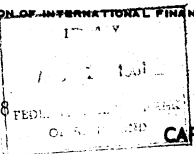


Capital Market Developments Abroad

H.13

No. 18



July 31, 1961

CAPITAL MARKET DEVELOPMENTS ABROAD

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

I. Japan: Money and Capital Markets During June

On July 22 the Bank of Japan raised its basic discount rate from 6.570 to 6.935 per cent per annum, thus restoring the rate to the level existing prior to January 26. This action was taken primarily to arrest the deterioration in the balance of payments, which has been evident for several months, and to curb the heavy capital investment in plant and equipment which reportedly has been running about 40 per cent above levels a year earlier. Commercial bank lending rates were increased in correspondence with the increase in the discount rate. Earlier in July banks and insurance companies agreed to a government request to reduce by 10 per cent during the current fiscal year proposed capital investment loans to major industries.

The deterioration in the balance of payments has been caused by rapidly rising imports, a leveling off in exports in the first half of the year, and a tapering off in the inflow of foreign capital. In the first half of the year the current account deficit was \$582 million compared to \$79 million in the same period last year.

On June 27 the government eased the restrictions on non-residents desiring to purchase various types of government bonds, notes and bank debentures. Previously foreigners were unable to invest in many of these securities. This step represents a further liberalization of Japan's overseas capital transactions.

Money Market. Several factors contributing to tighter money market conditions in June led the Bank of Japan to expand its loans and discounts to a new all-time high. A seasonal treasury surplus withdrew ¥ 78 billion from circulation and the balance of payments deficit an additional ¥ 18 billion. Bank liquidity was reduced as note issue increased significantly by ¥ 91 billion reflecting mid-year bonus payments by business firms. Offsetting these tightening factors was a ¥ 193 billion increase in Bank of Japan loans and discounts. At the end of June, the Bank's loans and discounts totaled ¥ 788 billion, a new all-time high. Conditions are expected to ease somewhat in July, usually a month of net treasury outpayments to the public.

Bond Market. New issues of industrial debentures in April and May totaled ¥ 22 and ¥ 26 billion, respectively, compared to average monthly issues of ¥ 77 billion in the first quarter and ¥ 18 billion in the fourth

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quarter of 1960. Issues of bank debentures in May were ¥ 50 billion, the same as in April, and down about ¥ 7 billion from the first quarter average. New issues of public corporation debentures were ¥ 15 billion in May, up ¥ 4 billion from the April level. Sales of open-end bond investment trusts are reported to have eased since the reduction in debenture interest rates in April.

Interest Rates. In the week following the increase in the Bank of Japan discount rate on July 22, commercial banks raised their prime lending rates, thus reversing for the time being the government's drive to reduce the structure of interest rates which began last January. Bank deposit rates are not expected to change. In line with the increase in the basic discount rate, which is partly aimed at reducing the balance of payments deficits, the discount rate on export bills was lowered on July 22 from 4.75 to 4.38 per cent in order to stimulate Japan's generally stagnant exports. The average interest rate for all commercial banks on loans and discounts fell slightly in April to 7.91 per cent, thus continuing the decline which began last August.

Average Monthly Interest Rate on
Bank Loans and Discounts

	<u>1958</u>	<u>1959</u>	<u>1960</u>	<u>1961</u>
March	8.63	8.18	8.21	7.92
June	8.61	8.08	8.22	7.91 ^{1/}
September	8.41	8.06	8.14	
December	8.27	8.11	8.08	

^{1/} April 1961.

Bank Loans and Discounts. Bank credit expanded at a faster rate in April and May than a year earlier. Expansion of loans and bills discounted in the past year, as indicated below, has been at about the same rate as deposit expansion. The proportion of loans for the purpose of financing investment in capital equipment was about the same in April and May as earlier in the year, following a dip in March.

