

H. 13

December 9, 1964.

No. 175

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 October-November

The initial impact on Japanese financial markets of the increase in British bank rate on November 23 was mainly through its effects on the Euro-dollar market. On November 25, Japan authorized its foreign exchange banks to increase certain interest rates paid on Euro-dollar borrowings in order to avoid a loss of these deposits. (See Table 1). Because of subsequent losses in the Euro-dollar accounts, however, the rate on 1- and 3-month deposits was increased again on November 30.

Table 1. Japan: Maximum Authorized Rates on Euro-dollar Deposits
(in per cent per annum)

<u>Term</u>	<u>Effective: Oct. 9, 1964.</u>	<u>: Nov. 25</u>	<u>: Nov. 30</u>
Less than 30 days	4.0	4.25	4.25
1 - 3 months	4.375	4.625	5.25
3 - 6 months	4.75	5.25	5.25
6 - 12 months	4.875	5.375	5.375
1 year and over	5.0	5.4375	5.4375

As in the past, there rates continued to exceed the rates paid by the British banks in London by about 0.25 to 0.5 percentage points.

Japanese short-term borrowing in the U.S. increased \$21 million in September while long-term borrowing rose \$20 million. This brought the total increase during the third quarter to \$51 million compared to \$83 million in the second quarter. (See Table 2).

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(Declassified after 6 months)

Table 2. 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			
						III	IV	I	II	III	July	Aug.	Sept.
Short-term claims ^{1/}	482	722	212	431	18	281	229	69	23	a/-53	a/	55a/	21a/
Long-term claims ^{1/}	3	5	50	175	32	106	61	15	28	a/	4	a/	20a/
Total	485	727	262	606	50	387	290	84	51	a/-49	a/	59a/	41a/
Securities ^{2/}	30	58	141	200	60	5	0	0	0	0	0	0	0
Total	515	785	403	806	110	392	290	84	51	a/-49	a/	59a/	41a/

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

^{2/} New security flotations.

^{3/} Preliminary.

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

Japan placed two bond issues in Europe totaling \$30 million in October, no issues in November, and one issue for \$12 million early in December. Reports indicate that, for the time being, Japan will not place any additional private bond issues in Europe because of the current weakness of present private issues there and a desire not to overburden the market. Japan, however, may resume private issues in the U.S. early in 1965.

The seasonally adjusted trade balance improved in October as exports rose substantially. International reserves rose \$18 million in November to \$1,924 million. The increase would have been even higher except for a \$30 million repayment early in November against a Federal Reserve swap drawing made earlier this year. As indicated in a press conference statement by Governor Yamaguchi of the Bank of Japan, this repayment fully liquidated Japan's \$80 million Federal Reserve swap drawing.

On the domestic side, money market conditions remained relatively stable in October and November, and call loan rates were unchanged. Bank credit increased in September at the same rate as a year earlier, but at a faster rate than during any other month in 1964. The average rate for bank loans and discounts leveled off in July-August after rising since February. The stock price average remained above the 1,200 level in October and November, but this was mainly due to extensive support buying, financed in part by the Bank of Japan. Domestic bankruptcies continued high in October and there were reports that credit conditions might be eased in mid-December through a reduction in commercial bank reserve requirements.

Money market. Money market conditions remained relatively stable in October and November. The expansionary impact of net Treasury payments of ¥105 billion was only partly offset by a net decline in Bank of Japan credit of ¥70 billion and a ¥12 billion increase in bank notes in circulation.

Interest rates. Call loan rates remained unchanged during October and the first four weeks of November. (See Table 3). This stability in the call loan market followed a slight easing when the rate for unconditional money fell from 11.32 per cent on September 30 to 10.95 per cent on October 1. The rates for overnight and over-month-end money showed a similar drop.

A potential tightening in the market during the last week of October was forestalled by a direct loan of ¥16 billion (\$44.4 million) from the Bank of Japan to four call loan brokers. Reports indicate that an additional loan of ¥25 billion may be extended in the near future in order to prevent a possible tightening in money market conditions.

Table 3. 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>
September	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
October	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
	31	10.585	10.950	12.775
November	7	10.585	10.950	12.775
	14	10.585	10.950	12.775
	21	10.585	10.950	12.775
	28	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 remained unchanged in July and August at 7.99 per cent. This leveling-off followed a gradual rise since February when the rate was 7.67 per cent.

Bank loans and discounts. Total bank credit rose 2.2 per cent in September. Although this was the same rate as a year earlier, it was the largest monthly increase this year. Most of the rise reflected an increase in bills discounted and in holdings of securities.

The total increase in credit during the third quarter was 4.3 per cent as against 5.1 per cent a year earlier. (See Table 4). Loans increased only 3.2 per cent compared to 5.9 per cent a year earlier, but holdings of securities rose 5.5 per cent against only 0.6 per cent in the third quarter of 1963. Bills discounted continued to rise at the same rate as a year earlier.

