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INTERNATIONAL MONETARY FUND

Treasurer's Department

Foreign Exchange and Financial Markets in March 1984

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The foreign exchange market in March was characterized by the lack of a clear trend and a succession of relatively large swings in the quotations of major currencies against the U.S. dollar. While higher U.S. interest rates and strong economic performance appeared to sustain the strength of the U.S. dollar on the exchange, the market remained concerned about U.S. budget deficits and substantial increase in U.S. trade imbalance. Trading conditions were mostly moderate with occasional nervous reactions to reports of developments in U.S. economic indicators. Over the month as a whole, major currencies were narrowly mixed against the U.S. dollar, moving in the range of -0.34 percent and +0.71 percent, except for the Japanese yen which firmed sharply by 3.88 percent and the Canadian dollar and the pound sterling which eased by 1.93 percent and 3.55 percent respectively; the U.S. dollar eased by 0.47 percent in effective (MERM) terms.

The market opened with a sharp appreciation of the Japanese yen, displaying apparently a lagged adjustment to the declining trend of the U.S. dollar against other major currencies which began in mid-January. It may be recalled that the Deutsche mark and other major European currencies firmed by substantial margins between mid-January to the end of February but the yen firmed only modestly by 0.61 percent. The yen firmed by 3.88 percent over the month of March while the EMS currencies recorded only modest changes. The Japanese currency rose sharply by 2.33 percent against the U.S. dollar on March 2 and again by 2.15 percent on March 5 to ¥ 233.30 per dollar, reflecting market confidence in the Japanese economy, especially its strong external position. The U.S. dollar eased also against other leading currencies during the first week of March, mainly in reaction to the news of a record $9.47 billion trade deficit in January and the report of the Federal Reserve Board Chairman's concern that the United States was becoming a major world debtor.

From the second week of March, however, the U.S. dollar firmed substantially, reacting primarily to the rising trend of U.S. interest rates and the strength of the economy as indicated, inter alia, by the "flash" estimate of the Commerce Department, predicting a 7.2 percent growth of real GNP in the first quarter. There was a growing expectation that the Fed would tighten its credit policy and increase its discount rate as the Federal funds rate rose above the upper monitoring range of 10 percent and major banks raised their prime lending rate by half a percentage point to 11 1/2 percent on March 19. The uptrend of the dollar was reversed in the last week of the month as expectations of a discount rate rise did not materialize, U.S. interest rates tended to ease, and the trade deficit in February widened further to $10.09 billion.

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

(In percent)

	Monthly exchange rate changes			Changes in effective exchange rate since March 1983 3/
	Against U.S. dollar 2/	Against SDR 3/	Effective exchange rate 3/	
Belgium	-0.09	+0.15	-0.03	-4.33
Denmark	+0.16	-0.17	-0.06	-6.67
France	+0.03	+0.18	+0.09	-5.23
Germany	+0.17	+0.23	+0.03	-2.39
Ireland	-0.34	-0.38	+0.14	-5.74
Italy	+0.06	-0.31	-0.51	-7.31
Netherlands	+0.26	+0.40	+0.40	-1.78
Austria	+0.26	+0.02	+0.17	-3.63
Canada	-1.93	-2.29	-2.21	-2.28
Japan	+3.88	+3.52	+3.92	+9.84
Norway	-0.07	-0.37	-0.39	-1.42
Sweden	+0.68	+0.56	+0.53	+0.61
Switzerland	+0.71	+0.16	-0.19	-0.09
United Kingdom	-3.55	-3.49	-3.86	+0.98
United States	--	-0.38	-0.47	+2.90

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.

Relative positions of the currencies within the European Monetary System were virtually unchanged during March. The Deutsche mark continued to be at the top of the narrow band throughout the month and the Netherlands guilder and the French franc occupied the second and third places (see Chart 1). The Belgian franc remained as the weakest currency in the EMS and its divergence indicator was below its lower threshold during most of the month (see Chart 2). The importance of the divergence indicator as a triggering mechanism for corrective policy actions by the members of the EMS appeared to have diminished considerably as evidenced by the fact that the Belgian franc continued to remain below its lower threshold since late September 1983 without eliciting significant policy measures. The technical drawback of the indicator stemming from the inclusion of a currency which is not required to maintain a margin and another which enjoys a wider margin appeared to have rendered the indicator less useful than was originally envisaged. The maintenance of margins within the agreed bands appeared to have been the main short-term official activity as regards exchange rate movements. The spread in the narrow EMS band in the London market moved in the range of 2.02-2.27 percent, compared with the 2.25 percent limit maintained in EMS member markets. The National Bank of Belgium continued to intervene in the market to support its currency and the Bundesbank also bought from time to time Belgian francs in Frankfurt. The Italian lira continued to be the strongest currency in the EMS in terms of ECU central parities with its margin over the Belgian franc changing little over the month. The lira is permitted a maximum margin of 6.0 percent above (below) the weakest (strongest) currency in the EMS exchange arrangements but the actual spread in the range of 2.40-3.47 percent remained well within the maximum.

The range within which most major currencies were traded in March narrowed significantly, despite fluctuating quotations, reflecting the lack of any broad trend during the month (see Table 2). The widest range, 4.6 percent, was recorded by the Japanese yen which, it may be recalled, had an exceptionally low spread of 0.7 percent in February. The smallest range (2.3 percent) continued to be recorded by the Canadian dollar but there was a substantial increase in the spread compared with those observed in the recent past; the trading range did not exceed 1.0 percent in any month for the Canadian dollar since February last year. For other currencies, the range narrowed to 2.4-3.9 percent in March from 3.2-7.7 percent in February. The average of absolute daily percentage changes against the U.S. dollar (MAC in Table 2 and Chart 5) narrowed similarly for most currencies except for the Japanese yen and the Canadian dollar, but the mean absolute change in the quotation of the Canadian dollar continued to remain the smallest. The highest MAC value of 0.61 percent was recorded by the Austrian schilling.

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

	March 2/		High-low spread in percent 3/		MAC 4/	
	High	Low	Feb.	Mar.	Feb.	Mar.
Belgium	52.250	54.075	7.7	3.5	0.69	0.59
Denmark	9.3575	9.6825	6.4	3.5	0.66	0.52
France	7.8675	8.1000	6.9	3.0	0.67	0.56
Germany	2.5513	2.6465	7.5	3.7	0.73	0.58
Ireland	1.2010	1.1560	7.0	3.9	0.68	0.59
Italy	1587.0	1635.5	5.4	3.1	0.58	0.55
Netherlands	2.88325	2.9855	7.2	3.5	0.64	0.53
Austria	18.185	18.625	7.5	2.4	0.72	0.61
Canada	0.79939	0.78174	0.7	2.3	0.11	0.25
Japan	223.10	233.405	0.7	4.6	0.22	0.43
Norway	7.3975	7.6065	4.7	2.8	0.44	0.42
Sweden	7.63875	7.8275	4.9	2.5	0.48	0.45
Switzerland	2.1090	2.1762	3.2	3.2	0.58	0.54
United Kingdom	1.4850	1.43065	5.8	3.8	0.58	0.46

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 March were recorded by Italy, attributed in part to market intervention (see Table 3). Other countries recording noticeable declines in reserves were Canada, Belgium, and Denmark. The largest increase was recorded by Germany, reflecting a large increase in its ECU-denominated reserves. Significant reserve increases were also recorded by the Netherlands, Austria, and Switzerland. Over the 12-month period, large reserve decreases were recorded by Germany, Canada, and the United States, while marked reserve increases were recorded by France (year to February), Italy, Japan, Norway, and Sweden.

Table 3. Foreign Exchange Reserves in March 1984 1/

(In millions of U.S. dollars)

	End-month reserve level	Change in March	Change over 12 months
Belgium	3,662	-490	-132
Denmark	3,038	-468	+835
France (February)	17,505	-190	+2,214
Germany	40,864	+974	-3,060
Ireland	2,636	+37	+785
Italy	17,345	-653	+4,578
Netherlands	9,387	+521	+208
Austria	4,292	+925	-151
Canada	2,083	-539	-947
Japan	20,921	+84	+1,122
Norway	6,095	-172	+897
Sweden	3,933	+194	+889
Switzerland	12,788	+559	-539
United Kingdom (February)	9,095	+567	-13
United States	6,817	+140	-1,783

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 proceeds from other official borrowings.

