

July 31, 1963.

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## CAPITAL MARKET DEVELOPMENTS ABROAD

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

I. Japan: Money and Capital Markets in July of 1963

The Tokyo stock market reacted sharply on July 19 and 20 to the U. S. administration's interest equalization tax proposal of July 18, dropping 8 per cent in two days. Although the market had regained nearly half of the loss by the middle of last week, it sank to a new low for the year on July 29. This reportedly reflected doubts that Japan would receive the same tax exemptions as Canada.

Because of the tax proposal, two issues totaling \$28.5 million and scheduled for flotation in the U.S. were deferred from July to August. This left a total of \$33 million actually issued in July. During the first seven months of this year, Japan issued \$167 million in securities in the United States. In addition, with a rise in imports, Japan has stepped up its volume of import acceptance financing; this development is reflected in a recent upsurge in Japanese short-term liabilities to U.S. banks. (See Table 1).

Table 1. Japan: Short- and Long-term Borrowings in the United States  
 (in millions of U.S. dollars)

	Change during year			Change during quarter						
	1960	1961	1962	1962			1963			
				I	II	III	IV	I	Apr.	May
Bank loans <sup>1/</sup>	482	722	205	250	-20	-47	22	10	124 <sup>3/</sup>	33 <sup>3/</sup>
Securities <sup>2/</sup>	30	58	141	23	36	55	27	51	22	28
	512	780	346	273	16	8	49	61	146	61

<sup>1/</sup> Short-term liabilities to the U.S. banks.

<sup>2/</sup> New security flotations.

<sup>3/</sup> Preliminary.

The recent rises in U.S. short-term rates and the increase on July 16 in the discount rate of seven Federal Reserve Banks from 3 to 3-1/2 per cent also had an effect on Japanese financial institutions. When rates in London for Euro-dollar deposits were raised during July to about the same levels as those offered by Japanese foreign exchange banks, the Japanese banks were threatened with a loss of Euro-dollar deposits. To prevent this loss of resources, the maximum permissible interest rates that foreign exchange banks may pay was raised on July 19 by 0.25

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percentage points by the Japanese authorities. The new schedule of rates the Japanese banks may pay and the London rates on dollar deposits are compared in Table 2.

Table 2. Japan: Maximum Authorized Rates on Euro-dollar Deposits and London Rates on Euro-dollar Deposits  
(in per cent per annum)

Authorized rates			London market rates		
Term	Former	Present	Term	May 31	July 26
Less than 30 days	3.875	4.125	Call	3.50	3.56
1-3 months	4.000	4.250	30-day	3.81	3.87
3-6 months	4.125	4.375	3-month	3.94	4.12
6-12 months	4.375	4.625	6-month	4.00	4.38
1 year and over	4.625	4.875	--	--	--

Money market conditions remained relatively easy during the second quarter. Call loan rates were steady to easy, and the average level of interest rates continued to decline through April. Bank credit in April-May rose less rapidly than a year earlier.

The commodity trade performance improved slightly in June, but the deficit still remained substantial. International reserves increased moderately but steadily during the quarter as capital inflows more than offset the deficits on current account. The yen tended to weaken in the foreign exchange market during the quarter, reflecting in part the large deficit on trade account.

**Money market.** Money market conditions continued easy in June and call loan rates remained relatively unchanged. There was a net contractionary impact from monetary developments as a ¥39 billion increase in Treasury net outpayments and a ¥66 billion increase in Bank of Japan bond holdings was more than offset by a ¥121 billion rise in bank notes in circulation and a ¥39 billion decline in Bank of Japan loans and discounts. During the second quarter monetary developments exerted a net contractionary impact but in decreasing amounts on a month-to-month basis.

**Interest rates.** Call loan rates remained relatively easy during the second quarter and the first three weeks of July with only slight fluctuations. There was a moderate easing in the fourth week of April and the middle part of May as the unconditional call rate (for loans repayable at a day's notice) dropped temporarily from 7.3 to 6.935 per cent. In June and the first three weeks of July the unconditional rate generally remained at 7.3 per cent.

The average interest rate on bank loans and discounts continued to decline through April in response to cuts in the Bank of Japan's basic discount rate in March and April. (See Table 3).

Table 3. Japan: Average Monthly Interest Rates on Bank Loans and Discounts

	<u>1959</u>	<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>
March	8.18	8.21	7.92	8.22	7.92
June	8.28	8.22	7.88	8.23	7.87 <sup>1/</sup>
September	8.06	8.14	8.00	8.24	
December	8.11	8.08	8.20	8.09	

<sup>1/</sup> April.

In May the Ministry of Finance reduced the interest yield on short-term government securities from 6.02 to 5.66 per cent. This step was taken in order to avoid having a rate on these securities higher than the Bank of Japan's basic discount rate of 5.84 per cent.

Bank loans and discounts. Bank credit in May rose 1.8 per cent, slightly higher than the 1.5 per cent rise a year earlier. Loans and bills discounted were each up 1.6 per cent and security holdings rose 2.7 per cent. Most of the increase a year earlier was in loans and security holdings. Bank deposits increased 2.9 per cent in May against 1.6 per cent a year earlier.

During the April-May period, bank credit increased 2.6 per cent, somewhat less than the 3.1 per cent rise a year earlier. On a month-to-month basis, bank credit this year except in April, has risen at a faster rate than a year earlier reflecting the easing of the tight month policy last fall. (See Table 4).

