

H. 13

March 10, 1965.

No. 186

**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 January - February

In February Japan was granted an exemption from the I.E.T. (Interest Equalization Tax) in President Johnson's balance-of-payments message of February 10. Since Japan relies heavily on U.S. bank credit, and since the I.E.T. now applies to bank loans abroad of one year or more, it has been decided to exempt Japan from the I.E.T. on Japanese government and government-guaranteed issues of up to \$100 million per year. In general, the U.S. action was favorably received in Japan.

The Japanese Minister of Finance indicated at the same time that the above provisions were announced, that Japan would avail itself of the above exemption, and in addition, would also issue private securities in the United States that would be subject to the I.E.T. No specific amounts of planned issues were indicated, but last year Japan placed \$204 million in bond issues overseas, all in European markets. An additional \$35 million was also placed in Europe in January and February of this year.

Japan continued to relax its monetary policy by reducing the Bank of Japan's basic discount rate from 6.570 to 6.205 per cent on January 9. The first formal step in this direction occurred last December 16 when reserve requirements against commercial bank deposit liabilities other than time deposits were reduced from 3.0 to 1.5 per cent for large banks. A further reduction in the discount rate now appears to be a strong possibility this month.

On February 24 the Ministry of Finance raised some of the recommended rates that Japanese foreign exchange banks may pay on Euro-dollars. (See Table 1). This action was reportedly prompted by upward pressure on interest rates in the Euro-dollar market, as well as seasonally strong needs in Japan for foreign funds.

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

Effective:	<u>11/30/64</u>	<u>12/10/64</u>	<u>12/15/64</u>	<u>12/30/64</u>	<u>12/31/64</u>	<u>2/24/65</u>
Less than 30 days	4.25	4.25	4.125	4.125	4.125	4.125
1 - 3 months	5.25	5.0	4.875	4.75	4.5	4.625
3 - 6 months	5.25	5.125	5.0	4.875	4.625	4.75
6 - 12 months	5.375	5.25	5.125	5.0	4.875	4.875
1 year and over	5.4375	5.4375	5.25	5.125	5.0	5.25

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(Decontrolled after 6 months)

Japanese short-term borrowing in the U.S. rose \$157 million in December--a largely seasonal increase--and long-term borrowing increased \$16 million. For the year as a whole, total bank borrowing increased \$618 million, only slightly higher than the increase of \$606 million in bank borrowing in 1963.

Table 2. Japan: Short- and Long-term Borrowings in the U.S.  
(in millions of U.S. dollars)

	Change during year					Change during period					
						1964					
	1960	1961	1962	1963	1964	I	II	III	IV	Nov.	Dec.
Short-term claims <sup>1/</sup>	482	722	212	431	482 <sup>a/</sup>	229	69	24	160 <sup>a/</sup>	17 <sup>a/</sup>	157 <sup>a/</sup>
Long-term claims <sup>1/</sup>	3	5	50	175	136 <sup>a/</sup>	61	15	26	33 <sup>a/</sup>	19 <sup>a/</sup>	16 <sup>a/</sup>
TOTAL	485	727	262	606	618 <sup>a/</sup>	290	84	50	193 <sup>a/</sup>	36 <sup>a/</sup>	173 <sup>a/</sup>
Securities <sup>2/</sup>	30	58	141	200	0	0	0	0	0	0	0
TOTAL	515	785	403	806	618 <sup>a/</sup>	290	84	50	193 <sup>a/</sup>	36 <sup>a/</sup>	173 <sup>a/</sup>

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.

International reserves increased \$28 million in January and a further \$23 million in February to \$2,050 million. On a seasonally adjusted basis, the trade deficit improved sharply in January, falling from \$92 million in December to \$28 million in January. Through mid-February the yen remained relatively strong in foreign exchange markets. Newspaper reports indicate that, because of the general improvement in the balance of payments since early 1964, Japan has decided not to seek a renewal of its \$305 million standby agreement with the IMF when the agreement expires this month.

On the domestic side, money market conditions turned easier in January. Call loan rates generally declined in January and early February. Bank credit expanded less rapidly in December than a year earlier. New bond issues in December were at a high for the year, but the stock market, after a 5 per cent rise early in January, generally remained sluggish through the first of March.

Money market. Money market conditions eased sharply early in January before the Bank of Japan lowered its basic discount rate. With heavy seasonal repayment of debts at year-end, bank liquidity increased substantially and call loan rates fell about 2 percentage points. Following the discount rate action, market conditions eased somewhat further. Bank notes in circulation fell ¥338 billion, or 15 per cent, in January, mainly reflecting a reflux of bank notes to the commercial banks.

Interest rates. The unconditional call loan rate (repayable at a day's notice) fell from 10.95 per cent in late December to 8.76 per cent in early January. (See Table 2). Other call loan rates also fell sharply. The reduction in the Bank of Japan's basic discount rate by 0.365 percentage points on January 9, prompted a similar reduction in over-night and unconditional call loan rates, and a cut of 0.730 percentage points in the rate for over-month-end money. These rates remained unchanged until early February when the rate for over-month-end money fell a further 0.365 percentage points.

