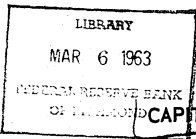


H. 13

March 1, 1963.

No. 97

**CAPITAL MARKET DEVELOPMENTS ABROAD**

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

I. Japan: Money and Capital Markets in January

In January and February, Japan took steps to reduce the rate of short-term foreign borrowing which has been increasing in recent months. Japanese foreign exchange banks were asked to lower the maximum rate of interest paid on foreign exchange deposits by 1-1/8 percentage points. This would mean a reduction in the suggested maximum rate on a three-month deposit from 5-1/4 to 4-1/8 per cent. The Japanese balance of payments, as measured on an exchange transactions basis (not seasonally adjusted), showed net short-term capital receipts of \$105 million for January as compared to a monthly average outflow in the fourth quarter of 1962 of \$25 million.

In January and February, Japan floated \$44 million in security issues in the United States. During the fiscal year beginning April 1, 1963, Japan expects to borrow on a long-term basis about \$200 million in the United States and \$35 million in Germany and Switzerland.

In recent months, the trade deficit has widened considerably compared to the relatively small deficit in the third quarter last year, and this adverse development may account in part for an increased discount against the yen in the forward foreign exchange market. While international reserves continued to rise in January in spite of \$50 million in debt repayment to three U. S. banks, this was solely because of the large short-term capital inflow.

Money market conditions eased in January and bank credit expanded in December at the same rate as a year earlier. The general level of commercial bank interest rates dropped in November following a cut in the Bank of Japan's basic discount rate in both October and November. In January and February the stock market recovered further from a two-year low last October and remained at a high level throughout February.

Money market. Contractionary developments in the money market in January more than offset expansionary factors. Bank liquidity was increased by a reduction of ¥292 billion in bank notes in circulation, but this was more than offset by net Treasury receipts of ¥233 billion, a reduction in Bank of Japan government bond holdings of ¥229 billion, and a decrease in Bank of Japan loans and discounts of ¥53 billion.

OFFICIAL USE ONLY

DECONTROLLED AFTER SIX MONTHS

Interest rates. After rising steadily from a low in June 1961, the average interest rate for loans and discounts fell substantially in November to 8.19 per cent from a level of 8.24 per cent in September and October. (See table below). This decline reflected a reduction of 0.72 percentage points in the Bank of Japan's basic discount rate in October and November. A further decline in the rate appears likely.

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	8.28	8.22	7.88	8.23
September	8.06	8.14	8.00	8.24
December	8.11	8.08	8.20	8.19 $\frac{1}{2}$
$\frac{1}{2}$ November				

Call money rates eased substantially in January after firming in December. The rate for loans callable at a day's notice fell to 8.03 per cent in January compared to 11.68 per cent in December. In part this was due to an outflow of funds from the Central Cooperative Bank of Agriculture and Forestry and the Central Bank for Commercial and Industrial Cooperatives.

Bank loans and discounts. Bank credit rose 2.5 per cent in December 1962, the same as a year earlier. The latest rise, however, reflected a 3.8 per cent increase in loans and a 2.6 per cent decline in holdings of securities in contrast to a general rise in loans, discounts, and securities a year earlier. The decline in security holdings reflects the purchase by the Bank of Japan on December 3 of ¥50 billion in government-guaranteed securities from the commercial banks in accordance with the policy adopted late in 1962 to reduce commercial bank dependence on borrowing from the Bank of Japan. Deposit liabilities rose 5.9 per cent in December compared to a 3.9 per cent rise a year earlier.

The proportion of bank loans and discounts extended for purchases of equipment, which had reached a peak of 17.4 per cent in the second quarter of 1962, fell to 17.0 per cent in December, the lowest level for the year.

Bond market. New issues of bank debentures in December were ¥78 billion, up ¥3 billion from November and ¥22 billion higher than the year's low point in May. New issues of industrial bonds in December were ¥19 billion, unchanged from the November level, and new issues of public corporation bonds were up ¥1 billion in December to a level of ¥25 billion. Total new issues in December were ¥122 billion, second only to the highest volume for the year in March of ¥129 billion.

Average yields on most bonds and debentures remained unchanged in December from the levels since the first of the year. Yields on industrial bonds eased from 7.491 per cent in November to 7.480 in December.

Stock market. Stock prices rose in January and the first eleven days of February, stabilizing at a high level during the rest of February. Earlier in the fourth quarter stock prices recovered much of the ground lost during the third quarter. From a low for the year on January 7 of ¥1,391, the stock price index rose 9 per cent to a peak of ¥1,511 on February 11.