Table 4. Japan: Quarterly Changes in Deposits & Principal Assets of Commercial Banks  
(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>
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
Apr.-	+ 59	0.6	+ 63	0.9	+ 75	2.3	+229	12.5
May								
II	+ 61	0.6	+181	2.7	+108	3.3	+258	14.1
III	+678	6.4	+223	3.2	+213	6.3	+ 41	2.0
IV	+920	8.2	+585	8.2	+145	4.0	+ 71	3.3
1963 I	+1,158	8.8	+717	9.3	+185	4.9	+ 27	1.2
Apr.-	+163	1.2	+199	2.4	+ 25	0.6	+163	7.3
May								

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In May, the Bank of Japan announced that it would discontinue the "window guidance" offered to city banks during most of the past ten years. In effect, this policy constituted a form of credit rationing. Heavier reliance will be placed on an expanded program of security operations introduced last November.

Effective July 1, 1963, the Bank of Japan abolished the 0.365 per cent penalty discount rate charge on credit accommodation to commercial banks borrowing between 80 and 100 per cent of their individual loan quotas. A penalty rate of 3.65 per cent on borrowing in excess of 100 per cent of quota continues in effect. The action was reportedly taken in order to encourage a continuation of relatively low call loan rates which the authorities hope will make current yields on bonds more attractive to investors.

The proportion of bank loans and discounts extended for purchases of equipment was 16.6 per cent in May. This was slightly higher than the 16.5 per cent in April and the probable cyclical low of 16.3 per cent in March.

**Bond market.** New issues of domestic bonds totaled ¥123 billion in both April and May. This is down from the ¥138 billion level in March but higher than the ¥114 billion monthly average in January and February. New issues of bank debentures in May totaled ¥82 billion, with ¥21 billion and ¥20 billion being issued of public corporate and industrial debentures, respectively. These levels are virtually unchanged from April.

Bond yields in April and May remained unchanged except for very slight fluctuations in the yields on interest-bearing bank debentures and industrial bonds.

**Stock market.** The Japanese stock market was hit hard by the U.S. administration's announcement on July 18 of a proposed interest equalization tax on American transactions in foreign securities. From a level of ¥1,514 on July 18, the Dow Jones average fell to ¥1,391 on July 20. (See Table 5). This 8 per cent decline was the sharpest two-day drop in the post-war period. By July 24, about one-half of the loss had been regained, but thereafter the market weakened. On July 29 the market reached ¥1,353, a new low for the year.

During the second quarter stocks generally edged downward after a high for the year of ¥1,634 on April 5. New peaks on May 10 (¥1,608), and June 14 (¥1,570) were successively lower than the April 5 high. From a low on June 24 (¥1,533), stocks rallied to another peak on July 2 (¥1,599) and then eased off through July 16 (¥1,491).

Table 5. Japan: Dow Jones Average of 225 Stocks, First Section of Tokyo Stock Exchange

Apr. 1	¥1,624	May 13	¥1,598	June 24	¥1,533	1962 High	¥1,590
8	1,630	20	1,550	July 1	1,597	Low	¥1,216
15	1,602	27	1,556	8	1,588		
22	1,575	June 3	1,551	15	1,514	1963 High	¥1,634
30	1,593	10	1,558	22	1,429	Low	¥1,353
May 6	1,595	17	1,549	29	1,353		

Foreign trade. The seasonally adjusted deficit on trade account narrowed slightly in June, but still remained substantial. (See Table 6). June exports were up 4 per cent and imports were off 1 per cent from the May levels. The seasonally adjusted deficit at an annual rate was \$1.2 billion in June. During the second quarter the trade deficit at an annual rate was \$1.3 billion compared to \$812 million in the first quarter and \$560 million in the fourth quarter last year. The seasonally adjusted trade figures (monthly, or monthly average, on a customs basis) in Table 6 are based on seasonal adjustment factors computed by the Board of Governors of the Federal Reserve System.

Table 6. Japan: Seasonally Adjusted Foreign Trade  
(in millions of dollars)

	1962				1963				
	I	II	III	IV	I	II	Apr.	May	June
Imports	496	472	446	466	483	551	581	537	534
Exports	378	408	428	419	415	442	469	421	436
Trade Balance	-118	- 64	- 18	- 47	- 68	-109	-112	-116	- 98

Exchange reserves and capital flows. International reserves rose \$8 million in June to \$1,902 million bringing the gain for the second quarter to \$39 million. During the first six months of the year reserves increased \$61 million.

The Japanese current account in the second quarter, as measured on an exchange transactions basis and not adjusted for seasonal developments, continued to register a deficit. The second quarter deficit was \$155 million compared to \$139 million in the first quarter. Net long-term capital receipts were \$176 million against \$65 million in the first quarter, and net short-term receipts were \$8 million compared to \$86 million in the first quarter. With net receipts under the errors and omissions item of \$10 million, the over-all balance of payments surplus in the second quarter was \$39 million compared to \$22 million in the first quarter.

Japanese short-term liabilities to U.S. banks rose \$33 million in May according to preliminary reports. This compares with increases of \$59 and \$123 million in March and April, respectively. (See Table 7). The \$215 million rise in short-term claims on Japan since February probably reflects in part a rise in trade acceptances to finance the recent rise in Japanese imports.

