

H. 13

April 14, 1965.

No. 191

**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 February-March

The Japanese authorities took several further steps in March and April to relax the tight money policy. The process of relaxation culminated in an April 3 reduction in the basic discount rate of the Bank of Japan from 6.205 to 5.84 per cent, the second reduction in the past four months. Earlier, in mid-March, quarterly credit expansion quotas for the large city banks had been substantially liberalized. Also, on April 1, advance import deposit requirements were reduced to the level prevailing prior to the establishment of the tight money policy.

As a result of these moves, the major monetary restraints introduced since December 1963 have all been relaxed to the levels prevailing at that time. The latest moves were prompted by the improved balance of payments situation and the desire to reduce the financial pressures which contributed to the high rate of bankruptcies.

Because of rising rates on Euro-dollar deposits in London, several upward adjustments were made in March in the recommended rates that Japanese foreign exchange banks may pay for Euro-dollars. (See Table 1). The rises in rates in London hit a peak on March 10 and then eased off slightly; the authorized rates in Japan were also cut back late in March.

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

Effective:	<u>12/31/64</u>	<u>2/24/65</u>	<u>3/ 4/65</u>	<u>3/11/65</u>	<u>3/15/65</u>	<u>3/25/65</u>
Less than 30 days	4.125	4.125	4.375	4.375	4.375	4.375
1 - 3 months	4.5	4.625	4.875	5.125	5.125	4.875
3 - 6 months	4.625	4.75	5.0	5.375	5.25	5.25
6 - 12 months	4.875	4.875	5.125	5.625	5.625	5.5
1 year and over	5.0	5.25	5.4375	6.25	5.875	5.875

Japanese liabilities to the U.S. increased \$34 million in January. (See Table 2). This represented a substantial decline from the December increase which reflected largely seasonal developments.

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(Decontrolled 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					1965 Jan.
	1960	1961	1962	1963	1964	1964					
						I	II	III	IV	Dec.	
Short-term claims <sup>1/</sup>	482	722	212	431	482 <sup>a/</sup>	229	69	24	160 <sup>a/</sup>	104 <sup>a/</sup>	14 <sup>a/</sup>
Long-term claims <sup>1/</sup>	3	5	50	175	36 <sup>a/</sup>	61	15	26	33	16 <sup>a/</sup>	20 <sup>a/</sup>
TOTAL	485	727	262	606	518 <sup>a/</sup>	290	84	50	193 <sup>a/</sup>	120 <sup>a/</sup>	34 <sup>a/</sup>
Securities <sup>2/</sup>	30	58	141	200	0	0	0	0	0	0	0
TOTAL	515	785	403	806	518 <sup>a/</sup>	290	84	50	193 <sup>a/</sup>	120 <sup>a/</sup>	34 <sup>a/</sup>

<sup>1/</sup> Bank-reported liabilities to the U.S.

<sup>2/</sup> New security flotations.

<sup>a/</sup> Preliminary.

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

Japanese long-term borrowings for March-April may be at a higher level than in earlier months in view of the recent approval of two large U.S. loans. On March 23 the Japanese Foreign Investment Council approved a \$10 million, 7-year credit from the First National City Bank of New York to a petro-chemical concern, and a \$22.4 million, 8-year, loan from the Chase Manhattan Bank to the Japan Air Lines Company.

International reserves rose \$3 million in March to \$2,053 million. The trade balance, on a seasonally adjusted basis, improved sharply in January-February. In the foreign exchange market, the yen weakened in February and the first part of March.

On the domestic side, money market conditions remained relatively easy. There were signs of increased bank credit and monetary expansion, and with the latest cut in discount rate, interest rates are likely to ease. The stock market sank to a new four-year low in March.

Money market. Following a sharp easing in January, money market conditions remained relatively stable in February-March. Since early last October, credit conditions in the money market have generally eased. Expansionary and contractionary factors approximately offset each other in February. An increase of ¥155 billion in Bank of Japan credit almost matched the contractionary impact from net Treasury receipts of ¥134 billion and an increase of ¥34 billion in bank notes in circulation.

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Interest rates. Over-month-end call money (repayable at a day's notice in the following month) eased slightly from 9.490 per cent on January 30 to 9.125 per cent on February 1. Otherwise, call loan rates remained unchanged through March 27. With the reduction in the Bank of Japan's basic discount rate on April 3, call loan rates are likely to ease further in April. Call loan rates have generally fallen from the peak levels reached last year in September.

