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CAPITAL MARKET DEVELOPMENTS ABROAD

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I. Germany: Money and Capital Markets during January

During much of January, there was an exceptional credit glut in the German money market and day-to-day money rates fell from 4-1/2 to 5 per cent at year-end to a low of 1 per cent in mid-January with only nominal demand for funds. In this situation, German commercial banks placed short-term funds abroad in unprecedented amounts. Total commercial-bank assets abroad rose by DM 2.0 billion ($500 million) in the first week in January and by a further DM 1.1 billion ($275 million) by January 23, bringing the banks' total foreign assets to a record of DM 5.3 billion ($1,325 million).

To the extent of DM 4.2 billion ($1,050 million), the commercial banks covered their exchange risks by selling forward dollars to the Bundesbank at a preferential rate. With the exchange risk covered, the banks are thought to have placed these funds largely in Euro-dollar deposits but some of these deposits were converted, either by German banks or by London institutions, into sterling assets during the period under review because of the higher net yields even with sterling cover at market rates. During the month, the Bundesbank made a series of minor adjustments in its rate to slow down, but not to reverse, this outflow. By February 16, the market rate for the forward dollar had moved close to the Bundesbank's preferential rate (see Table).

The renewed activity in the German bond market which began in mid-November became more widespread in January. New issue activity picked up appreciably and market yields eased. Several 6 per cent offerings in January were followed by a 5-3/4 per cent offering by the Bundespost at a price of 99 on February 26. At present, the market views the 6 per cent rate as a maximum not only because the demand for recent offerings has been good but because bond issuers would choose another form of financing rather than pay a higher rate. Industrial borrowers are consolidating short-term borrowing at this time.

Substantial nonbank participation in recent new issues, especially by private persons, was reported. The press estimates that between 60 to 70 per cent of new issues have been taken by private investors. Some of the private funds have been shifted from the stock market. Private investors seem to be acting on the general expectation that current market yields will be maintained or reduced.

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Despite the new interest in securities, bond yields have been moving downward slowly. Where short-money yields in January were sutatantially below the levels of December and even below those prevailing at the previous low point in German rates in the spring of 1959, longer-term money rates and security yields changed only fractionally during January and were several basis points higher than the 1959 lows, as may be seen in the following summary of rates (in per cent per annum):

	Monthly average			
	Spring 1959	1961		1962
	low point	January	December	January p/
Discount rate	3	4	3	3
Treasury bills (60-90-day)	2	3-3/4	2	1.88
Interbank loan rates:				
Day-to-day	2.31	3.94	3.06	1.76
Three-month	2.69	4.44	3.81	2.94
Commercial bank rates:				
Loans (maximum)	7.25	8.50	7.50	7.50
Savings deposits (6-12 mos.)	3.25	4.25	3.50	3.50
Time deposits (6-12 mos.)	2.50	3.50	2.75	2.75
Bond yields:				
Mortgage	5.8	6.2	6.0	a/ 6.0
Industrial	5.7	5.8	6.1	a/ 6.1
Public authorities	5.6	6.1	6.0	a/ 6.0
Total bonds	5.7	6.1	6.0	a/ 6.0

a/ Estimated.
p/ preliminary.

Two factors contributed to the slowness with which security yields have been declining. In the first place, the German banking syndicates have tried to retard the decline in effective yields on new issues, in an effort to encourage broader private participation in fixed-interest securities and to stimulate an expanded volume of new offerings. They want to discourage rapid price advances which might lead to the withdrawal of funds from the market as investors realized capital gains. Secondly, the Bundesbank's policy of keeping short-rates low and encouraging the banks to build up liquid assets abroad has meant (in the words of Die Welt of Hamburg) that "the Bundesbank's ability to exert an indirect influence on the capital market through changes in discount rate has largely disappeared." Reduced domestic credit availabilities help to retard the decline in German security yields to a lower level.

In the foreign exchange market, the spot dollar declined in the first half of January, despite the heavy shift of commercial bank funds abroad. In early February, however, the dollar strengthened; by February 23, the spot D-mark had momentarily fallen below parity.

German foreign-exchange reserves (measured by the combined holdings of the Bundesbank and the commercial banks) declined during December largely because of heavy official long-term capital transactions and donations. The Bundesbank's loss in reserves in January was about equal to the additions to the foreign assets of the commercial banks.

Preliminary figures indicate that the German trade surplus in January on a seasonally adjusted basis was substantially higher than the monthly average for the fourth quarter and only slightly below the 1961 average. Exports seasonally adjusted for January were slightly below the high level for December but imports were appreciably lower. Last month, however, the German authorities substantially raised the preliminary import figure in the revised estimates.

Money market. The exceptional glut in credit supplies on the German money market brought day-to-day money rates down from a peak of 4-1/2 to 5 per cent at the end of December to a low of 1 per cent in mid-January. At this level only nominal demand for funds was reported. Technical factors produced a tightening at the end of January.

The abnormal surplus of funds reflected seasonal currency reflows to the banks and reduced post-Christmas loan demand. In addition, two factors which had tightened bank reserves earlier in 1961 were reversed and contributed to the credit ease since the Bundesbank did not offset their impact on bank reserves. In the first place, the decline in net external reserves from August to October, which had reduced bank reserves by DM 1,200 million, shifted to a slight net accrual which added DM 300 million to bank reserves in November, DM 100 in December and between DM 100 to 300 million in January. Secondly, the cash transactions of Federal Government, which had withdrawn DM 5,250 million of reserves in the first half of 1961 and DM 550 million in the third quarter, added DM 350 million in the fourth quarter. In January, however, there were seasonal increases in tax receipts, and decreases in expenditures.

The easing of German money rates occurred even though the commercial banks made massive additions to their money-market assets abroad after the year-end. By January 7, the banks had exported about DM 2.0 billion ($500 million). By January 23, they had shifted an additional DM 1.1 billion (about $275 million) to an unprecedented peak of nearly DM 5.3 billion ($1,325 million).

To the extent of DM 4.2 billion ($1,050 million), the commercial banks covered their exchange risks by selling forward U.S. dollars to the Bundesbank at a preferential rate. During the month, the Bank made several minor adjustments in this preferential rate to slow down this outflow. A charge of one-fourth per cent was reintroduced on January 2 and was raised to three-eighths and to one-half per cent shortly thereafter. Effective February 1, the Bundesbank made a technical adjustment by reducing the banks reserve requirements against nonresidents deposits from

10-30 per cent (depending on the type of deposit) to the 5-13 per cent range in effect for domestic deposits. Because the banks can still offset nonresident deposits with foreign short-term assets, the lowered reserve requirement makes the holding of foreign assets slightly less advantageous. On February 15, the Bank increased from 1 to 2 months the minimum period for dollar swaps with the banks.

