

H. 13

No. 32

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CAPITAL MARKET DEVELOPMENTS ABROAD

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

I. Japan: Money and Capital Markets During September

The Japanese authorities took further steps in September to halt the deterioration in the balance of payments. 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 addition, on October 4 the Japanese government asked the steel industry to cut back its current investment plans by 5 per cent.

During September and October, the pressure on the balance of payments continued strong but there were some signs that corrective forces were taking effect. International reserves dropped \$111 million in September and \$104 million in October to \$1,506 million. The capital account in the balance of payments, which has been in surplus for several years, registered a deficit of \$3 million in August and of \$28 million in September. However, the September deficit on current account was the lowest in five months and the seasonally adjusted import surplus was also reduced. There are also signs that the expansion of credit in recent months has been slower than a year earlier. Money and capital markets continued to remain tight in September.

The balance of payments deficits have been a major factor in a sharp decline in stock market prices. Between July 18 and October 23, stock prices declined 29 per cent.

To ease the pressure on international reserves, Japan is seeking to obtain \$200 million in one-year credits from three American banks. It was recently announced that negotiations have been successful and an agreement will be signed in November.

Money Market. Bank of Japan loans and discounts expanded to a new all-time high in September. This expansion more than counteracted the reduction in bank liquidity due to net Treasury receipts and an expansion in note issue. Reflecting this net easing, call market loan rates remained relatively unchanged from August levels. While the Treasury deficit in September was ¥4 billion, foreign exchange operations by the Treasury withdrew ¥30 billion from circulation and bank note expansion of ¥23 billion also decreased bank liquidity. These contractionary factors were more than offset by an expansion of ¥56 billion in Bank of Japan loans and discounts to a new all-time high of ¥1,027 billion. A year earlier Bank of Japan loans and discounts totaled ¥451 billion.

NOT FOR PUBLICATION

DECONTROLLED AFTER SIX MONTHS

Interest Rates. The average interest rate for all commercial banks on loans and discounts rose substantially from 7.89 per cent in July to 7.96 per cent in August. This rise reflected the increase in the Bank of Japan's discount rate on July 22 from 6.57 to 6.935 per cent. This latest rise in the average rate thus reverses the downtrend that began in August of 1960 and reached a low in June 1961. With the further increase in the discount rate on September 29 from 6.935 to 7.3 per cent and a subsequent upward adjustment of commercial bank lending rates on October 4, the average rate is expected to rise further in September and October.

The average yield on local government bonds rose from 7.330 in July to 7.354 per cent in August, thus reversing the downtrend which began in the spring of this year. Rates for other debentures were unchanged in August, except the corporate debentures rate which dropped from 7.526 per cent in July to 7.512 per cent in August.

The highest, Tokyo call loan rate for those loans callable at a days notice remained at 13.87 per cent, unchanged from the August level.

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	7.96 <u>1/</u>
December	8.27	8.11	8.08	

1/ August 1961.

Bank Loans and Discounts. The rate of total bank credit expansion in July-August was 2.5 per cent, somewhat less than the 2.8 per cent a year earlier. This reverses the trend in the first half of this year when bank credit rose at a faster rate than a year earlier. This slowing down in the rate of expansion probably reflects in part the increase in the Bank of Japan's basic discount rate in July. Bank loans in July-August were up only 2.5 per cent compared with a 3.2 per cent rise in the same period of 1960. Bills discounted and security holdings, however, both rose more in July-August than a year earlier. Deposits rose in August, but were still slightly below the end of June level. The proportion of bank loans and discounts extended for equipment purchases rose further in August to a level of 17 per cent compared to 16.5 per cent a year earlier.

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

	Deposits	Per cent change	M A I N A S S E T S					Per cent change
			Loans	Per cent change	Bills Discounted	Per cent change	Securities	
1959 I	+201	3.1	+143	3.6	+ 21	1.2	+ 51	5.2
II	- 22	-0.3	+ 83	2.0	+ 86	4.9	+ 62	6.1
III	+276	4.1	+136	3.2	+149	8.1	+ 58	5.3
IV	+475	6.8	+207	4.7	+169	8.5	+ 66	5.8
1960 I	+249	3.4	+176	3.8	+ 54	2.5	+ 78	6.5
II	+ 96	1.3	+167	3.5	+ 87	3.9	+ 75	5.8
July-Aug	+166	2.1	+160	3.2	+ 77	3.3	-	-
III	+506	6.5	+244	4.9	+172	7.5	+ 35	2.6
IV	+607	7.3	+347	6.7	+185	7.5	+127	9.1
1961 I	+502	5.7	+326	5.9	+ 48	1.8	+103	6.8
II	+169	1.8	+206	3.5	+133	4.9	+104	6.4
July-Aug	- 2	-0.02	+151	2.5	+101	3.6	+ 13	0.8