Table 3. Japan: Average Call Loan Money Rates in Tokyo

	<u>Overnight</u> <sup>1/</sup>	<u>Unconditional</u> <sup>2/</sup>	<u>Over-month-end</u> <sup>3/</sup>
January 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
27	8.030	8.395	9.125
March 6	8.030	8.395	9.125
13	8.030	8.395	9.125
20	8.030	8.395	9.125
27	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 July-December. This stability followed a gradual rise since February 1964 when the rate was 7.67 per cent. In view of the January and April cuts in the Bank of Japan's basic discount rate, it is likely that the average interest rate eased slightly during the first part of this year.

Late in March, Keidanren (a Japanese businessman's organization comparable to the United States' National Association of Manufacturers) recommended to the Government that yields on corporate bonds be raised 0.4 of 1 per cent in April of this year in order to improve the outlook for bond issues this year. If the Ministry of Finance and the Bank of Japan approves, this would have the effect of raising industrial bond yields from approximately 7.5 per cent to 7.9 per cent.

Bank loans and discounts. Although bank credit generally rose at a slower rate last year, there may have been a reversal of this trend in January when total bank credit increased 1.1 per cent, compared to only 0.5 per cent a year earlier. The main rise was in holdings of securities which

increased 6.5 per cent as against 1.9 per cent a year earlier. Changes in loans and discounts were relatively minor. Deposits fell 3.3 per cent in January, the same as a year earlier.

The proportion of bank loans and discounts extended for purchases of equipment rose slightly to 17.1 per cent in January from a seasonally low 17.0 per cent in December. Since the previous cyclical low of 16.3 per cent in March of 1963, the ratio has generally increased.

Bank of Japan operations in February tended to be expansionary as the Bank purchased (net) ¥119 billion in securities and expanded its loans by ¥36 billion.

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 (-)	(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
IV Quarter	- 329.6	- 300.5	- 29.1
November	- 256.2	- 126.9	- 129.3
December	- 13.2	- 222.4	+ 209.2
<u>1965</u>			
January	- 42.2	+ 114.8	- 157.0
February	+ 155.2	+ 36.4	+ 118.8

In mid-March the Bank of Japan announced that city bank credit expansion quotas would be substantially relaxed in the second and third quarters of this year. In addition, city banks will henceforth be required to observe the quotas by the end of a six-month, rather than a three-month, period.

Bond market. Following a sharp increase in December, new bond issues fell to ¥158 billion in January, a decline of ¥18 billion from the high for the year reached in December. New issues of bank debentures were ¥96 billion in January, down ¥23 billion from the December level, but new issues of

public corporation bonds were up ¥1 billion to ¥36 billion. New issues of industrial debentures also rose ¥3 billion to ¥25 billion. Since last August the volume of new bond issues has generally been rising and the January volume was 22 per cent higher than the level a year earlier.

In January average yields on local government securities, public corporation bonds, and one-year bank debentures remained the same as throughout 1964 at 7.354, 7.053 and 6.224 per cent, respectively. The yield on long-term bank debentures fell slightly to 7.285 per cent while the yield on industrial bonds rose to 7.482 per cent from 7.469 per cent in December.

Stock market. The stock market, which has generally remained depressed since mid-1964, sank to new four-year lows in March. News of the financial failure of Sanyo Special Steel Company, Japan's major producer of bearing steel, is generally credited with causing the Dow Jones average to fall below the ¥1,200 support level on March 8. Although the market remained orderly thereafter through April 5, stock prices continued to hover below the ¥1,200 level. In response to the reduction in the Bank of Japan's basic discount rate on April 3, stock prices rallied slightly, but then fell to a new low for the year on April 4.

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

January	25	¥1,250	March	1	¥1,206	1964	High	¥1,369
				8	1,191		Low	¥1,203
February	1	1,243		15	1,188	1965	High	¥1,290
	8	1,259		22	1,170		Low	¥1,115
	15	1,250		29	1,119			
			April	5	1,124			

Foreign trade. According to the Bank of Japan's seasonally adjusted data, the trade balance improved very sharply in January-February, shifting from a deficit of \$92 million in December to a surplus of \$5 million in January, and to equilibrium in February. This improvement reflects increased export levels and slightly lower imports compared to the fourth quarter of last year. The trade figures in Table 6 below 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	Nov.	Dec.	Jan.	Feb.
Imports	491	539	576	643	664	655	632	697	701	697	663	674
Exports	418	438	469	484	485	534	571	618	625	605	668	674
Balance	- 73	-101	-107	-159	-179	-121	- 61	- 79	- 76	- 92	+ 5	0

Foreign reserves and capital flows. International reserves rose \$3 million in March to \$2,053 million. This brought the reserve gain since last year's low in October to \$147 million.

The ratio of Japan's gold and foreign exchange holdings to note issues by the Bank of Japan fell from 37.2 per cent in January to 37.0 per cent in February. This decline continues the general downtrend in recent years as indicated in the data in Table 7 below.

