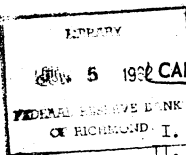


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No. 62

June 1, 1962

CAPITAL MARKET DEVELOPMENTS ABROADJapan
II. Nine Charts on Financial Markets AbroadI. Japan: Money and Capital Markets in April

Japanese residents in recent months continued to borrow substantial amounts from the United States. Borrowings from U.S. banks increased \$83 million in March and additional loans were reported to have been obtained in April. From all sources, a net short-term capital inflow into Japan of \$20 million in March and \$67 million in April is shown by Japanese statistics on foreign exchange transactions. In the longer-term field, two Japanese security issues aggregating \$33 million were offered in the U.S. capital market in April and May.

To restrain Japanese domestic credit expansion and borrowings abroad, the Ministry of Finance announced in April and May several measures basically designed to achieve these aims. These included a requirement that Japanese exchange banks hold a 20 per cent reserve in foreign exchange against all their short-term foreign liabilities except acceptance credits. These are probably in excess of \$500 million. The banks have also been required to limit their guarantees on foreign borrowings to the current amounts outstanding. These restraints have been necessitated by the high volume of foreign borrowings, often at high interest rates, for domestic financing which has undercut, to some extent, the tight money policy being pursued in Japan.

Japanese money markets continued to remain tight in April as commercial banks repurchased some of the securities taken up by the Bank of Japan in February. The February purchases by the Bank were aimed at offsetting the adverse impact on financial liquidity caused by large treasury cash receipts that month.

The Japanese stock market continued to ease off since the February high and between May 26 and May 31, declined 2.6 per cent, largely reflecting the current sharp declines in the U.S. stock market.

Money Market. Money market conditions remained relatively tight in April as banks repurchased securities taken up by the Bank of Japan in February. Contractionary developments included an ¥11 billion drop in Bank of Japan loans and discounts, an ¥11 billion expansion in bank notes in circulation, and a ¥285 billion decline in Bank of Japan bond holdings largely reflecting commercial bank repurchases. Only partly offsetting these developments was a net treasury outpayment in April of ¥183 billion.

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DECONTROLLED AFTER SIX MONTHS

Interest Rates. The average interest rate for bank loans and discounts rose only slightly from 8.209 per cent in January to 8.213 in February. As indicated in the table below, the rate has been relatively stable since December 1961 following a rise from the low of 7.88 per cent in June 1961.

Average Monthly Interest Rates on Bank Loans and Discounts

	<u>1959</u>	<u>1960</u>	<u>1961</u>	<u>1962</u>
March	8.18	8.21	7.92	8.21 ^{1/2}
June	8.08	8.22	7.88	
September	8.06	8.14	8.00	
December	8.11	8.08	8.20	

^{1/2} February.

Bank Loans and Discounts. Bank credit in the first quarter of 1962 rose 1.8 per cent compared to 4.9 per cent a year earlier. As indicated in the table below, the rise in loans and bills discounted was less than a year earlier, and security holdings dropped \$64 billion in the first quarter compared to a rise of \$103 billion a year ago. Deposits also increased more slowly in the first quarter than a year earlier, rising 1.2 per cent compared to 5.7 per cent in the first quarter of 1961.

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

	M A I N A S S E T S							
	Deposits		Loans		Bills Discounted		Securities	
	Per cent change	Per cent	Per cent change	Per cent	Per cent change	Per cent	Per cent change	Per cent
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
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
1962 I	+128	1.2	+256	3.9	+ 14	0.4	- 64	-3.4

The proportion of bank loans and discounts extended for purchases of equipment rose to 17.3 per cent in March, slightly higher than the level during the previous five months except for a seasonal dip in December.

Bond Market. New issues of public corporate bonds were seasonally large in March, the last month of the fiscal year, totalling ¥38 billion, or almost double the February level of ¥20 billion. New issues of bank debentures were also up sharply in March to ¥77 billion, compared to a range of ¥62 - ¥66 billion monthly since last September. Industrial debenture issues were about the same in March as in February. The volume of total new issues in March was ¥129 billion, up sharply from the level in previous months, but not as high as the ¥175 billion volume in March 1961 when there were exceptionally large issues of industrial debentures.

Average yields on government bonds and debentures in March were unchanged, but yields on private industrial debentures rose slightly.

