

WRITER FILED
ROOM C-120

11

Any views expressed in the Departmental Memoranda (DM) Series represent the opinions of the authors and, unless otherwise indicated, should not be interpreted as official Fund views.

DM/84/35

INTERNATIONAL MONETARY FUND

Treasurer's Department

Foreign Exchange and Financial Markets in April 1984

Prepared by Nobumitsu Hayashi

Approved by Anand G. Chandavarkar

May 22, 1984

The foreign exchange market in April was characterized by the strength of the U.S. dollar and the weakness of the European currencies. The U.S. dollar, which had generally eased since the middle of January, reversed its trend in April, attributed mainly to the high U.S. interest rates and the strong economic performance. The currencies participating in the European Monetary System were particularly weaker, easing by 3.84-4.69 percent against the U.S. dollar, attributed in part to a possible strike by metal workers in Germany. Other European currencies also eased by 2.76-4.49 percent against the U.S. dollar, while the Canadian dollar and the Japanese yen eased less by 0.61 percent and 1.01 percent respectively. The U.S. dollar firmed by 2.44 percent in effective (MERM) terms.

In the first half of the month, the foreign exchange market did not show any clear trend as in March. On the one hand, the prospects of higher U.S. interest rates continued to sustain the U.S. dollar. Major banks raised their prime lending rate by half a percentage point on April 5, following a similar increase on March 19, and the Federal Reserve raised its discount rate by the same margin to 9 percent on the following day. On the other hand, the dollar was affected by concerns about the large U.S. budget deficits and widening U.S. trade imbalance and there were signs that the U.S. economy slowed down somewhat in March. The unemployment rate was unchanged but retail prices fell sharply. Consequently, major currencies fluctuated day by day, although the undertone was a firm U.S. dollar and Japanese yen, with the European currencies and the Canadian dollar being easy.

However, the U.S. dollar recovered from the middle of the month reflecting favorable reports on U.S. industrial production and personal

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

(In percent)

	Monthly exchange rate changes			Changes in effective exchange rate since April 1983 <u>3/</u>
	Against U.S. dollar <u>2/</u>	Against SDR <u>3/</u>	Effective exchange rate <u>3/</u>	
Belgium	-4.17	-2.62	-1.24	-4.66
Denmark	-4.56	-2.78	-2.03	-6.85
France	-4.27	-2.73	-1.12	-5.10
Germany	-4.69	-3.12	-2.33	-3.57
Ireland	-4.54	-2.89	-1.39	-5.91
Italy	-3.84	-2.13	-1.05	-7.47
Netherlands	-4.49	-2.29	-0.61	-1.56
Austria	-4.49	-2.64	-2.20	-4.49
Canada	-0.61	+1.00	+0.44	-2.50
Japan	-1.01	+0.79	+1.27	+9.97
Norway	-2.94	-1.26	-0.61	-3.17
Sweden	-3.35	-1.95	-1.21	-0.83
Switzerland	-4.19	-2.43	-1.76	-3.07
United Kingdom	-2.76	-1.62	-0.82	-5.51
United States	--	+1.63	+2.44	+5.58

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.

income. Since consumer borrowing had already risen substantially, the increase in business credit demand accentuated the competing claims of private and public sector borrowings. The exchange market became increasingly concerned about the prospect of higher U.S. interest rates and the U.S. bond prices, particularly of longer maturities, fell. The U.S. dollar was strong against the EMS currencies which were affected by apprehensions of a strike by workers in Germany's key metal working industry, who were demanding a 35-hour work week as a means to hold down high unemployment. On April 19, the figure of real U.S. GNP growth in the first quarter was revised upward to 8.3 percent, contrary to the market expectation, while the GNP deflator was revised downward to 4.1 percent. The dollar firmed sharply on the news; the Bundesbank stepped up its dollar sales at the fixing in Frankfurt, which amounted to \$40 million that day and was also reported to have sold around \$200 million in the forward market. The U.S. dollar continued its advance

through the end of the month although the Federal Reserve injected liquidity in the U.S. money market and the Bundesbank intervened in the open market in Frankfurt again on April 24, selling nearly \$50 million. A wider trade deficit and a decline in leading economic indicators in March, which were reported at the end of April, failed to affect the dollar significantly.

Relative positions of the currencies within the European Monetary System remained generally unchanged during April (see Chart 1). The Deutsche mark continued to be at the top of the narrow band until April 26 when it was replaced by the Netherlands guilder, attributed mainly to the labor unrest in Germany. The Belgian franc remained the weakest currency in the EMS and its divergence indicator moved around its lower threshold (see Chart 2). However, the National Bank of Belgium did not intervene in the market to support its currency during the month, but cut its short-term Treasury bill rates by half a percentage point. The importance of the divergence indicator as a trigger mechanism for corrective policy actions by members of the EMS appeared to be diminishing. Meanwhile, the spread of the narrow band decreased steadily to 1.72 percent at the end of April from 2.25 percent at the end of March, attributed mainly to the weakness of the Deutsche mark, and it was well within the 2.25 percent limit maintained in member markets. The Italian lira continued to be the strongest currency in the EMS, with a spread in the range of 2.83-3.37 percent from the weakest currency, the Belgian franc.

The range within which most major currencies were traded in April widened somewhat, reflecting the general strength of the U.S. dollar during the month, compared with March which lacked any broad trend during the month (see Table 2). The highs were reached by most currencies on April 2, the first business day of the month, except for the pound sterling, the Japanese yen, and the Italian lira, which peaked on April 10 or 11. The lows were recorded on April 30 by all the currencies in Table 2. The widest range of high-low spread, 4.8 percent, was recorded by the Deutsche mark. Other EMS currencies as well as the Austrian schilling and the Swiss franc recorded relatively wide ranges. The smallest range, 0.8 percent, continued to be recorded by the Canadian dollar, which showed an exceptionally wide range in March. The Japanese yen, which recorded the widest range in March, recorded the narrowest range after the Canadian dollar, 1.9 percent. The average of absolute daily changes against the U.S. dollar (MAC in Table 2 and Chart 5) narrowed in April for all the currencies in Table 2. The MAC values of the Canadian dollar continued to remain the smallest, while the MAC values of the EMS currencies were larger than most other currencies.



