

H. 13

No. 155

July 8, 1964.

**CAPITAL MARKET DEVELOPMENTS ABROAD**

- I. Japan
- II. Nine Charts on Financial Markets Abroad
- I. Japan: Money and Capital Markets in May-June

Japan continued to borrow heavily in June, but there are signs of reduced borrowing in the U.S. Japan placed two bond issues in Europe in June, one for \$50 million in Germany and another for \$15 million in London and Luxembourg. U.S. bank-reported claims on Japan fell \$1 million in April, indicating a sharply decreasing level of borrowing since January. (See Table 1).

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

	Change during year				Change during period							
	1960 1961 1962 1963				1963				1964			
					I	II	III	IV	Jan.	Feb.	Mar.	Apr.
Short-term claims <sup>1/</sup>	480	722	212	397	11	118	- 7	287	74	93	60 <sup>a/</sup>	-8 <sup>a/</sup>
Long-term claims <sup>1/</sup>	3	5	51	169	2	35	30	102	32	12 <sup>a/</sup>	13 <sup>a/</sup>	7 <sup>a/</sup>
Total	483	727	263	566	13	153	23	389	106	105 <sup>a/</sup>	73 <sup>a/</sup>	-1 <sup>a/</sup>
Securities <sup>2/</sup>	30	58	141	200	51	84	60	5	0	0	0 <sup>a/</sup>	0
Total	513	785	404	766	64	237	83	394	106	105 <sup>a/</sup>	73 <sup>a/</sup>	-1 <sup>a/</sup>

1/ Bank-reported liabilities to the U.S.

2/ New security flotations.

a/ Preliminary.

There were clear signs during May and June that the recent tight money policy was continuing to restore balance-of-payments equilibrium. The seasonally adjusted trade deficit in April-May was down to a monthly average of \$132 million compared to \$168 million in the first quarter. International reserves rose \$7 million in June to \$1,937 million, the first rise since the general decline began last October except for a slight rise in March. The June increase, however, was accounted for mainly by the receipts from the two European bond issues mentioned above. With exports moving up rapidly and the rise in imports slackening, Japan's general reserve decline may be reversed during the second half of this year, provided the large capital inflow continues.

On the domestic side, money and capital markets continued relatively tight and interest rates increased. Bank lending rates advanced in March, reversing the general downtrend since September 1962, and call loan rates continued their uptrend through June. Stock prices increased in May and June, and reached a new high for the year on July 3.

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Money market. The money market remained relatively tight in May in spite of a moderately expansionary impact from monetary developments. The net expansionary impact in May from a ¥52 billion reduction in bank notes in circulation and an increase of ¥2 billion in Bank of Japan credit was only partly offset by the contractionary effect of net Treasury receipts of ¥36 billion. In June, the money market tightened further.

Interest rates. Call loan rates increased steadily in May and June reflecting the continued tightness in the money market. The rate for unconditional (repayable at a day's notice) call loan money increased from 9.125 per cent in early May to 10.585 per cent on the first of June, remaining at that level through June 26. The rate for over-night call loan money (for settlement on the following day) changed by the same degree during this period. Over-month-end call loan money (repayable at a day's notice in the following month) was 11.680 per cent in May and jumped to 12.775 per cent on June 1, where it remained through June 26.

The average interest rate for bank loans and discounts rose from a low of 7.67 per cent in February to 7.73 per cent in March, reversing the steady decline in interest rates since September of 1962. This development reflects the tight money policy first introduced in December 1963 and reinforced in March 1964 with an increase in the Bank of Japan's basic discount rate. Preliminary reports indicate that the average interest rate rose further in April.

Table 2. Japan: Average Monthly Interest Rate on Bank Loans and Discounts  
(in per cent per annum)

	<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	7.73
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	

On June 24, Japan increased the suggested maximum interest rates payable on Euro-dollar deposits by Japanese foreign exchange banks in order to lessen the loss of Euro-dollars in connection with window-dressing operations by European banks at the end of June. Rates for one-month and three-month deposits were increased from 4-1/4 to 4-1/2 per cent, and from 4-3/8 to 4-5/8 per cent, respectively.

Bank loans and discounts. Bank credit increased 1.5 per cent in April, a higher rate than the 0.9 per cent rise a year earlier. Since late last year, however, bank credit had been expanding at a slower rate than a year earlier. The reversal of this trend in April is likely to be temporary, since the April 1963 rate of expansion was abnormally low.

