

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/83/61

INTERNATIONAL MONETARY FUND

Treasurer's Department

Foreign Exchange and Financial Markets in July 1983

Prepared by Mark A. Lumsden and Nobumitsu Hayashi

Approved by Muhammad N. Bhuiyan

August 19, 1983

The U.S. dollar continued to firm against other leading currencies in July, especially against those in the European Monetary System (EMS), mainly because of firmer U.S. interest rates. The U.S. dollar firmed by 2.01 per cent in effective (MERM) terms in July and by 1.17 percent against the SDR. The EMS currencies eased by 3.71-4.21 percent against the U.S. dollar over the month with the Deutsche mark, at the bottom of the parity grid, being adversely affected, inter alia, by relatively low German interest rates and a significantly reduced level of intervention by the Bundesbank. The Austrian schilling continued to ease in line with the EMS currencies while the Swiss franc eased by a noticeably smaller margin. The Canadian dollar weakened the least against the U.S. dollar, easing by 0.52 percent while the French franc was the weakest, easing by 4.21 percent (see Table 1). The pound sterling eased moderately (0.86 percent) after being the weakest major currency against the U.S. dollar in June.

The U.S. dollar firmed steadily throughout the month except for a temporary reversal in the second half when the Federal Reserve announced that it had substantially relaxed its M1 money supply target for 1983 without, however, altering its targets for broader monetary aggregates. The dollar resumed its firming trend following the announcement that real GNP grew at an 8.7 percent annual rate in the second quarter which reinforced the view that U.S. interest rates were unlikely to fall. It was revealed in early August that the Federal Reserve intervened on the last day of the month to arrest the rise of the dollar and to restore an orderly two-way market. This was the first Federal Reserve intervention since October 1982, and was the start of a period of coordinated central bank intervention that extended well into August.

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

(In percent)

	Monthly exchange rate changes			Change in effective exchange rate since July 1982 ^{3/}
	Against U.S. dollar ^{2/}	Against SDR	Effective exchange rate ^{3/} (In percent)	
Belgium	-3.99	-2.59	-1.12	-3.8
Denmark	-4.13	-2.71	-2.12	-3.0
France	-4.21	-2.87	-1.95	-8.3
Germany	-4.05	-2.67	-1.78	+0.4
Ireland	-3.71	-2.39	-1.71	-8.1
Italy	-3.83	-2.56	-1.48	-5.7
Netherlands	-3.78	-2.48	-1.26	-0.4
Austria	-3.59	-2.40	-1.70	-1.0
Canada	-0.52	+0.63	+0.28	+5.1
Japan	-1.02	+0.37	+0.60	+12.8
Norway	-1.21	-0.02	+0.53	-6.7
Sweden	-1.59	-0.16	+0.52	-15.8
Switzerland	-1.50	+0.02	+0.89	+4.7
United Kingdom	-0.86	+0.56	+1.49	-6.6
United States	--	+1.17	+2.01	+5.9

^{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).

The EMS currencies were especially weak in July easing by 1.12-2.12 percent in effective (MERM) terms. 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). Intervention by the Bundesbank was scaled down considerably; sales of U.S. dollars at the official fixings in Frankfurt declined to about \$110 million from about \$400 million in June. The spread in the narrow EMS band in New York frequently exceeded the 2.25 percent margin maintained in the EMS member markets. The Italian lira continued to be the strongest EMS currency in terms of central rates with a spread from the weakest currency continuing to exceed 5.5 percent (the lira is permitted a maximum margin of 6 percent from the weakest currency). The divergence indicator for the lira based on the London market occasionally exceeded its upper threshold. The Bank of Italy continued to buy modest amounts of foreign currency at the fixings in Milan; over the month as a whole, cumulative net purchases amounted to about \$80 million and DM 80 million.

The range within which EMS currencies traded against the U.S. dollar in July increased substantially from June (see Table 2) reflecting their generally steady decline over the month. This range also widened markedly for the Austrian schilling while the trading range narrowed for most other major currencies. The averages of absolute daily percentage changes against the U.S. dollar (MAC) for the EMS currencies were about a third of a percentage point and were only marginally higher compared with those in June. This volatility measure declined modestly for most other major currencies, except for the Austrian schilling, for which it increased, and the pound sterling, for which it declined sharply.

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

	July 2/		High-low spread in percent 3/		MAC 4/	
	High	Low	June	July	June	July
Belgium	50.85	52.915	1.7	4.1	0.31	0.33
Denmark	9.1400	9.5125	1.6	4.1	0.33	0.32
France	7.6335	7.95875	1.9	4.3	0.34	0.35
Germany	2.5408	2.6480	1.8	4.2	0.31	0.33
Ireland	1.2405	1.1950	1.7	3.8	0.32	0.35
Italy	1505.5	1565.0	1.8	4.0	0.26	0.32
Netherlands	2.84475	2.95775	2.1	4.0	0.29	0.33
Austria	17.865	18.5905	1.8	4.1	0.33	0.47
Canada	0.81510	0.80972	0.8	0.7	0.12	0.09
Japan	239.05	241.70	2.4	1.1	0.34	0.27
Norway	7.2830	7.3825	2.0	1.4	0.24	0.18
Sweden	7.6300	7.7505	1.5	1.6	0.20	0.18
Switzerland	2.09675	2.13375	2.7	1.8	0.33	0.35
United Kingdom	1.5420	1.51675	4.5	1.7	0.55	0.25

^{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.

Most major countries recorded increases in gross foreign exchange reserves in July; the largest were by France and Italy with increases of \$2.5 billion and \$1.6 billion, respectively, partly because seasonal tourist receipts continued to aid their balance of payments. Sizable reserve declines were recorded by Norway and Switzerland (see Table 3). The European Community Commission announced that it had contracted a \$1.3 billion five-year loan to complete an ECU 4 billion borrowing operation launched in May to support France's balance of payments. Banking sources indicated that Italy and Greece (and to a lesser extent, Denmark and Ireland) might also attempt to raise external funds under the European Community umbrella.

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

	Reserve level	Change in July	Change over 12 months
Belgium	4,442	+79	+1,832
Denmark	2,864	+63	+1,195
France	18,459	+2,542	+5,144
Germany	38,139	+447	+1,620
Ireland	2,166	+254	-315
Italy	18,579	+1,618	+4,690
Netherlands	8,944	+643	+1,978
Austria	4,282	+216	+200
Canada	3,181	-10	+1,126
Japan	20,748	+246	-1,094
Norway	5,057	-754	-1,082
Sweden	3,193	+143	+371
Switzerland	11,824	-827	+8
United Kingdom	9,015	+65	-1,866
United States	7,271	-583	-1,829

^{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 other leading currencies in July, mainly on interest rate factors. The dollar firmed by 2.01 percent in effective (MERM) terms and by 1.17 percent against the SDR. Interest rates remained firm in the face of further evidence of a strong economic recovery in the making. The index of industrial production rose 1.8 percent, seasonally adjusted, in July and was up 7.1 percent year-on-year. Real GNP in the second quarter was estimated to have risen at an annual rate of 8.7 percent, seasonally adjusted, following a revised increase of 2.6 percent in the first quarter. The GNP price deflator rose at an annual rate of 4.5 percent in the second quarter compared with a rise of 5.5 percent in the first quarter. The index of leading economic indicators rose 1 percent in June following rises of 1.3 percent and 1.2 percent in the previous two months. The civilian unemployment rate declined in July to 9.5 percent from 10 percent in June. The trade deficit in June, seasonally adjusted, narrowed to \$4.9 billion from a record \$6.9 billion in May; for the first half of the year, however, the deficit totaled \$27.2 billion compared with \$16.3 billion in the first half of 1982. The producer price index in July rose 0.1 percent, seasonally adjusted, and was up 1.4 percent year-on-year.