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

	March <u>2/</u>		High-low spread in percent <u>3/</u>		MAC <u>4/</u>	
	High	Low	Mar.	Apr.	Mar.	Apr.
Belgium	53.13	55.425	3.5	4.3	0.59	0.36
Denmark	9.5575	9.9700	3.5	4.3	0.52	0.35
France	8.0105	8.3435	3.0	4.2	0.56	0.38
Germany	2.5975	2.7210	3.7	4.8	0.58	0.36
Ireland	1.1777	1.1264	3.9	4.6	0.59	0.38
Italy	1614.00	1678.50	3.1	4.0	0.55	0.36
Netherlands	2.9340	3.06525	3.5	4.5	0.53	0.34
Austria	18.30	19.1175	2.4	4.5	0.61	0.35
Canada	0.78471	0.77860	2.3	0.8	0.25	0.09
Japan	222.65	226.975	4.6	1.9	0.43	0.23
Norway	7.5150	7.7320	2.8	2.9	0.42	0.25
Sweden	7.7300	7.9825	2.5	3.3	0.45	0.22
Switzerland	2.1530	2.2460	3.2	4.3	0.54	0.32
United Kingdom	1.4375	1.39825	3.8	2.8	0.46	0.28

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 losses in the gross foreign exchange reserves of Switzerland occurred with noticeable declines in the Netherlands, Austria and Sweden (see Table 3). The largest increase was recorded by Norway and only Denmark and Japan recorded reserve increases among other countries. Over the twelve-month period to April, substantial reserve increases were recorded by Germany, Italy, Japan, and Norway. Canada and the United States showed marked decreases.

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

(In millions of U.S. dollars)

	End-month reserve level	Change in April	Change over 12 months
Belgium	3,445	-217	-617
Denmark	3,109	+70	+41
France (February)	17,505	-190	+2,214
Germany	40,935	-10	+1,434
Ireland	2,429	-207	+622
Italy	17,297	-48	+2,698
Netherlands	8,705	-682	-425
Austria	3,672	-620	-756
Canada	1,737	-346	-1,509
Japan	21,179	+258	+1,179
Norway	7,281	+1,186	+1,562
Sweden	3,246	-687	+234
Switzerland	12,331	-1,597	+613
United Kingdom (March)	8,788	-308	+128
United States	6,594	-223	-1,976

^{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 firmed by 2.44 percent in effective (MERM) terms and 1.63 percent against the SDR. Over a year to April, the U.S. dollar's effective (MERM) appreciation widened to 5.58 percent from 2.90 percent over a year to March. Among the underlying developments influencing the exchange value of the dollar in April, the real GNP was estimated to have grown at an annual rate of 8.3 percent in the first quarter of 1984, higher than the "flash" estimate of 7.2 percent and the 5.0 percent growth recorded in the preceding quarter; the increase of the GNP deflator in the last quarter was revised downward to 4.1 percent from 4.4 percent. The index of leading economic indicators fell by 1.1 percent in March, the first decline in 19 months, after a revised increase of 1.3 percent in February. Industrial production rose 1.4 percent in April following an increase of 0.5 percent in March. The unemployment rate was unchanged at 7.8 percent in April.



The trade deficit widened further from \$10.09 billion in February to \$10.26 billion in March, the third consecutive monthly record, attributed to faster economic growth in the United States and the strength of the dollar. The budget deficit also widened to \$28.56 billion in March from \$26.04 billion a year earlier. The consumer prices rose 0.2 percent in March for a year-on-year increase of 4.7 percent, while the producer prices were unchanged in April but 2.9 percent higher than a year earlier.

The Deutsche mark eased by 4.69 percent against the U.S. dollar and 2.33 percent in effective (MERM) terms. The Bundesbank sold about \$137 million at the fixing in Frankfurt during April. Germany's trade surplus narrowed to DM 4.54 billion in March from DM 4.85 billion in February while its current account surplus widened to DM 1.94 billion from DM 580 million. The industrial production, seasonally adjusted, declined by 4.0 percent in March, but was 3.0 percent higher than a year earlier. The unemployment rate fell to 9.1 percent in April from 9.6 percent in March, although the decline was mostly attributed to seasonal factors. Wholesale prices rose 0.4 percent in April and 4.9 percent year-on-year. The cost of living index rose 0.2 percent in April for a year-on-year increase of 3.2 percent.

The French franc eased by 4.27 percent against the U.S. dollar and 1.12 percent in effective (MERM) terms. France's industrial production, seasonally adjusted, fell by 1.5 percent in February, after increasing by 0.8 percent in January. The number of job seekers rose 2.3 percent in March and 11.4 percent over the year. The trade deficit narrowed to F 2.796 billion in March from F 4.592 billion in February. Industrial wholesale prices rose 0.7 percent in March and 14.5 percent year-on-year. Retail prices rose 0.7 percent in March and 8.6 percent from March 1983.

The Belgian franc eased by 4.17 percent against the U.S. dollar and 1.24 percent in effective (MERM) terms. The discount of the financial franc from the commercial franc narrowed substantially to 1.86 percent at the end of April from 3.33 percent at the end of March, reflecting the relative stability of the franc within the EMS. The unemployment rate declined to 12.2 percent in April from 12.3 percent in March. The wholesale prices rose 1.1 percent in March and 10.9 percent year-on-year. The consumer prices rose 0.7 percent in April and 7.5 percent year-on-year.

The Netherlands guilder eased by 4.49 percent against the U.S. dollar and 0.61 percent in effective (MERM) terms. The Netherlands' trade surplus fell to f. 900 million in February from f. 1.8 billion in January. Consumer price index rose 0.3 percent in April and 3.9 percent year-on-year. The Danish krone eased by 4.56 percent against the U.S. dollar and 2.03 percent in effective (MERM) terms. Denmark's trade deficit, seasonally adjusted, narrowed to DKr 670 million in March from DKr 1.65 billion in February. Unemployment rate fell to 11.8 percent in March from 12.2 percent in February. Consumer prices

rose 0.4 percent in March and 7.0 percent year-on-year. The Irish pound eased by 4.54 percent against the U.S. dollar and 1.39 percent in effective (MERM) terms. The Italian lira eased by 3.84 percent against the U.S. dollar and 0.61 percent in effective (MERM) terms. It remained the strongest currency in the EMS with spreads in the range of 2.83-3.37 percent relatively to the weakest currency, the Belgian franc. Italy's wholesale prices rose 0.7 percent in March and 11.4 percent year-on-year. Consumer prices rose 0.7 percent in April and 11.6 percent over the year.

The pound sterling eased by 2.76 percent against the U.S. dollar and 0.82 percent in effective (MERM) terms, but rose against the EMS currencies, firming by 2.02 percent against the Deutsche mark. The Public Sector Borrowing Requirement of the United Kingdom narrowed to £2 billion in March from £2.4 billion a year earlier. The government deficits for the entire fiscal year ended March 1984 amounted to £9.8 billion, higher than £9.164 billion recorded in the previous fiscal year. The unemployment rate, seasonally adjusted, was unchanged in April at 12.6 percent. The trade balance, seasonally adjusted, turned to a deficit of £207 million in March from a surplus of £569 million in February and the current account surplus narrowed to £43 million from £819 million. Producer prices of manufactured goods rose 1.1 percent in April and 6.5 percent year-on-year.

