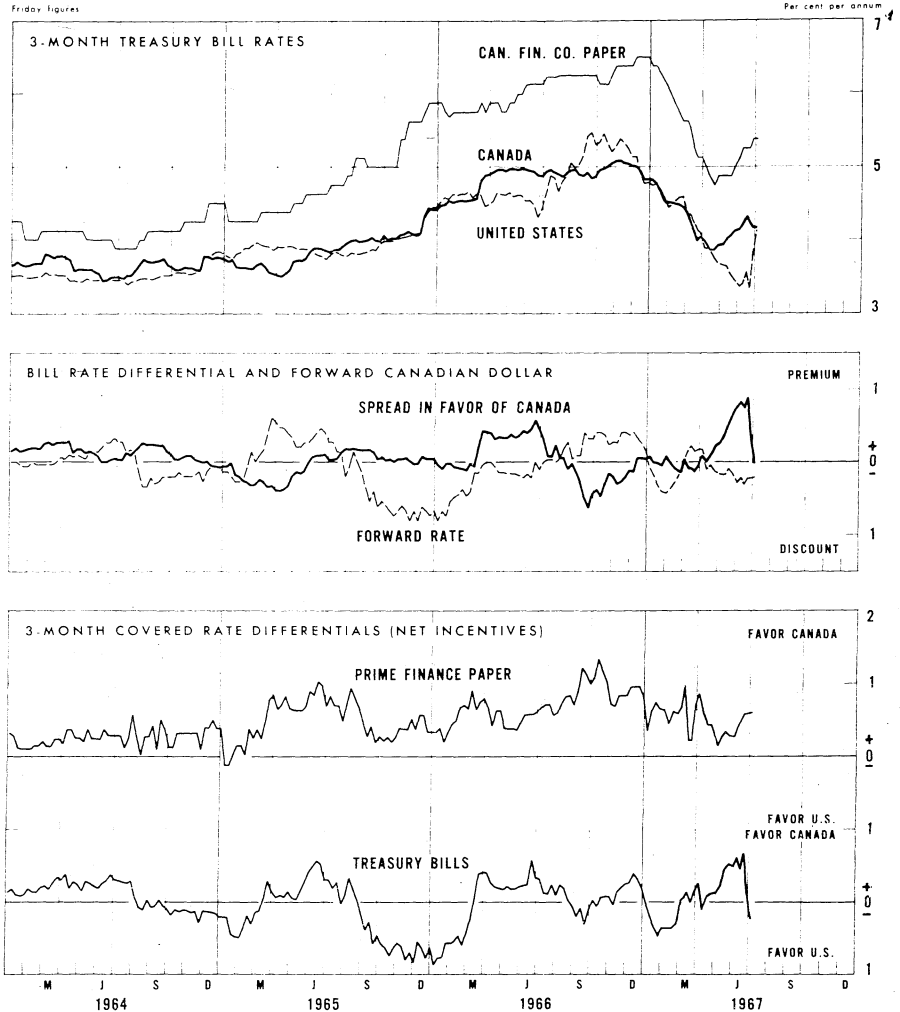


Chart 5  
**INTEREST ARBITRAGE, NEW YORK/LONDON**

Per cent per annum

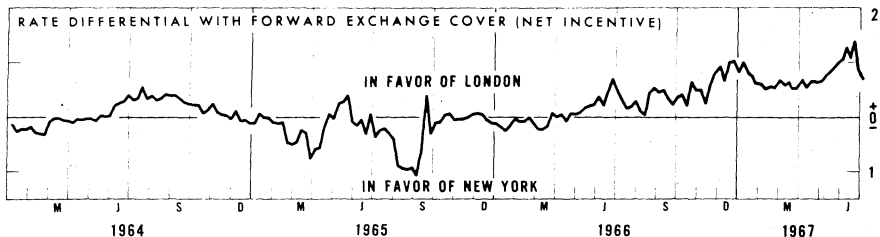