The Deutsche mark remained at the bottom of the EMS parity grid throughout July; it eased 4.05 percent against the U.S. dollar and 1.78 percent in effective (MERM) terms. Factors adversely affecting the Deutsche mark in July were low interest rates, reduced Bundesbank intervention, and political uncertainties. Industrial production, seasonally adjusted, rose 1.9 percent in June and was up 1.5 percent year-on-year. The unemployment rate, however, rose to 8.9 percent in July from 8.7 percent in June. The current account surplus in June narrowed to DM 604 million from a revised DM 1.514 billion in May and DM 759 million in June 1982; for the first six months of the year, however, the current account surplus widened to DM 6.398 billion from DM 1.312 billion in the same period of 1982. The wholesale price index declined 0.5 percent in July and was down 2 percent year-on-year. The producer price index rose 0.1 percent in July and was up 0.8 percent year-on-year.

The French franc remained as one of the strongest currencies in the EMS but eased along with all other EMS currencies; it eased by 4.21 percent against the U.S. dollar and 1.95 percent in effective (MERM) terms. The number of unemployed persons declined 0.2 percent in July; the unemployment rate was 8.9 percent. Industrial production, seasonally adjusted and excluding construction, fell 2.3 percent in June and was down 0.8 percent year-on-year. The current account deficit in the first half of 1983 was F 33 billion, compared with a deficit of F 79 billion for all of 1982. The trade deficit in July, seasonally adjusted, narrowed to F 3 billion from F 3.7 billion in June. The index of industrial wholesale prices rose 1.1 percent in June, following a rise of 1 percent in May.

The Belgian franc remained near the bottom of the EMS parity grid throughout the month; it eased 3.99 percent against the U.S. dollar and 1.12 percent in effective (MERM) terms. Despite the currency's relative weakness, the discount of the financial franc from the commercial franc remained very small. The Government unveiled its 1984 budget plans which included a deficit equivalent to 11.5 percent of projected GNP, compared with a 1983 expected deficit equivalent to about 12.8 percent of GNP. The unemployment rate at end-July rose to a record 12.3 percent from 11.8 percent at the end of June. The trade deficit of the Belgo-Luxembourg Economic Union (BLEU) narrowed in May to BF 5.6 billion from BF 12.3 billion in April and BF 27.4 billion in May 1982. The wholesale price index rose 1.3 percent in June and was up 3.1 percent year-on-year.

The Netherlands guilder eased 3.78 percent against the U.S. dollar and 1.26 percent in effective (MERM) terms. Industrial production in May rose by a seasonally adjusted 0.9 percent and by 1.9 percent year-on-year. The unemployment rate in July, however, seasonally adjusted, was unchanged at 17 percent. The trade balance was in surplus in June by f. 500 million compared with a deficit in June 1982 of f. 200 million; for the first half of the year the surplus narrowed slightly to f. 8 billion from f 8.4 billion in the same period of 1982. The producer price index for consumer and investment goods rose 0.2 percent in May and was up 1.3 percent year-on-year.

The Danish krone eased 4.13 percent against the U.S. dollar and 2.12 percent in effective (MERM) terms. The unemployment rate in June, seasonally adjusted, was unchanged from May at 10.7 percent. The trade deficit in June, seasonally adjusted, widened to DKr 1.7 billion from DKr 646 million in May; for the first half of the year, the deficit narrowed to DKr 1.6 billion from DKr 5.5 billion in the first half of 1982. The wholesale price index rose 0.5 percent in June for a 4.5 percent year-on-year rise.

The Irish pound continued to be one of the strongest currencies in the narrow EMS band in July. It eased 3.71 percent against the U.S. dollar and 1.71 percent in effective (MERM) terms. The number of persons unemployed, seasonally adjusted, rose 0.8 percent in July and the unemployment rate rose to about 14.8 percent from about 14 percent in June on an unadjusted basis.

The Italian lira continued to be the strongest currency in the EMS in terms of central parities and traded at a margin usually exceeding 5.5 percent from the weakest currency in the system. The lira eased 3.83 percent against the U.S. dollar and 1.26 percent in effective (MERM) terms. The index of industrial production, seasonally adjusted, declined 1.8 percent in June and was down 5.3 percent from June 1982. The trade deficit in June widened to Lit 426 billion from Lit 411 billion in May but narrowed from Lit 1,034 billion in June 1982. The wholesale price index rose 0.5 percent in June and was up 10.1 percent year-on-year.

The pound sterling eased 0.86 percent against the U.S. dollar but firmed 1.49 percent in effective (MERM) terms, reflecting sharper easing of the currencies of its major European trading partners. The index of industrial production in June declined 1.7 percent but for the April-June quarter production was up 2 percent from the same period of 1982. Real GDP in the second quarter rose 0.2 percent and was up 1.5 percent year-on-year. The unemployment rate, seasonally adjusted, was unchanged in July at 12.4 percent. The current account, seasonally adjusted, switched into surplus in June of £373 million from a deficit of £302 million in May; for the first six months of the year the current account was in surplus by £406 million. The producer price index for manufactured products, a revised version of the wholesale price index, rose 0.2 percent in July but the annual rate of increase declined from 6.0 percent in June to 5.5 percent in July.

The Swiss franc eased 1.50 percent against the U.S. dollar but firmed 0.89 percent in effective (MERM) terms. The unemployment rate in July was unchanged at 0.8 percent. The trade deficit in July narrowed to Sw F 418.6 million from Sw F 676.1 million in June but widened from Sw F 375.9 million in July 1982. The wholesale price index was unchanged in July and little changed year-on-year.

The Japanese yen eased 1.02 percent against the U.S. dollar but firmed 0.60 percent in effective (MERM) terms. Industrial production rose a seasonally adjusted 1.2 percent in June and was up 2.1 percent year-on-year. The current account surplus in June, seasonally adjusted, narrowed to \$1.398 billion from \$2.297 billion in May. The trade surplus in July, preliminary and seasonally adjusted, however, widened to \$2.31 billion from \$1.08 billion in June. The wholesale price index in July rose 0.2 percent but was down 2.4 percent year-on-year.

The Canadian dollar eased 0.52 percent against the U.S. dollar but firmed 0.28 percent in effective (MERM) terms. Real GDP in May, seasonally adjusted, rose 0.9 percent, and was higher by about the same margin year-on-year. The unemployment rate in July declined to 12 percent from 12.2 percent in June. The trade surplus in June, seasonally adjusted, narrowed to Can\$1.59 billion from Can\$1.71 billion in May; for the first half of the year, the surplus widened to Can\$9.27 billion from Can\$8.28 billion a year earlier. Industrial selling prices for manufactures rose 0.5 percent in June for a 3.5 percent year-on-year rise.

The Austrian schilling eased in line with the EMS currencies; it eased 3.59 percent against the U.S. dollar and 1.70 percent in effective (MERM) terms. The Norwegian krone eased 1.21 percent against the U.S. dollar but firmed 0.53 percent in effective (MERM) terms. The Swedish krona eased 1.59 percent against the U.S. dollar but firmed 0.52 percent in effective (MERM) terms.

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

Monetary and credit conditions in most major industrial countries remained tight in July, despite continued indications of decelerating inflation, with policies being aimed at maintaining the value of the national currencies against the U.S. dollar without hampering economic recovery. Short-term interest rates in industrial countries were unchanged or moderately firmer, with notable exceptions of the United States where the rate firmed sharply and France where the rate eased sharply.

In the United States, short-term interest rates continued their firming trend since mid-May attributed mainly to the rapid growth of the M1 measure of money supply, and the consequent expectation of a credit-tightening by the Federal Reserve. There were concerns that the surprisingly rapid recovery of the U.S. economy could bring about a resurgence of borrowing by businesses which together with the Government's huge borrowing needs would push interest rates high. The three-month bond-equivalent yield on Treasury bills firmed from 9.14 percent at the end of June to 9.59 percent at the end of July. The 90-day CD rate firmed by 0.32 percentage point to 9.57 percent while the prime lending rate remained unchanged at 10.50 percent. Consequently, the spread of the prime lending rate over the CD rate narrowed to 0.93 percent at the end of July from 1.25 percent at the end of June. Federal funds rates averaged at 9.37 percent in July compared with 8.98 percent in June.

