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INTERNATIONAL MONETARY FUND

Treasurer's Department

Foreign Exchange and Financial Markets in November 1983

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The U.S. dollar firmed sharply against most major currencies in November mainly because of safe-haven buying on continuing geopolitical tensions and the expectation that U.S. interest rates might rise under the influence of a strong U.S. economic recovery and the bunching of scheduled Treasury borrowings in December. The U.S. dollar appreciated by 1.46 percent in effective (MERM) terms and 0.83 percent against the SDR. The Japanese yen was the only major currency to firm against the U.S. dollar reflecting mainly international confidence in the Japanese economy, and considerable Bank of Japan intervention in late October and early November following the discount rate cut late in October; a widely anticipated yen support package announced on November 10 also aided the currency on the exchange market. The Federal Reserve also announced that it intervened on October 31 and November 1 in the New York market, buying Japanese yen equivalent to $29.6 million. The yen firmed 0.67 percent against the U.S. dollar and 0.95 percent in effective (MERM) terms. Other currencies eased against the U.S. dollar by up to 2.77 percent (the Danish krone) with the Canadian dollar and the Swiss franc easing by less than 1.0 percent.

Within the EMS, relative positions remained little changed. The Belgian franc continued isolated at the bottom while the other currencies in the narrow band bunched together at or near the top (see Chart 1). The divergence indicator for the Belgian franc remained below its lower threshold since late September, (see Chart 2), despite a rise in official interest rates, Parliamentary approval for narrowing of the budget deficit, and increased intervention by the National Bank of Belgium which aggregated over BF 25 billion compared with BF 18 billion in October. The French franc was occasionally replaced at the top of the narrow band by the Danish krone and the Irish pound. Toward the end of the month the Bank of France lowered its official interest rates and reportedly purchased moderate amounts of Belgian francs and Deutsche mark. The Deutsche mark was under some speculative pressure during the month stemming mainly from unsettling domestic developments.

Table 1. Changes in Exchange Rates in November 1983 1/

(In percent)

	Monthly exchange rate changes			
	Against U.S. dollar 2/	Against SDR	Effective exchange rate 3/ (In percent)	Change in effective exchange rate since November 1982 3/
Belgium	-2.44	-1.63	-0.59	-3.9
Denmark	-2.77	-2.07	-1.49	-4.7
France	-2.33	-1.98	-1.31	-9.5
Germany	-2.50	-1.81	-1.12	-1.7
Ireland	-2.46	-2.05	-1.38	-9.2
Italy	-2.17	-1.44	-0.61	-6.1
Netherlands	-2.56	-1.59	-0.72	-2.5
Austria	-2.67	-2.03	-1.49	-3.3
Canada	-0.53	+0.28	+0.08	+2.3
Japan	+0.67	+0.68	+0.95	+13.5
Norway	-1.47	-0.75	-0.21	-0.6
Sweden	-1.68	-0.98	-0.39	-1.2
Switzerland	-0.87	-0.35	+0.22	+4.2
United Kingdom	-2.14	-1.24	-0.62	-4.1
United States	--	+0.83	+1.46	+4.7

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). Effective rates and rates against the SDR are based on representative exchange rates officially advised to the Fund.

Confidence in the banking system was shaken when a private Frankfurt bank (SMH) was rescued from insolvency by other banks following an unusually large lending exposure to IBH, the world's third largest construction equipment company, which a few days later applied for court protection from its creditors; other factors were continued strong opposition to planned nuclear missile deployments and uncertainties about the Cabinet composition following formal lodging of corruption charges against a senior Minister. The Bundesbank intervened steadily during the month and reportedly sold over $400 million at the fixings in Frankfurt and on the open market. The spread in the narrow band of the EMS in the New York market, 1/ frequently exceeded the 2.25 percent limit maintained in member markets.

1/ Measured as the percentage margin of the strongest currency relative to its ECU central parity compared with the weakest currency relative to its ECU central parity.

The Italian lira remained the strongest currency in the EMS and weakened the least against the U.S. dollar; the Bank of Italy bought small amounts of U.S. dollars and Deutsche mark during the month at the fixings in Milan. The spread of the lira over the Belgian franc widened from 4.64 percent at the end of October to 4.92 percent at the end of November; the lira is allowed a maximum margin of 6.0 percent above (below) the weakest (strongest) currency in the EMS exchange arrangements. Over the month of November the EMS currencies eased by 2.17-2.77 percent against the U.S. dollar and 0.59-1.49 percent in effective (MERM) terms.

The range within which major currencies were traded in November widened for all currencies except the Swiss franc and the pound sterling (see Table 2). The widening of the trading range reflected mainly the weakening trend of most of these currencies against the U.S. dollar rather than irregular exchange rate patterns displayed in the preceding month. The widest range was recorded by the Austrian schilling (2.8 percent) while the narrowest range continued to be recorded by the Canadian dollar (0.6 percent). The average of absolute daily percentage changes (MAC in Table 2), however, declined for most currencies from October reflecting the less erratic behavior of exchange rates during November. For the EMS currencies (and the Austrian schilling) the MAC returned to about the 0.33 percentage point level displayed in September from about the 0.45 percent level in October. The MAC measure also declined for other currencies, except the Canadian dollar and the pound sterling.

Changes in gross foreign exchange reserves in November were influenced largely by intervention activities and official borrowings. Germany's reserves loss was $310 million, less than the reported $400 million intervention by the Bundesbank. Italy recorded a reserve gain in excess of $500 million and was a steady buyer of small amounts of dollars and Deutsche mark at the fixings in Milan. The Governments of Belgium, Denmark, Ireland, and Sweden were all active borrowers on the euro-bond and/or euro-credit markets during the month, but changes in their official reserves were not large. Switzerland's reserves grew by nearly $500 million following a loss of nearly $900 million in October. Other notable reserve movements were recorded by Canada and Japan for which reserve declines were in excess of $250 million. Over the past 12 months, the largest reserve gains were recorded by France, Italy, Denmark and Japan while the largest reserve losses were recorded by the United States and the United Kingdom.

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

	November 2/		High-low spread in percent 3/		MAC 4/	
	High	Low	Oct.	Nov.	Oct.	Nov.
Belgium	53.715	55.125	2.1	2.6	0.44	0.31
Denmark	9.5420	9.8025	2.2	2.7	0.48	0.35
France	8.0450	8.2530	1.8	2.6	0.41	0.32
Germany	2.64495	2.71485	2.5	2.6	0.47	0.36
Ireland	1.1735	1.1442	2.2	2.6	0.41	0.37
Italy	1604.5	1644.5	2.1	2.5	0.39	0.32
Netherlands	2.9635	3.0425	2.3	2.7	0.42	0.34
Austria	18.6445	19.1600	2.6	2.8	0.48	0.36
Canada	0.81110	0.80616	0.3	0.6	0.04	0.06
Japan	232.45	236.95	1.5	1.9	0.33	0.29
Norway	7.4000	7.5275	1.7	1.7	0.30	0.23
Sweden	7.8375	7.9835	1.5	1.9	0.29	0.22
Switzerland	2.1500	2.1857	2.7	1.7	0.42	0.40
United Kingdom	1.49125	1.4600	2.3	2.1	0.28	0.29

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 November 1983 1/

(In millions of U.S. dollars)

	End-month reserve level	Change in November	Change over 12 months
Belgium	3,843	-94	+727
Denmark	3,811	+163	+2,007
France (October)	18,702	+71	+7,524
Germany	37,969	-310	-668
Ireland	2,458	-15	+335
Italy	18,335	+582	+6,536
Netherlands	8,707	-23	+938
Austria	3,849	-205	-424
Canada	3,058	-254	+589
Japan	20,161	-283	+1,012
Norway (October)	5,880	+501	-768
Sweden	3,515	+232	+380
Switzerland	12,186	+491	-838
United Kingdom	8,776	-192	-1,838
United States	6,914	-38	-3,826

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 firmed relatively sharply in November, principally on safe-haven buying in the face of continued geopolitcal tensions and expectation that U.S. interest rates would continue to rise. The dollar firmed 1.46 percent in effective (MERM) terms and 0.83 percent against the SDR. The economic recovery continued to be stronger than generally expected. The index of leading economic indicators rose 0.8 percent in October for the 14th consecutive monthly gain. The civilian unemployment rate in November declined to 8.4 percent from 8.8 percent in October. The index of industrial production, seasonally adjusted, increased 0.8 percent in November for a 15.9 percent year-on-year rise. The seasonally adjusted trade deficit widened, however, to a record $8.97 billion in October from $5.81 billion in September; the previous record high was $7.19 billion in August. The current account deficit, seasonally adjusted, for the third quarter widened to $12 billion from $9.7 billion in the second quarter. The budget deficit in October, the first month of the 1983-84 fiscal year, narrowed to $25 billion from $26 billion a year earlier; the deficit in FY 1983, however, was equivalent to over 6.0 percent of GDP. The inflation rate remained low with the producer price index falling 0.2 percent in November and only 0.7 percent higher year-on-year.