The banks' massive accumulation of assets abroad during 1961 has altered the German credit stiuation. The commercial banks are now holding their short-period liquid assets in foreign, rather than in domestic, assets. As a result, the Bundesbank noted in January that open market operations and borrowing at the central bank "reflected the fluctuations of the money market and of ... /domestic/ liquidity to a much smaller extent" than formerly.

Bank credit. Total assets of commercial and other banks continued to expand in the fourth quarter at about the same rate as in the third quarter but somewhat less than in the two preceding quarters. In part, the domestic credit expansion was an offset to repayments of foreign credits by German firms. Where they had borrowed DM 0.9 billion during 1960, over DM 0.5 billion in the first and second and DM 0.4 billion in the third quarters of 1961, German firms repaid about DM 350 million of loans in the fourth quarter.

In their loans to the private sector, the banks have reduced their short-term and substantially increased their longer-term credits despite heavier industrial borrowing in the new issue market. This shift to longer loans comes after a long period when, with high interest rates, borrowers preferred shorter-term commitments; thus this represents a consolidation of shorter-term financing. The increase in bank loans to the public sector has shown little change since the first quarter of 1961 although there has been some increase in funds made available to foreign governments through the Reconstruction Loan Corporation. Recent quarterly changes in the assets of German banks in billions of D-marks were:

	1960		1961			
	III	IV	I	II	III	IV
Loans to private sector:						
Short-term	+ 1.2	+ 1.8	+ 1.9	+ 2.3	+ 1.0	+ 1.1
Longer-term	+ 2.6	+ 2.8	+ 2.5	+ 3.2	+ 3.9	+ 3.9
Total, private sector	+ 3.8	+ 4.6	+ 4.4	+ 5.5	+ 4.9	+ 5.0
Security participations:						
Bank bonds	+ 0.2	- 0.1	+ 0.7	+ 0.9	+ 0.5	+ 0.6
Other	+ 0.1	- 0.2	+ 0.1	+ 0.2	+ 0.5	+ 0.1
Total, securities	+ 0.3	- 0.3	+ 0.8	+ 1.1	+ 1.0	+ 0.7
Loans to public sector:						
Short-term	- 0.1	- 0.1	+ 0.2	+ 0.1	- 0.2	+ 0.1
Longer-term: (total)	+ 0.6		+ 0.9	+ 0.7		
Domestic spending		+ 0.6			+ 0.6	+ 0.6
Foreign governments a/		+ 0.1			+ 0.2	+ 0.3
Treas. bills & noninterest bonds	+ 1.9	+ 1.1	+ 1.8	b/	+ 0.3	+ 0.1
Total, public sector	+ 2.4	+ 1.7	+ 2.9	+ 0.8	+ 0.9	+ 1.1
Total credit	+ 6.5	+ 6.0	+ 8.1	+ 7.4	+ 6.8	+ 6.8

a/ Mostly granted by Reconstruction Loan Corporation.
b/ Less than DM 500 million.

Bond market. The demand for fixed-interest securities continued strong in January, and for the first time since the second quarter of 1961 prices of outstanding issues rose generally. According to the official statistics, the market absorbed DM 1,069 million of new issues during the month, but sales of the DM 210 million issue of the Federal Railways, which was offered on January 29, apparently do not appear in the January statistics. Including the Railway loan, four major 6 per cent issues were offered in January, at par, and all were oversubscribed, their prices rising above par soon after issue.

	Mortgage[a]	Industrial	Public authorities	Foreign bonds	Total bonds	Shares	Total securities
1960: IV	269	--	128	--	421	97	518
1961: I	539	40	445	--	1,125	229	1,354
II	531	17	103	--	744	141	885
III	469	--	86	4	613	263	876
Oct.	562	--	6	--	625	100	725
Nov.	400	--	129	--	655	68	723
Dec.	571	150	105	--	897	126	1,023
1962: Jan. p/	878	185	--	--	1,063	n.a.	n.a.

a/ Includes communal bonds.
p. Preliminary.

Offerings planned for February include three DM 75 million issues of 15-year 6 per cent coupon bonds at par by the Saar authorities, the Gelsenkirchener Bergwerks, A.G., and the Preussische Elektrizitaets A.G. On February 14, the Federal Loan Committee authorized a 15-year DM 210 million loan by the Federal Post to be issued later in February with a coupon rate of 5-3/4 per cent and an issue price of 99 per cent of par. On February 12, the city of Osaka, Japan, floated a 15-year 6 per cent loan in Germany with an issue price of 96.5 per cent of par. The yield to maturity averages about 7.1 per cent.

The improved demand for bonds in the fourth quarter came from nonbank investors, mainly private persons. In mid-January German banking circles reported "a sudden upsurge" of German interest in fixed-interest securities." One banker stated that in the industrial offerings in December and early January "almost 80 per cent of certificates were signed by private investors, a proportion which has been unknown during the past few years." The Bundesbank estimated nonbank purchases of bonds in the fourth quarter at DM 1.3 billion, about double the net purchases by banks. Net foreign sales of German bonds, which were at a peak in August, actually were replaced by a net purchase of DM 3 million in December.

Stock market. Prices on German stock markets continued to decline throughout January and into February, and activity was reported to be dull. The total share index of the Frankfurter Allgemeine Zeitung declined from 217.25 on January 5, and to 211.07 on February 11. In January foreign purchase orders were reported practically nonexistent. This weakness in the stock market has been attributed to the stronger pull of the bond market, and to prospects for an increasing squeeze on profits due to rising German wage costs. In the second week of February, the index of stock prices showed a tendency to rise, and foreign purchases were reported to be fairly heavy, but prices declined again in the following week. Recent levels of the F.A.Z. index of stock prices (December 31, 1958 equals 100) were:

1961:	July 31	223.80	1962:	Jan. 5	217.25
	Aug. 31	203.38		31	213.88
	Oct. 13	206.35		Feb. 3	215.26
	31	219.36		6	211.07
	Nov. 17	229.72		9	213.72
	30	227.36		14	215.55
	Dec. 29	220.92		15	215.99
				19	214.01
				26	212.54

German budget developments. The 1962 proposed Federal budget, approved by the cabinet on January 24, was as follows (in millions of DM):

	Proposed 1962	Actual (cash basis) 1961
Expenditures	53.5	43.3
Receipts	50.0	43.7
Balance	- 3.5	+ 0.4

The principal proposed increases in expenditure (in millions of DM) include:

Defense	+4,000
Transport	+ 840
Agriculture	+ 510

It is proposed that new foreign aid authorizations will be DM 1,500 million; with previous appropriations, however, foreign aid disbursements may exceed DM 2 billion in 1962.