M1 averaged \$515.5 billion in July up from \$511.7 billion in June, and for the latest 13 weeks it rose at an annual rate of 13.5 percent from the preceding 13 weeks. M2 averaged \$2.1258 trillion in July, up from \$2.1148 trillion in June and M3 rose to \$2.5099 trillion from \$2.4990 trillion. The Federal Reserve announced on July 20 that it would hold the growth of M1 to a 5 percent to 9 percent range for the rest of the year and would not try to offset the large increase in M1 during the first half of the year to bring the growth rate down to the 4 percent to 8 percent target range announced in January. The M1 growth rate would be held to the new 5 percent to 9 percent range, measuring from its average level in the second quarter rather than from its average level in the fourth quarter of the last year. It was also announced that M1 would be monitored closely but would not be given full weight until the Federal Reserve had more time to evaluate the relationship between M1 and economic growth.

Among the countries in the European Monetary System, short-term interest rates remained stable in Germany. Despite the sluggish economic recovery, the Bundesbank did not cut its discount rate and the lombard rate, currently at 4.0 percent and 5.0 percent, respectively, for fear that widening interest rate differentials between Germany and the United States would further depreciate the mark. The short-term

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		Consumer		June	July
		price index		price index <u>3/</u>			
Austria	June/July	-1.5	(-3.0)	2.8	(2.5)	3.75	3.75
Belgium	June/July	3.1	(2.4)	7.5	(7.3)	9.00	9.00
Canada	June			5.6	(5.4)	9.15	9.20
Denmark	June			7.1	(7.5)	7.50	7.50
France	May/June	9.9	(8.5)	8.8	(9.0)	12.80	12.29
Germany	July	-2.0	(-1.3)	2.5	(2.4)	5.68	5.68
Italy	June	10.3	(10.1)	16.0	(16.4)	17.88	17.75
Japan	July/May	-2.4	(-2.0)	2.9	(2.0)	6.70	6.76
Netherlands	May/July	2.5	(2.0)	2.4	(2.2)	5.50	5.54
Norway	July	5.9	(6.7)	7.9	(8.8)	8.00	8.00
Sweden	July			9.1	(8.8)	8.50	8.50
Switzerland	July	0.1	(0.3)	2.2	(2.8)	4.63	4.88
United Kingdom	June/July	5.5	(6.0)	4.2	(3.7)	9.58	9.72
United States	July/June	1.4	(1.8)	2.6	(3.5)	9.14	9.59

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.

rate eased sharply by 0.51 percentage point in France. The Bank of France left its money market intervention rate unchanged at 12 1/4 percent, but for the first time set a special rate for banks of 12 1/8 percent on July 20 in order to offset a temporary shortage of liquidity in the call market.

In the United Kingdom, sterling M3 rose by 0.8 percent in the banking month ended July 20, compared with rises of 1.7 percent in June and 0.6 percent in May. M1 fell by 0.4 percent in July following increases of 1.7 percent in June and 1.5 percent in May. In the five months since mid-February, sterling M3 has grown at an annual rate of 14.7 percent and M1 has grown at 14.9 percent while the Government's target range is an annual growth rate of 7 percent to 11 percent during the 14 months from mid-February 1983 to mid-April 1984. Although still well above this official target, the slowdown of growth in July from June helped reduce the upward pressure on interest rates; market yields on three-month U.K. Treasury bills rose, however, from 9.58 percent at the end of June to 9.72 percent at the end of July.

In Japan, short-term interest rates remained practically unchanged in July. Despite the continued weakness of domestic demand, the Bank of Japan remained opposed to a cut in the 5.5 percent discount rate before the yen advances on the foreign exchange market. Japan's broadly defined money supply (M2 + CDs) grew an average 7.7 percent in June from a year earlier, up from 7.5 percent in May. M1 increased an average of 3.8 percent in June, down from 3.9 percent in May. M3 + CDs at the end of July was 8.7 percent above its level a year earlier compared with 8.9 percent at the end of June.

In the euro-currency market, the three-month euro-dollar rate firmed by 0.50 percentage point to 10.25 percent at the end of July. As a result, the uncovered interest differentials favoring euro-dollar investment widened for Germany, Japan, the Netherlands, and the United Kingdom and those favoring domestic investment narrowed for France and Italy between the end of June and the end of July (see Table 5).

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

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)	
	June	July	June	July	June	July
France	-3.05	-2.04	-4.53	-3.62	+1.48	+1.58
Germany	+4.07	+4.57	+4.72	+5.42	-0.65	-0.85
Italy	-8.13	-7.50	-6.92	-5.96	-1.21	-1.54
Japan	+3.05	+3.49	+3.26	+3.76	+0.21	-0.27
Netherlands	+4.25	+4.71	+4.49	+4.84	-0.24	-0.13
United Kingdom	+0.17	+0.54	+0.13	+0.42	+0.04	+0.12

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

Beginning August 1, 1983, the SDR interest rate is being fixed weekly at the level of the combined domestic interest rate as of Friday of the preceding week; previously, the rate was being fixed on a quarterly basis on the basis of the average combined domestic rate prevailing during the last fifteen working days in the preceding quarter. In July, the SDR interest rate was 8.65 percent, compared with 8.52 percent in the calendar quarter ended June 30. 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 SDR interest rate in the first and the second weeks of August stood at 8.81 percent and 8.96 percent, respectively.

As shown in Appendix B, the average domestic interest rates on the instruments for the currencies included in the SDR basket were mixed during July; the rates firmed in the United States and Japan while they eased in the United Kingdom and France and the rate was unchanged in Germany. As a result, the average combined market interest rate firmed slightly by 0.12 percentage point to 8.74 percent in July.

The combined domestic market interest rates for maturities ranging from three months to five years firmed by 0.10-0.34 percentage point from the end of June to the end of July, reflecting higher interest rates on the relevant instruments which firmed by 0.02-0.58 percentage point at the end of July, except for those for France which eased. The combined domestic rates display a rising yield curve which moved up from 8.73 percent on the three-month maturity through 9.02 percent and 9.39 percent on the six- and twelve-month maturities, respectively, to 10.65 percent on the five-year maturity.

The combined euro-currency interest rates for the three-, six-, and twelve-month maturity continued to firm by 0.09, 0.19, and 0.20 percentage point, respectively, to 9.10 percent, 9.62 percent, and 9.94 percent at the end of July. This reflected higher euro-currency deposit rates for most of the relevant currencies which firmed by 0.03-0.56 percentage point between the end of June and the end of July, except for euro-Deutsche mark deposit rates which eased marginally and euro-French franc deposit rates which eased sharply by 0.88-1.69 percentage point.

Average interest rates on SDR-denominated deposits of selected commercial banks firmed by 0.01-0.19 percentage point at the end of July. The deposit rates displayed a rising yield curve moving up from 8.56 percent on one-month deposits through 8.96 percent and 9.44 percent on three- and six-month deposits, respectively, to 9.71 percent on twelve-month deposits. The yields on SDR-denominated bonds quoted on the Luxembourg Stock Exchange firmed slightly at the end of July. The current yield ranged from 8.93 percent to 11.50 percent, with the average yield firming by 0.05 percentage point to 9.88 percent while the yield to maturity ranged from 10.46 percent to 12.26 percent with the average yield to maturity firming by 0.02 percentage point to 11.37 percent between the end of June and the end of July.

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

	June	July
SDR interest rate	8.52	8.65
Rate of remuneration	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)	8.63	8.73
6-month maturity	8.80	9.02
12-month maturity	9.07	9.39
5-year maturity	10.31	10.65
Based on euro-currency rates		
3-month maturity	9.01	9.10
6-month maturity	9.43	9.62
12 month maturity	9.74	9.94
Average commercial bank deposit rates <u>3/</u>		
1-month deposits	8.55	8.56
3-month deposits	8.86	8.96
6-month deposits	9.27	9.44
12-month deposits	9.52	9.71
Bonds quoted on the Luxembourg Stock Exchange <u>4/</u>		
Average current yield	9.83	9.88
Average yield to maturity	11.35	11.37

1/ Rates pertain to last Wednesday of the month.