Table 7. Short-term Claims by U.S. Banks on Japan  
(in millions of U.S. dollars)

	<u>Jan.</u>	<u>Feb.</u>	<u>Mar.</u>	<u>Apr.</u>	<u>May</u>	<u>June</u>	<u>July</u>	<u>Aug.</u>	<u>Sept.</u>	<u>Oct.</u>	<u>Nov.</u>	<u>Dec.</u>
1959	168	175	204	224	242	260	256	269	262	262	275	324
1960	362	372	420	250	488	467	586	628	660	693	711	806
1961	875	952	1,069	1,159	1,196	1,272	1,341	1,335	1,288	1,281	1,292	1,528
1962	1,601	1,685	1,778	1,775	1,762	1,758	1,765	1,767	1,711	1,710	1,662	1,733
1963	1,693	1,685	1,743	1,867a	1,900a/							

NOTE: Data for 1962 have been recently revised.

a/ Preliminary.

Japan issued \$83 million in securities in the United States in the second quarter. Details on these issues have been provided in earlier capital market reports.

In July, Japan had planned to issue a total of \$61 million in the U.S., but because of some uncertainties engendered by the interest equalization tax proposal of July 18, two issues were deferred until August. These included a \$20 million bond issue by Nippon Telegraph and Telephone Public Corporation and an \$8.5 million American depository receipts issue of common stock by Tokio Marine and Fire Insurance Company.

Issues actually placed in July are indicated below:

<u>Borrower</u>	<u>Amount</u>	<u>Comment</u>
Japan Fund, Inc.	\$5.625 million	625,000 stock right A.D.R.
Hitachi, Ltd.	\$20.9 million	937,500 A.D.R. shares at \$22.25 per share.
Mitsui and Company	\$1.39 million	500,000 A.D.R. shares at \$2.78 per share.
Kokusai Denshin Denwa	\$5.0 million	Private bond placement.

Effective July 1 the Japanese Government abolished the previous system, often referred to as the yen-based investment formula, under which non-residents invested in Japan without obtaining approval from the Japanese authorities. Without this approval, there was no guarantee that repatriation of dividends, profits and capital would be permitted. Under the new system, these investments will be screened by the Japanese authorities and remittance of dividends, profits and capital will be permitted. The Government is still considering how to handle those investments made prior to July 1, 1963, but foreign companies wishing to be granted eligibility for remitting aboard are now required to register these earlier investments with the Bank of Japan.

Foreign exchange. The yen weakened in both the spot and forward exchange markets early in the second quarter and remained weak through mid-July. (See Table 5). The forward discount narrowed during the quarter as the spot rate depreciated proportionately more than the three-month forward rate. Between April 1 and July 15 the forward discount fell from 2.34 per cent to 0.20 per cent. The weakness of the yen probably reflects in part the wider deficit on trade account in recent months.

Table 8. Japan: Customer's T.T. Exchange Rates of Bank of Tokyo in Tokyo

	Yen-dollar spot middle rate	Three-month forward middle rate	Forward discount in per cent per annum
April 5	359.80	361.05	1.39
12	359.70	361.05	1.50
19	361.10	361.10	--
26	361.55	361.90	.39
May 4	361.40	361.90	.55
10	361.90	362.25	.39
17	362.25	362.40	.17
24	362.23	362.35	.13
31	362.15	362.35	.22
June 7	362.25	362.40	.17
14	362.20	362.40	.22
21	362.10	362.40	.35
28	362.15	362.40	.28
July 5	362.30	362.53	.25
12	362.35	362.53	.20
15	362.35	362.53	.20

II. India: Money and Capital Markets During the Second Quarter of 1963

The onset of the "slack season" influenced Indian money and capital markets during the second quarter of 1963. Bank credit contracted sharply while aggregate deposits of scheduled banks rose. This increased availability of funds caused a marked decline in the inter-bank call money rate as well as increased purchases of government securities. Gold prices were increasing during this quarter until the end of June, when the Government imposed a ban on the trading of gold of more than 14 carats. Stock prices continued to decline in the expectation of reduced business profits due to recent tax increases. At the end of the quarter, India repaid \$25 million to the IMF and entered into a new stand-by arrangement for \$100 million.

Money market. The rate for day-to-day money declined during the second quarter, in response to seasonal factors (See Table 1). The average rate of the period was 4.46 per cent, 1.18 per cent lower than in the first quarter of the year, but almost 1 per cent higher than in the corresponding period of 1962. The call money rate registered a steady decline throughout the quarter, except for a temporary strengthening in the first week of June. By the end of June, the rate had declined to just under 2 per cent and on July 5, it had fallen to 1.43 per cent.

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

Average of period:

<u>1962</u>	II	3.59	<u>1963</u>	II	4.46 a/
	III	2.72		Apr.	5.01 <u>b/</u>
	IV	3.75		May	4.78 <u>b/</u>
				June	3.59 <u>b/</u>
<u>1963</u>	I	5.64			

Selected dates - 1963:

May	3	4.43	June	7	4.79
	10	5.22		14	4.49
	17	5.45		21	3.10
	24	4.95		28	1.99
	31	3.87			

a/ Provisional.  
b/ Average of Fridays.

Gold market. Prices in the Bombay gold market in the second quarter of 1963 recovered somewhat from the low levels of the first quarter, but were still below the levels reached in the corresponding period of 1962. (See Table 2). The Gold Control Rules have not succeeded in bringing down the price of gold, since the



average June price exceeds the price of \$68.50 per ounce in effect when the sweeping regulations were announced in January. However, they have helped prevent the price of gold from rising to its previous levels.

