

H. 13

November 4, 1964.

No. 170

CAPITAL MARKET DEVELOPMENTS ABROAD

- I. Japan
 II. Nine Charts on Financial Markets Abroad
 III. Latest Figures Plotted in H. 13 Chart Series

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

Because of the upward drift of long-term interest rates in European financial centers, the Japanese Ministry of Finance is not expected to approve further issues of private corporate debentures in European markets in coming months. As a result, business circles in Japan are pressing the Japanese authorities to approve new issue placements in the United States in spite of the interest equalization tax. The decision to restrict the access of private borrowers to European capital markets is based upon the desire not to overburden these markets and, thereby, threaten the successful flotation of Japanese government and government-guaranteed issues. The trend toward higher interest rates in several European centers, and tendencies for prices of Japanese issues already sold in Europe--both earlier flotations and the Komatsu Manufacturing security of October 7--to fall, have led the Japanese authorities to act to reduce European borrowings.

Present plans call for at least three Japanese issues totaling \$65 million in Europe by next April. Two issues totaling \$30 million were issued in Europe in October.

Japanese short-term borrowing in the U.S. increased \$55 million in August, more than offsetting the \$13 million decline in July. Long-term borrowing continued to rise moderately by \$4 million each in July and August. (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	I	II	June	July	Aug.	
Short-term claims ^{1/}	482	722	212	431	11	121	18	281	229	69	48	-53 ^{a/}	55 ^{a/}	
Long-term claims ^{1/}	3	5	50	175	2	35	32	106	61	15	2	4 ^{a/}	4 ^{a/}	
Total	485	727	262	606	13	156	50	387	290	84	50	-49 ^{a/}	59 ^{a/}	
Securities ^{2/}	30	58	141	200	51	84	60	5	0	0	0	0	0	
Total	515	785	403	806	64	240	110	392	290	84	50	-49 ^{a/}	59 ^{a/}	

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

^{2/} New security flotations.

^{a/} Preliminary.

NOTE: Data on short- and long-term claims since early 1962 have recently been revised substantially by the U.S. Treasury.

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On October 21, the Ministry of Finance formally released specific data on Japanese commercial banks' short-term foreign liabilities and assets as of June 30, 1964. With net assets of \$2,191 million and total liabilities of \$3,213 million (of which \$578 million represented foreign liabilities denominated in domestic currencies), the banks' had a net liability position of \$1,022 million.

International reserves fell \$33 million in October to a level of \$1,906 million. In part, the decline reflects a \$20 million repayment made late in October against an earlier foreign currency swap drawing from the Federal Reserve. This was indicated in a statement made by Governor Yamagiwa of the Bank of Japan in a recent press conference. The Governor also stated that Japan would repay an additional \$30 million in November against the swap drawing. This will fully liquidate the \$80 million drawing made earlier in the year since \$30 million was repaid in September.

Gold and foreign exchange holdings at the end of October were at the lowest level since reserves reached a peak one year earlier. The seasonally adjusted trade deficit widened in September after a substantial narrowing in July and August. The improved trade performance accounted for a surplus in the balance of payments (as measured on an exchange transactions basis) in August and September, the first surplus since December 1962.

On October 9, Japanese foreign exchange banks were allowed by the Ministry of Finance to raise the maximum interest rate payable on Euro-dollar deposits. The rate for three-month deposits was increased from 4-1/2 to 4-3/4 per cent and that for six-month deposits was increased from 4-3/4 to 4-7/8 per cent. The earlier rates were about 5/16's percentage points above the London rate for Euro-dollars.

On the domestic side, the money market eased in October and call loan rates declined moderately. The general level of interest rates, however, continued to move up through July. Bank credit rose less rapidly in August than a year earlier and domestic bond issues rose slightly in August. The stock market continued to remain depressed and on November 2 was near the previous low for the year reached on April 9.

Money market. The money market eased slightly in early October as business demands for funds slackened after September 30, the half-way point, or the end of the fiscal year, for most Japanese firms. A somewhat easier trend in October was also encouraged by net Treasury payments of ¥100 billion, which more than exceeded the contractionary impact from a ¥9 billion rise in bank notes in circulation and a net decline of ¥84 billion in Bank of Japan credit.

Interest rates. Call loan rates eased on October 1 after remaining at relatively high levels since early August (See Table 2). The rate for unconditional money fell from 11.32 per cent on September 30 to 10.95 per cent on October 1 and remained there through October 24. The rates for overnight and over-month-end money showed a similar drop.

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>
August 1	10.585	10.950	12.775
8	10.950	11.315	13.140
15	10.950	11.315	13.140
22	10.950	11.315	13.140
29	10.950	11.315	13.140
Sept. 5	10.950	11.315	13.140
12	10.950	11.315	13.140
19	10.950	11.315	13.140
26	10.950	11.315	13.140
30	10.950	11.315	13.140
Oct. 1	10.585	10.950	12.775
10	10.585	10.950	12.775
17	10.585	10.950	12.775
24	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 rose further in July to 7.99 per cent. The rate has been moving up since February in response to the administration's tight money policy.

