

H. 13

July 14, 1965.

No. 204

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 May-June

The Japanese securities market and industry remained under heavy pressure in May and June. The announcement on May 23 that the Government would not let the Yamaichi Securities Company fail was not successful in preventing many investors from liquidating their assets. Investors continued to ask for the return of bonds deposited with securities companies and to cash in their investment trusts prior to maturity. In June and early July the Bank of Japan extended \$68 million in credits to two securities companies and arranged special credits totaling approximately \$222 million for other financially-pressed securities companies, the first such emergency action since 1931. The borrowing limits for one of the stock support-buying agencies was also increased \$278 million to \$735 million. The stock market continued to weaken, however, and sank to a new five-year low on July 7.

Concerned that the economy has remained sluggish in spite of a relaxation in monetary policy, the Bank of Japan again lowered its basic discount rate on June 26 from 5.84 to 5.475 per cent. This was the third reduction since January of this year. It brought the rate to its lowest level since October of 1951. The Government is also accelerating its investment spending so as to boost a lagging aggregate demand. An additional step was taken on July 8 when the Bank of Japan announced that on July 16 commercial bank reserve requirements would be lowered. Demand deposit requirements are to be reduced from 1.5 to either 1.0 or 0.5 per cent for large banks and from .75 to .50 per cent for other financial institutions. Time deposit requirements will be changed only for small- and medium-sized banks. These will be cut from .50 to .25 per cent. This move was reportedly taken to bolster bank earnings, especially those of the medium- and smaller-sized banks, which have been hurt by the fall in interest rates.

Japanese short-term borrowings in the U. S. as reported by U. S. banks fell \$29 million in April but long-term borrowings increased \$7 million. Despite the flotation of a \$22.5 million bond issue in April, total Japanese borrowing in the U. S. rose only \$1 million in April. (See Table 1). In June, Japan floated another bond issue in the United States, the second such issue since September of 1963.

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

	Change during year			Change during period									
	1962	1963	1964	1964				1965					
				I	II	III	IV	I	Jan.	Feb.	Mar.	Apr.	
Short-term claims ^{2/}	212	431	616 ^{3/}	229	69	24	294 ^{3/}	61 ^{a/}	-61	0	122 ^{a/}	-29	
Long-term claims ^{1/}	50	175	179 ^{4/}	61	15	26	76 ^{4/}	42 ^{a/}	25	0	17 ^{a/}		
TOTAL	262	606	795	290	84	50	370	103 ^{a/}	-36	0	139 ^{a/}	22	
Securities ^{2/}	141	200	0	0	0	0	0	0	0	0	0		
TOTAL	403	806	795	290	84	50	370	103 ^{a/}	-36	0	139 ^{a/}		

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

^{2/} New security flotations.

^{3/} Includes \$134 million newly reported in December.

^{4/} Includes \$42 million newly reported in December.

^{a/} Preliminary.

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

The Euro-dollar market eased in June, causing Japan to lower on two occasions the maximum authorized rates that Japanese foreign exchange banks may pay on Euro-dollars. These actions erased part of the sharp rise in rates in the last week of May. (See Table 2).

Table 2. Japan: Maximum Authorized Rates on Euro-dollar Deposits

Effective:	5/10/65	5/24/65	5/28/65	5/31/65	6/3/65	6/16/65
Less than 30 days	4.375	4.375	4.375	4.375	4.375	4.375
1 - 3 months	4.875	5.0	5.25	5.5	5.125	5.125
3 - 6 months	5.125	5.25	5.375	5.625	5.5	5.25
6 - 12 months	5.375	5.5	5.5	5.75	5.375	5.375
1 year and over	5.875	5.875	5.875	6.125	6.0	6.0

International reserves fell by \$33 million in June, continuing the decline begun in April. The seasonally adjusted trade balance showed a surplus in May for the fifth consecutive month, exceeding March's record surplus by \$3 million. The yen strengthened in May in the spot market after weakening at the end of April.

On the domestic side, the money market continued to ease in May and June. Call loan rates fell further as the Bank of Japan's basic discount rate was lowered again in June. Bank credit in April continued to expand at a slower rate than a year earlier. The volume of bond issues fell in April and the stock market fell to a new low in June.

Money market. Money market conditions remained easy in May in spite of moderately contractionary developments. The expansionary impact from a ¥57 billion reduction in bank notes in circulation, and net Treasury payments of ¥10 billion, was more than offset by an ¥85 billion decrease in Bank of Japan credit.

Interest rates. Call loan rates remained unchanged in May but were reduced 0.365 percentage points on June 14 as a result of advice given to the call loan brokers by the Bank of Japan. Call rates were reduced again by 0.365 percentage points on June 26 in conjunction with the reduction in the Bank of Japan's basic discount rate. (See Table 3). This action brought the rates to their lowest level in years. At 6.57 per cent on June 26, the unconditional call rate was substantially below the most recent high of 11.315 per cent last December.