Loans increased 1.6 per cent in April compared to 0.7 per cent a year earlier, and holdings of securities rose 10.6 per cent against 7.5 per cent a year ago. Bills discounted were unchanged in April. Deposit liabilities fell 2.6 per cent in April, compared to a 1.6 per cent decline a year earlier.

The proportion of bank loans and discounts extended for purchases of equipment rose from 16.9 per cent in March to 17.1 per cent in April. This is the highest level since November of 1962 and is well above the cyclical low of 16.3 per cent in March 1963.

Bond market. After a sharp rise in March, new issues of bonds returned to more normal levels in April. The total volume of issues was ¥132 billion compared to ¥175 billion in March. New issues of public corporation bonds declined from ¥65 billion in March to ¥29 billion in April. New issues of bank debentures were relatively unchanged at ¥80 billion and new issues of industrial debentures fell from ¥30 billion in March to ¥25 billion in April.

Average yields in April 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 lower in April at 7.283 per cent, and yields on new issues of industrial bonds fell from 7.498 per cent in March to 7.483 per cent in April.

Stock market. Following a low for the year on April 9, the stock market trended up in May and June. A new high for the year was reached on July 3, 14 per cent above the April 9 level. The recent rally has been attributed primarily to the improved balance-of-payments position.

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

April 27	¥1,217	June 1	¥1,319	1963	High	¥1,534
		8	1,299		Low	¥1,201
May 4	1,246	15	1,345			
11	1,268	22	1,316	1964	High	¥1,369
18	1,304	29	1,348		Low	¥1,203
25	1,318	July 6	1,363			

Foreign trade. The seasonally adjusted trade deficit tended to narrow during the first quarter but widened moderately in April and May. (See Table 4). Imports in May were down 1 per cent from the April level, but exports fell 3 per cent. The progress made in narrowing the deficit since January is likely to continue in coming months, with basic equilibrium possibly being restored later in the 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 U.S. dollars)

	1962				1963				1964					
	I	II	III	IV	I	II	III	IV	I	Jan.	Feb.	Mar.	Apr.	May
Imports	494	468	452	464	488	545	582	643	659	689	659	628	669	662
Exports	<u>382</u>	<u>409</u>	<u>426</u>	<u>414</u>	<u>422</u>	<u>443</u>	<u>461</u>	<u>484</u>	<u>491</u>	<u>464</u>	<u>491</u>	<u>517</u>	<u>542</u>	<u>526</u>
Balance	-112	- 59	- 26	- 50	- 66	-102	-121	-159	-168	-225	-168	-111	-127	-136

Foreign reserves and capital flows. International reserves fell \$45 million in May and, in view of Japan's trade position, would presumably have fallen in June. In fact, Japan's potential reserve loss was offset by receipts from a \$50 million bond issue in Germany, and holdings rose by \$7 million in June to a level of \$1,937 million. The net decline in reserves for the first half of 1964 was \$121 million. However, the trade deficit has been narrowing, and further losses in reserves in the coming months will probably be relatively moderate.

The current account deficit in the balance of payments as measured on an exchange transactions basis widened from \$76 million in April to \$102 million in May. This reflected mainly an increase in net payments for services which increased from \$26 million in April to \$49 million in May. The trade deficit was up only moderately from \$50 million to \$53 million. Net long-term capital receipts in May were \$21 million and net short-term capital receipts were \$26 million, compared to \$35 and \$74 million, respectively in April. Since reserves fell \$45 million in May, while recorded net payments were \$55 million, errors and omissions totalled \$10 million.

According to preliminary data, Japanese short-term liabilities to the U.S. as reported by U.S. banks fell \$8 million in April to \$2,368 million. This represents the first decline since August of 1963 and probably reflects in part the leveling off in Japanese imports in recent months. (See Table 5).

Table 5. Short-term Claims on Japan Reported by U.S. Banks  
(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	352	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	1,231	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	1,764	1,876	1,995	2,149
1964	2,223	2,316	2,376 <sup>a/</sup>	2,368 <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.

<sup>a/</sup> Preliminary.

