

H. 13

August 25, 1965.

No. 210

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 June-July

In June and July, for the first time in many years, interest rates in Japan were moving close enough to those in foreign financial centers to influence decisions about financing by Japanese companies. Rates on domestic trade bills are now much more competitive with foreign acceptance financing.

In the long-term field, the prospective cost of new government-guaranteed bond issues in the United States is approaching 7 per cent; this approximates the cost of domestic financing. The Ministry of Finance has, accordingly, postponed any new bond issues until this fall. In fact, there is some doubt now that Japan will be able to successfully float this year the full \$100 million in bonds which the U. S. has exempted from the Interest Equalization Tax. There are also some indications that, with the decline in domestic call loan rates, Japanese financial institutions are beginning to purchase local stocks and bonds again.

The reduced level of interest rates in Japan has been due to the continued relaxation in monetary policy. On June 26, the Bank of Japan lowered its basic discount rate by 0.365 percentage points for the third time this year to 5.475 per cent, the lowest level since October of 1951. At the end of June, commercial banks lowered by 0.365 percentage points their voluntary maximum rates on bank loans and discounts.

According to preliminary data, Japanese borrowing in the U. S. rose \$4 million in May. This reflected a decline of \$3 million in short-term borrowing and a rise of \$7 million in long-term borrowing. (See Table 1). In June, Japan floated a bond issue for \$20 million in the United States, the second such bond issue since September of 1963.

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	Feb.	Mar.	Apr.	May
Short-term claims $\frac{1}{/}$	212	431	625 ^a / _/	229	69	24	303 ^a / _/	58	4	119	-30 ^P / _/	-3 ^P / _/
Long-term claims $\frac{1}{/}$	50	175	181 ^b / _/	61	15	26	79 ^b / _/	42	-1	19	7 ^P / _/	7 ^P / _/
TOTAL	262	606	806	290	84	50	382	100	3	138	-23 ^P / _/	4 ^P / _/

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Table 1. (Cont.)

	Change during year			Change during period									
	1962	1963	1964	1964				1965					
				I	II	III	IV	I	Feb.	Mar.	Apr.	May	
Securities ^{2/}	141	200	0	0	0	0	0	0	0	0	0	23	0
TOTAL	403	806	806	290	84	50	382	100	3	138		0p/	4p/

1/ Bank-reported liabilities to the U. S.

2/ New security flotations.

a/ Includes \$143 million newly reported in December.

b/ Includes \$45 million newly reported in December.

p/ Preliminary.

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

With the recent easing in the Euro-dollar market, the Ministry of Finance lowered in July and August the maximum authorized rates that Japanese foreign exchange banks may pay on Euro-dollars. (See Table 2). The authorized rates have generally been declining since the end of May. International reserves fell \$30 million in July to a level of \$1,950 million. Reserves have been declining steadily since the end of March.

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

Effective:	5/28/65	5/31/65	6/3/65	6/16/65	7/14/65	8/2/65
Less than 30 days	4.375	4.375	4.375	4.375	4.375	4.375
1 - 3 months	5.25	5.5	5.125	5.125	4.875	4.75
3 - 6 months	5.375	5.625	5.5	5.25	5.125	5.0
6 - 12 months	5.5	5.75	5.375	5.375	5.5	5.375
1 year and over	5.875	6.125	6.0	6.0	5.875	5.875

Imports fell sharply in July, producing a seasonally adjusted trade surplus of \$73 million, one of the largest surpluses in years. Exports remained at the high level of the previous two months.

After strengthening in the spot market during the first three weeks of June, the yen weakened in the foreign exchange market through mid-July.

On the domestic side, interest rates declined in June. The call loan rate in late June had fallen to one of the lowest levels in years; the average interest rate on banks loans and discounts also declined substantially in May and June. Bank credit in May continued to expand at a slower rate than a year earlier.

After reaching a new five-year low on July 12, the stock market rallied later in the month and generally rose during the first half of August.

On July 27 the Japanese Government announced new budgetary measures aimed at both bolstering lagging demand and dispelling some of the current "recession mood." The steps include:

1. Increasing the loan and investment budget for the current fiscal year by \$556 million to \$5.1 billion;
2. Restoring about 85 per cent of an earlier postponement of \$278 million in budget expenditures;
3. Speeding up disbursements of certain expenditures during the current fiscal year;
4. Reducing the lending rate of three governmental financial institutions by 0.3 percentage points; and
5. Deciding to float bonds to finance a deficit in the general account budget (as distinct from the loans and investment budget) for the next fiscal year beginning in April of 1966.

The last step represents a major departure from the policy followed since 1949 of balancing the general account budget. It will require special legislation.

Money market. Money market conditions eased in June as the Bank of Japan lowered its basic discount rate and expansionary factors remained dominant during the month. An expansion of ¥186 billion in Bank of Japan credit in June more than offset the contractionary developments from a ¥103 billion increase in bank notes in circulation and net Treasury receipts of ¥61 billion.

