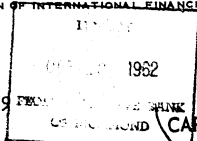


H. 13

No. 79



October 5, 1962.

CAPITAL MARKET DEVELOPMENTS ABROAD

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

I. Japan: Money and Capital Markets in August

The Japanese have stepped up the pace of their issues of new securities in the United States market and between September 12 and 18 successfully placed four new issues totaling \$55 million. Mr. Minoru Segawa, president of one of Japan's largest security houses, explained in an interview with the Journal of Commerce in mid-September "that the major attraction to Japanese companies in need of capital funds is the lower rate of interest in the United States." Reliable data on the total volume of future Japanese issues are not available but the Japan Times reported on September 22 the improbable figure of \$500 million. A more realistic estimate for total issues through 1963 would appear to be \$125 - 200 million.

On the American side, it has been reported that American security houses are not overly concerned about the current rise in Japanese longer-term foreign debt, since Japanese total indebtedness is still less than 5 per cent of their gross national product.

The Japanese balance of payments continued to improve through August. In September international reserves rose an estimated \$72 million, which was larger than the rise in the previous three months, but reflected in part the \$55 million in new foreign security issues in that month. The Minister of Finance has stated that Japan now expects to repay the \$325 million in special credits from U.S. banks without drawing on Japan's \$305 million stand-by credit with the International Monetary Fund.

Imports were substantially liberalized on October 1 when over 180 items were transferred to an automatic approval basis. This raised the degree of liberalization from 73 to 88 per cent in relation to the base year of 1959.

On the domestic scene, the authorities continued to enforce the tight money policy and call-loan rates rose slightly in August. The stock market continued to decline and in early October reached its lowest level in two years.

Money Market

Money market conditions continued to remain tight in August as net Treasury receipts more than offset various expansionary factors. On the expansionary side, Bank of Japan loans and discounts rose ¥12 billion, bank notes in circulation decreased by ¥49 billion, and Bank of Japan holdings of government bonds rose ¥11 billion. More than offsetting these developments was a net treasury receipt of ¥103 billion.

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DECONTROLLED AFTER SIX MONTHS

Interest Rates

The average interest rate for bank loans and discounts rose slightly in June, continuing the very mild rise evident since the first of the year. The June interest rate was 8.23 per cent, only 0.03 percentage points above the December 1961 level. As indicated in the table below, the average rate rose more rapidly during the last half of 1961 in response to increases in the Bank of Japan's basic discount rate in July and September. Contrary to expectations in some quarters, the Bank of Japan did not reduce in September the penalty discount rates now applied on some borrowing from the central bank.

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	8.22
June	8.08	8.22	7.88	8.23
September	8.06	8.14	8.00	
December	8.11	8.08	8.20	

The continued tightness in the money market in August was reflected in an increase in the call loan rate. The rate for loans callable at a day's notice rose from 10.95 per cent per annum in July to 11.52 per cent in August.

Bank Loans and Discounts

Bank credit continued to expand less rapidly in July than a year earlier as indicated in the table below. The total rise in credit was 1.3 per cent compared to 1.5 per cent in July of 1961. There was a 0.2 per cent increase in deposits in July compared to a 0.6 per cent decline a year earlier. This represented a reversal of the previous trend which was a slowing in the rate of increase of deposits.

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>
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
July	- 61	-0.6	+ 80	1.3	+ 51	1.8	+ 31	1.8
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
II	+ 61	0.6	+181	2.7	+108	3.3	+258	14.1
July	+ 24	0.2	+ 94	1.4	+ 29	0.9	+ 34	1.6

The proportion of bank loans and discounts extended for purchases of equipment fell to 17.3 per cent in July compared to a level of 17.4 per cent during the second quarter. This is the first decline in the ratio since March of 1961 except for a seasonal dip last December.

Bond Market

A rise in new issues of public corporate debentures in July raised the total amount of new bond and debenture issues to ¥93 billion, ¥4 billion above the June level. New issues of bank and industrial debentures, which were at the same level in July as in June, were ¥60 and ¥12 billion, respectively. New issues of public corporate debentures were ¥21 billion in July against ¥17 billion in June. Following a low for the year in May, the total volume of new issues rose in June and again in July to reach a level 7 per cent above a year earlier.

