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CAPITAL MARKET DEVELOPMENTS ABROAD

I. Japan
II. Eight Charts on Financial Markets Abroad

I. Japan: Money and Capital Markets During November

Money market conditions eased in November as the rate of loss in international reserves declined and Treasury and Bank of Japan operations increased bank liquidity. Capital transactions were largely responsible for the smaller decline in reserves which fell only \$17 million compared with losses of over \$100 million in each of the previous three months. The capital account, which had been in deficit since August, registered a surplus of \$64 million in November as measured on an exchange transactions basis. This was mainly due to the first drawing of \$50 million in late November on Japan's \$200 million line of credit with three American banks. The current account deficit was reduced from \$76 million in October to \$55 million in November and the over-all balance of payments deficit of \$106 million in October turned to a surplus of \$9 million in November. (Because of errors and omissions, the monthly change in international reserves and the over-all balance of payments, as measured on an exchange transactions basis, are rarely the same.)

In December, official international reserves dropped only \$4 million to \$1,485 million. Again the slower rate of decline can be attributed in part to a second drawing in late December of \$50 million on the \$200 million line of credit from three American banks. A World Bank credit of \$40 million to the Japan Highway Public Corporation was not drawn upon during December even though approved late in November.

In December, Japan took further steps to arrange for new foreign credits. In the third week of the month, preliminary agreement was reached with seven American banks and the U.S. Export-Import Bank on a \$125 million line of credit for Japanese importation of cotton and grains. The credit is to be for one year, carrying a 4-1/2 per cent rate of interest, with the commercial banks charging 4 per cent and the Export-Import Bank one-half per cent as a guaranty charge. Also late in December, Japan approached the International Monetary Fund to arrange a standby-credit of about \$300 million. The Japanese anticipate that they will not have to draw on this credit in the near future.

Money Market. Money market conditions eased somewhat in November as the Bank of Japan continued to expand its credit and the Treasury made substantial net outpayments. Bank of Japan loans and discounts rose ¥58 billion to ¥1,110 billion, which was more than double the amount in October and about the same as in September. Foreign exchange operations withdrew ¥25 billion from circulation, reducing net Treasury outpayments to ¥45 billion. These

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expansionary developments were only partly offset by a ¥15 billion expansion in bank note issue.

Interest Rates. The average interest rate on bank loans and discounts continued to rise through October reflecting the increase in the Bank of Japan's basic discount rate in July and September. From a low of 7.38 per cent in June, the average rose to 8.09 per cent in October.

Average yields on bank, public corporation and government debentures were unchanged in November from the October levels. Yields on private corporate debentures continued their downtrend from the 7.529 per cent peak in July, reaching 7.470 per cent in November. Local government bond yields were also down slightly in November to 7.344 per cent.

The highest Tokyo call-loan rate for those loans callable at a day's notice was off from 16.43 per cent in October to 15.70 per cent in November.

Average Monthly Interest Rates on
Bank Loans and Discounts

	<u>1958</u>	<u>1959</u>	<u>1960</u>	<u>1961</u>
March	7.63	8.18	8.21	7.92
June	7.61	8.08	8.22	7.38
September	8.11	8.06	8.14	8.09
December	8.27	8.11	8.38	8.09 ^{1/}

^{1/} October.

Bank Loans and Discounts. Bank credit through October continued to expand more slowly than a year earlier, thus continuing the slowdown first evident in July. The main assets of commercial banks rose 0.6 per cent in October compared to a 1.1 per cent increase a year earlier. While the October rise in bills discounted was the same as in 1960, the expansion of loans and security holdings was less. Bank deposits declined 1.9 per cent in October compared to a 0.4 per cent decline a year earlier. The proportion of bank loans and discounts extended for purchases of equipment rose to 17.2 per cent in October, up from the 17.0 per cent level in September.