On April 25 a ¥2 billion (\$5.55 million), 7 per cent issue of Japanese Air Line bonds was marketed. The bonds were sold only in Japan and are guaranteed by the government. Proceeds will be used to finance the purchase of new jet aircraft and to repay a long-term loan from the U.S. Export-Import Bank.

Stock Market. Stocks have generally been easing off following a high for the year in February. Stocks were off in the first week of April but recovered somewhat by mid-month. A subsequent easing through April 25, when the average was at ¥1,342, was followed by a recovery to ¥1,445 on May 11. During the rest of May, the average declined and between May 26 and May 31, the market dropped 2.6 per cent, reflecting primarily the sharp declines in the U.S. stock market. Details on the averages are provided in the table below.

Dow Jones Average of 225 Stocks
Tokyo Stock Exchange

March 28	¥1,477	May 2	¥1,367	1961 High	¥1,830
April 4	1,417	9	1,414	Low	¥1,250
11	1,420	16	1,436		
18	1,360	23	1,400	1962 High	¥1,590
25	1,342	30	1,362	Low	¥1,342

Despite the general downtrend in the Japanese market, U.S. investors purchased all of the 1,250,000 shares of a new investment company, The Japan Fund Inc., offered in New York on April 12.

Foreign Trade and Capital Flows. Japan's commodity trade position worsened in April as seasonally adjusted exports fell and imports rose in relation to the March levels. The trade deficit rose from \$89 million in March to \$130 million in April. Recent seasonally adjusted trade figures (monthly or monthly averages on a customs basis in millions of dollars) are:

		<u>Exports</u>	<u>Imports</u>	<u>Trade Balance</u>
1960	Year	337	375	- 38
	IV	353	395	- 42
1961	Year	353	486	-133
	I	346	420	- 74
	II	350	466	-116
	III	355	511	-156
	IV	360	547	-187
	October	347	556	-209
	November	356	567	-211
	December	376	516	-140
1962	January	355	494	-138
	February	389	481	- 92
	March	381	470	- 89
	April	358	488	-130

Japan's international reserves fell \$2 million in April to \$1,559 million. The deficit on current account, as measured on an exchange transactions basis, rose from \$20 million in March to \$44 million in April. Short-term capital receipts at \$67 million in April were up considerably from the levels in February and March when they were \$48 and \$20 million, respectively. Part of the short-term inflow reflected a further drawing of \$20 million on the \$125 million credit arranged with U.S. banks in January. Through April, \$53 million of this credit had been drawn. Net long-term capital receipts were \$7 million in April, down from the \$35 million level in March. The over-all balance of payments registered a deficit of \$2 million in April including unexplained outpayments of \$32 million.

Total Japanese short-term liabilities to the United States as reported by U.S. banks rose \$83 million in March to a preliminary level of \$1,681 million. Japanese borrowing from the U.S. in the four months ending March 1962 rose \$389 million, as the following statistics of short-term claims on Japan reported by banks in the United States (in millions of U.S. dollars) show:

	<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	July	256	586	1,341
Feb.	175	372	952	a/1,598	Aug.	269	628	1,335
Mar.	204	420	1,069	a/1,681	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

a/ Preliminary estimate.

The American capital market absorbed two Japanese security flotations in April and May. On April 11, American investors purchased the entire 1,250,000 shares of the Japan Fund Inc. offered at \$12.50 a share for a total sales value of \$15.6 million. On May 15, the Japan Development Bank successfully floated a \$17.5 million issue of 15-year, 6 per cent guaranteed external loan bonds at a price of \$96 per share to yield 6.41 per cent.

In April and May the government took five steps to discourage domestic credit expansion and foreign borrowings. Briefly, stated, these include the following requirements: (1) that Japanese foreign exchange banks, in effect, desist from making loans to a Japanese resident, or from allowing him to withdraw a compensating balance, against a non-resident free yen balance; (2) that foreign exchange banks and four large security companies give prior notice to the government before undertaking negotiations on medium- and long-term borrowing from foreign lenders; (3) that exchange banks maintain a 20 per cent reserve behind short-term foreign liabilities excluding acceptance credits; (4) that exchange banks limit their guarantees on foreign debts to the current amounts outstanding; and (5) that overseas subsidiaries of Japanese trading firms submit regular reports to the government on their borrowing operations.

