H. 13  
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March 30, 1962

CAPITAL MARKET DEVELOPMENTS ABROAD

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

I. Japan: Money and Capital Markets in February

The money market continued to remain tight in February due primarily to a large Treasury cash surplus common at this time of the year. Call loan rates remained at about the same level as in January and the general level of interest rates continued to move up through January, though at a somewhat slower pace.

The balance of payments continued to improve as imports declined, though the trade gap remained large. International reserves rose \$4 million in February to \$1,514 due to continued short-term borrowing abroad. In February, Japan drew the last \$50 million instalment of the \$200 million credit arranged with three American banks last November and also \$13 million of a \$125 million credit arranged with seven American banks in January.

Money Market. Seasonally high net Treasury receipts kept money market conditions relatively tight in February. Liquidity in the business and financial community was reduced due to net Treasury receipts of ¥131 billion and a ¥7 billion increase in bank notes in circulation in February. This was only partly offset by a ¥59 billion expansion in Bank of Japan loans and discounts, and a special purchase by the Bank of ¥70 billion in government-guaranteed securities in order to counter the large Treasury surplus. These securities are to be repurchased in April.

Interest Rates. The average interest rate for bank loans and discounts continued to rise through January 1962, but since last October the rate of increase has slowed. From a low of 7.88 per cent in June 1961, the rate rose steadily to 8.20 per cent in December and then moved up slightly to 8.21 per cent in January. This slower rate of increase apparently reflects a diminishing of the upward pressures on interest rates brought on by last summer's credit tightening measures.

Average Monthly Interest Rates on  
Bank Loans and Discounts

	1959	1960	1961	1962
March	8.18	8.21	7.92	8.21 1/
June	8.08	8.22	7.88	
September	8.06	8.14	8.00	
December	8.11	8.08	8.20	

1/ January.

Bank Loans and Discounts. Continuing the trend that began in mid-1961, bank credit in January rose less rapidly than a year earlier. Total holdings of loans, discounts and securities were up 0.4 per cent in January compared to a

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DECONTROLLED AFTER SIX MONTHS

0.7 per cent rise in January 1961. Bank loans alone, on the other hand, rose at a higher rate than a year earlier. Deposits fell 3.1 per cent in January, following a seasonal high in December, compared to a drop of 1.6 per cent in January of 1961. Details on bank deposits and assets are provided in the table below.

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	Bills Discounted	Per cent change	Securities	
1959 I	+201	3.1	+143	3.6	+ 21	1.2	+ 51
II	- 22	-0.3	+ 83	2.0	+ 86	4.9	+ 62
III	+276	4.1	+136	3.2	+149	8.1	+ 58
IV	+475	6.8	+207	4.7	+169	8.5	+ 66
1960 I	+249	3.4	+176	3.8	+ 54	2.5	+ 78
II	+ 96	1.3	+167	3.5	+ 87	3.9	+ 75
III	+506	6.5	+244	4.9	+172	7.5	+ 35
IV	+607	7.3	+347	6.7	+185	7.5	+127
1961 I	+502	5.7	+326	5.9	+ 48	1.8	+103
Jan.	-140	-1.6	+ 68	1.2	- 23	-0.9	+ 26
II	+169	1.8	+206	3.5	+133	4.9	+104
III	+359	3.8	+216	3.6	+206	7.3	+ 43
IV	+430	4.3	+232	3.7	+220	7.2	+122
1962 Jan.	-321	-3.1	+ 85	1.3	- 62	-1.9	+ 26

Deposits of the 13 large city banks rose in February, but at a much slower rate than a year earlier. Their loans also increased, but at a somewhat slower pace than a year ago.

The proportion of bank loans and discounts extended for purchases of equipment rose to 17.2 per cent in January, thus returning to the October-November 1961 level after a seasonal dip in December.

**Bond Market.** The volume of new monthly issues of bonds and debentures fell to ¥93 billion in January following a December high of ¥101 billion. New monthly issues of industrial debentures continued their decline from the March 1961 high of ¥89 billion and in January amounted to only ¥10 billion. The volume of new issues of other securities was also off in January, bank debenture issues declining from ¥66 billion in December to ¥63 billion in January and public corporate debentures dropping from ¥23 billion in December to ¥21 billion in January.

