

H. 13

November 9, 1966.

No. 273

**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 September-October 1966.

- 1. Summary
- 2. Money market
- 3. Interest rates
- 4. Bank loans and discounts
- 5. Bond market
- 6. Stock market
- 7. Foreign trade
- 8. Foreign reserves and capital flows
- 9. Foreign exchange

1. Summary. Japan's international reserves have been declining generally since March of this year. The foreign trade accounts have remained in surplus, though on a reduced scale as import expansion has outpaced growth in foreign sales. Much of the downward pressure on Japan's reserve position has been due to a shift from dollar acceptance to domestic yen financing for imports, leading to reductions in Japanese short-term borrowing in the U. S., as illustrated in Table 1. The shift in financing was probably a major factor behind the reduction of \$143 million in short-term borrowing in July, when the largest monthly decline in reserves was registered. Reserves have also been declining this year because of increased capital outflows.

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

	Change during year				Change during period							
	1962	1963	1964	1965	1965		1966					
					III	IV	I	II	May	June	July	Aug.
Short-term claims <sup>1/</sup>	212	431	482	-59	-125	-4	16	-49	-23	-26	-143P/	-50P/
Long-term claims <sup>1/</sup>	50	128	136	15	-8	-26	-11	-28	-5	-19	-3P/	-10P/
TOTAL	262	559	618	-44	-133	-30	5	-77	-28	-45	-146P/	-60P/
Security flotations	141	200	0	63	20	20	0	0	0	0	0	0
TOTAL	403	759	618	19	-113	-10	5	-77	-28	-45	-146P/	-60P/

<sup>1/</sup> U. S. claims on Japan as reported by U. S. banks

<sup>p/</sup> Preliminary.

NOTE: See Tables 7 and 8 for adjustments to the figures on claims that might affect the changes indicated here. Newly reported data added \$150 million to short-term claims in 1964, and \$47 million and \$45 million to long-term claims in 1963 and 1964, respectively.

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(Decontrolled after 6 months)

International reserves continued to decline in September-October, dropping \$44 million to \$2,019 million. The seasonally adjusted trade balance registered a surplus of \$13 million in September, somewhat lower than in earlier months, because of a substantial rise in imports. In the foreign exchange market, the yen remained generally weak and the forward premium declined due to a moderate depreciation in the three-month forward rate.

On the domestic side, the money market continued to remain relatively easy in September and October following a temporary tightening in August. Commercial bank interest rates continued to decline through August and bank credit expanded only moderately. The volume of monthly bond issues has been rising in recent months and National Government bond issues were easily absorbed in September. Stock prices were generally depressed, partly because the government-sponsored stock-buying agencies were selling shares acquired previously.

2. Money market. Money market conditions were relatively easy in September-October following a brief tightening in late August. Monetary developments had a net expansionary impact in September as a ¥24 billion contraction in net Bank of Japan credit and a ¥2 billion expansion in bank notes was more than offset by a Treasury deficit of ¥37 billion. Factors contributing to the easier market in September included government payments for early rice deliveries and a transfer of central government funds to local entities.

3. Interest rates. Call loan rates reported by the Bank of Japan remained unchanged in September-October. (See Table 2). These levels have been maintained since October of last year.

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

	<u>Overnight 1/</u>	<u>Unconditional 2/</u>	<u>Over-month-end 3/</u>
Throughout August	5.475	5.840	6.570
Throughout September	5.475	5.840	6.570
Throughout October	5.475	5.840	6.570

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.

Newspaper reports, however, indicate that a temporary tightening of market conditions in August caused the rate on some call loans to exceed the Bank of Japan's "guidance," or suggested maximum, rate of 6.75 per cent. Market sources have also indicated that the compound call loan rate based on a weighted average rose from 6.48 per cent in April-May of this year to 6.66 per cent in mid-August.

The average interest rate on commercial bank loans and discounts continued to decline, dropping to 7.48 per cent in July and 7.45 per cent in August. This contrasts with the previous peak of 7.99 per cent reached in late 1964.

4. Bank loans and discounts. Bank credit continued to expand at a moderate rate in August, increasing 0.8 per cent as against 1.1 per cent a year earlier. Loans and holdings of securities increased 1.8 per cent and 0.3 per cent, respectively, but bills discounted fell 1.2 per cent. Bank deposits rose 0.8 per cent, the same as a year earlier.

According to press reports, long-term credit banks and other trust and banking institutions have recently been stepping up their purchases of stocks in selected non-manufacturing enterprises. The banks are reportedly interested in further strengthening their controlling interest in these enterprises.

Bank of Japan credit contracted in September as loans were reduced ¥24 billion. (See Table 3). For the third quarter as a whole, however, Bank of Japan credit was expansionary, contributing to the general ease in the money market.

Table 3. Japan: Changes in Bank of Japan Loans and Holdings of Securities

Period	(1)	(2)	(3)
	(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
<u>1965</u>			
I Quarter	+217.5	+216.5	+ 1.0
II Quarter	-124.0	- 14.4	-109.6
III Quarter	+ 89.8	+133.1	- 43.3
IV Quarter	-129.8	-182.0	-311.8
<u>1966</u>			
I Quarter	+276.0	- 3.2	+279.2
II Quarter	- 29.9	- 29.3	- 0.6
III Quarter	+188.4	+ 17.1	+171.3
July	+120.8	+ 27.8	+ 93.0
August	+ 91.2	+ 12.9	+ 78.3
September	- 23.6	- 23.6	--

5. Bond market. The volume of bond issues continued to rise during the April-July period. New issues in July totaled ¥247 billion, up ¥8 billion from June. The increase was due entirely to a sharp rise in public corporation bond issues, as new issues of bank and industrial debentures tapered off. In August, new issues of bank debentures increased ¥9 billion to ¥143 billion, but new issues of industrial debentures were off ¥7 billion to ¥28 billion. Data are not yet available on new issues of public corporation bonds.

