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Treasurer's Department

Foreign Exchange and Financial Markets in June 1983

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Most major currencies eased against the U.S. dollar during June, the exception being the Canadian dollar, which firmed slightly. Trading was generally nervous and volatile mainly due to uncertainties regarding both U.S. monetary policy and central bank intervention activities in the major industrial countries following the Williamsburg economic summit meeting; market participants paid special attention early in June to possible intervention by the Bank of Japan but none was evident during the month. Of special note during June was the weakness of the pound sterling; it eased 4.16 percent in effective (MERM) terms following rises of 5.95 percent and 4.39 percent in April and May, respectively. Sterling eased early in the month on rumors that Nigeria was planning to sell oil on the spot market and that Ecuador might cut the price of its oil exports, and was also affected by nervousness about future economic policy ahead of the general election (despite expectations that the Conservative Party would retain power). The currency, however, firmed immediately after polling results confirmed the conservative victory but this rebound was stalled by Bank of England intervention in New York. Sterling then eased again on profit-taking and on expectations that U.K. interest rates would be lowered. These expectations were confirmed when the Bank of England cut its money market dealing rates on two consecutive days and major clearing banks followed with a half-point cut to 9.5 percent in their base lending rates. The pound remained weak until later in the month when it was boosted by a 50 cents per barrel rise in the price of Soviet oil exports and a report that Egypt would follow suit. The EMS currencies (as well as the Austrian schilling and the Swiss franc) eased by 0.26-0.93 percent, and the Japanese yen also eased, but only slightly. The Norwegian krone and the Swedish krona eased somewhat more against the U.S. dollar than other currencies (besides the pound sterling); they eased 1.93 and 1.15 percent, respectively.

Early in June, the U.S. dollar continued the firming trend against other major currencies established from mid-May, principally on firming U.S. interest rates because of concern that the U.S. Federal Reserve could not continue to ignore above-target M1 money supply growth. Continuing high Treasury borrowing requirements despite economic recovery was an additional factor. From the middle of the second week of the month, however, the dollar displayed considerable short-term swings around a basically steady trend because of successive cross-currents of profit-taking and changing assessments of the need for a tighter U.S. monetary policy. For the month as a whole, the U.S. dollar firmed 0.93 percent in effective (MERM) terms and 0.84 percent against the SDR (see Table 1).

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

(In percent)

	<u>Monthly exchange rate changes</u>			Change in effective exchange rate since June 1982 ^{3/}
	Against U.S. dollar ^{2/}	Against SDR	Effective exchange rate ^{3/} (In percent)	
Belgium	-0.68	-0.37	-0.32	-2.7
Denmark	-0.93	-0.47	-0.26	-0.9
France	-0.68	-0.18	-0.11	-6.5
Germany	-0.65	-0.29	+0.05	+2.5
Ireland	-0.88	-0.45	-0.11	-6.5
Italy	-0.53	+0.04	+0.18	-3.7
Netherlands	-0.26	+0.19	+0.28	+1.2
Austria	-0.77	-0.17	-0.15	+1.1
Canada	+0.20	+1.06	+0.66	+8.2
Japan	-0.18	+0.25	+0.09	+10.5
Norway	-1.93	-1.23	-1.06	-9.9
Sweden	-1.15	-0.63	-0.53	-16.0
Switzerland	-0.30	+0.20	+0.09	+4.4
United Kingdom	-4.21	-4.06	-4.16	-7.8
United States	--	+0.84	+0.93	+3.6

^{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, the French franc and the Irish pound remained the strongest currencies in the narrow band of the parity grid while the Deutsche mark and the Belgian franc remained the weakest (see Charts 1 and 2). The Danish krone continued to ease within the grid while the Netherlands guilder moved noticeably away from being near the bottom. Against the U.S. dollar over the month, the EMS currencies eased by 0.26-0.93 percent with the Netherlands guilder easing the least and the Danish krone the most. The spread in the narrow band in New York frequently exceeded the 2.25 percent margin maintained in the EMS member markets in the first half of June but then narrowed to average about 2 percent for the rest of the month. The Italian lira continued to be the strongest currency in the EMS relative to ECU central rates with a spread usually exceeding 5.5 percent from the weakest currency (the lira is permitted a maximum margin of 6 percent). The divergence indicator for the lira based on the London market occasionally exceeded its upper threshold; the lira's relative strength has been attributed to seasonal tourist revenues and high nominal interest rates. Intervention by the EMS central banks increased from levels observed in May; the intervention reported consisted of net purchases of modest amounts of U.S. dollars and Deutsche mark by the Bank of Italy at the fixings in Milan and sales of moderate amounts of U.S. dollars by the Bundesbank at the fixings in Frankfurt. For the month as a whole, cumulative purchases by the Bank of Italy amounted to about \$50 million and DM 150 million, and sales by the Bundesbank were about \$400 million.

The range within which the EMS currencies traded in June narrowed from May (see Table 2). This range also narrowed for the Austrian schilling, the Canadian dollar, the Japanese yen, and the Swiss franc, while it widened for the weakest currencies against the U.S. dollar over the month, i.e., the pound sterling, the Norwegian krone, and the Swedish krona. In terms of the average of absolute daily percentage changes (MAC), however, the volatility of most of the major currencies increased, reflecting the erratic trading conditions, especially later in the month. The pound sterling was the most volatile currency against the U.S. dollar in June in terms of both measures of volatility.

The main change in gross foreign exchange reserves in June was a large increase for Italy related to seasonal tourist receipts and high nominal interest rates. Substantial reserve declines were recorded by Germany and Norway. As reported above, Germany sold U.S. dollars steadily during the month at the official fixings in Frankfurt. Switzerland recorded a rise in reserves principally because of swap transactions with commercial banks to satisfy the banks' end-of-quarter domestic liquidity requirements. The National Bank of Belgium paid off its debt to the European Monetary Cooperation Fund during the month and began accumulating foreign exchange reserves, although at a slow pace following the cut in the discount rate from 9.5 percent to 9 percent.

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

	June 2/		High-low spread in percent 3/		MAC 4/	
	High	Low	May	June	May	June
Belgium	50.44	51.295	3.7	1.7	0.27	0.43
Denmark	9.03625	9.1800	4.1	1.6	0.29	0.33
France	7.58125	7.7225	3.3	1.9	0.28	0.34
Germany	2.52145	2.5680	3.3	1.8	0.27	0.31
Ireland	1.2505	1.2300	3.6	1.7	0.26	0.32
Italy	1494.5	1521.0	3.2	1.8	0.25	0.26
Netherlands	2.82075	2.8795	3.5	2.1	0.27	0.29
Austria	17.765	18.0915	3.9	1.8	0.36	0.33
Canada	0.81470	0.80815	0.9	0.8	0.10	0.12
Japan	237.35	243.0	3.4	2.4	0.36	0.34
Norway	7.1755	7.3200	1.3	2.0	0.19	0.24
Sweden	7.5650	7.6775	1.0	1.5	0.16	0.20
Switzerland	2.0810	2.1370	3.6	2.7	0.35	0.33
United Kingdom	1.5905	1.5225	3.1	4.5	0.34	0.55

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 percent.

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

Table 3. Foreign Exchange Reserves in June 1983 ^{1/}
(In millions of U.S. dollars)

	Reserve level	Change in June	Change over 12 months
Belgium	4,363	+321	+2,101
Denmark	2,802	-244	+1,027
France (May)	16,883	+201	+3,214
Germany	37,679	-998	+244
Ireland	1,912	+209	-325
Italy	16,961	+1,831	+4,102
Netherlands	8,880	-181	+1,734
Austria	4,066	-251	-485
Canada	3,196	+161	+1,485
Japan	20,502	+223	-1,200
Norway	5,811	-743	-377
Sweden	3,050	-54	+240
Switzerland	12,651	+637	-547
United Kingdom	8,950	-239	-1,620
United States	7,854	+4	-1,146

^{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 U.S. dollar continued to firm against most other currencies during June. The Canadian dollar was the only major currency to firm against the U.S. dollar over the month as the pound sterling reversed its sharp appreciation against the dollar of the previous two months. The U.S. dollar firmed by 0.93 percent in effective (MERM) terms and by 0.84 percent against the SDR. Among underlying economic developments, the index of leading economic indicators rose 1.2 percent in May for the eleventh consecutive monthly increase while the civilian unemployment rate in June declined to 10 percent from 10.1 percent in May. Industrial production in June rose by a seasonally adjusted 1.1 percent and was up 5.2 percent year-on-year. The merchandise trade deficit, seasonally adjusted, continued to widen in May; it rose to \$6.9 billion from \$4.6 billion in April and \$3.6 billion in March. The producer price index (not seasonally adjusted) rose 0.2 percent in June (following a rise of 0.5 percent in May) for a 1.8 percent year-on-year rise.

The Deutsche mark eased by 0.65 percent against the U.S. dollar but was essentially unchanged in effective (MERM) terms and continued to trade at or near the bottom of the EMS parity grid throughout the month. Industrial production, seasonally adjusted, in May was unchanged from a downward revised level in April; production was down 3.7 percent from May 1982. The unemployment rate in June eased to 8.7 percent from 8.8 percent in May. The current account surplus widened in May to DM 1.4 billion from DM 100 million in April and DM 980 million in May 1982. The index of wholesale prices rose 0.7 percent in June (after rising 0.6 percent in May) but declined 1.3 percent over June 1982. The producer price index rose 0.3 percent in June (following a rise of 0.1 percent in May) and was up 1.1 percent year-on-year.