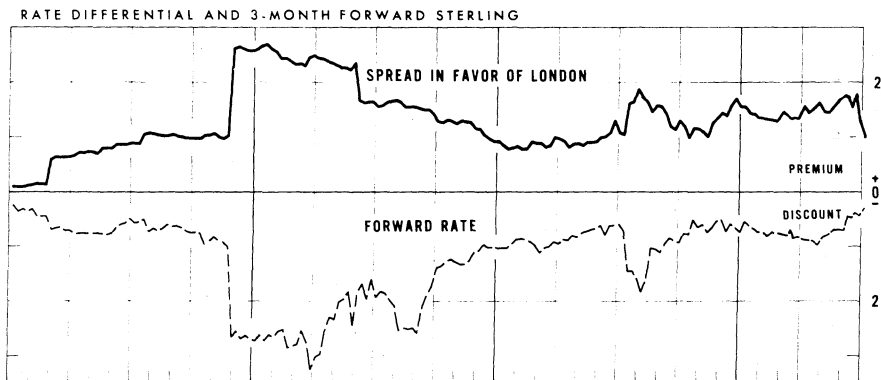
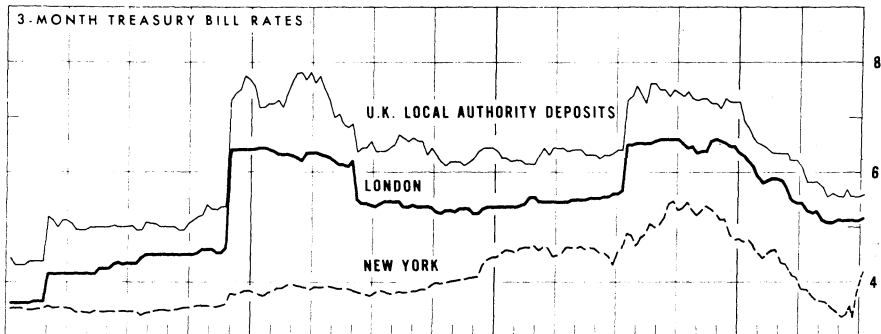
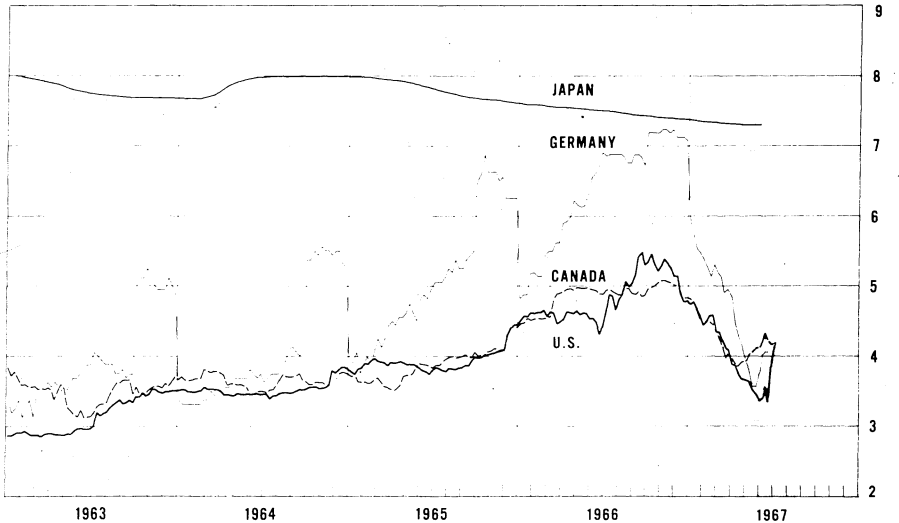
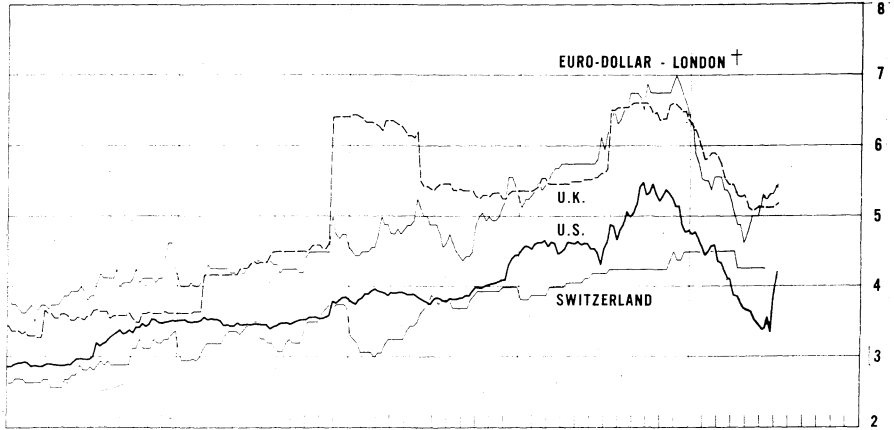