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
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 January	729.7 billion	1,961.2 billion	37.2 per cent
February	738.0 billion	1,995.2 billion	37.0 per cent

The trade surplus of \$95 million in February, as measured on an exchange transactions basis, helped boost total international reserves \$23 million. (See Table 8 below). As during the last half of 1964, a net outflow on short-term capital account continued in February, but this was more than offset by the trade surplus.

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

	1963	1964						1965	
	IV	I	II	III	IV	Nov.	Dec.	Jan.	Feb.
Trade account balance	-13	- 93	- 37	71	94	71	131	- 77	95
Services balance	-38	- 36	- 37	- 39	- 42	- 41	- 47	- 33	- 42
Current account	-51	-129	- 74	35	52	30	84	-110	53
Net long-term capital receipts	34	23	42	28	33	29	32	27	26
Net short-term capital receipts	18	99	42	- 54	- 55	- 28	- 52	128	- 63
Net balance on capital account	52	122	84	- 26	- 22	1	- 22	155	- 37
Errors and omissions	-11	- 14	- 30	- 5	- 16	- 14	- 7	- 17	7
Over-all balance of payments	- 9	- 21	- 20	1	13	18	55	28	23

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) rose \$14 million in January to \$2,667 million. This is \$420 million higher than 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	326	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	2,416	2,472	2,493	2,488	2,549	2,653 <sup>a/</sup>
1965	2,667 <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.

a/ Preliminary.

There were no reported bond issues in foreign markets in March, but Japan placed one issue in February. This was for \$25 million (DM 100 million) by the City and Prefecture of Osaka in Germany for 15 years at a coupon rate of 6-1/5 per cent. In April, Japan is scheduled to return to the U.S. market with a \$20 million, 15-year, 5-3/4 per cent issue by the Nippon Telegraph and Telephone Public Corporation.

Foreign exchange. After strengthening in December and January, the yen tended to weaken in the spot market in February and the first half of March. The February weakening largely reflected a strengthening of the dollar following the special U.S. balance-of-payments restraint measures of February 10. The three-month rate in the forward market, although fluctuating irregularly, generally weakened during February and part of March, but less rapidly than the rate for the yen in the spot market. The net result was a narrowing in the three-month forward discount from 2.40 per cent at the end of January to .89 per cent on March 15.

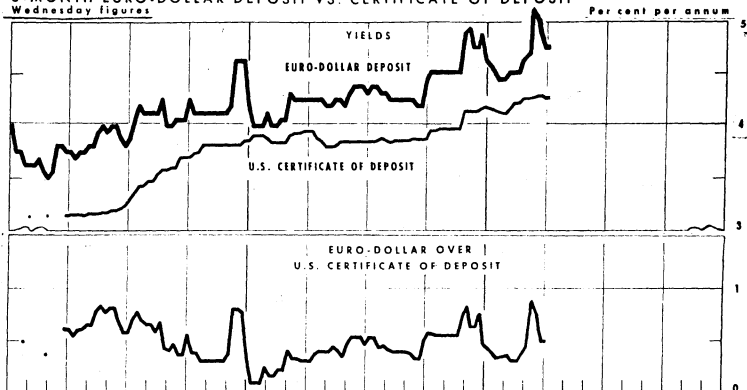
Table 10. Japan: Customer's T.T. Exchange Rate of Bank of Tokyo in Tokyo

		Yen-dollar spot middle rate	Three-month forward middle rate	Forward discount in per cent per annum
January	30	358.55	360.70	2.40
February	1	358.70	360.70	2.23
	8	358.50	360.70	2.45
	15	358.75	360.70	2.17
	22	359.10	361.15	2.28
March	1	360.00	361.10	1.22
	8	360.30	361.55	1.39
	15	360.55	361.35	.89