Commercial Banks: Change in Deposits and Principal Assets
(In billions of yen)

	1957		1958		May 1959		1960	
	to 1958	%	to 1959	%	to 1960		to 1961	%
1. Deposits	+736	14.8	+954	16.8	+1,113	16.7	+1,746	22.5
2. Main Assets								
Loans	+718	25.0	+571	15.9	+ 676	16.2	+1,105	22.8
Bills Discounted	+156	11.1	+270	17.3	+ 431	23.5	+ 524	23.1
Securities	+170	24.7	+205	23.9	+ 271	25.5	+ 361	27.0
Total	1,044		1,046		1,378		1,990	

Stock Market. Stock prices continued to move up in June and July, but dropped 2.5 per cent on July 21 in connection with the Bank of Japan increase in its basic discount rate. Thereafter some of the lost ground was recovered but by July 26 the average had slipped back to the July 21 level. After falling in the last half of May, the market began to rise on June 8, the day after the highly successful issue of 2 million shares of the Sony Corporation in New York under the American Depository Receipts system. On July 12 the Dow Jones average passed the ¥ 1,800 mark, a new postwar high and reached its latest peak of ¥ 1,830 million July 18.

**Dow Jones Average of 225 Stocks
Tokyo Stock Exchange**

May 31	¥ 1,679	July 5	¥ 1,778	1960 High	¥ 1,357
June 7	1,580	12	1,806	Low	¥ 869
14	1,619	19	1,804		
21	1,677	26	1,774	1961 High	¥ 1,830
28	1,735			Low	¥ 1,367

Foreign Exchange. The substantial deficits in the balance of payments in June and July contributed to a continued weakening of the yen in the forward exchange market. During June and the first half of July the forward discount of the yen against the dollar increased steadily, rising from 0.89 per cent per annum early in June to 1.44 per cent by mid-July. Throughout this period the spot selling rate of dollars for yen remained at the extreme official limit.

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

Date	Yen-dollar		3-month		Forward discount in per cent per annum
	spot	middle rate	forward	middle rate	
June 2	361.10		361.90		0.89
9	361.10		361.90		0.89
16	361.10		361.95		0.94
23	361.10		362.10		1.11
30	361.10		362.10		1.11
July 7	361.10		362.20		1.22
14	361.10		362.40		1.44

Far Eastern Section.

II. Nine Charts on Financial Markets Abroad

- Chart 1 - Interest Arbitrage U.S./Canada
- Chart 2 - Interest Arbitrage New York/London
- Chart 3 - Interest Arbitrage New York/Frankfurt
- Chart 4 - Interest Arbitrage Frankfurt/London
- Chart 5 - Short-term Bond Yields
- Chart 6 - Long-term Bond Yields
- Chart 7 - Industrial Stock Indices
- Chart 8 - Major Currencies in Terms of
Spot United States Dollar
- Chart 9 - 3-month Forward Rate--London Quotations