Dow Jones Average of 225 Stocks
First Section of Tokyo Stock Exchange

Dec. 26	¥1,432	Feb. 6	¥1,495	1962 High	¥1,590
Jan. 9	1,421	13	1,497	Low	1,216
16	1,414	20	1,494		
23	1,454	27	1,490	1963 High	¥1,511
30	1,452			Low	1,391

Foreign trade. The seasonally adjusted trade deficit widened in January to \$64 million compared to \$37 million in December, and an average monthly deficit in the fourth quarter of \$54 million. January exports were down 6 per cent from December and imports were up 1 per cent. The seasonally adjusted trade figures (monthly, or monthly averages, on a customs basis in millions 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>
1962	I	371	492	-121
	II	409	466	- 57
	III	434	447	- 13
	IV	421	475	- 54
	October	424	492	- 68
	November	405	464	- 59
	December	435	468	- 37
1963	January	409	473	- 64

Exchange reserves and capital flows. International reserves rose \$43 million in January to \$1,884 million in spite of a special debt repayment to U. S. banks of \$50 million. Japan has now repaid the full \$200 million borrowed between November 1961 and February 1962 from three American banks and is scheduled to repay an additional \$112 million to seven U. S. banks in the March-July period this year.

The balance of payments, as measured on an exchange transactions basis, registered a deficit on current account (not seasonally adjusted) of \$86 million in January. The deficit, however, was more than offset by net short-term capital receipts of \$105 million and net long-term capital receipts of \$4 million. With net receipts of \$20 million under the errors and omissions item, the overall balance registered a surplus of \$43 million. The heavy inflow of short-term capital reflected substantial Japanese borrowing of Euro-dollars during the month of January.

Several actions were taken by the Japanese authorities in January and February to discourage foreign short-term borrowing. In January, Japanese foreign exchange banks were requested to lower by 5/8's of a percentage point the rate of

interest paid on short-term foreign exchange deposits. On February 20, a further cut of one-half of a percentage point was also recommended by the Minister of Finance, thus reducing the maximum rate for three-months deposits to 4-1/8 per cent. Earlier on January 11, foreign exchange banks were required to maintain a reserve of 35 per cent in liquid foreign assets against specified short-term foreign liabilities in excess of the level outstanding in December 1962. A basic 20 per cent reserve requirement continues to remain in effect against those liabilities outstanding in December.

Japanese short-term liabilities to the United States rose \$71 million in December, according to preliminary reports. Revised data on these liabilities indicate that a peak was reached in September (see table below) rather than in March, as indicated by the previous data.

	1959	1960	1961	1962		1959	1960	1961	1962
Jan.	168	362	875	<u>r/1,554</u>	July	256	586	1,341	<u>r/1,757</u>
Feb.	175	372	952	<u>r/1,641</u>	Aug.	269	628	1,335	<u>r/1,764</u>
Mar.	204	420	1,069	<u>r/1,734</u>	Sept.	262	660	1,288	<u>r/1,766</u>
Apr.	224	456	1,159	<u>r/1,723</u>	Oct.	262	693	1,281	1,709
May	242	488	1,196	<u>r/1,711</u>	Nov.	275	711	1,292	<u>a/1,660</u>
June	260	497	1,272	<u>r/1,709</u>	Dec.	324	806	<u>r/1,476</u>	<u>a/1,731</u>

a/ Preliminary estimate.

r/ Revised.

NOTE: Data since December 1961 include reports of certain banks not previously included. The inclusion of these banks increased the reported figure in December 1961 by \$52 million.

In January and February, Japan placed \$44 million in security issues in the United States. These included a \$22.5 million issue by the Japan Development Bank and a \$6.2 million issue of American Depository Receipts shares by Nippon Electric Company.

For the Japanese fiscal year beginning April 1, Japan plans to place overseas \$125 million in foreign issues. These include \$20 million in Nippon Telegraph and Telephone bonds, \$20 million of Tokyo municipal bonds, and \$80-85 million in various government-guaranteed industrial bonds. In addition, it is estimated that private companies will float \$100 million in securities in the United States during the fiscal year, and Japan is scheduled to receive a \$36 million loan from the I.B.R.D. for new railway and highway construction. Japan also plans to borrow \$25 million in Germany and \$10 million in Switzerland.

The Ministry of Finance recently released the following data on foreign investment in Japan:

	1962	1961
Bond Issues Floated Overseas	\$136 mill.	\$ 54 mill.
Acquisition of Stocks	125 mill.	112 mill.
Acquisition of Other Assets	277 mill.	384 mill.

Foreign exchange. Although the exchange rate in the spot market remained unchanged at the official support level during January and the first half of February, the yen weakened in the forward market during the same period. Between January 4 and February 5, the forward discount rose from 0.78 per cent to 2.17 per cent and remained at this discount through mid-February. (See table below). The weakening of the yen may be attributable in part to the worsening trade balance in recent months and particularly in January.