Gold trading was temporarily halted towards the end of June when the authorities imposed a ban on trading between licensed dealers in gold of more than 14 carats. By July, trading had resumed and gold prices were reportedly lower than before this ban.

Tabl 2. India: Price of Gold Bullion in Bombay  
(in dollars per fine ounce) a/

Average of period:

<u>1962</u>	II	80.60	<u>1963</u>	II	72.13 b/
	III	82.06		Apr.	67.67 c/
	IV	81.41		May	74.79 c/
				June	74.19 d/
<u>1963</u>	I	66.22			

Selected dates - 1963:

May	10	76.34	June	7	73.70
	17	75.68		14	74.20
	24	74.08		21	74.68
	31	72.88			

a/ Average spot quotations, converted into dollars at par value.

b/ Provisional.

c/ Average of Fridays.

d/ Three-week average.

Stock market. Stock prices continued to decline into the second quarter of 1963. (See Table 3). The price index for the quarter was 2.8 per cent below that of the previous quarter and 18.2 per cent less than in the corresponding period of 1962. The stock price index for June registered its lowest level since February 1960. The decline began in August 1962, following the Chinese invasion of India's northern border areas, and has been stimulated by the Government's decision to increase taxes substantially, including those on profits.

Table 3. India: Price Index of Variable Dividend Industrial Securities  
(1952-53=100)

## Average of period:

1962	II	192.6	1963	II	162.9 <sup>a/</sup>
	III	185.0		Apr.	162.5 <sup>b/</sup>
	IV	173.6		May	164.8 <sup>b/</sup>
				June	161.5 <sup>b/</sup>
1963	I	167.4			

## Selected dates - 1963:

May	4	166.4	June	1	163.0
	11	165.0		8	162.7
	18	164.0		15	162.2
	25	163.6		22	161.4
				29	158.1

a/ Provisional.

b/ Average of Saturdays.

Banking developments. The second quarter marked the end of India's "busy season" when credit is required for financing the harvesting, distribution, processing and export of the country's major crops. Bank credit declined substantially in the second quarter (see Table 4), and together with a large rise in bank deposits enabled the scheduled banks to use over 1.5 billion rupees for increasing holding of government securities (Rs. 0.6 billion), for reducing borrowings from the Reserve Bank (Rs. 0.7 billion), and for augmenting their cash and balance with the Reserve Bank (Rs. 0.3 billion).

At the end of June, aggregate deposits of the scheduled banks were 6 per cent higher than a year earlier. Total bank credit represented 71.64 per cent of deposits as compared to 70.65 per cent in June 1962. Investment in government securities were slightly higher in relation to deposits, but cash and balances with the Reserve Bank declined slightly.

Table 4. India: Scheduled Banks - Quarterly Changes in Deposits, Borrowings  
From Reserve Bank and Principal Assets  
(in millions of rupees)

	Deposits	Per cent Change	Bank Credit	Per cent Change	Holdings of Gov't Securities	Per cent Change	Borrowings from Reserve Bank
1962 - II	+972	+ 5.1	+ 97	+ 0.7	+ 63	- 1.0	-515
III	+219	+ 1.1	-381	- 2.7	+827	+13.6	+ 30
IV	- 5	0.0	+418	+ 3.0	-367	- 5.3	+162
1963 I	+ 17	+ 0.1	+671	+11.8	-422	- 6.5	+506
II	+979	+ 4.8	-586	- 3.7	+597	+10.1	-698

Exchange reserves. India's international reserves at the end of the second quarter were \$8 million more than a year earlier. (See Table 5). In comparison with the preceding quarter of 1963, reserves fell by \$32 million, in part the result of seasonal factors. Between June 28 and July 5, India's reserves declined by \$24 million. This reflects India's repurchase of \$25 million previously drawn from the IMF. At the time of the repurchase, India entered into a new stand-by arrangement with the Fund which enables her to draw up to \$100 million over the next 12 months. This succeeds a similar arrangement between the IMF and India of July 1962.

Table 5. India: International Monetary Reserves of the Reserve Bank  
(in millions of dollars)

<u>End of period</u>					
<u>1962</u>	II	452	<u>1963</u>	II	460
	III	445		Apr.	487
	IV	451		May	494
				June	460
1963	I	492			

Selected dates - 1963:

May	3	484	June	7	488
	10	484		14	491
	17	497		21	484
	24	498		28	471
	31	494	July	5	460

