

H. 13

June 3, 1964.

No. 151

CAPITAL MARKET DEVELOPMENTS ABROAD

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

I. Japan: Money and Capital Markets in April - May

There are no reported Japanese capital market issues in Europe in May, but several sizeable issues are scheduled for June. There was one issue for \$22.5 million in April (See Table 7). Japanese short- and long-term borrowings from U.S. banks continued to rise in March and increased by \$284 million during the first quarter. Short-term borrowings alone rose by \$227 million. (See Table 1).

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

	Change during Year				Change during Period								
	1960	1961	1962	1963	1963				1964				
					I	II	III	IV	Jan.	Feb.	Mar.		
Bank claims: short-term <u>1/</u>	480	722	212	397	11	118	- 7	287	74	94 <sub>a/</sub>	59	<u>a/</u>	
Bank claims: long-term <u>1/</u>	<u>3</u>	<u>5</u>	<u>51</u>	<u>169</u>	<u>2</u>	<u>35</u>	<u>30</u>	<u>102</u>	<u>32</u>	<u>a/</u>	<u>11a/</u>	<u>14</u>	<u>a/</u>
Bank claims: Total	483	727	263	566	13	153	23	389	106	105	73		
Securities <u>2/</u>	<u>30</u>	<u>58</u>	<u>141</u>	<u>200</u>	<u>51</u>	<u>84</u>	<u>60</u>	<u>5</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	
Total	513	785	404	766	64	237	83	394	106	105	73		

1/ Liabilities to U.S. banks.2/ New security flotations.a/ Preliminary

On April 1, Japan assumed Article VIII status under the IMF and made the yen freely convertible for current international transactions. On the same day, Japan also obtained a stand-by credit with the IMF for \$305 million. Later in the month on April 28, Japan became the first Asian member of the Organization for Economic Cooperation and Development.

Money market conditions tightened moderately in May and call loan rates increased slightly. Bank credit continued to expand in March at a slower rate than a year earlier reflecting the authorities' tight money policy. The stock market advanced 10 per cent from early April through the end of May, but then eased slightly through June 1.

The seasonally adjusted trade deficit narrowed in March and April, but still remained relatively large. International reserves declined \$45 million in May bringing the loss since last October's high to \$172 million. The yen remained relatively weak in the spot foreign exchange market during most of April and the first half of May.

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Money market. Money market conditions remained relatively easy in April but tightened after the first week in May. The expansionary impact from net treasury payments of ¥280 billion in April was only partly offset by the contractionary effect from a ¥231 billion reduction in Bank of Japan credit and an ¥18 billion increase in bank notes in circulation.

Interest rates. Call loan rates remained unchanged during April but increased slightly on May 7, remaining at the new level through May 23. The rate for unconditional (repayable at a day's notice) call loan money was 9.125 per cent during April and the first part of May, but rose to 9.490 per cent on May 7 and remained at that level through May 23. Over-night call loan money (for settlement on the following day) changed by the same percentage amount at the same time during this period. Over-month-end call loan money (repayable at a day's notice in the following month) remained unchanged at 11.680 per cent during April and most of May.

The average interest rate for bank loans and discounts remained at 7.67 per cent in February, the same level as in January and December. (See Table 2). Because of the current tight money policy inaugurated earlier this year, the rate in the coming months is likely to register a mild 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>	<u>1964</u>
March	8.18	8.21	7.92	8.22	7.92	7.67 <u>1/</u>
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	7.67	

1/ February.

Bank loans and discounts. Bank credit rose 1.3 per cent in March compared to 2.9 per cent a year earlier. Loans and bills discounted increased 3.5 and 2.4 per cent over the previous month, respectively, while holdings of securities declined 1.1 per cent. Deposits increased 6.1 per cent in March as business firms window-dressed, compared to 8.4 per cent a year earlier.

For the first quarter, bank credit increased 2.5 per cent as against 6.8 per cent a year earlier. Thus in both March and the first quarter, bank credit tended to rise at a slower rate than in the same periods in 1963. Details are provided in Table 3 below.

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

		Per Cent Change	Per Cent Change	Per Cent Change	Per Cent Change	Per Cent Change	Per Cent Change		
	Deposits	Loans	Discounted	Securities					
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
1964	I	+459	2.9	+344	3.5	+111	2.4	- 26	-1.1

Early in April the Bank of Japan announced that the 13 large city banks should limit their loan expansion to ¥228 billion during the second quarter of this year. This is 12 per cent below the actual loan expansion of ¥259 billion of these banks during the second quarter of 1963.