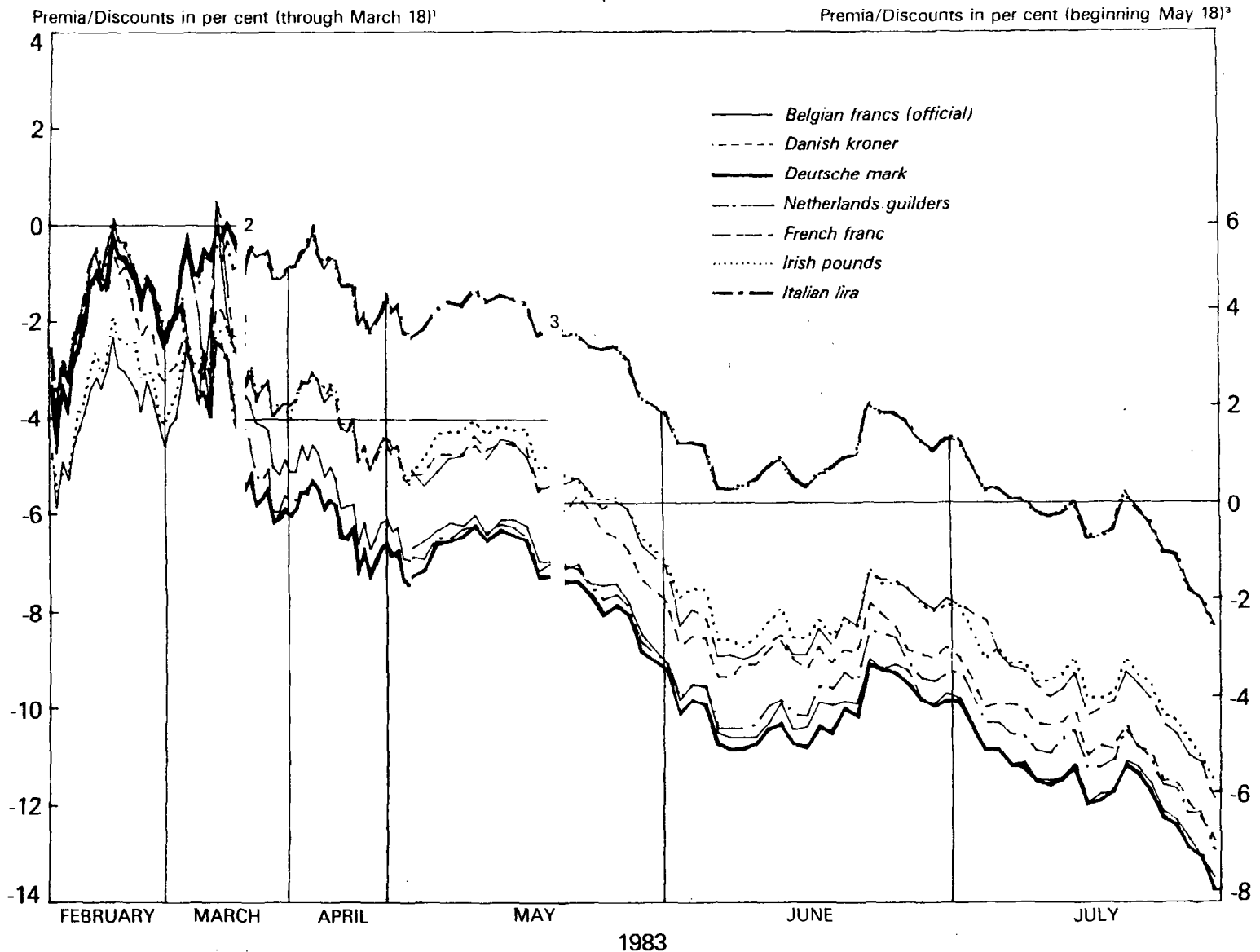
2/ As of January 1, 1981, combined market rates (according to the Rule T-1) are calculated by multiplying the yields or rates of each of the respective instrument by the number of units of the corresponding currency listed in Rule 0-1 and the value in terms of the SDR of a unit of that currency as determined by the Fund under Rule 0-2(a) and (b). Domestic rates are those used to determine interest rates on the SDR or 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 1984 to 1989.

CHART 1 SPOT EXCHANGE RATES: EUROPEAN MONETARY SYSTEM

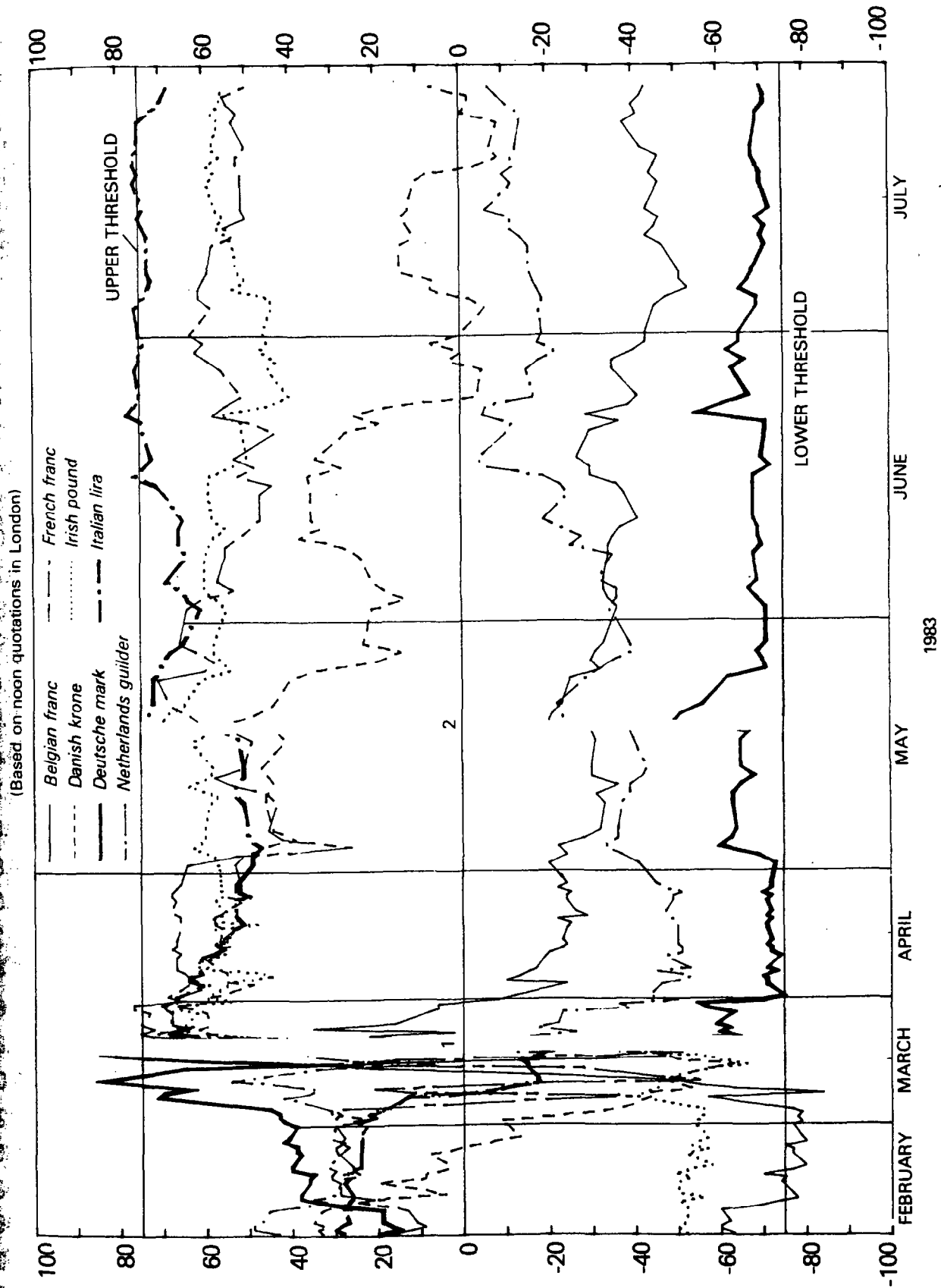
(Based on noon quotations in New York)



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.



