

DOCUMENT OF INTERNATIONAL MONETARY FUND AND NOT FOR PUBLIC USE

MASTER FILES

ROOM C-120

11

Any views expressed in the Departmental Memoranda (DM) Series represent the opinions of the authors and, unless otherwise indicated, should not be interpreted as official Fund views.

DM/83/51

INTERNATIONAL MONETARY FUND

Treasurer's Department

Foreign Exchange and Financial Markets in May 1983

Prepared by Mark A. Lumsden and Nobumitsu Hayashi

Approved by Muhammad N. Bhuiyan

June 29, 1983

Foreign exchange markets in May continued to remain calm with the U.S. dollar firming against most other leading currencies due mainly to interest rate factors: over the month as a whole, the U.S. dollar firmed 1.03 per cent in effective (MERM) terms and 0.40 per cent against the SDR. The EMS currencies continued to move broadly in a uniform manner in the parity grid, easing by 2.17-2.99 per cent against the U.S. dollar, and the Austrian schilling continued to trade in close alignment with the EMS currencies. The pound sterling extended its firming trend of the past few months amid some erratic movements, aided by continuing favorable interest rates, and in anticipation of a victory by the ruling Conservative Party in general elections in June. The pound sterling firmed by 2.77 per cent against the U.S. dollar and 4.39 per cent in effective (MERM) terms. Other currencies eased by up to 1.1 per cent against the U.S. dollar (the Swiss franc).

The U.S. dollar weakened against most other leading currencies early in May as expectation of a cut in the Federal Reserve's discount rate re-emerged and the Netherlands Bank raised its discount rate from 3.5 per cent to 4.5 per cent, leading to speculation that the Bundesbank might also raise its rate. The U.S. dollar strengthened steadily thereafter as substantial increases in U.S. M1 money supply combined with further evidence of continuing high U.S. budget deficits dampened hopes for a reduction in U.S. interest rates (see Table 1).

Table 1. Changes in Exchange Rates in May 1983 ^{1/}

(In per cent)

	Monthly exchange rate changes			Change in effective exchange rate since May 1982 ^{3/}
	Against U.S. dollar ^{2/}	Against SDR	Effective exchange rate ^{3/} (In per cent)	
Belgium	-2.64	-2.25	-1.08	-2.7
Denmark	-2.99	-2.50	-2.08	-2.9
France	-2.34	-2.04	-1.23	-13.0
Germany	-2.31	-2.03	-1.27	+2.5
Ireland	-2.36	-2.03	-1.90	-7.5
Italy	-2.17	-1.94	-1.08	-5.2
Netherlands	-2.22	-1.78	-0.79	+1.1
Austria	-2.70	-2.15	-1.53	+0.7
Canada	-0.31	+0.07	+0.10	+5.4
Japan	-0.24	-0.15	+0.18	+8.4
Norway	-0.52	-0.16	+0.24	-8.5
Sweden	-0.50	-0.11	+0.50	-15.4
Switzerland	-1.10	-0.95	-0.10	+3.4
United Kingdom	+2.77	+3.43	+4.39	-2.5
United States	--	+0.40	+1.03	+8.0

^{1/} Positive sign indicates appreciation of the currency.^{2/} Based on New York noon quotations.^{3/} Based on the Fund's multilateral exchange rate model (MERM).

Within the EMS relative positions in the parity grid were maintained, except for the Danish krone, which eased toward the middle of the narrow band from being toward the top early in May. Throughout the month, the Irish pound and the French franc were at or near the top of the narrow band while the Deutsche mark, the Netherlands guilder, and the Belgian franc clustered at the bottom (see Chart 1). The spread in the narrow band in the New York market frequently exceeded the 2.25 per cent margin maintained in the EMS member markets. The Italian lira continued to be the strongest currency in the EMS maintaining a margin over the weakest currency in the system in excess of 5 per cent (the lira is permitted a maximum margin of 6 per cent). Intervention by the EMS central banks was considerably smaller than that in April. Apart from some sales of Deutsche mark by the Bank of France intervention activities reported were net purchases of small amounts of U.S. dollars and Deutsche mark by the Bank of Italy and sales of modest amounts of U.S. dollars by the Bundesbank. Effective

May 18, in connection with the Common Agricultural Policy, the ECU central rate for the pound sterling was revalued 7.3 per cent and the central rates for the other EMS currencies were devalued by a uniform 1.2 per cent in terms of the ECU. Bilateral intervention limits in the EMS parity grid arrangements were not affected but the divergence indicator measures were affected for the currencies participating in the arrangement (see Chart 2).

The volatility of exchange rate movements against the U.S. dollar increased somewhat for most currencies in May (see Table 2). The trading range widened for all the EMS currencies and the Austrian schilling; it also increased considerably for the Japanese yen and the Swiss franc. The trading range was halved for the pound sterling reflecting its slower rate of appreciation against the U.S. dollar during May. In terms of the average absolute size of daily percentage changes, the volatility of the EMS currencies was little changed. This measure was substantially lower for the pound sterling while it increased somewhat for the Austrian schilling and the Japanese yen, but declined slightly for other major currencies.

Table 2. Intra-Month Variations of Exchange Rates of Major Currencies 1/

	May 2/		High-low spread in per cent 3/		MAC 4/	
	High	Low	Apr.	May	Apr.	May
Belgium	48.670	50.460	2.5	3.7	0.31	0.27
Denmark	8.6775	9.0350	2.3	4.1	0.27	0.29
France	7.3325	7.5720	2.3	3.3	0.29	0.28
Germany	2.4430	2.52425	2.2	3.3	0.29	0.27
Ireland	1.2970	1.2520	2.0	3.6	0.25	0.26
Italy	1451.50	1497.5	2.2	3.2	0.26	0.25
Netherlands	2.7425	2.8385	2.1	3.5	0.27	0.27
Austria	17.125	17.785	2.6	3.9	0.29	0.36
Canada	0.81716	0.80975	1.0	0.9	0.14	0.10
Japan	231.00	238.80	1.4	3.4	0.31	0.36
Norway	7.0625	7.1575	1.8	1.3	0.21	0.19
Sweden	7.4625	7.5400	1.0	1.0	0.21	0.16
Switzerland	2.02175	2.0955	2.2	3.6	0.40	0.35
United Kingdom	1.6025	1.5545	6.2	3.1	0.61	0.34

1/ Exchange rates against the U.S. dollar in the New York market.

2/ Domestic currency units per U.S. dollar except for the pound sterling, the Irish pound and the Canadian dollar, which are in U.S. dollars per domestic currency unit.

3/ Intra-month variation in per cent.

4/ Monthly average of absolute daily changes in spot exchange rates in percentage terms.

There were sizable declines in gross foreign exchange reserve levels in May for the United States and Germany and marked increases for Italy and Norway. The latest available data for France show a large reserve gain in April associated with reflows of funds following the EMS realignment in March. Other reserve changes were generally moderate in May. Switzerland's reserves fell largely because the National Bank did not renew all the maturing credit lines with commercial banks in connection with end-quarter liquidity needs. The National Bank of Belgium bought foreign currencies during the month in sufficient amounts to enable it to reduce its debt to the European Monetary Cooperation Fund from BF 33 billion in early May to BF 6.6 billion in late May.

The Federal Reserve Bank of New York estimated intervention by major central banks in the February-April quarter at \$29 billion compared with \$26-27 billion in each of the previous two quarters. The United States did not intervene in the last two quarters and its intervention in the August-October 1982 period was only \$100 million.

Table 3. Foreign Exchange Reserves in May 1983 ^{1/}

(In millions of U.S. dollars)

	Reserve level	Change in May	Change over 12 months
Belgium	4,043	-19	+1,860
Denmark	3,046	-22	+1,351
France (April)	16,682	+2,469	+1,422
Germany	38,741	-760	+696
Ireland	1,704	-103	-848
Italy	15,130	+531	+3,648
Netherlands	9,061	-69	+1,598
Austria	4,317	-111	+158
Canada	3,035	-225	+1,417
Japan	20,279	+279	-2,522
Norway	6,553	+834	-194
Sweden	3,104	+92	+124
Switzerland	12,012	+464	-501
United Kingdom	9,189	+125	-1,945
United States	7,850	-715	-1,300

^{1/} Includes ECU holdings but excludes gold, SDRs and reserve position in the Fund. Foreign exchange reserves are gross and include balances drawn on short-term swap agreements and the proceeds from other official borrowings.

