

H.13
No. 28

October 6, 1961

CAPITAL MARKET DEVELOPMENTS ABROAD

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

I. Japan: Money and Capital Markets During August

On September 29, the Bank of Japan raised its basic discount rate from 6.935 to 7.3 per cent, increased its penalty discount rates, and raised commercial bank reserve requirements in order to restrain buoyant domestic demand and halt the deterioration in the balance of payments. Only two months earlier on July 22 the Bank had raised the discount rate from 6.570 to 6.935 per cent. The authorities had also taken other actions. In July, banks were asked to cut back their loans for equipment investment 10 per cent; on September 1, banks were authorized to accept export usance bills with terms up to five months rather than three months; and on September 18, advance import deposit requirements, which previously had not exceeded 1 per cent, were increased to as high as 35 per cent for imports of consumer durables. The Bank of Japan's most recent actions indicate that the authorities now consider these earlier measures to have been insufficient to restore balance in the international accounts.

In August there were several signs of further deterioration in the economy. The drain in international reserves, which began last May, was intensified as rising imports and reduced capital inflow contributed to a \$116 million drop in reserves. A further drop of \$111 million in September reduced reserves to \$1,610 million. Bank of Japan credit accommodation to commercial banks rose to a new all-time high in August, more than double the level of last January. The stock market fell off in August and September to a level about 20 per cent below the July level.

While the money market remained tight in August, the latest increase in the discount rate is likely to tighten money and capital markets further. Commercial banks are expected to increase their lending rates early in October in line with the increase in the discount rate.

Money Market. A high level of net Treasury receipts contributed to somewhat tighter money market conditions in August than in July. Higher call loan rates reflected this increased tightness. The August Treasury surplus was ¥133 billion and foreign exchange operations withdrew an additional ¥33 billion from circulation. Offsetting these contractionary forces was an ¥88 billion expansion in Bank of Japan loans and discounts, and a decrease of ¥35 billion in note issue in circulation, both helping to increase bank liquidity. The Bank of Japan is also reported to have purchased ¥50 billion in government-guaranteed debentures from commercial banks in order to cushion the effects of the large Treasury surplus. The banks have agreed to repurchase these debentures by the end of November.

NOT FOR PUBLICATION

DECONTROLLED AFTER SIX MONTHS

Bond Market. Reduced new issues of public corporate debentures contributed to a lower volume of total new issues of debentures in July. From a level of ¥93 billion in June, the total fell to ¥87 billion in July. Issues of bank and industrial debentures, at ¥55 billion and ¥22 billion in July, respectively, were relatively unchanged from the June level. New issues of public corporate debentures fell from ¥16 billion in June to ¥10 billion in July.

On October 3, a \$20 million bond issue offered by the Japan Development Bank in the United States was oversubscribed. The proceeds will be used to finance the construction of private electric utility facilities in Japan. Issued in four lots, the offering ranged from \$1.6 million of three-year, 5 per cent bonds to \$15 million of fifteen-year, 6 per cent bonds. One day earlier the Mitsubishi Chemical Industries, Ltd., placed privately in this country a \$4.4 million issue of dollar promissory notes due in October 1971 and a \$2.0 million issue of capital stock.

Interest Rates. The average interest rate for all commercial banks on loans and discounts, which had been declining from the July 1960 peak of 8.22 per cent, rose slightly in July this year to 7.99 per cent. This reversal in the trend reflected the increase in the Bank of Japan's basic discount rate from 6.570 per cent to 6.935 per cent on July 22. With the latest increase in the Bank's rate to 7.3 per cent, effective September 29, the average interest rate is expected to show a further rise in October.

The average yield on local government bonds fell slightly from 7.356 per cent in June to 7.354 per cent in July, but the yields on corporate debentures rose from 7.507 to 7.513 per cent in the same period. With the two latest increases in the Bank of Japan discount rate, debentures yields are likely to rise, thus reversing the downtrend which began in the spring of this year.

There were indications in August of increased tightness in the call loan market. The highest, Tokyo call loan rate for those loans callable at a day's notice was 13.87 per cent in August compared to 12.05 per cent in July.

Average Monthly Interest Rates 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	7.88
September	8.41	8.06	8.14	7.89 1/
December	8.27	8.11	8.08	

1/ July 1961.