Average yields on major categories of bonds and debentures remained unchanged in July from the levels since the first of the year, except that yields on bank and industrial debentures fell slightly.

Stock Market

The general decline in the stock market, which began last February, intensified in August and September, and early in October the market reached the lowest level in two years. Between August 20, a previous high, and October 3, the market declined 13 per cent. Major factors contributing to the decline include: current company reports of decreased profits and sales;

liquidation of stocks by security and financial institutions in preparation for the semi-annual issue of their financial reports at the end of September; and stock sales by those who have reached the 90-day credit limit for buying on margin.

Dow Jones Average of 225 Stocks Tokyo Stock Exchange

July 25	¥1,450	Sept. 5	¥1,380	1961 High	¥1,830
		12	1,330	Low	¥1,250
Aug. 1	1,412	19	1,329		
8	1,386	26	1,230	1962 High	¥1,590
15	1,420			Low	¥1,240
22	1,413	Oct. 3	1,240		
29	1,425				

Foreign Trade

Since May there has been a marked narrowing in the trade deficit and this trend continued through August. Seasonally adjusted exports continued relatively high in August at \$422 million (see table below), only \$8 million below the July level, and imports declined \$6 million in August to \$417 million, giving a deficit of \$25 million. During the May-August period the seasonally adjusted trade deficit was below \$31 million each month, and the trade deficit at an annual rate during this period was \$285 million, well below the level estimated to be necessary to maintain balance of payments equilibrium. The seasonally adjusted trade figures (monthly, or monthly averages, on a customs basis in million of dollars) in the table below are based on seasonal adjustment factors computed by the Bank of Japan under the U.S. census method.

	<u>Exports</u>	<u>Imports</u>	<u>Trade Balance</u>
1960 Year	338	374	- 36
1961 Year	353	484	-131
I	343	427	- 84
II	351	464	-113
III	357	506	-149
IV	364	546	-182
1962 I	371	492	-121
Jan.	354	497	-143
Feb.	382	498	-116
Mar.	373	481	-103
II	409	466	- 57
Apr.	361	482	-121
May	447	477	- 30
June	418	435	- 17
July	430	453	- 23
Aug.	422	447	- 25

Exchange Reserves and Capital Flows

Japan's international reserves rose by the substantial amount of \$72 million (preliminary figure) in September, bringing total reserves to a level of \$1,720 million. In part, this reflected the \$55 million in securities placed in the United States. This contrasts with an increase of \$12 million in July, of which \$2 million reflected special borrowing in the United States, and \$13 million in August.

The balance of payments, as measured on an exchange transactions basis, continued to improve in August. The current account surplus doubled over the July level, rising to \$44 million and providing the second surplus on current account since December of 1960. Net long-term capital receipts were \$15 million in August and short-term capital outflow was \$30 million, thus continuing the change in the direction of flow of short-term capital. The \$9 million outflow of short-term capital in July was the first time since October 1961 that the net short-term capital flow had been outward. With a net outflow of \$16 million under errors and omissions, the over-all balance registered a surplus of \$13 million.

Japanese short-term liabilities to the United States as reported by U.S. banks rose only \$1 million in July to a level of \$1,681 million. This is still \$17 million below the peak reached last March, as indicated below. In the five months preceding the end of March, liabilities rose \$417 million.

	<u>1959</u>	<u>1960</u>	<u>1961</u>	<u>1962</u>		<u>1959</u>	<u>1960</u>	<u>1961</u>	<u>1962</u>
Jan.	168	362	875	1,515	July	256	586	1,341	a/1,681
Feb.	175	372	952	1,605	Aug.	269	628	1,335	
Mar.	204	420	1,069	1,698	Sept.	262	660	1,288	
Apr.	224	456	1,159	1,688	Oct.	262	693	1,281	
May	242	488	1,196	1,678	Nov.	275	711	1,292	
June	260	497		a/1,680	Dec.	324	806	1,445	

a/ Preliminary estimate.