Yields on local government securities, public corporation bonds, and one-year bank debentures remained at their 1964-65 levels of 7.354, 7.053, and 6.224 per cent, respectively, in September. The yield on industrial bonds fell slightly to 7.465 per cent. Data are not yet available on long-term bank debentures in September but these yielded 7.282 per cent in August.

In September-October the Government continued to float part of the ¥700 billion in long-term national bonds scheduled for issue during the current fiscal year. A total of ¥120 billion was easily absorbed in September, mostly by the commercial and long-term credit banks. Present plans call for the further issue of ¥230 billion during the fourth quarter, consisting of ¥80 billion in October, ¥130 billion in November, and ¥20 billion in December.

On October 1, 1966, the Tokyo and Osaka stock exchanges formally listed National Government bonds on their exchanges for the first time since the end of the Second World War. The exchanges listed ¥200 billion in bonds issued last January-March, and an additional ¥210 billion is scheduled for listing in December of this year.

6. Stock market. Stock prices continued to remain depressed in September-October following earlier highs in July and April. The Dow Jones stock average remained in the 1400's during September-October and on November 7 was ¥1,445, or 9 per cent below the high for the year reached in April.

Table 4. Japan: Dow Jones Average of 225 Stocks, First Section of Tokyo Exchange

August	29	¥1,457	October	3	¥1,469	1965 High	¥1,409
				11	1,442	Low	¥1,020
September	5	1,457		17	1,433		
	12	1,442		24	1,414	1966 High	¥1,589
	19	1,436		31	1,441	Low	¥1,410
	26	1,468					
			November	7	1,445		

According to the October 4 Japan Economic Journal, the Japan Securities Holding Association will sell about ¥60 billion in stocks between October of this year and March of 1967. The Association was formed in January of 1965 and engaged in heavy purchases of stocks to support the market. Sales of stocks earlier this year depressed stock prices to such an extent that sales were suspended in mid-June.

7. Foreign trade. After levelling off in March-May, seasonally adjusted exports rose sharply in June-July. Following a dip in August, exports in September rose close to the high level reached in July. In the third quarter, exports averaged about 13 per cent higher than a year earlier. (See Table 5). Imports have also been rising and increased sharply during June-September. The third quarter average was 18 per cent higher than a year earlier. The seasonally adjusted balance on trade account has generally remained in surplus since early 1965, and averaged \$33 million monthly during the first nine months of this year.

Table 5. Japan: Seasonally Adjusted Foreign Trade, Monthly or Monthly Averages <sup>a/</sup>  
(in millions of dollars)

	1965		1966								
	III	IV	I	II	III	Apr.	May	June	July	Aug.	Sept.
Imports	685	693	741	762	805 <sup>b/</sup>	763	769	755	770	817	827
Exports	<u>732</u>	<u>694</u>	<u>788</u>	<u>790</u>	<u>828<sup>b/</sup></u>	<u>781</u>	<u>787</u>	<u>802</u>	<u>851</u>	<u>792</u>	<u>840</u>
Balance	+ 47	+ 1	+ 47	+ 28	+ 23 <sup>b/</sup>	+ 18	+ 18	+ 47	+ 81	- 25	+ 13

<sup>a/</sup> All figures on a customs basis.

<sup>b/</sup> Preliminary.

8. Foreign reserves and capital flows. International reserves continued to decline in September and October, falling \$19 and \$25 million, respectively. At the end of October official reserves were \$2,019 million, down \$90 million from the previous peak reached last February. This year's general decline contrasts with the steady rise in reserves during the last half of 1965. While the trade balance has been in surplus, there have been substantial net outflows on capital and services account.

On a transactions basis, the surplus on trade account has been large in recent months, but the net short-term capital outflow has increased, with the result that international reserves have been declining. (See Table 6). Reserves fell \$50 and \$19 million in July and September, respectively, but increased \$9 million in August.

Table 6. Japan: Balance of Payments on an Exchange Transactions Basis  
(in millions of dollars)

	1965				1966					
	I	II	III	IV	I	II	III	July	Aug.	Sept.
Trade account balance	51	85	173	151	80	99	167	177	176	147
Services balance	<u>-44</u>	<u>-58</u>	<u>- 56</u>	<u>- 54</u>	<u>-52</u>	<u>-57</u>	<u>- 43</u>	<u>- 46</u>	<u>- 40</u>	<u>- 42</u>
Current account	7	27	117	97	28	42	124	131	136	105

Table 6 (Cont.)

	1965				1966					
	I	II	III	IV	I	II	III	July	Aug.	Sept.
Net long-term capital receipts	5	-10	-24	-23	-45	-22	-33	-16	-30	-54
Net short-term capital receipts	<u>11</u>	<u>-44</u>	<u>-80</u>	<u>-18</u>	<u>13</u>	<u>-18</u>	<u>-104</u>	<u>-156</u>	<u>-51</u>	<u>-106</u>
Net balance on capital account	16	-54	-103	-41	-32	-40	-138	-172	-81	-160
Errors and omissions	-6	-11	-8	-10	4	-4	-6	-9	-46	+36
Overall balance of payments	17	-37	6	46	1	-2	-20	-50	9	-19

NOTE. Quarterly data are monthly averages. Data may not add exactly because of rounding. These data also differ from those in the earlier table on foreign trade as these are on an exchange transactions, rather than customs, basis, and are not seasonally adjusted.