The proportion of bank loans and discounts extended for purchases of equipment in March was 16.9 per cent, the same as in February, but higher than the cyclical low of 16.3 per cent in March of 1963.

Bond market. New issues of domestic bonds rose sharply in March to one of the highest levels in years due mainly to a substantial increase in issues of public corporation bonds. Total new issues in March were ¥175 billion, up ¥38 billion over the February level. New issues of public corporation bonds were ¥65 billion in March compared to ¥36 billion in February. New issues of bank debentures increased from ¥77 billion to ¥79 billion and new issues of industrial debentures rose from ¥24 billion to ¥30 billion.

Average yields in March on local government securities, public corporation bonds, and one-year bank debentures remained the same as in earlier months and in 1963 at 7.354, 7.053, and 6.224 per cent, respectively. Yields on long-term bank debentures were slightly higher in March at 7.285 per cent and yields on industrial debentures rose from 7.477 in February to 7.498 per cent in March.

Stock market. After reaching a low for the year on April 9 of ¥ 1,203, the stock average rose gradually through May 28 when it reached a high for the month of ¥1,322. This represented a 10 per cent advance, and appears to reflect reports of higher corporate profits, a moderate improvement in the trade deficit, and stock purchases by the Joint Japan Securities Company.

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

March	30	¥1,215	May	4	¥1,246	1963	High	¥1,634
				11	1,268		Low	¥1,201
April	6	1,211		18	1,304			
	13	1,217		25	1,318	1964	High	¥1,338
	20	1,222					Low	¥1,203
	27	1,217	June	1	1,319			

The Joint Japan Securities Company, consisting of 14 banks and Japan's four largest securities companies, doubled its capital from ¥5 to ¥10 billion on April 3. The firm was originally established on January 20, 1964, with a capital of ¥2.5 billion and it also has access to ¥20 billion in bank credits. Part of the recent buoyancy in the stock market has been attributed to the ¥15 billion in stock purchases the company made during the January-April period this year.

Foreign trade. The seasonally adjusted trade deficit was substantially lower in April than in January-February, but at an annual rate of \$1.5 billion, it was still relatively large for Japan. Exports rose 6 per cent in April but imports were up 7 per cent, and the trade gap widened from \$117 million in March to \$126 million in April. (See Table 5). The trade figures (monthly, or monthly averages on a customs basis) in Table 5 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	I	Jan.	Feb.	Mar.	Apr.
Imports	494	468	452	464	488	545	582	643	659	689	659	628	669
Exports	378	408	428	419	415	442	462	489	479	445	486	511	543
Balance	-116	-60	-24	-99	-73	-103	-120	-154	-180	-244	-173	-117	-126

Foreign reserves and capital flows. International reserves fell \$45 million in May to a level of \$1,930 million. Except for a \$15 million gain in March, reserves have been declining since last October and at the end of May were down \$172 million from the October peak.

The balance-of-payments current account deficit, as measured on an exchange transactions basis, narrowed in April to \$76 million for the fourth consecutive month. The current account deficit in March was \$99 million. Net long-term capital receipts were \$35 million in April as against \$39 million a month earlier, and net short-term capital receipts were \$74 million compared to \$80 million in March. Since reserves fell \$21 million in April, while recorded net receipts totaled \$23 million, errors and omissions totaled a relatively large \$54 million.

According to preliminary data, Japanese short-term liabilities to U.S. banks increased \$59 million in March. During the five-month period November-March, Japanese liabilities increased \$500 million. (See Table 6).

Table 6. 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 <sup>a/</sup>	1,876	1,896	1,869	1,872	1,793	1,862	1,876	1,995	2,149
1964	2,223	2,317 <sup>a/</sup>	2,376 <sup>a/</sup>									

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

So far as is known, there were no Japanese long-term issues in Europe in May, although several offerings are planned for June. In mid-April, the city of Tokyo floated a \$22.5 million bond issue in Europe. An American underwriting firm participated in this issue and it has been listed on the New York Stock Exchange. The issue, however, is not registered with the U.S. Securities and Exchange Commission, and it will not be sold in the U.S. By this device, American underwriters still participate in the flotation of foreign dollar bond issues, and they hope that this will help to keep the door open for direct issues in the U.S. once Congress has completed action on the interest equalization tax. On April 22, Japan obtained a \$50 million loan from the World Bank to finance part of a toll express highway between Toyokawa and Komai.