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

	<u>Yen-dollar spot middle rate</u>	<u>Three-month forward middle rate</u>	<u>Forward discount in per cent per annum</u>
December 28	358.90	359.60	.78
January 4	358.90	359.60	.78
11	358.90	359.80	1.00
18	358.90	359.95	1.17
25	358.90	360.45	1.73
February 1	358.90	360.85	2.17
8	358.90	360.85	2.17
15	358.90	360.85	2.17

II. India: Money and Capital Markets during January 1963

Indian money and capital markets during January were still considerably influenced by past governmental actions and the prospect of new measures to strengthen the defenses of the country. Tight credit conditions were reflected in the market for short-term money, where rates remained at high levels. Nevertheless, the amount of bank credit continued to increase substantially. The country's international monetary reserves remained at a low level.

The gold trade was completely disorganized as the result of new regulations which considerably restrict the scope of the legal gold market. No quotations on gold prices have been available since the regulations were announced on January 10. Prices in the stock markets began to fall, after a period of stability, as regulations on minimum prices were relaxed.

Money market. The rate for day-to-day money was slightly lower in January than in December, but higher than in January 1961. (See Table 1). This counter-seasonal decline is due to the very high rate reached during the first half of December - 5.48 per cent on December 14. For mid-December to January 4, the rate for short-term money declined by almost 1 per cent. Through January, the rate increased steadily and by February 8, it reached 5.83 per cent, one of the highest levels in recent years.

Table 1 Inter-bank Call Money Rate in Bombay
(in per cent per annum)

Monthly average

Nov. 1962	3.20	Nov. 1961	4.03
Dec. 1962	5.03 <u>a/</u>	Dec. 1961	4.07
Jan. 1963	4.85 <u>a/</u>	Jan. 1962	4.49

Selected Dates

Jan. 4	4.63
11	4.81
18	4.86
25	5.10

a/ Average of Fridays.

Gold market. The Indian gold market has been in a very disorganized state following the January 10 announcement by the Government of its Gold Control Rules. Since that date, there has been no official price quotation of gold transactions. Official reports indicate that the price of gold bullion fell from the rupee equivalent of \$68.13 to about \$55.50 per ounce (converted at par value) immediately upon disclosure of the Government's action. - By the end of January, gold was reported to be selling at about \$65 to 62 per ounce. This price is about 25 per cent less than the record high reached at the end of August 1962.

The Indian authorities have extended the time limit for the declaration on non-ornamental gold from February 8 to February 28. They have also taken additional measures to reduce gold smuggling. As of mid-February, individuals caught with gold (and other goods) which are suspected of having been brought into India illegally are to be considered guilty of smuggling, unless they can prove otherwise.

One reported result of the new gold rules has been an increased purchase of the Government's $6\frac{1}{2}$ per cent Gold Bonds. The Government has stated that purchasers of these bonds, which are bought with gold and redeemable in rupees at the international gold price, will not be required to disclose the manner in which they obtained the gold.

Stock market. Indian stock prices declined during January, as the minimum price regulations set by the various stock exchanges were gradually relaxed. (See Table 2). By February 9, the stock index had fallen to 165.4, which was its lowest level since November 1960 and is 4.3 per cent less than at the end of 1962.

Table 2 Price Index of Variable Dividend Industrial Securities: All India
(1952-53 = 100)

Monthly Average

Nov. 1962	170.5	Nov. 1961	186.9
Dec. 1962	171.4	Dec. 1961	184.3
Jan. 1963	171.1	Jan. 1962	187.4

Selected Dates

Jan. 5	172.5
12	171.9
19	171.1
26	168.7

Banking developments. The Reserve Bank of India's raising of its basic discount rate from 4 to 4 1/2 per cent on January 3 does not appear to have seriously affected the extension of bank credit. During January, bank credit rose by the same sizeable amount as in the previous month. (See Table 3). Part of this expansion was made possible by the continued reduction in the scheduled banks' holdings of government securities. The decline in cash and balances with the Reserve Bank was much less than a year earlier, and mainly reflected the unwinding of year-end window-dressing operations. Total deposits rose in January, but at a lower rate than a year ago.

Table 3 Scheduled Banks: Monthly Changes in Deposits and Principal Assets
(in millions of rupees)

	M A I N A S S E T S							
	Per Cent Deposits	Per Cent Change	Bank Credit	Per Cent Change	Gov't Securities	Per Cent Change	Cash and Balances with Reserve Bank	Per Cent Change
1962 Jan.	+271	+1.5	+407	+3.2	+163	+2.8	-296	-19.1
Nov.	-110	-0.5	-122	-0.9	-109	-1.5	-115	- 9.0
Dec.	- 5	0.0	+484	+3.5	-466	-6.6	+157	+13.5
1963 Jan.	+113	+0.5	+495	+3.5	- 39	-0.6	- 81	- 6.1

Exchange reserves. The international monetary assets of the Reserve Bank of India continued to remain at record low levels during January (See Table 4). At the end of the month, reserves were \$89 million (16 per cent) less than at the end of January 1962.