I. Developments in the Spot Exchange Markets

The U.S. dollar was quoted narrowly mixed over the month of March against most major European currencies; it eased by 0.47 percent in effective (MERM) terms and 0.38 percent against the SDR. The dollar was, however, sharply easier against the Japanese yen while firming substantially against the pound sterling and the Canadian dollar. Over the 12-month period up to March, the U.S. dollar's effective (MERM) appreciation declined to 2.9 percent from 5.8 percent over the 12 months up to February. Among the underlying developments influencing the exchange value of the dollar in March, the trade deficit widened further to a record $10.09 billion in February from $9.47 billion in January while the Federal budget deficit for the first five months of the current fiscal year narrowed to $89.22 billion from $103.18 billion in the same period a year earlier. The U.S. Administration estimates that the deficit for the whole fiscal 1984 would amount to $177.8 billion against $195.4 billion in fiscal 1983. The preliminary "flash" estimate of the real GNP showed an annual growth rate of 7.2 percent in the current quarter, compared with a revised 5.0 percent growth in the fourth quarter of 1983; the GNP deflator rose at an annual rate of 4.4 percent, compared with 3.9 percent in the preceding quarter. The index of industrial production rose by 0.4 percent in March, following an increase of 1.0 percent in February. The index of leading economic indicators rose 0.7 percent in February, following a revised increase of 1.1 percent in January. The unemployment rate was unchanged at 7.8 percent in March. The producer price index rose 0.5 percent in March for a year-on-year increase of 2.9 percent and the consumer price index rose 0.4 percent in February and 4.6 percent over the year.

The Deutsche mark firmed slightly by 0.17 percent against the U.S. dollar and 0.03 percent in effective (MERM) terms, after fluctuating relatively sharply during the month. The currency continued to be the strongest in the narrow EMS band. The economic recovery, underway since the last half of 1983, appeared to be gathering momentum. The unemployment rate fell sharply to 9.6 percent in March from 10.2 percent in February. Industrial production was unchanged in February but 8.4 percent higher than a year earlier. There was a substantial improvement in the balance of payments in February. The trade surplus rose to DM 4.9 billion from DM 1.9 billion in January and DM 3.7 billion in February 1983 while the current account turned to a surplus of DM 1.3 billion in February from a deficit of DM 500 million in January but still below the surplus of DM 2.1 billion in February 1983. The current account surplus for 1983 was revised upward to DM 10.1 billion from DM 8.4 billion, compared with DM 8.6 billion recorded in 1982. The cost of living index rose 0.1 percent in March for a year-on-year increase of 3.2 percent.

The French franc was little changed in March, firming by 0.03 percent against the U.S. dollar and 0.09 percent in effective (MERM) terms. France's industrial production, seasonally adjusted, rose 0.8 percent in January after declining by 0.8 percent in December. The number of job seekers rose a seasonally adjusted 2.7 percent in February to about 9.3 percent of the total work force. France's external debt rose in 1983 by 24 percent to $53.7 billion and, in French franc terms, by 54 percent to F 451 billion, excluding short-term borrowings of under one year's duration. The increase was brought about by actions to strengthen foreign exchange reserves and the need to offset continued current account deficits. Industrial wholesale prices rose 0.3 percent in February and 15.3 percent year-on-year.

The Belgian franc eased by 0.09 percent against the U.S. dollar and 0.03 percent in effective (MERM) terms. It continued to be the weakest currency in the EMS relative to ECU central parities and the divergence indicator for the franc remained below its lower threshold for the most part of March. On March 15, the Government approved an austerity program that would make deep cuts in public expenditures, including reductions in real wages and social security benefits, and would reduce the budget deficit over a period of three years to 7 percent of the GNP from 12 percent at present. The initial reaction of the market was skeptical and there was a revived speculation on the devaluation of the franc ahead of an EC summit meeting on March 19 and 20. However, the continued intervention by the National Bank and the growing confidence in the government austerity program pushed the currency higher. On March 27, the divergence indicator, based on London noon quotations, moved above its lower threshold for the first time since September 26 last year, although it ended again at the threshold at the end of the month. The discount of the financial franc from the commercial franc remained wide, moving in the range of 2.17-4.10 percent. The unemployment rate declined to 12.3 percent in March from 12.5 percent in February. The wholesale price index declined by 0.2 percent in February but was up 10.4 percent year-on-year.

The Netherlands guilder firmed by 0.26 percent against the U.S. dollar and 0.40 percent in effective (MERM) terms. Industrial production, seasonally adjusted, rose 1.8 percent in January. The unemployment rate fell to 18.3 percent in February from 18.5 percent in January. The Danish krone firmed by 0.16 percent against the U.S. dollar but eased by 0.06 percent in effective (MERM) terms. The unemployment rate, seasonally adjusted, was unchanged at 10.5 percent in January but the number of unemployed persons reached a postwar record. The wholesale price index rose 0.9 percent in February and up 7.8 percent year-on-year. The Irish pound eased by 0.34 percent against the U.S. dollar but firmed by 0.14 percent in effective (MERM) terms.

The Italian lira firmed marginally by 0.06 percent against the U.S. dollar but eased by 0.51 percent in effective (MERM) terms. The Italian lira continued to be the strongest currency in the EMS in terms of central parities with spreads in the range of 2.40-3.47 percent from the weakest currency, namely, the Belgian franc. The Bank of Italy was active in the market and intervened relatively heavily on March 29, selling DM 7 million, F 40 million and $20.75 million, as the lira eased sharply within the EMS.

The pound sterling eased by 3.55 percent against the U.S. dollar and 3.86 percent in effective (MERM) terms, reflecting wider interest differentials in favor of the dollar, the labor unrest in the United Kindom, and the disagreement on the budget rebate to the United Kingdom at the EC Summit Meeting. The public sector borrowing requirement narrowed to £237 million in February from £1,005 million a year earlier but government deficit for the first eleven months of the current fiscal year amounted to £7.781 billion, about £1 billion higher than the £6.773 billion deficit in the last fiscal year; the deficit for the full fiscal year to March 1984 is projected to be around £10 billion. The Government presented its budget for fiscal 1984/85 on March 13 which includes a wide-range tax reform and holds spending steady in real terms. The public sector borrowing requirement is projected to be £7.25 billion, about 2.25 percent of the GDP. The unemployment rate, seasonally adjusted, was unchanged at 12.6 percent in March. Industrial production fell by 1.6 percent in February after five consecutive monthly increases, but was nonetheless 2.9 percent higher than a year earlier. The current and trade accounts in February turned to surpluses of £819 million and £569 million, respectively, from deficits of £89 million and £339 million in January. The producer price index rose 1.0 percent in March for a year-on-year increase of 6.4 percent.

The Japanese yen firmed sharply by 3.88 percent against the U.S. dollar and 3.92 percent in effective (MERM) terms, reflecting favorable economic conditions such as a strong balance of payments position, low inflation, and steady economic recovery. The current account surplus, seasonally adjusted, narrowed to $1.95 billion in February from $2.87 billion in January. The trade surplus, however, widened to $2.50 billion in March from $2.33 billion in February. The annual rate of growth of the GNP slowed to 3.1 percent in the fourth quarter of 1983 from 6.2 percent in the preceding quarter. Industrial production, seasonally adjusted, rose 1.6 percent in February for a year-on-year increase of 12.4 percent.

The Canadian dollar eased by 1.93 percent against the U.S. dollar and 2.21 percent in effective (MERM) terms, reflecting some erosion of market confidence in the economic performance in relation to the U.S. economy. The Central Bank intervened in the market on several occasions to support its currency. The trade surplus narrowed to $1.14 billion in February from $2.10 billion in January. Industrial production, seasonally adjusted, rose by 2.1 percent in January and 15 percent over the year. The unemployment rate, however, rose to 11.4 percent in March from 11.3 percent in February. The budget deficit widened in February to $3.17 billion from $2.35 billion a year earlier.

The Swiss franc firmed by 0.71 percent against the U.S. dollar, but eased by 0.19 percent in effective (MERM) terms. Cost of living index rose 0.7 percent in March and 3.4 percent over the year. The Austrian schilling continued to move in line with the EMS currencies, firming by 0.26 percent against the U.S. dollar and 0.17 percent in effective (MERM) terms. The Norwegian krone eased by 0.07 percent against the U.S. dollar and 0.39 percent in effective (MERM) terms. The Swedish krona firmed by 0.68 percent against the U.S. dollar and 0.53 percent in effective (MERM) terms.