Table 3. Japan: Average Call Loan Money Rates in Tokyo
(per cent)

	<u>Overnight</u> 1/	<u>Unconditional</u> 2/	<u>Over-month-end</u> 3/
April 24	6.935	7.300	8.030
May 1	6.935	7.300	8.030
8	6.935	7.300	8.030
15	6.935	7.300	8.030
22	6.935	7.300	8.030
29	6.935	7.300	8.030
June 5	6.935	7.300	8.030
12	6.935	7.300	8.030
19	6.570	6.935	7.665
26	6.205	6.570	7.300

1/ For settlement on the following day.

2/ Repayable at a day's notice.

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

After remaining at 7.99 per cent during the last half of last year, the average rate on commercial bank loans and discounts declined steadily during the first four months of this year. In March the rate was 7.94 per cent and in April it fell to 7.92 per cent. The rate can be expected to decline further in line with the reduction in the Bank of Japan's basic discount rate in June.

Bank loans and discounts. Bank credit rose 1.0 per cent in April, compared with a 1.4 per cent increase in March, and a 1.5 per cent increase in April of last year. Loans, and bills discounted, showed slight declines of 0.1 per cent each, compared to increases of 2.2 and 0.5 per cent, respectively, in March. Banks are cautious about expanding their loans in view of the uncertain business outlook. All of the credit increase in April showed up in an 8.0 per

cent rise in bank holdings of securities, which had been unchanged in March. This rise in commercial bank securities holdings of some ¥250 billion in April probably reflected in part increased support of the various securities companies recently faced with heavy redemptions of investment trusts.

There was a 2.6 per cent decline in deposits during April, compared to a seasonally large increase in March of 6.4 per cent, and an identical decline in February last year.

The proportion of bank loans and discounts extended for purchases of equipment was 17.3 per cent in April, up slightly from the 17.1 per cent figure in March. This is the highest figure since the cyclical low in March of 1963.

As in April, Bank of Japan operations in May were contractionary. (See Table 4). The Bank sold (net) ¥70 billion in securities and reduced its loans by ¥15 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
<u>1965</u>			
I Quarter	+ 217.5	+ 216.5	+ 1.0
January	+ 42.2	+ 114.8	- 157.0
February	+ 155.2	+ 36.4	+ 118.8
March	+ 104.5	+ 65.3	+ 39.2
April	- 244.6	- 25.9	- 198.7
May	- 85.1	- 15.0	- 70.1

Bond market. New issues of bonds fell in April to ¥159 billion from March's record level of ¥224 billion. Most of the decline was in new issues of public corporation bonds, which fell from ¥95 to ¥36 billion, but this

volume was still above the February level of ¥31 billion. New issues of industrial debentures also fell by ¥8 billion to a level of ¥23 billion. New issues of bank debentures, however, continued to climb, increasing ¥2 billion to the ¥100 billion mark, the highest level since last December.

Bond yields in April were again mostly unchanged. Average yields on local government securities, public corporation bonds and one-year bank debentures remained at the 1964 rates of 7.354, 7.053 and 6.224 per cent, respectively. The yield on long-term bank debentures was down slightly to 7.286 per cent, while the yield on industrial bonds fell from 7.487 per cent in March to 7.475 per cent, the same rate as in February.

Stock market. During May and June stock prices continued to weaken and on July 8 reached a new five-year low. The market, which has generally been declining since July of 1961, weakened late in May--the Dow Jones average falling below the ¥1,100 level--upon news of the near bankruptcy of the Yamaichi Securities Company. On May 28, the Government announced that it would extend unlimited credit to support Yamaichi and other securities companies under financial pressure.

The securities companies continued to remain under pressure, however, as customers cashed in their investment trusts and asked for the return of bonds deposited with the companies for a fee. According to recent reports, the Bank of Japan by the end of June had extended \$65 million in special credits to the Yamaichi Securities Company, and on July 7 a special credit of \$2.8 million was extended to the Oi Securities Company, Japan's fifth largest securities company. During the first part of July the Bank of Japan also announced that three steps would be taken to further support the ailing securities market: (1) the credit authorization for the financially-pressed investment trusts will be increased by \$55 million from \$167 million to \$222 million; (2) the limit on loans that one of the special stock support-buying agencies (Japan Securities Holding Corporation) can obtain from banks will be raised by \$278 million, or from \$555 million to \$735 million; and (3) up to \$140 million in funds will be supplied to an unspecified agency by the Bank of Japan for the purpose of purchasing and holding stocks that are not in investment trusts.

In addition to lower stock prices and redemptions, securities companies have also been confronted with declining sales volume. In May the average daily volume on the First Section of the Tokyo Stock Exchange was 52 million shares compared to 153 million in May of 1964.

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

April 26	¥1,144	June 7	¥1,115	1964	High	¥1,369
		14	1,080		Low	¥1,203
May 4	1,173	21	1,076			
10	1,163	28	1,072	1965	High	¥1,290
17	1,149				Low	¥1,038
24	1,134	July 5	1,049			
31	1,097	8	1,038			

Foreign trade. Japan's seasonally adjusted trade surplus in May exceeded March's record surplus of \$54 million by \$3 million. This was the fifth consecutive month that Japan showed a surplus in its usually unfavorable trade balance. The "Year of the Serpent" is turning out to be the "Year of the Surplus," on trade account at any rate. Compared to the first quarter figures, imports in May were up 2 per cent and exports were up 8 per cent. 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					
	IV	I	II	III	IV	I	Jan.	Feb.	Mar.	Apr.	May
Imports	643	664	655	632	697	659	663	674	640	667 ^{a/}	674 ^{a/}
Exports	484	485	534	571	618	679	668	675	694	684 ^{a/}	731 ^{a/}
Balance	-159	-179	-121	-61	-79	+ 20	+ 5	+ 1	+ 54	+ 17 ^{a/}	+ 57 ^{a/}

a/ Preliminary.

