

May 1, 1961

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CAPITAL MARKET DEVELOPMENTS ABROAD

- I. Japan
- II. Five Charts on Financial Markets Abroad

I. Japan: Money and Capital Markets During March

There was a general reduction in money and capital market rates in Japan on April 1 when the government lowered the rates on a broad variety of deposit, savings, and trust accounts; the rates on long-term bank loans, and the effective yields on various bonds and debentures. This action, which has been contemplated for several months, was motivated by the government's long-run policy of bringing the level of interest rates closer to those in Western money markets and also helping to implement the plan for doubling Japanese national income in the coming decade. Most short-term bank loan rates were reduced earlier in January following the reduction in the Bank of Japan discount rate on January 26.

In late April the authorities also took steps to encourage non-resident purchases of Japanese securities. They announced that on May 1, 1961, special arrangements would be made so that non-residents can repatriate proceeds from security sales immediately. In effect, this will create a system of "securities yen" (similar to the United Kingdom "security sterling" arrangement), under which non-residents are allowed to sell Japanese securities to other non-residents for payment in foreign currencies; the securities yen rate will be determined by market factors and will not be held at the rate for the spot yen by official intervention. The authorities also announced that the minimum time period for repatriation of funds invested by non-residents in Japanese securities at the official rate of exchange would be reduced from four to two years.

The inflow of foreign short-term capital remained at relatively high levels during the first quarter, more than covering the large trade deficits in January and February. In March there was an improvement in the trade balance. International reserves rose \$50-60 million monthly during the quarter.

Money Market. Money market conditions were eased early in the year as the seasonal return-flow of banknotes bolstered bank liquidity. After the call loan rate was lowered from 8.395 to 8.030 at the end of January, money market rates subsequently firmed. Bank of Japan loans rose ¥185 billion during February-March, only partly easing the impact of the large Treasury cash surpluses of ¥787 billion in February and ¥135 billion in March.

NOT FOR PUBLICATION

DECONTROLLED AFTER SIX MONTHS

Following a reduction in the level of Japanese holdings of Euro-dollars by \$35 million in November and December 1960, the level of holdings rose \$75 million in the first two months of 1961. Preliminary reports indicate a continued, though more modest rise, in March. The transfer of Euro-dollar funds into convertible yen accounts has slowed in recent months. The covered interest rate differential has narrowed both from reduced commercial bank lending rates in late January and some rise in the cost of forward foreign exchange cover. The cost of Euro-dollars in recent months has been quoted at 4.75 per cent for three-month contracts and 5.5 per cent for six-month contracts. Other Japanese short-term borrowing abroad has been rising since the autumn of 1960.

Bond Market. In addition to reducing the interest rates for bank deposits and trust accounts on April 1, 1961, the Japanese government, through its control over public and private bond issues, lowered the effective yields on various bonds and debentures by 0.2 to 0.4 of a percentage point as indicated below.

Bond and Debenture Yields
(per cent per annum)

	<u>Old Rate</u>	<u>New Rate</u>	<u>Difference</u>
Highest quality corporate debentures	7.831	7.408	.423
Bank debentures: a) interest bearing	7.610	7.300	.310
b) discount basis	6.643	6.225	.418
Public corporation debentures	7.313	7.096	.217
Local government bonds	7.720	7.354	.366

Yields on long-term and short-term government securities remained unchanged at 6.432 and 6.023 per cent per annum respectively. Yields on bonds and debentures have changed only slightly since mid-1957.

The volume of new issues of bank and public corporation debentures accelerated late in 1960. The total volume of bank, industrial, public corporation debentures and local government bonds was up 37 per cent in 1960 over the level a year earlier.

In January 1961 four large security houses placed on the market bond investment trust shares which have proven very popular because of the prospective high rate of yield. Sales by the four companies have been approximately double the original volume anticipated. Issues of industrial debentures, which ranged from ¥15 to ¥20 billion monthly in 1960, jumped to ¥58 billion in January 1961.