Table 7. Japan: Long-Term Borrowings in Europe Reported in Financial Press<sup>a/</sup>

<u>Borrower</u>	<u>Amount</u>	<u>Month Floated</u>	<u>Terms</u>	<u>Capital Markets</u>
Bank of Japan	\$ 7.0 m.	Jan. 1962	Two 5-year credits from 3 Swiss banks at 5-1/2-5-3/4 per cent 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. (\$14.5 m.)	Aug. 1963	6%, U.S. dollar, 20-25 yrs., conversion of 1899 bond issue.	U.K.
Takeda Chemical Co.	\$15.0 m.	Dec. 1963	6%, U.S. dollar, 20 yr. convertible debentures.	Luxembourg
Canon Camera Co.	\$ 5.0 m.	Dec. 1963	6-1/4%, U.S. dollar, 15 yr. convertible debentures.	U.K.

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- 6 -

Table 7 (con't.)

<u>Borrower</u>	<u>Amount</u>	<u>Month Floated</u>	<u>Terms</u>	<u>Capital Markets</u>
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.
Teijin Ltd.	\$10.0 m.	Mar. 1964	6-1/4%, U.S. dollar, 20 yr. convertible debentures.	Luxembourg
C. Itoh & Co.	\$10.0 m.	Mar. 1964	6-1/4%, U.S. dollar, 20 yr. convertible debentures.	London
Taisho Marine and Fire Ins. Co.	\$ 4.4 m.	Mar. 1964	Equity issue (London Depository Receipts), 20 mil. shares at \$0.22 per share.	London
Metropolis of Tokyo	\$22.5 m.	Apr. 1964	5-3/4%, U.S. dollar, 15 yr. guaranteed dollar bonds.	Europe

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

On June 9, Japan will place a 200 million DM (\$50 million), 6 per cent bond issue in Germany. The bonds will be offered at 99 per cent, with repayments made after five years in ten equal yearly instalments.

Foreign exchange. The yen weakened in the spot market during the first week of April and then continued to remain relatively weak through mid-May. The rate in the three-month forward market, however, fluctuated within a narrow range during April and the first half of May. Because of the weakening in the spot market, the forward discount tended to narrow from 0.83 per cent on April 1 to 0.17 per cent on April 9 and continued to remain relatively small through mid-May. (See Table 8 below).

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

	<u>Yen-dollar Spot Middle rate</u>	<u>Three-month forward middle rate</u>	<u>Forward discount in per cent per annum</u>
March 27	361.00	362.45	1.61
April	3 362.00	362.45	.50
	10 362.30	362.45	.17
	17 362.30	362.43	.14
	24 362.25	362.43	.20
May	1 362.30	362.43	.14
	8 362.30	362.40	.11
	15 362.35	362.40	.06

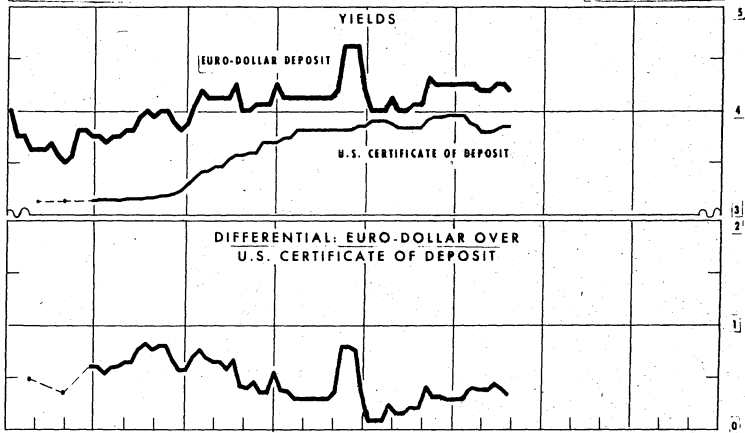
Asia, Africa and Latin America Section.