The Japanese yen eased by 1.01 percent against the U.S. dollar, but firmed by 1.27 percent in effective (MERM) terms, reflecting the extraordinary strength of the external account. Japan's trade surplus, seasonally adjusted, widened to \$3.290 billion in March from \$3.064 billion in February and the current account surplus widened to \$2.428 billion from \$1.948 billion. The current account surplus for the entire fiscal year ended in March amounted to \$24.277 billion, sharply higher than \$9.135 billion in the previous fiscal year. The Parliament approved, on April 10, one of its most austere budgets in 29 years, for the fiscal year commencing April 1984. The expenditure amounted to ¥ 50.6 trillion, only 0.5 percent higher than its level in the fiscal year 1983 and ¥ 12.7 trillion will be financed by Government bonds. Industrial production in March recorded a year-to-year increase of 10.0 percent, down from 13.6 percent in February. Wholesale price index declined by 0.4 percent in March and was 1.3 percent lower than a year earlier. Consumer price index rose 0.3 percent in March and 2.5 percent over the year.

The Canadian dollar eased by 0.61 percent against the U.S. dollar, but firmed by 0.44 percent in effective (MERM) terms. The Central Bank intervened occasionally in the market, as its currency eased against the U.S. dollar, reflecting higher U.S. interest rates and the stagnant economic activity in Canada. Industrial production fell by 3.5 percent in February, after an increase of 2.3 percent in January. Unemployment rate was unchanged at 11.4 percent in April. Trade surplus, seasonally adjusted, was \$1.03 billion in March, little changed from \$1.06 billion

in February. The Federal Government budget deficit widened to \$2.87 billion in March from \$828 million a year earlier. Consumer price index rose 0.2 percent in March and 4.7 percent year-on-year.

The Swiss franc eased by 4.19 percent against the U.S. dollar and 1.76 percent in effective (MERM) terms. Switzerland's wholesale price index rose 0.2 percent in April and 3.7 percent year-on-year. The Austrian schilling eased by 4.49 percent against the U.S. dollar and 2.20 percent in effective (MERM) terms. Austria's trade deficit rose to S 15.276 billion in the first quarter from S 15.010 billion a year earlier. The Norwegian krone eased by 2.94 percent against the U.S. dollar and 0.61 percent in effective (MERM) terms. Norway's trade surplus narrowed to NKr 3.742 billion in April from NKr 4.095 billion a year earlier. The Swedish krona eased by 3.35 percent against the U.S. dollar and 1.21 percent in effective (MERM) terms. Sweden's unemployment rate rose to 3.2 percent in April from 3.1 percent in March.

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

Monetary and credit conditions remained unchanged or eased somewhat in most major industrial countries in April. As U.S. interest rates remained firm there were some upward pressures on the interest rates in Canada, Germany, Switzerland, and the United Kingdom, whose currencies were easing against the U.S. dollar, while interest rates eased in Belgium, France and the Netherlands, whose currencies experienced relative stability within the EMS.

In the United States, the interest rates continued their firming trend at the beginning of April, attributed to the large budget deficit and the strength of the economy. Major banks raised their prime lending rate by half a percentage point to 12 percent on April 5, to adjust it to the continued rise in the cost of funds. The last increase occurred on March 20 when it was raised by half a percentage point. On April 6, the Federal Reserve raised its discount rate from 8.5 percent to 9 percent. The change was first since December 1982 when it was lowered from 9 percent and the first increase since May 1981. The increase had long been anticipated in light of the wide spread between the discount rate and the money market rate with the Federal funds rate trading around 10.5 percent. This spread had produced significant expansion in borrowing at the window. The short-term interest rates eased somewhat during the rest of the month, because of the liquidity injection by the Federal Reserve and the further steepening of the yield curve. The bond-equivalent yield on three-month Treasury bills was unchanged at 9.72 percent at the end of April while the five-year constant maturity rate on Treasury securities rose by 0.29 percentage point to 12.57 percent. The 90-day CD rate firmed by 0.21 percentage point during April to 10.53 percent. The Federal funds rate was 10.90 percent at the end of April, sharply higher than 10.24 percent at the end of March. M1 measure of

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>	Mar.	Apr.
Austria	April	-- (--)	5.9 (5.8)	3.75	3.75
Belgium	Mar./Apr.	10.9 (10.4)	7.5 (7.1)	12.35	11.90
Canada	Mar./Apr.	4.4 (4.4)	4.9 (4.7)	10.49	10.63
Denmark	Feb./Mar.	7.8 (6.8)	7.0 (6.4)	7.00	7.00
France	March	14.5 (15.3)	8.6 (8.9)	12.80	12.55
Germany	Apr./Mar.	4.9 (5.4)	3.2 (3.1)	5.96	5.91
Italy	Mar./Apr.	11.4 (10.9)	11.6 (12.0)	17.44	17.44
Japan	March	-1.3 (-1.3)	2.5 (2.9)	6.31	6.19
Netherlands	Jan./Apr.	3.8 (2.5)	3.9 (3.9)	6.13	5.94
Norway	Feb./Apr.	6.0 (5.6)	6.6 (6.6)	8.00	8.00
Sweden	March	-- (--)	9.0 (7.9)	8.50	8.50
Switzerland	April	3.7 (4.0)	3.2 (3.4)	3.63	3.69
United Kingdom	April	6.5 (6.4)	5.2 (5.2)	8.55	8.54
United States	Apr./Mar.	2.9 (2.9)	4.7 (4.6)	10.09	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; 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.



the money supply averaged \$535.1 billion in April, unchanged from March. M2 rose to \$2.242 trillion in April from \$2.229 trillion in March and M3 rose to \$2.790 trillion from \$2.766 trillion. The annual rates of growth of M2 and M3 since the beginning of this year were 6.6 percent and 9.5 percent, respectively, compared with the target range of 6-9 percent.