Foreign Exchange. Exchange rates remained relatively unchanged during April and the first half of May. During the last three trading days of April, the rate for the yen against the dollar in the forward market weakened slightly, the forward discount rising from .17 to .28 per cent per annum; but in May, the forward rate returned to its previous level. The yen dollar spot rate remained at the official support level during April and the first half of May.

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

Date	Yen-dollar spot	Three-month	Forward discount in
	middle rate	Forward middle rate	per cent per annum
March 30	359.60	361.25	1.84
April 6	361.10	361.25	.17
13	361.10	361.25	.17
20	361.10	361.25	.17
27	361.10	361.35	.28
May 4	361.10	361.25	.17
11	361.10	361.25	.17
15	361.10	361.25	.17

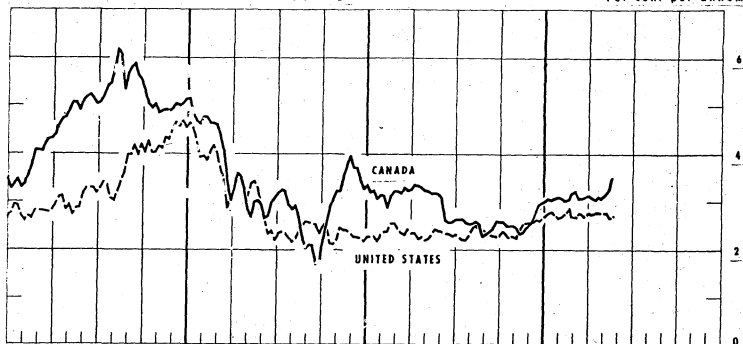
Chart 1