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

	M A I N A S S E T S							
	<u>Deposits</u>	<u>Per cent change</u>	<u>Loans</u>	<u>Per cent change</u>	<u>Bills Discounted</u>	<u>Per cent change</u>	<u>Securities</u>	<u>Per cent change</u>
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
III	+506	6.5	+244	4.9	+172	7.5	+ 35	2.6
Oct.	- 31	-0.4	+ 43	0.8	+ 38	1.5	+ 20	1.4
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
III	+359	3.8	+216	3.6	+206	7.3	+ 43	2.5
Oct.	-189	-1.9	+ 5	0.1	+ 45	1.5	+ 20	1.1

Stock Market. After a brief recovery of 10 per cent between October 23 and November 8, stock prices continued their general downtrend in November and the first three weeks of December. On December 19, the average reached a low for the year at ¥1,258, off 31 per cent from the July 18 all-time high of ¥1,830. During the remainder of December, the average moved up 14 per cent, reaching ¥1,433 at the end of the year.

In a move to prevent a further decline in the stock market, the Bank of Japan late in November announced that it would supply funds to the Japan Securities Finance Corporation for relending to security firms on the basis of bonds and debentures held by them. The Japan Securities Finance Corporation was set up in 1950 to provide credit to those stock dealers and individual buyers of securities not able to receive credit from security houses.

Dow Jones Average of 225 Stocks
Tokyo Stock Exchange

October 25	¥1,348	November 29	¥1,303	1960 High	¥1,357
November 1	1,360	December 6	1,318	Low	¥ 869
8	1,429	13	1,291		
15	1,389	20	1,282	1961 High	¥1,830
22	1,376	27	1,321	Low	¥1,258

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Foreign Trade. The trade deficit, seasonally adjusted, improved somewhat in November, but still remained excessively large. Imports worsened further, rising to a new all-time high and exports were up, following a dip in October, to about the same level as in August. The slight improvement in the trade account was reflected in a further decrease in the deficit on current account, as measured on an exchange transactions basis, which declined from \$76 million in October to \$55 million in November. Largely in response to a \$50 million drawing in November on Japan's \$200 million line of credit with three American banks, the capital account deficit of \$30 million in October changed to a surplus of \$64 million in November. 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	Year	337	375	- 38
	IV	353	395	- 42
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
October		333	556	-223
November		366	568	-202

Foreign Exchange. Signs of a strengthening of the yen in the three-month forward market, which first appeared in October, continued in November and through mid-December. While the yen-dollar spot rate continued to remain at the official support point during this period, the forward discount of the yen against the dollar fell from 1.33 per cent per annum on October 27 to 1.00 per cent per annum on December 15. From mid-July through mid-October the discount had remained at 1.44 per cent per annum or higher. This would appear to reflect increased confidence in the yen stemming from lower reserve losses, even though the smaller losses were to a large extent the result of additional short-term borrowing by Japan.

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>
October 27	361.10	362.30	1.33
November 3	361.10	362.30	1.33
10	361.10	362.00	1.00
17	361.10	361.90	.89
24	361.10	361.90	.89
December 1	361.10	361.80	.76
8	361.10	361.80	.76
15	361.10	361.30	.22

II. Eight 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 - Short-term Bond Yields
- Chart 5 - Long-term Yields
- Chart 6 - Industrial Stock Indices
- Chart 7 - Major Currencies in Terms of Spot
United States Dollar
- Chart 8 - 3-month Forward Rate--London Quotations

