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CAPITAL MARKET DEVELOPMENTS ABROAD

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I. Japan: Money and Capital Markets in August

The proposed U.S. interest equalization tax has already had an influence on Japanese foreign borrowing activity. Several firms have either postponed or are reconsidering their foreign borrowing plans. In addition, in late July the Japanese Vice Minister of Finance left for a three-week European tour to investigate opportunities for increased Japanese borrowing in certain European countries and the United Kingdom.

The Japanese authorities expect the proposed tax to reduce drastically foreign purchases of Japanese stocks, which are largely made by Americans. In the fiscal year ending March 31, 1963, foreign purchases of Japanese stocks totalled approximately \$165 million. The Japanese Government has also been concerned about the impact of the tax on Japan's balance of payments and the domestic development program. According to Ministry of Finance estimates, the tax will have the effect of changing the originally estimated balance of payments surplus for the current fiscal year from \$88 million to a deficit ranging from \$100 to \$200 million.

Following representations by the Japanese Government, including a special trip to Washington by Foreign Minister Ohira, a joint communique was released on August 2. The key points stated that: (1) a provision would be contained in the proposed tax measure allowing the President to grant certain exemptions if the tax threatens to imperil the stability of the international monetary system; (2) consideration will be given to some form of exemption for new issues of securities if serious difficulties, presumably in domestic output or the balance of payments, should arise in Japan; and (3) a joint Japanese-American economic consultative task force will be created to maintain close relations on these problems.

New Japanese security issues in the United States remained at relatively high levels in July and August, totalling \$33 and \$27 million, respectively. An increased volume of import acceptance financing is also reflected in increased liabilities to U.S. banks during the second quarter, as indicated in Table 1 below.

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

	Change during year			Change during quarter							
	1960	1961	1962	1962				1963			
				I	II	III	IV	I	II	Apr. May	June
Bank loans 1/	480	722	212	250	-20	-47	29	11	118 2/	125 21 3/	-31 2/
Securities 2/	30	58	141	23	36	55	27	51	84	22 28	34
	512	780	353	273	16	8	56	61	202	147 52	3

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

2/ New security flotations.

3/ Preliminary.

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Money market conditions and call loan rates remained relatively stable during July and August. Bank credit in June advanced less rapidly than a year earlier. In July the seasonally adjusted trade deficit widened sharply as imports increased and exports remained unchanged from the previous month. International reserves fell \$19 million in July but rose \$26 million in August to \$1,909 million. During July and the first half of August, the yen fluctuated only moderately in both the spot and forward foreign exchange markets.

Money market. Despite a net contractionary impact from monetary developments in July, call loan rates remained unchanged during the month and the first half of August. Expansionary developments in July, as Bank of Japan loans increased ¥115 billion and bank notes in circulation fell ¥8 billion, were more than offset by the contractionary impact of a ¥110 billion decrease in Bank of Japan bond holdings and net Treasury receipts of ¥141 billion.

Interest rates. The unconditional call loan rate (for loans repayable at a day's notice) remained unchanged at 7.3 per cent in July and through August 24. In general call loan rates have remained relatively stable since early March at lower levels than in 1962.

The average interest rate on bank loans and discounts continued to decline through May, reflecting earlier reductions in the Bank of Japan's basic discount rate in March and April. (See Table 2).

Table 2. Japan: Average Monthly Interest Rates on Bank Loans and Discounts

	1959	1960	1961	1962	1963
March	8.18	8.21	7.92	8.22	7.92
June	8.28	8.22	7.88	8.23	7.80 ^{1/}
September	8.06	8.14	8.00	8.24	
December	8.11	8.08	8.20	8.09	

^{1/} May.

Bank loans and discounts. Bank credit rose 1.3 per cent in June, compared to a rise of 1.5 per cent a year earlier. This represents a reversal of the general tendency for bank credit to rise at a somewhat faster rate this year than in 1962, although April was also an exception. In June, loans and bills discounted rose 1.9 and 3.2 per cent, respectively, while security holdings fell 3.8 per cent. In June of last year, all three groups registered increases ranging from 1.0 to 1.7 per cent. Deposits increased 1.8 per cent in June in contrast to no change a year earlier.

As a result of the slower rate of increase in credit in the April and June period, total bank credit in the second quarter rose 4.0 per cent against 4.6 per cent a year earlier. Deposits, however, increased 3.1 per cent in contrast to a rise of only 0.6 per cent in the corresponding months last year.

The proportion of bank loans and discounts extended for purchases of equipment was 16.5 per cent in June, slightly lower than in May, but still above the probable cyclical low of 16.3 per cent in March.

