

H. 13

No. 128

October 30, 1963.

CAPITAL MARKET DEVELOPMENTS ABROAD

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

I. Japan: Money and Capital Markets in September-October

Because of the proposed U.S. interest equalization tax, no Japanese bonds were placed in this country in September and only one issue of \$5 million was placed privately in October. In these two months, however, substantial intermediate-term loans were extended by U.S. institutions to Japanese borrowers and plans for new Japanese borrowing in Europe were reported. During August, repayments of acceptance credits to U.S. banks exceeded new security flotations. (See Table 1).

Table 1. Japan: Short- and Long-Term Borrowings in the U.S.

	Change during yr.			Change during period							
	1960	1961	1962	1962				1963			
				I	II	III	IV	I	II	July	Aug.
Bank loans ^{1/}	480	722	212	250	-20	-47	29	11	116	3 3/4	-75 3/4
Securities ^{2/}	30	58	141	23	36	55	27	51	84	33	27
	512	780	353	273	16	8	56	61	202	36	-48

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

2/ New security flotations.

3/ Preliminary.

Borrowings in the United States approved by the Japanese Foreign Investment Council were:

- a. On September 10, \$67 million of 3-to-10 year bank loans (including a \$55 million loan by the Wells Fargo Bank to an automobile manufacturer, the Togo Kogyo Company);
- b. On October 1, \$6.9 million of 3-to-5 year bank loans.

The Japanese Government is still planning to issue \$52.5 million in bonds in the U.S. before April 1964. At the same time, the Japanese Government is negotiating in Europe:

- a. In Switzerland, for a \$15 million bond issue with the Swiss Bank Corporation and three other Swiss institutions; and
- b. In Germany, for a \$25 million bond issue.

OFFICIAL USE ONLY
(Decontrolled after 6 months)

A Japanese press report estimates that total Japanese securities issues in the United States since the late 1950's have amounted to about \$320 million, excluding issues of American Depositary Receipts, broken down as follows (in millions of U.S. dollars):

Government-guaranteed bonds	\$168.5
Private corporate debentures	94.0
National bonds	57.5

(See Nihon Keizai, October 15).

This figure is close to U.S. estimates. From 1959 through July of 1963, Japan is believed to have placed both publicly and privately \$321 million in bond issues in the United States.

Further liberalization steps were announced by the Ministry of Finance in October, effective November 1. The new action covers 63 out of the 82 items of the U.S.C.D.'s Code of Liberalization for Invisible Operations and Capital Movements. These 63 items include movements of privately-owned capital and remittances not exceeding certain specified levels. Repatriation of proceeds accruing from "yen-based investments" (i.e., foreign investments made in yen without official repatriation guarantee), will reportedly be decontrolled in the spring of 1964.

Domestic monetary conditions remained somewhat tight in September-October in spite of indications of substantial credit expansion by the commercial banks. The money market was steady to tight during this period and bank credit continued to rise at a faster rate in August than a year earlier. The stock market remained relatively depressed.

On the external side, reserve levels showed only relatively small fluctuations and the foreign trade deficit narrowed somewhat in September. International reserves fell \$3 million in September to \$1,906 million and showed only a \$4 million rise during the third quarter, compared to a rise of \$61 million in the first half of the year. The yen strengthened in the spot foreign exchange market as banks engaged in window-dressing operations at the end of September.

Money market. Money market conditions remained steady during the month of September, but tightened near the end of the month. The expansionary impact of ¥4 billion in net Treasury outpayments was approximately offset by the contractionary effect of a ¥47 billion reduction in Bank of Japan loans and discounts, a ¥9 billion expansion in bank notes in circulation, and a ¥6 billion net sale by the Bank of Japan of security holdings.

During October, the Bank of Japan is reported to have offset net Treasury outpayments by sales of bonds and a 5 per cent reduction in commercial banks' credit lines at the Bank of Japan.

Interest rates. Call loan rates increased late in September as business firms borrowed short-term funds to engage in window-dressing operations. The overnight call loan rate rose from 6.935 per cent on September 27 to 7.665 per cent on September 30, and the unconditional rate also increased slightly. Early in October the rates eased to the same level as in September, viz. 6.935 per cent for overnight call money and 7.3 per cent for unconditional call money.

The average interest rate on bank loans and discounts continued to decline steadily through July. (See Table 2). The July rate of 7.72 per cent is the lowest level since 1948.

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	7.75
September	8.06	8.14	8.00	8.24	7.72 ^{1/}
December	8.11	8.08	8.20	8.09	

^{1/} July

Bank loans and discounts. Bank credit rose 1.1 per cent in August compared to a rise of 0.8 per cent a year earlier. This continues the general trend this year of a faster rate of increase in credit than in 1962. Loans and bills discounted rose 1.6 and 1.9 per cent, respectively, in August, while holdings of securities dropped 2.0 per cent. Bank deposits increased 0.8 per cent in August compared to 1.0 per cent a year earlier.