Preliminary data indicate that short-term claims on Japan, as reported by U. S. banks, fell sharply in July and August, by \$143 and \$50 million, respectively. This brought the amount of total claims down to \$2,535 million, or \$226 million below the level at the end of 1965. (See Table 7). Part of the decline is due to a shifting from dollar to yen import financing.

Table 7. 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.
1961	875	952	1,069	1,159	1,196	1,272	1,341	1,335	1,288	1,281	1,292	1,528 <sup>b/</sup>
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	2,810 <sup>b/</sup>
1965	2,742	2,746	2,861	2,833	2,834	2,880	2,831	2,830	2,755	2,656	2,683	2,761 <sup>b/</sup>
1966	2,692	2,694	2,777	2,777	2,754	2,728	2,585 <sup>a/</sup>	2,535 <sup>a/</sup>				

<sup>a/</sup> Preliminary.

<sup>b/</sup> Includes newly reported data totaling \$52 million in December 1961, \$157 million in December 1964 and \$10 million in December 1965.

Long-term claims on Japan also continued to decline in July and August, falling by \$3 and \$10 million, respectively. (See Table 8). Since the record high of \$483 million in May of last year, U. S. claims have fallen by \$90 million.

Table 8. Long-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>
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 <sup>b/</sup>	111	119	136	143	146	170	249 <sup>b/</sup>
1964	280	295	311	319	323	325	329	332	351	352	269	430 <sup>b/</sup>
1965	455	454	472	479	483	479	482	475	471	464	462	445
1966	438	441	434	430	425	406	403 <sup>a/</sup>	393 <sup>a/</sup>				

a/ Preliminary.

b/ Includes newly reported claims totaling \$1 million in May 1963, \$46 million in December 1963, and \$45 million in December 1964.

According to newspaper reports, Japanese banks have been reducing the rate of utilization of their overseas credit lines. The ratio of borrowings to credit lines fell from about 90 per cent last March to about 70 per cent recently. The overseas foreign banks are reportedly advising the Japanese exchange banks that unless they raise the ratio of their borrowings to established credit lines, the credit lines might be reduced.

The ratio of international reserves to the note issue of the Bank of Japan fell to generally lower levels in August and September. (See Table 9). At the end of September the ratio was 31.6 per cent as compared to 34.1 per cent in January.

Table 9. 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	719.6	2,298.8	31.3
1965	785.5	2,563.8	29.6
<u>1966</u>			
January	749.5	2,200.5	34.1
February	759.2	2,251.1	33.7
March	759.2	2,280.4	33.3
April	755.3	2,312.9	32.7
May	754.6	2,227.5	33.9
June	757.4	2,368.2	32.0
July	739.4	2,397.7	30.8
August	742.7	2,324.6	31.9
September	735.8	2,326.7	31.6

9. Foreign exchange. The yen remained generally weak and under pressure in September and early October. The spot rate for the yen remained at very depreciated levels during this period except for a very mild strengthening in late September. The three-month forward rate tended to depreciate during the period, with the result that the forward premium narrowed. From a level of 0.66 per cent in early September, the premium fell to 0.35 per cent in mid-October. (See Table 10). The general weakness reflects the continued heavy outflow on capital account.

Table 10. Japan: Customer's T. T. Exchange Rate of Bank of Tokyo in Tokyo  
(yen per U. S. dollar)

		Yen-dollar spot middle rate	Three-month forward middle rate	Forward premium in per cent per annum
August	15	362.45	361.95	.55
	22	362.50	361.95	.61
	29	362.50	361.95	.61
September	5	362.55	362.00	.61
	12	362.60	362.05	.61
	19	362.60	362.15	.50
	26	362.60	362.15	.50
October	3	362.55	362.10	.50
	11	362.60	362.28	.35
	15	362.60	362.28	.35

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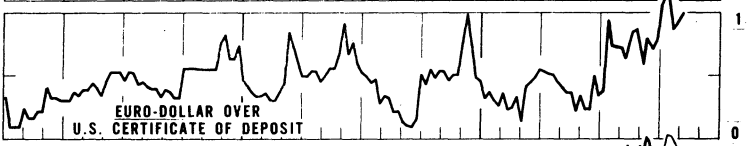
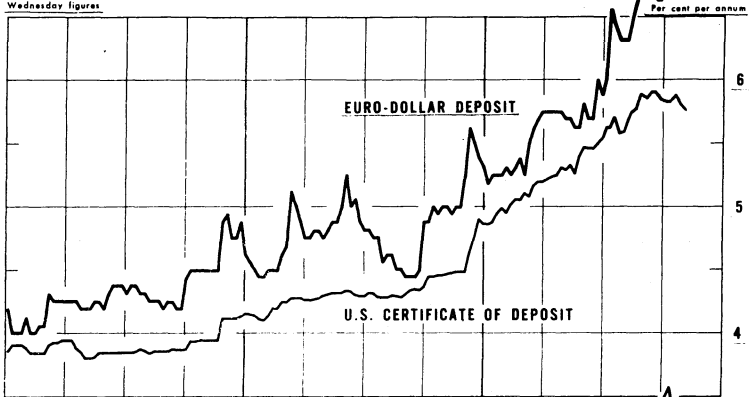
Chart 1