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	7.98
September	8.06	8.14	8.00	8.24	7.68	7.99 ^{1/}
December	8.11	8.08	8.20	8.09	7.67	

^{1/} July.

Bank loans and discounts. Continuing the general trend since the first of the year, bank credit rose less rapidly in August than the year earlier. Total bank credit increased 0.9 per cent in August in contrast to a rise of 1.1 per cent a year earlier. Loans and bills discounted rose 1.7 and 1.3 per cent, respectively, in August, while holdings of securities declined 0.4 per cent. Bank deposits increased 0.6 per cent in August, slightly less than the 0.8 per cent rise a year earlier.

The proportion of bank loans and discounts extended for purchases of equipment remained unchanged at 17.2 per cent in August, the same level as in May-July. This level contrasts with the cyclical low of 16.3 per cent in March of 1963.

The Bank of Japan increased its loans to commercial banks and other financial institutions in September. This was more than offset by large net sales of securities by the Bank. (See Table 4)

Table 4. Japan. Changes in Bank of Japan Loans and Holdings of Securities
(in billions of yen)

Period	(1)		(2)		(3)	
	Net increase (+) or decrease (-)		Loans: increase (+) or decrease (-)		Net purchases (+) o. sales (-) of securities	
<u>1963</u> I Quarter	+158.2		+ 59.1		+ 99.1	
II Quarter	-109.2		-198.7		+ 89.2	
III Quarter	+202.4		+ 91.3		+129.1	
IV Quarter	+ 18.0		- 81.2		+ 99.2	
<u>1964</u> I Quarter	+203.3		+ 36.7		+166.6	
II Quarter	- 75.7		+121.0		-196.7	
III Quarter	+106.1		+ 97.5		+ 8.6	
July	+ 75.6		+ 16.1		+ 59.5	
August	+114.3		+ 55.2		+ 59.1	
September	- 83.8		+ 26.2		-110.0	

Bond market. New issues of bonds totaled ¥133 billion in August, up ¥2 billion from the July level. Since April, the general volume of bond issues has remained relatively unchanged. New issues of bank debentures were ¥87 billion in August, or ¥6 billion higher than in July. New issues of public corporation bonds and industrial debentures were off ¥1 and ¥3 billion in August to ¥26 and ¥19 billion, respectively.

Bond yields were unchanged in August except for a slight rise in yields on industrial bonds.

Stock market. The stock market rallied mildly in the first half of October, but subsequently declined during the rest of the month. On November 2 the index was down 12 per cent from the high for the year reached on July 3.

Table 5. Japan. Dow Jones Average of 225 Stocks, First Section of Tokyo Exchange

August	31	¥1,276	October	5	¥1,207	1963	High	¥1,634
				12	1,222		Low	¥1,201
September	7	1,286		19	1,210			
	14	1,260		26	1,208	1964	High	¥1,369
	21	1,248					Low	¥1,203
	28	1,210	November	2	1,208			

The total proceeds from issues of stocks in July totaled ¥69 billion, slightly lower than the ¥72 billion issued a year earlier. In general, however, the volume of issues of new shares has been higher this year than last, with the value for the January-July period this year totaling ¥454 billion compared to ¥294 billion during the same period last year.

In early October, Japan's 13 city banks decided to increase the capital of the Japan Joint Securities Company from ¥15 billion to ¥30 billion by November 4, 1964. The J.J.S.C. was created last January for the purpose of supporting the stock market through buying operations. The total volume of operating funds is also to be boosted to ¥70 billion, with the new funds being used to make direct purchases of stock from the four largest securities companies and various investment trusts.

Foreign trade. After narrowing sharply in July and August, the seasonally adjusted trade deficit widened substantially in September. Although exports rose 2 per cent, imports increased 8 per cent, producing a deficit of \$94 million in September in contrast to an average deficit of \$50 million in July-August. (See Table 6). The trade figures in Table 6 are monthly, or monthly averages, on a customs basis, seasonally adjusted.

Table 6. Japan: Seasonally Adjusted Foreign Trade
(in millions of U.S. dollars)

	1962		1963				1964					
	III	IV	I	II	III	IV	I	II	June	July	Aug.	Sept.
Imports	450	466	492	540	573	644	655	657	656	634	601	650
Exports	<u>428</u>	<u>417</u>	<u>417</u>	<u>441</u>	<u>463</u>	<u>486</u>	<u>482</u>	<u>538</u>	<u>556</u>	<u>587</u>	<u>548</u>	<u>556</u>
Balance	-22	-49	-75	-99	-110	-158	-183	-119	-100	-47	-53	-94

On October 1, 1964, Japan liberalized import restriction on 13 commodities, thus reducing the total number of items on which restrictions are maintained to 162. This action increased the liberalization rate (as calculated from the base year of 1959) slightly from 92.7 to 92.8 per cent.

Foreign reserves and capital flows. International reserves fell \$33 million in October to a level of \$1,906 million. This followed a period of rising reserves in August and September when the level increased \$12 million in each month. Reserves are now at their lowest level since the general decline began in November of 1963 and are down \$196 million from the level a year earlier.