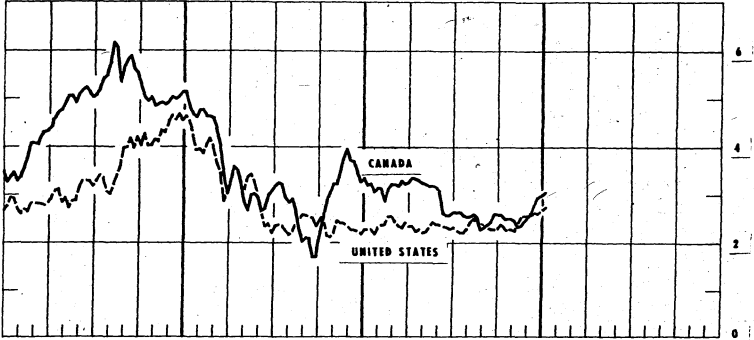
Chart 1

INTEREST ARBITRAGE, UNITED STATES / CANADA

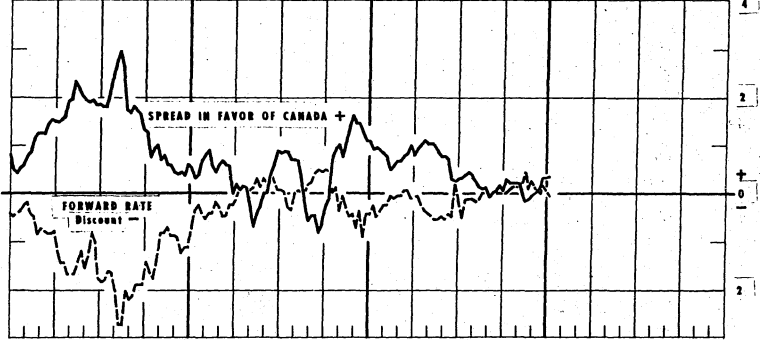
Thursday figures

THREE-MONTH TREASURY BILL RATES

Per cent per annum



RATE DIFFERENTIAL AND FORWARD CANADIAN DOLLAR



RATE DIFFERENTIAL WITH FORWARD EXCHANGE COVER

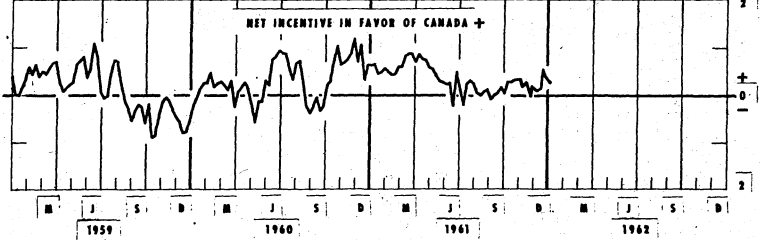


Chart 2

INTEREST ARBITRAGE, NEW YORK/LONDON

Friday figures

Per cent per annum

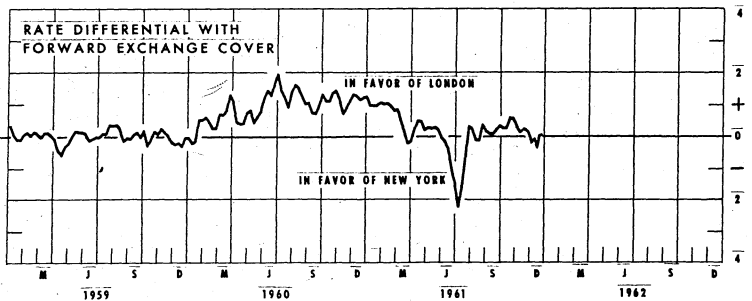
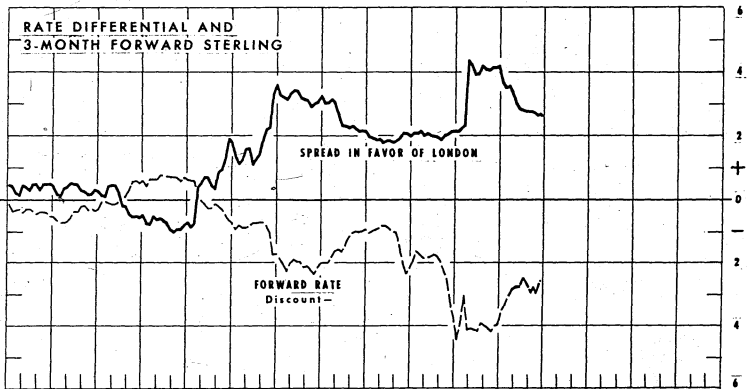
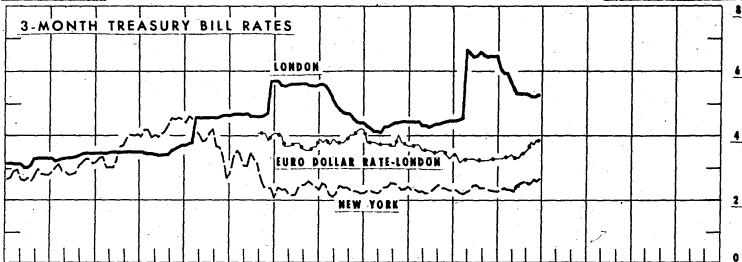


