

H. 13

No. 139

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CAPITAL MARKET DEVELOPMENTS ABROAD

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

I. Japan: Money and Capital Markets in January-February

Japan has continued to borrow substantial sums in Europe and the United States in recent months. During January, Japan successfully floated its third \$25 million bond issue in Germany in D-marks; during February, an \$11.5 million issue was floated by the Japanese Government in Switzerland in Swiss francs. Several additional borrowings in Europe are currently being discussed, both in European currencies and in U.S. dollars. In December, Japan's short-term indebtedness to U.S. banks increased \$154 million (preliminary total). (See Table 1 below). Since October, there have been no issues of Japanese securities in the U.S. market.

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

	Change during year				Change during period											
	1960	1961	1962	1963	1962				1963							
					I	II	III	IV	I	II	III	IV	Oct.	Nov.	Dec.	
Bank loans ^{1/}	480	722	212	^{a/} 397	250	-20	-47	29	11	118	-7	^{a/} 275	14	^{a/} 107	^{a/} 154	
Securities ^{2/}	<u>30</u>	<u>58</u>	<u>141</u>	<u>200</u>	<u>23</u>	<u>36</u>	<u>55</u>	<u>27</u>	<u>51</u>	<u>84</u>	<u>60</u>	<u>5</u>	<u>5</u>	<u>0</u>	<u>0</u>	
	512	780	353	^{a/} 597	273	16	8	56	62	202	53	^{a/} 280	19	^{a/} 111	^{a/} 154	

^{1/} Short-term liabilities to U.S. banks.^{2/} New security flotations.^{a/} Preliminary.

In January and February the Japanese balance of payments worsened sharply. Reserves fell \$23 million in January and \$54 million in February to \$1,801 million. Reserves are now \$121 million below their peak last October. The current account deficit in January, as measured on an exchange transactions basis, was \$157 million, the highest deficit in years. The seasonally-adjusted deficit on trade account (customs basis) was also extremely large in January. It has been reported that Japan is now considering the possibility of obtaining a \$305 million stand-by credit from the IMF.

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On the domestic side, money market conditions tightened moderately in January and February, and call loan rates increased 0.73 percentage points. The average interest rate for bank loans and discounts tended to stabilize during the September-November period following an earlier decline. Commercial bank credit rose less rapidly in December than a year earlier, reflecting in part the increase in commercial bank reserve requirements in mid-December. The stock market rallied sharply in January, but then declined steadily during February.

Money market. Money market conditions were relatively easy in early January, but during the last half of January and February the market gradually tightened. A reduction of ¥350 billion yen in bank notes in circulation in January helped to increase bank liquidity, but this was more than offset by net Treasury receipts of ¥292 billion, and a reduction in Bank of Japan loans and discounts, and government securities holdings, of ¥21 and ¥292 billion, respectively.

Interest Rates. Call loan rates eased sharply in early January with the usual return of funds to the banks following heavy consumer spending in December. During the last half of January and the first three weeks of February, call loan rates gradually increased. The rate for unconditional (repayable at a day's notice) call loan money increased from 7.3 per cent on January 14 to 8.03 per cent on February 3, and remained there through February 22. Other call loan rates also rose 0.73 percentage points during the same period.

The average interest rate for bank loans and discounts continued to remain at 7.68 per cent in November, the same level as in the previous two months. (See Table 2). The steady decline in the rate, which first began in November of 1962, has thus been halted, and with the introduction of tighter credit controls in recent months, the rate is likely to remain steady or possibly rise.

Table 2. Japan: Average Monthly Interest Rate 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	7.75
September	8.06	8.14	8.00	8.24	7.68
December	8.11	8.08	8.20	8.09	7.68 ^{1/}

^{1/} November.

Bank loans and discounts. Bank credit increased 1.9 per cent in December compared to 2.5 per cent a year earlier. This slower rate of increase reflects in part the increase in commercial bank reserve requirements effective December 16, 1963. During the year as a whole, bank credit (as measured by loans, discounts and securities) increased 24 per cent compared to 17 per cent in 1962.

In December, bank loans and bills discounted increased 3.4 and 3.3 per cent, respectively, while securities holdings declined 6.3 per cent. Bank deposits rose 5.4 per cent as against 5.9 per cent a year earlier.

During the fourth quarter, bank credit rose 5.8 per cent, slightly lower than the 6.2 per cent a year earlier. As indicated in Table 3 below, bank deposits increased 6.4 per cent compared to 6.2 per cent a year earlier.