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

Monetary and credit conditions appeared to be somewhat divergent in major industrial countries in March. Short-term money market interest rates firmed by 0.06-0.70 percentage point in Canada, France, Italy, and the United States while those in Belgium, Japan, Switzerland, and the United Kingdom eased by 0.06-0.51 percentage point; rates in the other industrial countries, including Germany, were unchanged.

Interest rates in the United States rose sharply in March, reflecting the budget deficits, continued strength of the economy, and the Fed's willingness to supply less new reserves than required for seasonal needs. There were some progress toward reducing budget deficits, but they fell short of a size that could have affected the market. Major U.S. banks raised their prime lending rate by half a percentage point to 11 1/2 percent on March 19, the first such increase since August last year. With Federal funds rate trading around 10 1/4 percent, the Federal Reserve was seen to tighten its stance to curb the growing short-term credit demand. However, the discount rate was left unchanged at 8 1/2 percent amid speculation of a rise in early April. It was reported later that on March 20, the Fed decided to continue its credit stance while allowing the Federal funds rate to rise above the upper limit of the monitoring range of 10 percent. Over the month of March, the bond-equivalent yield on three-month Treasury bills firmed by 0.60 percentage point to 10.09 percent, and the 90-day CD rate by 0.66 percentage point to 10.32 percent. The Federal funds rate averaged 9.97 percent in the last week of March, compared with 9.62 percent in the last week of February.

In Germany, Bundesbank's money stock showed a strong increase in February; however, it grew at a seasonally adjusted annual rate of 3.5 percent in the six months ended February, below the lower end of 4-6 percent growth target set for 1984. Interest rates were little changed during March, with the three-month interbank rate standing at 5.96 percent at the end of March. France's call money rate was reduced by 1/4 percentage point to 12 1/2 percent on March 9, while the money market intervention rate was unchanged at 12 percent. The three-month interbank rate rose by 0.13 percentage point during March to 12.80 percent, while the three-month euro-French franc rate eased sharply by 2.75 percentage points to 14.63 percent. Interest rates in the Netherlands were stable with the three-month interbank rate unchanged at 6.13 percent at the end of March and the Netherlands Bank supplying liquidity to the market.

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): Feb.	Mar.
Austria	January	--	(--)	5.6	(3.8)	3.75	3.75
Belgium	Feb./Mar.	10.4	(10.9)	7.1	(7.1)	12.50	12.35
Canada	Jan./Feb.	3.6	(3.6)	5.5	(5.3)	9.79	10.49
Denmark	February	7.8	(6.8)	6.4	(5.5)	7.00	7.00
France	February	15.3	(16.6)	8.9	(9.0)	12.67	12.80
Germany	Feb./Mar.	4.9	(3.4)	3.2	(3.1)	5.96	5.96
Italy	Feb./Mar.	10.9	(10.2)	12.0	(12.2)	17.38	17.44
Japan	February	-1.3	(-1.4)	2.9	(1.8)	6.44	6.31
Netherlands	Dec./Mar.	2.5	(1.7)	3.9	(3.6)	6.13	6.13
Norway	Feb./Mar.	6.0	(5.6)	6.6	(6.4)	8.00	8.00
Sweden	March	--	(--)	9.0	(7.9)	8.50	8.50
Switzerland	Feb./Mar.	3.0	(2.4)	3.4	(2.9)	3.69	3.63
United Kingdom	March	6.4	(5.9)	5.2	(5.1)	9.06	8.55
United States	Mar./Feb.	2.9	(2.3)	4.6	(4.1)	9.49	10.09

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.

In the United Kingdom, short-term market interest rates eased significantly, reflecting in part lower inflation rate. On March 6, one major bank cut its base lending rate by 1/4 percentage point to 8 3/4 percent which proceeded the Bank of England's cut of its short-term money market intervention rates by 1/4 percentage point on the following day. Later, on March 14, most major banks cut their base lending rate by 1/2 percentage point to 8 1/2 percent and the Bank of England cut its dealing rates by another 1/4 percentage point. The three-month Treasury bill rate eased by 0.51 percentage point during March to 8.55 percent and the three-month interbank rate fell by 0.31 percentage point to 8.94 percent. On March 13, the new monetary targets were set for the 14 months from mid-February 1984 to mid-April 1985. The target ranges are 4-8 percent annual rate for narrow money, M0, and 6-10 percent for broad money, sterling M3. M0, it may be noted, comprises notes and coins in circulation and banks' operational balances with the Bank of England. Sterling M3 was revised this year to exclude public sector deposits which could fluctuate by large amounts. Attention will also be paid to other indicators of narrow money, particularly M2, and of broad money, particularly Public Sector Liquidity 2. In the five weeks ended March 22, sterling M3 was estimated to have increased at an annual rate of 1 1/4 percent and M0 by 1/2 percent. In the 13 months since mid-February 1983, sterling M3 (by the old definition) increased at an annual rate of 9 3/4-10 percent, M1 at 13 1/2 percent and PSL2 at 12 1/2 percent; the target for each of these aggregates was 7-11 percent during the 14-month period through mid-April 1984.

In Japan, the long-term prime lending rate was reduced to 7.8 percent from 8.2 percent, effective March 28. This was in line with the appreciation of the yen in the foreign exchange markets and the rise of government bond prices in the bond market. The move was intended to help stimulate corporate capital investments and economic expansion. The short-term market interest rate eased by 0.13 percentage point to 6.31 percent at the end of March. Among other countries, Canada's interest rates firmed sharply during March, with the three-month Treasury bill rate firming by 0.70 percentage point to 10.49 percent at the end of the month, responding to the firmness of U.S. interest rates and the weakness of the Canadian dollar against the U.S. dollar. The Austrian National Bank raised its discount rate by 1/2 percentage point to 4 1/4 percent and its Lombard rate by 3/4 percentage point to 5 1/2 percent, effective March 14. The surcharge of one percentage point on refinancing in excess of 70 percent of banks' usable quotas remained in force. The Austrian interest rates, it may be pointed out, are among the lowest in Europe and the move was designed to curb the brisk flow of investment capital out of the country and to maintain the value of the schilling vis-à-vis the Deutsche mark. The Norwegian authorities raised the minimum reserve requirements for most banks from 5 percent to 7 percent on March 6; it was raised previously from 4 percent on January 1, 1984. The measure reflected official concerns about the sharp increase in bank lendings since lending ceilings were abolished on January 1.

In the eurocurrency markets, the three-month eurodollar interest rate firmed sharply by 0.62 percentage point to 10.75 percent at the end of March. As a result, the uncovered interest differentials favoring eurodollar investment widened for Germany, Japan, the Netherlands, and the United Kingdom and those favoring domestic investment narrowed for Belgium, France, and Italy (see Table 5).

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. The discount against the U.S. dollar narrowed for the Belgian franc, the French franc and the Italian lira. As a result of these movements, the covered differentials favoring eurodollar investment narrowed sharply for Belgium and France. Those favoring domestic investment widened for Germany and Italy, but narrowed for Japan and the Netherlands and switched to favor euro-dollar investment for the United Kingdom.

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)	
	Feb.	Mar.	Feb.	Mar.	Feb.	Mar.
Belgium 3/	-2.37	-1.60	-3.20	-1.62	+0.83	+0.02
France	-2.54	-2.05	-6.34	-3.59	+3.80	+1.54
Germany	+4.17	+4.79	+4.60	+5.27	-0.43	-0.48
Italy	-7.25	-6.69	-7.13	-6.11	-0.12	-0.58
Japan	+3.69	+4.44	+3.82	+4.55	-0.13	-0.11
Netherlands	+4.01	+4.63	+4.26	+4.65	-0.25	-0.02
United Kingdom	+1.07	+2.20	+1.14	+1.84	-0.07	+0.36

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 continued to firm steadily as shown in Table 6. It increased to 9.00 percent in the week beginning March 26 compared with 8.74 percent in the week beginning February 27, reflecting the higher yield on the three-month U.S. Treasury bills which firmed by 0.61 percentage point, partly offset by the lower yield on the U.K. Treasury bills which eased by 0.51 percentage point, while yields on the relevant instruments for the Deutsche mark, the French franc, and the Japanese yen were little changed. The rate of remuneration paid on the creditor positions in the Fund (85 percent of the SDR interest rate) increased accordingly to 7.65 percent in the last week of March from 7.43 percent in the last week of February.