Japan placed two bond issues in Europe totaling \$65 million in June. These consisted of a \$15 million, 15-year, 6-1/2 per cent convertible bond issue by Toyo Rayon Company in London and Luxembourg, and a \$50 million, 15-year, 6 per cent bond issue in Germany. In July, the Hitachi Company is expected to float a \$15 million, 15-year, 6-1/2 per cent bond issue in London.

Table 6. 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.	Mar. 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 years, conversion of 1899 bond issue.	U.K.
Takeda Chemical Co.	\$15.0 m.	Dec. 1963	6%, U.S. dollar, 20 year, convertible debentures.	Luxembourg
Canon Camera Co.	\$ 5.0 m.	Dec. 1963	6-1/4%, U.S. dollar, 15 year, 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 years.	Switz.
Teijin Ltd.	\$10.0 m.	Mar. 1964	6-1/4%, U.S. dollar, 20 year, convertible debentures.	Luxembourg
C. Itoh & Co.	\$12.5 m.	Mar. 1964	6-1/4%, U.S. dollar, 20 year convertible debentures.	London
Taisho Marine & Fire Ins. Co.	\$ 4.4 m.	Mar. 1964	Equity issue (London Depositary 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 year guaranteed dollar bonds.	Europe
Toyo Rayon Co.	\$15.0 m.	June 1964	6-1/4%, U.S. dollar, 15 year convertible debentures.	London & Luxembourg
Gov't. of Japan	\$50.0 m. (200 DM)	June 1964	6%, 15 year, DM bond issue.	Germany

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

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The question before Japan in the second half of 1964 is how much she will have to borrow to finance the payments deficit, and how much can be borrowed long-term. Assuming a continuation of recent trade trends, the trade deficit may be cut as much as 50 per cent in the second half, or to an annual rate of around \$1.2 billion. If net invisible earnings were maintained at levels prevailing in earlier years--around \$600 million--a capital inflow of about \$600 million at an annual rate would be required, or \$300 million just for the second half. However, net invisibles in the first half of 1964 appear to have been running substantially below the normal rate. If this trend continues, it appears that Japan will have to borrow considerably more than \$300 million in the next six months to prevent a further decline in reserves. European bankers have informed the Japanese Ministry of Finance that the European capital market can absorb about \$170 million in Japanese issues this year. Since Japan borrowed \$150 million in European long-term markets during the first half of this year, and has not floated any long-term issues in the United States since last October, it would appear that Japan may have to rely rather heavily on additional short-term borrowing if current reserve levels are to be maintained.

Foreign exchange. The yen remained weak in both the spot and forward markets during May and the first half of June, fluctuating in a very narrow range. (See Table 7). This weakness reflected the strong demand for foreign exchange as the current account continued in deficit.

Table 7. Japan: Customer's T.T. Exchange Rate of Bank of Tokyo, in Tokyo

	Yen-dollar spot middle rate	Three-month forward middle rate	Forward discount in per cent per annum
April 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
22	362.35	362.40	.06
29	362.35	362.40	.06
June 5	362.30	362.40	.11
12	362.30	362.40	.11
15	362.35	362.40	.06

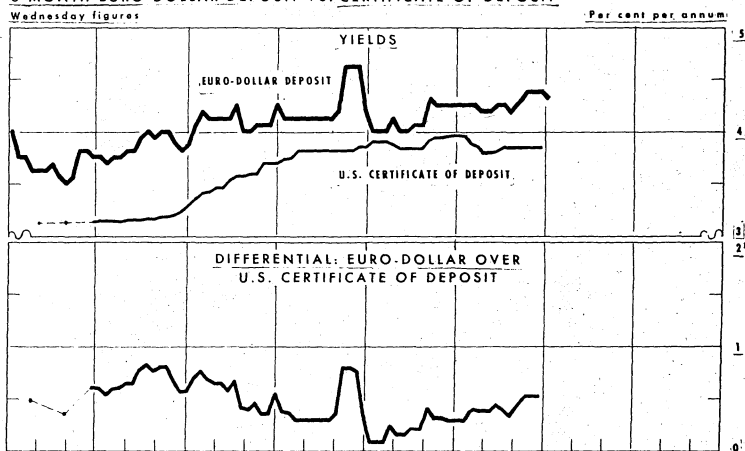
Late in June there was a heavy withdrawal of Euro-dollars as European banks engaged in window-dressing operations, and the Bank of Japan reportedly sold \$30 million in order to support the rate. Most of these Euro-dollar deposits are expected to return to Japan later, however, in the month of July.