Table 3. Japan: Quarterly Changes in Deposits & Principal Assets of Commercial Banks
(in billions of yen)

			Per Cent		Per Cent	Bills Discounted	Per Cent		Per Cent
		Deposits	Change	Loans	Change		Change	Securities	Change
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
	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
	II	+405	3.1	+365	4.3	+150	3.8	+ 73	3.3
	III	+1,019	7.4	+524	5.9	+245	6.0	+ 14	0.6
	IV	+947	6.4	+589	6.3	+293	6.8	+ 41	1.8

The proportion of bank loans and discounts extended for purchases of equipment in December was 16.6 per cent. This is lower than the 16.8 per cent registered in October and November, but higher than the 16.3 per cent in March which was a low for the year.

CORRECTION: It was erroneously reported in the previous capital market report that the Bank of Japan would extend 10 per cent less in credit to 13 large city banks during the first quarter of 1964 than it did a year earlier. In actuality, the Bank of Japan, through its "window guidance" operations, will attempt to limit the credit expansion of the 13 large city banks in the first quarter of 1964 to an amount 10 per cent less than a year earlier. This is expected to amount to ¥233 billion, or 2.8 per cent of the outstanding loan balance of these banks at the end of 1963. In addition, the Bank of Japan reportedly will hereafter set quarterly limits, the increase to be set at a fixed percentage of the loan increase in the previous quarter.

Bond market. New issues of domestic bonds reached a high for the year in December, totaling ¥165 billion. This was ¥27 billion higher than in March, October and November when the monthly issues each totaled ¥138 billion. Most of the rise was due to new issues of public corporation debentures which increased from ¥27 billion in November to ¥46 billion in December. During December, ¥19 billion of these new issues were purchased by the government's Special Account for Post Office Life Insurance and Postal Annuities. Bank debentures also rose from ¥83 billion in November to ¥91 billion in December and industrial debentures from ¥27 billion to ¥28 billion.

Average yields in December on local government securities, public corporation bonds, and one-year bank debentures, remained unchanged from levels earlier in the year at 7.354, 7.053, and 6.224 per cent, respectively. Yields on longer-term bank debentures were up slightly from the November level to 7.284 per cent and industrial bonds, which had been fluctuating slightly earlier in the year, remained at 7.468 per cent in both November and December.

Stock market. After rising 10 per cent in January, stock prices generally declined during February. From the year's high of ¥1,338 reached on January 29, the Dow Jones average declined to ¥1,254 on March 2, a drop of 6 per cent. (See Table 4 below). Except for the January rally, the general trend of the market has been down since April of last year.

Table 4. Japan: Dow Jones Average of 225 Stocks, First Section of Tokyo Stock Exchange

December 28	¥1,225 ^{1/}	February 3	¥1,305	1963	High	¥1,634
		10	1,286		Low	¥1,201
January 6	1,259	17	1,280			
13	1,259	24	1,264	1964	High	¥1,338
20	1,317				Low	¥1,204
27	1,324	March 2	1,254			

^{1/} Last trading day of 1963.

Foreign trade. Japan's seasonally adjusted trade deficit worsened sharply in January rising to \$246 million. Compared to December, imports were up 10 per cent and exports were off 11 per cent. The January deficit is substantially higher than the average monthly deficit of \$154 million in the fourth quarter and at a seasonally adjusted annual rate, the deficit is just under \$3 billion. The trade figures (monthly, or monthly averages, on a customs basis) in Table 5 below are based on seasonal adjustment factors computed by the Board of Governors of the Federal Reserve System.

Table 5. Japan: Seasonally Adjusted Foreign Trade
(in millions of dollars)

	1962				1963						1964
	I	II	III	IV	I	II	III	IV	Nov.	Dec.	Jan.
Imports	494	468	452	464	488	545	582	643	637	630	690
Exports	378	408	428	419	415	442	462	489	478	500	444
Trade Balance	-116	- 60	- 24	- 99	- 73	-103	-120	-154	-159	-130	-246

In mid-February the Japanese cabinet approved a new program of special tax privileges to promote exports. Since the present export income exemption system, which has served as a stimulus to exports, is scheduled to expire on March 31, 1964, the Government has been anxious to enact a new program to maintain export incentives. In brief, the new program would: (1) increase the existing depreciation allowances for exporting industries; (2) provide tax advantages from special reserve funds established to develop overseas markets; (3) allow firms to set aside as reserves, and register as losses, amounts up to one-half of private investments in underdeveloped countries; and (4) expand the present tax exemptions allowed for income received from providing technical assistance overseas.

