

June 5, 1961

H. 13
No. 10

CAPITAL MARKET DEVELOPMENTS ABROAD

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

I. Japan: Money and Capital Markets During April

While general capital market conditions remained buoyant in April and early May, there were indications of a continued or increased tightness in money and credit markets. The stock market rose to new highs in April and May, and the volume of funds channeled into various investment trusts were at new, high levels. But with a slower rate of growth in deposits, the local banks, traditional suppliers of funds to the call money market, have recently turned to borrowing from the call market. The inflow of foreign short-term capital has fallen to lower levels and imports have continued to rise faster than exports. The yen weakened in the foreign exchange markets in April, and in the first half of May was at the extreme official selling rate. The mid-May action permitting free remittance by non-residents at the official exchange rate of interest and dividend income, will probably add to demands for foreign exchange. Finally, the substantial lowering of deposit, trust and long-term interest rates in April may well have the effect of decreasing the rate of supply of funds to the capital market.

Money Market. A combination of several developments in late March caused an extreme tightening of the money market and pushed the call loan rate to its highest level since 1957. The main factors contributing to the tightness were a large treasury cash surplus, deferral of Bank of Japan open market buying operations originally scheduled for the close of March, a cessation in the supply of funds to the call market from the local banks, and a very strong demand for funds by the security companies to meet their commitment for the purchase of public and corporate bonds. At the end of March the call loan rate rose to 14.6 per cent per annum, well above the agreed maximum limit of 8.03 per cent set by the Bankers Federations. The extreme tightness proved temporary and in early April the rate subsequently eased.

Money market conditions continued tight in April reflecting a reduction of ¥ 120 billion or 19 per cent in Bank of Japan credit extended to commercial banks and a ¥ 22 billion expansion in note issue. While the \$38 million rise in international reserves in April helped bolster bank liquidity somewhat, the increase was less than the \$52 million and \$60 million rise in February and March, respectively. A net government cash disbursement in April of ¥ 144 million was the main factor prompting the contraction in Bank of Japan credit.

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DECONTROLLED AFTER SIX MONTHS

Bond Market. Yields on most types of bonds and debentures were lowered early in April with the exception of yields on short-term and long-term national government securities which were unchanged, (See "Capital Market Developments Abroad," May 1, 1961.)

Shares of the new bond investment trusts inaugurated in January continued to remain in strong demand; however, purchases by individuals declined somewhat while bank and business demand was maintained. Purchases of public and corporate bonds by the "Big Four" security companies rose above ¥ 90 billion in both February and March compared to ¥ 67 billion in January.

Interest Rates. Commercial bank short-term lending rates in April remained at the reduced levels established late in January when the Bank of Japan discount rate was lowered from 6.935 to 6.570 per cent. Effective April 1, 1961, interest rates were lowered for deposit and trust accounts as well as long-term bank loans. (See "Capital Market Developments Abroad," May 1, 1961.)

Bank Loans and Discounts. On a year-to-year basis, bank credit continued to expand in the first quarter at an accelerated rate compared to the same period in earlier years. During the first quarter loans and discounts rose 4.6 per cent compared to 3.3 per cent a year earlier and to 2.9 per cent in the first quarter of 1959. In March there was a sharp expansion of industrial activity.

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>	<u>1961</u>	<u>%</u>
I	125	2.5	168	2.9	225	3.3	374	4.6
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. After reaching a new high on April 19, the stock market eased during the rest of April. In early May, the general uptrend was renewed and the Dow Jones average of 225 issues passed the ¥ 1,700 mark on May 16 and the next day reached an all time high of ¥ 1,703. In the next three days, the average dropped 4 per cent but then firmed, closing at ¥ 1,655 on May 24. The market continues to remain somewhat concerned about the current account deficit in the balance of payments.