The French franc eased 0.68 percent against the U.S. dollar in June but was only marginally easier in effective (MERM) terms. The franc continued to trade at or near the top of the narrow band of the EMS parity grid throughout the month. The index of industrial production (seasonally adjusted and excluding construction) rose 1.6 percent in May and was up 0.8 percent year-on-year. The number of persons unemployed, seasonally adjusted, rose 0.4 percent in June following a rise of 1.3 percent in May. The trade deficit, seasonally adjusted, narrowed sharply in June to F 3.7 billion from F 7.7 billion in May but was wider than F 1.5 billion recorded in April; for the first half of the year the deficit was F 36.6 billion compared with F 43.3 billion in the same period of 1982. The index of industrial wholesale prices rose 1 percent in May (following a rise of 1.3 percent in April) for a year-on-year rise of 9.9 percent.

The Belgian franc eased by 0.68 percent against the U.S. dollar and 0.32 percent in effective (MERM) terms. The franc continued to trade at or near the bottom of the EMS parity grid throughout the month and a small discount for the financial franc from the commercial franc re-emerged during the month. The unemployment rate at the end of June declined to 11.8 percent from 11.9 percent at the end of May. Industrial production in April rose 4.2 percent but was down 5.3 percent compared with April 1982. The trade deficit of the Belgo-Luxembourg Economic Union (BLEU) narrowed to BF 200 million in April from BF 1.2 billion in March and BF 25 billion in April 1982. The wholesale price index in May rose 0.8 percent (after rising 0.5 percent in April) for a year-on-year rise of 2.4 percent.

The Netherlands guilder eased the least of the EMS currencies in June against the U.S. dollar (0.26 percent) and firmed 0.28 percent in effective (MERM) terms. The unemployment rate in June was 17 percent compared with 16.5 percent in the March-April period. The trade surplus in May was unchanged from f. 1.1 billion in April but rose from f. 900 million in May 1982. The producer price index for consumer and investment goods rose 0.4 percent in April (following a decline of 0.2 percent in March) and was up 2.0 percent year-on-year.

The Danish krone eased the most of the EMS currencies against the U.S. dollar over the month (0.93 percent) and eased 0.26 percent in effective (MERM) terms. The unemployment rate, seasonally adjusted, declined to 10.7 percent in May from 10.8 percent in April. The trade deficit in May widened to DKr 630 million from DKr 152 million in May 1982. The wholesale price index rose 1 percent in May (after being unchanged in April) and was up 5.1 percent year-on-year.

The Irish pound eased 0.88 percent against the U.S. dollar but was only marginally weaker in effective (MERM) terms; it continued to trade at or near the top of the narrow band of the EMS parity grid throughout June. The number of persons unemployed rose 25 percent in the year to June; the unemployment rate is estimated at about 14 percent. The trade balance in June swung into a surplus equivalent to \$50.6 million from a deficit in May equivalent to \$86.3 million.

The Italian lira eased 0.53 percent against the U.S. dollar but firmed 0.18 percent in effective (MERM) terms. The lira continued to be the strongest currency in the EMS relative to central ECU parities and traded at a margin usually over 5.5 percent above the weakest currency in the system, benefitting from seasonal tourist revenues and high nominal interest rates. The divergence indicator for the lira was occasionally close to or over its upper threshold. The index of industrial production in May, seasonally adjusted, rose 4.7 percent after declining 4.8 percent in April but was down 7.6 percent year-on-year. The unemployment rate in April rose to 9.9 percent from 9.8 percent in January. The wholesale price index in May rose 0.5 percent and was up 10.1 percent from May 1982, the same year-on-year rate as in April.

The pound sterling reversed its firming trend of the previous two months as explained in the introduction; it eased 4.21 percent against the U.S. dollar and 4.16 percent in effective (MERM) terms. Industrial production rose 1 percent in May and was up 2.3 percent from May 1982. The unemployment rate, seasonally adjusted, was unchanged in June at 12.4 percent. The current account deficit, seasonally adjusted, widened in May to £302 million from a downward revised £110 million in April. The wholesale price index for manufactured goods rose 0.2 percent in June (following a rise of 0.6 percent in May) and was up 7.2 percent year-on-year.

The Swiss franc eased 0.30 percent against the U.S. dollar but was marginally firmer in effective (MERM) terms. The unemployment rate fell to 0.8 percent in June from 0.9 percent in May. The trade deficit in June widened to Sw F 672 million from Sw F 663 million in May and Sw F 345 million in June 1982. The wholesale price index rose 0.4 percent in June (after rising 0.2 percent in May) and rose 0.3 percent year-on-year.

The Japanese yen eased 0.18 percent against the U.S. dollar but was also marginally firmer in effective (MERM) terms. During the month, the Ministry of Finance lifted the restriction that overseas branches of Japanese banks could make yen loans of less than one year to finance only trade transactions. This change facilitates foreign participation in the domestic Japanese market for stocks and bonds and was consistent with the policy of increasing the internationalization of the yen. Industrial production in May was up 2.3 percent from May 1982 compared with a 1.1 percent year-on-year rise in April. The current account surplus in May, seasonally adjusted, narrowed slightly to \$2.297 billion from \$2.319 billion in April. The preliminary trade surplus in June, however, widened to \$1,899 million from \$1,659 million a year earlier. The wholesale price index in June rose 0.3 percent (following a decline of 0.3 percent in May) but was down 2 percent year-on-year.

The Canadian dollar was the only major currency to firm against the U.S. dollar in June; it firmed 0.20 percent against the dollar and 0.66 percent in effective (MERM) terms. GDP rose 0.5 percent, seasonally adjusted, in April but was down 0.3 percent year-on-year. Industrial production, seasonally adjusted in April, rose 1.7 percent and was up 0.4 percent year-on-year. The unemployment rate, in May seasonally adjusted, declined to 12.2 percent from 12.4 percent. The trade surplus in May narrowed to Can\$1.64 billion from Can\$1.97 billion in April.

The Austrian schilling eased 0.77 percent against the U.S. dollar and 0.15 percent in effective (MERM) terms. The Norwegian krone eased a relatively large 1.93 percent against the U.S. dollar and 1.06 percent in effective (MERM) terms. The Swedish krona eased 1.15 percent against the U.S. dollar and 0.53 percent in effective (MERM) terms.

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

Monetary and credit conditions in most major industrial countries moved divergently in June and short-term interest rates were mixed despite continued indications of decelerating inflation (Table 4). Short-term money market interest rates firmed by 0.07-0.18 percentage point in France, Germany, Japan and the United States while they eased by 0.10-1.00 percentage point in Belgium, Canada, the Netherlands, Norway, Switzerland and the United Kingdom. Short-term rates remained unchanged in Austria, Denmark, Italy and Sweden.

In the United States, short-term money market interest rates continued their firming trend from mid-May. The three-month bond-equivalent yield on Treasury bills firmed from 8.96 percent at the end of May to 9.14 percent at the end of June. Over the month, the 90-day CD rate also firmed by 0.32 percentage point to 9.25 percent and the federal funds rate firmed sharply by 1.12 percentage points to 10.06 percent.

Table 4. Inflation Rates and Short-Term Interest Rates

	Month <u>2/</u>	Inflation Rates <u>1/</u> (year-on-year percent changes)				Short-term interest rates <u>4/</u> (end-of-month)	
		Wholesale price index		Consumer price index <u>3/</u>		May	June
Austria	May/Jun.	-3.0	(-1.0)	2.5	(2.5)	3.75	3.75
Belgium	May	2.4	(2.5)	7.6	(8.0)	9.50	9.00
Canada	Apr./May	2.9	(--)	5.4	(6.6)	9.25	9.15
Denmark	April	4.1	(4.6)	7.7	(7.6)	7.50	7.50
France	May	9.9	(8.5)	9.0	(9.1)	12.67	12.80
Germany	May/Jun.	-1.3	(-0.8)	2.4	(3.0)	5.53	5.68
Italy	May/Jun.	10.1	(10.1)	16.0	(16.4)	17.88	17.88
Japan	Jun./Apr.	-2.0	(-1.9)	2.0	(2.3)	6.63	6.70
Netherlands	Mar./Jun.	-2.8	(--)	2.2	(2.5)	6.06	5.50
Norway	May/Jun.	6.7	(--)	8.8	(9.2)	9.00	8.00
Sweden	April	10.2	(10.1)	8.5	(8.4)	8.50	8.50
Switzerland	June	0.3	(-0.3)	2.8	(3.3)	4.75	4.63
United Kingdom	Jun./Apr.	7.2	(7.3)	4.0	(4.6)	10.05	9.58
United States	Jun./Apr.	1.8	(2.3)	3.9	(3.6)	8.96	9.14

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.

The prime lending rate, however, remained unchanged at 10.50 percent during June. There were continued concerns in the market about the rapid growth of the basic money supply M1 and some speculations that the Federal Reserve would move to tighten the credit conditions, although the growth of M1 leveled off from mid-June and the broader measures of money supply, M2 and M3, increased in line with the target. For the latest 13 weeks ended June 29, M1 averaged \$504.9 billion, a 12.2 percent rate of gain from 13 weeks before.