## INTERNATIONAL MONEY MARKET YIELDS FOR U.S. DOLLAR INVESTORS

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

Wednesday figures



## SELECTED INTERNATIONAL MONEY RATES

Friday figures

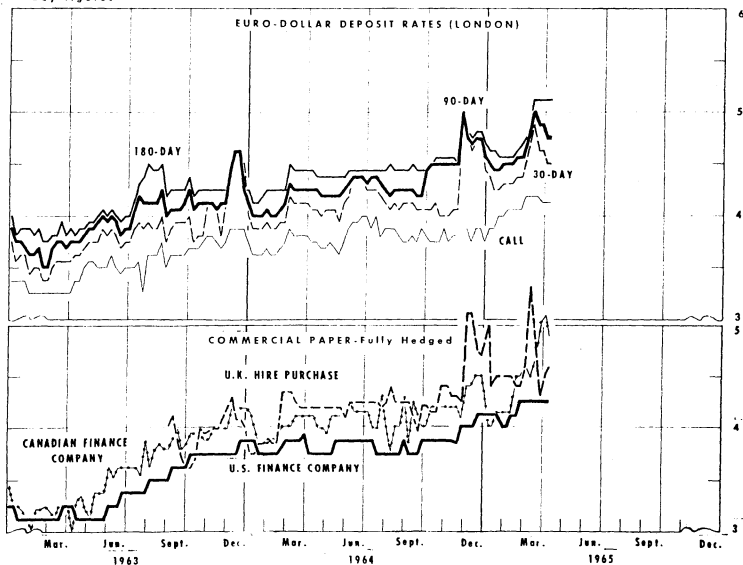


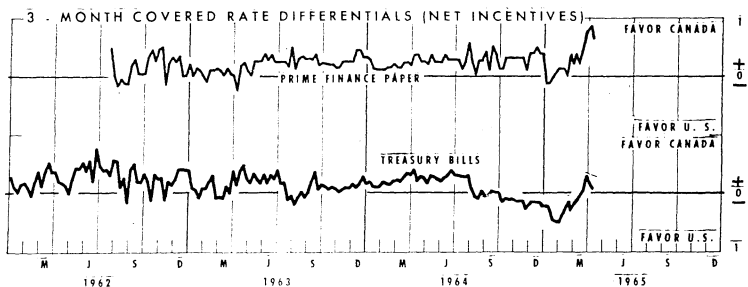
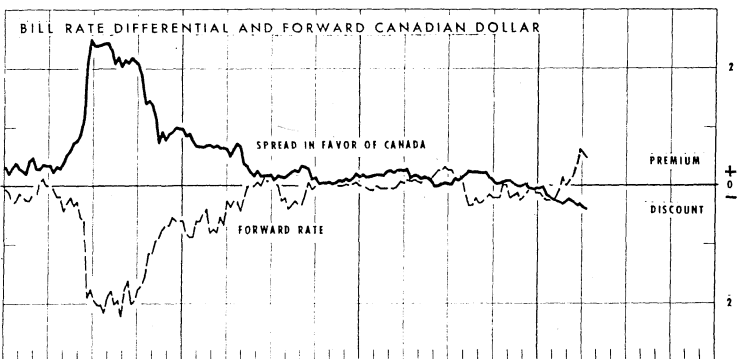
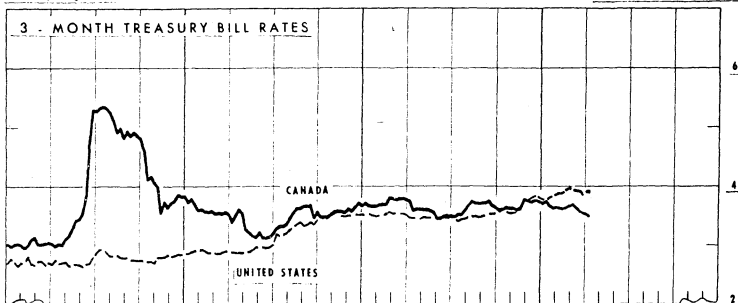


Chart 2

# 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

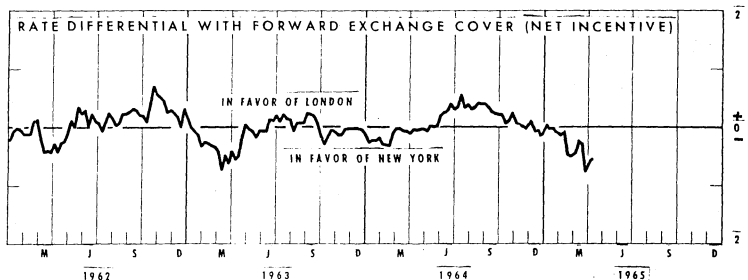
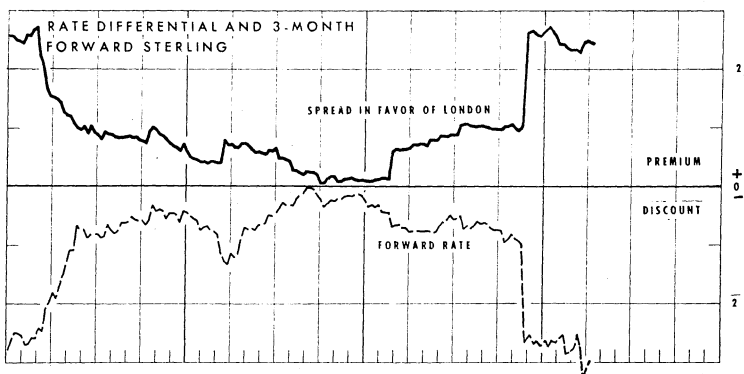
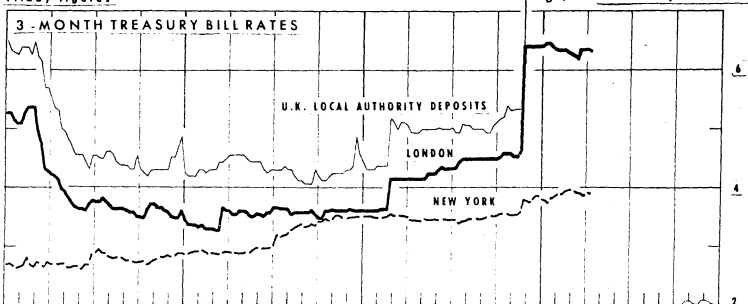