Table 4 International Monetary Reserves
(in millions of dollars - last Friday of month)

Month

Nov. 1962	444	Nov. 1961	554
Dec. 1962	451	Dec. 1961	563
Jan. 1963	448	Jan. 1962	537

Selected Dates

Jan. 5	451
12	452
19	448
26	448

Asia, Africa and Latin America Section

III. Nine Charts on Financial Markets Abroad

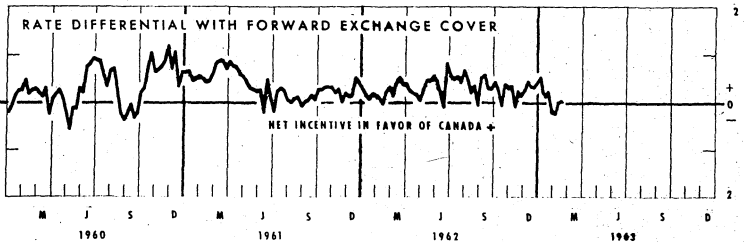
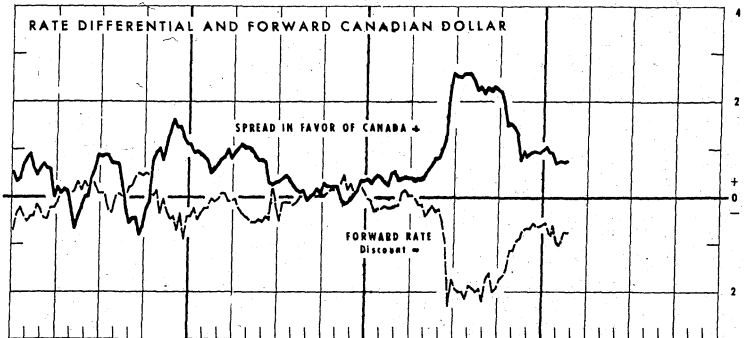
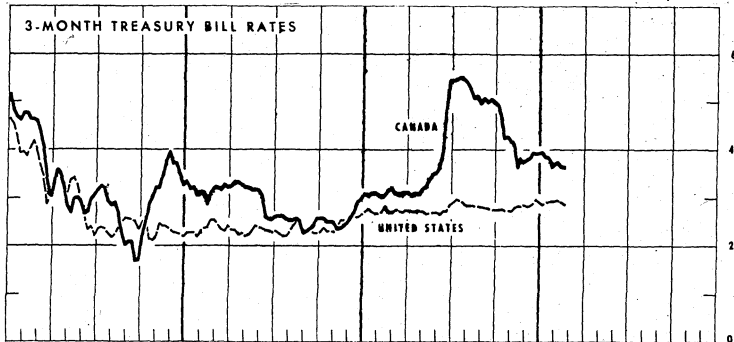
- Chart 1 - Interest Arbitrage, United States/Canada
- Chart 2 - Interest Arbitrage, New York/London
- Chart 3 - Interest Arbitrage for German Commercial Banks
- Chart 4 - Interest Arbitrage, Frankfurt/London
- Chart 5 - Short-term Interest Rates
- Chart 6 - Long-term Bond Yields
- Chart 7 - Industrial 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

Thursday figures.

