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Treasurer's Department

Foreign Exchange and Financial Markets in June 1984

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The U.S. dollar firmed significantly against other currencies over the month of June, appreciating 0.99 percent against the SDR and 2.46 percent in effective (MERM) terms, principally under the influence of rising interest rates on U.S. dollar-denominated assets. As in May, unsettling developments adversely affected some of the other major currencies: the Deutsche mark and the pound sterling continued to be weakened by domestic labor problems while the Japanese yen was affected by fears of potential cut in oil supplies resulting from the escalating Persian Gulf war. The U.S. dollar strengthened despite considerable intervention by the Bundesbank, which sold about \$700 million during the month compared with about \$850 million sold in May. The Swiss franc was the weakest of the major currencies; it eased by 3.03 percent against the U.S. dollar, reflecting mainly the large interest rate differential in favor of dollar investments. The Canadian dollar continued to weaken markedly against the U.S. dollar despite intervention by the Bank of Canada and the rise in domestic interest rates; the three-month Treasury bill rate rose from 11.30 percent at the end of May to 12.15 percent at the end of June. During the 12-month period ended in June, the Japanese yen and the U.S. dollar were the only major currencies to show significant appreciation in effective (MERM) terms; other currencies eased by 0.74-6.28 percent (see Table 1).

Chronologically, the U.S. dollar eased significantly on the first two trading days of the month on indications that the rate of U.S. economic growth rate might slow down and thereby ease the upward pressure on U.S. interest rates. An additional factor was the heightened concern that some major U.S. banks might face difficulties if Latin American debtor countries failed to service their debt burdens. These two factors led many market participants to believe that the U.S. Federal

Table 1. Changes in Exchange Rates in June 1984 ^{1/}

(In percent)

	Monthly exchange rate changes			Changes in effective exchange rate since June 1983 ^{3/}
	Against U.S. dollar ^{2/}	Against SDR ^{3/}	Effective exchange rate ^{3/}	
Belgium	-1.55	-0.71	-0.19	-3.08
Denmark	-1.50	-0.61	-0.22	-4.74
France	-1.77	-0.51	+0.03	-4.68
Germany	-1.78	-0.84	-0.45	-2.41
Ireland	-2.06	-0.86	-0.53	-5.07
Italy	-1.46	-0.55	0.00	-6.20
Netherlands	-1.77	-1.15	-0.50	-2.50
Austria	-1.59	-0.65	-0.29	-2.75
Canada	-1.92	-0.91	-0.68	-4.16
Japan	-2.41	-1.56	-1.83	+5.60
Norway	-2.44	-1.57	-1.12	-3.29
Sweden	-1.19	-0.39	+0.10	-0.74
Switzerland	-3.03	-2.12	-1.93	-4.70
United Kingdom	-2.02	-1.38	-0.93	-6.28
United States	--	+0.99	+2.46	+7.47

^{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 in the domestic markets, as officially advised to the Fund.

Reserve would not tighten monetary conditions. On June 5, however, the dollar firmed markedly in a technical reaction to the sharp depreciation of the previous two trading days. Shortly thereafter, hopes that the upward pressure on U.S. interest rates would ease faded and a firming trend in the dollar ensued and continued through most of the remainder of the month. It may be noted that rising U.S. interest rates were associated with large borrowing needs of the U.S. Treasury and the strength of the U.S. economy. The preliminary "flash" estimate of real GNP growth in the second quarter indicated an annual rate of 5.7 percent, considerably higher than most private estimates. Lack of progress in settling the industrial disputes in Germany and the United Kingdom reinforced the dollar's strength. The raising by major U.S. banks of their prime lending rate to 13.0 percent from 12.5 percent on June 25 and a congressional vote to repeal the 30 percent withholding tax on interest earned by nonresidents also affected the

dollar on the exchange market. The dollar, however, tended to ease somewhat thereafter on profit-taking, expectation of a settlement to Germany's metal-workers strike, and official interest rate increases by the Bundesbank, the National Bank of Austria and the Bank of Sweden.

Within the European Monetary System, the spread in the narrow band remained well below the 2.25 percent margin. The Belgian franc continued at the bottom of the parity grid throughout the month while the Netherlands guilder replaced the Deutsche mark at the top of the narrow band from mid-month until late June (see Chart 1). The Italian lira continued to be the strongest currency in the EMS in terms of ECU central parities, with a spread in the range of 2.61-3.46 percent from the Belgian franc. ^{1/} The divergence indicators for all the EMS currencies were within the thresholds during June (see Chart 2). Against the U.S. dollar, the EMS currencies eased by 1.46-1.78 percent during the month.

The range within which major currencies traded in June widened considerably, reflecting the generally persistent and marked appreciation of the U.S. dollar from June 5 to June 25. The range of fluctuations recorded by the EMS currencies was 4.1-5.2 percent compared with 2.3-2.8 percent in May. Other currencies fluctuated within a range of 3.2-5.1 percent, except for the Canadian dollar for which the normally narrow trading range against the U.S. dollar widened sharply from 0.7 percent in May to 2.0 percent in June (see Table 2). Daily volatility also increased, but not so markedly; the average of absolute daily percentage changes against the U.S. dollar (MAC in Table 2 and Chart 5) increased for all but three of the major currencies (the MAC for the French franc and the Canadian dollar declined slightly while it was unchanged for the Deutsche mark). For the EMS currencies, this measure increased from an average of 0.43 percent in May to an average of 0.47 percent in June. Excluding the Canadian dollar, which continued to display a relatively low degree of volatility against the U.S. dollar, the MAC measure for the other major currencies increased to an average of 0.40 percent in June from 0.35 percent in May.

Among the countries recording changes in foreign exchange reserves in June (see Table 3), the most notable were a sharp decline for Canada (\$722 million), a further decline for Germany (\$693 million), a significant decline for Sweden (\$557 million) and substantial increases for Norway (\$642 million) and Switzerland (\$613 million). Over the latest 12-month period, significant foreign exchange reserve increases were recorded by France, Germany, Italy and Norway while substantial declines were recorded by Belgium, Canada, the United Kingdom, and the United States.

^{1/} The lira is permitted a maximum margin of 6.0 percent above (below) the weakest (strongest) currency in the EMS exchange arrangements.

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

	<u>June 2/</u>		<u>High-low spread in percent 3/</u>		<u>MAC 4/</u>	
	High	Low	May	June	May	June
Belgium	54.450	57.035	2.4	4.7	0.38	0.49
Denmark	9.8115	10.2605	2.5	4.6	0.47	0.51
France	8.1995	8.6025	2.8	4.9	0.48	0.47
Germany	2.66525	2.8030	2.8	5.2	0.49	0.49
Ireland	1.1485	1.0926	2.6	5.1	0.43	0.46
Italy	1656.00	1723.21	2.3	4.1	0.37	0.41
Netherlands	3.0115	3.1565	2.6	4.8	0.44	0.47
Austria	18.7225	19.680	2.8	5.1	0.48	0.50
Canada	0.77289	0.75772	0.7	2.0	0.14	0.12
Japan	229.675	237.95	3.1	3.6	0.24	0.32
Norway	7.6685	7.9965	2.1	4.3	0.36	0.37
Sweden	7.9485	8.2065	2.0	3.2	0.33	0.36
Switzerland	2.2255	2.3355	2.1	4.9	0.35	0.43
United Kingdom	1.4040	1.3495	2.7	4.0	0.35	0.39

1/ Exchange rates against the U.S. dollar in the New York market.

2/ Domestic currency units per U.S. dollar except for the pound sterling, the Irish pound and the Canadian dollar, which are in U.S. dollars per domestic currency unit.

3/ Intra-month variation in percent.

4/ Monthly average of absolute daily changes in spot exchange rates in percentage terms.

Table 3. Foreign Exchange Reserves in June 1984 ^{1/}

(In millions of U.S. dollars)

	End-month reserve level	Change in June	Change over 12 months
Belgium	3,159	-15	-1,205
Denmark	2,779	-416	-23
France (May)	19,304	+369	+2,622
Germany	38,766	-693	+1,074
Ireland	2,287	-192	+375
Italy	17,920	+398	+957
Netherlands	8,434	-146	-446
Austria	3,745	+154	-321
Canada	1,372	-722	-1,819
Japan	21,002	-148	+500
Norway	7,632	+642	+1,821
Sweden	3,458	-557	+408
Switzerland	12,865	+613	+214
United Kingdom (May)	7,656	-121	-1,530
United States	6,329	-101	-1,520

^{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 Major Factors Affecting the Exchange Market

The U.S. dollar continued to firm in June; it firmed 2.46 percent in effective (MERM) terms and 0.99 percent against the SDR and its 12-month effective (MERM) appreciation widened to 7.5 percent. Rising interest rates on U.S. dollar-denominated assets under the influence of U.S. Treasury borrowing needs and the strong economic performance, and unsettling events adversely affecting the Deutsche mark, the pound sterling and the Japanese yen in June were the main factors aiding the U.S. dollar. The preliminary estimate of U.S. real GNP in the second quarter showed an annual growth rate of 5.7 percent, compared with an upward-revised annual rate of 9.7 percent in the first quarter. There were some indications that the pace of the recovery might slow to a more sustainable rate; the index of leading economic indicators declined 0.1 percent in May following a 0.5 percent rise in April and industrial production was up 0.5 percent in June following a rise of 0.4 percent

in May for an 11.7 percent year-on-year rise. The unemployment rate, however, declined to 7.1 percent in June from 7.5 percent in May. Despite the strong economic performance, the U.S. budget deficit widened to \$33.9 billion in May from \$29.3 billion in May 1983. The current account deficit for the first quarter widened to a seasonally adjusted \$19.41 billion from \$17.21 billion in the fourth quarter of 1983 while the trade deficit narrowed to a seasonally adjusted \$8.84 billion in May from \$12.19 billion in April, the smallest monthly deficit so far this year. Capacity utilization in industry rose to 81.7 percent in June from a revised 81.5 percent in May but was still below the long-run historical average of 82.4 percent. The producer price index was unchanged in May and June and rose only 2.2 percent from June 1983 while the preliminary estimate of the GNP deflator in the second quarter showed an increase at an annual rate of 2.8 percent, compared with an annual rate of 3.9 percent in the first quarter.