Bond market. New issues of domestic bonds totaled ¥119 billion in June, down ¥1 billion from May, but considerably higher than a year ago and early in 1963. New issues of bank debentures totaled ¥77 billion, down ¥5 billion from the May level. In June, new issues of industrial debentures totaled ¥23 billion and public corporate debentures were ¥20 billion, marking a rise of ¥3 billion and a decline of ¥1 billion over the May level, respectively.

Bond yields in June were unchanged from earlier levels except for a slight rise in yields on industrial bonds.

Stock market. The announcement by the United States on July 18 of a proposed interest equalization tax on American transactions in foreign securities led to a precipitous 8 per cent decline in stock prices on July 19-20. About one-half of the loss was recovered by July 24, but during the rest of July and August the market generally declined. A new low for the year was reached on August 26 when the stock average hit ¥1,314, or 13 per cent below the July 18 level. By August 30 the stock average had moved up moderately to ¥1,351.

Table 3. Japan: Dow Jones Average of 225 Stocks, First Section of Tokyo Stock Exchange

June 24	¥1,533	August 5	¥1,392	1962	High	¥1,590
July 1	1,597	12	1,403		Low	1,216
8	1,588	19	1,372			
15	1,514	26	1,314	1963	High	¥1,634
22	1,429	30	1,351		Low	1,314
29	1,353					

In order to help bolster the market, the Government has encouraged city banks to expand their credits to security companies and life insurance companies. Encouraged by the success of a similar pool in 1949, the Tokyo Securities Dealers Association and the Tokyo Stock Exchange have announced that a stock purchasing pool will be formed as a further step to sustain the market.

Foreign trade. The seasonally adjusted deficit on trade account widened sharply in July as imports increased 9 per cent and exports remained unchanged. (See Table 4). The seasonally adjusted deficit at an annual rate in July was \$1.7 billion. During the second quarter the trade deficit at an annual rate was \$1.2 billion, compared to \$876 million in the first quarter and \$540 million in the fourth quarter of last year. The trade figures (monthly, or monthly averages, on a customs basis) in Table 4 are based on seasonal adjustment factors computed by the Board of Governors of the Federal Reserve System.

Table 4. Japan: Seasonally Adjusted Foreign Trade
(in millions of dollars)

	1962				1963					
	I	II	III	IV	I	II	Mar.	May	June	July
Imports	494	468	452	464	488	545	564	537	535	581
Exports	378	408	428	419	415	442	469	421	436	436
Trade Balance	-116	- 60	- 24	- 99	- 73	-103	- 95	-116	- 99	-145

Exchange reserves and capital flows. International reserves rose \$26 million in August to a level of \$1,909 million. This follows a decline of \$19 million in July. The current account of the Japanese balance of payments as measured on an exchange transactions basis registered a deficit of \$55 million in July compared to \$34 million in June. Since the first of the year, Japan has had a deficit on current account each month in contrast to monthly surpluses during the last half of 1962. Net long-term capital receipts were \$41 million, down from the \$63 million level in June, and there was a net outflow of \$8 million in short-term capital in July, compared to a net outflow of \$27 million in June. With net receipts of \$3 million under the errors and omissions item in July, the over-all balance of payments deficit was \$19 million.

According to preliminary reports, Japanese short-term liabilities to U.S. banks fell \$31 million in June. (See Table 5). This represents a reversal of the trend during February-May when liabilities rose \$209 million, probably reflecting in part a rise in trade acceptances to finance the recent rise in Japanese imports.

Table 5. Short-term Claims by U.S. Banks on Japan
(in millions of U.S. dollars)

	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
1959	168	175	204	224	242	260	256	269	262	262	275	324
1960	362	372	420	250	488	467	586	628	660	683	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	1,740
1963	1,697	1,691	1,751	1,876	1,900 ^a	1,869 ^a						

NOTE: Data for 1962 and 1963 have been recently revised and include \$52 million reported by banks initially as of December 31, 1961.

a/ Preliminary.

During August, Japan issued \$27.3 million in securities, as indicated below. This compares with \$32.9 million in July as detailed in the previous money and capital markets report.

<u>Borrower</u>	<u>Amount</u>	<u>Comment</u>
Tokio Marine and Fire Insurance Co., Ltd.	\$ 7.3 million	400,000 A.D.R. shares at \$18.25 per share
Nippon Telegraph and Telephone Public Corp.	\$20.0 million	15-year, 5-3/4 per cent bonds priced to yield 6.08 per cent and placed publicly.

Several developments have occurred in response to the United States' proposed interest equalization tax. Nissan Motor has announced that it will defer until 1964 its planned \$15 million private bond flotation in the U.S. Other companies reported to be reconsidering or postponing borrowing in the U.S. include Toyota Motor, Ishikawajima - Harima Heavy Industries Co., Hino Motor and Daihatsu Kogyo K.K.