The Federal authorities had hoped to finance the DM 3.5 billion deficit by borrowing DM 1.8 billion on the capital market, DM 1.0 billion long-term and DM 0.8 billion in short- and medium-term bonds. The remaining DM 1.7 billion was to be obtained by loan or grant from the Laender (states). However, negotiations with the Laender has created difficulties. The Laender have proposed aid to the Federal budget of about DM 0.9 billion provided Federal expenditures were reduced by DM 0.9 billion. These proposals were rejected by Federal Finance Minister Starke on February 23.

This dispute arises out of the fact that 65 per cent of the receipts from income tax accrues to the Laender governments under the Constitution. The Laender have therefore had ample funds. By contrast, rising fiscal responsibilities, especially for defense, have produced a small Federal deficit in 1961 and an even larger one is expected in 1962. Attempts to agree on reallocation of these receipts have, thus far, been time consuming and unproductive.

Foreign aid. Germany has recently concluded the following foreign-aid agreements:

Country	Amount DM	Amount $	Rate	Term	Purpose
Chile	100	25	Not	known	Repair earthquake damage
Pakistan	167	42	5-1/2	20	Consortium commitment
	83	21	3	20	" "
Mali	13	6	--	long-term	Two peanut mills
Somali	25	6	--	long-term	Fish canning plant and textile mill
Guinea	25	6	--	Long-term	Road construction

Foreign trade. The German trade surplus, seasonally adjusted, rose appreciably during January to a level close to the monthly average for the calendar year 1961. Seasonally adjusted exports were slightly below the December level but imports declined to a greater extent, as may be seen in the following revised seasonally adjusted German trade figures (monthly or monthly averages in millions of U.S. dollars):

	Calendar year 1960	Calendar year 1961	I	II	III	IV	Monthly 1961 Nov.	Monthly 1961 Dec.	Monthly 1962 Jan.
Exports	948	1,060	1,047	1,077	1,060	1,058	987	1,131	1,088
Imports	844	914	852	936	911	955	894	1,039	951
Surplus	104	147	195	141	151	103	93	92	137

Foreign exchange reserves. In December foreign balances and money-market investments abroad of the German commercial banks declined $502 million, which together with the $358 million rise in gross gold and foreign exchange reserves of the Bundesbank, resulted in a decline of $144 million in total gross reserves for the month. In January, reserves of the Bundesbank declined $731 million, whereas commercial bank holdings are estimated by the Bundesbank to have risen over $600 million through January 23. Changes in German reserves in 1961 and 1962 (in millions of U.S. dollars) have been as follows:

	1961 I	II	III	Oct.	Nov.	Dec.	1962 Jan.
Central bank	+300	-282	-570	-256	- 34	+358	-731
Commercial banks	+479	+404	- 74	+ 47	+ 28	-502	n.a.
Total	+799	a/+122	-644	-209	- 6	-144	n.a.

a/ After special debt prepayments of $776 million to the United States and the United Kingdom. The total would be a reserve gain of $898 million, if adjusted for these transactions.

Foreign exchange. In the foreign-exchange market, the spot dollar eased slightly against the D-mark until mid-January and then strengthened. Friday quotations for the spot D-mark during the period were (in U.S. cents):

Dec.	29	25.016	Feb.	2	25.03
Jan.	5	25.033		9	25.013
	12	25.043		16	25.015
	19	25.024		23	24.998
	26	25.025			

The premium on forward D-marks for three months declined from 1.15 per cent at the end of December to 0.90 per cent at the end of January, and declined further in February to 0.62 per cent (see Table and Chart 9).

The Bundesbank's commitments to German commercial banks to swap U.S. dollars for D-marks declined by about DM 2 billion ($500 million) in December, and rose again in January by nearly 3 billion ($710 million). Rough estimates of swap commitments during 1961 and 1962, derived from the charts in the Bundesbank's monthly Report, were as follows for the period, November to January (in billions of D-marks):

1961:	Nov.	7	2.97	1962:	Jan.	7	3.27
		15	3.30			15	3.27
		30	3.10			23	4.15
	Dec.	7	2.90			30	4.10
		15	2.30				
		23	1.65				
		31	1.15				

Figures for the earlier part of 1961 are to be found in "Capital Market Developments Abroad" for Germany for the month of December (No. 44, January 26, 1962).

Europe and British Commonwealth Section.

Germany: Selected Money Market Yields and Exchange Rates
(per cent per annum)

	3-mo. Euro-dollar deposits London	3-mo. inter-bank loans Frankfurt	Spread in favor London	3-mo. forward Marks vs. US $		3-mo. Treasury bills		
				Comm. bank[a]	Market	U.K.	Ger.	U.S.
1961-Oct. 6	3.25	4.00	-0.75	-0.25	-0.60	6.00	2.13	2.31
Nov. 10	3.31	3.63	-0.32	-0.25	-0.73	5.31	2.00	2.47
Dec. 15	3.75	3.63	+0.12	-0.25	-0.98	5.25	2.00	2.63
22	3.88	3.75	+0.13	--	-1.30	5.28	2.00	2.60
29	3.88	3.88	--	--	-1.15	5.28	2.00	2.67
1962-Jan. 5	3.50	3.00	+0.50	-0.25	-0.95	5.34	1.88	2.74
12	3.38	2.79	+0.59	-0.50	-1.05	5.34	1.88	2.76
19	3.38	2.75	+0.63	-0.50	-0.95	5.22	1.88	2.71
26	3.38	2.75	+0.63	-0.50	-0.90	5.16	1.88	2.67
Feb. 2	3.38	2.88	+0.50	-0.50	-0.99	5.16	1.88	2.67
9	3.38	2.81	+0.57	-0.50	-0.70	5.34	1.88	2.72
16	3.31	2.75	+0.56	-0.50	-0.62	5.44	1.88	2.83
23	3.44	2.75	+0.69	-0.50	-0.78	5.44	1.88	2.69

a/ Bundesbank special rate.