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

	Feb.	March			
	27	5	12	19	26
SDR interest rate	8.74	8.68	8.75	8.82	9.00
Rate of remuneration	7.43	7.38	7.44	7.50	7.65

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 0.13-0.25 percentage point between the end of February and the end of March. This reflected higher yields on the relevant instruments in the United States and France, which rose by 0.40-0.60 and 0.13-0.18 percentage points, respectively, partly offset by lower yields on those in Germany and the United Kingdom which eased by 0.03-0.10 and 0.18-0.51 percentage points, respectively, during March; yields on the Japanese instruments were mixed. The combined domestic rates displayed a rising yield curve moving up from 8.97 percent on the three-month maturity, through 9.25 percent and 9.44 percent on the six- and twelve-month maturities, respectively, to 10.63 percent on the five-year maturity.

The combined eurocurrency interest rates were mixed: the three-month maturity eased by 0.06 percentage point to 9.42 percent while the six- and twelve-month maturities firmed by 0.08 and 0.09 percentage point, respectively, to 9.65 percent and 9.99 percent. Eurodollar interest rates firmed by 0.50-0.63 percentage point between the end of

February and the end of March while other eurocurrency rates eased by 0.06-2.50 percentage point.

Average interest rates on SDR-denominated deposits of selected commercial banks eased by 0.04-0.17 percentage point between the end of February and the end of March, except for the twelve-month maturity which firmed by 0.09 percentage point. The deposit rates displayed a rising yield curve moving up from 8.97 percent on one-month deposits, through 9.25 percent and 9.40 percent on three- and six-month deposits, respectively, to 9.84 percent on twelve-month deposits. The current yields on SDR-denominated bonds quoted on the Luxembourg Stock Exchange ranged from 9.31 percent to 11.50 percent with the average current yield unchanged at 10.12 percent at the end of March. The yield to maturity ranged from 10.22 percent to 12.05 percent with the average yield to maturity firming by 0.06 percentage point to 11.02 percent at the end of March (see Table 7).

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

	February	March
Combined market interest rates 2/		
Based on domestic rates		
3-month maturity (Rule T-1)	8.72	8.97
6-month maturity	9.00	9.25
12-month maturity	9.19	9.44
5-year maturity	10.50	10.63
Based on euro-currency rates		
3-month maturity	9.48	9.42
6-month maturity	9.57	9.65
12-month maturity	9.90	9.99
Average commercial bank deposit rates 3/		
1-month deposits	9.14	8.97
3-month deposits	9.31	9.25
6-month deposits	9.44	9.40
12-month deposits	9.75	9.84
Bonds quoted on the Luxembourg Stock Exchange 4/		
Average current yield	10.12	10.12
Average yield to maturity	10.96	11.02

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.

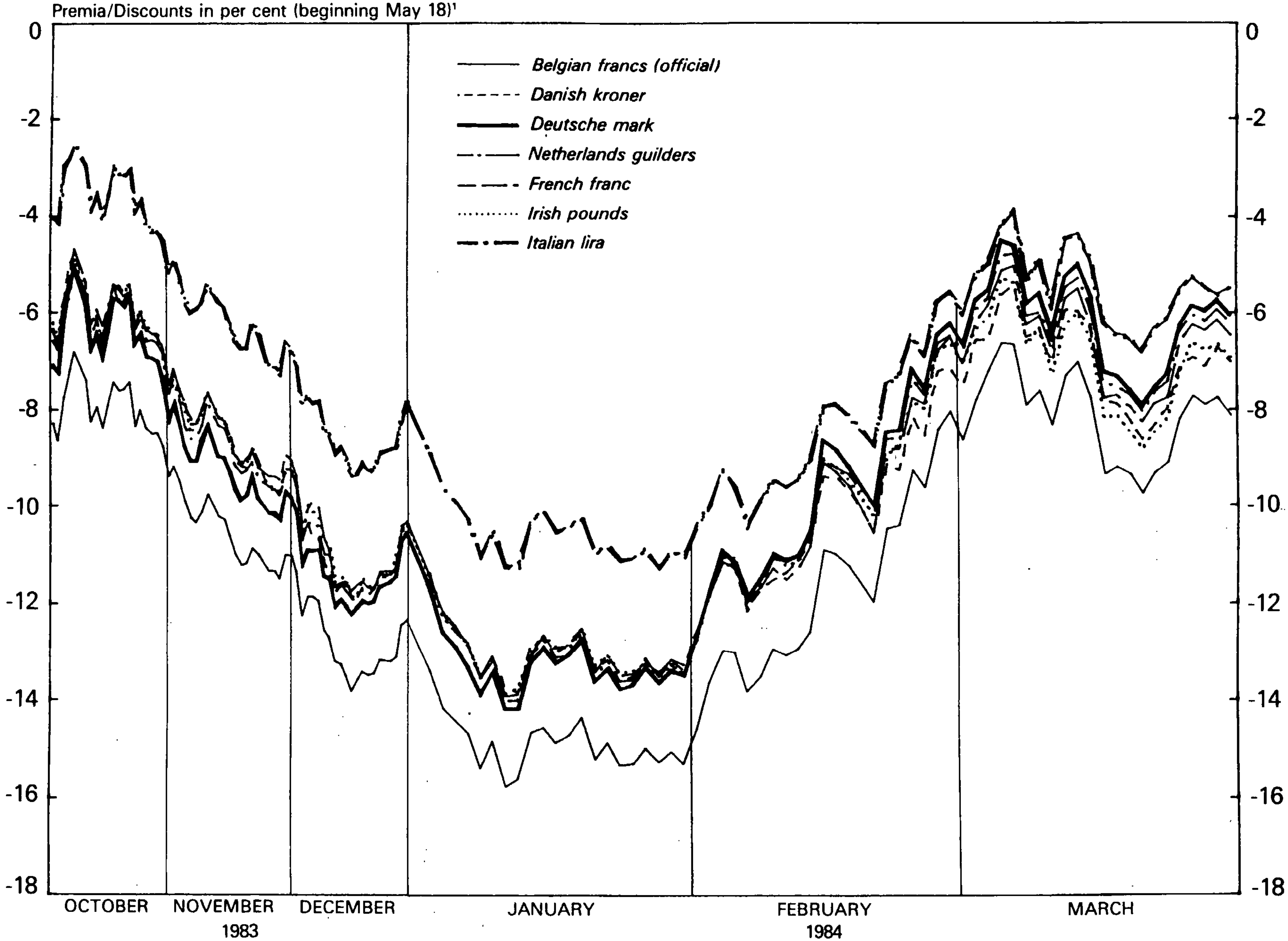
3/ Average of rates quoted by selected commercial banks.

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.

EUROPEAN MONETARY SYSTEM: DIVERGENCE INDICA

(Based on noon quotations in London)