The proportion of bank loans and discounts extended for purchases of equipment was 16.6 per cent in August. This is about the same as in the previous three months but higher than the year's low of 16.3 per cent in March.

Bond market. New issues of domestic bonds rose substantially in August to a level of ¥131 billion. This is ¥14 billion higher than in July and second only to the year's high of ¥137 billion in March. Industrial debentures accounted for a substantial part of the rise as they increased from ¥20 billion in July to ¥27 billion in August. Bank debentures also increased from ¥72 billion to ¥75 billion and public corporate debentures from ¥25 to ¥29 billion over the same period.

Average yields on new issues remained relatively unchanged from the levels earlier in the year except for industrial debentures which were 7.469 in August as against a high for the year of 7.495 per cent in March.

Stock market. The stock market reached a low for the year on September 9 when the index hit ¥1,296. This was 21 per cent below the year's high on April 5, and 14 per cent below July 18 when the U.S. announced its proposed interest equalization tax. Although the stock index subsequently rose 8 per cent by September 17, it eased thereafter through the rest of September. During October, stock prices showed a general rising trend, and on October 22 were up 6 per cent from the end of September level.

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

August	26	¥ 1,314	September	30	¥ 1,302	1962	High	¥ 1,590
September	2	1,344	October	7	1,352		Low	¥ 1,216
	9	1,296		14	1,320			
	17	1,402		21	1,356	1963	High	¥ 1,634
	23	1,356		28	1,380		Low	¥ 1,296

Foreign trade. The trade deficit continued to narrow in both August and September from the relatively wide gap in July. (See Table 4). Imports and exports both declined in September by 9 and 5 per cent, respectively. The third quarter deficit, at a seasonally adjusted annual rate, was \$1.4 billion compared to \$0.9 and \$1.2 billion in the first and second quarters, respectively. 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	III	July	Aug.	Sept.
Imports	494	468	452	464	488	545	582	579	611	557
Exports	378	408	428	419	415	442	462	436	487	464
Trade Balance	-116	-60	-24	-99	-73	-103	-120	-143	-124	-93

Exchange reserves and capital flows. The current account in the balance of payments as measured on an exchange transactions basis registered a \$14 million deficit in September. This was considerably below the \$58 million deficit in August. Net long-term capital receipts were \$21 million against \$62 million in August. This was the lowest level in the past four months and partly reflects the effect of the proposed interest equalization tax. Short-term capital registered a net outflow of \$15 million in September against a net inflow of \$52 million in August. With net receipts of \$5 million under the errors and omissions item, the overall balance in September was a net deficit of \$3 million.

According to preliminary reports, Japanese short-term liabilities to U.S. banks fell \$75 million in August (See Table 5). The drop reflected a decline in the outstanding level of commercial acceptances.

Table 5. 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	1,740
1963	1,697	1,691	1,751	1,876	1,896	1,869	1,872 ^a	1,797 ^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.

Japan did not issue any bonds in September in the United States, but on October 12, the final \$5 million installment of the Kokusai Denshin Denwa Company was placed privately. During the previous 13 months K.D.D. placed \$20 million in private issues in the U.S. to finance an undersea telephone cable between Hawaii and Japan.

The Japanese Government is still planning to issue \$52.5 million in bonds in the U.S. before March 31, 1964, consisting of a \$20 million Tokyo metropolitan bond issue and a \$32.5 million industrial investment issue by the central government. Early in October, Japan reportedly asked the World Bank to extend new loans to Japan totalling \$140 million to be used for the Tokaido trunk railway and the Tokyo-Nagoya (Tomei) speedway. On September 27, Japan received a \$75 million loan from the World Bank for the Tokyo-Shizuoka toll express highway.

On September 1 the Export-Import Bank of Japan relaxed the terms on some of its foreign financing. As part of its export promotion program, the Bank's interest rate was changed from a uniform 7 per cent to a range of 5.5 to 7.0 per cent, and the loan proportion to total investment was raised from a maximum of 50 per cent to a possible maximum of 70 per cent.

Foreign exchange. The yen strengthened in the spot market late in September as banks sold foreign exchange for purposes of balance-sheet window-dressing. The middle spot rate appreciated from 362.00 yen to the dollar on September 2 to 360.80 on October 15. (See Table 6). The three-month forward rate remained relatively unchanged during September and the first half of October. Because of the appreciating spot rate and the relatively unchanged forward rate, the three-month forward discount rose from a low of 0.25 per cent on September 20 to a high of 1.94 per cent on October 15.

Table 6. Japan: Customer's A. 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
Aug.	30	361.85	362.60	.83
Sept.	6	362.25	362.60	.39
	13	362.30	362.60	.33
	20	362.30	362.53	.25
	27	361.50	362.45	1.05
Oct.	4	361.10	362.55	1.61
	11	361.15	362.55	1.55
	15	360.80	362.55	1.94

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

Money and credit conditions were generally easy in Indian financial markets during the third quarter which is the middle of the "slack season" in the economy. Day-to-day inter-bank money rates fell sharply and credit availabilities eased. Deposits of the scheduled banks increased despite a large decline in bank credit to the private sector, as the banks added substantially to their holdings of government securities. The banks held their borrowings from the central bank to a minimum.