In mid-August, the Finance Ministry released the following figures on Japanese short-term assets and liabilities at the end of July, (in millions of dollars):

Total Assets:

Gold	\$ 289
U.S. dollar deposits	759
U.S. treasury bills & other assets	587
Total Official Reserves	1,635

Plus: Other foreign exchange including holdings of foreign exchange banks	1,165
Total	\$2,800

<u>Total Liabilities</u> (including private debts)	2,300
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<u>Net Reserves</u>	\$ 500
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September was a very active month for Japanese security issues in the United States. As indicated below, securities with a value of \$55 million were issued between September 12 and September 18.

Recent Successful Issues of Japanese Securities

<u>Borrower</u>	<u>Amount</u>	<u>Date of Issue</u>	<u>Type and Terms of Issue</u>	<u>Purpose of Issue</u>
Kokusai Den- shin Denwa	First \$10 million of \$25 million total	Sept. 12	15-year, 6-3/4% notes, privately placed	To construct a sub- marine cable bet- ween Japan and Hawaii.
Hitachi Ltd.	\$16.5 million	Sept. 12	15-year, 6 1/2% con- vertible debentures, privately placed.	For plant expansion
Shin Mitsubishi Heavy Industries	\$10.0 million	Sept. 17	15-year, 6 1/2% con- vertible debentures, public sale.	For company's capital expenditures.
Nippon Telegraph & Telephone Public Corp.	\$18.5 million	Sept. 18	15-year, 6% dollar bonds, public sale	Additions, extensions, and improvements in telephone facilities.

The Japanese now feel they have laid a sound basis for further issues in the United States and some of the known pending issues are listed below.

Pending Issues of Japanese Securities

<u>Borrower</u>	<u>Amount</u>	<u>Proposed Date of Issue</u>	<u>Type and terms of Issue</u>	<u>Purpose of Issue</u>
Sumitomo Chemical	\$10.0 million	--	Convertible bonds	--
Japan Develop- ment Bank	\$12.5 million	1962	Dollar Bonds	--
Kokusai Den- shin Denwa	\$15.0 million ^{1/}	1963	--	To construct a sub- marine cable between Japan and Hawaii.

^{1/} This \$15 million offering represents the remaining portion of the \$25 million K.D.D. issue of September 12, 1962.

Between October 1962 and March 1963, the Japanese are expected to issue \$24 million in government-guaranteed bonds, following the previous issue of \$36 million in May and September of 1962. In addition, ten or more business concerns are planning further issues this year and next in the United States. The figure of \$500 million in proposed future issues reported by the Japan Times of September 22 appears excessive. A more realistic figure for total issues through 1963 would probably be \$125-200 million.

Foreign Exchange

Exchange rates in both the spot and three-month forward market remained unchanged in August, but in the first week of September strengthened suddenly, moving from one end of the official range to the other. From May of 1961 to September 1, 1962, the yen-dollar spot rate remained at the official support level. On September 3 and 4, however, the yen-dollar spot middle rate moved from ¥361.10 to the dollar to ¥358.90 to the dollar, the extreme official level, and remained there through September 15. This quick strengthening of the yen is accounted for mainly by an improvement in the balance of payments and the sensitive nature of the Japanese exchange market where the tendency has been for the exchange rates to remain either at the top or bottom official intervention points. In the three-month forward market, the yen appreciated in September to the new level indicated below, but at a 1.11 per cent per annum discount relative to the spot rate. From June 5 through September 1, the three-month forward rate had remained at par with the spot rate.

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

Date	<u>Yen-dollar spot middle rate</u>	<u>Three-month forward middle rate</u>	<u>Forward Discount in per cent per annum</u>
July 27	361.10	361.10	--
Aug. 3	361.10	361.10	--
10	361.10	361.10	--
17	361.10	361.10	--
24	361.10	361.10	--
31	361.10	361.10	--
Sept. 7	358.90	359.90	1.11
14	358.90	359.90	1.11

