DM/83/22

INTERNATIONAL MONETARY FUND

Treasurer's Department

Foreign Exchange and Financial Markets in February 1983

Prepared by Mark A. Lumsden and Mohammed A. Tareen

Approved by Muhammad N. Bhuiyan

March 23, 1983

Exchange market activity in February continued to be principally affected by expectations of interest rate developments in the United States vis-a-vis other major industrial countries and uncertainties about the pricing and production policies of major oil exporters. Most currencies firmed moderately against the U.S. dollar over the month as a whole. The pound sterling continued to ease on the prospect of lower oil prices, but by a noticeably lower margin than in the previous two months while the Swiss franc eased relatively sharply after firming markedly in the December-January period. The currencies participating in the EMS firmed by 0.59-1.39 per cent against the U.S. dollar except for the Danish krone, which eased slightly. The Belgian franc and the Irish pound continued to remain isolated at the bottom of the EMS band and the Danish krone eased somewhat away from the other currencies clustered toward the top. Widespread speculations of a possible realignment of the EMS central parities affected the currencies in the system, especially the French franc and the Belgian franc, and considerable central bank intervention was evident. Trading activity was generally quiet, occasionally active, but often nervous and erratic.

Most major currencies continued to ease against the U.S. dollar early in February as expectation of firming U.S. interest rates and concern about the possible outcome of elections in Germany persisted. This was reversed on February 7 in a technical reaction reinforced by renewed hopes for a cut in the U.S. discount rate prompted by the belief that revisions to the Federal Reserve's monetary aggregates to reflect recent institutional changes would reveal less monetary growth than the old definitions. This easing trend for the U.S. dollar continued through midmonth but was erratic as the market reacted with mixed anticipations of congressional testimony by Federal Reserve Chairman Volker on 1983 monetary policy. While the concensus emerged that the new monetary targets were slightly easier and more flexible, there was little convergence of views about the likely course of U.S. interest rates. After midmonth, however, the dollar tended to be favored by investors on fears of devaluations and/or tightened exchange controls in countries such as Australia, Brazil, and Venezuela, some lingering uneasiness about the outcome of the elections in Germany, and signs that OPEC members might engage in a price/production war following moderate oil price cuts by the United Kingdom, Norway and Nigeria. The pound sterling was especially weak in this period and some intervention by the Bank of England was evident. Toward the end of the month, the firming tendency for the dollar was reinforced by signs of economic recovery in the United States that led to expectations of reduced pressure on the Federal Reserve to cut the discount rate further.

The volatility of exchange rates for major currencies eased appreciably during February. The range within which the major currencies were traded against the U.S. dollar narrowed appreciably, especially for the pound sterling. On the basis of this measure the French franc and the Deutsche mark moved within the widest margins during the month. The average of absolute daily percentage changes (MAC) also declined for all the major currencies and on this basis the Swiss franc remained the most volatile currency (see Table 1).

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

	February 2/		High-low spread in per cent 3/		MAC 4/	
	High	Low	Jan.	Feb.	Jan.	Feb.
Belgium	46.985	48.745	5.1	3.7	0.56	0.49
Denmark	8.4350	8.7750	5.3	4.0	0.60	0.53
France	6.7680	7.0680	5.9	4.4	0.60	0.50
Germany	2.3880	2.4940	5.7	4.4	0.60	0.53
Ireland	1.39125	1.3400	5.5	3.8	0.58	0.42
Italy	1377.0	1431.0	5.2	3.9	0.53	0.49
Netherlands	2.6390	2.7340	5.1	3.6	0.54	0.48
Austria	16.775	17.465	6.2	4.1	0.58	0.54
Canada	0.81743	0.80762	1.4	1.2	0.15	0.14
Japan	232.525	242.15	5.6	4.1	0.75	0.51
Norway	7.0420	7.2050	3.4	2.3	0.43	0.30
Sweden	7.3480	7.5550	4.1	2.8	0.46	0.39
Switzerland	1.9780	2.0620	5.6	4.2	0.77	0.68
United Kingdom	1.5520	1.5120	6.8	2.6	0.51	0.45

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.

Within the EMS, the spread between the currencies in terms of their central rates (based on New York quotations) narrowed slightly from 2.18 per cent at the end of January to 2.05 per cent at the end of February but frequently exceeded the bilateral 2.25 per cent margin maintained in EMS member markets. The Belgian franc remained the weakest currency in the EMS except for two days early in the month when the Irish pound was at the bottom of the narrow band; these two currencies remained noticeably isolated from the remainder of the participating currencies most of which clustered near the top (see Chart 1); the divergence indicator for the Belgian franc frequently exceeded its lower threshold (see Chart 2). Intervention by the National Bank of Belgium continued at a steady BF 5-10 billion per week throughout the month and the discount of the financial franc from the commercial franc widened from 3.0 per cent to 5.1 per cent. The Danish krone was the only EMS currency to weaken against the U.S. dollar over the month and eased toward the center of the narrow band. The Netherlands guilder was generally the strongest currency in the EMS although on the last day of the month the Deutsche mark took its place as the Netherlands Bank cut its discount rate from 4.5 per cent to 4.0 per cent. The French franc firmed the most within the EMS against the U.S. dollar (see Table 2) reflecting the aggressive intervention by the Bank of France to keep the franc near the top of the parity grid. The Bank of France reportedly spent the equivalent of $290 million in the week to February 17 and $850 million in the week to February 24. Although no new major government borrowings were reported in February, other official institutions were reported to have raised up to $3 billion in January and February in a government-sanctioned accelerated borrowing program partly designed to assist the franc. The Belgian authorities expressed concern that the French intervention was putting undue pressure on the Belgian franc at the bottom of the parity grid. The Bank of Italy sold relatively small amounts of dollars throughout the month and the Bundesbank was reported to have assisted the Belgian franc, buying the equivalent of $50-100 million on one occasion. The Italian lira was again the strongest currency within the EMS and ended the month with a spread of 2.56 per cent from the Belgian franc; the lira (which is permitted a 6.0 per cent margin in the EMS exchange arrangements) occasionally, however, weakened sufficiently to move within the narrow band of the parity grid.

Table 2. Changes in Exchange Rates in February 1983 1/

(In per cent)

	Monthly exchange rate changes			
	Against U.S. dollar 2/	Against SDR	Effective exchange rate 3/ (In per cent)	Change in effective exchange rate since Feb. 1982 3/
Belgium	+0.77	+0.28	+0.01	-2.8
Denmark	-0.16	-0.47	-0.49	-0.4
France	+1.39	+0.75	+0.66	-6.9
Germany	+1.27	+0.76	+0.70	+5.7
Ireland	+0.84	+0.45	+0.49	-1.4
Italy	+0.82	+0.36	+0.19	-3.2
Netherlands	+0.59	+0.20	+0.03	+4.1
Austria	+0.88	+0.66	+0.58	+3.9
Canada	+0.63	+0.33	+0.50	+3.0
Japan	+0.84	+0.72	+0.81	+5.2
Norway	+0.30	-0.15	-0.18	-10.4
Sweden	+0.30	-0.15	-0.19	-17.2
Switzerland	-2.32	-2.52	-2.72	-2.7
United Kingdom	-0.57	-0.97	-1.10	-11.7
United States	--	-0.32	-0.55	+5.8

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).

Changes in gross foreign exchange reserves were generally more moderate in February than in January, the most notable exception being a very large reserve gain by Germany of $1.838 billion, mostly attributable to intervention within the EMS. Intervention activities of the Bank of France and the National Bank of Belgium were believed to have been largely financed by increases in foreign borrowing and were not reflected in changes in gross foreign exchange reserves. Twelve-month foreign exchange reserve changes continued to be appreciable for Germany, Italy, Japan, Switzerland, and the United Kingdom, with declines recorded by Italy, Japan, and the United Kingdom, and Germany and Switzerland recording substantial increases over the period (see Table 3).

The U.S. Federal Reserve reported that it undertook no exchange market intervention in the three months to January following the use of $100 million in the preceding three months to restore orderly conditions in the market. It reported that other central bank intervention in the period amounted to the equivalent of $26 billion following intervention totaling $27 billion in the previous three months.

Table 3. Foreign Exchange Reserves in February 1983 1/

(In millions of U.S. dollars)

	Reserve level	Change in February	Change over 12 months
Belgium	3,173	-46	+206
Denmark	2,624	-1	+647
France	--	--	--
Germany	42,486	+1,838	+5,550
Ireland	2,233	+89	-82
Italy	13,432	-368	-3,077
Netherlands	9,965	+535	+1,910
Austria	4,323	-22	-87
Canada	3,398	+504	+1,246
Japan	19,566	+69	-4,914
Norway	5,732	-251	+399
Sweden	3,225	+250	+182
Switzerland	12,675	+491	+2,183
United Kingdom	9,108	+951	-3,186
United States	9,216	-274	-64

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

The main features of foreign exchange market developments in February were an overall easing of the U.S. dollar against most other currencies, continuing weakness of the pound sterling, a reversal of the firming trend seen in December-January for the Swiss franc, and substantial exchange market intervention to support the Belgian franc and the French franc in the EMS. Over the month as a whole, the U.S. dollar eased by 0.55 per cent in effective (MERM) terms and by 0.32 per cent against the SDR. There were indications that an economic recovery in the United States was underway. The newly-revised index of leading economic indicators rose a very sharp 3.6 per cent in January following a rise of 0.8 per cent in December. The index of industrial production, seasonally adjusted, rose 0.3 per cent in February following an upward-revised increase of 1.3 per cent in January; production, however, was down 3.9 per cent over February 1982. The civilian unemployment rate remained unchanged in February at 10.4 per cent but lower than the rate of 10.8 per cent in December. The merchandise trade deficit, seasonally adjusted, narrowed in January to $2.96 billion from a revised deficit of $3.2 billion in December. The budget was, however, in deficit in January to the extent of $9.58 billion, compared with a surplus in January 1982 of $9.34 billion. The producer price index in February rose 0.1 per cent for a 2.1 per cent year-on-year rise.