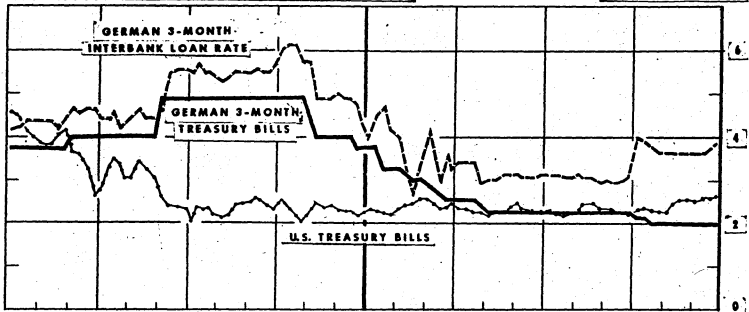
Chart 3

INTEREST ARBITRAGE FOR GERMAN COMMERCIAL BANKS

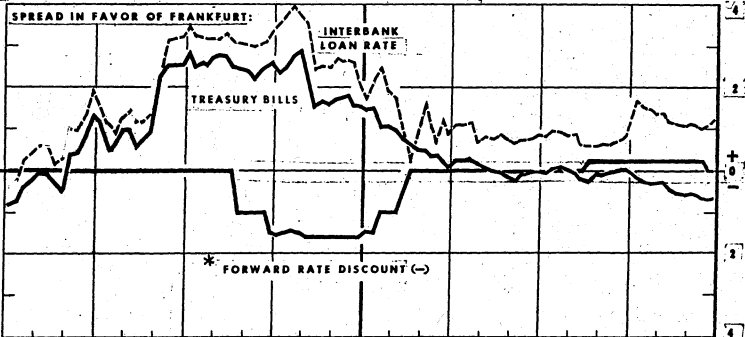
Friday figures

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

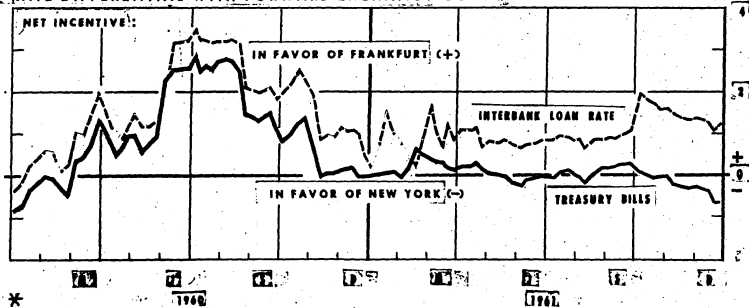
(Per cent per annum)



RATE DIFFERENTIAL AND FORWARD DEUTSCHE MARK



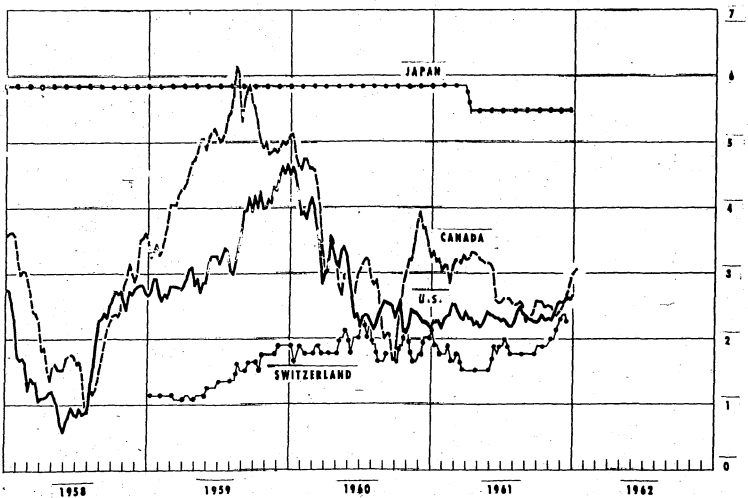
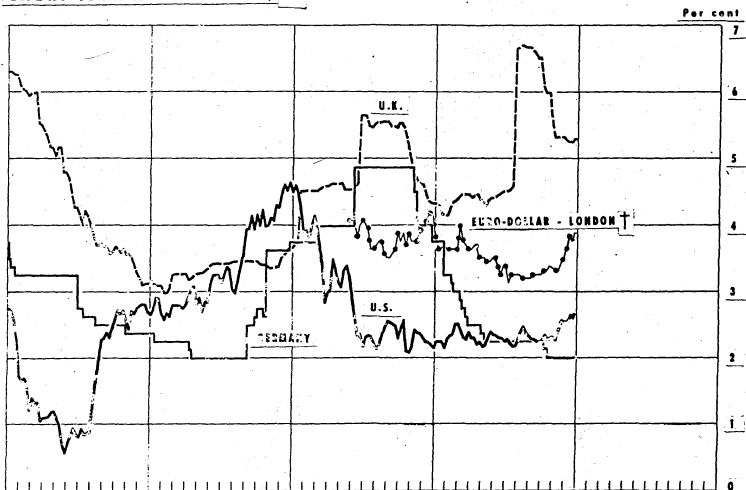
RATE DIFFERENTIAL WITH FORWARD EXCHANGE COVER