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.

²while 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.

Effective 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)

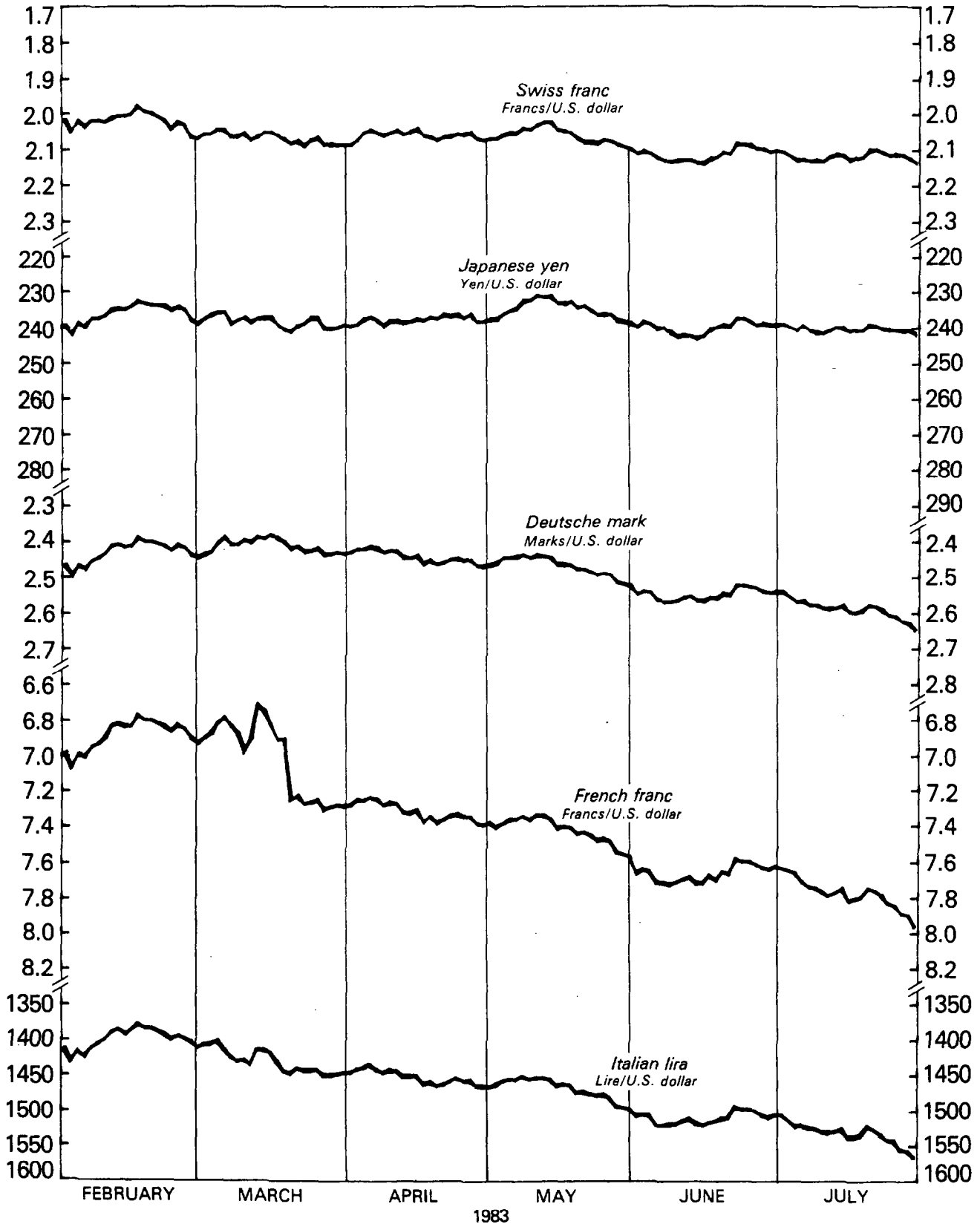
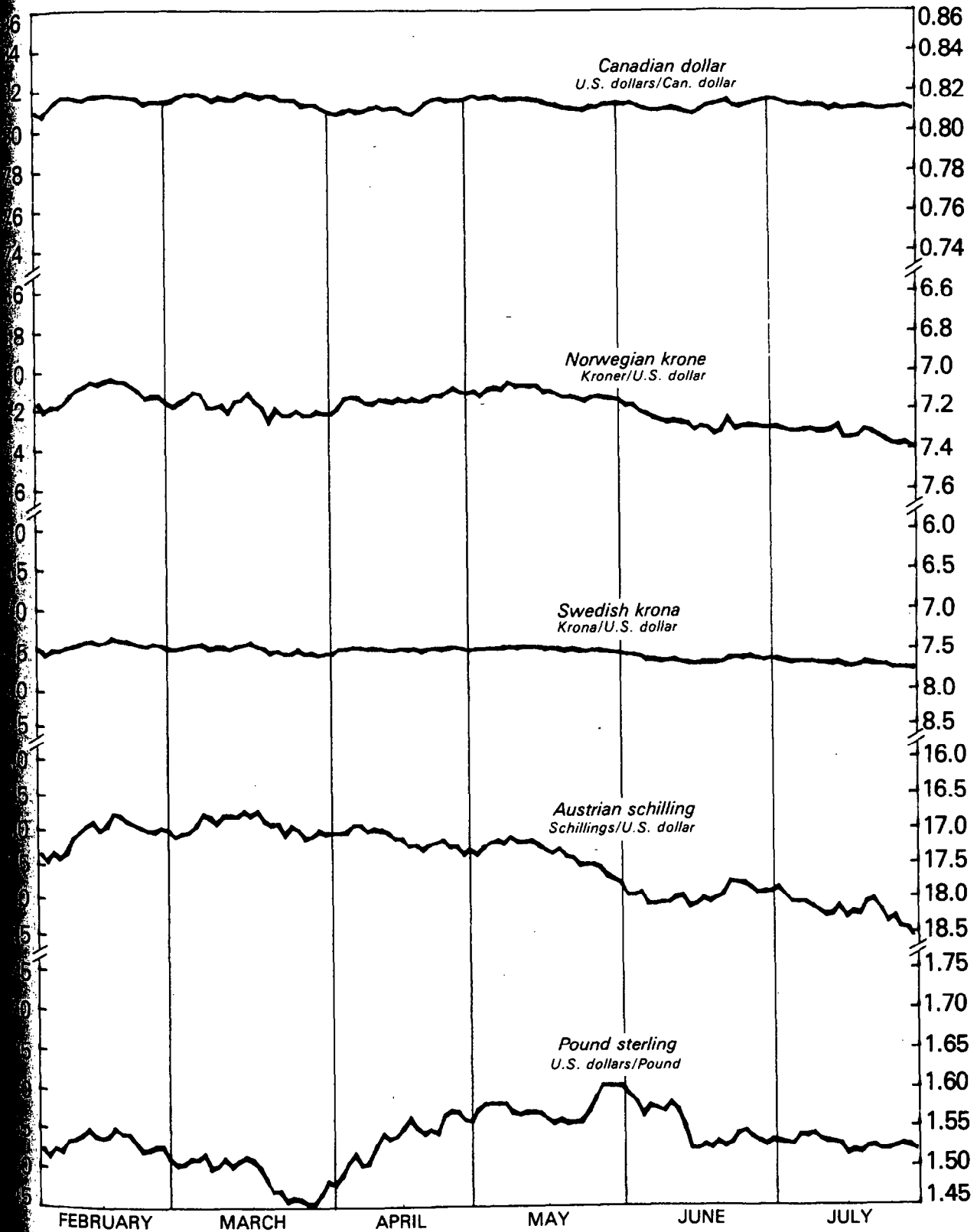


CHART 4
SPOT EXCHANGE RATES
(Noon quotations in New York)