Asia, Africa, and Latin America Section

II. Nine Charts on Financial Markets Abroad

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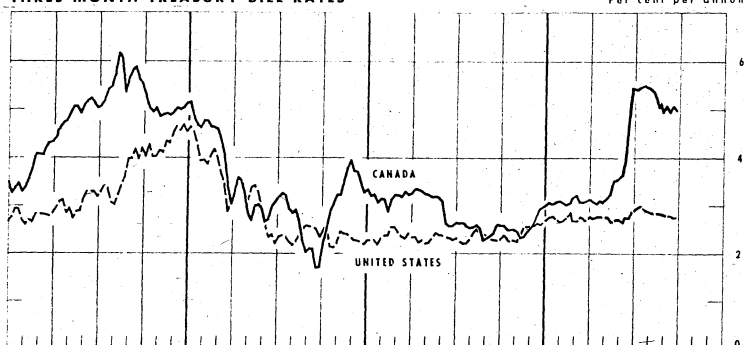
Chart 1

INTEREST ARBITRAGE, UNITED STATES / CANADA

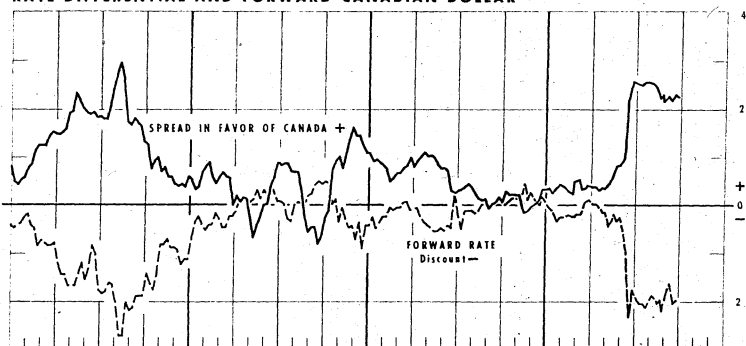
Thursday figures

THREE-MONTH TREASURY BILL RATES

Per cent per annum



RATE DIFFERENTIAL AND FORWARD CANADIAN DOLLAR