The Deutsche mark eased 1.78 percent against the U.S. dollar and 0.45 percent in effective (MERM) terms, despite considerable intervention by the Bundesbank. As in May, the currency was adversely affected by the industrial work stoppages. The Deutsche mark, however, remained at or near the top of the narrow band of the EMS throughout the month. Germany's index of industrial production rose a seasonally adjusted 0.5 percent in May from a downward-revised level in April and was up 2.2 percent year-on-year. The unemployment rate declined to 8.5 percent in June from 8.6 percent in May due to seasonal factors. The current account swung into a surplus of DM 2.7 billion in May from a deficit of DM 400 million in April, compared with a surplus of DM 1.7 billion in May 1983. The wholesale price index declined 0.2 percent in May but rose 0.8 percent in June and was up 4.2 percent year-on-year while the producer price index rose 0.2 percent in May and 0.1 percent in June and was up 3.0 percent compared with June 1983.

The French franc eased 1.77 percent against the U.S. dollar but firmed marginally in effective (MERM) terms. The index of industrial production in France, seasonally adjusted, declined 3.0 percent in April (after rising 1.5 percent in March), but was up 0.8 percent year-on-year. The number of persons unemployed was unchanged in May but rose 13.2 percent year-on-year; the unemployment rate remained at about 9.8 percent. The trade balance, seasonally adjusted, swung into a small surplus of F 83 million in May from a deficit of F 4.4 billion in April. Industrial wholesale prices continued to rise relatively rapidly; they rose 0.7 percent in May following a revised increase of 1.3 percent in April and were up 14.5 percent year-on-year.

The Belgian franc eased 1.55 percent against the U.S. dollar and 0.19 percent in effective (MERM) terms. The currency remained at the bottom of the EMS parity grid but did not require any intervention support. The discount of the financial franc from the commercial franc remained small. Belgium's unemployment rate declined to 11.8 percent at the end of June from 12.0 percent at the end of May. The wholesale price index rose 0.4 percent in May and 10.6 percent year-on-year.

The Netherlands guilder eased 1.77 percent against the U.S. dollar and 0.50 percent in effective (MERM) terms. The currency remained at or near the top of the narrow band of the EMS parity grid throughout the month. The Netherlands' Government agreed to cut short-term unemployment benefits and disability payments by 3.0 percent effective July 1. The unemployment rate declined in May to 17.3 percent from 17.4 percent in April; the number of persons unemployed in June fell 1.7 percent from May but was up 2.8 percent year-on-year. The trade surplus widened in April to f. 1.4 billion from f. 1.3 billion in April 1983 but narrowed from f. 2.1 billion in March 1984. The producer price index for investment and consumption goods rose 0.1 percent in April and 4.6 percent year-on-year.

The Danish krone eased 1.50 percent against the U.S. dollar and 0.22 percent in effective (MERM) terms. Denmark's trade deficit widened to DKr 1.39 billion in May from a revised DKr 1.16 billion in April and DKr 575 million in May 1983. The wholesale price index rose 0.9 percent in May for a 9.7 percent year-on-year rise.

The Irish pound eased 2.06 percent against the U.S. dollar and 0.53 percent in effective (MERM) terms. The number of persons unemployed, seasonally adjusted, rose 1.8 percent in June and was up 11.4 percent year-on-year; there is no official estimate of the unemployment rate. The trade surplus widened in May to a seasonally adjusted fIr 48 million from fIr 25.4 million in April. The consumer price index rose 2.3 percent in the quarter to mid-May and 9.7 percent year-on-year. The wholesale price index rose 0.3 percent in March and 8.8 percent year-on-year.

The Italian lira eased 1.46 percent against the U.S. dollar but was unchanged in effective (MERM) terms; it remained the strongest currency in the EMS relative to ECU central rates and remained above the narrow band of the parity grid. Italy's industrial production in May was up 5.5 percent over May 1983. The wholesale price index rose 0.7 percent in May and was up 11.6 percent year-on-year.

The pound sterling eased 2.02 percent against the U.S. dollar and 0.93 percent in effective (MERM) terms, reflecting in part the effects of the coal miners' strike. The U.K.'s industrial production declined 1.3 percent in June, the third consecutive monthly decline, and was down 0.5 percent year-on-year. The 12-month leading economic indicator declined 1.2 percent in May following a 0.2 percent decline in April. The unemployment rate, seasonally adjusted, was unchanged in June at 12.6 percent. The public sector borrowing requirement widened in May to f1.22 billion from f1.14 billion in May 1983. The current account deficit, however, narrowed sharply to a seasonally adjusted f69 million in May from f588 in April. The producer output price index rose 0.2 percent in June and was up 6.2 percent year-on-year.

The Swiss franc was the weakest of the major currencies in June, reflecting mainly the unfavorable interest rate differentials; it eased 3.03 percent against the U.S. dollar and 1.93 percent in effective (MERM) terms. Switzerland's unemployment rate declined to 1.1 percent in June from 1.2 percent in May. The trade deficit narrowed in June to Sw F 538 million from Sw F 566 million in May and Sw F 680 million in June 1983. The wholesale price index declined 0.1 percent in June but was up 3.1 percent year-on-year.

The Japanese yen was also very weak against other major currencies in June, mainly because of concern about a possible disruption of Japan's oil supplies from the Persian Gulf region. The yen eased 2.41 percent against the U.S. dollar and 1.83 percent in effective (MERM) terms. As a result, the 12-month effective (MERM) appreciation of the yen declined from 7.7 percent to 5.6 percent. Japan's industrial production, seasonally adjusted, rose a revised 2.4 percent in May and was up 12.5 percent year-on-year. The current account surplus, seasonally adjusted, narrowed in May to \$2.477 billion from \$3.562 billion in April while the trade surplus, seasonally adjusted, widened in June to \$3.119 billion from \$2.227 billion in May.

The Canadian dollar continued to be weak against the U.S. dollar in June despite considerable intervention by the Bank of Canada and the rise in domestic interest rates. The currency eased 1.92 percent against the U.S. dollar and 0.68 percent in effective (MERM) terms. Canada's unemployment rate declined in June to 11.2 percent from 11.7 percent in May. The trade surplus narrowed slightly in May to Can\$1.64 billion from Can\$1.71 billion in April. The budget deficit widened to Can\$3.96 billion in April from Can\$2.89 billion in April 1983. Industrial selling prices rose 0.1 percent in May and 4.1 percent year-on-year.

The Austrian schilling eased 1.59 percent against the U.S. dollar and 0.29 percent in effective (MERM) terms. The Norwegian krone eased 2.44 percent against the U.S. dollar and 1.12 percent in effective (MERM) terms. The Swedish krona eased 1.19 percent against the U.S. dollar but firmed 0.10 percent in effective (MERM) terms. Sweden raised its official interest rates late in June to stem capital outflows; the Bank of Sweden recorded a net currency outflow of SKr 4.4 billion from the second week of April to the last week of June, following a net inflow of SKr 2.5 billion from January until then.

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

Monetary and credit conditions did not follow a uniform pattern in the major industrial countries in June. Short-term money market interest rates firmed in Canada, Switzerland and the United States while those eased in France, Germany, Italy and the United Kingdom.

In the United States, interest rates continued to firm during most of the month, attributed to the continued strength of the economy and the market expectations of a more restrictive monetary policy by the Federal Reserve. The credit markets were affected by the "flash" GNP estimate of 5.7 percent growth in the second quarter and the upward revision to 9.7 percent for the growth in the first quarter. A larger-than-expected increase of \$3 billion in the M1 measure of money supply reported for the week ended June 11 brought the M1 money supply above the target ceiling. M1 continued to move around the ceiling for the rest of the month. On June 25, major banks raised their prime lending rate by half a percentage point to 13 percent, following the similar increase on May 8. This reflected strong business loan demands as well as higher costs of funds with the Federal funds rate rising above 11.5 percent, and occasionally as high as 12 percent, and interest rates on CDs rising by higher margins than those on Treasury bills. The 90-day CD rate firmed by 0.38 percentage point to 11.67 percent at the end of June, while the bond-equivalent yield on three-month Treasury bills firmed by 0.17 percentage point to 10.30 percent. The Federal funds rate declined in the last week of June to trade in the range of 10.51-11.08 percent as the Federal Reserve injected a substantial amount of reserves into the system; Federal funds traded in the range of 10.51-10.81 percent in the last week of May.