Bank Loans and Discounts. Although bank credit had been rising at a faster rate in the first half of this year than a year earlier, the rate of expansion in July was less than in July of 1960. Bills discounted rose 1.8 per cent compared to 2.7 per cent in July of 1960; security investments were up 1.8 per cent, slightly less than the 1.9 per cent rise a year earlier. Bank loans rose 1.3 per cent, the same as last year. The proportion of bank loans and discounts extended for equipment purchases in July was the same as in May and June. Bank deposits declined slightly in July.

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

		M A I N A S S E T S						
		Per cent	Per cent		Per cent	Per cent		
		change	Loans	change	Bills Discounted	change	Securities	change
		Deposits						
1959	I	+201	+143	3.6	+ 21	1.2	+ 51	5.2
	II	- 22	+ 83	2.0	+ 86	4.9	+ 62	6.1
	III	+276	+136	3.2	+149	8.1	+ 58	5.3
	IV	+475	+207	4.7	+169	8.5	+ 66	5.8
1960	I	+249	+176	3.8	+ 54	2.5	+ 78	6.5
	II	+ 96	+167	3.5	+ 87	3.9	+ 75	5.8
	July	+ 76	+ 63	1.3	+ 61	2.7	+ 26	1.9
	III	+506	+244	4.9	+172	7.5	+ 35	2.6
IV	+607	+347	6.7	+185	7.5	+127	9.1	
1961	I	+502	+326	5.9	+ 48	1.8	+103	6.8
	II	+169	+206	3.5	+133	4.9	+104	6.4
	July	- 61	+ 80	1.3	+ 51	1.8	+ 31	1.8

Stock Market. The stock market continued its general downtrend in August and the first half of September. During the last half of the month the stock price averages remained at about the same level. From a high of ¥1,830 on July 18, the average fell 19 per cent to ¥1,482 on September 18. The continued balance of payments deficits appear to be the main factor accounting for the decline.

Japan opened its second stock market in Tokyo, Osaka, and Nagoya on October 2. The issues listed on this exchange include those of small companies not previously listed on the first stock exchange and new Japanese companies.

Dow Jones Average of 225 Stocks
Tokyo Stock Exchange

July	26	¥ 1,774	August	30	¥ 1,615	1960	High	¥ 1,357
August	2	1,764	September	6	1,545		Low	¥ 869
	9	1,673		13	1,546			
	16	1,739		20	1,509	1961	High	¥ 1,830
	23	1,685		27	1,500		Low	¥ 1,367

Foreign Trade. A sharp expansion in imports in August contributed to an increase in the trade deficit as exports rose only slightly. The monthly averages of seasonally adjusted trade figures (in millions of dollars) detailed below, indicate that the deficit rose from \$119 million in July to \$179 million in August.

		<u>Exports</u>	<u>Imports</u>	<u>Trade Balance</u>
1960		337	375	- 38
1961	I	344	420	- 76
	II	351	466	-115
	April	364	442	- 78
	May	339	472	-133
	June	351	484	-133
	July	358	477	-119
	August	363	542	-179

Foreign Exchange. Except for a slight easing early in September in the three-month forward selling rate, the yen continued to remain under pressure in August and the first half of September as the loss of international reserves continued. The spot selling rate of dollars for yen during this period was at the extreme official limit, unchanged from the level since late April. The forward discount of the yen against the dollar remained at 1.55 per cent per annum in August but eased slightly to 1.44 per cent early in September as the three-month forward selling rate dropped back to the level of late July.

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

<u>Date</u>	<u>Yen-dollar</u>	<u>3-month</u>	<u>Forward discount</u>
	<u>spot middle rate</u>	<u>forward middle rate</u>	<u>in per cent per annum</u>
August 4	361.10	362.50	1.55
11	361.10	362.50	1.55
18	361.10	362.50	1.55
25	361.10	362.50	1.55
September 1	361.10	362.50	1.55
8	361.10	362.40	1.44
15	361.10	362.40	1.44

Far Eastern Section.