Bond Market. A high volume of new issues of public corporation debentures in August boosted the total volume of debenture issues for the month to ¥100 billion, considerably above the July level of ¥87 billion. New issues of public corporation debentures rose from ¥10 billion in July to ¥17 billion in August. New issues of bank and industrial debenture issues in August were ¥57 and ¥26 billion, respectively, slightly higher than in July. Monthly industrial debenture issues since March have averaged ¥24 billion compared to an average of ¥77 billion in the first quarter when the new bond investment trusts increased market demand.

Stock Market. Since July 18 when the Dow Jones average reached a postwar high, the Japanese stock market has declined sharply with only a few brief upswings. (See Chart 7.) By October 9 the market had reached the same level as at the beginning of the year and by October 23 the average had fallen to ¥1,300 or 29 per cent below the mid-July high.

Market analysts attribute the decline to several factors. They point in particular to the deterioration in the balance of payments, the speculative excesses of the past ten months, and the large issue of new shares offered recently by Japanese companies. Other factors cited are the tight money market, the weakening position of the security houses as the value of their own holdings declines, and a general apprehension regarding the business outlook in view of the government's retrenchment measures.

Various steps have been taken by the government to ease the market situation. Effective October 10, stock margin requirements were reduced from 60 to 50 per cent and the margin value of securities pledged in lieu of cash was raised from 60 to 70 per cent. In addition, the ceiling on margin loan funds from one of the semi-official credit agencies was raised by ¥10 billion. At the end of October stock margin requirements were lowered again from 50 to 40 per cent, investment trusts were absolved from the requirement of setting aside 10 per cent of their assets as a payment reserve, and the limit of ¥20 billion on the total value of new offerings which individual investment trusts may issue between October 1, 1961 and March 31, 1962, was lifted.

In spite of the current depressed condition of the market, the United States Securities and Exchange Commission recently received a registration statement for the establishment of a new closed-end investment company called the Japan Fund, Inc. which will invest primarily in Japanese equity securities. The company, which is headed by the former president of the International Finance Corporation, Robert L. Garner, plans to offer two million shares at a price of \$12.50 per share.

Dow Jones Average of 225 Stocks
Tokyo Stock Exchange

August	30	¥ 1,615	October	4	¥ 1,420	1960	High	¥ 1,357
September	6	1,545		11	1,399		Low	¥ 869
	13	1,546		18	1,356			
	20	1,509		25	1,348	1961	High	¥ 1,830
	27	1,500	November	1	1,360		Low	¥ 1,300

Foreign Trade. While the trade deficit, seasonally adjusted, continued to remain large in September, there were some signs of improvement. Largely because of a decline in imports, the trade gap declined from \$180 million in August to \$156 million in September. According to preliminary reports, the deficit on current account dropped to \$84 million compared to an average of \$124 million in the previous four months. A net capital outflow of \$28 million in September, however, brought the overall balance of payments deficit to a postwar high of \$112 million. The monthly averages of seasonally adjusted trade figures (in millions of dollars) are detailed below.

		<u>Exports</u>	<u>Imports</u>	<u>Trade Balance</u>
1960		337	375	- 38
1961	I	344	420	- 76
	II	351	466	-115
	III	359	511	-152
	July	358	477	-119
	August	363	543	-180
	September	356	512	-156

Foreign Exchange. The continued balance of payments deficits kept foreign exchange rates at depreciated levels during September and the first half of October. From September 4 through October 14 the spot middle rate and the 3-month forward rate remained unchanged at ¥361.10 and ¥362.40 to the dollar, respectively. The forward discount of the yen against the dollar remained unchanged after September 2 at 1.44 per cent per annum. Japan's officially reported international reserves fell \$111 million in September and \$104 million in October to \$1,506 million, down \$529 million from the end of April peak.