Table 4. Japan: Quarterly Changes in Deposits and Principal Assets of Commercial Banks
(in billions of yen)

	Deposits	Per Cent Change	Total	Per Cent Change	Loans	Per Cent Change	Bills Dis- counted	Per Cent Change	Securities	Per Cent Change
<u>1962</u>										
I	+ 128	1.2	+ 206	1.8	+ 256	3.9	+ 14	0.4	- 64	- 3.4
II	+ 61	0.6	+ 547	4.6	+ 181	2.7	+ 108	3.3	+ 253	14.1
III	+ 678	6.4	+ 407	3.3	+ 223	3.2	+ 213	6.3	+ 41	2.0
IV	+ 920	8.2	+ 801	6.2	+ 585	8.2	+ 145	4.0	+ 71	3.3
<u>1963</u>										
I	+1,158	8.8	+ 929	6.8	+ 717	9.3	+ 185	4.9	+ 27	1.2
II	+ 405	3.1	+ 588	4.7	+ 365	4.3	+ 150	3.8	+ 73	3.3
III	+1,019	7.4	+ 783	5.1	+ 524	5.9	+ 245	6.0	+ 14	0.6
IV	+ 947	6.4	+ 923	5.8	+ 589	6.3	+ 293	6.8	+ 41	1.8
<u>1964</u>										
I	+ 459	2.9	+ 429	2.5	+ 344	3.5	+ 111	2.4	- 26	-1.1
II	+ 45	-0.4	+ 754	4.3	+ 278	2.7	+ 218	2.7	+ 348	14.9
III	+ 944	5.9	+ 774	4.3	+ 335	3.7	+ 291	6.0	+ 148	5.5

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

Although Bank of Japan loans to commercial banks rose ¥49 billion in October, this expansionary development was more than offset by net sales of ¥109 billion of securities.

Table 5. Japan: Changes in Bank of Japan Loans and Holdings of Securities
(in billions of yen)

Period	(1) (2) + (3) Net increase (+) or decrease (-)	(2) Loans: increase (+) or decrease (-)	(3) Net purchases (+) or 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
October	- 70.2	+ 48.8	- 109.0

Around mid-November the Bank of Japan announced it would raise by 30 per cent the previously established credit ceiling for December on Bank of Japan loans to the large city banks. This action was taken in anticipation of the usual pressure at this time of the year on bank funds.

Bond market. New issues of bank debentures totaled ¥36 billion in September, off ¥1 billion from the August level, but otherwise, higher than during any other month in the year. New issues of industrial debentures were ¥23 billion in September, up ¥4 billion from the August level. Data on new issues of public corporation bonds in September are not yet available, but these issues have averaged about ¥26 billion a month in recent months.

Average yields in September on local government securities, public corporation bonds, and one-year bank debentures remained the same as earlier in the year at 7.354, 7.053, and 6.224 per cent, respectively. Yields on long-term bank debentures and industrial bonds were slightly higher in September at 7.286 and 7.483 per cent, respectively.

Stock market. The stock market remained generally weak during October and November. From a low for the year of ¥1,203 on October 7, the stock average moved up sharply to ¥1,231 on October 9, but then eased to lower levels during the rest of October and November. (See Table 6).

Table 6. Japan: Dow Jones Average of 225 Stocks, First Section of Tokyo Exchange

September 23	¥1,210	November 2	¥1,208	1963 High	¥1,634
		9	1,203	Low	¥1,201
October 5	1,207	16	1,218		
12	1,222	24	1,209	1964 High	¥1,369
19	1,210	30	1,209	Low	¥1,203
26	1,203				
		December 7	1,207		

Total proceeds from the issue of stocks were ¥77 billion in August, the same amount as a year earlier. The volume of new shares issued so far this year, however, has been higher than last year. During the January-August period this year, total issues were ¥531 billion compared to ¥371 billion in the same period last year.

The weakness in the stock market has prompted the Bank of Japan and others to undertake rather extensive support operations of the market in recent months. In the week of November 16-21, the Bank of Japan reportedly extended special loans totaling ¥100 billion (\$278 million) to the Japan Joint Securities Finance Company to aid the former in its stock buying operations. A week earlier 13 city banks extended credits totaling ¥50 billion (\$139 million) to the J.J.S.C. in order to raise its level of operating funds from ¥70 to ¥120 billion. On November 4, the city banks also contributed ¥15 billion to the J.J.S.C. in order to increase its capital from ¥15 billion to ¥30 billion.

Regular data are not available, but one report indicates that during one week in mid-November the J.J.S.C.'s support buying operations averaged ¥3 billion daily. It is thus evident that extensive support has been given to the market recently in order to prevent the Dow Jones average from falling below the ¥1,200 level.