The National Bank of Belgium reduced the short-term interest rates, thanks to the Belgian franc's relative stability within the European Monetary System. The rate on one-, two-, and three-month Treasury bills was cut by 0.25 percentage point on April 9 and another 0.25 percentage point on April 11 to 11.75 percent. The rate on four-month *Fonds des Rentes* certificates was also cut by 0.25 percentage point on April 10 and by 0.20 percentage point on April 16 to 11.90 percent. Among other countries in the European Monetary System, Germany's central bank money stock, seasonally adjusted, rose at an annual rate of 3.8 percent in April following an increase of 3.6 percent in March; the target range for 1984 is 4-6 percent growth. In France, it was reported that M2 rose by 10.2 percent in 1983, 1.2 percentage points above the target on M2 growth which was set in March last year. The Ministry of the Economy, Finance and the Budget attributed this overshooting to the temporary acceleration of M2 growth in the last quarter of 1983. Furthermore, according to provisional indications for the first two months of 1984, this acceleration was only temporary and M2 growth should be progressively approaching the target range of 5.5-6.5 percent set for this year. France's interest rates declined during April, attributed mainly to the relative stability of the franc within the EMS. The three-month interbank rate fell by 0.25 percentage point during the month to 12.55 percent and the three-month euro-French franc rate by 2.07 percentage points to 12.56 percent.

The broadly defined money supply of the United Kingdom, sterling M3, was reported to have risen by a seasonally adjusted 0.4 percent in the four weeks ended April 18, compared with an increase of 1.3 percent in banking March. M0 fell by 0.1 percent in April compared with an increase of 0.6 percent in March. During the latest six months, sterling M3 increased at an annual rate of 7.8 percent and M0 by 3.9 percent; the target for the 14 months from mid-February 1984 to mid-April 1985 is 6-10 percent for sterling M3 and 4-8 percent for M0. Japan's broadly defined money supply, M2 plus CDs, rose an average 8.4 percent in March from a year earlier. The Bank of Japan estimates that it will expand at an average rate of about 8 percent in the second quarter from a year earlier. The Bank of Canada raised its bank rate in April as its currency eased against the U.S. dollar. The three-month Treasury bill rate rose by 0.14 percentage point to 10.63 percent at the end of the month.

In the eurocurrency markets, the three-month eurodollar interest rate firmed further by 0.25 percentage point to 11.00 percent at the end of April. 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 interest differentials favoring eurodollar investment narrowed for France and the United Kingdom, but turned to favor domestic investment for Belgium. The covered interest differentials favoring domestic investment widened sharply for Italy and modestly for Germany, Japan, and the Netherlands.

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

	Uncovered interest differentials ^{1/}		Forward exchange quotations ^{2/}		Covered interest differentials ^{1/}	
	(1)		(2)		(3) = (1)-(2)	
	Mar.	Apr.	Mar.	Apr.	Mar.	Apr.
Belgium	-1.60	-0.90	-1.62	-0.74	+0.02	-0.16
France	-2.05	-1.55	-3.59	-1.57	+1.54	+0.02
Germany	+4.79	+5.09	+5.27	+5.62	-0.48	-0.53
Italy	-6.69	-6.44	-6.11	-4.34	-0.58	-2.10
Japan	+4.44	+4.81	+4.55	+4.94	-0.11	-0.13
Netherlands	+4.63	+5.04	+4.65	+5.25	-0.02	-0.21
United Kingdom	+2.20	+2.46	+1.84	+2.27	+0.36	+0.19

^{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 fell to 8.91 percent in the week beginning April 30 from 9.00 percent in the week beginning March 26, reflecting the lower yields on the relevant instruments for the currencies in the SDR basket, which eased by 0.01-0.25 percentage point. The rate of remuneration paid on creditor positions in the Fund (85 percent of the SDR interest rate) fell accordingly to 7.57 percent in the last week of April from 7.65 percent in the last week of March. The remuneration coefficient (the relationship of the rate of remuneration to the SDR interest rate) is raised to 88.33 percent in the quarter beginning May 1, 1984, from 85 percent in the preceding quarter. As a result, the rate of remuneration for the period of May 1 to May 6 is 7.87 percent, compared with 7.57 percent on April 30 (see Table 6).

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

	Mar. 26	April				
		2	9	16	23	30
SDR interest rate	9.00	8.95	8.92	8.94	8.94	8.91
Rate of remuneration	7.65	7.61	7.58	7.60	7.60	7.57

^{1/} The rate pertains to the week beginning on the date indicated above, except for the rate of remuneration for April 30, which was raised to 7.87 percent for the period May 1-6.

The combined domestic interest rates showed a mixed trend between the end of March and the end of April; those for the three- and six-month maturities eased by 0.10 and 0.06 percentage points, respectively, to 8.87 percent and 9.19 percent, while those for one-, two and a half- and five-year maturities firmed by 0.12, 0.25, and 0.25 percentage points, respectively, to 9.56 percent, 10.38 percent and 10.88 percent. This reflected lower yields on the most relevant instruments for maturities less than a year and higher yields for longer maturities; in the United States, for example, the three- and six-month Treasury bill rates eased by 0.08 and 0.04 percentage points, respectively, while one-, two and a half-, and five-year rates on Treasury securities firmed by 0.22-0.30 percentage point between the end of March and the end of April.



The combined eurocurrency interest rate eased by 0.13 percentage point for the three-month maturity, but was unchanged for the six-month maturity. Eurodollar interest rates rose by 0.19 percentage point during April while euro-French franc rates eased by 1.25-1.75 percentage points; other eurocurrency rates were mixed.

Average interest rates on SDR-denominated deposits of selected commercial banks eased by 0.06-0.09 percentage point for the one- and three-month maturities but firmed by 0.06-0.11 percentage point for the six- and twelve-month maturities between the end of March and the end of April. The deposit rates displayed a rising yield curve moving up from 8.88 percent on one-month deposits, through 9.19 percent and 9.51 percent on three- and six-month deposits, respectively, to 9.90 percent on twelve-month deposits. Yields on SDR-denominated bonds quoted on Luxembourg Stock Exchange firmed slightly. The current yield ranged from 9.30 percent to 11.47 percent, with the average current yield firming by 0.02 percentage point during April to 10.14 percent. The yield to maturity ranged from 10.33 percent to 12.00 percent, with the average yield to maturity firming by 0.14 percentage point to 11.16 percent at the end of April (see Table 7).

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

	March	April
Combined market interest rates <u>2/</u>		
Based on domestic rates		
3-month maturity (Rule T-1)	8.97	8.87
6-month maturity	9.25	9.19
12-month maturity	9.44	9.56
2-1/2 year maturity	10.13	10.38
5-year maturity	10.63	10.88
Based on eurocurrency offered rates		
3-month maturity	9.63	9.50
6-month maturity	9.75	9.75
Average commercial bank deposit rates <u>3/</u>		
1-month deposits	8.97	8.88
3-month deposits	9.25	9.19
6-month deposits	9.40	9.51
12-month deposits	9.84	9.90
Bonds quoted on the Luxembourg Stock Exchange <u>4/</u>		
Average current yield	10.12	10.14
Average yield to maturity	11.02	11.16

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.