Interest Rates. On April 1, 1961, the Japanese government lowered the structure of interest rates for a broad variety of deposit and trust accounts as well as for most long-term bank loans. While short-term bank lending

rates were not changed, it is likely that these steps will contribute further to the decline in the composite rate for bank loans and discounts which began in August 1960.

The reduction in rates effected most deposit and savings accounts as indicated below. (See Chart 4.)

Bank Deposit Rates
(per cent per annum)

	<u>Old Rate</u>	<u>New Rate</u>	<u>Difference</u>
Fixed term deposits:			
3 months	4.3	4.0	0.3
6 months	5.5	5.0	0.5
1 year	6.0	5.5	0.5
Installment savings	4.0	3.9	0.1
Ordinary deposits	2.56	2.19	0.37
Deposits at notice	2.92	2.56	0.37
Deposits for tax payments	3.29	2.92	0.37
Other deposits	2.92	2.56	0.37
Three-month interbank deposit rate	5.84	5.48	0.37

Postal Savings Rates

Fixed-amount deposits			
over 6 months	4.5	4.2	0.3
over 1 year	5.0	4.7	0.3
over 18 months	5.5	5.0	0.5
over 2 years	6.0	5.5	0.5
Ordinary savings	3.96	3.6	0.36
Installment savings	4.2	4.08	0.12
New one-year savings	--	5.0	--

The rate for two-year trust accounts was lowered from 6.8 to 6.3 per cent and for five-year accounts from 7.5 to 7.1 per cent. Industrial and long-term bank loan rates were reduced from 9.125 to 8.7 per cent per annum or by 0.425 per cent.

Prior to the April 1 reductions, bank lending rates since August 1960 have trended down, partly in response to a lowering of the Bank of Japan discount rate from 7.3 to 6.935 per cent on August 25, 1960 and from 6.935 to 6.570 per cent on January 25, 1961. The composite rate for loans and discounts of all banks declined from 8.220 per cent in August 1960 to 8.077 per cent in December 1960. On January 30, 1961, in response to the reduction in the Bank of Japan discount rate a few days earlier, the commercial bank rate for loans on bills was reduced from 8.030 to 7.665 per cent. Rates on other types of loans and discounts were reduced by 0.2 to 0.4 percentage points.

Bank Loans and Discounts. Bank loans and discounts continued to rise at a somewhat accelerated pace in the fourth quarter as indicated below. The increase in the fourth quarter was 6.9 per cent compared to 6.0 per cent in the same period a year earlier. January 1961 loans and discounts were up 0.5 per cent compared to 0.3 per cent a year earlier.

Increase in Loans and Discounts: All Banks
(In billions of yen)

	<u>1958</u>	<u>%</u>	<u>1959</u>	<u>%</u>	<u>1960</u>	<u>%</u>
I	125	2.5	168	2.9	225	3.3
II	146	2.8	157	2.6	227	3.2
III	235	4.4	281	4.6	395	5.4
IV	283	5.1	384	6.0	531	6.9

Stock Market. Following a 6 per cent dip in stock prices during the last half of February and the first three weeks of March, stocks resumed their general rise in late March and on April 19 reached a new all-time high. Since then the market has eased somewhat. The Dow Jones average of 225 issues on April 26, 1961, was ¥1,600 which was 21 per cent above the year's low on January 4 and 249 per cent above the level in early 1958 when the current upward movement in stock prices began. The February-March decline in prices was apparently due in part to a worsening in the international trade balance during the first two months of the year. The recovery of prices in late March and April was helped by an improved trade balance in March and reports of an economic upturn in the United States. (See Chart 5.)