Chart 6

**SHORT-TERM INTEREST RATES \***

Per cent per annum



\* 3 month treasury bill rates for all countries except Japan. (Average rate on bank loans and discounts).  
Switzerland (3 month deposit rate) and Germany (Interbank Loan Rate)

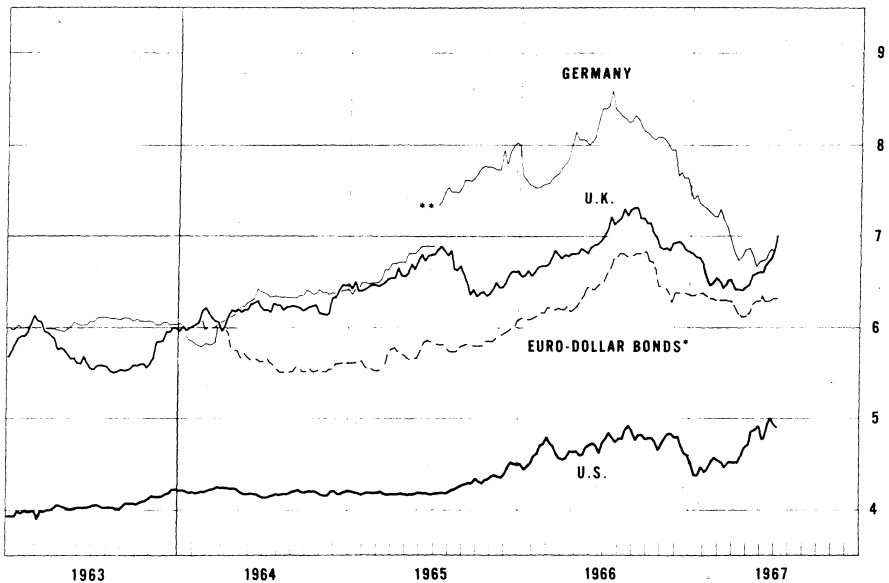
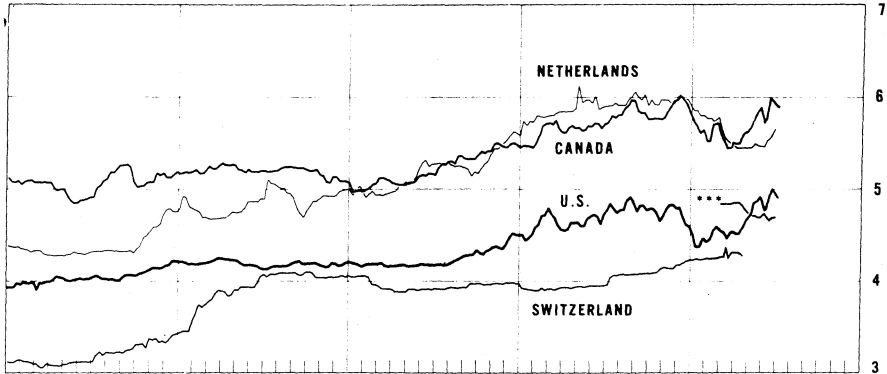
† 3 month rate for U.S. dollar deposits in London