The Deutsche mark was under considerable pressure during November because of unsettling domestic events. These included the SMH/IBH affair (which induced doubts about the lending practices of many banks), corruption charges against a senior Minister, and protests over impending nuclear missile deployments. Despite intervention by the Bundesbank, estimated at about $400 million, the Deutsche mark eased 2.50 percent against the U.S. dollar and 1.12 percent in effective (MERM) terms. Real GNP in the third quarter rose 1.7 percent from the third quarter of 1982. The unemployment rate in November, however, increased to 8.8 percent from 8.7 percent in October. Industrial production, seasonally adjusted, was unchanged in October; for the September-October period, production was 3.5 percent higher over the same months of 1982. The current account balance swung into a surplus in October of DM 2.9 billion from an upward revised deficit of DM 837 million in September; the surplus widened from that of DM 1.12 billion recorded in October. The wholesale price index in November rose 0.8 percent over the month and 0.7 percent year-on-year while the producer price index rose 0.2 percent and was up 1.4 percent over November 1982.

The French franc remained at or near the top of the narrow EMS band throughout November, but eased 2.33 percent against the U.S dollar and 1.31 percent in effective (MERM) terms. The Bank of France's intervention to sustain the francs' position in the EMS in recent months reportedly switched late in November to support for the Deutsche mark and the Belgian franc against its own currency. The Bank of France also lowered its official interest rates. Price controls were extended through 1984 with the target rate of annual inflation for the year set at 5.0 percent. The number of persons unemployed in November rose by a seasonally adjusted 3.1 percent and the unemployment rate was 8.9 percent in October. Industrial production, seasonally adjusted, declined 1.6 percent in October over and above a decline of 1.5 percent in September but was unchanged year-on-year. The current account in the third quarter swung into a seasonally adjusted surplus of F 2.4 billion from a deficit of F 7.6 billion in the second quarter. The trade deficit in November, however, widened to a seasonally adjusted F 1.6 billion from F 0.9 billion in October. The index of industrial wholesale prices rose 0.6 percent in October and was up 13.6 percent year-on-year.

The Belgian franc eased 2.44 percent against the U.S. dollar and 0.59 percent in effective (MERM) terms and remained the weakest currency in the EMS despite a one percentage point increase in the discount and Lombard rates, to 10 percent and 11 percent respectively, and Parliamentary approval of a 1984 budget which included reducing the deficit to the equivalent of 11.5 percent of GNP compared with an estimated 12.8 percent in the current year. The divergence indicator for the franc remained noticeably below its lower threshold and the discount of the financial franc from the commercial franc widened somewhat. Intervention by the National Bank of Belgium increased to about BF 25 billion from about BF 18 billion in October. Industrial output in September rose 9.3 percent from August but fell by 2.2 percent from the level of September 1982. The unemployment rate at the end of November declined to 12.1 percent from 12.3 percent at the end of October. The wholesale price index rose 0.1 percent in October and was up 7.8 percent year-on-year.

The Netherlands guilder eased by 2.56 percent against the U.S. dollar and 0.72 percent in effective (MERM) terms. Industrial production in October rose a seasonally adjusted 2.9 percent (after falling 4.3 percent in September) but was unchanged year-on-year. The unemployment rate in October rose to 17.6 percent from 16.7 percent in September. The trade balance swung into a deficit in October of f. 100 million from a surplus of f. 700 million in October 1982 and f. 1.1 billion in September 1983. The producer price index for consumer and investment goods rose 0.1 percent in October for a 2.1 percent year-on-year rise.

The Danish krone depreciated the most among the EMS currencies in November following the discount rate cut in late October; it eased 2.77 percent against the U.S. dollar and 1.49 percent in effective (MERM) terms. The Danish krone occasionally rose early in the month to the top of the narrow band of the EMS parity grid. The Government announced that from the start of 1984, Danish residents would be free from restrictions on investments abroad in stocks and bonds. The unemployment rate, seasonally adjusted, was unchanged at 10.7 percent in October. The trade deficit narrowed to DKr 390 million in October from DKr 456 million in September and DKr 395 million in October 1982. The wholesale price index rose 0.5 percent in October for a 4.9 percent year-on-year rise.

The Irish pound eased 2.46 percent against the U.S. dollar and 1.38 percent in effective (MERM) terms. The Irish pound was at the top of the EMS narrow band on two occasions in November. The Central Bank of Ireland lowered its minimum rediscount rate to 11.5 percent from 12.2 percent. The trade deficit, seasonally adjusted, narrowed in November to £Ir 58.5 million from £Ir 106.2 million in October.

The Italian lira eased 2.17 percent against the U.S. dollar and 0.61 percent in effective (MERM) terms. The lira remained the strongest currency in the EMS in terms of ECU central parities. Legislation was proposed to liberalize certain tight controls on capital outflows imposed in 1976 which are now considered unnecessary since high domestic interest rates are encouraging capital repatriation. The Department of the Treasury publicized the IMF recommendation that the Parliament substantially increase its efforts to reduce the budget deficit. Real GDP in the third quarter rose by 0.9 percent but was down 0.4 percent year-on-year. Industrial production, seasonally adjusted, fell 1.3 percent in October but was 0.6 percent higher year-on-year. The trade deficit narrowed in October to Lit 222 billion from Lit 1,760 billion in September and Lit 1,124 billion in October 1982, mainly due to a surge in exports. The wholesale price index rose 1.0 percent in October and 9.5 percent year-on-year.

The pound sterling eased 2.14 percent against the U.S. dollar and 0.62 percent in effective (MERM) terms. The Chancellor of the Exchequer announced that the budget deficit for the present fiscal year would be about £10 billion compared with about £8 billion planned at the start of the year; the deficit for the fiscal year 1982/83 was £9.22 billion. The indices of leading economic indicators gave mixed signals; the indicator for the six-month horizon rose 0.5 percent while that for the 12-month horizon declined 1.2 percent. Real GDP in the third quarter rose 0.8 percent and 2.8 percent over the same period of 1982. The unemployment rate, seasonally adjusted, was unchanged in November at 12.3 percent. The index of industrial production declined 0.5 percent in October but rose 1.9 percent year-on-year. The current account, seasonally adjusted, swung into a deficit in October of £269 million from a surplus of £270 million in September due mainly to a surge in imports; the surplus for the first nine months of 1983 was revised from £670 million to £1.1 billion to reflect a marked revision in the invisibles balance. The index of producer output prices rose 0.4 percent in November for a 5.7 percent year-on-year rise.

The Swiss franc eased 0.87 percent against the U.S. dollar but firmed 0.22 percent in effective (MERM) terms as a result of larger depreciations in the currencies of its major trading partners. The unemployment rate in November rose to 0.9 percent from 0.8 percent in October. Real GDP in the third quarter rose 0.3 percent over the same period of 1982. The trade deficit in November narrowed to Sw F 444 million from Sw F 499 million in October and was essentially unchanged from November 1982. The wholesale price index rose 0.3 percent in November and 0.9 percent year-on-year.

The Japanese yen firmed 0.67 percent against the U.S. dollar and 0.95 percent in effective (MERM) terms. Following the cut in the discount rate late in October, the Bank of Japan intervened fairly heavily on October 31 and in early November; some yen purchases were also made by the U.S. Federal Reserve in New York. Following U.S. President Reagan's visit in early November several proposals were announced to free certain financial transactions in yen, including the abolition from April 1, 1984, of the rule restricting forward exchange transactions only to the covering of actual trade contracts. The continuing favorable external trading situation also aided the yen; the trade surplus in November widened to a seasonally adjusted $1.994 billion from $1.413 billion in October but the current account surplus, seasonally adjusted, narrowed to $1.558 billion in October from $1.964 billion in September. Real GNP rose 1.5 percent in the third quarter following a rise of 1.1 percent in the previous quarter. The index of industrial production, seasonally adjusted, declined 0.6 percent in October but rose 8.7 percent year-on-year. The index of wholesale prices rose 0.1 percent in November but was down 3.7 percent year-on-year.

The Canadian dollar eased 0.53 percent against the U.S. dollar and was marginally firmer in effective (MERM) terms. The budget deficit for the first half of the fiscal year widened to Can$15.21 billion from Can$10.65 billion in the same period a year earlier. The industrial production index rose a seasonally adjusted 0.6 percent in October after rising 1.8 percent in September and was 16 percent above its December 1982 low. Real GDP rose a seasonally adjusted 0.3 percent in October for a 6.2 percent year-on-year rise. The unemployment rate in November was, however, unchanged at a seasonally adjusted 11.1 percent. The trade surplus in October narrowed to a seasonally adjusted Can$1.11 billion from Can$1.17 billion in September; this was the sixth consecutive monthly narrowing of the surplus.