II. Nine Charts on Financial Markets Abroad

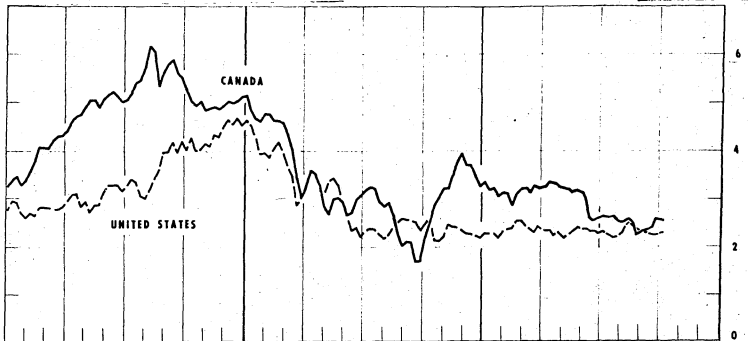
- Chart 1 - Interest Arbitrage U.S./Canada
- Chart 2 - Interest Arbitrage New York/London
- Chart 3 - Interest Arbitrage New York/Frankfurt
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- Chart 5 - Short-term Yields
- Chart 6 - Long-term Yields
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Spot United States Dollar
- Chart 9 - 3-month Forward Rate--London Quotations

INTEREST ARBITRAGE, UNITED STATES / CANADA

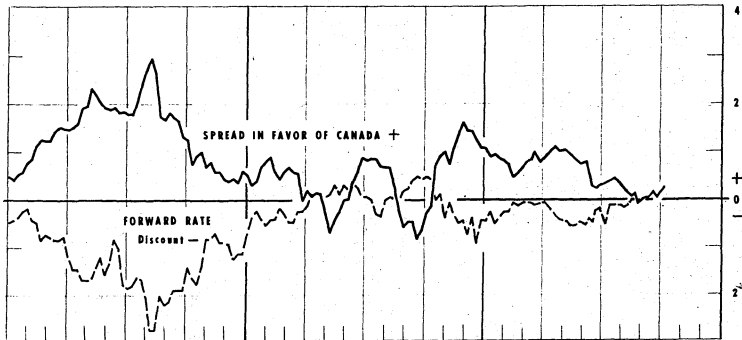
Thursday figures

THREE-MONTH TREASURY BILL RATES

Per cent per annum



RATE DIFFERENTIAL AND FORWARD CANADIAN DOLLAR



RATE DIFFERENTIAL WITH FORWARD EXCHANGE COVER

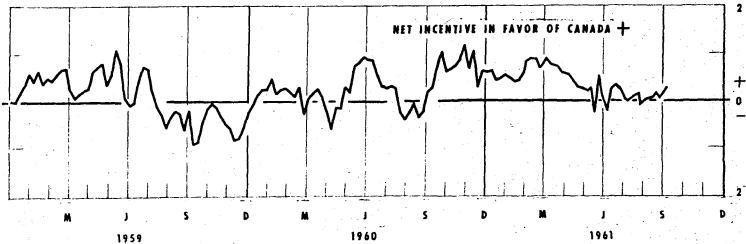
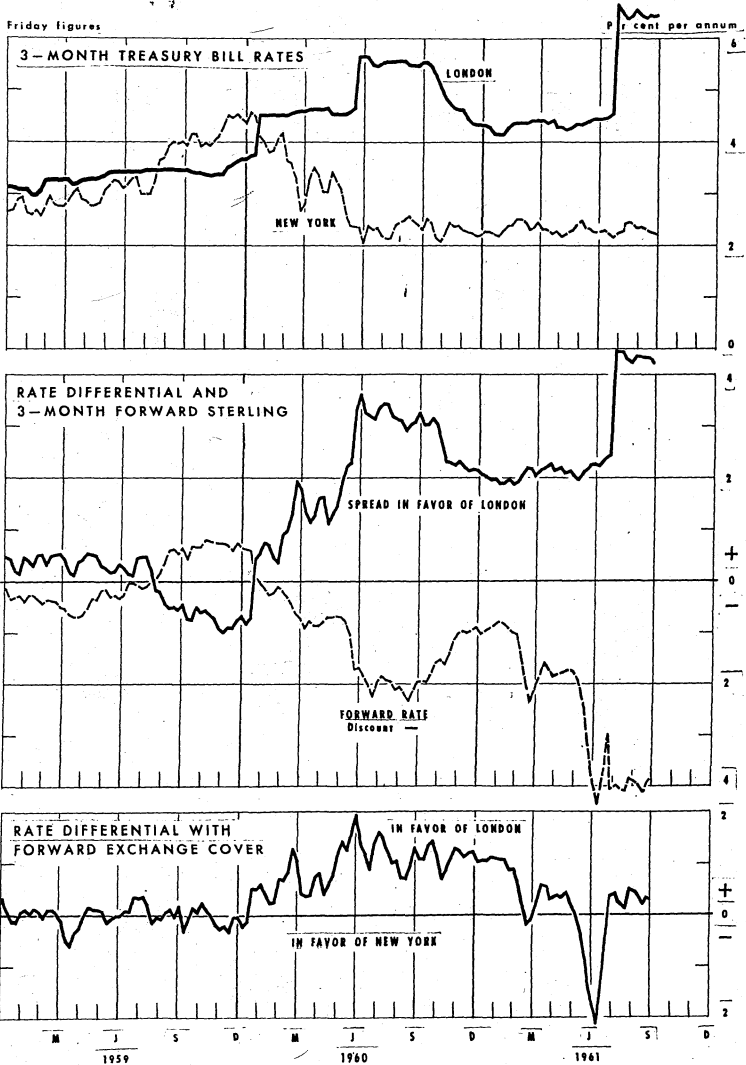