The Bundesbank raised its discount rate by half a percentage point to 4.5 percent, effective June 29, in order to bring the rate in line with the market rates; the Lombard rate was left unchanged at 5.5 percent. Meanwhile, the Bundesbank added liquidity into the market to sustain the economic recovery. The three-month interbank deposit rate stood at 6.22 percent at the end of June, compared with 6.34 percent at the end of May. Germany's central bank money stock, seasonally adjusted, rose at an annual rate of 4.5 percent in May, compared with 3.8 percent in April; the target range for 1984 is 4-6 percent growth. The Austrian National Bank followed the move of the Bundesbank by raising its discount rate by 0.25 percentage point to 4.5 percent while leaving its Lombard rate at 5.5 percent. The Bank of France cut its money market intervention rate by 0.25 percentage point to 11.5 percent effective June 21. The rate was previously cut by the same percentage point on May 10. The successive reductions in the rate were facilitated by the recent favorable economic developments including a decline in inflation, better trade balance, and relatively steady performance of the franc on the foreign exchange.

In the United Kingdom, major banks raised their base lending rate from 9.00 percent to 9.25 percent. The base rate was under upward pressure due to such factors as the increasing U.S. interest rates and the sterling's weakness in terms of the U.S. dollar. The rate on the three-month U.K. Treasury bills, however, eased by 0.20 percentage point during June to 9.01 percent. Sterling M3, the broadly defined money supply rose by an estimated 2 percent in the five weeks ended June 20, compared with 0.9 percent in May. The sharp increase reflected a

Table 4. Inflation Rates and Short-Term Interest Rates

	Month <u>2/</u>	Inflation rates <u>1/</u> (year-on-year percent changes)				Short-term interest rates <u>4/</u> (end-of-month)	
		Wholesale price index		Consumer price index <u>3/</u>		May	June
Austria	June	4.2	(--)	6.3	(--)	4.25	4.50
Belgium	May/June	10.6	(10.9)	6.8	(7.2)	11.90	11.90
Canada	May/June	4.1	(4.4)	4.1	(4.8)	11.30	12.15
Denmark	May	9.7	(8.0)	6.5	(6.6)	7.00	7.00
France	May	14.5	(14.2)	7.8	(7.9)	12.55	12.29
Germany	June	4.2	(4.1)	2.8	(2.8)	6.34	6.22
Italy	May	11.6	(11.4)	11.2	(11.2)	16.94	16.88
Japan	May	-0.1	(-0.8)	2.0	(2.4)	6.31	6.31
Netherlands	Mar./June	4.6	(4.5)	3.6	(3.7)	6.13	6.13
Norway	May	6.4	(7.0)	6.6	(6.6)	8.00	8.00
Sweden	June	--	(--)	8.1	(8.9)	8.50	9.50
Switzerland	June	3.1	(3.7)	2.8	(2.9)	4.06	4.44
United Kingdom	May/June	6.4	(6.6)	5.1	(5.1)	9.21	9.01
United States	June/May	2.2	(2.6)	4.2	(4.5)	10.13	10.30

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.

steep growth in the bank lending to the private sector. M0, the wide monetary base, was estimated to have increased by 1 percent in June, compared with 0.5 percent in May. Since mid-February, sterling M3 increased at an annual rate of 14.75 percent and M0 by 6.5 percent; the target through mid-April 1985 is 6-10 percent for sterling M3 and 4-8 percent for M0. In Japan, short-term interest rates were little changed with the two-month private bills rate standing at 6.31 percent at the end of June. Japan's broadly defined money supply, M2 plus CDs, rose an average 7.6 percent in May over a year earlier, about the same as a 7.7 percent year-on-year increase in April. M1 grew 2.1 percent on average in May from a year-earlier level, compared with 2.3 percent growth in April.

Among the other countries, interest rates in Canada continued to firm relatively sharply. The three-month Treasury bills rate firmed by 0.85 percentage point to 12.15 percent at the end of June. The Bank of Sweden raised its discount rate by one percentage point to 9.5 percent and the penalty rate paid by commercial banks on borrowings from the Central Bank by two percentage points to 13.5 percent, effective June 29.

In the eurocurrency markets, the three-month eurodollar deposit rate firmed by 0.38 percentage point to 12.19 percent from the end of May to the end of June. The three-month euro-Swiss franc deposit rate firmed by the same margin, while the euro-French franc rate eased sharply by 1.04 percentage point. The three-month deposit rates for the pound sterling, the Deutsche mark, and the Japanese yen eased by 0.12-0.19 percentage point.

As a result of the movements of domestic rates and eurodollar rates as described above, the uncovered interest differentials favoring euro-dollar investment continued to widen for Germany, Japan, the Netherlands, and the United Kingdom and those favoring domestic investment narrowed for France and Italy and switched to favor eurodollar investment for Belgium (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 dollar narrowed for the French franc and the Italian lira and changed to a premium for the Belgian franc. As a result of these movements of interest rates and forward exchange quotations, the covered interest differentials favoring eurodollar investment narrowed for France and the United Kingdom and switched to favor domestic investment for Belgium. Those favoring domestic investment widened for Germany and Japan, but narrowed for Italy and the Netherlands.

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

	Uncovered interest differentials <u>1/</u> (1)		Forward exchange quotations <u>2/</u> (2)		Covered interest differentials <u>1/</u> (3) = (1)-(2)	
	May	June	May	June	May	June
Belgium	-0.09	+0.29	-0.22	+0.57	+0.13	-0.28
France	-0.74	-0.10	-1.53	-0.27	+0.79	+0.17
Germany	+5.47	+5.98	+6.13	+6.67	-0.66	-0.69
Italy	-5.13	-4.69	-3.41	-3.12	-1.72	-1.57
Japan	+5.50	+5.88	+5.70	+6.25	-0.20	-0.37
Netherlands	+5.69	+6.07	+5.99	+6.34	-0.30	-0.27
United Kingdom	+2.60	+3.18	+1.94	+2.75	+0.66	+0.43

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.

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

The SDR interest rate for the week beginning June 25 was 9.09 percent, compared with 8.99 percent for the week beginning May 28 (see Table 6); the higher yield on the three-month U.S. Treasury bills, which firmed by 0.26 percentage point, more than offset lower yields on the relevant instruments for the other currencies in the SDR basket which eased by 0.06-0.20 percentage point. The rate of remuneration paid on creditor positions in the Fund (88.33 percent of the SDR interest rate) rose accordingly to 8.03 percent in the last week of June from 7.94 percent in the last week of May.

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

	May 28	June			
		4	11	18	25
SDR interest rate	8.99	9.08	9.10	9.11	9.09
Rate of remuneration	7.94	8.02	8.04	8.05	8.03

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

The combined domestic interest rates eased by 0.05, 0.19 and 0.06 percentage point for the three-month, six-month and five-year maturities, respectively, while the rate for the 12-month maturity was unchanged and the rate for the two and a half-year maturity firmed by 0.13 percentage point (see Table 7). Among the underlying yields, yields on the relevant U.S. instruments were mixed with the three-month, six-month and five-year maturities easing by 0.01-0.25 percentage point, while the 12-month and two and a half-year maturities firming by 0.05-0.07 percentage point between the end of May and the end of June. Yields on the relevant instruments in Germany eased by 0.04-0.12 percentage point while those for the United Kingdom, France and Japan were mixed.

The combined eurocurrency interest rate firmed by 0.12 percentage point for the three-month maturity, but eased by the same percentage point for the six-month maturity. The three-month eurodollar interest rate firmed by 0.50 percentage point and more than offset lower eurocurrency rates for the other currencies in the SDR basket which eased by 0.13-0.81 percentage point between the end of May and the end of June. For the six-month maturity, eurocurrency interest rates eased by 0.13-0.81 percentage point, except for the eurodollar rate which firmed by 0.19 percentage point.

Average interest rates on SDR-denominated deposits of selected commercial banks generally rose, with the yield curve becoming less steep. The rate on one- and three-month deposits firmed by 0.47 and 0.15 percentage point respectively while the rate on six-month deposits eased by 0.08 percentage point and the rate on 12-month deposits firmed by 0.06 percentage point.

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

	May	June
Combined market interest rates <u>2/</u>		
Based on domestic rates		
3-month maturity (Rule T-1)	9.10	9.05
6-month maturity	9.94	9.75
12-month maturity	10.50	10.50
2-1/2 year maturity	11.25	11.38
5-year maturity	11.81	11.75
Based on eurocurrency offered rates		
3-month maturity	10.13	10.25
6-month maturity	10.75	10.63
Average commercial bank deposit rates <u>3/</u>		
1-month deposits	9.22	9.69
3-month deposits	9.83	9.98
6-month deposits	10.44	10.36
12-month deposits	11.00	11.06

1/ Rates pertain to last Wednesday of the month.