Among the currencies participating in the EMS, the Deutsche mark firmed by 1.27 per cent against the U.S. dollar and by 0.70 per cent in effective (MERM) terms; the Deutsche mark replaced the Netherlands guilder at the top of the narrow band of the EMS parity grid on February 28. A considerable amount of intervention was undertaken during the month by the Bundesbank to moderate the rise of the Deutsche mark against other currencies in the EMS. Industrial production in the December-January period rose 1.0 per cent from October-November but was down 5.0 per cent from the year earlier level. The unemployment rate in February rose to a record 10.4 per cent from 10.2 per cent in January. The current account in January was effectively in balance following a surplus of DM 5.9 billion in December and a deficit of DM 2.9 billion in January 1982. The wholesale price index in February fell 0.8 per cent over both January 1983 and February 1982.

The French franc was the strongest EMS currency against the U.S. dollar, firming by 1.39 per cent in nominal terms and by 0.66 per cent in effective (MERM) terms, reflecting mainly substantial intervention by the Bank of France to keep the franc near the top of the EMS parity grid amid persistent speculation that the franc would be devalued. The index of industrial production, excluding construction, seasonally adjusted, rose 0.8 per cent in January but was down 1.6 per cent year-on-year. The trade deficit in January, seasonally adjusted, widened to F 9.6 billion from F 6.0 billion in December. The index of industrial wholesale prices rose 0.6 per cent in January for an 8.0 per cent year-on-year rise.

The Belgian franc was also affected by the expectation of a devaluation with the currency remaining at the bottom of the EMS parity grid most of the month; the divergence indicator for the franc frequently exceeded its lower threshold in the London market. The discount of the financial franc from the commercial franc widened from 3.0 per cent at the end of January to 5.1 per cent at the end of February. Over the month, the Belgian franc firmed 0.77 per cent against the U.S. dollar but was essentially unchanged in effective (MERM) terms. The unemployment rate rose to 12.2 per cent at the end of February from 11.9 per cent at the end of January. The wholesale price index rose 0.2 per cent in January.

The Netherlands guilder remained the strongest currency in the EMS narrow band until the last day of February when it was replaced by the Deutsche mark following a cut in the Netherlands discount rate from 4.5 per cent to 4.0 per cent. Over the month the guilder firmed 0.59 per cent against the U.S. dollar but was essentially unchanged in effective (MERM) terms. Industrial production in January, seasonally adjusted, rose 1.0 per cent but was down 4.4 per cent on a year earlier. The unemployment rate in February, seasonally adjusted, rose to 17.3 per cent from 17.0 per cent in January. The producer price index for investment and consumer goods fell 0.4 per cent in December after being unchanged in November.

The Danish krone was the weakest EMS currency during February, easing 0.16 per cent against the U.S. dollar and 0.49 per cent in effective (MERM) terms. A large group of trade unions agreed to a two-year contract providing for annual increases of 5.0-6.0 per cent per year in pay and benefits. The unemployment rate in January rose to 12.2 per cent from 10.5 per cent in December and 11.5 per cent in January 1982. The trade balance swung into a surplus of DKr 240 million in January, the first surplus in 16 months. The Irish pound continued to remain close to the bottom of the EMS parity grid. Over the month, the Irish pound firmed 0.84 per cent against the dollar and 0.49 per cent in effective (MERM) terms. The new budget envisaged sharp increases in income and indirect taxes and cuts in government spending designed to reduce the government borrowing requirement from the equivalent of 16.0 per cent of GNP to 13.0 per cent.

The Italian lira continued to switch periodically from being the strongest currency in the EMS relative to ECU central parities to, at other times, ease within the narrow band; at the end of the month the lira had a spread of 2.56 per cent above the Belgian franc. Over the month, the lira firmed 0.82 per cent against the U.S. dollar and 0.19 per cent in effective (MERM) terms. Industrial output, seasonally adjusted, fell 0.2 per cent in January and was down 4.9 per cent year-on-year. The trade deficit in January widened to Lit 2,617 billion from Lit 1,135 billion in December. The wholesale price index rose 0.5 per cent in January for an 11.1 per cent year-on-year rise.

The pound sterling continued to ease on the expectation of falling oil export revenues; it eased 0.57 per cent against the U.S. dollar and 1.10 per cent in effective (MERM) terms. The index of leading indicators was unchanged in January but 10.7 per cent higher than in January 1982. The index of overall industrial production, seasonally adjusted, rose 0.2 per cent in February and was up 2.2 per cent year-on-year. The unemployment rate in February, seasonally adjusted, rose to 12.9 per cent from 12.8 per cent in January. The current account in January switched to a deficit of £261 million from a revised surplus of £738 million in December; the deficit in January 1982 was £6 million. The central government borrowing requirement widened in February to £1.123 billion from £117 million a year earlier. The wholesale price index of manufactured goods rose 0.4 per cent in February for a 7.1 per cent year-on-year rise, the smallest year-on-year rise since July 1973.

The Swiss franc was the weakest of the major currencies against the U.S. dollar over February; it eased 2.32 per cent against the dollar and 2.72 per cent in effective (MERM) terms after rising strongly in the previous two months. A stimulatory fiscal package was proposed to Parliament involving expenditures of Sw F 970 billion over two years, mainly on public procurement and export incentives, in addition to a longer-term Sw F 300 million program of increased assistance to distressed cantons and small businesses. The unemployment rate in February remained at 0.9 per cent. The trade deficit in February widened to Sw F 705 million from a revised deficit of Sw F 632 million in January. The government budget deficit widened in 1982 to Sw F 424 million from Sw F 251 million in 1981. The wholesale price index fell 0.4 per cent in February but was unchanged year-on-year.

The Japanese yen firmed 0.84 per cent against the U.S. dollar and 0.81 per cent in effective (MERM) terms. Industrial production in January was down 1.3 per cent from January 1982. The unemployment rate, seasonally adjusted, in January rose to 2.7 per cent from 2.4 per cent in December partly reflecting a change in the measurement method. The trade surplus, seasonally adjusted, widened to $1.604 billion in February, from $1.166 billion in January. The wholesale price index in February rose 0.1 per cent but fell 0.7 per cent from February 1982.

The Canadian dollar firmed 0.63 per cent against the U.S. dollar and 0.50 per cent in effective (MERM) terms. Real GNP in the fourth quarter of 1982 fell 1.1 per cent for the sixth consecutive quarterly decline. The unemployment rate, seasonally adjusted, rose to 12.5 per cent from 12.4 per cent in January. The trade surplus, seasonally adjusted, narrowed to Can$1.26 billion in January from Can$1.79 billion in December. The budget deficit in January widened to Can$1.32 billion from Can$595 million in January 1982. Industrial selling prices rose 0.1 per cent in January for a 3.8 per cent year-on-year rise.

The Austrian schilling firmed 0.88 per cent against the U.S. dollar and 0.58 per cent in effective (MERM) terms. The Norwegian krone firmed 0.30 per cent against the U.S. dollar but eased 0.18 per cent in effective (MERM) terms. The Swedish krona also firmed 0.30 per cent against the U.S. dollar, but eased 0.19 per cent in effective (MERM) terms.

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

Monetary and credit conditions in major industrial countries remained generally moderate in February with the authorities aiming at achieving non-inflationary economic growth. Short-term interest rates in industrial countries were relatively easier or unchanged, with the notable exception of France, Italy, and Switzerland where the rates firmed modestly between the end of January and the end of February.

In the United States, credit conditions continued to ease with the short-term interest rates declining modestly at the end of February. The three-month bond-equivalent yield on U.S. Treasury bills eased from 8.37 per cent at the end of January to 8.20 per cent at the end of February. The federal funds rate and the 90-day CD rate eased by 0.03 and 0.33 percentage points, respectively, to 8.53 per cent and 8.23 per cent, while the prime lending rate eased by 0.50 percentage point to 10.50 per cent at the end of February. The U.S. basic money supply M1 rose to a seasonally adjusted average of $492.7 billion in the week ended March 2, about the same as in the previous week; for the latest 13 weeks, M1 averaged $484.0 billion for a growth rate of 13.1 per cent. The narrow aggregate averaged $490.8 billion in February, up from revised $482.0 billion in January. At the same time, the broader measure M2 averaged $2.0475 billion, up from revised $2.0079 trillion in January.

Among the countries in the European Monetary System, the Bundesbank reduced its discount and lombard rates by a full percentage point to 4.0 per cent and 5.0 per cent, respectively, with effect from March 18; the two key rates were last changed in November 1982, when they were lowered by a full percentage point to 5.0 per cent and 6.0 per cent, respectively. The Netherlands Bank lowered its discount and refinancing rates by 0.5 percentage point each to 3.5 per cent and 4.0 per cent, respectively, with effect from March 18; the rates were last changed on March 1, when they were reduced by 0.5 percentage point to 4.0 per cent and 4.5 per cent, respectively. The National Bank of Belgium on the other hand, raised its discount rate by 2.5 percentage points to 14.0 per cent, effective March 8; this sharp increase in the official rate was surpassed only by the 3.0 percentage points increase to 16.0 per cent in March 1981.