Per cent per annum



10

Chart 2
INTEREST ARBITRAGE, NEW YORK/LONDON

Friday figures Per cent per annum

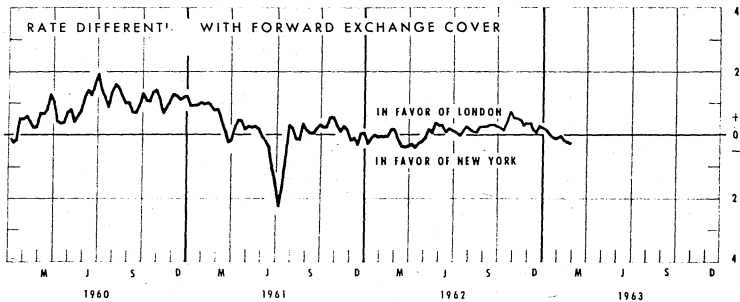
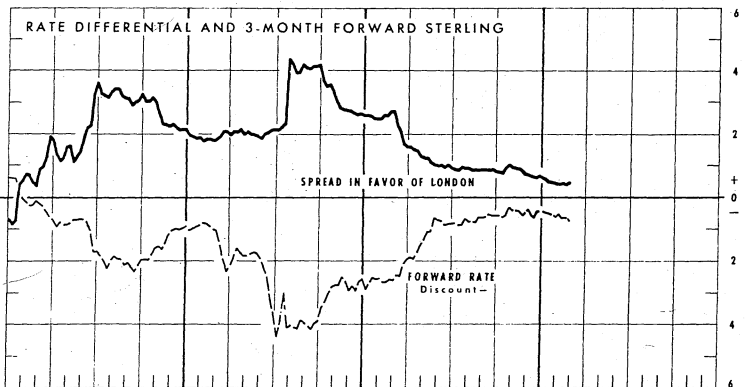
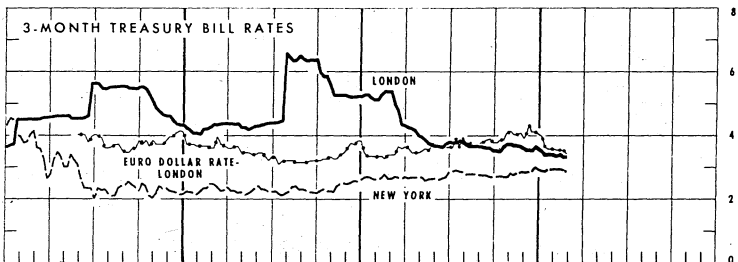
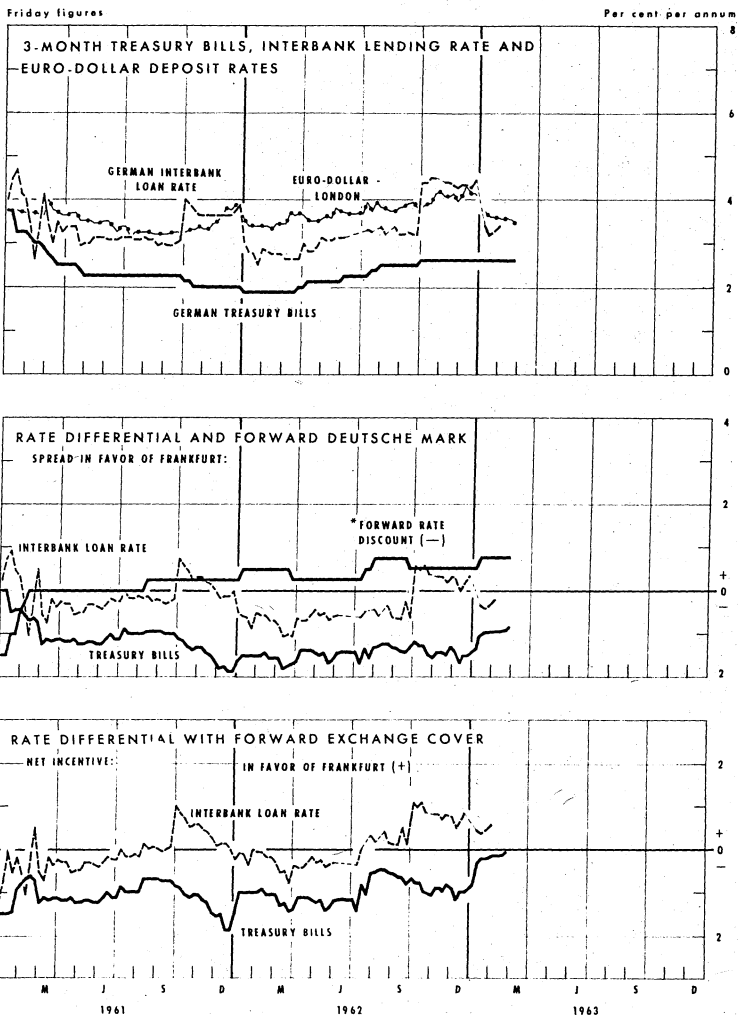