Among the countries in the European Monetary System, the National Bank of Belgium cut the discount rate and the rate on ordinary advances by 0.5 percentage point to 9 percent and 10 percent, respectively, effective June 23; this action was taken in view of a spontaneous decline of interest rates in the domestic money market and a relative stability of the Belgian franc in the EMS. The interest rate on one-, two-, and three-month Treasury certificates were also reduced by 0.75 percentage point to 9.25 percent in three steps during June. The Bank of France lowered its money market intervention rate, with effect from June 27, to 12.25 percent from 12.50 percent where it had been pegged since January 3; this decision also reflected the relative stability of the French franc on the foreign exchange markets and signs of softening interest rates in other European countries.

The Bank of England cut its money market dealing rates by 1/4 percentage point on June 13 and a further 1/4 percentage point the following day; the clearing banks followed this lead by reducing their base lending rates from 10 percent to 9.5 percent. The Bank's action was taken to lower interest rates and to prevent a new rise in the value of the pound sterling. In the banking month ended June 15, sterling M3, the U.K. money supply, broadly defined, rose a 1.7 percent, compared with a rise of 0.6 percent in banking May and 1.7 percent in banking April. The Bank of England also reported an increase of 1.7 percent in the narrowest measure M1 in June, compared with 1.5 percent in May and 1.1 percent in April. Japan's broadly defined money supply (M2 + CDs) grew an average 7.5 percent in May from a year earlier, down from 7.6 percent growth in April, attributed mainly to the leveling off of consumer spending and lending. The Bank of Japan also reported that M1 increased by 3.9 percent in May from a year earlier, down from 4.5 percent in April while M3 and CDs grew 8.9 percent from a year earlier, rising from 8.6 percent a month earlier. The Bank of Japan raised the net lending allowance for the 13 Japanese city banks for the third quarter of this year by ¥ 2,000 billion. This represents a year-on-year increase of 10 percent, compared with that of 13.6 percent in the second quarter. The increase in the lending allowance reflects a continued less restrictive policy stance of the Bank.

Among other countries, the Bank of Norway reduced its discount rate by one percentage point to 8 percent with effect from June 6; the rate had stood unchanged at 9 percent since November 30, 1979.

In the euro-currency market, the three-month euro-dollar rate firmed by 0.25 percentage point to 9.75 percent at the end of June. As a result, the uncovered interest differentials favoring euro-dollar investment widened for Germany, Japan, and the Netherlands. The uncovered differentials favoring domestic investment narrowed for France and Italy and switched to favor euro-dollar investment in the United Kingdom between the end of May and the end of June.

In the forward exchange market, the premia against the U.S. dollar widened for the Deutsche mark, the Japanese yen, and the Netherlands guilder between the end of May and the end of June. The discount against the U.S. dollar widened for the French franc and the Italian lira while it turned to a premium for the pound sterling. Consequently, the covered interest differentials favoring domestic investment widened for Germany and the Netherlands while they narrowed for Italy. The covered interest differentials favoring euro-dollar investment narrowed for Japan and the United Kingdom while they widened for France.

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

	Uncovered interest differentials <u>1/</u> (1)		Forward exchange quotations <u>2/</u> (2)		Covered interest differentials (3) = (1)-(2)	
	May	June	May	June	May	June
France	-3.17	-3.05	-4.13	-4.53	+0.96	+1.48
Germany	+3.97	+4.07	+4.57	+4.72	-0.60	-0.65
Italy	-8.38	-8.13	-6.29	-6.92	-2.09	-1.21
Japan	+2.87	+3.05	+3.11	+3.26	+0.24	+0.21
Netherlands	+3.44	+4.25	+3.49	+4.49	-0.05	-0.24
United Kingdom	-0.55	+0.17	-0.79	+0.13	+0.24	+0.04

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 Japan discount rate for two-month private bills is used and 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 July 1, 1983, the SDR interest rate increased moderately to 8.65 percent from 8.52 percent in the previous quarter. The increase reflected higher interest rates on the relevant financial instruments for the United States, Germany and France, which firmed by 0.08-0.45 percentage point in the relevant period to 9.20 percent, 5.65 percent, and 12.82 percent, respectively, partly offset by declines in those for the United Kingdom and Japan, which eased by 1.10 percentage points to 9.80 percent and 0.22 percentage point to 6.30 percent, respectively. The rate of remuneration paid on creditor positions in the Fund (85 percent of the SDR interest rate) increased from 7.24 percent in the previous quarter to 7.35 percent 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 June; the rates firmed sharply in the United States and also firmed in Germany and France while the rates in the United Kingdom and Japan eased. As a result, the average combined market interest rate firmed by 0.35 percentage point to 8.62 percent in June.

The combined domestic market interest rates for maturities ranging from three months to five years firmed substantially by 0.18-0.41 percentage point at the end of June (see Table 6), reflecting generally higher interest rates on the relevant instruments for the United States and Germany, which firmed by 0.38-0.55 percentage point and 0.20-0.80 percentage point, respectively, between the end of May and the end of June, while those for the United Kingdom, France and Japan were mixed. The combined domestic rates displayed a rising yield curve which moves up from 8.63 percent on the three-month maturity through 8.80 percent and 9.07 percent on the six- and twelve-month maturities, respectively, to 10.31 percent on the five-year maturity.

The combined euro-currency interest rates for the three-, six-, and twelve-month maturities firmed sharply by 0.40, 0.47, and 0.47 percentage point, respectively, to 9.01 percent, 9.43 percent, and 9.74 percent, at the end of June. This reflected higher euro-currency deposit rates for the five currencies included in the SDR basket, which firmed by 0.13-1.13 percentage points between the end of May and the end of June, except for euro-sterling deposit rates which eased by 0.31-0.50 percentage point.

Average interest rates on SDR-denominated deposits of selected commercial banks firmed significantly by 0.27-0.50 percentage point at the end of June. The deposit rates displayed a rising yield curve moving up from 8.55 percent on one-month deposits through 8.86 percent and 9.27 percent on three- and six-month deposits, respectively, to 9.52 percent on twelve-month deposits. The yields on SDR-denominated bonds quoted on the Luxembourg Stock Exchange eased at the end of June.

The current yield ranged from 9.00 percent to 11.50 percent, with the average current yield easing by 0.08 percentage point to 9.83 percent while the yield to maturity ranged from 8.63 percent to 12.94 percent with the average yield to maturity easing sharply by 0.58 percentage point to 11.35 percent between the end of May and the end of June.

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

	May	June	July
SDR quarterly rate	8.52	8.52	8.65
Rate of remuneration	7.24	7.24	7.35
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)	8.45	8.63	
6-month maturity	8.48	8.80	
12-month maturity	8.66	9.07	
5-year maturity	10.02	10.31	
Based on euro-currency rates			
3-month maturity	8.61	9.01	
6-month maturity	8.96	9.43	
12 month maturity	9.27	9.74	
Average commercial bank deposit rates <u>3/</u>			
1-month deposits	8.28	8.55	
3-month deposits	8.47	8.86	
6-month deposits	8.77	9.27	
12-month deposits	9.05	9.52	
Bonds quoted on the Luxembourg Stock Exchange <u>4/</u>			
Average current yield	9.91	9.83	
Average yield to maturity	11.93	11.35	

1/ Rates pertain to last Wednesday of the month.

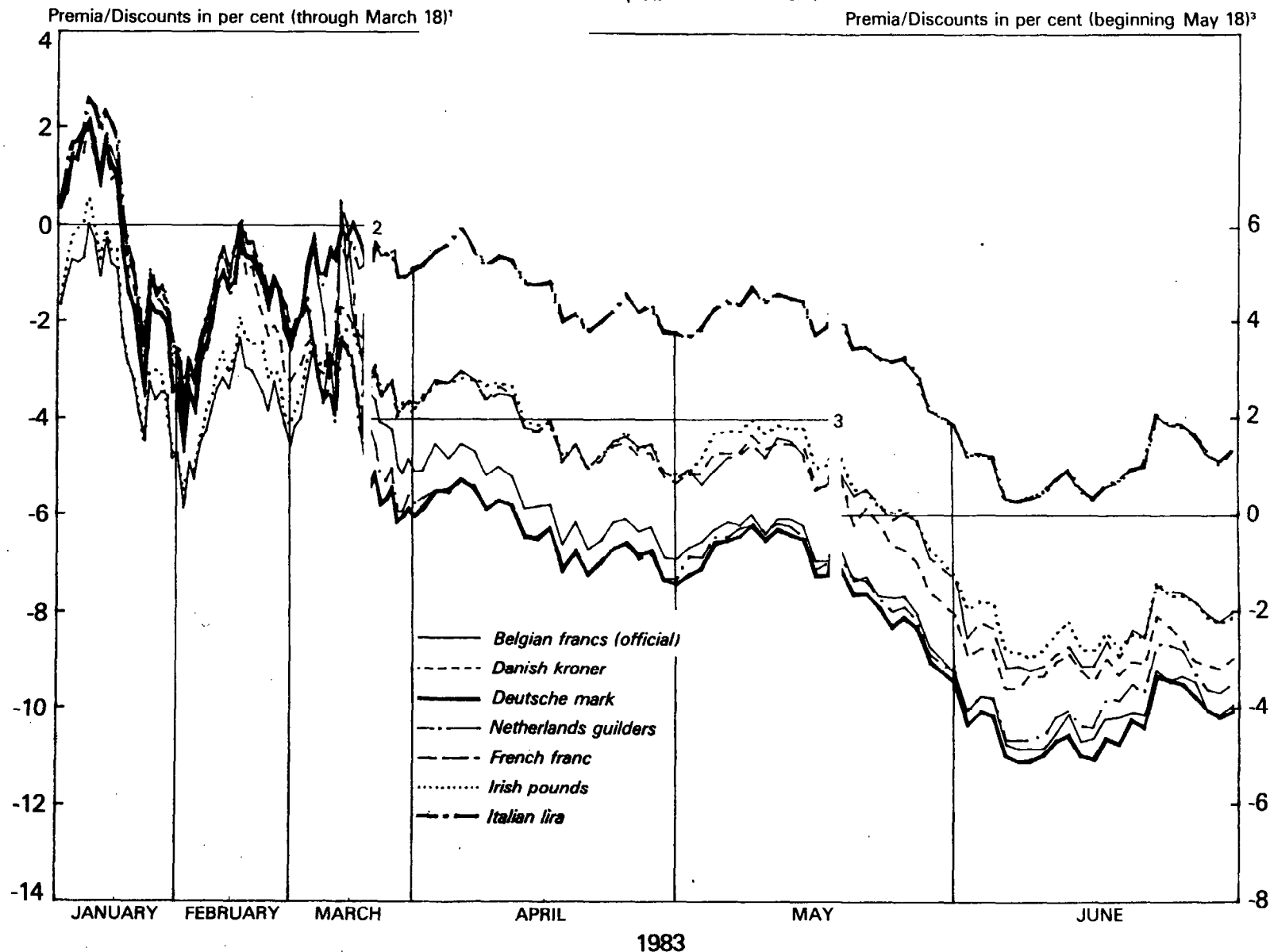
2/ As of January 1, 1981, combined market rates (according to the Rule T-1) are calculated by multiplying the yields or rates of each of the respective instrument by the number of units of the corresponding currency listed in Rule 0-1 and the value in terms of the SDR of a unit of that currency as determined 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.