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

		<u>Overnight</u> <sup>1/</sup>	<u>Unconditional</u> <sup>2/</sup>	<u>Over-month-end</u> <sup>3/</sup>
December	5	10.950	11.315	13.140
	12	10.950	11.315	13.140
	19	10.585	10.950	12.775
	26	10.585	10.950	12.775
January	4	8.395	8.760	10.220
	9	8.030	8.395	9.490
	16	9.030	8.395	9.490
	23	8.030	8.395	9.490
	30	8.030	8.395	9.490
February	6	8.030	8.395	9.125
	13	8.030	8.395	9.125
	20	8.030	8.395	9.125

<sup>1/</sup> For settlement on the following day.

<sup>2/</sup> Repayable at a day's notice.

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

The average monthly interest rate on bank loans and discounts remained at 7.99 per cent during the July-November period. This leveling-off followed a gradual rise since February 1964 when the rate was 7.67 per cent.

Bank loans and discounts. Bank credit rose 1.3 per cent in December, less than the 1.9 per cent rise a year earlier. Loans and bills discounted rose 2.6 per cent and 2.4 per cent, respectively, but holdings of securities were off 5.1 per cent. Deposits increased 5.5 per cent, or about the same rate as a year earlier.

During the fourth quarter bank credit rose 5.1 per cent as against 5.8 per cent a year earlier. This continued the trend, evident since last June, of a slower rate of increase in bank credit. For further details, see Table 3 below.

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

	Per Cent	Total	Per Cent	Per Cent	Bills Dis-	Per Cent	Per Cent	Per Cent
	Change	Assets	Change	Loans	counted	Change	Securities	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	+ 258 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 4.0	+ 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	- 65 -0.4	+ 754 4.3	+ 278 2.7	+ 218 2.7	+ 348 14.9			
III	+ 944 5.9	+ 774 4.3	+ 335 3.2	+ 291 6.0	+ 148 5.5			
IV	+ 860 5.1	+ 960 5.1	+ 574 5.3	+ 206 4.0	+ 180 6.4			

The proportion of bank loans and discounts extended for purchases of equipment fell seasonally to 17.0 per cent in December. This contrasts with a level of 17.2 per cent generally since May of 1964 and the previous cyclical low of 16.3 per cent in March of 1963.

The Bank of Japan sold ¥157 billion in securities in January, more than offsetting the expansionary impact from a ¥115 billion increase in loans.

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 (+) 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

Table 4. (Cont.)

Period	(1)	(2)	(3)
	Net increase (+) or decrease (-)	Loans: increase (+) or decrease (-)	Net purchases (+) or sales (-) of securities
<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
IV Quarter	- 329.6	- 300.5	- 29.1
October	- 60.2	+ 48.8	- 109.0
November	- 256.2	- 126.9	- 129.3
December	- 13.2	- 222.4	+ 209.2
<u>1965</u>			
January	- 42.2	+ 114.8	- 157.0

Bond market. New bond issues in December of ¥176 billion were at a record high for the year. New issues of bank debentures, which totalled ¥119 billion, registered the sharpest advance over earlier levels. In October and November, new issues of bank debentures totalled ¥87 and ¥98 billion, respectively. New issues of public corporation bonds were ¥35 billion in December, up ¥8 billion from the level a month earlier, and new issues of industrial debentures were ¥22 billion, off ¥1 billion from a month earlier.

Average yields in December 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. The yield on long-term bank debentures was 7.288 per cent in December, slightly higher than in November. The yield on industrial bonds fell from 7.488 per cent in November to 7.469 per cent in December.

Stock market. Stock prices rose 5 per cent during the first week of trading in January, primarily in response to the organization of a new stock-buying agency and the reduction on January 9 in the Bank of Japan's basic discount rate. Between January 4 and January 11 (the exchange was closed for the holidays on January 1-3) the Dow Jones average increased from ¥1,227 to ¥1,290. During the rest of January and February, the average fluctuated narrowly at lower levels, sinking to ¥1,206 on March 1.

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

December 28	¥1,217	February 1	¥1,243	1964 High	¥1,369
		8	1,259	Low	¥1,203
January 4	1,227	15	1,250		
11	1,290	22	1,225	1965 High	¥1,290
18	1,272			Low	¥1,206
25	1,250	March 1	1,206		

On January 12, the member securities companies of the stock exchange established the Japan Securities Holding Association (J.S.H.A.). This is the second stock support-buying agency established since January of 1964 and it will concentrate its purchases on those securities other than the 225 stocks included in the Dow Jones average. The J.S.H.A. began operations on January 21 and reportedly purchased ¥80 billion in stocks from various investment trusts. The agency is to have a capital of ¥170 billion of which about ¥150 billion is to be supplied by the Bank of Japan. The J.S.H.A. reportedly bought ¥50 billion more in stocks in February and is scheduled to purchase an additional ¥40 billion in March.