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**

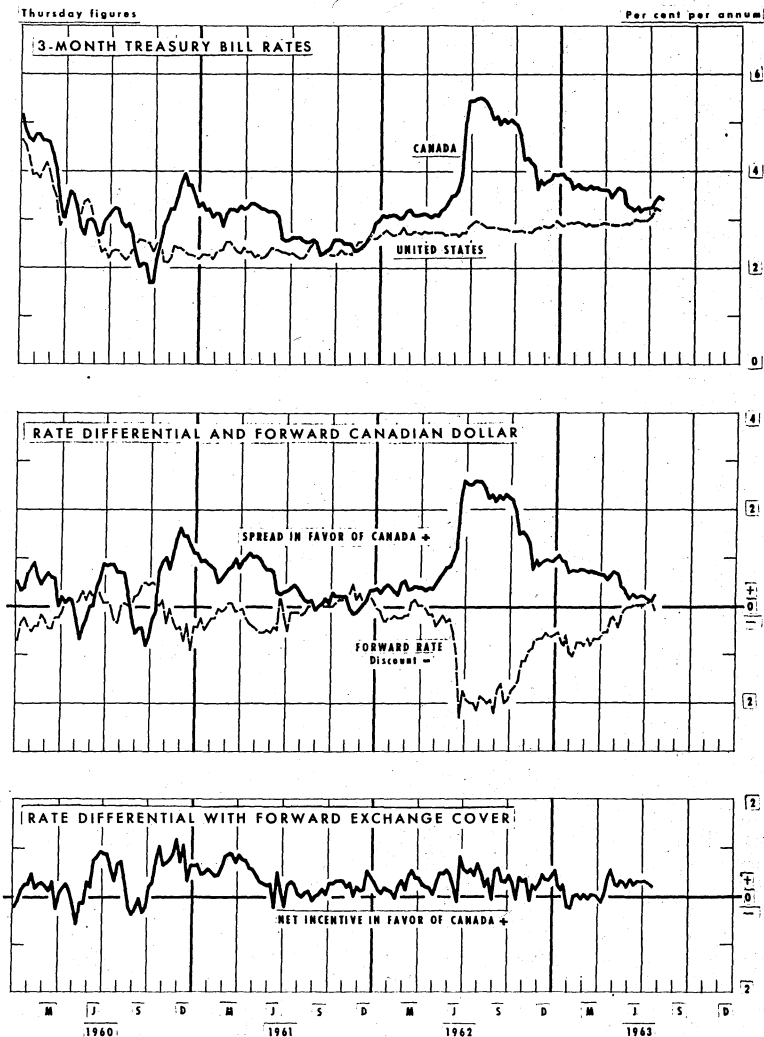


Chart 2

# **INTEREST ARBITRAGE, NEW YORK/LONDON**

Friday figures

Per cent per annum

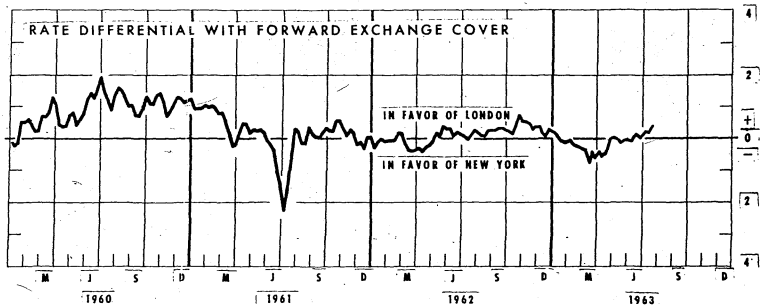
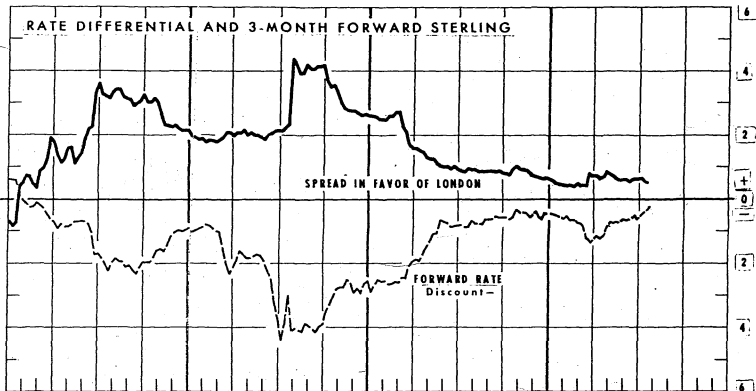
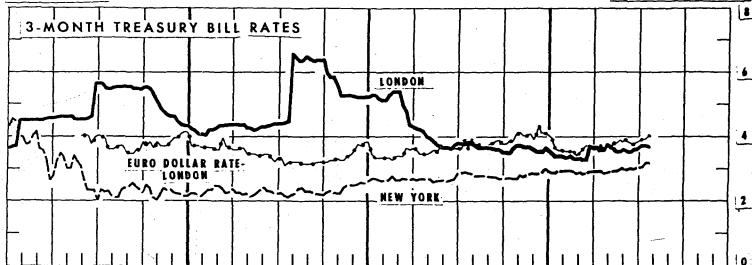
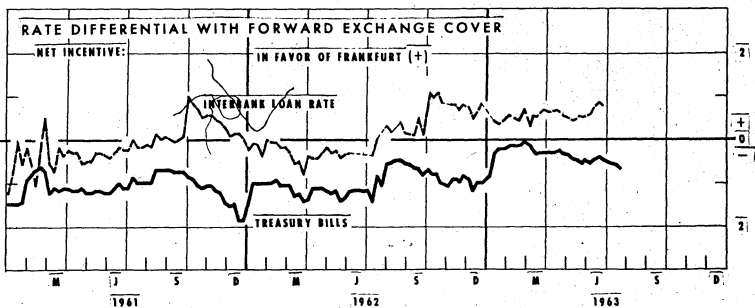
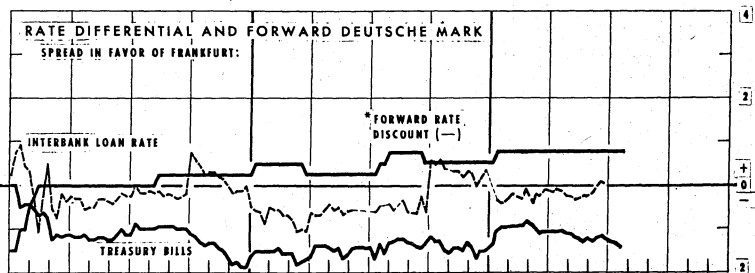
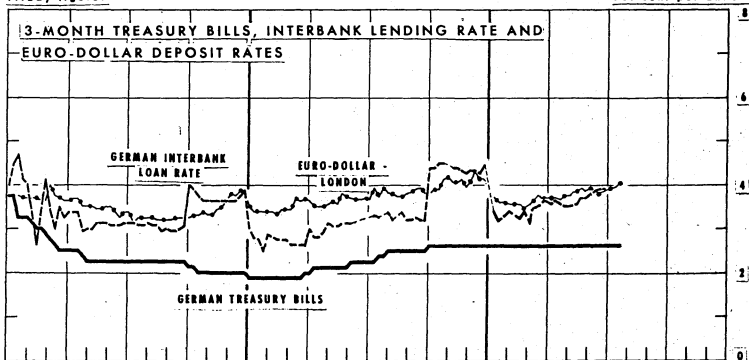