Some of the factors contributing to the market's weakness include an increased supply of stock this year, the administration's tight money policy, slack purchases of investment trusts, and a reported withdrawal of small purchasers from the market, both this year and earlier, because of the losses suffered during the sharp decline in the market in 1961. With stock sales in a slump, three of Japan's four largest securities companies are reported to have had losses during the past fiscal year ending September 30. Although the fourth company, Nomura, was at first reluctant, all of the "Big 4" have decided to suspend paying dividends for the time being. The Government has also banned new issues of stock totaling more than ¥309 million during the November-February period other than those already announced. In addition, companies have been prohibited from paying stock dividends unless they have followed this practice in the past.

Foreign trade. Exports rose 15 per cent in October while imports increased 8 per cent. As a result, the trade deficit was cut from \$92 million in September to \$63 million in October (See Table 7). The deficit has thus been brought back close to the relatively low levels that prevailed in July and August when the average deficit was \$50 million. The trade figures in Table 7 are monthly, or monthly averages, on a customs basis, seasonally adjusted.

Table 7. Japan: Seasonally Adjusted Foreign Trade

	1962		1963					1964				
	III	IV	I	II	III	IV	I	II	July	Aug.	Sept.	Oct.
Imports	450	466	492	540	573	644	655	657	634	601	650	705
Exports	428	417	417	441	463	486	482	538	587	548	558	642
Balance	- 22	- 49	- 75	- 99	-110	-158	-183	-119	- 47	- 53	- 92	- 63

Foreign reserves and capital flows. International reserves rose \$18 million in November to \$1,924 million. The reported gain would have been even higher except for a \$30 million repayment early in November against a Federal Reserve swap drawing. This repayment was indicated in a statement made by Governor Yamagiwa of the Bank of Japan at a press conference. Reserves are now \$178 million below the peak reached in October of 1963.

The ratio of Japan's gold and foreign exchange holdings to note issues by the Bank of Japan continued to decline in October, dropping to 37.1 per cent compared to 38.0 per cent in September. The general trend in the ratio has been down in recent years as indicated below.

Table 8. 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 March	718.6 billion	1,774.8 billion	40.5 per cent
June	697.3 billion	1,860.6 billion	37.5 per cent
September	698.0 billion	1,836.1 billion	38.0 per cent
October	686.2 billion	1,847.6 billion	37.1 per cent

The current account in the balance of payments, as measured on an exchange transactions basis, registered a surplus of \$39 million in October, the third consecutive month of surplus. The trade surplus was \$78 million and net payments for services totaled \$39 million.

The capital account in October registered net payments of \$44 million. Net short-term capital payments were \$82 million, the largest since September of 1962, and net long-term capital receipts were \$38 million. With an errors and omissions items of minus \$28 million, the over-all balance of payments registered a deficit of \$33 million.

Preliminary data indicate that Japanese short-term liabilities to the U.S. (as reported by U.S. banks) increased \$21 million in September to \$2,492 million. (See Table 9). This is a new high for the year and \$602 million above the level a year earlier.

Table 9. 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	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	1,668	1,773	1,775	1,761	1,753	1,765	1,767	1,711	1,710	1,662	1,740
1963	1,697	1,691	1,751	1,876	1,896	1,872	1,877	1,798	1,890	1,904	2,017	2,171
1964	2,247	2,340	2,400	2,391	2,421	2,469	2,416	2,471 1/2	2,492 1/2			

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.

Japan placed two bond issues in Europe totaling \$30 million in October and one totaling \$12 million in December. The October issues consisted of a \$20 million, 15-year, 5-3/4 per cent bond by the Japan Development Bank, and a \$10 million, 20-year, 6-1/2 per cent convertible debenture issue by the Komatsu Manufacturing Company, sold at par. According to preliminary reports, the Sumitomo Chemical Company issue was successfully closed on December 1. It consisted of a \$12 million, 15-year, 6-3/4 per cent bond issue, placed in Luxembourg but listed in the American Stock Exchange. The issue price was \$96 per share for a yield to investors of 7.119 per cent or 6.49 per cent after the 10 per cent withholding tax in Japan. There were no reported issues in November.

Recent reports indicate that Japan is planning on issuing \$150 million in government and government-guaranteed bonds in the next fiscal year beginning April 1, 1965. This compares with an estimated \$137.5 million in such issues for the current fiscal year. Still to be issued this year is a \$25 million bond by the Osaka prefecture and municipality and a \$20 million bond by the Nippon Telegraph and Telephone Public Corporation.

Foreign exchange. The yen tended to weaken in the spot market during October, but then strengthened somewhat during the first half of November. In the three-month forward market, the yen weakened steadily from early October through mid-November. The forward discount tended to narrow from 1.33 per cent on October to a premium of .11 per cent at the end of the month as the spot rate weakened more rapidly than the forward rate. During the first half of November, however, the forward discount increased as the rate in the spot market strengthened.

Table 10. 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>
September	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
	23	361.35	361.50	.17
	30	361.95	361.85	.11 <u>1/</u>
November	6	361.60	361.85	.28
	14	360.95	362.00	1.16

1/ Premium.