RATE DIFFERENTIAL WITH FORWARD EXCHANGE COVER

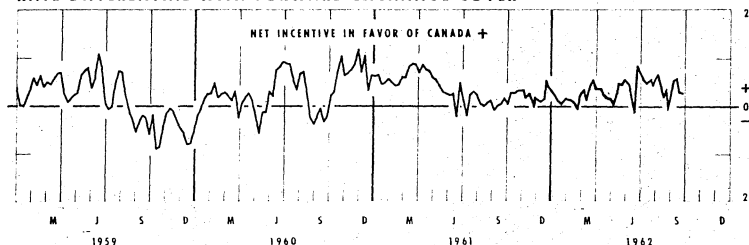


Chart 2

INTEREST ARBITRAGE, NEW YORK/LONDON

Friday figures

Per cent per annum

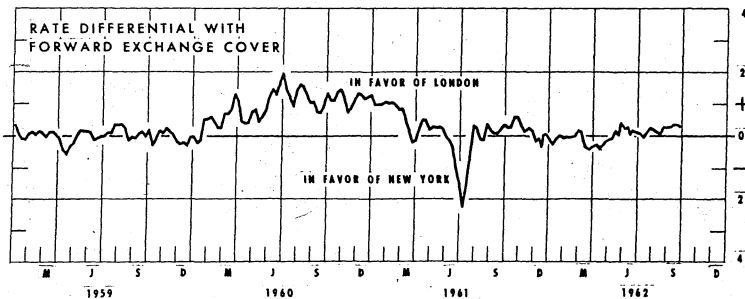
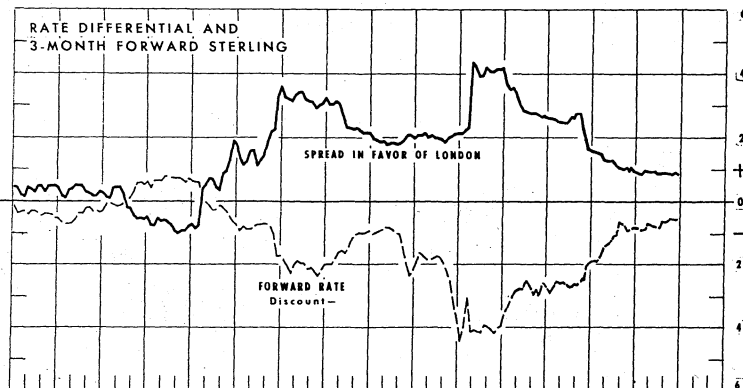
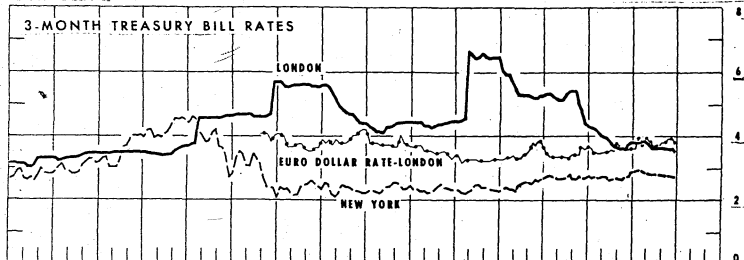
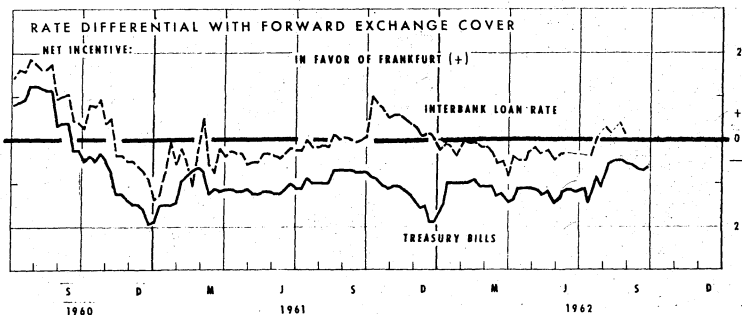
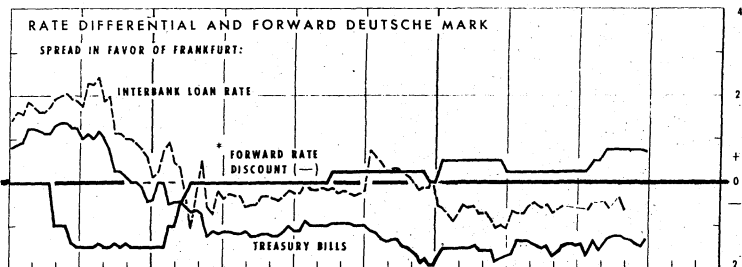
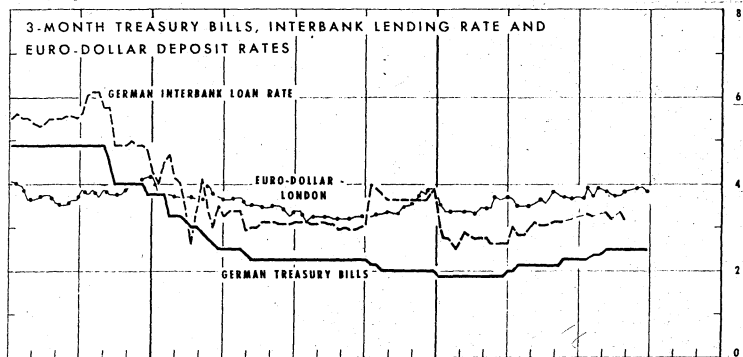