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 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
22	361.10	362.40	1.44
29	361.10	362.40	1.44
October 6	361.10	362.40	1.44
13	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 Yields
- Chart 6 - Long-term 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

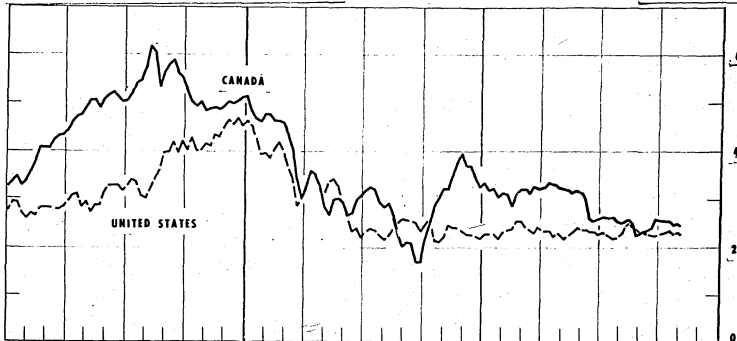
Chart 1

INTEREST ARBITRAGE, UNITED STATES / CANADA

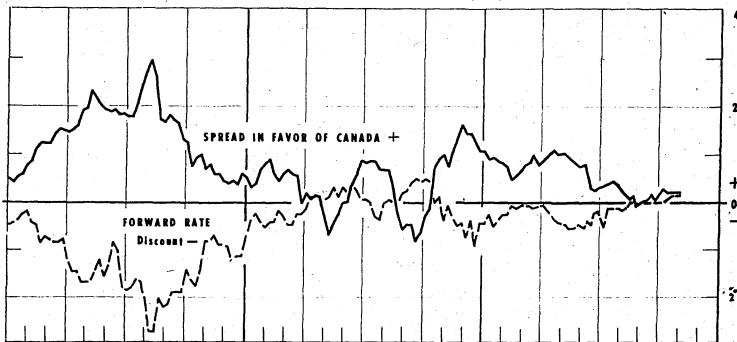
Thursday figures

THREE-MONTH TREASURY BILL RATES

Per cent per annum



RATE DIFFERENTIAL AND FORWARD CANADIAN DOLLAR



RATE DIFFERENTIAL WITH FORWARD EXCHANGE COVER

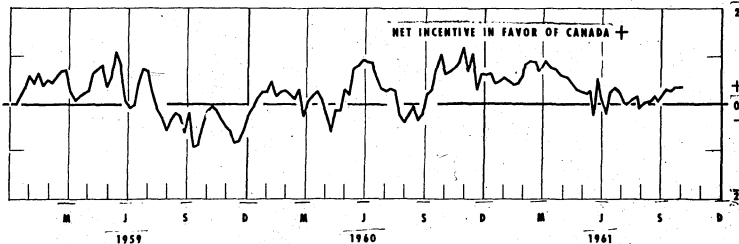
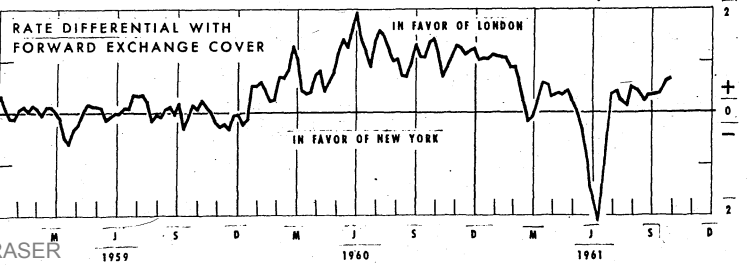
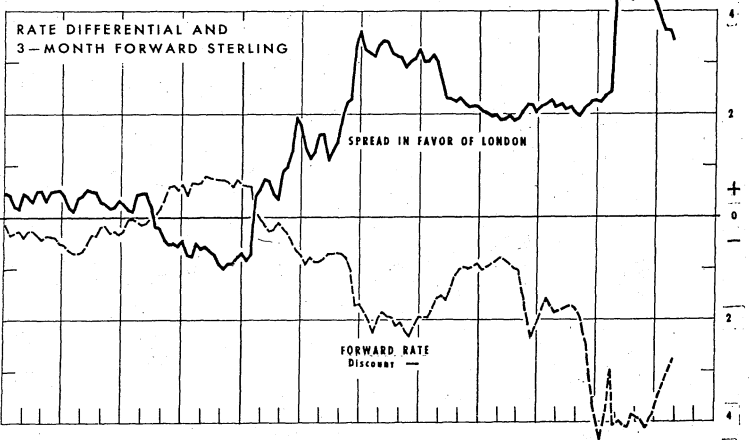
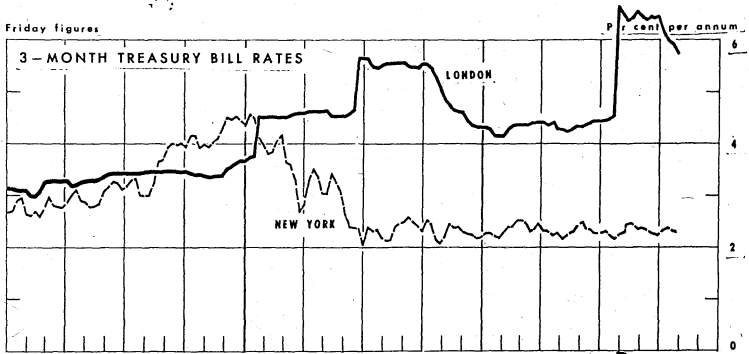