INTEREST ARBITRAGE, UNITED STATES / CANADA

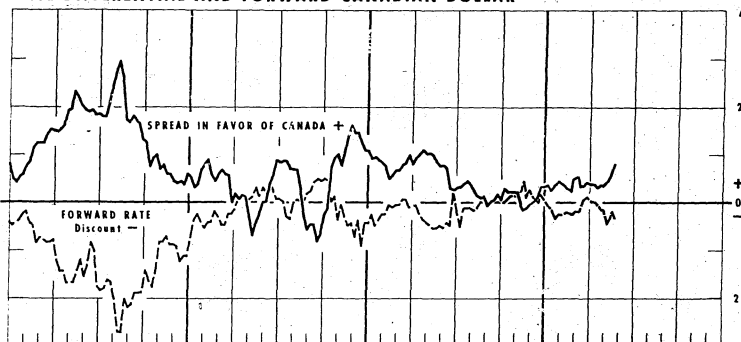
Thursday figures

THREE-MONTH TREASURY BILL RATES

Per cent per annum



RATE DIFFERENTIAL AND FORWARD CANADIAN DOLLAR



RATE DIFFERENTIAL WITH FORWARD EXCHANGE COVER

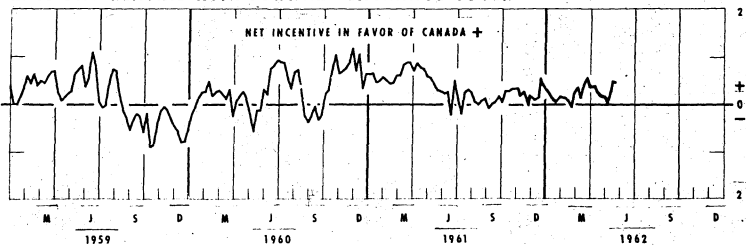


Chart 2

INTEREST ARBITRAGE, NEW YORK/LONDON

Friday figures

Per cent per annum

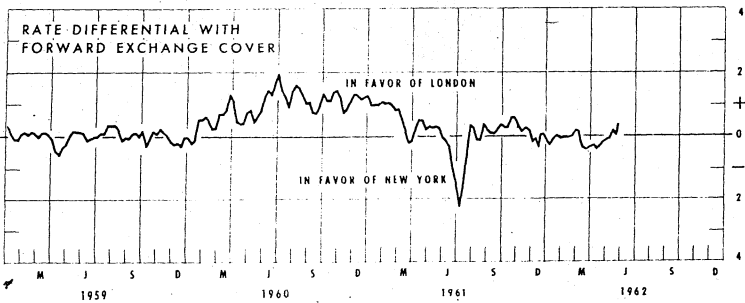
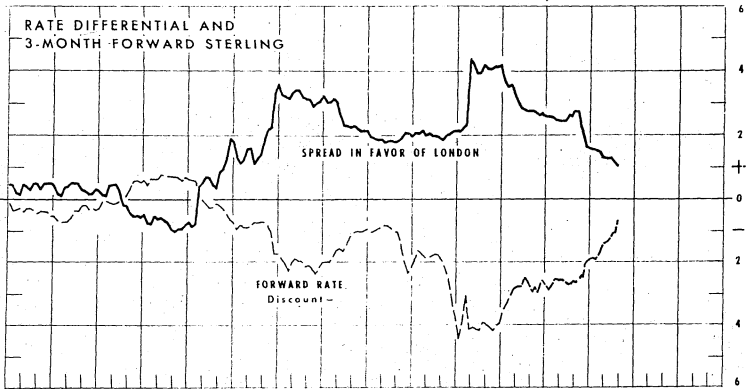
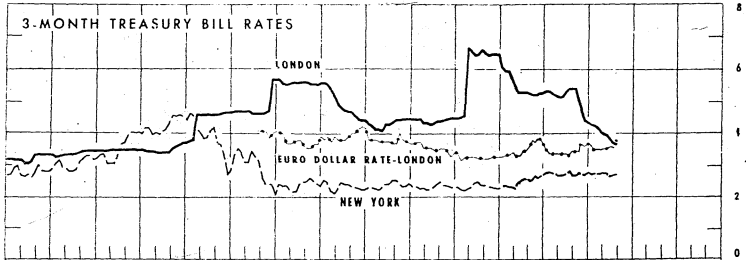
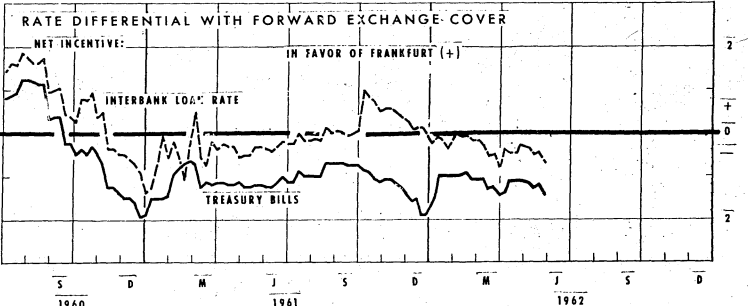
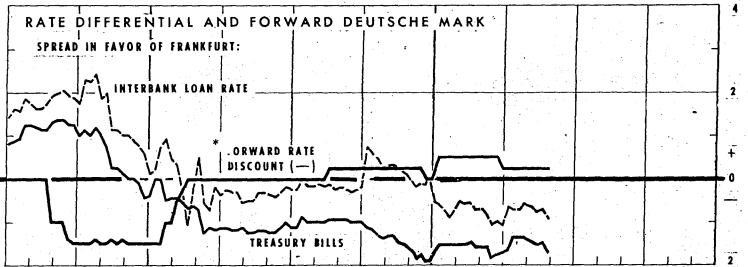
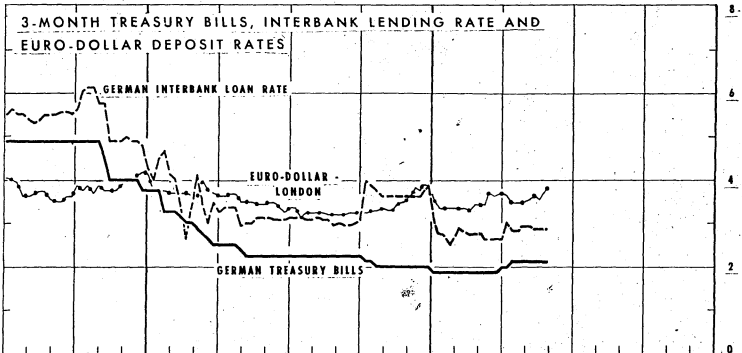


Chart 3

INTEREST ARBITRAGE FOR GERMAN COMMERCIAL BANKS

Friday figures Per cent per annum



Note: Special forward rate available to German commercial banks

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Chart 4
INTEREST ARBITRAGE, FRANKFURT / LONDON

