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INTERNATIONAL MONETARY FUND

Treasurer's Department

Foreign Exchange and Financial Markets in February 1984

Prepared by Mark A. Lumsden and Nobumitsu Hayashi

Approved by Muhammad N. Bhuiyan

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The rising trend of the U.S. dollar was reversed in February with the major European currencies appreciating sharply against the U.S. dollar. The currencies participating in the EMS appreciated by 6.16-8.56 percent with the Deutsche mark, the Netherlands guilder, and the Belgian franc firming by more than 8.0 percent in nominal terms. The Swiss franc was the weakest of the European currencies, firming only 3.9 percent against the dollar, while the Japanese yen firmed modestly and the Canadian dollar eased marginally (see Table 1). The European currencies, especially those participating in the European Monetary System (EMS), strengthened on improved prospects for economic growth, particularly in Germany, and many European investors were reportedly reinvesting or considering reinvestment of profits received from investments in U.S. stocks and bonds in domestic money markets with the view that the U.S. dollar had risen too far in previous months. Hopes for an easier East-West relationship under the new Soviet leadership, following the death of Yuri Andropov, may also have boosted confidence in European currencies toward the end of February.

The U.S. dollar eased sharply against the European currencies despite firming interest rates on dollar-denominated assets. Factors keeping U.S. interest rates high were scepticism about action to reduce the budget deficit in this Presidential election year, announcement by the Federal Reserve Board Chairman of little change in the monetary targets for 1984, and the vigorous pace of U.S. economic activity. The three-month eurodollar rate rose from 9.69 percent at the end of January to 10.13 percent at the end of February. The change in sentiment toward the exchange rate for the dollar was partly attributed to concern about the U.S. trade deficit, which widened in

Table 1. Changes in Exchange Rates in February 1984 1/

(In percent)

	Monthly exchange rate changes			Changes in effective exchange rate since February 1983 3/
	Against U.S. dollar 2/	Against SDR 3/	Effective exchange rate 3/	
Belgium	+8.56	+5.08	+2.34	-3.4
Denmark	+7.16	+4.13	+2.70	-4.8
France	+7.80	+4.65	+2.94	-9.3
Germany	+8.41	+5.33	+3.67	-0.4
Ireland	+7.88	+4.81	+3.20	-8.7
Italy	+6.16	+3.22	+1.12	-8.1
Netherlands	+8.10	+5.02	+2.76	-2.2
Austria	+8.51	+5.23	+3.86	-2.4
Canada	-0.21	-2.67	-1.96	+0.7
Japan	+0.53	-1.93	-2.45	+5.3
Norway	+5.07	+2.21	+0.99	-0.2
Sweden	+5.39	+2.24	+1.07	+0.9
Switzerland	+3.92	+1.08	-0.23	+0.1
United Kingdom	+6.39	+3.49	+1.96	+4.1
United States	—	-2.46	-3.66	+5.8

1/ Positive sign indicates appreciation of the currency.
2/ Based on New York noon quotations.
3/ Based on the Fund's multilateral exchange rate model (MERM). Effective rates and rates against the SDR are based on representative exchange rates officially advised to the Fund.

January to a record $9.5 billion, and the view that the high level of U.S. interest rates and increased pace of economic activity could have the potential for re-emergence of inflationary pressure in the United States. The dollar received only minor support from safe-haven buying generated by fears that intensified fighting between Iran and Iraq might lead to restrictions on the supply of the Persian Gulf oil. The dollar eased 3.66 percent in effective (MERM) terms and 2.46 percent against the SDR in February and its 12-month effective appreciation declined from 9.2 percent in January to 5.8 percent.

Relative positions of the currencies within the EMS changed significantly during February. The Deutsche mark steadily firmed against most other currencies, with which it had been clustered at or near the top of the narrow band, to stand alone at the top by the end of the month. The Danish krone firmed the least in the narrow band to end the month around the middle of the band (see Chart 1). The Belgian franc remained the weakest currency in the narrow band but the spread from the Deutsche mark narrowed somewhat by the end of February, 1/ aided by a rise in official Belgian interest rates and an increased level of intervention support. The National Bank of Belgium spent the equivalent of over BF 75 billion in support of the Belgian franc, compared with BF 18 billion in January while the Bundesbank occasionally bought Belgian francs in Frankfurt. The divergence indicator for the Belgian franc, however, remained below its lower threshold for the fifth month in succession (see Chart 2), and the discount of the financial franc from the commercial franc widened markedly. The Italian lira remained the strongest currency in the EMS relative to ECU central parities but its margin over the Belgian franc narrowed considerably. The lira is permitted a maximum margin of 6.0 percent above (below) the weakest (strongest) currency in the EMS exchange arrangements. The discount rate in Italy was reduced and major banks followed by reducing their prime lending rates. The Bank of Italy sold significant amounts of U.S. dollars and some Deutsche mark at the fixings in Milan. Against the U.S. dollar, the EMS currencies firmed by 6.16-8.55 percent and were 1.12-3.67 percent firmer in effective (MERM) terms over the month.

The range within which the major European currencies traded against the U.S. dollar widened sharply in February, reflecting their strong appreciation (see Table 2). The range for the Austrian schilling widened similarly as it continued to trade in close association with the EMS currencies. For other major European currencies, the trading range more than doubled from January while it widened only slightly for the Canadian dollar and narrowed for the Japanese yen. The widest range was recorded by the Belgian franc (7.7 percent) while the narrowest range was recorded by the Canadian dollar and the Japanese yen (0.7 percent). The average of absolute daily percentage changes against the U.S. dollar (MAC in Table 2 and Chart 5) increased sharply for the EMS currencies (and the Austrian schilling), reflecting the strong appreciation of these currencies over the month; the average MAC was 0.67 percent compared with 0.48 percent in January. The MAC measure increased less dramatically for other major European currencies while it declined marginally for the Japanese yen and was unchanged for the Canadian dollar. The highest MAC was recorded by the Deutsche mark (0.73 percent) while the lowest continued to be recorded by the Canadian dollar (0.11 percent).

1/ The spread in the parity grid is 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.

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

	February 2/		High-low spread in percent 3/		MAC 4/	
	High	Low	Jan.	Feb.	Jan.	Feb.
Belgium	53.065	57.140	2.9	7.7	0.52	0.67
Denmark	9.530	10.140	2.9	6.4	0.46	0.66
France	7.9900	8.5450	2.9	6.9	0.50	0.67
Germany	2.5978	2.7915	2.9	7.5	0.51	0.73
Ireland	1.1840	1.1065	2.7	7.0	0.45	0.68
Italy	1615.0	1702.5	2.7	5.4	0.45	0.58
Netherlands	2.93525	3.14550	2.9	7.2	0.48	0.64
Austria	18.3075	19.685	2.8	7.5	0.50	0.72
Canada	0.80331	0.79780	0.5	0.7	0.11	0.11
Japan	232.815	234.45	1.0	0.7	0.23	0.22
Norway	7.500	7.855	2.0	4.7	0.37	0.44
Sweden	7.7675	8.1500	2.2	4.9	0.38	0.48
Switzerland	2.16575	2.23425	1.6	3.2	0.49	0.58
United Kingdom	1.4920	1.41025	2.3	5.8	0.53	0.50

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.

Among the countries for which changes in gross foreign exchange reserves are available for February, the large rise of $2,766 million for Germany reflected a substantial increase in ECU-denominated reserves (see Table 3). Significant increases were also recorded by Belgium, the United Kingdom, the Netherlands and Switzerland. The largest decline in February was recorded by Canada. Over the 12-month period, marked reserve decreases were recorded by the United States (year-to-January), Germany, the Netherlands and Austria, while large reserve increases were recorded by Italy and Japan.

Table 3. Foreign Exchange Reserves in February 1984 1/

(In millions of U.S. dollars)

	End-month reserve level	Change in February	Change over 12 months
Belgium	4,152	+520	+972
Denmark	3,507	+223	+883
France (January)	17,695	-62	+126
Germany	39,900	+2,748	-2,303
Ireland	2,599	-66	+336
Italy	17,998	+85	+4,566
Netherlands	8,866	+428	-1,099
Austria	3,367	-50	-956
Canada	2,621	-205	-763
Japan	20,837	+168	+1,271
Norway	6,267	+234	+535
Sweden	3,739	-48	+514
Switzerland	12,229	+522	-446
United Kingdom	9,096	+567	-124
United States (January)	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.