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

Chart 4

SHORT-TERM INTEREST RATES *



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

LONG-TERM BOND YIELDS

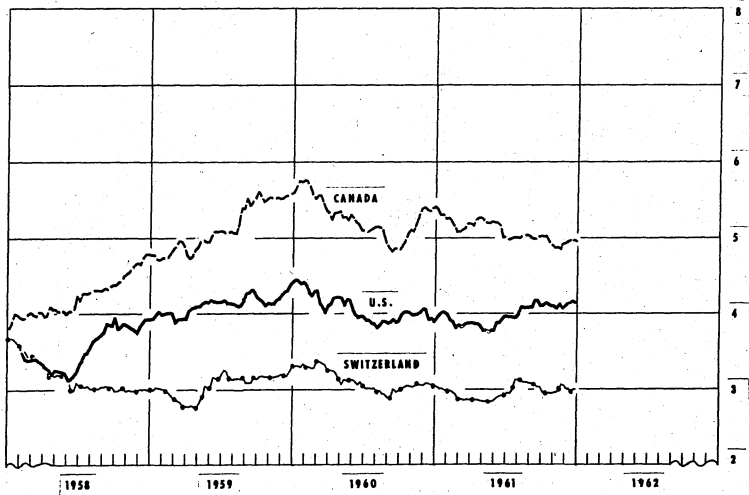
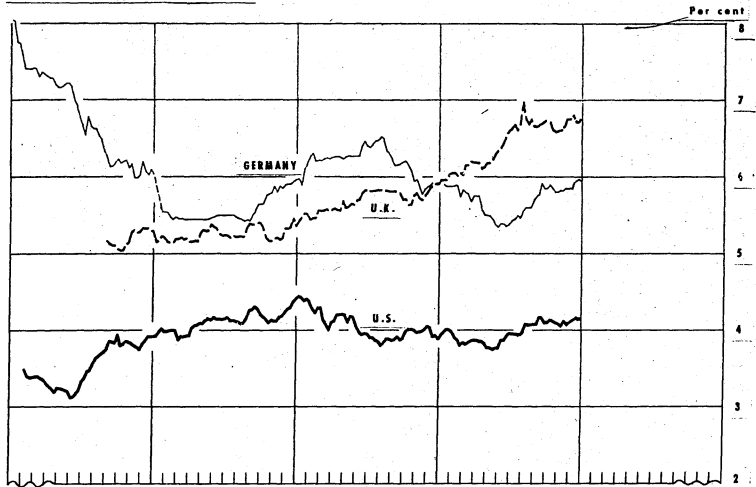
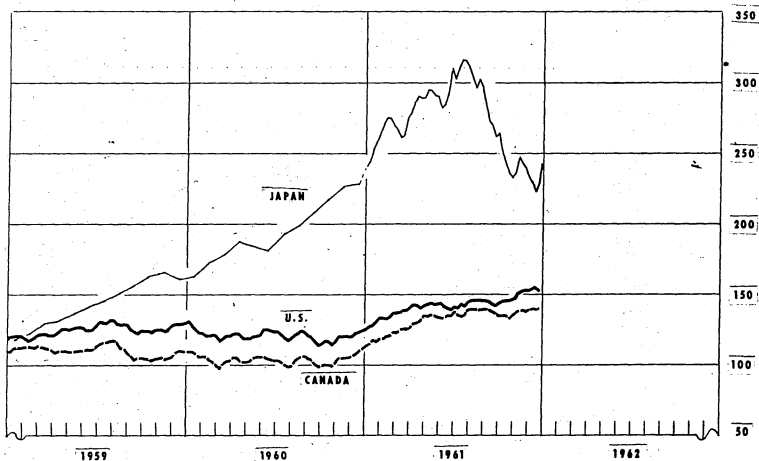
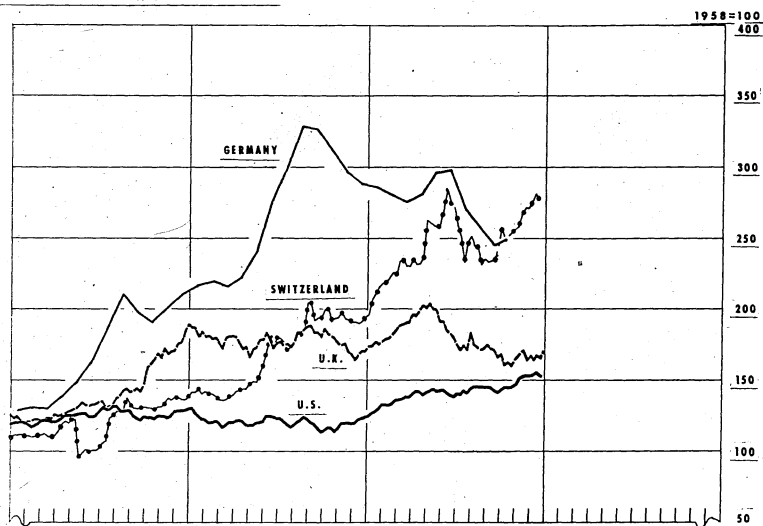