Foreign trade. The seasonally adjusted trade deficit narrowed sharply to \$28 million in January from \$92 million in December. Exports rose 7 per cent and imports fell 3 per cent. This was the smallest deficit on a seasonally adjusted basis since September of 1962. 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 dollars)

	1963				1964						1965	
	I	II	III	IV	I	II	III	IV	Oct.	Nov.	Dec.	Jan.
Imports	492	540	573	644	665	657	628	702	707	704	694	671
Exports	417	414	463	486	482	583	564	624	642	628	602	643
Balance	- 75	- 99	-110	-158	-183	-119	- 64	- 78	- 65	- 76	- 92	- 28

Foreign reserves and capital flows. International reserves rose \$28 million in January and a further \$23 million in February to a total level of \$2,050 million. Since last year's low in October, reserves have risen \$144 million.

The ratio of Japan's gold and foreign exchange holdings to note issues by the Bank of Japan rose to 37.2 per cent in January from 31.3 per cent in December. The ratio is seasonally low in December because of the large expansion in note issue at that time of the year. As indicated in Table 7 below, the general trend in the ratio has been down in recent years.

Table 7. Japan: Rates of Reserve to Bank Notes

<u>End of Period</u>	<u>International Reserves</u>	<u>Bank Notes Issued</u>	<u>Reserves/ Bank Notes</u>
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

Table 7. (Cont.)

<u>End of Period</u>	<u>International Reserves</u>	<u>Bank Notes Issued</u>	<u>Reserves/ Bank Notes</u>
1964 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
November	692.6 billion	1,889.3 billion	36.7 per cent
December	719.6 billion	2,298.8 billion	31.3 per cent
1965	729.7 billion	1,961.2 billion	37.2 per cent

The \$28 million rise in international reserves in January resulted from a large surplus on capital account in excess of a fairly large trade deficit, as shown in Table 8. The January trade deficit, following a large surplus in December, conforms to the usual seasonal pattern whereby exporters accelerate the collection of their bills in December and then cut back on the amount of bills presented in January. Since the banks carry most of these bills over into January and receive payment against them from overseas importers, short-term capital receipts are swelled accordingly in January.

Table 8. Japan: Balance of Payments on an Exchange Transactions Basis  
(in millions of dollars)

	<u>1963</u>	<u>1964</u>						<u>1965</u>
	<u>IV</u>	<u>I</u>	<u>II</u>	<u>III</u>	<u>IV</u>	<u>Nov.</u>	<u>Dec.</u>	<u>Jan.</u>
Trade account balance	-13	- 93	- 37	71	94	71	131	- 77
Services balance	-38	- 36	- 37	- 39	- 42	- 41	- 47	- 33
Current account	-51	-129	- 74	33	51	30	84	-110
Net long-term capital receipts	34	23	42	28	33	29	32	27
Net short-term capital receipts	<u>18</u>	<u>99</u>	<u>42</u>	<u>- 54</u>	<u>- 55</u>	<u>- 28</u>	<u>- 52</u>	<u>128</u>
Net balance on capital account	52	122	84	- 26	- 22	1	- 22	155
Errors and omissions	-11	- 14	- 30	- 5	- 16	- 14	- 7	- 17
Over-all balance of payments	- 9	- 21	- 20	1	13	18	55	28

NOTE: Quarterly data are monthly averages. Data may not add exactly because of rounding.

Preliminary data indicate that Japanese short-term liabilities to the U.S. (as reported by U.S. banks) increased \$157 million in December to \$2,653 million. (See Table 9). This represents a new high and is \$428 million above the level of 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	1,685	1,778	1,775	1,762	1,758	1,765	1,711	1,711	1,710	1,662	1,740
1963	1,697	1,691	1,751	1,876	1,898	1,872	1,877	1,998	1,890	1,904	2,017	2,171
1964	2,247	2,340	2,400	2,394	2,421	2,469	2,416	2,472	2,493	2,488 <sup>a</sup> /2,496 <sup>a</sup>		2,653 <sup>a</sup> /

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

<sup>a</sup>/ Preliminary.

Japan placed two bond issues totalling \$35 million in Europe in the last two months. Early in January the Fuji Electric Company placed a \$10 million (DM 40 million) 6-1/4 per cent, 15-year convertible debenture issue privately with the Deutsche Bank in Germany. At this time, there is no intention to offer the issue to the public. In February, the City and Prefecture of Osaka placed a \$25 million (DM 100 million), 6-1/4 per cent, 15-year bond in Germany. This was the fourth issue by Osaka in Germany since February of 1962.

Foreign exchange The yen remained relatively strong in foreign exchange markets during January and the first half of February. The spot middle rate appreciated moderately during January but weakened slightly during the first half of February. The rate in the three-month forward market also appreciated during January and remained strong through mid-February except for a slight weakening during February 3-6. The forward discount remained above 2 per cent during January and the first half of February except for a brief period from January 8-14 when it fell to a low of 1.1 per cent.