The Swiss National Bank lowered its discount and lombard rates by 0.5 percentage point to 4.0 per cent and 5.5 per cent, respectively, effective March 18. According to the provisional figures published by the Swiss National Bank, the authorized exports of Swiss capital reached a record Sw F 38.032 billion in 1982, compared with Sw F 32.205 billion in 1981. Capital exports in the form of bonds rose from Sw F 7.575 billion in 1981 to Sw F 9.975 billion in 1982 and those in notes from Sw F 11.846 billion to Sw F 18.209 billion; financial and export credits (including those in foreign currencies), on the other hand, declined from Sw F 12.784 billion to Sw F 9.849 billion. Of the total capital exports in 1982, Sw F 29.155 billion went to industrial countries, Sw F 3.711 billion to developing countries, Sw F 0.539 billion to Eastern Europe, Sw F 0.127 billion to OPEC countries, and Sw F 4.5 billion to international institutions (including IBRD, ADB, IDB and EIB).

Among other countries, the Austrian National Bank lowered its discount rate from 4.75 per cent to 3.75 per cent and the lombard rate from 5.25 per cent to 4.25 per cent with effect from March 18.

The Bank of Japan reported that the broadly defined money supply M3 grew at an average 7.7 per cent in January from a year earlier; this compared with a year-on-year growth rate of 7.9 per cent in December and an 8.0 per cent rate in November 1982. The narrower measure M1 grew an average 6.7 per cent in January from a year earlier, up from an average growth rate of 4.9 per cent in December 1982.

The Bank of England reported that the sterling M3 rose by a seasonally adjusted £260 million or 0.3 per cent in the banking month ended February 16; this compared with a rise of £390 million or 0.4 per cent in January. The narrowest aggregate M1 rose by 0.4 per cent in February, compared with 1.1 per cent rise in the previous month, while at the same time the broadest measure, Public Sector liquidity 2 (PSL2), rose by 0.8 per cent compared with an average monthly rise of 0.6 per cent in January. Over the 12-month period since mid-February 1982, the sterling M3 grew at an annual rate of 9.75 per cent, M1 grew at an 11.00 per cent rate, and PSL2 registered a growth rate of 8.75 per cent. The Government's annual growth target range for each of the three monetary aggregates is 8-12 per cent for the 14 months from mid-February 1982 to mid-April 1983.

Short-term money market interest rates in industrial countries were mixed at the end of February (see Table 4). Interest rates in the United States, Germany, the United Kingdom, Japan, the Netherlands, and Canada eased by 0.06-0.44 percentage point, while those in France and Italy firmed by 0.25 percentage point each at the end of February. Interest rates in Austria, Denmark, Norway, and Sweden remained unchanged between the end of January and the end of February.

Table 4. Inflation Rates and Short-Term Interest Rates

	Month 2/	Inflation Rates 1/ (year-on-year per cent changes) Wholesale price index		Consumer price index 3/		Short-term interest rates 4/ (end-of-month) Jan.	Feb.
Austria	Jan./Feb.	0.0	(-0.2)	4.3	(4.7)	4.75	4.75
Belgium	Dec./Jan.	5.4	(6.4)	8.3	(8.1)	n.a.	12.25
Canada	February			7.4	(8.3)	9.60	9.20
Denmark	January	7.3	(9.6)	9.1	(9.0)	10.00	10.00
France	Jan./Feb.	8.0	(8.2)	8.9	(9.6)	12.80	13.05
Germany	February	-0.8	(-0.2)	3.7	(3.9)	6.03	5.73
Italy	Jan./Feb.	11.1	(11.9)	16.4	(16.2)	19.00	19.25
Japan	January	0.1	(0.8)	2.0	(1.0)	6.95	6.89
Netherlands	December			4.2	(4.3)	5.19	4.75
Norway	Feb./Jan.	5.9	(6.0)	10.1	(11.7)	9.00	9.00
Sweden	Dec./Feb.	13.1	(12.3)	8.3	(10.1)	9.00	9.00
Switzerland	February	0.5	(0.5)	4.8	(4.8)	2.81	3.13
United Kingdom	February	7.1	(7.4)	5.3	(4.9)	11.34	11.00
United States	February	2.1	(2.1)	3.5	(3.8)	8.37	8.20

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; four-month certificates of the Government Securities Stabilization Fund for Belgium; discount rate on two-month private bills for Japan; central bank discount rates for Austria, Denmark, Norway and Sweden.

In the euro-currency market, the three-month euro-dollar interest rate eased markedly by 0.57 percentage point to 8.81 per cent at the end of February. As a result, the uncovered interest differentials favoring euro-dollar investment narrowed for Germany and the Netherlands at the end of February, while the uncovered differentials favoring domestic investment widened for France, Italy, and the United Kingdom between the end of January and the end of February.

In the forward exchange market, the premia against the U.S. dollar narrowed slightly for the Deutsche mark and widened modestly for the Netherlands guilder at the end of February, while the discount against the U.S. dollar widened sharply for the French franc, the Belgian franc, the Italian lira, and the pound sterling between the end of January and the end of February. Consequently, the covered interest differentials favoring domestic investment widened for Germany and the Netherlands at the end of February. The covered interest differentials favoring euro-dollar investment widened for France and the United Kingdom at the end of February, while that for Italy narrowed modestly between the end of January and the end of February.

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

	Uncovered interest differentials 1/ (1)		Forward exchange quotations 2/ (2)		Covered interest differentials 1/ (3)=(1)-(2)	
	Jan.	Feb.	Jan.	Feb.	Jan.	Feb.
Belgium 3/	n.a.	-3.12	-3.78	-5.01	n.a.	+1.89
France	-3.42	-4.24	-10.53	-12.87	+7.11	+8.63
Germany	+3.35	+3.08	+3.75	+3.69	-0.40	-0.61
Italy	-9.62	-10.44	-11.41	-12.06	+1.79	+1.62
Netherlands	+4.19	+4.06	+4.29	+4.45	-0.10	-0.39
United Kingdom	-1.96	-2.19	-2.17	-2.59	+0.22	+0.40

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, and for Belgium the rate on four-month certificates of the Government Securities Stabilization Fund.

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

3/ Rates pertain to the last Tuesday of the month.

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

For the calendar quarter beginning January 1, 1983, the SDR interest rate declined to 8.47 per cent from 8.90 per cent in the previous quarter, reflecting lower interest rates on all the instruments used to calculate the combined rate, except the yield on U.S. Treasury bills which firmed slightly from 8.12 per cent in September 1982, to 8.17 per cent in December 1982. The rate of remuneration paid on creditor positions in the Fund (85 per cent of the SDR interest rate) decreased from 7.57 per cent in the previous quarter to 7.20 per cent in the current quarter.

As shown in Appendix B, the average short-term interest rates firmed modestly in the United States, Germany, France, and the United Kingdom, while that in Japan eased slightly during February. As a result, the average combined market interest rate firmed modestly by 0.19 percentage point to 8.51 per cent in February.

The combined domestic market interest rates for maturities ranging from three months to five years eased modestly by 0.02-0.14 percentage point at the end of February (see Table 6), reflecting generally lower domestic interest rates for the five currencies included in the SDR basket. The combined rates displayed a rising yield curve moving up from 8.39 per cent in the three-month maturity through 8.49 per cent and 8.57 per cent on the six- and twelve-month maturities, respectively, to 9.89 per cent on the five-year maturity.

The combined euro-currency interest rates for the three- and six-month maturities firmed by 0.28 and 0.09 percentage points to 9.65 per cent and 9.59 per cent, respectively, while that for the twelve-month maturity eased by 0.20 percentage point to 9.50 per cent at the end of February. This reflected generally easier euro-deposit rates for the five currencies in the SDR basket, except those for the euro-French franc deposits which firmed substantially.

Average interest rates on SDR-denominated deposits of selected commercial banks firmed by 0.16-0.54 percentage point, except the rate on twelve-month deposits, which eased marginally at the end of February. The deposit rates displayed a yield curve moving up from 9.28 per cent on one-month deposits to 9.47 per cent on three-month deposits, and down through 9.44 per cent on six-month deposits to 9.24 per cent on twelve-month deposits. The yields on SDR-denominated bonds quoted on the Luxembourg Stock Exchange eased marginally at the end of February. The current yield ranged from 9.12 per cent to 11.52 per cent, with the average current yield easing slightly by 0.04 percentage point to 10.24 per cent at the end of February, while the yield to maturity ranged from 10.71 per cent to 16.90 per cent, with the average yield to maturity easing marginally by 0.06 percentage point to 12.57 per cent between the end of January and the end of February.

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

	Jan.	Feb.	Mar.
SDR quarterly rate	8.47	8.47	8.47
Rate of remuneration	7.20	7.20	7.20
Yields on other SDR-denominated assets 1/			
Combined market interest rates 2/			
Based on domestic rates			
3-month maturity (Rule T-1)	8.49	8.39	
6-month maturity	8.51	8.49	
12-month maturity	8.64	8.57	
5-year maturity	10.03	9.89	
Based on euro-currency rates			
3-month maturity	9.37	9.65	
6-month maturity	9.50	9.59	
12 month maturity	9.70	9.50	
Average commercial bank deposit rates 3/			
1-month deposits	8.74	9.28	
3-month deposits	9.16	9.47	
6-month deposits	9.28	9.44	
12-month deposits	9.27	9.24	
Bonds quoted on the Luxembourg Stock Exchange 4/			
Average current yield	10.28	10.24	
Average yield to maturity	12.63	12.57	

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.