On July 27, Vice Minister of Finance Shinichi Ishino began a three-week trip through Britain, Switzerland, France and West Germany to investigate the possibilities of raising additional capital in Europe. Earlier in March the Japanese were successful in raising \$25 million in the German market. While in London Ishino signed an agreement concerning the conversion of the £5 million (\$14 million) 1899 bond issue due to expire at the end of this year. On August 15, when a new £5 million, 6 per cent issue was offered, primarily for the purpose of retiring the old issue, it received an overwhelming reception, being oversubscribed 28 times.

Foreign exchange. The yen weakened in the spot market during the first half of July but strengthened somewhat in mid-August. (See Table 6). In the three-month forward market, the yen remained unchanged from July 2 through August 5, but weakened thereafter through mid-August. Because the spot rate depreciated proportionately more than the forward rate, the forward discount narrowed in the first two weeks of July but widened again on August 11-15 as the yen strengthened in the spot market.

Table 6. 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
June 28	362.15	362.40	.28
July 5	362.30	362.53	.25
12	362.35	362.53	.20
19	362.35	362.53	.20
26	362.35	362.53	.20
Aug. 2	362.35	362.53	.20
9	362.35	362.53	.25
15	362.25	362.58	.36

II. India: Money and Capital Markets During July 1963

During July, there was no marked change from the pattern of previous months in India's money and capital markets. As bank deposits increased and credit declined, the market for short-term money continued to ease. Banks increased their holdings of government securities, and reduced their borrowings from the Reserve Bank. The gold market continued unsettled, as trading in gold of more than 14 carats was made illegal. Prices in the stock market remained depressed.

The most notable feature in July was a spirited debate between the financial community and the Reserve Bank of India over the latter's tight money policy. The Bombay Bankers Association urged the Reserve Bank to modify the two-tier structure of discount rates, to remove ceilings on commercial bank borrowings from the Reserve Bank, and to postpone the proposed liquidity requirement. It was argued that these changes would aid economic growth in the private sector.

On July 25, Mr. P. C. Bhattacharyya, Governor of the Reserve Bank, defended the bank's policy. He argued that the economic situation was not as bad as some of his critics claimed. Also, he believed that current monetary policy was keeping a reasonable balance between prices, productivity and the expansion of credit, and that an easy money policy might lead to a severe inflation.

Money market. The rate on day-to-day money continued its decline in July, in response to seasonal factors (See Table 1). In mid-July, the rate fell below 1 per cent, its lowest level of the current slack season, and the first time in 1963 that it was below that of the corresponding month of the previous year. The marked strengthening of the call money rate at the end of the month was only temporary and by August 2, it had fallen back to 1 per cent.

Table 1. India: Inter-bank Call Money Rate in Bombay

Monthly Average:

<u>1962</u>			<u>1963</u>		
	May	3.70		May	4.88
	June	2.88		June	3.59 a/
	July	1.80		July	1.55 a/

Selected dates - 1963:

June	7	4.79	July	5	1.49
	14	4.49		12	0.80
	21	3.10		19	0.80
	28	1.99		26	3.10

a/ Average of Fridays.

Gold market. There are no official figures for July on the market price of gold of more than 14 carats since such trading was made illegal under the June 25 amendment to the gold control rules. However, newspaper reports indicate that the unofficial price of gold bullion fluctuated between \$68-73 per fine ounce during the month. This is lower than the average price of \$74.19 in June or the average price of \$82.35 in July 1962.

Stock market. Stock prices continued to remain at depressed levels during July (See Table 2). Throughout the month there was a slight upward trend in prices, but this was wiped out, for the most part, in early August. Buyers of new security issues continued to be scarce. The depressed state of the stock market reflects the imposition of heavy taxes, especially on profits, under the current budget.

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

Monthly average:

<u>1962</u>	May	195.3	<u>1963</u>	May	164.8
	June	189.9		June	161.5
	July	184.0		July	162.2

Selected dates - 1963:

June	1	163.0	July	6	158.8
	8	162.7		13	162.2
	15	162.2		20	163.5
	22	161.4		27	164.2
	29	158.1			
			Aug.	3	160.0

Banking developments. In July, the trend of the previous two months continued: bank deposits expanded further, bank credit declined, holdings of government securities rose, and borrowings from the Reserve Bank fell. (See Table 3). Total deposits were 6.7 per cent higher than in July 1962.

Holdings of government securities increased as the central Government opened subscription lists on July 22 for a 6-year, 4 per cent loan at Rs. 99.50, and a 10-year, $4\frac{1}{2}$ percent bond at par. The two loans totalled Rs. 2,250 million (\$470 million) and were fully subscribed by July 26. This July issue was the second installment of the Government's borrowing program for fiscal 1963-64, and both installments have raised Rs. 3,650 million, as compared to the target borrowing of Rs. 3,930 million.