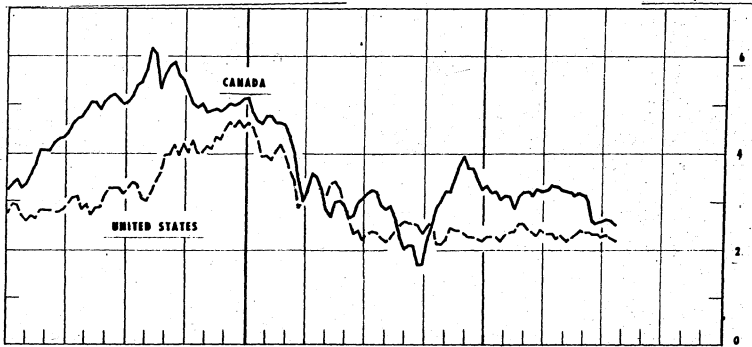
Chart 1

INTEREST ARBITRAGE, UNITED STATES / CANADA

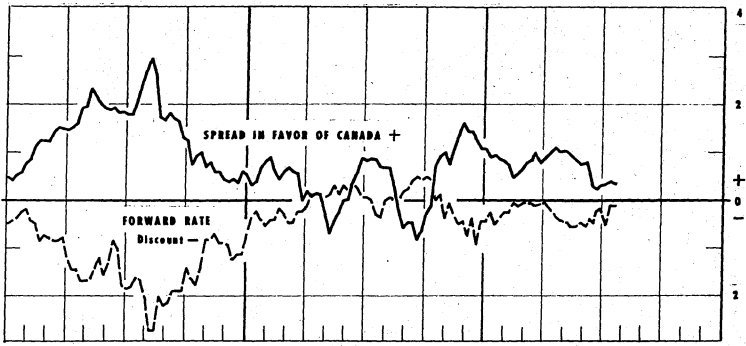
Thursday figures

THREE-MONTH TREASURY BILL RATES

Per cent per annum



RATE DIFFERENTIAL AND FORWARD CANADIAN DOLLAR



RATE DIFFERENTIAL WITH FORWARD EXCHANGE COVER

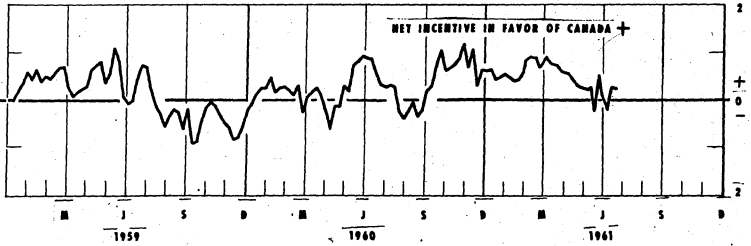
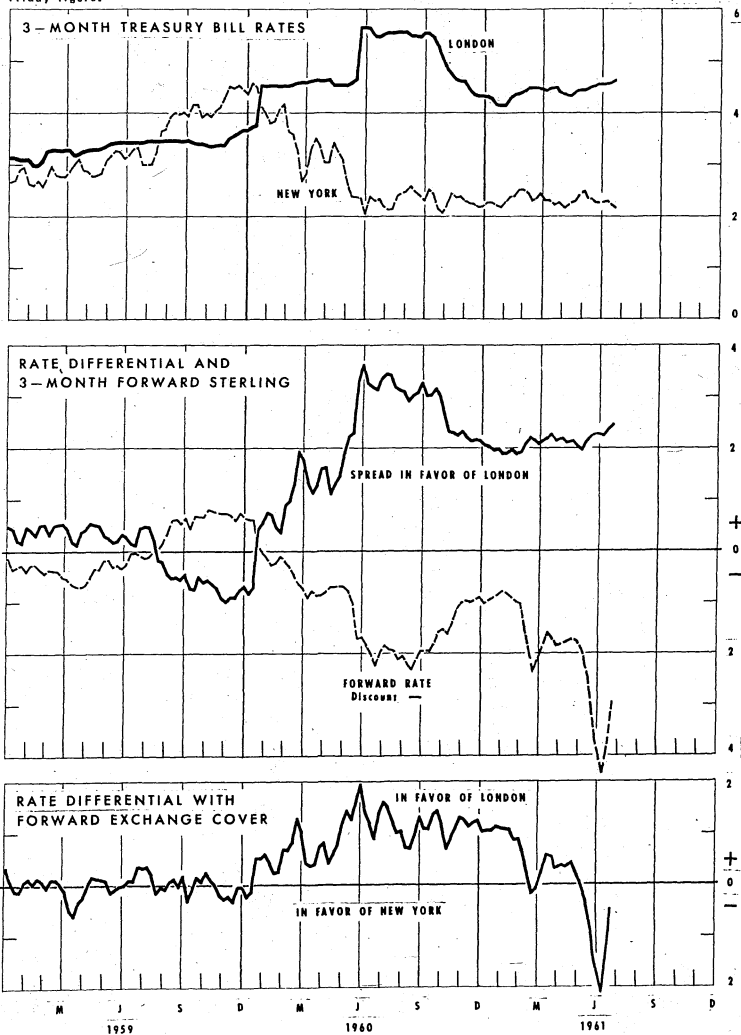