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Dow Jones Average of 225 Stocks
Tokyo Stock Exchange

March 29	¥ 1,577	May 4	¥ 1,663	1960 High	¥ 1,321
April 5	1,590	10	1,692	Low	¥ 869
12	1,631	17	1,703		
19	1,674	24	1,654	1961 High	¥ 1,703
26	1,658			Low	¥ 1,367

Foreign Exchange. With a heavy import surplus persisting, there was pressure on the yen in April and May. Throughout the first half of May the yen was at the extreme official selling rate. The spot middle rate rose from ¥ 360.20 per dollar on April 20 to ¥ 361.10 per dollar on April 26 where it remained through May 15. The three-month forward middle rate was slower to ease, changing from ¥ 361.00 on May 3 to ¥ 361.60 per dollar on May 4. The forward discount of the yen against the dollar was somewhat less in the first half of May compared to April primarily because of the weakening in the spot rate.

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

<u>Date</u>	<u>Yen-dollar</u> <u>spot middle rate</u>	<u>3-month</u> <u>forward middle rate</u>	<u>Forward discount</u> <u>in per cent per annum</u>
April 7	359.20	361.50	2.56
14	361.10	361.75	0.82
21	360.20	361.15	1.05
28	361.10	361.00	(P)0.11
May 5	361.10	361.60	0.55
12	361.10	361.60	0.55
15	361.10	361.70	0.66

Far Eastern Section.

II. Nine Charts on Financial Markets Abroad

- Chart 1 - Interest Arbitrage U.S./Canada
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- Chart 5 - Short-term Bond Yields
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Spot United States Dollar
- Chart 9 - 3-month Forward Rate--London Quotations

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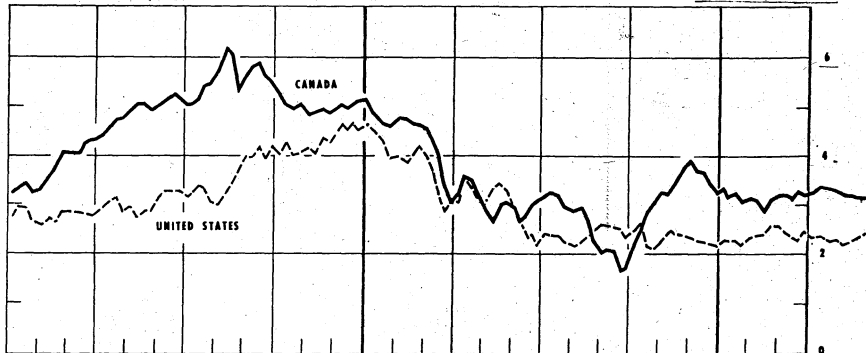
Chart 1