Dow Jones Average of 225 Stocks
Tokyo Stock Exchange

Feb. 22	¥1,563	Apr. 5	1,590	1960 High	¥1,321
Mar. 1	1,537	12	1,631	Low	¥ 869
8	1,517	19	1,674		
15	1,493	26	1,658		
22	1,481			1961 High	¥1,666
29	1,577			Low	¥1,367

Foreign Exchange. During March the yen remained strong as the trade balance improved over January-February levels and the influx of Euro-dollars and other convertible currencies continued. Early in April, however, the yen weakened as the demand for foreign exchange to meet trade payments increased significantly. From a level of ¥358.90 per dollar in March, the spot rate rose to ¥361.10 per dollar at mid-April and then strengthened in the week ending April 21. The forward discount of the yen against the U.S. dollar narrowed sharply in mid-April but began to widen again later in the month.

Customer's T.T. Exchange Rates
of Bank of Tokyo in Tokyo

<u>Date</u>	<u>Yen-dollar spot middle rate</u>	<u>3-month forward middle rate</u>	<u>Forward discount in per cent per annum</u>
March 3	358.90	360.55	1.84
10	358.90	360.95	2.28
17	358.90	360.75	2.06
24	358.90	361.30	2.67
31	358.90	361.30	2.67
April 7	359.20	361.50	2.56
14	361.10	361.75	0.72
21	360.20	361.50	1.44

Far Eastern Section.

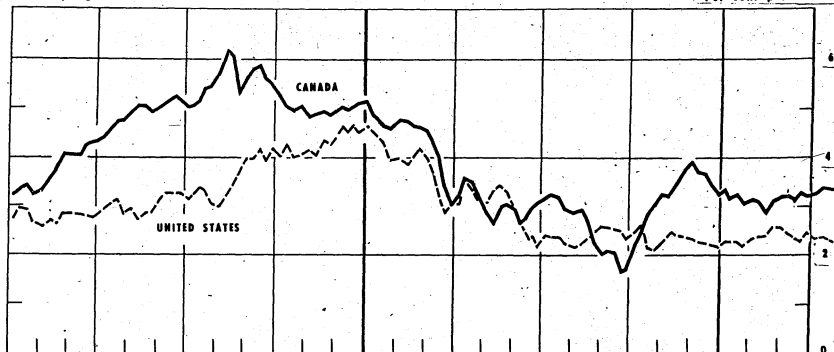
II. Five Charts on Financial Markets Abroad

- Chart 1 - Interest Arbitrage US/Canada
- Chart 2 - Interest Arbitrage New York/London
- Chart 3 - Interest Arbitrage Frankfurt/New York
- Chart 4 - Short-term Interest Rates
- Chart 5 - Industrial Stock Indices