Chart 3

INTEREST ARBITRAGE FOR GERMAN COMMERCIAL BANKS



* Note: Special forward rate available to German commercial banks

12

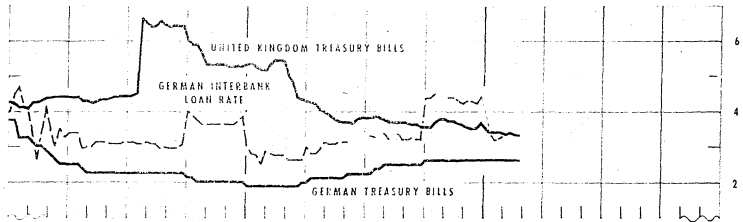
Chart 4

INTEREST ARBITRAGE, FRANKFURT / LONDON

Friday figures

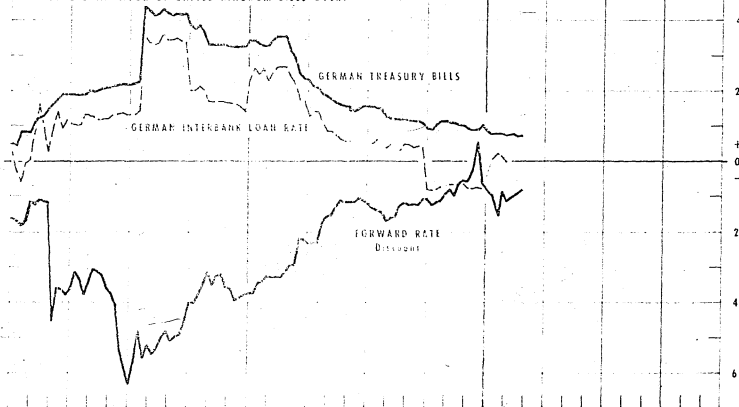
3-MONTH TREASURY BILLS AND INTERBANK LENDING RATES

Per cent per annum



RATE DIFFERENTIAL AND 3-MONTH FORWARD STERLING

SPREAD IN FAVOR OF UNITED KINGDOM BILLS OVER:



RATE DIFFERENTIAL WITH FORWARD EXCHANGE COVER

NET INCENTIVE OF UK INCOME OVER:

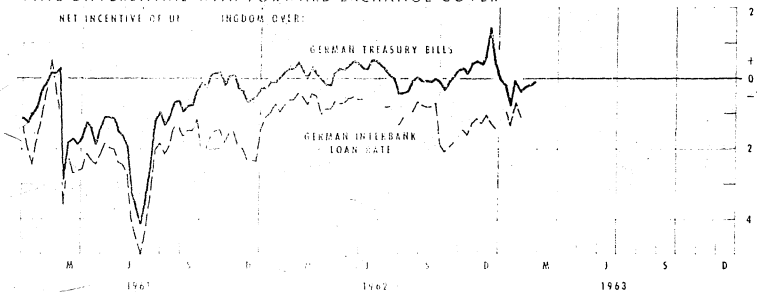
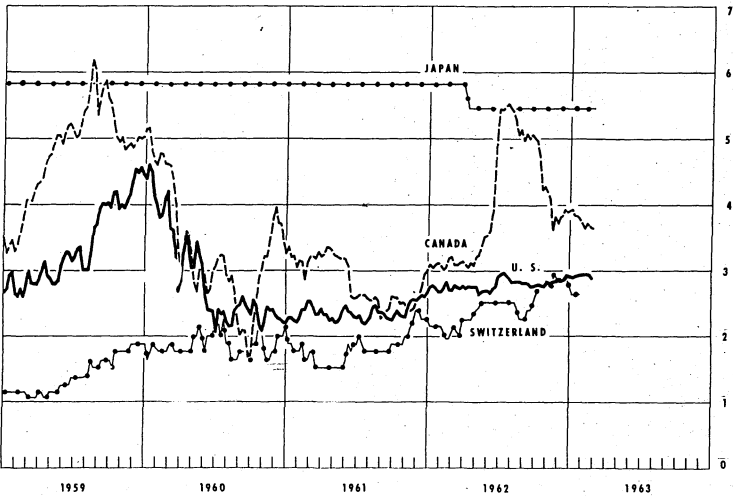
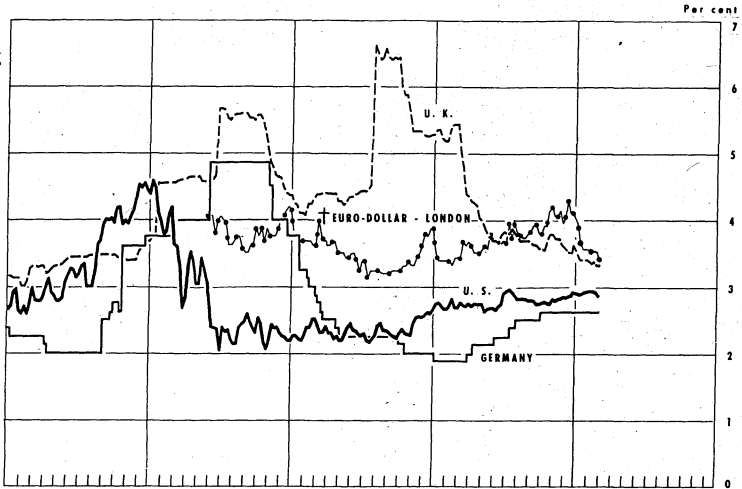