Table 10. Japan: Customer's T.T. Exchange Rate of Bank of Tokyo in Tokyo

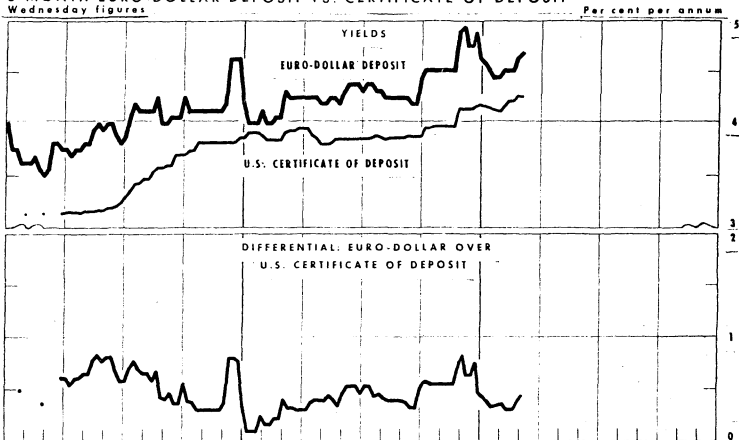
		<u>Yen-dollar Spot middle rate</u>	<u>Three-month forward middle rate</u>	<u>Forward discount in per cent per annum</u>
December	31	359.10	361.20	2.34
January	4	359.10	361.20	2.34
	11	359.70	361.20	1.66
	18	358.95	360.90	2.17
	25	358.55	360.70	2.40
February	1	358.70	360.70	2.23
	8	358.70	360.70	2.45
	15	358.75	360.70	2.17



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

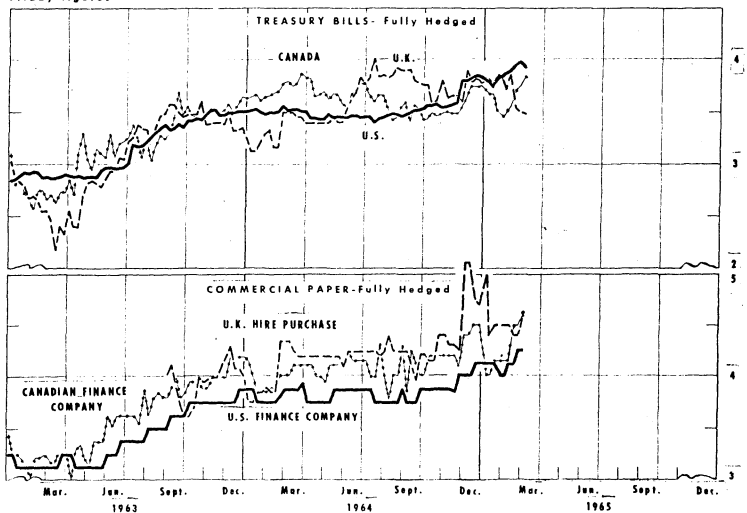
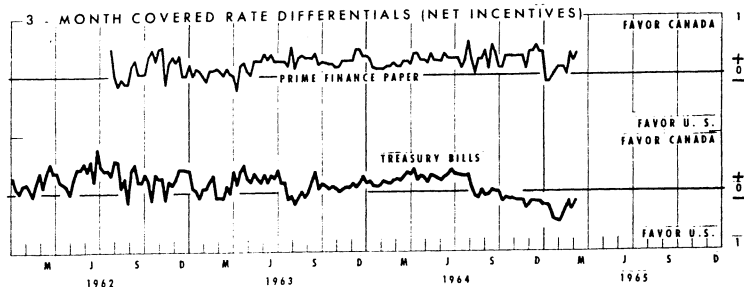
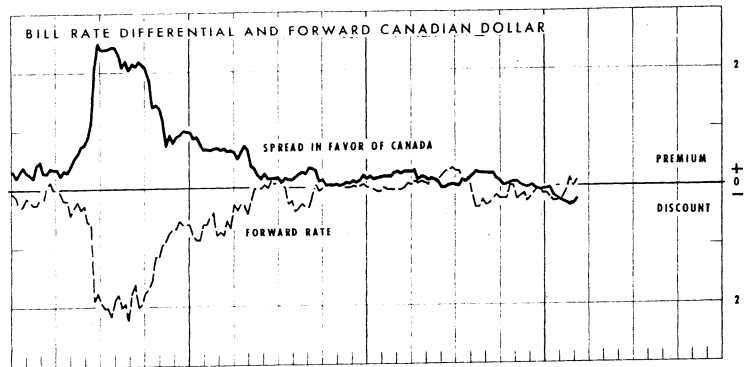
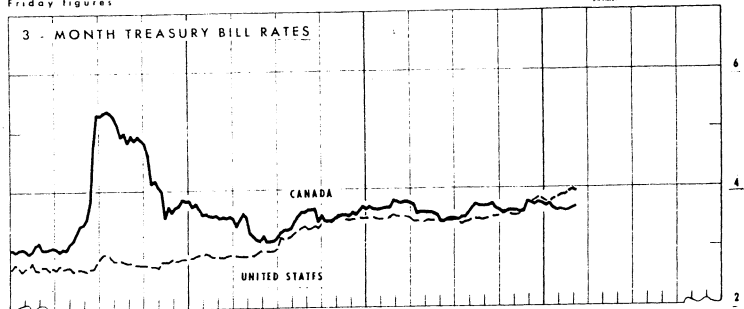