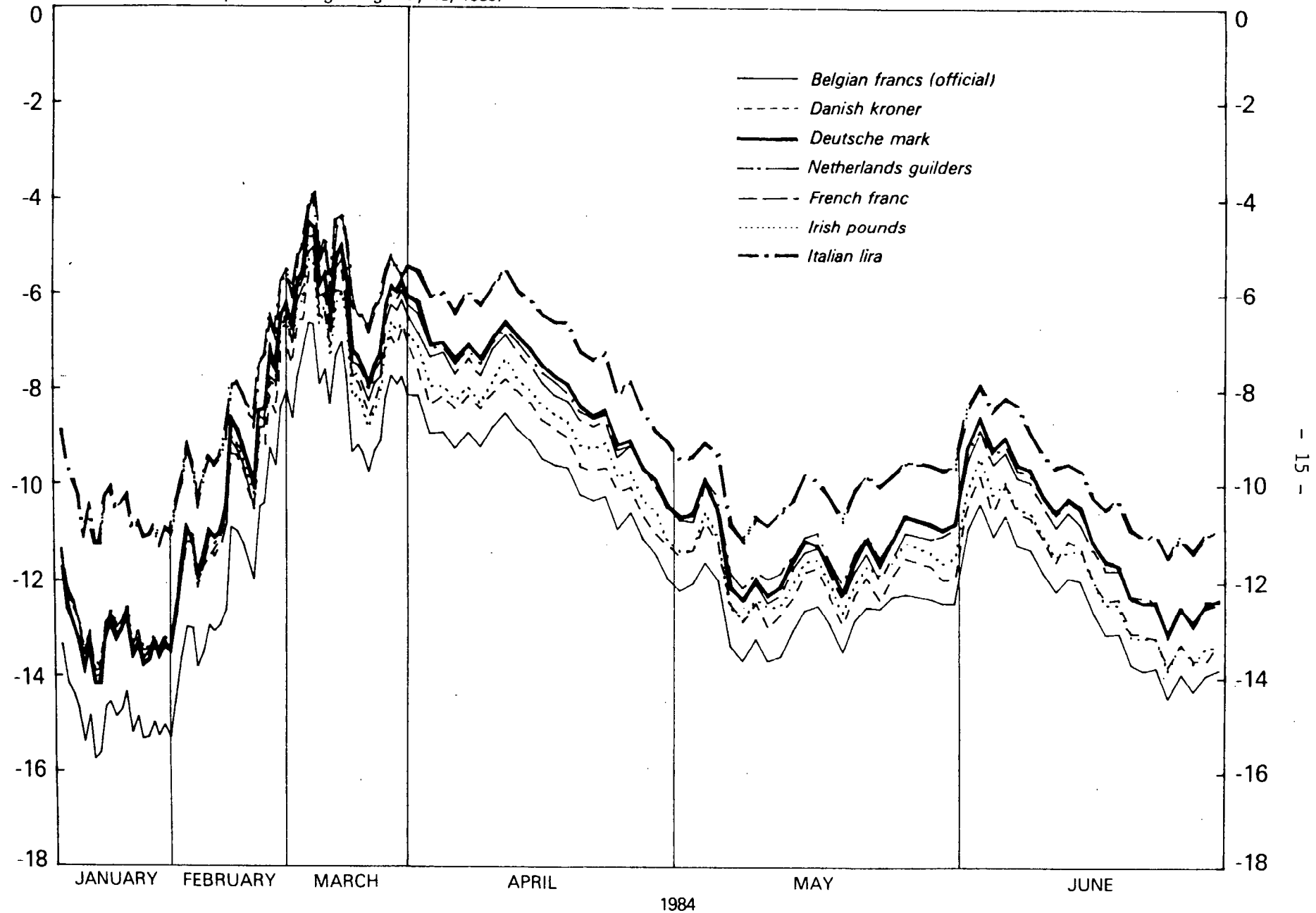
2/ Combined market rates (according to the Rule T-1) are calculated by multiplying the yields or rates of each of the respective instrument by the number of units of the corresponding currency listed in Rule 0-1 and the value in terms of the SDR of a unit of that currency as determined by the Fund under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

3/ Average of rates quoted by selected commercial banks.

CHART

SPOT EXCHANGE RATES: EUROPEAN MONETARY SYSTEM

(Based on noon quotations in New York)

Premia/Discounts in per cent (beginning May 18, 1983)¹

¹Effective May 18, 1983 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)

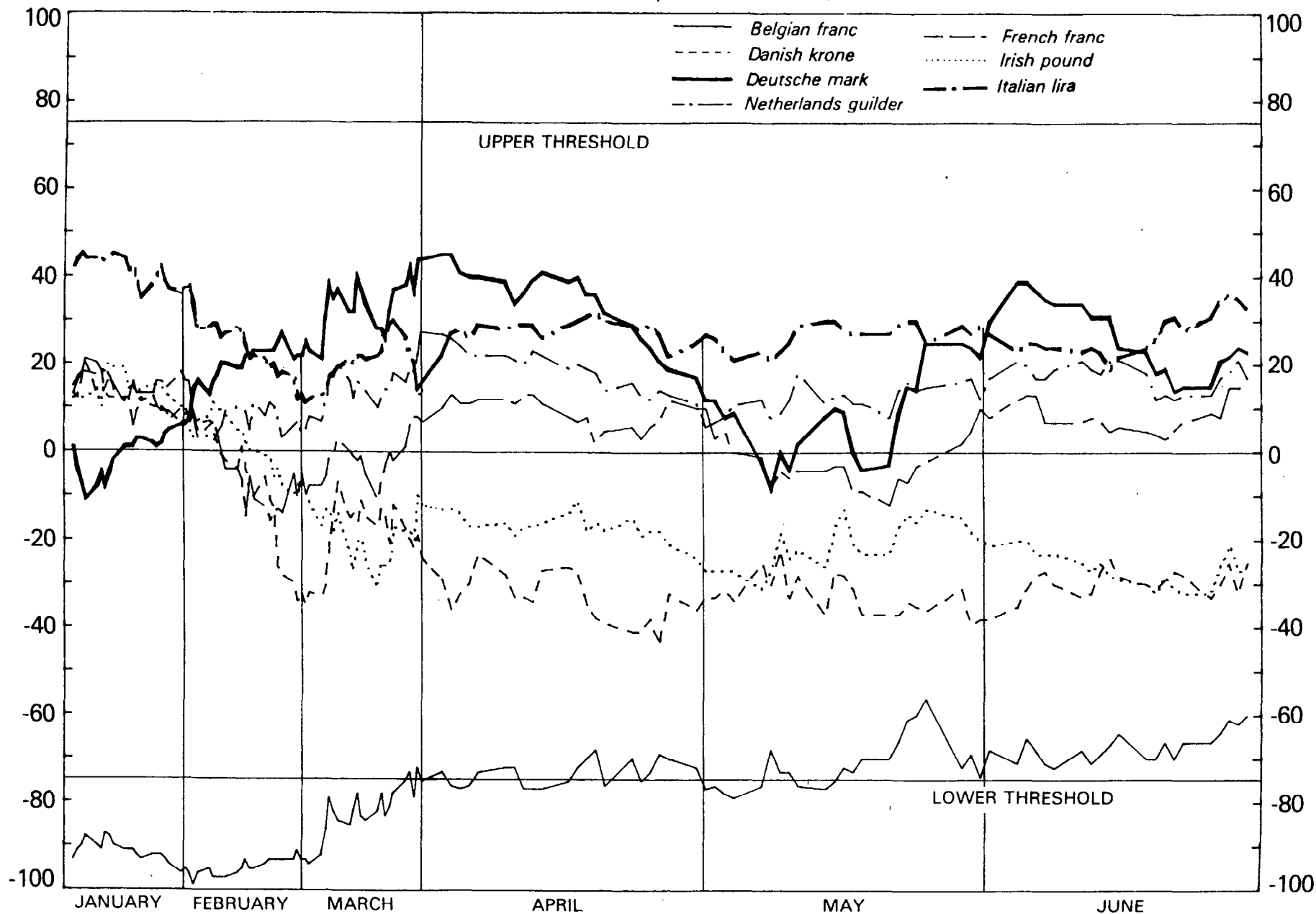


CHART 3 SPOT EXCHANGE RATES

(Noon quotations in New York)