The Austrian schilling continued to trade in close alignment with the EMS currencies; it eased 2.67 percent against the U.S. dollar and 1.49 percent in effective (MERM) terms. The Norwegian krone eased 1.47 percent against the U.S. dollar and 0.21 percent in effective (MERM) terms. The Swedish krona eased 1.68 percent against the U.S. dollar and 0.39 percent in effective (MERM) terms.

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

Monetary and credit conditions in most major countries appeared to have either tightened somewhat or remained unchanged in November, with policies aiming mainly at sustaining economic growth without rekindling inflation.

In the United States, short-term interest rates firmed, attributed mainly to the continued concern over massive budget deficits coupled with the bunching of Treasury borrowings in December as a result of congressional delays in raising the Treasury debt ceiling, and little prospect of either a congressional or an Administration initiative to reduce the deficit by a substantial margin. The three-month bond-equivalent yield on Treasury bills firmed by 0.41 percentage point to 9.24 percent at the end of November. The 90-day CD rate firmed less sharply by 0.10 percentage point to 9.31 percent. The federal funds rate, in the meanwhile, averaged 9.27 percent in the last week of November, down from 9.36 percent in the last week of October. The prime lending rate remained unchanged at 11.0 percent. M1 rose slightly to $518.2 billion in November from $517.9 billion in October and, in the 13-week period ended November 30, it increased at a modest annual rate of 2.5 percent from the preceding 13 weeks. M2 increased to $2,176.1 billion in November from $2,162.0 billion in October and M3 rose to $2,588.7 billion from $2,562.0 billion.

Table 4. Inflation Rates and Short-Term Interest Rates

	Month 2/	Inflation rates 1/ (year-on-year percent changes) Wholesale price index		Consumer price index 3/		Short-term interest rates 4/ (end-of-month) Oct.	Nov.
Austria	June/Oct.	-1.5	(-3.0)	3.6	(3.6)	3.75	3.75
Belgium	Oct./Nov.	7.8	(7.8)	6.9	(6.5)	9.00	10.00
Canada	Sept./Nov.	5.0	(5.5)	4.2	(4.9)	9.20	9.35
Denmark	October	4.9	(4.9)	5.3	(6.0)	7.00	7.00
France	Oct./Nov.	13.5	(13.0)	9.9	(10.4)	12.42	12.29
Germany	November	0.7	(0.1)	2.6	(2.6)	6.27	6.49
Italy	Oct./Nov.	9.5	(9.5)	13.0	(13.3)	17.63	17.88
Japan	Nov./Oct.	-3.7	(-4.0)	1.4	(0.7)	6.38	6.38
Netherlands	Oct./Nov.	2.1	(2.1)	2.8	(2.5)	6.13	6.31
Norway	Sept./Nov.	2.1	(2.1)	7.0	( )	8.00	8.00
Sweden	October	11.0	(12.7)	8.9	(9.5)	8.50	8.50
Switzerland	November	0.9	(0.3)	1.8	(1.4)	4.19	4.19
United Kingdom	Oct./Nov.	5.5	(5.4)	4.8	(5.0)	9.04	9.04
United States	Sept./Nov.	1.4	(1.4)	3.6	(2.9)	8.83	9.24

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, the Netherlands, and Switzerland.

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.

Among the countries participating in the European Monetary System, Germany's short-term interest rates continued to firm, with the three-month interbank rate rising to 6.49 percent at the end of November from 6.27 percent at the end of October, despite concerns about the sluggish economic activity. The annualized rate of increase of the central bank money stock decelerated to 7 1/4 percent in November from 7 1/2 percent in October, in comparison with its average level in the fourth quarter of 1982 which is the base period for this year's target range of 4.0 to 7.0 percent. The Bank of France lowered the call money rate to 11 3/4 percent by one-fourth of a percentage point in two steps, on November 28 and 29. Following this, the bank cut its money market intervention rate to 12 percent from 12 1/4 percent and its seven-day Treasury bill discount rate to 12 1/4 percent from 12 5/8 percent with effect from November 30; the latter represents, in effect, the central bank's minimum lending rate because banks acquire short-term funds by selling bills to the central bank on a seven-day repurchase agreement. The move was taken in order to encourage banks to reduce their base lending rates which stood at 12 1/4 percent and to stimulate investment. The Bank benefited from the French franc's relative stability within the EMS although it fell to a record low against the U.S. dollar. The short-term interest rates eased with the three-month interbank rate at 12.29 percent at the end of November, 0.13 percentage point lower than its level a month earlier. The National Bank of Belgium raised its discount and Lombard rates by 1.0 percentage point to 10 percent and 11 percent, respectively, with effect from November 24. The Bank also raised the rates on one-, two-, and three-month Treasury bills by 1.0 percentage point to 10.3 percent, 10.5 percent, and 10.5 percent respectively. The measure was mainly attributed to the weakness of the franc within the EMS.

Sterling M3, the broadly defined money supply of the United Kingdom, increased by a seasonally adjusted £610 million or 0.6 percent in the banking month ended November 16, compared with an increase of 1.5 percent in October and a decrease of 0.4 percent in September. M1 increased by 0.6 percent in November following an increase of 1.5 percent in October and Public Sector Liquidity 2 also rose by 0.6 percent, compared with a rise of 1.0 percent in October. Over the nine-month period since mid-February, sterling M3 grew at an annual rate of 10.5 percent, M1 at 12.2 percent, and PSL 2 at 12.1 percent; the target annual rate of increase for each of the three aggregates is a 7-11 percent during the 14 months from mid-February 1983 to mid-April 1984.

The Bank of Japan reintroduced a short-term yen lending system on November 16, to enable Japanese importers to borrow yen funds from the Bank at the discount rate (5 percent at present) through foreign exchange banks, who will charge an additional fee. This measure constitutes a part of the package of measures approved by the Government in October to stimulate domestic demand and imports.

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

	Uncovered interest differentials 1/ (1)		Forward exchange quotations 2/ (2)		Covered interest differentials 1/ (3) = (1)-(2)	
	Oct.	Nov.	Oct.	Nov.	Oct.	Nov.
France	-2.67	-2.48	-2.75	-3.00	+0.08	+0.52
Germany	+3.48	+3.32	+3.96	+3.72	-0.48	-0.40
Italy	-7.88	-8.07	-7.06	-7.44	-0.82	-0.63
Japan	+3.37	+3.43	+3.46	+2.91	-0.09	+0.52
Netherlands	+3.63	+3.50	+3.65	+3.75	-0.02	-0.25
United Kingdom	+0.71	+0.77	+0.49	+0.63	+0.22	+0.16

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 the discount rate for two-month private bills is used and for the United Kingdom, the three-month Treasury bill rate.

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

In the euro-currency markets, the three-month euro-dollar interest rates firmed by 0.06 percentage point. As a result, the uncovered interest differentials favoring domestic investment narrowed for France, but widened for Italy. Those favoring euro-dollar investment widened for Japan and the United Kingdom but narrowed for Germany and the Netherlands.

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

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

The SDR interest rate rose to 8.60 percent in the week beginning November 28, compared with 8.47 percent in the week beginning October 31, reflecting higher interest rates on the relevant instruments in the United States, Germany, and France, which firmed by 0.16, 0.20, and 0.13 percentage points, respectively, while those in the United Kingdom and Japan were unchanged between the end of October and the end of November. The rate of remuneration paid on creditor positions in the Fund (85 percent of the SDR interest rate) increased, accordingly, to 7.31 percent in the last week of November from 7.20 percent in the last week of October.

Table 6. The SDR Interest Rate and the Rate of Remuneration 1/

	Oct. 31	November 7	November 14	November 21	November 28
SDR interest rate	8.47	8.59	8.56	8.63	8.60
Rate of remuneration	7.20	7.30	7.28	7.34	7.31

1/ The rate pertains to the week beginning on the date indicated above.

As shown in Appendix B, the monthly average of interest rates on domestic instruments for currencies included in the SDR basket firmed by 0.11-0.14 percentage point in the United States and Germany, while those in the United Kingdom, France, and Japan eased by 0.03-0.31 percentage point during November. As a result, the average combined market interest rate firmed slightly to 8.57 percent in November from 8.54 percent in October.

The combined domestic interest rates for maturities ranging from three months to 12 months firmed by 0.06-0.15 percentage point from the end of October to the end of November, reflecting higher interest rates on the relevant instruments in the United States and Germany, which firmed by 0.12-0.24 percentage point and 0.10-0.28 percentage point respectively, partly offset by declines of 0.06-0.13 percentage point and 0.13-0.40 percentage point, respectively, in France and Japan; those in the United Kingdom were unchanged. However, the combined market rate for the five-year maturity eased by 0.12 percentage point during November reflecting lower interest rates on most of the relevant instruments which eased by 0.04-0.47 percentage point, except for that in Germany which firmed by 0.12 percentage point. The combined domestic rate displayed a rising yield curve moving up from 8.64 percent on the three-month maturity, through 8.88 percent and 9.25 percent on the six- and twelve-month maturities, respectively, to 10.44 percent on the five-year maturity.