July is traditionally the month of minimum borrowings from the Reserve Bank. This year, such borrowings outstanding at the end of the month totalled only Rs. 4.7 million.

Table 3. India: Scheduled Banks - Monthly Changes in Deposits, Borrowings from Reserve Bank and Principal Assets
(in millions of rupees)

	<u>Deposits</u>	<u>Per cent Change</u>	<u>Bank Credit</u>	<u>Per cent Change</u>	<u>Holdings of Gov't Securities</u>	<u>Per cent Change</u>	<u>Borrowings from Reserve Bank</u>
1962							
July	+246	+1.2	-309	-2.2	+479	+7.9	- 9
1963							
May	+104	+0.5	-367	-2.3	+134	+2.2	-150
June	+387	+1.8	-238	-1.5	+248	+3.9	-149
July	+398	+1.9	-435	-2.8	+342	+5.2	- 12

Exchange reserves. During July, India's international reserves remained very stationary around \$460 million. The sharp decline at the end of June reflects India's repurchase of \$25 million previously drawn from the International Monetary Fund.

Table 4. India: International Monetary Reserves of Reserve Bank
(in millions of dollars - last Friday of month)

Month:

<u>1962</u>	May	463	<u>1963</u>	May	494
	June	452		June	471
	July	464		July	459

Selected dates - 1963:

June 7	488	July 5	460
14	491	12	460
21	484	19	461
28	471	26	459

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 I

INTEREST ARBITRAGE, UNITED STATES / CANADA

Thursday figures

Per cent per annum

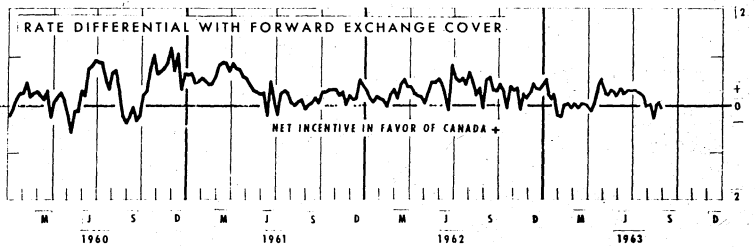
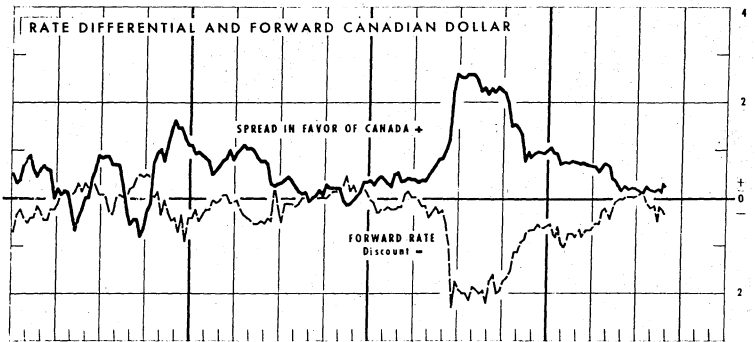
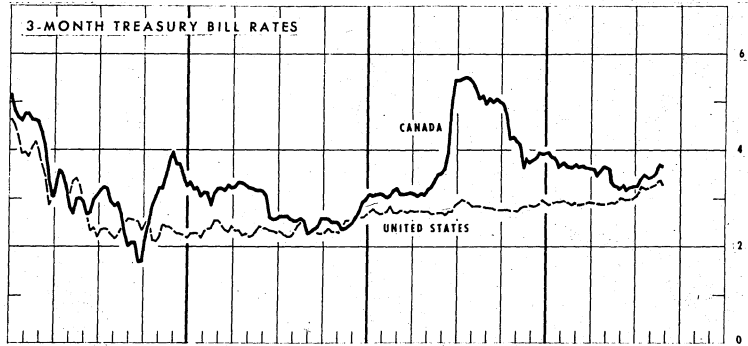