Foreign reserves and capital flows. International reserves in February fell for the fourth straight month declining by \$54 million to \$1,801 million. The total decline since last October amounts to \$121 million.

The balance of payments, as measured on an exchange transactions basis, registered a whopping current account deficit of \$157 million in January. The largest current account deficit during the last balance of payments crisis totaled \$147 million in June of 1961. The January figure resulted from a deficit of \$132 million for commodity trade and \$25 million for services. Net long-term capital payments were only \$1 million, but net short-term capital receipts were \$163 million, the highest in many years. Since reserves fell \$23 million, while recorded net receipts totaled \$5 million, errors and omissions of \$28 million accounts for the difference.

According to preliminary data, Japanese short-term liabilities to U.S. banks increased \$154 million in December to \$2,137 million. (See Table 7 below). The increase reflected primarily a rise in commercial acceptances and short-term loans to banks. During 1963, Japanese borrowing increased \$397 million compared to \$212 million a year earlier.

Table 7. 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	585	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	1,793	1,862	1,876	1,983 ^{a/}	2,137 ^{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 continued to borrow in European capital markets, floating a \$25 million bond issue in Germany in January and a \$11.5 million issue in Switzerland in February. Borrowings since early 1962 now total \$127.5 million. (See Table 8 below). During 1964, Japan will reportedly borrow about \$150 million in European capital markets.

Table 8. Japan: Long-term Borrowings in Europe Reported in Financial Press ^{a/}

<u>Borrower</u>	<u>Amount</u>	<u>Month Floated</u>	<u>Terms</u>	<u>Capital Markets</u>
Bank of Tokyo	\$ 7.0 m.	Jan. 1962	Two 5-yr. credits from 3 Swiss banks at 5-1/2 - 5-3/4% in Sw francs	Switz.
Osaka City and Prefecture	\$25.0 m.	Feb. 1962	6-1/2% DM bond issue	Germany
Osaka City and Prefecture	\$25.0 m.	March 1963	6-1/2% DM bond issue	Germany
Gov't. of Japan	\$ 5 mill. (\$11.5 m.)	Aug. 1963	6% US dollar, 20-25 yrs., conservation of 1899 bond issue	U.K
Takeda Chemical Co.	\$15.0 m.	Dec. 1963	6% US dollar, 20 yr. convertible debentures	Luxembourg
Canon Camera Co.	\$ 5.0 m.	Dec. 1963	6-1/4% US dollar, 15 yr. convertible debentures	U.K.
Osaka City and Prefecture	\$25.0 m.	Jan. 1964	6-1/2% DM, 15 yr. bond issue	Germany
Gov't of Japan	\$11.5 m.	Feb. 1964	5.5%, Sw francs, 10-15 yrs.	Switz.

a/ Although this list is believed to be complete, some issues may have been omitted.

Recently released data on officially approved foreign investment in Japan show a substantial rise in loans to Japan during 1963 compared to 1962. The data below, in millions of dollars, indicate that total loan approvals increased from \$277 million in 1962 to \$525 million in 1963.

	<u>1961</u>	<u>1962</u>	<u>1963</u>
Total acquisition of stocks:	112	125	236
of which, through the market	(47)	(83)	(105)
other	(64)	(42)	(131)
Loans ("acquisition of claimable assets")	384	277	525
Bond issues floated abroad ^{a/}	54	136	182
Other	<u>3</u>	<u>1</u>	<u>5</u>
TOTAL	553	539	948

^{a/} Reportedly excludes government securities and local government securities, but includes industrial bonds, bank bonds, and public corporate bonds.

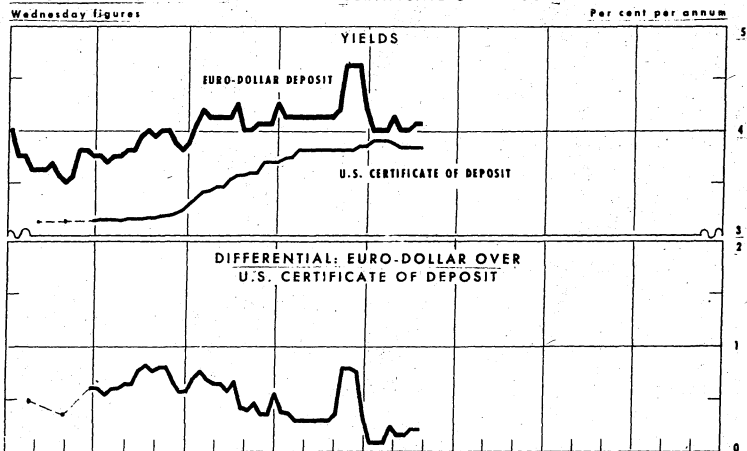
Foreign exchange. After strengthening late in December and the first half of January, the yen gradually weakened in the spot market during the rest of January and remained depressed during the first half of February. The rate in the three-month forward market remained steady during January and the first half of February. The weakening in the spot market caused the forward discount to decline from 1.03 per cent on January 9 to .22 per cent at the end of January and the discount remained at that level through mid-February. (See Table 8 below).