The combined euro-currency interest rates for three, six, and twelve months firmed by 0.12, 0.16, and 0.11 percentage points, respectively, to 9.06 percent, 9.24 percent, and 9.51 percent at the end of November. This reflected higher euro-dollar, euro-Deutsche mark, and euro-yen interest rates which firmed by 0.13-0.50 percentage point, partly offset by lower euro-sterling and euro-French franc rates which eased by 0.06-1.00 percentage point between the end of October and the end of November.

Average interest rates on SDR-denominated deposits of selected commercial banks firmed by 0.15-0.30 percentage point during November. The deposit rates displayed a rising yield curve moving up from 8.80 percent on one-month deposits through 8.90 percent and 9.06 percent on three- and six-month deposits, respectively, to 9.35 percent on twelve-month deposits. Yields on SDR-denominated bonds quoted on the Luxembourg Stock Exchange eased slightly between the end of October and the end of November. The current yield ranged from 8.79 percent to 11.41 percent with the average current yield easing by 0.02 percentage point to 9.75 percent at the end of November. The yield to maturity ranged from 9.90 percent to 13.21 percent, with the average yield to maturity easing by 0.05 percentage point to 11.17 percent.

Table 7. Yields on Alternative SDR-Denominated Assets 1/

	October	November
Combined market interest rates 2/		
Based on domestic rates		
3-month maturity (Rule T-1)	8.49	8.64
6-month maturity	8.81	8.88
12-month maturity	9.19	9.25
5-year maturity	10.56	10.44
Based on euro-currency rates		
3-month maturity	8.84	9.06
6-month maturity	9.08	9.24
12-month maturity	9.40	9.51
Average commercial bank deposit rates 3/		
1-month deposits	8.50	8.80
3-month deposits	8.70	8.90
6-month deposits	8.91	9.06
12-month deposits	9.14	9.35
Bonds quoted on the Luxembourg Stock Exchange 4/		
Average current yield	9.77	9.75
Average yield to maturity	11.22	11.17

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 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). 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.

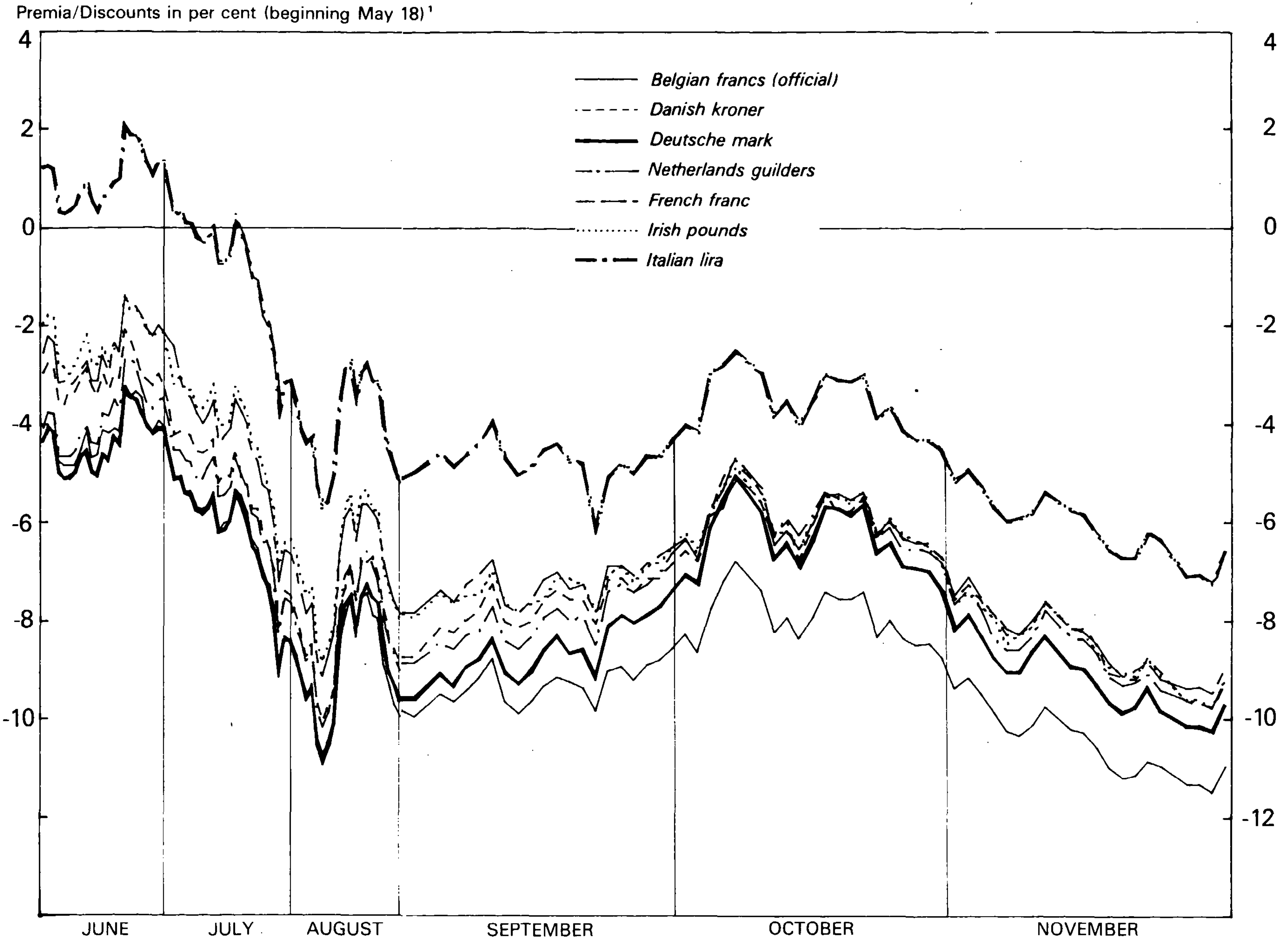
3/ Average of rates quoted by selected commercial banks.

4/ Maturity dates for these issues range from 1984 to 1989.

CHART 1

SPOT EXCHANGE RATES: EUROPEAN MONETARY SYSTEM

(Based on noon quotations in New York)



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

CHART 2

EUROPEAN MONETARY SYSTEM: DIVERGENCE INDICATORS

(Based on noon quotations in London)