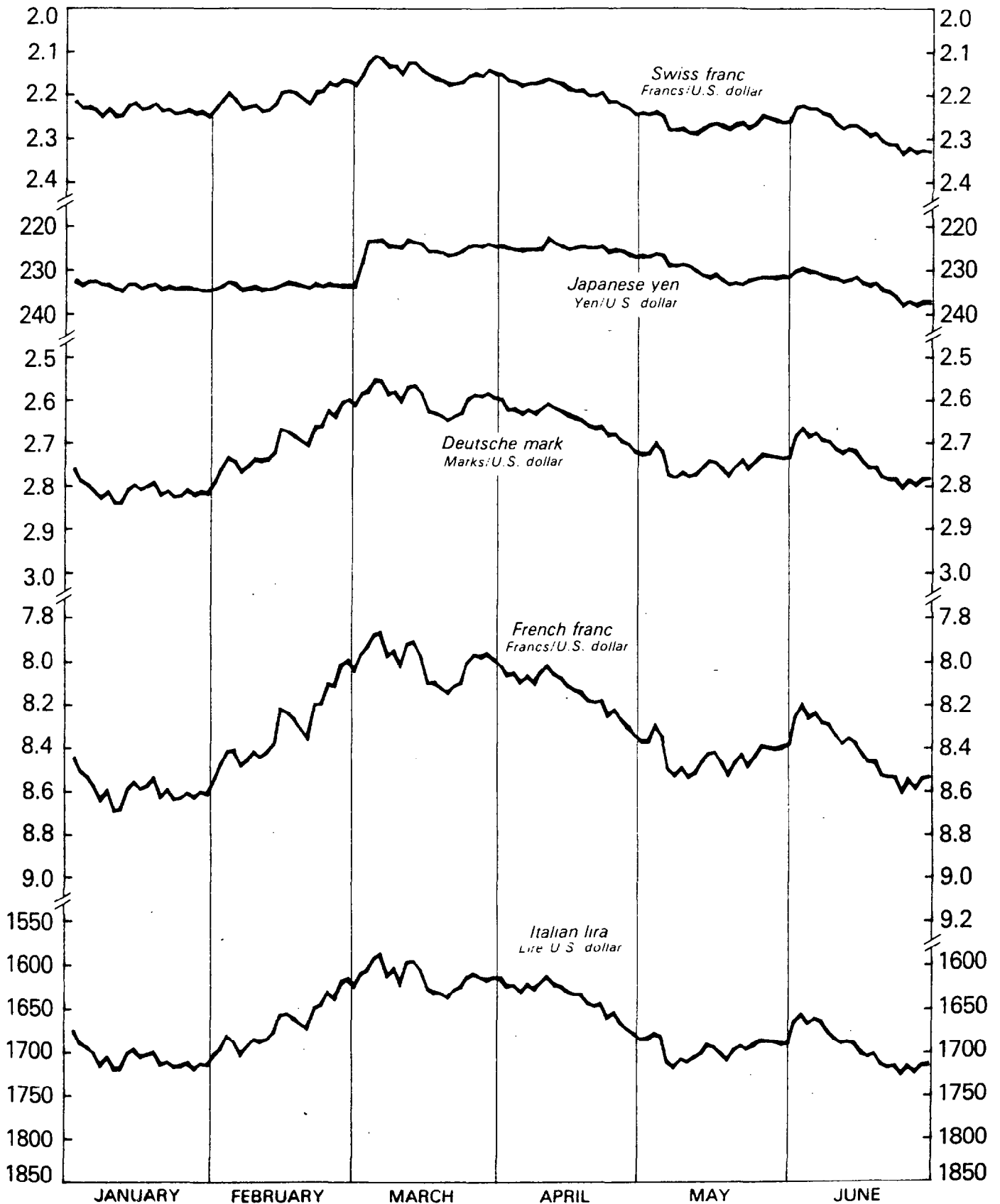


CHART 4 SPOT EXCHANGE RATES

(Noon quotations in New York)