Chart 4

# INTEREST ARBITRAGE FOR GERMAN COMMERCIAL BANKS

Friday figures

Per cent per annum

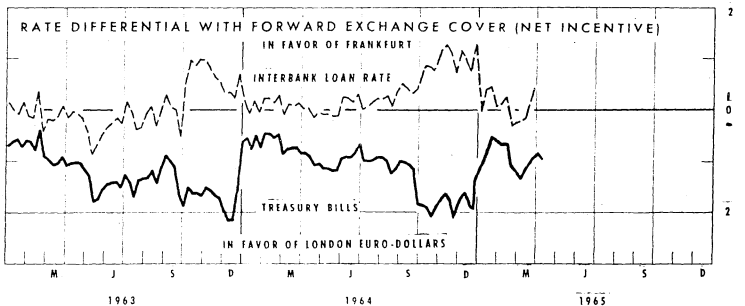
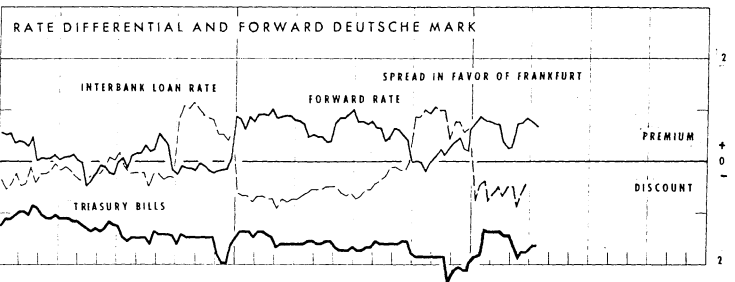
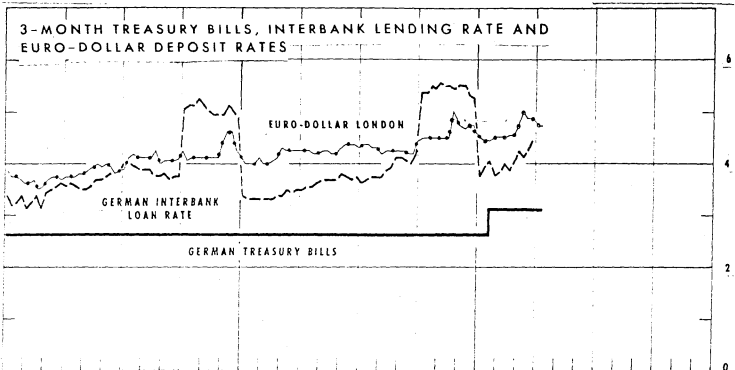
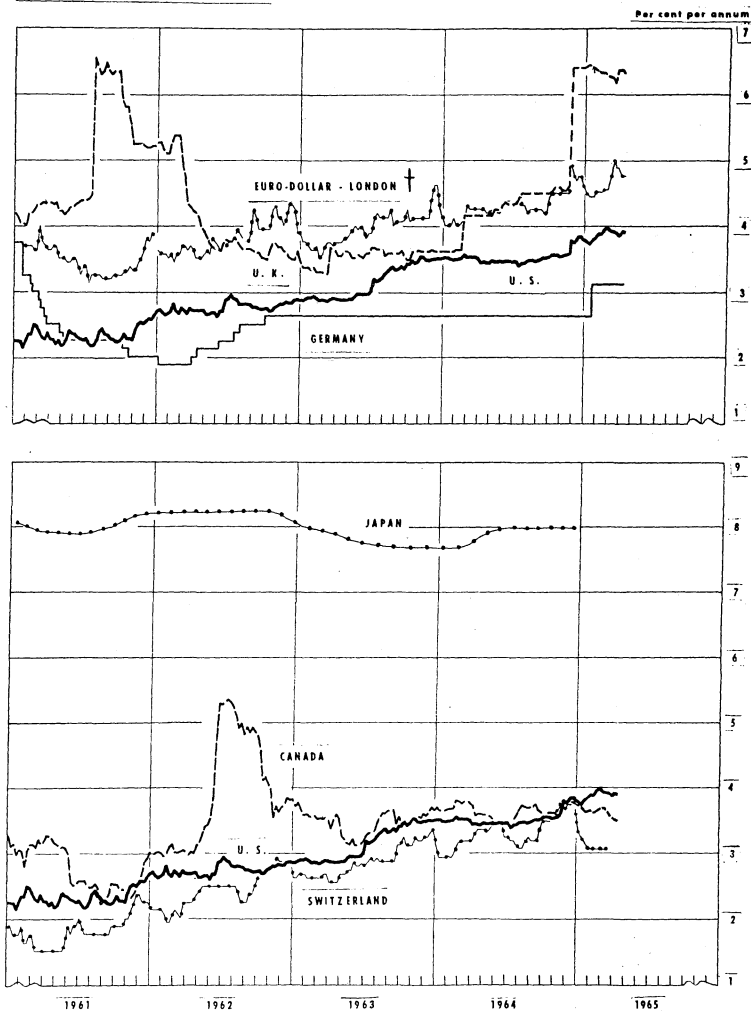