The ratio of Japan's gold and foreign-exchange holdings to note issues by the Bank of Japan has been trending down in recent years. Measured from 1959 (the composition of official reserves was changed in 1958 and hence is not comparable to later years), the ratio reached a peak of 56.9 per cent at the end of 1960, but has generally declined since then. Because of a seasonal expansion in money supply at the end of the year, the December 1963 ratio has generally been lower than the end-of-quarter ratios this year. If the ratio were computed using money supply rather than note issue, the decline would be sharper, since currency has fallen from 25 per cent of money supply at the end of 1959 to 21 per cent at the end of 1963.

Table 7. Japan: Rates of Reserves to Bank Notes

End of Period	International Reserves	Bank Notes Issued	Reserves/ Bank Notes
1959	\$520.9 billion	¥1,029.4 billion	50.6 per cent
1960	701.6 billion	1,234.1 billion	56.9 per cent
1961	599.8 billion	1,480.1 billion	40.5 per cent
1962	727.9 billion	1,745.9 billion	41.7 per cent
1963	740.9 billion	2,057.4 billion	36.0 per cent
1964 Mar.	718.6 billion	1,774.8 billion	40.5 per cent
June	697.3 billion	1,860.6 billion	37.5 per cent
Sept.	698.0 billion	1,836.1 billion	38.0 per cent

For the second consecutive month, Japan had a current account surplus in its balance of payments (as measured on an exchange transactions basis) in September. Net receipts on current account totaled \$33 million, which compares with a surplus of \$65 million in August. The trade surplus in September was \$79 million and net payments for services totaled \$46 million.

The capital account in August registered net payments of \$32 million. Net long-term capital receipts were \$35 million, but net short-term capital payments were \$57 million. With an errors and omissions item of plus \$11 million, the overall balance of payments registered a surplus of \$12 million.

According to preliminary data, Japanese short-term liabilities to the U.S. (as reported by U.S. banks) rose \$55 million in August to \$2,471 million. (See Table 8). This level represents a new high for the year and is \$673 million higher than a year earlier.

Table 8. Short-term Claims on Japan Reported by U.S. Banks
(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	456	488	497	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	1,898	1,872	1,877	1,798	1,890	1,904	2,017	2,171
1964	2,247	2,340	2,400	2,394	2,421	2,469 ^{a/}	2,416 ^{a/}	2,471 ^{a/}				

Note: Data for 1962, 1963 and 1964 have been revised and include \$52 million reported by banks initially as of December 31, 1961.

^{a/} Preliminary.

Early in October Japan placed two issues totaling \$30 million in the European market. The first was a \$20 million, 15-year, 5-3/4 per cent bond issue by the Japan Development Bank. The bond was priced at \$98 to yield 5.95 per cent. The second was a \$10 million, 20-year, 6-1/2 per cent convertible debenture issue by the Komatsu Manufacturing Company, sold at par. There were no reported Japanese bond issues in Europe in either August or September.

European price quotations for earlier issues of private Japanese bonds have recently been weak and the Ministry of Finance has reportedly decided to discourage for the time being further issues of private bonds in Europe. The Government, however, will continue to issue various government and government-guaranteed issues. Faced with a closing-off of the European market, financial and industrial leaders from the private sector are now urging the Government to resume bond flotations in the United States. They point out that the current borrowing rate in the U.S. is sufficiently low to permit the payment of an additional 1 percentage point as required under the interest equalization tax.

A recent significant development in the field of foreign bank credit was the extension by the First National City Bank in Tokyo of a \$1 million credit to the Yokogawa-Hughlett Packard company without the guarantee of a Japanese foreign exchange bank. The July-August issue of the capital markets reported a similar impact loan of \$500,000 to the Toyo Ink Manufacturing Company, also without the usual Japanese bank guarantee. Other foreign banks are reportedly considering following suit. Domestic Japanese banks are concerned about this development since they will stand to lose the fee of .365 per cent per annum normally charged for guaranteeing such loans, as well as the foreign exchange involved. The foreign banks in Japan have reportedly been flooded with applications for similar impact loans.

Foreign exchange. The yen tended to strengthen in the spot market during September, but weakened slightly during the first half of October. The yen also appreciated moderately in the three-month forward market in mid-September, but also weakened slightly during the first half of October. Since the yen appreciated at a faster rate in the spot market than in the forward market, the forward discount increased from .09 per cent in early September to 1.00 per cent on October 15.