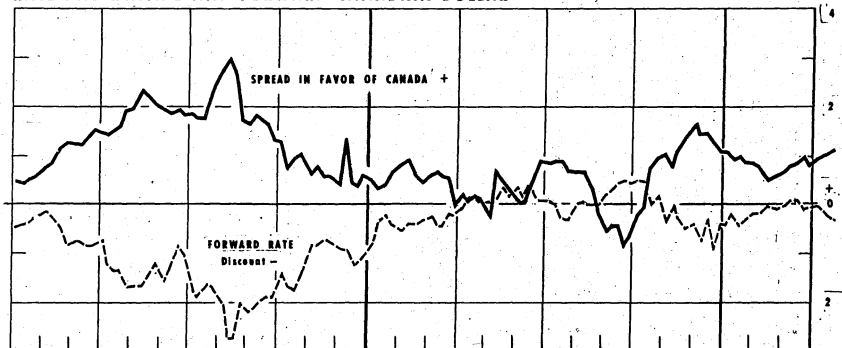
Chart 3
CANADA - UNITED STATES

THREE-MONTH TREASURY BILL RATES
Thursday figures

Per cent per annum



RATE DIFFERENTIAL AND FORWARD CANADIAN DOLLAR



RATE DIFFERENTIAL WITH FORWARD EXCHANGE COVER

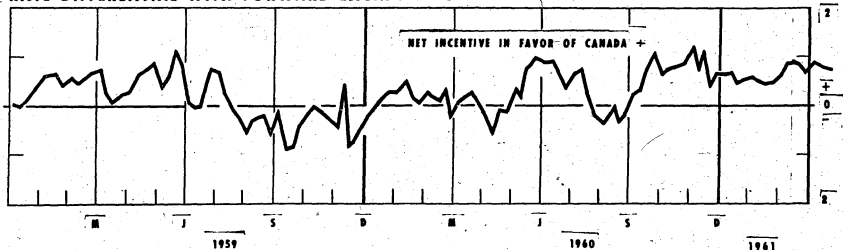


Chart 2

INTEREST ARBITRAGE, NEW YORK / LONDON

Friday figures

Per cent per annum

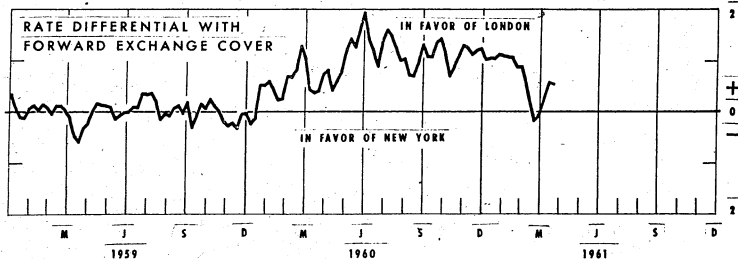
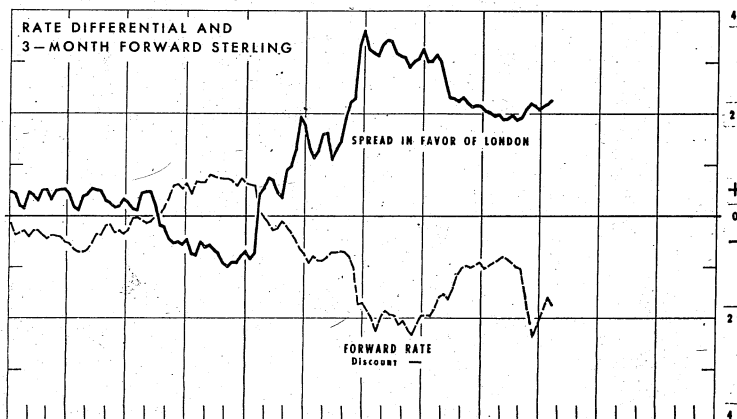
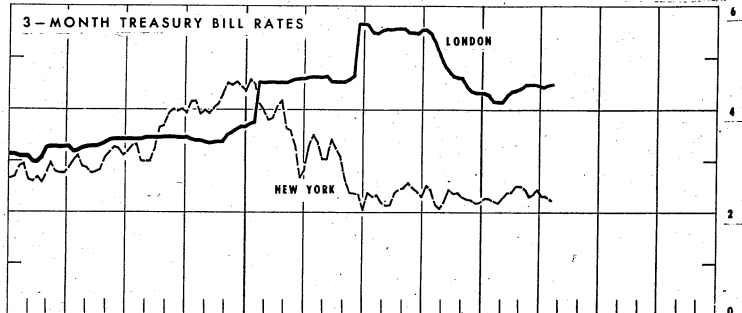