Chart 5  
SHORT-TERM INTEREST RATES \*



\* 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

Chart 6

**LONG-TERM BOND YIELDS**

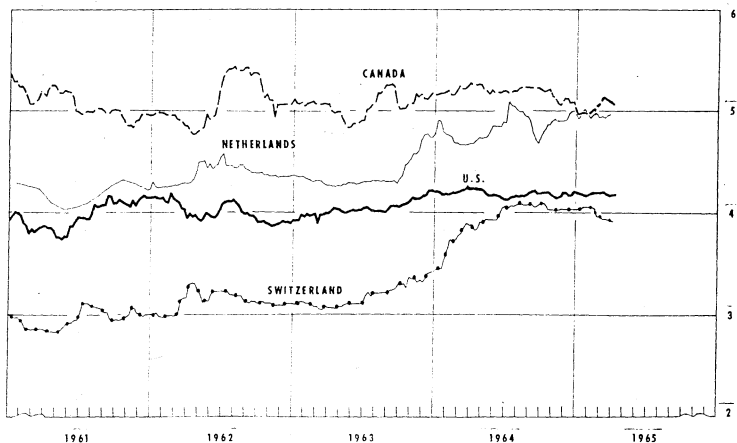
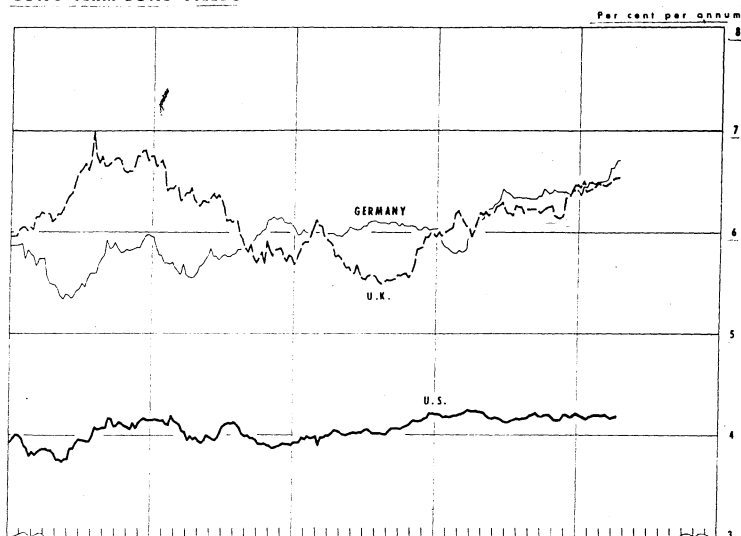
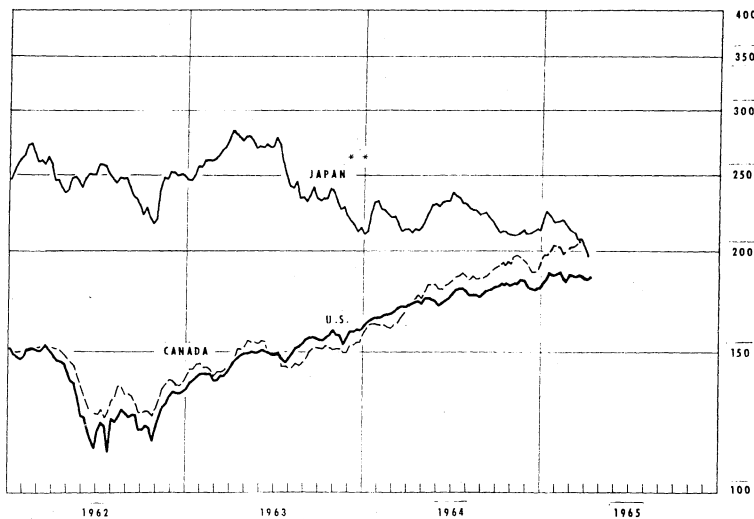
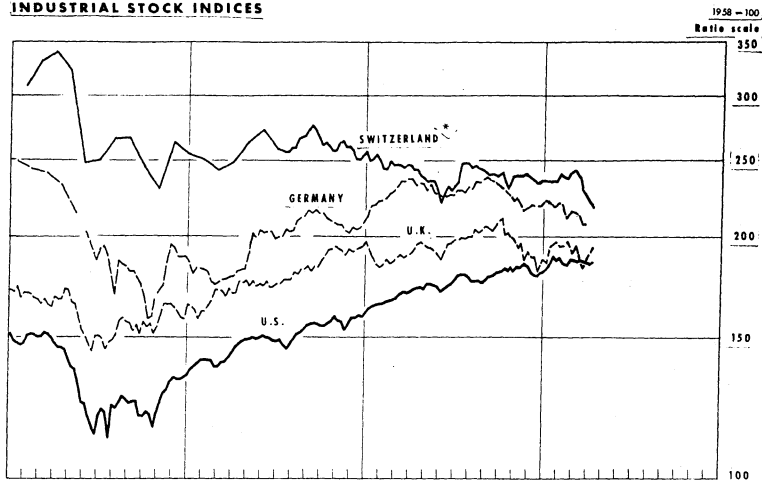