Interest rates. Call loan rates fell to very low levels in June; they remained unchanged through July and early August. Call rates 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. 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). The 6.57 per cent rate for "unconditional" call money is the lowest rate in years and is 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 1/</u>	<u>Unconditional 2/</u>	<u>Over-month-end 3/</u>
May 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
July 3	6.205	6.570	7.300
10	6.205	6.570	7.300
17	6.205	6.570	7.300
24	6.205	6.570	7.300
31	6.205	6.570	7.300

Table 3. (Cont.)

	<u>Overnight 1/</u>	<u>Unconditional 2/</u>	<u>Over-month-end 3/</u>
August 7	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.

With Japanese interest rates at such low levels, domestic trade financing is now becoming cheaper in some cases than foreign acceptance financing. Foreign acceptances currently carry rates of about 6.75 to 7.0 per cent per annum, but domestic import bills have a rate of 6.21 per cent. Adjusting for the fact that the latter have maximum maturities of 2 to 3 months, as against 4 months for foreign bills, the effective interest rate for domestic trade bills is about 6.94 to 7.3 per cent. Thus, domestic trade bills are now more competitive, if not slightly cheaper in certain cases. The Bank of Japan is somewhat concerned that this may pose a threat to Japan's foreign exchange holdings, and consideration is being given to liberalizing the quantitative limits imposed by the Ministry of Finance on the short-term foreign liabilities of Japanese foreign exchange banks.

The average interest rate on commercial bank loans and discounts continued to decline during May and June. In contrast to last December's peak of 7.99 per cent, the rate in May and June was 7.88 and 7.83 per cent, respectively.

Bank loans and discounts. Bank credit rose 1.5 per cent in May compared to an increase of 1.8 per cent a year earlier. Holdings of securities rose 4.2 per cent, while loans and bills discounted increased 1.2 and 0.7 per cent, respectively. A year earlier, securities holdings rose 5.4 per cent while loans, and bills discounted, increased 0.6 and 2.3 per cent, respectively. Since the end of January, bank credit has generally risen less rapidly than a year earlier. Deposits rose 1.2 per cent in May, the same rate as a year earlier.

The proportion of bank loans and discounts extended for purchases of equipment was 17.4 per cent in May, up slightly from the April level. The ratio has generally been rising this year following a low last December of 17.0 per cent.

Bank of Japan operations were expansionary in June. (See Table 4). The Bank purchased (net) ¥159 billion in securities and increased its loans by ¥27 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 (-)	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
<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
II Quarter	- 124.0	- 14.4	- 109.6
March	+ 104.5	+ 65.3	+ 39.2
April	- 224.6	- 25.9	- 198.7
May	- 85.1	- 15.0	- 70.1
June	+ 185.7	+ 26.5	+ 159.2

In late July, the Bank of Japan decided to reduce its bond-buying operations in August and to use instead more direct loans to commercial banks. With three reductions in the Bank of Japan's basic discount rate this year, commercial banks now favor obtaining funds from the Bank of Japan by means of direct borrowing rather than from the more expensive bond-buying operations which were first begun in November of 1962.

Bond Market. The volume of new bond issues in May was only ¥1 billion higher than the ¥159 billion in issues in April. New issues of bank debentures were ¥100 billion, the same as in April, and new issues of industrial bonds were ¥27 billion, up ¥4 billion from the April level. New issues of public corporation bonds in May were ¥33 billion, down ¥3 billion from the level in April.

Bond yields again remained mostly unchanged in May. 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 7.285 per cent, while the yield on industrial bonds rose from 7.465 per cent in April to 7.472 per cent in May.

Stock market. The stock market remained weak in June and early July, reaching a new five-year low on July 12. During the last week of July, however, the market rallied sharply; by August 16, the Dow-Jones

stock average was ¥1,158, or 14 per cent above the July 12 low. (See Table 5). The recent rally has been attributed to a series of stimulative measures announced by the Government, to the decision by the Government in early August to issue government bonds for the first time in many years, and to the relative attractiveness of stocks and bonds in view of the decline in call loan money rates. It is expected that the new bond issues, which are planned for the next fiscal year beginning in April 1966, would be purchased mainly by the Bank of Japan.

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

May	31	¥1,097	July 12	¥1,020	1964 High	¥1,369
			19	1,038	Low	1,203
June	7	1,115	26	1,034	1965 High	¥1,290
	14	1,080	August 2	1,021	Low	1,020
	21	1,076	9	1,151		
	28	1,072	16	1,158		
July	5	1,049				

Net stock investment trust cancellations and redemptions were smaller in July than in June. According to preliminary data, they totaled ¥42 billion in June, and then fell to ¥22 billion in July.

Foreign trade. The seasonally adjusted trade balance in July registered the largest surplus in years as imports fell 10 per cent. Exports also declined, but by only 1 per cent. This produced a surplus of \$73 million in contrast to a surplus of only \$1 million in June. During the first half of 1965 the average surplus on trade account was \$21 million. 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	II	Apr.	May	June	July
Imports	643	664	655	632	697	659	689	667	675	726	650a/
Exports	484	485	534	571	618	679	711	684	723	727	723a/
Balance	-159	-179	-121	-61	-79	+20	+22	+17	+48	+1	+73

a/ Preliminary.