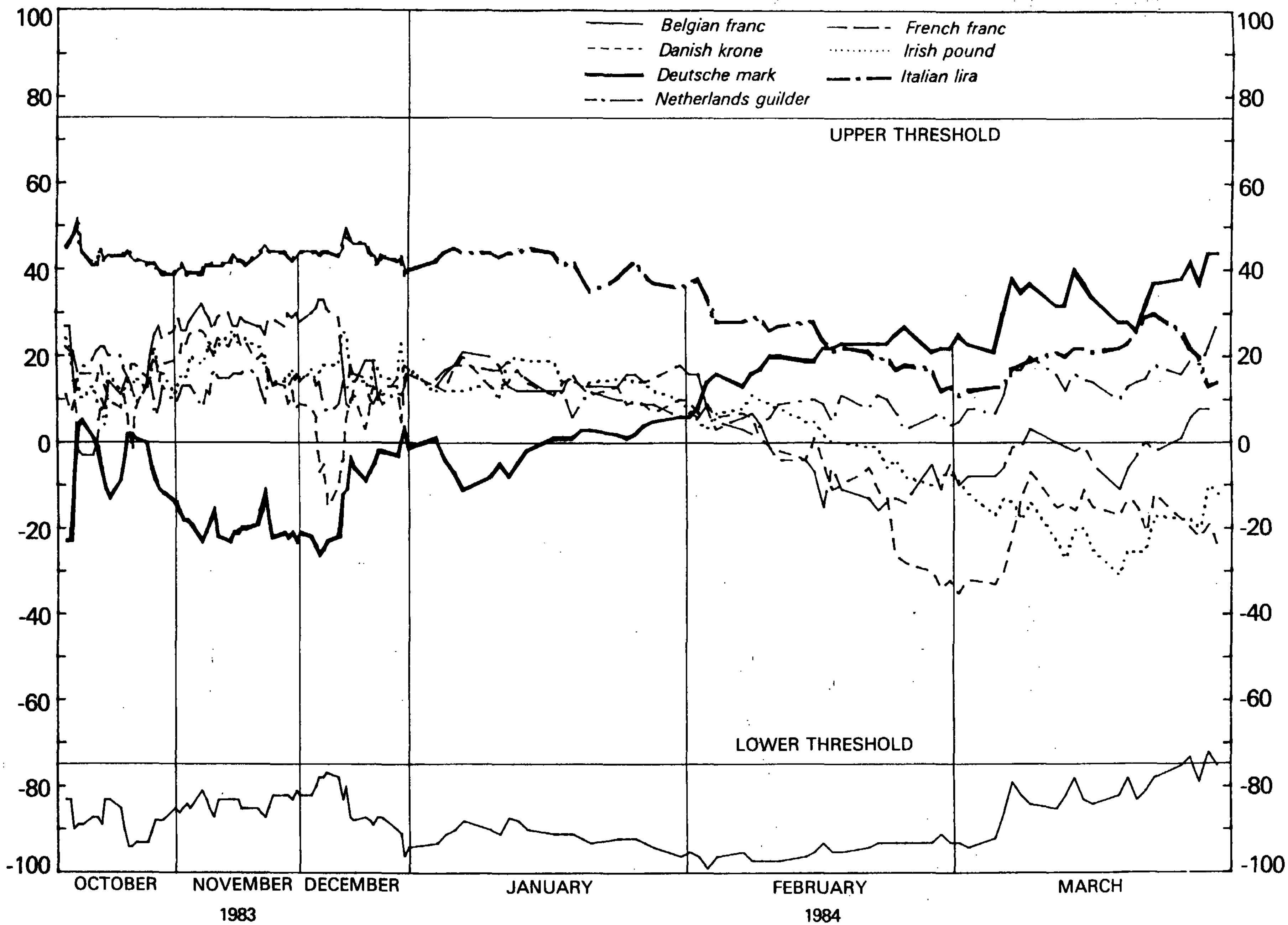


CHART 3
SPOT EXCHANGE RATES
(Noon quotations in New York)

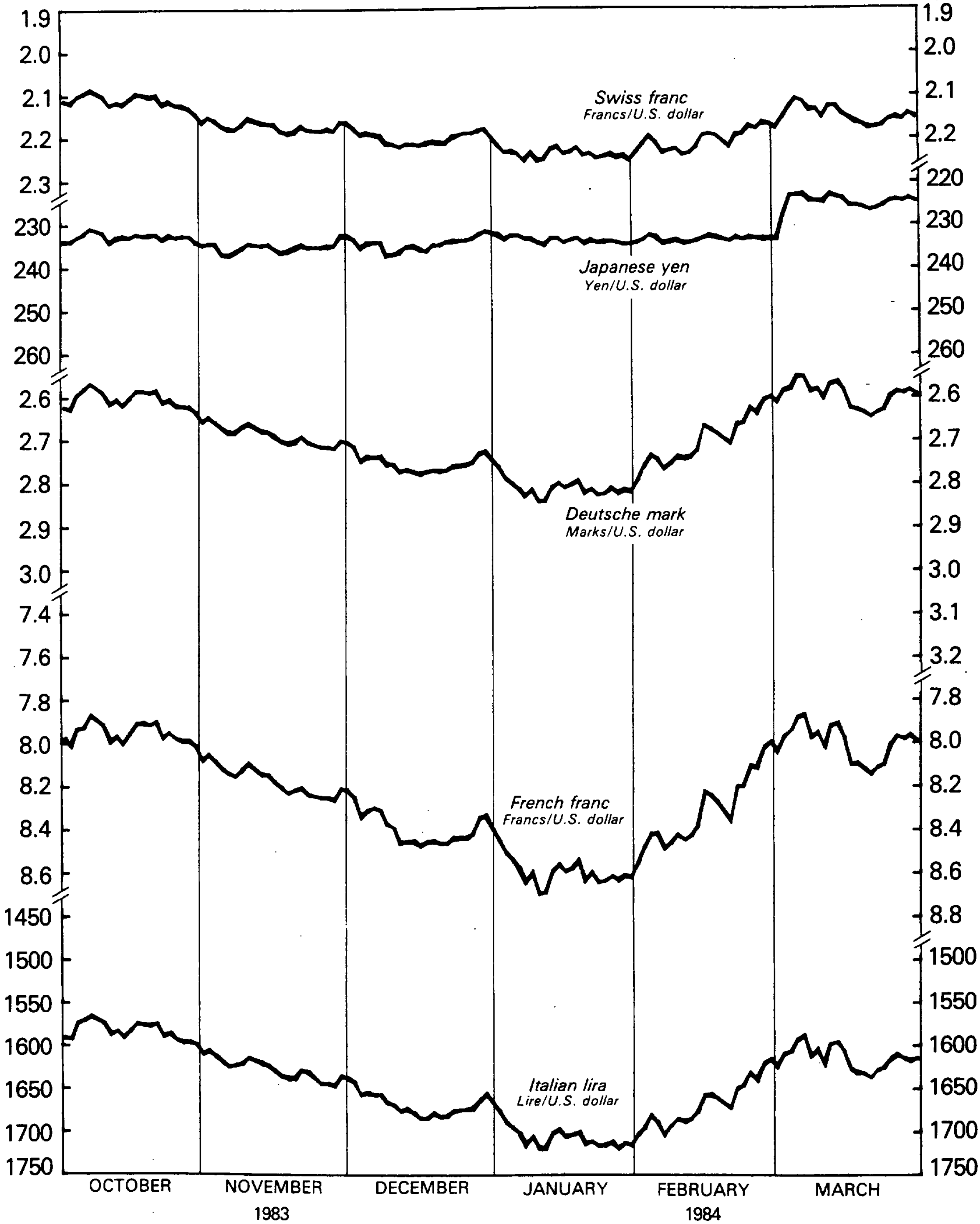


CHART 4

SPOT EXCHANGE RATES

(Noon quotations in New York)