SPOT EXCHANGE RATES: EUROPEAN MONETARY SYSTEM

(Based on noon quotations in New York)



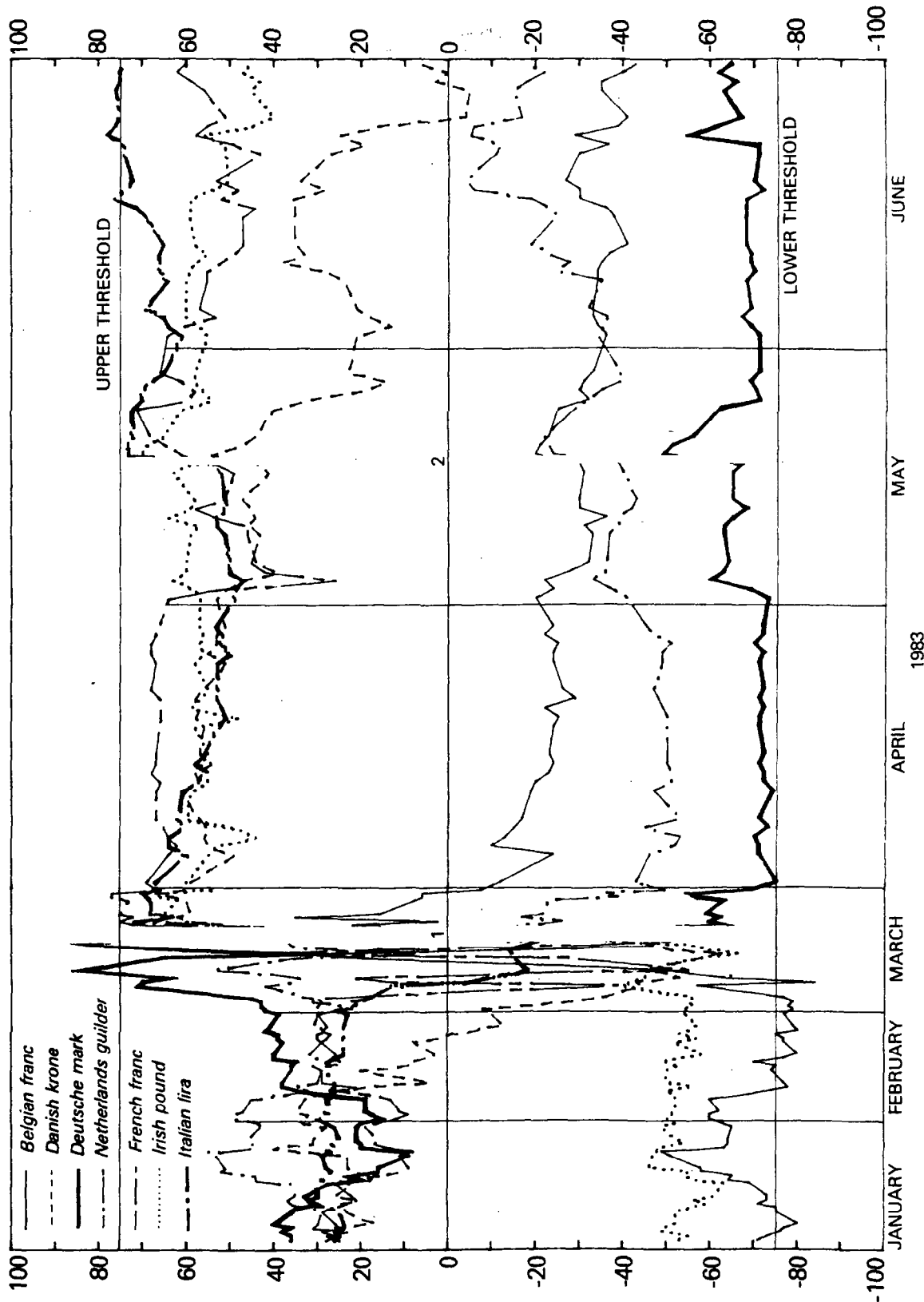
¹Premia/discounts over declared ECU central rates converted to U.S. dollar terms on the basis of 1 ECU = \$0.98 through March 18, 1983.

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 = \$0.920041.

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 connection with the Common Agricultural Policy.

CHART 3 SPOT EXCHANGE RATES

(Noon quotations in New York)

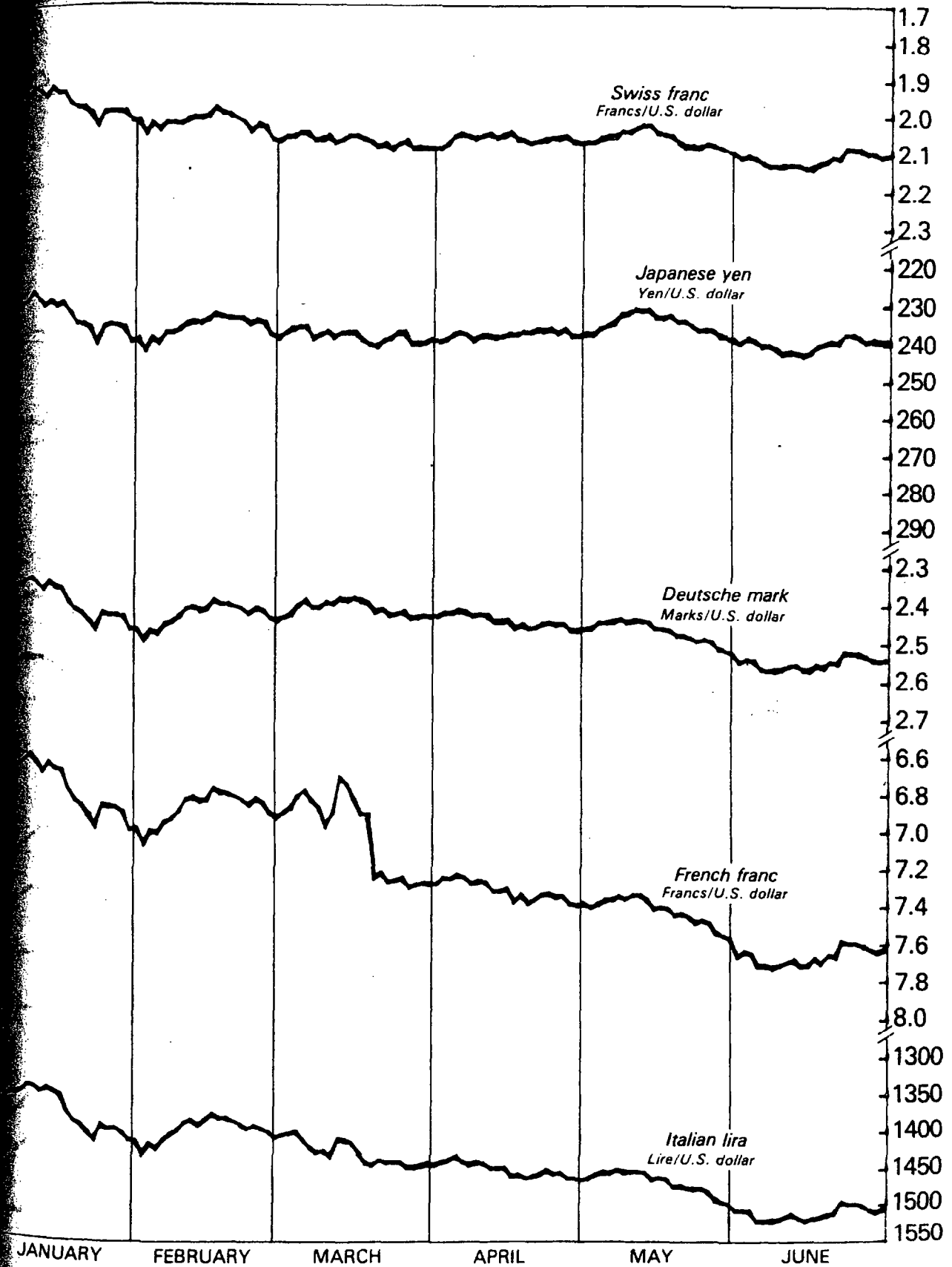


CHART 4
SPOT EXCHANGE RATES

(Noon quotations in New York)

