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INTERNATIONAL MONETARY FUND

Treasurer's Department

Foreign Exchange and Financial Markets in October 1984

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Foreign exchange markets were significantly less volatile in October than in the preceding month when there were dramatic rate movements and heavy central bank intervention. Trading conditions remained somewhat nervous and unsettled with fears of possible large Bundesbank intervention continuing to affect the market sentiment; the Bundesbank sold significant amounts of U.S. dollars on three occasions in October which appeared to have had some temporary impact on the value of the dollar. Over the month as a whole, the dollar eased against most major currencies, losing about one quarter of the gain it made in the preceding month (see Table 1 and Charts 1, 3, and 4). The pound sterling was the only major currency to ease in October, being adversely affected by continuing industrial disruptions and cuts in oil export prices. The principal factor behind the dollar's weakening was a marked decline in U.S. interest rates: the yield on three-month Treasury bills declined from 10.62 percent at the end of September to 9.35 percent at the end of October. The dollar, however, showed slight gains against the SDR and in effective (MERM) terms. ^{1/} The dollar's 12-month effective (MERM) appreciation remained substantial.

The U.S. dollar was easier during the first few days of October on fears of renewed intervention by the Bundesbank, anticipation of Germany's decision to abolish the nonresident withholding tax on new issues of bonds, and the possibility that the Federal Reserve might increase the supply of liquidity to the banking system. Market sentiment then changed quickly, and the dollar tended to firm steadily

^{1/} The slight gain of the dollar in effective terms and in terms of the SDR was in part due to differences in the quotations used for these calculations. The U.S. dollar/SDR exchange rate is based on London noon rates and the MERM rates are based on representative exchange rates from domestic markets while the exchange rates used in this report are New York noon quotations.

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

(In percent)

	Monthly exchange rate changes			Changes in effective exchange rate since October 1983 ^{4/}
	Against U.S. dollar ^{2/}	Against SDR ^{3/}	Effective exchange rate ^{4/}	
Belgium	+1.57	+0.62	+0.62	-1.78
Denmark	+1.34	+0.15	+0.16	-4.38
France	+1.29	-0.44	-0.88	-5.91
Germany	+1.32	+0.14	+0.14	-3.71
Ireland	+0.84	-0.34	-0.29	-4.71
Italy	+1.28	+0.41	+0.45	-5.65
Netherlands	+1.21	+0.10	-0.01	-3.69
Austria	+1.11	+0.07	-0.04	-4.57
Canada	+0.25	+0.53	+0.30	-2.05
Japan	+0.48	+0.38	+0.28	+2.34
Norway	+0.52	-0.24	-0.24	-7.96
Sweden	+0.27	-0.52	-0.59	-0.10
Switzerland	+1.50	+0.52	+0.35	-6.07
United Kingdom	-1.26	-2.18	-2.34	-10.51
United States	—	+0.28	+0.11	+11.48

^{1/} Positive sign indicates appreciation of the currency.

^{2/} Based on New York noon quotations.

^{3/} SDR rates are derived from representative exchange rates advised to the Fund by members and the daily valuation of the SDR against the U.S. dollar.

^{4/} Based on the Fund's multilateral exchange rate model (MERM). Effective rates are based on representative exchange rates in the domestic markets, as officially advised to the Fund.

up to the middle of the month on expectations that U.S. interest rates were likely to remain high due to the bunching of Treasury borrowings, following congressional delays in raising the Federal debt ceiling and continued strength of the economy. The trend was, however, reversed on October 17 and the dollar eased sharply, partly in reaction to intervention by the Bundesbank which sold \$60 million in the open market in early trading and another \$104 million at the fixing in Frankfurt. There were also unconfirmed reports that the Bank of Japan and the Bank of Italy were supporting their currencies in the open market on that day. The dollar recovered somewhat in late trading but continued to weaken through most of the remainder of the month due primarily to significant declines in U.S. interest rates. Moderating

U.S. money supply growth, declining world oil prices, and indications of a slowdown in the pace of U.S. economic growth influenced market participants to believe that the U.S. Federal Reserve might relax its monetary stance without rekindling inflationary expectations. The weakening of the dollar was also aided by further intervention by the Bundesbank, estimated to be in the range of \$50-\$130 million on October 25 and \$40-\$50 million on October 26.

Within the EMS, the participating currencies generally maintained their relative positions in the parity grid with the spread between the strongest and the weakest currency remaining in the range of 1.24-1.77 percent in the narrow band, compared with the permitted 2.25 percent margin. The Belgian franc remained the weakest currency in the EMS in terms of its ECU central parity while the Danish krone was at the top of the narrow band through most of the month; the Irish pound replaced the Danish krone on a few occasions. The Italian lira was the strongest currency in the EMS with a spread of 1.6-2.6 percent from the Belgian franc. The divergence indicators for all the EMS currencies were well within their thresholds (see Chart 2).

The volatility of exchange rate movements in October, as indicated by certain statistical measures (see Table 2) declined from the very high levels recorded in September but remained higher than that in August. The range within which major currencies were traded against the U.S. dollar in October narrowed for all the major currencies, the exception being the Japanese yen which had an unusually low trading range of 1.4 percent in the previous month. The trading range for the EMS currencies and the Austrian schilling narrowed to 3.2-4.3 percent from 6.1-6.7 percent in September and that for the pound sterling remained relatively high at 5.2 percent in October, compared with 5.8 percent in September. For the remaining currencies other than the Canadian dollar, the high-low spread declined to 2.5-4.0 percent from 4.0-5.6 percent in September; the spread for the Canadian dollar stood at 1.3 percent, compared with 1.6 percent in September. The average of absolute daily percentage changes for October (MAC in Table 2 and Chart 5) also declined. For the EMS currencies and the Austrian schilling, the average MAC declined to 0.62 percent from 0.87 percent in September. Excluding the MAC for Canada, which is usually much smaller than for the other major currencies, the average of daily absolute percentage changes for the remaining currencies declined to 0.45 percent from 0.60 percent in September.

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

	October 2/		High-low spread in percent 3/		MAC 4/	
	High	Low	Sept.	Oct.	Sept.	Oct.
Belgium	61.190	63.400	6.7	3.6	0.82	0.60
Denmark	10.882	11.3425	6.2	4.2	0.83	0.64
France	9.2450	9.61375	6.7	4.0	0.85	0.61
Germany	3.0095	3.1390	6.7	4.3	0.89	0.65
Ireland	1.02725	0.9888	6.1	3.9	0.92	0.61
Italy	1872.5	1933.25	6.7	3.2	0.83	0.61
Netherlands	3.3985	3.5365	6.7	4.1	0.90	0.63
Austria	21.195	22.047	6.6	4.0	0.88	0.57
Canada	0.76234	0.75284	1.6	1.3	0.18	0.17
Japan	244.00	249.05	1.4	2.1	0.40	0.27
Norway	8.7500	9.0150	5.6	3.0	0.59	0.44
Sweden	8.5825	8.80125	4.0	2.5	0.54	0.41
Switzerland	2.4735	2.5715	4.5	4.0	0.72	0.54
United Kingdom	1.24975	1.1875	5.8	5.2	0.76	0.59

1/ Exchange rates against the U.S. dollar at noon 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.

Movements in gross foreign exchange reserves were significantly less pronounced in October for most countries than in September (see Table 3). Among the countries recording large changes in reserves, Norway showed a rise of over \$700 million while Switzerland recorded a loss of nearly \$1 billion; a substantial reserve increase was also recorded by Denmark. Over the latest 12-month period significant reserve gains were posted by France (September), Italy, Japan, and Norway while significant losses were recorded by Germany, Canada, and the United Kingdom.

Table 3. Foreign Exchange Reserves in October 1984 ^{1/}
(In millions of U.S. dollars)

	End-month reserve level	Change in October	Change over 12 months
Belgium	3,905	+213	-32
Denmark	3,885	+507	+236
France (September)	20,278	+63	+1,647
Germany	35,954	+231	-2,325
Ireland	1,899	-199	-575
Italy	18,746	+357	+999
Netherlands	8,121	-32	-609
Austria	3,286	-117	-768
Canada	2,090	+217	-1,222
Japan	21,712	+276	+1,268
Norway	8,397	+707	+2,517
Sweden	3,749	-147	+466
Switzerland	11,812	-960	+117
United Kingdom (September)	6,621	-319	-2,283
United States (September)	6,036	-154	-874

^{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 in October lost about one quarter of the sharp gains it made against other major currencies in September, easing against all major currencies except the pound sterling, principally because of falling U.S. interest rates amid signs of a slowing down in U.S. economic growth. As indicated earlier, the dollar tended to firm in the first half of the month but weakened in the second half of October when interest rates on dollar-denominated assets declined significantly. The U.S. index of leading economic indicators, seasonally adjusted, rose 0.4 percent in September while the 0.5 percent rise in August was revised to a 0.1 percent fall. Industrial capacity utilization declined to 81.9 percent in September from 82.6 percent in August. The civilian unemployment rate remained at 7.4 percent in October while industrial production remained unchanged at the level of September; the year-on-year rate of growth in industrial production was 6.6 percent. The trade

deficit widened in September to \$12.65 billion from \$9.86 billion in August while the Federal budget deficit for the fiscal year ended September 1984 narrowed to \$175.3 billion from \$195.4 billion in the previous fiscal year; government receipts grew by 11.0 percent while expenditures grew by 5.8 percent. The U.S. producer price index declined 0.2 percent in October, the same as in September, and was up only 1.4 percent year-on-year.

