

H. 13

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No. 160

CAPITAL MARKET DEVELOPMENTS ABROAD

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

I Japan: Money and Capital Markets in June - July

Recently there have been signs of a slackening in Japanese borrowing in both the United States and Europe. Japan floated only one \$10 million bond issue in Europe in July, and because of tighter conditions in European money markets, the Ministry of Finance is reportedly planning to reduce the volume of private issues in Europe during the next eight months. Five more government and government-guaranteed issues totaling \$93.5 million are scheduled to be floated before next April, along with possibly three or four private issues of \$10-15 million each.

At the same time, U.S. short-term claims on Japan rose only \$23 million in April-May in contrast to an increase of \$226 million during the first quarter. Long-term claims have also been rising much less rapidly in recent months than earlier. (See Table 1).

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

	<u>Change during year</u>				<u>Change during Period</u>									
	1960	1961	1962	1963	1963				1964					
					I	II	III	IV	Jan.	Feb.	Mar.	Apr.	May	
Short-term claims ^{1/}	480	722	212	397	11	118	- 7	287	74	93	59	- 7 ^{a/}	30 ^{a/}	
Long-term claims ^{1/}	3	5	51	169	2	35	30	102	32	11	14	6 ^{a/}	2 ^{a/}	
Total	483	727	263	566	13	153	23	389	106	104	73	- 1 ^{a/}	32 ^{a/}	
Securities ^{2/}	30	58	141	200	51	84	60	5	0	0	0	0	0	
Total	513	785	404	766	64	237	83	394	106	104	73	- 1 ^{a/}	32 ^{a/}	

^{1/} Bank-reported liabilities to the U.S.

^{2/} New security flotations.

^{a/} Preliminary.

This slackening in foreign borrowing has occurred at a time of continued tight conditions in Japanese financial markets. (See Table 2). Several of the factors contributing to the slowdown include a slower rate of increase in acceptance

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financing since imports have increased less rapidly, a tightening in European financial markets, and the consequent policy of limiting future flotations in Europe mainly to government and government-guaranteed issues. In addition, the improvement in the balance-of-payments position may be encouraging Japanese commercial interests to expect some relaxation in credit availabilities in domestic financial markets in the near future.

The balance of payments continued to improve in June as the seasonally adjusted trade deficit narrowed further. Early in July the Minister of Finance announced that the balance of payments for the current fiscal year ending next March will probably register a surplus of about \$50 million. This contrasts with a deficit of \$150 million predicted by the Minister last January. International reserves rose \$7 million in June to \$1,937 million, primarily as a result of the better trade performance and \$65 million in bond issues in Europe. In July, however, reserves declined \$22 million, in part, because of a much smaller reflux of the Euro-dollars that had flowed out in June. In a move to reduce the adverse effects of these volatile short-term capital flows on the domestic money market and at the same time strengthen the tight money policy, Japan imposed early in July new quantitative limits on the short-term liabilities of Japanese foreign exchange banks.

On the domestic side, money market conditions tightened further in June and July, and call loan rates increased. The average interest rate on commercial bank loans and discounts also rose in April, continuing the general uptrend from the low reached in February. Bank credit in May rose at the same rate as a year earlier, but more rapidly than in the previous four months. The stock market eased after reaching a high for the year early in July and through August 3 show no signs of rallying.

In a move aimed at reducing the level of effective or real interest rates, commercial banks "voluntarily" agreed late in June to cut their compensatory balance requirements by one-half in six months and to eliminate them altogether within one year. If this move does actually reduce effective interest rates, it is likely that it would cause an increased demand for bank credit. In addition, an easing in interest rates would mean a basic shift to an easier money policy in contrast to the present policy of financial retrenchment. Although the Japanese are optimistic regarding an early resolution of the balance of payments problem, this is still in the realm of expectations rather than reality.

Money market. Conditions in the money market continued to tighten in June in spite of a net expansionary impact from monetary developments. An increase in Bank of Japan credit of ¥154 billion and net Treasury payments of ¥5 billion in June more than offset the contractionary impact from a ¥120 billion increase in bank notes in circulation. In July, the money market continued to tighten.

Interest rates. Call loan rates continued to increase in June and July. After remaining at 10.6 per cent during most of June, the rate for unconditional call loan money (repayable at a day's notice) jumped to 11.3 per cent for the last four days of the month. During the first half of July the rate eased to the earlier level of 10.6 per cent, but between July 15 and 25 it advanced to the 10.95 per cent level. The rate for over-night money (for settlement on the following day) changed by the same degree during this period and over-month-end call money (repayable at a day's notice in the following month) remained at 12.8 per cent during June and most of July. (See Table 2).