Japan also successfully placed a \$25 million (DM 100 million) bond issue in the German capital market in February. (See Capital Market Developments Abroad, March 2, 1962.)

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Stock Market. Stocks eased off from mid-February to mid-March following a 26 per cent advance from the December low. The Dow Jones average declined from ¥1,590 on February 14 to ¥1,455 on March 14 or by 9 per cent. During the last half of March stocks moved up slightly.

Dow Jones Average of 225 Stocks  
Tokyo Stock Exchange

January 31	¥ 1,511	March 7	¥ 1,505	1961 High	¥ 1,830
February 7	1,553	14	1,455	Low	¥ 1,258
14	1,590	20	1,494		
21	1,525	28	1,477	1962 High	¥ 1,590
28	1,503			Low	¥ 1,403

On February 9 the Tokyo Shibaura Electric Company successfully floated a \$9.3 million issue of 600,000 ADR (American Depository Receipts) shares in the New York market, the second successful issue of ADR shares in the United States since June 1961.

Foreign Trade and Capital Flows. The trade deficit, based on seasonally adjusted customs data, continued to narrow in February reaching \$93 million compared with a peak of \$223 million last October. Exports in February, also seasonally adjusted, rose to a new high, slightly above the December level, and imports continued their downward trend from the November 1961 high. Despite this improvement, however, the trade gap is still too large to be covered by net invisible receipts. The monthly averages of seasonally adjusted trade figures on a customs basis (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	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	494	-142
	February	388	481	- 93

The current account deficit, as measured on an exchange transactions basis, narrowed in February to \$49 million, about the same level as in November and December last year. Imports were at lower levels than earlier

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and exports recovered from a seasonal dip in January. Long-term capital receipts were \$49 million and included \$25 million in proceeds from a bond issue in Germany and \$9 million from an ADR issue of Tokyo Shibaura Electric stock in New York. Long term capital outpayments at \$50 million were also large due to retirement of the \$39 million in British Sterling Bonds of 1905. Net short-term capital receipts at \$47 million reflected the additional borrowing from U.S. banks and the rise in Euro-dollar and free yen deposits offset by a substantial reduction in short-term claims on foreigners. The over-all balance of payments showed a surplus in February of \$4 million including unexplained receipts of \$6 million.

Total Japanese short-term liabilities to the United States as reported by U.S. banks rose \$66 million in January to a preliminary level of \$1,511 million. (See table below.) Following a downtrend from July through November, liabilities have now risen for a two month period.

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

	<u>1959</u>	<u>1960</u>	<u>1961</u>	<u>1962</u>		<u>1959</u>	<u>1960</u>	<u>1961</u>
Jan.	168	362	875	1,511 P	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
June	260	497	1,272		Dec.	324	806	1,445 P

P = preliminary.

Foreign Exchange. The strengthening of the yen in the forward market, which began last November, ended in mid-February. From a discount of 0.06 per cent per annum on February 15, the discount rose gradually to 0.28 per cent on March 15. Indications that industrial activity may not be slowing sufficiently to correct the balance of payments problem may account in part for the recent weakening of the yen in the forward market. The yen dollar spot rate continued to remain at the official support point, unchanged since April 26, 1961.

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

<u>Date</u>	<u>Yen-dollar spot middle rate</u>	<u>Three-month forward middle rate</u>	<u>Forward discount in per cent per annum</u>
January 26	361.10	361.20	.11
February 2	361.10	361.20	.11
9	361.10	361.20	.11
16	361.10	361.20	.11
23	361.10	361.20	.11
March 2	361.10	361.20	.11
9	361.10	361.35	.28
15	361.10	361.35	.28

Asia, Africa, and Latin America Section.