Further steps were taken to reverse the emergency measures instituted after the Chinese invasion in late 1962. The gold market (closed in late June 1963) was allowed to reopen on August 28. Prices, which are now quoted on the basis of 10 grams of 14 carat gold instead of bullion, continued to decline to the end of September.

On September 21, the new Finance Minister (T. T. Krishnamachari) also cancelled the Compulsory Deposit Scheme for non-income tax payers (salary workers, agriculturists, sales tax payers and urban property holders) under which a part of the surcharge levied on the residual incomes over Rs. 1,500 must be deposited with the Government. This amount was to be refundable at the end of five years and to earn 4 per cent per annum. The modification of the Gold Control Rules, in effect, a cancellation of the anti-gold smuggling policy, provides that existing gold ornaments may be remade to ornaments of more than 14 carats, that a Gold Administrator will replace the Gold Board, and that a new gold bill will be submitted. These liberalizing measures were well received by the business community and contributed to a significant rise in the stock price index in late September and early October.

Money market. The rate for day-to-day money declined sharply in the third quarter mainly due to seasonal factors. (See Table 1). The average rate for the quarter was 2.01 per cent, as compared to 4.46 in the preceding quarter and 2.72 in the corresponding quarter of 1962. During the quarter the call money rate fell to its seasonal low in mid-July and then began rising sporadically through August and September.

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

Average of Period:

<u>1962</u>	III	2.72	<u>1963</u>	III	2.01 a/
	IV	3.75		July	1.55 b/
				Aug.	1.97 b/
<u>1963</u>	I	5.64		Sept.	2.52 b/
	II	4.46			

Selected Dates - 1963:

September	6	2.68	October	4	2.22
	13	3.04		11	2.27
	20	2.32			
	27	2.02			

a/ Provisional.

b/ Average of Fridays.

Gold market. Third quarter gold price declined by \$3.16 per fine ounce from \$72.13 for the preceding quarter and was \$13.09 less than the high of the corresponding 1962 quarter. (See Table 2). The first price quotation on August 30 was \$71.47 or \$3.11 less than the last price quotation on June 21, which was just prior to suspension of official gold trading. Gold prices continued to fall during September, and by October 4, the price was US\$67.46, or about equal to the April 1963 price.

The most notable event affecting the gold market was the major change in the Gold Control Rules by the new Finance Minister T.T. Krishnamachari on September 21, 1963 who announced that (a) existing gold ornaments may be remade into ornaments of more than 14 carats by self-employed goldsmiths, but new ornaments may only be of 14 carats purity, (b) a gold control administration would replace the Gold Board and (c) a new bill replacing existing rules will be submitted to cover short- and long-term gold policies. As a result, gold prices strengthened slightly at the end of September but continued their downward trend in October.

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

Average of Period:

<u>1962</u>	III	82.06	<u>1963</u>	III	68.97 b/
	IV	71.41		July	n.a. c/
				Aug.	71.47 d/
<u>1963</u>	I	66.99		Sept.	68.73
	II	72.13			

Selected dates - 1963

August	30	71.47	October	4	67.46
September	6	70.15		11	66.53
	13	68.81		18	66.74
	20	67.05			
	27	68.86			

- a/ Average Friday spot rupee quotations in 14 carat gold per 10 grams converted to dollars per fine ounce.
 b/ Average of five Friday quotations from August 30 to September 27, 1963.
 c/ Gold trading suspended toward the end of June and resumed August 28, 1963.
 d/ Only August 30, 1963.

Stock market. Although stock prices continued to fall in the third quarter, the decline was slight. (See Table 3). The price index at 162.5 was only .4 lower than the preceding quarter but 12 per cent lower than the corresponding quarter of 1962. The decline which began in May 1962, recorded its lowest level in August 1963. The stock price index, reversing its trend in September 1963, rose to 164.8, equal to the level in May 1963. The September index was especially influenced by a sharp increase in the last week which continued into early October. This

increase is attributed to the expected liberalization of fiscal policies by the new Finance Minister, T. T. Krishnamachari. Although only the Compulsory Deposit Scheme and Gold Control Rules were relaxed on September 21, 1962, there has been as yet no official changes in taxes, including those upon profits:

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

Quarterly Averages:

<u>1962</u>	III	185.0	<u>1963</u>	III	162.5 a/
	IV	173.6		July	162.2 <u>b/</u>
<u>1963</u>	I	167.9		Aug.	160.6 <u>b/</u>
	II	162.9		Sept.	164.8 <u>b/</u>

Selected Dates - 1963:

September	7	163.3	October	5	169.3
	14	164.2		12	170.5
	21	164.5			
	28	167.1			

a/ Provisional.

b/ Average of Fridays.