I. Developments in the Spot Exchange Markets

Except for a continued appreciation of the pound sterling during the month, the U.S. dollar firmed against other major currencies during May; it firmed by 1.03 per cent in effective (MERM) terms and by 0.40 per cent against the SDR. Evidence of a sustained economic recovery continued to accumulate but the budget deficit continued to worsen. The index of leading economic indicators rose 1.1 per cent in April for the tenth consecutive monthly rise and the rise in March was revised from 1.5 per cent to 2.2 per cent. Industrial production in May rose a seasonally adjusted 1.1 per cent for a 3.7 per cent year-on-year rise. The civilian unemployment rate in May declined to 10.1 per cent from 10.2 per cent in April. The Federal Government budget in April, however, recorded a deficit of \$3.31 billion compared with a surplus of \$9.7 billion in April 1982; April usually is a surplus month because of income tax collections. The merchandise trade deficit, seasonally adjusted, widened in April to \$4.6 billion from \$3.6 billion in March. The producer price index rose 0.3 per cent in May, 3.6 per cent year-on-year.

The Deutsche mark eased by 2.31 per cent against the U.S. dollar over the month and by 1.27 per cent in effective (MERM) terms. The Government announced a budget package for 1984 limiting expenditures to a 2 per cent nominal rate of growth and net borrowing to under 3 per cent of GNP. The unemployment rate declined to 8.8 per cent in May from 9.2 per cent in April. Industrial production rose 1 per cent in April but was 2.8 per cent below a year earlier. The current account surplus narrowed to DM 300 million in April from DM 3.2 billion in March and DM 360 million in April 1982. The wholesale price index rose 0.6 per cent in May but was 1.3 per cent lower than a year earlier. The producer price index rose 0.1 per cent in May and was up 1.3 per cent over May 1982.

The French franc eased by 2.34 per cent against the U.S. dollar and 1.23 per cent in effective (MERM) terms. France announced its intention to borrow the equivalent of about F 30 billion in foreign currencies to finance the current account deficit. The trade deficit in May, seasonally adjusted, widened sharply to F 7.7 billion from F 1.5 billion in April. The number of persons unemployed rose 1.3 per cent in May, the first rise since November 1982. The index of industrial production, seasonally adjusted and excluding construction, rose 0.8 per cent in April but was down 0.8 per cent year-on-year. The wholesale price index rose 1 per cent in April for an 8.5 per cent year-on-year increase.

The Belgian franc eased 2.64 per cent against the U.S. dollar and 1.08 per cent in effective (MERM) terms. A continuing reflection of the absence of speculative pressure on the franc was the negligible difference between the rate for the financial franc relative to the commercial franc throughout the month. The unemployment rate eased to 11.9 per cent at the end of May from 12.1 per cent at the end of April.

The trade deficit of the Belgo-Luxembourg Economic Union widened slightly in March to BF 21.2 billion from BF 20.2 billion in February but narrowed sharply from BF 49.4 billion recorded in March 1982. The wholesale price index rose 0.5 per cent in April and was up only 2.5 per cent year-on-year.

The Netherlands guilder eased 2.22 per cent against the U.S. dollar and 0.79 per cent in effective (MERM) terms, the smallest depreciation among the currencies in the EMS narrow band partly because the discount rate was raised early in May from 3.5 per cent to 4.5 per cent. Industrial production rose a seasonally adjusted 2 per cent in April but was down 2 per cent year-on-year. The trade surplus widened to f. 2.2 billion in March from f. 1.3 billion in February and from f. 2 billion a year earlier. The producer price index for consumer and investment goods declined 0.2 per cent in March and was down 2.8 per cent year-on-year.

The Danish krone eased the most among the EMS currencies, by 2.99 per cent against the U.S. dollar and 2.08 per cent in effective (MERM) terms. With effect from May 1, foreigners were permitted to buy Danish Government bonds for the first time since 1979 and interest rates eased considerably as a result. The Government announced its intention to reduce public spending next year by 3 per cent in real terms and to hold the budget deficit to the equivalent of 12.6 per cent of GDP. The trade deficit in April narrowed to DKr 550 million from DKr 1.33 billion in April 1982. The wholesale price index was unchanged in April but rose 4.1 per cent year-on-year.

The Irish pound eased 2.36 per cent against the U.S. dollar and 1.90 per cent in effective (MERM) terms. The trade balance in April, seasonally adjusted, swung into a surplus of Ir£14 million from a deficit of Ir£82 million in March.

The Italian lira continued to be the strongest currency in the EMS parity grid, trading at a margin of over 5 per cent from the weakest currency in the system. Over the month the lira eased the least of the EMS currencies against the U.S. dollar (2.17 per cent) and eased 1.08 per cent in effective (MERM) terms, benefiting from seasonal tourist revenues and high nominal interest rates. The trade deficit, however, widened in April to Lit 1,783 billion from Lit 332 billion in March and Lit 1,320 billion in April 1982. The index of industrial production, seasonally adjusted, fell 4.8 per cent in April and was down 12.5 per cent year-on-year. The wholesale price index rose 0.8 per cent in May, 10.1 per cent year-on-year.

The pound sterling was the only major currency to firm against the U.S. dollar in May for reasons indicated above. It firmed 2.77 per cent against the U.S. dollar and 4.39 per cent in effective (MERM) terms after firming 5.95 per cent in effective terms in April. The unemployment rate, seasonally adjusted, fell to 12.4 per cent in May from 12.7 per cent in April. Industrial production rose a seasonally

adjusted 1 per cent in April for a 1.8 per cent year-on-year rise. The current account, seasonally adjusted, swung into a deficit in April of £180 million from a surplus of £564 million in March. The wholesale price index for manufactured goods rose 0.6 per cent in May, 7.3 per cent year-on-year.

The Swiss franc eased 1.10 per cent against the U.S. dollar but was only marginally easier in effective (MERM) terms. The unemployment rate rose in May to 0.9 per cent from 0.8 per cent in April. The trade deficit in May narrowed to Sw F 663 million from Sw F 834 million in April but was wider than the Sw F 212 million recorded in May 1982. The wholesale price index rose 0.2 per cent in May but was down 0.3 per cent year-on-year.

The Japanese yen eased a relatively moderate 0.24 per cent against the U.S. dollar and was 0.18 per cent firmer in effective (MERM) terms. Industrial production in April was up 1.1 per cent over April 1982. The trade surplus, seasonally adjusted, narrowed to \$2.19 billion from \$2.24 billion in April. The wholesale price index declined by 0.3 per cent in May and 1.9 per cent year-on-year.

The Canadian dollar eased 0.31 per cent against the U.S. dollar but was marginally firmer in effective (MERM) terms. The trade surplus widened in April, seasonally adjusted, to Can\$1.99 billion from Can\$1.37 billion in March. The unemployment rate declined from 12.5 per cent in April to 12.4 per cent in May. GDP rose a seasonally adjusted 0.8 per cent in March but was down 1.6 per cent year-on-year. Industrial selling prices rose 0.3 per cent in April for a 2.9 per cent year-on-year rise.

The Austrian schilling continued to ease broadly in line with the EMS currencies in May; it eased 2.70 per cent against the U.S. dollar and 1.53 per cent in effective (MERM) terms. The Norwegian krone eased 0.52 per cent against the U.S. dollar but firmed 0.24 per cent in effective (MERM) terms. The Swedish krona eased 0.50 per cent against the U.S. dollar but firmed 0.50 per cent in effective (MERM) terms.

II. Monetary Developments, Forward Exchange Quotations and Covered Interest Differentials

Monetary and credit conditions in most major industrial countries firmed somewhat in May and short-term interest rates showed a firming trend despite continued indications of decelerating inflation (Table 4). Short-term money market interest rates in industrial countries firmed by 0.12-0.58 percentage point, except for those in Belgium, Japan, and the United Kingdom, which eased by 0.04-0.50 percentage point. Short-term rates remained unchanged in Austria, Denmark, Italy, Norway, and Sweden.