Chart 2

### 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

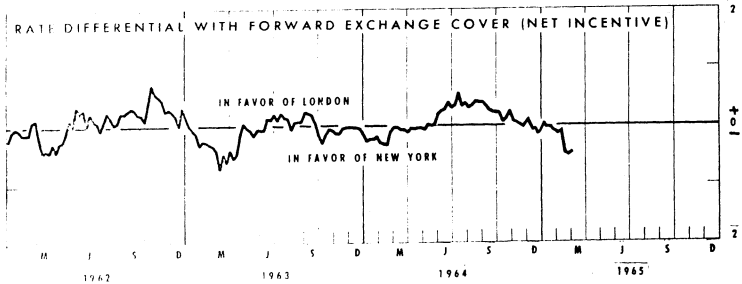
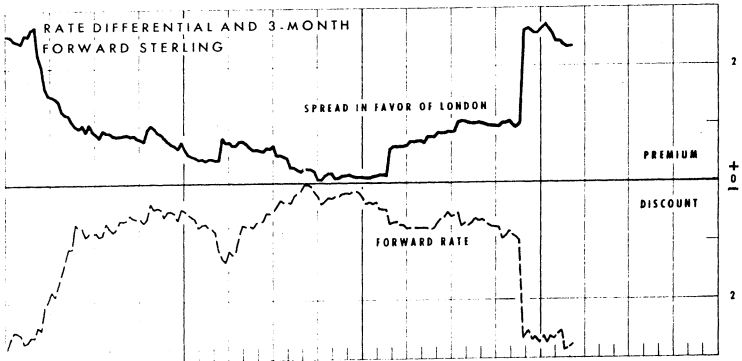
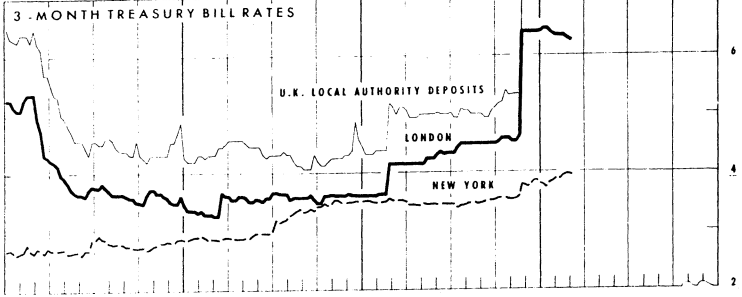


Chart 4

### INTEREST ARBITRAGE FOR GERMAN COMMERCIAL BANKS

Friday figures

Per cent per annum

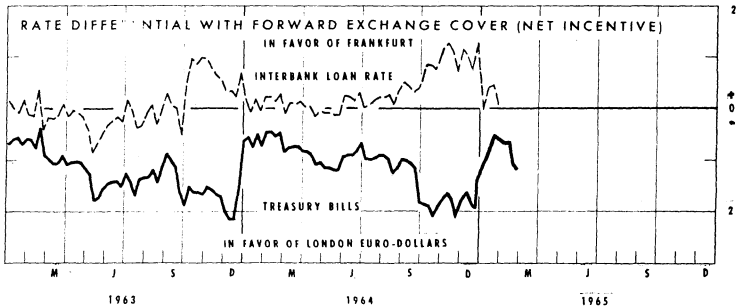
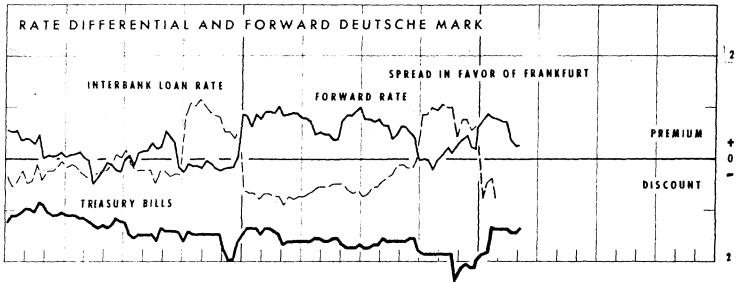
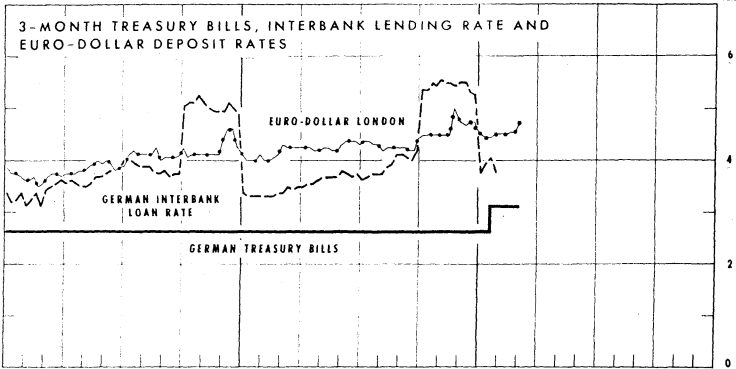
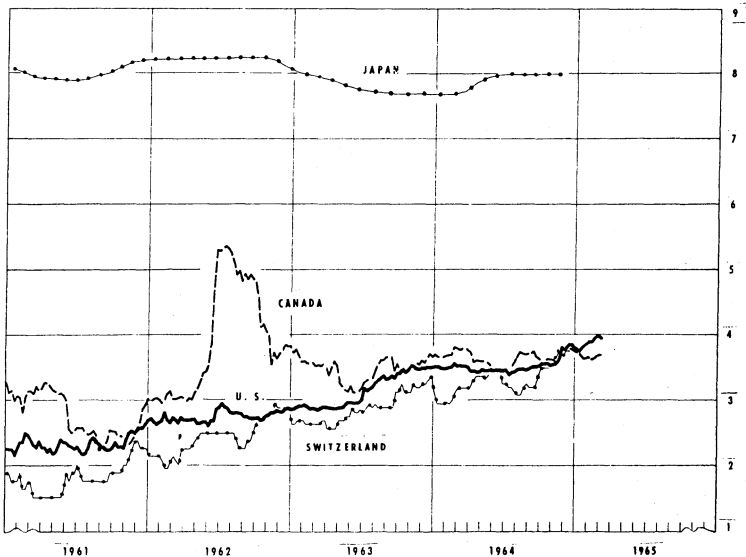
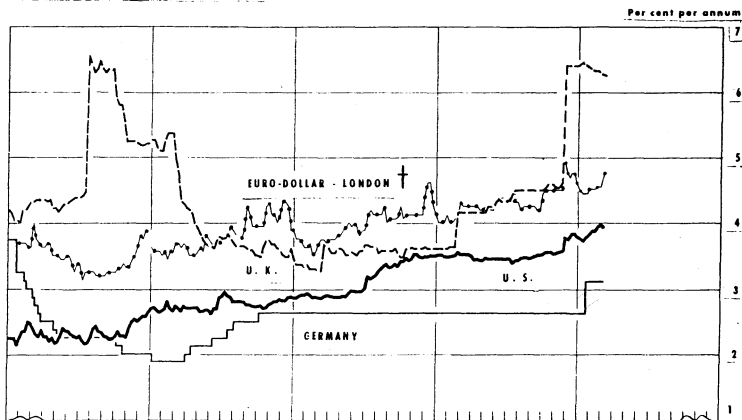