Chart 5
SHORT-TERM INTEREST RATES *



* 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

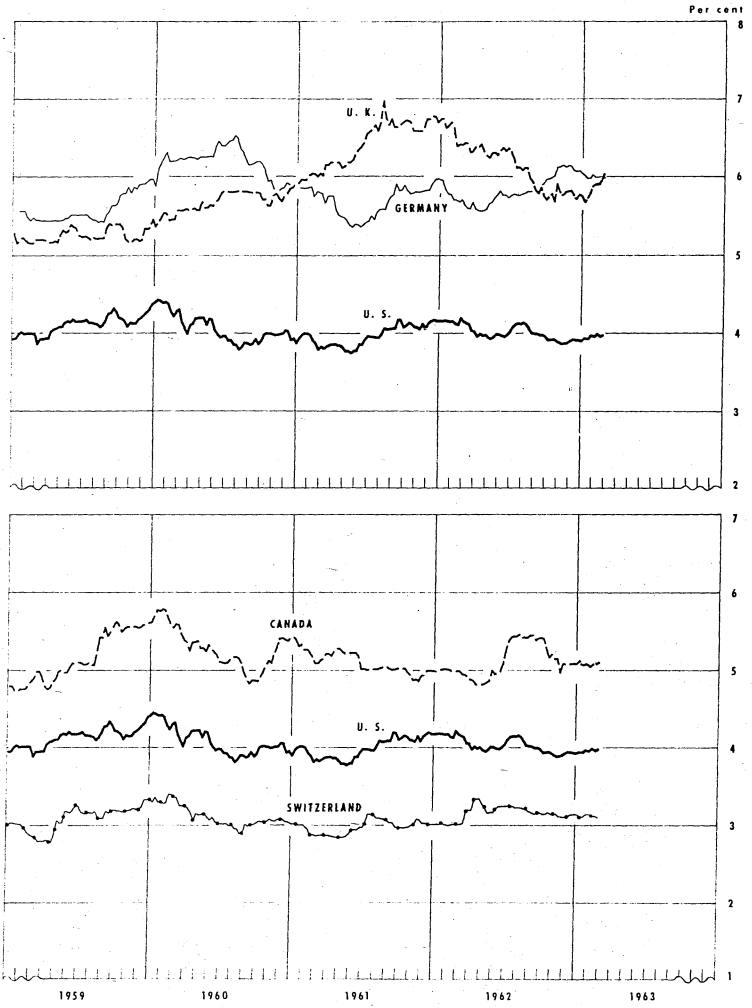
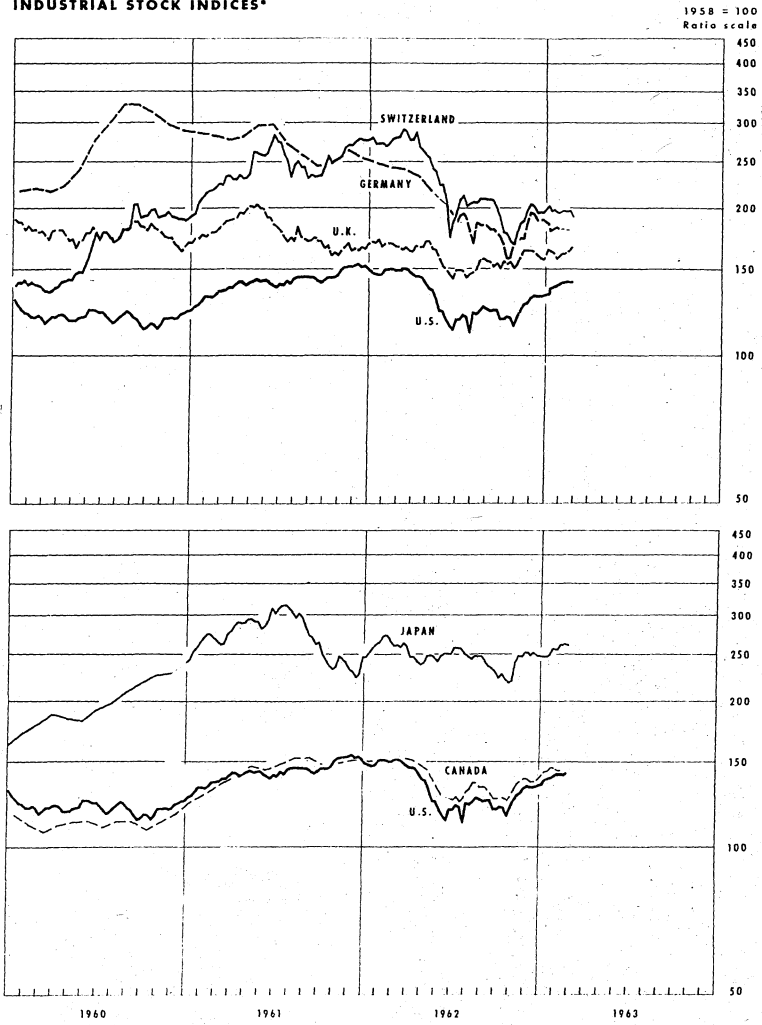


Chart 7
INDUSTRIAL STOCK INDICES*



*Note: Japan index of 225 industrial and minor stocks traded on the Tokyo exchange.