Chart 2

INTEREST ARBITRAGE, NEW YORK/LONDON

Friday figures

Per cent per annum

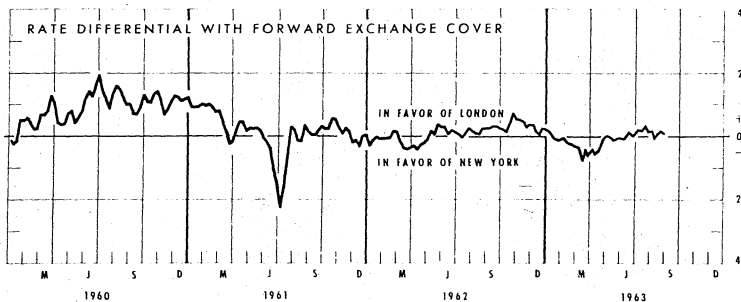
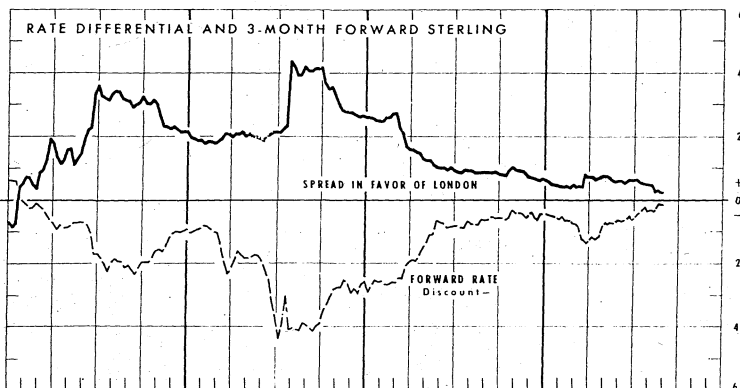
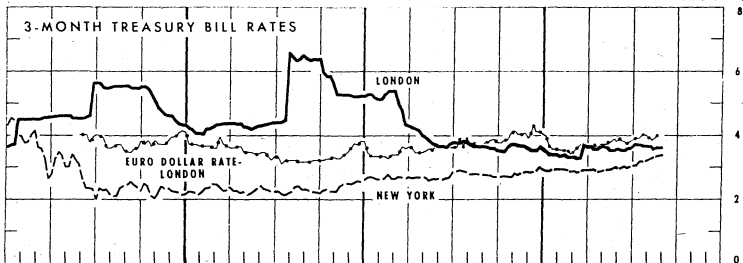
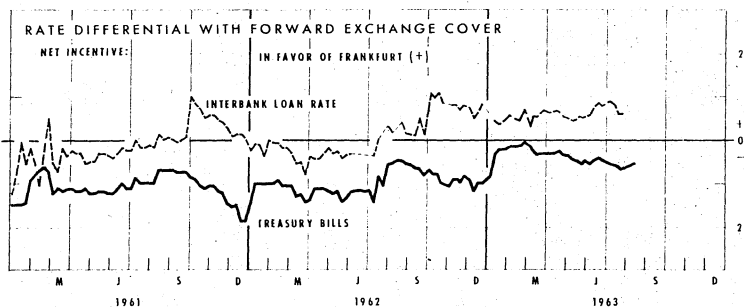
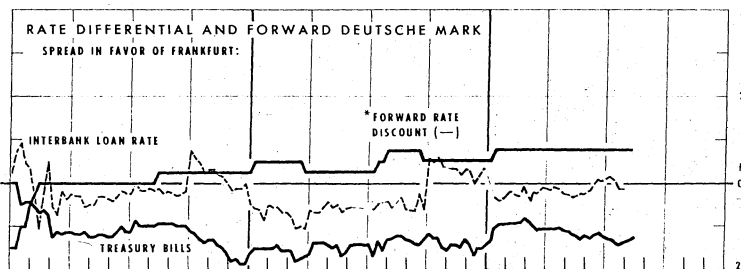
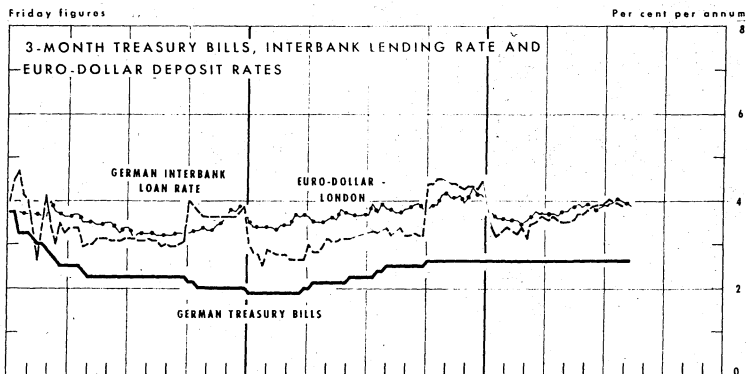