Foreign reserves and capital flows. International reserves continued their steady decline for the fourth consecutive month since March, falling \$30 million in July. This brought the reserve level to \$1,950 million, or \$103 million below the March peak. In general, the decline has been due to adverse developments on capital account.

The ratio of Japan's international reserves to the Bank of Japan's note issue fell from 36.7 per cent in May to 34.3 per cent in June. This continues the generally declining trend evident in recent years.

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>
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
1965	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
	June	712.8	2,078.3		34.3

The over-all balance of payments (as measured on an exchange transactions basis) again registered a deficit of \$38 million in June. Official reserves actually fell only \$33 million rather than \$38 million due to a \$5 million increase in Japan's gold tranche position with the IMF because of a drawing by India. (See Table 8). There was a net outflow of both long-term and short-term capital in June, but the errors and omissions item registered a plus \$20 million.

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

	<u>1964</u>					<u>1965</u>				
	<u>I</u>	<u>II</u>	<u>III</u>	<u>IV</u>	<u>Dec.</u>	<u>I</u>	<u>II</u>	<u>Apr.</u>	<u>May</u>	<u>June</u>
Trade account balance	- 93	- 37	71	94	131	51	85	31	102	123
Services balance	- 36	- 37	-39	-42	- 47	-44	-58	-57	- 61	- 55
Current account	-129	- 74	33	51	84	7	27	-26	41	68
Net long-term capital receipts	23	42	28	33	32	5	-10	-13	6	- 22
Net short-term capital receipts	99	42	-54	-55	- 52	11	-44	16	- 44	-104
Net balance on capital account	122	84	26	-22	- 22	16	-54	3	- 38	-126

Table 8. (Cont.)

	1964					1965				
	I	II	III	IV	Dec.	I	II	Apr.	May	June
Errors and omissions	- 14	- 30	- 5	-16	- 7	- 6	-11	-13	- 39	20
Over-all balance of payments	- 21	- 20	1	13	55	17	-37	-36	- 36	- 38

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 \$3 million in May to \$2,821 million. This represents the second consecutive month in which short-term claims on Japan have declined, but the total decline for the two months amounted to only \$33 million. There have been larger declines than this in the past in a single month.

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	2,796
1965	2,731	2,735	2,854	2,824 ^{a/}	2,821 ^{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 \$143 million in newly reported data.

^{a/} Preliminary.

Japanese long-term liabilities to the U. S., as reported by U. S. banks, rose \$7 million in May according to preliminary reports. (See Table 10).

Table 10. Long-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	13	14	15	15	17	17	16	15	16	15	16	16
1960	16	16	14	14	14	14	18	18	21	21	19	19
1961	19	19	18	19	18	19	20	19	25	23	25	24
1962	24	25	31	28	29	49	50	54	54	62	69	74
1963	74	74	76	83	104	111	119	136	143	146	170	249
1964	280	295	311	319	323	325	329	332	351	352	369	430
1965	455	454	472	479 ^{a/}	486 ^{a/}							

NOTE: Data for recent years have been revised and the December 1964 figure includes \$45 million in newly reported data.

There were no foreign bond issues in July, but in June Japan successfully floated its second bond issue in the American capital market since September of 1963. The first issue, for \$22.5 million, was placed in April of this year. The Metropolitan of Tokyo placed a \$20 million, 15-year, 6 per cent bond in June at a price of \$95.25 to yield 6.50 per cent. 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.

Foreign exchange. The yen strengthened in the spot market during the first three weeks of June, but then began to weaken after June 22. It depreciated steadily through mid-July. In the forward market, the yen strengthened moderately through mid-June, but then weakened steadily through mid-July. The strength in the spot market in the third and fourth weeks of June turned the forward premium into a discount, but after June 28, the yen remained at a premium in the forward market.

Table 11. 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
May 31	361.90	361.80	.11*
June 7	362.40	361.80	.66*
14	361.50	361.65	.17
21	361.20	361.55	.39
28	361.60	361.65	.06
July 5	362.10	361.75	.39*
12	362.30	361.80	.55*
15	362.40	362.00	.44*

* Premium.

Asia, Africa and Latin America Section.