Chart 7

**LONG-TERM BOND YIELDS**

Weekly figures

Per cent per annum



\* Average of yields for four foreign government dollar bonds quoted in London  
 \*\* New series for Germany starts 7.965  
 \*\*\* New series for Switzerland starts 3.367



Chart B

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

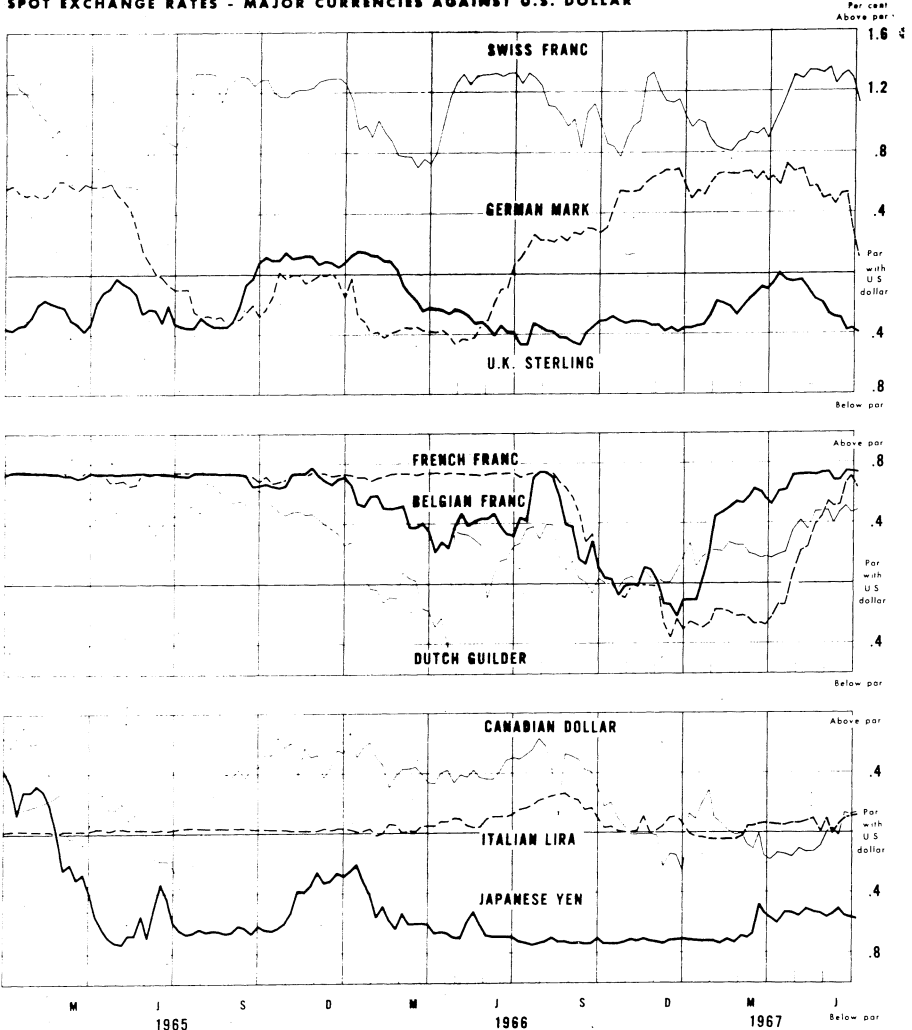


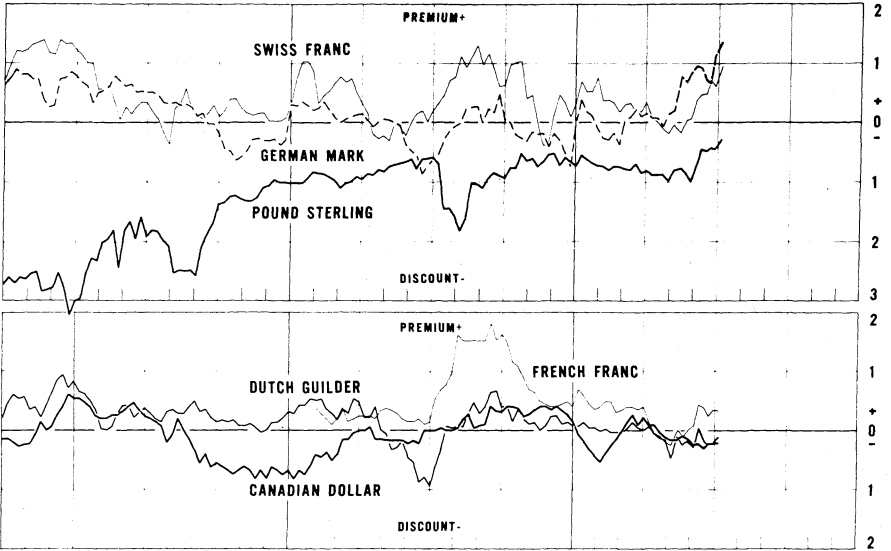
Chart 9

### 3-MONTH FORWARD EXCHANGE RATES

AGAINST U.S. DOLLARS—NEW YORK

Friday figures

Per cent per annum



### AGAINST POUND STERLING—LONDON

Friday figures

Per cent per annum

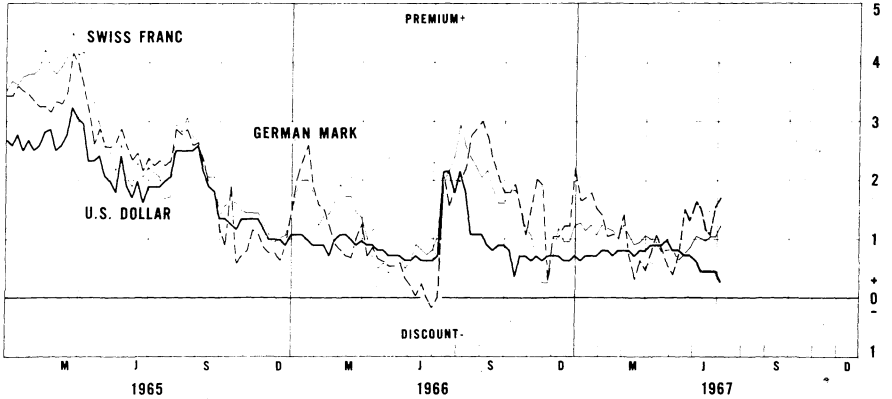
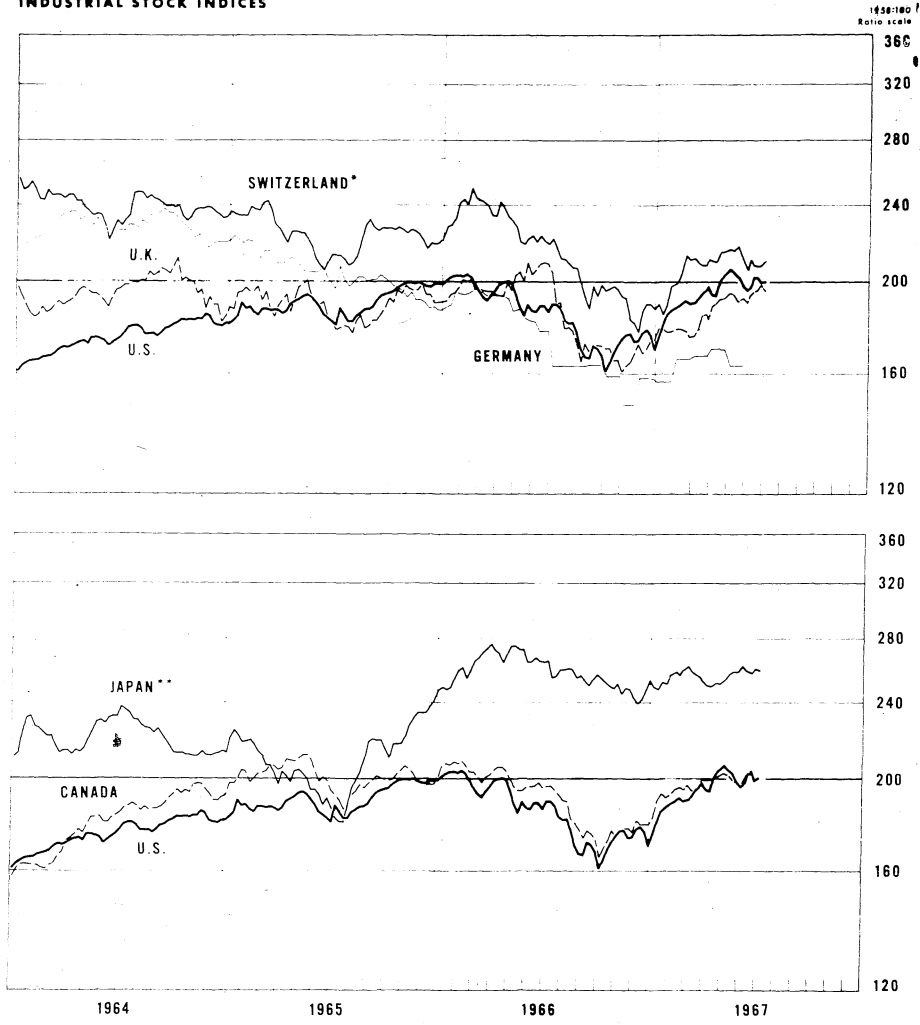