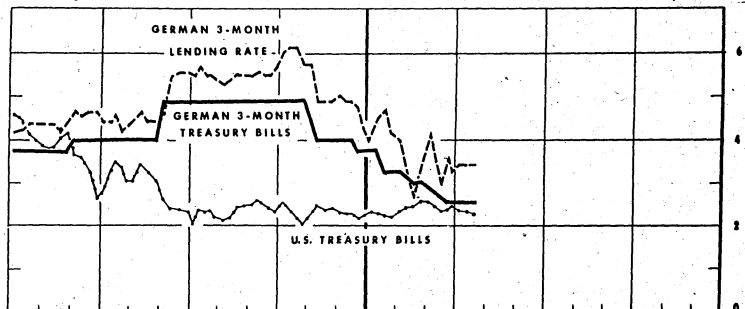
Chart 3

INTEREST ARBITRAGE, NEW YORK/FRANKFURT

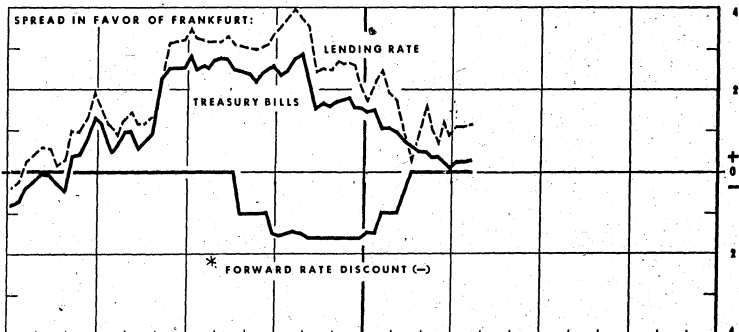
3-MONTH TREASURY BILL RATES AND GERMANY 3-MONTH BANK LENDING RATES

Friday figures

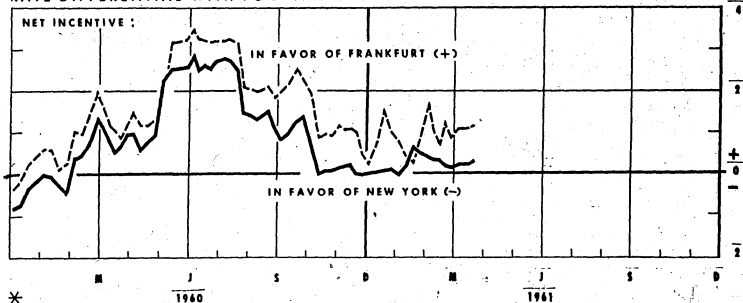
Per cent per annum



RATE DIFFERENTIAL AND FORWARD DEUTSCHE MARK



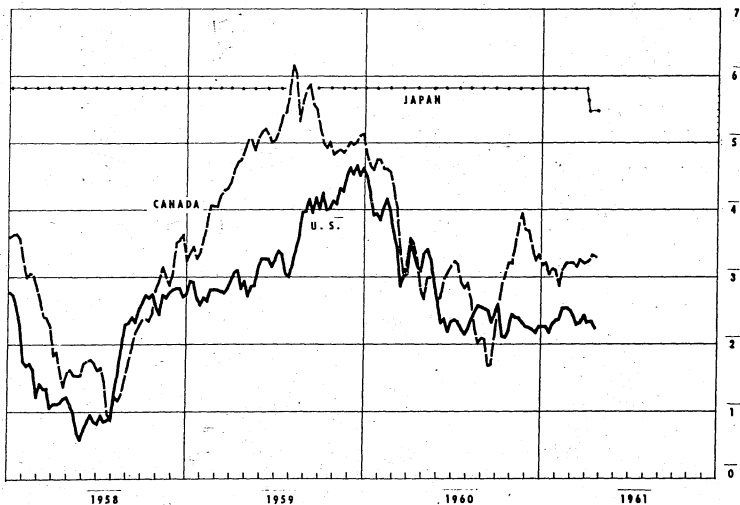
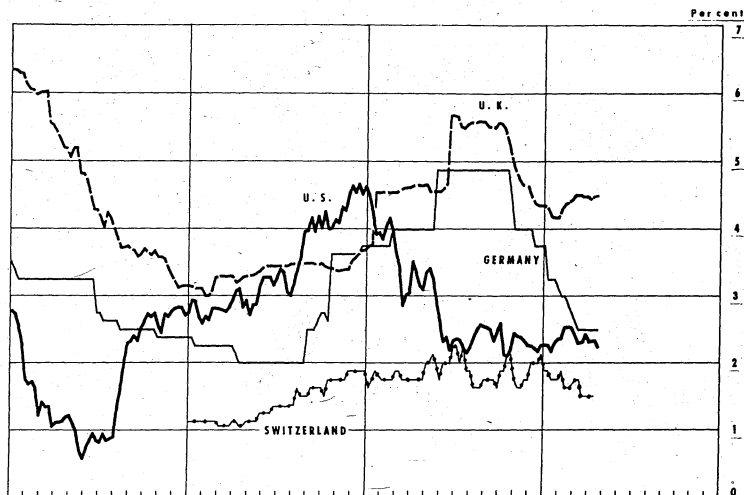
RATE DIFFERENTIAL WITH FORWARD EXCHANGE COVER