The Federal Reserve Bank of New York recently revealed that it intervened to maintain orderly market conditions on three occasions during December and January by buying, in consultation with the Bundesbank, relatively small amounts of Deutsche mark worth $193.4 million in total.

I. Developments in the Spot Exchange Markets

The U.S. dollar eased very sharply against major European currencies in February; it eased by 3.66 percent in effective (MERM) terms and 2.46 percent against the SDR. The dollar was, however, only slightly easier against the Japanese yen and firmed marginally against the Canadian dollar. Exchange market developments in February resulted in a reduction in the U.S. dollar's effective (MERM) appreciation over the last 12-month period to 5.8 percent from 9.2 percent in January.

Among underlying economic developments, the trade deficit in January widened to a record $9.47 billion, mainly reflecting a surge in imports, from a revised deficit of $6.74 billion in December. Although concern persisted over prospects for negotiating reductions in the budget deficit in 1984/85 and beyond, the deficit for the first four months of the current fiscal year narrowed to $68.8 billion from $77.9 billion in the same period a year earlier, reflecting the strong recovery of the U.S. economy. The index of leading economic indicators rose 1.1 percent in January following a downward-revised rise of 0.1 percent in December. The unemployment rate fell to 7.8 percent in February from 8.0 percent in January.

The Deutsche mark firmed sharply by 8.41 percent against the U.S. dollar and 3.67 percent in effective (MERM) terms as confidence increased in the prospects for a sound economic recovery. The currency was the strongest in the narrow band of the EMS parity grid from mid-month onward. The strength of the German economic recovery is illustrated by the seasonally adjusted rise in industrial production of 1.5 percent in the December-January period over the previous two months; the index was up 6.5 percent year-on-year. The unemployment rate in January, however, was unchanged at 10.2 percent. The growth rate of real GNP in 1983 was revised to 1.3 percent from 1.2 percent. The current account swung into a deficit in January of DM 600 million from a surplus in December of DM 5.5 billion and the deficit widened from DM 120 million posted in January 1983. The cost of living index rose 0.3 percent in February for a 3.1 percent year-on-year rise.

The French franc firmed 7.80 percent against the U.S. dollar and 2.94 percent in effective (MERM) terms. Newspaper reports from Paris indicated the Bank of France may have been intervening to support the French franc even though the currency was relatively firm within the narrow band of the EMS parity grid. The index of industrial wholesale prices rose 1.4 percent in January and was up 16.2 percent year-on-year.

The Belgian franc firmed 8.55 percent against the U.S. dollar and 5.08 percent in effective (MERM) terms but remained the weakest currency in the EMS relative to ECU central parities. The divergence indicator for the Belgian franc remained considerably below its lower threshold throughout the month (see Chart 2), despite increases in the discount, Lombard and Treasury bill rates, and a substantially increased scale of intervention by the National Bank of Belgium. The discount of the financial franc from the commercial franc widened markedly to 4.2 percent at the end of the month from 1.8 percent at the end of January. The unemployment rate remained unchanged from the end of January at 12.5 percent. Industrial production declined 1.4 percent year-on-year in December. The wholesale price index rose 0.8 percent in January for a 10.9 percent year-on-year rise.

The Netherlands guilder firmed 8.10 percent against the U.S. dollar and 2.76 percent in effective (MERM) terms. Industrial production, seasonally adjusted, rose 3.6 percent in December and was up 6.5 percent year-on-year but for 1983 industrial output rose only slightly by 0.9 percent over 1982. The number of persons unemployed, seasonally adjusted, rose 0.5 percent in February; the unemployment rate was 17.8 percent in January. The producer price index for consumption and investment goods rose 0.3 percent in December and was up 2.5 percent year-on-year.

The Danish krone firmed 7.16 percent against the U.S. dollar and 2.70 percent in effective (MERM) terms but slipped toward the middle of the EMS parity grid during the month. The wholesale price index rose 0.9 percent in January and was up 6.8 percent year-on-year. The Irish pound firmed 7.88 percent against the U.S. dollar and 3.20 percent in effective (MERM) terms. The number of persons unemployed in February, seasonally adjusted, rose 0.2 percent; the unemployment rate was unofficially estimated at over 16 percent.

The Italian lira firmed the least of the EMS currencies; it firmed 6.16 percent against the U.S. dollar and 1.12 percent in effective (MERM) terms. The spread of the lira above the weakest currency in the EMS (the Belgian franc) narrowed from 5.0 percent at the end of January to 2.7 percent at the end of February in terms of deviations from central parities. The Bank of Italy sold $150 million and DM 70 million at the fixings in Milan. Widespread industrial disruption followed government imposition of a deduction of 3.0 percentage points of inflation in the scala mobile wage indexation system, following the breakdown of negotiations with union representatives, and the discount rate and major bank prime lending rates were reduced. The index of industrial production in January rose 4.2 percent over January 1983. The trade deficit in January narrowed to Lit 1,017 billion from Lit 1,912 billion in December and Lit 2,610 billion in January 1983. The wholesale price index in January rose 1.4 percent and was up 10.2 percent year-on-year.

The pound sterling firmed 6.39 percent against the U.S. dollar and 1.96 percent in effective (MERM) terms. The pound's performance on the exchange market was influenced by fears that increased fighting between Iran and Iraq might lead to restrictions on oil supplies from the Persian Gulf region. The index of industrial production, seasonally adjusted, rose 0.7 percent in January for a 4.1 percent year-on-year rise. The unemployment rate, seasonally adjusted, rose to 12.6 percent in February from 12.5 percent in January. The current account balance swung into a deficit in January of £129 million from a surplus in December of £568 million; the surpluses in 1982 and 1983 were revised to £5.6 billion and £2.0 billion respectively. The producer output price index rose 0.6 percent in February for a 5.9 percent year-on-year rise.

The Swiss franc firmed 3.92 percent against the U.S. dollar but eased 0.23 percent in effective (MERM) terms. The cross rate against the Deutsche mark eased to 83.4 centimes per mark at the end of the month from 79.6 centimes at the end of February. The trade deficit in February narrowed to Sw F 933 million from a revised Sw F 1,004 million in January but widened from a year earlier deficit of Sw F 705 million. The wholesale price index in February rose 0.2 percent and was up 3.0 percent year-on-year.

The Japanese yen firmed only 0.53 percent against the U.S. dollar and eased 2.45 percent in effective (MERM) terms as exchange market activity in the month was principally centered around the European currencies against the U.S. dollar. The 12-month effective appreciation of the yen was reduced from 8.8 percent at the end of January to 5.3 percent at the end of February. Industrial production, seasonally adjusted, rose 0.8 percent in January and was up 10.1 percent year-on-year. The current account surplus, seasonally adjusted, widened to $2.87 billion in January from $1.82 billion in December. The trade surplus in February, however, narrowed slightly to a seasonally adjusted $2.33 billion from $2.37 billion in January. The wholesale price index rose 0.2 percent in February but was down 1.3 percent year-on-year.

The Canadian dollar was the only major currency to ease against the U.S. dollar during February; it eased 0.21 percent against the U.S. dollar and 1.96 percent in effective (MERM) terms. Industrial production, seasonally adjusted, rose 1.0 percent in December, the tenth consecutive monthly rise, and was up 18.3 percent year-on-year. Fourth quarter real GNP grew at a seasonally adjusted annual rate of 3.6 percent compared with an average rate of 1.9 percent in the first three quarters of 1983. The unemployment rate, however, rose to 11.3 percent in February from 11.2 percent in January. The budget deficit in January widened to Can$1.59 billion from Can$1.32 billion in January 1983. The trade surplus also widened in January to a seasonally adjusted Can$2.10 billion from Can$1.65 billion in December.

The Austrian schilling continued to move in line with the EMS currencies; it firmed sharply by 8.51 percent against the U.S. dollar and by 3.86 percent in effective (MERM) terms. The Norwegian krone firmed 5.07 percent against the U.S. dollar and 0.99 percent in effective (MERM) terms. The Swedish krona firmed 5.39 percent against the U.S. dollar and 1.07 percent in effective (MERM) terms.

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

Monetary and credit conditions moved divergently in major industrial countries during February but appeared on balance to have tightened somewhat. Short-term market interest rates firmed by 0.08-1.50 percentage points in Belgium, Canada, France, Japan, the Netherlands, Switzerland, and the United States while those in Germany, Italy and the United Kingdom eased by 0.01-0.56 percentage points.