At the beginning of the month, the U.S. financial market widely expected an imminent cut in the Federal Reserve's 8.5 per cent discount rate and the commercial banks' 10.5 per cent prime lending rate but

Table 4. Inflation Rates and Short-Term Interest Rates

	Month <u>2/</u>	Inflation Rates <u>1/</u> (year-on-year per cent changes)				Short-term interest rates <u>4/</u> (end-of-month)	
		Wholesale price index		Consumer price index <u>3/</u>		Apr.	May
Austria	Mar./Apr.	0.0	(0.0)	3.0	(3.5)	3.75	3.75
Belgium	May	2.4	(2.5)	7.6	(8.0)	10.00	9.50
Canada	April	2.9	(--)	6.6	(7.2)	9.12	9.25
Denmark	April	4.1	(4.6)	7.7	(7.6)	7.50	7.50
France	April	8.5	(8.5)	9.1	(9.0)	12.55	12.67
Germany	May	-1.3	(-0.8)	3.3	(3.0)	5.35	5.53
Italy	May	10.1	(10.2)	16.4	(16.6)	17.88	17.88
Japan	May/Apr.	-2.0	(-2.2)	2.0	(2.3)	6.70	6.63
Netherlands	Mar./May	-2.8	(--)	2.5	(2.7)	5.94	6.06
Norway	May/Apr.	6.7	(--)	6.7	(9.2)	9.00	9.00
Sweden	April	10.2	(10.1)	8.5	(8.4)	8.50	8.50
Switzerland	May/Apr.	-0.3	(0.2)	4.5	(4.8)	4.44	4.75
United Kingdom	May/Apr.	7.3	(7.3)	4.0	(4.6)	10.09	10.05
United States	May/Apr.	3.6	(2.1)	3.9	(3.6)	8.38	8.96

1/ Rates appearing in parentheses are those for the preceding month.

2/ In case of double entry (month/month), the first entry applies to the wholesale price index and the second entry applies to the consumer price index.

3/ Retail price index for France and the United Kingdom, and cost of living index for Germany and the Netherlands.

4/ Three-month rates are: Market yields on Treasury bills for the United States and the United Kingdom; Treasury bill rate for Canada; inter-bank rates for Germany, France, Italy, and the Netherlands; three-month euro-franc rate for Switzerland; discount rate on two-month private bills for Japan; central bank discount rates for Austria, Belgium, Denmark, Norway and Sweden.

unexpectedly large increases in M1 diminished this expectation and both interest rates and the U.S. dollar firmed in late May, after the money supply figures were reported. The basic money supply M1 increased substantially to a seasonally-adjusted average of \$499.9 billion in the week ended May 4 (from \$495.3 billion in the preceding week) and to \$507.1 billion in the week ended May 11. For the latest 13 weeks ended May 25, M1 averaged \$499.5 billion, a 13.9 per cent increase from the preceding 13 weeks. The three-month bond-equivalent yield on Treasury bills firmed from 8.38 per cent at the end of April to 8.96 per cent at the end of May. Over the month, the federal funds rate also firmed by 0.10 percentage point to 8.94 per cent and the 90-day CD rate firmed by 0.59 percentage point to 8.93 per cent. The prime lending rate, however, remained unchanged at 10.50 per cent during May.

Among the countries in the European Monetary System, the Netherlands Bank raised its official rates by one percentage point with effect from May 3. The new rates are: discount on bills of exchange, 4.5 per cent; interest on advances, 5 per cent; and discount on promissory notes, 5.5 per cent. On the other hand, the National Bank of Belgium cut the discount rate and the rate on advances by half a percentage point, with effect from May 5, to 9.5 per cent and 10.5 per cent, respectively. The Bank also cut the interest on one-, two-, and three-month Treasury certificates from 10.35 per cent to 10.10 per cent. In Germany, the broad money supply M3 rose by DM 4.2 billion or 8.2 per cent in April compared with an increase of DM 5.6 billion or 7.4 per cent in March. The Bundesbank also reported an increase of 1.2 per cent in M2 and an increase of 16.3 per cent in M1 in April.

Major Swiss banks raised their customer time-deposit rates by 1/4 point to 3.75 per cent for all maturities, effective May 25; customers' time deposits are a major source of mid-term funding for the banks. Japan's broadly defined money supply (M2 + CDs) grew by 7.6 per cent in April from a year earlier, the rate of increase being unchanged from March. The Bank of Japan also reported year-on-year increases of 4.5 per cent in M1 and 8.6 per cent in M3. Sterling M3, the U.K. broadly defined money supply, rose by £1.78 billion or 1.9 per cent in the banking month ended April 20, compared with a rise of £830 million or 0.9 per cent in March. The Bank of England also reported an increase of 1.1 per cent in the narrowest measure M1 in April, following an increase of 0.8 per cent in March. Over the target period from mid-February 1982 to mid-April 1983, sterling M3 grew at an annual rate of 11.4 per cent, compared with a government target of 8-12 per cent.

In the euro-currency market, the three-month euro-dollar rate firmed sharply by 0.56 percentage point to 9.50 per cent at the end of May. As a result, the uncovered interest differentials favoring euro-dollar investment widened significantly for Germany and the Netherlands. The uncovered differentials favoring domestic investment narrowed for France, Italy, and the United Kingdom between the end of April and the end of May.

In the forward exchange market, the premia against the U.S. dollar widened for the Deutsche mark and the Netherlands guilder, while it turned to a discount for the pound sterling between the end of April and the end of May. The discount against the U.S. dollar widened for the French franc and the Italian lira. Consequently, covered interest differentials favoring domestic investment widened for Germany, narrowed for Italy and the Netherlands and switched to favor euro-dollar investment for the United Kingdom, while the differentials favoring euro-dollar investment widened for France between the end of April and the end of May (see Table 5).

Table 5. Covered Interest Differentials for Three-Month Investments in Europe (End-month)

	Uncovered interest differentials ^{1/}		Forward exchange quotations ^{2/}		Covered interest differentials ^{1/}	
	(1)		(2)		(3)=(1)-(2)	
	Apr.	May	Apr.	May	Apr.	May
France	-3.61	-3.17	-3.94	-4.13	+0.33	+0.96
Germany	+3.59	+3.97	+4.16	+4.57	-0.57	-0.60
Italy	-8.94	-8.38	-5.88	-6.29	-3.06	-2.09
Netherlands	+3.00	+3.44	+3.22	+3.49	-0.22	-0.05
United Kingdom	-1.15	-0.55	+1.26	-0.79	-2.41	+0.24

^{1/} Positive sign indicates differential in favor of euro-dollar investment relative to domestic investment, while negative sign indicates the reverse. Domestic interest rates for France, Germany, Italy and the Netherlands are interbank rates. For the United Kingdom the Treasury bill rate is used.

^{2/} Positive sign indicates three-month forward premium of domestic currency against the U.S. dollar, while negative sign indicates forward discount.

III. Yields on the SDR and Other SDR-Denominated Assets

For the calendar quarter beginning April 1, 1983, the SDR interest rate increased slightly to 8.52 per cent from 8.47 per cent in the previous quarter. The increase reflected higher interest rates on the relevant financial instruments for the United States and the United Kingdom, which firmed significantly by 0.58 percentage point to 8.75 per cent and 10.90 per cent, respectively, partly offset by declines in the rates on the other instruments employed to calculate the combined market rate which eased by 0.16-1.19 percentage points in the relevant period. The rate of remuneration paid on creditor positions

in the Fund (85 per cent of the SDR interest rate) increased from 7.20 per cent in the previous quarter to 7.24 per cent in the current quarter.

As shown in Appendix B, the average domestic interest rates on the instruments for the currencies included in the SDR basket were mixed during May; the rates firmed in the United States, the United Kingdom and Japan while they eased in Germany and France. As a result, the average combined market interest rate remained virtually unchanged at 8.27 per cent in May.