Chart 3

INTEREST ARBITRAGE FOR GERMAN COMMERCIAL BANKS

Friday figures

Per cent per annum



Note: Special forward rate available to German commercial banks

Chart 4

INTEREST ARBITRAGE, FRANKFURT / LONDON

Friday figures

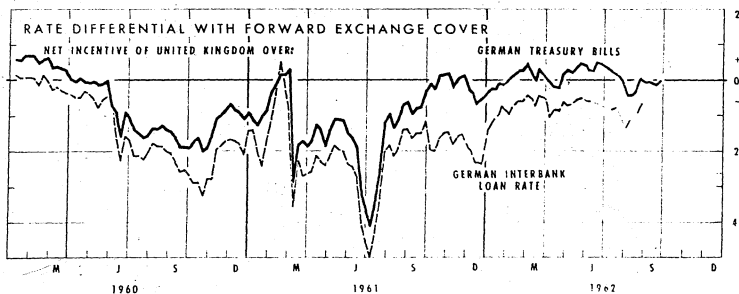
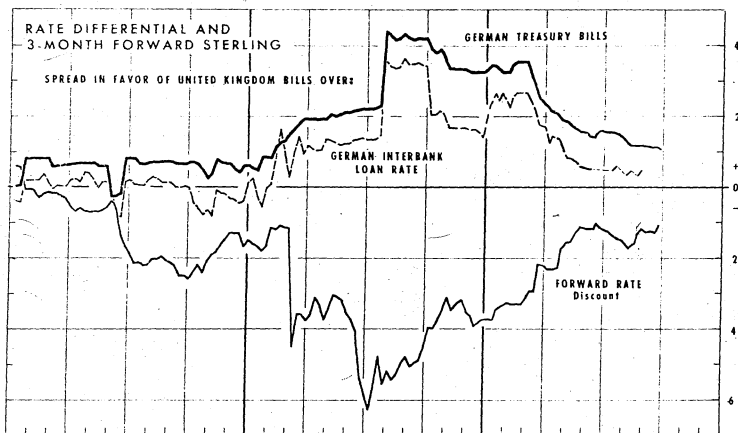
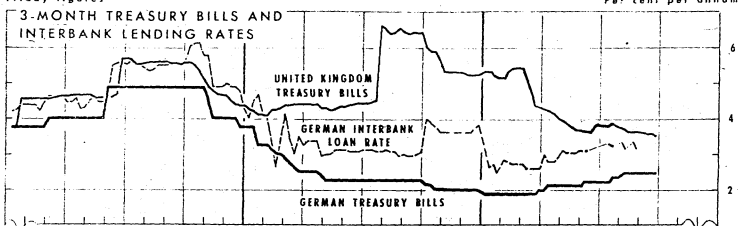
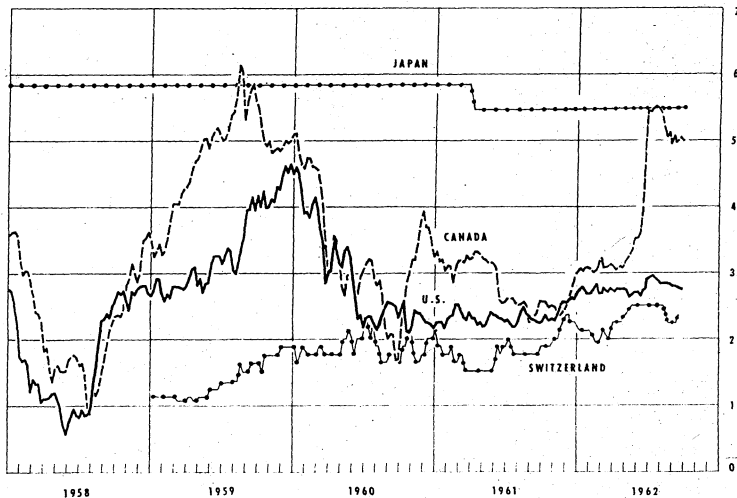
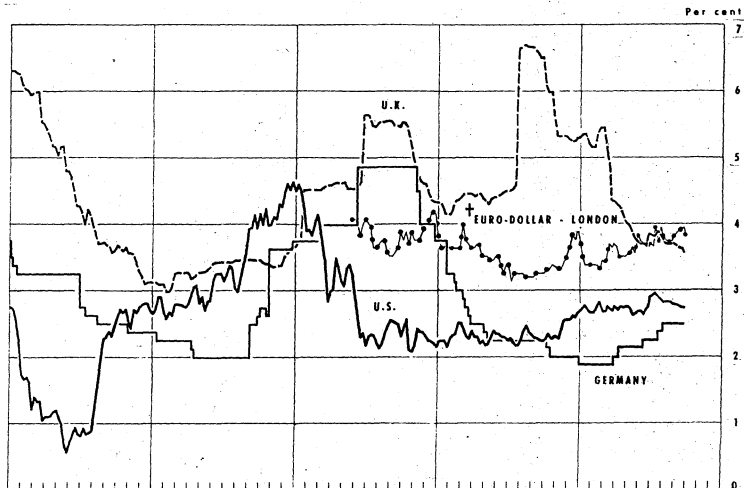