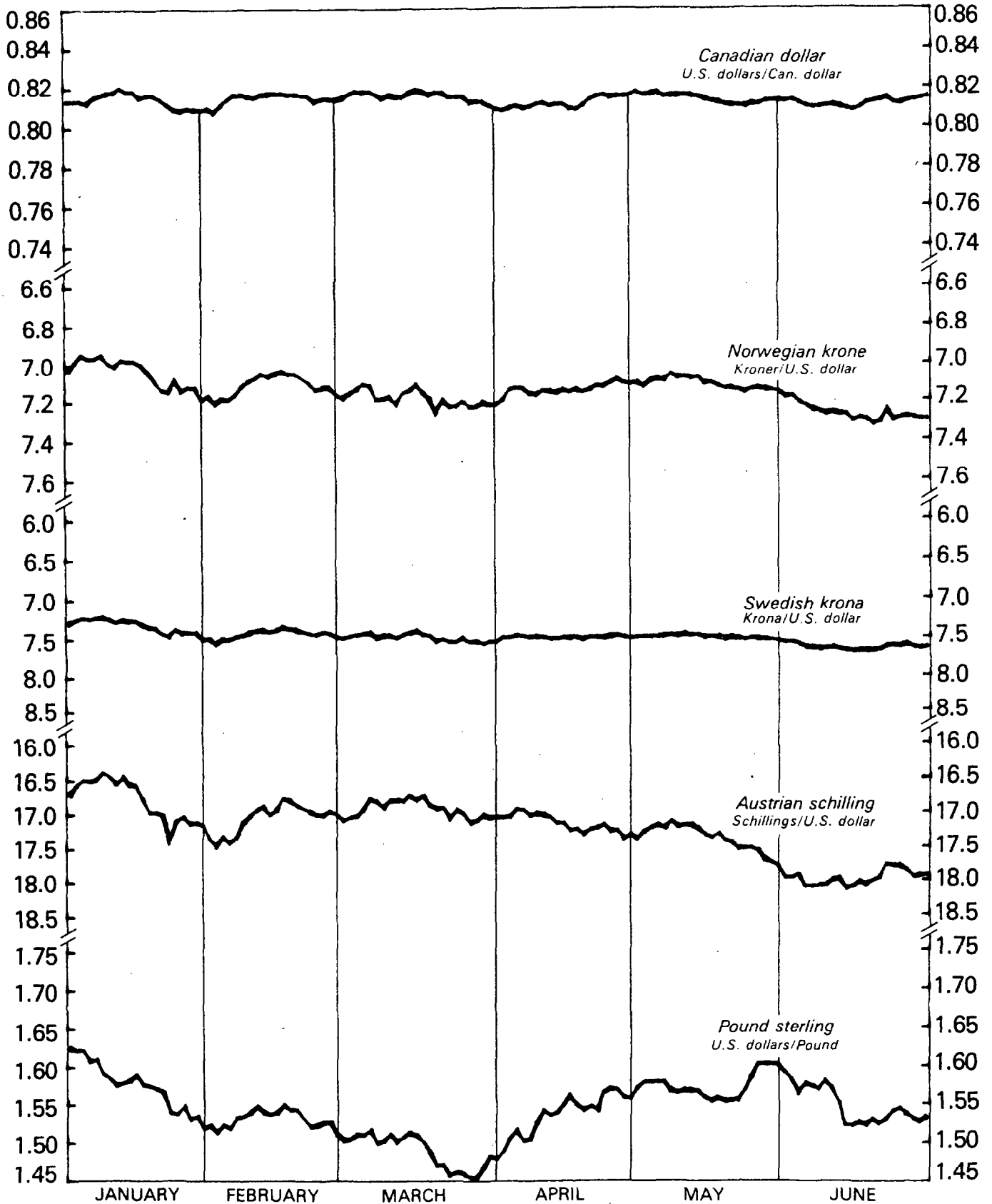


CHART 5

DAILY CHANGES IN SPOT EXCHANGE RATES

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

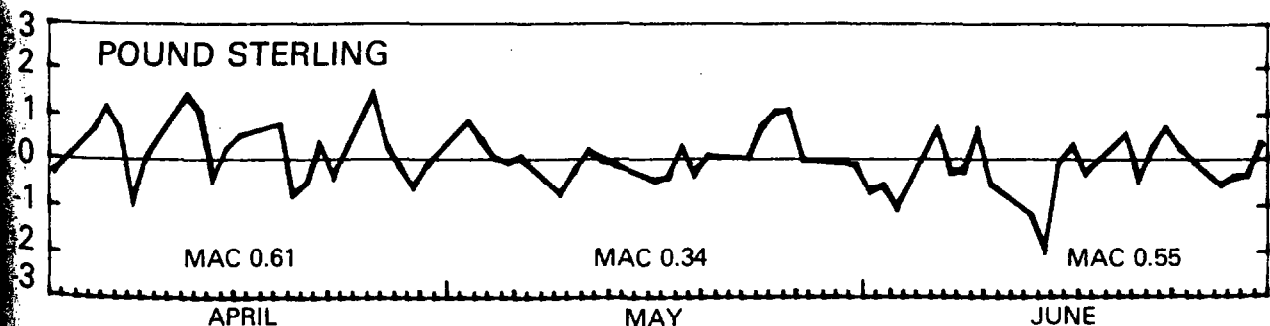
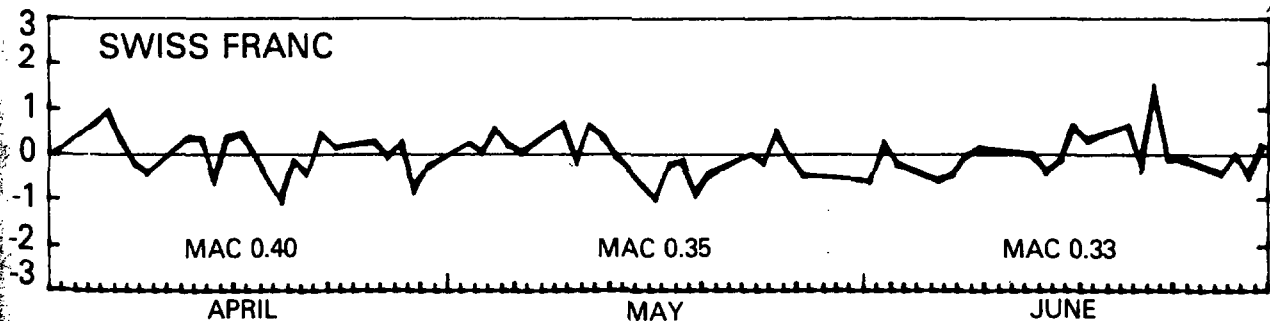
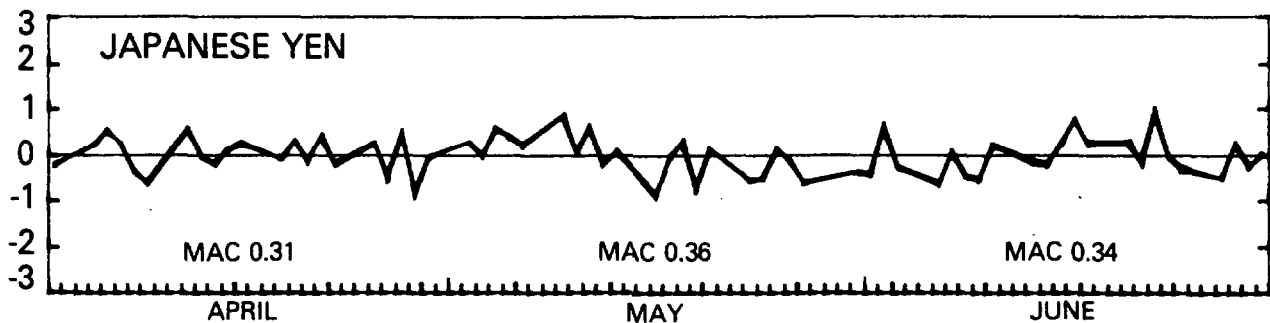
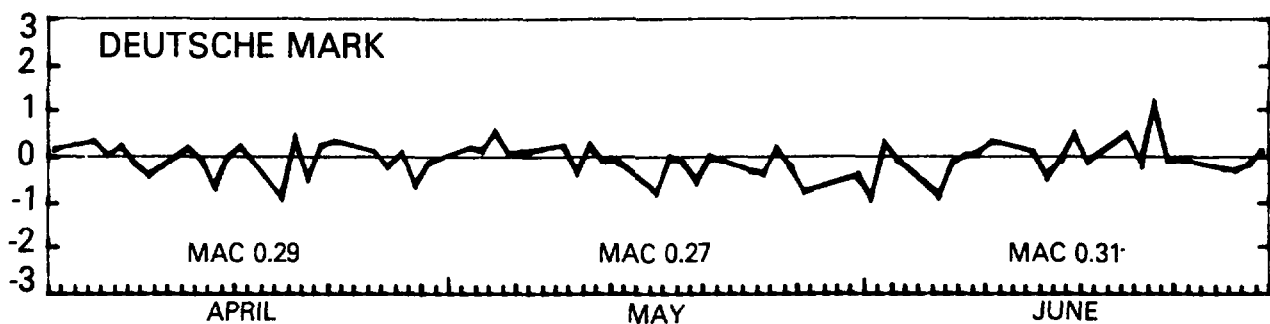
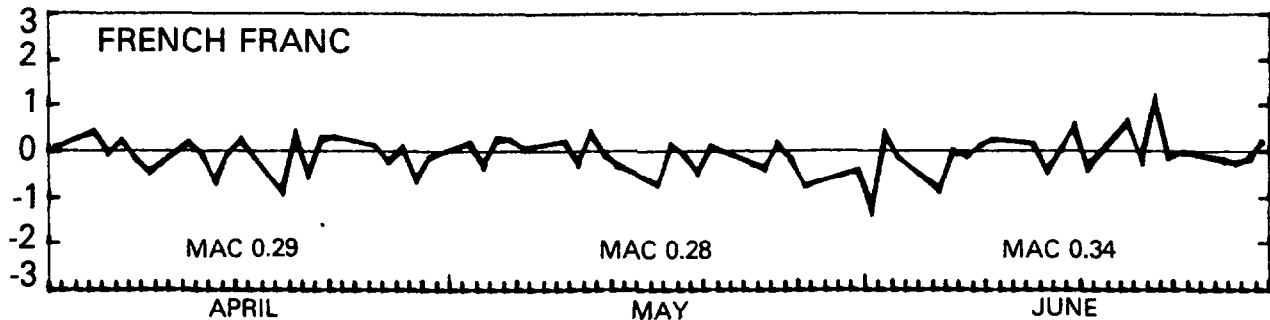