Banking developments. In the third quarter, the middle of the "slack season", deposits increased, and bank credit declined more, than in the previous quarter. This enabled the scheduled banks to increase substantially purchases of government securities and to hold borrowings from the Reserve Bank to a minimum. Compared to the corresponding quarter averages of 1962, deposits rose 8 per cent, bank credit 6 per cent, holdings of government securities 9 per cent, but borrowings from the Reserve Bank fell 86 per cent.

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
<u>1962</u>							
II	+972	+5.1	+ 97	+ 0.7	+ 63	- 1.0	-515
III	+219	+1.1	- 38	- 2.7	+827	+13.6	+ 30
IV	- 5	0.0	+418	+ 3.0	-367	- 5.3	+162
<u>1963</u>							
I	+ 17	+0.1	+1361	+11.8	-687	-10.0	+506
II	+600	+2.9	+ 276	+ 1.8	+124	+ 2.0	-698
III	+890	+4.2	- 909	- 5.8	+1105	+14.9	+ 3
July	+398	+1.9	- 434	- 2.8	+ 342	+ 5.2	- 12
Aug.	+230	+1.1	- 251	- 1.7	+ 738	+10.7	+ 5
Sept.	+177	+0.8	- 89	- .6	+ 184	+ 2.4	+ 10

Exchange reserves. India's international reserves at the end of the third quarter were almost \$7 million more than a year earlier (see Table 5), but about \$20 million less than the preceding quarter of 1963, mainly due to seasonal factors.

Table 5. India: International Monetary Reserves of Reserve Bank
(in millions of dollars - last Friday of period)

End of period:

<u>1962</u>	III	445	<u>1963</u>	III	451
	IV	451		July	459
				Aug.	446
<u>1963</u>	I	492		Sept.	451
	II	471			

Selected dates - 1963:

September	6	449	October	4	450
	13	451		11	461
	20	454			
	27	451			

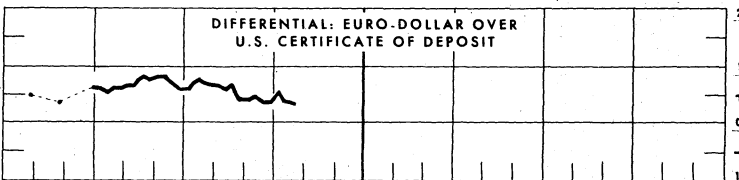
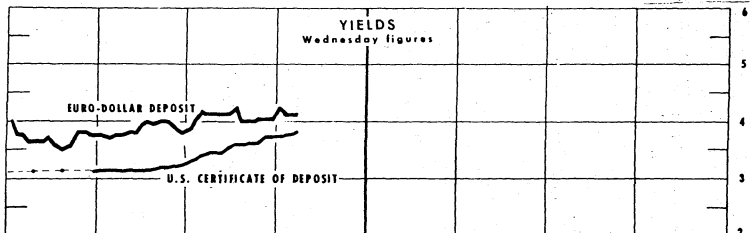
Asia, Africa, and Latin America Section.

Chart 1

INTERNATIONAL MONEY MARKET YIELDS FOR U.S. DOLLAR INVESTORS

3-MONTH EURO-DOLLAR DEPOSIT VS. U.S. CERTIFICATE OF DEPOSIT

Per cent per annum.



NEW YORK OFFER RATES ON SELECTED 3-MONTH INVESTMENTS

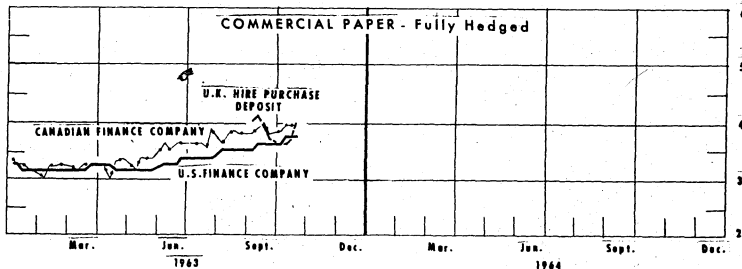
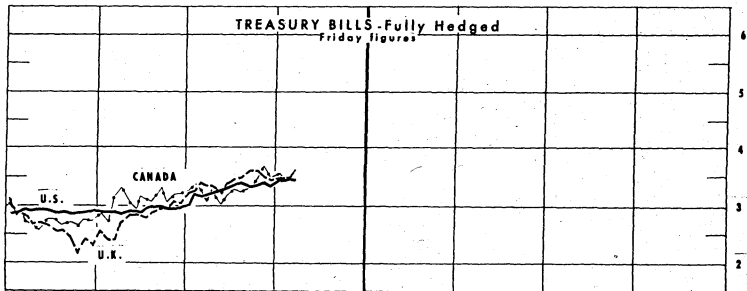