2. 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

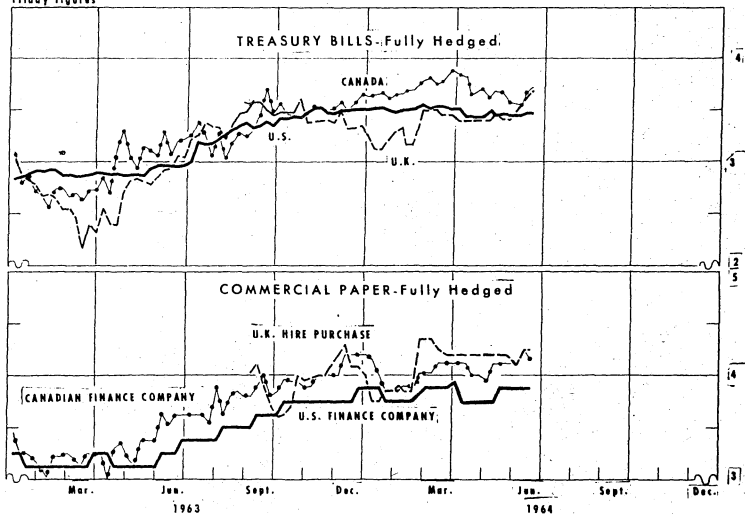


Chart 2

# INTEREST ARBITRAGE, UNITED STATES / CANADA

Thursday figures

Per cent per annum

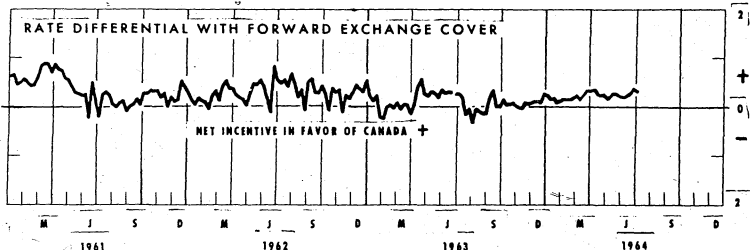
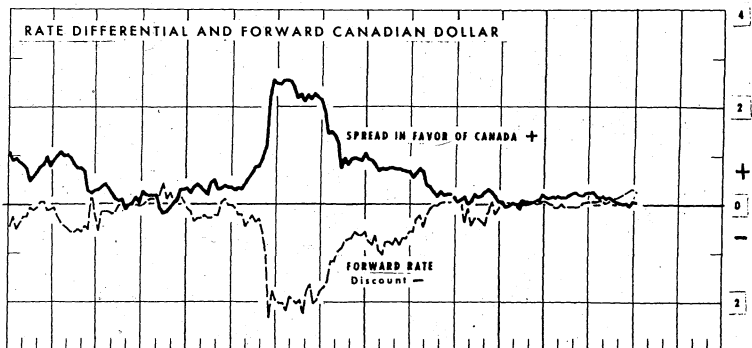
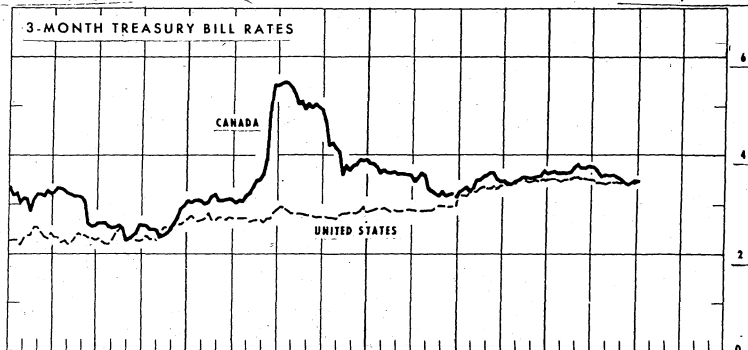