Chart 5  
SHORT-TERM INTEREST RATES\*



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

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

14

Chart 6  
**LONG-TERM BOND YIELDS**

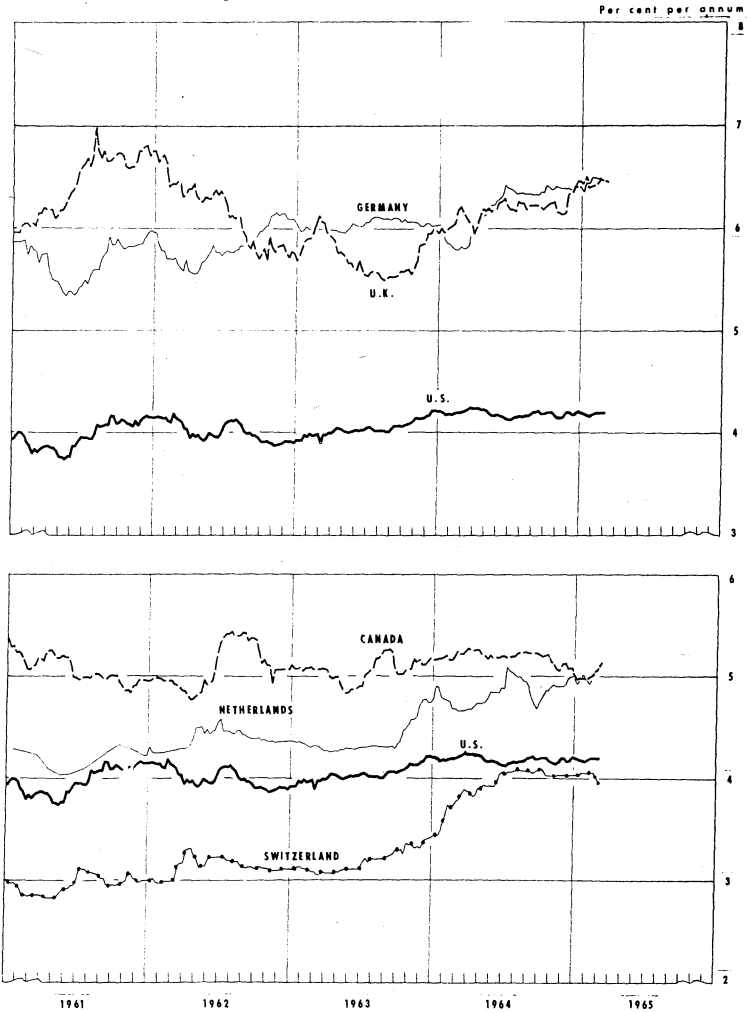
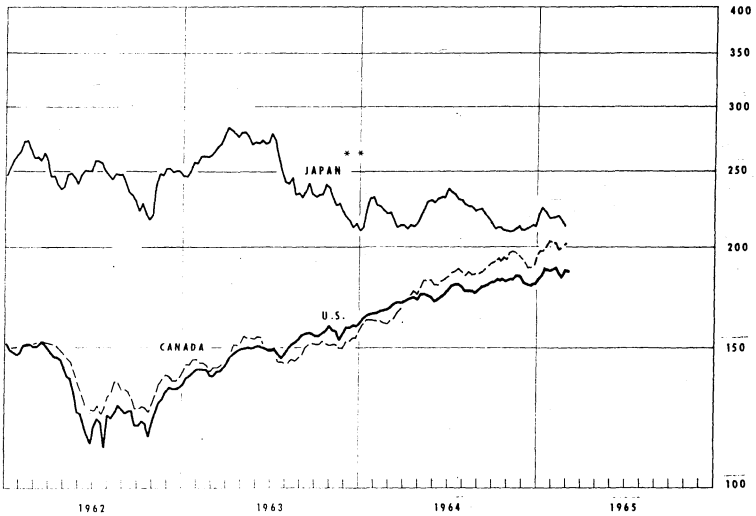
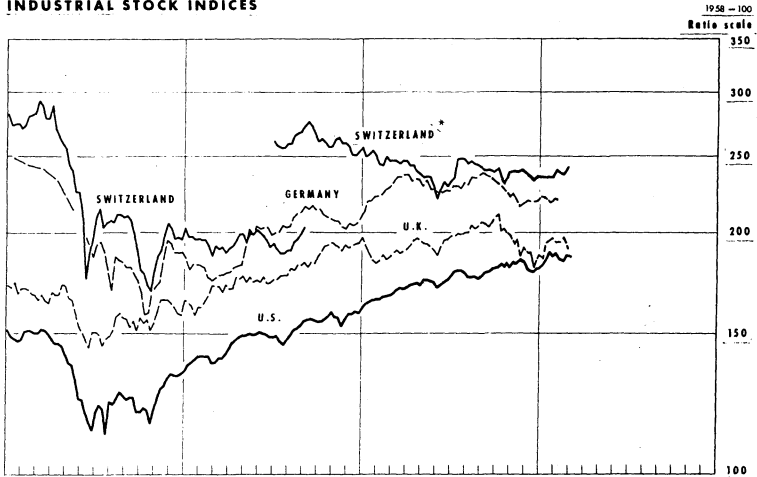