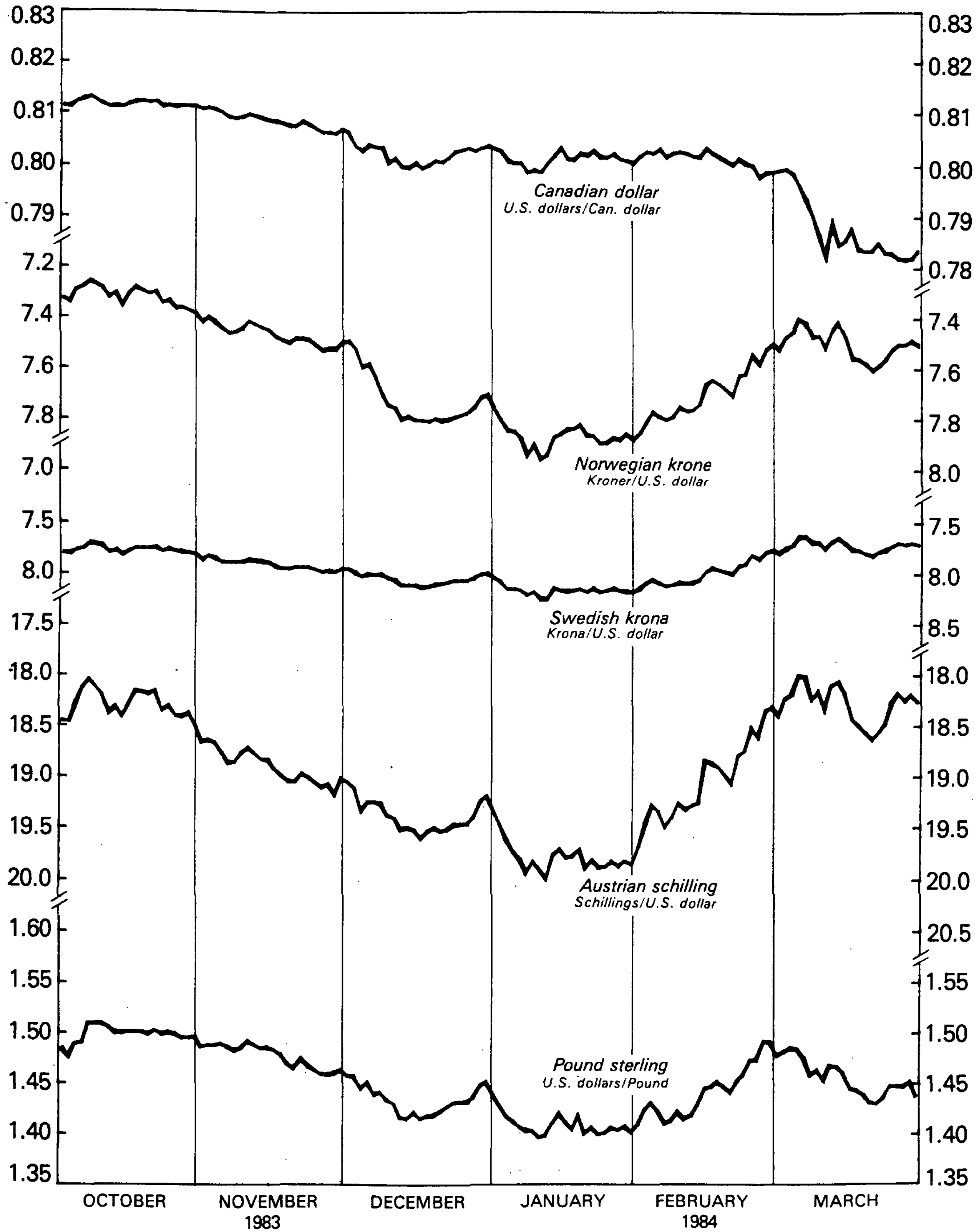
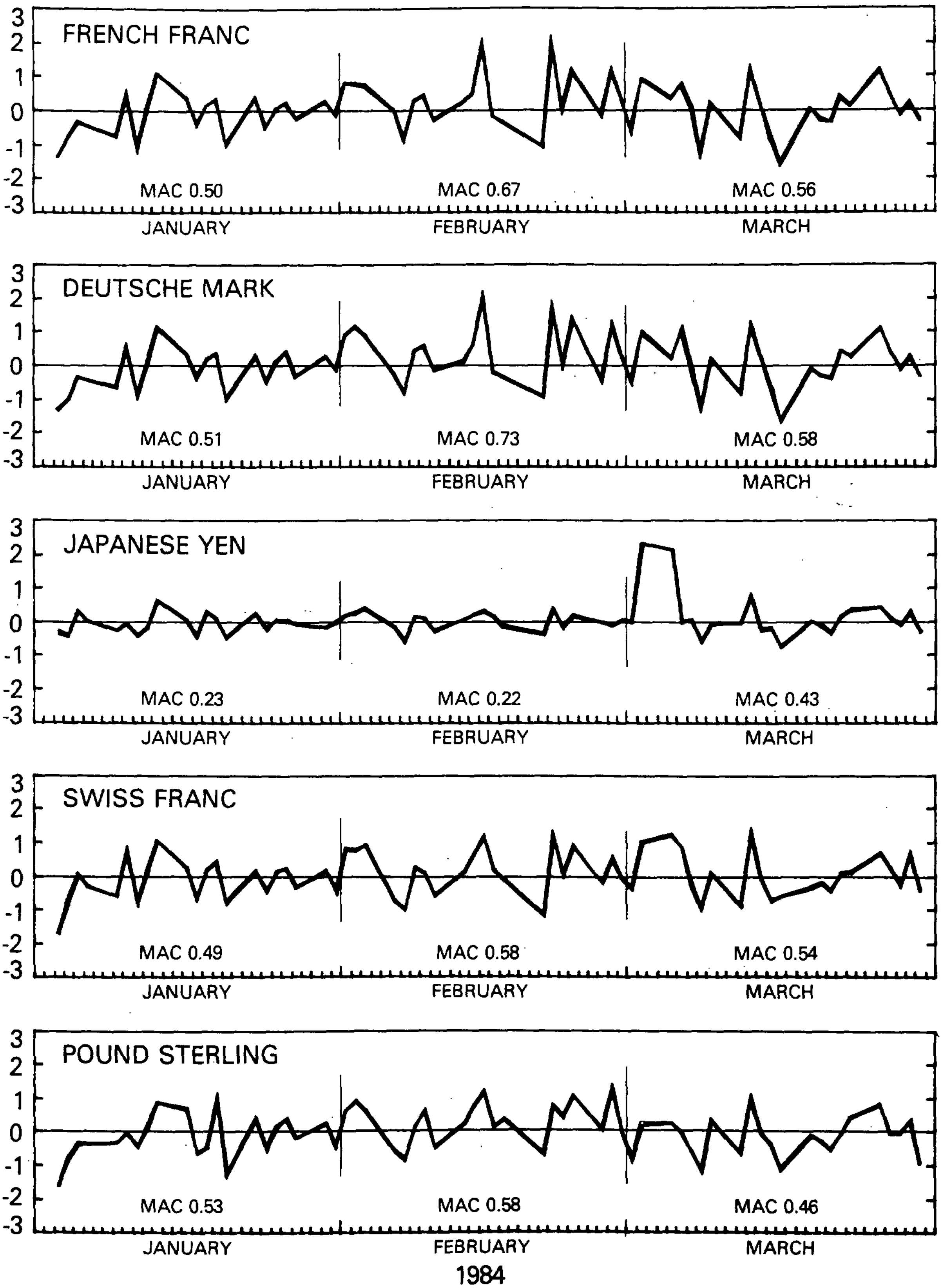


CHART 5

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 - MAR. 1984

(June 28, 1974=100)