Germany: Selected Loan, Deposit and Security Rates
(per cent per annum)

	Comm. bank loans[a]	6-12 mo. deposits		Bond yields		Share yields	Yield gap
		Savings	Time	5-1/2% Railway 1958-83	Public authorities		
1958-March	8.00	4.00	3.75	--	--	--	--
June	7.75	4.00	3.75	--	--	--	--
Sept.	7.50	3.25	3.00	--	--	--	--
Dec.	7.50	3.25	2.75	--	--	3.29	--
1959-March	7.25	3.25	2.50	5.4	5.6	3.22	2.4
June	7.25	3.25	2.50	5.5	5.7	2.66	3.0
Sept.	7.50	3.25	2.50	5.7	5.8	2.33	3.5
Dec.	8.50	3.25	3.25	5.9	6.2	2.19	4.0
1960-March	8.50	3.75	3.25	6.3	6.4	2.27	4.1
June	9.50	3.75	3.25	6.4	6.6	1.86	4.7
Sept.	9.50	4.50	4.00	6.2	6.5	1.8	4.7
Dec.	8.50	4.50	3.50	5.9	6.2	1.96	4.2
1961-March	8.00	4.25	3.25	5.8	5.9	2.11	3.7
June	7.50	4.00	2.75	5.5	5.6	2.19	3.4
Sept.	7.50	4.00	2.75	5.9	6.0	2.63	3.4
Dec.	7.50	3.50	2.75	6.0	6.0	2.49	3.5
1962-Jan.				5.8			

a/ Approved credits on current account.

II. Japan: Money and Capital Markets in January

Money market conditions remained tight in January and the general level of interest rates continued to move up through December. Call loan rates fell sharply in January, reportedly as a result of government warnings that they had become too high and the suggestion that certain maximum rates not be exceeded.

International reserves rose $24 million in January to $1,510 million reflecting primarily a large inflow of short-term capital. Japan drew a further $50 million of the $200 million credit arranged with three American banks in November and also arranged a $7 million credit from a group of Swiss banks. On January 19 Japan received approval from the IMF for a $305 million stand-by credit. Also, at the end of January Japan signed an agreement with seven New York banks for a $125 million one-year credit at 4-1/2 per cent per annum to finance the purchase of certain agricultural and other commodities. The credit is guaranteed by the U.S. Export-Import Bank.

Money Market. Money market conditions remained tight in January. A decrease of ¥215 billion in bank note issues outstanding following the year-end holidays added to bank liquidity; but this development was more than offset by net Treasury receipts in January of ¥237 billion and a drop of ¥26 billion in Bank of Japan loans and discounts outstanding.

While these factors served to tighten money market conditions in January, call loan rates actually dropped. It is reported that the marked drop in call rates (see "Interest Rates" below) was due to a strong government suggestion that call rates not exceed certain maximum levels.

Interest Rates. The average interest rate on bank loans and discounts continued to rise through December reflecting the policy of monetary restraint introduced in July 1961 and reinforced in September. From a low of 7.88 per cent in June 1961, the rate rose to 8.20 per cent in December, the highest level in 17 months.

Average Monthly Interest Rates on
Bank Loans and Discounts

	1958	1959	1960	1961
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	8.00
December	8.27	8.11	8.08	8.20

Despite a basic tightening of money market conditions in January, government intervention brought about a sharp drop in call loan rates. The highest Tokyo call-loan rate for loans callable at a day's notice dropped from 20 per cent per annum in December to 11 per cent per annum in January.

Bank Loans and Discounts. Bank credit in December continued to expand less rapidly than a year earlier. The main assets of commercial banks rose 2.5 per cent compared to 3.3 per cent in December 1960. Details on deposits and bank assets are provided in the table below. During 1961 there was an increase in bank assets of 20.2 per cent and in deposits of 16.5 per cent. In the fourth quarter of 1961, bank assets rose 5.2 per cent compared to 7.3 per cent a year earlier.

The proportion of bank loans and discounts extended for purchases of equipment dropped in December to 17.0 per cent compared to 17.2 per cent in October and November. This is the first decrease in the ratio since March 1961.

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

		Deposits	Per cent change	MAIN ASSETS Loans	Per cent change	Bills Discounted	Per cent change	Securities	Per cent change
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
	IV	+607	7.3	+347	6.7	+185	7.5	+127	9.1
	Dec.	+356	4.2	+182	3.4	+ 99	3.9	+ 32	2.1
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
	IV	+430	4.3	+232	3.7	+220	7.2	+122	6.9
	Dec.	+389	3.9	+125	2.0	+127	4.0	+ 28	1.5

Bond Market. The volume of new monthly issues of bonds and debentures rose significantly in December to ¥101 billion, up ¥9 billion from the November level. The volume of new issues had been declining since August 1961. The rise was due to an increase in issues of public corporate debentures, which rose from ¥17 billion in November to ¥23 billion in December, and an increase in new issues of bank debentures from ¥62 billion in November to ¥66 billion in December. New monthly issues of industrial debentures continued their downtrend from the March 1961 high of ¥89 billion and in December reached ¥12 billion.

Early in February an agreement was reached between Osaka City and Prefecture and a consortium of German banks on a $25 million (DM 100 million) bond issue to be placed in the German capital market, the first Japanese capital issue in Europe since the Second World War. The issue, which is guaranteed by the Japanese Government, has a maturity of 15 years, with repayments to begin after five years, and carries an interest rate of 6-1/2 per cent per annum. The proceeds will be used in conjunction with a $100 million, four-year program to reclaim parts of Osaka Bay for the creation of new industrial areas and to further develop the port facilities of Osaka.

Stock Market. The stock market continued to recover in January and the first two weeks of February. From the December low of ¥1,258, which was also the low for 1961, the Dow Jones average moved up steadily to ¥1,590 on February 14, a 26 per cent advance. During the rest of the month, stocks eased off, closing at ¥1,503 at the end of the month.

On February 12, the underwriters announced that the February 9, offering of 600,000 American Depositary Receipts (ADR) shares, equivalent to $9.3 million of Tokyo Shibaura Electric Co., Ltd., at $15.50 a share, was oversubscribed and that the books had been closed on the same day as the offering. This marks the second successful issue of ADR shares in the United States since June 1961.