Chart 3

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

Friday figures

Per cent per annum

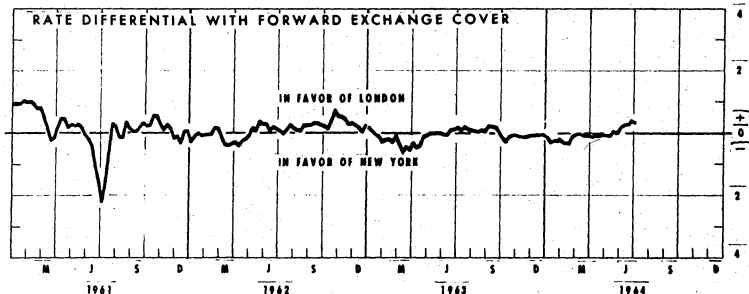
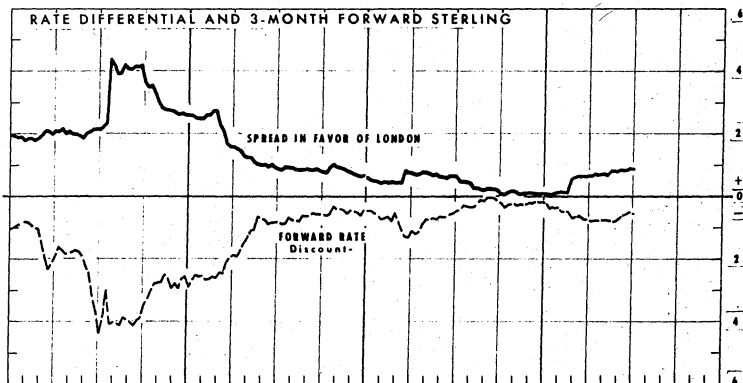
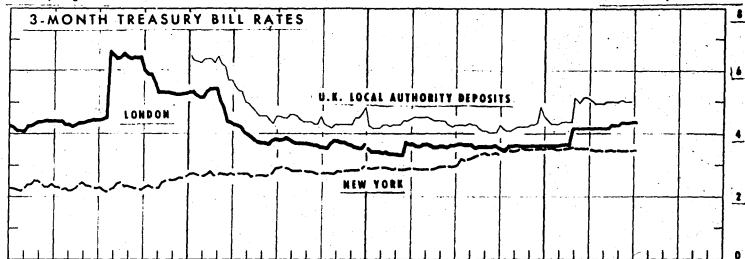