CHART 6
INDEXES OF EXCHANGE RATES OF
FIVE MAJOR CURRENCIES AGAINST THE SDR
JUN. 1974 - JUN. 1983
(June 28, 1974=100)

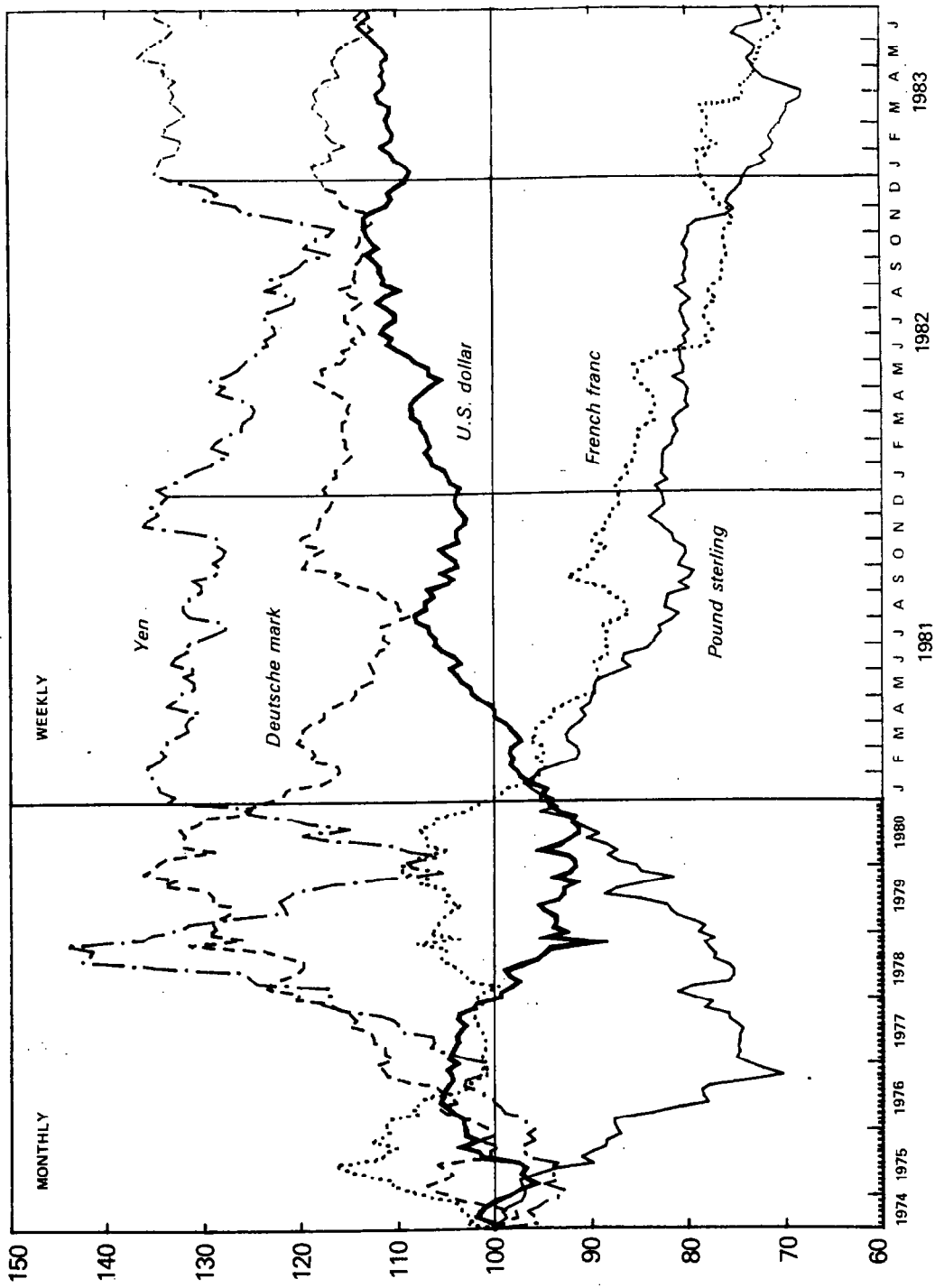
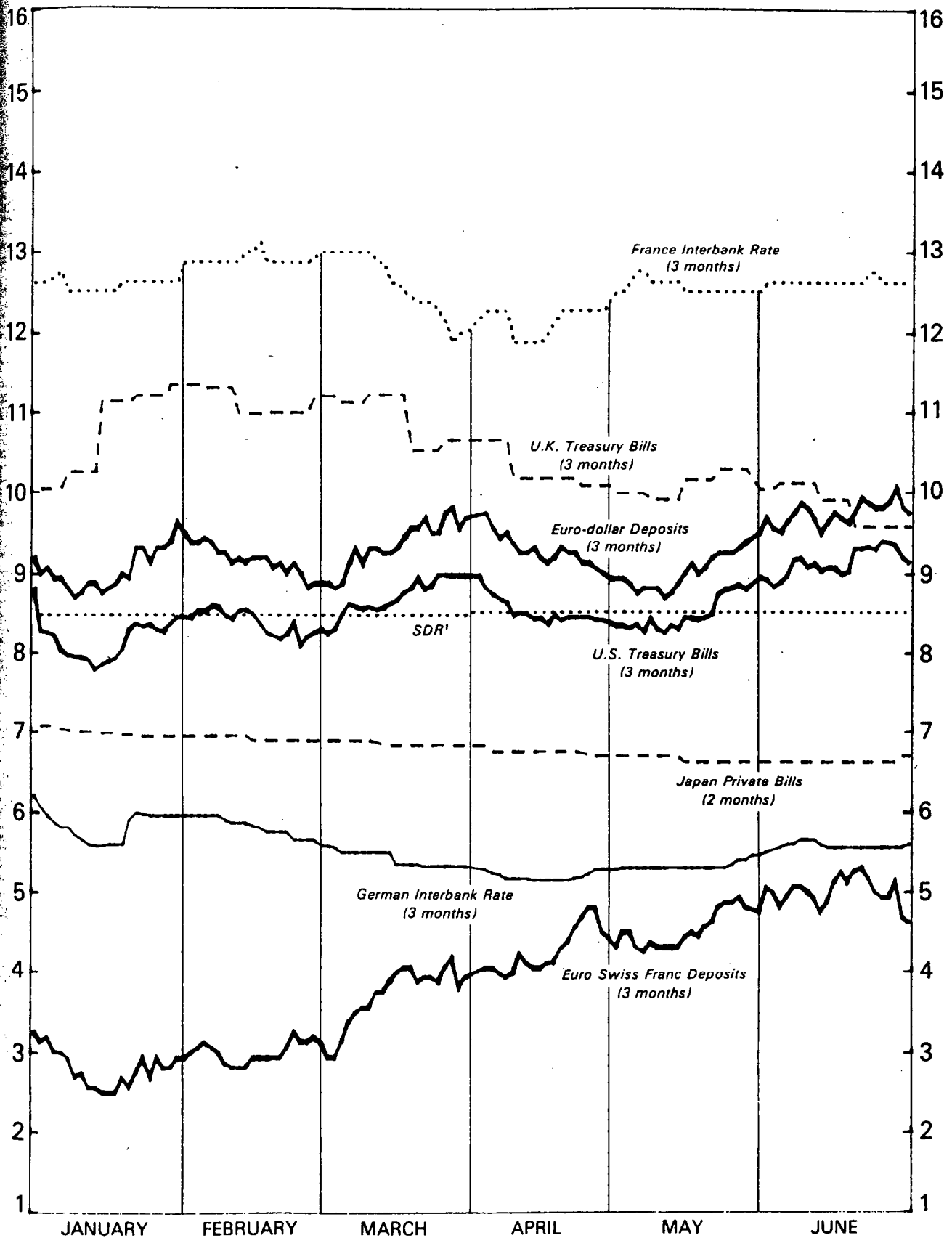