Table 9. 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
August	28	362.35	362.33	.021/
September	4	361.90	362.00	.11
	11	362.05	362.10	.06
	18	360.80	361.00	.22
	25	360.35	361.20	.94
October	2	360.60	361.20	.67
	9	360.25	361.35	1.22
	15	360.60	361.50	1.00

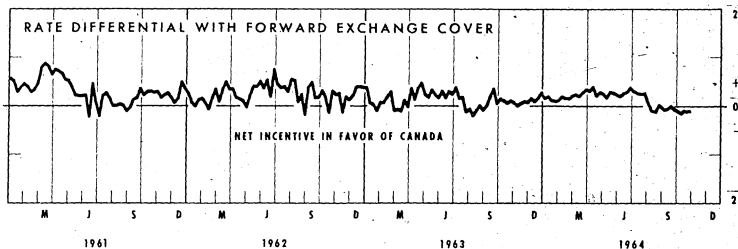
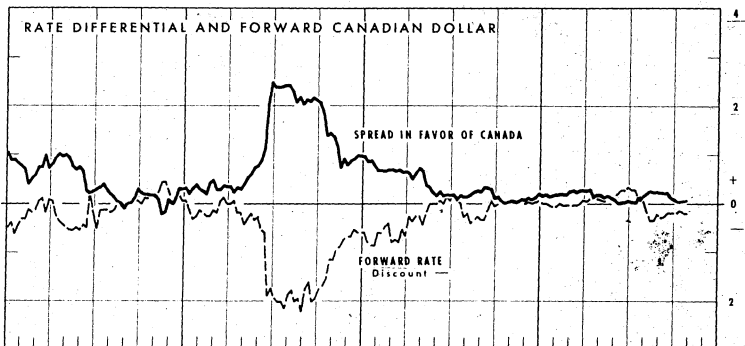
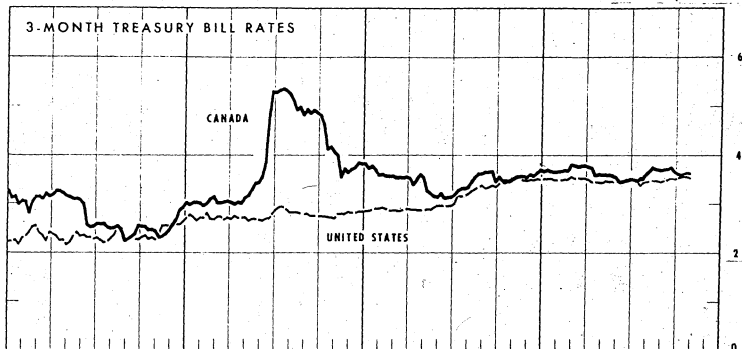
1/ Preliminary.