CHART 1

SPOT EXCHANGE RATES

(DEVIATIONS FROM CENTRAL RATES EXPRESSED IN U.S. DOLLARS)[1]

(Based on noon quotations in New York)

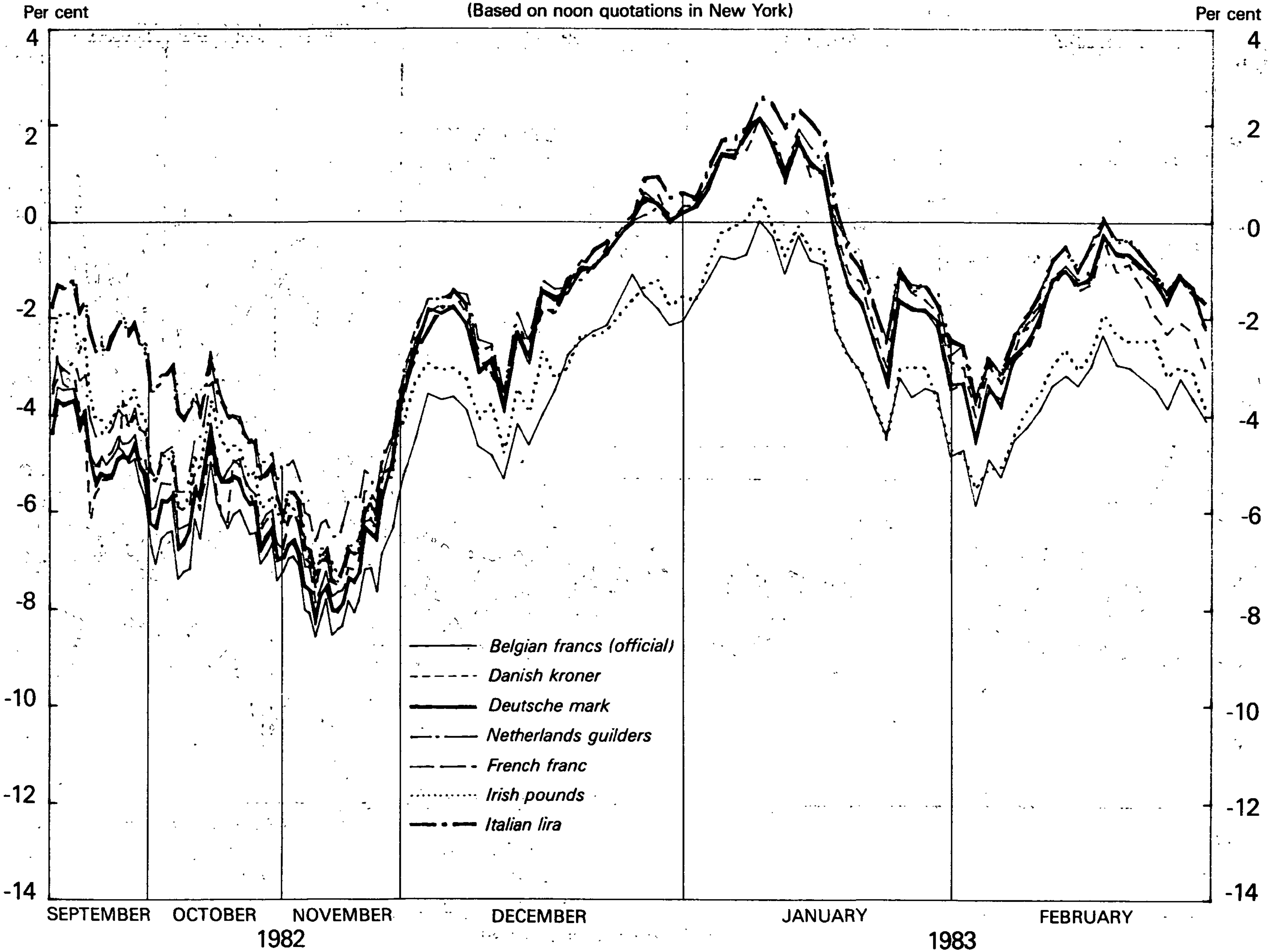


CHART 2

EUROPEAN MONETARY SYSTEM: DIVERGENCE INDICATORS

(Based on noon quotations in London)

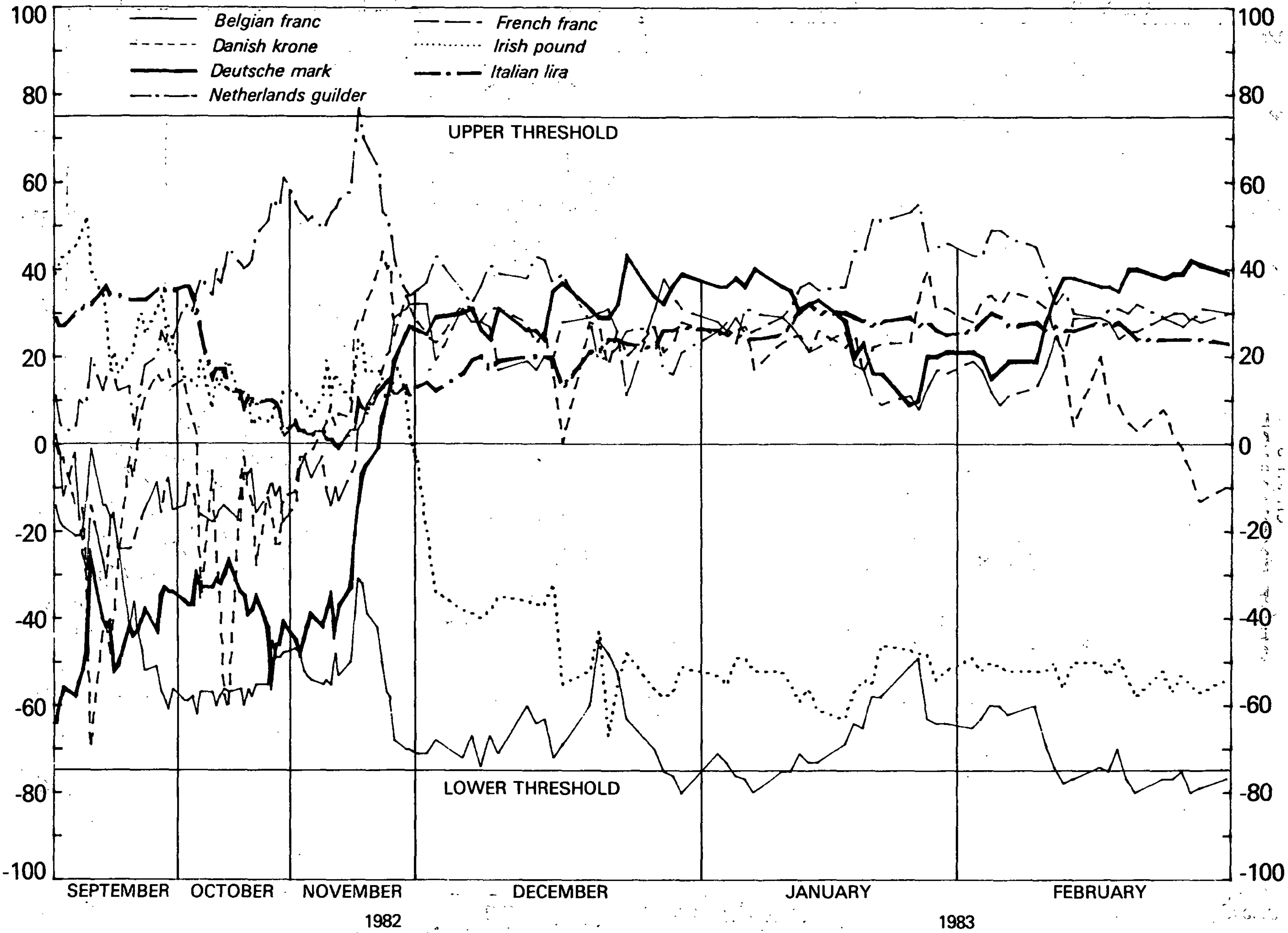


CHART 3

SPOT EXCHANGE RATES

(Noon quotations in New York)

