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INTERNATIONAL MONETARY FUND

Treasurer's Department

Foreign Exchange and Financial Markets in January 1984

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Foreign exchange market activity in January continued to be focused mainly on the U.S. dollar which firmed strongly early in the month, then moved erratically in midmonth before stabilizing somewhat in quieter trading toward the end of January. Against the Deutsche mark, for example, the U.S. dollar firmed from DM 2.72375 at the end of December to DM 2.8285 on January 9 (based on noon quotations in New York), or 3.8 percent in five trading days, partly in a reaction to the easing of the dollar over the Christmas-New Year holiday period when many traders were absent from the market. The firmness of short-term U.S. interest rates early in January, due in part to end-of-year distortions, and temporary nervousness over the military coup in Nigeria were factors contributing to the strengthening of the U.S. dollar. The Bundesbank undertook considerable intervention in the period to January 12 (especially on January 9), selling over $500 million. There were unconfirmed reports of intervention by other central banks on January 9 but later that day central bankers at the Bank for International Settlements (BIS) monthly meeting said they had no plans for concerted intervention against the dollar. The dollar eased significantly on January 13 and, to a lesser extent, January 16 on the announcement of indicators that suggested U.S. economic growth was slowing and that the broad monetary aggregates in December were within the Federal Reserve's targets, both of which bolstered hopes of easing pressures on U.S. interest rates. This reversal of the trend, however, was not sustained and exchange rate movements were confined to a relatively narrow range through the end of the month. Over the month as a whole the dollar firmed 1.24 percent against the SDR and 1.81 percent in effective (MERM) terms (see Table 1). All major currencies eased against the dollar in January with the Canadian dollar easing the least (0.39 percent) and the Netherlands guilder easing the most (3.52 percent).

Relativities in the EMS parity grid were essentially unchanged again in January. The Belgian franc remained isolated at the bottom of the narrow band (see Chart 1) and its divergence indicator continued to be significantly below its lower threshold (see Chart 2). Intervention support for the Belgian franc by the National Bank of Belgium increased to about BF 18 billion from about BF 15 billion in December. As in December, the French franc, the Netherlands guilder, the Danish krone, and the Irish pound alternated positions at the top of the narrow band, while the Deutsche mark traded close to these currencies, supported in part by Bundesbank intervention. The spread in the narrow band of the parity grid 1/ in the New York market occasionally exceeded the 2.25 percent limit maintained in EMS member markets. The Italian lira remained the strongest currency in the EMS; the lira maintained a spread over the Belgian franc of between 4.76 and 5.38 percent during the month compared with a maximum permitted margin of 6.0 percent above (below) the weakest (strongest) currency in the EMS exchange arrangements. Over the month of January, the EMS currencies eased by 3.28-3.52 percent against the U.S. dollar and 0.93-1.50 percent in effective (MERM) terms.

Table 1. Changes in Exchange Rates in January 1984 1/
(In percent)

	Monthly exchange rate changes			Changes in effective exchange rate since January 1983 3/
	Against U.S. dollar 2/	Against SDR 3/	Effective exchange rate 3/	
Belgium	-3.33	-2.01	-0.93	-5.6
Denmark	-3.30	-2.03	-1.50	-7.8
France	-3.29	-1.84	-1.11	-11.3
Germany	-3.28	-2.00	-1.25	-3.3
Ireland	-3.50	-2.01	-1.43	-11.1
Italy	-3.47	-1.99	-1.19	-9.0
Netherlands	-3.52	-2.11	-1.29	-4.8
Austria	-3.44	-1.42	-0.71	-5.4
Canada	-0.39	+0.85	+0.33	+3.2
Japan	-1.29	+0.14	+0.20	+8.8
Norway	-2.23	-0.59	+0.08	-1.3
Sweden	-2.22	-0.97	-0.49	-0.4
Switzerland	-3.29	-1.64	-1.17	-2.4
United Kingdom	-3.48	-2.04	-1.45	+0.9
United States	--	+1.24	+1.81	+9.2

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.

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 range within which major currencies traded in January narrowed in most cases although this was only marginal for the EMS currencies (and the Austrian schilling). The widest range (2.9 percent) was recorded for several of the EMS currencies (see Table 2) while the narrowest range continued to be recorded by the Canadian dollar (0.5 percent compared with 0.9 percent in December). The average of absolute daily percentage changes against the U.S. dollar, however, (MAC in Table 2 and Chart 5) widened considerably for most currencies, reflecting the strong rise in the dollar early in the month followed by its marked short-term erratic movements around midmonth. The MAC for the EMS currencies (and the Austrian schilling) increased to an average of 0.48 percent from an average of 0.29 percent in December. The MAC measure also widened significantly for other major currencies except the Japanese yen and the Canadian dollar. The highest MAC value continued to be recorded for the United Kingdom (0.53 percent compared with 0.37 percent in December) while the smallest continued to be recorded for Canada (unchanged at 0.11 percent).

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

	January 2/		High-low spread in percent 3/		MAC 4/	
	High	Low	Dec.	Jan.	Dec.	Jan.
Belgium	56.325	57.935	3.2	2.9	0.29	0.52
Denmark	9.9825	10.26875	2.9	2.9	0.30	0.46
France	8.44375	8.6900	3.1	2.9	0.29	0.50
Germany	2.7600	2.8390	2.8	2.9	0.28	0.51
Ireland	1.1217	1.0925	3.0	2.7	0.33	0.45
Italy	1674.0	1719.0	2.9	2.7	0.28	0.45
Netherlands	3.0995	3.18825	3.0	2.9	0.27	0.48
Austria	19.4675	20.0175	3.1	2.8	0.31	0.50
Canada	0.80257	0.79859	0.9	0.5	0.11	0.11
Japan	232.40	234.82	2.3	1.0	0.29	0.23
Norway	7.8010	7.9575	4.2	2.0	0.30	0.37
Sweden	8.0800	8.2550	2.3	2.2	0.23	0.38
Switzerland	2.2160	2.25225	2.5	1.6	0.26	0.49
United Kingdom	1.42895	1.39655	3.0	2.3	0.37	0.53

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.

Significant reductions in gross foreign exchange reserves in January were recorded by Italy and Austria. The large decline for Switzerland was attributable mainly to the reversal of transactions with banks for end-of-year liquidity purposes that led to a large rise in official reserves in December. Moderate reserve increases were recorded by Japan and the United Kingdom; other changes were relatively minor. Over the 12-month period to the end of January, substantial reserve increases were posted by France (year ended December), Italy, and to a lesser extent, Japan while large declines were posted by Germany and the United States.

Table 3. Foreign Exchange Reserves in January 1984 1/

(In millions of U.S. dollars)

	End-month reserve level	Change in January	Change over 12 months
Belgium	3,632	-144	+413
Denmark	3,284	+2	+659
France (December)	17,757	-1,074	+3,163
Germany	37,134	-179	-3,514
Ireland (December)	2,450	-8	+17
Italy	17,913	-612	+4,181
Netherlands	8,438	-264	-992
Austria	3,417	-469	-928
Canada	2,826	+85	-57
Japan	20,669	+305	+1,172
Norway	6,034	+105	+51
Sweden	3,787	+134	+812
Switzerland	11,707	-2,648	-477
United Kingdom	9,037	+320	-758
United States	6,295	+6	-3,195

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 significantly in January for the third consecutive month; it firmed by 1.81 percent in effective (MERM) terms and 1.24 percent against the SDR, with most of this appreciation occurring early in the month following a lull during the holiday period at the end of December. News on the economy indicated that the recovery was continuing; the index of leading economic indicators rose 0.6 percent in December following a downward revised decline of 0.2 percent in November; and the civilian unemployment rate in January declined to 8.0 percent from 8.2 percent in December. The fourth quarter real GNP growth was revised upwards to an annual rate of 4.9 percent from 4.5 percent. Industrial production rose 1.1 percent in January, following an upward-revised gain of 0.6 percent in December, and was up 15.1 percent year-on-year. The trade deficit, seasonally adjusted, narrowed in December to $6.3 billion from $7.4 billion in November, mainly because of a drop in petroleum imports; for 1983 the deficit widened to $69 billion from $43 billion in 1982. Preliminary estimates put the current account deficit at $40 billion in 1983 compared with $11 billion in 1982. The Federal budget deficit in December narrowed to $16.7 billion from $17.9 billion in the same month a year earlier. Inflation resurged somewhat in January; the producer price index rose 0.6 percent for a 1.9 percent year-on-year rise.