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
Dec. 31	361.70	362.48	.86
Jan. 4	361.90	362.48	.64
10	361.70	362.48	.86
17	362.15	362.50	.39
24	362.15	362.50	.39
31	362.30	362.50	.22
Feb. 7	362.30	362.50	.22
15	362.30	362.50	.22

Asia, Africa and Latin America Section.

Chart 1
INTERNATIONAL MONEY MARKET YIELDS FOR U.S. DOLLAR INVESTORS
3-MONTH EURO-DOLLAR DEPOSIT VS. CERTIFICATE OF DEPOSIT
 Wednesday figures



NEW YORK OFFER RATES ON SELECTED 3-MONTH INVESTMENTS
 Friday figures

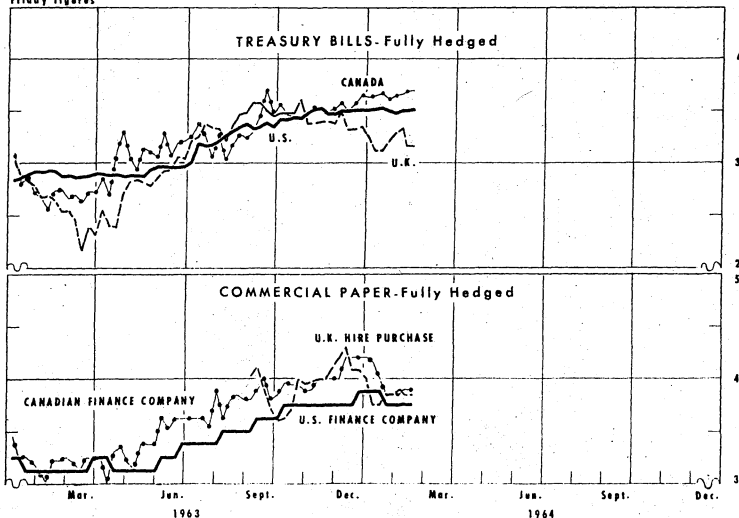


Chart 2

INTEREST ARBITRAGE, UNITED STATES / CANADA

Thursday figures

Per cent per annum

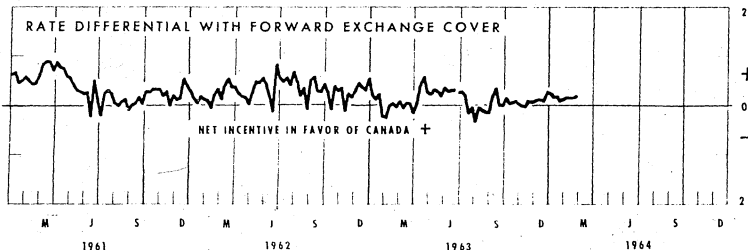
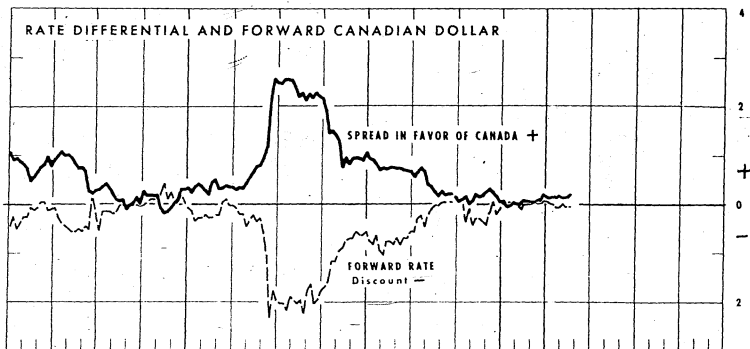
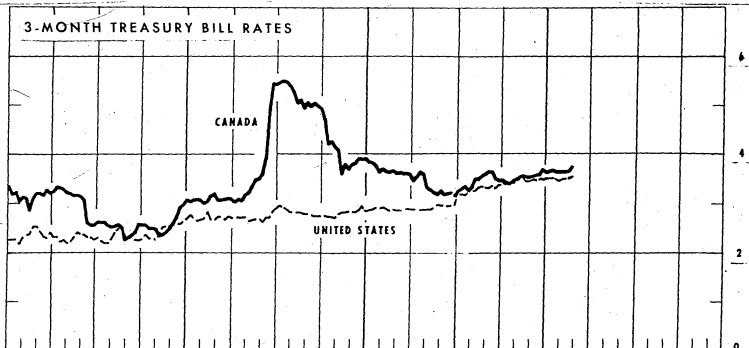