Chart 2

INTEREST ARBITRAGE, UNITED STATES / CANADA

Thursday figures

Per cent per annum

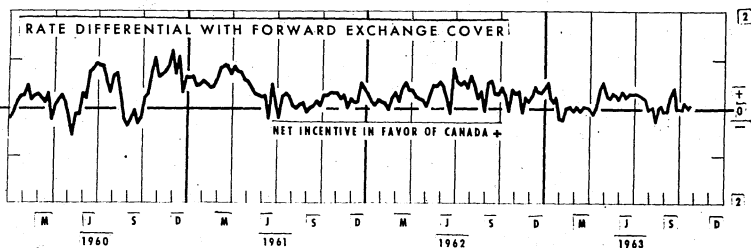
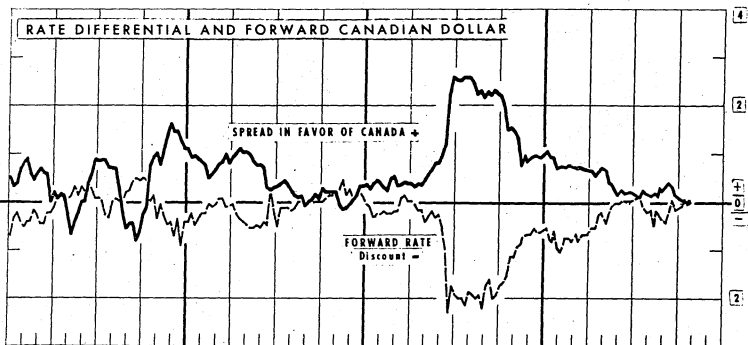
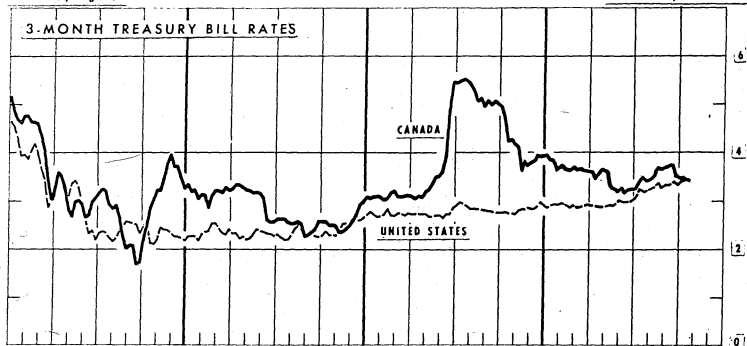
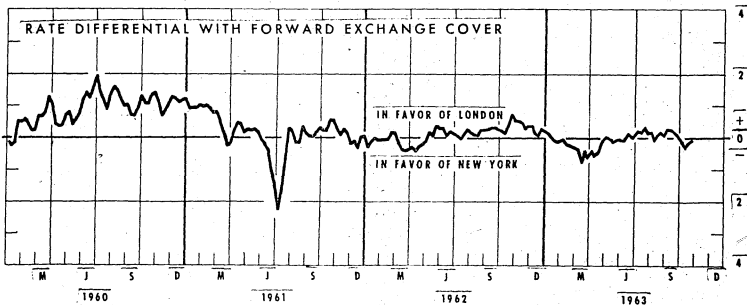
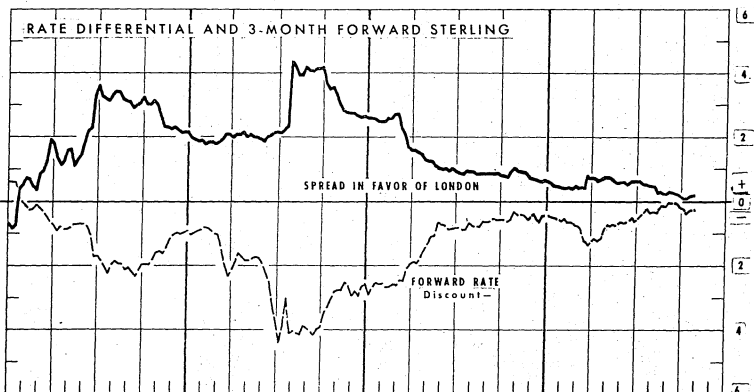
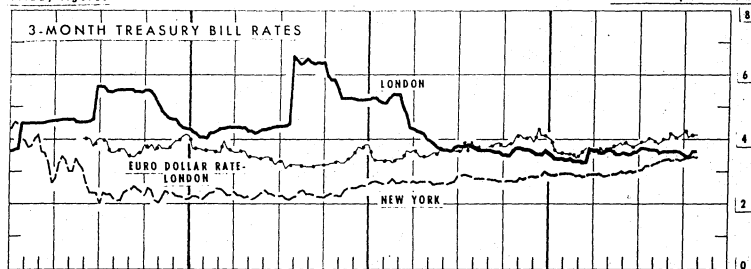