**NEW YORK, LONDON, MONTREAL:**

**YIELDS FOR U.S. DOLLAR INVESTORS ON 3-MONTH FUNDS**

**DOLLAR DEPOSIT RATES: NEW YORK-LONDON**

Wednesday figures



**FINANCE CO. PAPER RATES (covered): QUOTED IN NEW YORK**

Friday figures

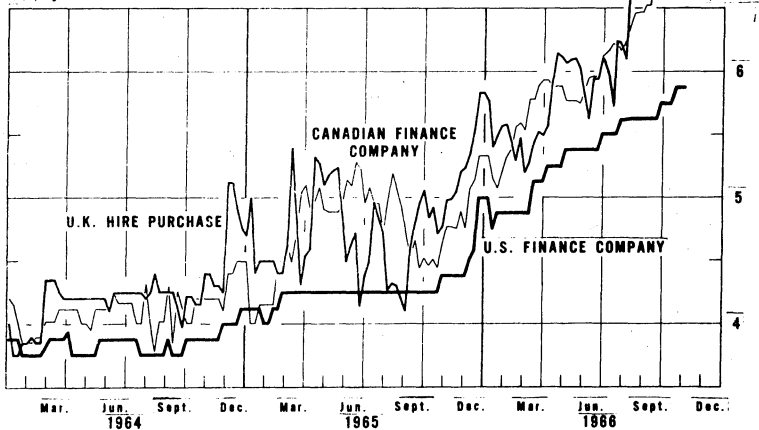
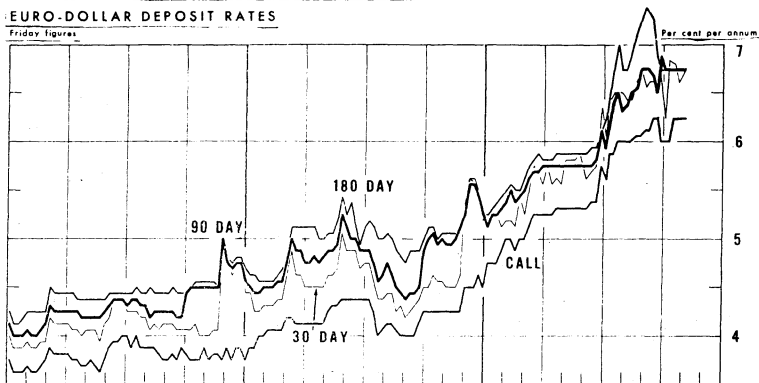


Chart 2

### LONDON: YIELDS FOR U.S. DOLLAR INVESTORS ON 3-MONTH FUNDS

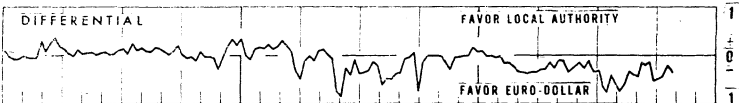
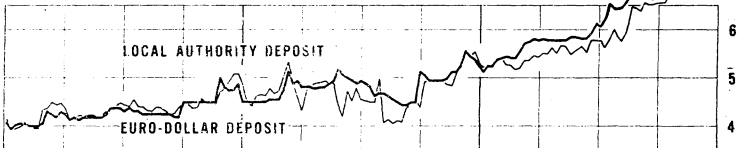
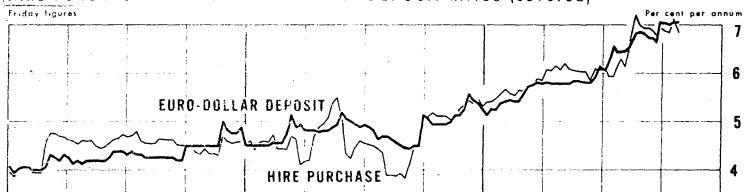
#### EURO-DOLLAR DEPOSIT RATES

Friday figures



#### HIRE PURCHASE AND LOCAL AUTHORITY DEPOSIT RATES (covered)

Friday figures



1964

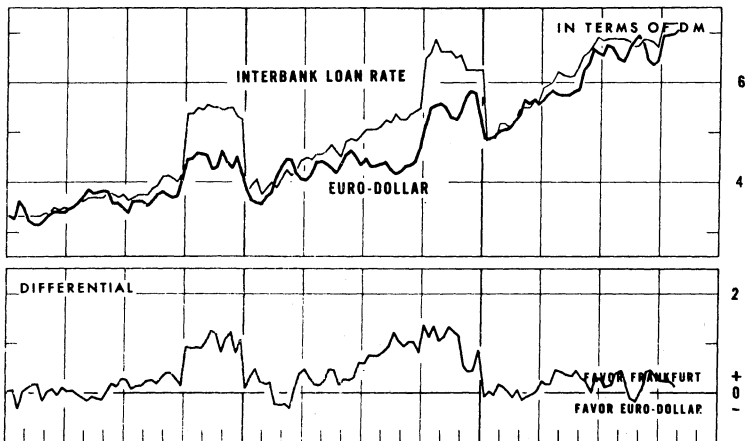
1965

1966

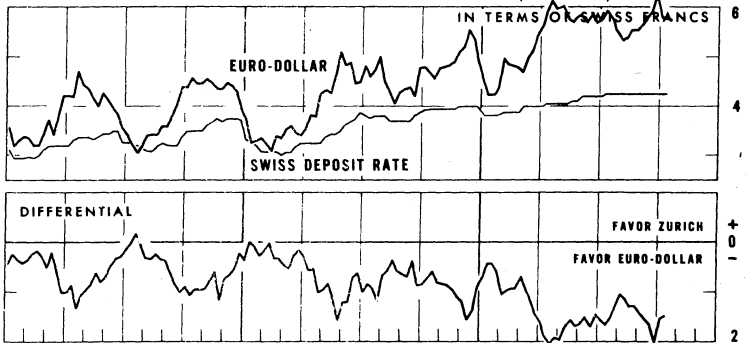
**INTEREST ARBITRAGE: FRANKFURT/LONDON, ZURICH/LONDON**