The combined domestic market interest rates for maturities ranging from three months to five years firmed by 0.22-0.30 percentage point at the end of May (see Table 6), reflecting generally higher interest rates on the relevant instruments for the five currencies included in the SDR basket, which firmed by 0.06-0.51 percentage point between the end of April and the end of May, except for three-month, six-month and twelve-month domestic rates in Japan, which eased by 0.04-0.33 percentage point. The combined domestic rates displayed a rising yield curve which moves up from 8.45 per cent on the three-month maturity through 8.48 per cent and 8.66 per cent on the six- and twelve-month maturities, respectively, to 10.02 per cent on the five-year maturity.

The combined euro-currency interest rates for the three-, six- and twelve-month maturities firmed by 0.15, 0.26, and 0.24 percentage points, respectively, to 8.61 per cent, 8.96 per cent, and 9.27 per cent at the end of May. This reflected firmer euro-currency deposit rates for the five currencies included in the SDR basket, most of which firmed by 0.06-1.13 percentage points, the exception being three-month deposit rate on the pound sterling and twelve-month deposit rate on the Japanese yen which were unchanged between the end of April and the end of May.

Average interest rates on SDR-denominated deposits of selected commercial banks firmed by 0.06-0.15 percentage point at the end of May. The deposit rates displayed a rising yield curve moving up from 8.28 per cent on one-month deposits through 8.47 per cent and 8.77 per cent on three- and six-month deposits, respectively, to 9.05 per cent on twelve-month deposits. The current yield on SDR-denominated bonds quoted on the Luxembourg Stock Exchange ranged from 8.93 per cent to 11.50 per cent, with the average current yield easing by 0.25 percentage point to 9.91 per cent at the end of May. The yield to maturity ranged from 10.25 per cent to 15.91 per cent with the average yield to maturity virtually unchanged at 11.93 per cent at the end of May.

Table 6. Yields on the SDR and Other SDR-Denominated Assets

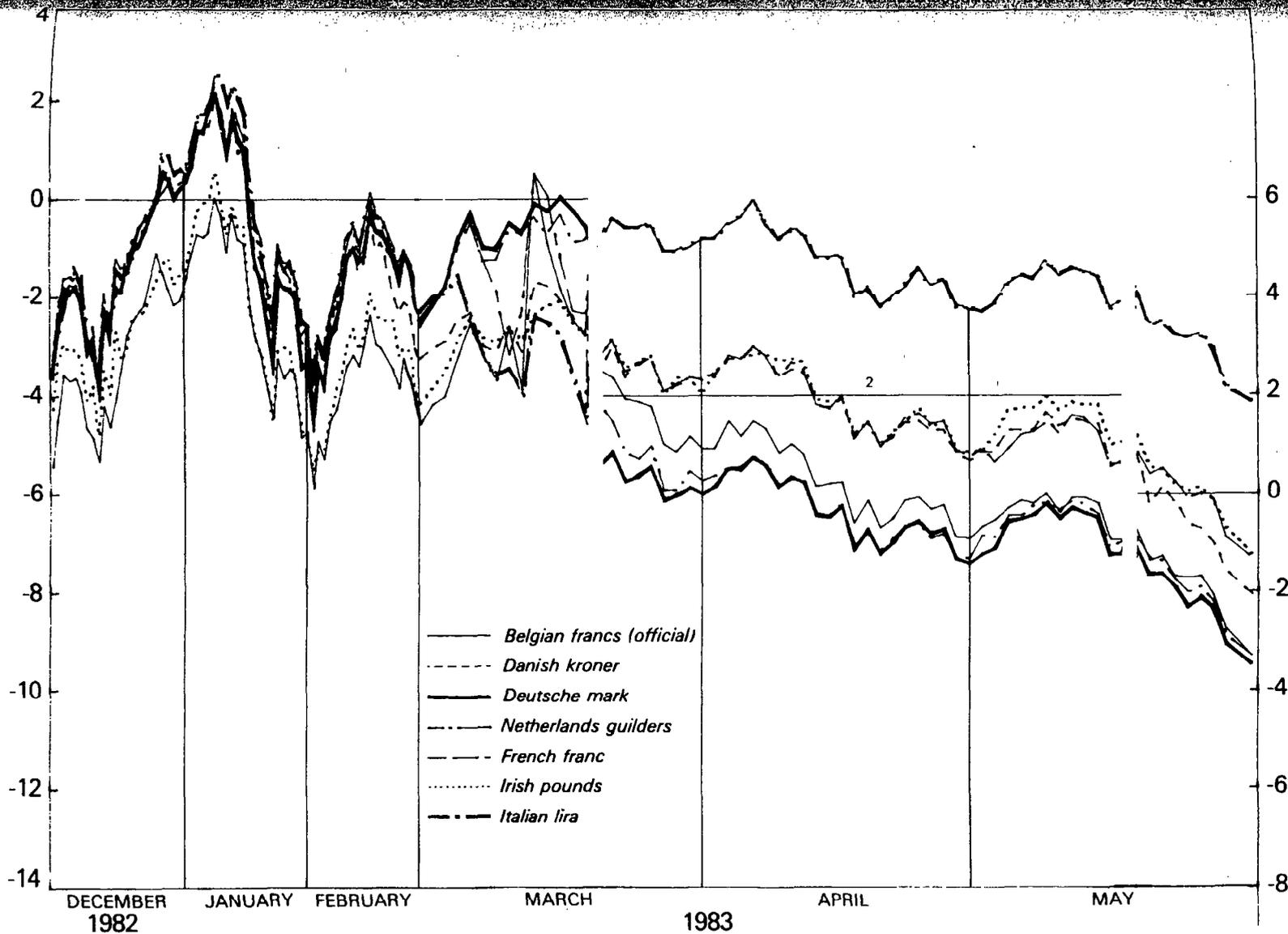
	Apr.	May	June
SDR quarterly rate	8.52	8.52	8.52
Rate of remuneration	7.24	7.24	7.24
Yields on other SDR-denominated assets <u>1/</u>			
Combined market interest rates <u>2/</u>			
Based on domestic rates			
3-month maturity (Rule T-1)	8.20	8.45	
6-month maturity	8.26	8.48	
12-month maturity	8.36	8.66	
5-year maturity	9.72	10.02	
Based on euro-currency rates			
3-month maturity	8.46	8.61	
6-month maturity	8.70	8.96	
12 month maturity	9.03	9.27	
Average commercial bank deposit rates <u>3/</u>			
1-month deposits	8.22	8.28	
3-month deposits	8.39	8.47	
6-month deposits	8.66	8.77	
12-month deposits	8.90	9.05	
Bonds quoted on the Luxembourg Stock Exchange <u>4/</u>			
Average current yield	10.16	9.91	
Average yield to maturity	11.92	11.93	

1/ Rates pertain to last Wednesday of the month.

2/ As of January 1, 1981, combined market rates (according to the Rule T-1) are calculated by multiplying the yields or rates of each of the respective instrument by the number of units of the corresponding currency listed in Rule 0-1 and the value in terms of the SDR of a unit of that currency as determined by the Fund under Rule 0-2(a) and (b). Domestic rates are those used to determine interest rates on the SDR or on borrowings by the Fund. Euro-currency rates are midpoint midmorning rates in London, and for sterling, in Paris.

3/ Average of rates quoted by selected commercial banks.

4/ Maturity dates for these issues range from 1983 to 1989.