II. Nine Charts on Financial Markets Abroad

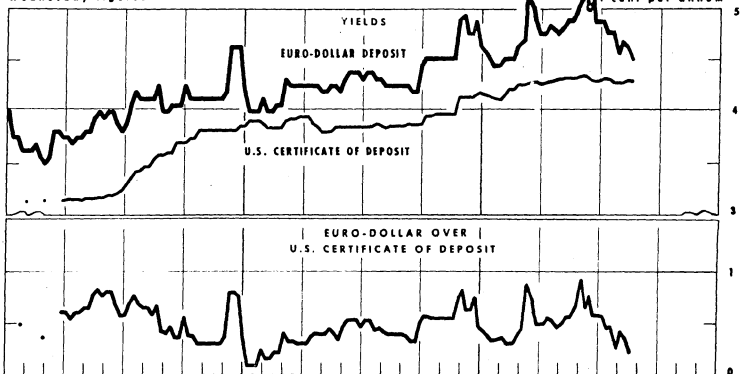
- Chart 1 - International Money Market Yields for U. S. Dollar Investors
- Chart 2 - Interest Arbitrage, United States/Canada
- Chart 3 - Interest Arbitrage, New York/London
- Chart 4 - Interest Arbitrage for German Commercial Banks
- Chart 5 - Short-term Interest Rates
- Chart 6 - Long-term Bond Yields
- Chart 7 - Industrial Stock Indices
- Chart 8 - Spot Exchange Rates - Major Currencies Against U. S. Dollar
- Chart 9 - 3-Month Forward Exchange Rates

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

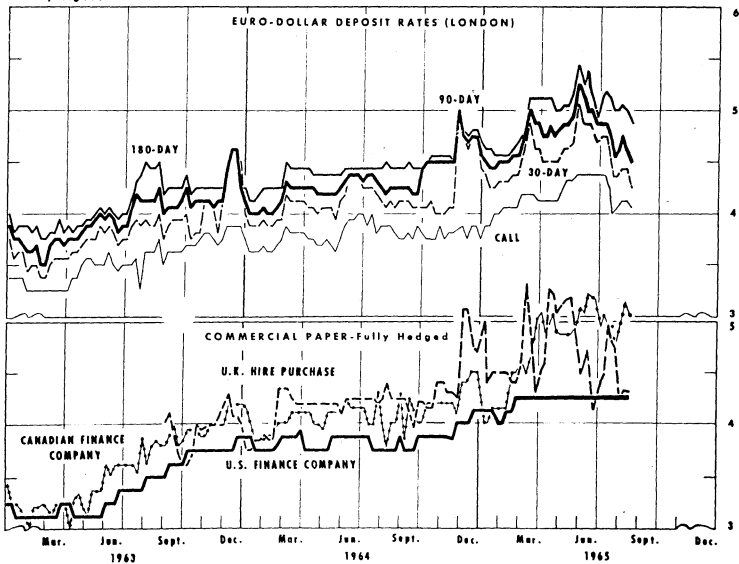
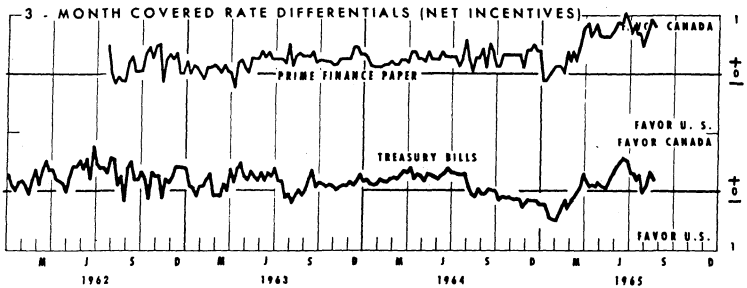
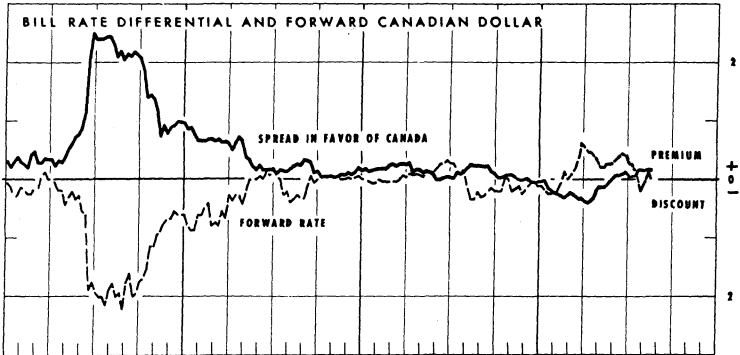
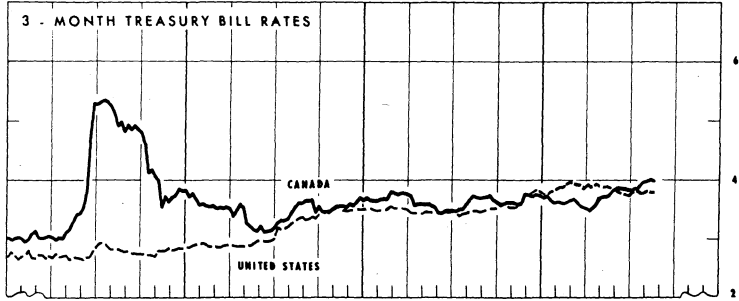