Table 2. Japan: Average Call Loan Money Rates in Tokyo
(in per cent per annum)

	<u>Overnight 1/</u>	<u>Unconditional 2/</u>	<u>Over-month-end 3/</u>
May 2	8.760	9.125	11.680
9	9.125	9.490	11.680
16	9.125	9.490	11.680
23	9.125	9.490	11.680
30	9.490	9.855	11.680
June 6	10.220	10.585	12.775
13	10.220	10.585	12.775
20	10.220	10.585	12.775
27	10.950	11.315	12.775
July 4	10.220	10.585	12.775
11	10.220	10.585	12.775
18	10.585	10.950	12.775
25	10.585	10.950	12.775

1/ For settlement on following day.

2/ Repayable at a day's notice.

3/ Repayable at a day's notice in the following month.

The average monthly interest rate on bank loans and discounts continued to rise in March and April, thus reversing the steady decline since September of 1962. From a level of 7.70 per cent in January-February, the rate rose to 7.73 per cent and 7.85 per cent in March and April, respectively. This upturn reflects the tight money policy first instituted last December and reinforced in January and March.

Table 3. 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	7.85 <u>1/</u>
September	8.06	8.14	8.00	8.24	7.68	
December	8.11	8.08	8.20	8.09	7.67	

1/ April.

Bank loans and discounts. Bank credit rose 1.8 per cent in May, the same rate as a year earlier. During the January-April period, the average monthly rate of increase was 1.0 per cent. Loans and discounts of bills rose 0.6 and 2.3 per cent in May compared to 1.6 per cent for each category, respectively, a year earlier. Holdings of securities increased 5.4 per cent, or substantially higher than the 2.7 per cent rise a year earlier. Bank deposits were up only 1.2 per cent in contrast to a rise of 2.9 per cent a year earlier.

The proportion of bank loans and discounts extended for purchases of equipment increased from 17.1 per cent in April to 17.2 per cent in May. This is the highest level since November of 1962 and it is well above the cyclical low of 16.3 per cent in March of 1963.

The credit expansion quota for Japan's 13 large city banks was set at ¥297.6 billion for the third quarter of this year by the Bank of Japan early in July. This is 22 per cent below the actual credit expansion that occurred in the same period a year earlier. In the first and second quarters, the credit expansion limits were set 10 and 12 per cent below the actual amount of credit expansion that occurred a year earlier.

Late in June the Federation of Bankers' Associations announced that in response to government requests, it had "voluntarily" instructed member banks to reduce compensatory balance requirements to one-half of their current level within six months and to eliminate them altogether within one year. The general aim of this move is to reduce the level of effective or real interest rates.

Bond market. New issues of bonds in May totaled ¥138 billion, up ¥5 billion from the April level. The major factor in the rise was an increase in new issues of bank debentures from ¥80 billion in April to ¥84 billion in May. New issues of public corporation debentures were down ¥1 billion from the April level to ¥28 billion in May, and new issues of industrial debentures rose ¥1 billion to ¥26 billion.

Average yields on bonds and debentures were unchanged in May from the April level except for a slight rise in the yield on industrial bonds from 7.483 per cent to 7.489 per cent.

Stock market. Stock prices improved in June, reaching a high for the year on July 3, but during the rest of July declined to lower levels. Between April 9 -- a low for the year -- and July 3, stock prices rose 14 per cent. On August 3, prices were still 5 per cent below the year's high. The May-June up-trend has been attributed primarily to the improved balance-of-payments position.

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

May 25	¥ 1,318	July 6	¥ 1,363	1963 High	¥ 1,634
		13	1,331	Low	¥ 1,201
June 1	1,319	20	1,325		
8	1,299	27	1,326	1964 High	¥ 1,369
15	1,345			Low	¥ 1,203
22	1,316	Aug. 3	1,304		
29	1,348				

Foreign trade. The seasonally adjusted trade deficit continued to narrow in June as exports rose 5 per cent and imports remained unchanged. The June deficit of \$108 million was the lowest this year and represented a substantial improvement from the peak deficit in January of \$225 million. Most of the improvement in the trade balance has been due to a substantial expansion of exports, imports having risen only slightly. 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 U.S. dollars)

	1962				1963				1964					
	I	II	III	IV	I	II	III	IV	I	II	Mar.	Apr.	May	June
Imports	494	468	452	464	488	545	582	643	659	664	628	669	662	662
Exports	382	409	426	414	422	443	461	484	491	541	517	542	526	554
Balance	-112	-59	-26	-50	-66	-102	-121	-159	-168	-123	-111	-127	-136	-108

Foreign reserves and capital flows. International reserves fell \$22 million in July to a level of \$1,915 million. Preliminary reports indicate that the primary cause of the decline was a smaller volume of capital receipts, due in part to a much smaller reflux in July of the Euro-dollars that had flowed out in June. Since last October's peak, reserves have declined \$187 million.