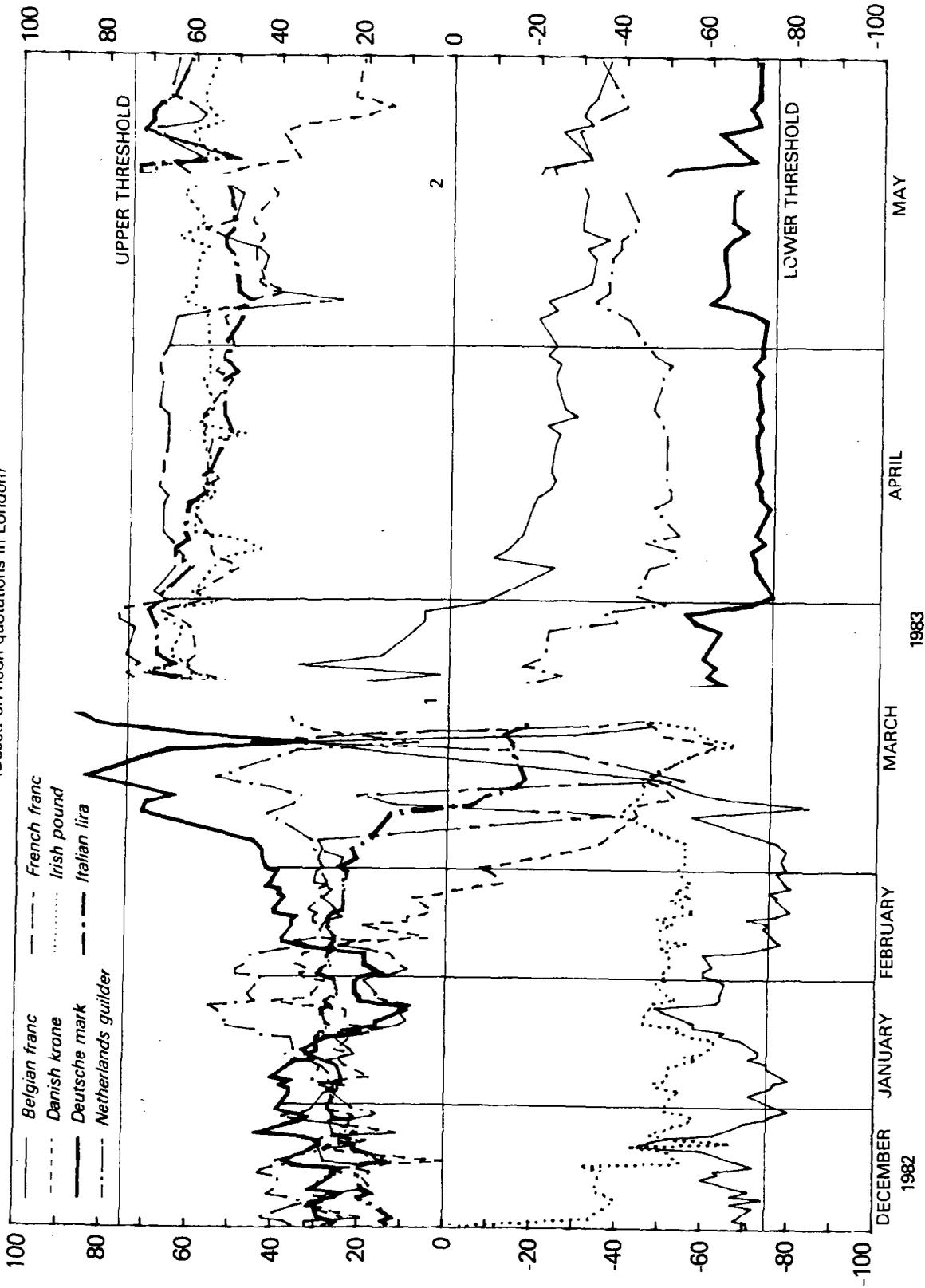
¹Premia/discounts over declared ECU central rates converted to U.S. dollar terms on the basis of 1 ECU = \$0.98 through March 18, 1983.

²Effective March 21, the Deutsche mark, the Netherlands guilder, the Danish krone, and the Belgian franc were revalued by 5.5, 3.5, 2.5, and 1.5 per cent, respectively, and the French franc, the Italian lira, and the Irish pound were devalued by 2.5, 2.5, and 3.5 per cent respectively. Consequently, the premia/discounts over declared ECU central rates are calculated on the basis of the rate as of March 22 of 1 ECU = \$0.930217.

³Effective May 18 the central ECU rate of the pound sterling was appreciated and those of the other participants depreciated in connection with the Common Agricultural Policy. Premia/discounts over declared ECU central rates have been converted into U.S. dollar terms at the rate of 1 ECU = .920041.

CHART 2 EUROPEAN MONETARY SYSTEM: DIVERGENCE INDICATORS

(Based on noon quotations in London)



¹Effective March 22, the Deutsche mark, the Netherlands guilder, the Danish krone, and the Belgian franc were revalued by 5.5, 3.5, 2.5, and 1.5 per cent respectively, while the French franc, the Italian lira and the Irish pound were devalued by 2.5 per cent, 2.5 per cent, and 3.5 per cent respectively.
²Effective May 18 ECU central rate for the pound sterling was revalued by 7.3 per cent and those for the other participating currencies devalued a uniform 1.2 per cent in conjunction with the Common Agricultural Policy.

CHART 3 SPOT EXCHANGE RATES

(Noon quotations in New York)

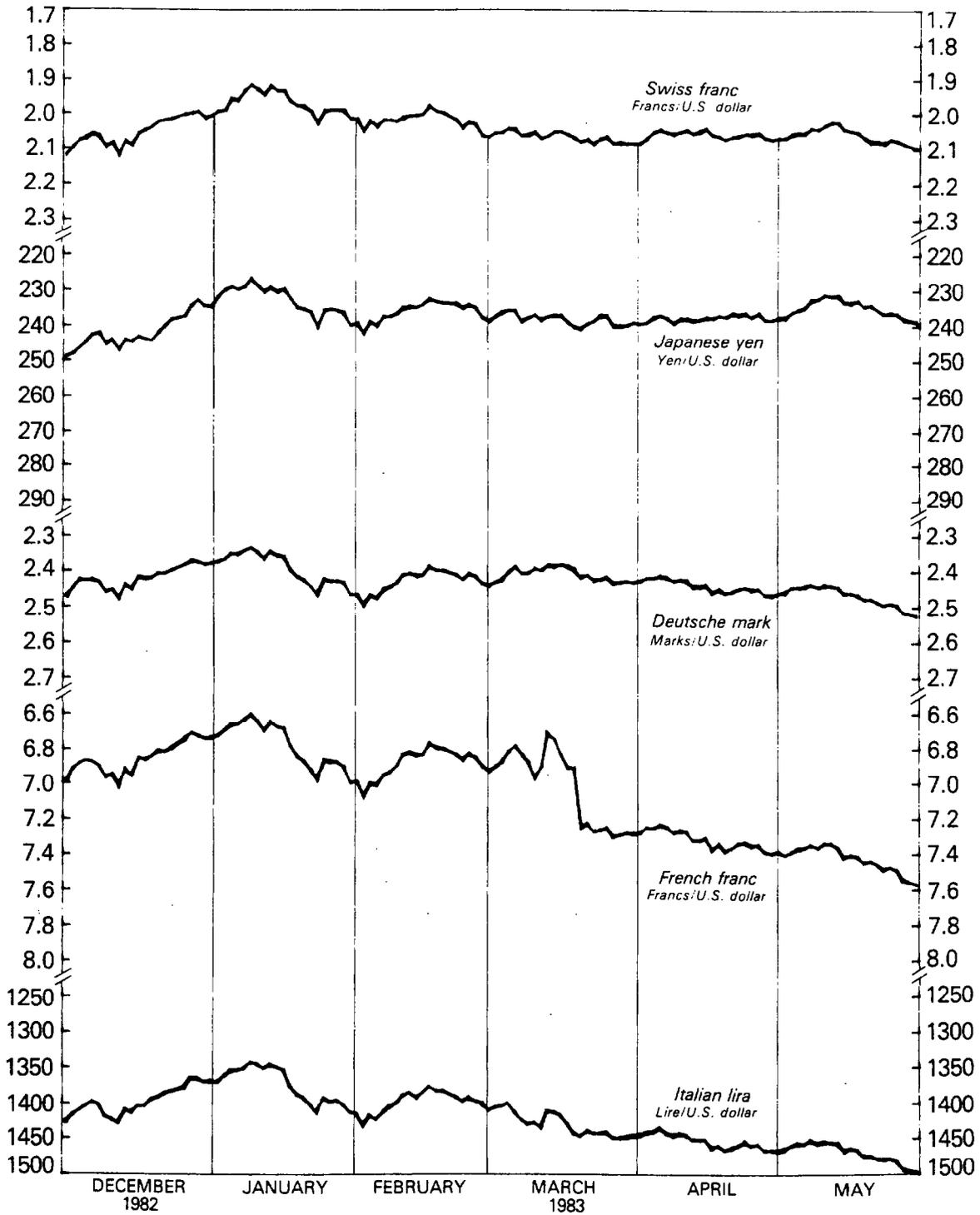


CHART 4
SPOT EXCHANGE RATES
(Noon quotations in New York)