Chart 3

INTEREST ARBITRAGE, NEW YORK/LONDON

Friday figures

Per cent per annum

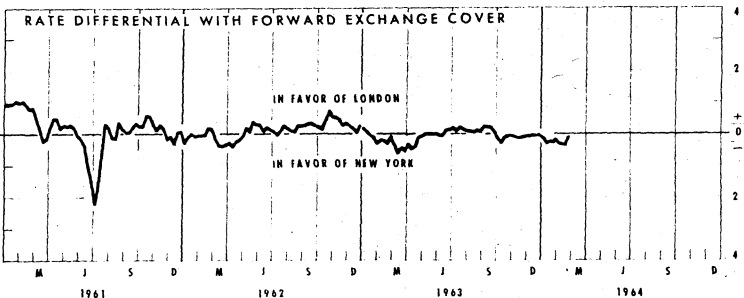
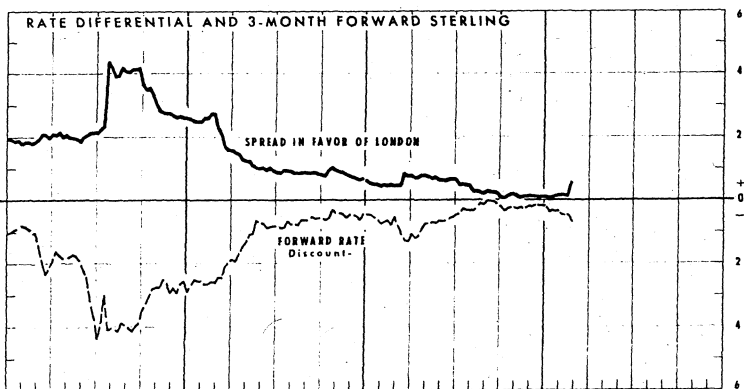
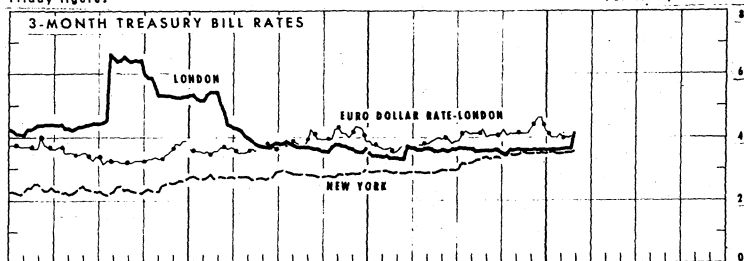