Chart 3

**INTEREST ARBITRAGE FOR GERMAN COMMERCIAL BANKS**

Friday figures

Per cent per annum



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

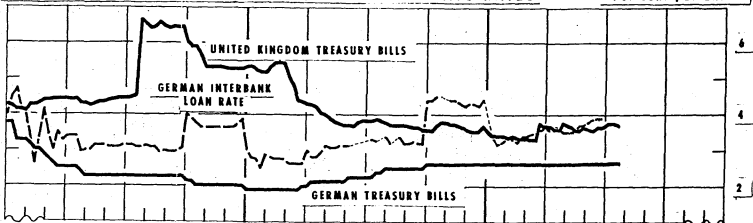
Chart 4

# INTEREST ARBITRAGE, FRANKFURT / LONDON

Friday figures

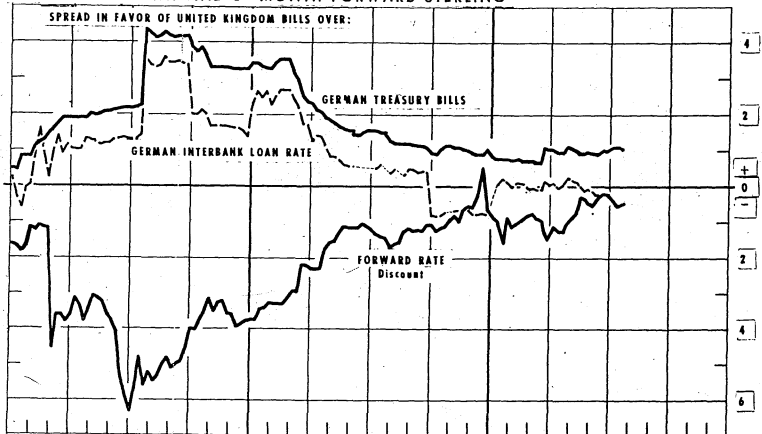
## 3—MONTH TREASURY BILLS AND INTERBANK LENDING RATES

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 UNITED KINGDOM OVER:

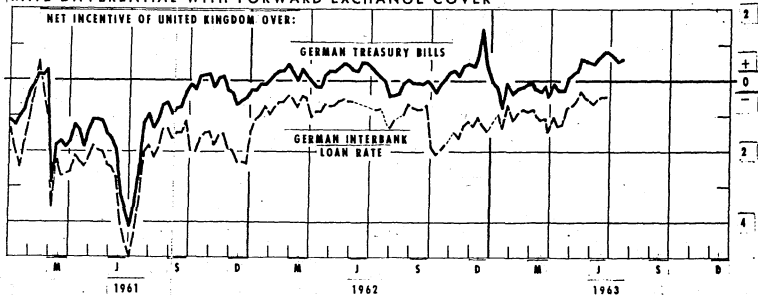
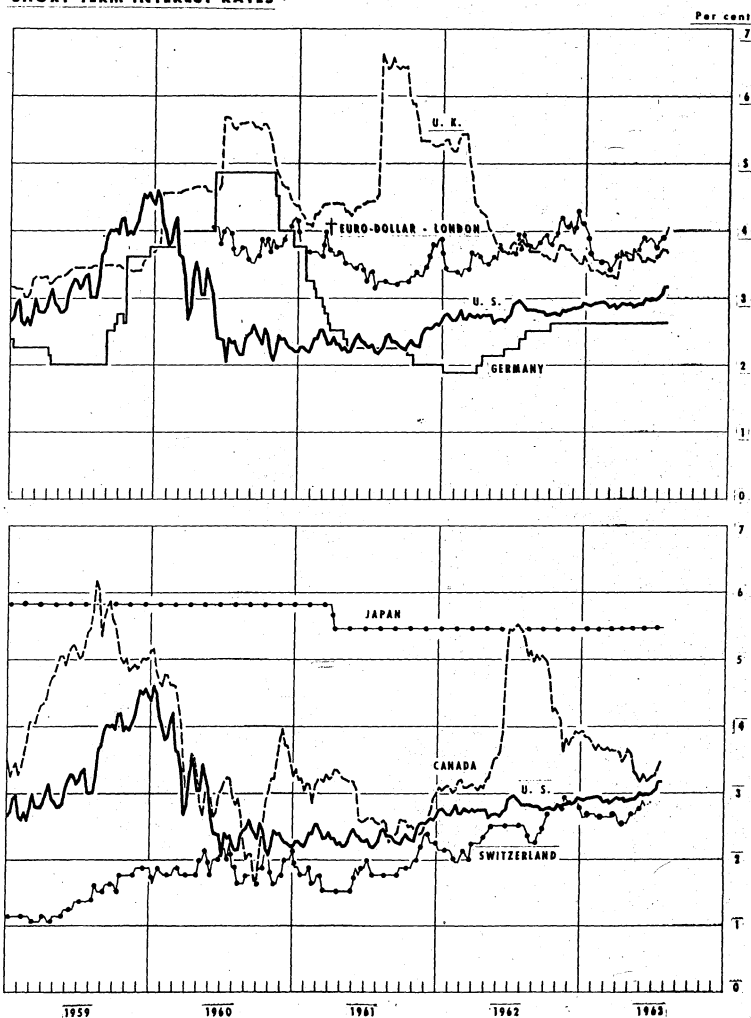