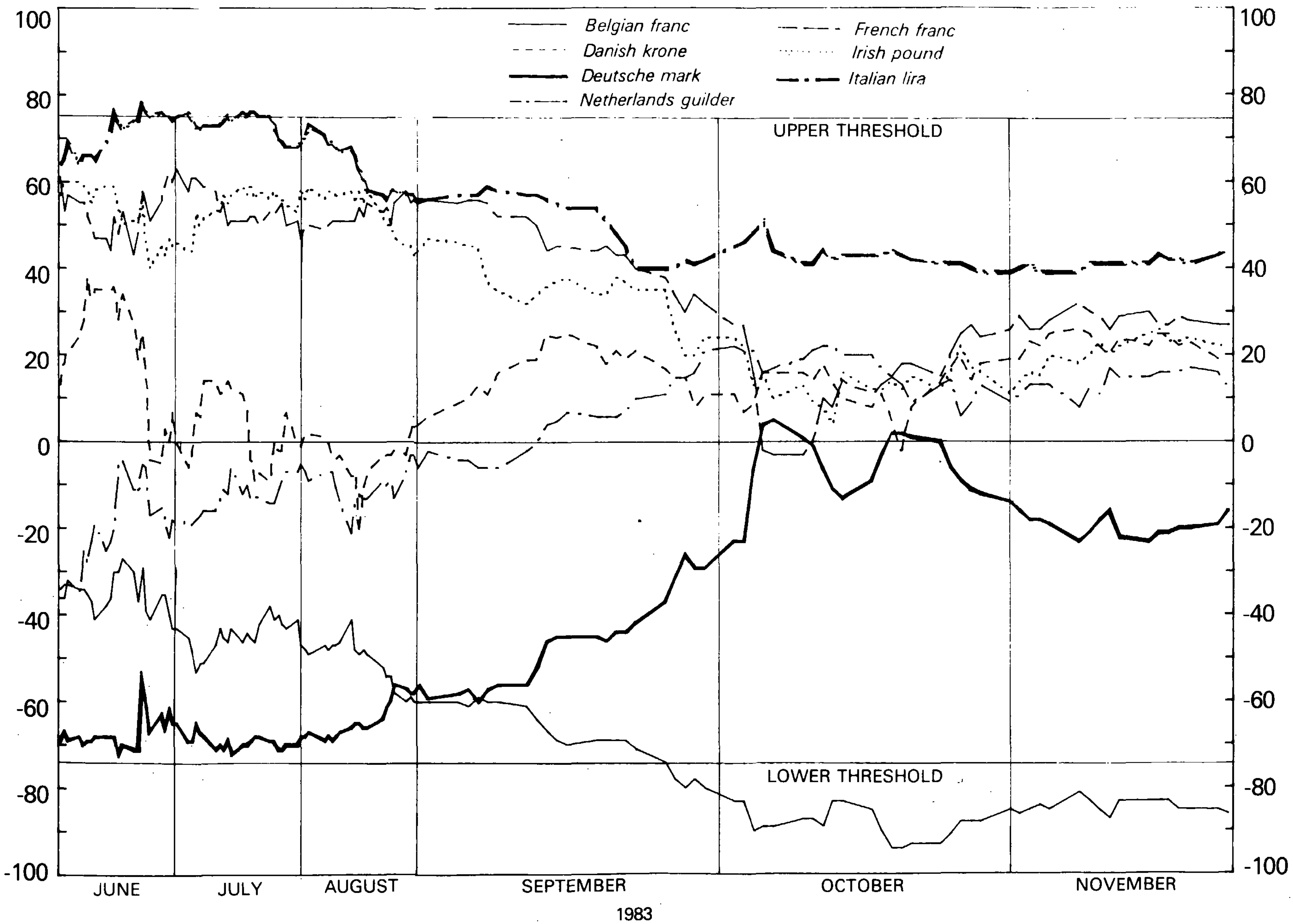


CHART 3

SPOT EXCHANGE RATES

(Noon quotations in New York)

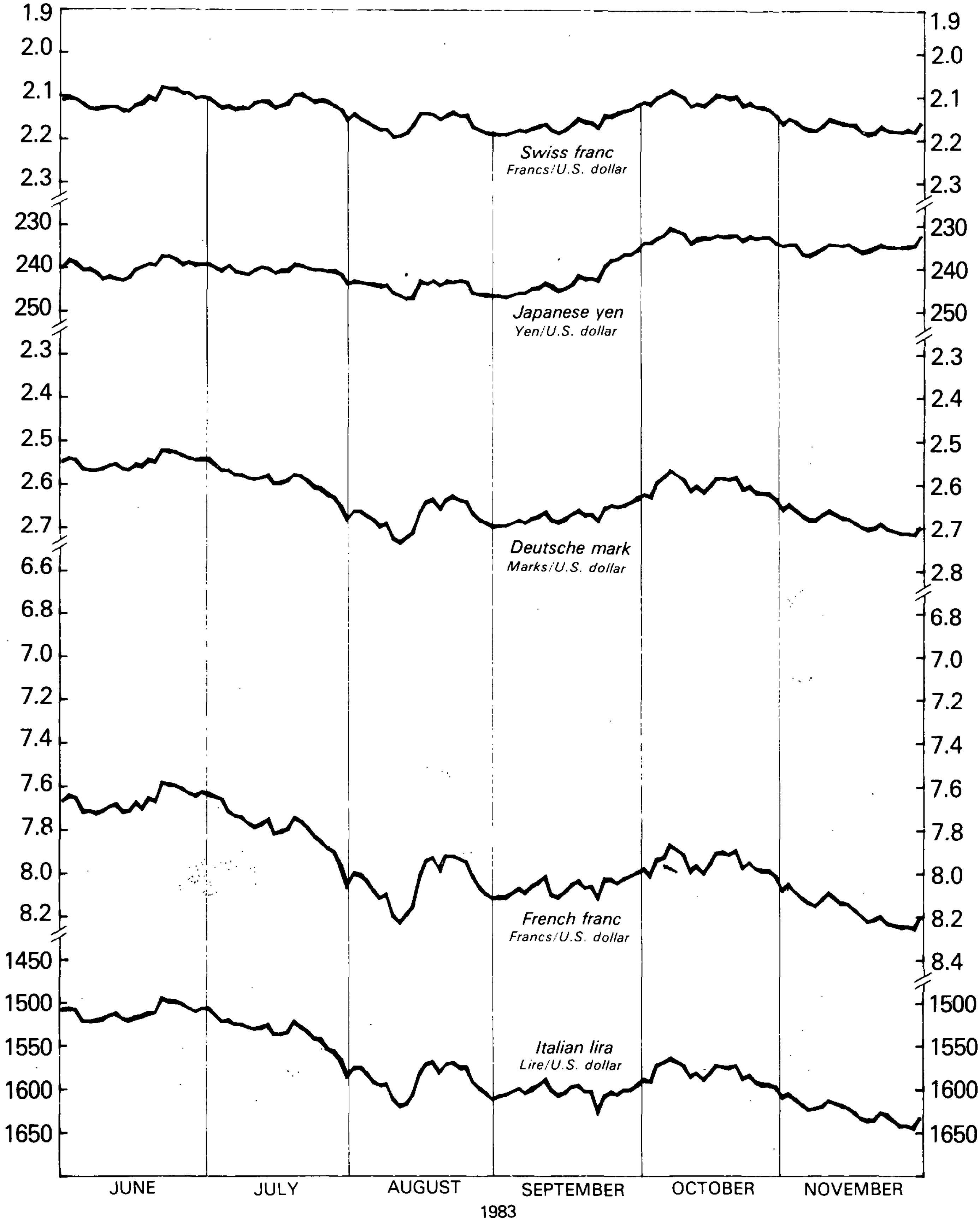


CHART 4

SPOT EXCHANGE RATES

(Noon quotations in New York)