The Deutsche mark firmed by 1.32 percent against the U.S. dollar and 0.14 percent in effective (MERM) terms, assisted by occasional bouts of dollar sales by the Bundesbank and by the announcement that nonresident withholding tax on foreign purchasers of bonds would be abolished. Germany's industrial production, seasonally adjusted, fell 0.2 percent in September after falling 1.8 percent in August (revised) but rose 2.5 percent year-on-year. The unemployment rate, seasonally adjusted, was unchanged in October at 8.6 percent. The current account was in balance in September, compared with deficits of DM 1.5 billion in August and DM 651 million in September 1983. The inflation rate remained low; the wholesale price index rose 0.2 percent in September and was up 1.0 percent year-on-year, based on a revised index.

The French franc firmed by 1.29 percent against the U.S. dollar but eased by 0.88 percent in effective (MERM) terms. France joined Germany in announcing that the nonresident withholding tax on foreign purchasers of bonds would be abolished. France's industrial production in the July-August period rose 4.6 percent over the same period of 1983. The trade surplus, seasonally adjusted, narrowed to F 477 million in September from F 3.55 billion in August. Industrial wholesale prices rose 1.1 percent in September following no change in August and were up 11.6 percent year-on-year.

The Belgian franc firmed by 1.57 percent against the U.S. dollar and 0.62 percent in effective (MERM) terms but remained the weakest currency in the EMS. Belgium's industrial production rebounded 20.7 percent in August following a decline of 29.7 percent in July and was up 0.6 percent year-on-year. The unemployment rate fell to 12.1 percent at the end of October from 12.2 percent at the end of September. The inflation rate showed a significant easing trend; the wholesale price index rose only 0.1 percent in September and was up 4.0 percent year-on-year, compared with a year-on-year rise of 9.6 percent three months earlier (June).

The Netherlands guilder firmed by 1.21 percent against the U.S. dollar but was essentially unchanged in effective (MERM) terms. The Netherlands' industrial production rose 0.9 percent in August and was up 9.2 percent year-on-year, and the number of persons unemployed, seasonally adjusted, fell 1.5 percent in October (2.2 percent year-on-year); the unemployment rate in September, however, remained very high at 17.5 percent. The trade deficit narrowed to f. 400 million in August from f. 500 million in August 1983; the trade account was in balance in July.

The Danish krone firmed by 1.34 percent against the U.S. dollar and 0.16 percent in effective (MERM) terms and was the strongest currency in the narrow band of the EMS for most of the month. Denmark's trade deficit, seasonally adjusted, narrowed to DKr 590 million in September from DKr 1.19 billion in August. The wholesale price index rose 0.4 percent in September and was up 5.6 percent year-on-year.

The Irish pound rose by 0.84 percent against the U.S. dollar but eased by 0.29 percent in effective (MERM) terms. The currency was occasionally at the top of the narrow band of the EMS parity grid in early October. The number of persons unemployed in Ireland, seasonally adjusted, fell marginally at the end of October but was up 8.0 percent year-on-year. The trade balance, seasonally adjusted, swung into a surplus of Ir£ 83.9 million in September from a deficit of Ir£ 162.4 million in August. The wholesale price index for manufacturing industries rose 0.1 percent in July for a 7.2 percent year-on-year rise.

The Italian lira firmed by 1.28 percent against the U.S. dollar and 0.45 percent in effective (MERM) terms and remained the strongest currency in the EMS with a spread from the Belgian franc in the range of 1.6-2.6 percent. Italy's industrial production rose 109 percent in September because of seasonal factors but fell 2.1 percent year-on-year partly because of fewer trading days this September.

The pound sterling was the weakest of the major currencies in October under the impact of oil price cuts and continuing domestic industrial disruption; the currency depreciated by 1.26 percent against the U.S. dollar and 2.34 percent in effective (MERM) terms. The U.K. unemployment rate, seasonally adjusted, was unchanged in October at 12.9 percent. Industrial production, seasonally adjusted, rose 1.3 percent in September but was down 1.6 percent year-on-year. The public sector borrowing requirement (PSBR) narrowed to £633 million in September from £1.2 billion in September 1983; for the first six months of the fiscal year, however, the PSBR widened to £7.17 billion from £6.8 billion in the same period of 1983. The current account deficit in September widened to £514 million from £318 million in August, attributed in part to acceleration of imports ahead of changes in VAT collection procedures. The producer output price index rose 0.5 percent in October and was up 6.2 percent year-on-year.

The Swiss franc firmed by 1.50 percent against the U.S. dollar and 0.35 percent in effective (MERM) terms. Switzerland's unemployment rate rose to 1.1 percent in October from 1.0 percent in September. The trade deficit widened to Sw F 937.9 million in October from Sw F 577.7 million in September and Sw F 488.0 million in October 1983.

The Japanese yen firmed by 0.48 percent against the U.S. dollar and 0.28 percent in effective (MERM) terms. Japan's industrial production fell 0.7 percent in September but was up 9.0 percent year-on-year while the unemployment rate was unchanged at 2.77 percent. The current account

surplus, seasonally adjusted, widened to \$3.04 billion in September from \$1.82 billion in August while the trade surplus in October, seasonally adjusted, narrowed to \$3.03 billion from \$3.41 billion in September due to a faster rise in imports than in exports. As in the United States and Germany, the inflation rate remained very low; the wholesale price index fell 0.3 percent in October and was higher by 0.7 percent year-on-year.

The Canadian dollar firmed by 0.25 percent against the U.S. dollar and 0.30 percent in effective (MERM) terms. Canada's industrial production, seasonally adjusted, fell 0.5 percent in August, after rising by 3.5 percent in July, and was up 9.2 percent year-on-year. Real GDP fell 0.3 percent in August, following a rise of 1.2 percent in July for a 4.3 percent year-on-year growth rate. The unemployment rate, seasonally adjusted, fell to 11.3 percent in October from 11.8 percent in September. The budget deficit widened to Can\$3.0 billion in August from Can\$2.82 billion in August 1983 while the trade surplus, seasonally adjusted, widened to Can\$1.92 billion in September from Can\$1.41 billion in August. Industrial selling prices fell 0.2 percent in September following no change in August.

The Austrian schilling firmed by 1.11 percent against the U.S. dollar but eased marginally in effective (MERM) terms. The Norwegian krone firmed by 0.52 percent against the U.S. dollar and eased 0.24 percent in effective (MERM) terms. The Swedish krona firmed by 0.27 percent against the U.S. dollar but eased by 0.59 percent in effective (MERM) terms.

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

Monetary and credit conditions appeared to have eased in most major industrial countries in October. The easing trend in short-term interest rates continued in most major industrial countries with rates in the United States and Canada posting large declines. Elsewhere, short-term rates eased in France for the third consecutive month with a large decline in October, while those in the United Kingdom and Japan eased modestly after firming in September. In Germany, however, short-term interest rates firmed.

In the United States, there was a marked easing of the Federal funds rate and a sharp decline in three-month interest rates in October. Sluggish, and often slower than expected, money supply growth along with some moderation in the pace of U.S. economic activity helped to raise expectations that the Federal Reserve would ease its monetary stance. In fact, some market participants appeared to hold the view that the Federal Reserve had already eased its degree of reserve restraint in October, thereby allowing the key Federal funds rate to ease. Some market participants, however, attributed the easier Federal funds rate to "technical" factors, reportedly stemming from such

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>		Sept.	Oct.
Austria	Oct./Sept.	3.1	(2.4)	5.6	(6.0)	4.50	4.50
Belgium	Sept./Oct.	4.0	(5.4)	5.8	(5.3)	11.00	11.00
Canada	Aug./Oct.	3.6	(4.0)	3.4	(3.8)	12.05	11.43
Denmark	September	5.6	(6.6)	6.2	(6.6)	7.00	7.00
France	September	11.7	(11.9)	7.1	(7.4)	11.15	10.39
Germany	Sept./Oct.	1.0	(1.6)	2.1	(1.5)	5.93	6.13
Italy	Aug./Oct.	10.6	(10.8)	9.1	(9.8)	17.31	17.31
Japan	Oct./Sept.	0.7	(0.3)	2.3	(1.9)	6.44	6.38
Netherlands	June/Oct.	5.0	(5.0)	3.1	(2.8)	6.19	6.03
Norway	May/Oct.	6.4	(7.0)	6.1	(6.1)	8.00	8.00
Sweden	September	--	(--)	7.7	(7.8)	9.50	9.50
Switzerland	Sept./Oct.	3.1	(2.9)	3.1	(2.7)	5.19	5.06
United Kingdom	Oct./Oct.	6.2	(6.0)	5.0	(4.7)	10.19	10.12
United States	Oct./Sept.	1.4	(1.9)	3.8	(3.8)	10.62	9.35

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 Belgium, 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.

considerations as float, delays in the U.S. Treasury auction because of the debt ceiling and weak loan demand at money center banks rather than to any deliberate change in the Federal Reserve's degree of reserve restraint. Nevertheless, the Federal funds rate eased sharply in October. It was generally below 10 percent during the last half of the month and averaged 9.99 percent for the month as a whole; the rate averaged over 11 percent during the last half of September and 11.30 percent for that month. The bond-equivalent yield on three-month U.S. Treasury bills eased significantly from 10.62 percent at the end of September to 9.35 percent at the end of October, and the interest rate on three-month CDs declined similarly from 10.94 percent to 9.59 percent. Yields on Treasury securities of longer maturities eased as well: the five-year constant maturity rate on U.S. Treasury securities, for example, fell from 12.48 percent to 11.59 percent. In line with the sharp decline in U.S. money market rates and in the cost of bank funds, major U.S. banks cut their prime lending rates twice in October, from 12.50-12.75 percent to 12.25-12.50 percent around midmonth and to 12.00 percent near month-end. The M1 measure of the U.S. money supply, seasonally adjusted, averaged \$544.1 billion in the week ended October 29, below the \$546.4 billion recorded in the week ended September 24. The annual growth rate through October from the fourth quarter of 1983 base period was around 4 1/8 percent, close to the lower end of the target range of 4-8 percent for the year.