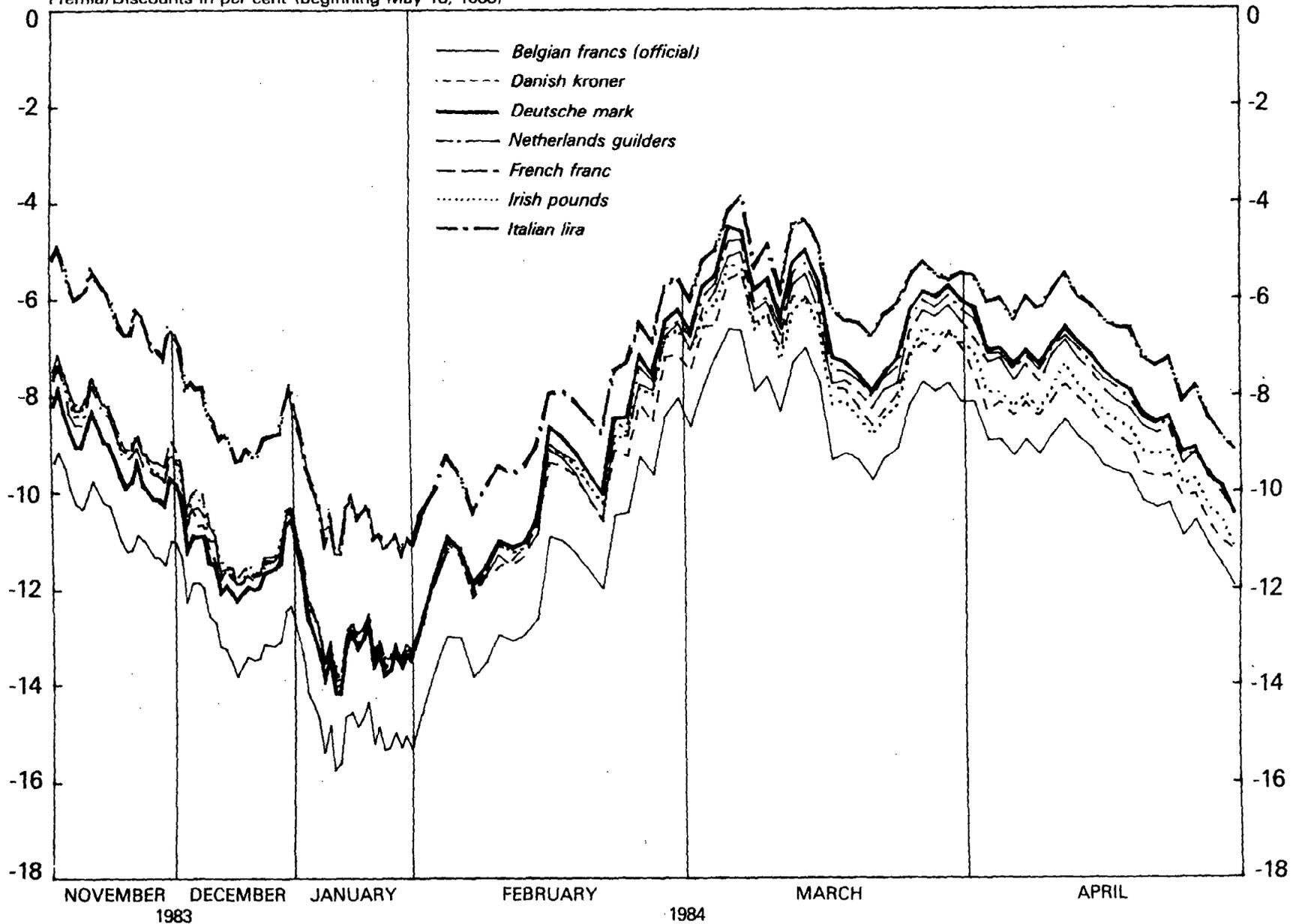
3/ Average of rates quoted by selected commercial banks.

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)

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



- 14 -

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.

EUROPEAN MONETARY SYSTEM: DIVERGENCE INDICATORS

(Based on noon quotations in London)