Dow Jones Average of 225 Stocks
Tokyo Stock Exchange

December	27	¥ 1,321	January	31	¥ 1,511	1960	High	¥ 1,357
January	4	1,425	February	7	1,553		Low	¥ 869
	10	1,435		14	1,590			
	17	1,467		21	1,525	1961	High	¥ 1,830
	24	1,505		28	1,503		Low	¥ 1,258

Foreign Trade and Capital Flows. In January, exports, seasonally adjusted, were off 9 per cent from the December level, but a further drop in imports, also seasonally adjusted, kept the trade deficit below the high levels in October and November. While the trade deficit is still relatively large, the reduction in imports in December and January gives promise that, if this trend continues, the payments imbalance may be corrected later this year. The monthly averages of seasonally adjusted trade figures on a customs basis (in millions of dollars) are detailed below.

		Exports	Imports	Trade Balance
1960	Year	337	375	- 38
	IV	353	395	- 42
1961	Year	354	486	-132
	I	344	420	- 76
	II	351	466	-115
	III	359	511	-152
	IV	360	547	-187
October		333	556	-223
November		362	567	-205
December		385	516	-131
1962	January	352	493	-141

The current account deficit, as measured on an exchange transactions basis, widened in January to $99 million compared to $41 million in December. This was primarily due to seasonally low merchandise exports in January. On capital account, there was a net outpayment on long-term capital account of $2 million but a very large short-term capital inflow of $160 million, giving over-all balance of payments net receipts of $59 million. This net result differs from the $24 million increase in international reserves because of the errors and omissions involved in measuring the balance of payments on an exchange transactions basis. The large short-term capital inflow of $160 million reflected not only a further drawing of $50 million on Japan's $200 million line of credit with three American banks but also a return flow of Euro-dollar balances and other short-term credits following year-end window dressing operations. On January 19 Japan signed an agreement with a consortium of Swiss banks for a $7 million credit. The credit will be used mainly to finance the import of Swiss machinery and repayment is to be over a two to five year period at interest rates up to 5-3/4 per cent.

Total Japanese short-term liabilities to the United States as reported by U.S. banks showed a marked rise of $153 million in December to a total preliminary level of $1,445 million. (See table below.) A large proportion of the short-term claims consist of commercial acceptance credits.

Short-term Claims on Japan
Reported by Banks in the United States
(In millions of U.S. dollars)

	1959	1960	1961		1959	1960	1961
Jan.	168	362	875	July	256	586	1,341
Feb.	175	372	952	Aug.	269	628	1,335
Mar.	204	420	1,069	Sept.	262	660	1,288
Apr.	224	456	1,159	Oct.	262	693	1,281
May	242	488	1,196	Nov.	275	711	1,292 P
June	260	497	1,272	Dec.	324	806	1,445 P

P = preliminary.

Foreign Exchange. The strengthening of the forward yen against the dollar, first noticeably evident last November, continued through mid-February when the forward discount fell to .06 per cent per annum. The forward discount had been as high as 1.33 per cent per annum early in November. The strengthening would appear to reflect increased confidence in the yen stemming from Japan's improved reserve position. The yen-dollar spot rate continued to remain at the official support point, unchanged since April 26, 1961.

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

Date	Yen-dollar spot middle rate	Three-month forward middle rate	Forward discount in per cent per annum
December 29	361.10	361.40	.33
January 5	361.10	361.35	.28
12	361.10	361.35	.28
19	361.10	361.30	.22
26	361.10	361.20	.11
February 2	361.10	361.20	.11
9	361.10	361.20	.11
15	361.10	361.15	.06

Asia, Africa, and Latin America Section.

III. Nine Charts on Financial Markets Abroad

Chart 1 - Interest Arbitrage, United States/Canada
Chart 2 - Interest Arbitrage, New York/London
Chart 3 - Interest Arbitrage for German Commercial Banks
Chart 4 - Interest Arbitrage, Frankfurt/London
Chart 5 - Short-term Interest Rates
Chart 6 - Long-term Bond Yields
Chart 7 - Industrial Stock Indices
Chart 8 - Spot Exchange Rates -- Major Currencies Against U.S. Dollar
Chart 9 - 3-month Forward Exchange Rates

Chart 1

INTEREST ARBITRAGE, UNITED STATES / CANADA

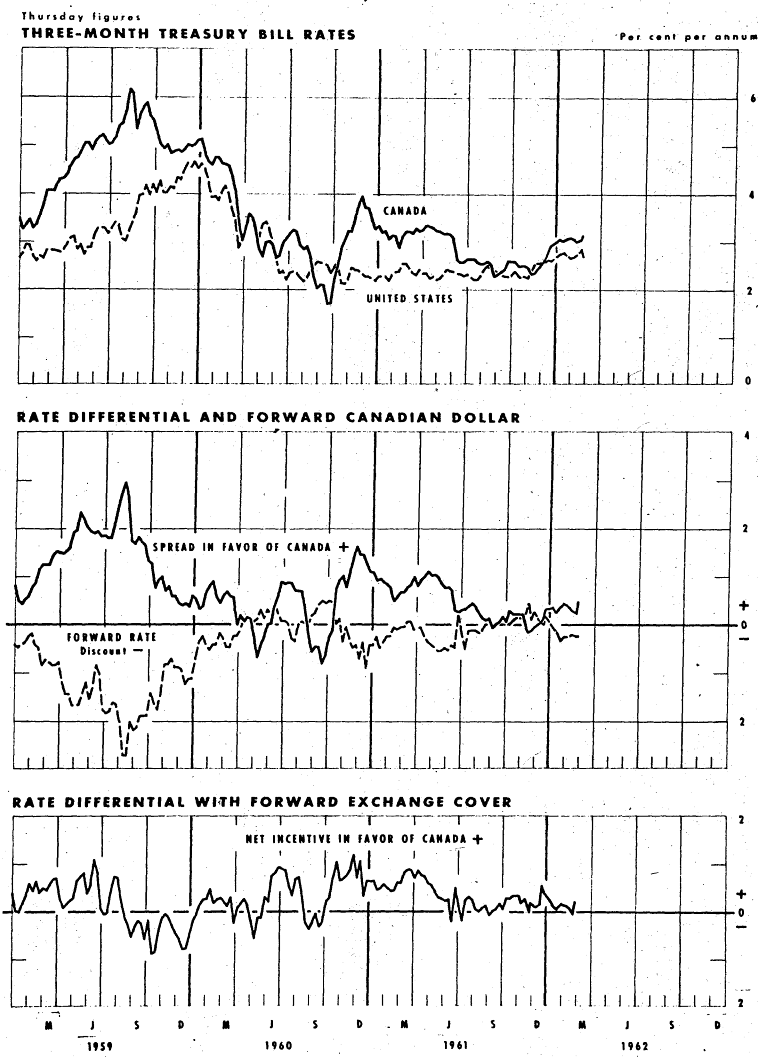

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Chart 2
INTEREST ARBITRAGE, NEW YORK/LONDON