Chart 1  
**INTERNATIONAL MONEY MARKET YIELDS FOR U.S. DOLLAR INVESTORS**

**3-MONTH EURO-DOLLAR DEPOSIT VS. CERTIFICATE OF DEPOSIT**

Wednesday figures

Per cent per annum



**NEW YORK OFFER RATES ON SELECTED 3-MONTH INVESTMENTS**

Friday figures

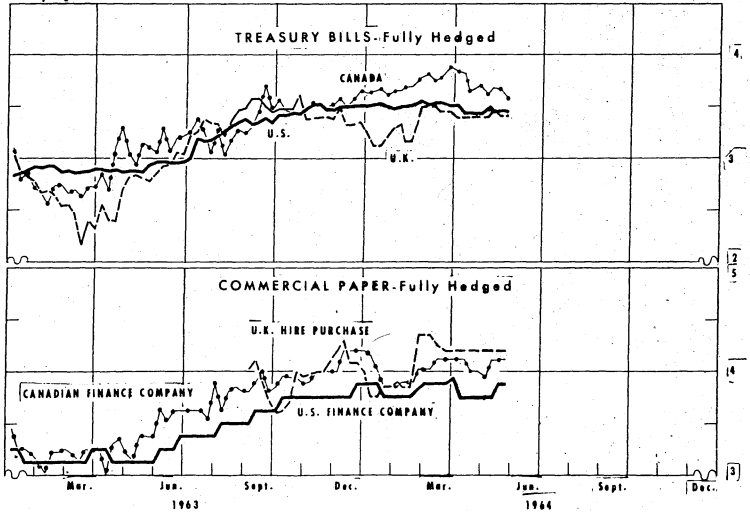


Chart 2

### INTEREST ARBITRAGE, UNITED STATES / CANADA

Thursday figures

Per cent per annum

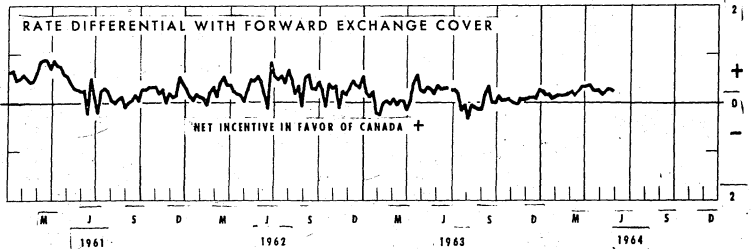
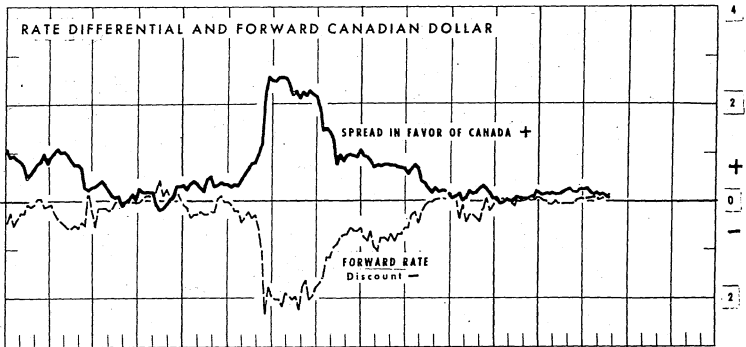
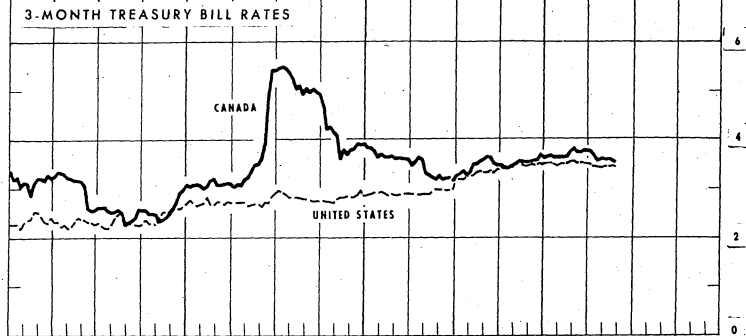