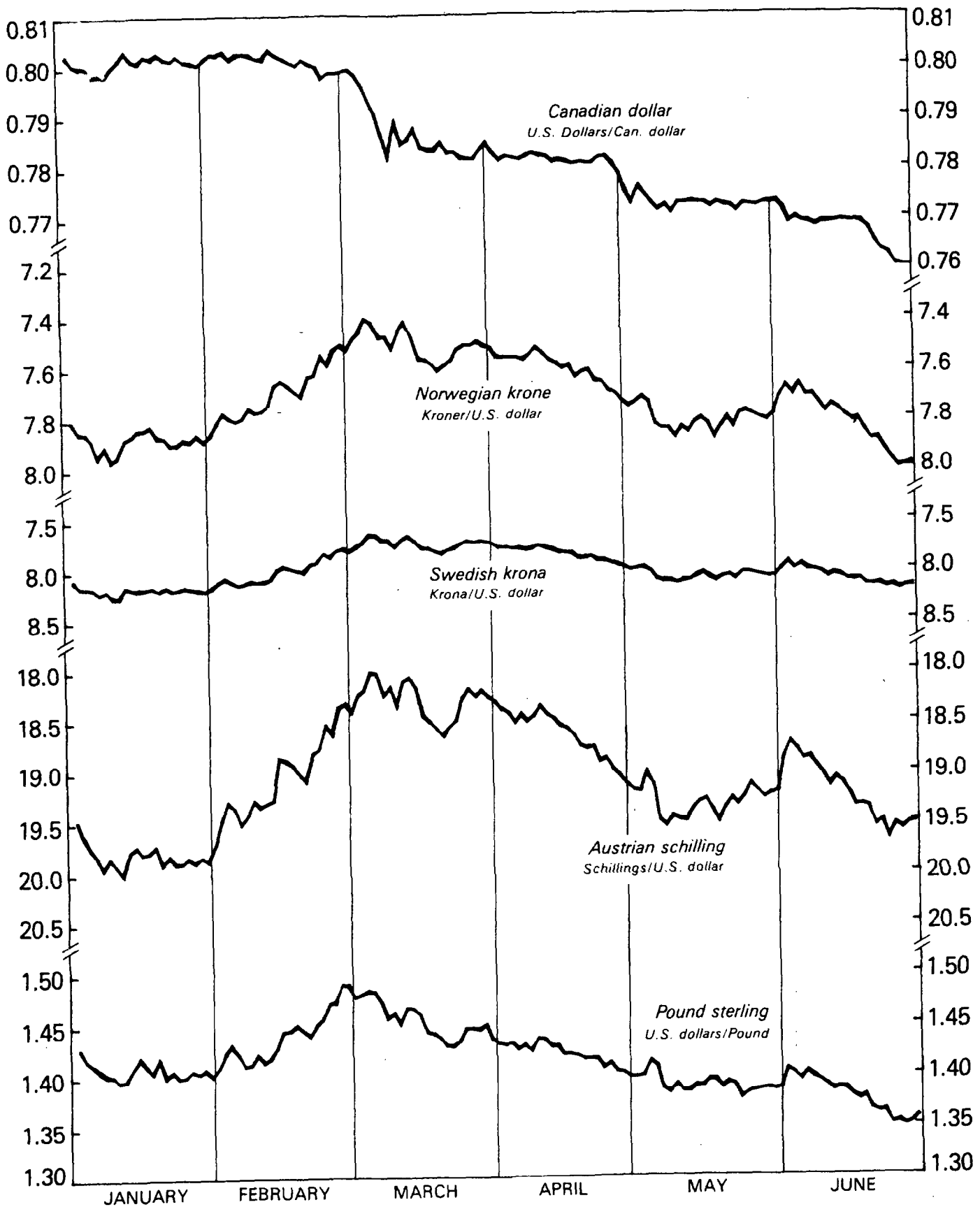


CHART 5

DAILY CHANGES IN SPOT EXCHANGE RATES

(In per cent against the U.S. dollar, based on noon quotations in New York)¹

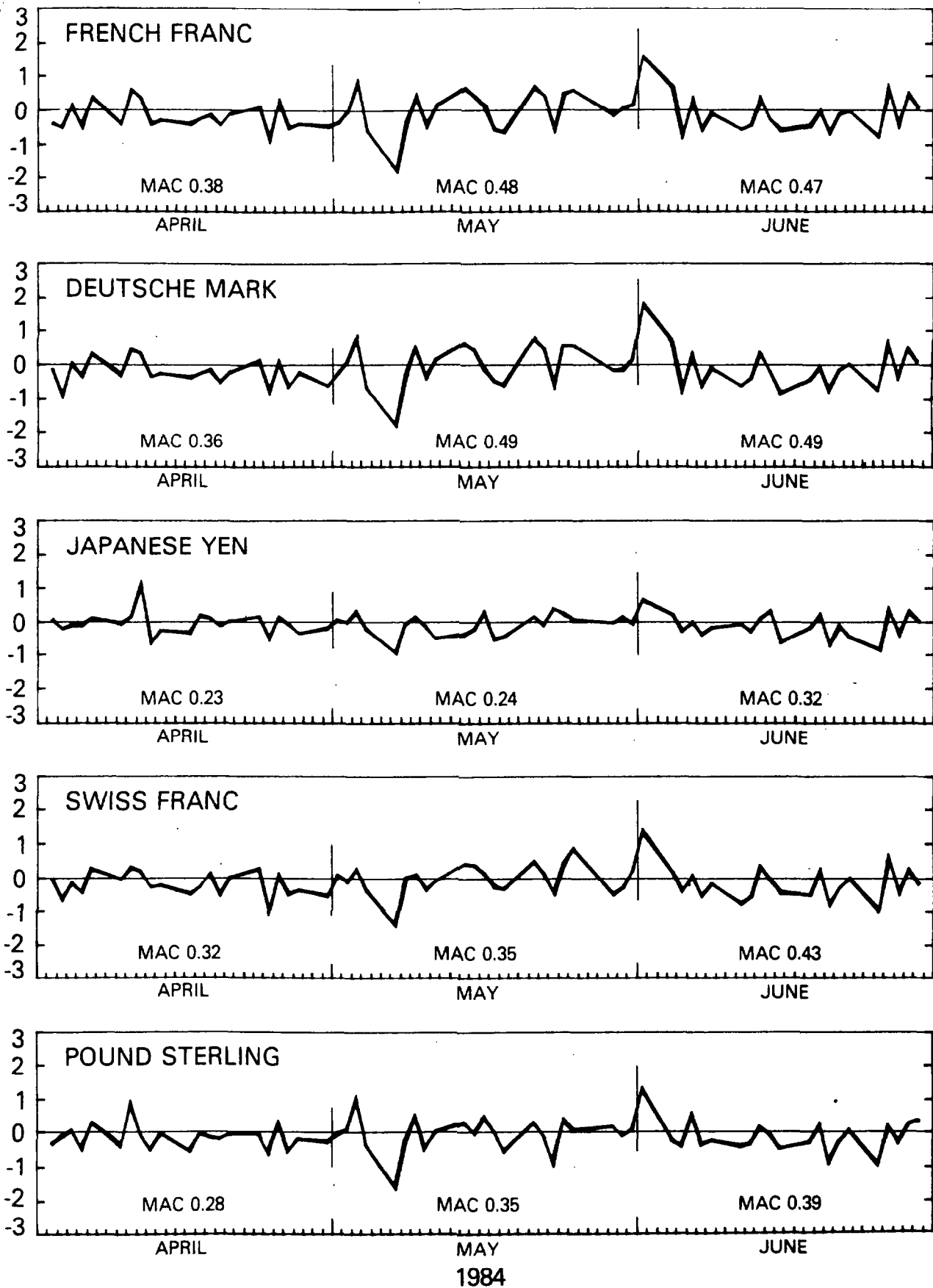
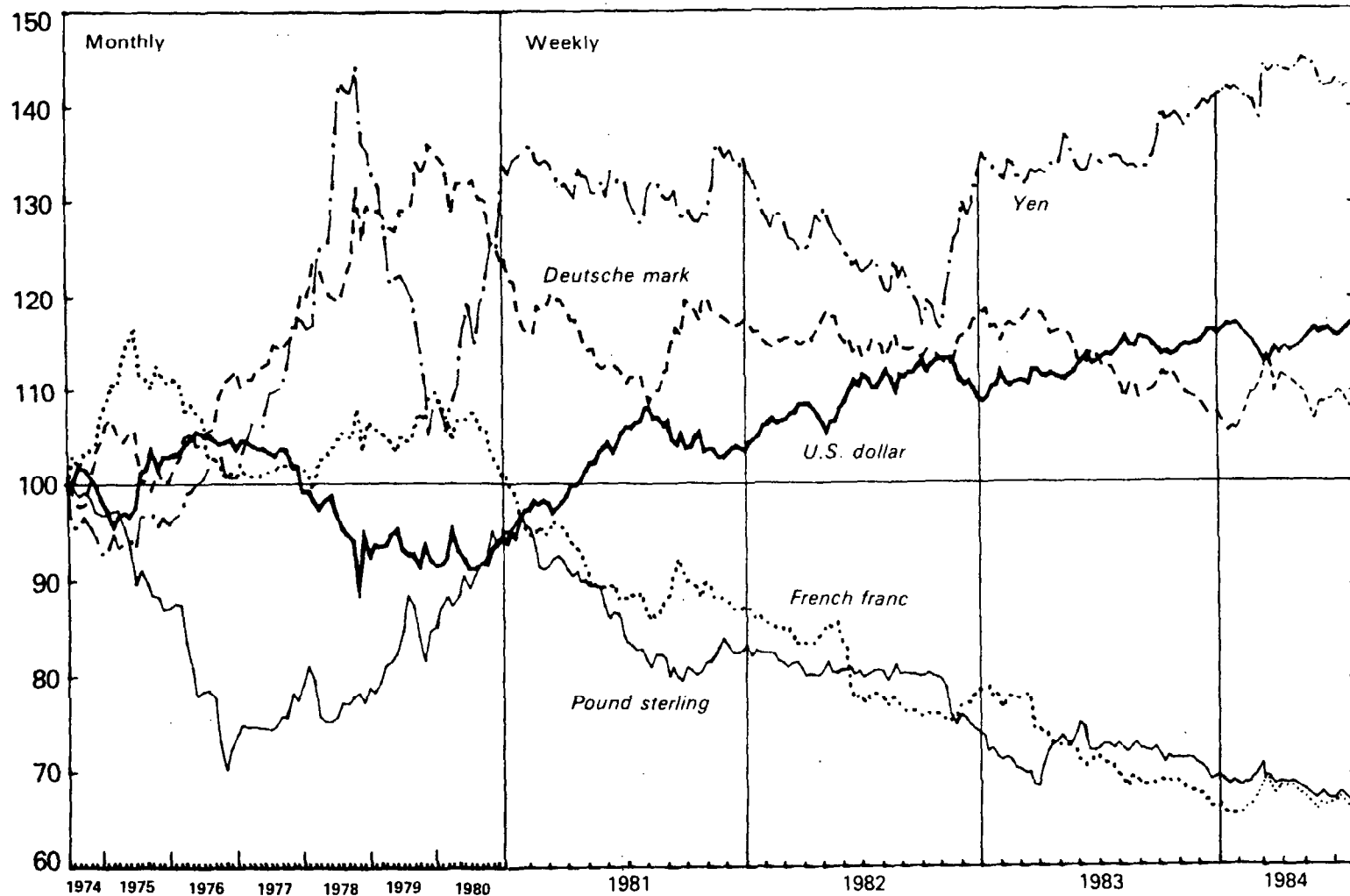


CHART 6
INDEXES OF EXCHANGE RATES OF
FIVE MAJOR CURRENCIES AGAINST THE SDR

JUN. 1974 - JUN. 1984

(June 28, 1974=100)



SHORT-TERM MONEY MARKET RATES

(Per cent per annum)