Chart 4

INTEREST ARBITRAGE FOR GERMAN COMMERCIAL BANKS

Friday figures

Per cent per annum

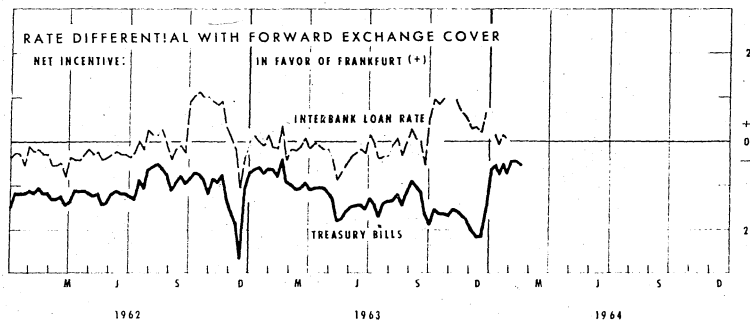
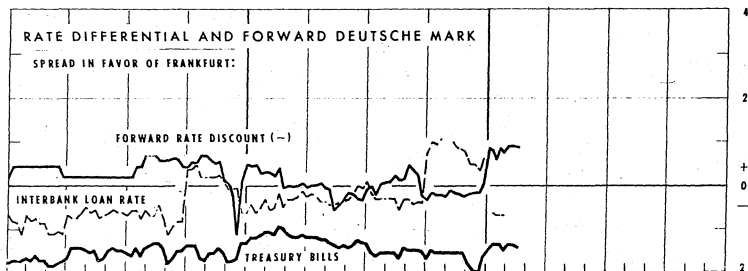
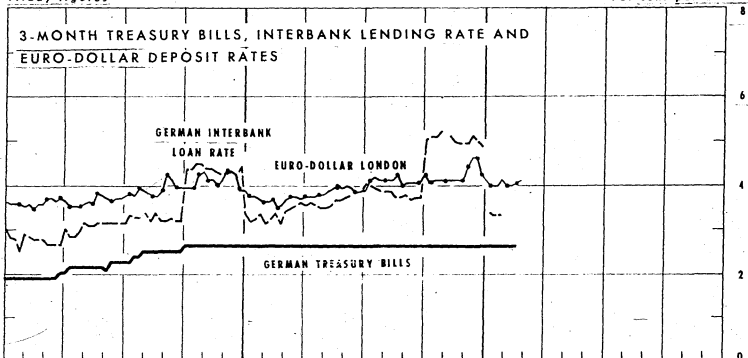
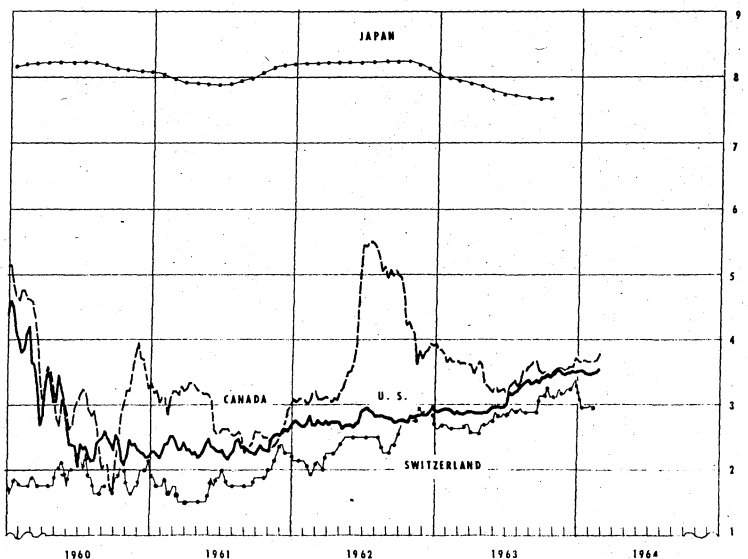
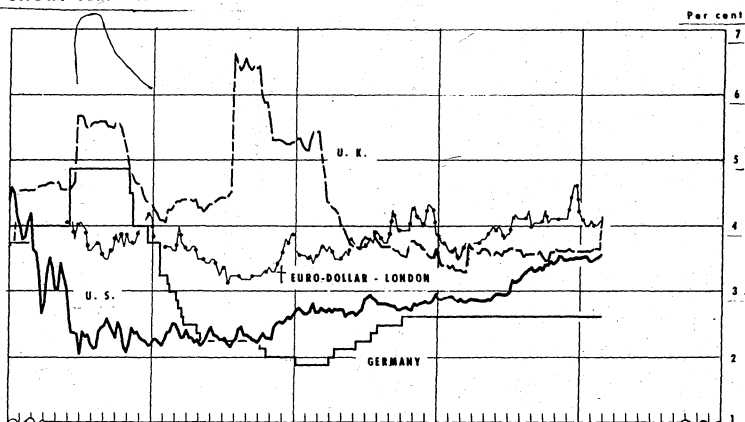