The Deutsche mark eased 3.28 percent against the U.S. dollar and 1.25 percent in effective (MERM) terms despite continuing intervention against the U.S. dollar by the Bundesbank. Among underlying economic developments, industrial production in December declined a seasonally adjusted 0.5 percent (from an upward-revised November level) but rose 6.3 percent year-on-year. The unemployment rate, not seasonally adjusted, rose to 10.2 percent in January from 9.5 percent in December but was unchanged from January 1983. The current account surplus in December narrowed to DM 5.5 billion from DM 6.1 billion in December 1982; for the year as a whole the surplus narrowed slightly to DM 8.4 billion from DM 8.6 billion in 1982. The trade surplus in January narrowed to DM 1.9 billion from DM 4.1 billion in December and DM 2.7 billion in January 1983. The wholesale price index in January rose 0.7 percent and was up 3.4 percent year-on-year while the producer price index rose 0.6 percent for a 2.3 percent year-on-year rise.

The French franc eased 3.29 percent against the U.S. dollar and 1.11 percent in effective (MERM) terms but continued to be one of the strongest currencies in the EMS parity grid. The number of persons unemployed rose 0.8 percent in January and was up 5.8 percent year-on-year. Industrial production, seasonally adjusted, declined 0.8 percent in December (following a sharp rise in November) but was up 4.0 percent year-on-year. The trade balance in January, seasonally adjusted, swung into deficit by F 5.47 billion from a small surplus of F 2.0 million in December, mainly due to a surge in imports. The index of industrial wholesale prices rose 0.6 percent in December (following a rise of 1.9 percent in November) and was up 15.3 percent year-on-year.

The Belgian franc eased 3.33 percent against the U.S. dollar and 0.93 percent in effective (MERM) terms and continued to be the weakest currency in the EMS relative to central ECU parities. The Belgian franc remained noticeably isolated from the other currencies in the parity grid and its divergence indicator continued to be substantially below its lower threshold. The discount of the financial franc from the commercial franc widened from 1.5 percent at the end of December to 1.8 percent at the end of January despite a moderate rise in the level of intervention support by the National Bank of Belgium. Industrial production was unchanged in November but rose 2.0 percent year-on-year. The unemployment rate at the end of January rose to 12.5 percent from 12.1 percent at the end of December. The wholesale price index rose 0.8 percent in December for a 10.2 percent year-on-year rise.

The Netherlands guilder eased by 3.52 percent against the U.S. dollar and 1.29 percent in effective (MERM) terms but was occasionally at the top of the narrow band of the EMS parity grid. The number of persons unemployed rose by 0.6 percent in January; the unemployment rate in December was 17.7 percent. The trade surplus narrowed in December to f. 800 million from f. 1.9 billion in November but widened from f. 300 million in December 1982; for 1983 as a whole, the surplus widened to f. 11.4 billion from f. 9.8 billion in 1982. The producer price index for consumer and investment goods rose 0.1 percent in November and was up 1.9 percent year-on-year.

The Danish krone eased 3.30 percent against the U.S. dollar and 1.50 percent in effective (MERM) terms but was also occasionally at the top of the narrow band of the EMS parity grid. The unemployment rate, seasonally adjusted, eased to 10.5 percent in December from 10.6 percent in November. The trade deficit, seasonally adjusted, narrowed in January to DKr 770 million from DKr 1.6 billion in December. The current account deficit in 1983 narrowed to DKr 10.9 billion from DKr 18.7 billion in 1982. The wholesale price index rose 0.5 percent in December for a 5.3 percent year-on-year rise.

The Irish pound eased 3.50 percent against the U.S. dollar and 1.43 percent in effective (MERM) terms but, as with the French franc, the Netherlands guilder, and the Danish krone, was occasionally at the top of the narrow band of the EMS parity grid. The Bank of Ireland raised the primary liquidity ratio for licensed banks to 9 percent from 8 percent. Government borrowing in 1983 amounted to the equivalent of about 13.5 percent of GNP compared with about 16.5 percent in 1982; 45 percent of the borrowing was undertaken overseas. The number of persons unemployed, seasonally adjusted, rose 2.2 percent in January and the unemployment rate was unofficially estimated at 16 percent.

The Italian lira eased 3.47 percent against the U.S. dollar and 1.19 percent in effective (MERM) terms but remained the strongest currency in the EMS relative to ECU central rates, maintaining a margin over the Belgian franc of approximately 5.0 percent. Industrial output, seasonally adjusted, fell 4.5 percent in December after rising 2.5 percent in November and was down 2.7 percent year-on-year. The trade deficit widened in December to Lit 1,912 billion from Lit 1,124 billion in December 1982; the trade balance was in surplus in November by Lit 678 billion. The wholesale price index in December rose 0.9 percent and was up 9.2 percent year-on-year.

The pound sterling eased 3.48 percent against the U.S. dollar and 1.45 percent in effective (MERM) terms. The unemployment rate, seasonally adjusted, rose to 12.5 percent in January from 12.3 percent in December. Industrial output, seasonally adjusted, rose 0.6 percent in December and was up 3.6 percent year-on-year; for 1983 as a whole, industrial output was up 7.1 percent over 1982. The current account surplus, seasonally adjusted, widened in December to £705 million from £317 million in November due mainly to an increase in exports. For the year as a whole, the current account surplus narrowed to £2.1 billion from £5.4 billion in 1982. The budget surplus widened in January to £2.622 billion from £1.280 billion in January 1983. The index of producer output prices rose 0.6 percent in January for a 5.7 percent year-on-year rise.

The Swiss franc eased 3.29 percent against the U.S. dollar and 1.17 percent in effective (MERM) terms. The unemployment rate rose to 1.2 percent in January from 1.0 percent in December. The trade deficit widened in January to Sw F 1,001 million from Sw F 147 million in December and Sw F 634 million in January 1983. The wholesale price index rose 0.5 percent in January for a 2.4 percent year-on-year rise.

The Japanese yen eased 1.29 percent against the U.S. dollar but firmed 0.20 percent in effective (MERM) terms. The Finance Ministry proposed an FY 1984-85 budget involving a 0.5 percent rise in spending and a narrowing in the budget deficit by 5 percent. The unemployment rate in December was unchanged at 2.5 percent; the rate is low compared with most other countries partly because persons are counted as employed if they work as little as an hour a week. Industrial production in 1983 rose 3.6 percent over 1982, the largest rise in three years. The current account surplus, seasonally adjusted, widened to $1.8 billion in December from $1.7 billion in November; for 1983 the surplus widened to $21 billion from $6.85 billion in 1982, principally due to rising exports and a falling value of imports. The trade surplus, seasonally adjusted, widened in January to $2.336 billion from $1.786 billion in December. The wholesale price index was unchanged in January but fell 1.4 percent year-on-year.

The Canadian dollar eased 0.39 percent against the U.S. dollar but firmed 0.33 percent in effective (MERM) terms. Industrial production in November rose 0.3 percent for the ninth consecutive monthly rise while real GDP declined 0.2 percent but was up 5.6 percent over November 1982. The unemployment rate, however, in January rose to 11.2 percent from 11.1 percent in December. The trade surplus, seasonally adjusted, narrowed in December to Can$1.59 billion from Can$1.83 billion in November; for the year as a whole, the surplus narrowed slightly to Can$18 billion from Can$18.34 billion in 1982. The budget deficit narrowed in December to Can$2.57 billion from Can$2.71 billion in November. Industrial selling prices rose 0.4 percent in January (following a rise of 0.3 percent in December) and were up 3.6 percent year-on-year.

The Austrian schilling eased 3.44 percent against the U.S. dollar and 0.71 percent in effective (MERM) terms. The Norwegian krone eased 2.23 percent against the U.S. dollar but firmed marginally in effective (MERM) terms. The Swedish krona eased 2.22 percent against the U.S. dollar and 0.49 percent in effective (MERM) terms.

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

Monetary and credit conditions eased somewhat or remained unchanged in January in most major industrial countries, with policies aiming at sustaining the ongoing economic recovery without rekindling the mostly decelerated inflation. Short-term interest rates eased by 0.06-0.37 percentage point in Germany, Japan, the Netherlands, Switzerland, and the United States while those in Italy and the United Kingdom rose slightly by 0.06 percentage point.