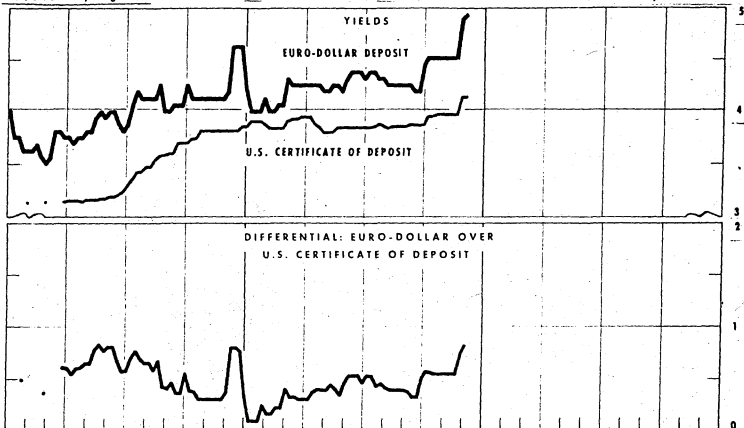
Asia, Africa and Latin America Section.

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

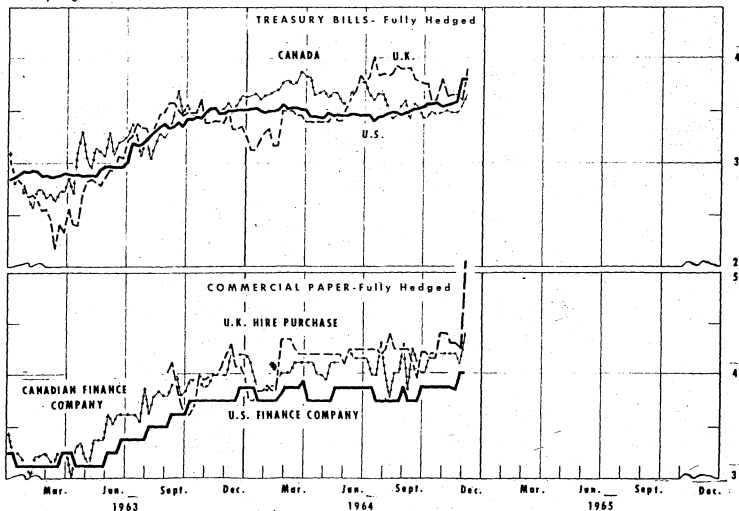
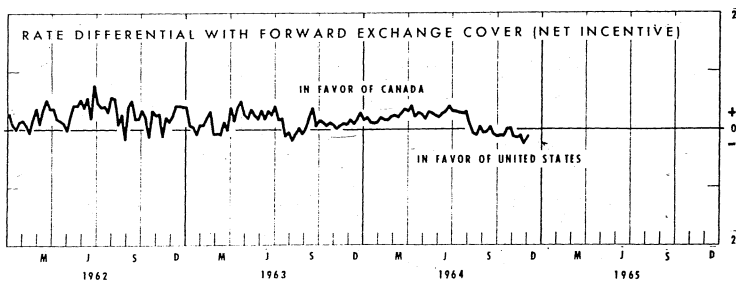
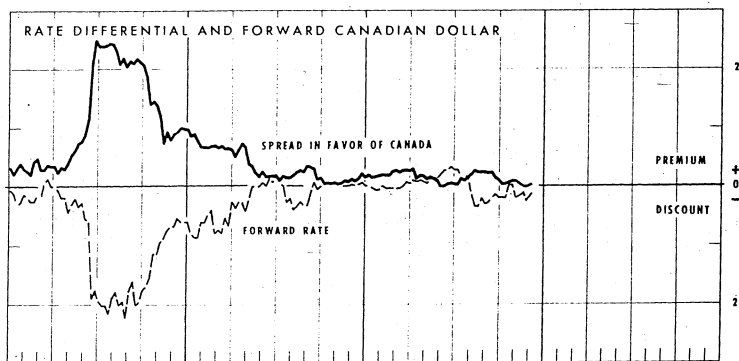
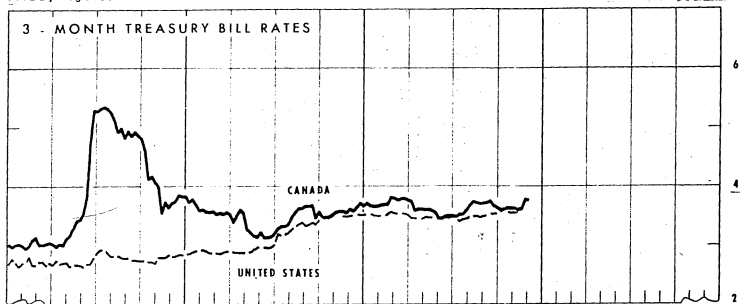