Interest rates in the United States rose early in February following the release of the December Federal Reserve Open Market Committee Record of Policy Action, where it voted for no change in policy but indicated a willingness to tighten its stance if economic growth became too strong. Interest rates remained firm during the rest of the month as there were no substantial developments in reducing massive budget deficits. In the Federal budget that the Administration submitted at the beginning of the month, the deficit is projected to be $180 billion for FY 1985, compared with $184 billion expected for the current fiscal year. The bond-equivalent yield on three-month Treasury bills firmed by 0.24 percentage point during February to 9.49 percent and the 90-day CD rate firmed by 0.33 percentage point to 9.66 percent. The Federal funds rate averaged 9.62 percent in the last week of February, compared with 9.41 percent in the last week of January.

The Federal Reserve announced its new monetary growth objectives for 1984 in its Monetary Policy Report submitted to the Congress on February 7. The tentative ranges established last July were modified only slightly (see Table 4). The ranges are intended to be consistent with the basic policy objective of achieving long-lasting economic expansion in the context of a continuing need for the control of latent inflationary pressures. M2 and M3 will continue to receive substantial weight in policy implementation and are expected to fluctuate in the upper part of their ranges. M1, which is expected to grow around the midpoint of the range, would be evaluated in the context of the movements in the broader monetary aggregates. Measures of the money supply for 1983 were revised to reflect annual seasonal factor and benchmark revisions, as well as a definitional change in M3. The definition of M3 was changed to include term eurodollars held by U.S. residents in Canada and the United Kingdom and at foreign branches of U.S. banks elsewhere.

Table 4. Money Supply Growth and the Fed's Target Ranges

(In percent)

	1984		1983		
				Actual	
	New ranges	Tentative ranges in July 1983	Fed's target in July 1983	Revised	Originally reported
M1	4.0-8.0	4.0-8.0	5.0- 9.0	7.2	5.5
M2	6.0-9.0	6.5-9.5	7.0-10.0	8.3	7.8
M3	6.0-9.0	6.0-9.0	6.5- 9.5	9.7	9.2

Note: Measured from the fourth quarter of the previous year to the fourth quarter of the current year, except for M1 in 1983 (from the second quarter to the fourth quarter) and M2 in 1983 (from February/March to the fourth quarter).

The Federal Reserve also introduced a new Contemporaneous Reserve Requirement (CRR), beginning February 2. The new system differs from the previous reserve requirement structure in two principal ways. First, required reserves against transactions deposits have to be held on an essentially contemporaneous basis, instead of being lagged by two weeks. Second, the reserve holding period is lengthened from one week to two weeks. The Federal Reserve was reported to have provided ample reserves during the transition period.

The National Bank of Belgium raised its discount and Lombard rates by one percentage point to 11 percent and 12 percent, respectively, from February 16. The previous increase took place on November 24, 1983, when both the rates were raised by one percentage point. The measure was taken in view of the persistent pressure on the Belgian franc on the foreign exchange market which the authorities attributed to technical factors, such as, a temporary acceleration of imports and the weakening of the U.S. dollar. The authorities noted that the interest rate actions would be backed up by more fundamental measures aimed at consolidating economic recovery, including reductions in the budget deficit. The Bank also raised the rate on one-month Treasury certificates to 11.6 percent from 10.85 percent; the rate had been previously raised from 10.5 percent on February 6. The rates on two- and three-month certificates were raised to 11.85 percent from 10.85 percent.

Among the other countries in the European Monetary System, Germany's short-term interest rates eased during February, reflecting the Bundesbank's move to add liquidity in the market to support the economic expansion as the Deutsche mark firmed against the U.S. dollar. The three-month interbank rate eased by 0.22 percentage point to 5.96 percent at the end of February. France's short-term interest rates firmed in February, with the three-month interbank rate rising by 0.25 percentage point to 12.67 percent. The three-month euro-French franc interest rate rose sharply by 4.25 percentage point to 17.38 percent. The Bank of Italy lowered its rate for discounts and advances by one percentage point to 16 percent, with effect on February 16, reflecting the progress made in reducing inflation and the improvement in the current account of the balance of payments. Major Italian banks cut their prime lending rates by 1.00-1.25 percentage points to 17.25-17.50 percent on February 24.

Sterling M3, the broadly defined monetary aggregate of the United Kingdom, was estimated to have remained unchanged in the banking month ended February 15, compared with an increase of 0.6 percent in January. The narrowest monetary aggregate, M1, was estimated to have risen by 0.75 percent in February, compared with a fall of 0.2 percent in January and the broadest aggregate Public Sector Liquidity 2 rose by 1.25 percent after increasing by 1.1 percent in January. Over the 12-month period since mid-February 1983, M3 grew at an annual rate of 9.75 percent, M1 at 11 percent and PSL2 at 12.5 percent; the target for each of these aggregates is 7-11 percent during the 14 months through mid-April 1984.

Switzerland's basic money supply in January fell by 1.8 percent year-on-year. The National Bank said that the drop did not result from a more restrictive policy but from the basic effect of unusually high growth rates recorded in January 1983 and that the goal of increasing the money supply by 3.0 percent in 1984 would not be endangered. Details of recent interest rate and inflation rate levels in major countries are given in Table 5.

In the eurocurrency markets, the three-month eurodollar interest rate firmed by 0.44 percentage point to 10.13 percent at the end of February. As a result, the uncovered interest differentials favoring eurodollar investment widened for Germany, Japan, the Netherlands and the United Kingdom. Those favoring domestic investment narrowed for France and Italy but widened for Belgium (see Table 6).

In the forward exchange markets, the premia against the U.S. dollar widened for the Deutsche mark, the Japanese yen, the Netherlands guilder and the pound sterling between the end of January and the end of February. The discount against the U.S. dollar widened markedly for the Belgian franc and the Italian lira and especially sharply for the French franc, reflecting pressures against the currency in the market. Consequently, the covered differentials favoring eurodollar investment

Table 5. Inflation Rates and Short-Term Interest Rates

		Inflation rates 1/ (year-on-year percent changes)		Short-term interest rates 4/ (end-of-month)	
	Month 2/	Wholesale price index	Consumer price index 3/	Jan.	Feb.
Austria	December	-- (--)	3.8 (3.7)	3.75	3.75
Belgium	Jan./Feb.	10.9 (10.2)	7.1 (6.9)	11.00	12.50
Canada	Dec./Jan.	3.6 (3.5)	5.3 (4.5)	9.71	9.79
Denmark	January	6.8 (5.3)	5.5 (6.1)	7.00	7.00
France	January	16.2 (15.3)	9.0 (9.2)	12.42	12.67
Germany	Jan./Feb.	3.4 (1.7)	3.1 (2.9)	6.18	5.96
Italy	Jan./Feb.	10.2 (9.2)	12.2 (12.5)	17.94	17.38
Japan	Feb./Jan.	-1.3 (-1.4)	1.8 (1.8)	6.25	6.44
Netherlands	Dec./Feb.	2.5 (1.7)	3.6 (3.2)	6.00	6.13
Norway	January	5.6 (6.0)	6.4 (7.1)	8.00	8.00
Sweden	January	-- (--)	8.4 (9.3)	8.50	8.50
Switzerland	Feb./Jan.	3.0 (2.4)	2.7 (2.1)	3.44	3.69
United Kingdom	Feb./Jan.	5.9 (5.7)	5.1 (5.3)	9.07	9.06
United States	January	1.9 (0.6)	4.1 (3.8)	9.25	9.49

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

widened very sharply for France and significantly for Belgium, while those for Japan and the United Kingdom switched to narrowly favor domestic investment. Those favoring domestic investment widened for Germany and the Netherlands but narrowed sharply for Italy.