In the United States, short-term interest rates continued their modest easing since mid-December, attributed to some indications that the economic growth has decelerated. Among them, the retail sales rose only 0.1 percent in December, much lower than expected, and the November increase was revised downward from 1.9 percent to 1.1 percent. The real GNP growth for the fourth quarter of 1983 was confirmed at 4.5 percent an annual rate, down from the growth rates of 7.6 percent and 9.7 percent in the preceding two quarters. These reports convinced the market that the Federal Reserve was not likely to tighten its monetary stance at the moment. The Treasury bill rates eased less than other money market rates, reflecting concerns in the market on the large budget deficits; the bond-equivalent yield on three-month bills eased by 0.07 percentage point during January to 9.25 percent. The 90-day CD rate eased 0.29 percentage point to 9.33 percent at the end of January, thus narrowing the spread over Treasury bills significantly. The Federal funds rate also eased to 9.35 percent at the end of January from 9.92 percent at the end of December. The prime lending rate still remained at 11.0 percent. The M1 measure of money supply rose to $524.3 billion in January from $521.1 billion in December and for the latest 13 weeks it grew by 3.3 percent from the preceding 13 weeks. M2 rose to $2.192 trillion in January from $2.184 trillion in December and M3 rose to $2.615 trillion from $2.602 trillion.

In Germany, the annual growth rate of the Central Bank money stock in January is estimated to be the lower end of the 4-6 percent target set for the fourth quarter of 1983 through the fourth quarter of 1984. This compares with a year-on-year increase of 7 percent in the fourth quarter of 1983, when the Bundesbank was aiming at the target of 4 percent to 7 percent. Germany's short-term interest rates eased in January with the three-month interbank rate falling by 0.36 percentage point to 6.18 percent. Among other countries in the European Monetary System, the National Bank of Denmark recommended the commercial banks on January 18 that they stem the growth of bond purchases, which it

Table 4. Inflation Rates and Short-Term Interest Rates

	Month 2/	Inflation rates 1/ (year-on-year percent changes): Wholesale price index		Inflation rates 1/ (year-on-year percent changes): Consumer price index 3/		Short-term interest rates 4/ (end-of-month): Dec.	Short-term interest rates 4/ (end-of-month): Jan.
Austria	December	--	(--)	3.8	(3.7)	3.75	3.75
Belgium	January	10.9	(10.2)	6.9	(7.2)	11.00	11.00
Canada	Dec./Jan.	3.6	(3.5)	5.3	(4.5)	9.72	9.71
Denmark	Dec./Jan.	5.3	(3.8)	5.5	(6.1)	7.00	7.00
France	Dec./Jan.	15.3	(14.7)	9.0	(9.2)	12.42	12.42
Germany	January	3.4	(1.7)	2.9	(2.5)	6.54	6.18
Italy	Nov./Jan.	8.8	(9.5)	12.5	(12.8)	17.88	17.94
Japan	Jan./Nov.	-1.4	(-2.2)	1.8	(1.4)	6.38	6.25
Netherlands	Nov./Jan.	1.7	(2.1)	3.2	(3.0)	6.06	6.00
Norway	January	5.6	(6.0)	6.4	(7.1)	8.00	8.00
Sweden	Oct./Jan.	11.0	(12.7)	8.4	(9.3)	8.50	8.00
Switzerland	Dec./Jan.	1.5	(0.9)	2.7	(2.1)	3.81	3.44
United Kingdom	January	5.7	(5.5)	5.1	(5.3)	9.01	9.07
United States	January	1.9	(0.6)	4.1	(3.8)	9.32	9.25

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; interbank rates for Germany, France, Italy, and the Netherlands; three-month euro-franc rate for Switzerland; discount rate on two-month private bills for Japan; four-month certificates of the Government Securities Stabilization Fund for Belgium; central bank discount rates for Austria, Denmark, Norway and Sweden.

regards as an important factor in the sharp increase of money supply. The Bank also warned that it may squeeze the credit facilities available to certain banks unless they restrict the growth of lending.

Sterling M3, the broadly defined money supply of the United Kingdom, rose by 0.6 percent in the banking month ended January 18, compared with increases of 1.3 percent in December and 0.9 percent in January 1983. The narrowest monetary aggregate, M1, fell by 0.2 percent in January, compared with an increase of 1.6 percent in December and the broadest aggregate Public Sector Liquidity 2 rose 1.1 percent, following an increase of 1.0 percent in the preceding month. Over the 11 months since mid-February 1983, M3 grew at an annualized rate of 10.7 percent, M1 at 11.4 percent and PSL2 at 12.3 percent; the target for each of these aggregates is 7-11 percent during the 14 months from mid-February 1983 to mid-April 1984. The growth rates in these six months have been about the middle of the targets, but there are some worrying signs that the bank lending to the private sector has been expanding at uncomfortably high levels, which may exert upward pressure on interest rates.

Japan's broadly defined money supply, M2 plus CDs, grew an average 7.6 percent in December from a year earlier, following a year-on-year increase of 6.8 percent in November. The average growth rate for 1983 as a whole was 7.4 percent, the lowest in record. The Bank of Japan allows an increase of 24.7 percent in the 13 major banks' net new lending during the year to the first quarter, compared with a limit of 15.1 percent during the year to the fourth quarter of 1983. Japan's short-term interest eased modestly, reflecting the Bank of Japan's policy stance to ease the monetary conditions steadily to support the economic growth while maintaining the yen's value in the foreign exchange markets. The discount rate on two-month private bills eased by 0.13 percentage point during January to 6.25 percent. Switzerland's interest rates also eased as the authorities intended to make them more consistent with the domestic economic climate and to maintain the exchange rate between the Deutsche mark and the Swiss franc. The three-month euro-Swiss franc rate eased significantly to 3.44 percent at the end of January from 3.81 percent at the end of December.

In the eurocurrency markets, three-month eurodollar rate eased by 0.19 percentage point to 9.69 percent at the end of January. As a result, the uncovered interest differentials favoring euro-dollar investment narrowed for Japan, the Netherlands, and the United Kingdom although they rose for Germany. Those favoring domestic investment widened for Belgium, France, and Italy.

In the forward exchange markets, the premia against the U.S. dollar narrowed for the Deutsche mark, the Japanese yen, the Netherlands guilder, and the pound sterling between the end of December and the end of January. The discount against the U.S. dollar widened for the Belgian franc and the Italian lira, but narrowed for the French franc. Consequently, the covered interest differentials favoring eurodollar investment narrowed for France and the United Kingdom, but widened for

Belgium. Those favoring domestic investment widened for Italy, but narrowed for Germany and the Netherlands and switched to favor euro-dollar investment for Japan.

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)	
	Dec.	Jan.	Dec.	Jan.	Dec.	Jan.
Belgium 3/	-1.12	-1.31	-1.13	-1.57	+0.01	+0.26
France	-2.54	-2.73	-3.40	-3.32	+0.86	+0.59
Germany	+3.34	+3.51	+4.11	+3.90	-0.77	-0.39
Italy	-8.00	-8.25	-6.57	-6.70	-1.43	-1.55
Japan	+3.50	+3.44	+3.58	+3.42	-0.08	+0.02
Netherlands	+3.82	+3.69	+3.98	+3.77	-0.16	-0.08
United Kingdom	+0.87	+0.60	+0.70	+0.47	+0.17	+0.13

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, for the United Kingdom the three-month Treasury bill rate, and for Belgium the rate on four-month certificates of the Government Securities Stabilization Fund.

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

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

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

The SDR interest rate declined to 8.60 percent in the week beginning January 30, compared with 8.70 percent in the week beginning December 26, reflecting lower yields on the relevant instruments for the U.S. dollar, the Deutsche mark, and the Japanese yen, which eased by 0.05, 0.35, and 0.13 percentage points, respectively, partly offset by a higher yield on the instrument for the pound sterling which firmed by 0.02 percentage point, while the yield on the instrument for the French franc was unchanged. The rate of remuneration paid on creditor positions in the Fund (85 percent of the SDR interest rate) decreased, accordingly, to 7.31 percent in the last week of January from 7.40 percent in the last week of December.