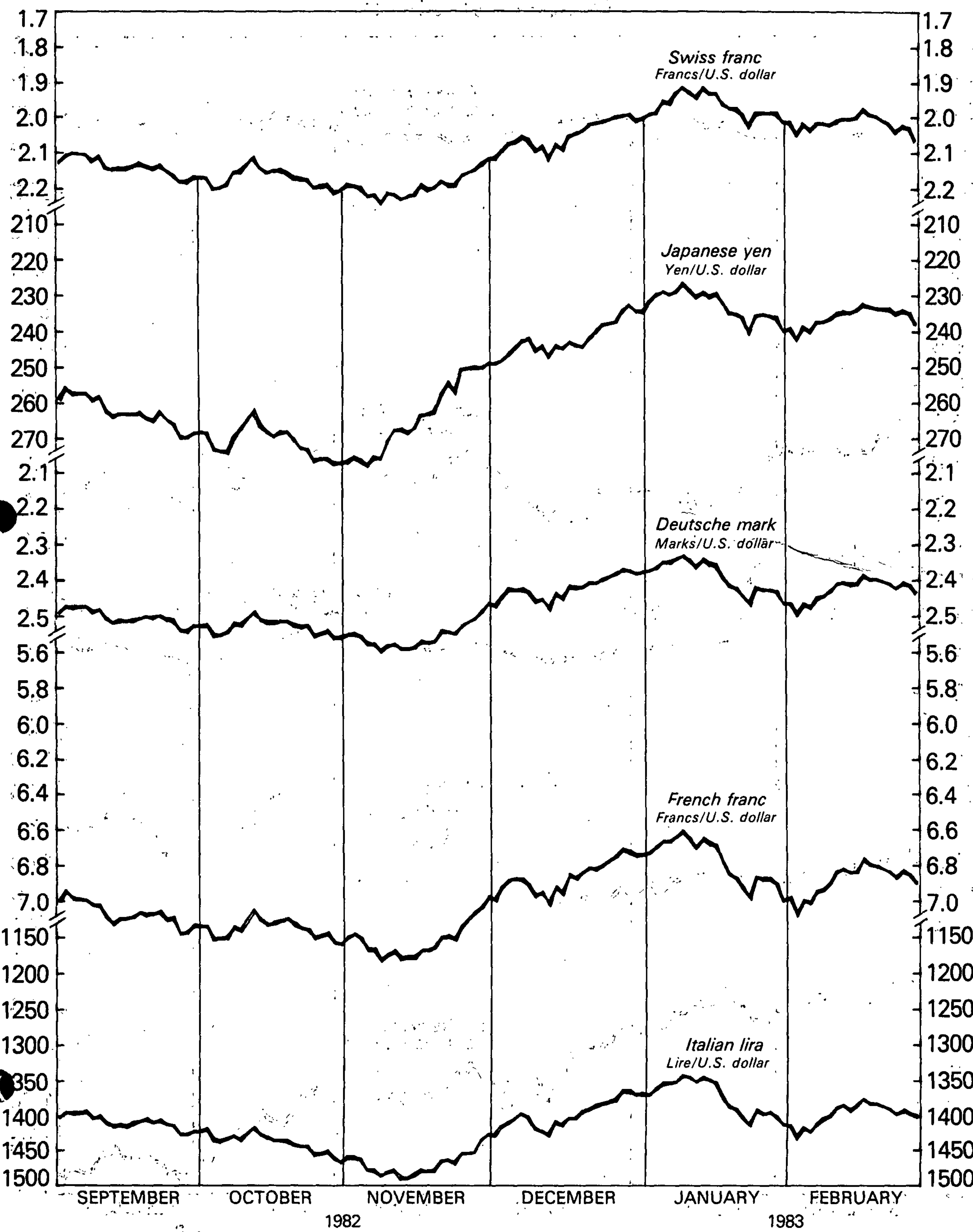


CHART 4
SPOT EXCHANGE RATES
(Noon quotations in New York)

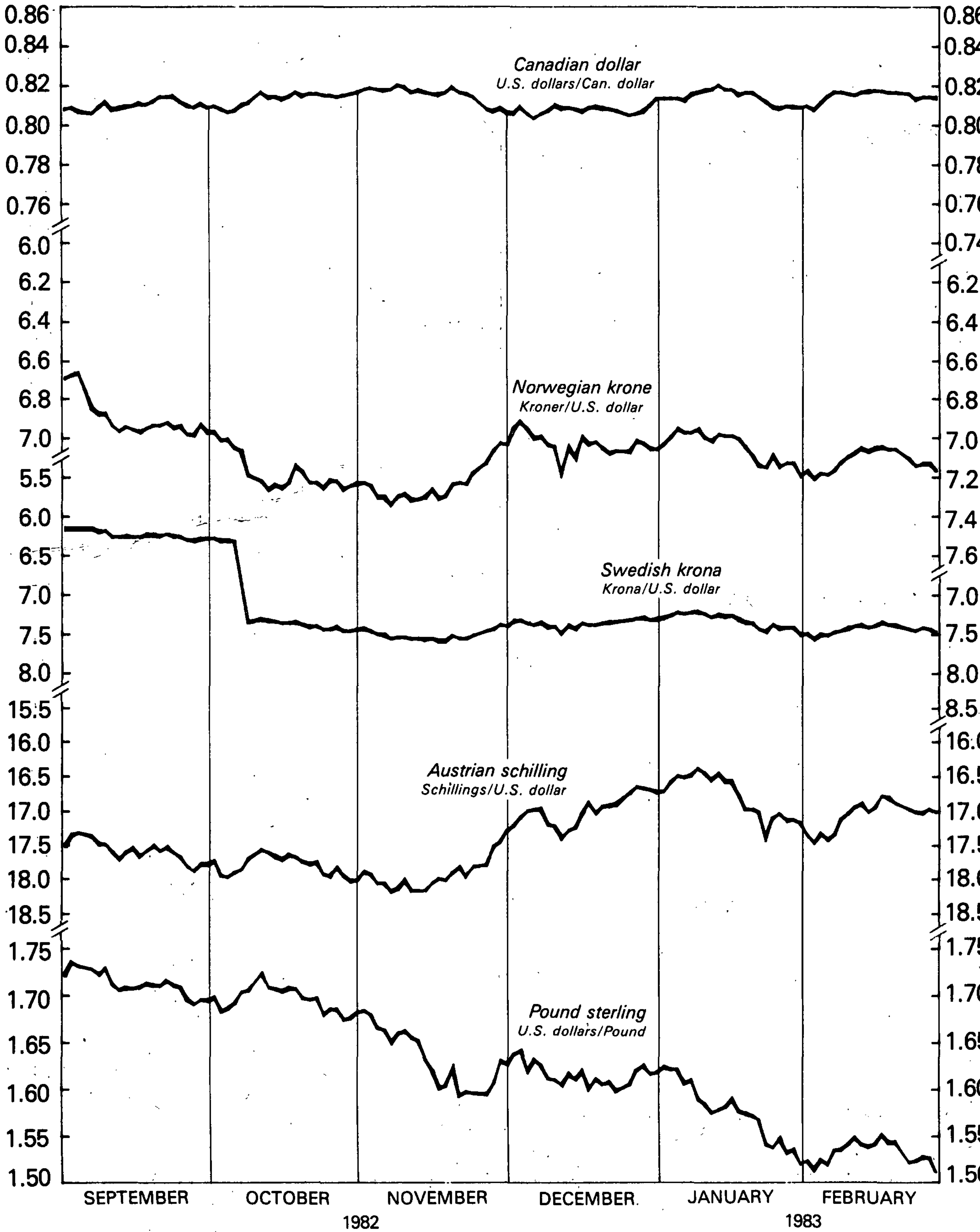
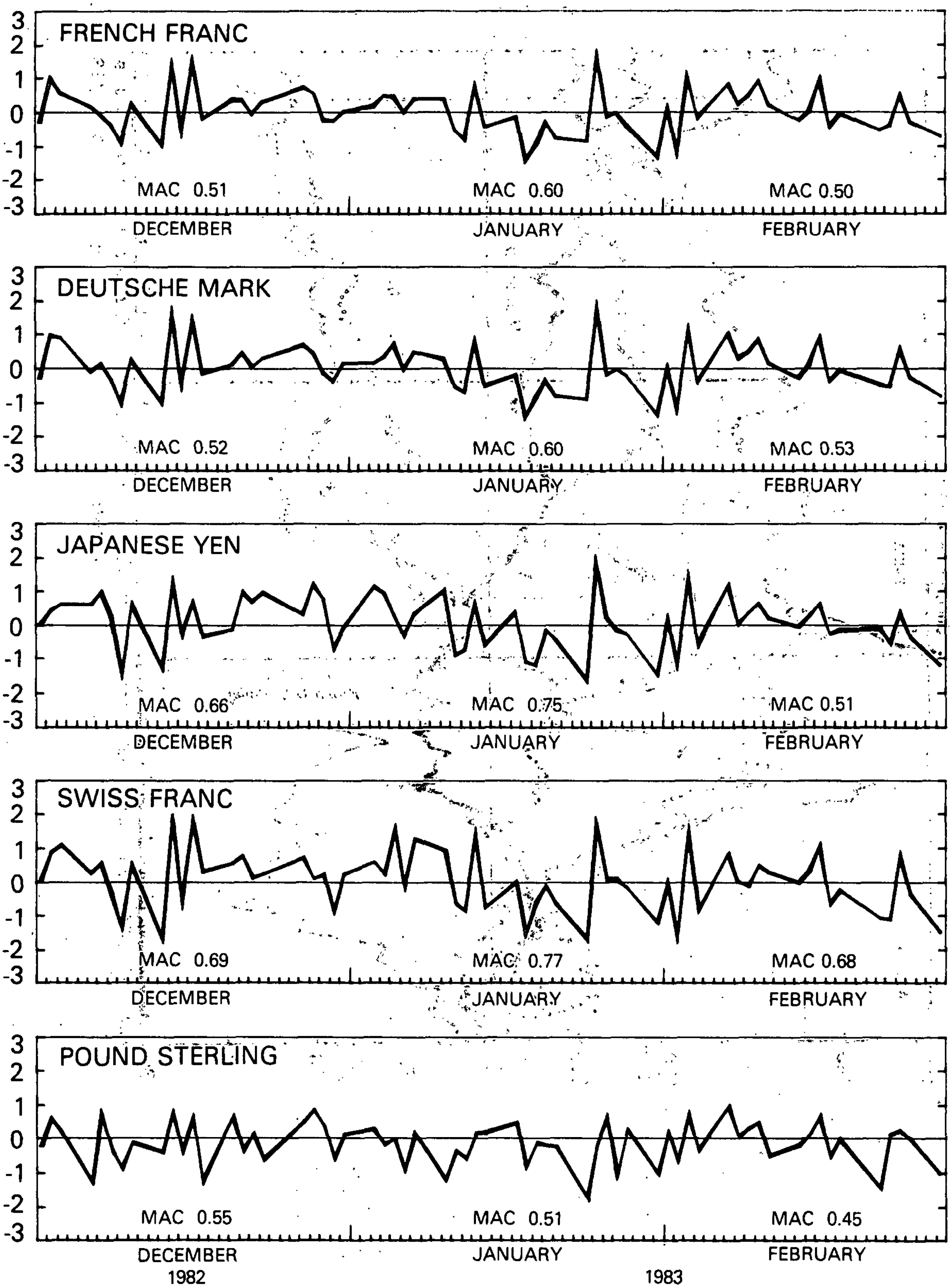