Chart 7  
INDUSTRIAL STOCK INDICES



\* Base year: 1958. Peak: 1959. Bottom: 1960.  
 \* Japan index of 227 industrial and other stocks traded on the Tokyo exchange.

16

Chart 8

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

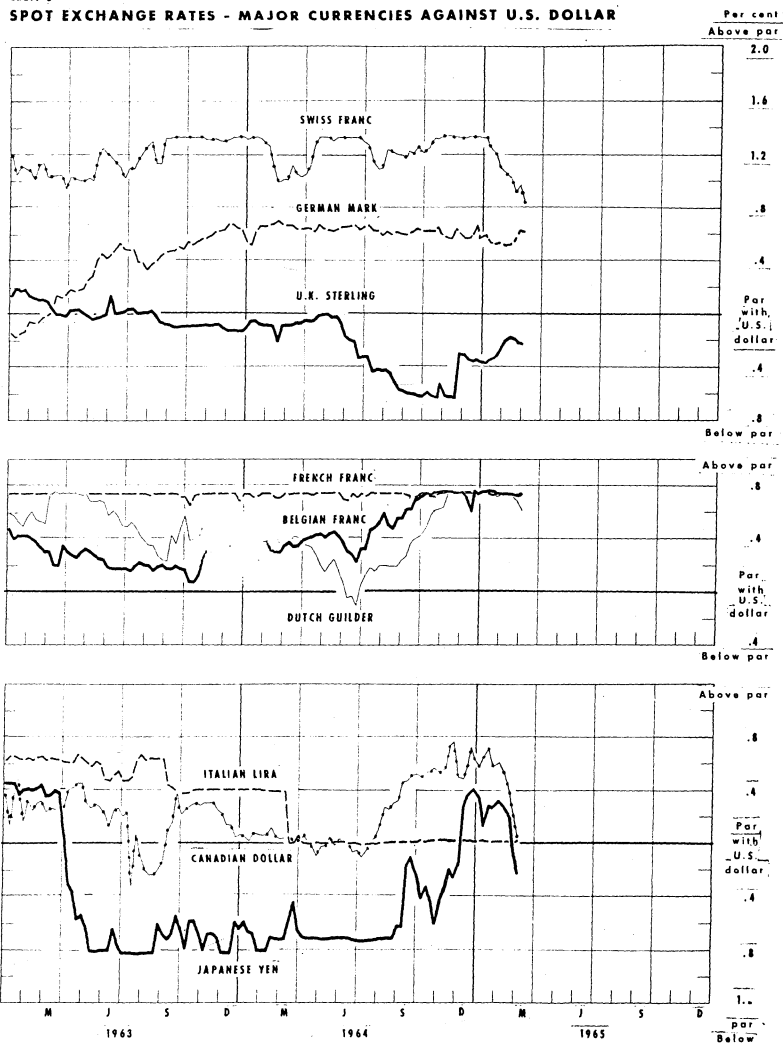
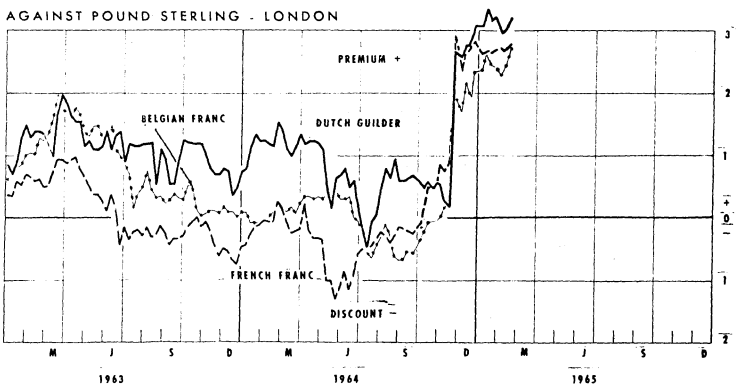
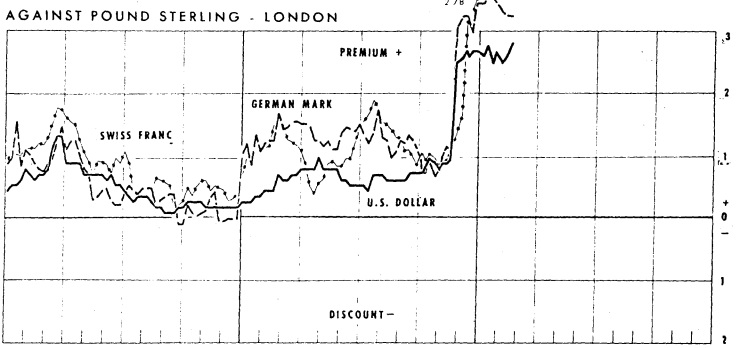
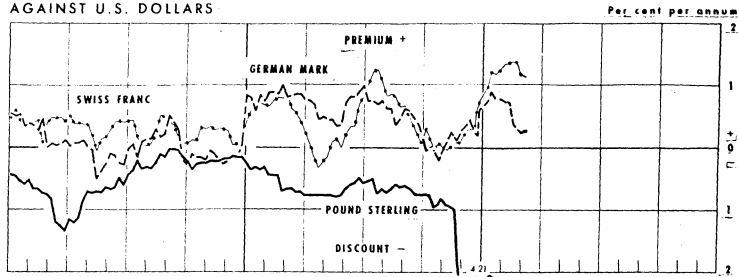