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

	Dec. 26	January 2	9	16	23	30
SDR interest rate	8.70	8.69	8.57	8.51	8.63	8.60
Rate of remuneration	7.40	7.39	7.28	7.23	7.34	7.31

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

The combined domestic interest rates for maturities ranging from three months to five years eased by 0.10-0.25 percentage point from the end of December to the end of January. This reflected lower yields on the relevant instruments in the United States, Germany, and Japan, which eased by 0.05-0.25, 0.07-0.36, and 0.05-0.17 percentage points, respectively, while those in the United Kingdom and France were mixed. The combined domestic interest rates displayed a rising yield curve moving up from 8.62 percent on the three-month maturity, through 8.88 percent and 9.06 percent on the six- and twelve-month maturities, respectively, to 10.38 percent on the five-year maturity.

The combined eurocurrency interest rates for three, six, and twelve months eased by 0.20, 0.23, and 0.11 percentage points, respectively, to 8.97 percent, 9.14 percent, and 9.48 percent at the end of January. This reflected lower eurodollar, euro-Deutsche mark, and euro-yen rates, which eased by 0.19-0.31, 0.06-0.22, and 0.03-0.09 percentage points between the end of December and the end of January, while euro-sterling and euro-French franc rates were mixed.

Average interest rates on SDR-denominated deposits of selected commercial banks eased by 0.04-0.30 percentage point between the end of December and the end of January. The deposit rates displayed a steeper, rising yield curve moving up from 8.61 percent on the one-month deposits, through 8.89 percent and 9.08 percent on three- and six-month deposits, respectively, to 9.36 percent on the twelve-month deposits. The current yields on SDR-denominated bonds quoted on the Luxembourg Stock Exchange ranged from 8.86 percent to 11.53 percent with the average current yield easing slightly by 0.04 percentage point to 9.85 percent at the end of January. The yield to maturity ranged from 9.59 percent to 19.52 percent, with the average yield to maturity firming sharply from 11.30 percent at the end of December to 11.91 percent at the end of January.

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

	December	January
Combined market interest rates 2/		
Based on domestic rates		
3-month maturity (Rule T-1)	8.72	8.62
6-month maturity	9.00	8.88
12-month maturity	9.31	9.06
5-year maturity	10.56	10.38
Based on euro-currency rates		
3-month maturity	9.17	8.97
6-month maturity	9.37	9.14
12-month maturity	9.59	9.48
Average commercial bank deposit rates 3/		
1-month deposits	8.91	8.61
3-month deposits	9.05	8.89
6-month deposits	9.23	9.08
12-month deposits	9.40	9.36
Bonds quoted on the Luxembourg Stock Exchange 4/		
Average current yield	9.89	9.85
Average yield to maturity	11.30	11.91

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.

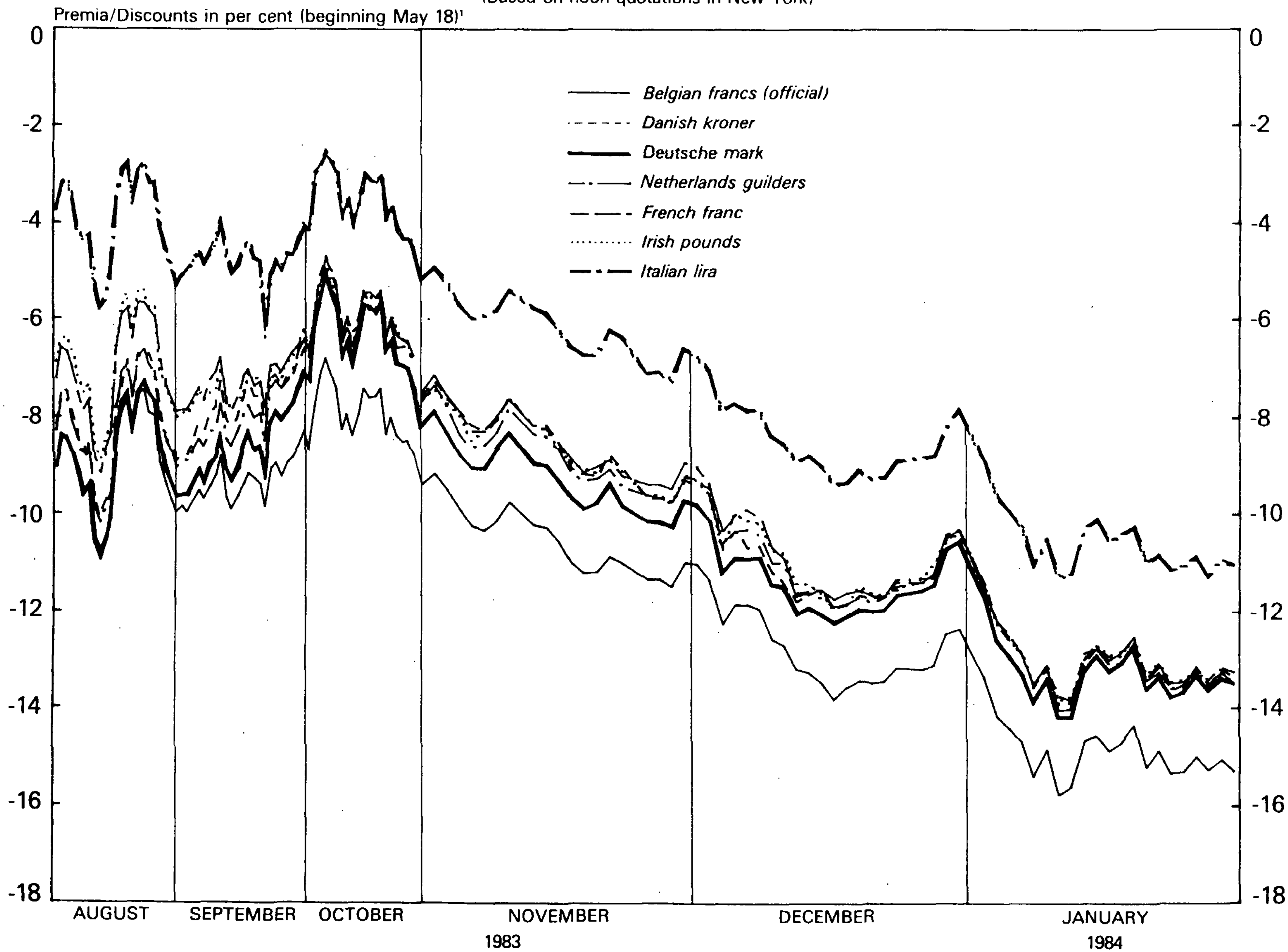
3/ Average of rates quoted by selected commercial banks.

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)