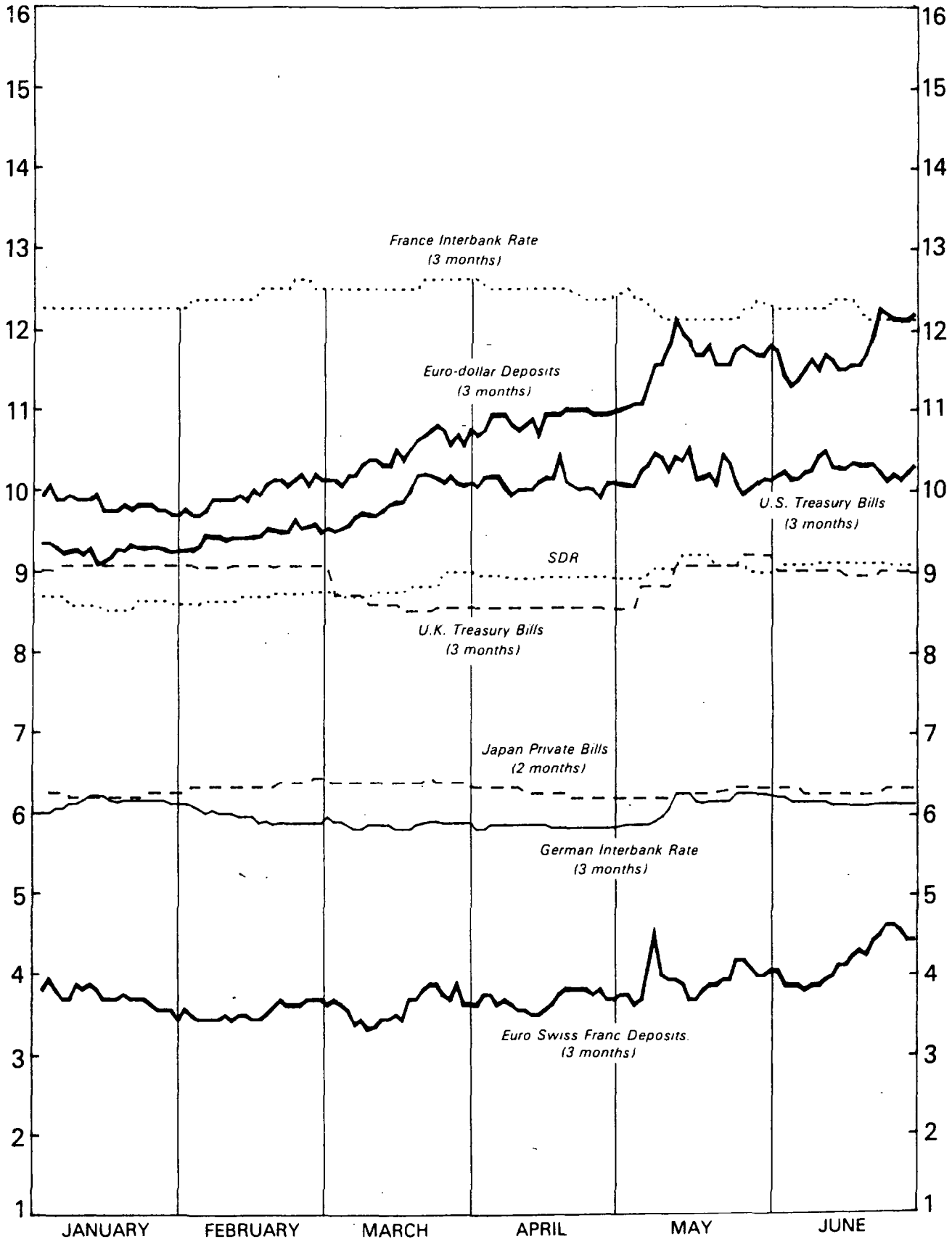
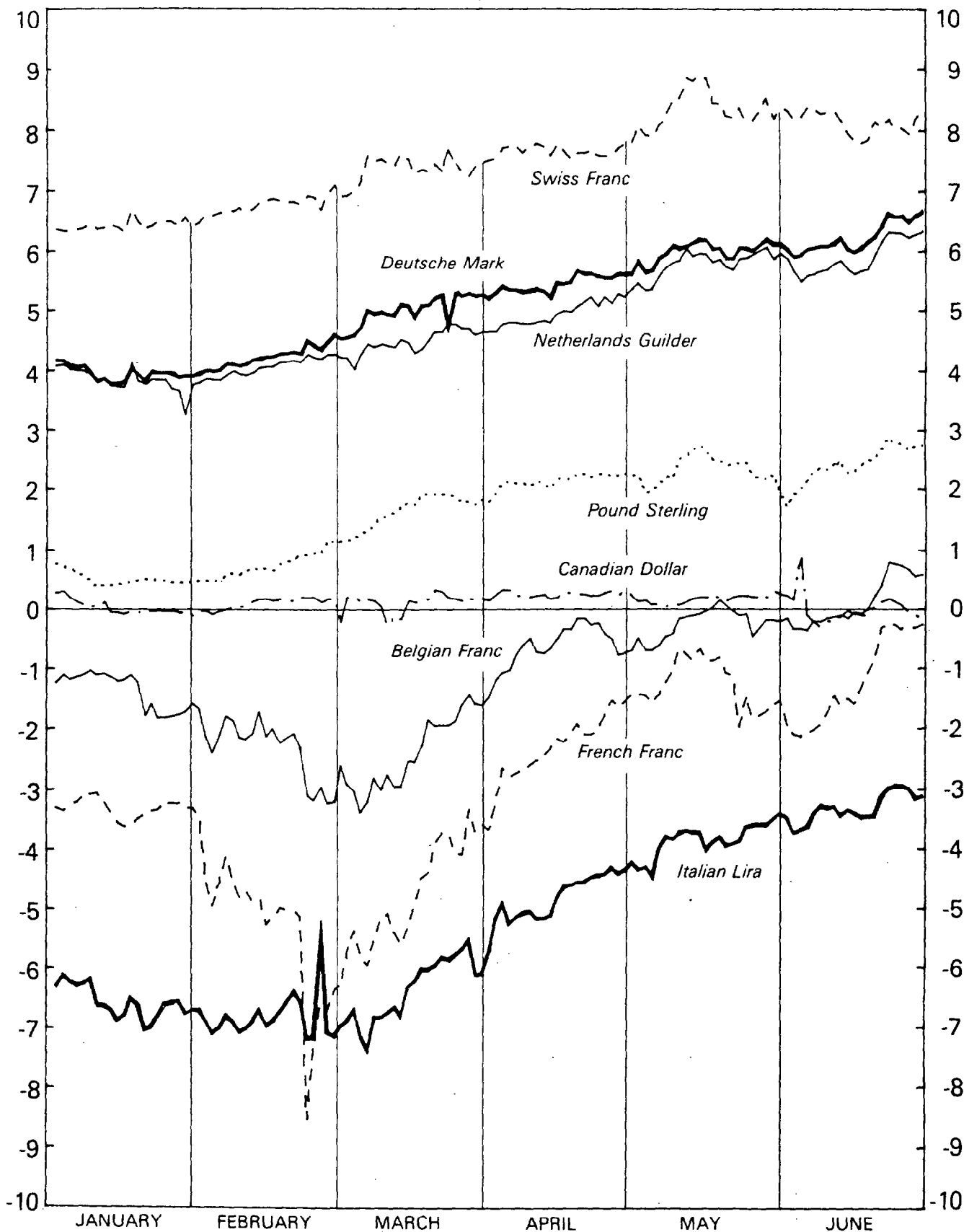
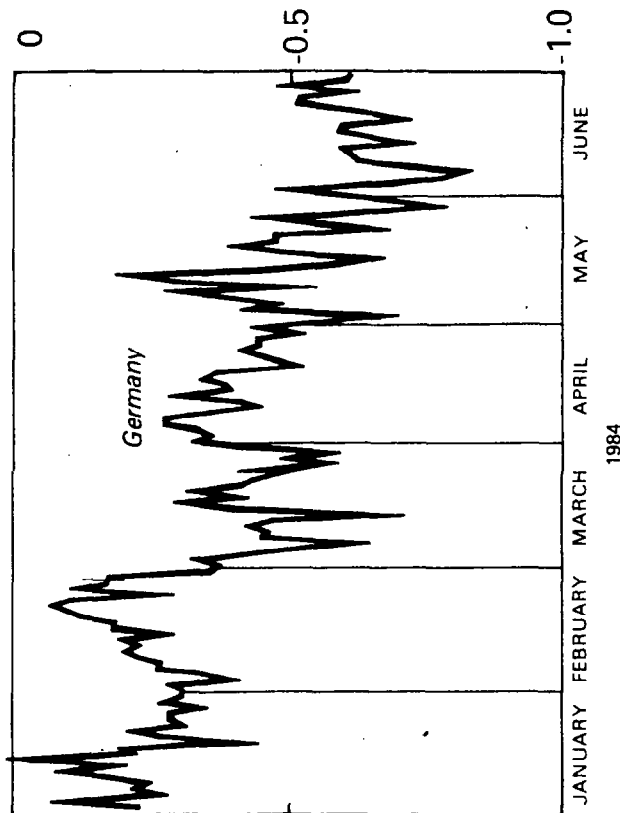
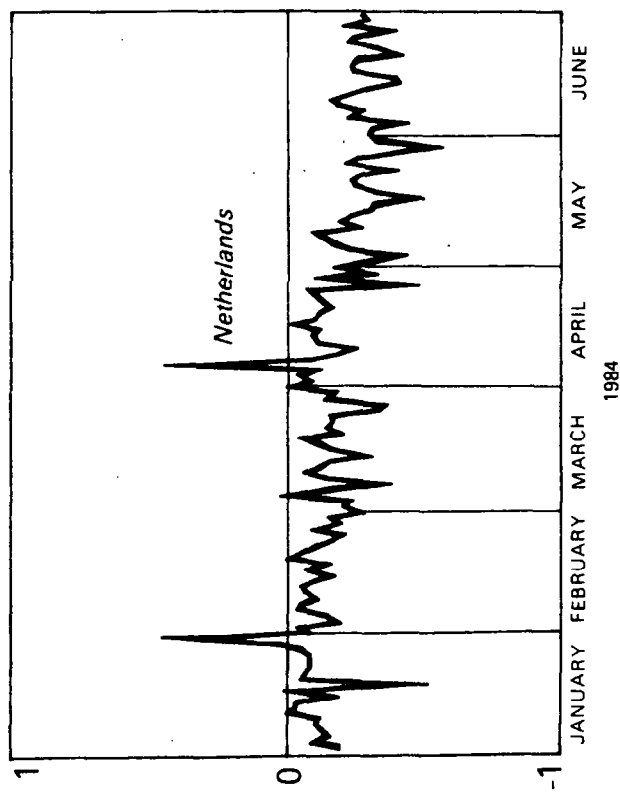
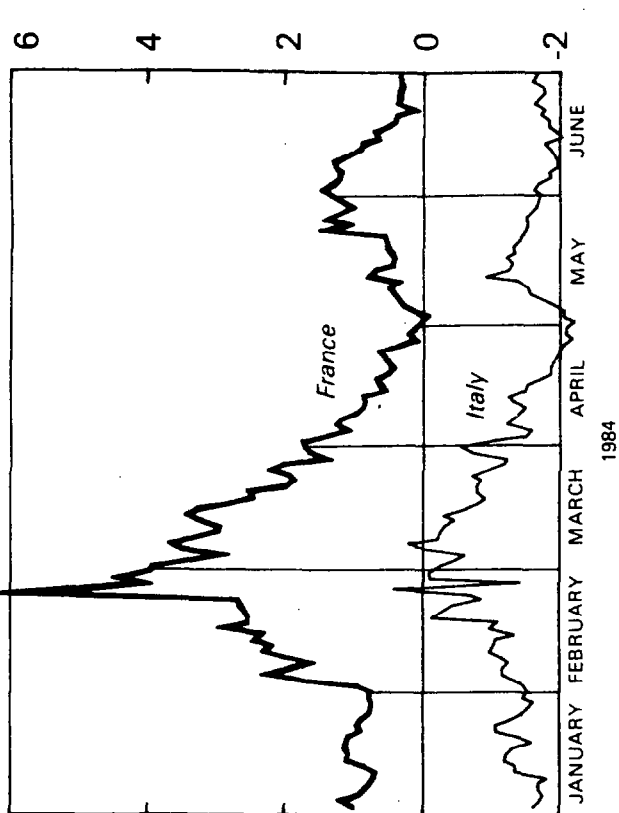
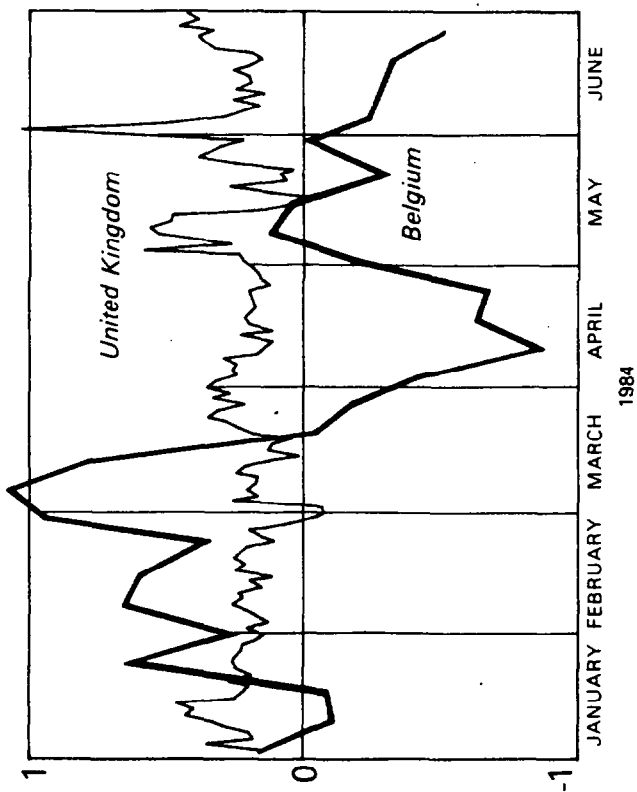