Chart 5

SHORT-TERM INTEREST RATES *



* 3 month treasury bill rates for all countries except Japan (1 month interbank deposit rate) and Switzerland (1 month deposit rate)
 † 3 month rate for U.S. dollar deposits in London

Chart 6

LONG-TERM BOND YIELDS

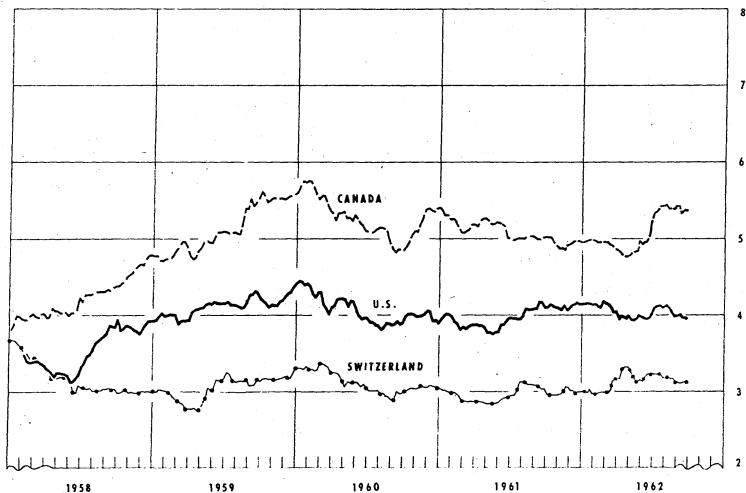
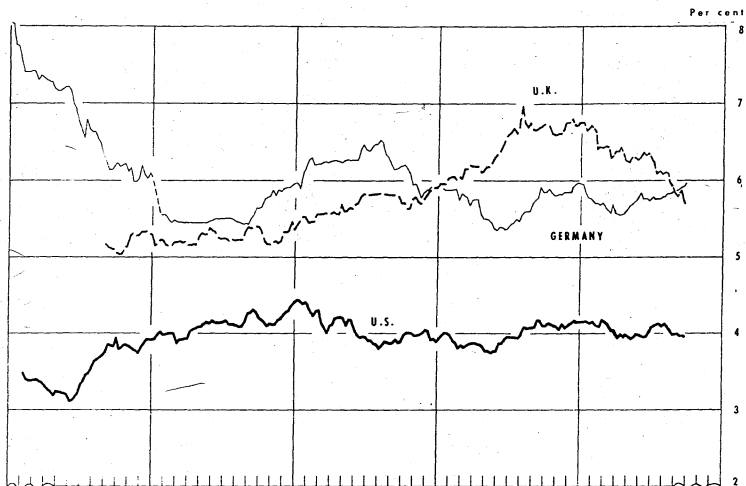
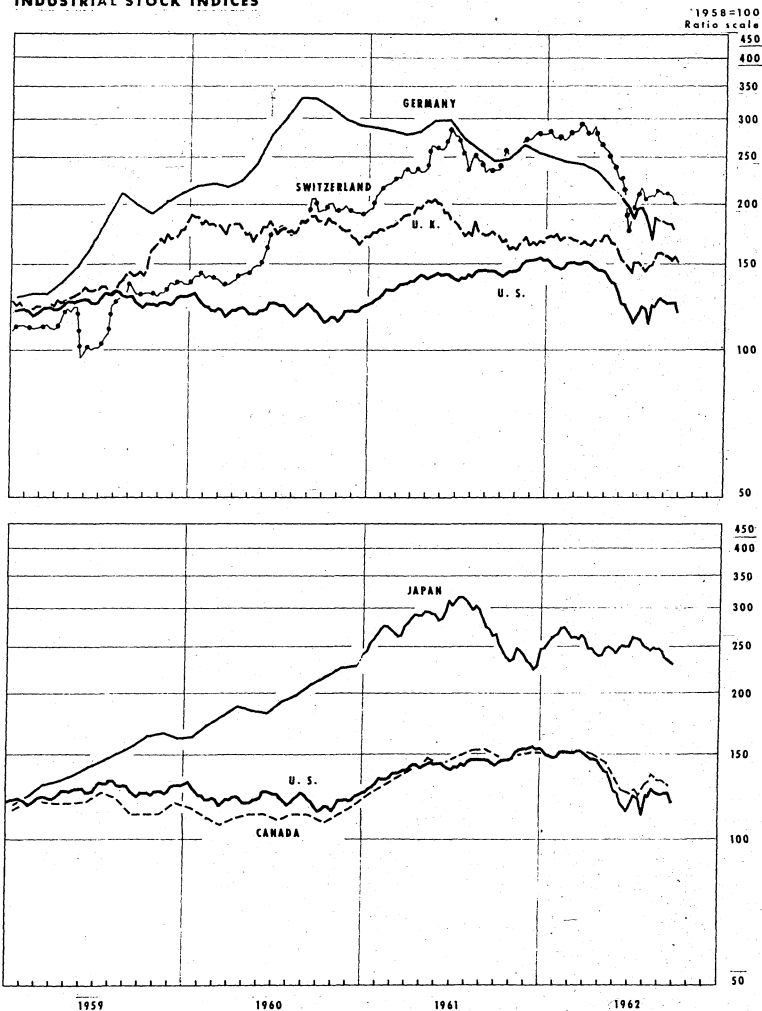