Chart 9  
3-MONTH FORWARD EXCHANGE RATES  
Friday figures  
AGAINST U.S. DOLLARS



III. Latest Figures Plotted in H.13 Chart Series, 1965

<u>Chart 1</u>	<u>Per cent per annum</u>	<u>Chart 5</u>	<u>Per cent per annum</u>
<u>Upper panel</u>		<u>(Friday, March 5, except as noted)</u>	
<u>(Wednesday, March 3)</u>		<u>Treasury bills:</u>	
Euro-\$ deposit	<u>4.69</u>	U.S.	<u>3.93</u>
U.S. certif. of deposit	<u>4.25</u>	U.K.	<u>6.26</u>
<u>Lower panels</u>		Germany	<u>3.12</u>
<u>(Friday, March 5)</u>		Canada	<u>3.69</u>
Treasury bills: U.S.	<u>3.93</u>	Swiss 3-month deposits * (Date: Feb. 15)	<u>3.06</u>
U.K.	<u>3.48</u>	Euro-\$ deposit (London)	<u>4.75</u>
Canada	<u>3.84</u>	Japan: composite rate (Date: Nov. 27)	<u>7.990</u>
Finance Co. paper: U.S.	<u>4.25</u>	<u>Chart 6</u>	
Canada	<u>4.62</u>	<u>Bonds:</u>	
Hire-purchase paper, U.K.	<u>4.62</u>	U.S. govt. (Wed., March 3)	<u>4.19</u>
<u>Chart 2</u>		U.K. war loan (Thurs., March 4)	<u>6.45</u>
<u>(Friday, March 5)</u>		German Fed. Railway (Fri., Feb. 26)	<u>6.49</u>
Treasury bills: Canada	<u>3.69</u>	Swiss Confederation (Fri., Feb. 26)	<u>3.96</u>
U.S.	<u>3.93</u>	Canadian govt. (Wed., Feb. 17)	<u>5.05</u>
Spread favor Canada	<u>-0.24</u>	(Fri., Feb. 24)	<u>5.06</u>
Forward Canadian dollar	<u>0.10</u>	(March 3)	<u>5.12</u>
Net incentive (Canada +)	<u>-0.14</u>	Netherlands government perpetual (Fri., Feb. 19)	<u>4.98</u>
<u>Chart 3</u>		<u>* Additional rates:</u>	
<u>(Friday, March 5)</u>		Jan. 23	<u>3.19</u>
Treasury bills: U.K.	<u>6.26</u>	Jan. 30	<u>3.06</u>
U.S.	<u>3.93</u>	Feb. 7	<u>3.06</u>
Spread favor U.K.	<u>2.33</u>		
Forward pound	<u>-2.78</u>		
Net incentive (U.K. +)	<u>-0.45</u>		