Chart 2

INTEREST ARBITRAGE, NEW YORK / LONDON

Friday figures

Per cent per annum

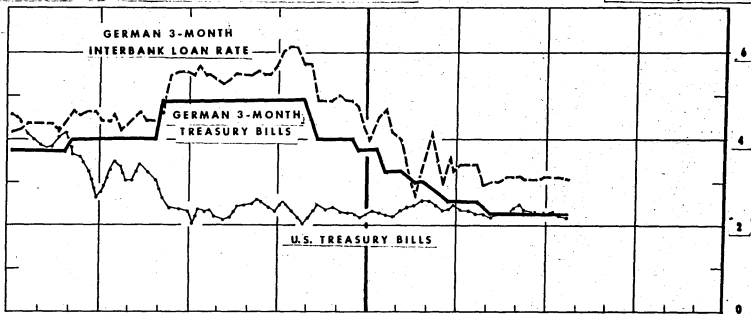


INTEREST ARBITRAGE, NEW YORK/FRANKFURT

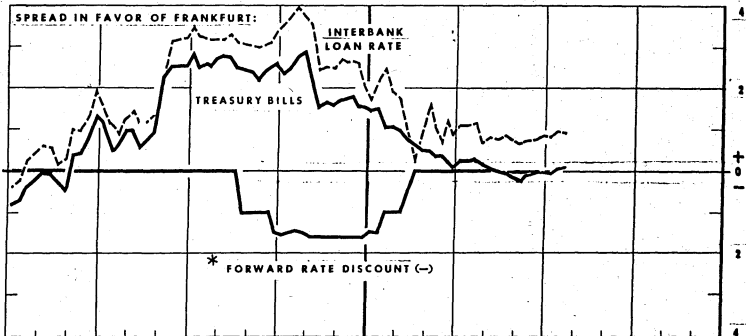
Friday figures

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

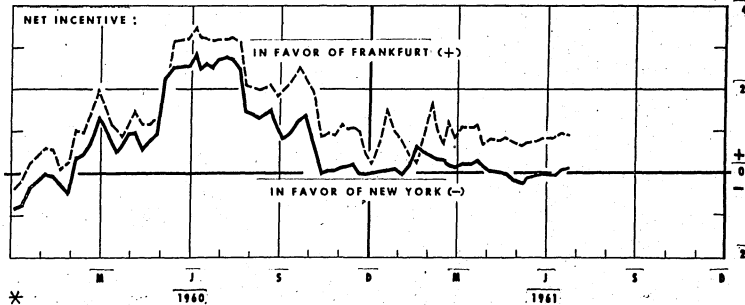
Per cent per annum



RATE DIFFERENTIAL AND FORWARD DEUTSCHE MARK