Among the countries participating in the European Monetary System, short-term domestic interest rates continued to ease in France, where the three-month interbank money rate fell from 11.15 percent at the end of September to 10.39 percent at the end of October. In Germany, by contrast, short-term interest rates rose. Bundesbank intervention in the foreign exchange market during October tended to contribute to the upward pressure on interest rates by drawing funds from the money market, and at times just the possibility of such intervention appeared to add to market concerns over tight short-term liquidity. A part of the upward pressure on interest rates generated by the foreign exchange market intervention was, however, offset by the Bundesbank adding liquidity to the money market. On balance, the three-month interbank money market rate firmed by 0.20 percentage point in October to close the month at 6.13 percent. Germany's central bank money stock, seasonally adjusted, grew at a 5.0 percent annual rate through October from the fourth quarter of 1983 base period, compared with 4.8 percent growth through September and the 4-6 percent target through the fourth quarter of 1984.

Among the other major countries, short-term interest rates eased markedly in Canada and modestly in the United Kingdom and Japan. In Canada, short-term interest rates tended to move down with U.S. interest rates, with the three-month Canadian Treasury bill rate closing October at 11.43 percent, 0.62 percentage point lower than that at the end of September. Canada's chartered banks cut their prime rate toward the end of October from 13 percent to 12 1/2 percent. In the United Kingdom,

the rate on three-month U.K. Treasury bills was relatively stable for the second consecutive month after having posted very sharp changes in the two previous months. Amid some moderate intra-month variation, the U.K. Treasury bills rate fell modestly by 0.07 percentage point in October to 10.12 percent at month end. The latest Bank of England data released in November show that sterling M3, seasonally adjusted, rose by 0.3 percent in the four weeks to October 17 compared with 1.3 percent growth in the five weeks to September 19. This brought sterling M3 growth since mid-February to 9.3 percent annually, within the target range of 6-10 percent annual rate growth for the 14-month period starting February 1984. In Japan, the rate for two-month private bills eased modestly and stood at 6.38 percent at the end of October, 0.06 percentage point lower than the rate at the end of September. Japan's lending institutions lowered their long-term prime interest rate by a wider margin, cutting it by 0.3 percentage point to 7.6 percent, effective October 29. The long-term prime is a lending rate on funds borrowed for more than one year and it is also the basis for deciding interest rates on Japanese yen lent abroad. The long-term lending institutions reportedly decided to lower the prime rate in response to the Ministry of Finance's proposal to reduce the coupon rate on the long-term government bonds to be issued in November by 0.3 percentage point. Japan's broadly defined money supply M2 + CDs, rose 8.1 percent in September from a year earlier following 7.7 percent year-on-year rises in July and August.

Interest rates in the eurocurrency markets generally followed developments in domestic markets with rates easing from the end of September to the end of October for three-month deposits denominated in most currencies. The eurodollar deposit rate recorded the largest decline, easing by 1.44 percentage point to 10 percent, followed by the euro-French franc rate which eased by 0.56 percentage point to 11 percent. Among the other deposit rates, the euro-sterling rate eased by 0.25 percentage point to 10.56 percent, the euro-Swiss franc rate eased by 0.13 percentage point to 5.06 percent, and the euro-yen rate eased by 0.07 percentage point to 6.34 percent. The euro-Deutsche mark firmed, however, by 0.07 percentage point to 5.88 percent.

As a result of the movements of eurodollar and domestic interest rates from the end of September to the end of October, the uncovered interest differentials favoring eurodollar investment narrowed for Germany, Japan, and the Netherlands and switched to favor domestic investment for Belgium, France, and the United Kingdom. The uncovered interest differential favoring domestic investment widened for Italy (see Table 5).

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

	Uncovered interest differentials <u>1/</u>		Forward exchange quotations <u>2/</u>		Covered interest differentials <u>1/</u>	
	(1)		(2)		(3) = (1)-(2)	
	September	October	September	October	September	October
Belgium	+0.44	-1.00	+0.64	-0.66	-0.20	-0.34
France	+0.29	-0.39	-0.14	-0.85	+0.43	+0.46
Germany	+5.51	+3.87	+5.95	+4.42	-0.44	-0.55
Italy	-5.87	-7.31	-4.18	-5.15	-1.69	-2.16
Japan	+5.00	+3.62	+5.36	+3.92	-0.36	-0.30
Netherlands	+5.25	+3.97	+5.31	+4.25	-0.06	-0.28
United Kingdom	+1.25	-0.12	+0.85	-0.34	+0.40	+0.22

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.

In the forward exchange market, the premia against the U.S. dollar narrowed for the Deutsche mark, the Japanese yen, and the Netherlands guilder while the premia for the Belgian franc and the pound sterling at end-September switched to discounts at end-October. The discounts against the dollar widened for the French franc and the Italian lira. As a result of these movements in interest rates and forward exchange quotations, the covered interest differentials favoring domestic investment widened for Belgium, Germany, Italy, and the Netherlands but narrowed for Japan. The covered interest differential favoring eurodollar investment widened for France but narrowed for the United Kingdom.

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

The SDR interest rate declined steadily during the month to 8.78 percent for the week beginning October 29 from 9.36 percent for the week beginning September 24 (see Table 6). The yield on three-month U.S. Treasury bills eased by 0.97 percentage point while the three-month interbank rate in France eased by 0.63 percentage point and the

yields on the relevant instruments in the United Kingdom and Japan eased by 0.18 and 0.06 percentage point respectively. The three-month interbank rate in Germany firmed, however, by 0.25 percentage point, thus partially offsetting the effect of easier yields on the other component instruments. The rate of remuneration paid on creditor positions in the Fund (88.33 percent of the SDR interest rate) fell to 7.76 percent in the last week of October from 8.27 percent in the last week of September.

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

	September 24	October				
		1	8	15	22	29
SDR interest rate	9.36	9.33	9.30	9.16	8.97	8.78
Rate of remuneration	8.27	8.24	8.21	8.09	7.92	7.76

^{1/} The rates apply to the weeks beginning with the dates indicated above.

The combined domestic interest rates eased by 0.63-0.81 percentage point (see Table 7). Yields on the relevant instruments for various maturities in the United States and in France posted the largest declines, easing by 0.88-1.29 percentage points and 0.75-1.31 percentage points respectively, while yields on the U.K. and Japanese instruments declined by 0.18-0.40 percentage point and 0.04-0.18 percentage point respectively. Yields on the relevant instruments in Germany, however, were firmer or unchanged for the three- and six-month maturities but eased by 0.20-0.37 percentage point for longer maturities.

The combined eurocurrency offered rates eased by 0.75 percentage point for the three-month maturity and by 0.88 percentage point for the six-month maturity. For the three-month maturity, the eurodollar interest rate declined by 1.44 percentage point and both the euro-sterling and euro-French franc rates declined by 0.31 percentage point. The euro-yen interest rate eased by 0.06 percentage point while the euro-Deutsche mark rate firmed by 0.31 percentage point. For the six-month maturity, interest rates on deposits denominated in all the component currencies eased. The eurodollar interest rate eased by 1.38 percentage point, the euro-sterling and euro-French franc rates eased by 0.38 percentage point and 0.31 percentage point respectively, and both the euro-Deutsche mark and euro-yen rates eased by 0.13 percentage point.

Average interest rates on SDR-denominated deposits of selected commercial banks eased by 0.69-0.79 percentage point. Deposit rates in October ranged from 8.67 percent for one-month deposits to 9.39 percent for 12-month deposits.

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

	September	October
Combined market interest rates: <u>2/</u>		
a. Based on domestic rates		
3-month maturity (Rule T-1)	9.35	8.59
6-month maturity	9.69	8.94
12-month maturity	9.94	9.13
2-1/2 year maturity	10.63	10.00
5-year maturity	10.94	10.25
b. Based on eurocurrency offered rates		
3-month maturity	9.88	9.13
6-month maturity	10.13	9.25
Average commercial bank deposit rates <u>3/</u>		
1-month deposits	9.40	8.67
3-month deposits	9.66	8.87
6-month deposits	9.86	9.11
12-month deposits	10.08	9.39

1/ Rates pertain to last Wednesday of the month.