FRANKFURT INTERBANK LOAN RATE VS. LONDON EURO-DOLLAR RATE (COVERED)

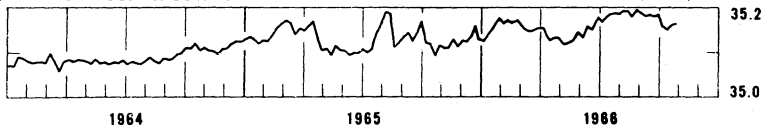
Per cent per annum



ZURICH DEPOSIT RATE VS. LONDON EURO-DOLLAR RATE (COVERED)

**II PRICE OF GOLD IN LONDON**

U.S. dollar equivalent per fine ounce



12

Chart 4

### INTEREST ARBITRAGE, UNITED STATES/CANADA

Friday figures

Per cent per annum

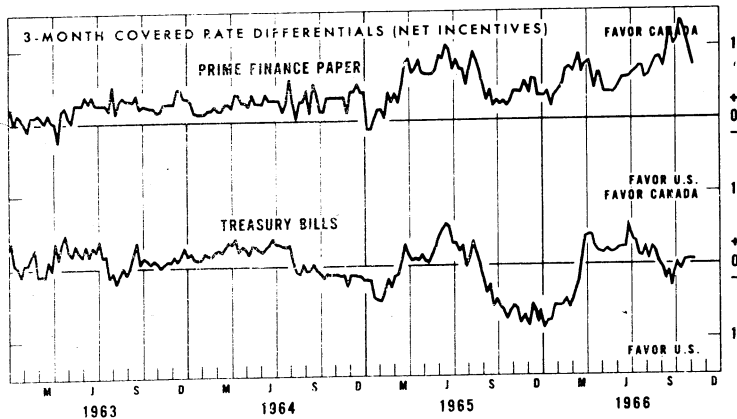
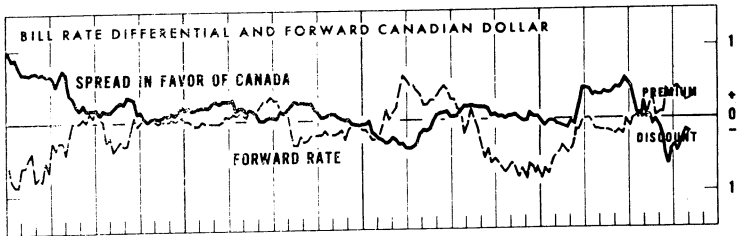
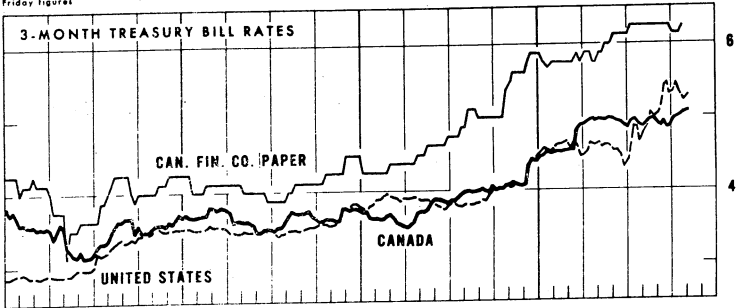