Chart 3

INTEREST ARBITRAGE FOR GERMAN COMMERCIAL BANKS



* Note: Special forward rate available to German commercial banks

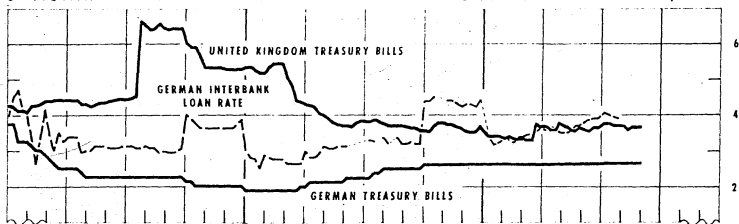
Chart 4

INTEREST ARBITRAGE, FRANKFURT / LONDON

Friday figures

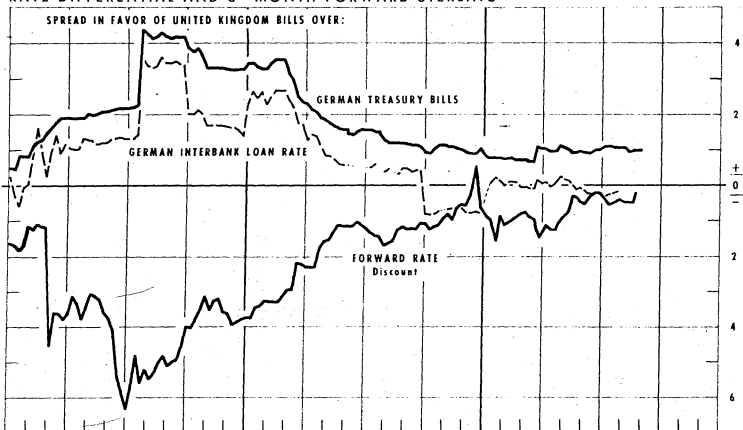
3—MONTH TREASURY BILLS AND INTERBANK LENDING RATES

Percent 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:

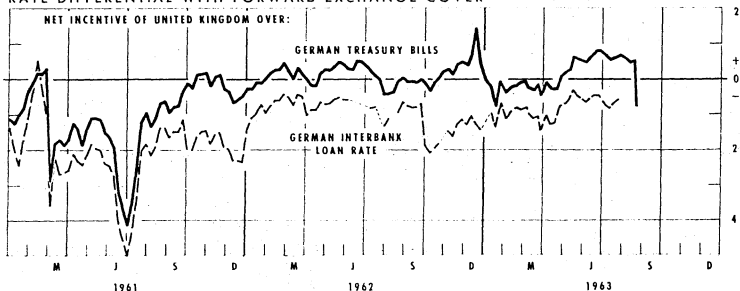
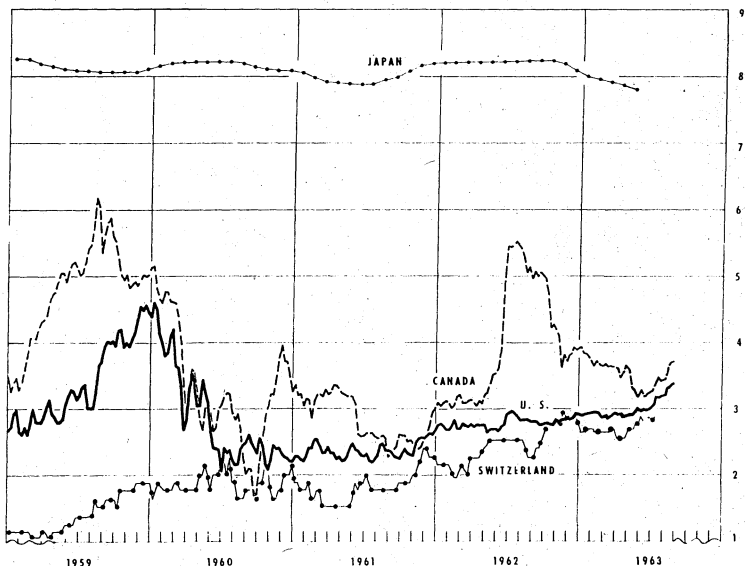
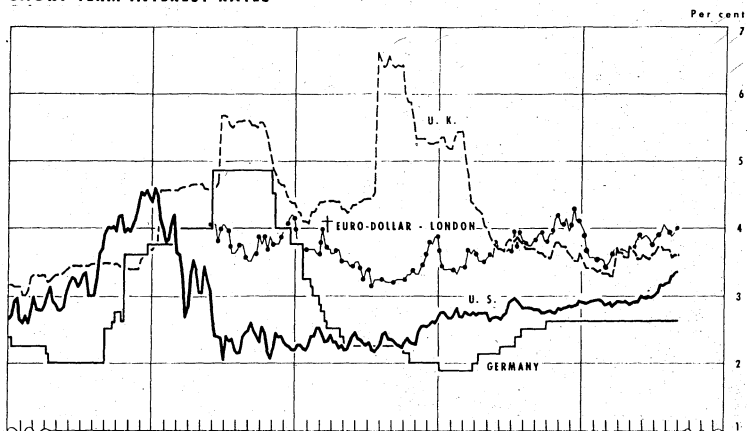


Chart 5
SHORT-TERM INTEREST RATES *



* 3 month treasury bill rates for all countries except Japan (Accession rate on bank loans and discounts)
and Switzerland (3 month deposit rate)