The current account deficit in the balance of payments, as measured on an exchange transactions basis, narrowed substantially from \$102 million in May to \$44 million in June. The deficit on commodity trade declined sharply from

\$53 million in May to \$9 million in June, and net payments for services also declined from \$49 million to \$35 million. Net long-term capital receipts were \$70 million, bolstered by \$65 million in Japanese securities issues in Europe during June. Net short-term capital receipts of \$27 million brought total capital receipts to \$97 million. Since reserves rose \$7 million in June, while recorded net receipts were \$53 million, errors and omissions totaled \$46 million.

According to preliminary data, Japanese short-term liabilities to the U.S. as reported by U.S. banks rose \$30 million in May to \$2,398 million. This is a smaller monthly increase than those registered earlier in the year, and probably reflects the recent slackening in the volume of imports which in turn has had an impact on the volume of acceptance financing.

Table 6. 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	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	1,793	1,862	1,876	1,995	2,149
1964	2,223	2,316	2,375	2,368 _a /2,398 _a /								

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

a/ Preliminary.

Japan placed two bond issues in Europe in June totaling \$65 million. The first was a \$15 million, 15-year, 6-1/2 per cent convertible bond issue by the Toyo Rayon Company in London and Luxembourg, and the other was a \$50 million, 15-year, 6 per cent bond issue in Germany placed by the Government of Japan. The only European flotation in July was a \$10 million, 15-year, 6-1/4 per cent convertible bond issue placed in London and Luxembourg by Hitachi, Ltd. Originally this issue was scheduled to be \$15 million, but in view of the recent tightness in the European capital market, the amount was lowered to \$10 million. Reports indicate that because of the recent increases in official discount rates in several European countries and a subsequent tightening of the capital market, the Ministry of Finance will give priority during the rest of the year to government and government-guaranteed bond issues in Europe, scaling down somewhat the planned volume of private bond issues.

Table 7. 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 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%, 15-year, DM 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
Hitachi, Ltd.	\$10.0 m.	July 1964	6-1/4%, 15-year, convertible debenture.	London & Luxembourg

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

Early in July the Bank of Japan imposed quantitative limits on Japanese foreign exchange banks' short-term liabilities in the form of Euro-dollars and free yen deposits. Specific details were not released, but each bank has reportedly been assigned a fixed ceiling for the two types of liabilities indicated above, the limits being calculated as a percentage of net foreign exchange assets. These foreign liabilities will continue to remain subject to minimum foreign exchange reserve requirements. This latest move was taken in order to reduce the adverse effects on the domestic money market from volatile short-term capital flows, and to reinforce the current tight money policy which has been offset at times by bank conversion of foreign short-term funds into yen.

Foreign exchange. The yen remained extremely weak in the foreign exchange market during June and the first half of July. The rate in the spot market fluctuated only slightly and the rate in the three-month forward market remained unchanged at a depreciated level. (See Table 8). Early in July the inter-bank rate reached a record high of ¥362.59 per dollar, the most depreciated level in the history of the Japanese foreign exchange market. Part of the continued weakness has been attributed to a much smaller reflux of Euro-dollars into Japan in July following a substantial outflow in June as European banks engaged in window-dressing operations.