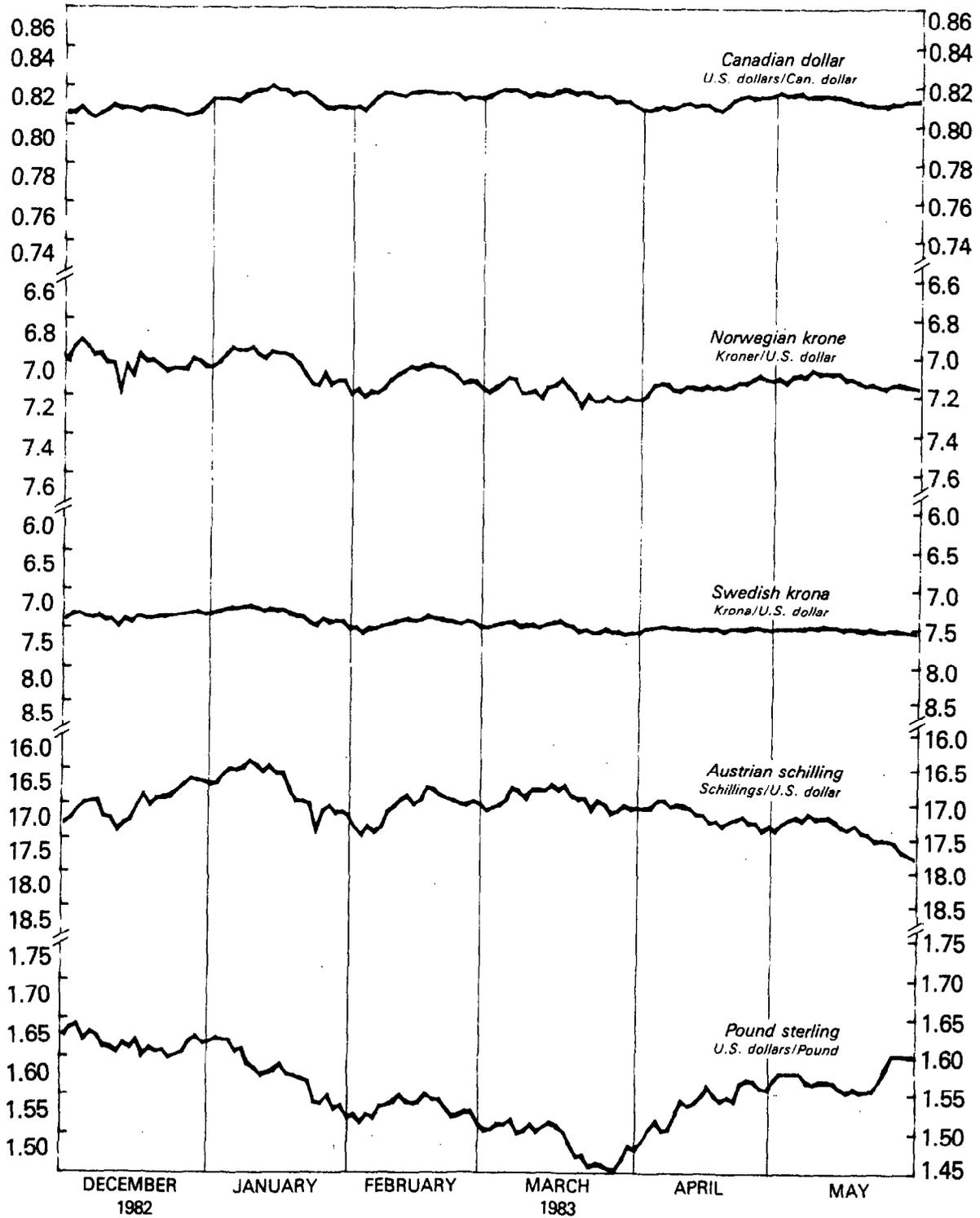
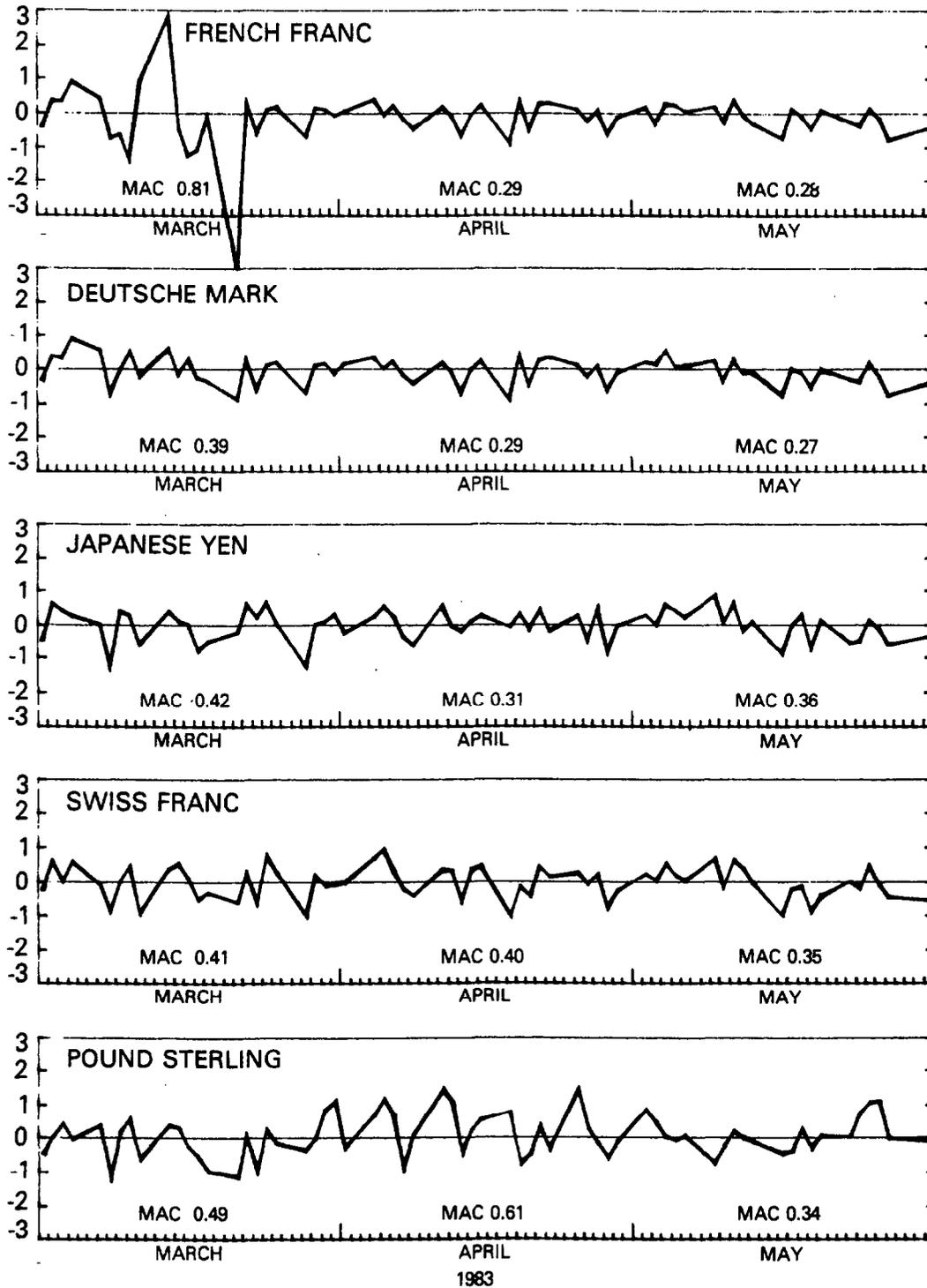


CHART 5 DAILY CHANGES IN SPOT EXCHANGE RATES

(In per cent against the U.S. dollar, based on noon quotations in New York)¹



¹Monthly averages of absolute changes (MAC) are also indicated.