Chart 2

INTEREST ARBITRAGE, UNITED STATES / CANADA

Friday figures*

Per cent per annum



* Thursday figures 1962, Friday thereafter

Chart 3

INTEREST ARBITRAGE, NEW YORK/LONDON

Friday figures

Per cent per annum

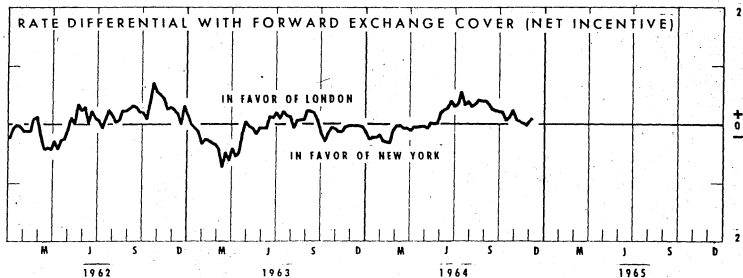
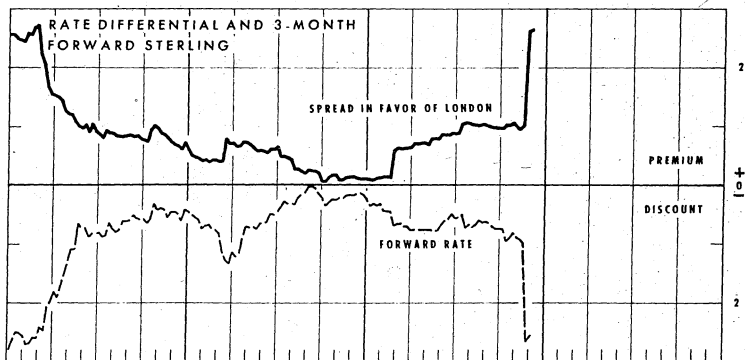
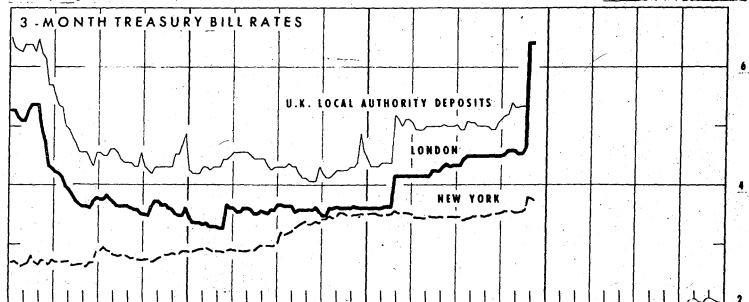


Chart 4

INTEREST ARBITRAGE FOR GERMAN COMMERCIAL BANKS

Friday figures

Per cent per annum

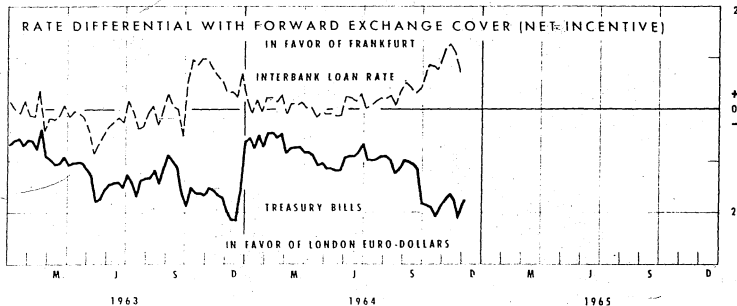
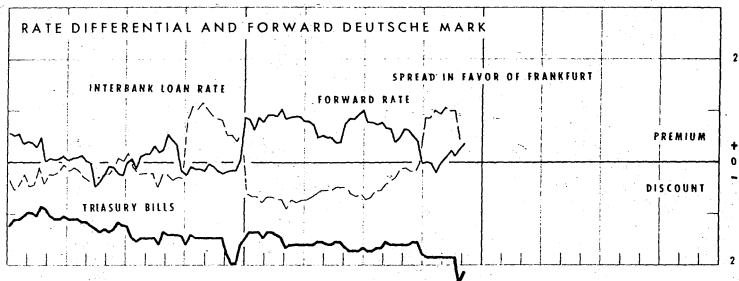
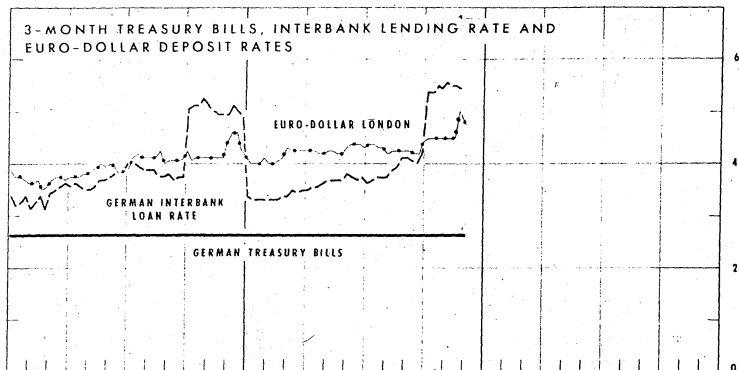
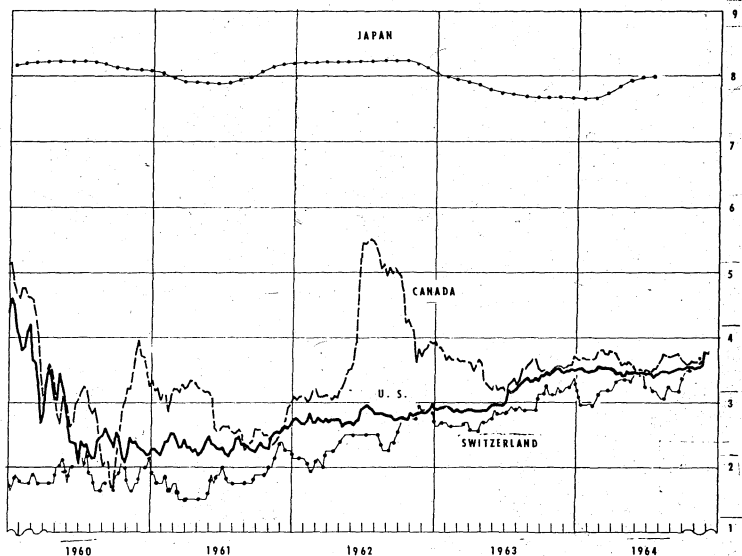
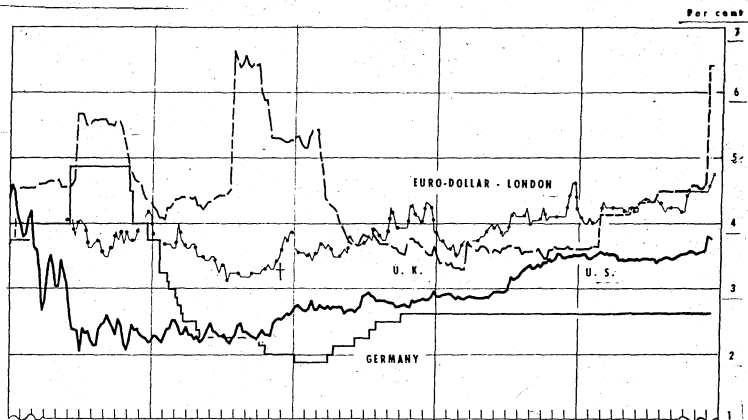