Table 8. 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
May 29	362.35	362.40	.06
June 5	362.30	362.40	.11
12	362.30	362.40	.11
19	362.35	362.40	.06
26	362.35	362.40	.06
July 3	362.40	362.40	--
10	362.40	362.40	--
15	362.40	362.40	--

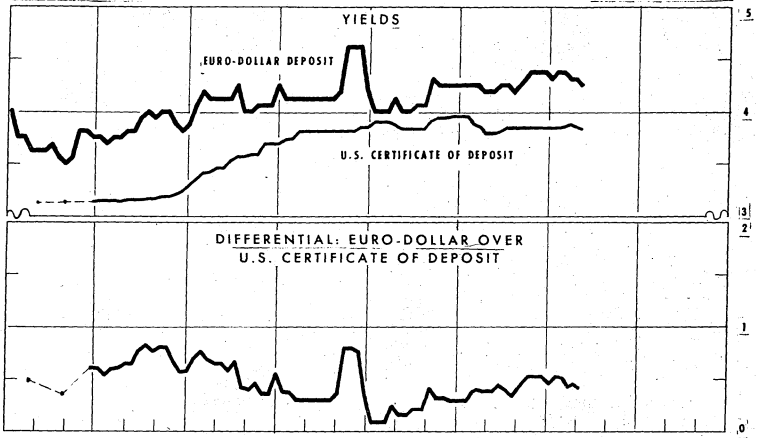
Asia, Africa, and Latin America Section.

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

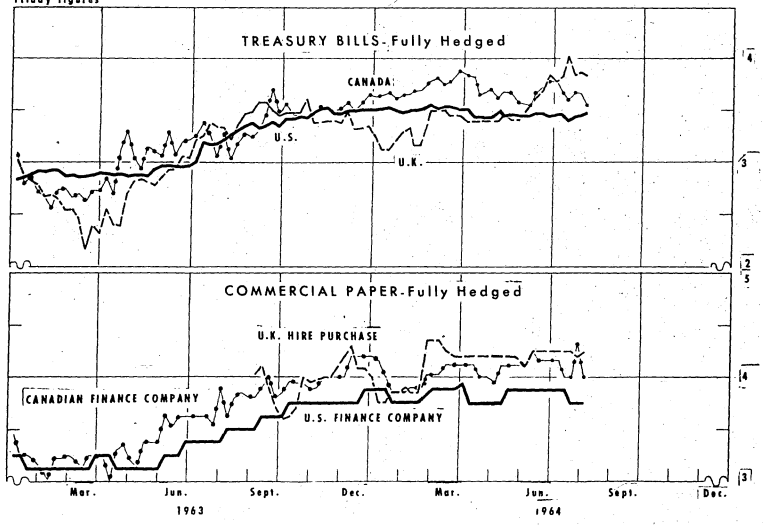
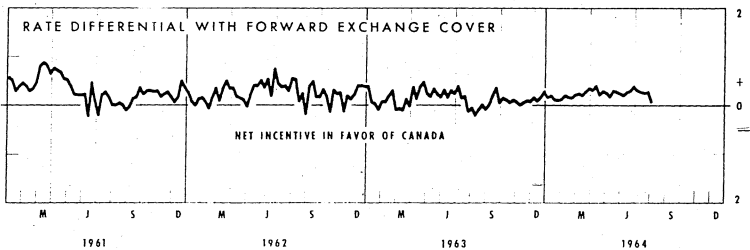
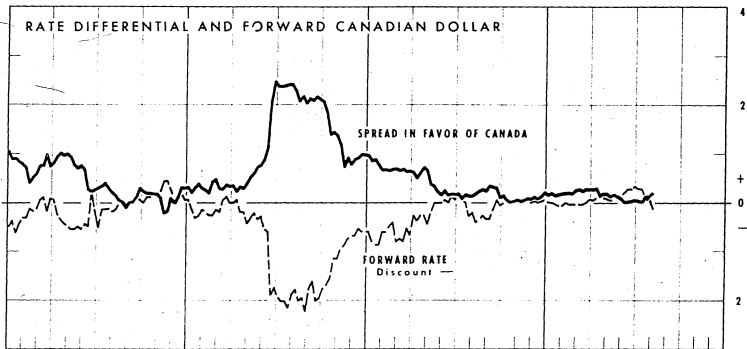
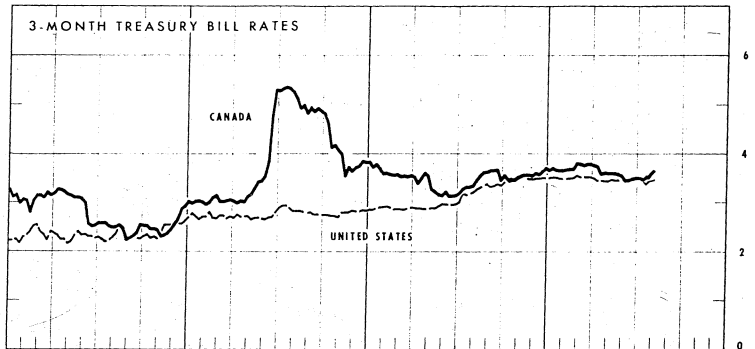