Chart 2

INTEREST ARBITRAGE, UNITED STATES / CANADA

Friday figures*

Per cent per annum



* Thursday figures 1961 1962, Friday thereafter

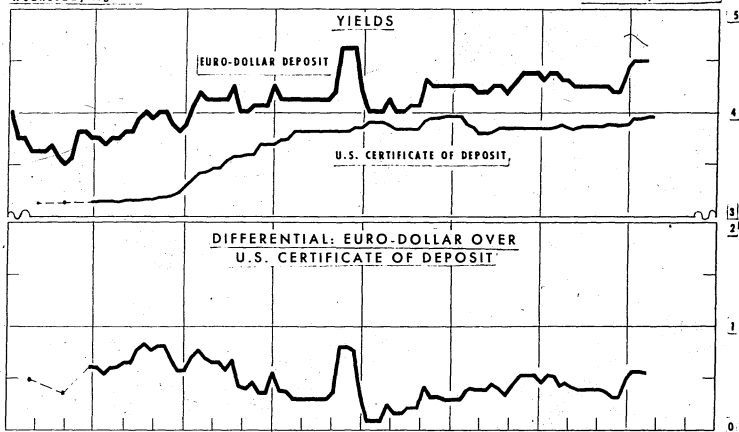
Chart 1

INTERNATIONAL MONEY MARKET YIELDS FOR U.S. DOLLAR INVESTORS

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

Wednesday figures

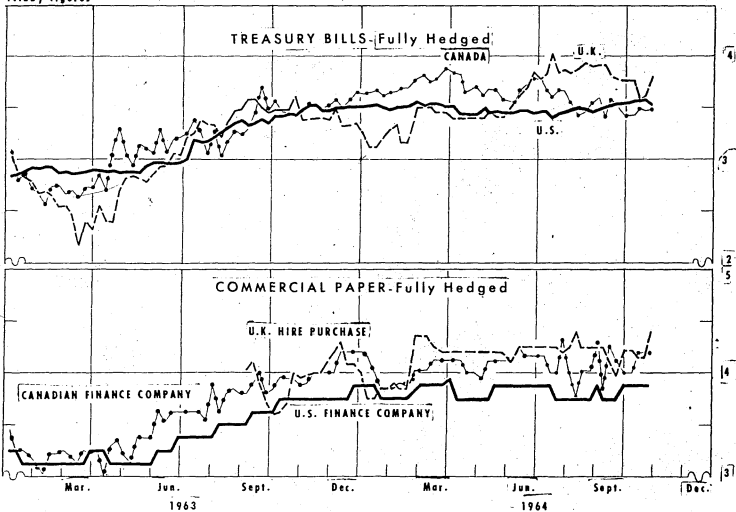
Per cent per annum



DIFFERENTIAL: EURO-DOLLAR OVER U.S. CERTIFICATE OF DEPOSIT

NEW YORK OFFER RATES ON SELECTED 3-MONTH INVESTMENTS

Friday figures



INTEREST ARBITRAGE FOR GERMAN COMMERCIAL BANKS

10

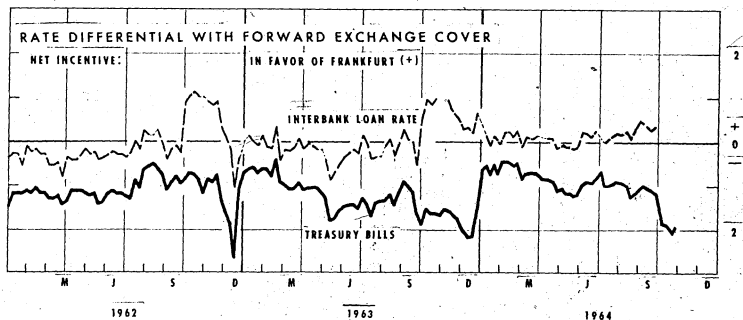
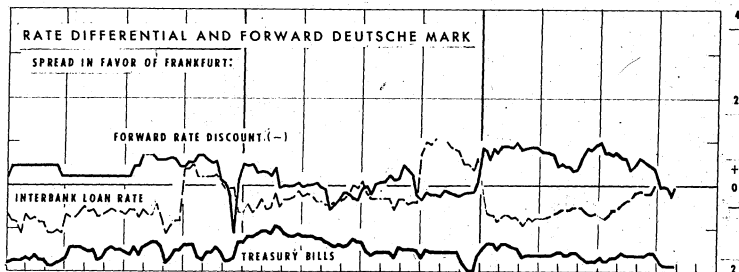
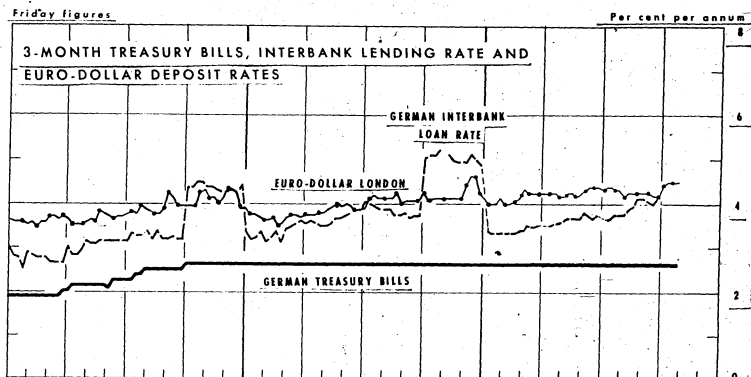


Chart 3

INTEREST ARBITRAGE, NEW YORK/LONDON

Friday figures

Per cent per annum

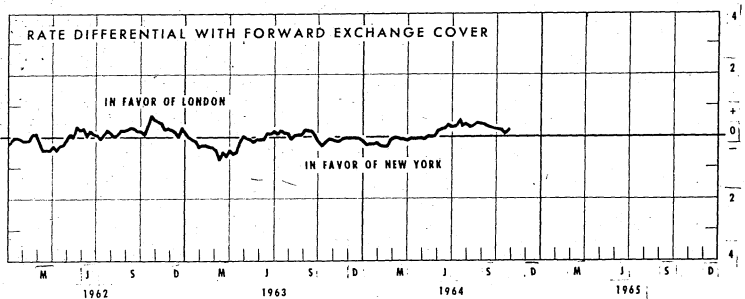
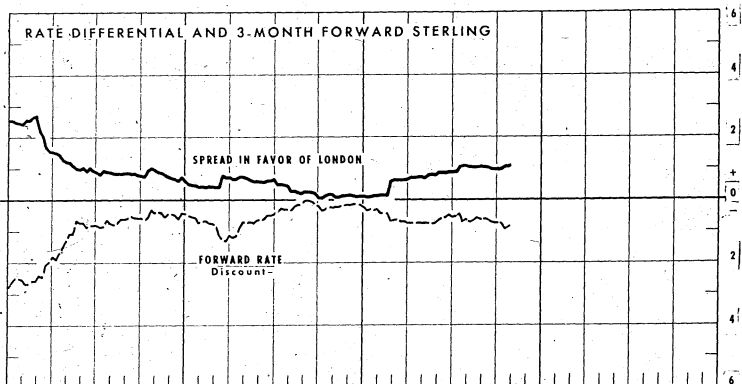
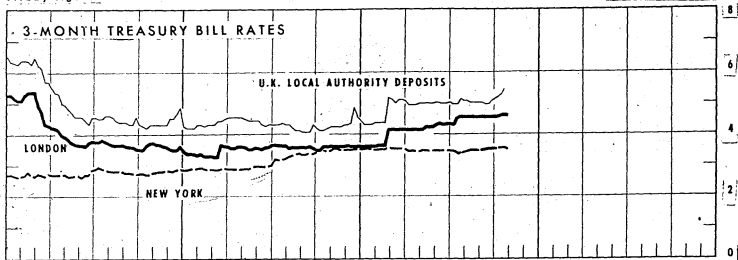