Chart 5

### INTEREST ARBITRAGE, NEW YORK/LONDON

Friday figures

Per cent per annum

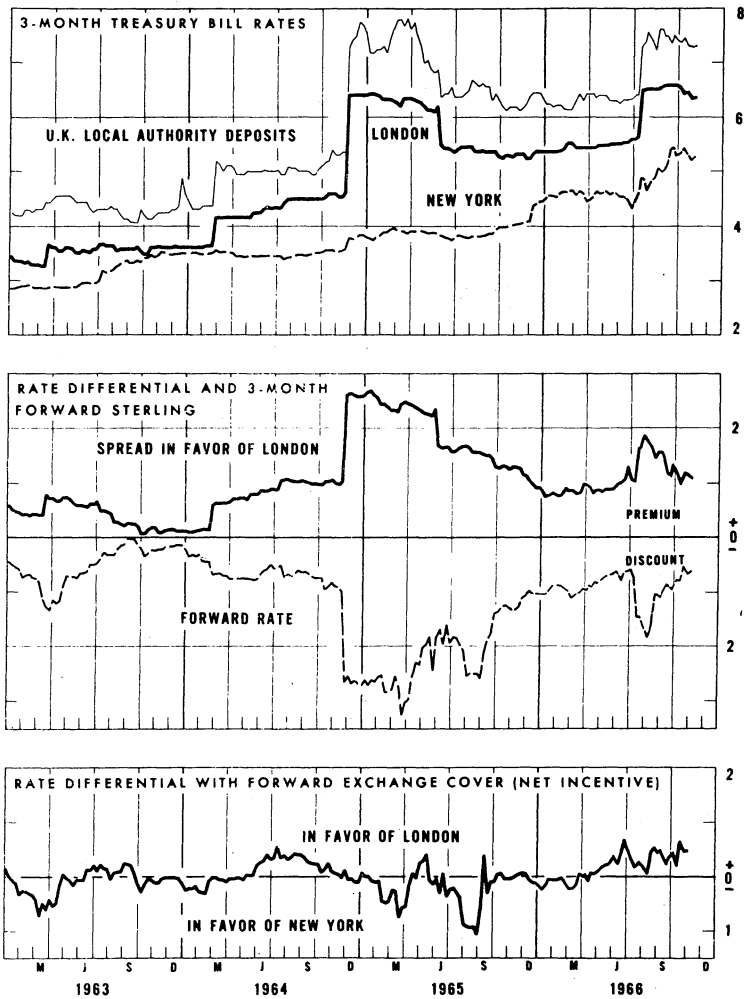
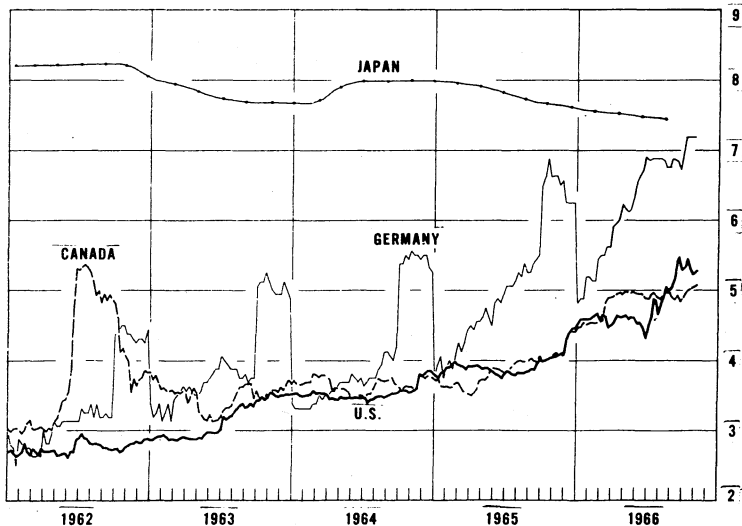
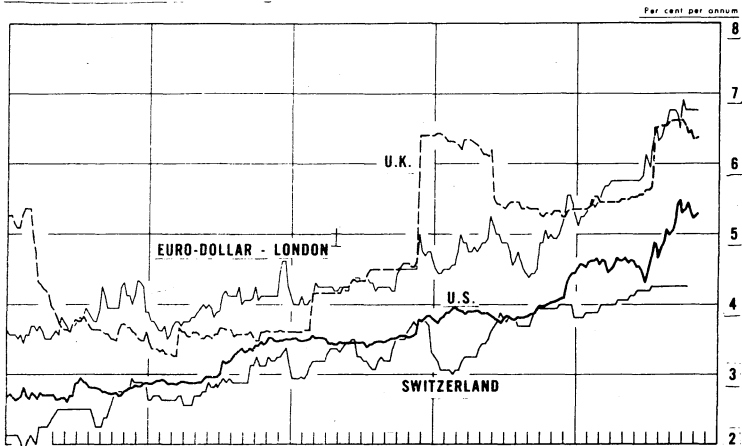


Chart 6  
**SHORT-TERM INTEREST RATES\***



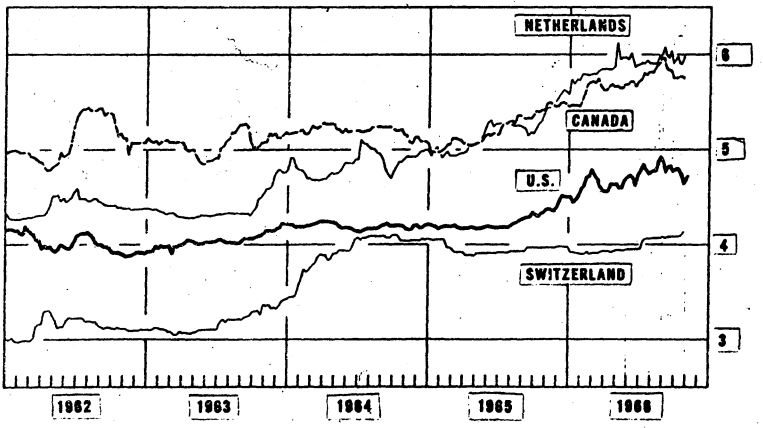
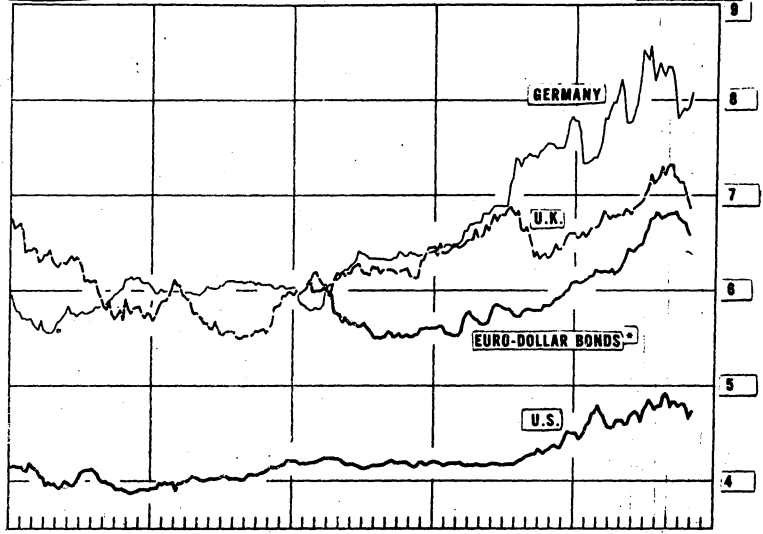
\* 3-month treasury bill rates for all countries except Japan (Average rate on bank loans and discounts); Switzerland (3-month deposit rate) and Germany (Interbank loan rate)

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

Chart 7  
**LONG-TERM BOND YIELDS,**

Weekly figures

Per cent per annum



Average of yields for four foreign government dollar bonds quoted in London.