Table 6. 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)	
	Jan.	Feb.	Jan.	Feb.	Jan.	Feb.
Belgium 3/	-1.31	-2.37	-1.57	-3.20	+0.26	+0.83
France	-2.73	-2.54	-3.32	-6.34	+0.59	+3.80
Germany	+3.51	+4.17	+3.90	+4.60	-0.39	-0.43
Italy	-8.25	-7.25	-6.70	-7.13	-1.55	-0.12
Japan	+3.44	+3.69	+3.42	+3.82	+0.02	-0.13
Netherlands	+3.69	+4.01	+3.77	+4.26	-0.08	-0.25
United Kingdom	+0.60	+1.07	+0.47	+1.14	+0.13	-0.07

1/ Positive sign indicates differential in favor of eurodollar 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 firmed steadily in February as shown in Table 7. It increased to 8.74 percent in the week beginning February 27, compared with 8.60 percent in the week beginning January 30, reflecting higher yields on the relevant instruments for the U.S. dollar, the French franc and the Japanese yen, which firmed by 0.28, 0.38 and 0.13 percentage points, respectively, partly offset by lower yields on those for the Deutsche mark and the pound sterling which eased by 0.27 and 0.01 percentage points respectively. The rate of remuneration paid on creditor positions in the Fund (85 percent of the SDR interest rate) increased to 7.43 percent in the last week of February from 7.31 percent in the last week of January.

Table 7. The SDR Interest Rate and the Rate of Remuneration 1/

	Jan.	February			
	30	6	13	20	27
SDR interest rate	8.60	8.62	8.68	8.73	8.74
Rate of remuneration	7.31	7.33	7.38	7.42	7.43

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 firmed by 0.06-0.12 percentage points between the end of January and the end of February. This reflected higher yields on the relevant instruments in the United States and France which firmed by 0.20-0.44 and 0.04-0.25 percentage points, respectively, partly offset by lower yields in Germany and the United Kingdom which eased by 0.27-0.42 and 0.01-0.34 percentage points, respectively, during February; yields in Japan were mixed. The combined domestic rates displayed a rising yield curve moving up from 8.72 percent on the three-month maturity, through 9.0 percent and 9.19 percent on the six- and twelve-month maturities, respectively, to 10.50 percent on the five-year maturity.

The combined eurocurrency interest rates for three, six, and twelve months firmed sharply by 0.51, 0.43 and 0.42 percentage points, respectively, to 9.48 percent, 9.57 percent and 9.90 percent at the end of February. This reflected sharply higher euro-French franc rates which rose by 2.28-4.13 percentage points, as did eurodollar and euro-yen rates by 0.31-0.56 and 0.16-0.19 percentage points, partly offset by lower euro-Deutsche mark and euro-sterling rates which eased by 0.06-0.19 and 0.13-0.44 percentage points during February.

Average interest rates on SDR-denominated deposits of selected commercial banks firmed by 0.36-0.53 percentage points between the end of January and the end of February. The deposit rates displayed a rising yield curve moving up from 9.14 percent on one-month deposits, through 9.31 percent and 9.44 percent on three- and six-month deposits, respectively, to 9.75 percent on 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 firming by 0.13 percentage point to 9.98 percent. The yield to maturity ranged from 10.45 percent to 17.40 percent with the average yield to maturity easing by 0.19 percentage point to 11.72 percent at the end of February (see Table 8).

Table 8. Yields on Alternative SDR-Denominated Assets 1/

	January	February
Combined market interest rates 2/		
Based on domestic rates		
3-month maturity (Rule T-1)	8.62	8.72
6-month maturity	8.88	9.00
12-month maturity	9.13	9.19
5-year maturity	10.38	10.50
Based on euro-currency rates		
3-month maturity	8.97	9.48
6-month maturity	9.14	9.57
12-month maturity	9.48	9.90
Average commercial bank deposit rates 3/		
1-month deposits	8.61	9.14
3-month deposits	8.89	9.31
6-month deposits	9.08	9.44
12-month deposits	9.36	9.75
Bonds quoted on the Luxembourg Stock Exchange 4/		
Average current yield	9.85	9.98
Average yield to maturity	11.91	11.72

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.

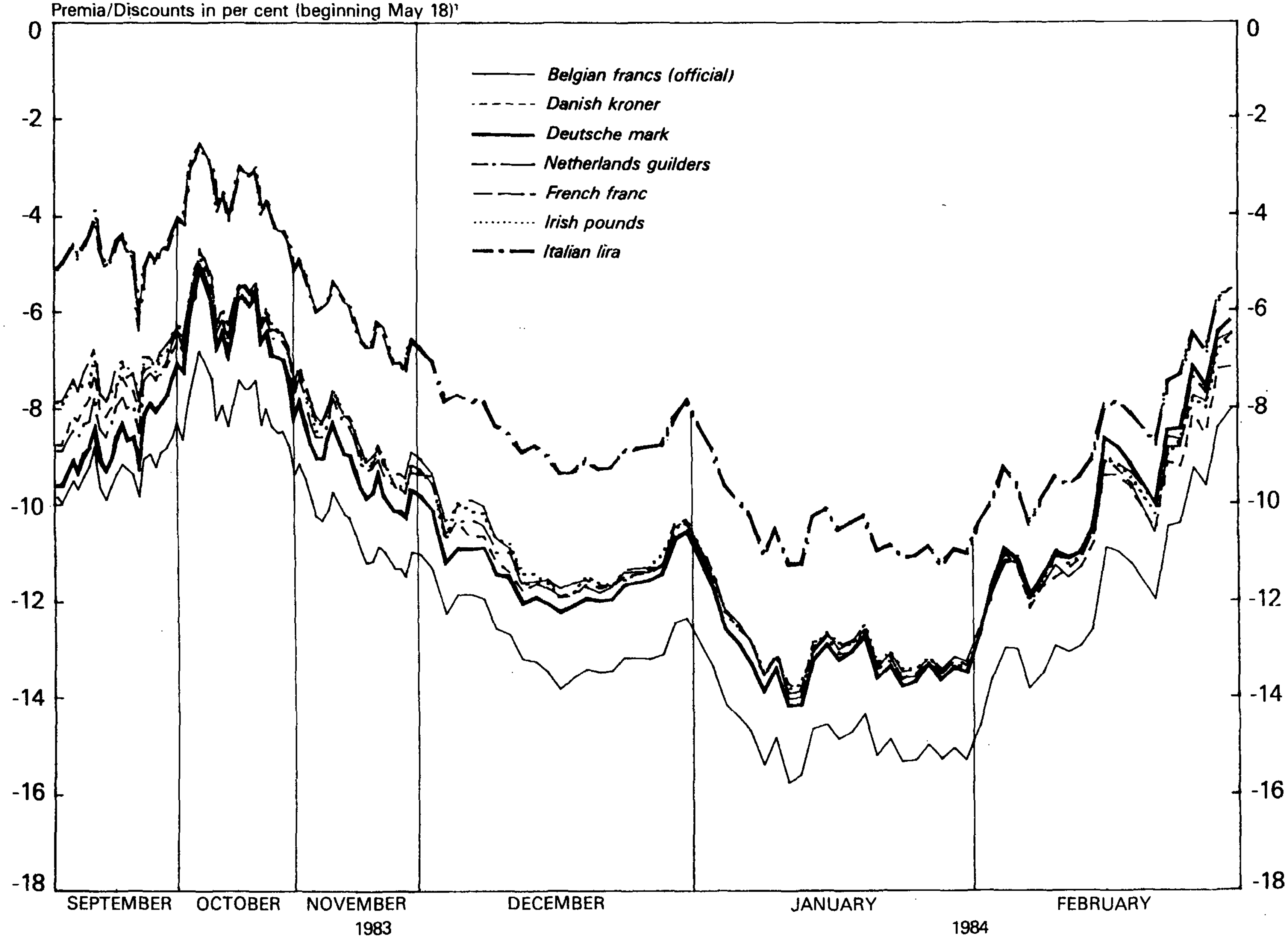
3/ Average of rates quoted by selected commercial banks.