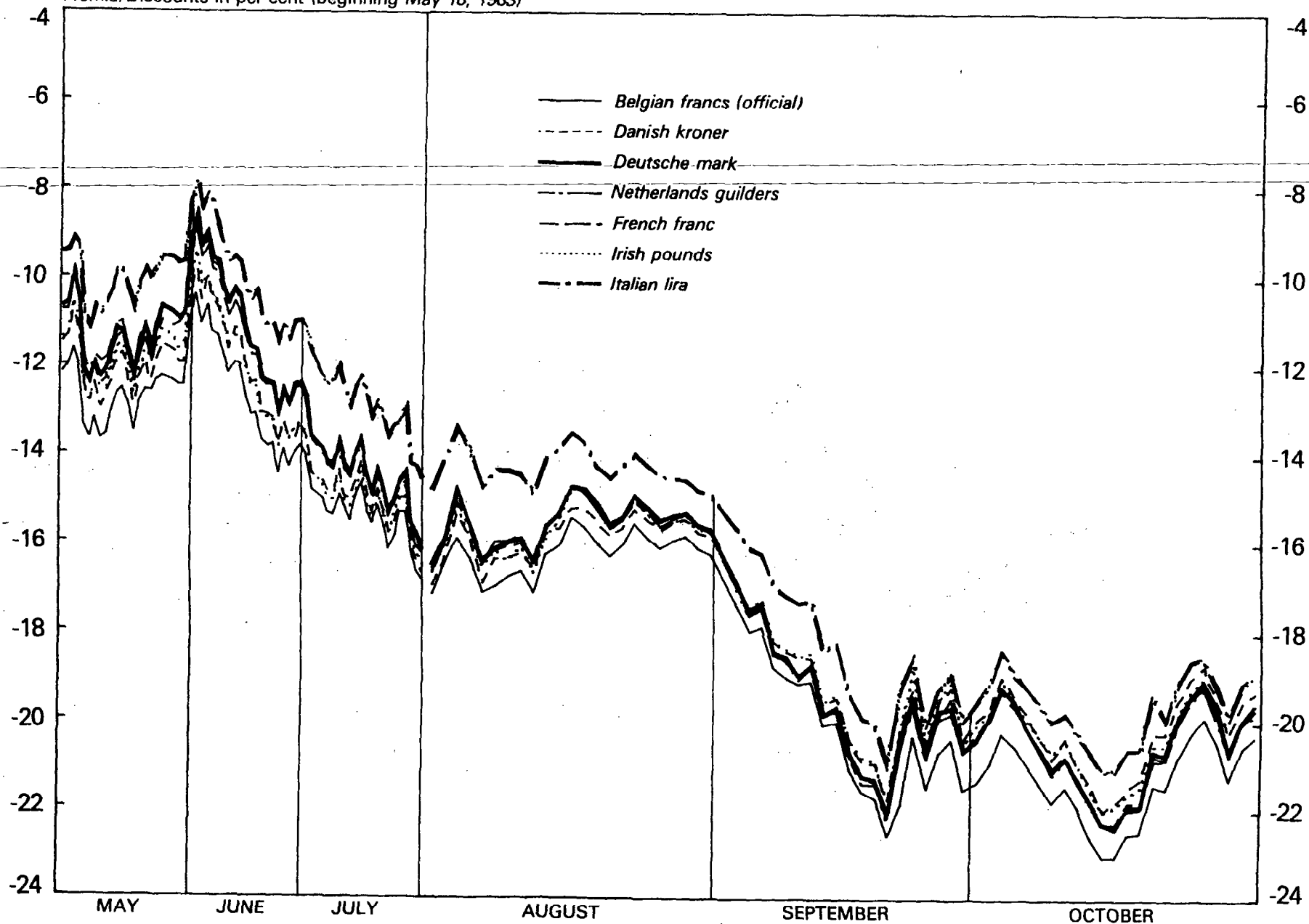
2/ Combined market rates (according to the Rule T-1) are calculated by multiplying the yields or rates of each of the respective instruments by the number of units of the corresponding currency listed in Rule 0-1 and the value in terms of the SDR of a unit of that currency as determined by the Fund under Rule 0-2(a) and (b). Combined interest rates are those that are applicable to Fund-related assets, appropriately rounded.

3/ Average of rates quoted by selected commercial banks.

SPOT EXCHANGE RATES: EUROPEAN MONETARY SYSTEM

(Based on noon quotations in New York)

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



- 15 -

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)

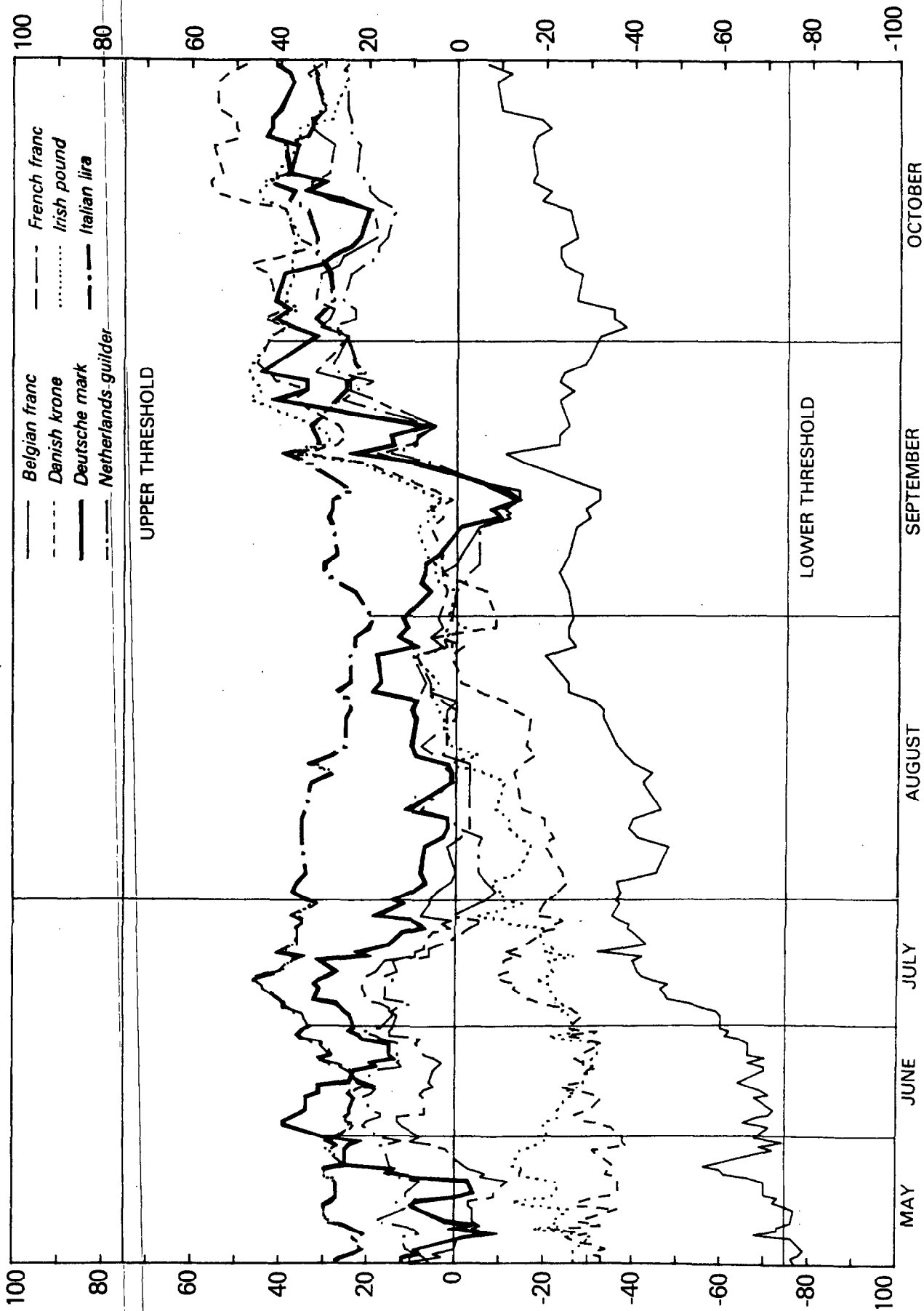


CHART 3 SPOT EXCHANGE RATES

(Noon quotations in New York)