Chart 2

INTEREST ARBITRAGE, UNITED STATES / CANADA

Friday figures*

Per cent per annum

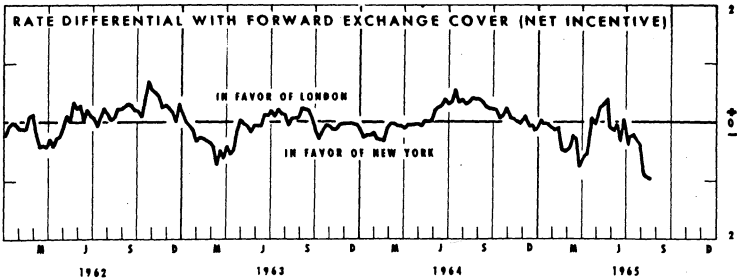
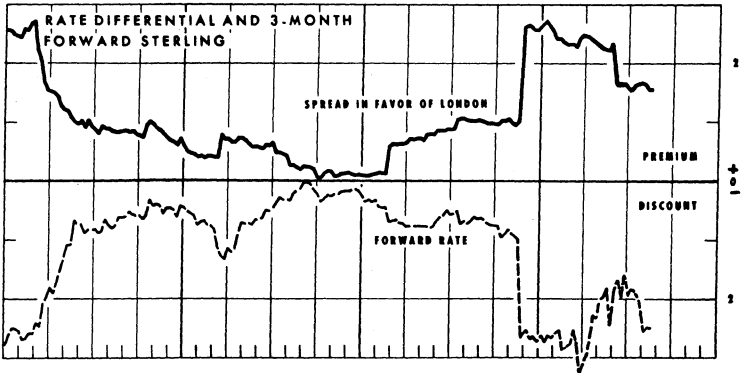
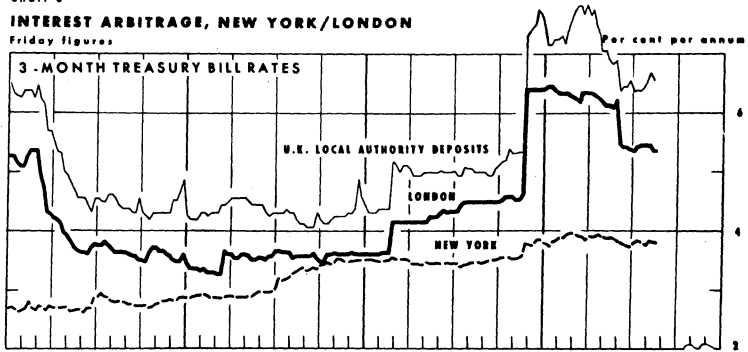


Thursday figures 1962, Friday thereafter.