INTEREST ARBITRAGE, UNITED STATES / CANADA

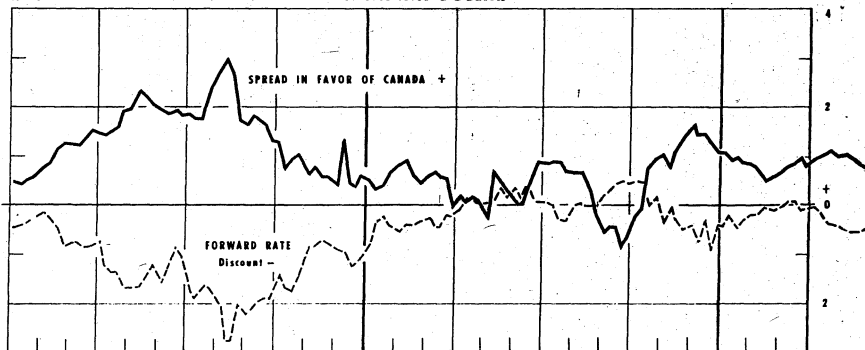
Thursday figures

THREE-MONTH TREASURY BILL RATES

Per cent per annum



RATE DIFFERENTIAL AND FORWARD CANADIAN DOLLAR



RATE DIFFERENTIAL WITH FORWARD EXCHANGE COVER

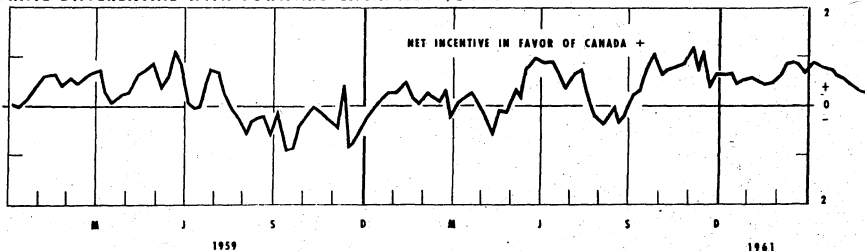


Chart 2

INTEREST ARBITRAGE, NEW YORK / LONDON

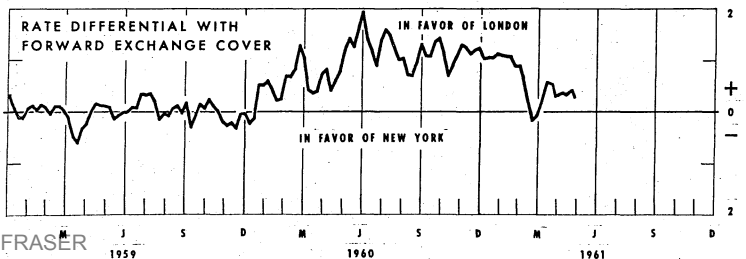
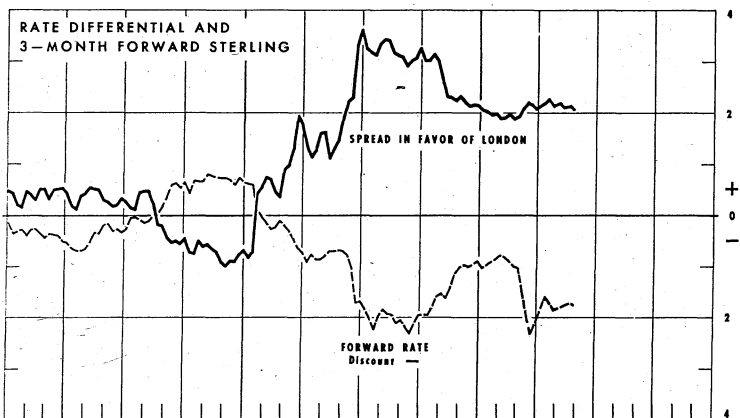
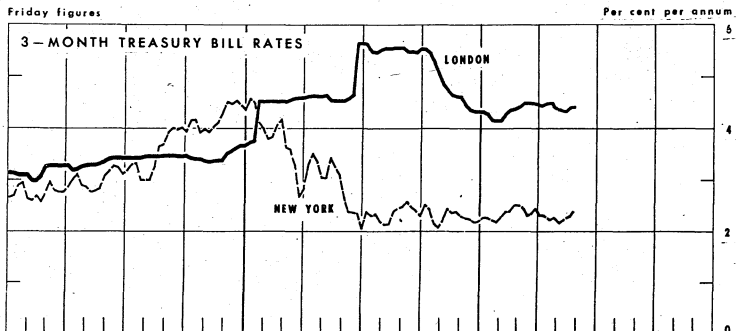