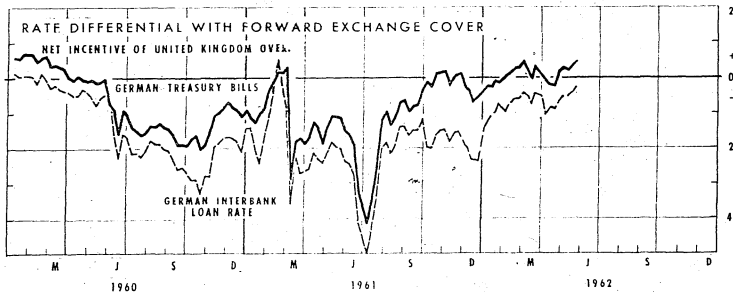
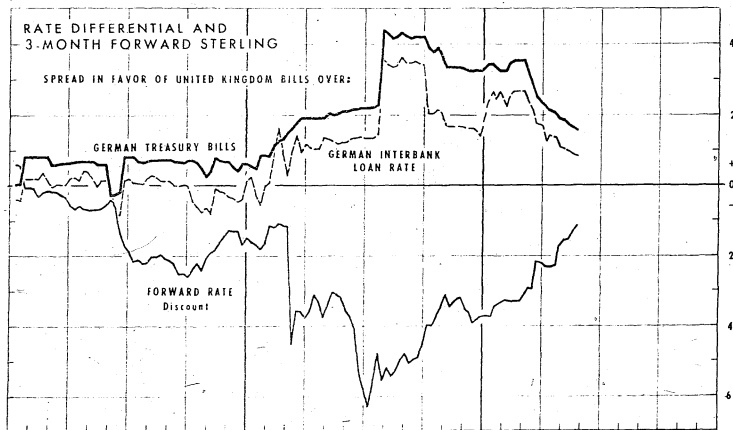
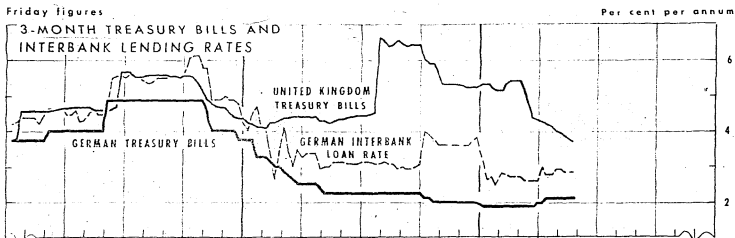
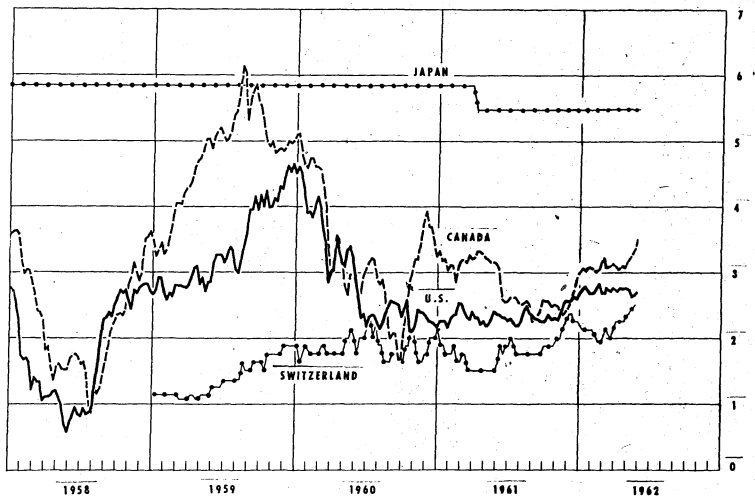
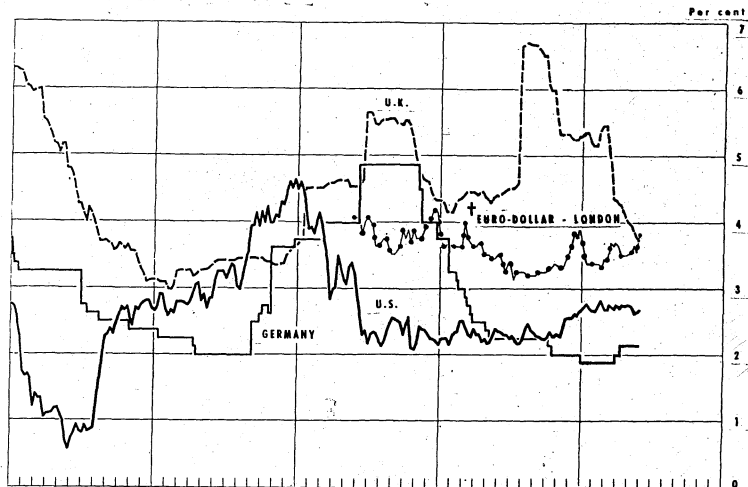