Chart 4

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

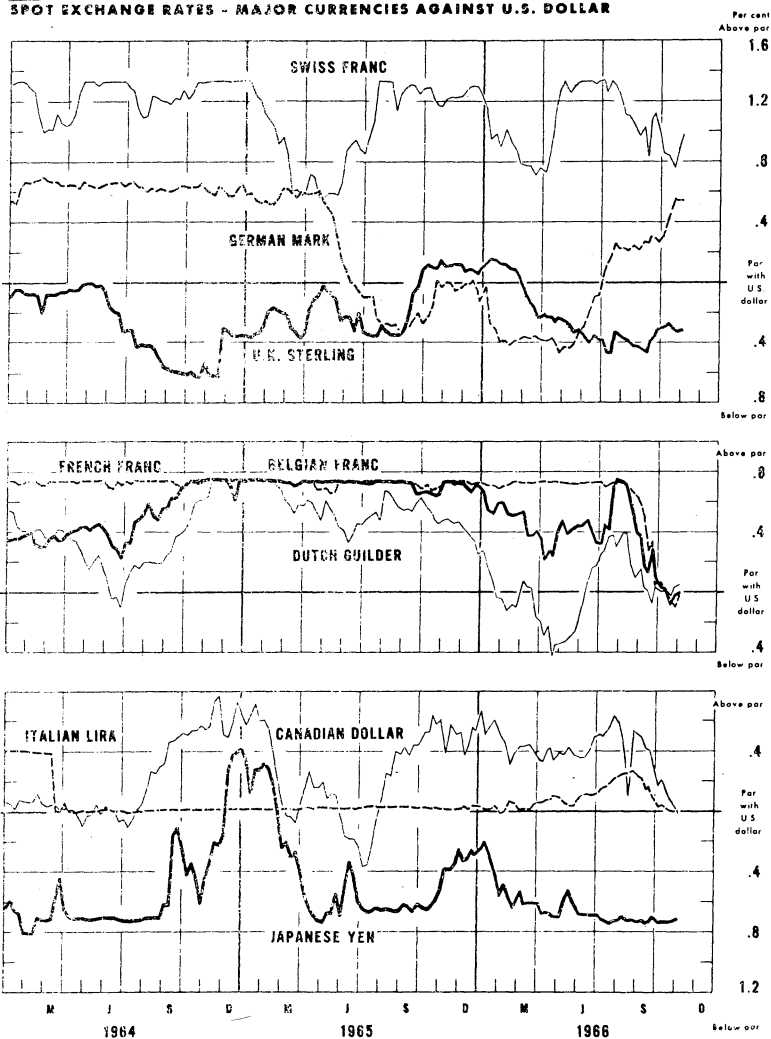
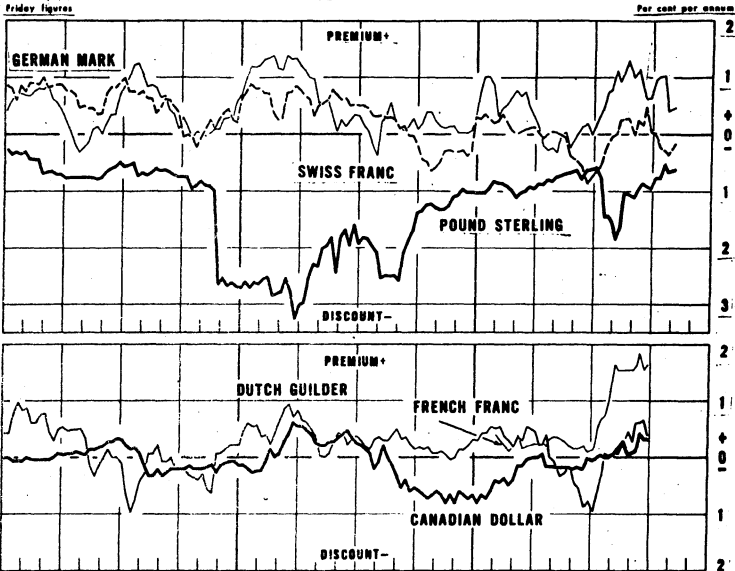