Chart 2

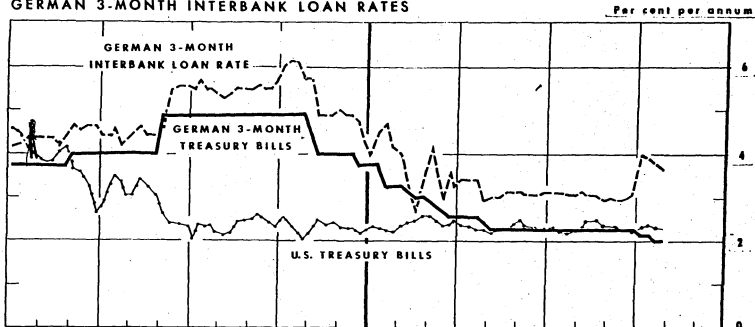
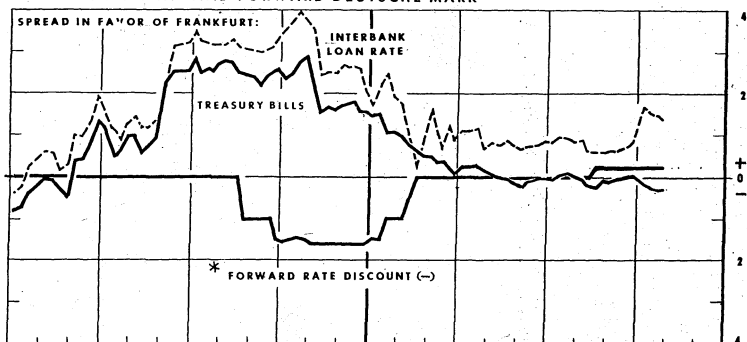
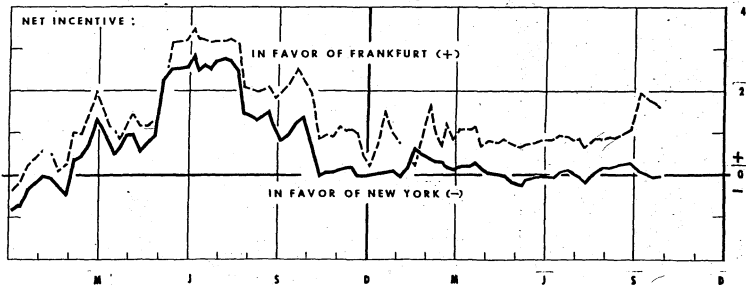
INTEREST ARBITRAGE, NEW YORK / LONDON

Friday figures



INTEREST ARBITRAGE, NEW YORK/FRANKFURT

Friday figures

**3-MONTH TREASURY BILL RATES AND
GERMAN 3-MONTH INTERBANK LOAN RATES****RATE DIFFERENTIAL AND FORWARD DEUTSCHE MARK****RATE DIFFERENTIAL WITH FORWARD EXCHANGE COVER**

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Note: Special forward dollar rate available to German commercial banks.