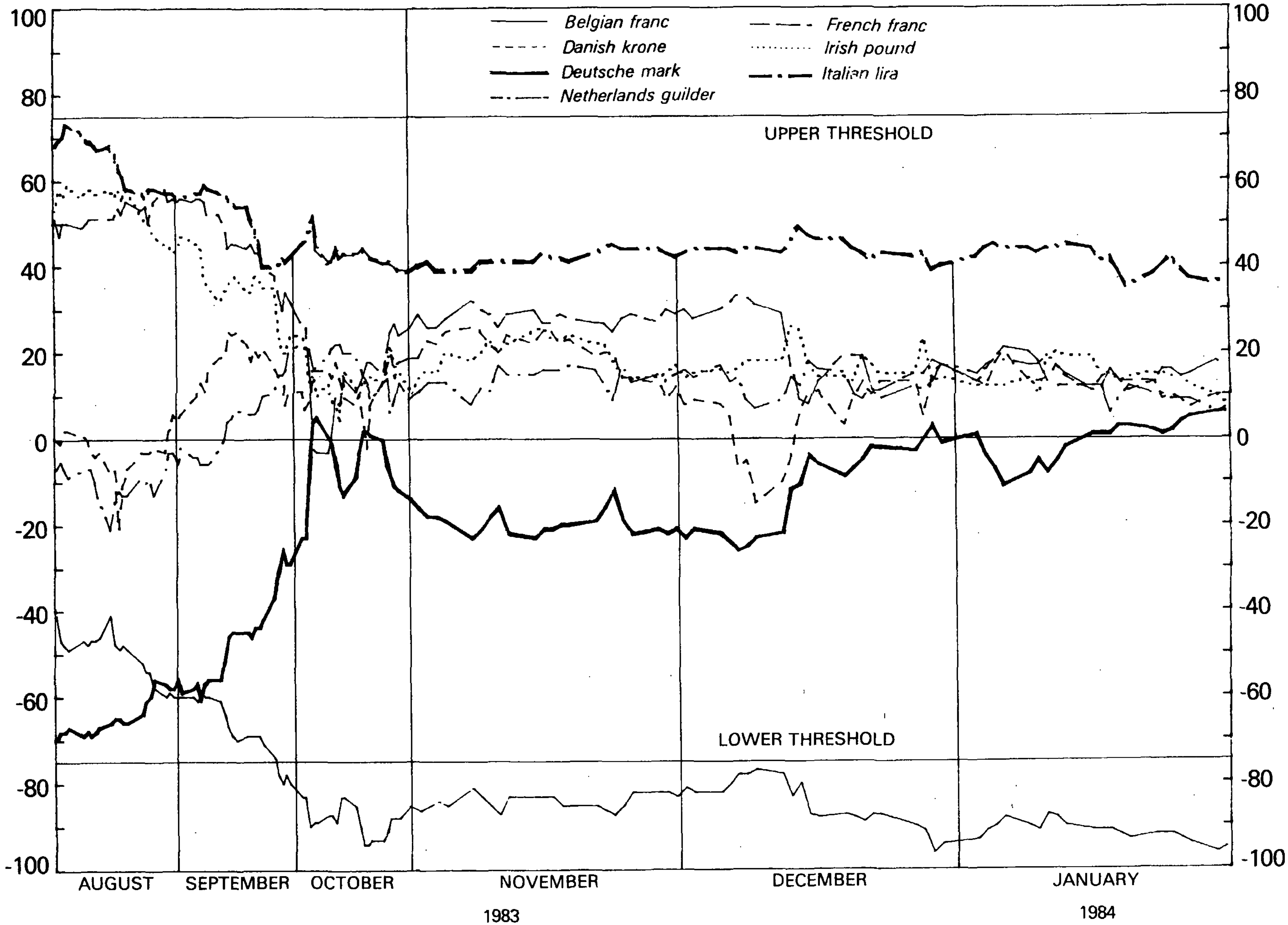


CHART 3

SPOT EXCHANGE RATES

(Noon quotations in New York)

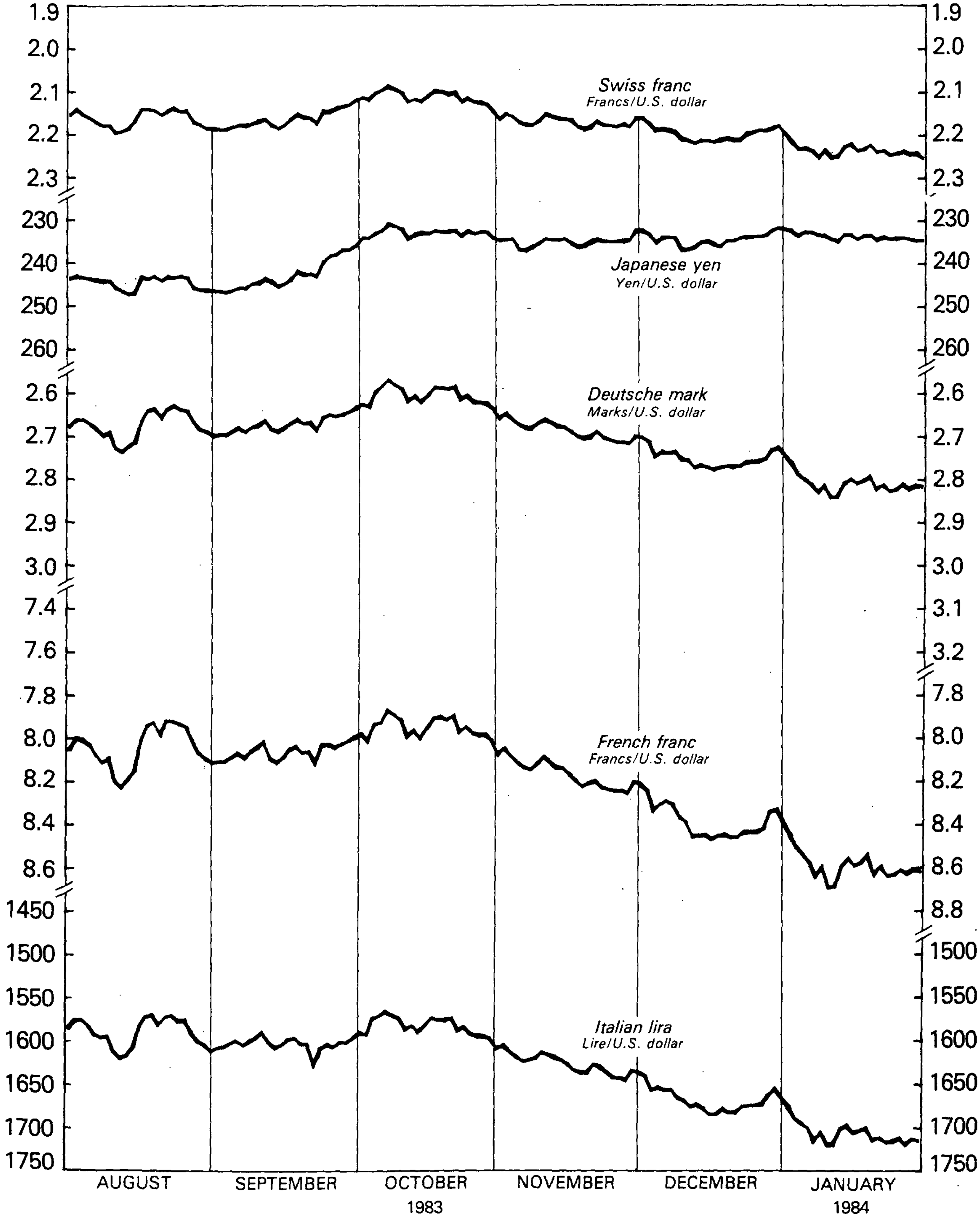


CHART 4
SPOT EXCHANGE RATES
(Noon quotations in New York)