Chart 3

SHORT-TERM INTEREST RATES *



*: 3-month treasury bill rates for all countries except Japan (1-month interbank deposit rate) and Switzerland (1-month deposit rate).

† 3-month rate for U. S. dollar deposits in London

Chart 6

LONG-TERM BOND YIELDS

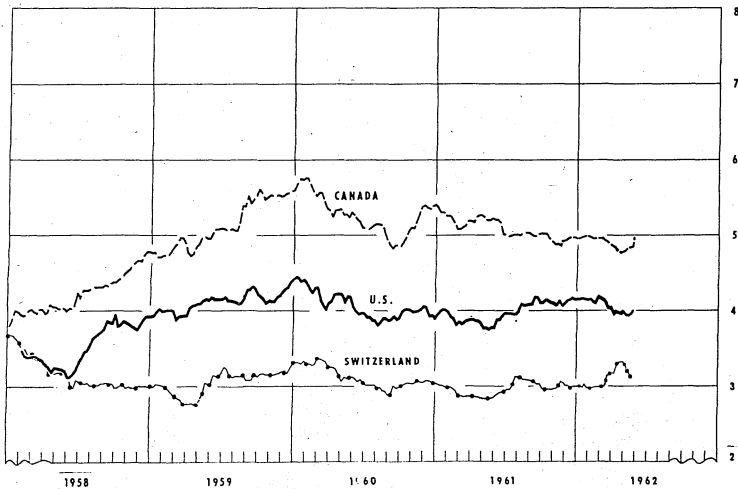
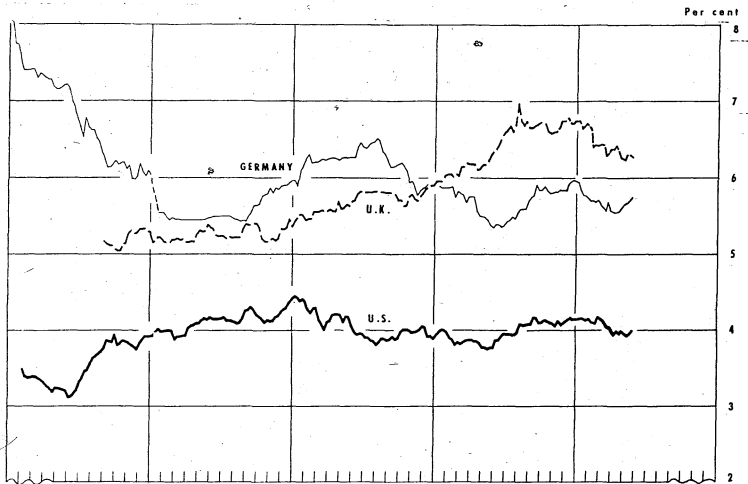
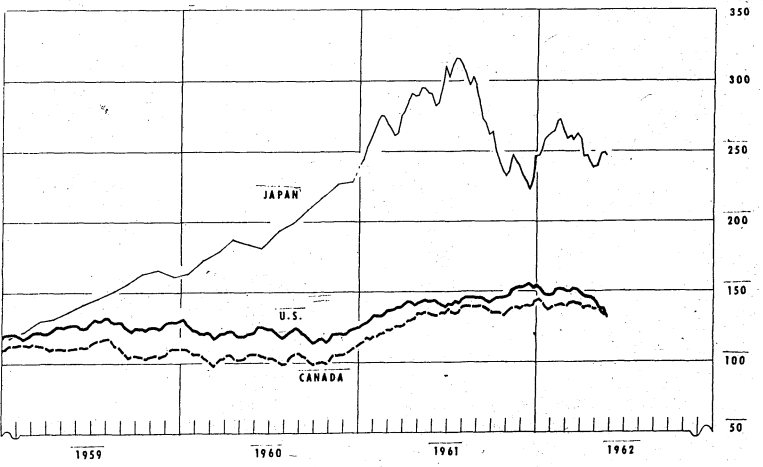
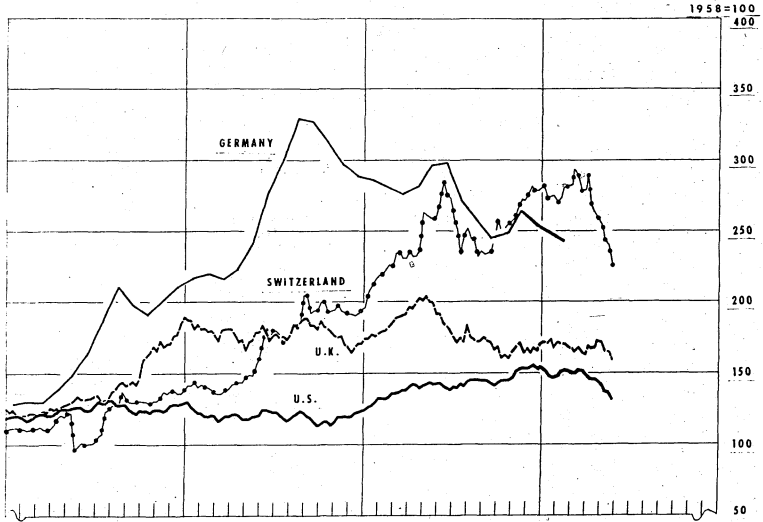