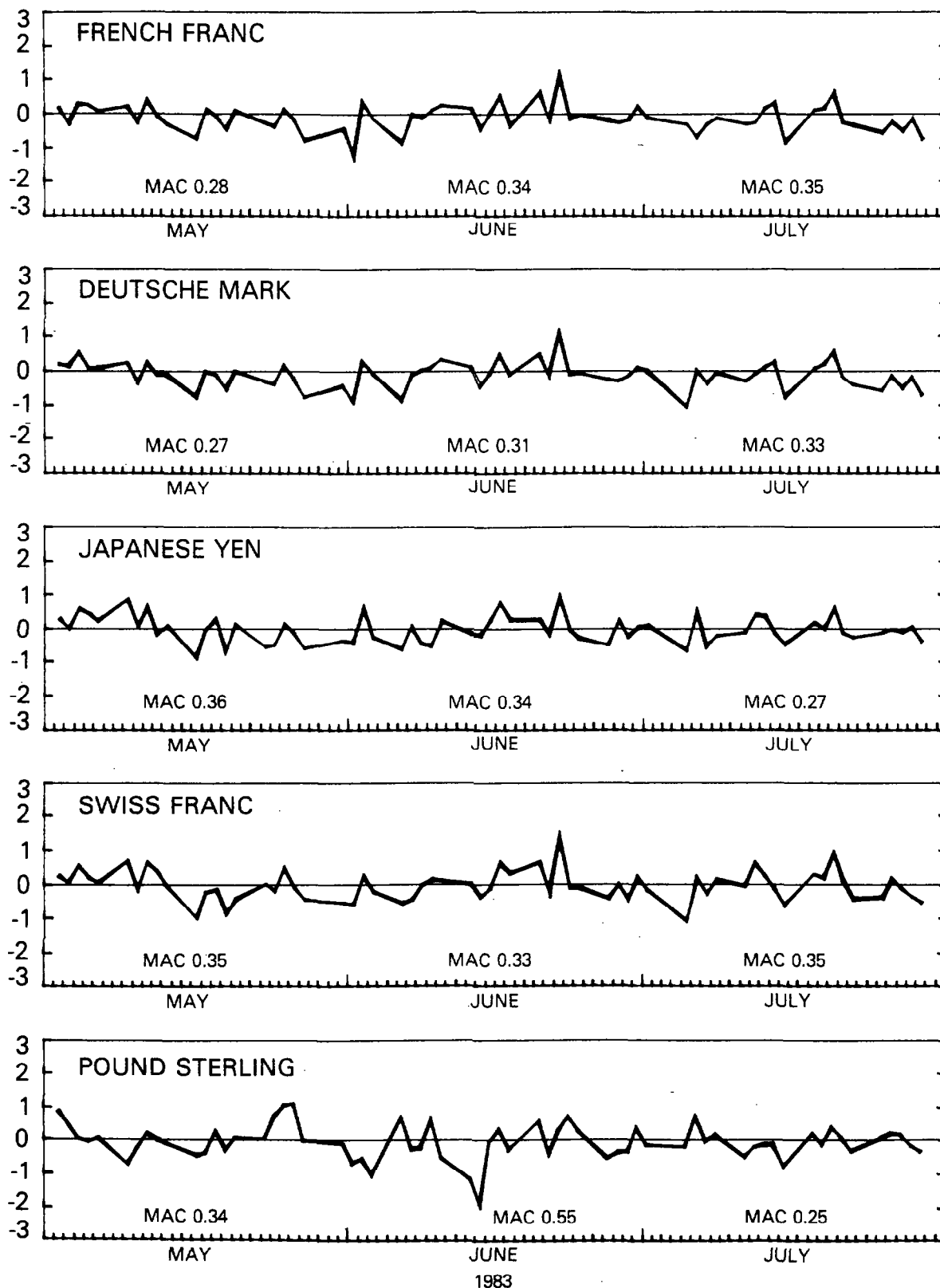


1983

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.

JUN. 1974 - JUL. 1983

. (June 28, 1974=100)

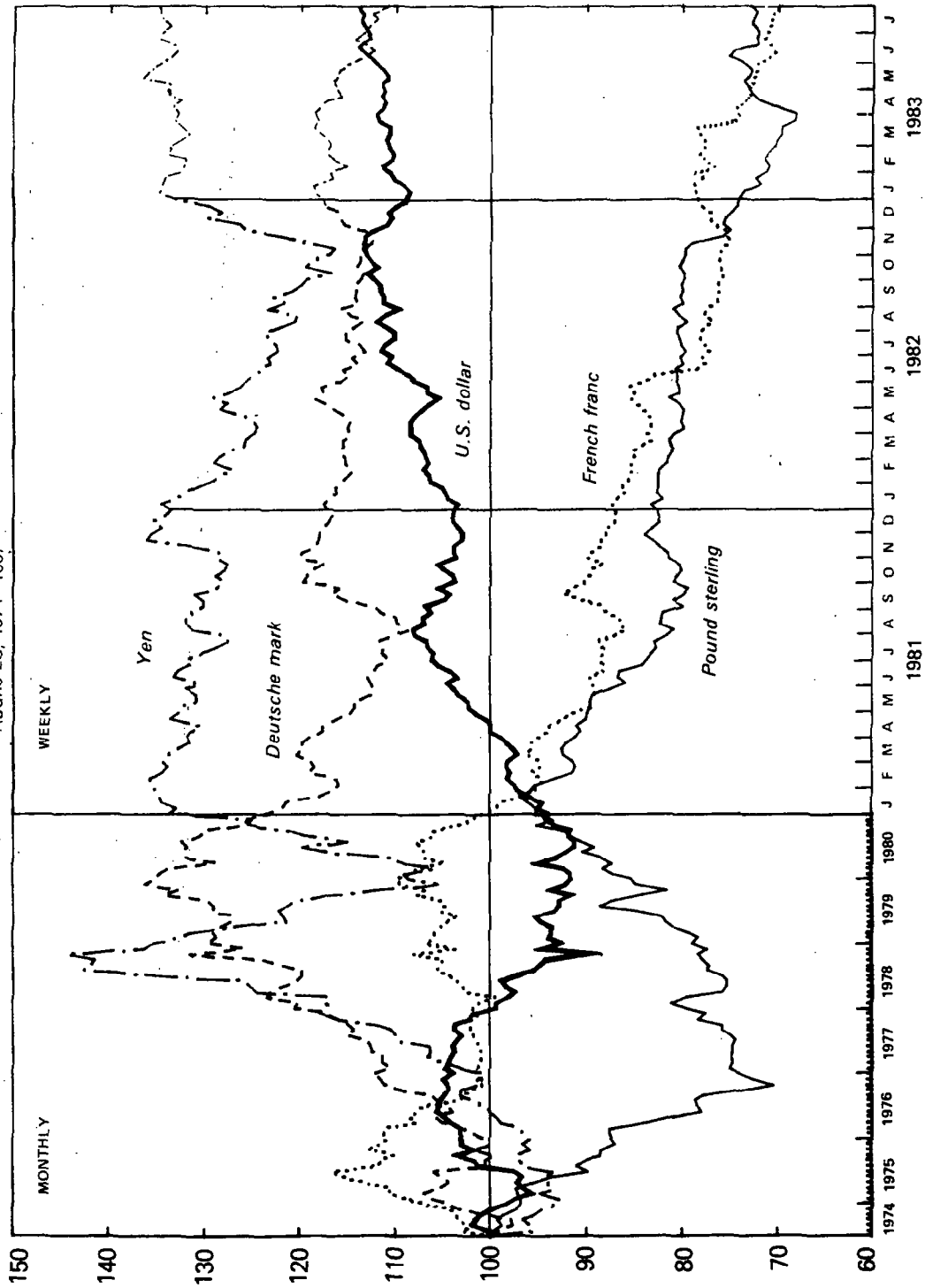
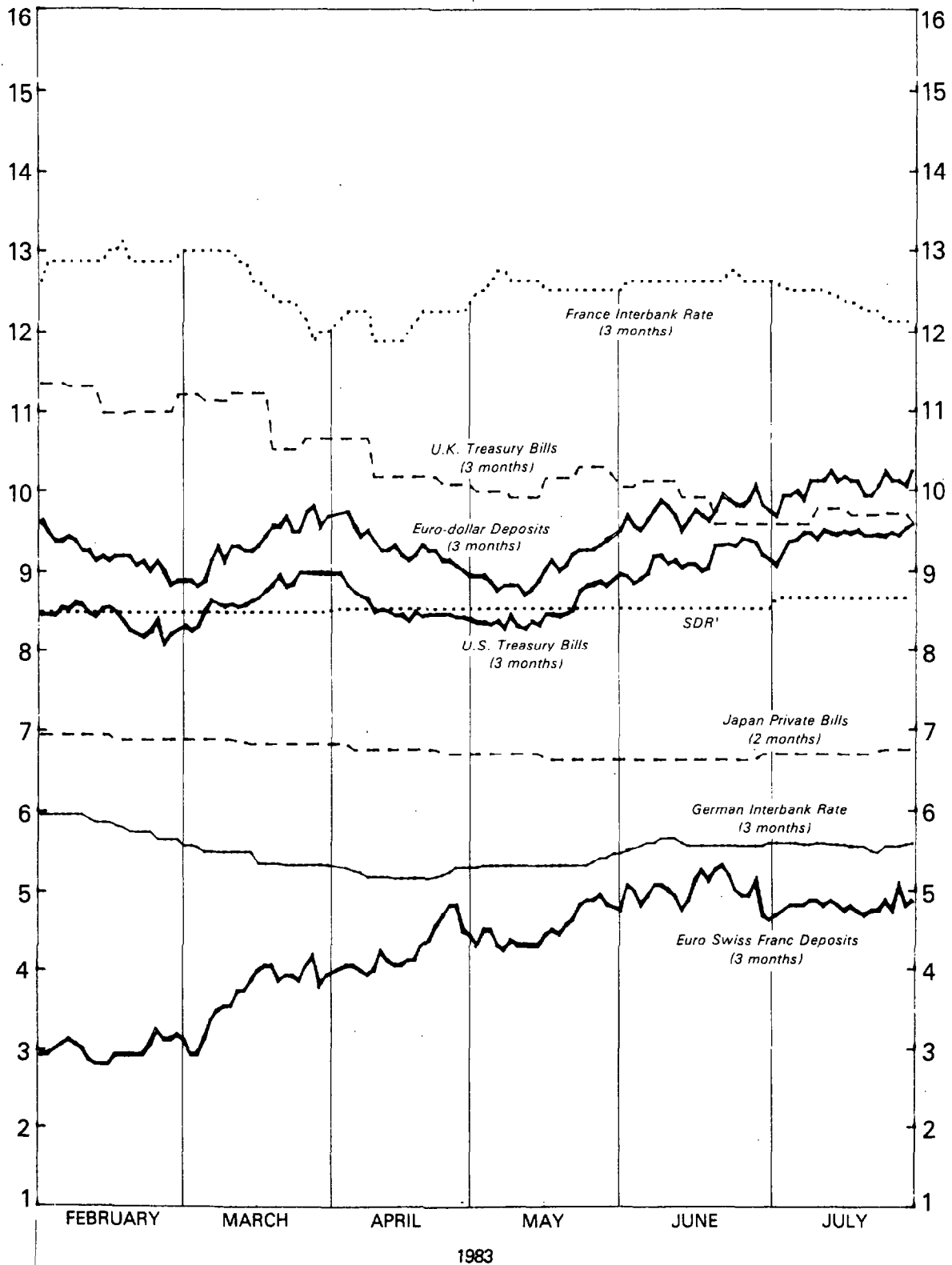