Chart 6
LONG-TERM BOND YIELDS

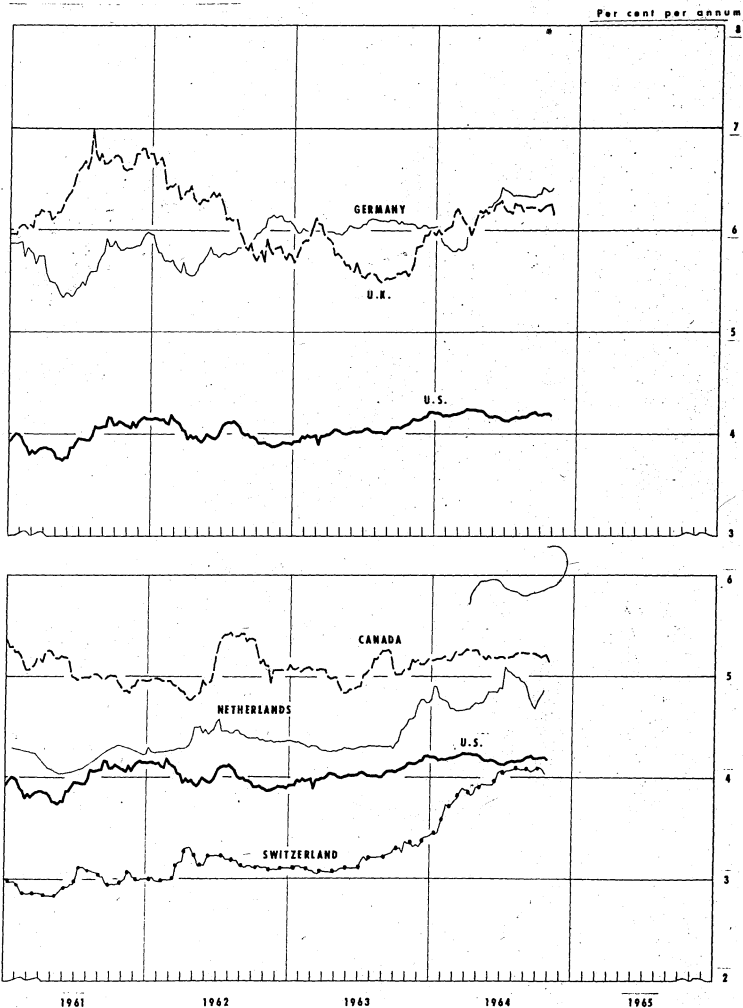
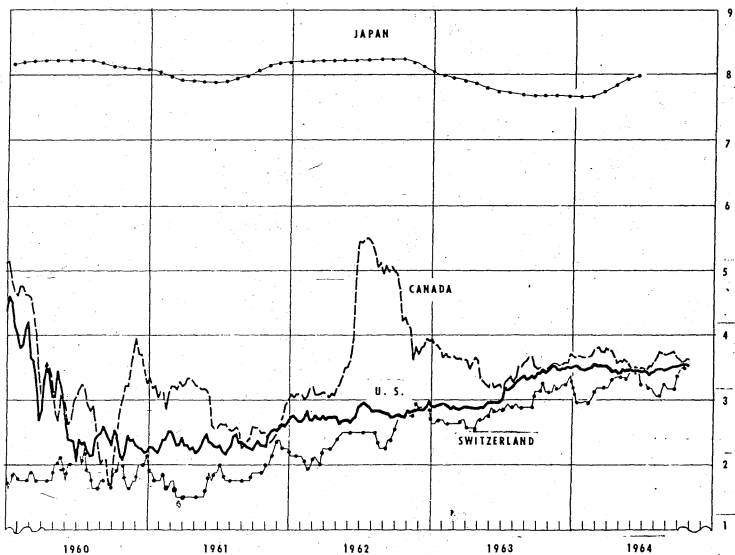
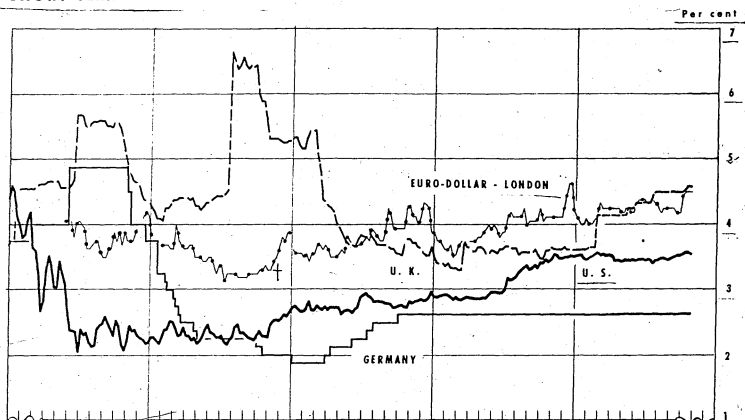


Chart 5
SHORT-TERM INTEREST RATES *



* 5 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 deposit rate for Switzerland