Foreign reserves and capital flows. Japan's international reserves fell \$33 million in June to \$1,980 million. This was the third consecutive month of decline and brought the reserves to a level of \$73 million below March's peak. In April and May, official reserves fell \$34 and \$6 million, respectively. The recent declines reflect mainly adverse developments on capital account.

The ratio of Japan's international reserves to the Bank of Japan's note issue rose from 35.8 per cent in April to 36.7 per cent in May. The trend of a rising volume of note issue was reversed during the month, with a 2.8 per cent drop in the issue.

Table 7. Japan: Ratio of Reserves to Bank Notes

<u>End of Period</u>	<u>International Reserves</u> (billions of yen)	<u>Bank Notes Issued</u> (billions of yen)	<u>Reserves/ Bank Notes</u> (per cent)
1959	¥520.9	¥1,029.4	50.6
1960	701.6	1,234.1	56.9
1961	599.8	1,480.1	40.5
1962	727.9	1,745.9	41.7
1963	740.9	2,057.4	36.0
1964 March	718.6	1,774.8	40.5
June	697.3	1,860.6	37.5
September	698.0	1,836.1	38.0
December	719.6	2,298.8	31.3
1956 January	729.7	1,961.2	37.2
February	738.0	1,995.2	37.0
March	739.1	2,022.3	36.5
April	726.8	2,032.8	35.8
May	724.7	1,975.4	36.7

In May there was again a negative over-all balance in the international accounts as measured on an exchange transactions basis. The deficit of \$36 million was the same as in April, however, official reserves only declined \$6 million because of a \$30 million increase in Japan's gold tranche position with the IMF resulting from a U. K. drawing. (See Table 8). In contrast to the net outflow of long-term capital that occurred in March and April, there was a small surplus in May. Although service payments continued to rise in May, these were more than offset by the surplus on trade account. There was an unusually large negative errors and omissions entry of \$39 million in May.

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

	1964					1965					
	I	II	III	IV	Dec.	I	Jan.	Feb.	Mar.	Apr.	May
Trade account balance	- 93	- 37	71	94	131	51	- 77	95	134	31	102
Services balance	- 36	- 37	- 39	- 42	- 47	- 44	- 33	- 42	- 57	- 57	- 61
Current account	- 129	- 74	33	51	84	7	- 110	53	77	- 26	41
Net long-term capital receipts		23	42	28	33	5	27	26	- 39	- 13	6
Net short-term capital receipts		99	42	- 54	- 55	11	128	- 63	- 31	16	- 44
Net balance on capital account		122	84	- 26	- 22	16	155	- 37	- 70	3	- 38
Errors and omission	- 14	- 30	- 5	- 16	- 7	- 6	- 17	7	- 7	- 13	- 39
Over-all balance of payments	- 21	- 20	1	13	55	17	28	23	0	- 36	- 36

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, fell \$29 million in April to \$2,819 million.

Table 9. 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	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	2,496	2,787
1965	2,726	2,726	2,848 ^{a/}	2,819 ^{a/}								

NOTE. Data for 1962, 1963 and 1964 have been revised and include \$52 million reported by banks initially as of December 31, 1961. The December 1964 figure includes \$134 million in newly reported data.

^{a/} Preliminary.

In June, Japan successfully floated its second bond issue in the American capital market since September of 1963, the first issue having been for \$22.5 million in April of this year. The Metropolis of Tokyo placed a \$20 million, 15-year, 60 per cent bond at a price of \$95.25 to yield 6.50 per cent. Proceeds from the issue will be used to finance part of the cost of reclaiming the land for the Port of Tokyo Development Plan. The issue was originally scheduled in late May with a coupon rate of 5-3/4 per cent, but this was later changed to 6.0 per cent.

On June 1, Japan relaxed its foreign currency reserve requirement system. Prior to this time, Japanese foreign exchange banks were required to maintain a 25 per cent reserve in liquid foreign assets (such as cash, deposits with foreign banks, call loans, and short-term government securities) against short-term foreign liabilities outstanding in July 1964, and 35 per cent against any excess above the July 1964 balance. Under the new system, the 35 per cent requirement has been abolished and only the basic 25 per cent requirement must be retained against all current liabilities.

Foreign exchange. The yen strengthened in the spot market during the last half of May, after falling to ¥362.60 to the dollar at the end of April, the lowest level in ten months. Between May 19 and May 29, the spot middle rate strengthened from ¥362.55 to ¥361.80 to the dollar. After weakening again around the end of the month, the rate improved and by June 15 was at ¥361.30 to the dollar.