II. Nine Charts on Financial Markets Abroad

- Chart 1 - Interest Arbitrage, United States/Canada
- Chart 2 - Interest Arbitrage, New York/London
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Against U.S. Dollar
- Chart 9 - 3-month Forward Exchange Rates

**INTEREST ARBITRAGE, UNITED STATES / CANADA**

Thursday figures

**THREE-MONTH TREASURY BILL RATES**

Per cent per annum

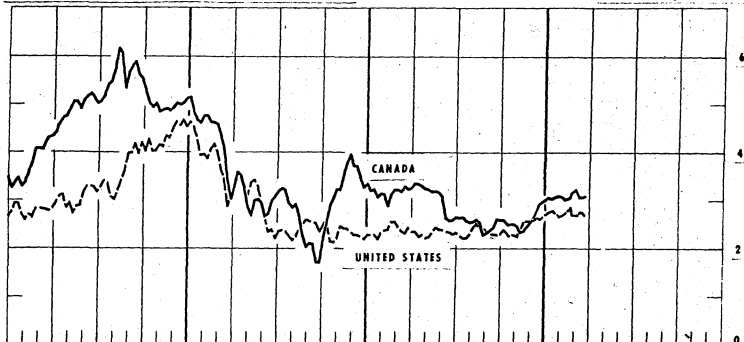
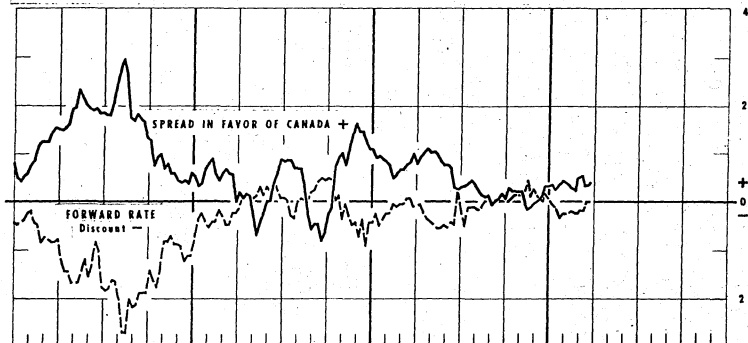
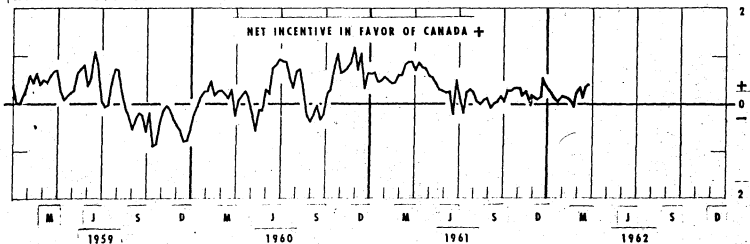
**RATE DIFFERENTIAL AND FORWARD CANADIAN DOLLAR****RATE DIFFERENTIAL WITH FORWARD EXCHANGE COVER**