Chart 4

INTEREST ARBITRAGE FOR GERMAN COMMERCIAL BANKS

Friday figures

Per cent per annum

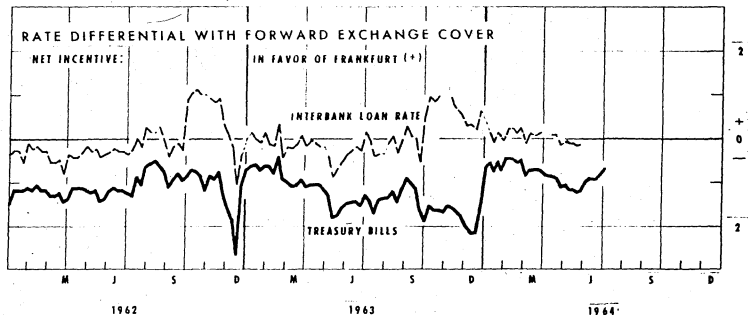
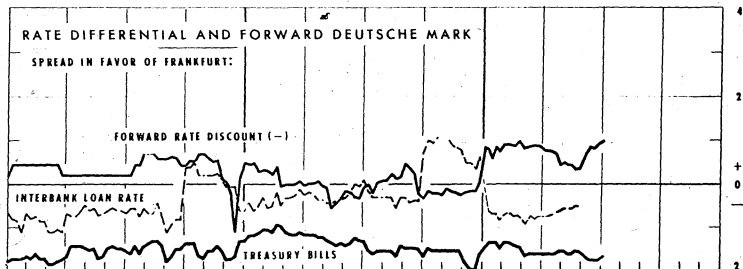
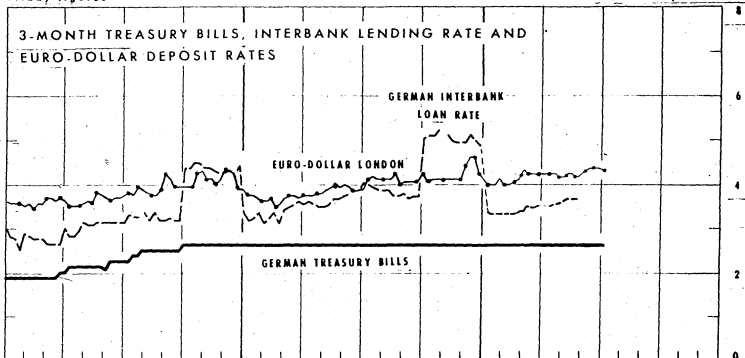
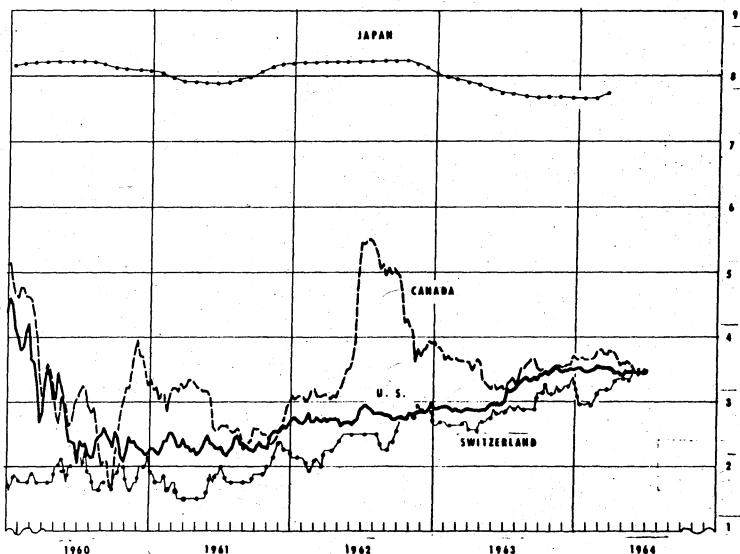
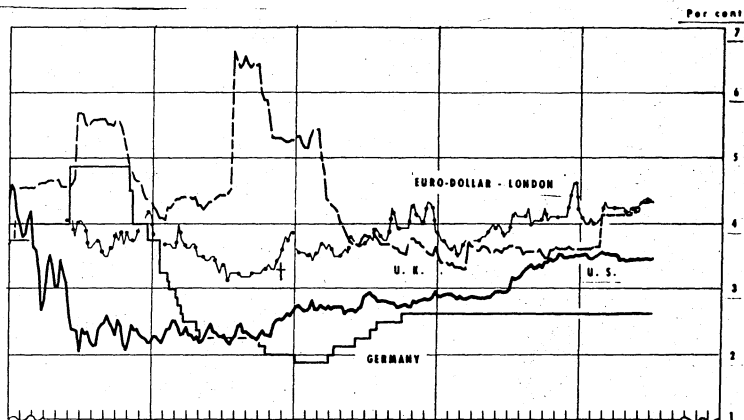


Chart 5  
**SHORT-TERM INTEREST RATES \***



\* 3-month treasury bill rates for all countries except Japan (Average rate on bank loans and discount)

and Switzerland (3-month deposit rate)