Chart 8

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

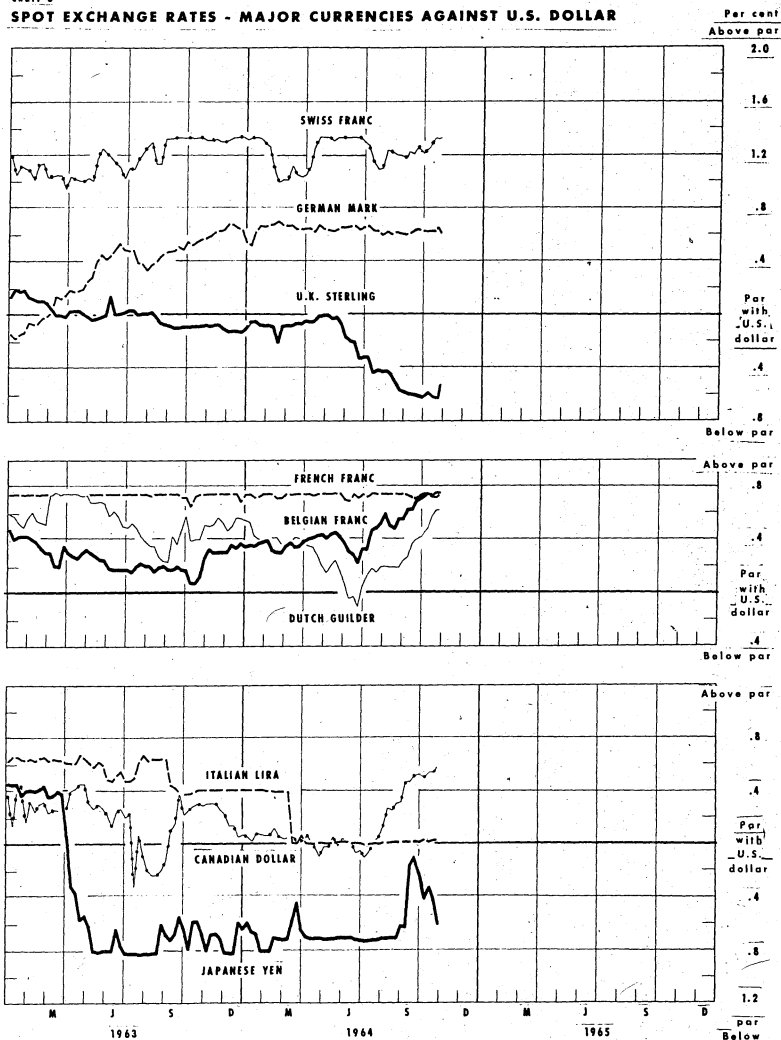
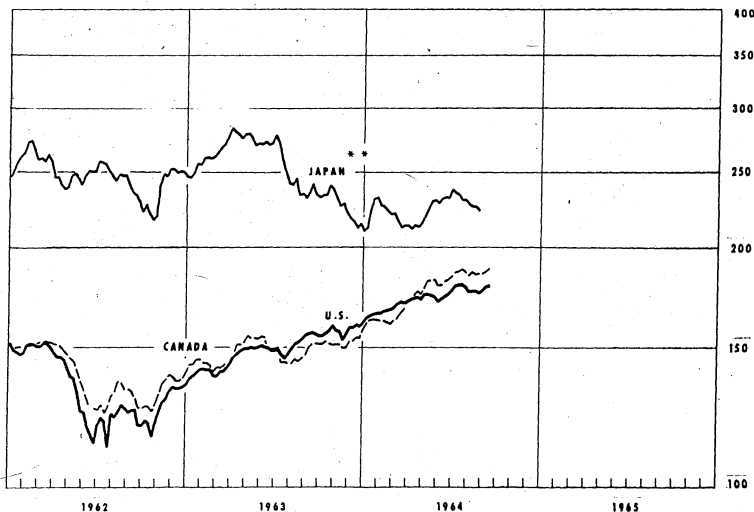
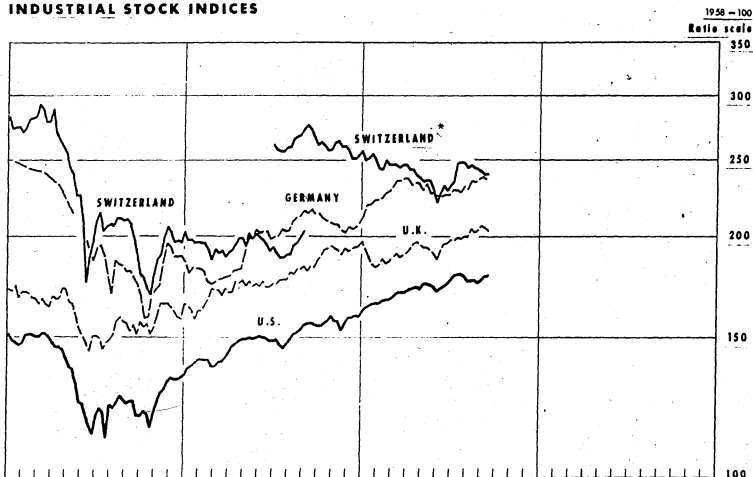