Chart 2

INTEREST ARBITRAGE, NEW YORK / LONDON

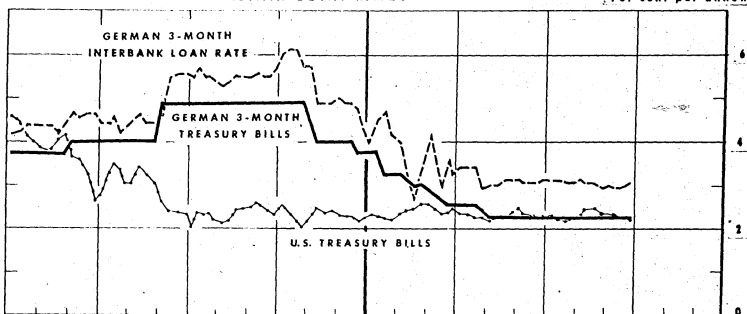
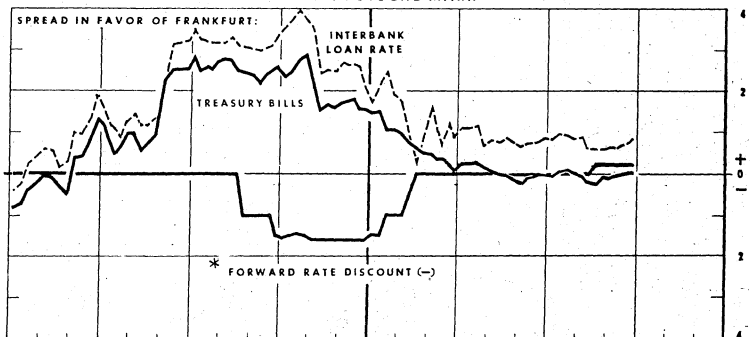
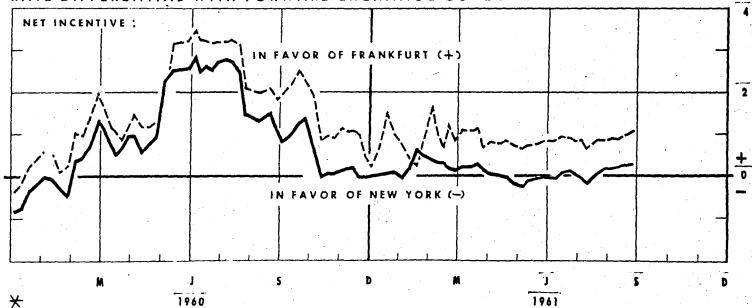