CHART 6
INDEXES OF EXCHANGE RATES OF
FIVE MAJOR CURRENCIES AGAINST THE SDR

JUN. 1974 - MAY 1983
(June 28, 1974=100)

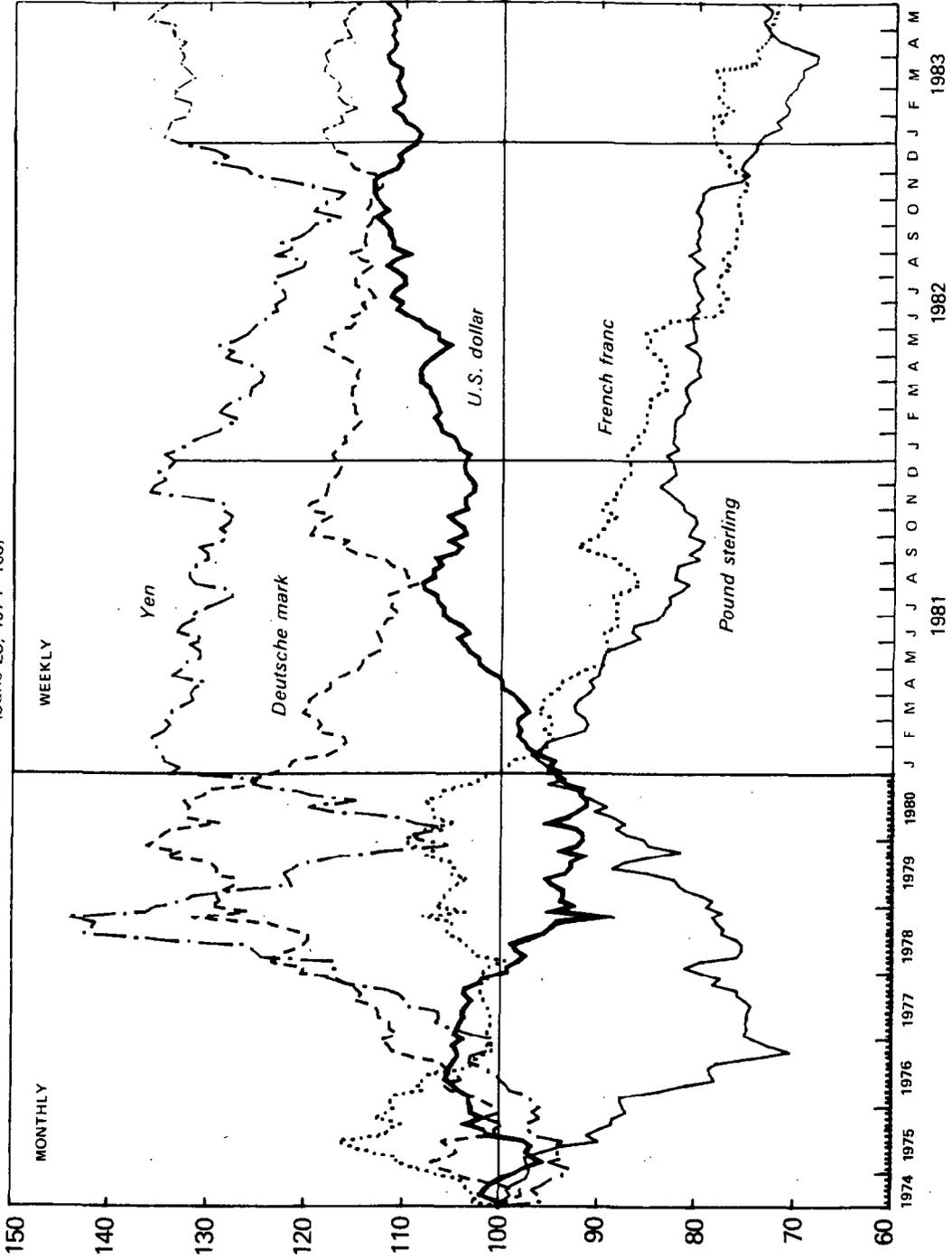


CHART 7 SHORT-TERM MONEY MARKET RATES

(Per cent per annum)



¹The rate of interest on SDR holdings for each quarter, under Rule T-11b), is based on a combined market rate of interest.

CHART 8
THREE-MONTH FORWARD RATES
Margins from Spot Rates based on noon quotations in New York
(Per cent per annum)