Chart 5  
SHORT-TERM INTEREST RATES \*



\* 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

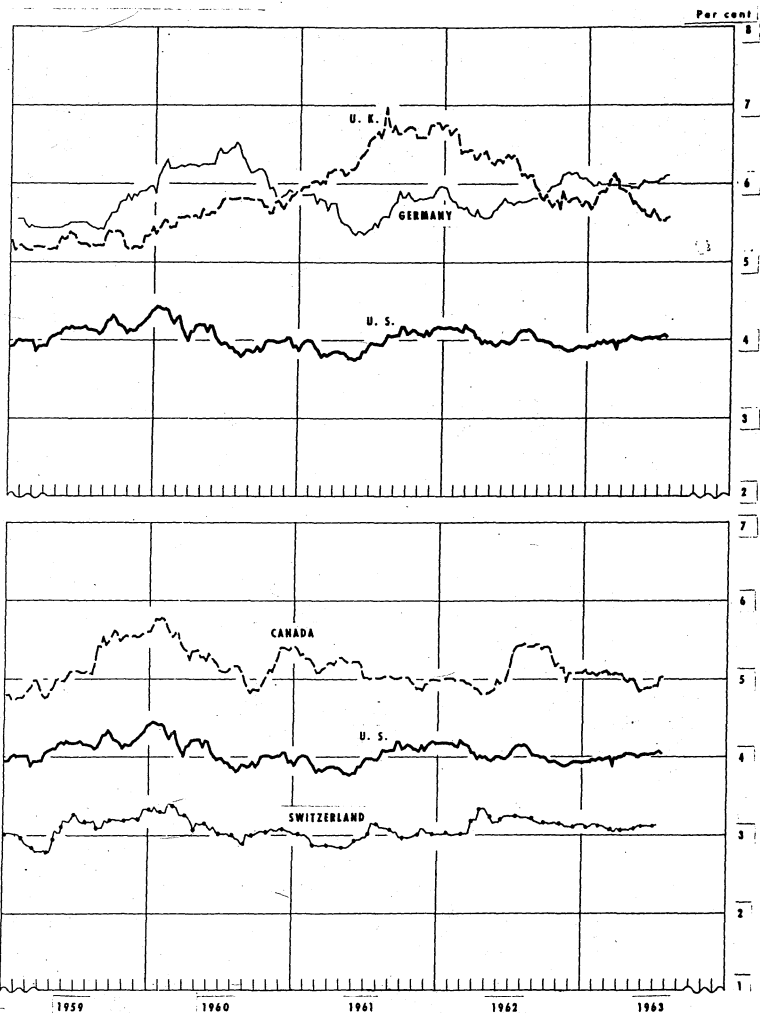
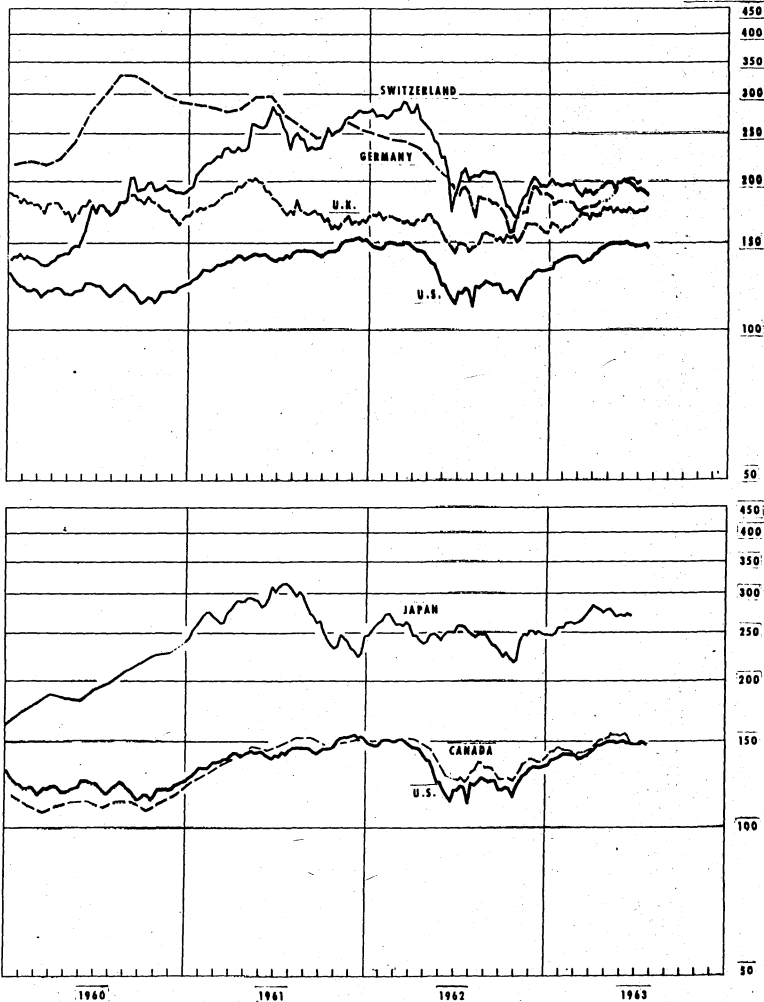