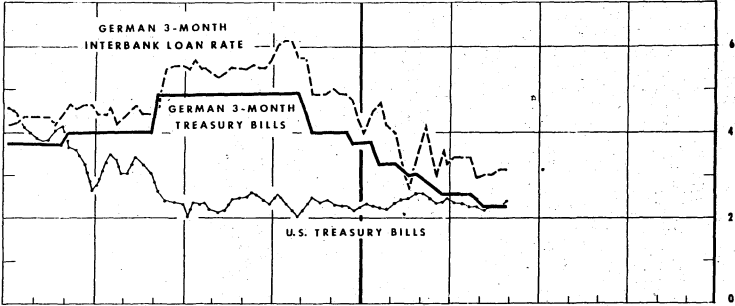
Chart 3

INTEREST ARBITRAGE, NEW YORK / FRANKFURT

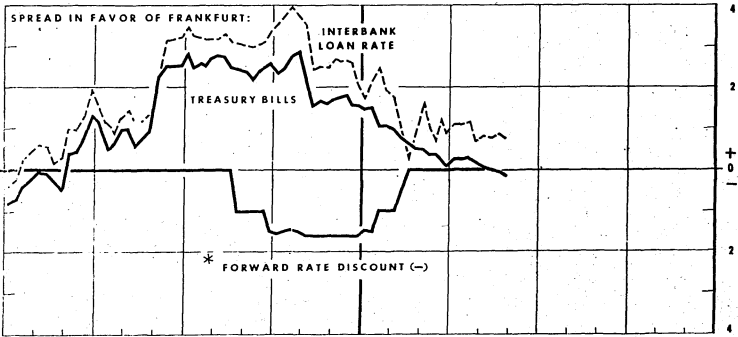
Friday figures

**3-MONTH TREASURY BILL RATES AND
GERMAN 3-MONTH INTERBANK LOAN RATES**

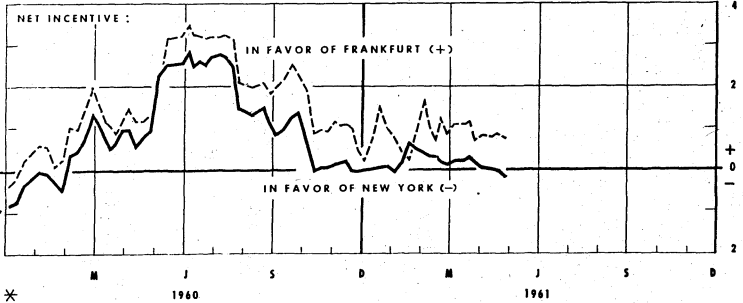
Per cent per annum



RATE DIFFERENTIAL AND FORWARD DEUTSCHE MARK



RATE DIFFERENTIAL WITH FORWARD EXCHANGE COVER



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Not available forward dollar rate (either flat or premium on spot) available to German commercial banks.

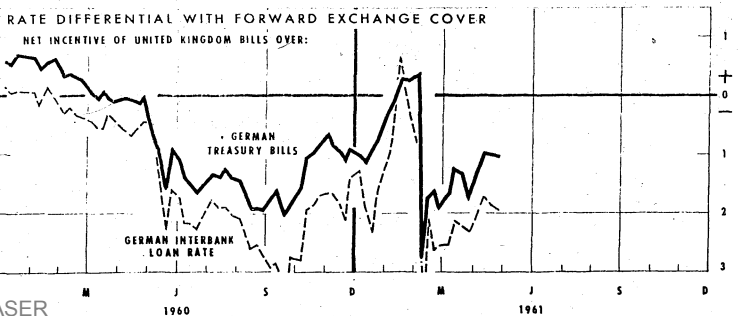
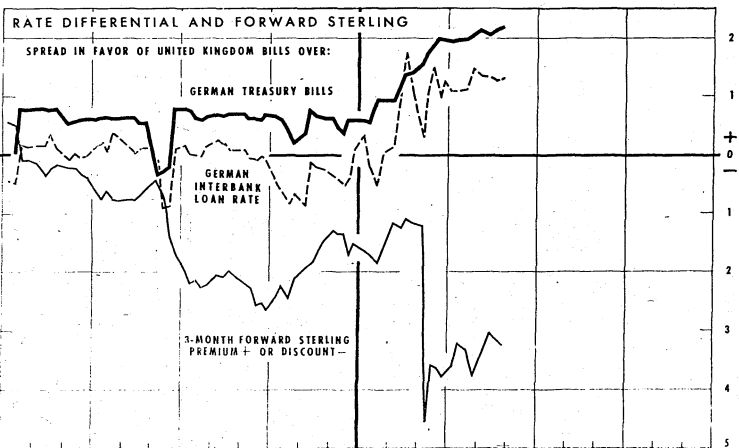
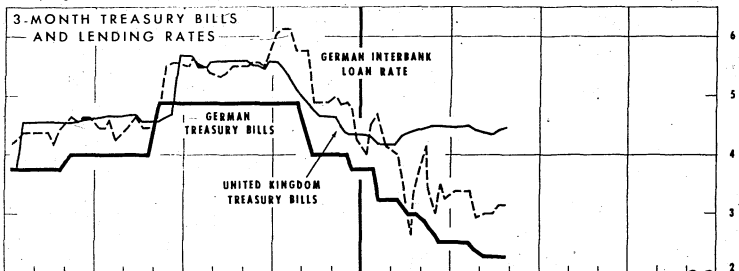
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Chart 4