RATE DIFFERENTIAL WITH FORWARD EXCHANGE COVER



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

Chart 4

INTEREST ARBITRAGE, FRANKFURT/LONDON

Friday figures

Per cent per annum

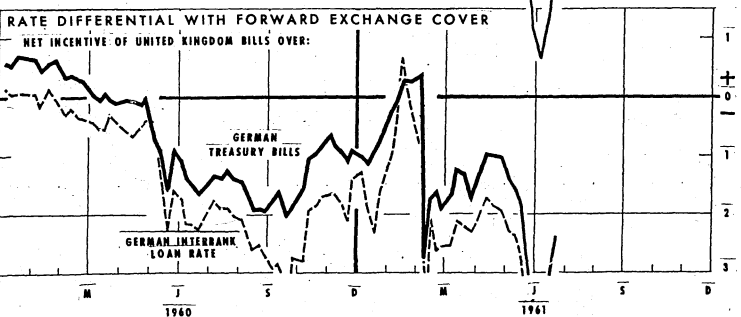
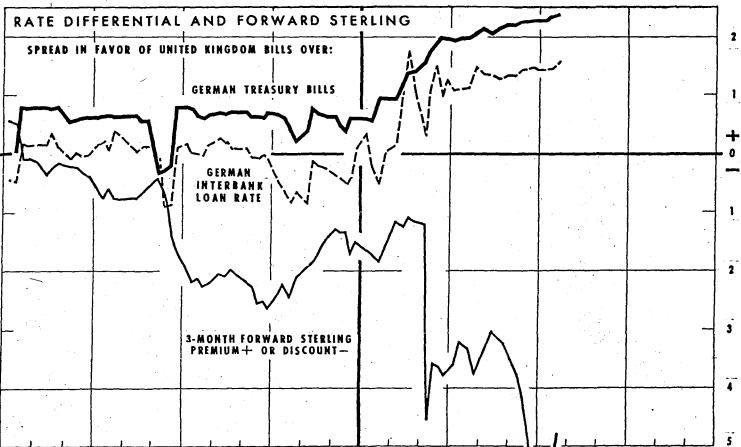
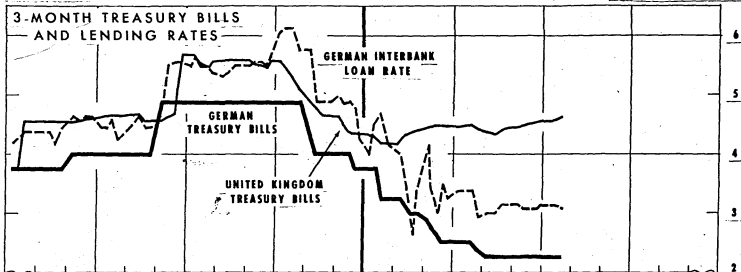
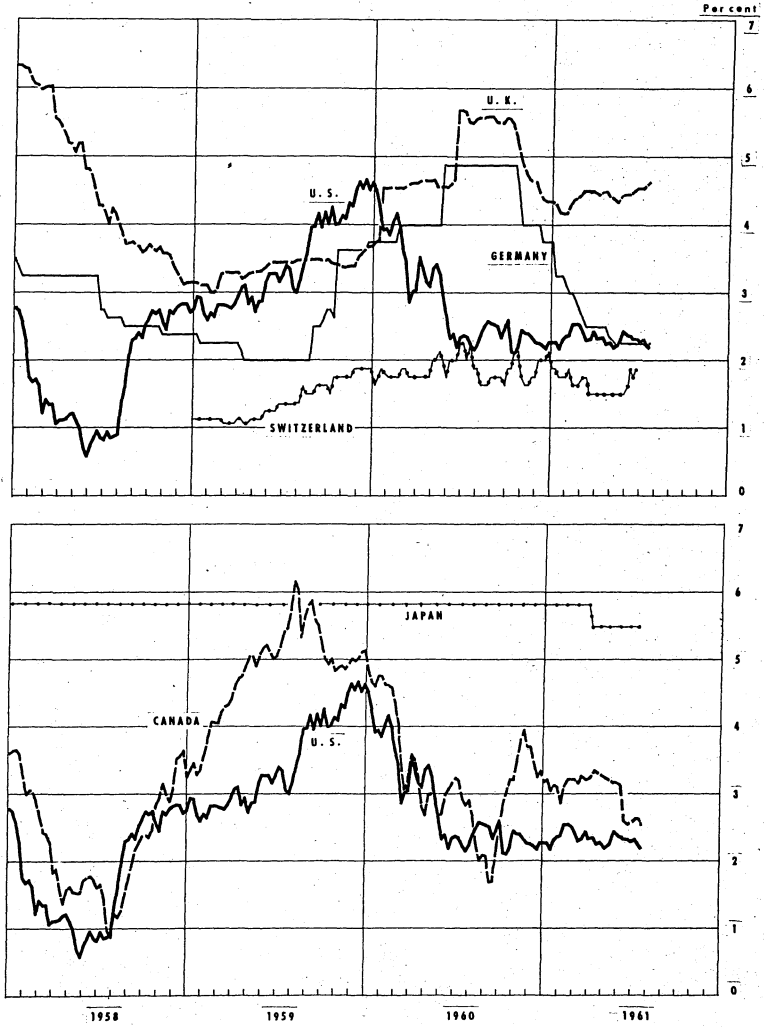