The forward middle rate was relatively stable during this period, remaining between ¥361.80 and ¥361.90 to the dollar from mid-May to early June. Between June 11 and 15 the rate appreciated to ¥361.45.

With the strengthening in the spot rate in the second week of May, the forward premium, that had generally prevailed since April 7, changed to a discount.

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
April	26	362.45	361.75	.77*
May	4	362.60	362.05	.61*
	10	362.60	362.15	.50*
	15	362.45	361.90	.61*
	22	362.35	361.90	.50*
	29	361.80	361.80	.00
June	5	362.40	361.80	.66*
	12	361.65	361.75	.11
	15	361.30	361.45	.17

* Premium.

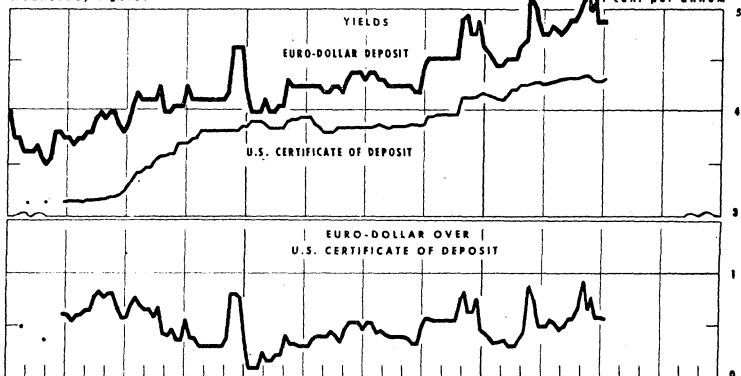
Asia, Africa and Latin America Section.

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Chart 1

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

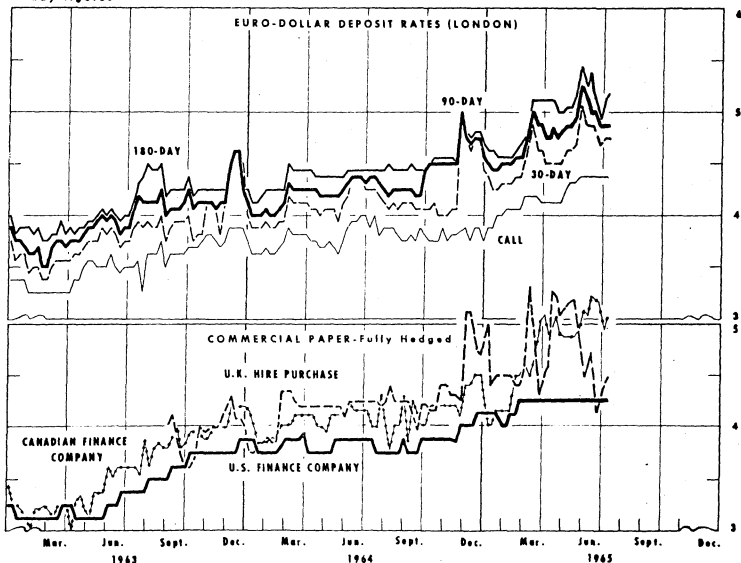
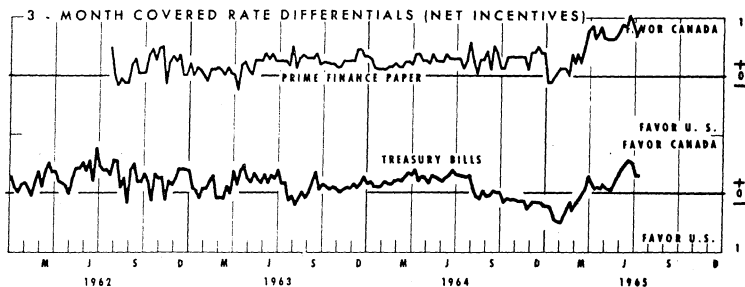
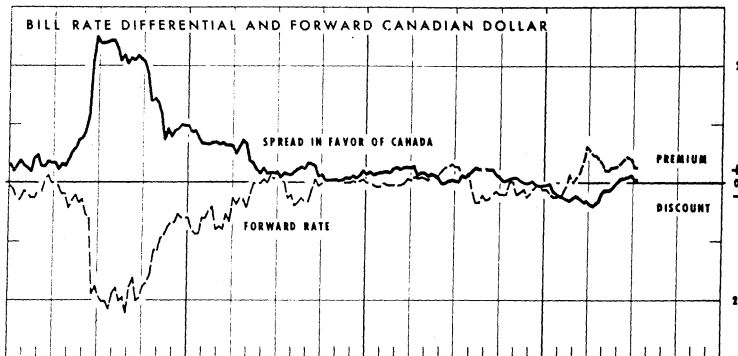
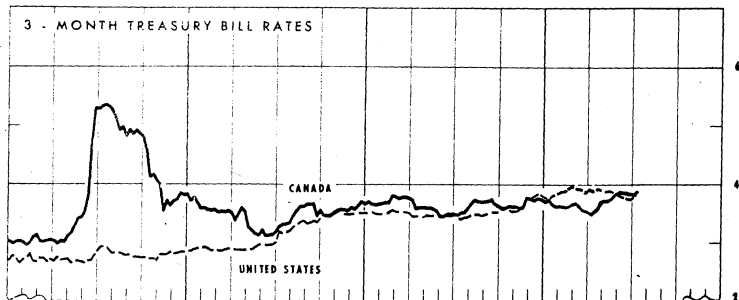