Chart 3

INTEREST ARBITRAGE, NEW YORK/LONDON

Friday figures



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Chart 4

INTEREST ARBITRAGE FOR GERMAN COMMERCIAL BANKS

Friday figures

Per cent per annum

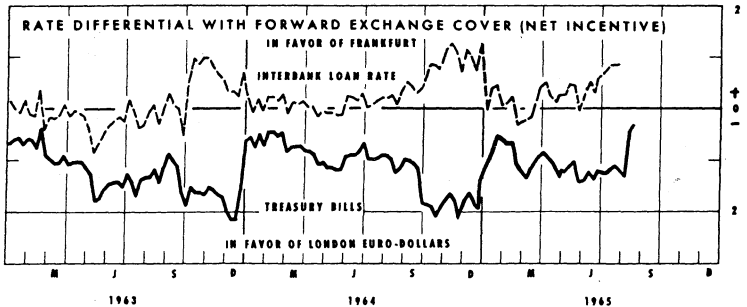
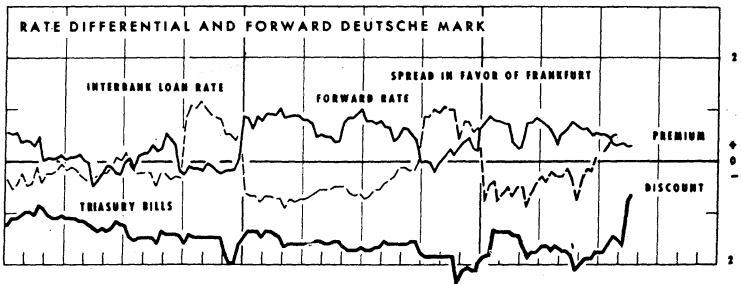
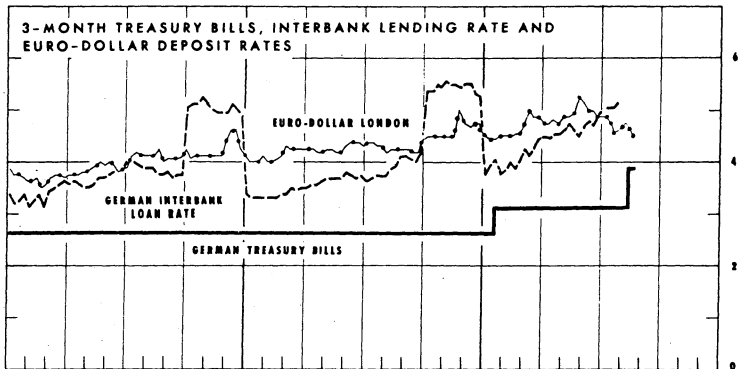
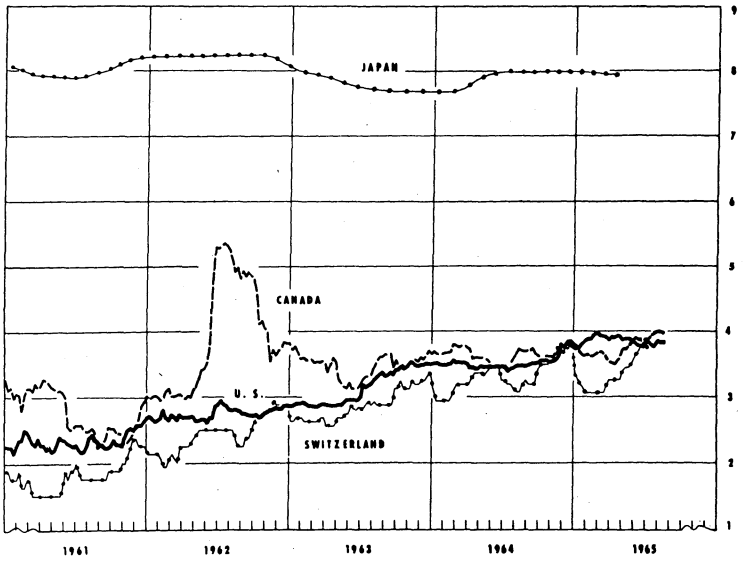
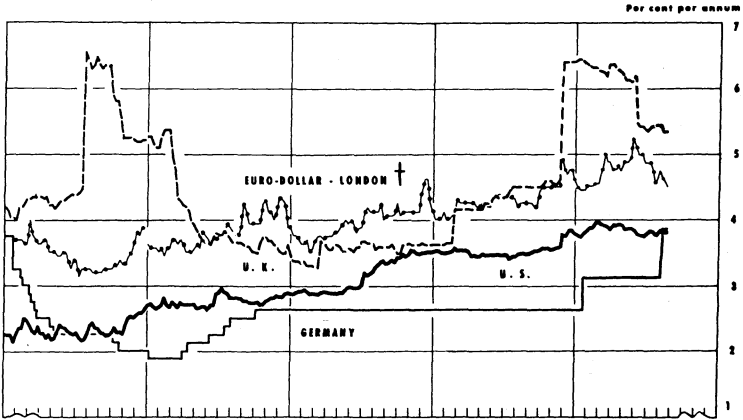


Chart 5
SHORT-TERM INTEREST RATES*



* 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.

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Chart 6
LONG-TERM BOND YIELDS