Chart 7  
**INDUSTRIAL STOCK INDICES**



\* Swiss Bank Corporation industrial stock

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

Chart 8

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

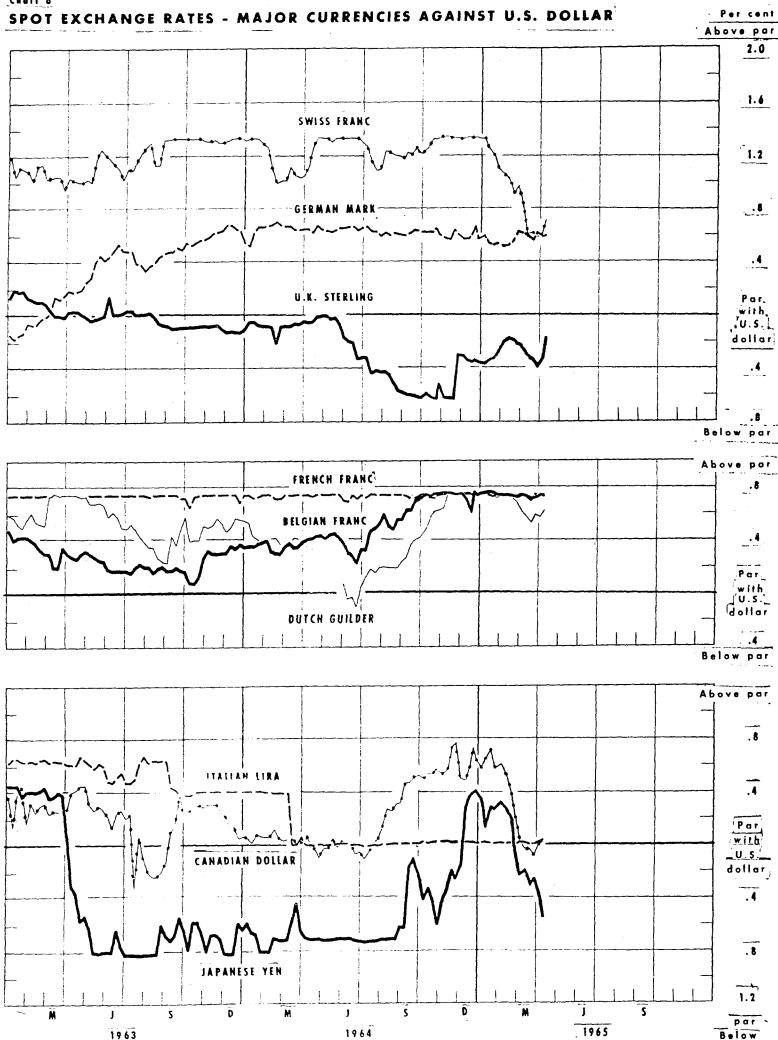
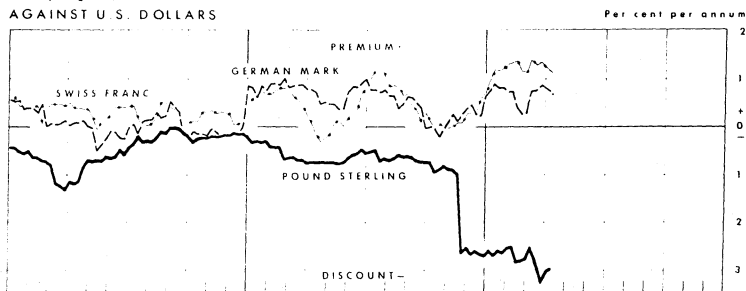
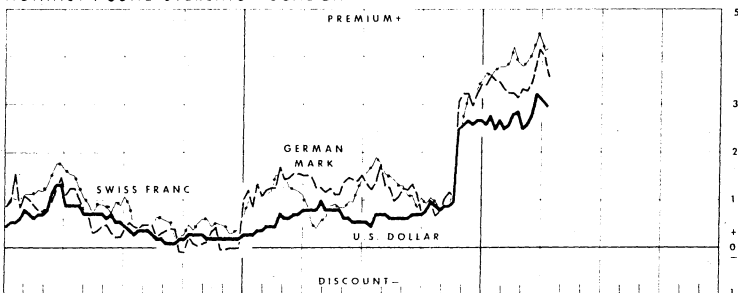