CHART 5

DAILY CHANGES IN SPOT EXCHANGE RATES

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



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

CHART 6

INDEXES OF EXCHANGE RATES OF FIVE MAJOR CURRENCIES AGAINST THE SDR

JUN. 1974 - FEB. 1983

(June 28, 1974=100)

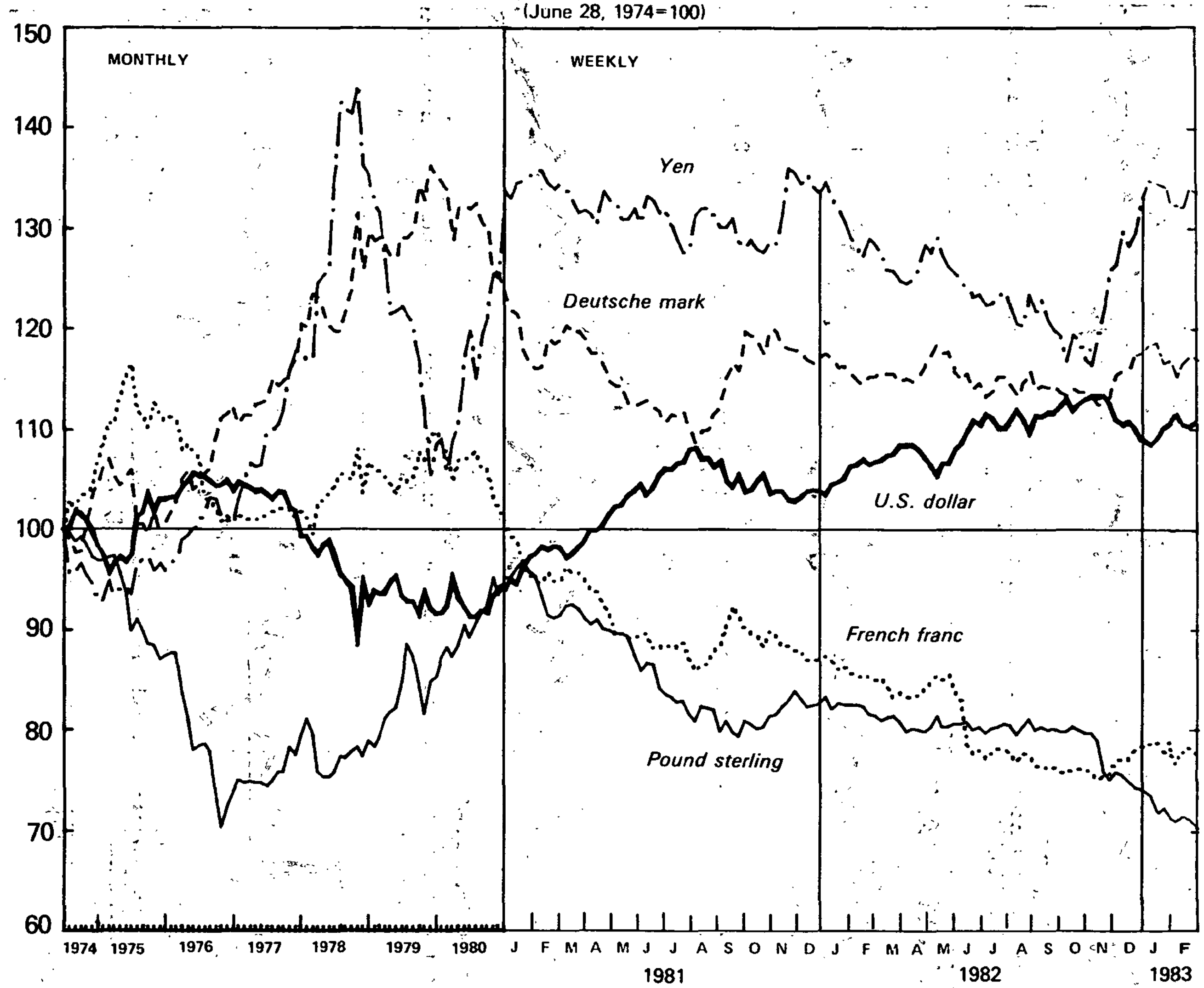
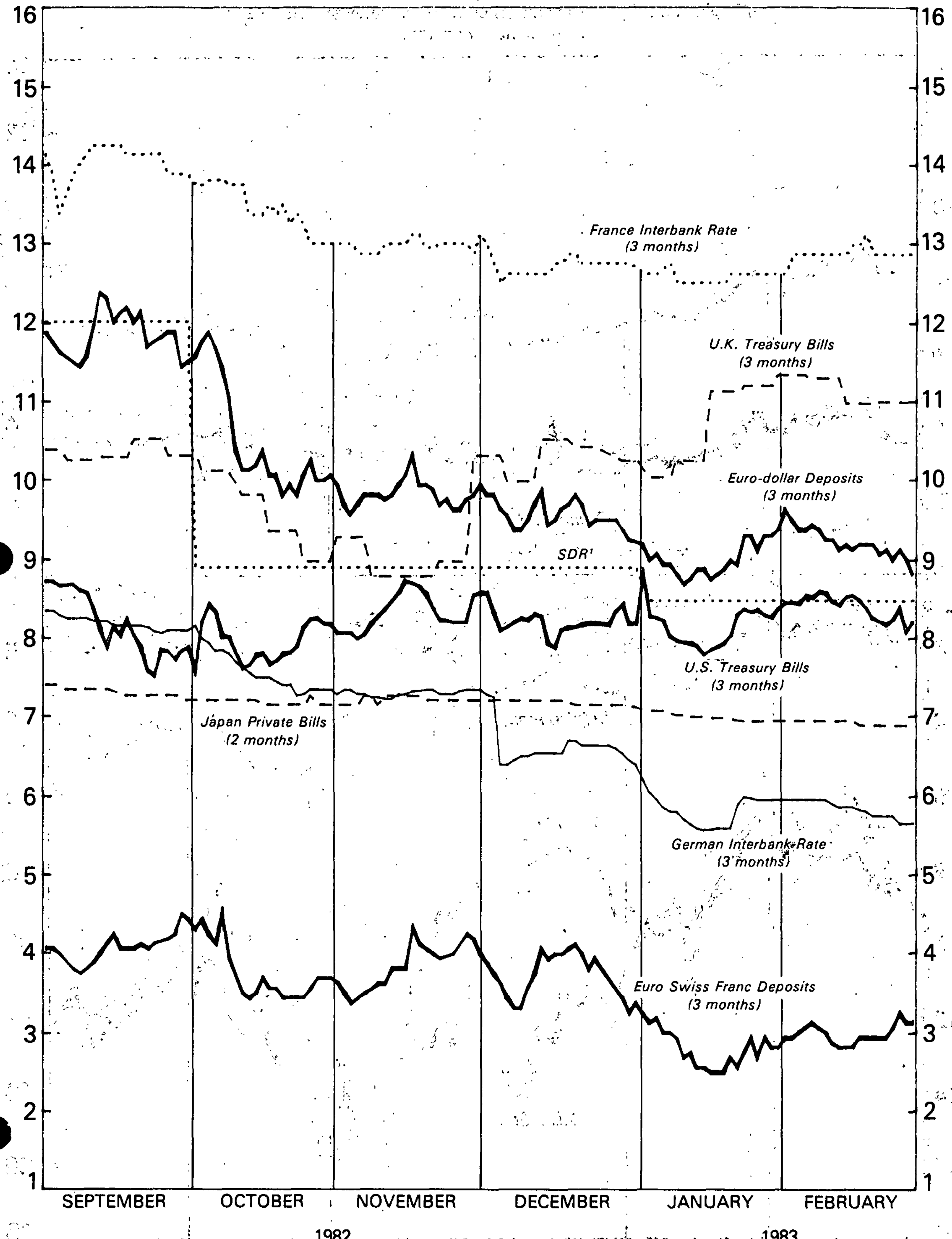


CHART 7.