CHART 7 SHORT-TERM MONEY MARKET RATES

(Per cent per annum)



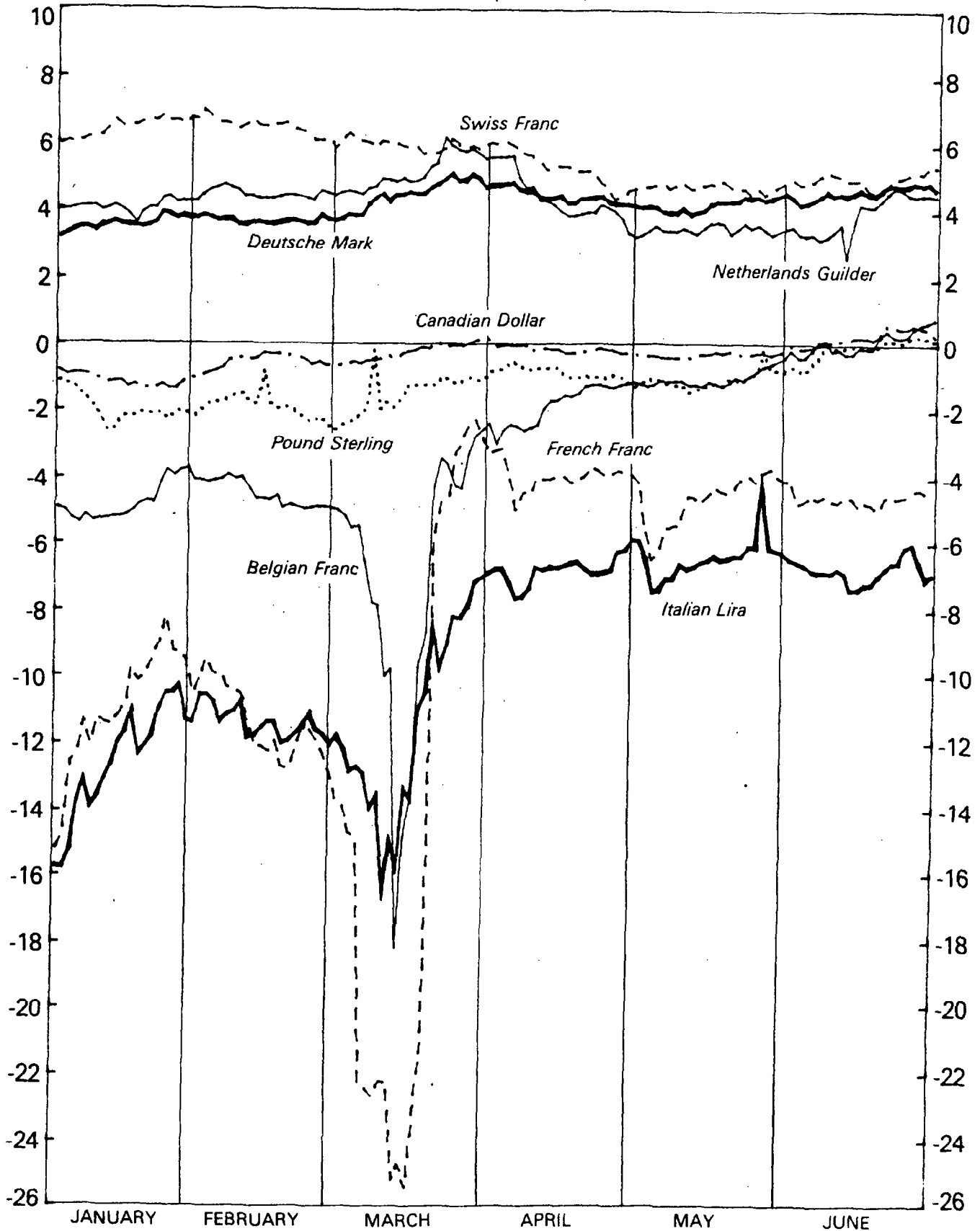
1983

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

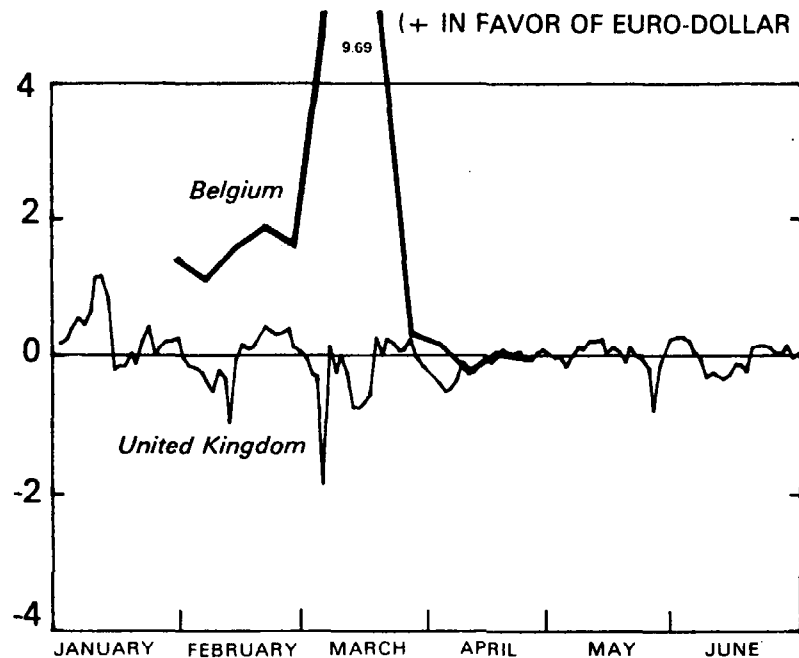
THREE-MONTH FORWARD RATES

Margins from Spot Rates based on noon quotations in New York
(Per cent per annum)

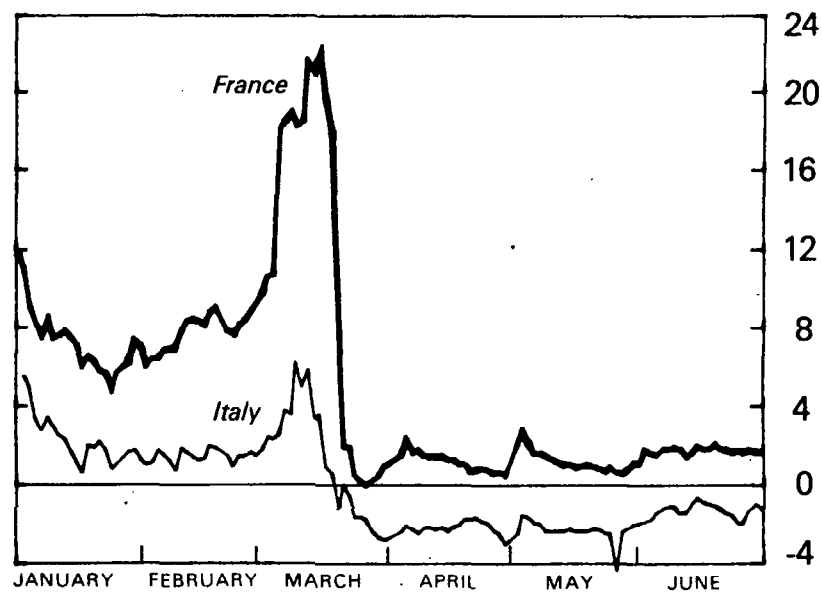


COVERED INTEREST DIFFERENTIALS BETWEEN THREE-MONTH EURO-DOLLAR DEPOSITS AND LOCAL SHORT-TERM INVESTMENTS

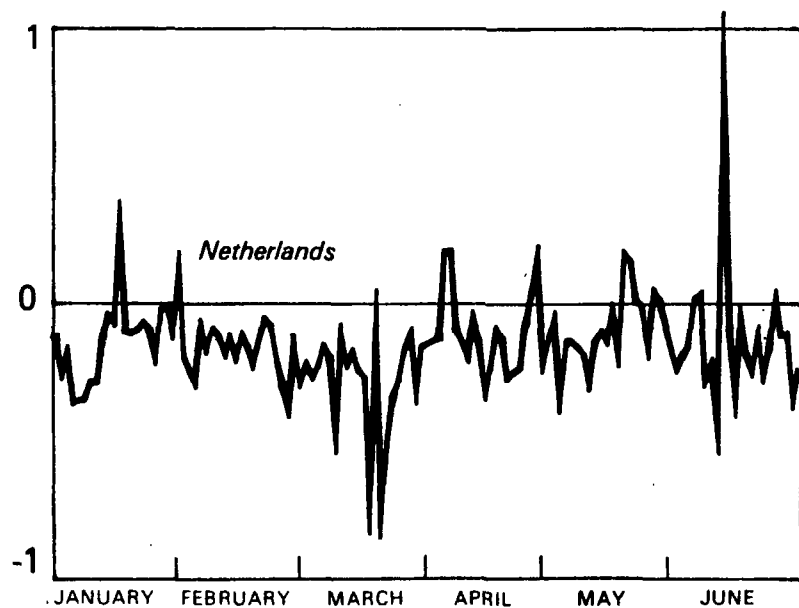
(+ IN FAVOR OF EURO-DOLLAR AND - IN FAVOR OF DOMESTIC INVESTMENT)