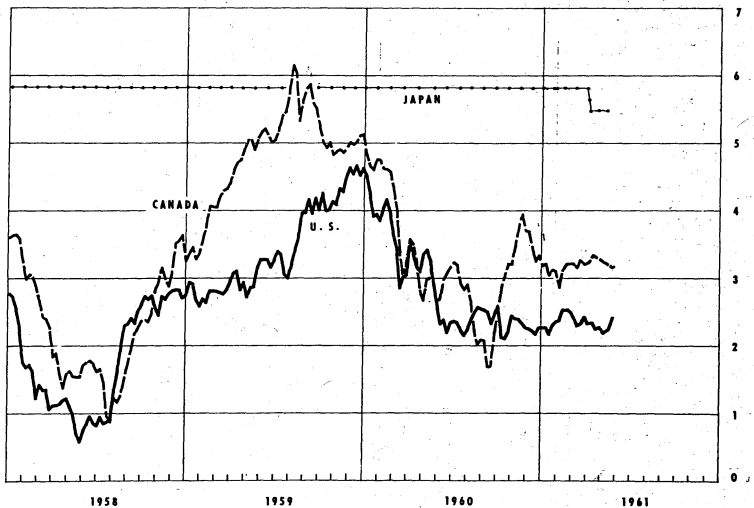
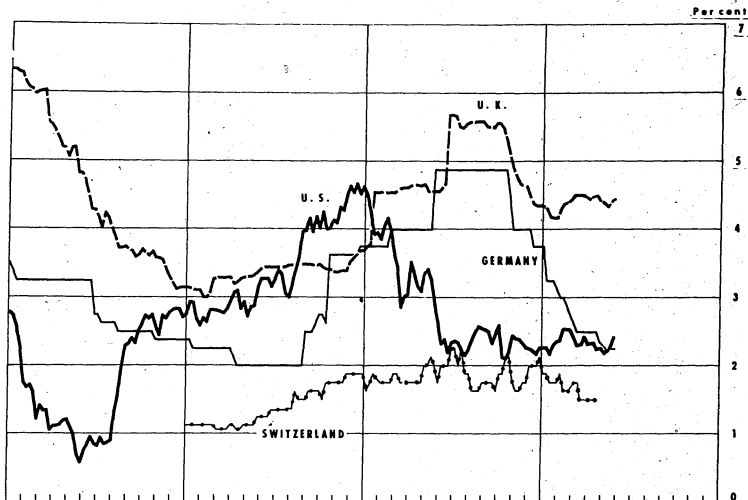
INTEREST ARBITRAGE, FRANKFURT/LONDON