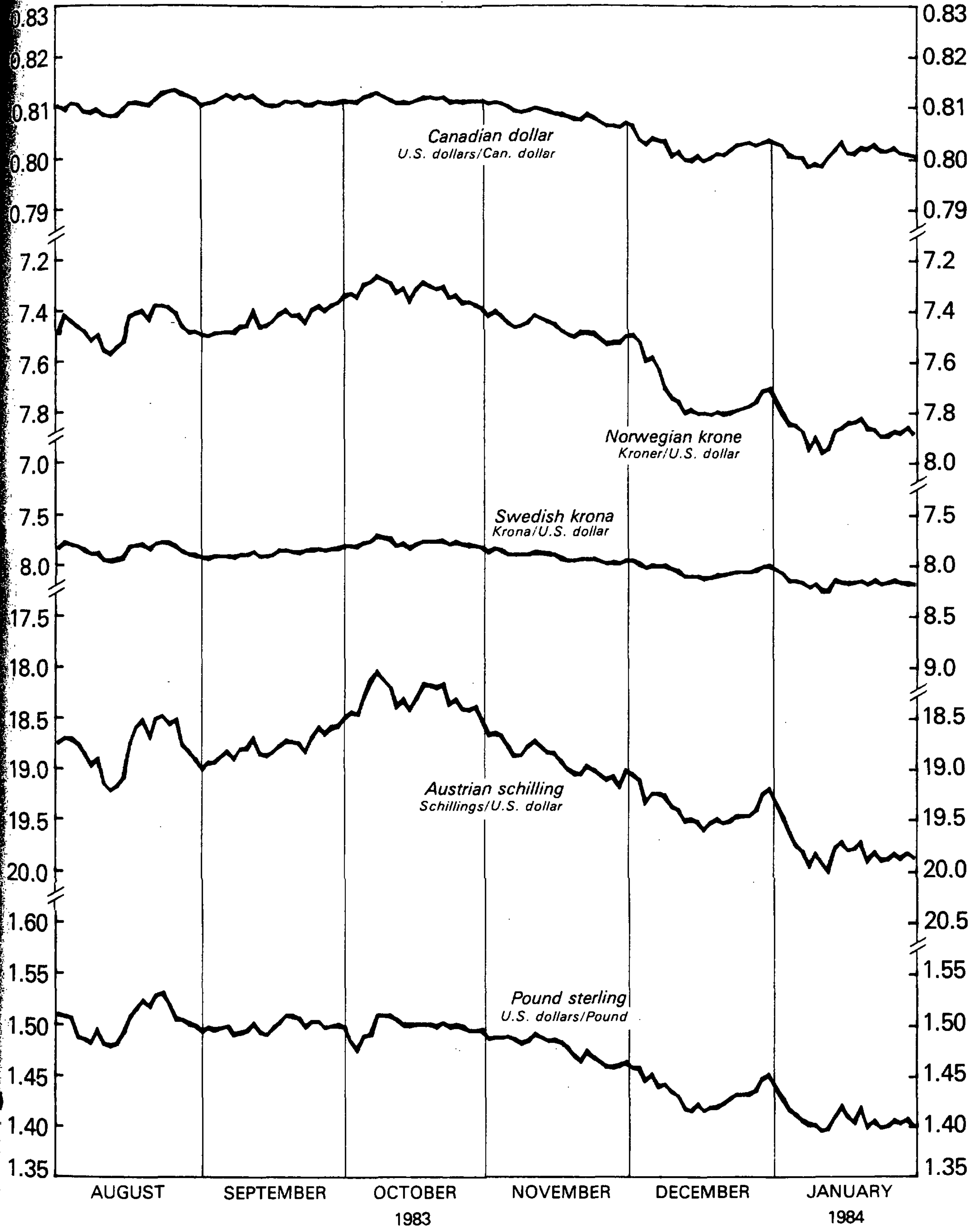
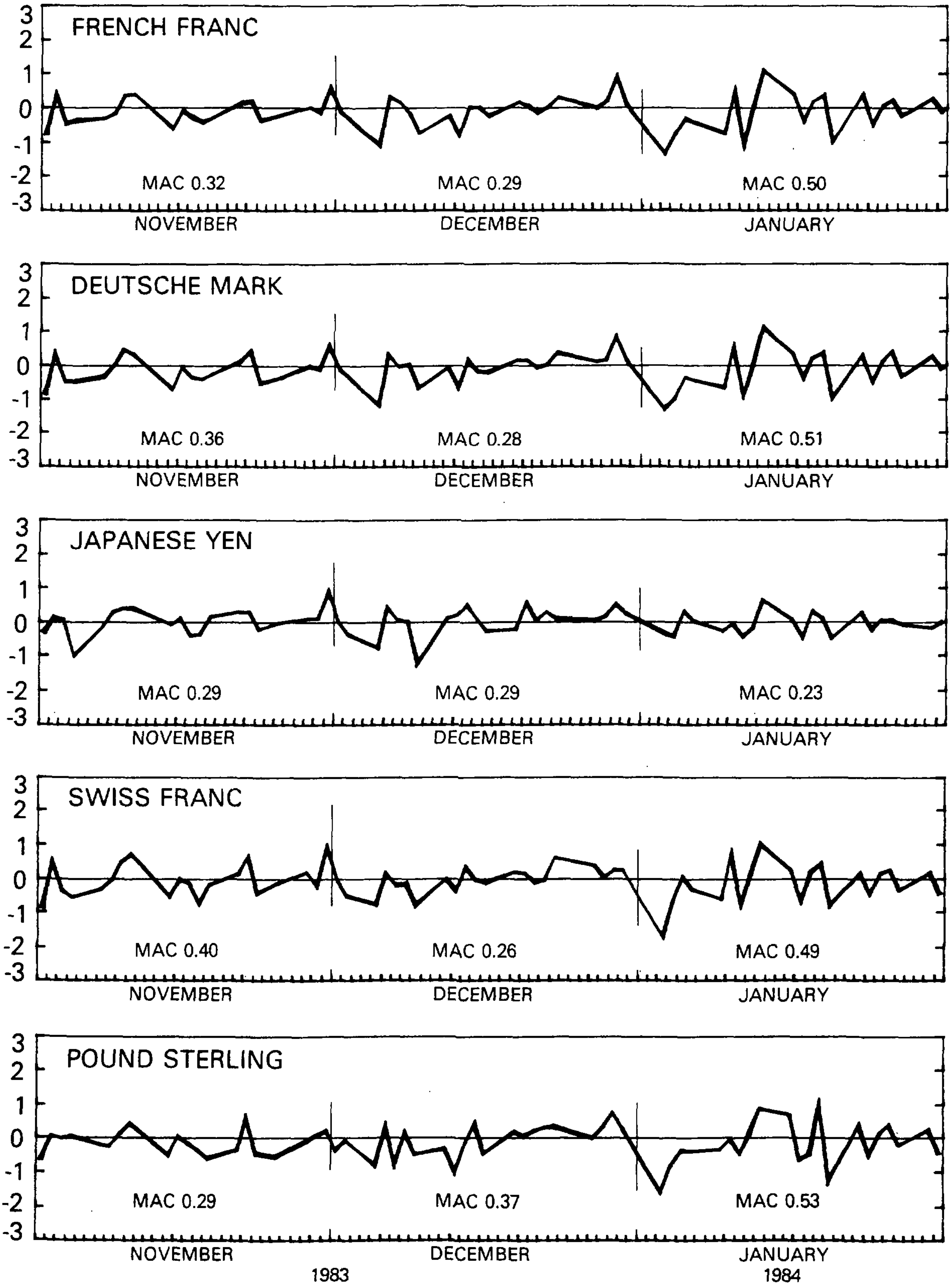


CHART 5

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 - JAN. 1984

(June 28, 1974=100)