Chart 5

SHORT-TERM INTEREST RATES *

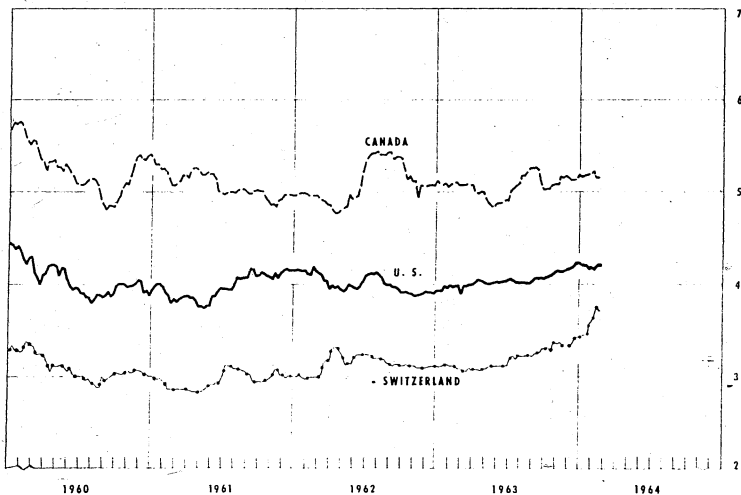
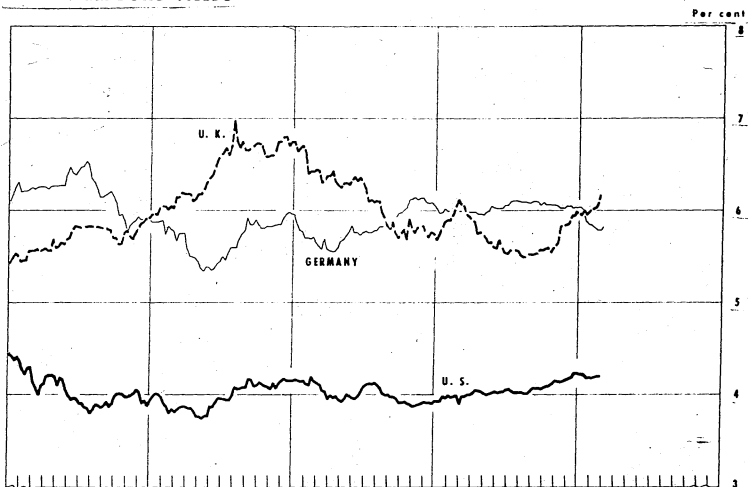


* 3-month treasury bill rates for all countries except Japan. (Average rate on bank loans and discounts) and Switzerland (3-month deposit rate)

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

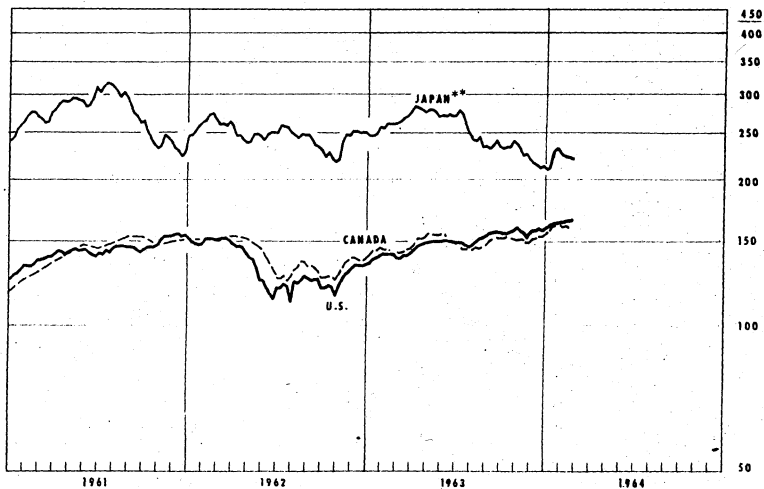
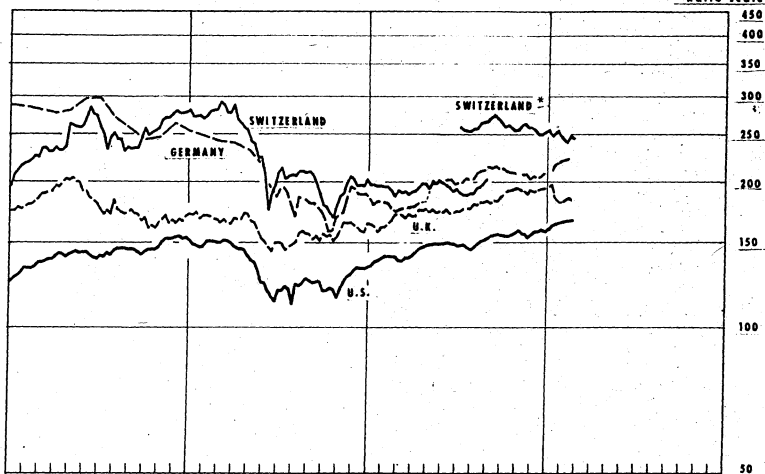
Chart 6