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)

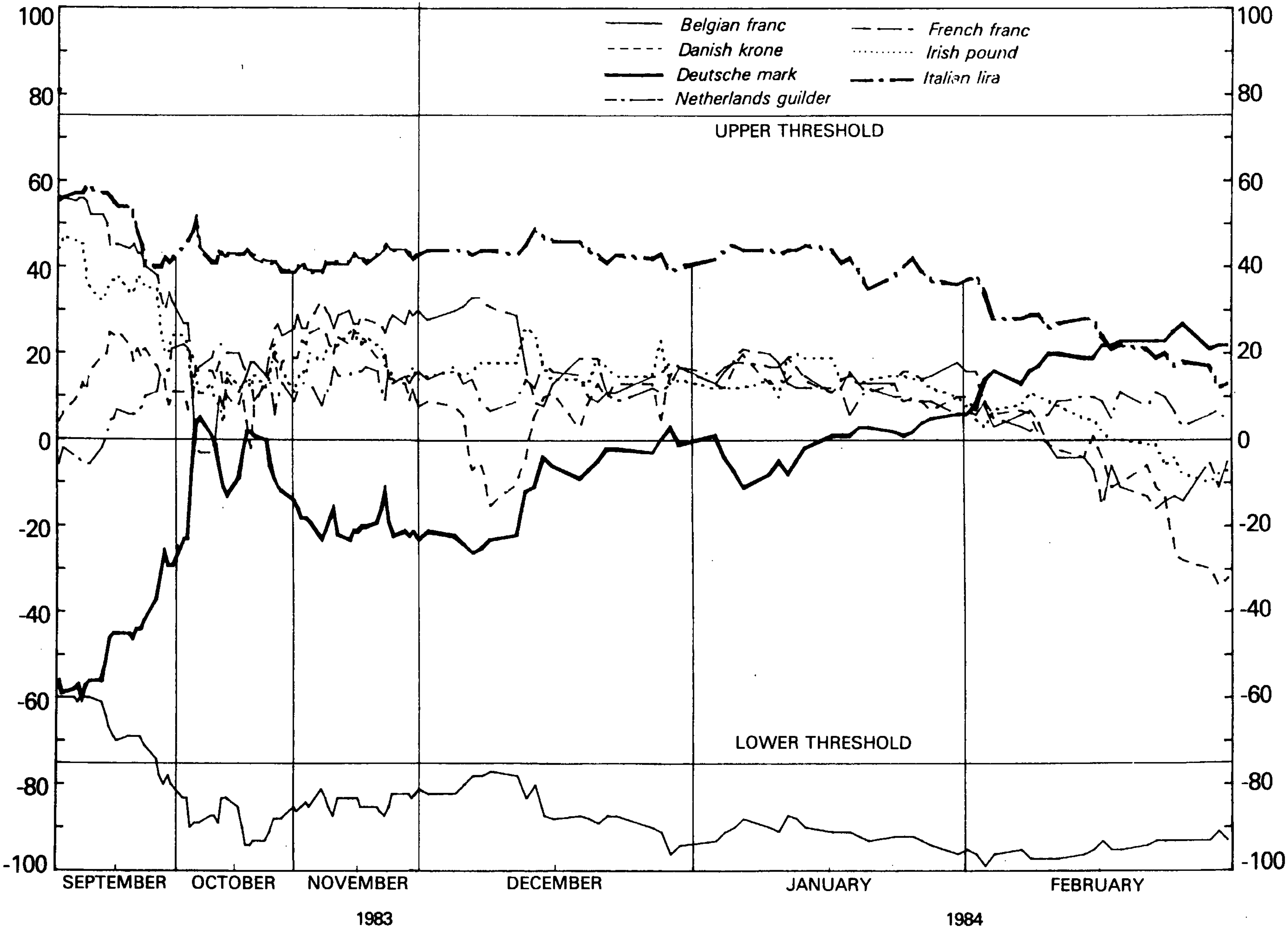


CHART 3

SPOT EXCHANGE RATES

(Noon quotations in New York)

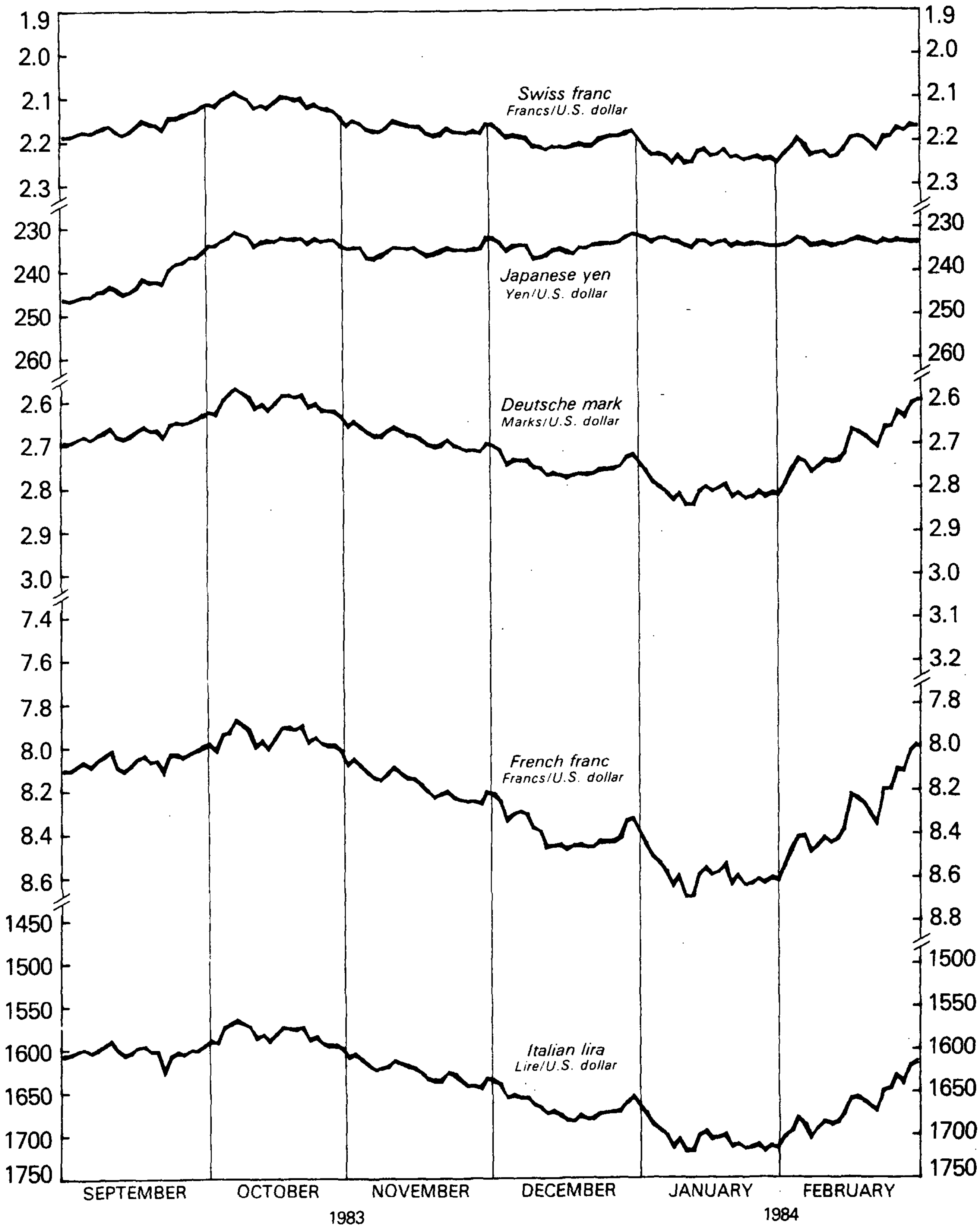


CHART 4
SPOT EXCHANGE RATES
(Noon quotations in New York)