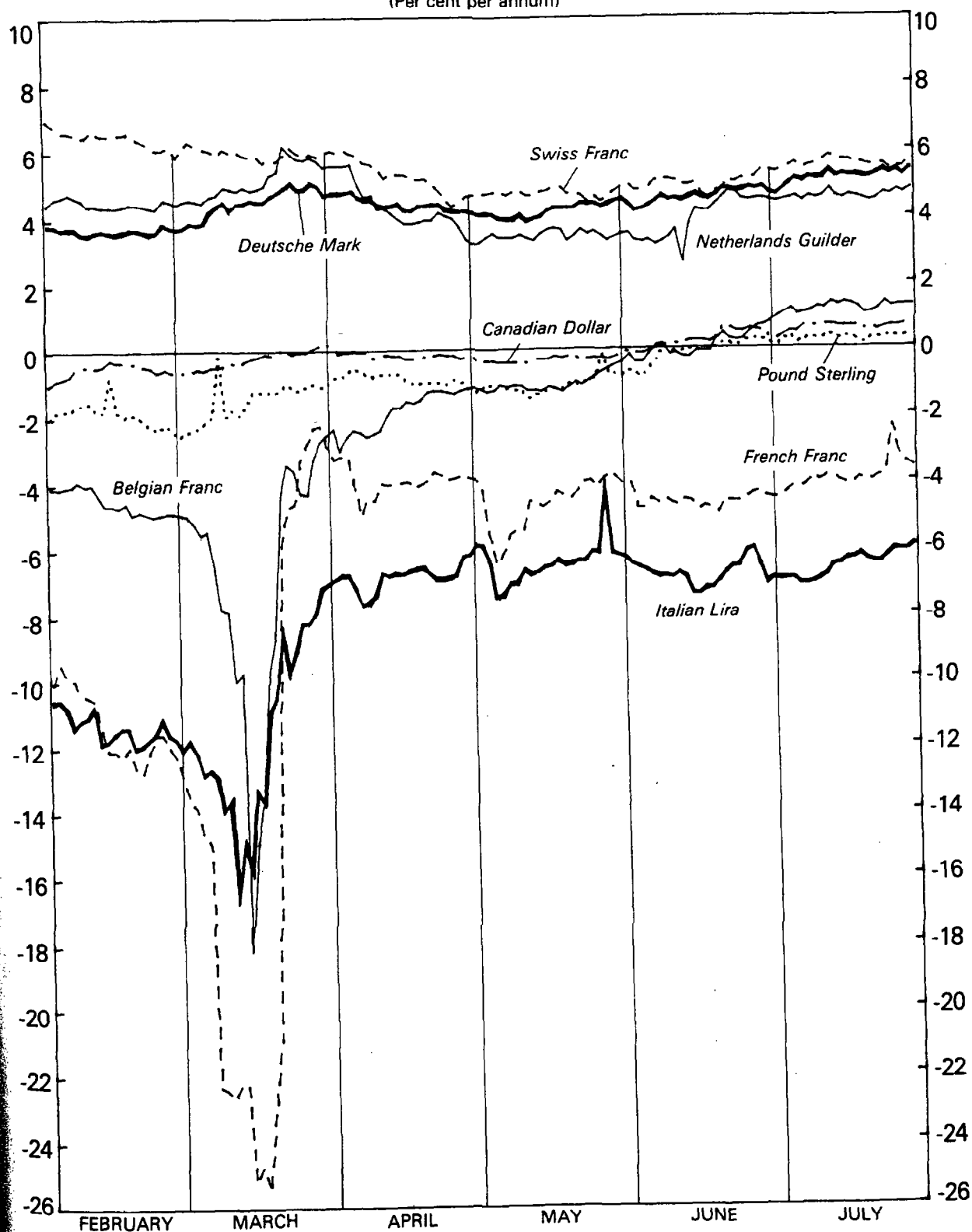
CHART 7 SHORT-TERM MONEY MARKET RATES

(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)