Chart 7

INDUSTRIAL STOCK INDICES*



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

Chart 6
SPOT EXCHANGE RATES - MAJOR CURRENCIES AGAINST U.S. DOLLAR

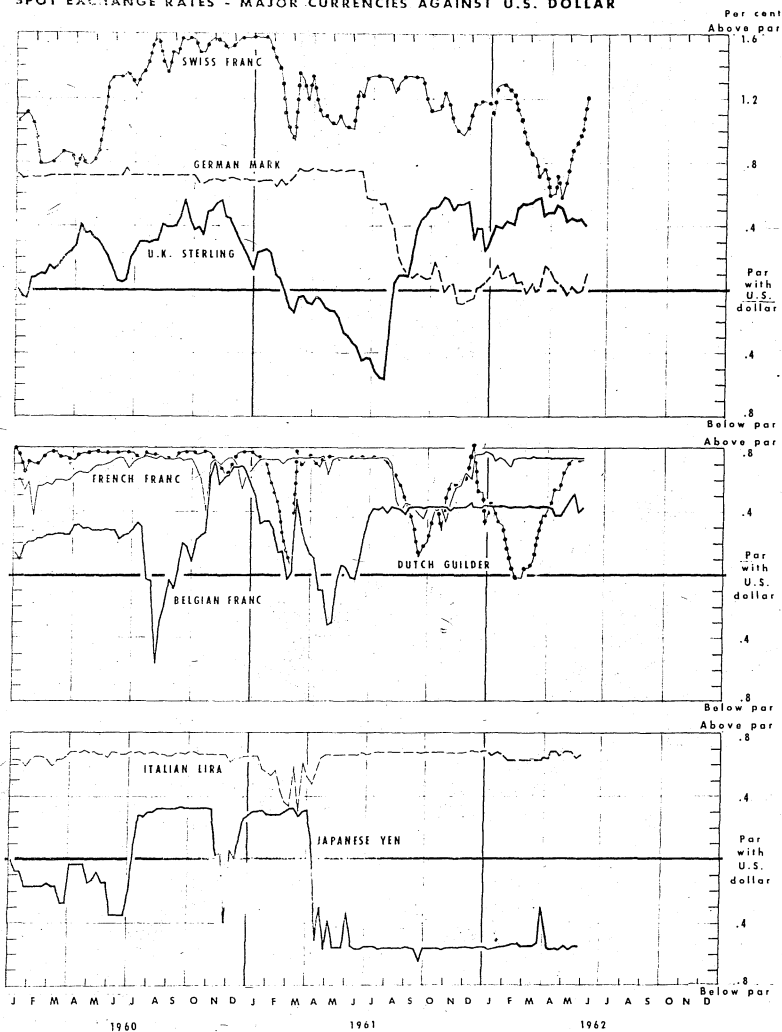


Chart 9

3-MONTH FORWARD EXCHANGE RATES

Per cent per annum