Chart 2

# INTEREST ARBITRAGE, NEW YORK/LONDON

Friday figures

Per cent per annum

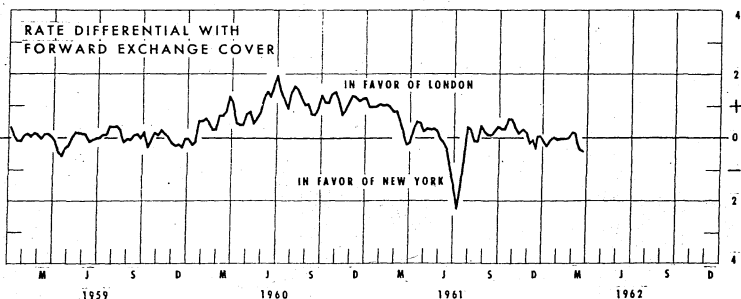
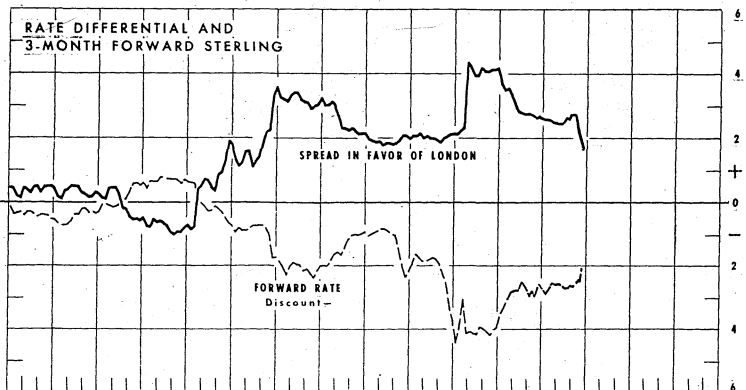
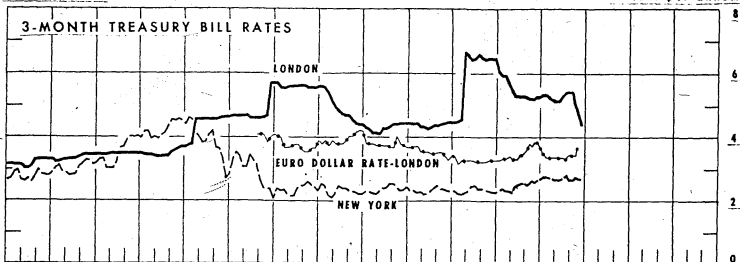
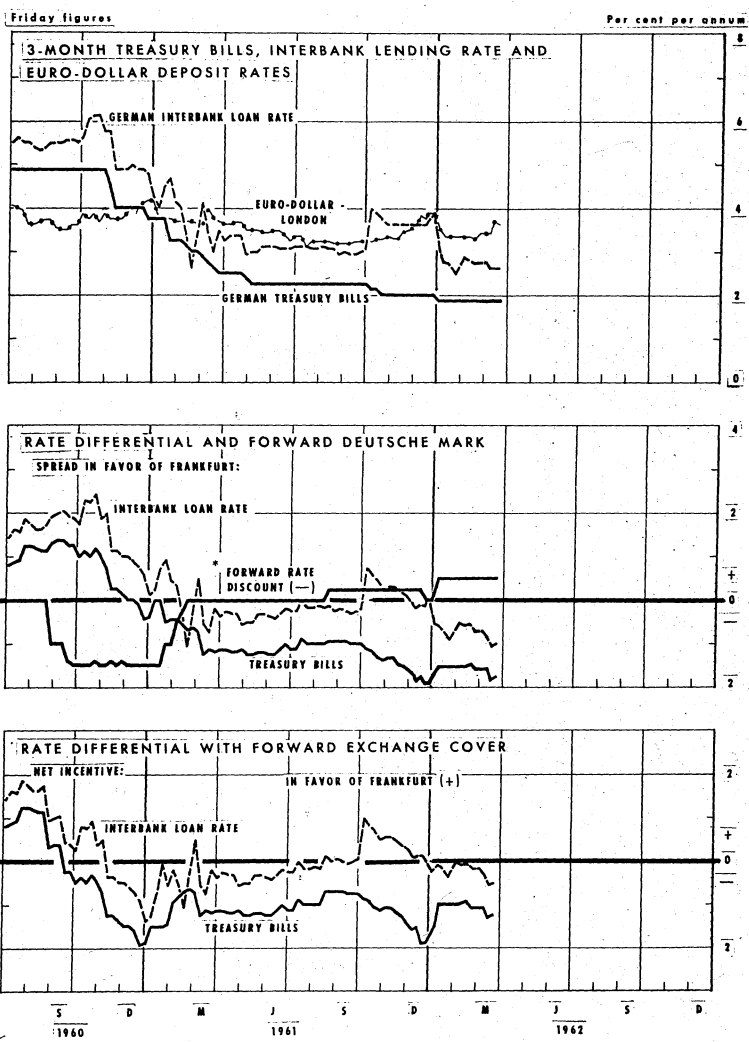