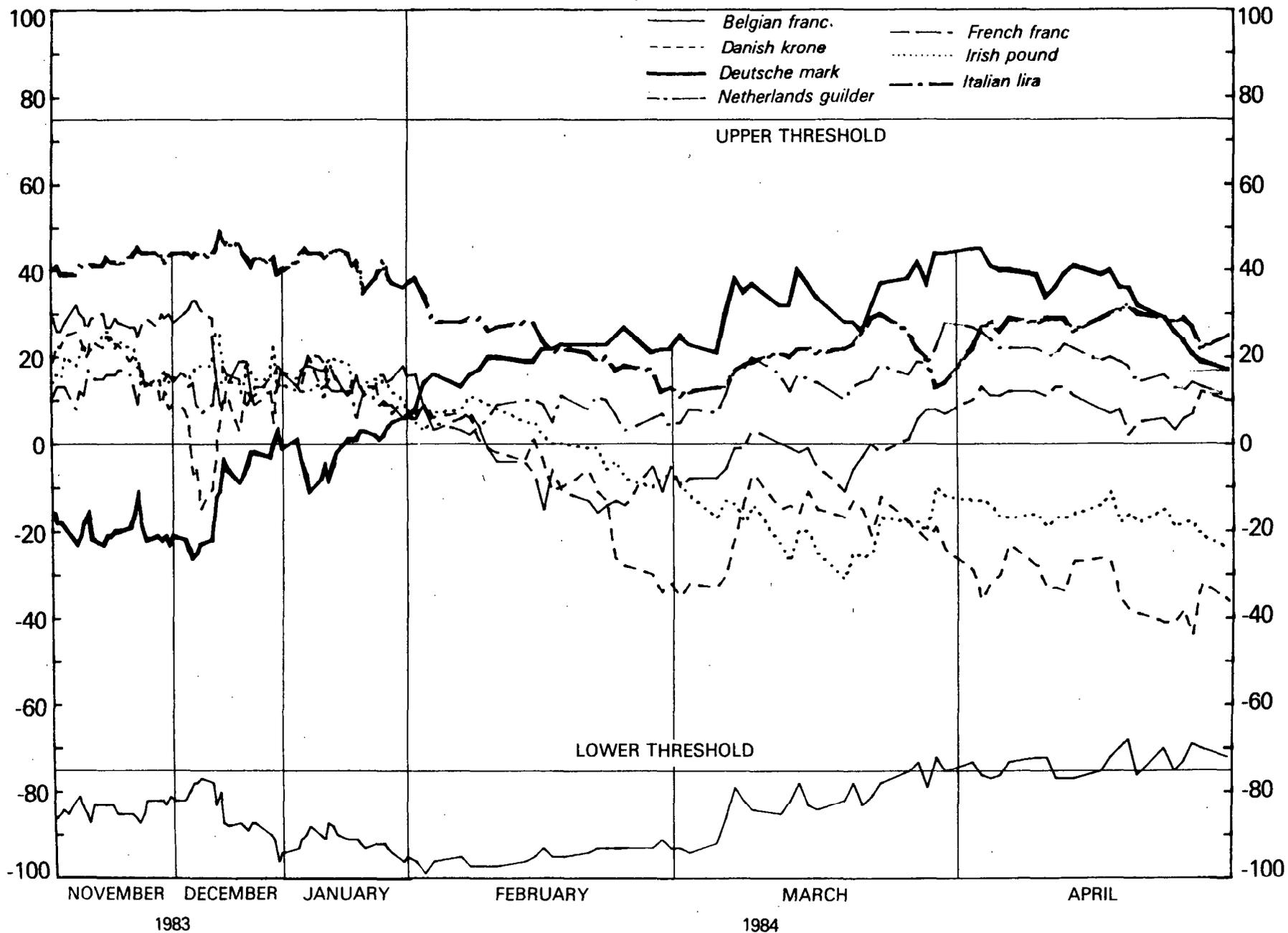


CHART 3 SPOT EXCHANGE RATES

(Noon quotations in New York)

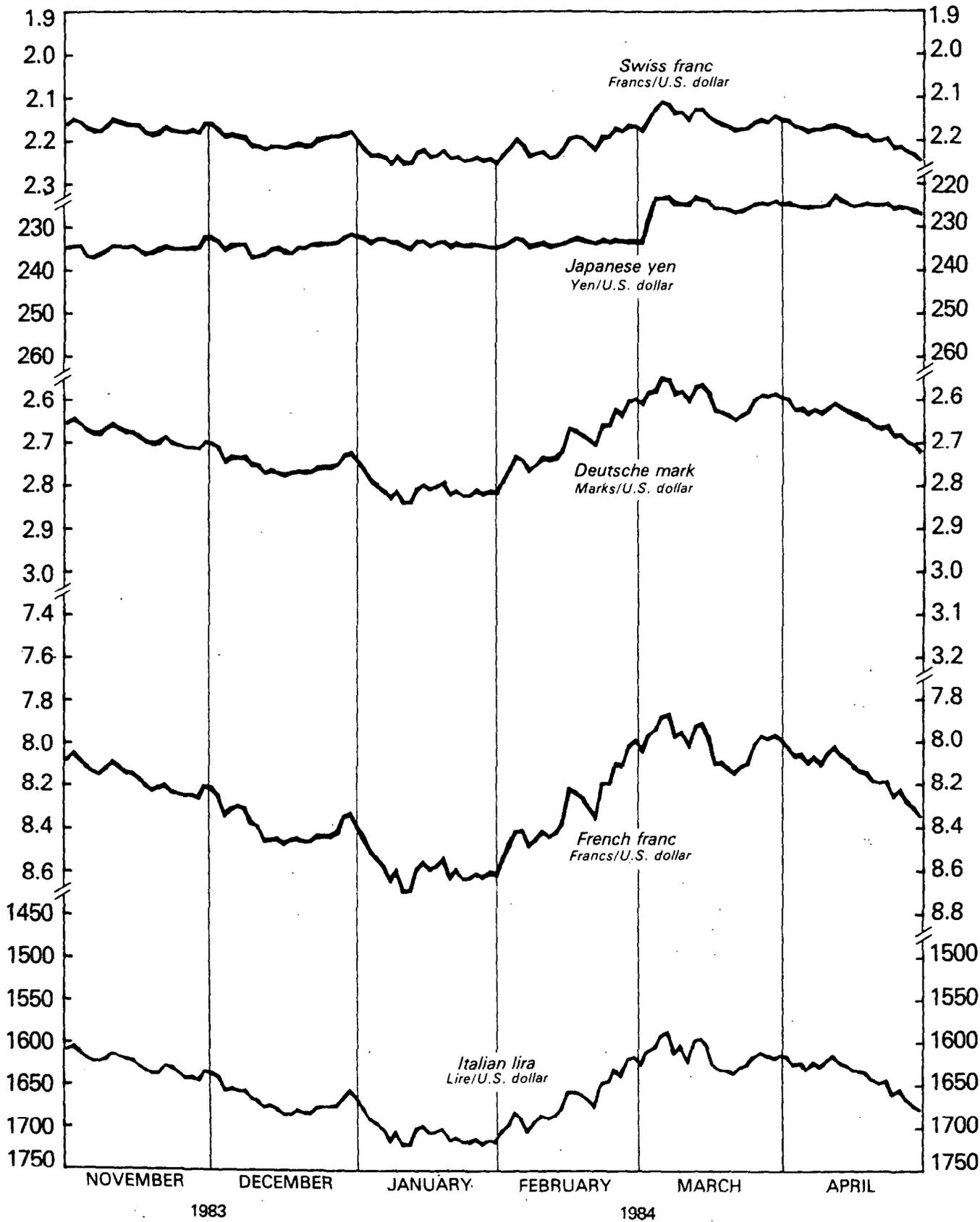




CHART 4 SPOT EXCHANGE RATES

(Noon quotations in New York)