Chart 5

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 6

LONG-TERM BOND YIELDS

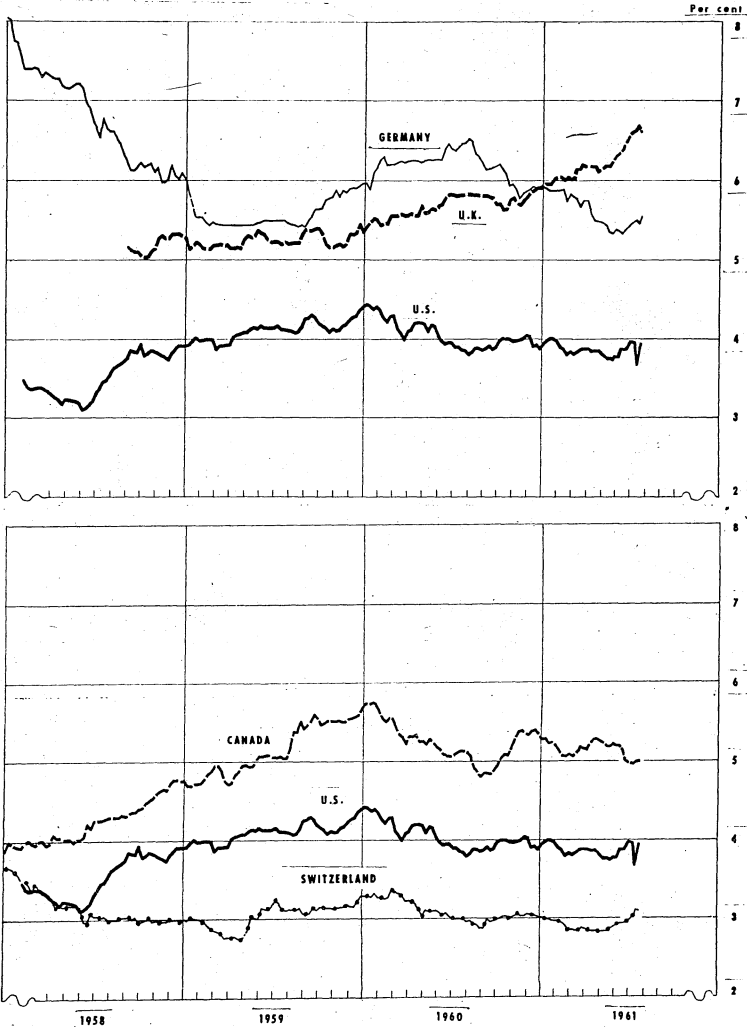
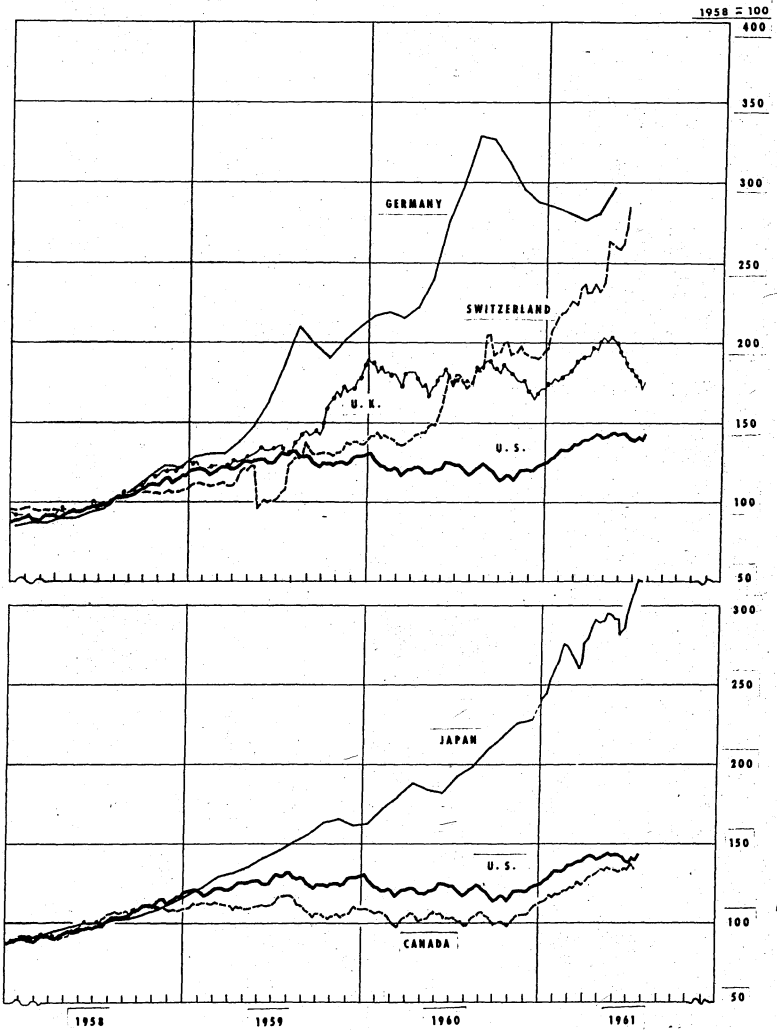