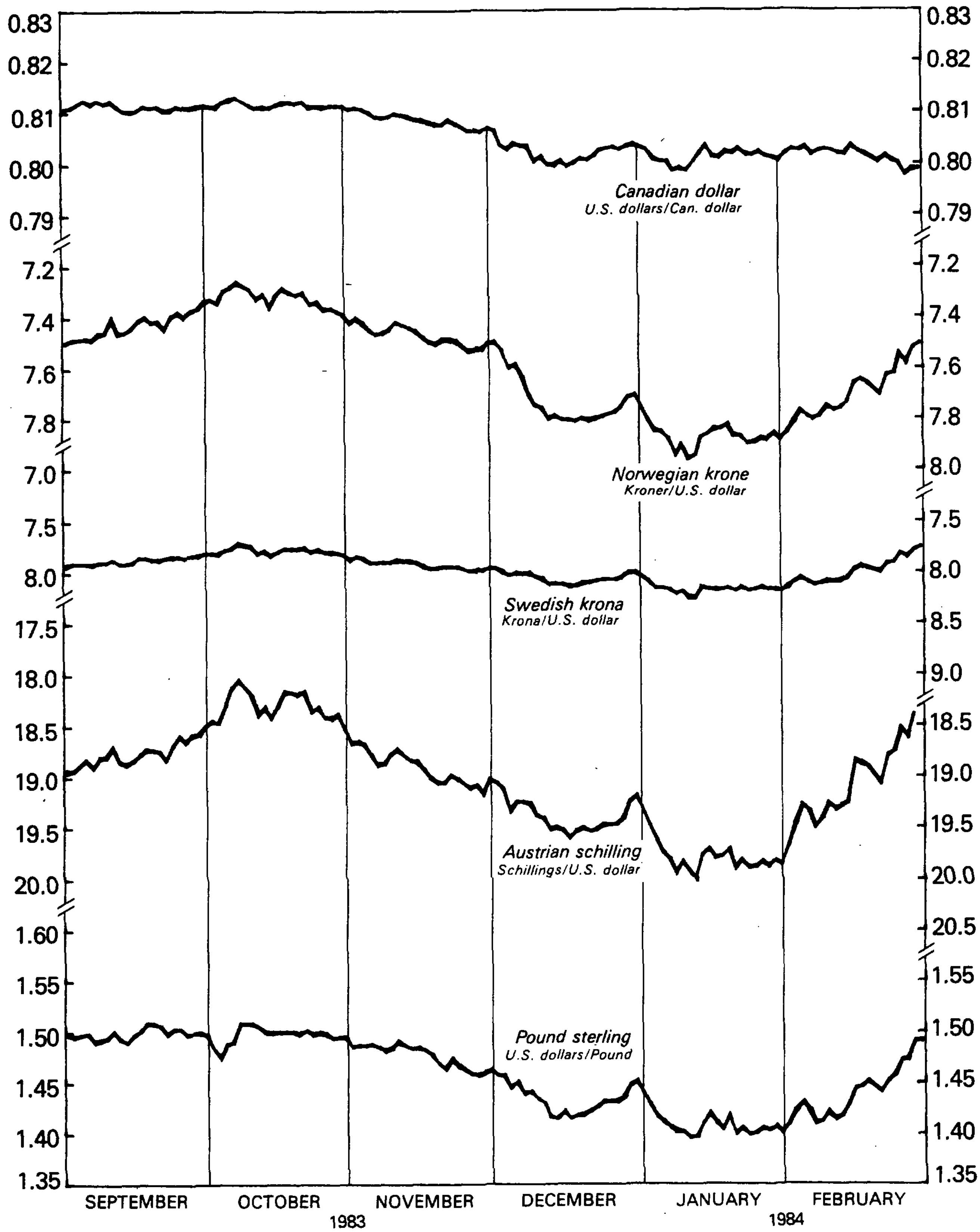
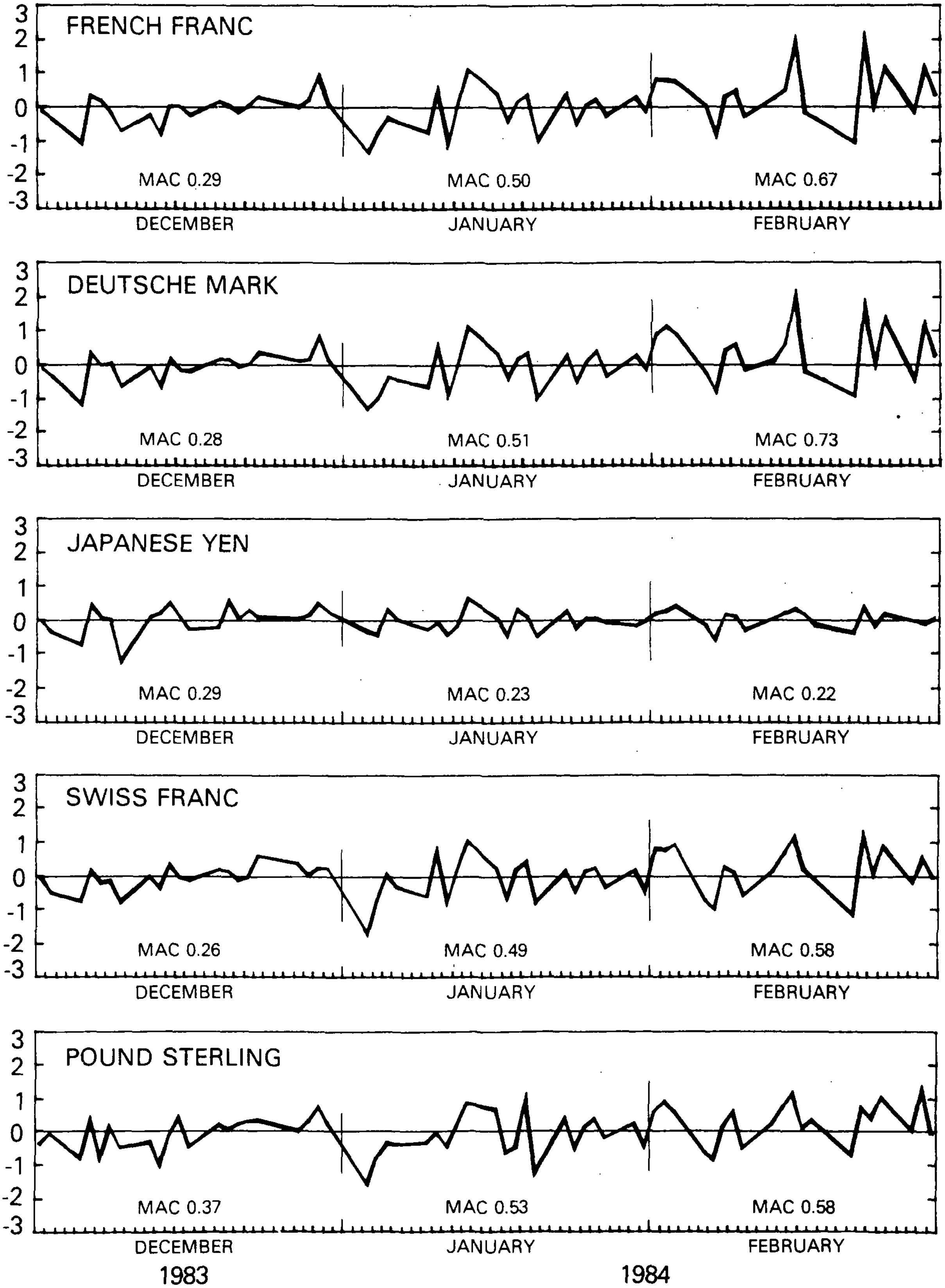


CHART 5

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 - FEB. 1984

(June 28, 1974=100)