Chart 2

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

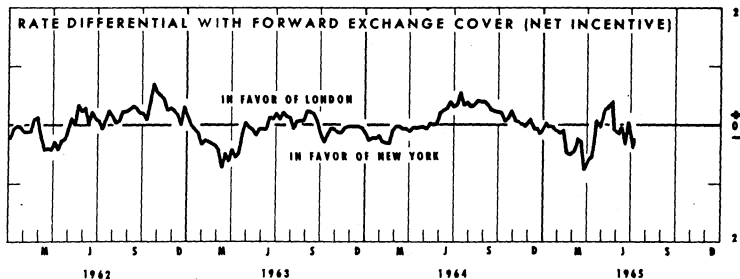
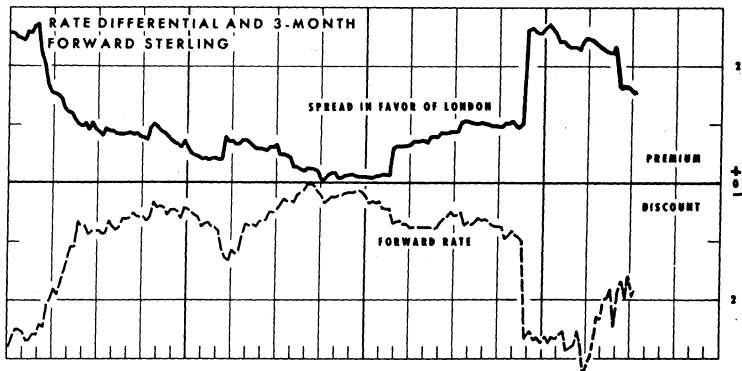
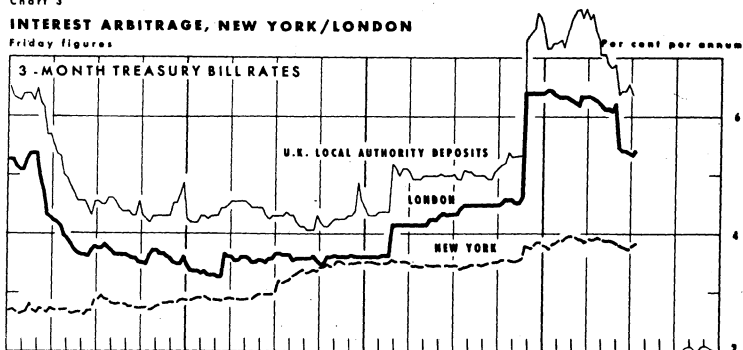