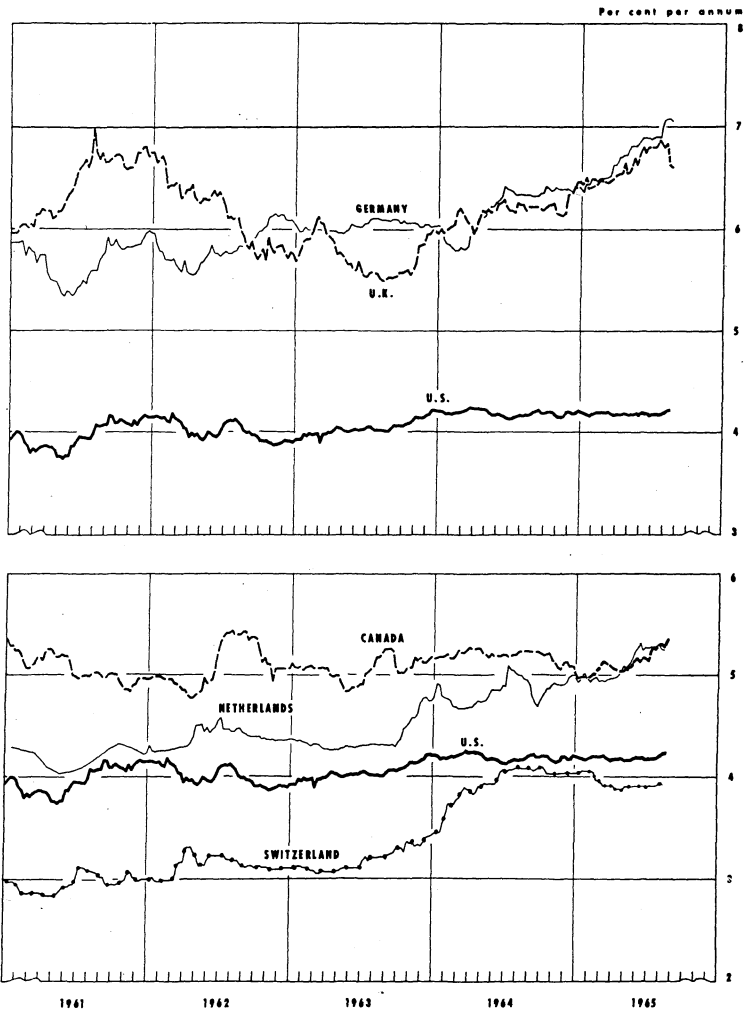
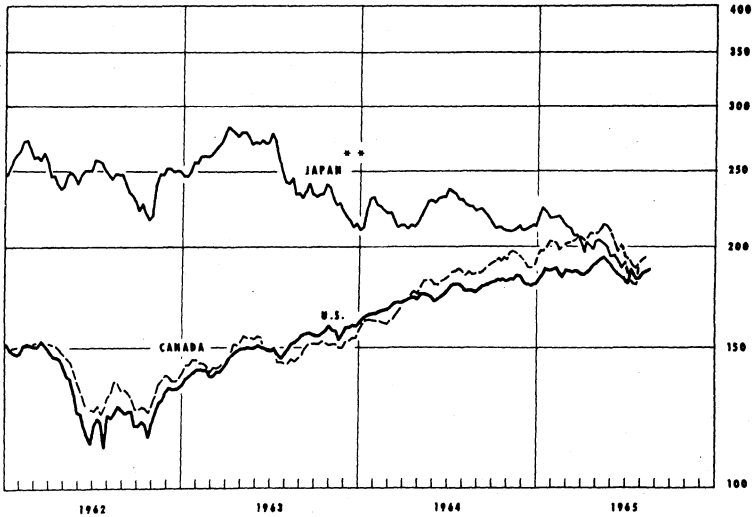
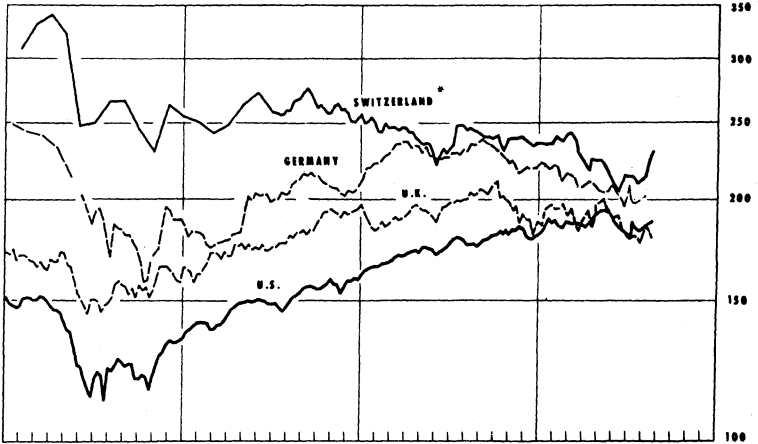


Chart 7

INDUSTRIAL STOCK INDICES

1928 = 100
Ratio scale



* Swiss Bank Corporation industrial stock.

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

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

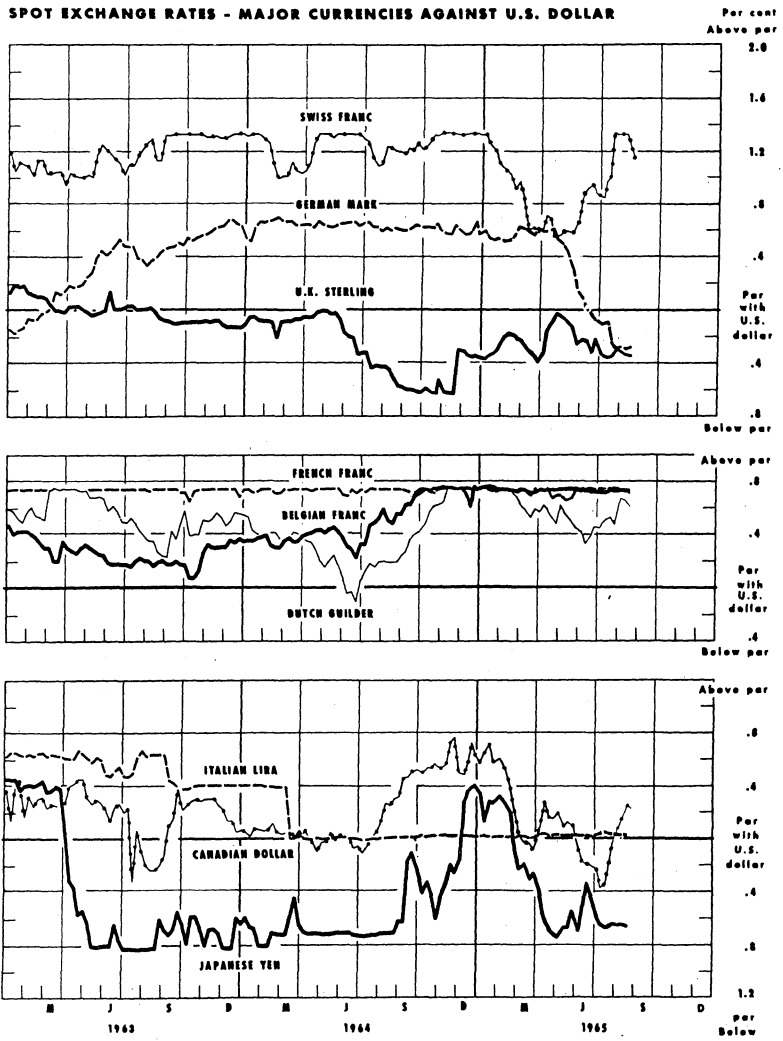
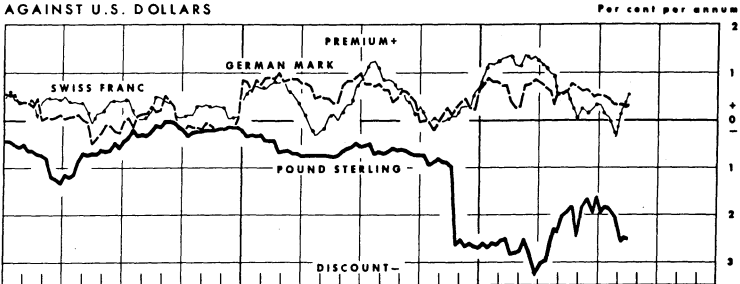
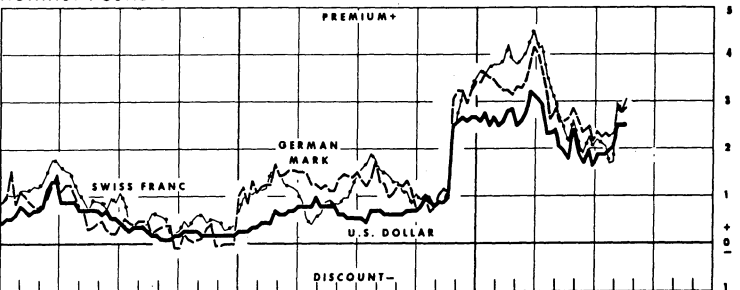