Chart 2

INTEREST ARBITRAGE, UNITED STATES / CANADA

Friday figures*

Per cent per annum



* Thursday figures 1961-1962; Friday, thereafter

Chart 3

INTEREST ARBITRAGE, NEW YORK/LONDON

Friday figures

Per cent per annum

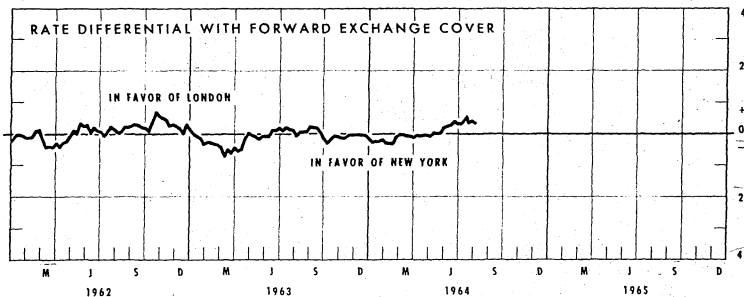
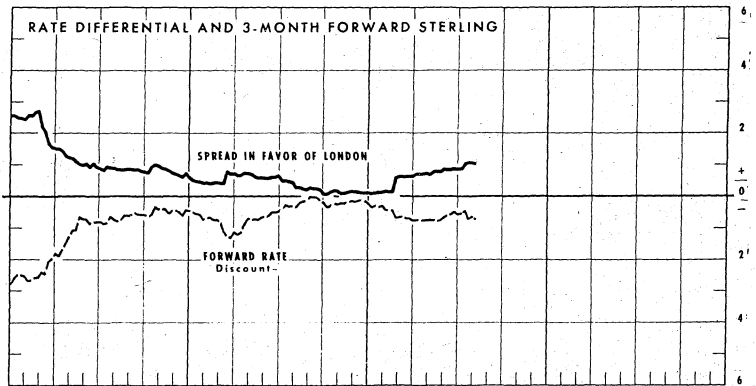
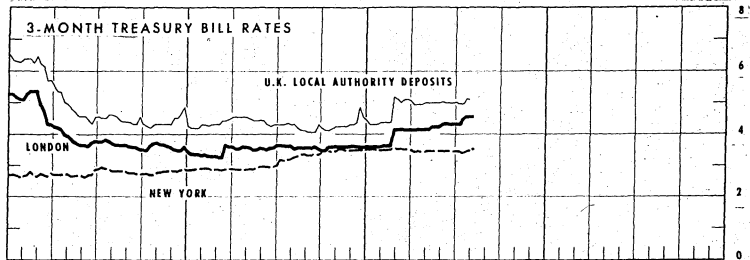