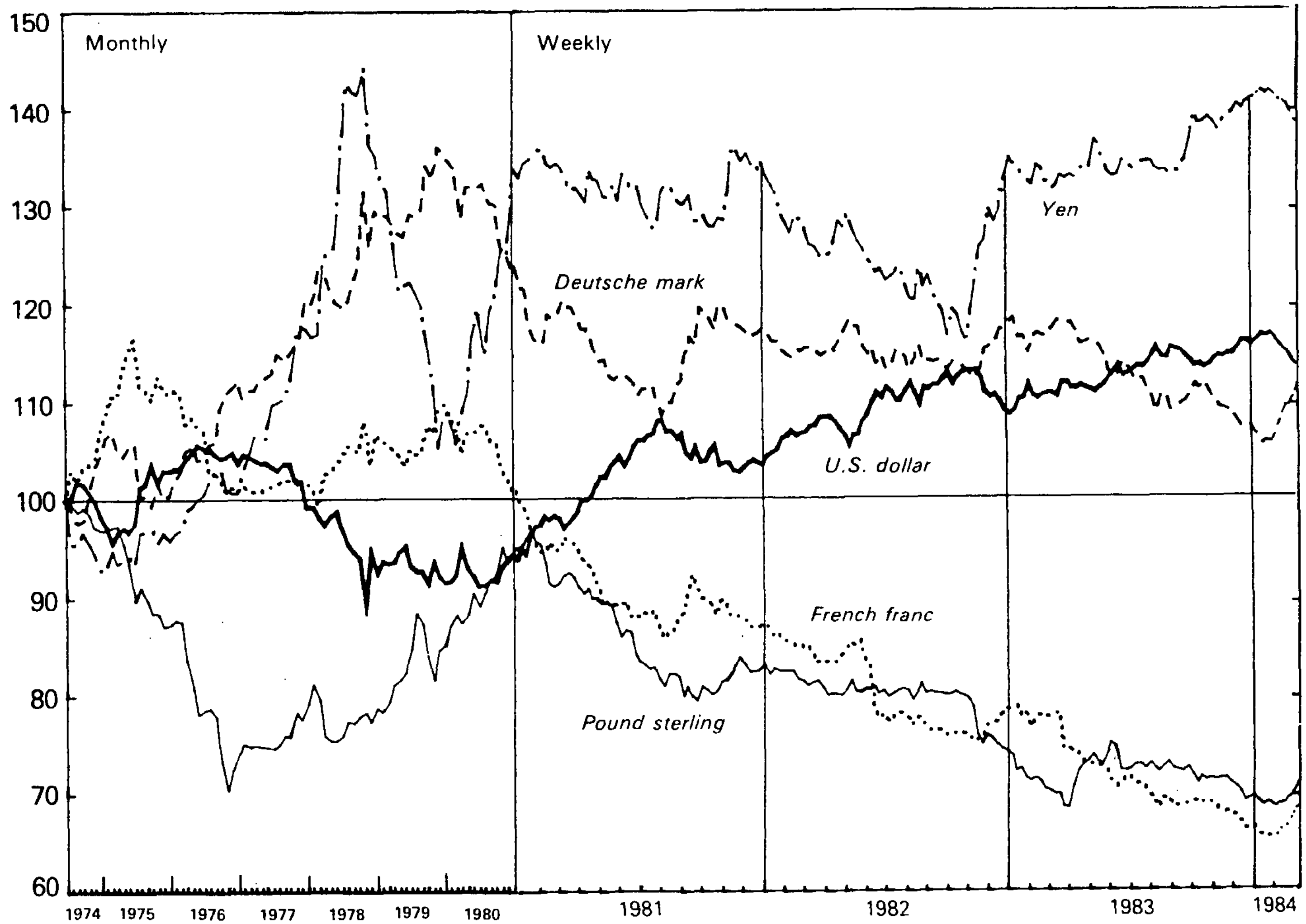
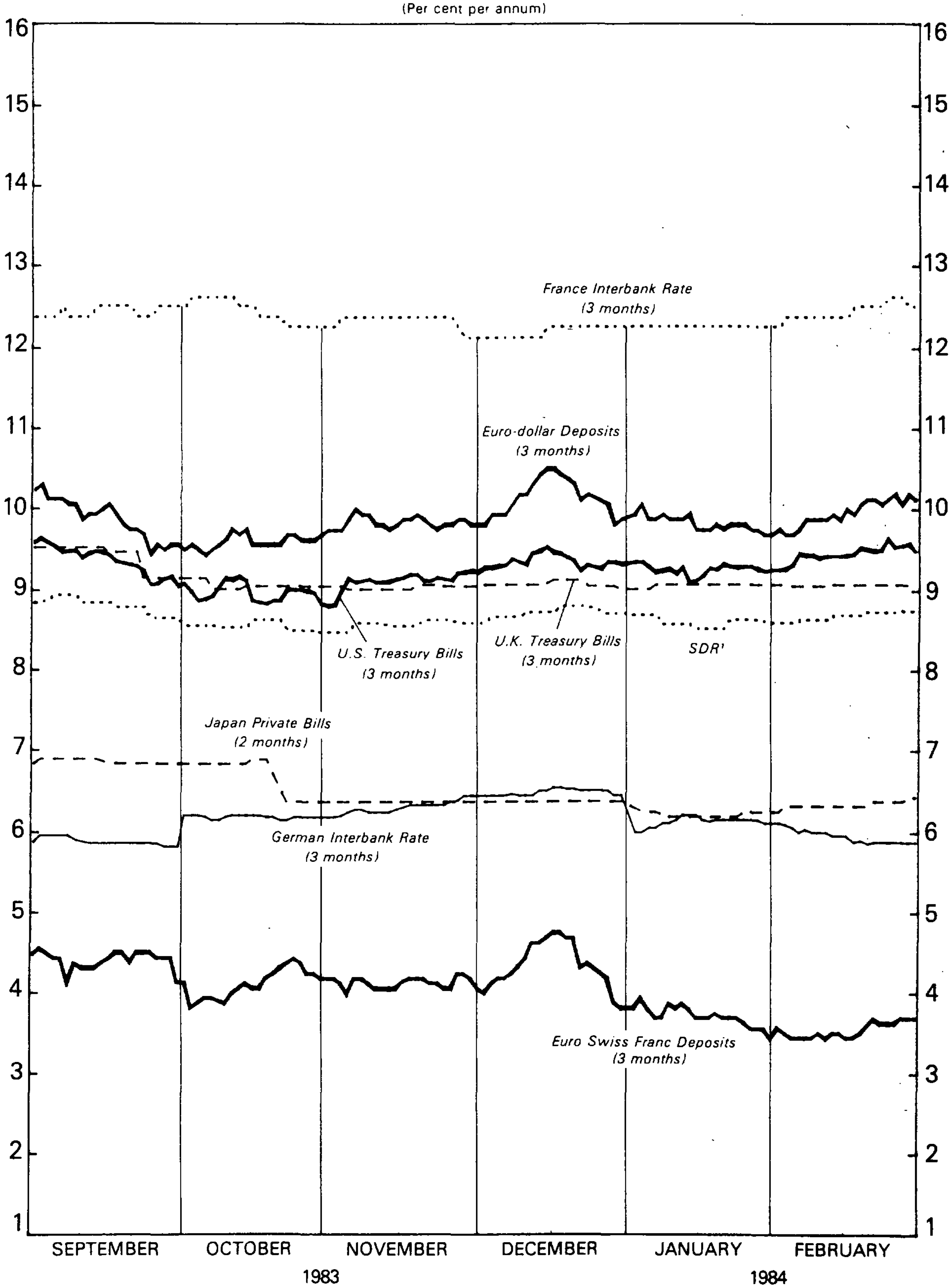