INTEREST ARBITRAGE, NEW YORK/FRANKFURT

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**

* Special forward dollar rate available to German commercial banks

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Chart 4

INTEREST ARBITRAGE, FRANKFURT/LONDON

Friday figures

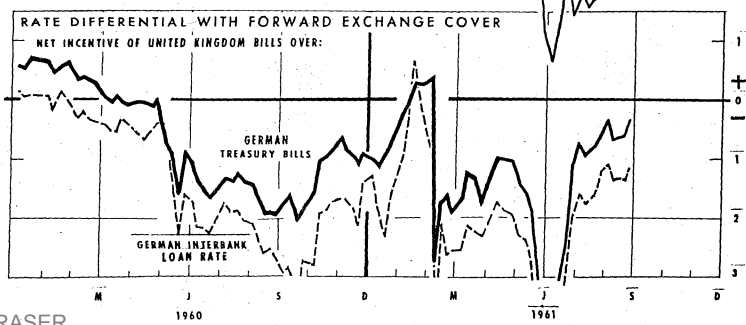
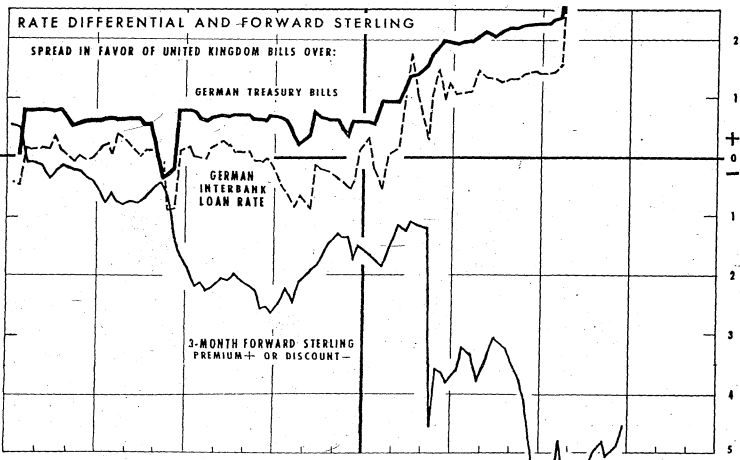
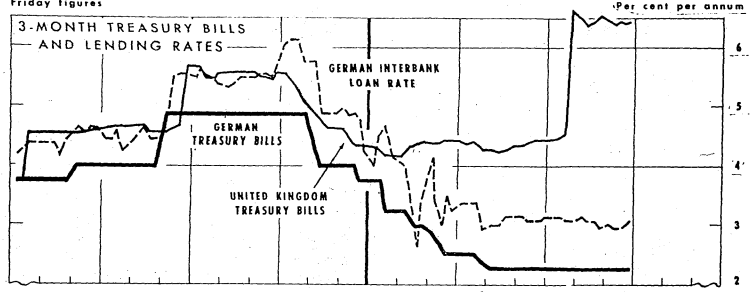
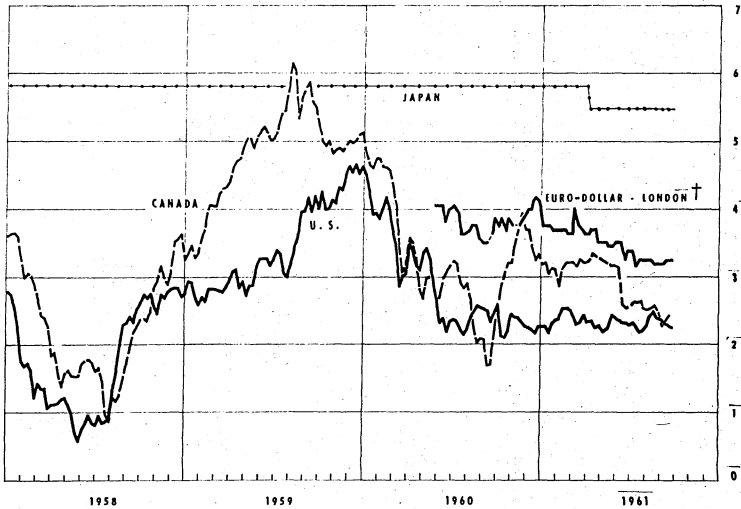
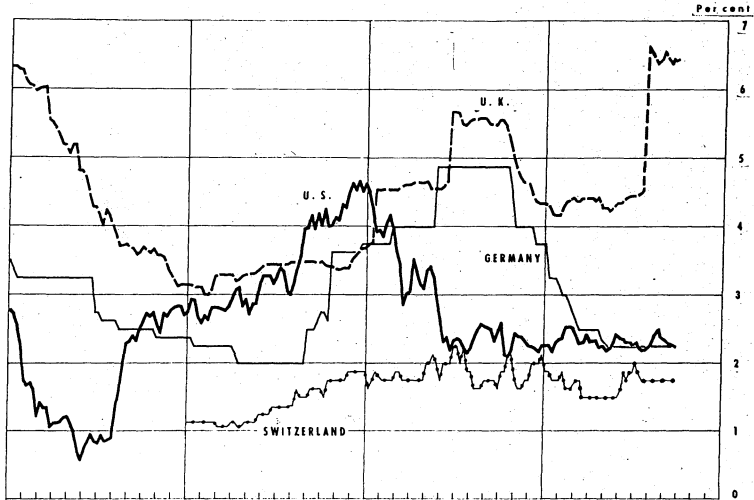