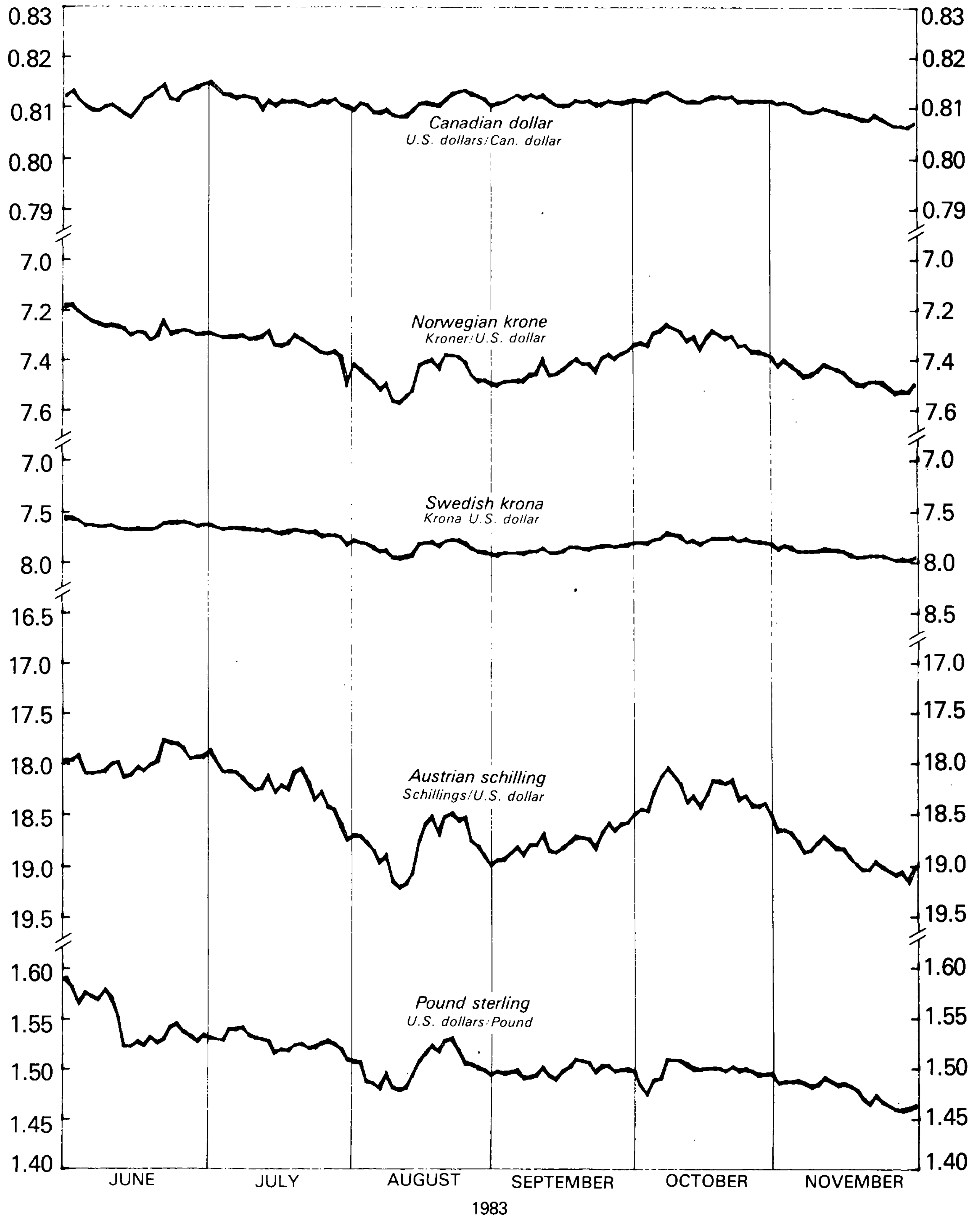
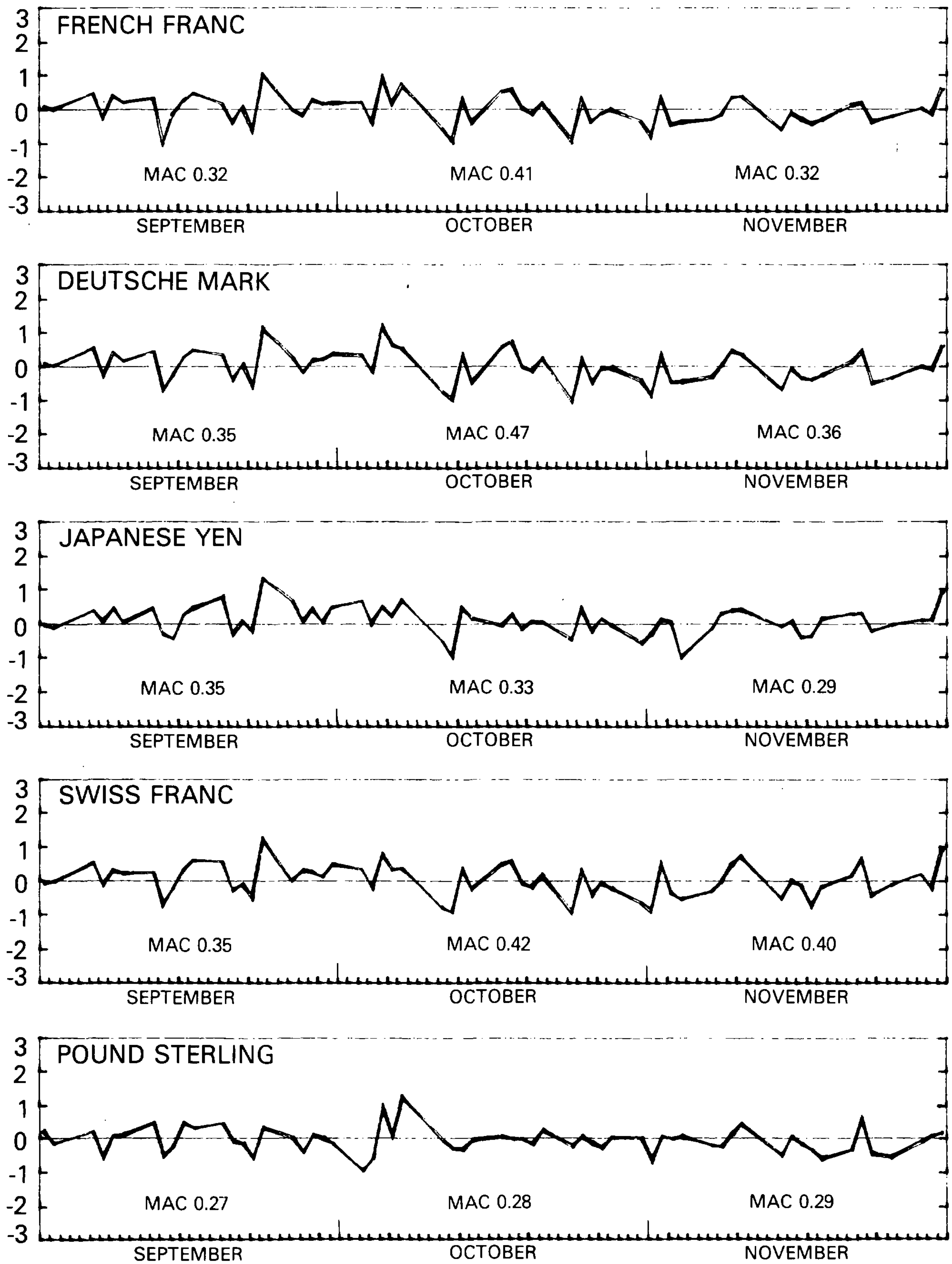


CHART 5

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 - NOV. 1983

(June 28, 1974=100)

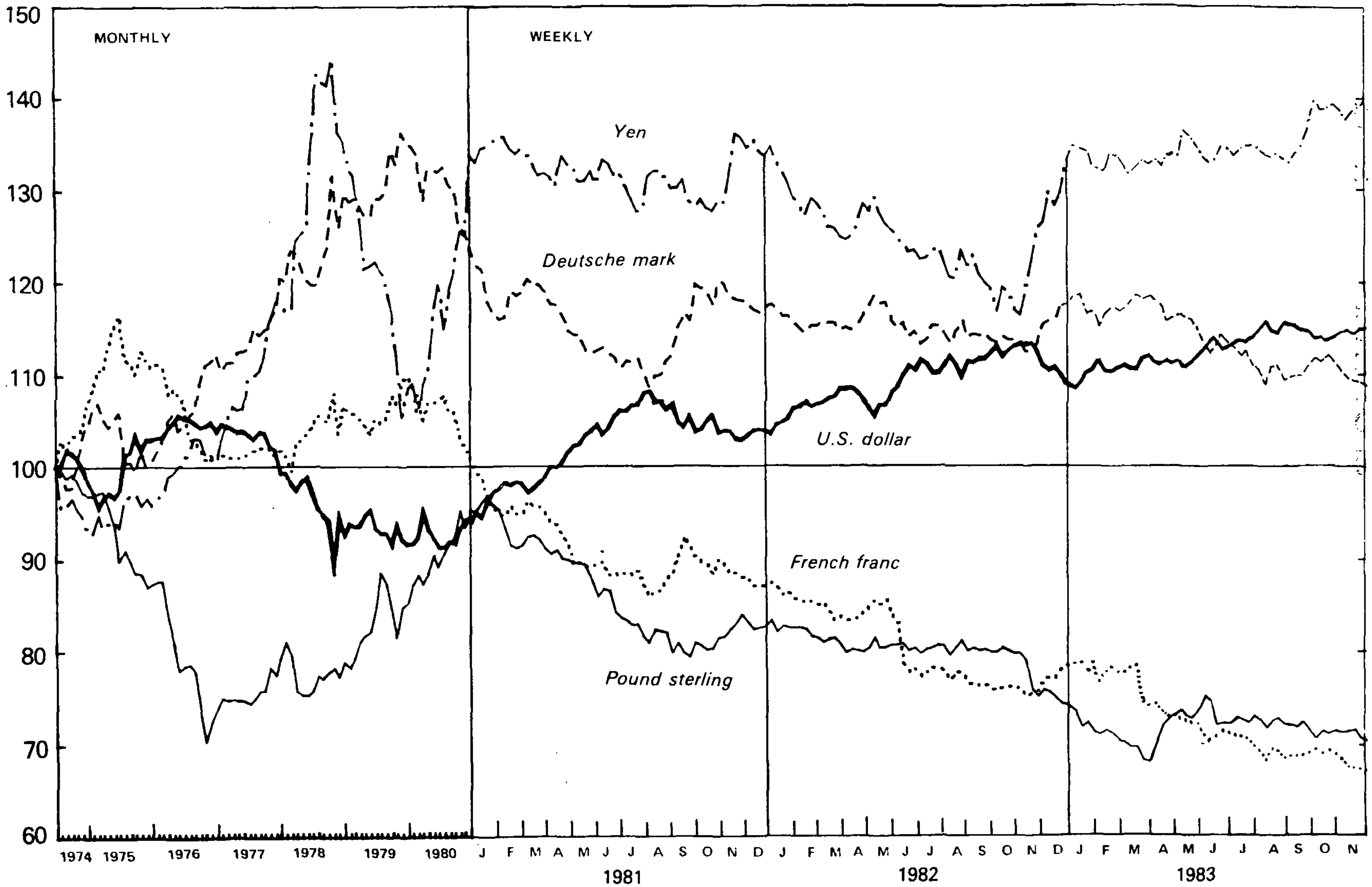
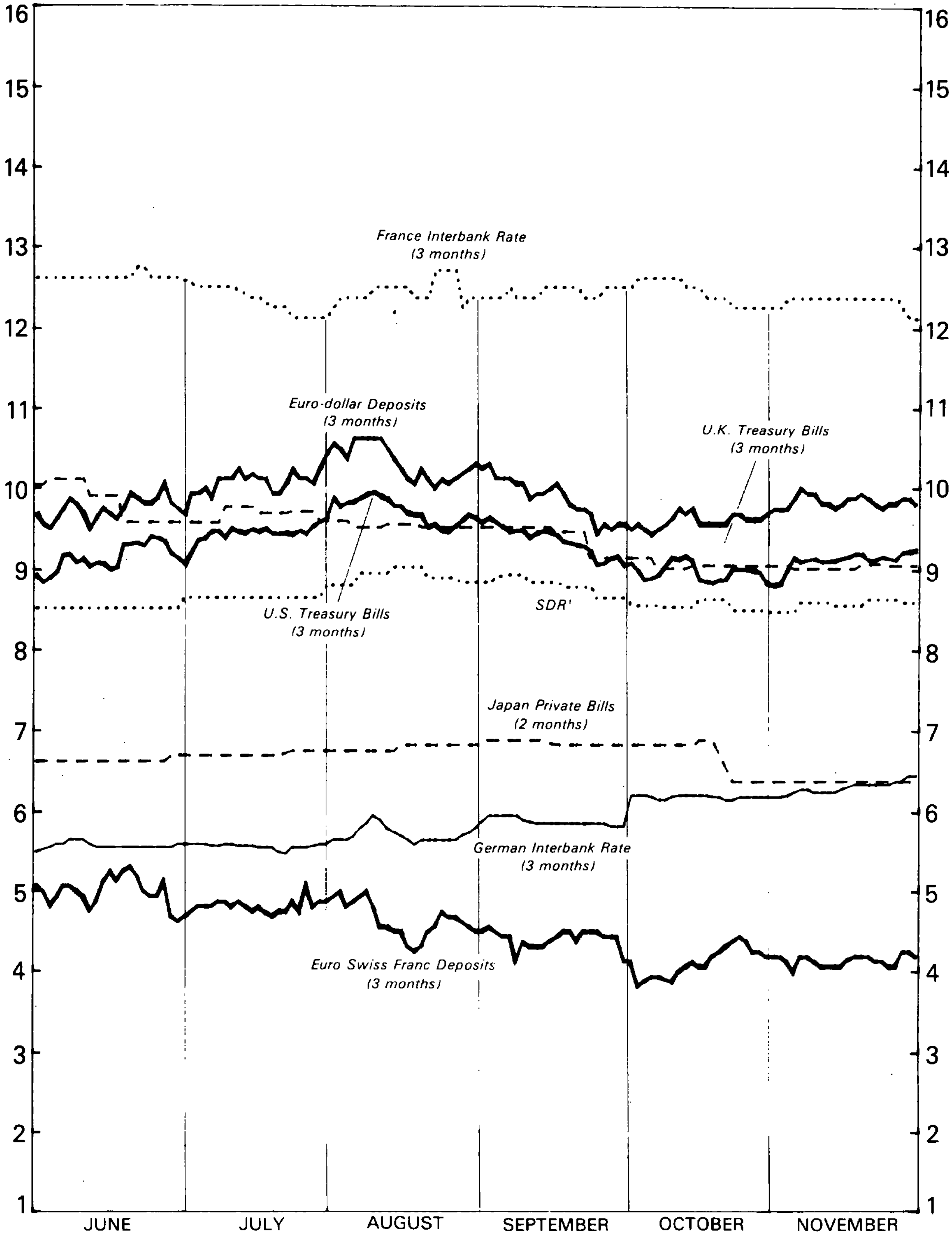