LONG-TERM BOND YIELDS



INDUSTRIAL STOCK INDICES

1958=100
Ratio scale



* New series Swiss Bank Corporation industrial stock index

** Japan: index of 725 industrial and other stocks traded on the Tokyo exchange

Chart 8

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

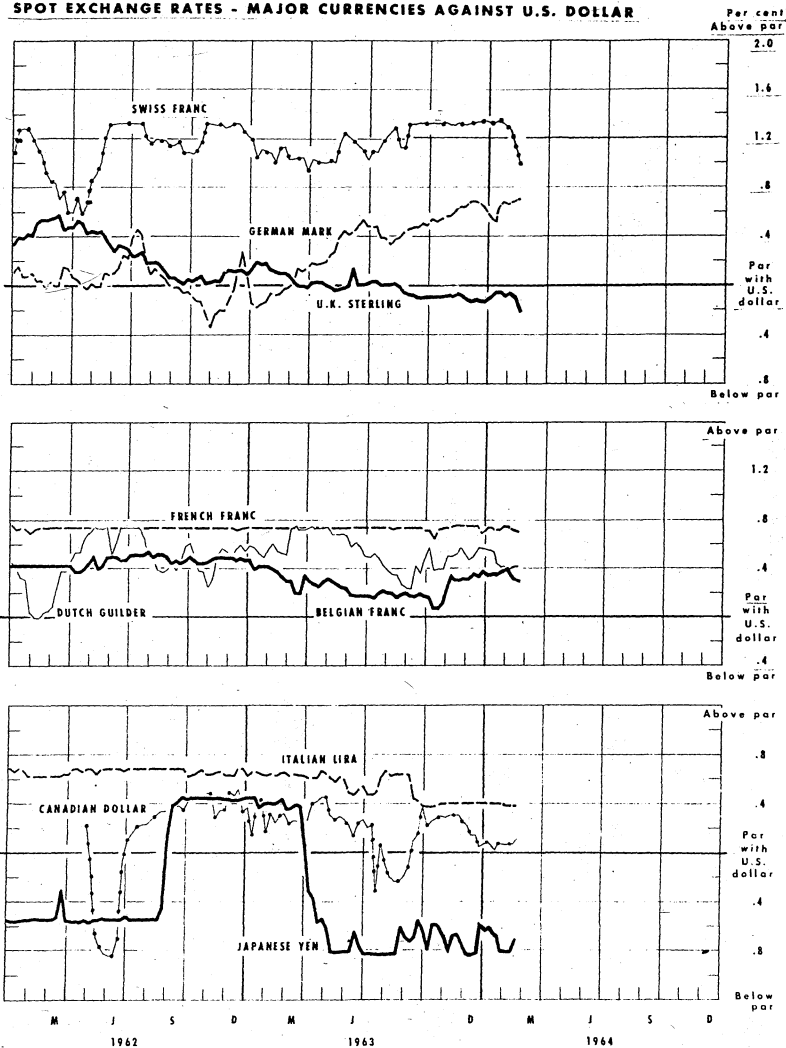
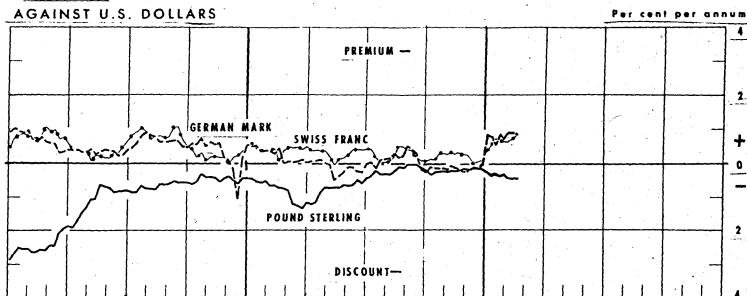


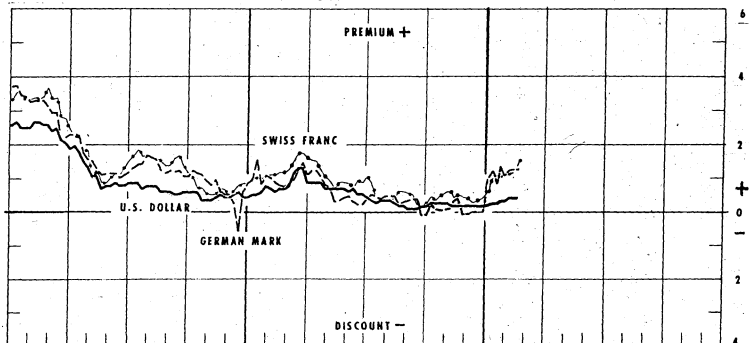
Chart 9
3-MONTH FORWARD EXCHANGE RATE

Friday figures

AGAINST U.S. DOLLARS



AGAINST POUND STERLING - LONDON



AGAINST POUND STERLING - LONDON