Chart 4

INTEREST ARBITRAGE, FRANKFURT/LONDON

Friday figures

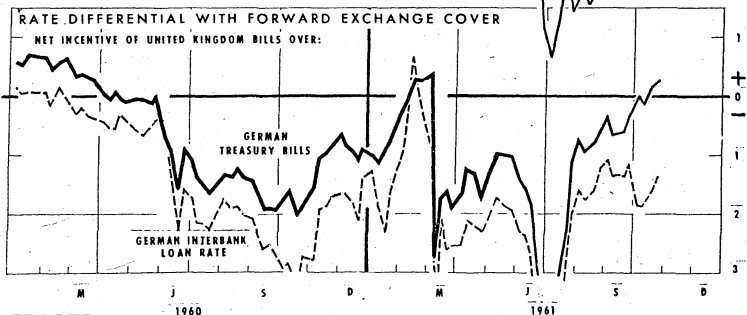
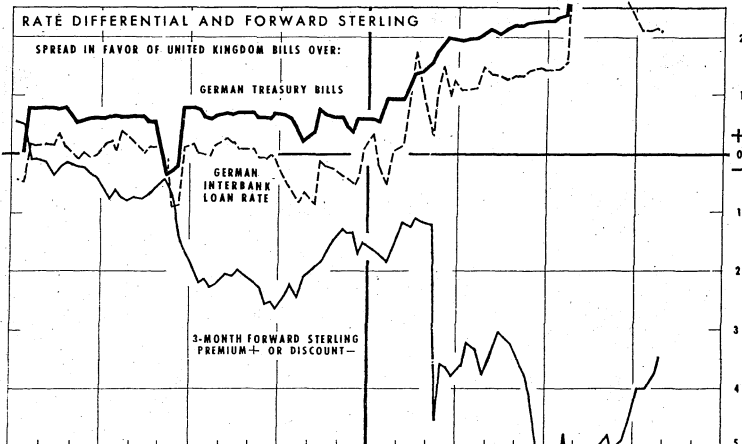
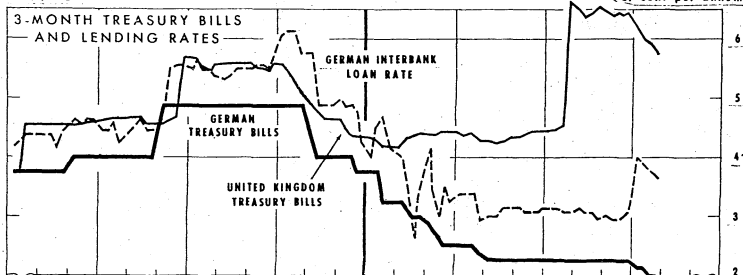
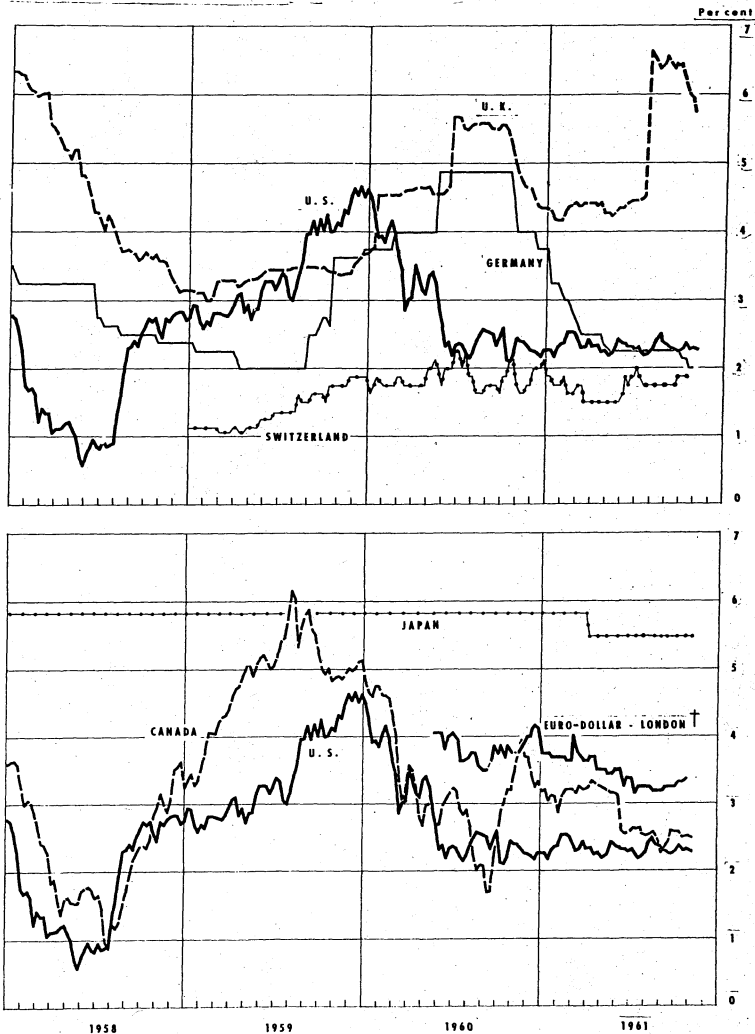