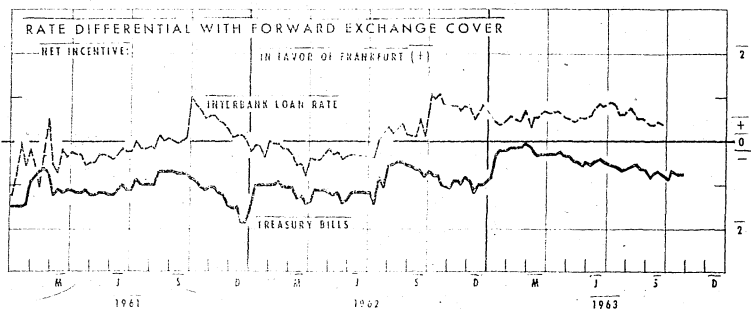
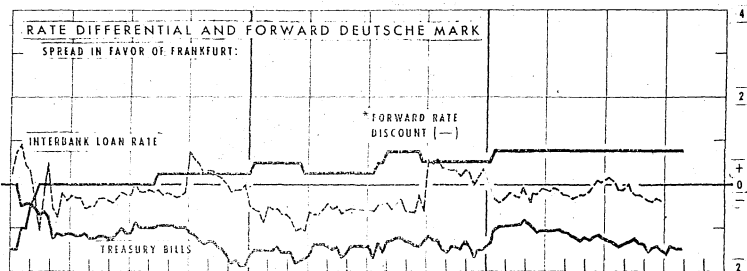
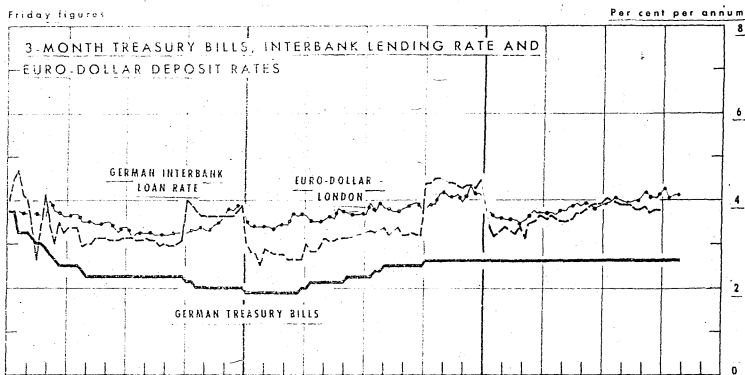
Chart 3
INTEREST ARBITRAGE, NEW YORK/LONDON

Friday figures

Per cent per annum

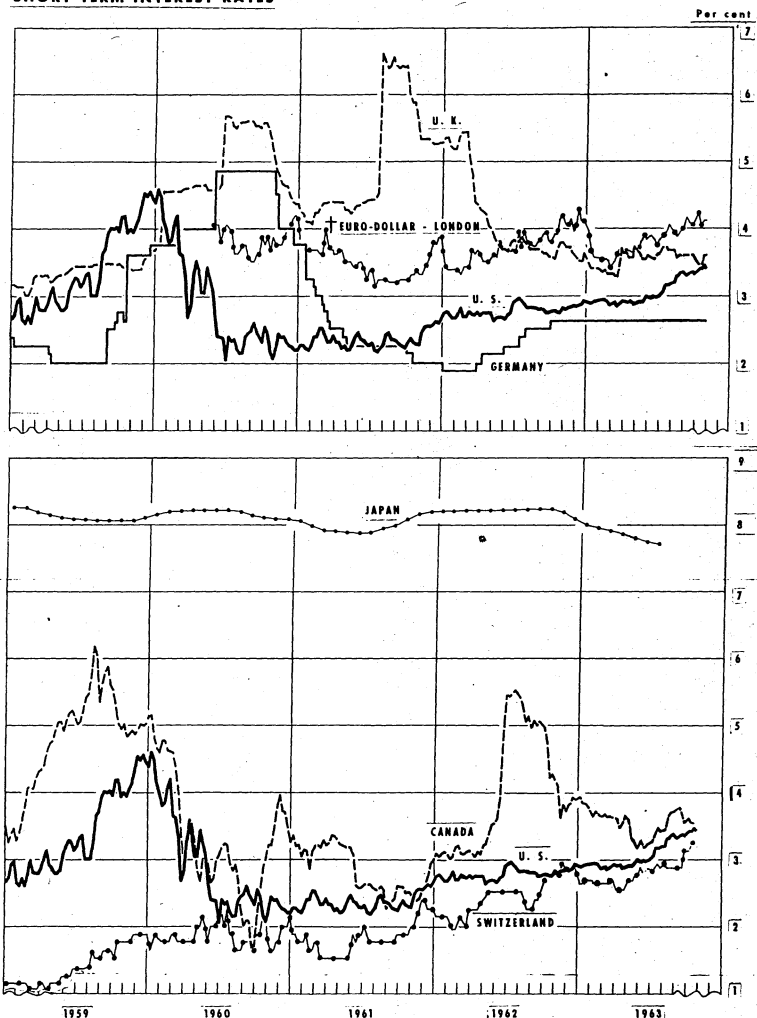


INTEREST ARBITRAGE FOR GERMAN COMMERCIAL BANKS



*Note: Special forward rate discounts for German commercial banks

Chart 5

SHORT-TERM INTEREST RATES *

* 3-month treasury bill rates for all countries except Japan. (Average 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