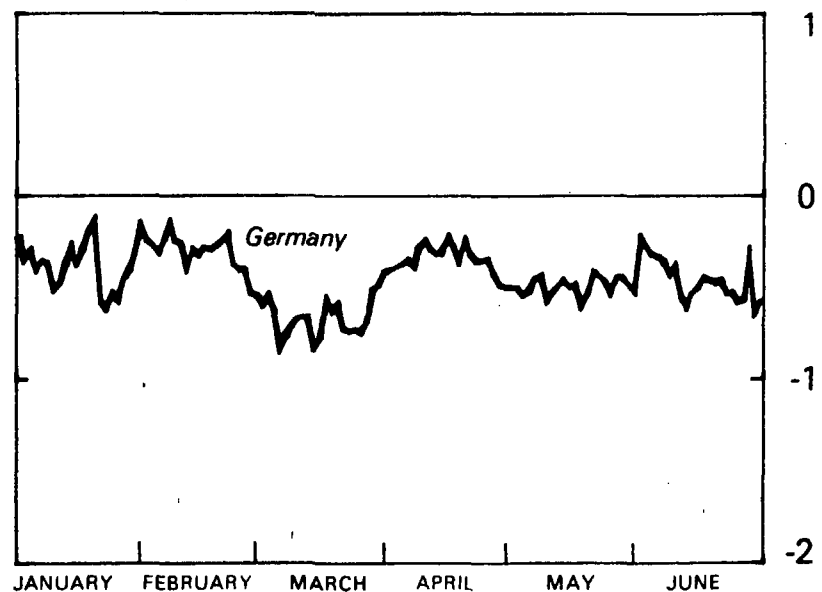
1983



1983



1983



1983

Foreign Exchange Rates, May-June 1983 1/

	M a y				J u n e				
	4	11	18	25	1	5	15	22	29
Austrian schilling	17.2050	17.1850	17.3020	17.5170	17.9595	18.0775	18.1000	17.7650	17.9300
Belgian franc									
Official	48.810	48.710	49.160	49.635	50.880	51.290	51.175	50.440	50.915
Financial	49.075	48.900	49.260	49.780	50.885	51.425	51.525	50.805	51.205
Canadian dollars	0.81599	0.81589	0.81235	0.81142	0.81245	0.80932	0.80815	0.81463	0.81397
Danish kroner	8.7100	8.6900	8.7750	8.9120	9.1175	9.1525	9.1650	9.0363	9.1425
Deutsche mark	2.44435	2.43725	2.46425	2.48935	2.54750	2.56735	2.56675	2.52145	2.54360
French francs	7.3825	7.3325	7.4075	7.4705	7.6675	7.7225	7.7140	7.5812	7.6410
Irish pounds	1.2933	1.2955	1.2835	1.2695	1.2430	1.2300	1.2323	1.2505	1.2395
Italian lire	1457.750	1453.500	1464.750	1477.500	1507.000	1520.000	1520.500	1494.500	1509.250
Japanese yen	236.200	231.000	232.700	236.250	239.800	241.355	242.375	237.350	239.300
Netherlands guilder	2.7505	2.7425	2.7700	2.7985	2.8610	2.8793	2.8723	2.8208	2.8508
Norwegian kroner	7.0955	7.0755	7.1250	7.1365	7.1825	7.2525	7.3015	7.2445	7.2950
Pounds sterling	1.5791	1.5680	1.5587	1.5851	1.5905	1.5693	1.5225	1.5308	1.5280
Swedish kroner	7.4825	7.4625	7.4945	7.5035	7.5665	7.6500	7.6775	7.6125	7.6435
Swiss francs	2.05650	2.02900	2.05050	2.07250	2.10825	2.13075	2.13700	2.08100	2.10550

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.

Short- and Medium-Term Interest Rates

APPENDIX B

(Monthly and weekly averages)

	National Money Markets 1/						Euro-currency Markets 2/						Lending Rate		U.S. Treasury Securities 5/
	United States (1)	Germany (2)	United Kingdom (3)	France (4)	Japan (5)	Weighted average (6)	U.S. dollar (7)	Deutsche mark (8)	Pound sterling (9)	French franc (10)	Japanese yen (11)	Swiss franc (12)	LIBOR 3/ (13)	U.S. prime 4/ (14)	
1982															
May	12.66	9.31	13.36	16.39	7.29	11.88	14.61	8.67	13.35	24.97	7.06	3.93	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	18.70	7.22	5.38	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	15.77	7.27	4.38	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	17.62	7.39	4.22	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	19.43	7.38	4.08	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	19.01	7.03	3.75	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	18.77	7.12	3.83	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	22.46	7.05	3.73	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	21.16	6.52	2.80	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	22.11	6.71	2.98	9.53	10.98	10.26
Mar.	8.67	5.52	10.95	12.77	6.85	8.50	9.32	5.06	10.98	26.92	6.71	3.67	9.53	10.50	10.08
Apr.	8.52	5.27	10.30	12.31	6.76	8.26	9.26	5.02	10.25	13.37	6.29	4.28	9.44	10.50	10.02
May	8.50	5.30	10.08	12.73	6.66	8.27	9.03	5.04	10.25	13.90	6.29	4.53	9.18	10.50	10.03
June	9.14	5.65	9.85	12.81	6.64	8.62	9.75	5.33	10.00	14.45	6.35	5.00	10.05	10.50	10.63
1982 Weekly															
June 4	12.64	9.27	13.18	16.48	7.34	11.87	14.63	8.72	13.22	27.75	7.13	4.25	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	n.a.	7.14	5.14	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	17.88	7.20	5.67	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	17.69	7.30	6.10	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	16.55	7.34	5.38	16.40	16.50	14.73
9	12.78	9.68	12.82	14.73	7.40	11.80	15.72	9.16	12.72	15.82	7.17	5.00	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	15.50	7.41	4.46	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	15.71	7.29	3.65	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	16.15	7.19	4.27	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	16.38	7.21	4.28	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	16.58	7.49	4.47	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	16.44	7.44	4.08	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	20.48	7.43	4.06	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	21.22	7.38	4.06	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	20.19	7.39	3.81	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	18.65	7.42	4.10	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	19.31	7.41	4.10	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	18.28	7.29	4.34	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	17.54	7.30	4.25	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	17.88	6.88	3.55	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	20.45	6.90	3.49	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	20.25	6.95	3.61	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	19.00	7.01	3.49	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	n.a.	7.09	3.69	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	18.13	7.16	4.07	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	18.46	7.15	4.06	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	19.35	7.31	3.89	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	19.83	6.96	3.47	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	22.85	7.05	4.07	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	26.50	7.08	3.97	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	24.21	6.88	3.36	9.62	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	23.78	6.57	3.11	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	21.43	6.44	2.69	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	20.28	6.40	2.55	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	19.35	6.65	2.83	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	20.30	6.69	2.95	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	21.00	6.73	2.99	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	23.63	6.68	2.89	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	22.85	6.74	3.03	9.31	11.00	9.95
Mar. 4	8.26	5.68	11.16	13.15	6.89	8.40	8.85	5.26	11.34	24.85	6.74	3.06	9.06	10.50	9.76
11	8.56	5.58	11.13	13.18	6.89	8.52	9.15	5.10	11.16	36.70	6.74	3.43	9.32	10.50	10.03
18	8.63	5.55	11.23	12.88	6.83	8.52	9.31	5.08	10.78	41.70	6.74	3.89	9.54	10.50	10.08
25	8.88	5.41	10.52	12.52	6.83	8.49	9.56	4.93	8.63	15.53	6.74	3.94	9.75	10.50	10.26
Apr. 1	8.97	5.40	10.66	12.17	6.83	8.53	9.70	4.95	10.86	12.22	n.a.	4.00	9.94	10.50	10.28
8	8.77	5.30	10.66	12.42	6.79	8.43	9.56	5.02	10.28	14.11	6.39	4.02	9.74	10.50	10.13
15	8.47	5.24	10.19	12.04	6.76	8.18	9.28	5.00	10.15	13.38	6.24	4.10	9.46	10.50	9.98
22	8.43	5.23	10.19	12.34	6.76	8.19	9.23	5.05	10.26	13.38	6.28	4.30	9.39	10.50	10.02
29	8.42	5.33	10.08	12.47	6.70	8.20	9.05	5.02	10.25	12.98	6.25	4.65	9.24	10.50	9.95
May 6	8.32	5.37	9.98	12.80	6.70	8.18	8.84	5.00	10.15	14.70	6.24	4.37	8.96	10.50	9.77
13	8.33	5.37	9.92	12.80	6.70	8.18	8.79	4.99	10.19	13.98	6.20	4.32	8.91	10.50	9.84
20	8.45	5.37	10.15	12.67	6.63	8.24	9.07	5.02	10.35	13.70	6.30	4.51	9.21	10.50	10.10
27	8.80	5.44	10.29	12.67	6.63	8.45	9.29	5.10	10.32	13.38	6.37	4.86	9.48	10.50	10.32
June 3	8.90	5.58	10.07	12.77	6.63	8.51	9.56	5.39	10.34	13.97	6.55	4.91	9.83	10.50	10.51
10	9.10	5.71	10.12	12.80	6.63	8.64	9.75	5.46	10.25	14.44	6.54	5.00	10.05	10.50	10.61
17	9.04	5.64	9.92	12.80	6.63	8.57	9.64	5.27	9.88	14.40	6.49	5.03	9.99	10.50	10.49
24	9.33	5.63	9.58	12.85	6.63	8.69	9.84	5.27	9.84	14.73	6.59	5.14	10.14	10.50	10.71

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.