CHART 7

SHORT-TERM MONEY MARKET RATES

(Per cent per annum)



[1]The 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)

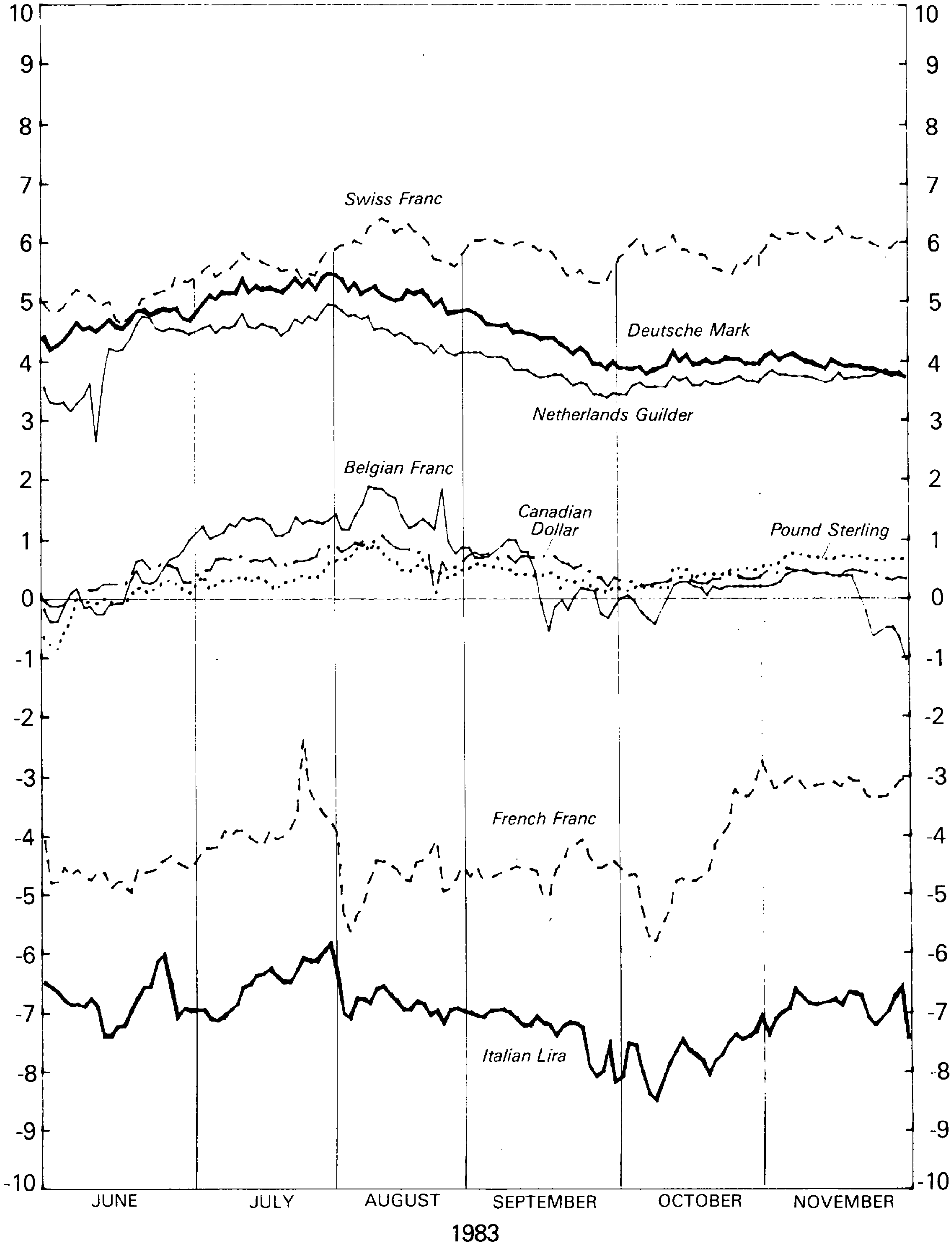
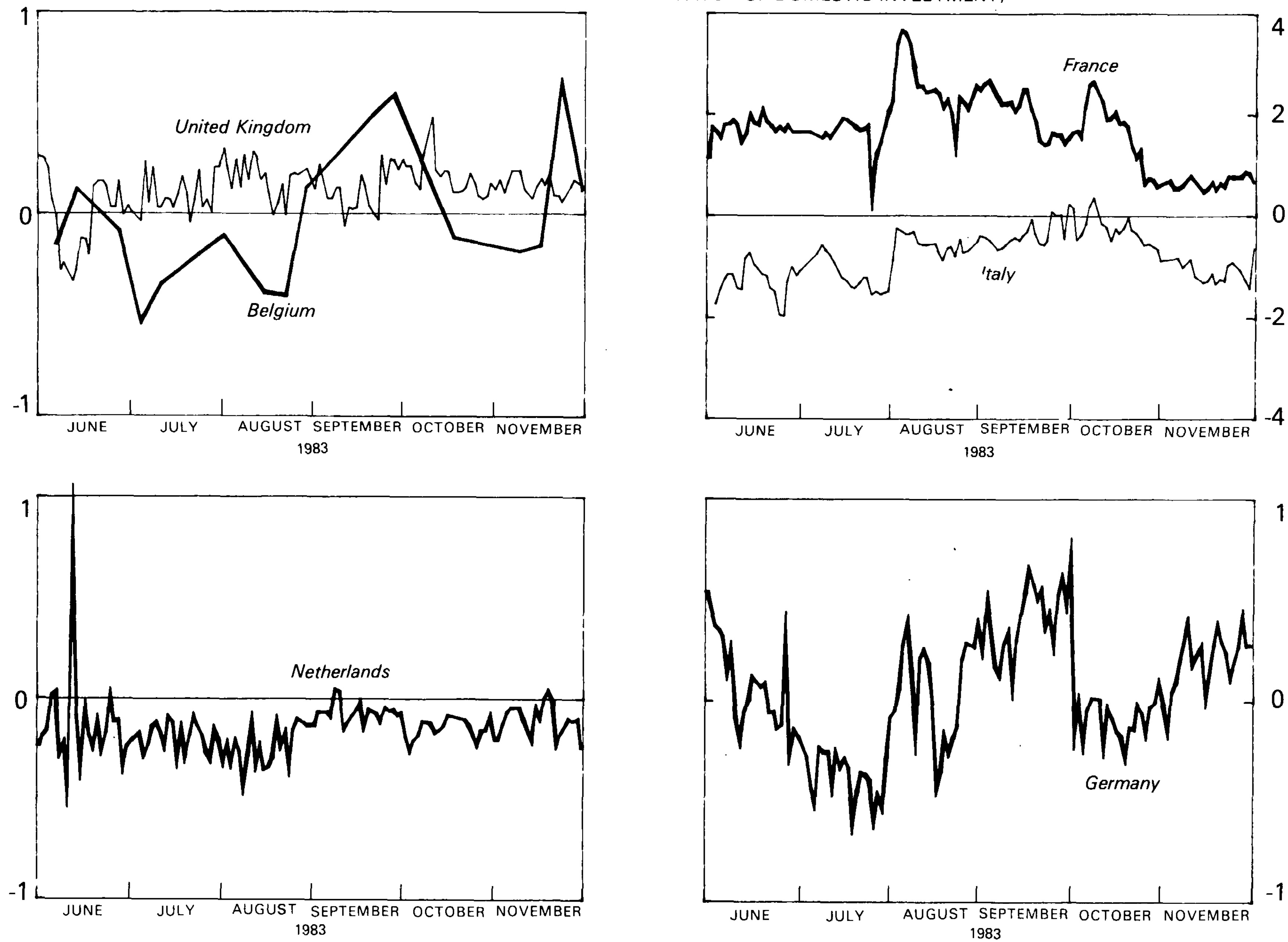