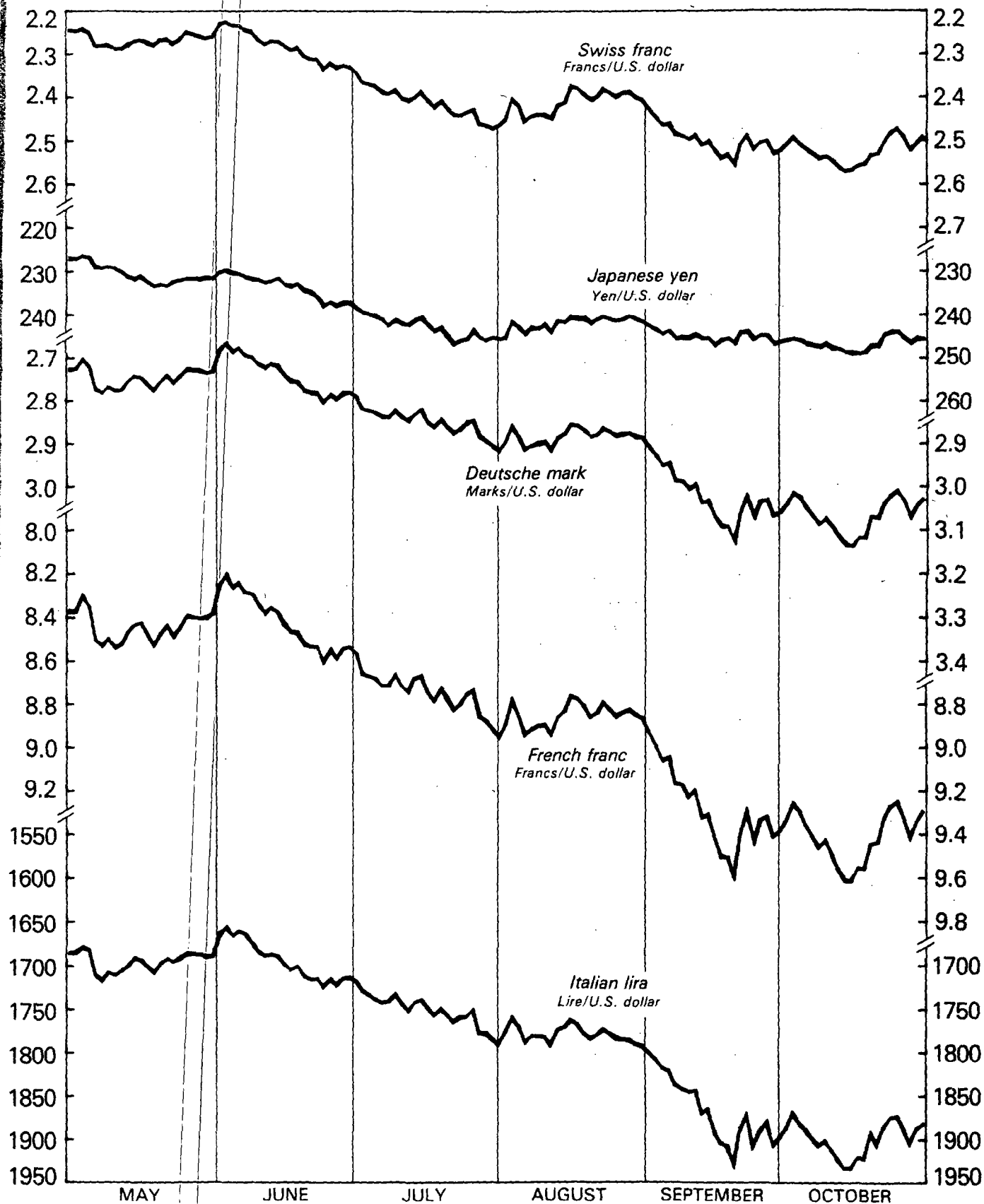


CHART 4 SPOT EXCHANGE RATES

(Noon quotations in New York)

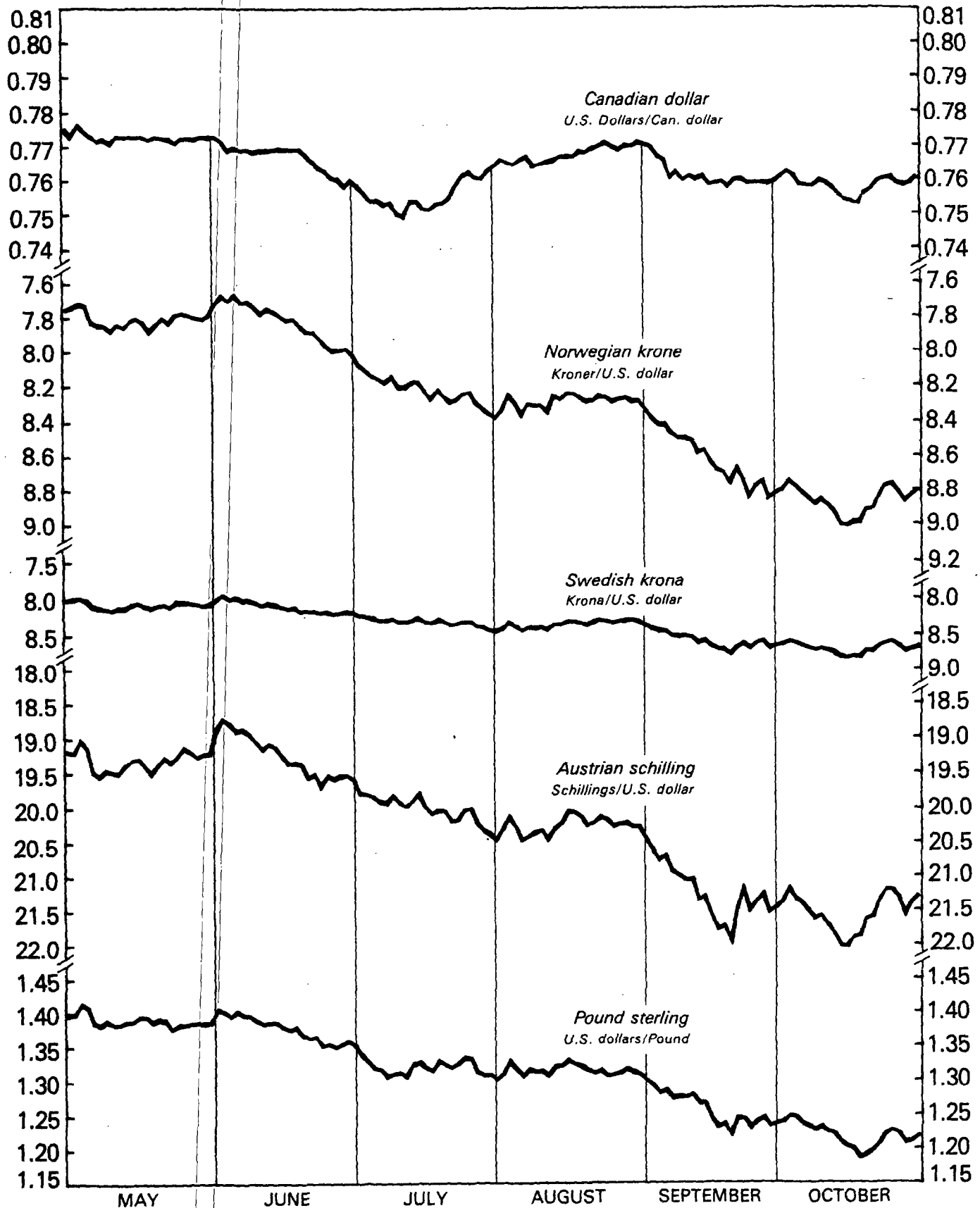
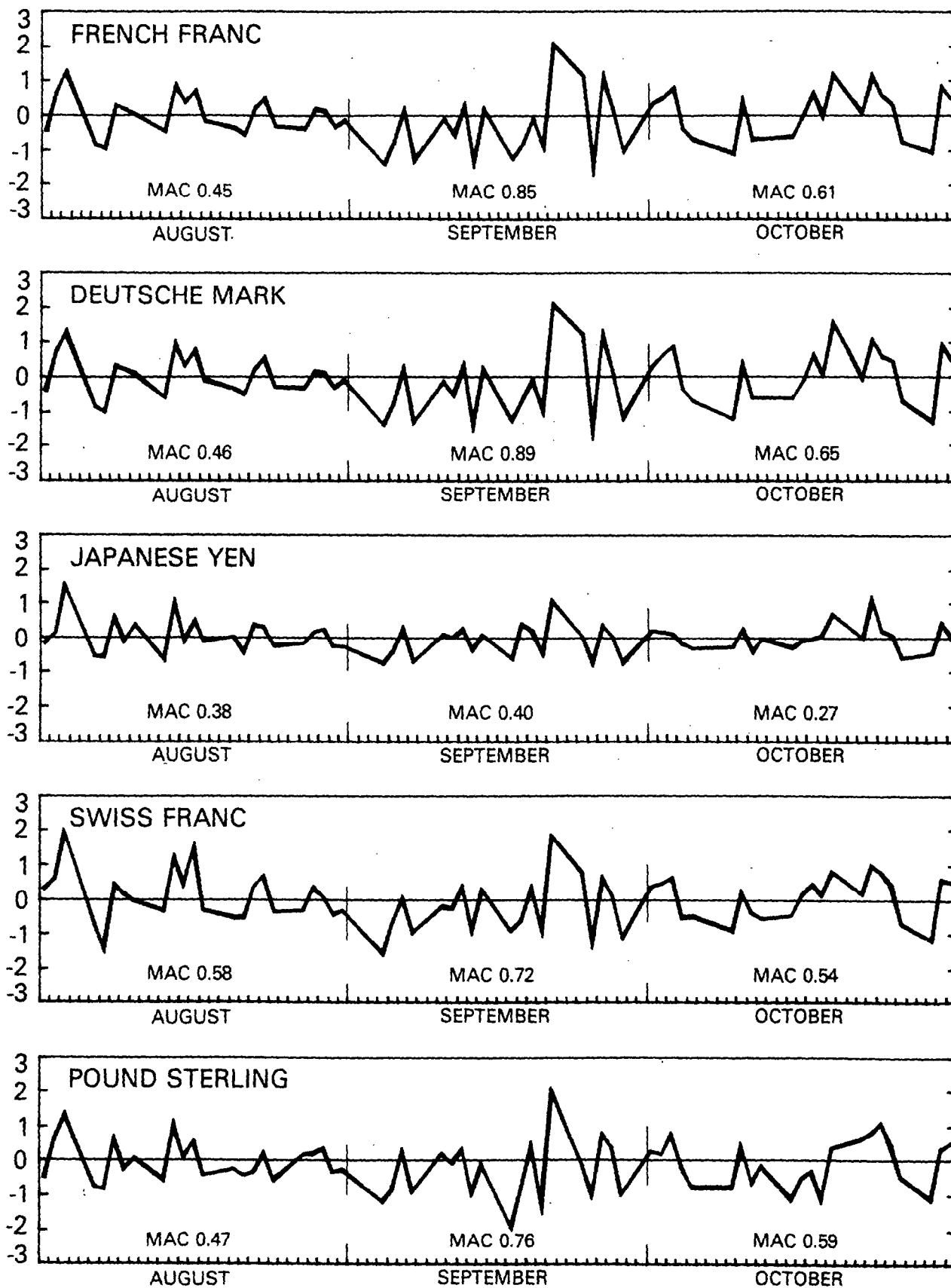