Chart 4

INTEREST ARBITRAGE FOR GERMAN COMMERCIAL BANKS

Friday figures

Per cent per annum

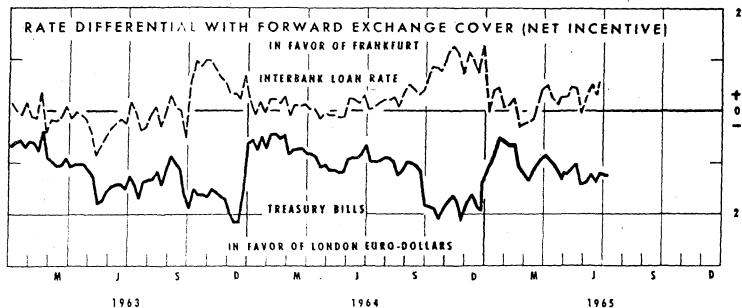
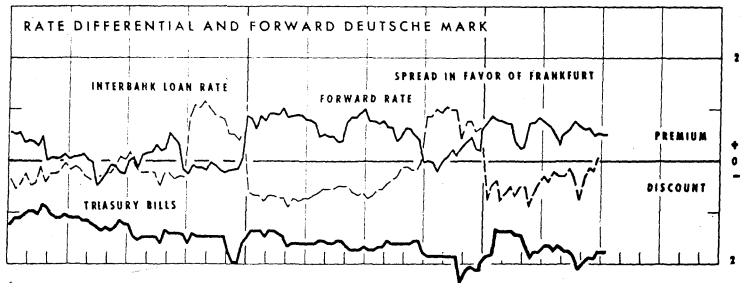
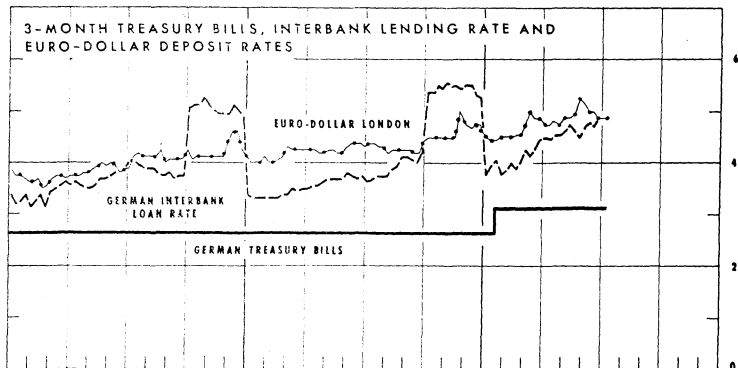
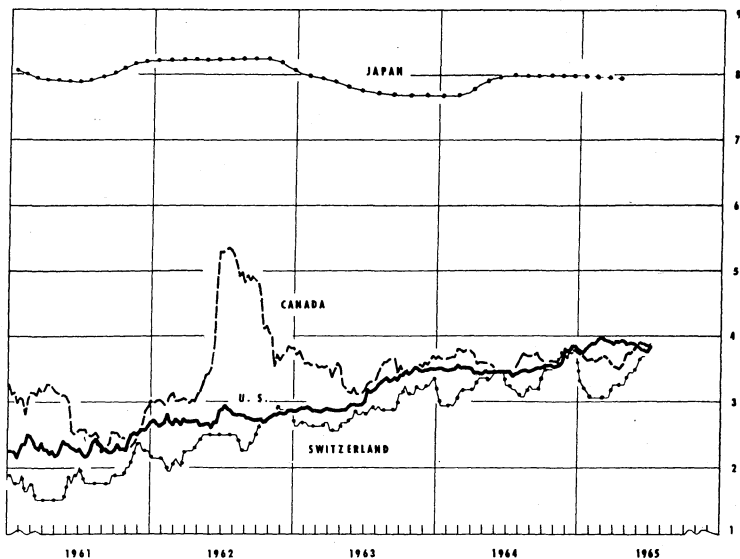
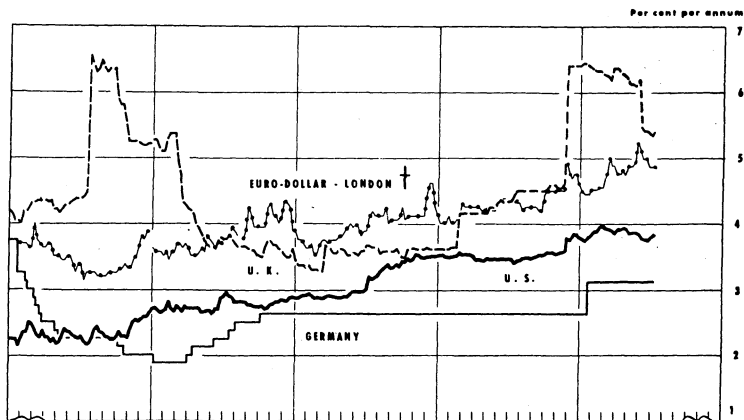