Chart 2  
**INTEREST ARBITRAGE FOR GERMAN COMMERCIAL BANKS**



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



Chart 4

# INTEREST ARBITRAGE, FRANKFURT / LONDON

Friday figures

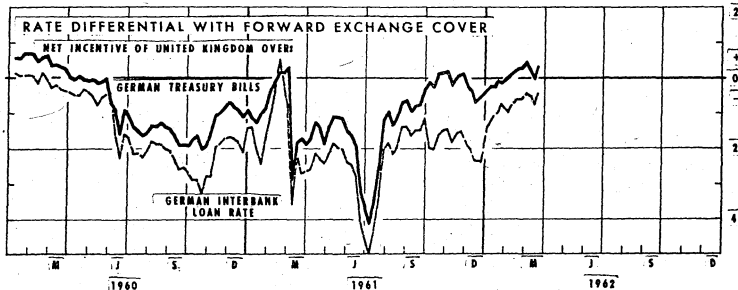
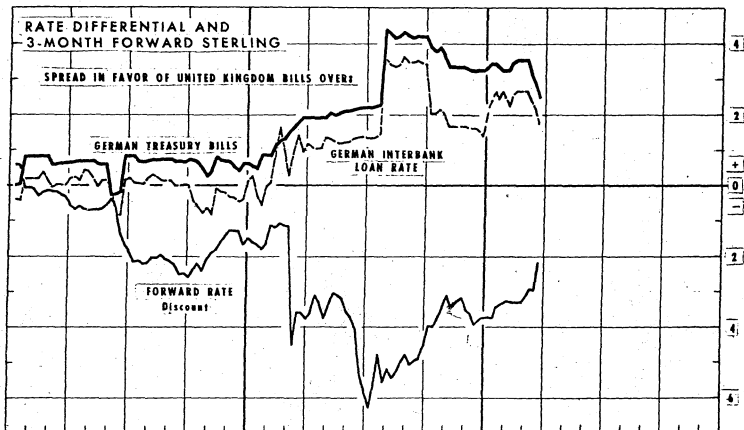
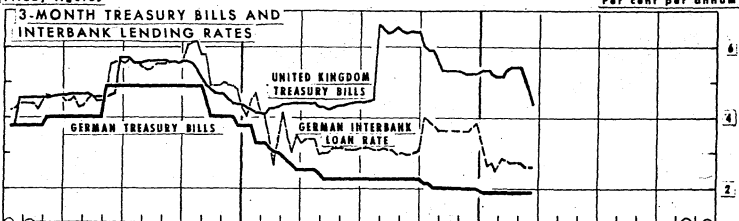
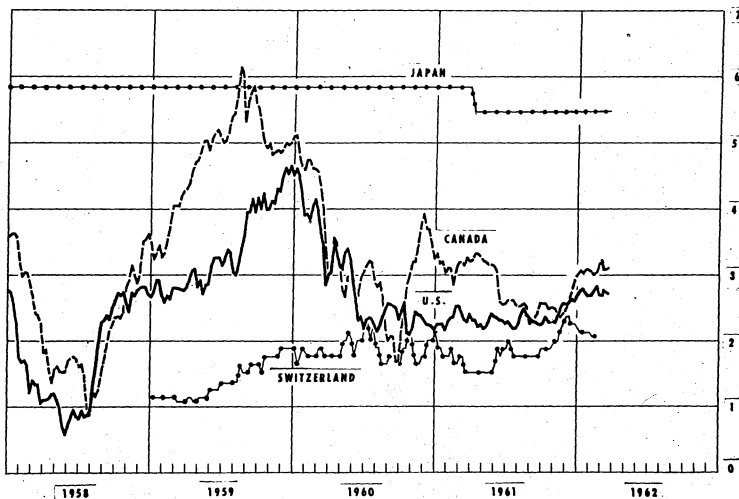
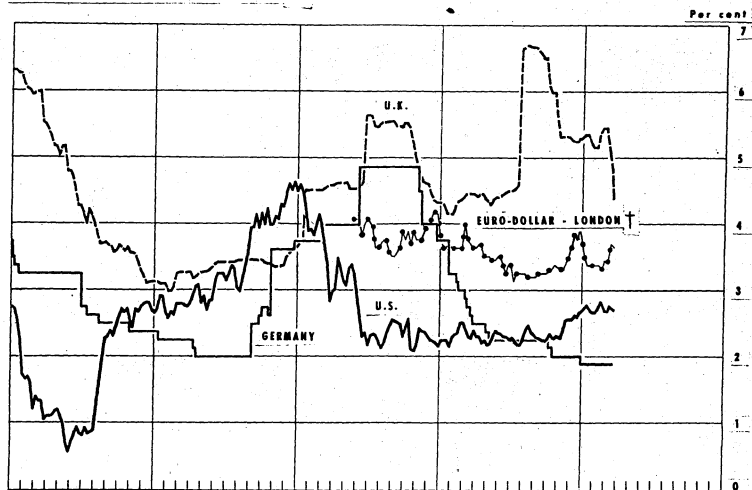