Friday figures

Per cent per annum



SHORT-TERM INTEREST RATES *



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

Chart 6

LONG-TERM BOND YIELDS

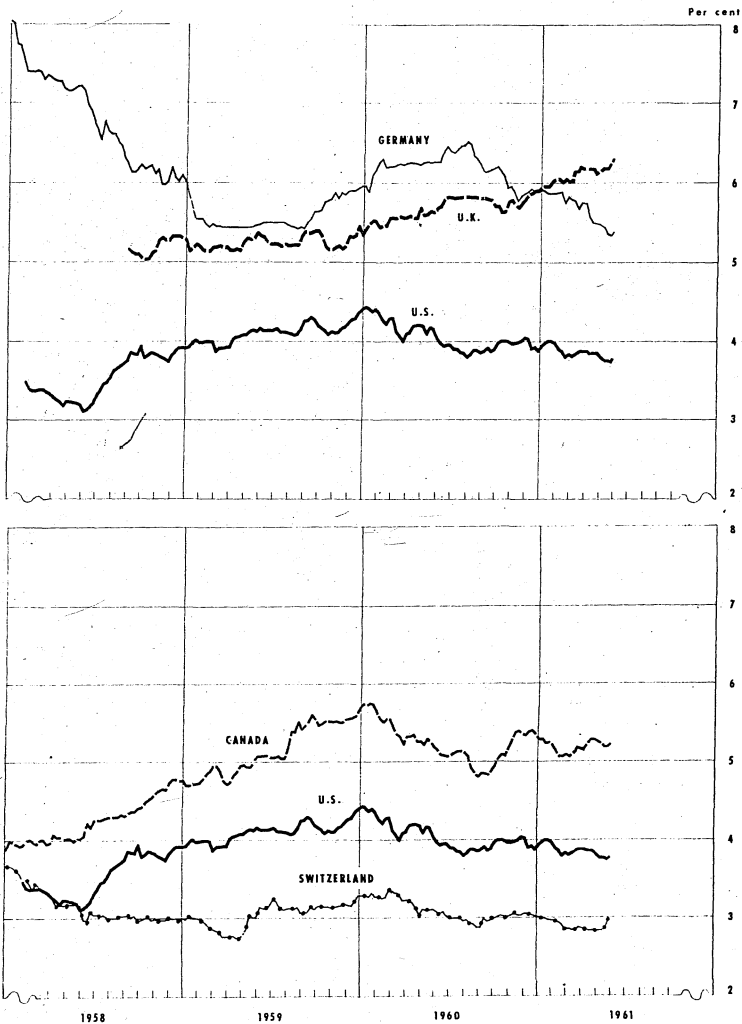
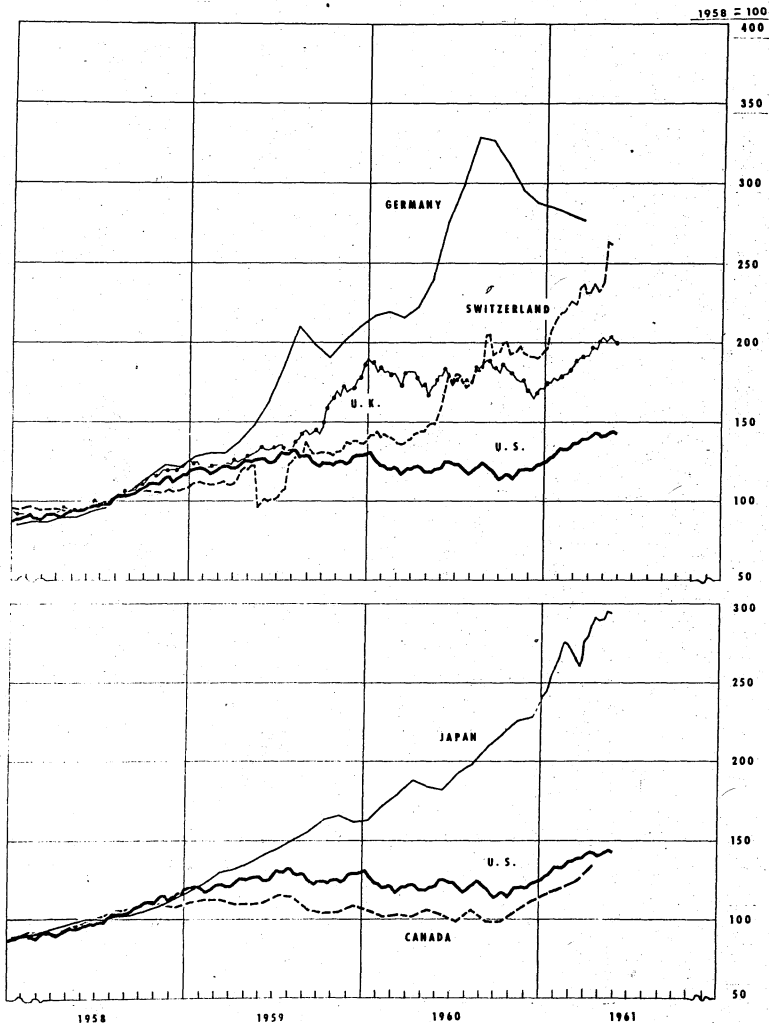