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

Chart 6

LONG-TERM BOND YIELDS

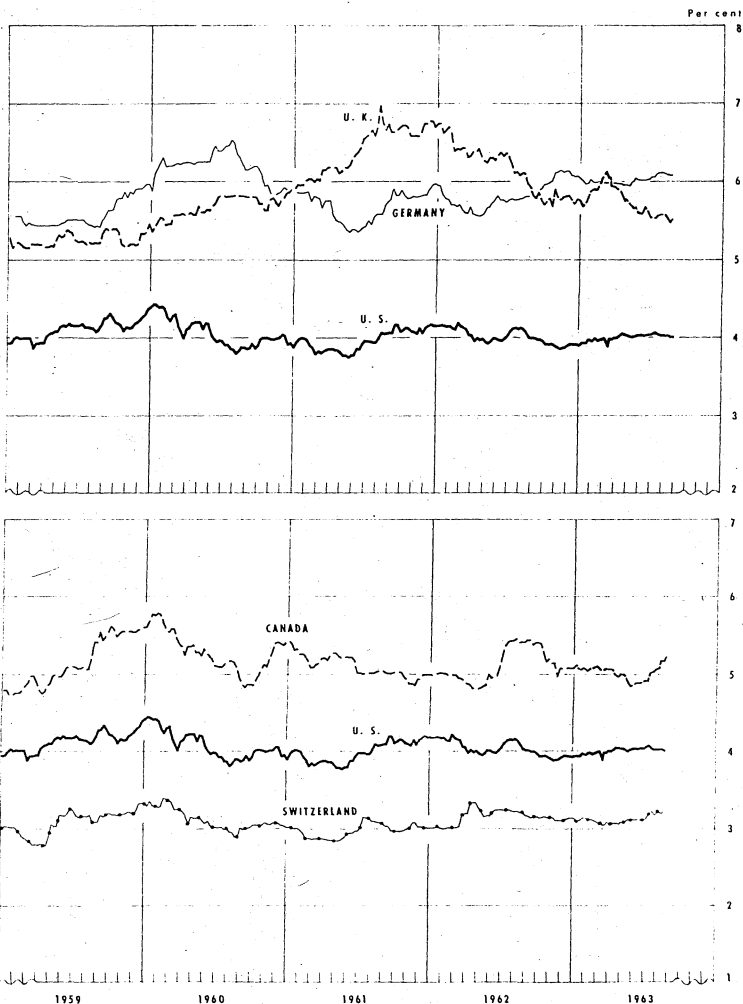
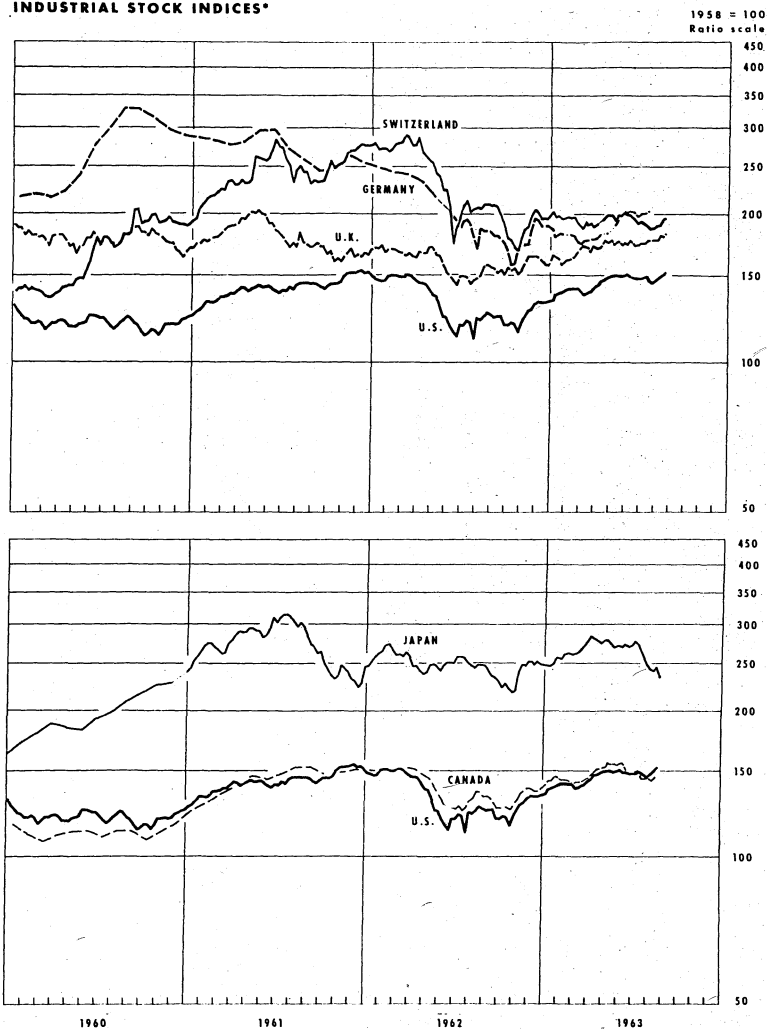