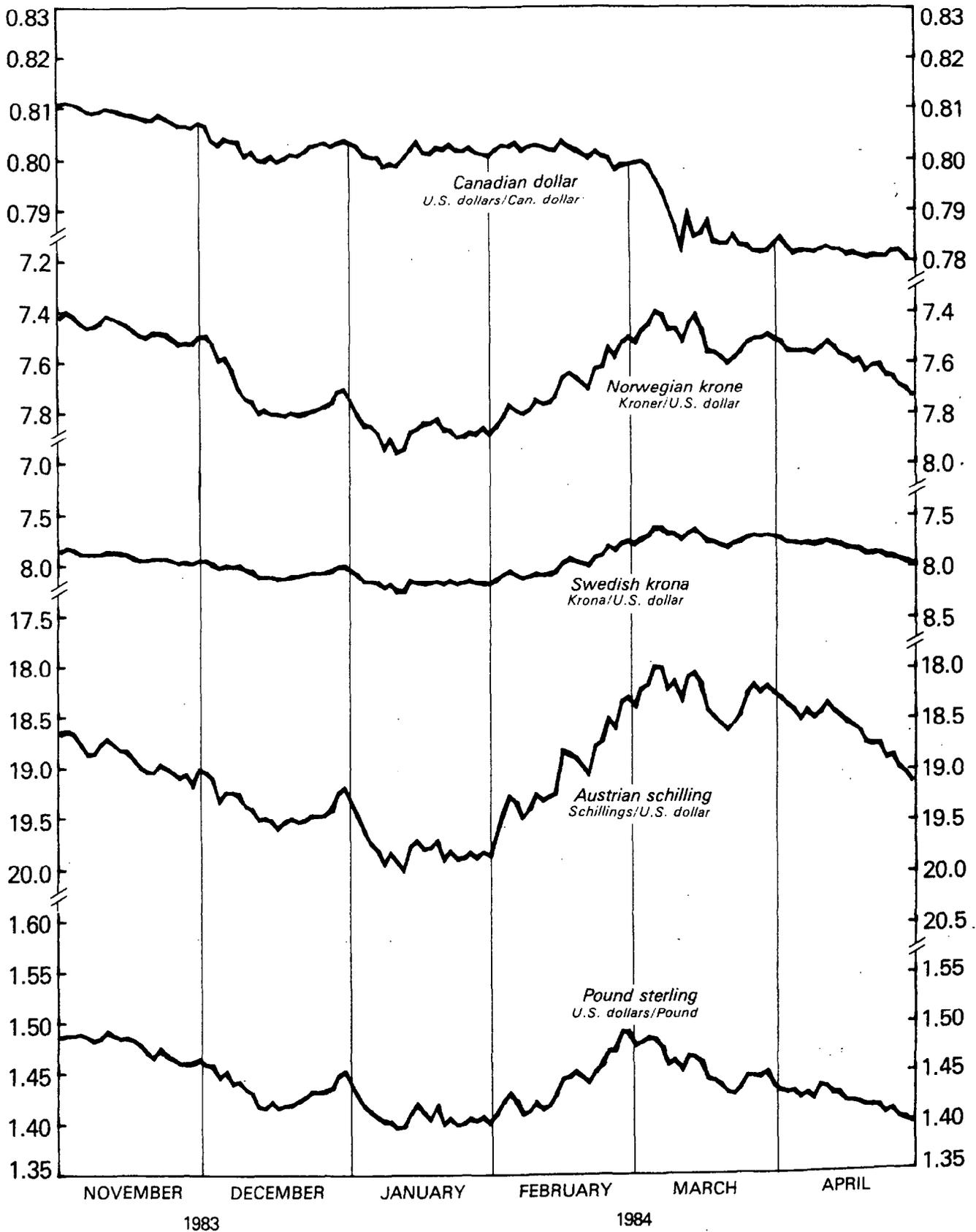
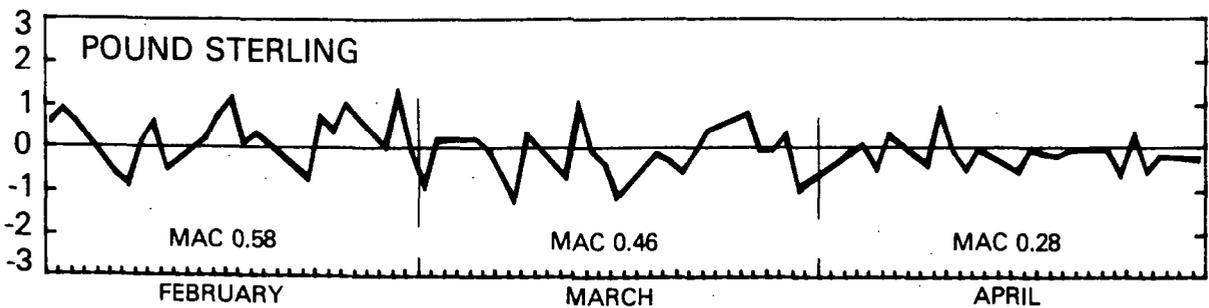
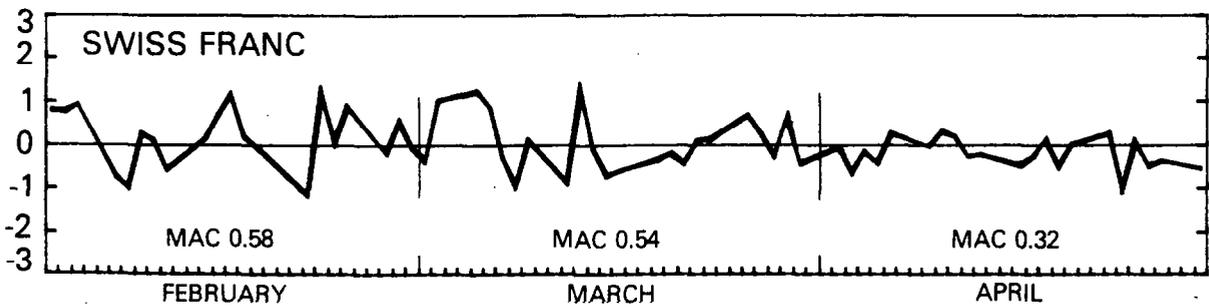
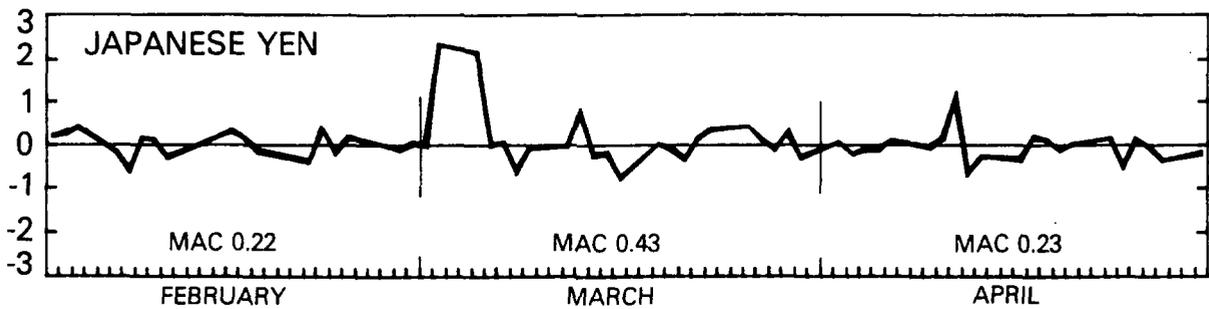
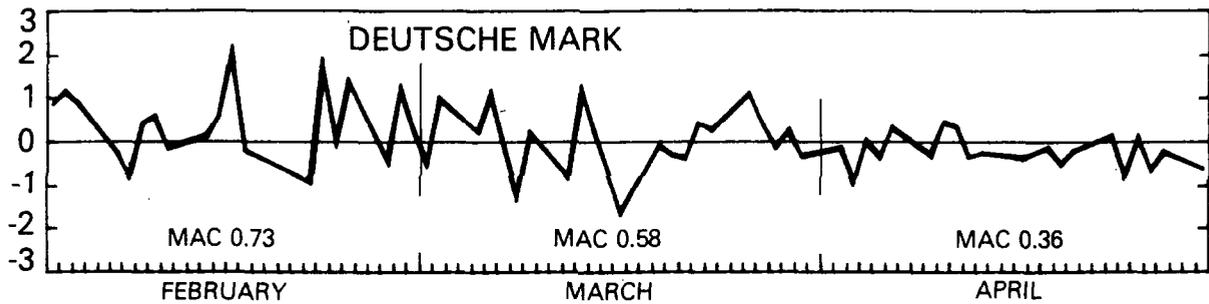
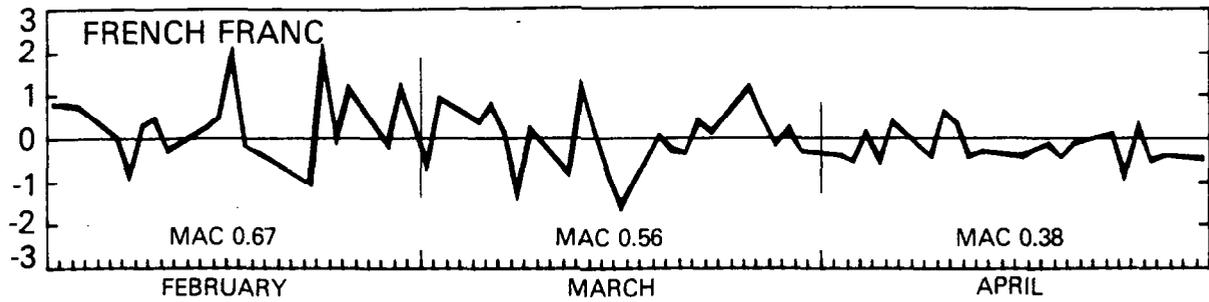