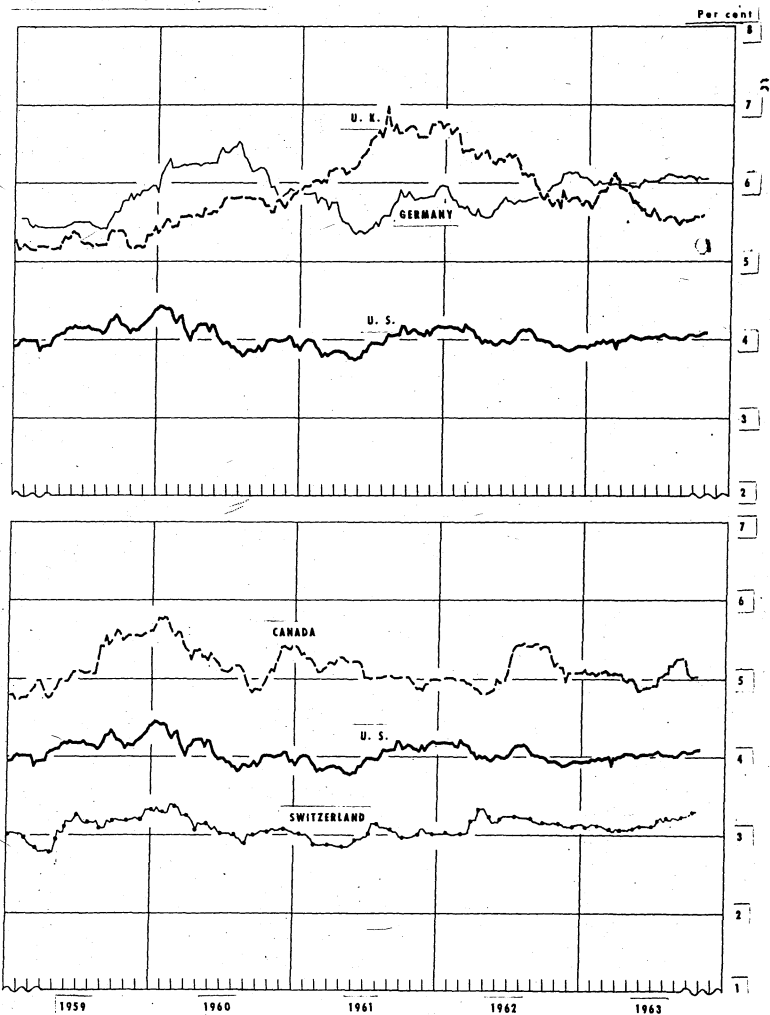
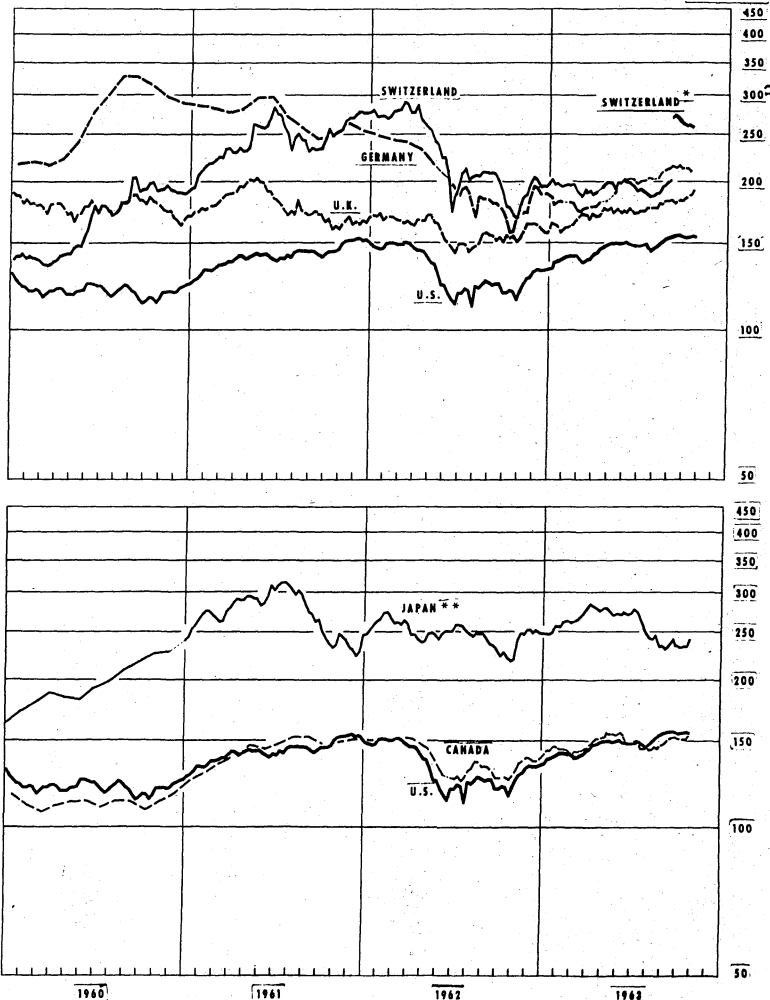


Chart 7

INDUSTRIAL STOCK INDICES

1958 = 100
Ratio scale



* New series. Swiss Bank Corporation industrial stock index.