CHART 5

DAILY CHANGES IN SPOT EXCHANGE RATES

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



1984

¹Monthly averages of absolute percentage changes (MAC) are also indicated.

INDEXES OF EXCHANGE RATES OF FIVE MAJOR CURRENCIES AGAINST THE SDR

JUNE 1974 - OCTOBER 1984

(June 28, 1974=100)

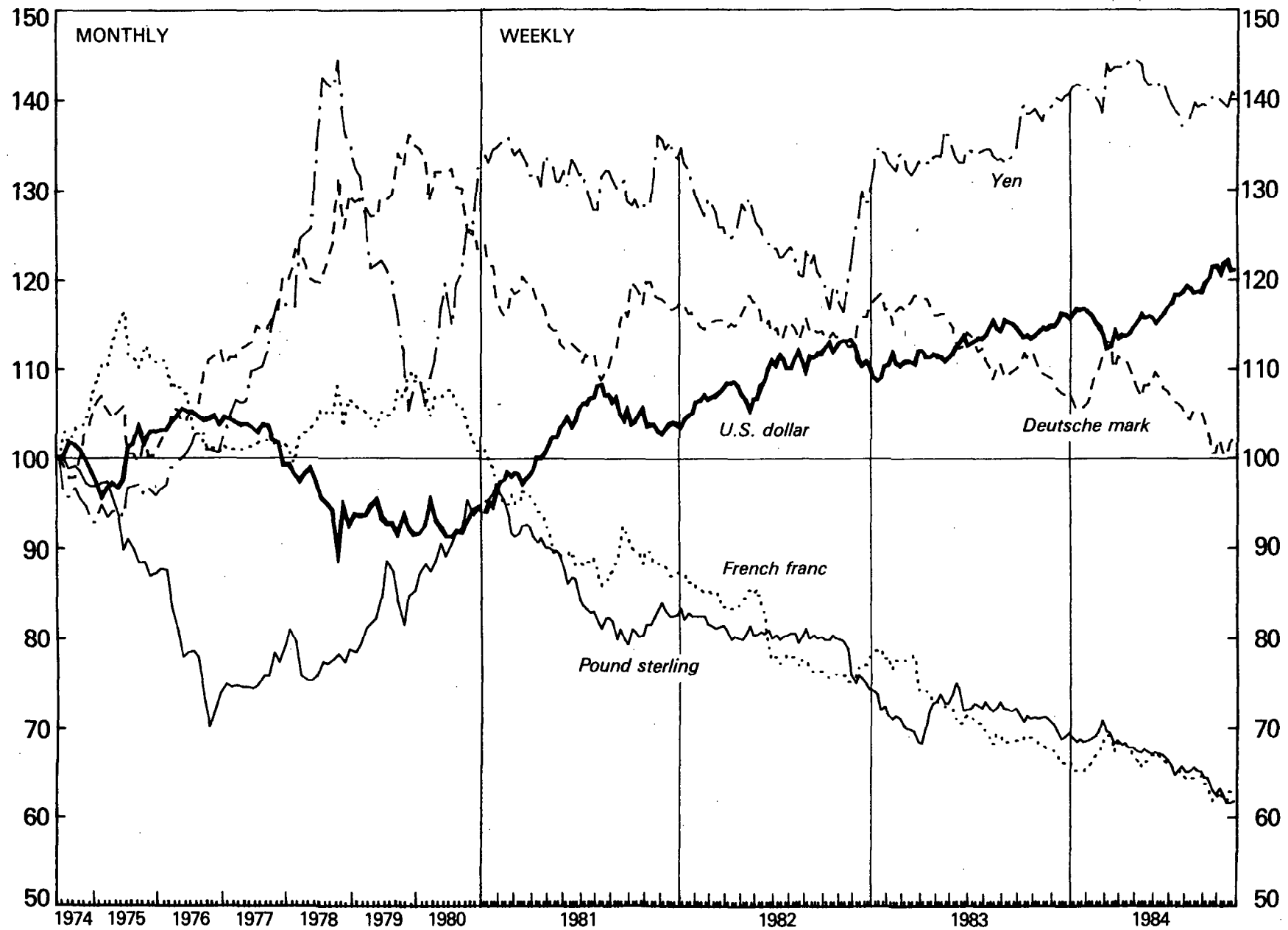
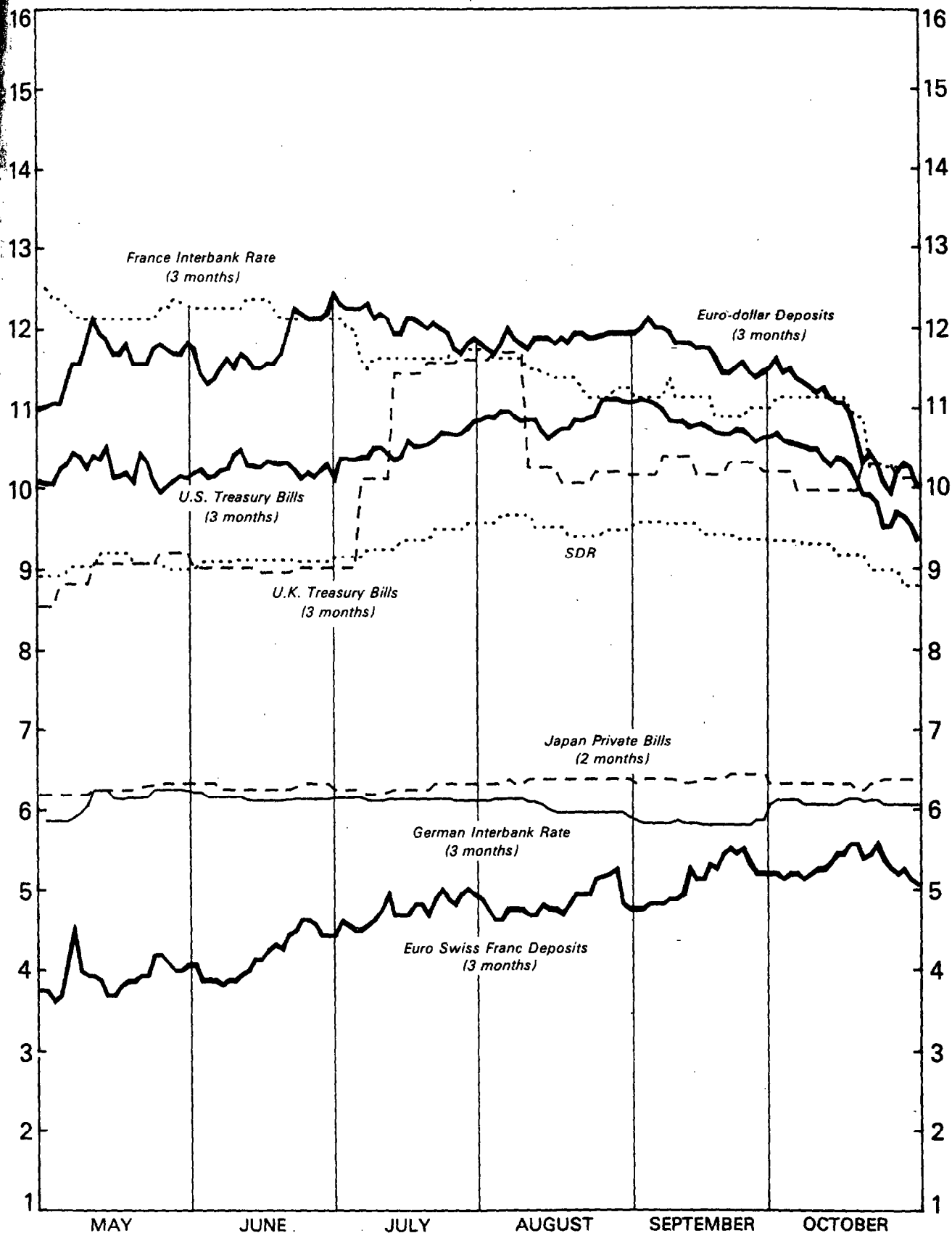