Chart 3

**INTEREST ARBITRAGE, NEW YORK/LONDON**

Friday figures

Per cent per annum

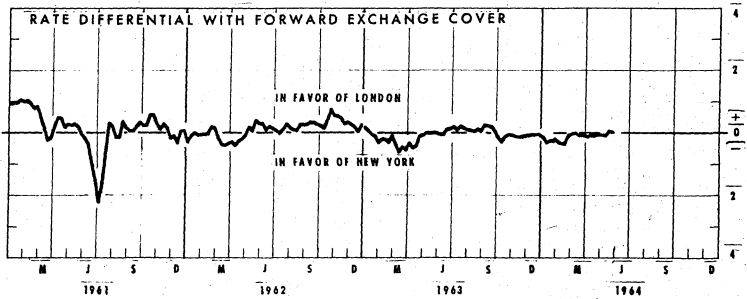
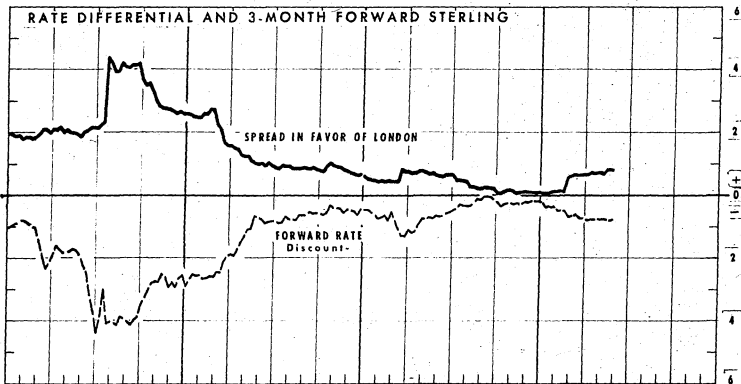
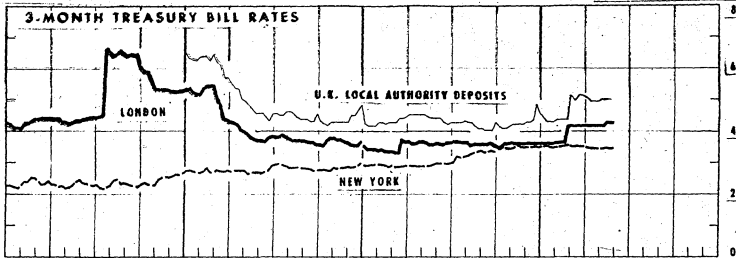