Chart 4

INTEREST ARBITRAGE FOR GERMAN COMMERCIAL BANKS

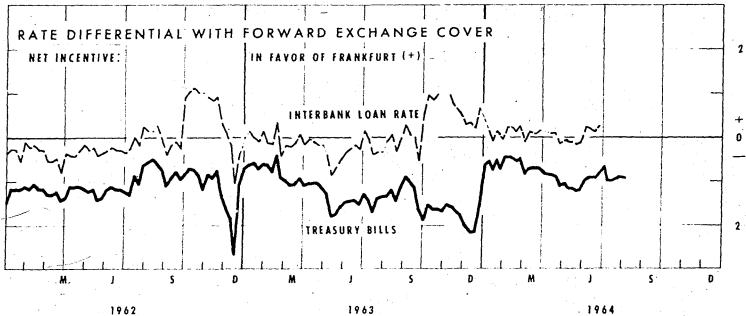
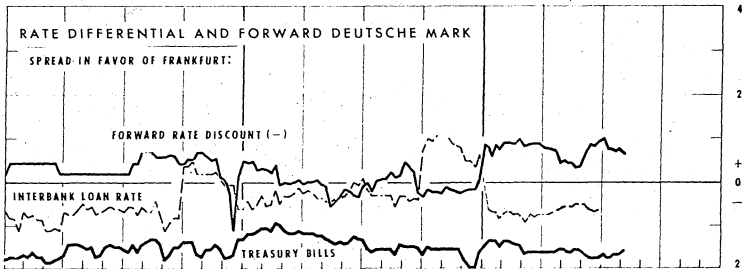
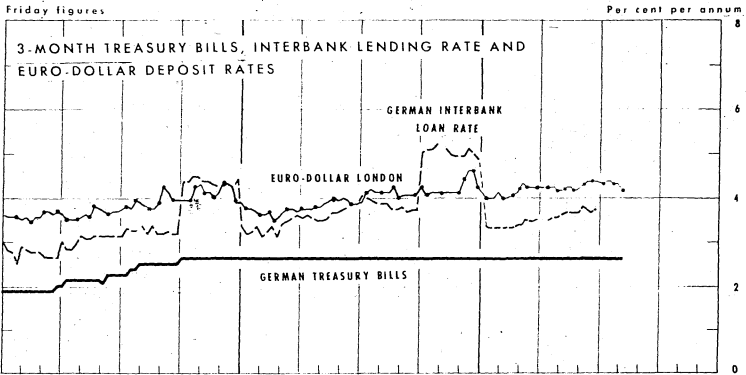
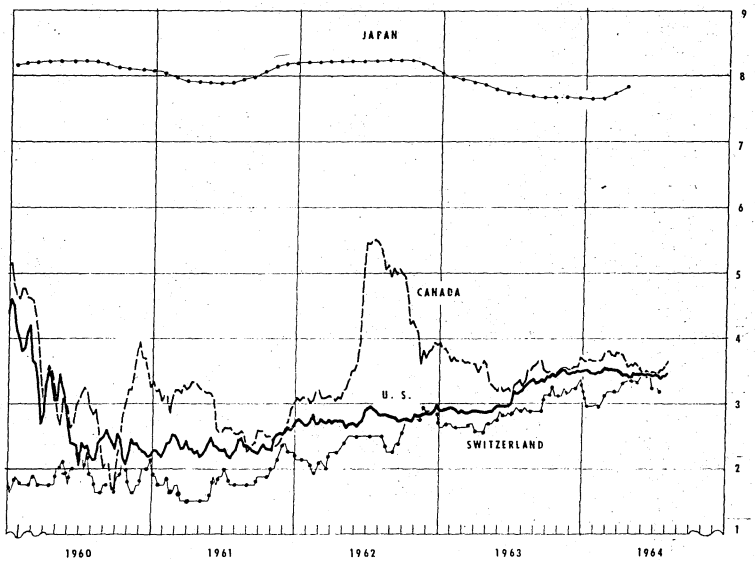
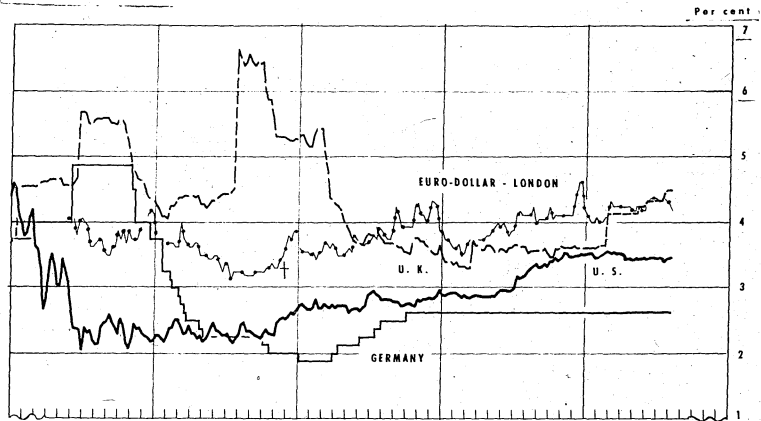


Chart 5
SHORT-TERM INTEREST RATES *



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

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Chart 6
LONG-TERM BOND YIELDS