* Note: Special forward dollar rate (either flat or premium on spot) available to German commercial banks.

Chart 4

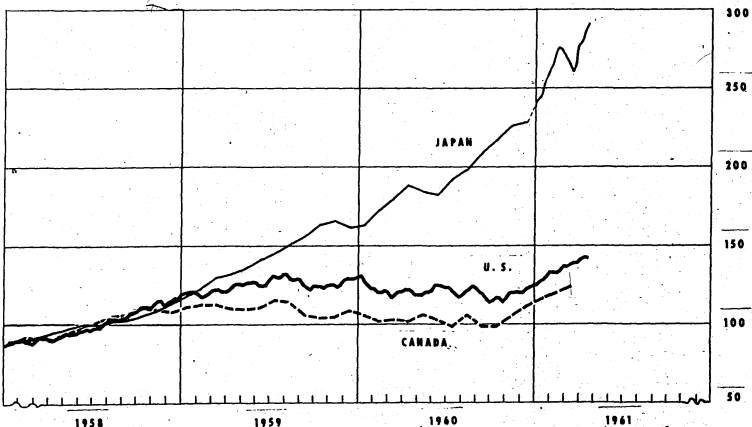
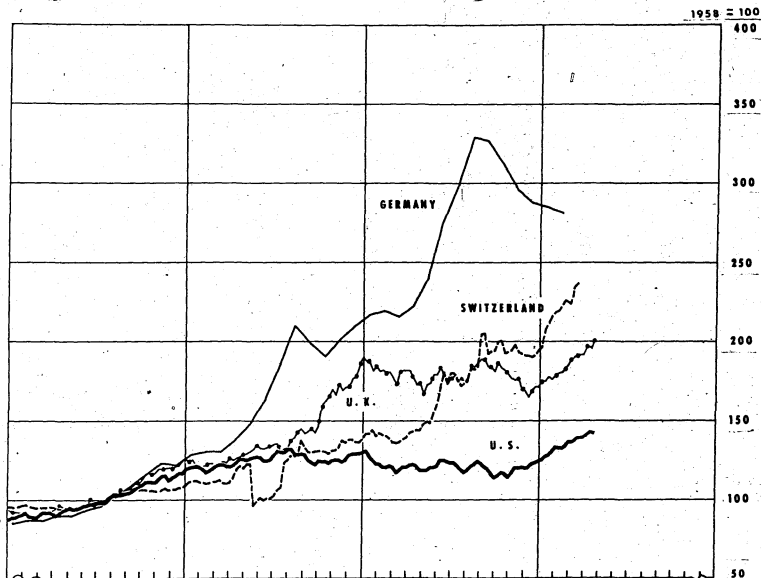
SHORT-TERM INTEREST RATES *



* Note: 3-month treasury bill rates for all countries except Japan (3-month interbank deposit rate) and Switzerland (3-month deposit rate).

Chart 5

INDUSTRIAL STOCK INDICES *



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Note: Japan: Index of all stocks traded on Tokyo exchange.