Chart 4

### INTEREST ARBITRAGE FOR GERMAN COMMERCIAL BANKS

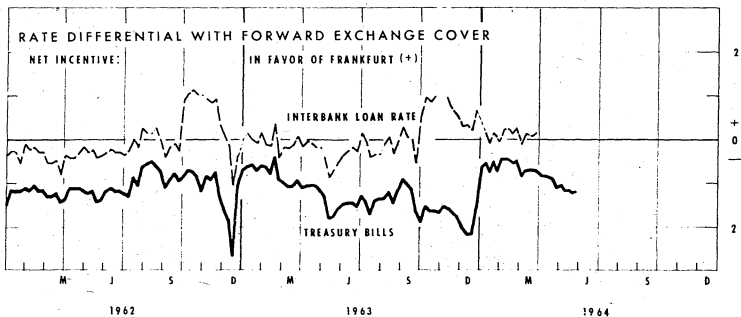
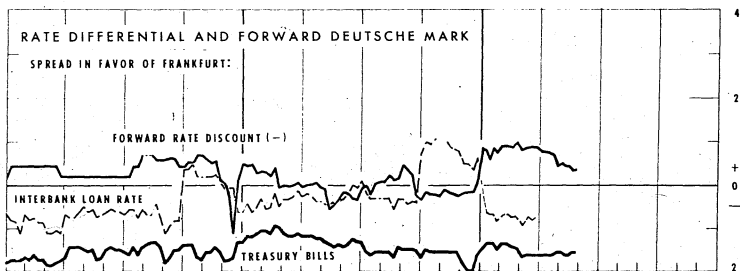
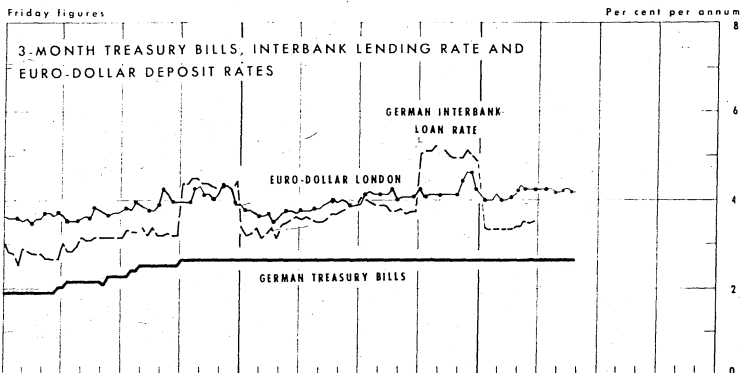
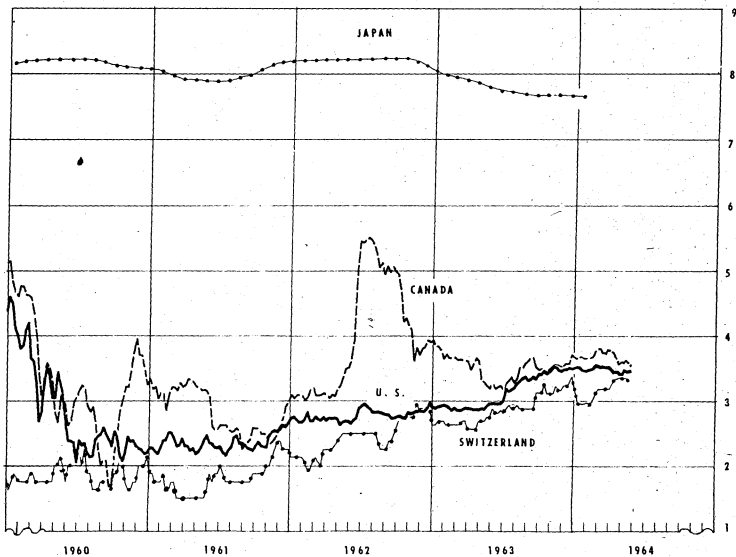
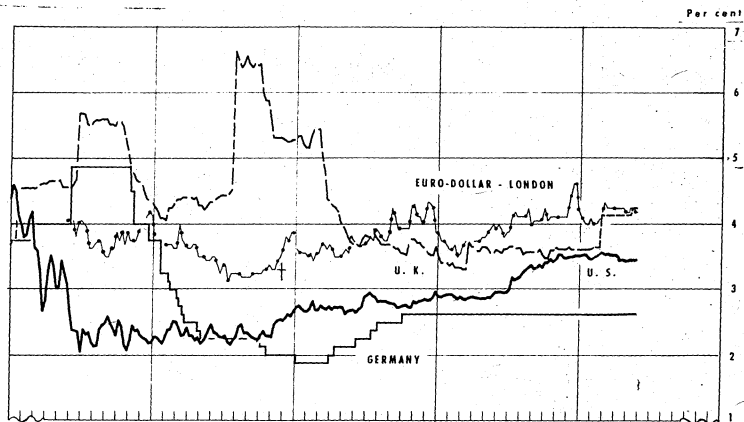


Chart 5  
**SHORT-TERM INTEREST RATES \***



\* 3 month treasury bill rates for all countries except Japan (Average rate on bank loans and discounts)  
 † 3 month rate for U. S. dollar deposits in London  
 ‡ 3 month rate for U. S. dollar deposits in London