CHART 8
THREE-MONTH FORWARD RATES
Margins from Spot Rates based on noon quotations in New York
(Per cent per annum)



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, May-June 1984

	M a y					J u n e			
	2	9	16	23	30	6	13	20	27
Austrian schilling	19.1950	19.4520	19.2800	19.3325	19.2200	18.8885	19.0700	19.3715	19.5825
Belgian franc									
Official	55.480	56.225	55.785	55.820	55.745	54.605	55.410	56.550	56.920
Financial	56.545	57.385	56.585	56.445	56.525	55.735	56.265	56.945	57.445
Canadian dollars	0.77271	0.77223	0.77271	0.77217	0.77265	0.76962	0.76873	0.76873	0.76031
Danish kroner	9.9810	10.1075	10.0235	10.1000	10.0485	9.8295	9.9575	10.1765	10.2445
Deutsche mark	2.72600	2.76750	2.74550	2.75800	2.73550	2.67750	2.71515	2.77850	2.79610
French francs	8.3725	8.4945	8.4225	8.4845	8.3988	8.2385	8.3545	8.5235	8.5835
Irish pounds	1.1240	1.1110	1.1217	1.1175	1.1205	1.1418	1.1238	1.1012	1.0945
Italian lire	1684.000	1707.500	1693.000	1695.500	1689.000	1661.000	1686.500	1712.000	1721.250
Japanese yen	227.000	228.835	231.050	232.320	231.440	230.450	232.350	234.500	237.950
Netherlands guilder	3.0695	3.1130	3.0845	3.1025	3.0808	3.0225	3.0608	3.1295	3.1523
Norwegian kroner	7.7360	7.8440	7.8025	7.8350	7.8095	7.6685	7.7525	7.8535	7.9965
Pounds sterling	1.3995	1.3894	1.3942	1.3770	1.3845	1.4020	1.3859	1.3663	1.3495
Swedish kroner	8.0000	8.1240	8.0490	8.1100	8.0845	7.9775	8.0605	8.1715	8.2065
Swiss francs	2.24720	2.27925	2.26725	2.27675	2.26425	2.23275	2.27050	2.30550	2.33150

^{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 Securities 3/	
	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)		
1983																
July																
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	10.31	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	9.08	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	9.08	12.62	6.34	8.69	9.96	5.84	9.38	15.78	6.45	3.54	10.21	11.00	11.51	
Mar.	9.88	5.94	8.61	12.72	6.38	8.85	11.45	5.67	9.98	15.57	6.38	3.61	10.81	11.21	12.62	
Apr.	10.07	5.92	8.55	12.65	6.25	8.92	10.89	5.66	8.87	13.36	6.23	3.67	11.22	11.93	12.37	
May	10.22	6.18	8.97	12.37	6.24	9.07	11.60	5.93	9.37	12.77	6.35	1.92	12.18	12.39	13.17	
June	10.26	6.22	8.99	12.39	6.28	9.11	11.74	5.86	9.53	12.91	6.29	4.19	12.44	12.60	13.48	
1983 Weekly																
July	1	9.22	5.65	9.56	12.60	6.67	8.64	5.25	9.73	14.43	6.55	4.92	10.14	11.30	11.48	
	8	9.42	5.67	9.54	12.67	6.70	8.74	5.23	9.86	14.34	6.56	4.81	10.31	11.50	11.67	
	15	9.46	5.67	9.78	12.61	6.70	8.77	5.21	9.92	14.19	6.58	4.83	10.64	11.50	11.72	
	22	9.46	5.60	9.71	12.45	6.70	8.74	5.10	9.92	14.30	6.60	4.75	10.53	11.50	11.72	
	29	9.50	5.64	9.72	12.29	6.76	8.76	5.14	9.92	13.73	6.59	4.88	10.68	11.50	11.79	
Aug.	5	9.79	5.72	9.61	12.47	6.76	8.94	5.39	9.96	15.31	6.68	4.90	10.99	11.50	11.74	
	12	9.91	5.94	9.54	12.62	6.76	9.05	5.75	9.92	15.58	6.69	4.77	11.13	11.71	11.89	
	19	9.73	5.75	9.56	12.61	6.82	8.92	5.38	9.81	15.10	6.65	4.37	10.63	11.00	11.49	
	26	9.52	5.73	9.53	12.85	6.83	8.83	5.33	9.77	14.93	6.65	4.64	10.51	11.00	11.44	
Sept.	2	9.63	5.90	9.53	12.52	6.84	8.93	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	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	5.70	9.64	15.06	6.84	4.35	10.45	11.00	11.44	
	23	9.30	5.93	9.40	12.62	6.83	8.72	5.71	9.64	14.49	6.90	4.48	10.46	11.00	11.37	
	30	9.10	5.92	9.14	12.64	6.83	8.58	5.72	9.44	14.24	6.76	4.39	9.77	11.00	11.22	
Oct.	7	8.95	6.27	9.11	12.78	6.83	8.56	5.81	9.47	14.68	6.71	3.94	9.69	11.00	11.13	
	14	9.14	6.26	9.02	12.74	6.83	8.65	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	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	5.81	9.37	13.16	6.42	4.34	9.84	11.00	11.19	
Nov.	4	8.92	6.28	9.04	12.50	6.38	8.46	5.89	9.31	13.23	6.42	4.14	9.94	11.00	11.42	
	11	9.11	6.35	9.03	12.55	6.38	8.57	5.98	9.31	13.12	6.45	4.14	10.11	11.00	11.51	
	18	9.15	6.38	9.02	12.55	6.38	8.60	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	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	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	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	6.43	9.49	13.14	6.70	4.63	10.59	11.00	11.62	
	23	9.35	6.51	9.11	12.42	6.38	8.73	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	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	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	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	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	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	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	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	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	8.51	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	5.90	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
Apr.	6	10.13	5.91	8.55	12.71	6.31	8.96	10.85	5.71	8.93	14.03	6.26	3.69	11.17	11.50	12.36
	13	10.02	5.93	8.55	12.67	6.27	8.90	10.79	5.65	8.85	13.45	6.21	3.55	11.12	12.00	12.24
	20	10.14	5.91	8.55	12.67	6.24	8.95	10.96	5.66	8.83	13.22	6.19	3.69	11.28	12.00	12.38
	27	10.01	5.91	8.54	12.55	6.19	8.87	10.96	5.63	8.88	12.77	6.25	3.76	11.29	12.00	12.47
May	4	10.11	5.93	8.59	12.59	6.19	8.94	11.03	5.67	8.95	12.51	6.23	3.70	11.34	12.00	12.65
	11	10.36	6.08	8.68	12.29	6.20	9.11	11.76	5.98	9.50	12.61	6.28	4.09	12.25	12.14	12.99
	18	10.27	6.27	9.08	12.29	6.25	9.12	11.80	5.99	9.34	12.58	6.37	3.79	12.36	12.50	13.24
	25	10.17	6.28	9.10	12.32	6.29	9.08	11.65	5.98	9.41	12.98	6.44	4.03	12.35	12.50	13.35
June	1	10.14	6.32	9.16	12.48	6.31	9.09	11.74	6.00	10.13	13.34	6.45	4.03	12.55	12.50	13.69
	8	10.20	6.25	9.01	12.42	6.29	9.08	11.45	5.79	9.54	13.54	6.31	3.87	12.20	12.50	13.34
	15	10.34	6.20	9.00	12.52	6.25	9.15	11.56	5.87	9.38	13.17	6.30	4.02	12.36	12.50	13.36
	22	10.30	6.19	8.96	12.37	6.25	9.12	11.80	5.85	9.39	12.51	6.29	4.35	12.46	12.50	13.49
	29	10.20	6.22	9.01	12.29	6.31	9.09	12.15	5.92	9.50	12.31	6.25	4.54	12.69	12.71	13.72

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 0-1 and the value in terms of the SDR of a unit of that currency as determined by the Fund under Rule 0-2(a) and (b). 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.S. 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.