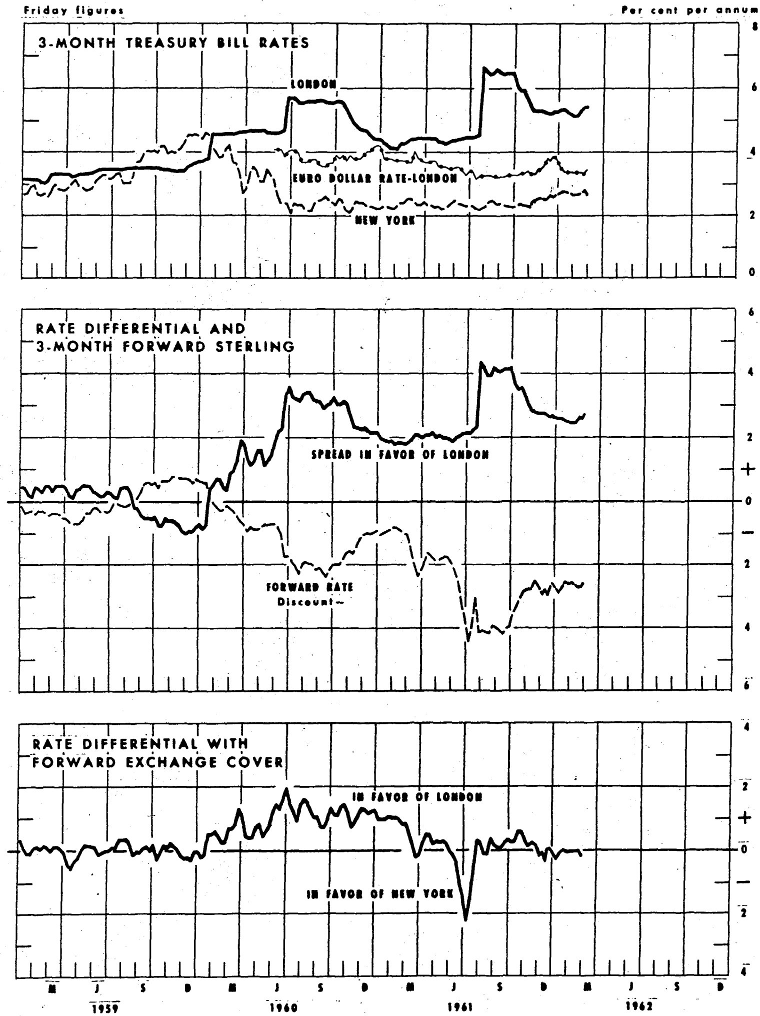

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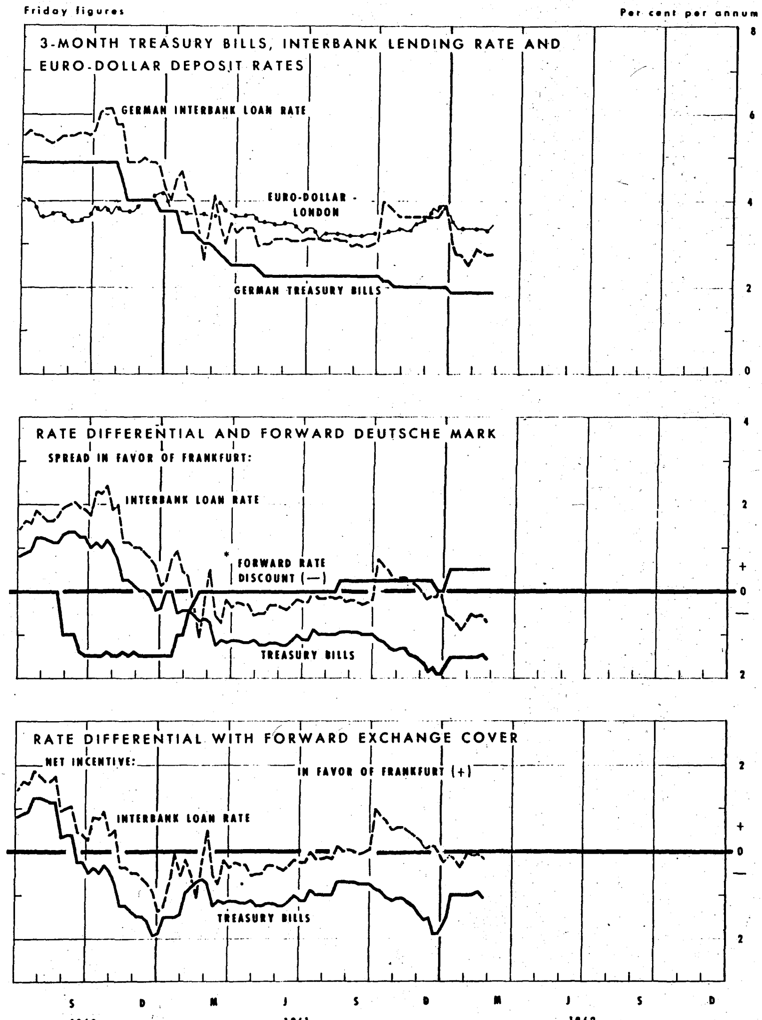
Chart 3