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

Chart 8

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

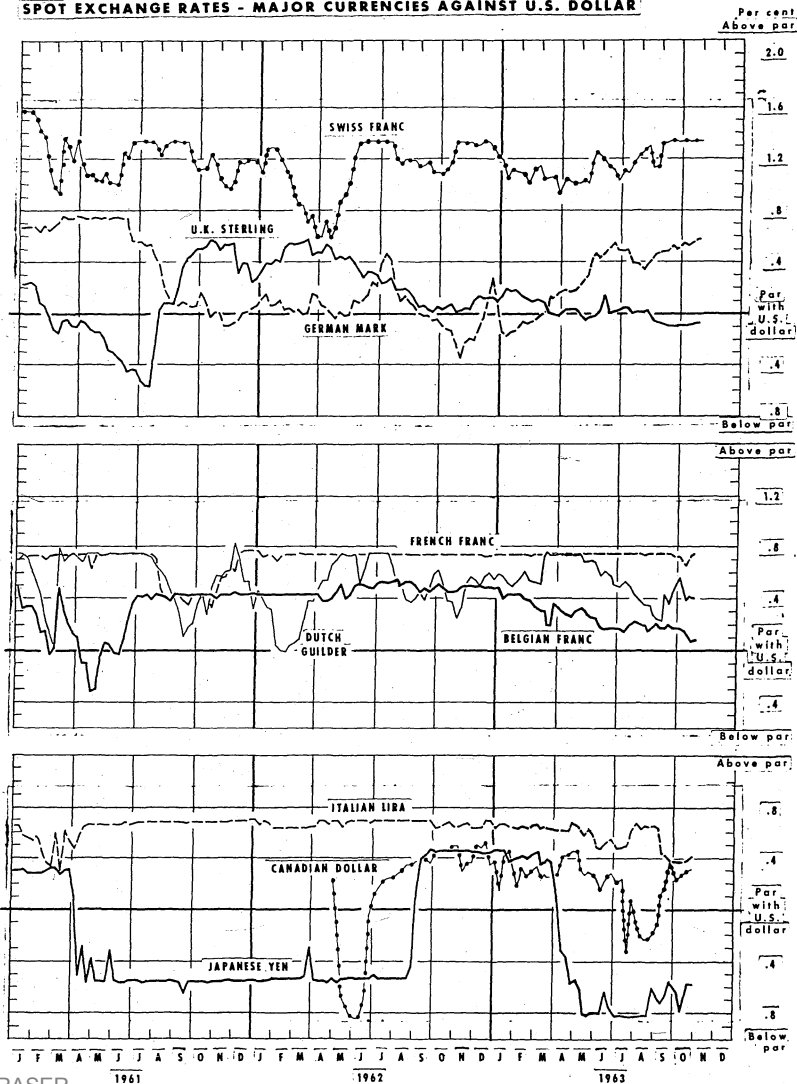
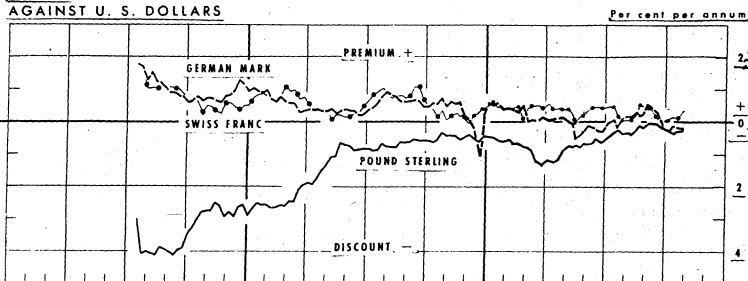


Chart 9

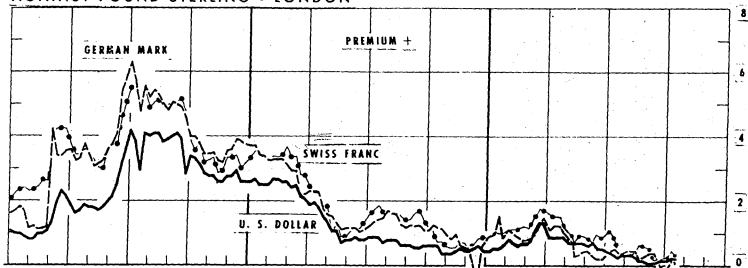
3-MONTH FORWARD EXCHANGE RATE

Friday figures

AGAINST U. S. DOLLARS



AGAINST POUND STERLING - LONDON



AGAINST POUND STERLING - LONDON