Chart 7

**INDUSTRIAL STOCK INDICES\***

1958 = 100  
Ratio scale

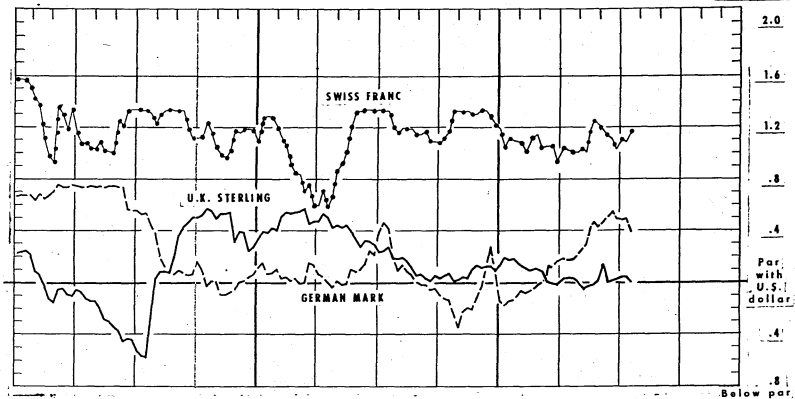


\*Notes: Japan: index of 225 industrial and other stocks traded on the Tokyo exchange.

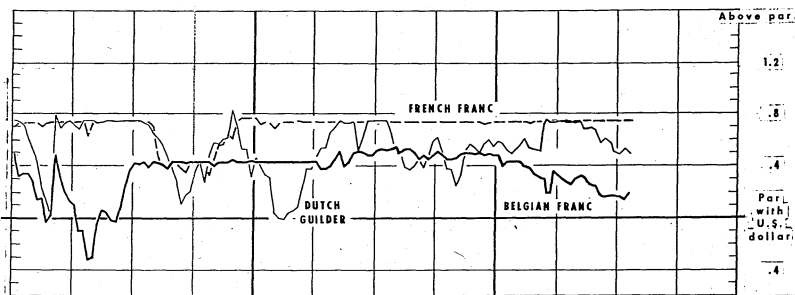
Chart 8

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

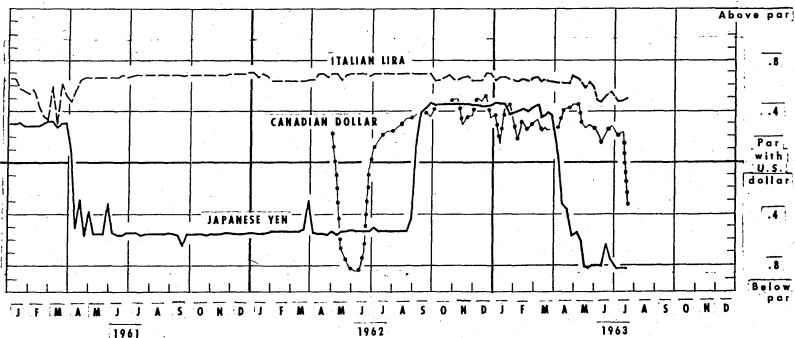
Per cent.  
Above par



Below par



Below par



Below par

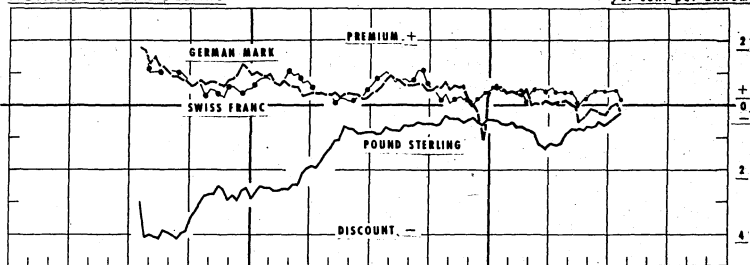
Chart 9

# **3-MONTH FORWARD EXCHANGE RATE**

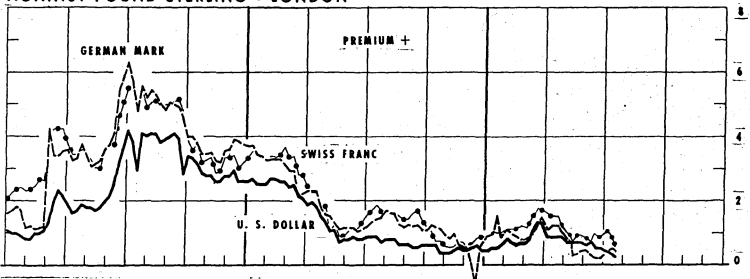
Friday figures

AGAINST U. S. DOLLARS

Per cent per annum



AGAINST POUND STERLING - LONDON



AGAINST POUND STERLING - LONDON