SHORT-TERM MONEY MARKET RATES

(Per cent per annum)



¹The rate of interest on SDR holdings for each quarter, under Rule T-1(b), 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)

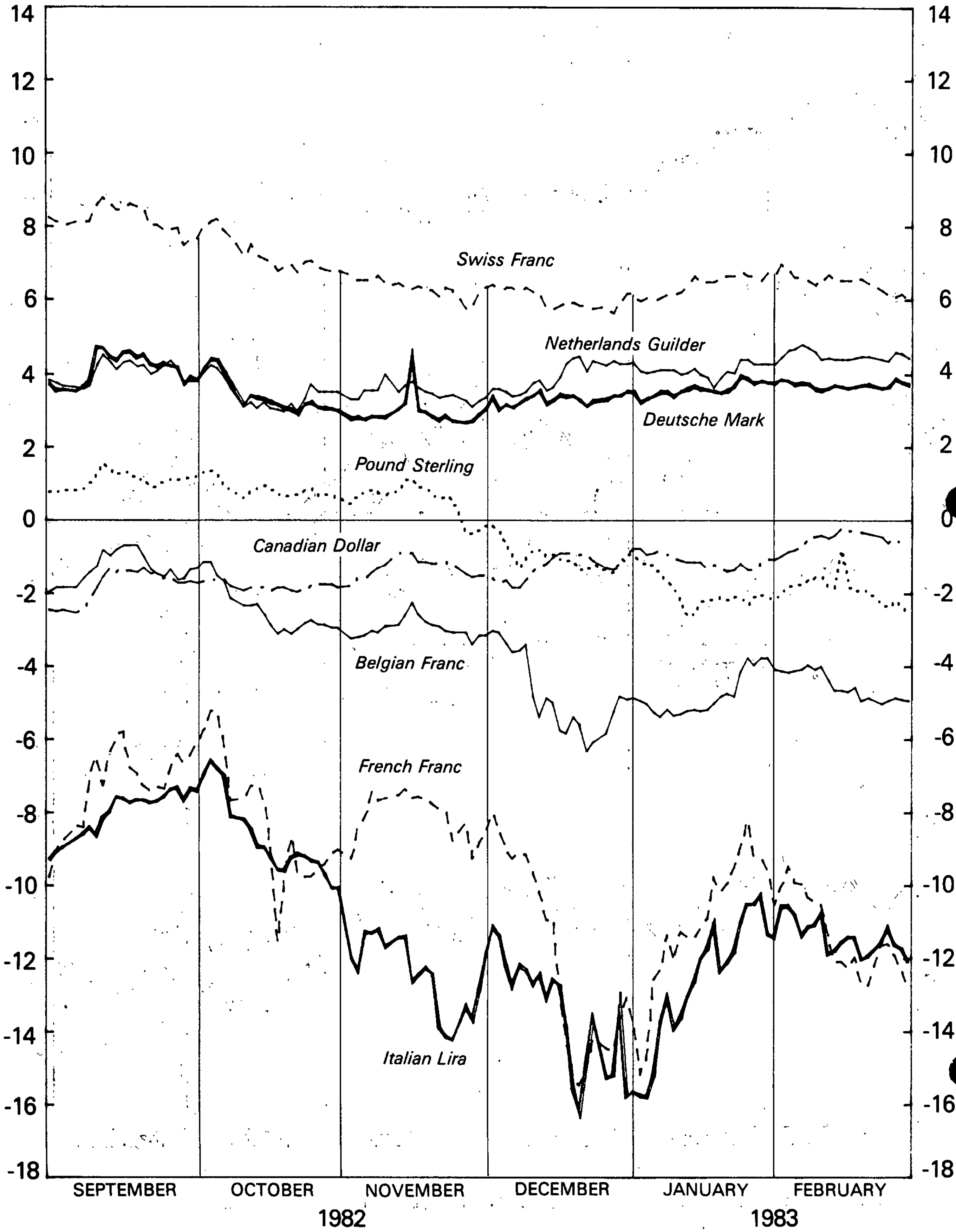
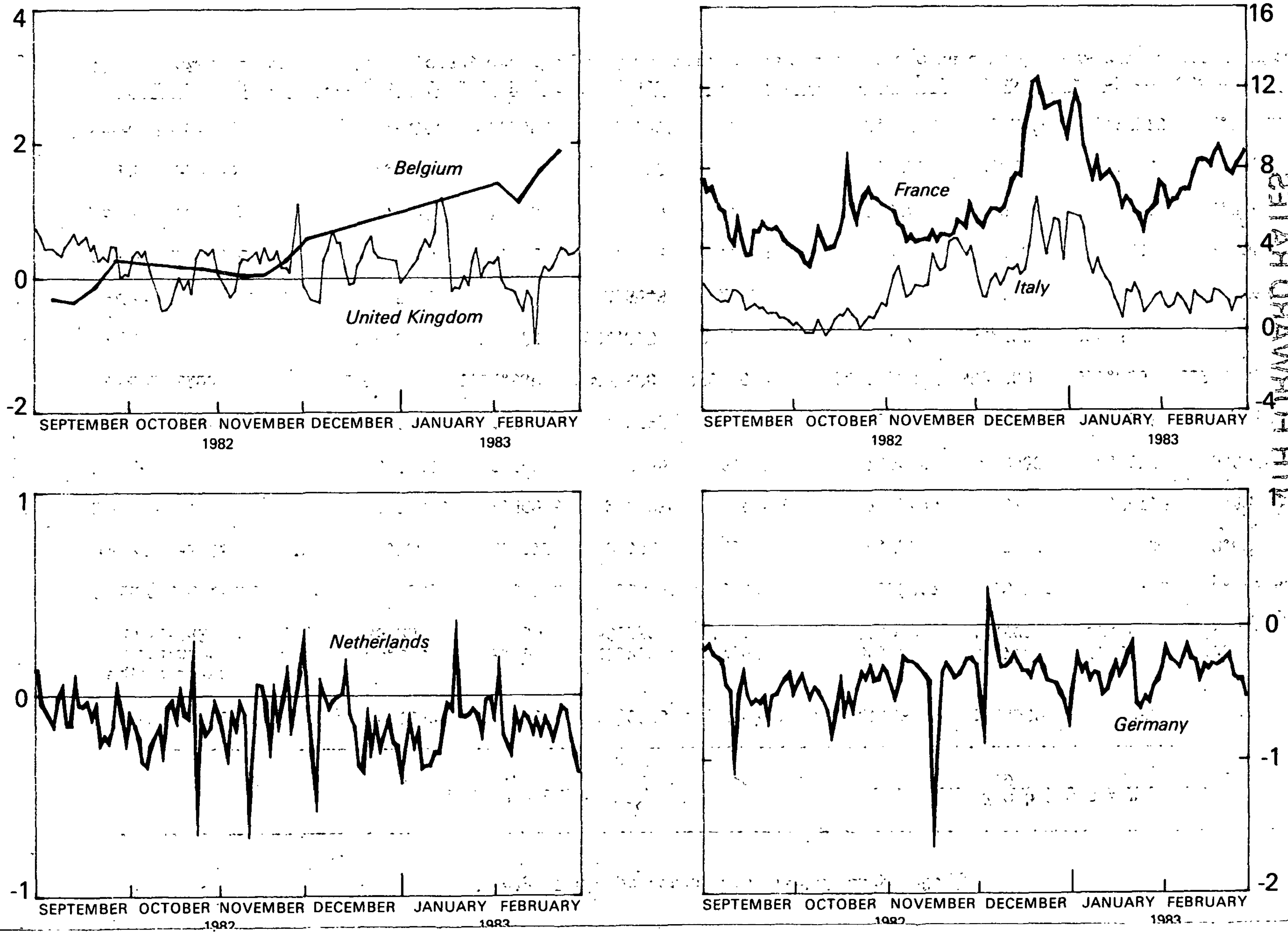


CHART 9

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, January-February 1983 1/

	January				February			
	5	12	19	26	2	9	16	23
Austrian schilling	16.4850	16.5350	16.9750	17.0350	17.4650	17.0350	16.7750	17.0150
Belgian franc								
Official	46.215	46.395	47.200	47.625	48.745	47.740	46.985	47.720
Financial	48.235	49.050	49.550	49.100	50.250	49.500	48.600	49.500
Canadian dollars	0.81331	0.81776	0.81626	0.80831	0.80762	0.81576	0.81743	0.81304
Danish kroner	8.2805	8.3175	8.4925	8.5275	8.7550	8.5475	8.4350	8.6000
Deutsche mark	2.34850	2.36025	2.41350	2.42550	2.49400	2.43050	2.38750	2.42200
French francs	6.6600	6.6960	6.8445	6.8715	7.0685	6.8960	6.7675	6.8635
Irish pounds	1.4150	1.4080	1.3785	1.3755	1.3400	1.3675	1.3913	1.3730
Italian lire	1355.000	1351.500	1386.500	1398.000	1431.000	1399.000	1377.000	1398.000
Japanese yen	229.050	230.475	234.875	235.275	242.150	236.525	232.525	234.975
Netherlands guilder	2.5968	2.6043	2.6443	2.6670	2.7340	2.6810	2.6390	2.6765
Norwegian kroner	6.9500	7.0125	7.0365	7.1450	7.2050	7.0900	7.0425	7.1387
Pounds sterling	1.6215	1.5755	1.5745	1.5485	1.5143	1.5413	1.5518	1.5240
Swedish kroner	7.2238	7.2800	7.3450	7.4225	7.5550	7.4200	7.3475	7.4450
Swiss francs	1.95700	1.94525	1.97500	1.98825	2.04775	2.02050	1.97775	2.04000

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.