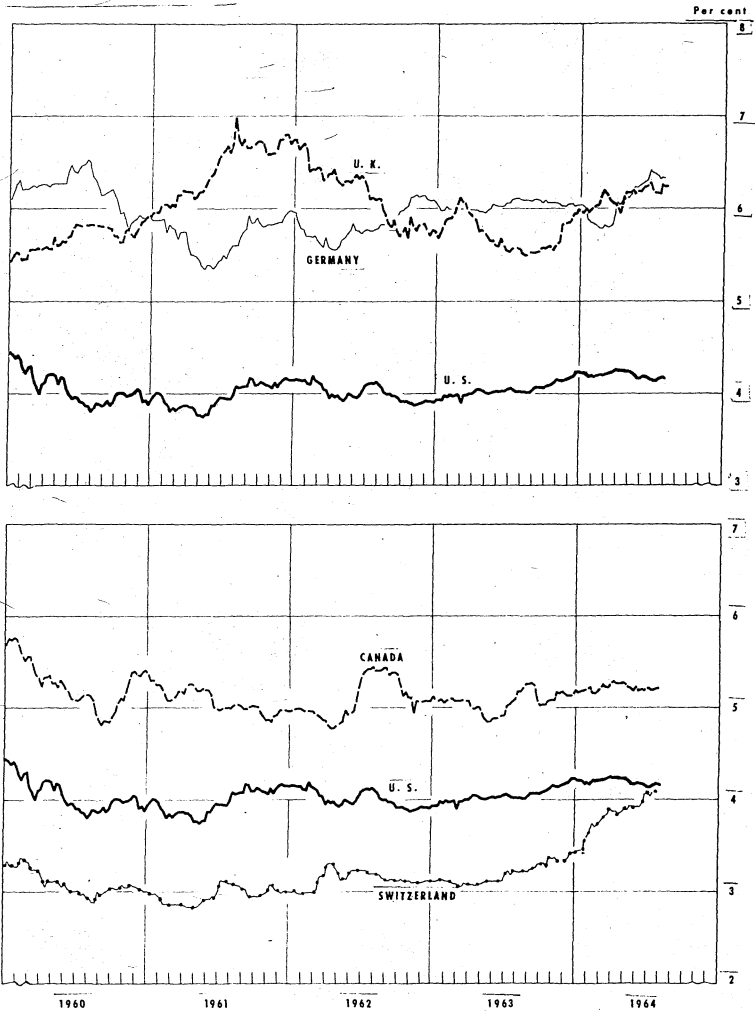
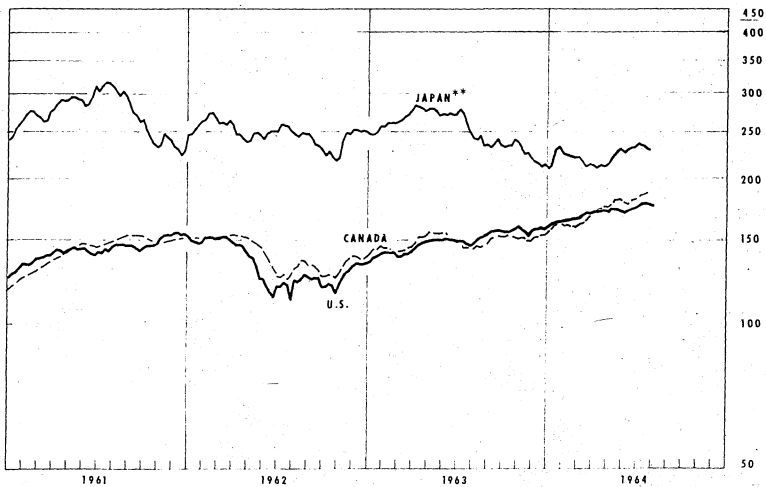
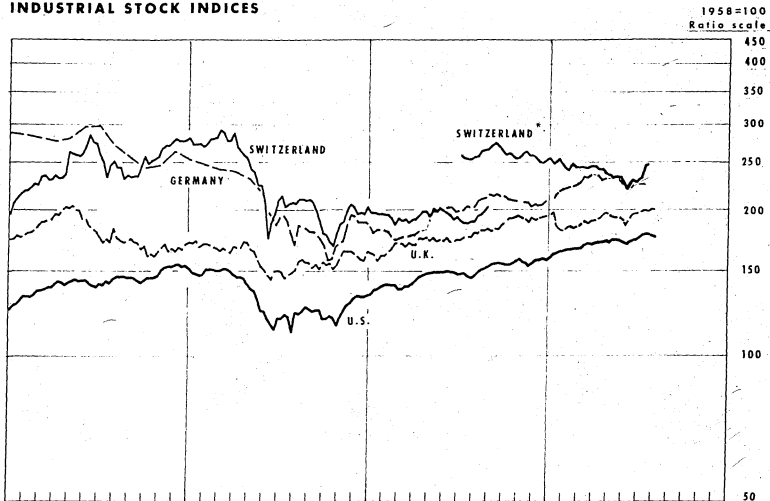