Chart 10

# INDUSTRIAL STOCK INDICES



\* Swiss Bank Corporation industrial stock index  
\*\* Japan index of 225 industrial and other stocks traded on the Tokyo exchange

July 5, 1967.

H. 13

No. 306

III. Latest Figures Plotted in H. 13 Chart Series, 1967  
(all figures per cent per annum)

Chart 1  
Upper Panel (Wednesday, July 5)

Euro-\$ deposit 5.38U.S. certif. of deposit 4.98

Lower Panel (Friday, June 30)

Finance co. paper: U.S. 4.50Canada 5.09Hire-purchase paper, U.K. 5.39

Chart 2  
(Friday, June 30)

Euro-\$ deposits:

Call 4.94 90-day 5.3130-day 5.12 180-day 5.75Hire-purchase paper 5.88

(June 30)

Local authority deposit 5.50

(June 30)

Chart 3

Upper Panel (Period: June 30)

Interbank loan (mid-point) 4.06Euro-\$ deposit (average) 5.38

Lower Panel (Date: June 15)

Zurich 3-month deposit 4.25

Price of gold 35.186

(Friday, June 30)

Chart 4  
(Friday, June 30)

Treasury bills: Canada 4.18U.S. 3.82Spread favor Canada + .36Forward Canadian \$ - .22Net incentive (Canada +) + .14Canadian finance paper 5.38

Chart 5  
(Friday, June 30)

Treasury bills: U.K. 5.12U.S. 3.82Spread favor U.K. +1.30Forward pound - .43Net incentive (U.K. +) + .87

Chart 6  
(Friday, June 30)

Treasury bills: U.S. 3.82U.K. 5.12Canada 4.18Interbank loan rate (German) 4.06Euro-\$ deposit (London) 5.31

Zurich 3-month deposit

(Date: June 15) 4.25

Japan composite rate

(Date: May 26) 7.30

Chart 7

U.S. Gov't. (Wed., June 28) 4.97U.K. War Loan (Thurs., June 29) 6.84German Fed. (Fri., June 30) 6.84Swiss Confed. (Fri., June 30) 4.70Canadian Gov't. (Wed., June 28) 5.92

Netherlands Gov't. perpetual 3%

(Friday, June 23) 5.61(June 30) 5.66Euro-\$ bonds (Fri., June 30) 6.33

For descriptions and sources of data, see  
special supplement to H. 13, Number 249,  
March 16, 1966.