Chart 6

INDUSTRIAL STOCK INDICES*



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

Chart 7
MAJOR CURRENCIES IN TERMS OF THE SPOT U.S. DOLLAR

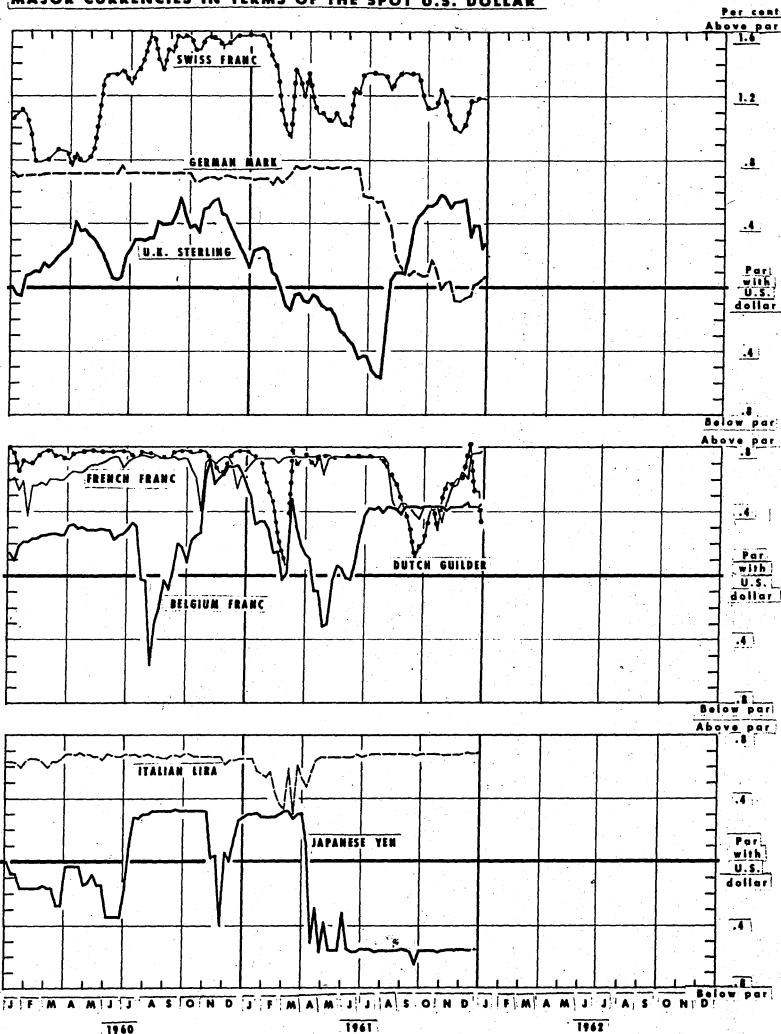


Chart 8

3-MONTH FORWARD RATE

Per cent per annum