Chart 7
INDUSTRIAL STOCK INDICES



* New series Swiss Bank Corporation industrial stock index

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

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

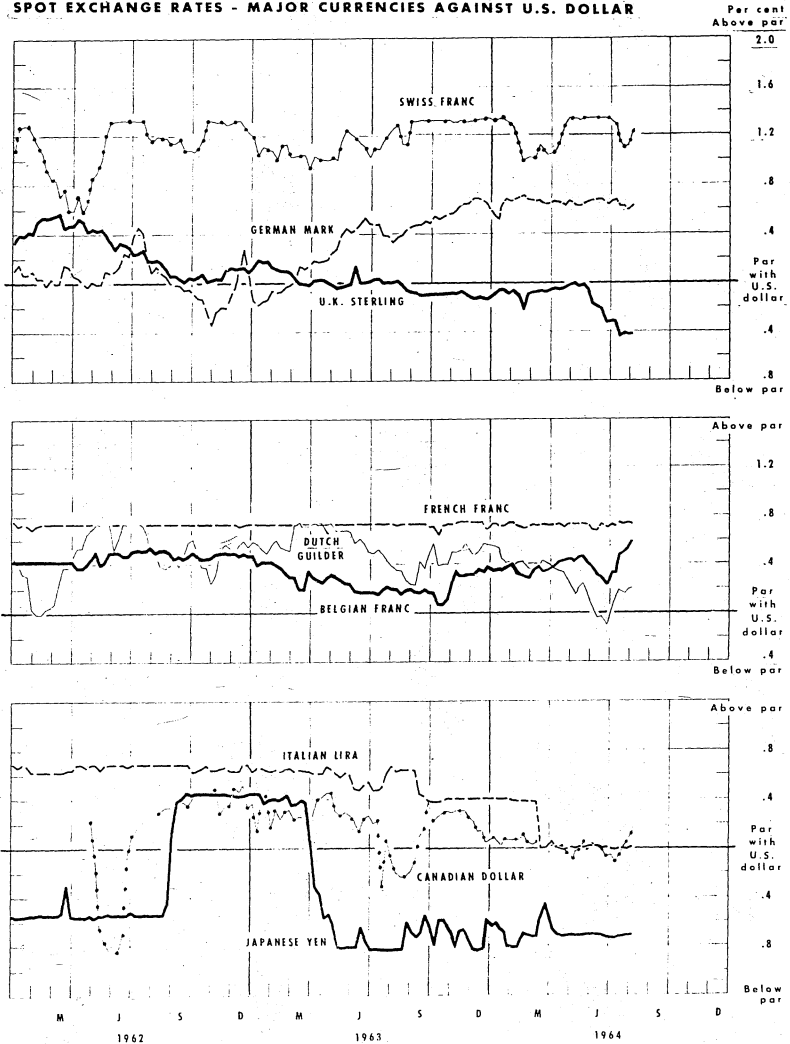


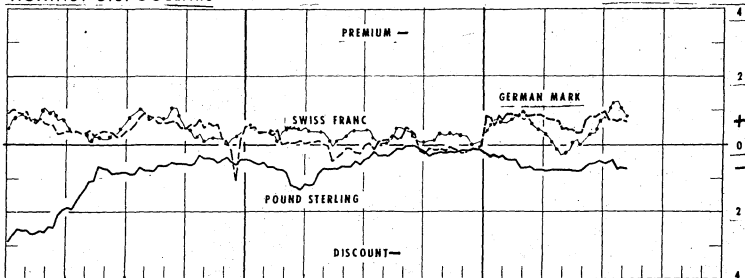
Chart 9

3-MONTH FORWARD EXCHANGE RATE

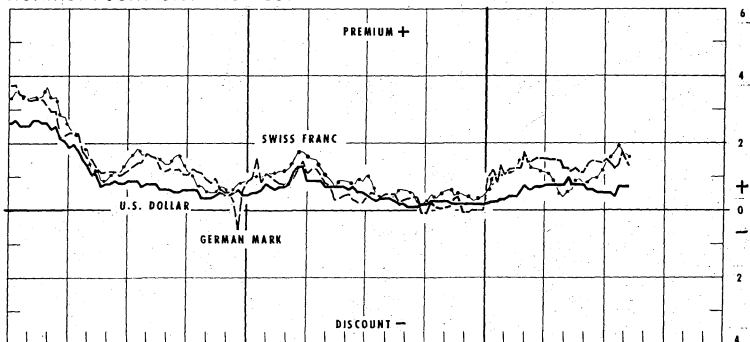
Friday figures

AGAINST U.S. DOLLARS

Per cent per annum



AGAINST POUND STERLING - LONDON



AGAINST POUND STERLING - LONDON