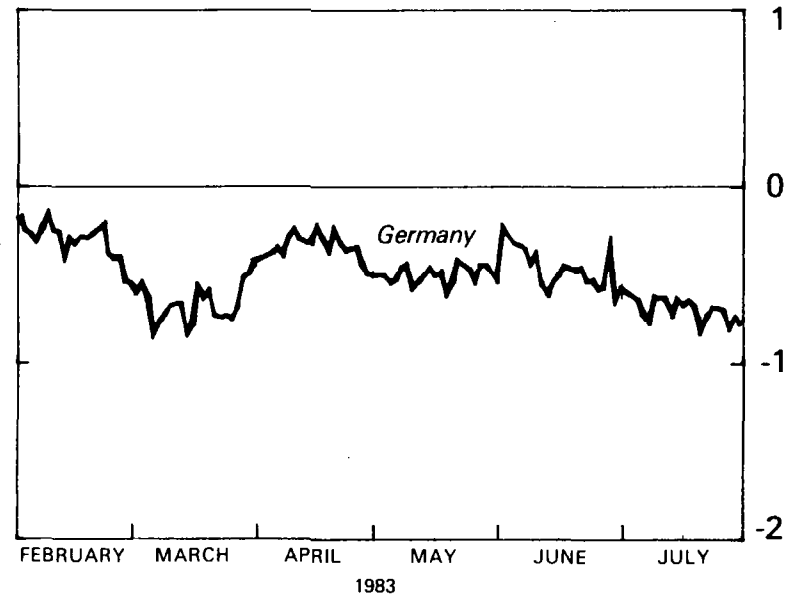
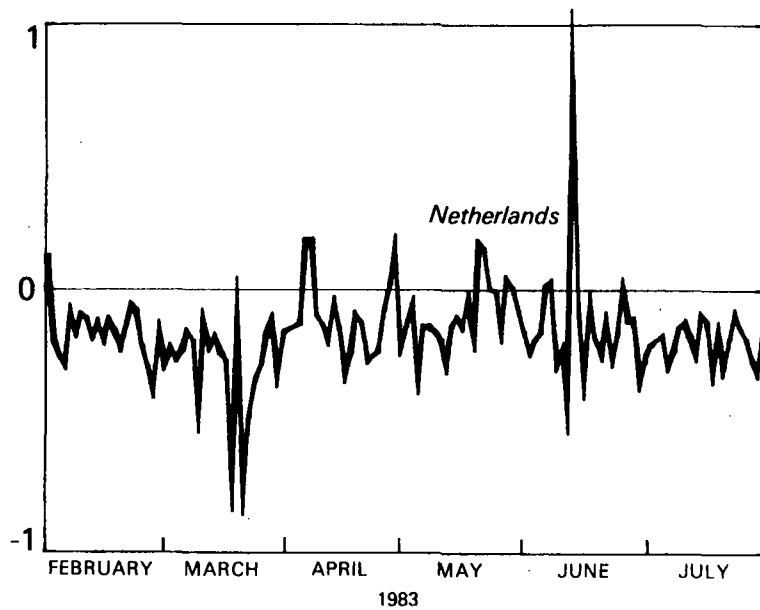
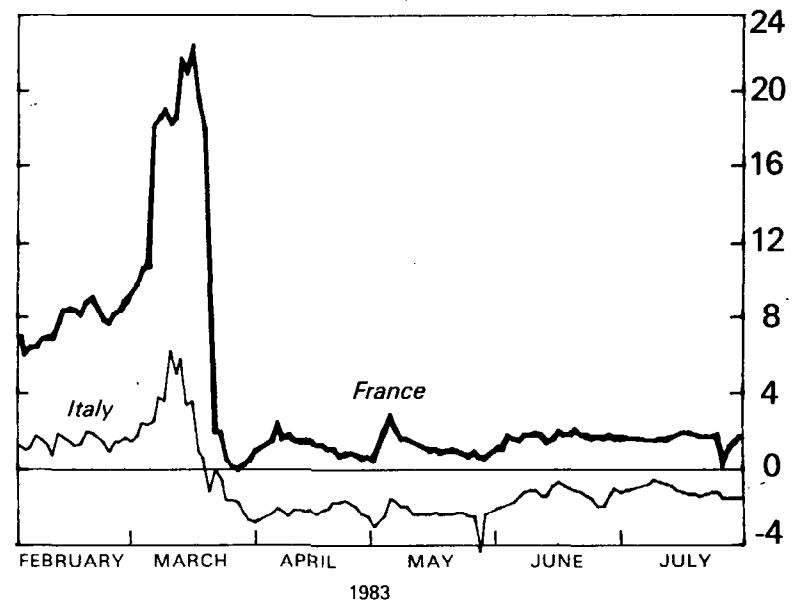
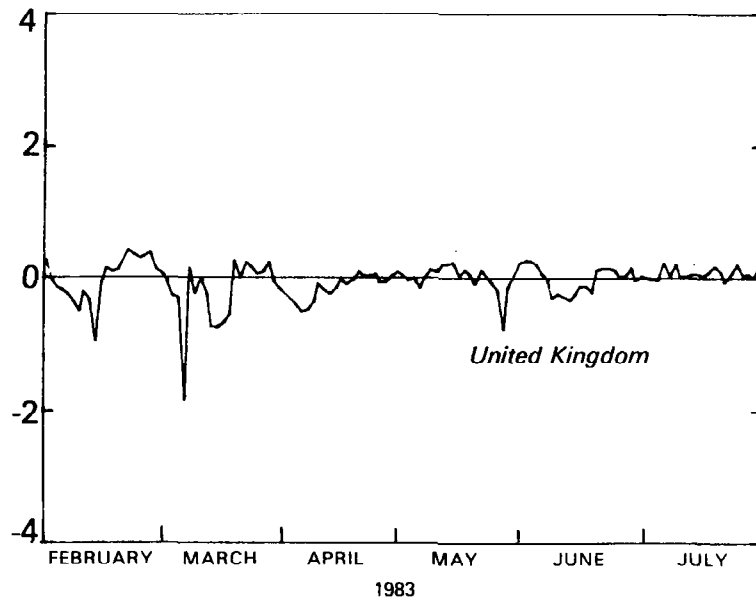


1983

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, June-July 1983 1/

	J u n e					J u l y			
	1	5	15	22	29	6	13	20	27
Austrian schilling	17.9595	18.0775	18.1000	17.7650	17.9300	18.0700	18.2335	18.0785	18.4175
Belgian franc									
Official	50.880	51.290	51.175	50.440	50.915	51.440	51.735	51.560	52.455
Financial	50.885	51.425	51.525	50.805	51.205	51.835	52.035	51.815	52.665
Canadian dollars	0.81245	0.80932	0.80815	0.81463	0.81397	0.81251	0.80972	0.81133	0.81096
Danish kroner	9.1175	9.1525	9.1650	9.0363	9.1425	9.2325	9.2675	9.2738	9.4365
Deutsche mark	2.54750	2.56735	2.56675	2.52145	2.54360	2.56725	2.58450	2.57665	2.6240
French francs	7.6675	7.7225	7.7140	7.5812	7.6410	7.7095	7.7715	7.7450	7.8865
Irish pounds	1.2430	1.2300	1.2323	1.2505	1.2395	1.2298	1.2227	1.2270	1.2057
Italian lire	1507.000	1520.000	1520.500	1494.500	1509.250	1520.500	1529.000	1522.375	1553.500
Japanese yen	239.800	241.355	242.375	237.350	239.300	239.450	239.750	239.275	240.845
Netherlands guilder	2.8610	2.8793	2.8723	2.8208	2.8508	2.8760	2.8868	2.8808	2.9343
Norwegian kroner	7.1825	7.2525	7.3015	7.2445	7.2950	7.3060	7.3050	7.3013	7.3730
Pounds sterling	1.5905	1.5693	1.5225	1.5308	1.5280	1.5400	1.5301	1.5243	1.5280
Swedish kroner	7.5665	7.6500	7.6775	7.6125	7.6435	7.6625	7.6885	7.6713	7.7380
Swiss francs	2.10825	2.13075	2.13700	2.08100	2.10550	2.12475	2.11175	2.09875	2.11450

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 5/ Securities (15)	
	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	5.39	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	5.63	9.85	12.81	6.64	8.62	9.75	5.33	10.00	14.45	6.55	5.00	10.05	10.50	10.63
July	9.44	5.65	9.69	12.45	6.72	8.74	10.07	5.18	9.89	14.15	6.58	4.81	10.51	10.50	11.21
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	15.88	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	16.49	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	13.59	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	20.35	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	1.69	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	9.61	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	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	4.10	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
July 1	9.22	5.65	9.58	12.80	6										