Chart 7

INDUSTRIAL STOCK INDICES *



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

Chart 8

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

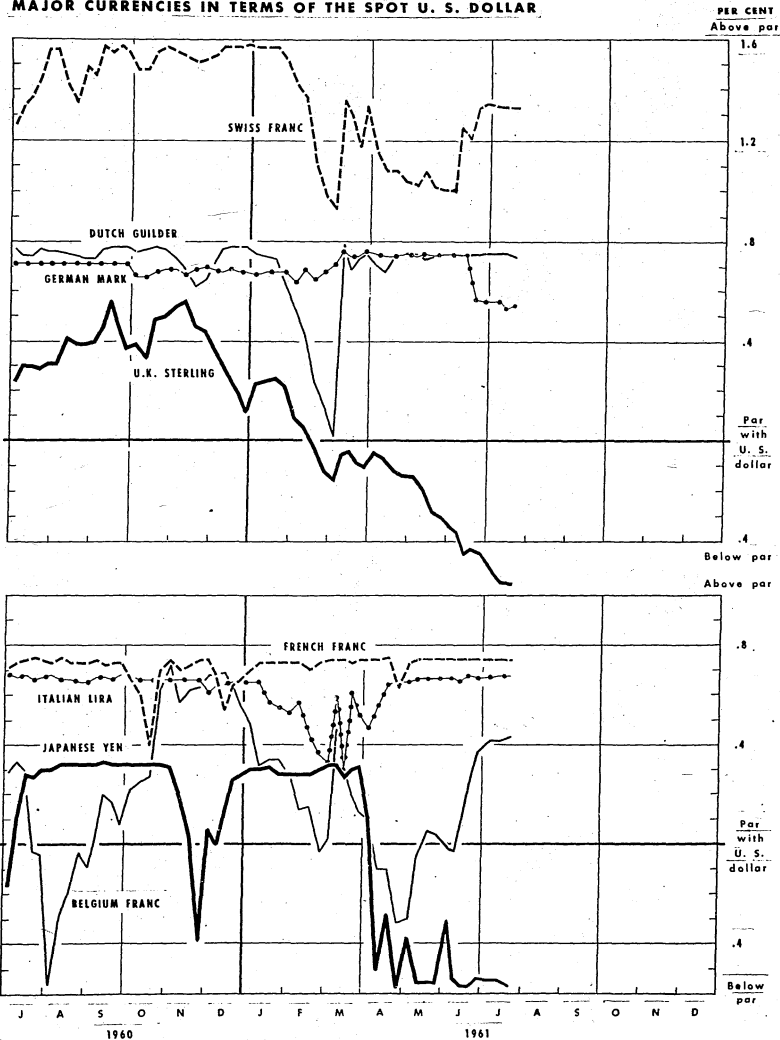


Chart 9

3-MONTH FORWARD RATES - LONDON QUOTATIONS