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

Chart 6

**LONG-TERM BOND YIELDS**

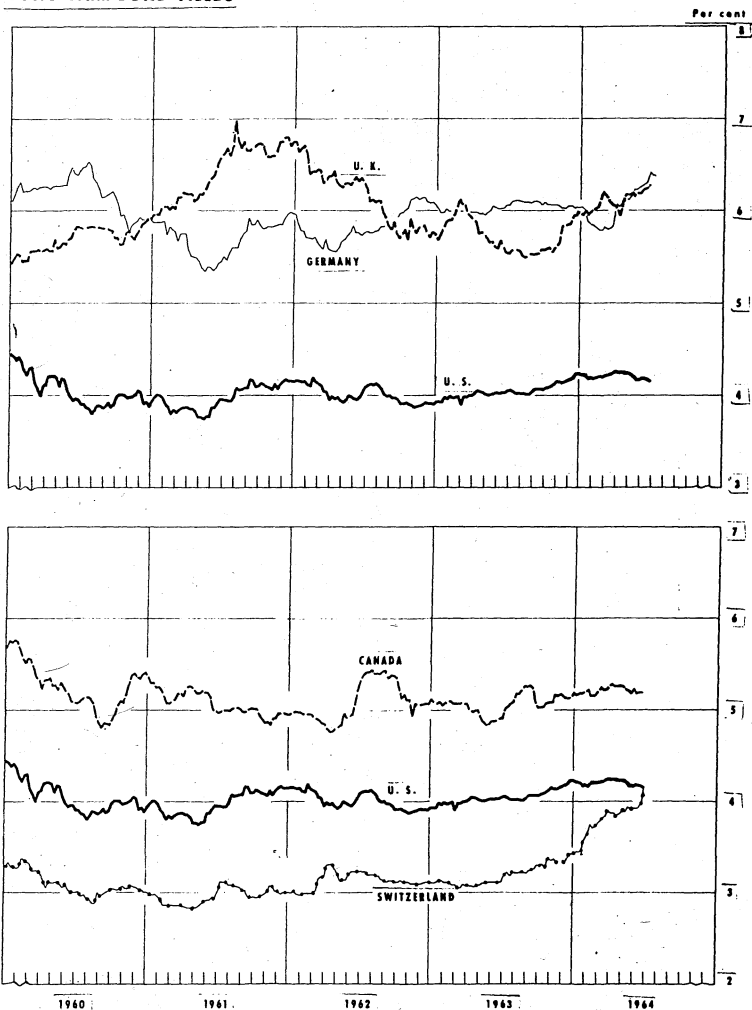
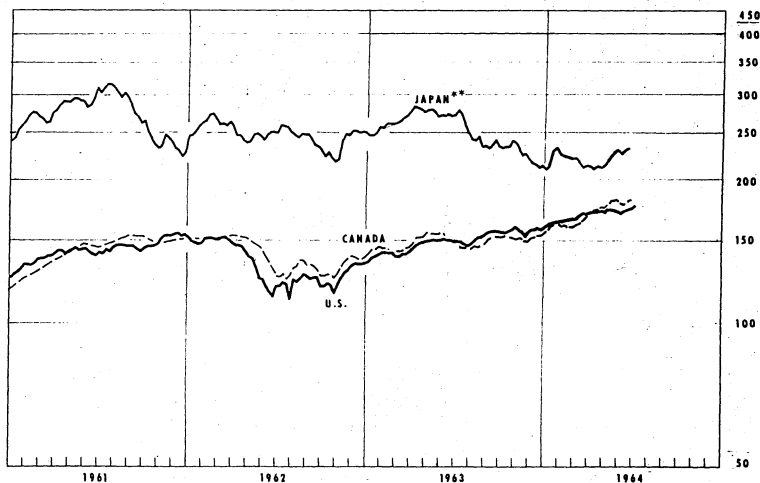
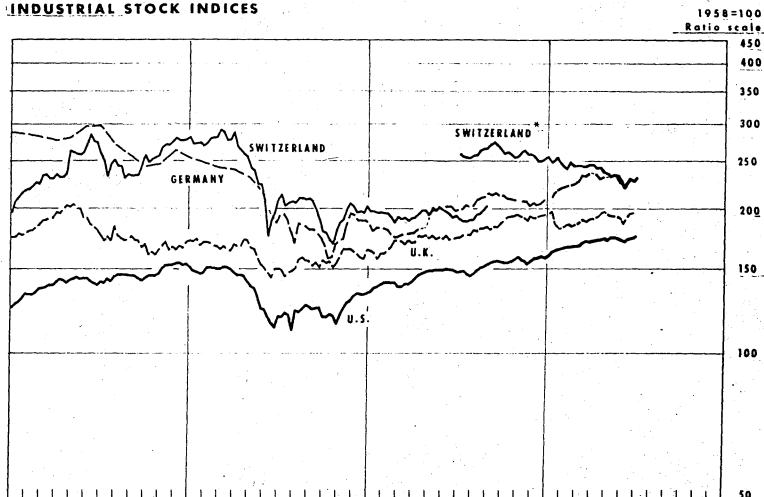