Chart 8

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

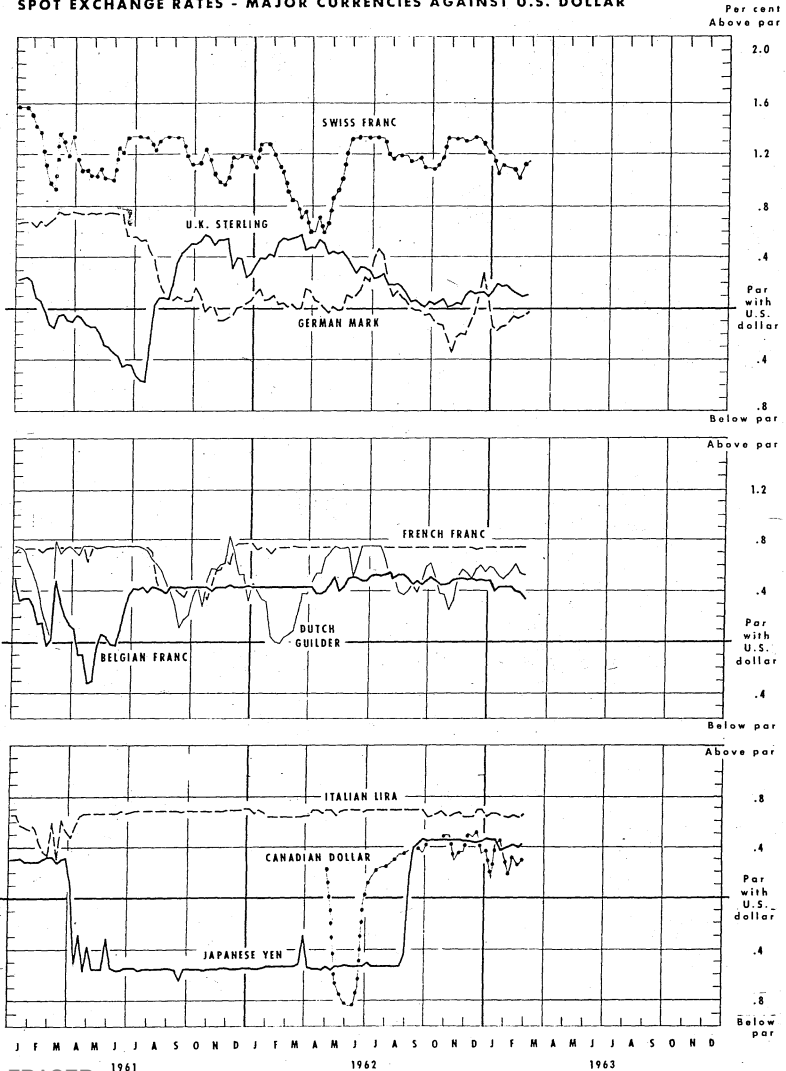


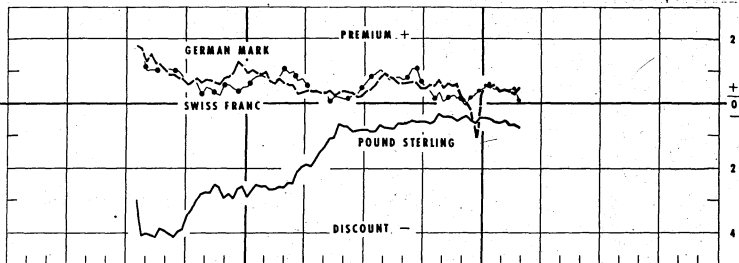
Chart 9

3-MONTH FORWARD EXCHANGE RATE

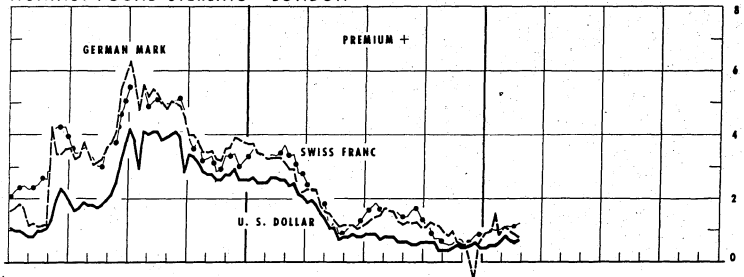
Friday figures

AGAINST U. S. DOLLARS

Per cent per annum



AGAINST POUND STERLING - LONDON



AGAINST POUND STERLING - LONDON