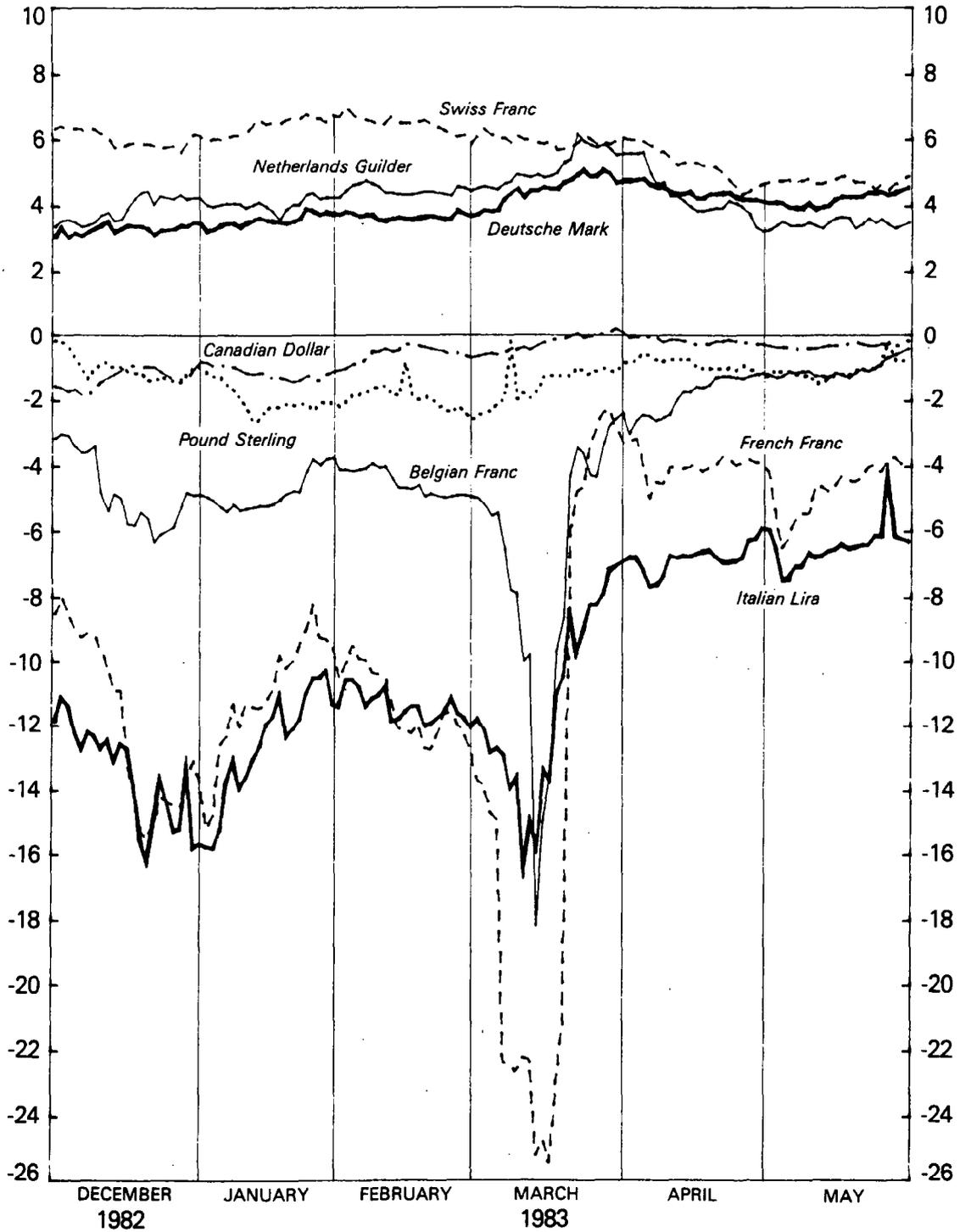
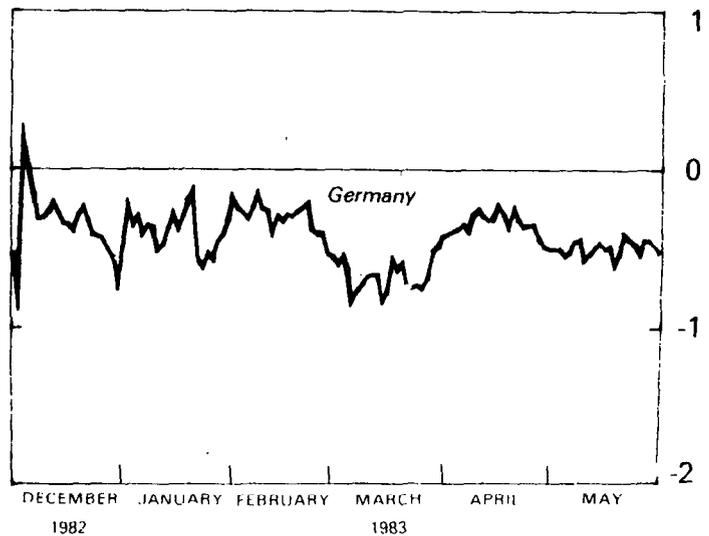
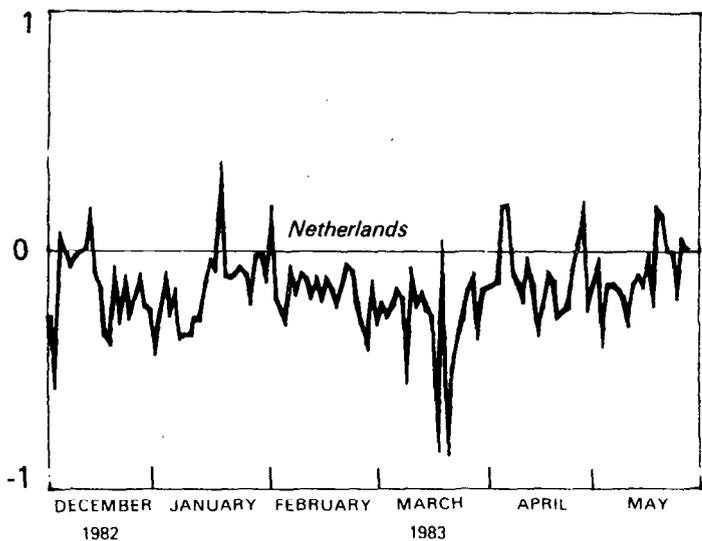
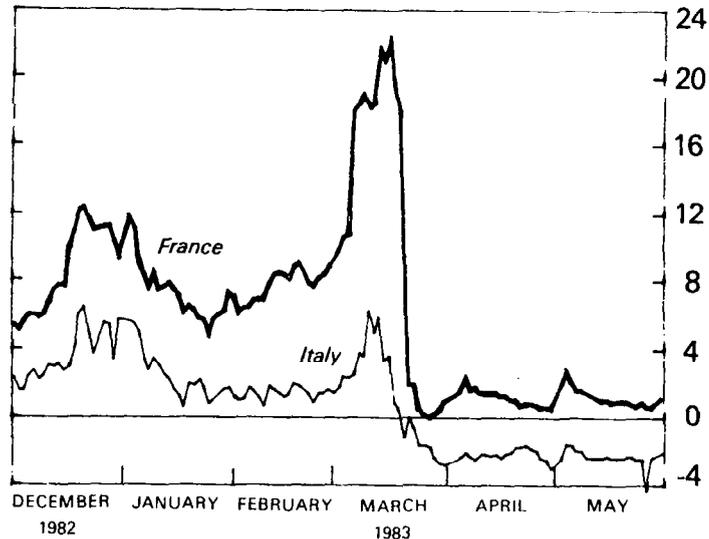
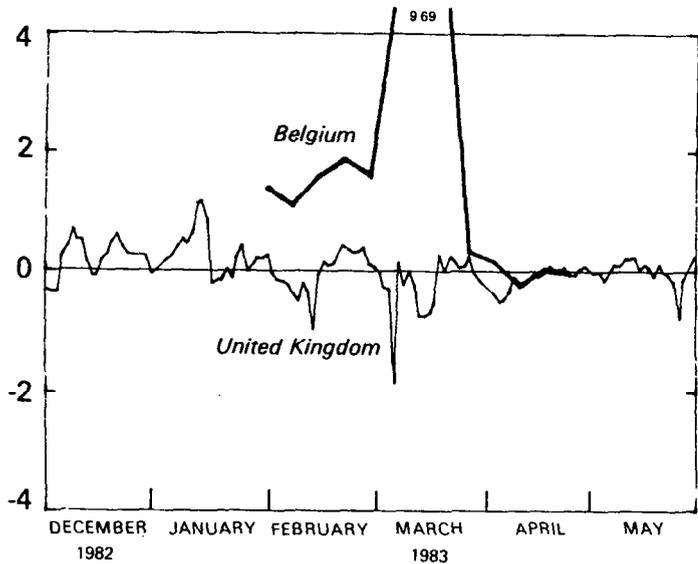


CHART 9

COVERED INTEREST DIFFERENTIALS BETWEEN THREE-MONTH EURO-DOLLAR DEPOSITS AND LOCAL SHORT-TERM INVESTMENTS

(+ IN FAVOR OF EURO-DOLLAR AND - IN FAVOR OF DOMESTIC INVESTMENT)



Foreign Exchange Rates, April-May 1983 1/

	A p r i l				M a y			
	6	13	20	27	4	11	18	25
Austrian schilling	16.9450	17.0550	17.3150	17.2550	17.2050	17.1850	17.3020	17.5170
Belgian franc								
Official	47.950	48.605	49.020	48.785	48.810	48.710	49.160	49.635
Financial	48.950	48.955	49.350	49.085	49.075	48.900	49.260	49.780
Canadian dollars	0.81008	0.81027	0.81021	0.81470	0.81599	0.81589	0.81235	0.81142
Danish kroner	8.5650	8.6625	8.7370	8.7100	8.7100	8.6900	8.7750	8.9120
Deutsche mark	2.41200	2.44125	2.46080	2.44825	2.44435	2.43725	2.46425	2.48935
French francs	7.2315	7.3165	7.3795	7.3412	7.3825	7.3325	7.4075	7.4705
Irish pounds	1.3080	1.2962	1.2840	1.2905	1.2933	1.2955	1.2835	1.2695
Italian lire	1434.000	1450.500	1464.500	1456.500	1457.750	1453.500	1464.750	1477.500
Japanese yen	236.975	238.450	237.330	236.200	236.200	231.000	232.700	236.250
Netherlands guilder	2.7185	2.7498	2.7715	2.7610	2.7505	2.7425	2.7700	2.7985
Norwegian kroner	7.1325	7.1500	7.1560	7.0875	7.0955	7.0755	7.1250	7.1365
Pounds sterling	1.5173	1.5368	1.5428	1.5685	1.5791	1.5680	1.5587	1.5851
Swedish kroner	7.4725	7.5025	7.5140	7.4675	7.4825	7.4625	7.4945	7.5035
Swiss francs	2.04425	2.05550	2.07225	2.05175	2.05650	2.02900	2.05050	2.07250

1/ Wednesday noon spot quotations in New York, expressed in terms of currency units per U.S. dollar, except for the Canadian dollar, the Irish pound, and the pound sterling which are expressed in U.S. dollars per currency unit.