Chart 7

INDUSTRIAL STOCK INDICES*



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

Chart B

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

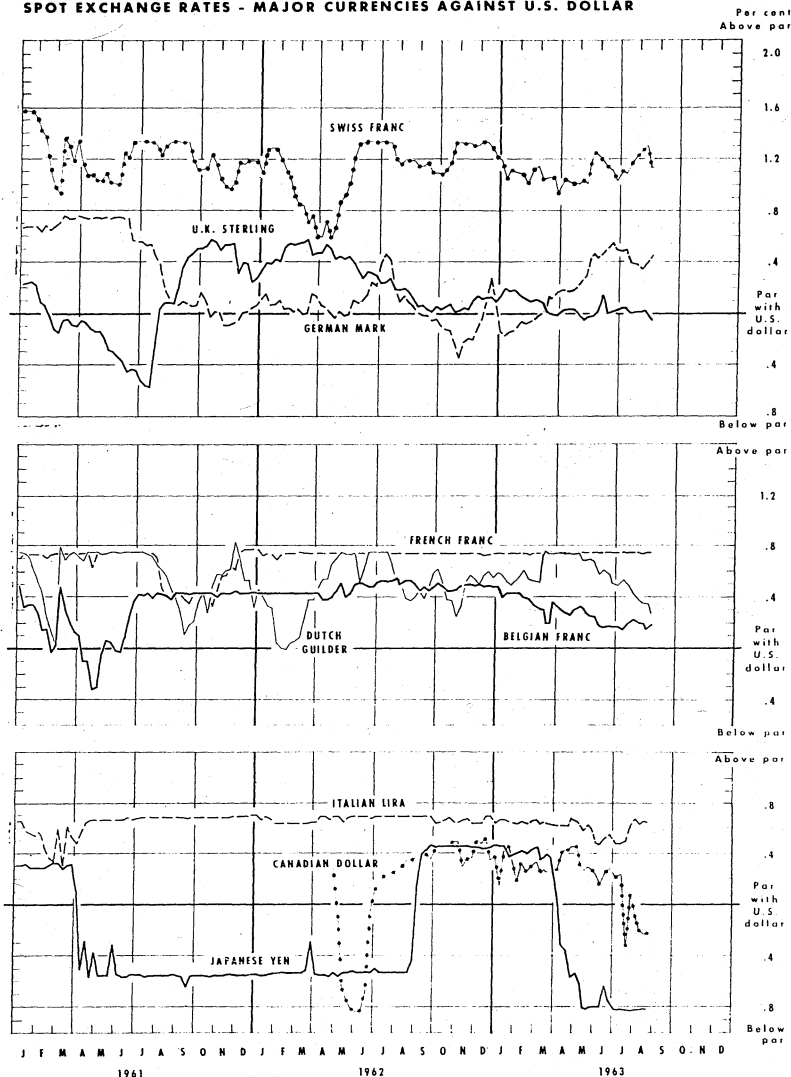


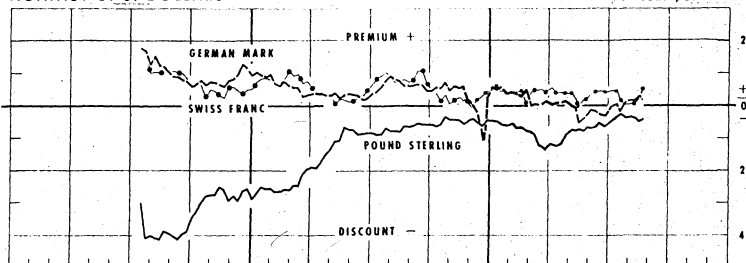
Chart 9

3-MONTH FORWARD EXCHANGE RATE

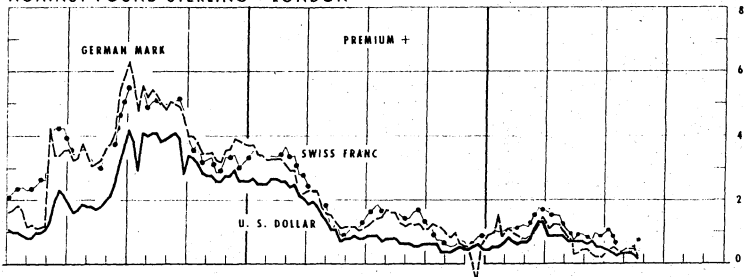
Friday figures

AGAINST U. S. DOLLARS

Per cent per annum



AGAINST POUND STERLING - LONDON



AGAINST POUND STERLING - LONDON