Chart 5  
**SHORT-TERM INTEREST RATES \***



\* 3-month treasury bill rates for all countries except Japan (3-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

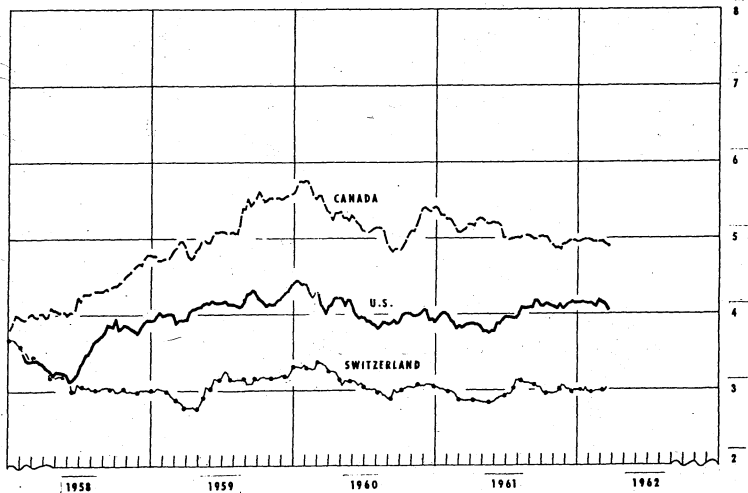
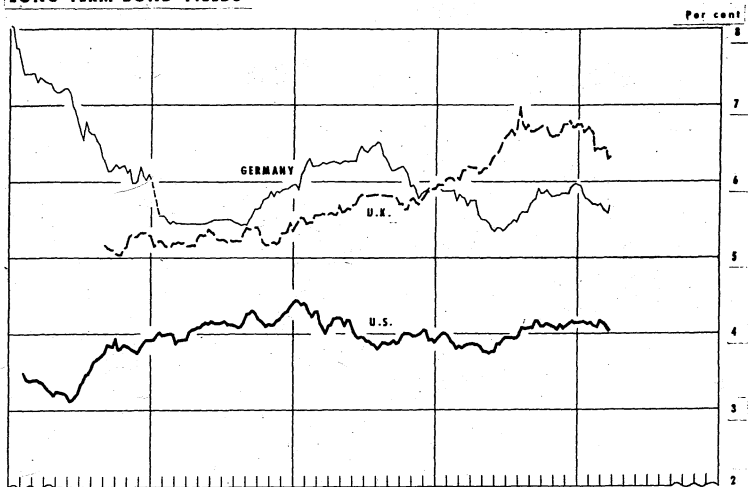
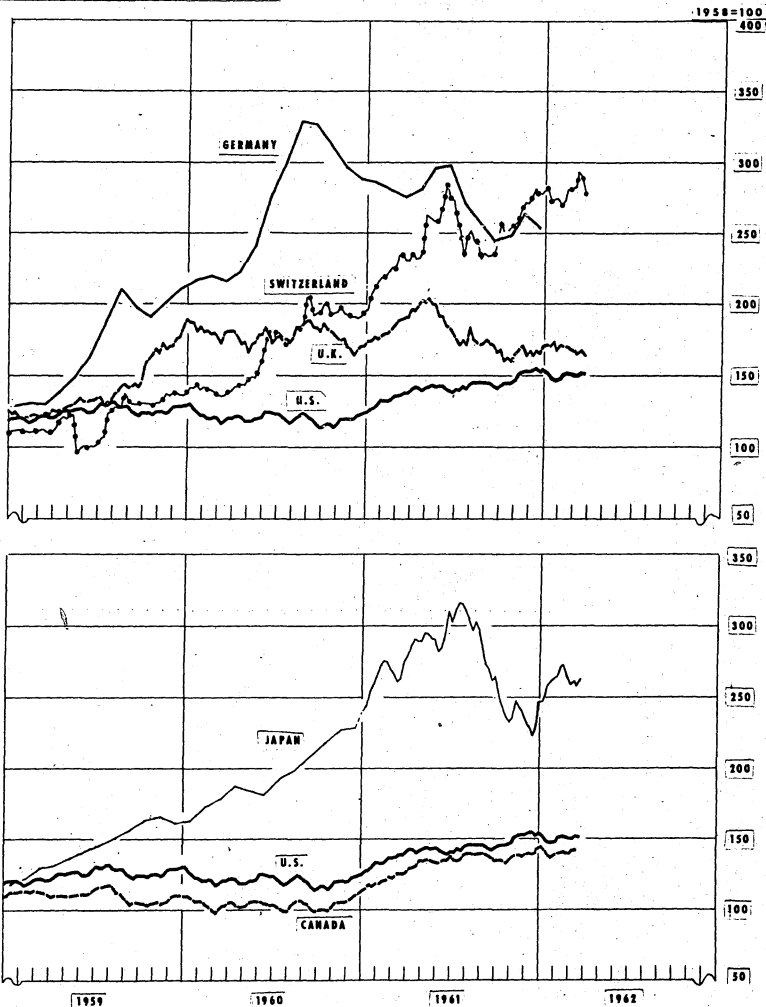