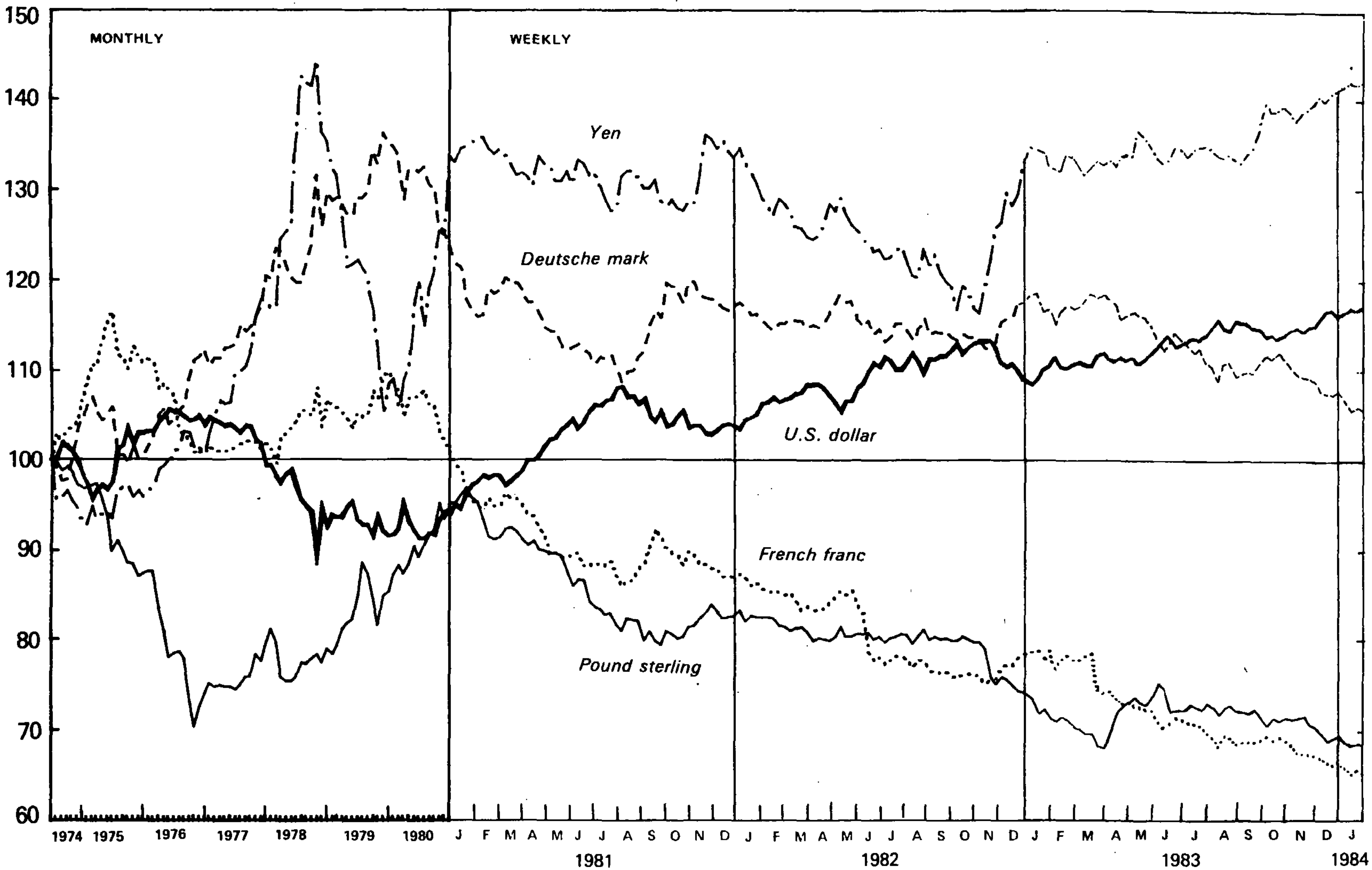
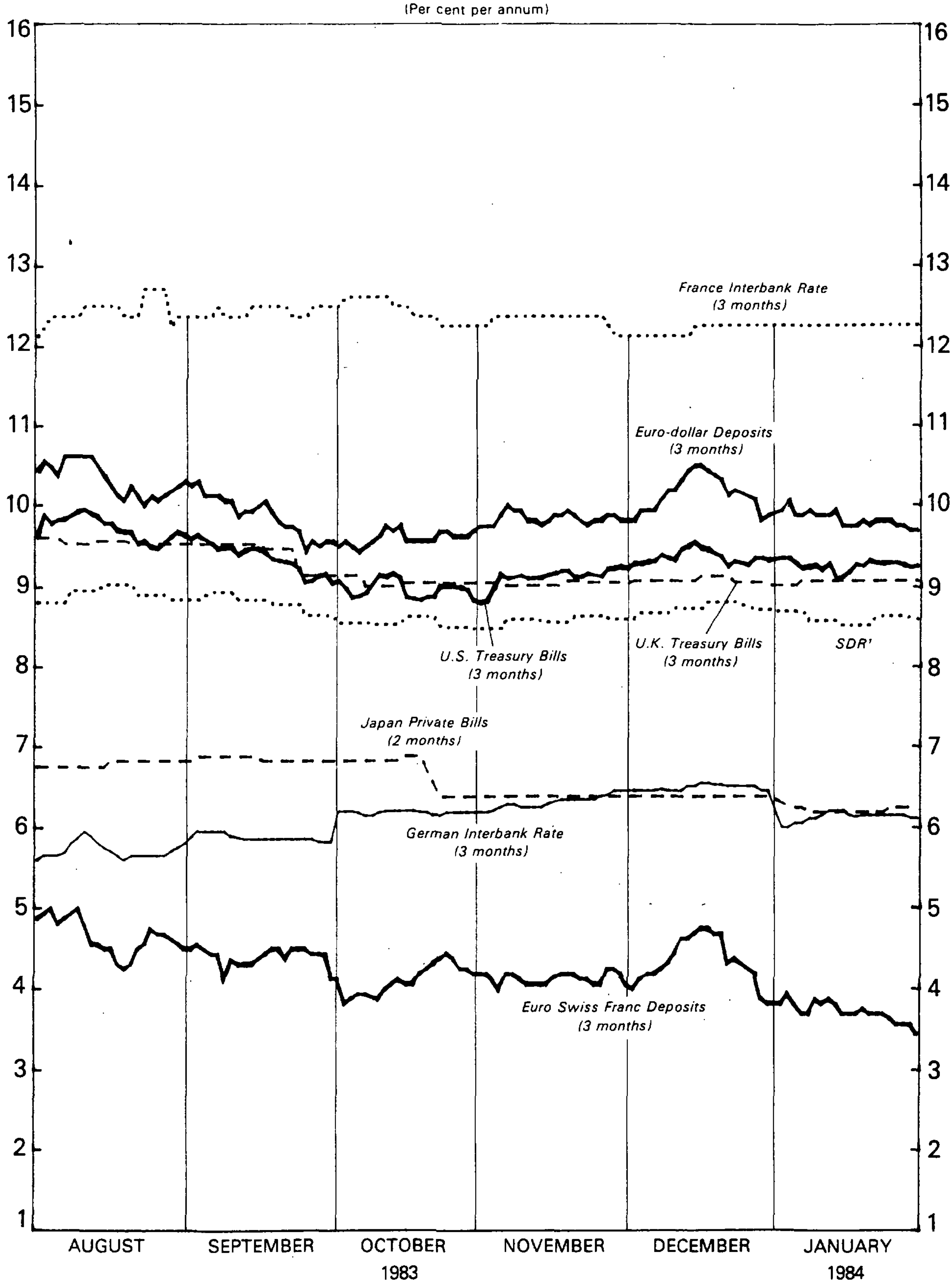


CHART 7

SHORT-TERM MONEY MARKET RATES

(Per cent per annum)