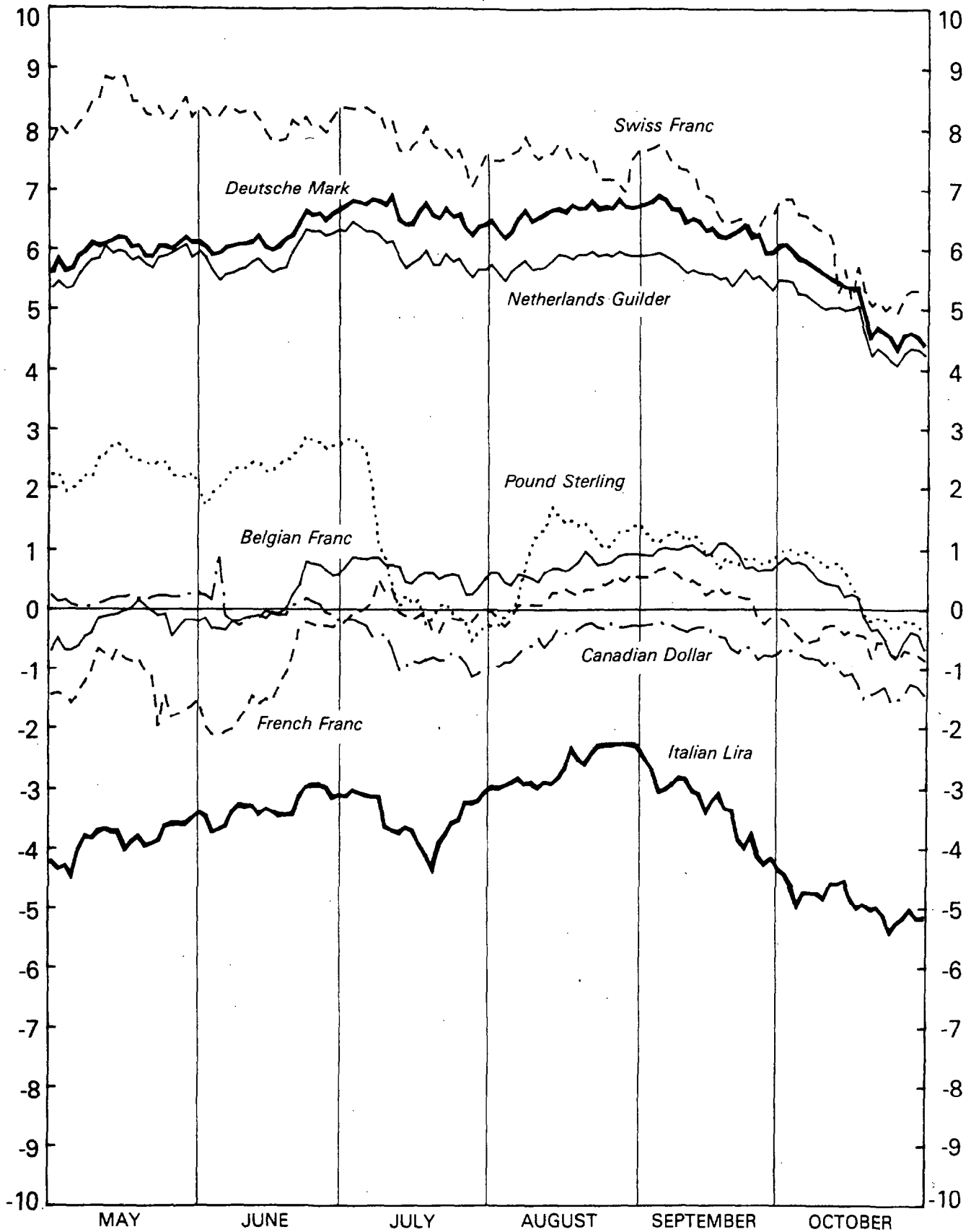
CHART 7 SHORT-TERM MONEY MARKET RATES

(Per cent per annum)

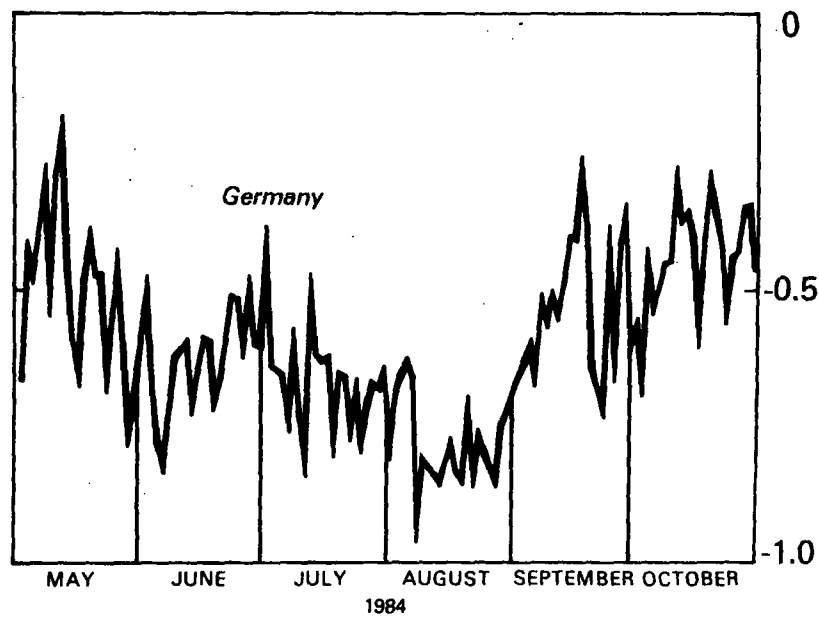
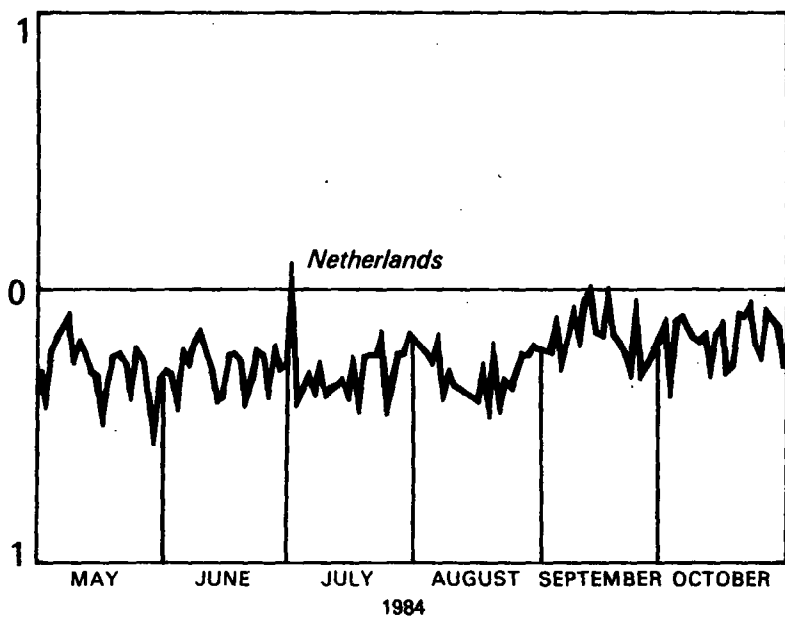
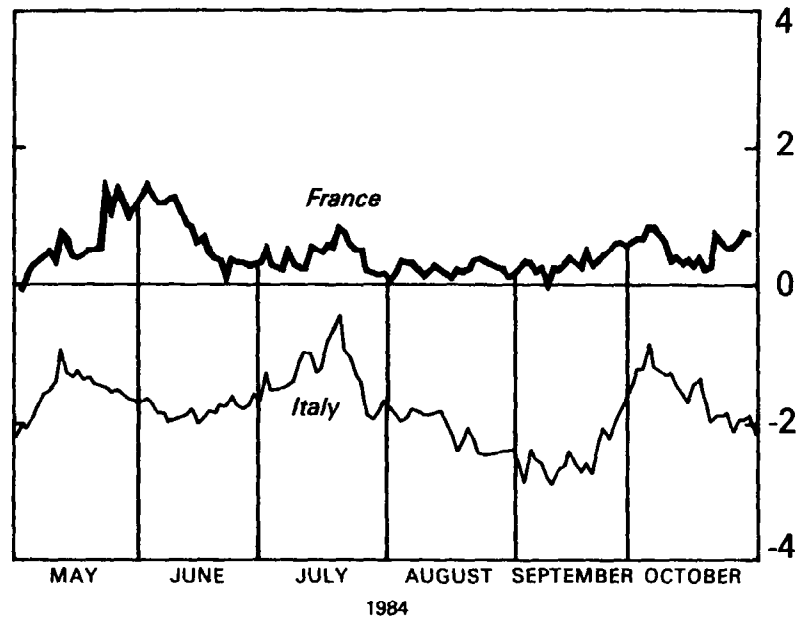
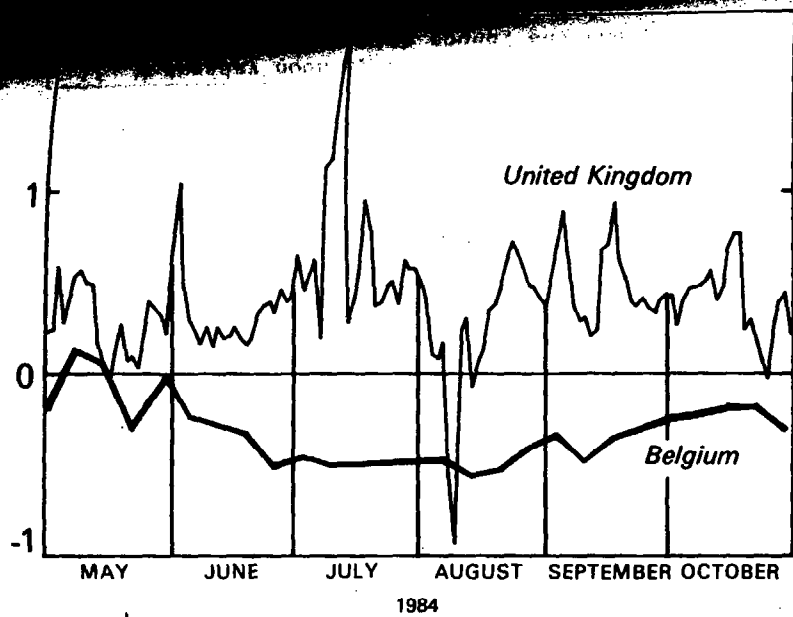