Chart 6

**LONG-TERM BOND YIELDS**

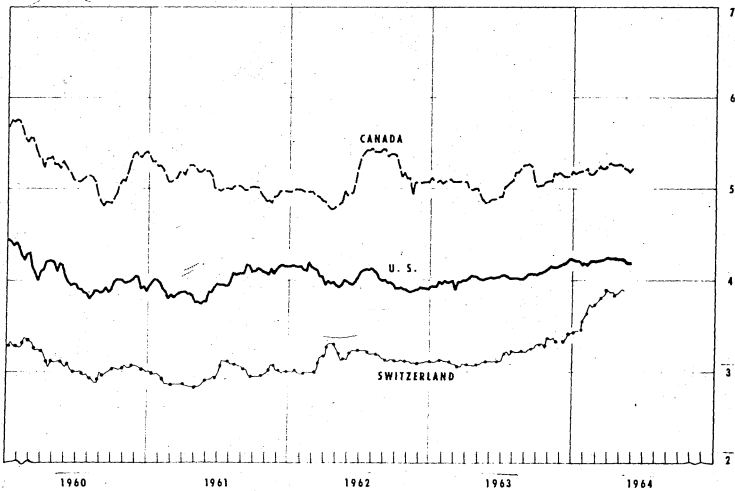
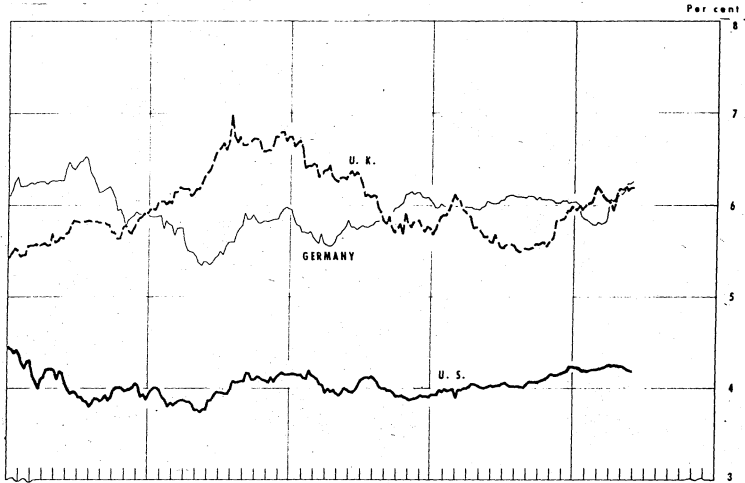
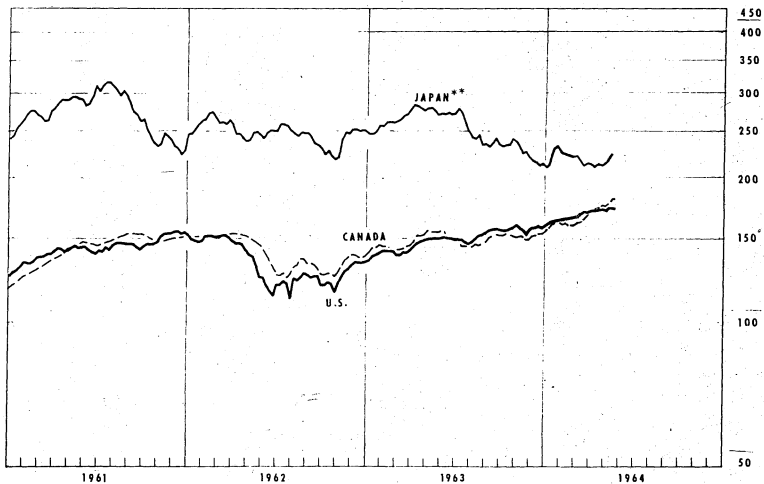
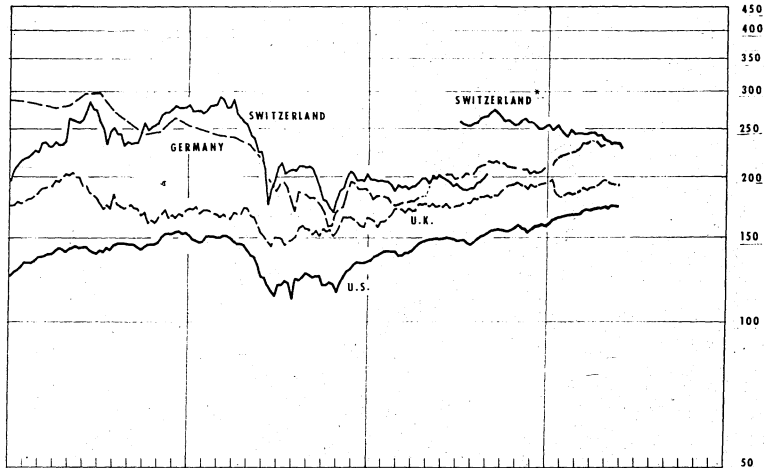