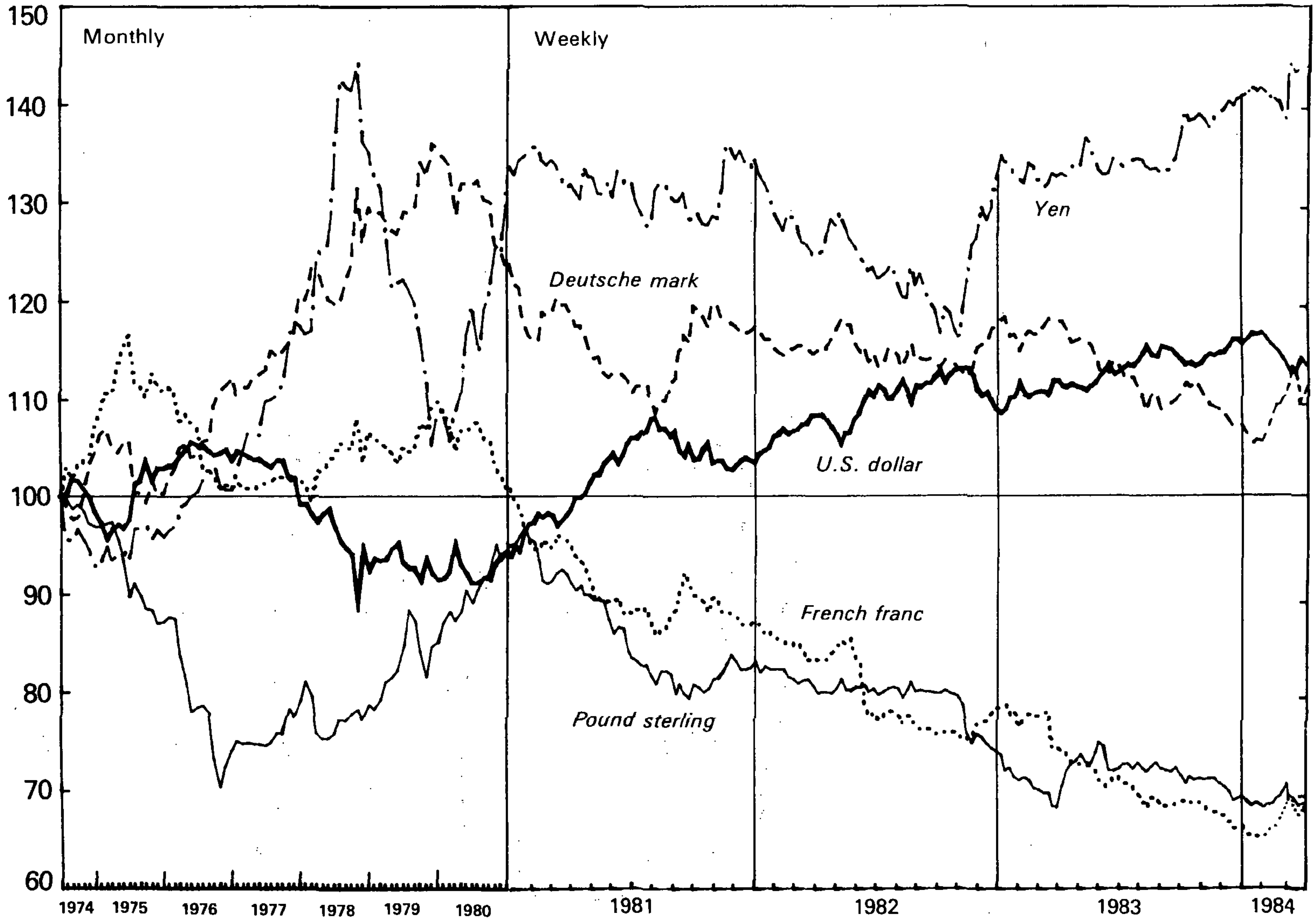


CHART 7

SHORT-TERM MONEY MARKET RATES

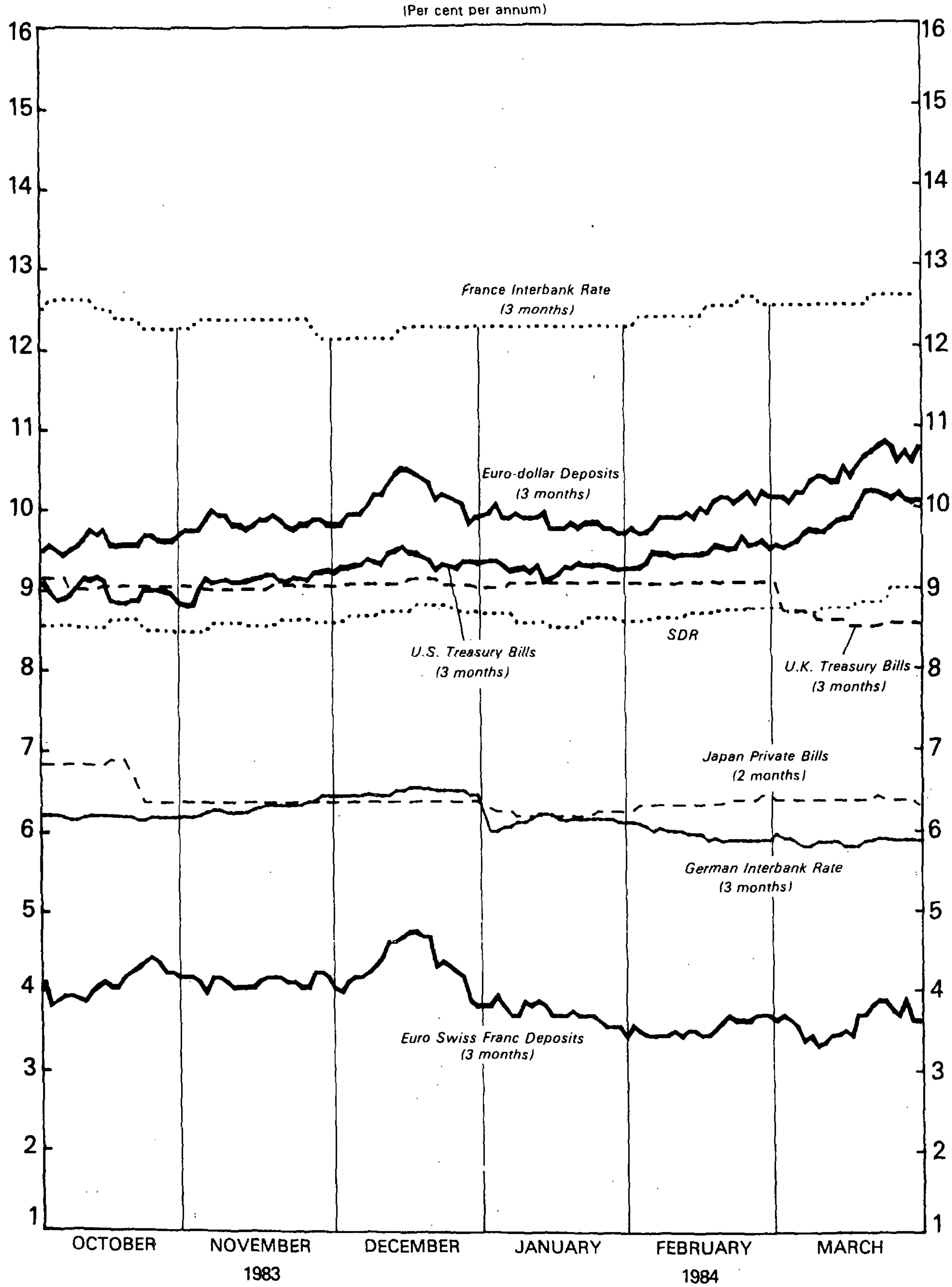


CHART 8

THREE-MONTH FORWARD RATES

Margins from Spot Rates based on noon quotations in New York

(Per cent per annum)