Chart 5
SHORT-TERM INTEREST RATES *



* 3-month treasury bill rates for all countries except Japan. (Average rate on bank loans and discounts. 1.
and Switzerland (3-month deposit rate).
+ 3-month rate for U. S. dollar deposits in London.

Chart 6

LONG-TERM BOND YIELDS

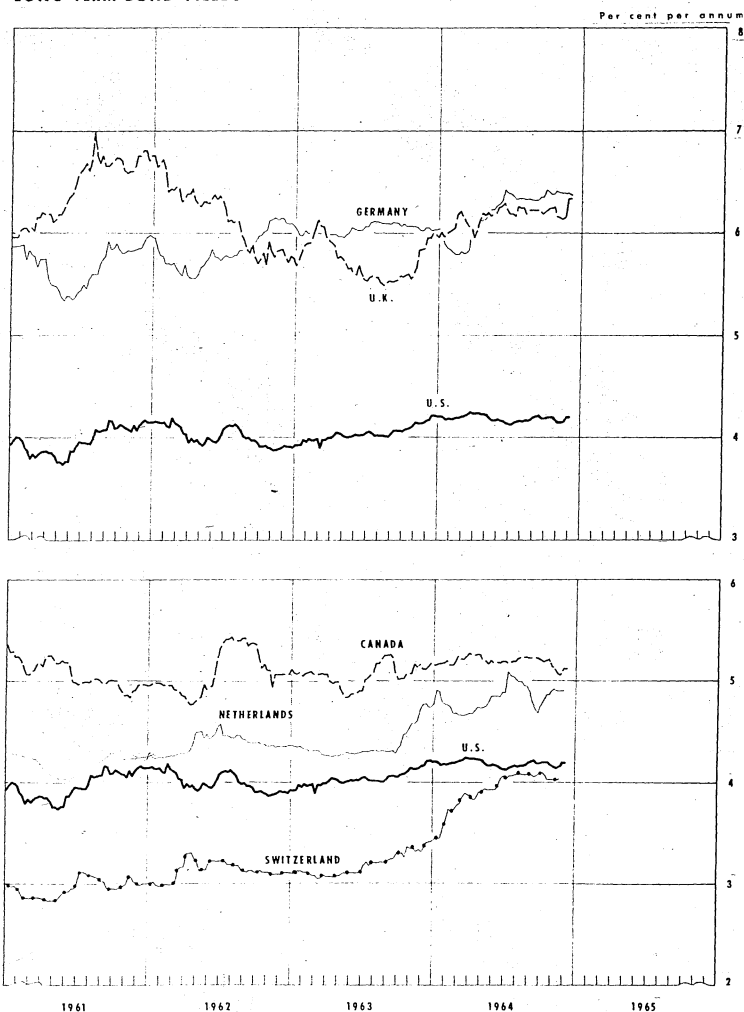
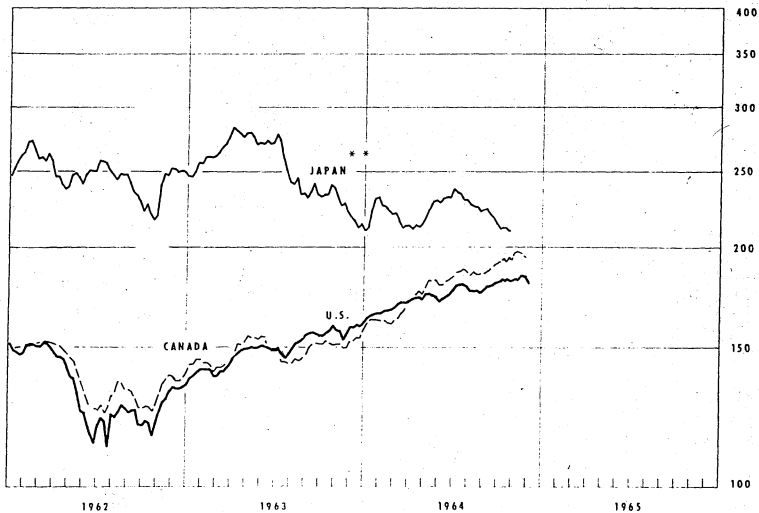
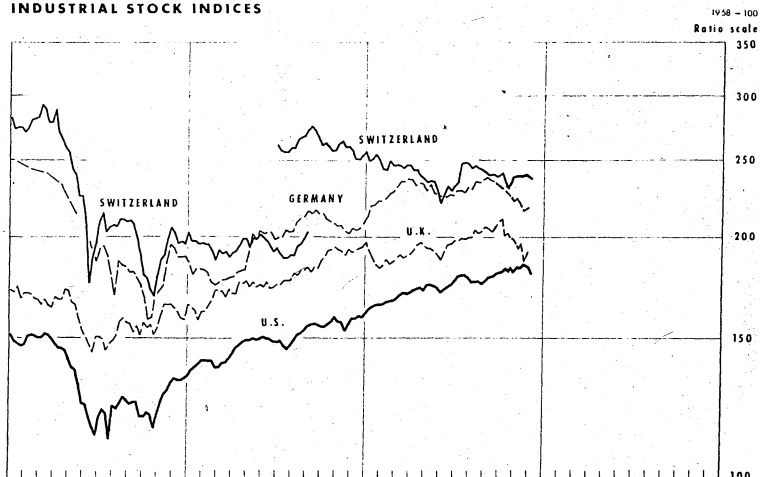


Chart 7

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

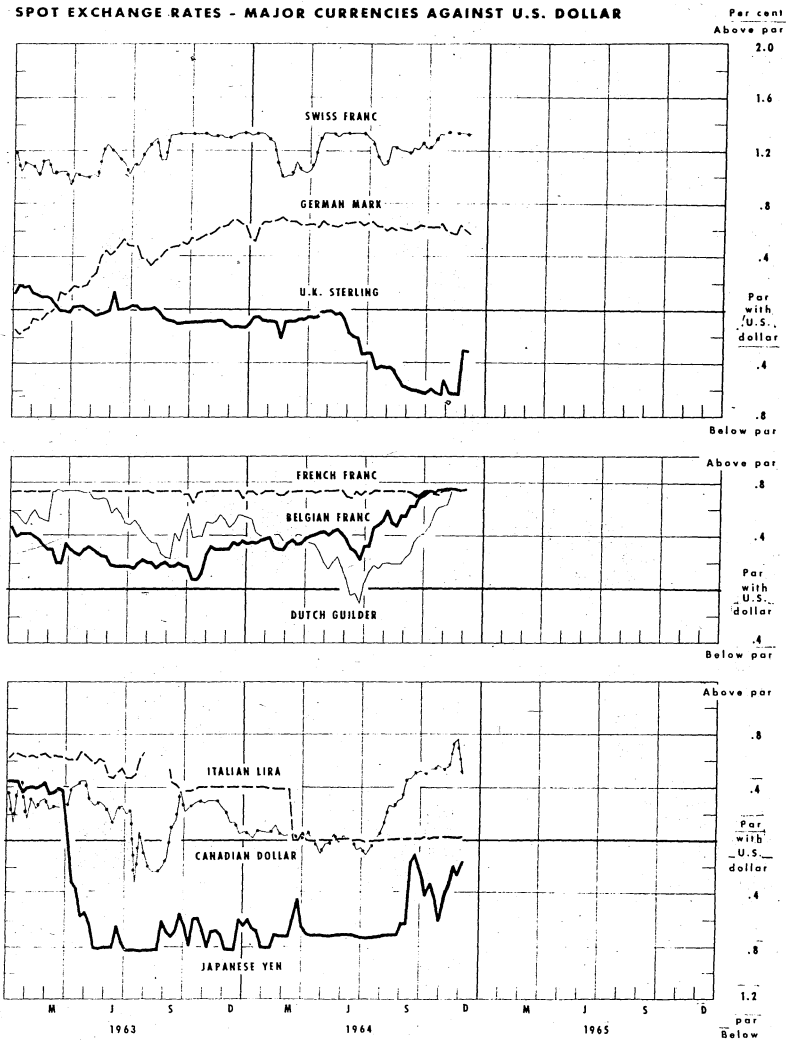
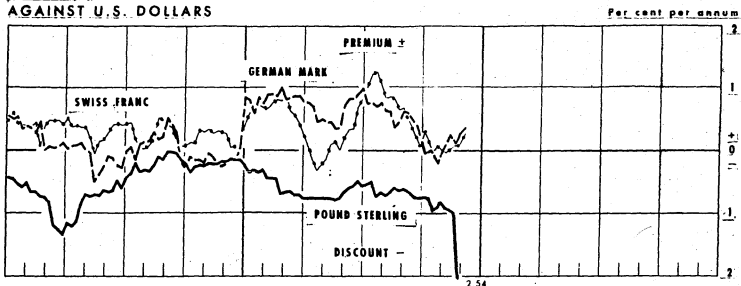