Chart 7

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**

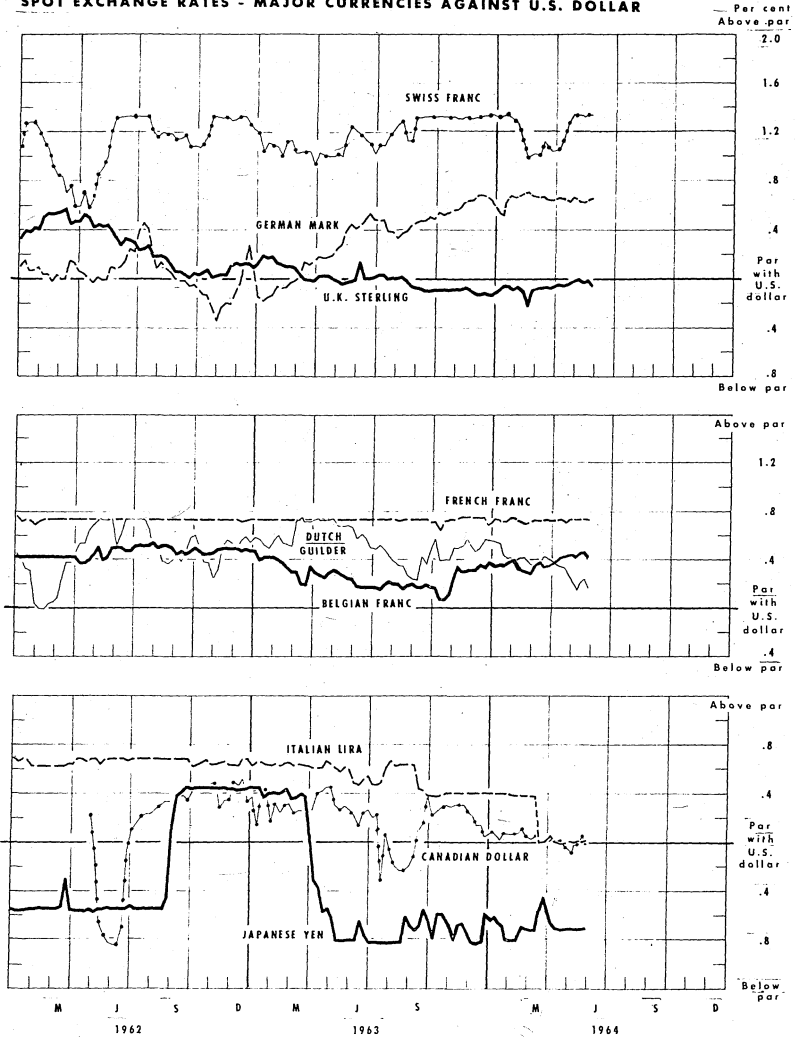


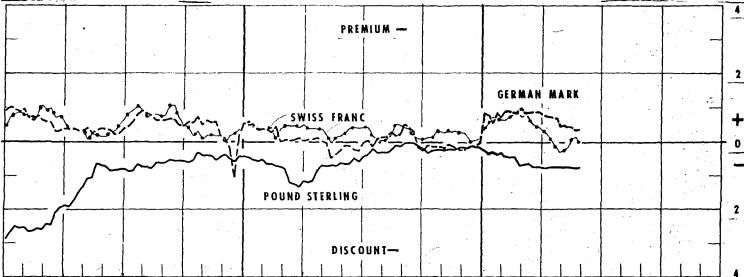
Chart 9

### 3-MONTH FORWARD EXCHANGE RATE

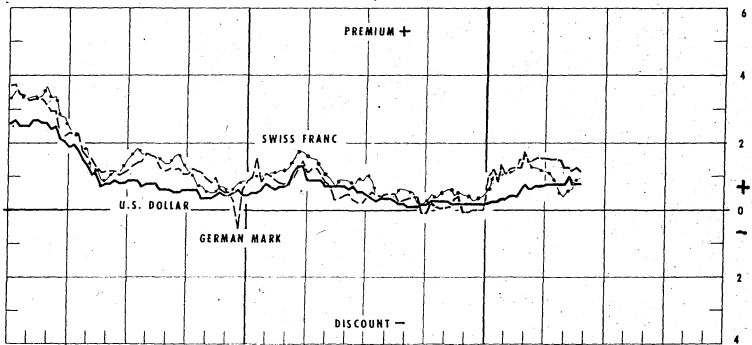
Friday figures

AGAINST U.S. DOLLARS

Per cent per annum



AGAINST POUND STERLING : LONDON



AGAINST POUND STERLING - LONDON