INTEREST ARBITRAGE FOR GERMAN COMMERCIAL BANKS



* Note: Special forward rate available to German commercial banks

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Chart 4

INTEREST ARBITRAGE, FRANKFURT / LONDON

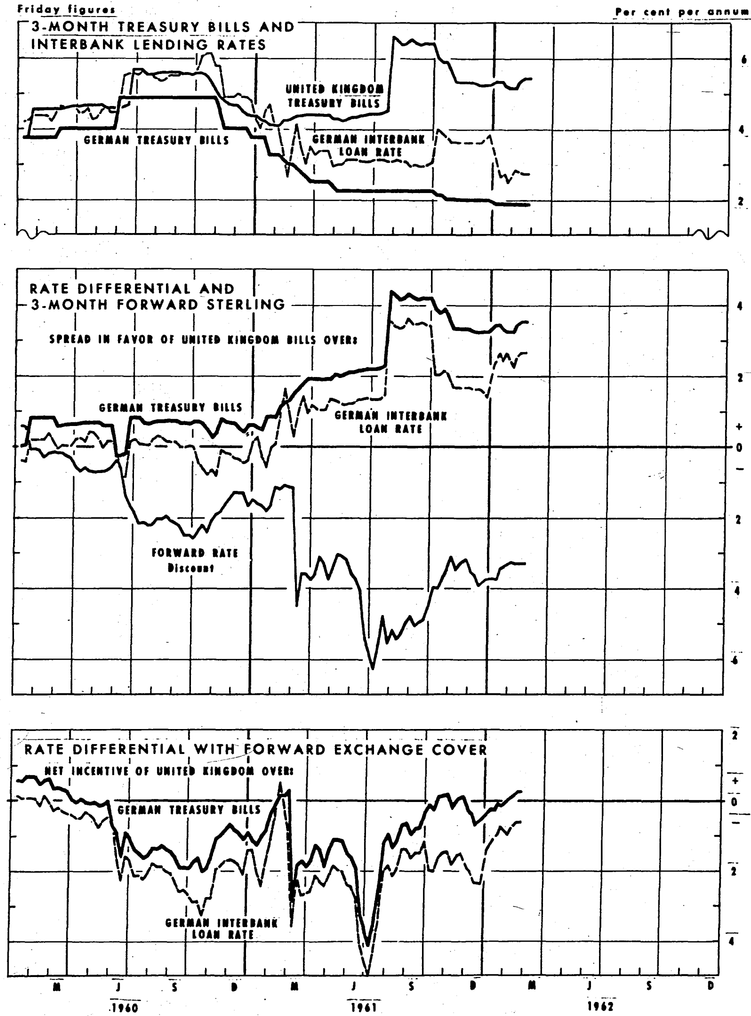
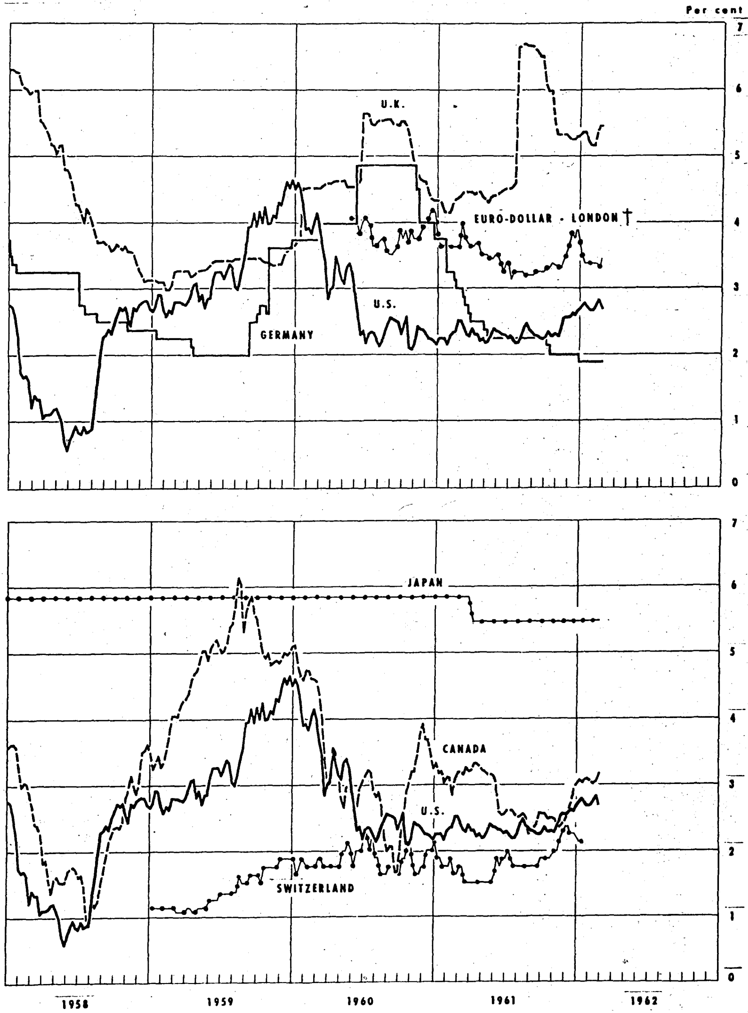