Chart 9  
**3-MONTH FORWARD EXCHANGE RATES**  
**AGAINST U.S. DOLLARS—NEW YORK**



**AGAINST POUND STERLING—LONDON**

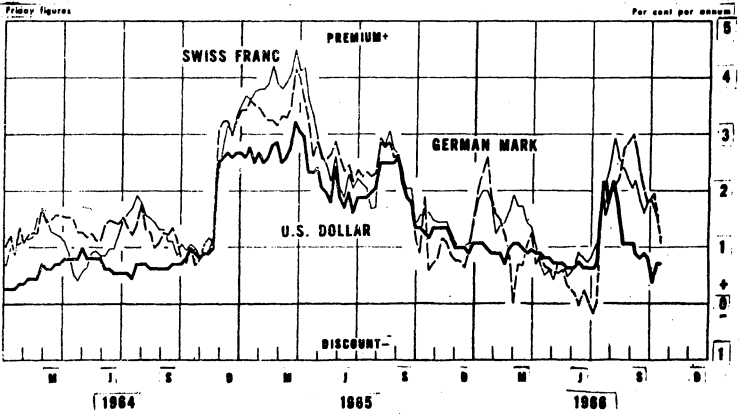
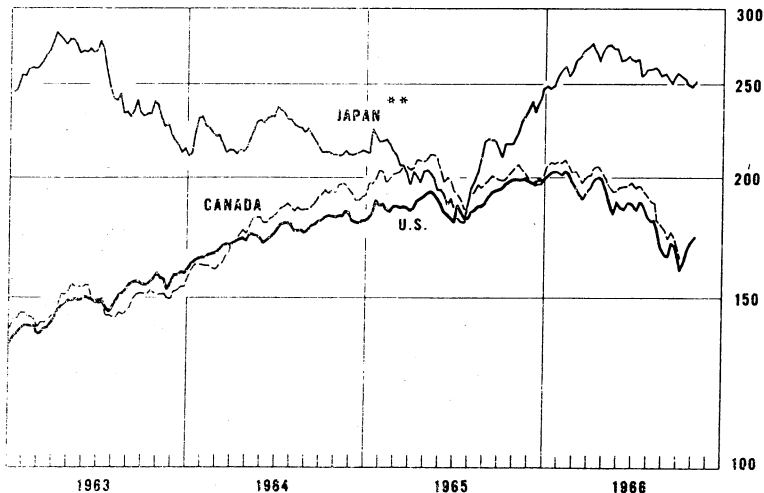
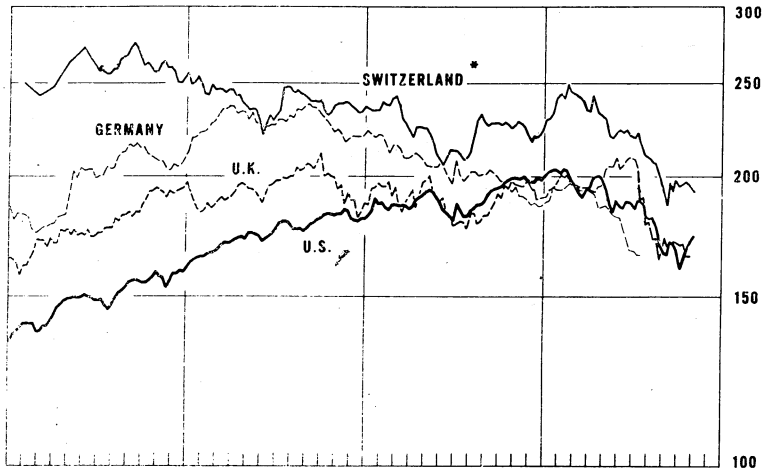


Chart 10

**INDUSTRIAL STOCK INDICES**

1958=100  
Ratio scale



\* Swiss Bank Corporation industrial stock index.  
\*\* Japan index of 225 industrial and other stocks traded on the Tokyo exchange.

November 9, 1966

H. 13  
No. 273Latest Figures Plotted in H. 13 Chart Series, 1966  
(all figures per cent per annum)Chart 1  
Upper Panel (Wednesday, Nov. 2)Euro-\$ Deposit 6.75  
U.S. certif. of deposit 5.75Lower Panel (Friday, Nov. 4)Finance co. paper: U.S. 5.88  
Canada 6.59  
Hire-purchase paper, U.K. 6.87Chart 2  
(Friday, Nov. 4)Euro-\$ deposits:  
Call 6.25 90-day 6.75  
7-day 6.38 180-day 6.75  
30-day 6.75  
Hire-purchase paper (Oct. 28) 6.84  
Local-authority deposit (Oct. 28) 6.72Chart 3  
Upper Panel (Period: Oct. 24-31)Interbank loan (mid-point) 7.19Euro-\$ deposit (average) 7.06Lower Panel (Date: Oct. 15)Zurich 3-mo. deposit 4.25Price of gold 35.165  
(Friday, Oct. 28)Chart 4  
(Friday, Nov. 4)Treasury bills: Canada 5.08  
U.S. 5.29  
Spread favor Canada -0.21Forward Canadian \$ +0.28Net incentive (Canada +) +0.07Canadian finance paper 6.25Chart 5  
(Friday, Nov. 4)Treasury bills: U.K. 6.38  
U.S. 5.29Spread favor U.K. +1.09Forward pound -0.60Net incentive (U.K. +) +0.49Chart 6  
(Friday, Nov. 4)Treasury bills: U.S. 5.29  
U.K. 6.38  
Canada 5.08Interbank loan rate (German) 7.19  
(Oct. 24-31)Euro-\$ deposit (London) 6.75Zurich 3-mo. deposit (Date: Oct. 15) 4.25Japan composit rate (Date: Aug. 31) 7.45Chart 7U.S. Gov't. (Wed., Nov. 2) 4.72U.K. War Loan (Thurs., Oct. 27) 6.87German Fed. (Fri., Oct. 28) 8.08Swiss Confed. (Fri., Oct. 28) 4.13Canadian Gov't. (Wed., Oct. 26) 5.76Netherlands Gov't perpetual 3% (Friday, Oct. 28) 5.97Euro-\$ bonds (Fri., Oct. 28) 6.58For descriptions and sources of data,  
see special supplement to H. 13,  
Number 239, March 16, 1966.