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

CHART 8

THREE-MONTH FORWARD RATES

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

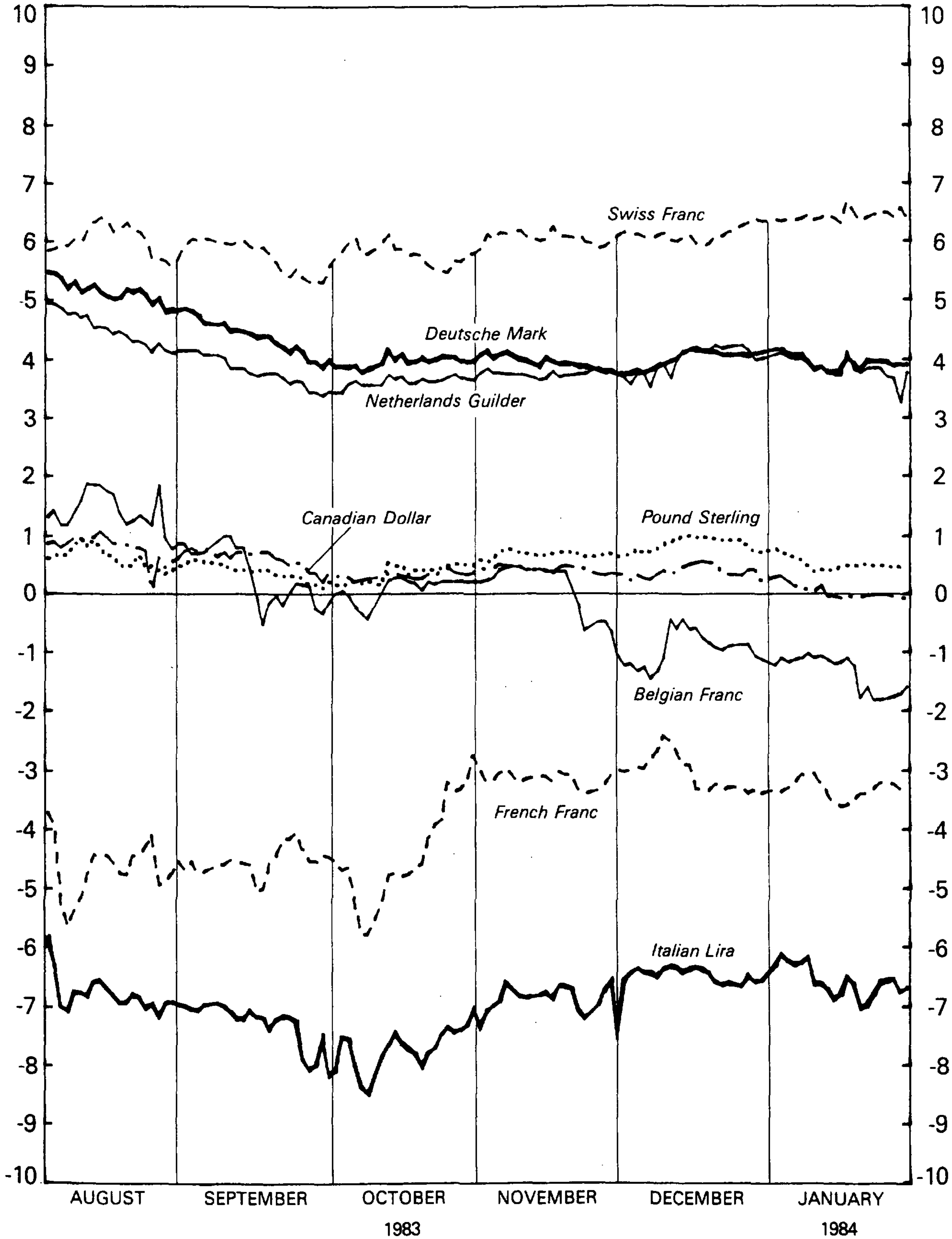
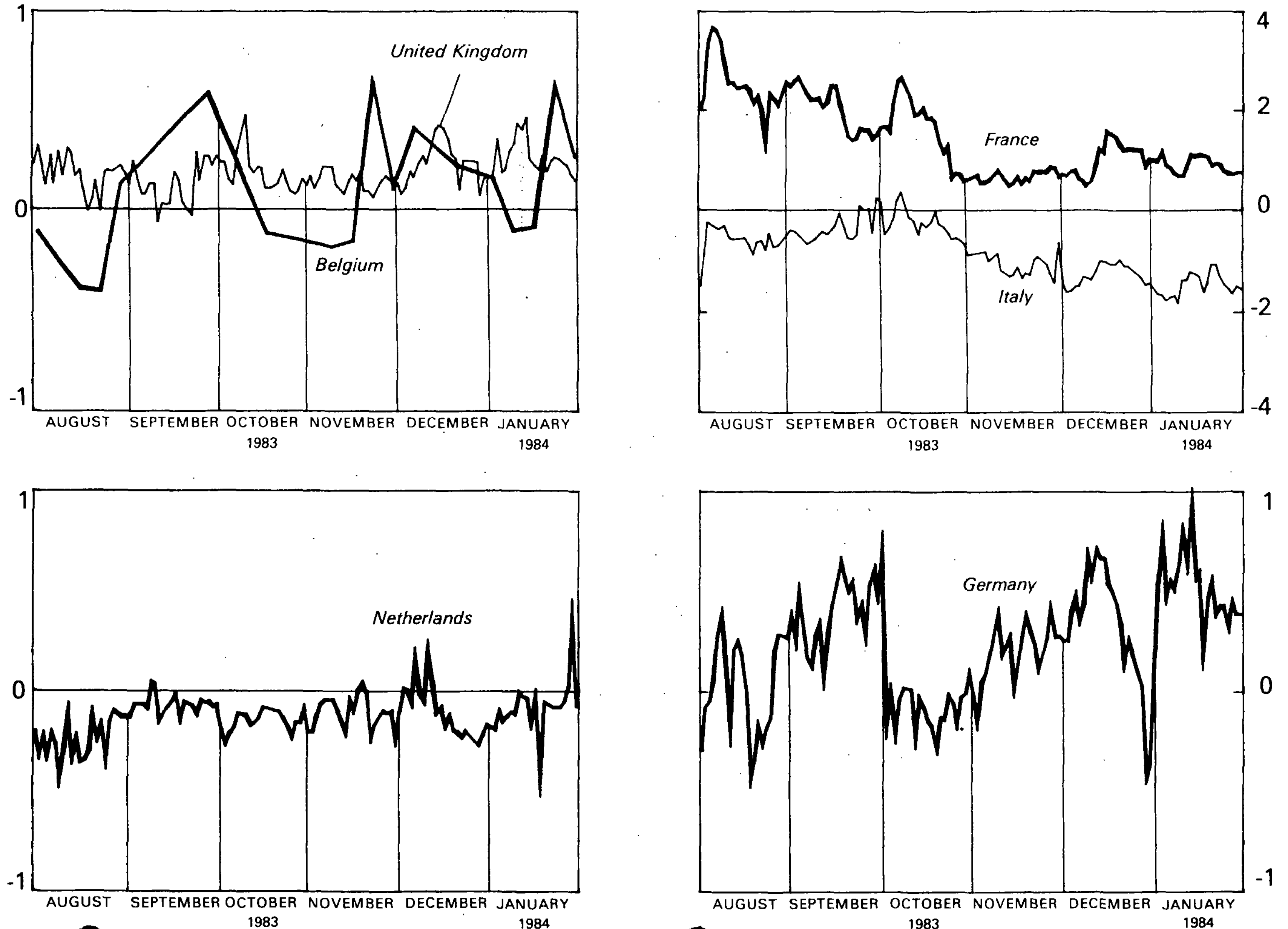


CHART 9

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

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



Foreign Exchange Rates, December 1983-January 1984 1/

	December 7	December 14	December 21	December 28	January 4	January 11	January 18	January 25
Austrian schilling	19.2350	19.4950	19.5270	19.3975	19.6230	20.0175	19.7750	19.8850
Belgian franc								
Official	55.365	56.265	56.405	56.155	56.845	57.935	57.220	57.605
Financial	56.225	57.125	57.225	57.045	57.825	58.675	58.375	58.495
Canadian dollars	0.80363	0.79958	0.80067	0.80260	0.80074	0.79859	0.80103	0.80144
Danish kroner	9.9050	10.0125	10.0232	9.9725	10.0775	10.2550	10.1500	10.2300
Deutsche mark	2.73500	2.76600	2.76850	2.75100	2.78750	2.83900	2.80250	2.82250
French francs	8.2925	8.4500	8.4587	8.4145	8.5075	8.6900	8.5725	8.6300
Irish pounds	1.1395	1.1230	1.1205	1.1285	1.1125	1.0925	1.1040	1.0980
Italian lire	1655.500	1672.000	1681.250	1672.000	1687.500	1718.500	1702.250	1715.000
Japanese yen	234.000	235.040	234.650	233.350	233.370	234.400	233.575	234.160
Netherlands guilder	3.0608	3.1058	3.1133	3.0945	3.1270	3.1883	3.1575	3.1760
Norwegian kroner	7.6275	7.7875	7.8040	7.7525	7.8450	7.9575	7.8367	7.8925
Pounds sterling	1.4395	1.4155	1.4230	1.4369	1.4177	1.3966	1.4045	1.4011
Swedish kroner	8.0150	8.1120	8.1022	8.0500	8.1575	8.2550	8.1715	8.1725
Swiss francs	2.19000	2.21200	2.21000	2.18850	2.23225	2.25225	2.23175	2.24325

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

APPENDIX A

APPENDIX B

Short- and Medium-Term Interest Rates

(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)
1983															
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
Dec.	9.35	6.57	9.08	12.36	6.38	8.71	10.14	6.29	9.42	13.27	6.63	4.35	10.38	11.00	11.54
1984															
Jan.	9.25	6.21	9.06	12.42	6.22	8.59	9.83	5.98	9.45	13.25	6.35	3.71	10.09	11.00	11.37
1983 Weekly															
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
Dec. 2	9.23	6.52	9.05	12.32	6.38	8.64	9.84	6.21	9.32	13.06	6.68	4.15	10.09	11.00	11.38
9	9.32	6.55	9.07	12.29	6.38	8.70	10.01	6.30	9.32	12.93	6.61	4.21	10.31	11.00	11.52
16	9.45	6.58	9.09	12.34	6.38	8.79	10.39	6.43	9.49	13.14	6.70	4.63	10.59	11.00	11.62
23	9.35	6.61	9.11	12.42	6.38	8.73	10.29	6.33	9.51	13.74	6.67	4.56	10.46	11.00	11.55
30	9.31	6.56	9.03	12.42	6.38	8.70	9.92	6.03	9.39	13.44	6.41	3.96	10.21	11.00	11.54
1984 Weekly															
Jan. 6	9.30	6.11	9.03	12.42	6.25	8.60	9.94	5.91	9.39	13.36	6.38	3.81	10.24	11.00	11.50
13	9.21	6.24	9.08	12.42	6.19	8.57	9.90	6.08	9.51	13.17	6.33	3.81	10.14	11.00	11.42
20	9.23	6.24	9.07	12.42	6.19	8.58	9.76	6.01	9.45	13.36	6.31	3.70	10.02	11.00	11.29
27	9.28	6.24	9.07	12.42	6.23	8.61	9.79	5.94	9.44	13.18	6.38	3.63	10.02	11.00	11.31

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

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

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

4/ Prime lending rate of major New York banks.

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