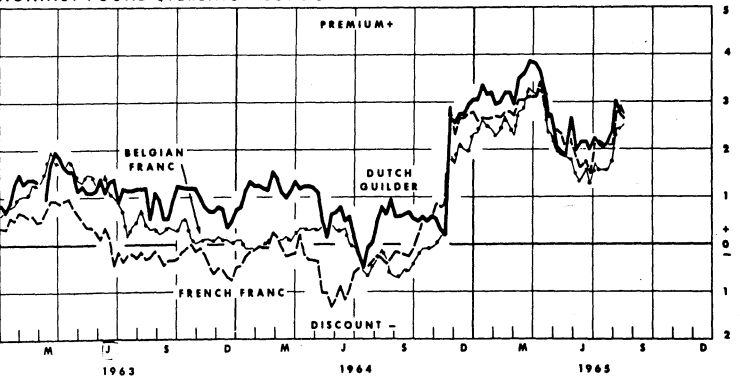
Chart 9
3-MONTH FORWARD EXCHANGE RATES
 Friday figures
 AGAINST U.S. DOLLARS



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, Aug. 20 , except as noted)	
(Wednesday, Aug. 18)		Treasury bills:	
Euro- $\$$ deposit	<u>4.50</u>	U.S.	<u>3.81</u>
U.S. certif. of deposit	<u>4.29</u>	U.K.	<u>5.36</u>
<u>Lower panels</u>		Germany	<u>3.88</u>
(Friday, Aug. 20)		Canada	<u>3.98</u>
Euro-dollar deposits:		Swiss 3-month deposits	
Call	4.063	(Date: July 15)	<u>3.75</u>
7-day	4.188	Euro- $\$$ deposit (London)	<u>4.50</u>
30-day	4.250	Japan: composite rate	
90-day	4.500	(Date: Apr. 30)	<u>7.92</u>
180-day	4.875	<u>Chart 6</u>	
Finance Co. paper: U.S.	<u>4.25</u>	Bonds:	
Canada	<u>5.06</u>	U.S. govt.	
Hire-purchase paper, U.K.	<u>4.30</u>	(Wed., Aug. 18)	<u>4.23</u>
<u>Chart 2</u>		U.K. war loan	
(Friday, Aug. 20)		(Thurs., Aug. 19)	<u>6.60</u>
Treasury bills: Canada	<u>3.98</u>	German Fed. Railway.	
U.S.	<u>3.81</u>	(Fri., Aug. 20)	<u>7.06</u>
Spread favor Canada	<u>+0.17</u>	Swiss Confederation	
Forward Canadian dollar	<u>0</u>	(Fri., Aug. 13)	<u>3.92</u>
Net incentive (Canada +)	<u>+0.17</u>	Canadian govt.	
<u>Chart 3</u>		(Wed., Aug. 18)	<u>5.36</u>
(Friday, Aug. 20)		Netherlands government	
Treasury bills: U.K.	<u>5.36</u>	perpetual	
U.S.	<u>3.81</u>	(Fri., Aug. 20)	<u>5.24</u>
Spread favor U.K.	<u>+1.55</u>		
Forward pound	<u>-2.51</u>		
Net incentive (U.K. +)	<u>-0.96</u>		