Chart 7

INDUSTRIAL STOCK INDICES *



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

Chart B

MAJOR CURRENCIES IN TERMS OF THE SPOT U. S. DOLLAR

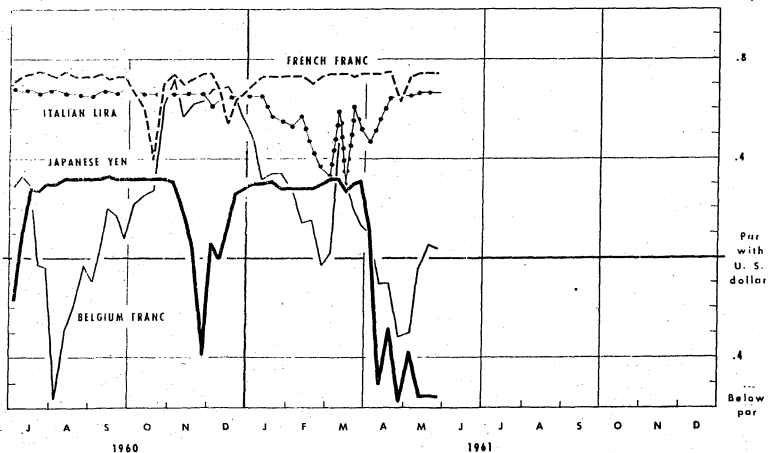
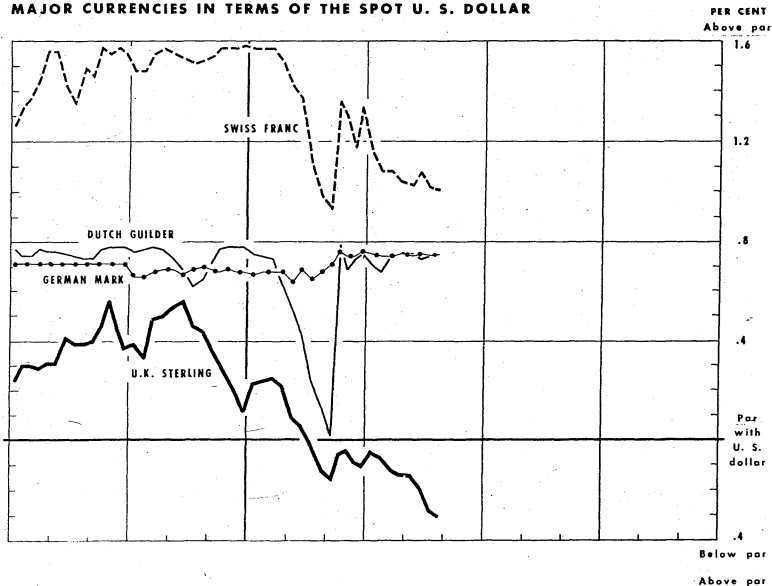


Chart 9

3-MONTH FORWARD RATES - LONDON QUOTATIONS