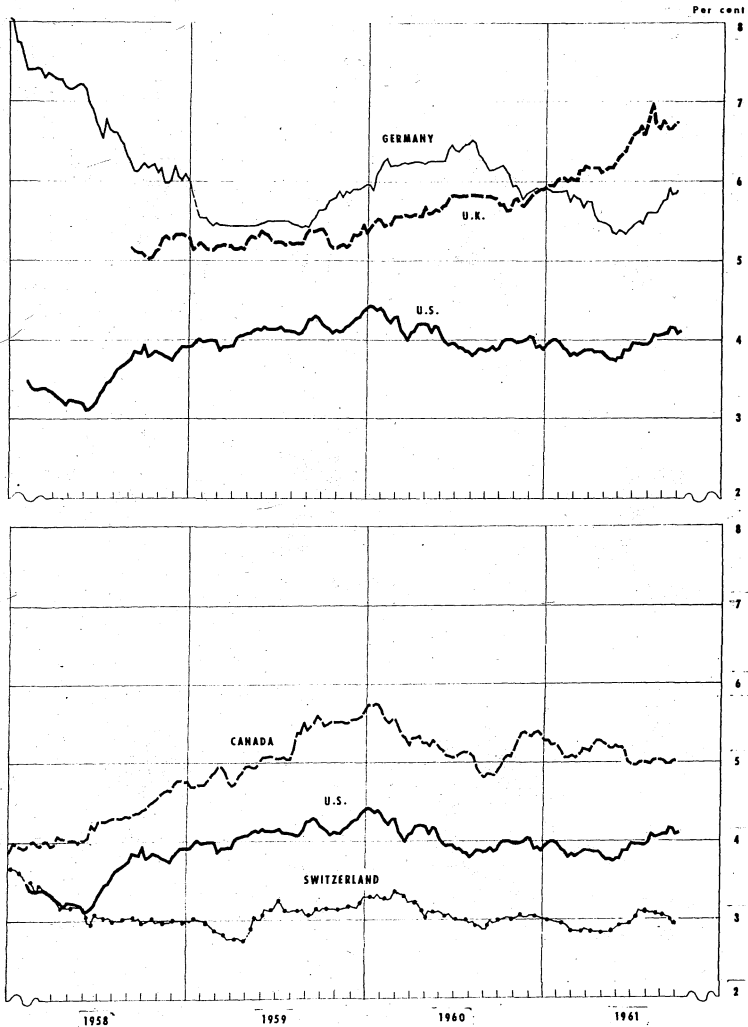
Chart 5
SHORT-TERM INTEREST RATES *



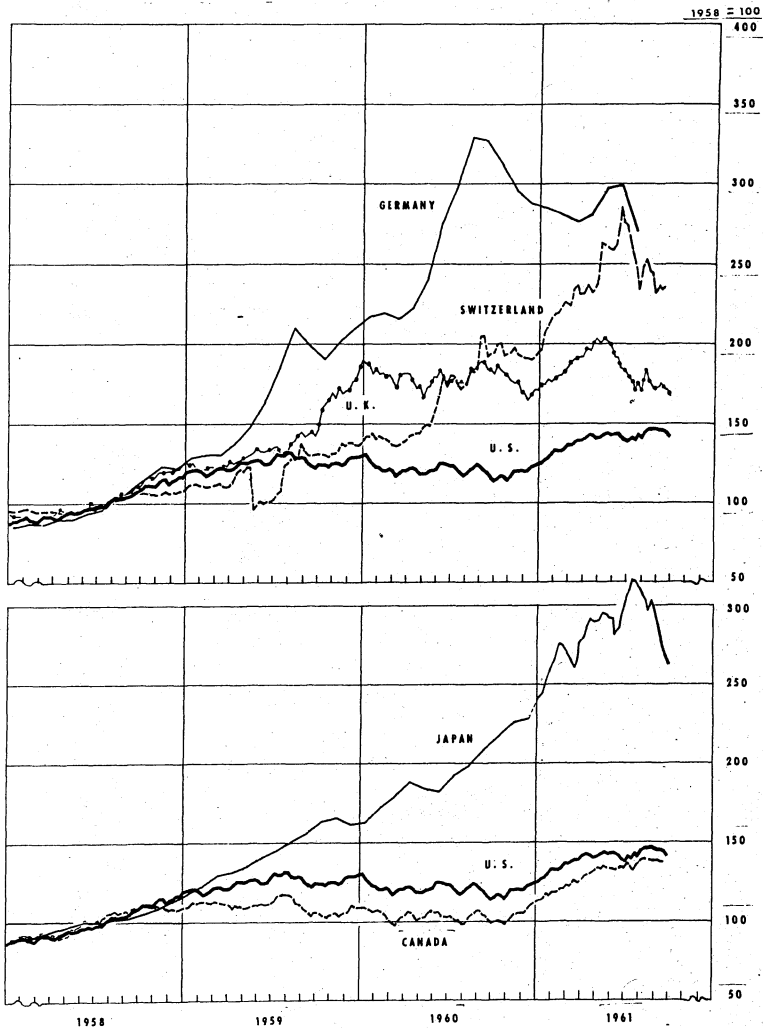
* 3 month treasury bill rates for all countries except Japan (1 month interbank deposit rate) and Switzerland (3 month deposit rate)
 † 3 month rate for U.S. dollar deposits in London