Chart 5
SHORT-TERM INTEREST RATES*



* 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

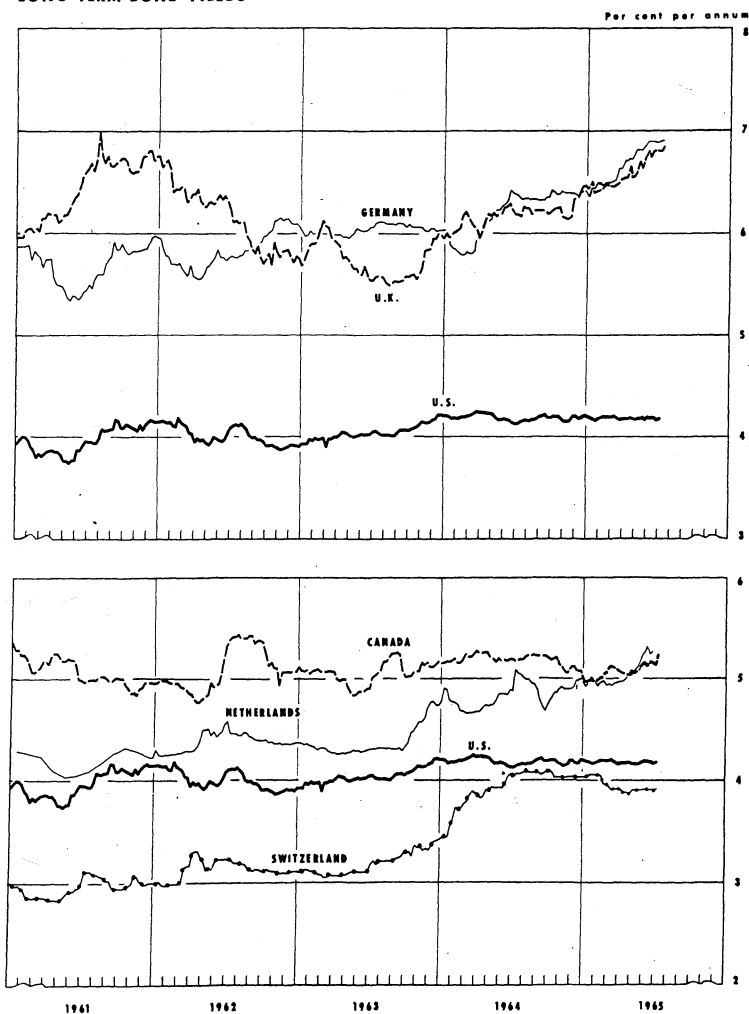
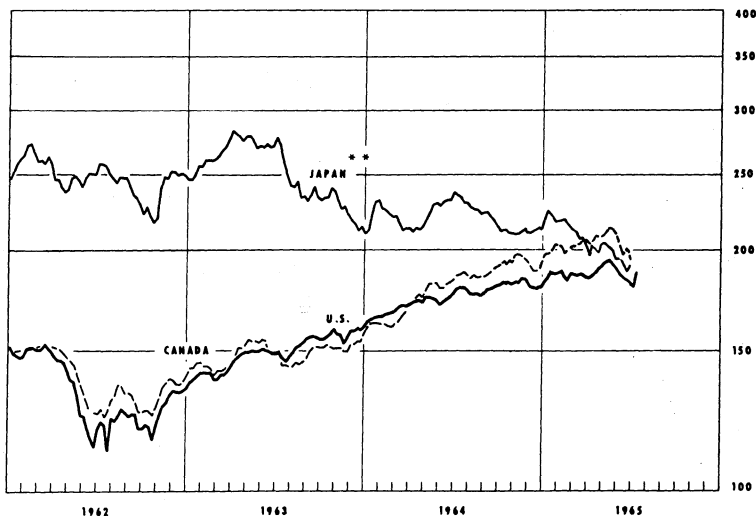
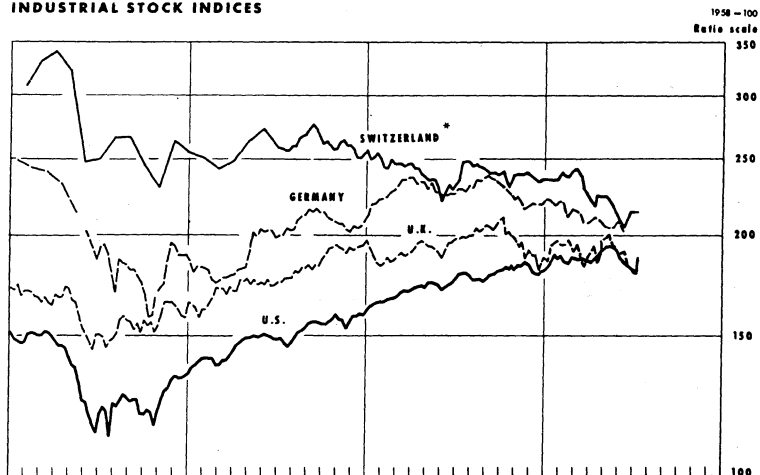


Chart 7

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

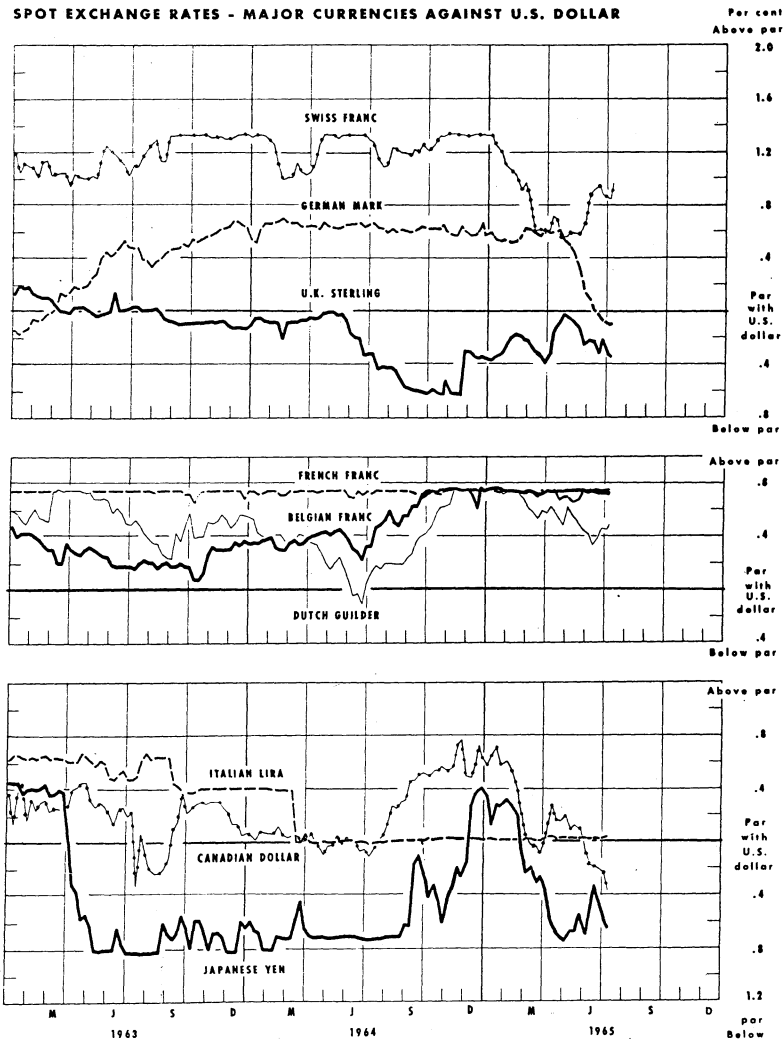
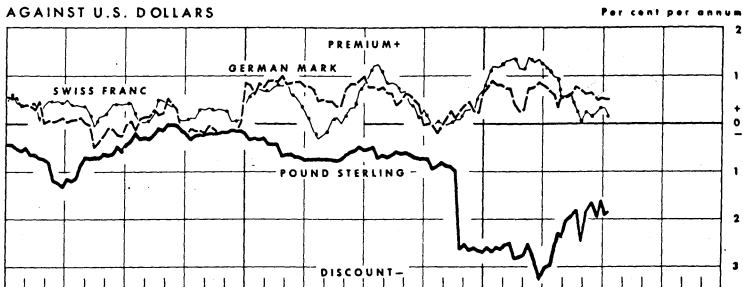
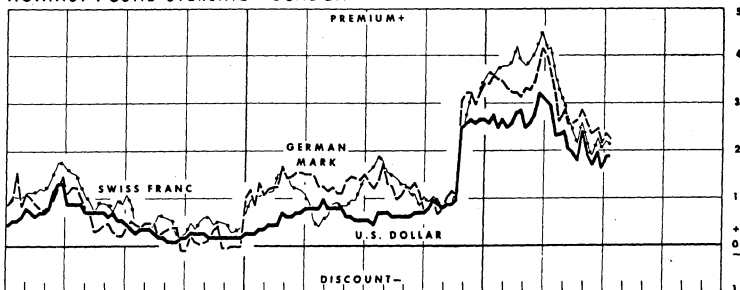