Chart 9

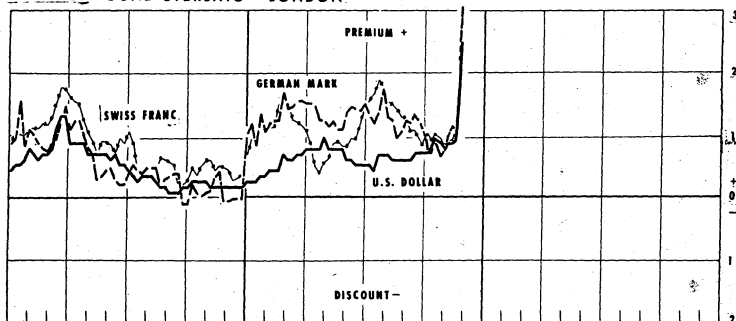
3-MONTH FORWARD EXCHANGE RATES

Friday figures

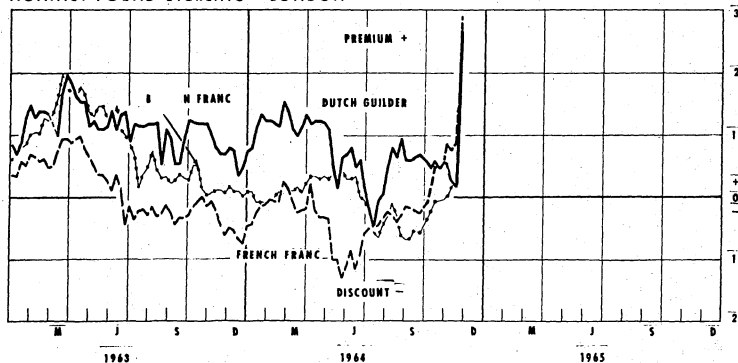
AGAINST U.S. DOLLARS



AGAINST POUND STERLING - LONDON



AGAINST POUND STERLING - LONDON



H.13
No. 175

December 9, 1964

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

Chart 1
Upper panel
(Wednesday, Dec. 2)

Euro-\$ deposit 4.94
U.S. certif. of deposit 4.12

Lower panels

(Friday, Dec. 4)

Treasury bills: U.S. 3.79
U.K. 3.89
Canada 3.65
Finance Co. paper: U.S. 4.00
Canada 4.10

Hire-purchase paper, U.K. 5.12

Chart 2

(Friday, Dec. 4)

Treasury bills: Canada 3.77
U.S. 3.76
Spread favor Canada +0.01
Forward Canadian dollar -0.13
Net incentive (Canada +) -0.12

Chart 3

(Friday, Dec. 4)

Treasury bills: U.K. 6.41
U.S. 3.76
Spread favor U.K. +2.65
Forward pound -2.54
Net incentive (U.K. +) +0.11

Chart 5
Per cent per annum
(Friday, Dec. 4 ,
except as noted)

Treasury bills:

U.S. 3.76
U.K. 6.41
Germany 2.63
Canada 3.77

Swiss 3-month deposits
(Date: Nov. 15) 3.68

Euro-\$ deposit (London) 4.75

Japan: composite rate
(Date: July 31) 7.986

Chart 6

Bonds:

U.S. govt.
(Wed., Dec. 2) 4.20

U.K. war loan
(Thurs., Dec. 3) 6.33

German Fed. Railway
(Fri., Dec. 4) 6.36

Swiss Confederation
(Fri., Nov. 20) 4.04

Canadian govt.
(Wed., Dec. 2) 5.13

Netherlands Government
perpetual
(Fri., Nov. 27) 4.92