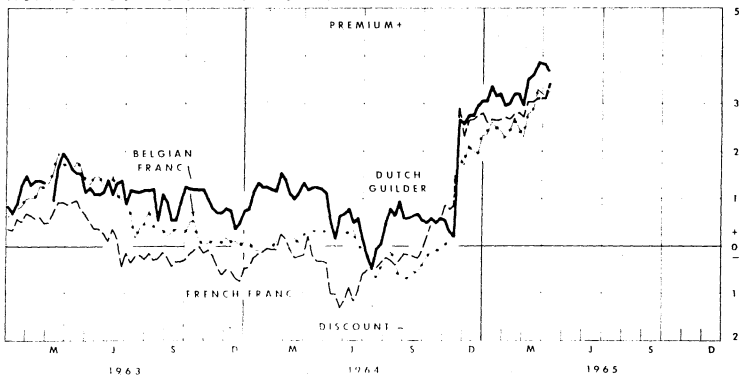
Chart 9  
**3-MONTH FORWARD EXCHANGE RATES**  
 Friday figures  
 AGAINST U. S. DOLLARS



AGAINST POUND STERLING - LONDON



AGAINST POUND STERLING - LONDON





April 14, 1965

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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>		(Friday, April 9 , except as noted)	
(Wednesday, April 7 )		Treasury bills:	
Euro-\$ deposit	<u>4.75</u>	U.S.	<u>3.90</u>
U.S. certif. of deposit	<u>4.26</u>	U.K.	<u>6.32</u>
<u>Lower panels</u>		Germany	<u>3.12</u>
(Friday, April 9 )		Canada	<u>3.50</u>
Euro dollars. Call	<u>4.72</u>	Swiss 3-month deposits	
7-day	<u>4.31</u>	(Date: March 15 )	<u>3.06</u>
30-day	<u>4.50</u>	Euro-\$ deposit (London)	<u>4.75</u>
90 day	<u>4.75</u>	Japan: composite rate	
180-day	<u>5.12</u>	(Date: Dec. 31 )	<u>7.990</u>
Finance Co. paper: U.S.	<u>4.25</u>	<u>Chart 6</u>	
Canada	<u>4.90</u>	Bonds:	
Hire-purchase paper, U.K.	<u>4.59</u>	U.S. govt.	
<u>Chart 2</u>		(Wed., April 7 )	<u>4.17</u>
(Friday, April 9 )		U.K. war loan	
Treasury bills: Canada	<u>3.50</u>	(Thurs., April 8 )	<u>6.54</u>
U.S.	<u>3.90</u>	German Fed. Railway	
Spread favor Canada	<u>-0.40</u>	(Fri., April 9 )	<u>6.70</u>
Forward Canadian dollar	<u>+0.47</u>	Swiss Confederation	
Net incentive (Canada +)	<u>+0.07</u>	(Fri., April 2 )	<u>3.91</u>
<u>Chart 3</u>		Canadian govt.	
(Friday, April 9 )		(Wed., March 31 )	<u>5.06</u>
Treasury bills: U.K.	<u>6.32</u>	Netherlands government	
U.S.	<u>3.90</u>	perpetual	
Spread favor U.K.	<u>+2.42</u>	(Fri., March 26 )	<u>4.96</u>
Forward pound	<u>-2.97</u>		
Net incentive (U.K. +)	<u>-0.55</u>		