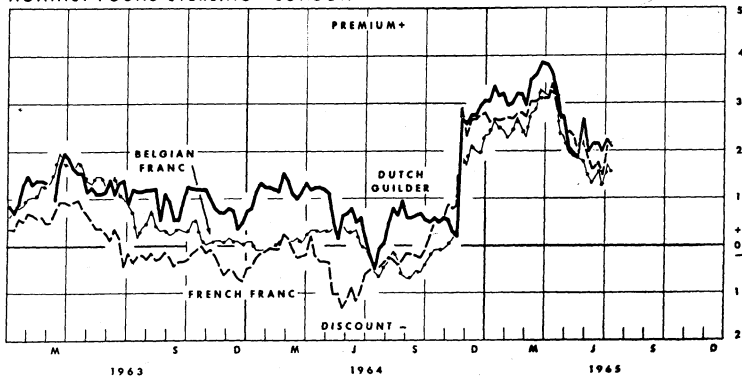
Chart 9
3-MONTH FORWARD EXCHANGE RATES
Friday figures
AGAINST U.S. DOLLARS



AGAINST POUND STERLING - LONDON



AGAINST POUND STERLING - LONDON



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, <u>July 9</u> , except as noted)	
(Wednesday, <u>July 7</u>)		Treasury bills:	
Euro-\$ deposit	<u>4.88</u>	U.S.	<u>3.84</u>
U.S. certif. of deposit	<u>4.32</u>	U.K.	<u>5.42</u>
<u>Lower panels</u>		Germany	<u>3.12</u>
(Friday, <u>July 9</u>)		Canada	<u>3.87</u>
Euro-dollar deposits: Call	<u>4.38</u>	Swiss 3-month deposits	
7-day	<u>4.50</u>	(Date: <u>June 15</u>)	<u>3.69</u>
30-day	<u>4.75</u>	Euro-\$ deposit (London)	<u>4.88</u>
90-day	<u>4.88</u>	Japan: composite rate	
180-day	<u>5.15</u>	(Date: <u>April 30</u>)	<u>7.921</u>
Finance Co. paper: U.S.	<u>4.25</u>	<u>Chart 6</u>	
Canada	<u>5.08</u>	Bonds:	
Hire-purchase paper, U.K.	<u>4.49</u>	U.S. govt.	
<u>Chart 2</u>		(Wed., <u>July 7</u>)	<u>4.18</u>
(Friday, <u>July 9</u>)		U.K. war loan	
Treasury bills: Canada	<u>3.87</u>	(Thurs., <u>July 8</u>)	<u>6.85</u>
U.S.	<u>3.84</u>	German Fed. Railway	
Spread favor Canada	<u>+0.03</u>	(Fri., <u>July 9</u>)	<u>6.89</u>
Forward Canadian dollar	<u>+0.27</u>	Swiss Confederation	
Net incentive (Canada +)	<u>+0.30</u>	(Fri., <u>July 2</u>)	<u>3.92</u>
<u>Chart 3</u>		Canadian govt.	
(Friday, <u>July 9</u>)		(Wed., <u>July 7</u>)	<u>5.23</u>
Treasury bills: U.K.	<u>5.42</u>	Netherlands government	
U.S.	<u>3.84</u>	perpetual	
Spread favor U.K.	<u>+1.58</u>	(Fri., <u>June 18</u>)	<u>5.24</u>
Forward pound	<u>-1.82</u>	<u>June 25</u> ,	<u>5.27</u>
Net incentive (U.K. +)	<u>-0.24</u>		

For description and sources of data see special annex to H. 13 Number 164,
September 23, 1964.