Chart 7

INDUSTRIAL STOCK INDICES*



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

Chart 8

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

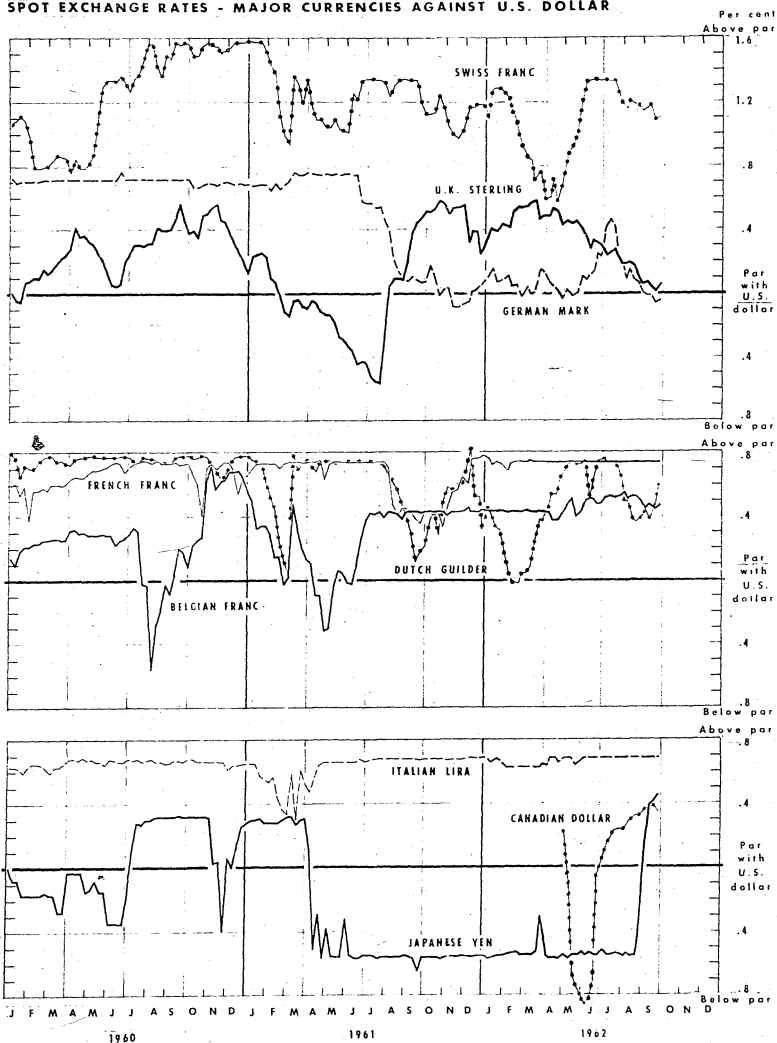


Chart 9

3-MONTH FORWARD EXCHANGE RATES