APPENDIX A

Short- and Medium-Term Interest Rates

APPENDIX B

(Monthly and weekly averages)

	National Money Markets 1/						Euro-currency Markets 2/					Lending Rate		U.S.
	United States	Germany	United Kingdom	France	Japan	Weighted average	U.S. dollar	Deutsche mark	Pound sterling	Swiss franc	French franc	LIBOR 3/	U.S. prime 4/	Treasury 5/ Securities
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
1982														
Mar.	13.27	10.01	13.34	15.41	6.61	12.11	14.98	9.43	13.67	6.36	19.79	15.08	16.50	13.98
Apr.	13.30	9.46	13.45	16.61	7.15	12.24	15.22	9.04	13.80	4.98	23.12	15.30	16.50	14.00
May	12.66	9.31	13.36	16.39	7.29	11.88	14.61	8.67	13.35	3.93	24.97	14.62	16.50	13.75
June	13.04	9.40	12.86	15.90	7.37	11.99	15.55	8.98	13.05	5.38	18.70	15.75	16.50	14.43
July	11.73	9.58	12.29	14.83	7.40	11.20	14.39	9.00	12.39	4.38	15.77	14.96	16.26	14.07
Aug.	9.00	9.13	10.98	14.68	7.44	9.62	11.65	8.65	11.15	4.22	17.62	12.64	14.39	13.00
Sept.	8.21	8.29	10.36	14.24	7.31	8.94	11.85	7.83	10.93	4.08	19.43	12.75	13.50	12.25
Oct.	7.97	7.68	9.59	13.65	7.19	8.56	10.51	7.19	9.82	3.75	19.01	10.82	12.52	10.80
Nov.	8.34	7.41	9.08	13.16	7.23	8.59	9.82	7.07	9.35	3.83	18.77	10.06	11.85	10.38
Dec.	8.20	6.71	10.30	12.90	7.19	8.49	9.57	6.38	10.55	3.73	22.46	9.84	11.50	10.22
1983														
Jan.	8.15	5.90	10.72	12.76	7.00	8.32	9.01	5.53	11.17	2.80	21.16	9.25	11.16	10.03
Feb.	8.40	5.92	11.14	13.07	6.92	8.51	9.22	5.66	11.33	2.98	22.11	9.53	10.98	10.26
1982 Weekly														
Mar. 5	12.82	10.36	14.08	14.19	6.63	11.90	10.75	9.83	13.85	7.13	15.65	14.79	16.50	13.76
12	13.04	10.16	13.18	14.35	6.63	11.89	14.60	9.46	13.43	6.65	15.53	14.67	16.50	13.82
19	13.46	9.98	13.11	15.79	6.58	12.20	15.15	9.38	13.75	6.28	18.96	15.21	16.50	14.04
26	13.32	9.71	13.11	16.68	6.57	12.19	15.09	9.14	13.63	5.83	26.16	15.17	16.50	14.03
Apr. 2	13.97	9.69	13.13	16.58	7.08	12.56	15.43	9.19	13.65	5.44	24.70	15.56	16.50	14.34
9	13.72	9.48	13.09	16.77	7.08	12.43	15.47	9.13	13.69	5.12	24.31	15.53	16.50	14.25
16	13.37	9.48	13.46	16.67	7.15	12.29	15.47	9.18	13.88	5.22	23.12	15.56	16.50	14.00
23	12.96	9.44	13.84	16.32	7.21	12.09	15.10	8.96	13.88	4.94	22.23	15.16	16.50	13.85
30	12.99	9.38	13.56	16.70	7.21	12.09	14.93	8.92	13.83	4.61	21.71	14.98	16.50	13.87
May 7	13.12	9.34	13.59	16.45	7.21	12.12	14.81	8.74	13.48	4.12	22.22	14.80	16.50	13.87
14	12.95	9.33	13.28	16.35	7.27	11.99	14.53	8.53	13.14	3.56	22.47	14.49	16.50	13.69
21	12.43	9.26	13.25	16.35	7.27	11.74	14.63	8.71	13.41	3.76	26.25	14.66	16.50	13.72
28	12.03	9.30	13.32	16.38	7.34	11.58	14.48	8.68	13.41	4.20	27.90	14.54	16.50	13.74
June 4	12.64	9.27	13.18	16.48	7.34	11.87	14.63	8.72	13.22	4.25	27.75	14.75	16.50	13.98
11	12.60	9.31	12.77	16.48	7.34	11.82	14.93	8.98	12.92	5.14	n.a.	15.14	16.50	14.04
18	13.04	9.36	12.77	15.51	7.38	11.93	15.68	8.91	12.91	5.67	17.88	15.86	16.50	14.48
25	13.49	9.50	12.77	15.49	7.40	12.18	16.26	9.12	13.05	6.10	17.69	16.54	16.50	14.90
July 2	13.41	9.60	12.87	15.18	7.40	12.14	16.23	9.21	13.11	5.38	16.55	16.49	16.50	14.73
9	12.78	9.68	12.82	14.73	7.40	11.80	15.72	9.16	12.72	5.00	15.82	15.98	16.50	14.48
16	12.13	9.59	12.32	14.85	7.40	11.41	14.80	9.01	12.44	4.46	15.50	15.13	16.50	14.10
23	10.72	9.55	12.15	14.75	7.40	10.68	13.54	8.86	12.27	3.65	15.71	14.21	16.36	13.66
30	10.94	9.52	11.74	14.93	7.40	10.74	13.13	8.93	11.98	4.27	16.15	14.18	16.00	13.89
Aug. 6	10.18	9.44	11.54	14.88	7.42	10.34	12.48	8.78	11.61	4.28	16.38	13.38	15.29	13.62
13	10.08	9.48	11.22	14.63	7.42	10.23	12.75	9.11	11.38	4.47	16.58	13.75	15.00	13.59
20	8.14	9.10	11.10	14.64	7.47	9.20	10.74	8.56	10.88	4.08	16.44	11.75	14.71	12.53
27	7.75	8.67	10.32	14.73	7.46	8.85	10.64	8.21	10.85	4.06	20.48	11.68	13.79	12.38
Sept. 3	8.65	8.47	10.39	14.09	7.40	9.20	11.71	8.19	10.93	4.06	21.22	12.72	13.50	12.54
10	8.63	8.35	10.25	14.26	7.34	9.16	11.61	7.86	10.91	3.81	20.19	12.66	13.50	12.43
17	8.31	8.28	10.29	14.42	7.32	9.00	12.20	7.79	10.95	4.10	18.65	13.16	13.50	12.47
24	7.78	8.22	10.52	14.32	7.27	8.74	11.88	7.69	11.00	4.10	19.31	12.73	13.50	12.11
Oct. 1	7.77	8.22	10.32	14.04	7.25	8.68	11.65	7.82	10.73	4.34	18.28	12.29	13.50	11.74
8	8.20	8.00	10.12	13.98	7.21	8.82	11.56	7.59	10.50	4.25	17.54	12.00	13.50	11.29
15	7.72	7.65	9.82	13.66	7.21	8.46	10.24	7.05	9.70	3.55	17.88	10.45	12.86	10.46
22	7.78	7.50	9.35	13.59	7.15	8.40	9.94	6.95	9.43	3.49	20.45	10.23	12.00	10.50
29	8.19	7.44	8.96	13.24	7.17	8.52	10.07	7.04	9.50	3.61	20.35	10.35	12.00	10.73
Nov. 5	8.04	7.42	9.28	13.10	7.19	8.46	9.74	6.99	9.29	3.49	19.00	9.93	12.00	10.34
12	8.35	7.35	8.78	13.12	7.25	8.55	9.82	7.07	9.16	3.69	n.a.	9.98	12.00	10.44
19	8.60	7.43	8.78	13.22	7.25	8.70	10.03	7.12	9.20	4.07	18.13	10.28	12.00	10.51
26	8.21	7.41	8.98	13.18	7.21	8.51	9.69	7.08	9.27	4.06	18.46	10.01	11.50	10.21
Dec. 3	8.42	7 23	10.32	13.03	7.21	8.17	9.80	6.88	10.23	3.89	19.35	10.14	11.50	10.31
10	8.23	6.57	9.98	12.80	7.21	8.44	9.50	6.34	10.11	3.47	19.83	9.78	11.50	10.26
17	8.07	6.67	10.52	12.90	7.21	8.45	9.63	6.44	10.66	4.07	22.85	9.93	11.50	10.23
24	8.17	6.76	10.42	12.96	7.15	8.50	9.61	6.44	11.06	3.97	26.50	9.86	11.50	10.22
31	8.28	6.62	10.25	12.93	7.15	8.51	9.41	5.98	10.72	3.36	24.21	9.61	11.50	10.15
1983 Weekly														
Jan. 7	8.32	6.05	10.05	12.83	7.08	8.38	9.03	5.74	10.52	3.11	23.78	9.23	11.50	10.04
14	7.92	5.74	10.25	12.67	7.02	8.12	8.80	5.38	11.33	2.69	21.43	9.00	11.36	9.88
21	8.01	5.73	11.13	12.72	n.a.	n.a.	8.88	5.40	11.14	2.55	20.28	9.10	11.00	9.92
28	8.33	6.05	11.20	12.80	6.95	8.48	9.27	5.57	11.60	2.83	19.35	9.58	11.00	10.22
Feb. 4	8.45	6.03	11.34	12.95	6.95	8.56	9.45	5.75	11.57	2.95	20.30	9.80	11.00	10.38
11	8.51	6.00	11.30	13.05	6.95	8.59	9.29	5.80	11.24	2.99	21.00	9.66	11.00	10.45
18	8.44	5.90	10.98	13.16	6.91	8.51	9.18	5.68	11.13	2.89	23.63	9.46	11.00	10.28
25	8.22	5.78	11.00	13.05	6.89	8.37	9.08	5.49	11.40	3.03	22.85	9.31	11.00	9.95

1/ As of January 1, 1981, the combined market interest rate under the amended Rule T-1 is calculated by multiplying the yield or rate on each of the respective instruments listed below by the number of units of the corresponding currency listed in Rule O-1 and the value in terms of the SDR of a unit of that currency as determined by the Fund under Rule O-2(a) and (b). The interest rates and the respective currency units (shown in parentheses) are as follows: market yield for three-month U.S. Treasury bills (0.54), three-month interbank deposit rate in Germany (0.46), three-month interbank money rate against private paper in France (0.74), discount rate on two-month (private) bills in Japan (34), and market yield for three-month U.K. Treasury bills (0.071).

2/ Euro-currency interest rates are those on three-month deposits for the U.S. dollar, the Deutsche mark, the Swiss franc, and the French franc (in London), and for the pound sterling (in Paris).

3/ LIBOR is six-month euro-dollar offered rate in London.

4/ Prime lending rate of major New York banks.

5/ Yield is adjusted to constant five-year maturity by the U.S. Treasury and is based on only recently issued, actively traded securities. The interest rate paid to lenders and charges on drawings under the Supplementary Financing Facility are based on this rate.