1984

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



INVESTMENTS (FAVOR OF DOMESTIC INVESTMENT)



Foreign Exchange Rates, September-October 1984

	S e p t e m b e r				O c t o b e r				
	5	12	19	26	3	10	17	24	31
Austrian schilling	20.7695	21.0500	21.7475	21.3750	21.1950	21.6000	21.9050	21.2100	21.3088
Belgian franc									
Official	59.485	60.305	62.340	61.525	61.190	62.125	62.990	61.210	61.230
Financial	59.825	60.925	63.055	62.150	61.775	62.825	63.500	62.865	61.675
Canadian dollars	0.76672	0.76106	0.75924	0.75893	0.76234	0.75953	0.75355	0.76011	0.76054
Danish kroner	10.7125	10.8650	11.1900	11.0000	10.9200	11.1095	11.2700	10.9250	10.9660
Deutsche mark	2.95325	2.99750	3.09575	3.03640	3.01550	3.07600	3.11950	3.02285	3.03000
French francs	9.0605	9.1975	9.5080	9.3300	9.2575	9.4250	9.5525	9.2738	9.2925
Irish pounds	1.0465	1.0340	1.0030	1.0205	1.0273	1.0093	0.9940	1.0235	1.0165
Italian lire	1818.00	1843.50	1907.50	1890.00	1869.00	1901.50	1921.00	1874.00	1881.50
Japanese yen	244.67	244.90	245.70	245.07	245.70	246.97	249.05	244.09	245.65
Netherlands guilder	3.3330	3.3795	3.4898	3.4288	3.3985	3.4675	3.5175	3.4100	3.4190
Norwegian kroner	8.4225	8.5125	8.7045	8.7800	8.7500	8.8615	8.9950	8.7825	8.8095
Pounds sterling	1.2815	1.2798	1.2375	1.2418	1.2498	1.2335	1.2006	1.2223	1.2190
Swedish kroner	8.4400	8.5275	8.6963	8.6050	8.5825	8.6885	8.7850	8.6125	8.6585
Swiss francs	2.46325	2.48925	2.53375	2.50550	2.49400	2.53625	2.55700	2.48425	2.49300

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)

	Domestic Money Markets 1/ (three-month)						Eurocurrency Markets 2/ (three-month)						Lending Rates		U.S. Treasury Securities (five-year) 5/ (15)
	United States (1)	Germany (2)	United Kingdom (3)	France (4)	Japan (5)	Combined rate (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															
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
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	3.92	12.18	12.39	13.17
June	10.26	6.22	8.99	12.39	6.28	9.11	11.94	5.86	9.53	12.91	6.29	4.19	12.44	12.60	13.48
July	10.52	6.21	10.84	11.87	6.27	9.39	12.07	5.83	11.38	12.13	6.31	4.75	12.73	13.00	13.27
Aug.	10.89	6.10	10.65	11.57	6.36	9.56	11.87	5.63	11.11	11.62	6.37	4.83	12.21	13.00	12.68
Sept.	10.79	5.90	10.25	11.21	6.39	9.42	11.73	5.58	10.87	11.35	6.39	5.11	12.01	12.97	12.53
Oct.	10.15	6.16	10.10	10.96	6.32	9.08	10.83	5.87	10.65	11.32	6.32	5.29	11.18	12.58	12.06
1983 Week ending:															
Sept. 2	9.63	5.90	9.51	12.52	6.84	8.90	10.28	5.63	9.81	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	4.55	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
1983 Week ending:															
Dec. 7	8.95	6.27	9.17	12.78	6.83	8.56	9.50	5.81	9.47	14.68	6.71	3.94	9.49	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
1983 Week ending:															
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
1983 Week ending:															
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	4.61	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 Week ending:															
Jan. 6	9.30	6.11	9.03	12.42	6.25	8.40	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	13.16	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
1984 Week ending:															
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	9.98	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	10.35	11.00	11.43
17	9.46	6.01	9.06	12.60	6.31	8.69	10.04	5.90	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
1984 Week ending:															
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
1984 Week ending:															
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	8.86	12.77	6.25	3.76	11.29	12.00	12.47
1984 Week ending:															
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	8.88	12.29	6.20	9.11	11.76	5.98	9.50	12.81	6.28	4.09	12.25	12.14	12.99
18	10.27	6.07	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
1984 Week ending:															
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
1984 Week ending:															
July 6	10.31	6.24	9.29	12.10	6.24	9.15	12.30	5.93	9.65	12.36	6.25	4.54	13.00	13.00	13.67
13	10.44	6.20	10.39	11.75	6.21	9.29	12.14	5.89	11.34	12.08	6.27	4.71	12.84	13.00	13.39
20	10.52	6.22	11.47	11.79	6.25	9.44	12.05	5.81	12.16	12.10	6.31	4.74	12.70	13.00	13.23
27	10.67	6.20	11.58	11.84	6.31	9.55	11.89	5.73	12.14	12.05	6.40	4.90	12.53	13.00	13.03
1984 Week ending:															
Aug. 3	10.84	6.19	11.63	11.89	6.31	9.65	11.79	5.76	12.28	11.88	6.34	4.84	12.24	13.00	12.77
10	10.90	6.21	11.42	11.76	6.34	9.65	11.85	5.71	11.42	11.79	6.35	4.71	12.18	13.00	12.63
17	10.72	6.09	10.22	11.58	6.38	9.43	11.87	5.64	10.58	11.64	6.38	4.74	12.17	13.00	12.67
24	10.84	6.03	10.09	11.41	6.38	9.44	11.89	5.55	10.79	11.51	6.38	4.95	12.25	13.00	12.66
31	11.09	6.02	10.18	11.36	6.38	9.59	11.94	5.52	10.87	11.33	6.40	5.00	12.28	13.00	12.79
1984 Week ending:															
Sept. 7	11.05	5.92	10.20	11.28	6.37	9.55	12.01	5.50	10.95	11.36	6.38	4.79	12.35	13.00	12.84
14	10.80	5.92	10.34	11.33	6.35	9.44	11.82	5.56	10.78	11.34	6.38	5.02	12.13	13.00	12.55
21	10.71	5.88	10.19	11.13	6.40	9.37	11.60	5.62	10.91	11.34	6.40	5.33	11.83	13.00	12.34
28	10.65	5.90	10.28	11.10	6.44	9.35	11.46	5.65	10.85	11.36	6.41	5.33	11.75	13.00	12.46
1984 Week ending:															
Oct. 5	10.60	6.17	10.14	11.25	6.31	9.35	11.49	5.84	10.71	11.67	6.35	5.18	11.76	12.75	12.46
12	10.40	6.13	9.96	11.28	6.31	9.22	11.23	5.88	10.59	11.61	6.32	5.23	11.55	12.75	12.26
19	10.20	6.18	10.03	11.15	6.29	9.12	10.80	5.95	10.79	11.35	6.29	5.48	11.15	12.75	12.10
26	9.69	6.15	10.26	10.39	6.35	8.79	10.19	5.82	10.56	10.86	6.30	5.36	10.59	12.50	11.69