Chart 5

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

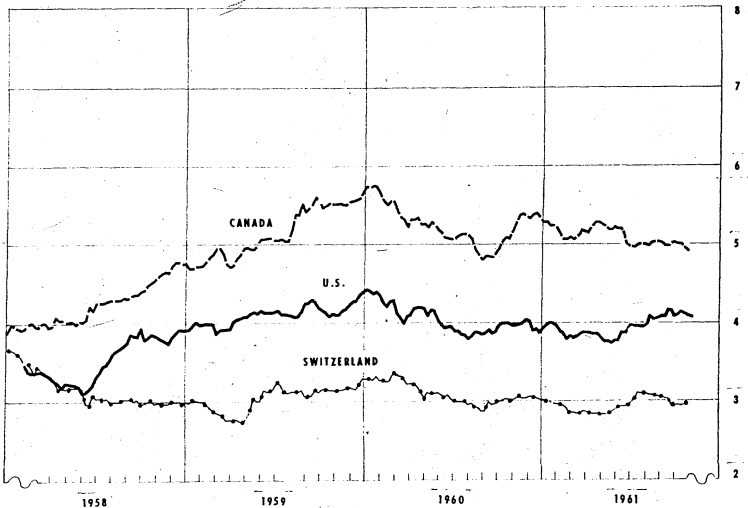
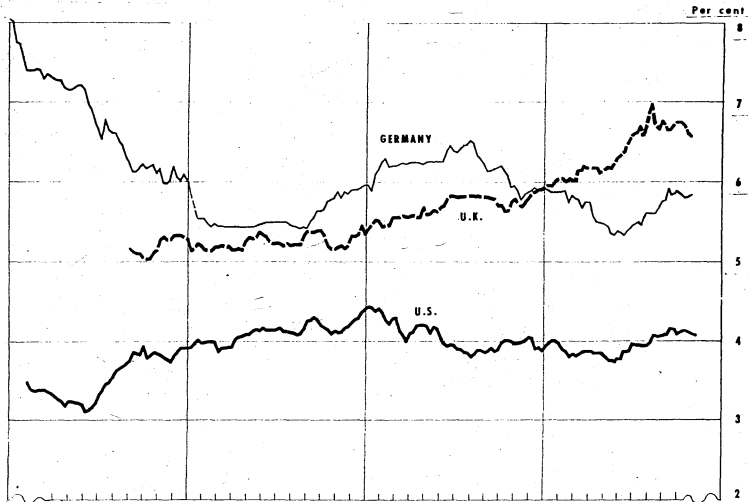
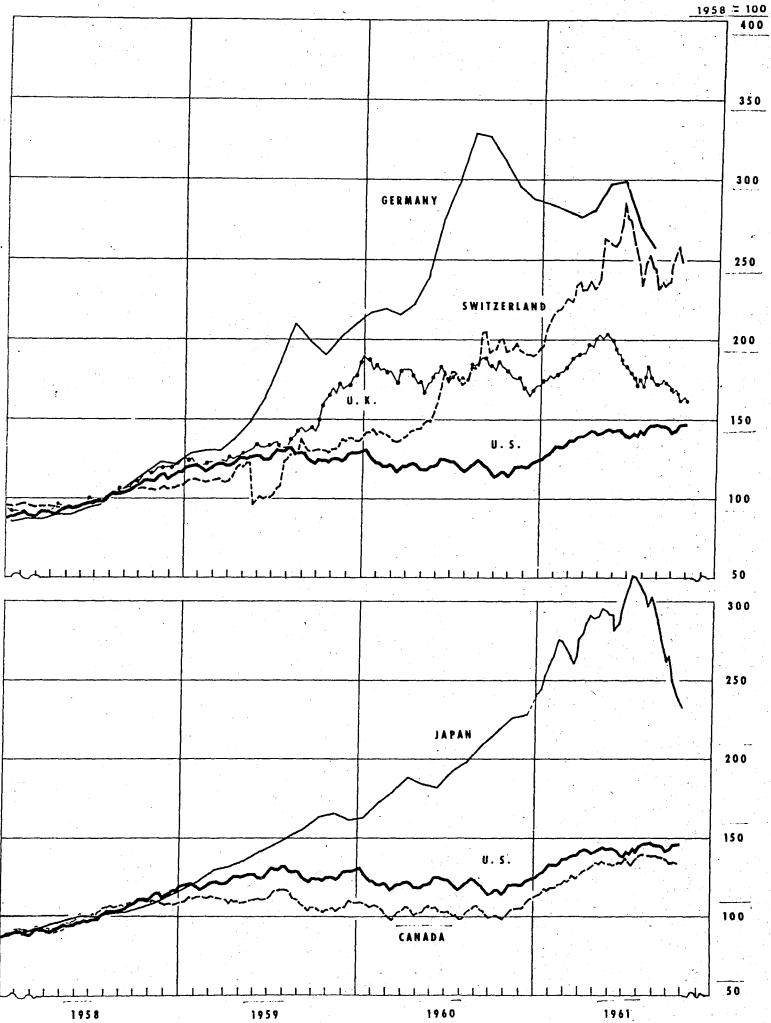