Chart 7

**INDUSTRIAL STOCK INDICES\***



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

Chart 6.

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

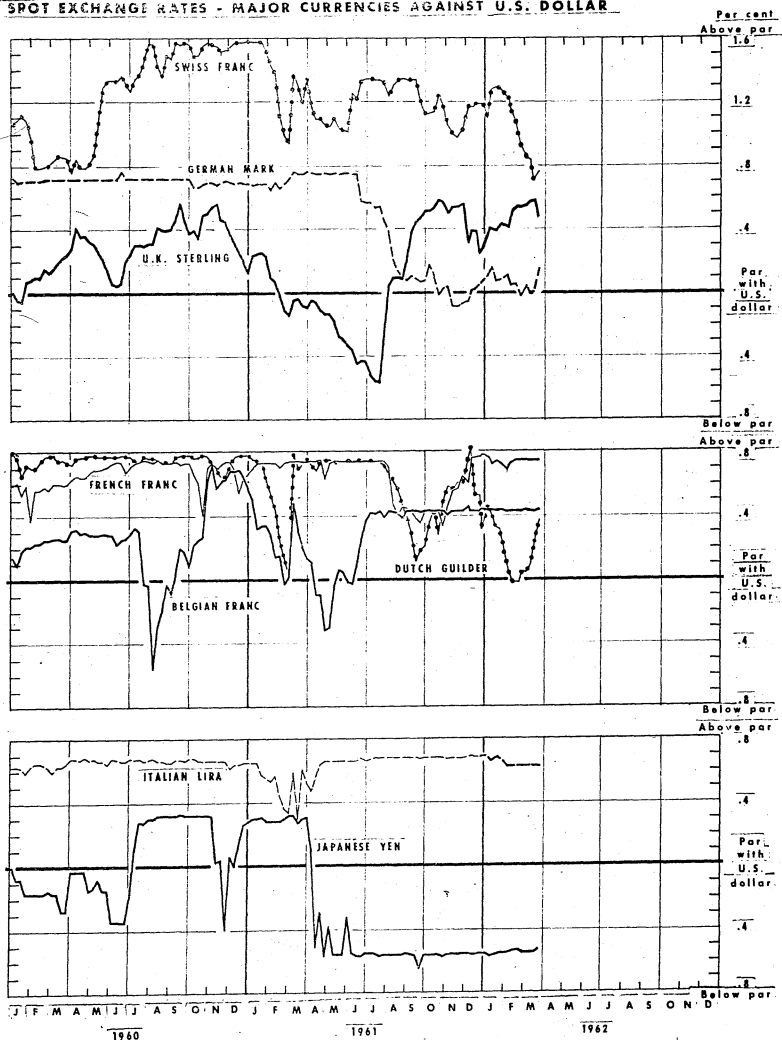


Chart 9

**3-MONTH FORWARD EXCHANGE RATES**