CHART 7

SHORT-TERM MONEY MARKET RATES



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

CHART 8

THREE-MONTH FORWARD RATES

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

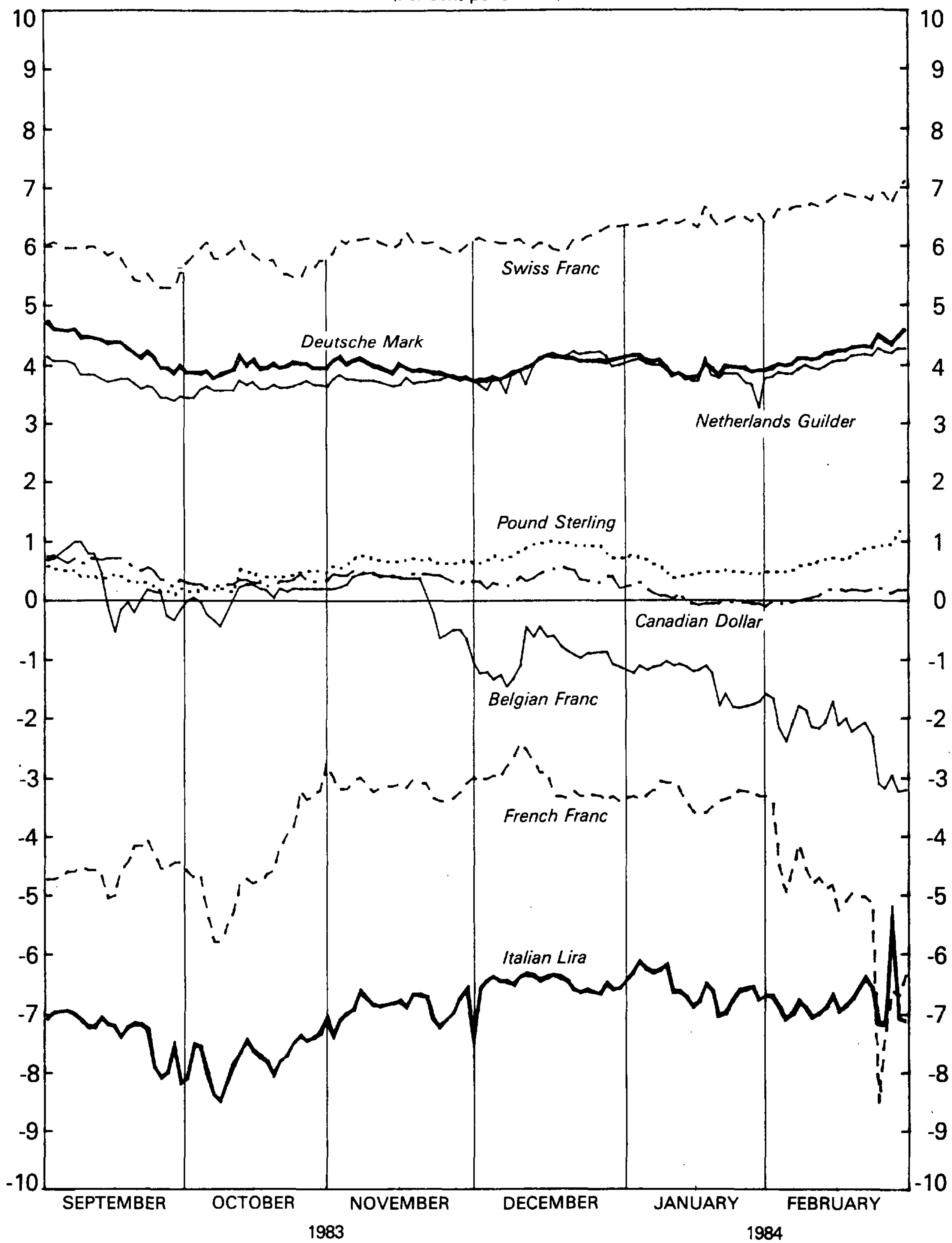
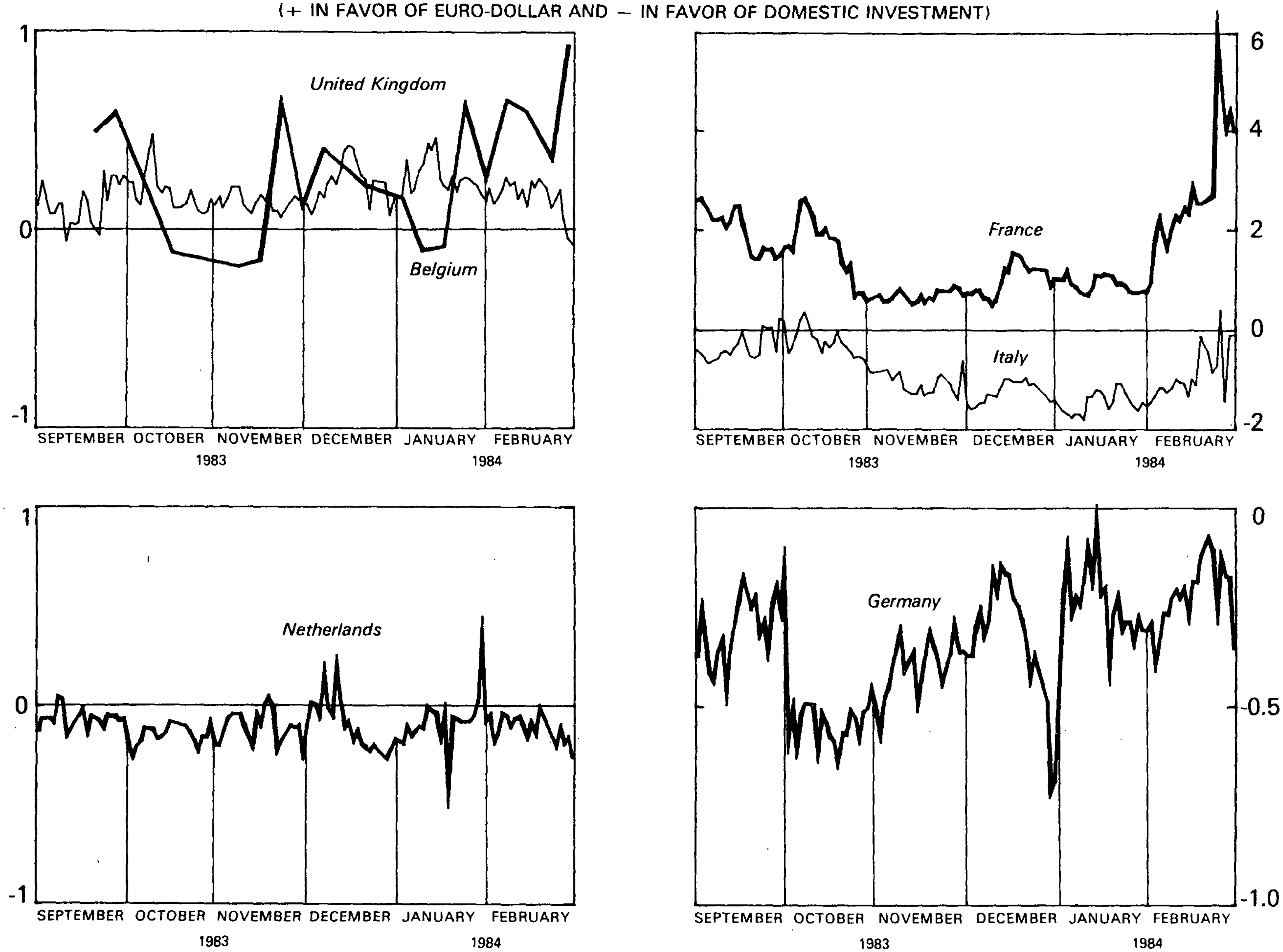


CHART 9

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

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



Foreign Exchange Rates, January 1984-February 1984

	January 4	January 11	January 18	January 25	February 1	February 8	February 15	February 22	February 29
Austrian schilling	19.6230	20.0175	19.7750	19.8850	19.6850	19.4075	18.8375	18.7800	18.3075
Belgian franc									
Official	56.845	57.935	57.220	57.605	57.140	56.415	54.760	54.500	53.065
Financial	57.825	58.675	58.375	58.495	58.425	57.925	56.785	56.575	55.275
Canadian dollars	0.80074	0.79859	0.80103	0.80144	0.80180	0.80244	0.80331	0.80141	0.79882
Danish kroner	10.0775	10.2550	10.1500	10.2300	10.1400	10.0200	9.7650	9.7355	9.5300
Deutsche mark	2.78750	2.83900	2.80250	2.82250	2.79150	2.75325	2.66685	2.66200	2.59780
French francs	8.5075	8.6900	8.5725	8.6300	8.5450	8.4575	8.2200	8.1950	7.9900
Irish pounds	1.1125	1.0925	1.1040	1.0980	1.1065	1.1215	1.1527	1.1542	1.1840
Italian lire	1687.500	1718.500	1702.250	1715.000	1702.500	1692.500	1657.000	1648.500	1615.000
Japanese yen	233.370	234.400	233.575	234.160	234.200	234.110	233.175	233.150	233.400
Netherlands guilder	3.1270	3.1883	3.1575	3.1760	3.1455	3.1055	3.0168	3.0032	2.9353
Norwegian kroner	7.8450	7.9575	7.8367	7.8925	7.8550	7.7880	7.6625	7.6250	7.5000
Pounds sterling	1.4177	1.3966	1.4045	1.4011	1.4103	1.4132	1.4449	1.4520	1.4910
Swedish kroner	8.1575	8.2550	8.1715	8.1725	8.1500	8.1150	7.9850	7.9275	7.7675
Swiss francs	2.23225	2.25225	2.23175	2.24325	2.23425	2.22875	2.19625	2.19325	2.16725

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 8

Short- and Medium-Term Interest Rates

(Monthly and weekly averages)

	National Money Markets 1/						Eurocurrency 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															
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
Feb.	9.45	6.04	9.06	12.62	6.34	8.69	9.96	5.84	9.38	15.78	6.45	3.54	10.21	11.00	11.54
1983 Weekly															
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
Feb. 3	9.26	6.17	9.06	12.47	6.11	8.60	9.70	5.90	9.44	13.39	6.39	3.50	9.96	11.00	11.31
10	9.24	6.09	9.05	12.55	6.31	8.68	9.85	5.84	9.39	14.68	6.38	3.45	10.05	11.00	11.43
17	9.46	6.01	9.06	12.60	6.31	8.69	7.96	5.80	9.42	15.37	6.39	3.48	10.18	11.00	11.55
24	9.54	5.96	9.06	12.74	6.38	8.74	10.12	5.86	9.38	17.52	6.50	3.64	10.39	11.00	11.67

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/ Eurocurrency 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.