Chart 7

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

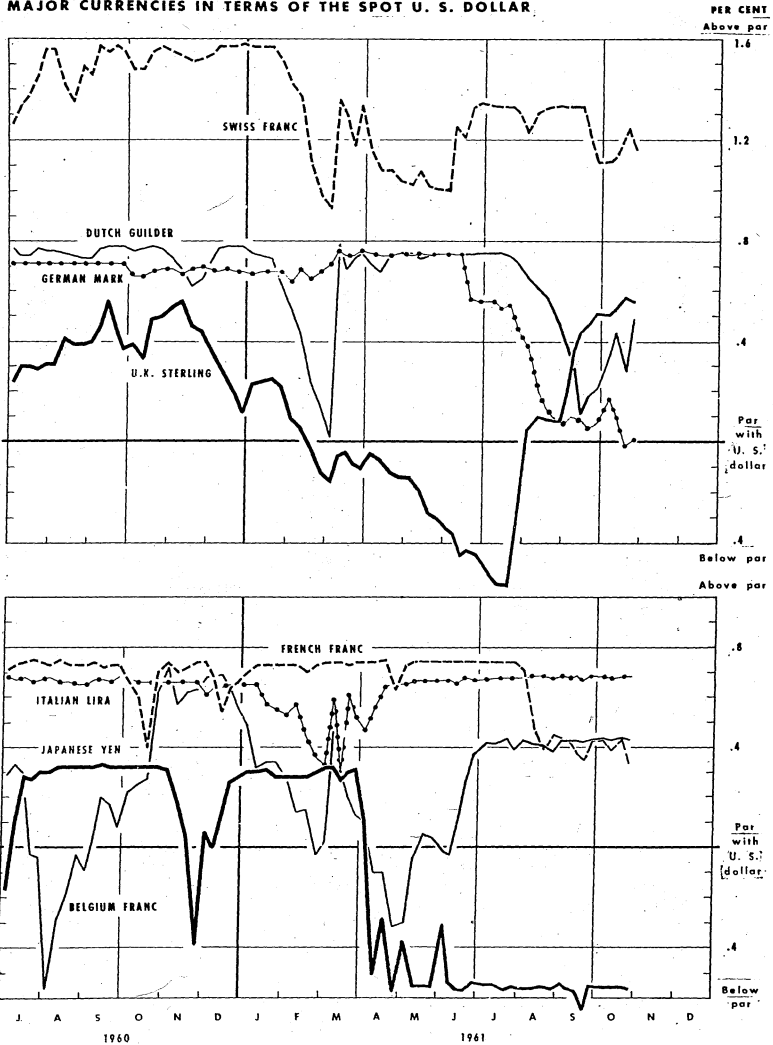


Chart 9

3-MONTH FORWARD RATES - LONDON QUOTATIONS