Chart 5

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

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Chart 6

LONG-TERM BOND YIELDS

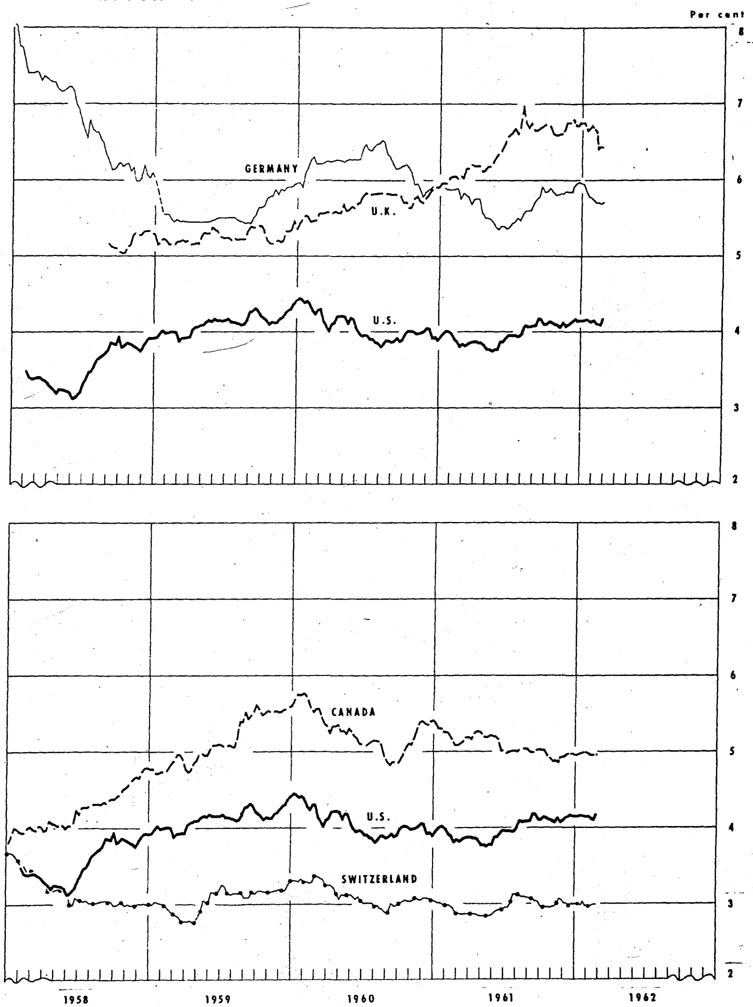

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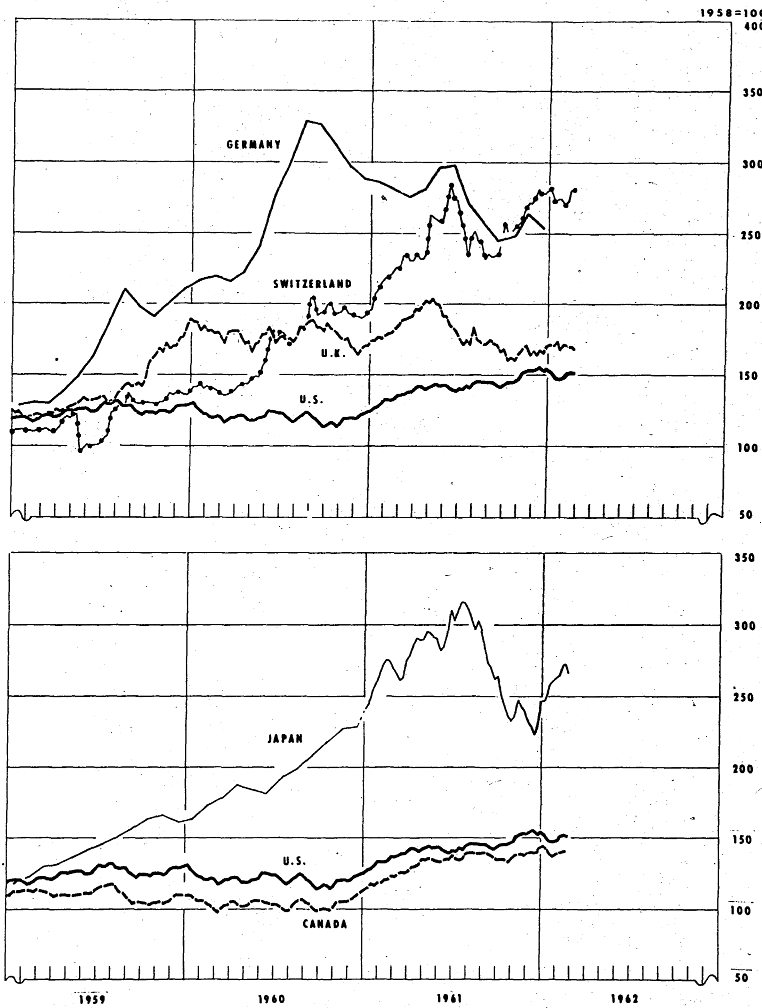
Chart 7

INDUSTRIAL STOCK INDICES*



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

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Chart 8

SPOT EXCHANGE RATES - MAJOR CURRENCIES AGAINST U.S. DOLLAR

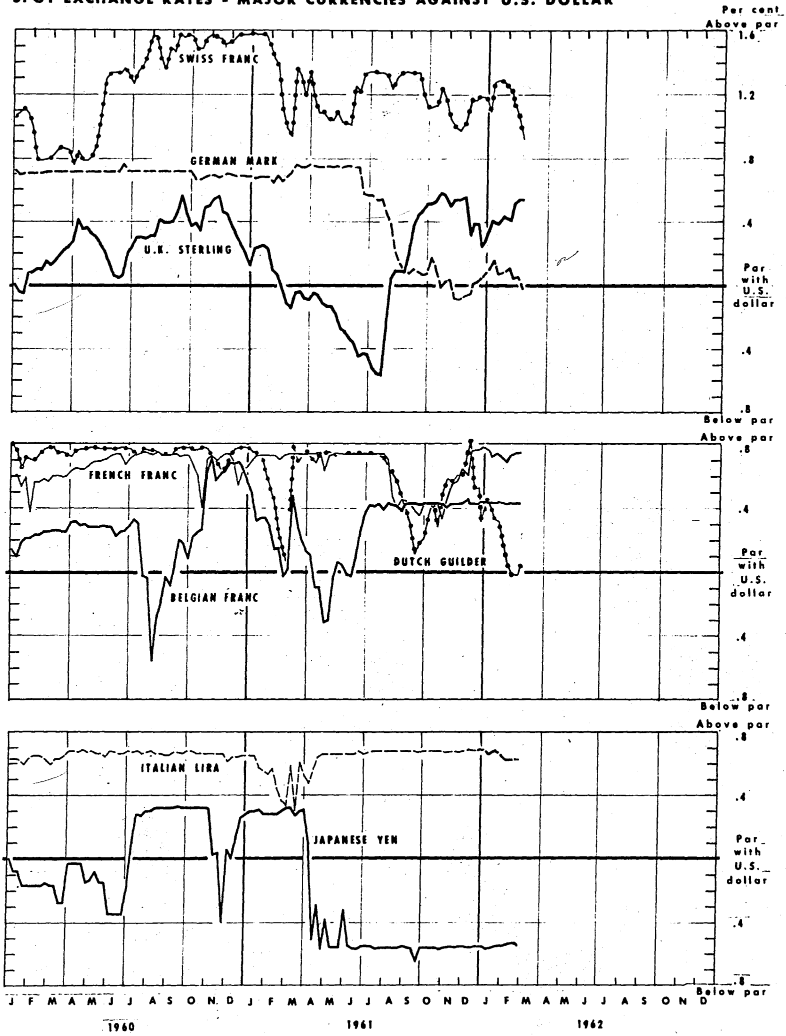

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Chart 9

3-MONTH FORWARD EXCHANGE RATES