CHART 9

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, October–November 1983 1/

	October				November				
	5	12	19	26	2	9	16	23	30
Austrian schilling	18.2850	18.3725	18.1735	18.4075	18.6445	18.7750	18.9175	19.0100	19.0125
Belgian franc									
Official	52.905	53.200	52.810	53.270	53.715	54.300	54.585	54.815	54.815
Financial	53.975	54.125	53.725	53.875	54.575	54.855	54.745	55.525	55.425
Canadian dollars	0.81222	0.81113	0.81225	0.81136	0.81110	0.80945	0.80867	0.80802	0.80707
Danish kroner	9.3940	9.4365	9.3950	9.4505	9.5420	9.6250	9.6700	9.7275	9.7550
Deutsche mark	2.59550	2.61300	2.58450	2.61715	2.64495	2.66700	2.68625	2.70200	2.69850
French francs	7.9365	7.9885	7.9012	7.9760	8.0450	8.1200	8.1645	8.2275	8.2025
Irish pounds	1.1937	1.1885	1.1980	1.1885	1.1735	1.1650	1.1585	1.1525	1.1515
Italian lire	1572.000	1586.500	1574.500	1591.500	1604.500	1619.500	1626.500	1628.750	1633.000
Japanese yen	232.850	234.230	232.600	232.900	234.425	235.350	235.375	235.000	232.450
Netherlands guilder	2.9123	2.9298	2.9058	2.9385	2.9635	2.9948	3.0055	3.0305	3.0240
Norwegian kroner	7.2920	7.3225	7.2975	7.3645	7.4000	7.4425	7.4750	7.4875	7.4950
Pounds sterling	1.4893	1.5045	1.5006	1.4983	1.4874	1.4845	1.4832	1.4678	1.4634
Swedish kroner	7.7745	7.8035	7.7585	7.7940	7.8375	7.8900	7.9300	7.9400	7.9575
Swiss francs	2.10075	2.12250	2.09900	2.12250	2.15000	2.16700	2.16600	2.17800	2.16100

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.
		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)	Treasury 5/ Securities (15)
1982																
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	5.65	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
Aug.		9.72	5.79	9.56	12.62	6.80	8.93	10.35	5.47	9.86	15.22	6.67	4.66	10.82	10.89	11.63
Sept.		9.34	5.95	9.41	12.61	6.86	8.74	9.88	5.70	9.64	14.71	6.81	4.41	10.19	11.00	11.43
Oct.		8.97	6.27	9.06	12.62	6.69	8.54	9.60	5.80	9.37	14.29	6.51	4.13	9.78	11.00	11.28
Nov.		9.11	6.38	9.03	12.50	6.38	8.57	9.84	6.07	9.32	13.06	6.49	4.15	10.06	11.00	11.41
1982 Weekly																
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	4.30	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
July	1	9.22	5.65	9.58	12.80	6.67	8.64	9.84	5.25	9.73	14.43	6.55	4.82	10.14	10.50	10.80
	8	9.42	5.67	9.58	12.67	6.70	8.74	9.98	5.23	9.86	14.34	6.56	4.81	10.31	10.50	11.07
	15	9.46	5.67	9.78	12.61	6.70	8.77	10.17	5.21	9.92	14.19	6.58	4.83	10.64	10.50	11.22
	22	9.46	5.60	9.70	12.45	6.70	8.74	10.04	5.10	9.92	14.30	6.60	4.75	10.53	10.50	11.22
	29	9.50	5.64	9.72	12.29	6.76	8.76	10.16	5.14	9.92	13.73	6.59	4.88	10.68	10.50	11.39
Aug.	5	9.79	5.72	9.61	12.47	6.76	8.94	10.50	5.39	9.96	15.31	6.68	4.90	10.99	10.50	11.74
	12	9.91	5.94	9.54	12.62	6.76	9.05	10.60	5.75	9.92	15.58	6.69	4.77	11.13	10.71	11.89
	19	9.73	5.75	9.56	12.61	6.82	8.92	10.21	5.38	9.81	15.10	6.65	4.37	10.68	11.00	11.49
	26	9.52	5.73	9.53	12.85	6.83	8.83	10.09	5.33	9.77	14.93	6.65	4.64	10.51	11.00	11.34
Sept.	2	9.63	5.90	9.53	12.52	6.84	8.90	10.28	5.63	9.83	15.08	6.71	4.53	10.74	11.00	11.73
	9	9.50	6.02	9.53	12.58	6.89	8.85	10.10	5.68	9.72	14.94	6.79	4.35	10.50	11.00	11.53
	16	9.45	5.94	9.53	12.62	6.88	8.82	9.96	5.70	9.64	15.06	6.84	4.35	10.25	11.00	11.46
	23	9.30	5.93	9.40	12.62	6.83	8.72	9.79	5.71	9.64	14.49	6.90	4.48	10.06	11.00	11.37
	30	9.10	5.92	9.14	12.64	6.83	8.58	9.52	5.71	9.46	14.24	6.76	4.39	9.77	11.00	11.22
Oct.	7	8.95	6.27	9.12	12.78	6.83	8.56	9.50	5.81	9.47	14.68	6.71	3.94	9.69	11.00	11.15
	14	9.14	6.28	9.02	12.74	6.83	8.65	9.71	5.81	9.38	14.89	6.56	4.02	9.85	11.00	11.36
	21	8.86	6.27	9.04	12.57	6.89	8.50	9.56	5.76	9.28	14.35	6.43	4.17	9.75	11.00	11.20
	28	8.99	6.26	9.04	12.42	6.38	8.48	9.65	5.81	9.37	13.16	6.42	4.34	9.84	11.00	11.39
Nov.	4	8.92	6.28	9.04	12.50	6.38	8.46	9.75	5.89	9.31	13.23	6.42	4.14	9.94	11.00	11.42
	11	9.11	6.35	9.01	12.55	6.38	8.57	9.90	5.98	9.31	13.12	6.45	4.14	10.11	11.00	11.50
	18	9.15	6.38	9.02	12.55	6.38	8.60	9.85	6.14	9.34	13.05	6.44	4.13	10.06	11.00	11.42
	25	9.13	6.43	9.06	12.55	6.38	8.60	9.80	6.89	9.33	13.02	6.45	4.13	10.06	11.00	11.35

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-mongh 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.