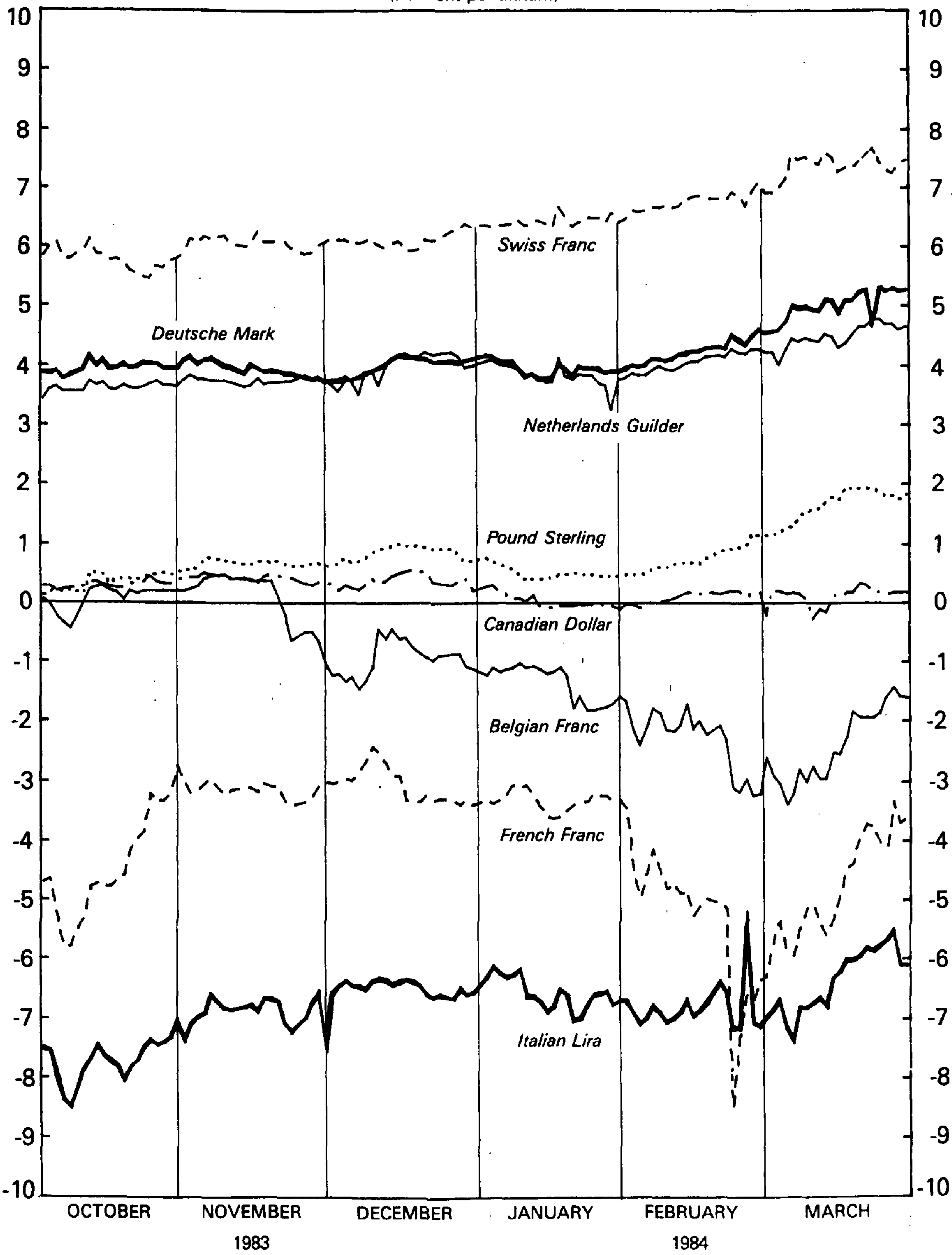
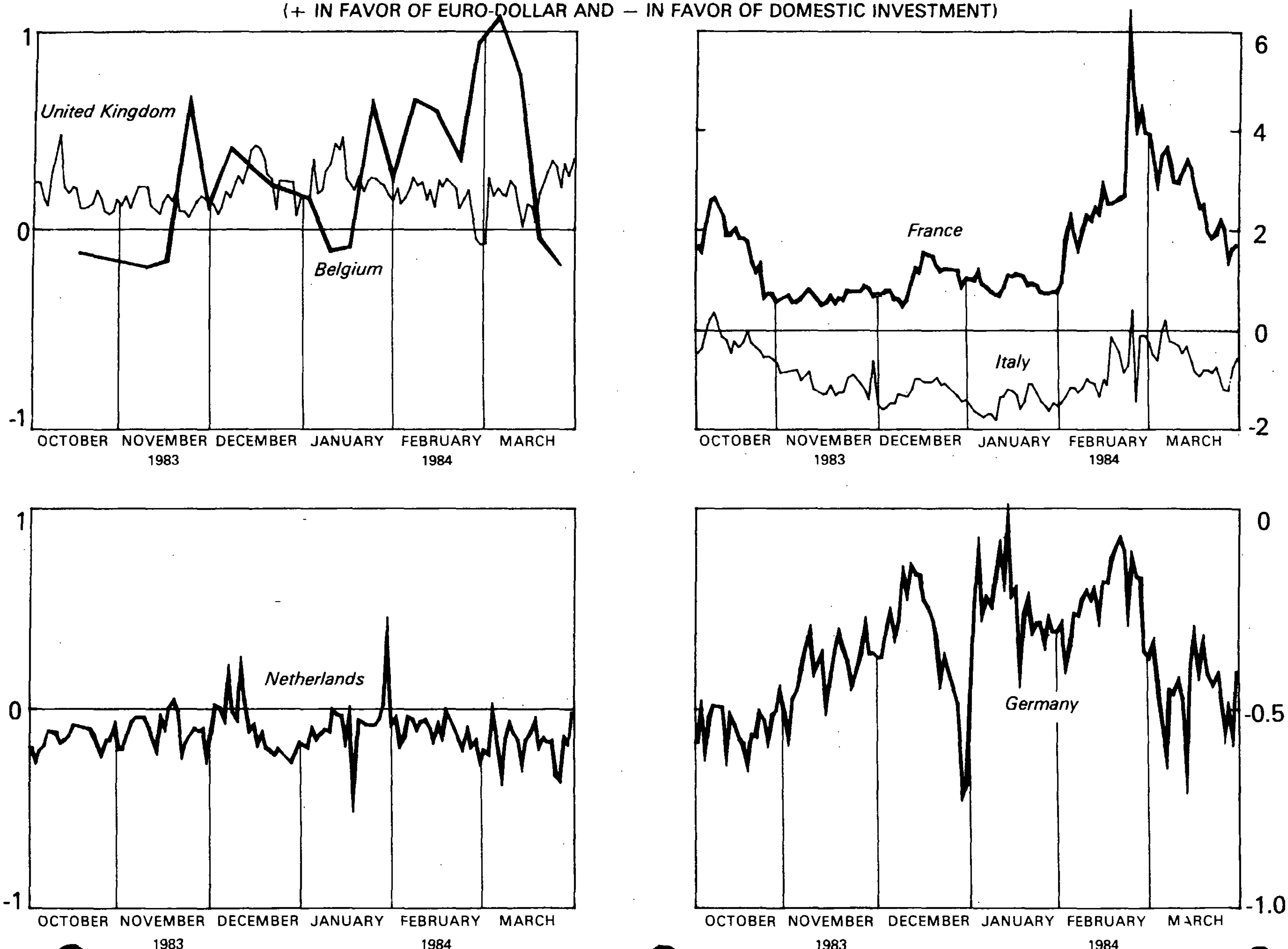


CHART 9

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, February 1984–March 1984

	February 1	February 8	February 15	February 22	February 29	March 7	March 14	March 21	March 28
Austrian schilling	19.6850	19.4075	18.8375	18.7800	18.3075	18.0050	18.0600	18.6250	18.2475
Belgian franc									
Official	57.140	56.415	54.760	54.500	53.065	52.275	52.485	54.075	53.005
Financial	58.425	57.925	56.785	56.575	55.275	53.750	54.065	56.305	55.220
Canadian dollars	0.80180	0.80244	0.80331	0.80141	0.79882	0.79362	0.78459	0.78336	0.78174
Danish kroner	10.1400	10.0200	9.7650	9.7355	9.5300	9.3575	9.4100	9.6825	9.5262
Deutsche mark	2.79150	2.75325	2.66685	2.66200	2.59780	2.55450	2.56500	2.64650	2.59125
French francs	8.5450	8.4575	8.2200	8.1950	7.9900	7.8675	7.9075	8.1450	7.9800
Irish pounds	1.1065	1.1215	1.1527	1.1542	1.1840	1.1998	1.1920	1.1560	1.1820
Italian lire	1702.500	1692.500	1657.000	1648.500	1615.000	1587.000	1595.000	1636.500	1614.000
Japanese yen	234.200	234.110	233.175	233.150	233.400	223.175	223.625	226.725	224.650
Netherlands guilder	3.1455	3.1055	3.0168	3.0032	2.9353	2.8833	2.8980	2.9855	2.9258
Norwegian kroner	7.8550	7.7880	7.6625	7.6250	7.5000	7.4150	7.4150	7.6065	7.5025
Pounds sterling	1.4103	1.4132	1.4449	1.4520	1.4910	1.4760	1.4670	1.4317	1.4470
Swedish kroner	8.1500	8.1150	7.9850	7.9275	7.7675	7.6400	7.6525	7.8275	7.7200
Swiss francs	2.23425	2.22875	2.19625	2.19325	2.16725	2.11500	2.12700	2.17620	2.15725

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/						Eurocurrency Markets 2/						Lending Rate		U.S. Treasury 5/ Securities
	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)	(15)
1983															
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
Mar.	9.88	5.94	8.61	12.72	6.38	8.85	10.45	5.67	8.98	15.57	6.38	3.61	10.81	11.21	12.02
1983 Weekly															
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	11.55	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
Mar. 2	9.53	5.98	8.99	12.70	6.40	8.73	10.12	5.83	9.24	17.24	6.59	3.68	10.48	11.00	11.75
9	9.64	5.92	8.68	12.67	6.38	8.72	10.23	5.62	9.06	16.14	6.39	3.46	10.56	11.00	11.85
16	9.79	5.91	8.57	12.67	6.38	8.79	10.38	5.64	8.90	15.93	6.44	3.43	10.75	11.00	11.98
23	10.14	5.95	8.53	12.75	6.40	8.99	10.67	5.73	8.89	15.00	6.37	3.79	11.04	11.21	12.17
30	10.10	5.96	8.55	12.80	6.37	8.97	10.66	5.63	8.95	14.72	6.29	3.72	11.00	11.50	12.20

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.