Chart 7

INDUSTRIAL STOCK INDICES



* New series Swiss Bank Corporation industrial stock index

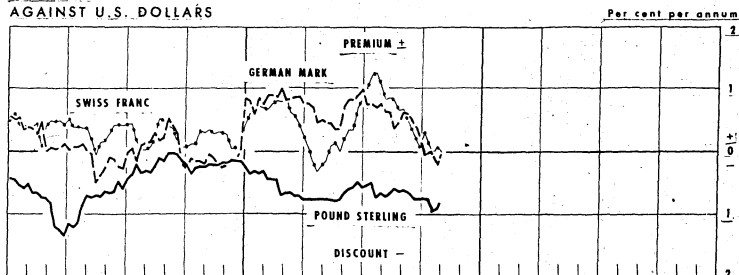
** Japan, index of 225 industrial and other stocks traded on the Tokyo exchange

Chart 9

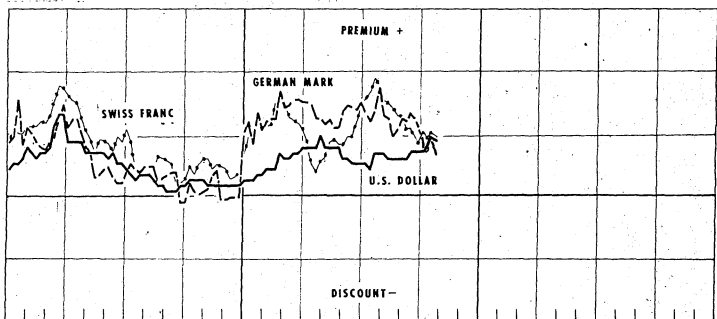
3-MONTH FORWARD EXCHANGE RATES

Friday figures

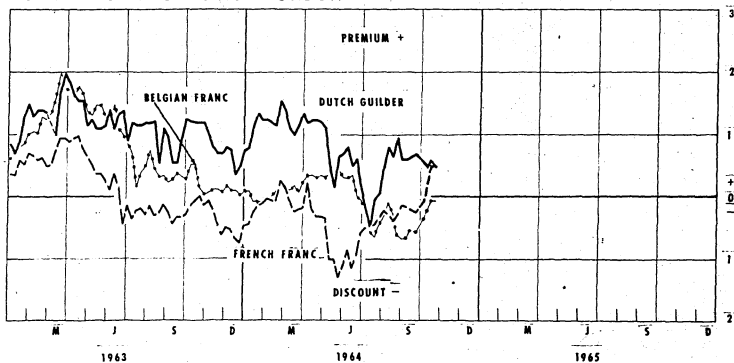
AGAINST U.S. DOLLARS



AGAINST POUND STERLING - LONDON



AGAINST POUND STERLING - LONDON



III. Latest Figures Plotted In H.13 Chart Series, 1964

<u>Chart 1</u>	<u>Per cent per annum</u>
<u>Upper panel</u>	
<u>(Wednesday, October 28)</u>	

Euro-\$ deposit	<u>4.50</u>
U.S. certif. of deposit	<u>3.95</u>

Lower panels

<u>(Friday, October 30)</u>	
Treasury bills: U.S.	<u>3.53</u>
U.K.	<u>3.80</u>
Canada	<u>3.48</u>
Finance Co. paper: U.S.	<u>3.88</u>
Canada	<u>4.20</u>
Hire-purchase paper, U.K.	<u>4.40</u>

Chart 2

<u>(Friday, October 30)</u>	
Treasury bills: Canada	<u>3.62</u>
U.S.	<u>3.53</u>
Spread favor Canada	<u>+0.09</u>
Forward Canadian dollar	<u>-0.20</u>
Net incentive (Canada +)	<u>-0.11</u>

Chart 3

<u>(Friday, October 30)</u>	
Treasury bills: U.K.	<u>4.59</u>
U.S.	<u>3.53</u>
Spread favor U.K.	<u>+1.06</u>
Forward pound	<u>-0.82</u>
Net incentive (U.K. +)	<u>+0.24</u>

<u>Chart 5</u>	<u>Per cent per annum</u>
<u>(Friday, October 30, except as noted)</u>	

Treasury bills:

U.S.	<u>3.53</u>
U.K.	<u>4.59</u>
Germany	<u>2.63</u>
Canada	<u>3.62</u>

Swiss 3-month deposits (Date: <u>October 15</u>)	<u>3.50</u>
Euro-\$ deposit (London)	<u>4.50</u>
Japan: composite rate (Date: <u>June 26</u>)	<u>7.979</u>

Chart 6

Bonds:

U.S. govt. (Wed., <u>October 28</u>)	<u>4.18</u>
U.K. war loan (Thurs., <u>October 22</u>)	<u>6.24</u>
(Thurs., <u>October 29</u>)	<u>6.15</u>
German Fed. Railway (Fri., <u>October 30</u>)	<u>6.41</u>
Swiss Confederation (Fri., <u>October 16</u>)	<u>4.08</u>
(Fri., <u>October 23</u>)	<u>4.03</u>
Canadian govt. (Wed., <u>October 28</u>)	<u>5.15</u>

Netherlands govt. perpetual (Fri., <u>October 16</u>)	<u>4.87</u>
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