Chart 6

LONG-TERM BOND YIELDS



INDUSTRIAL STOCK INDICES *



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

Chart 8

MAJOR CURRENCIES IN TERMS OF THE SPOT U. S. DOLLAR¹

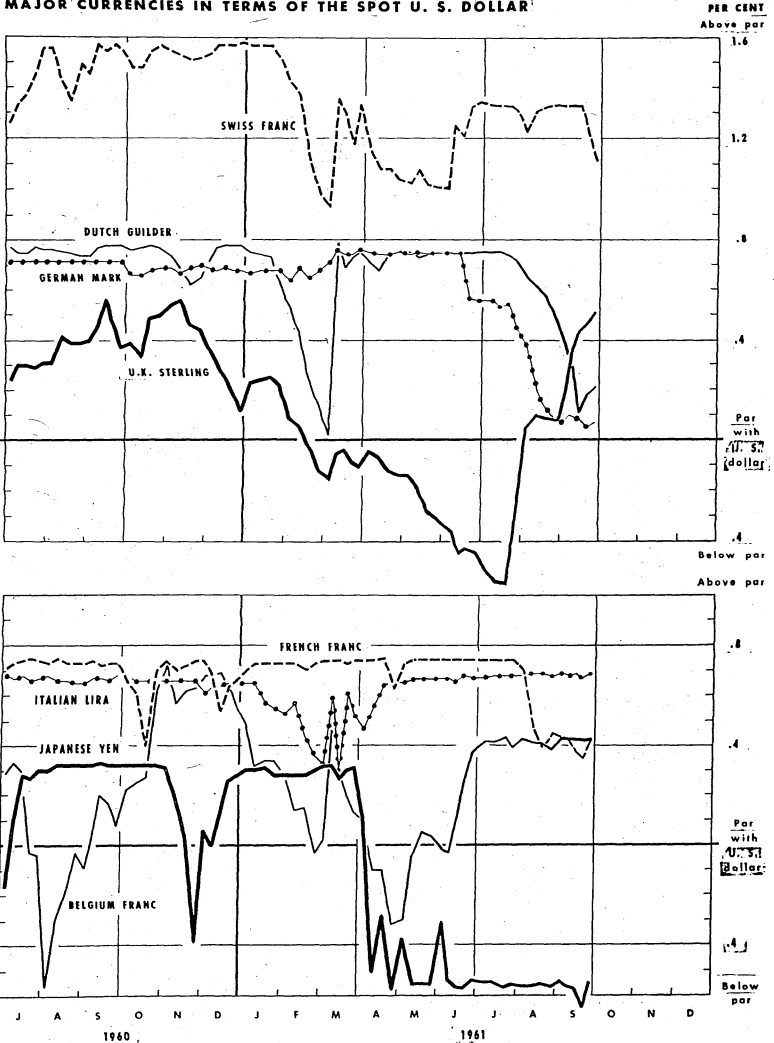


Chart 9

3-MONTH FORWARD RATES - LONDON QUOTATIONS