Chart 7

INDUSTRIAL STOCK INDICES



\* 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**

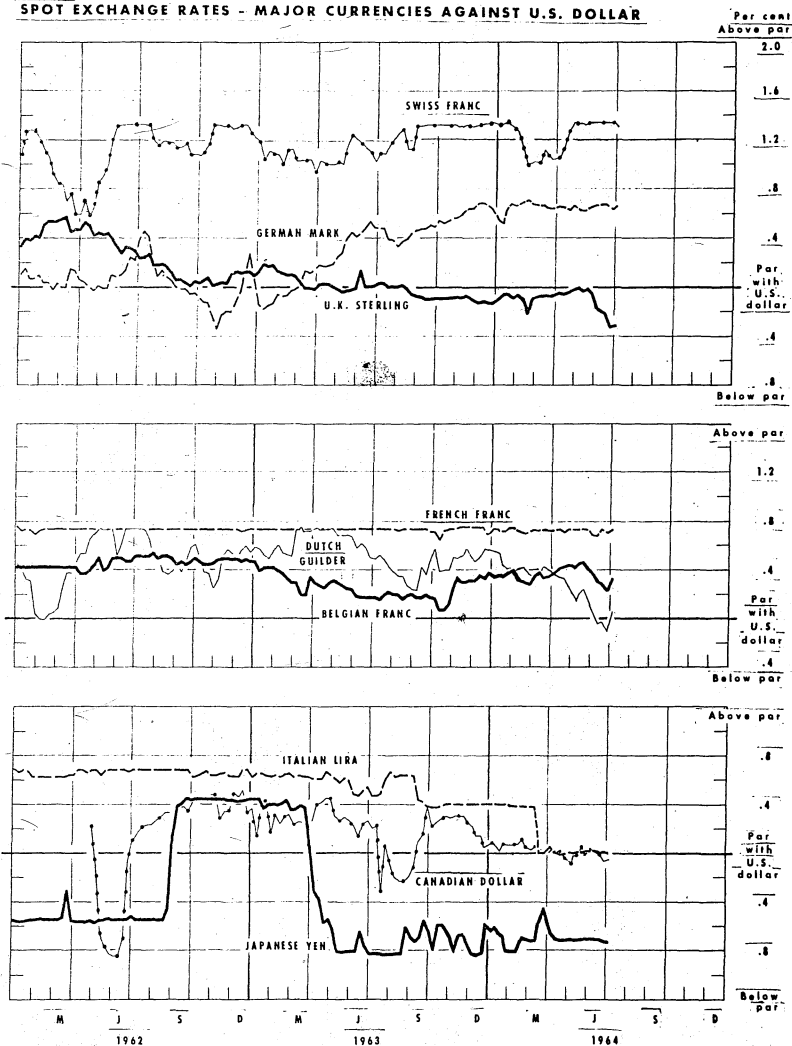
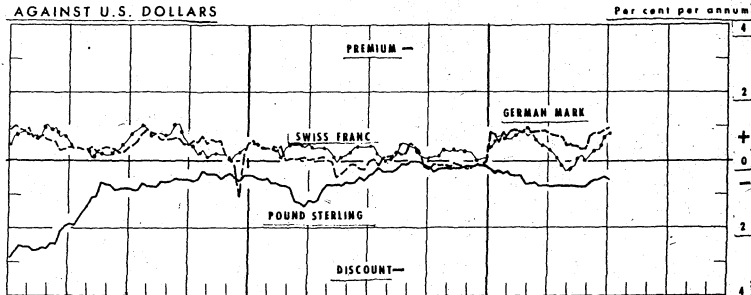


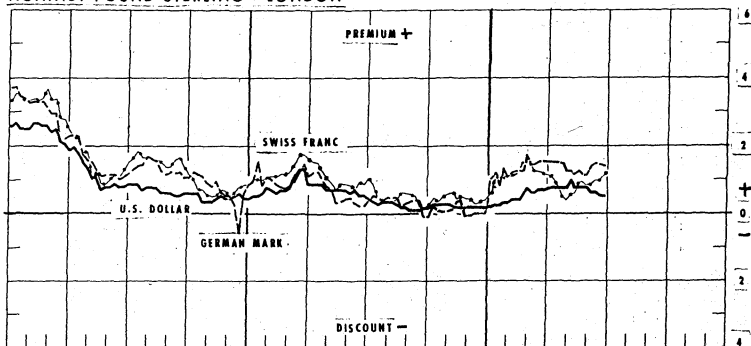
Chart 9  
3-MONTH FORWARD EXCHANGE RATE

Friday figures

AGAINST U.S. DOLLARS



AGAINST POUND STERLING - LONDON



AGAINST POUND STERLING - LONDON