CHART 5

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 changes (MAC) are also indicated.

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

JUN. 1974 - APR. 1984

(June 28, 1974=100)

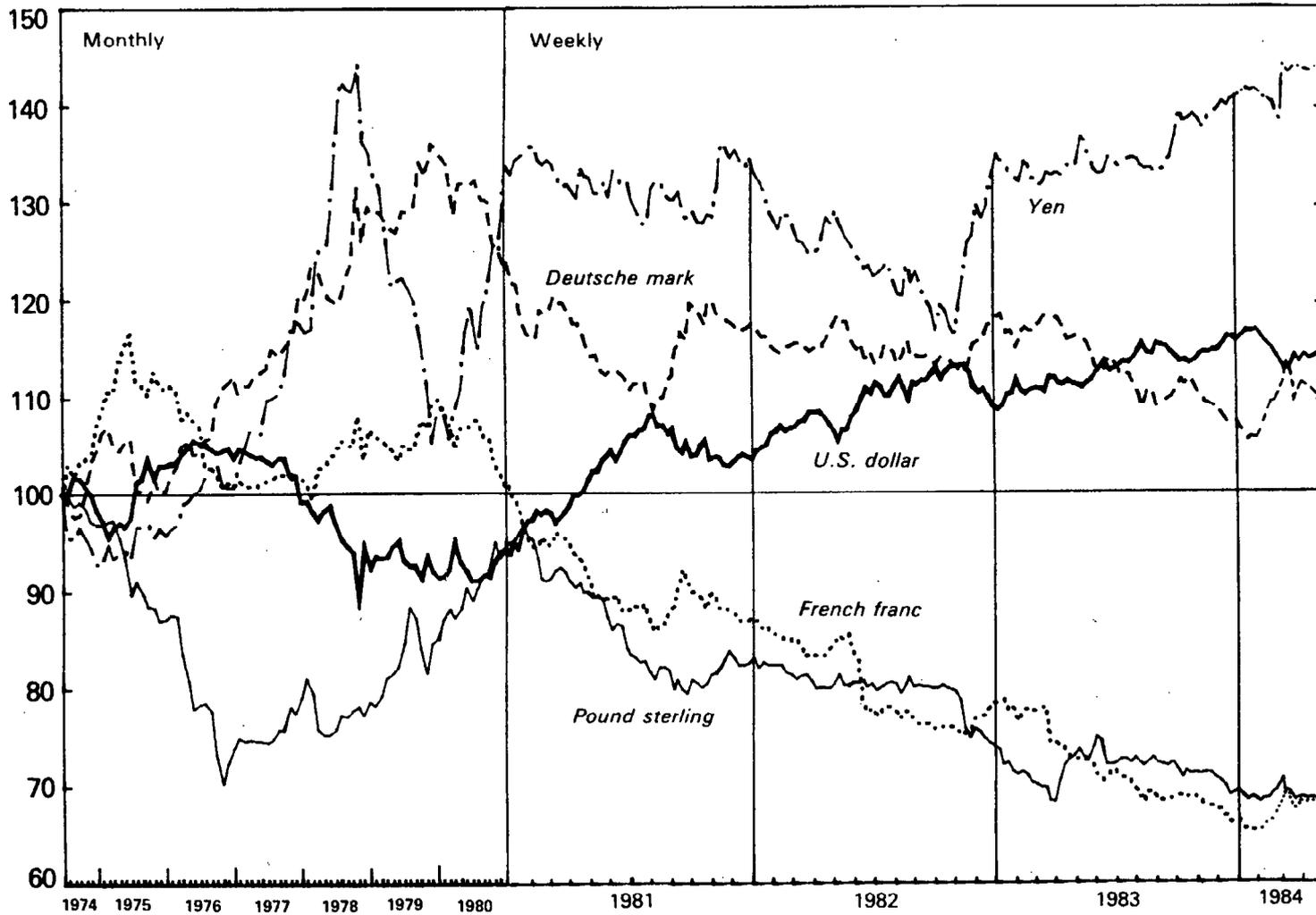


CHART 7 SHORT-TERM MONEY MARKET RATES

(Per cent per annum)

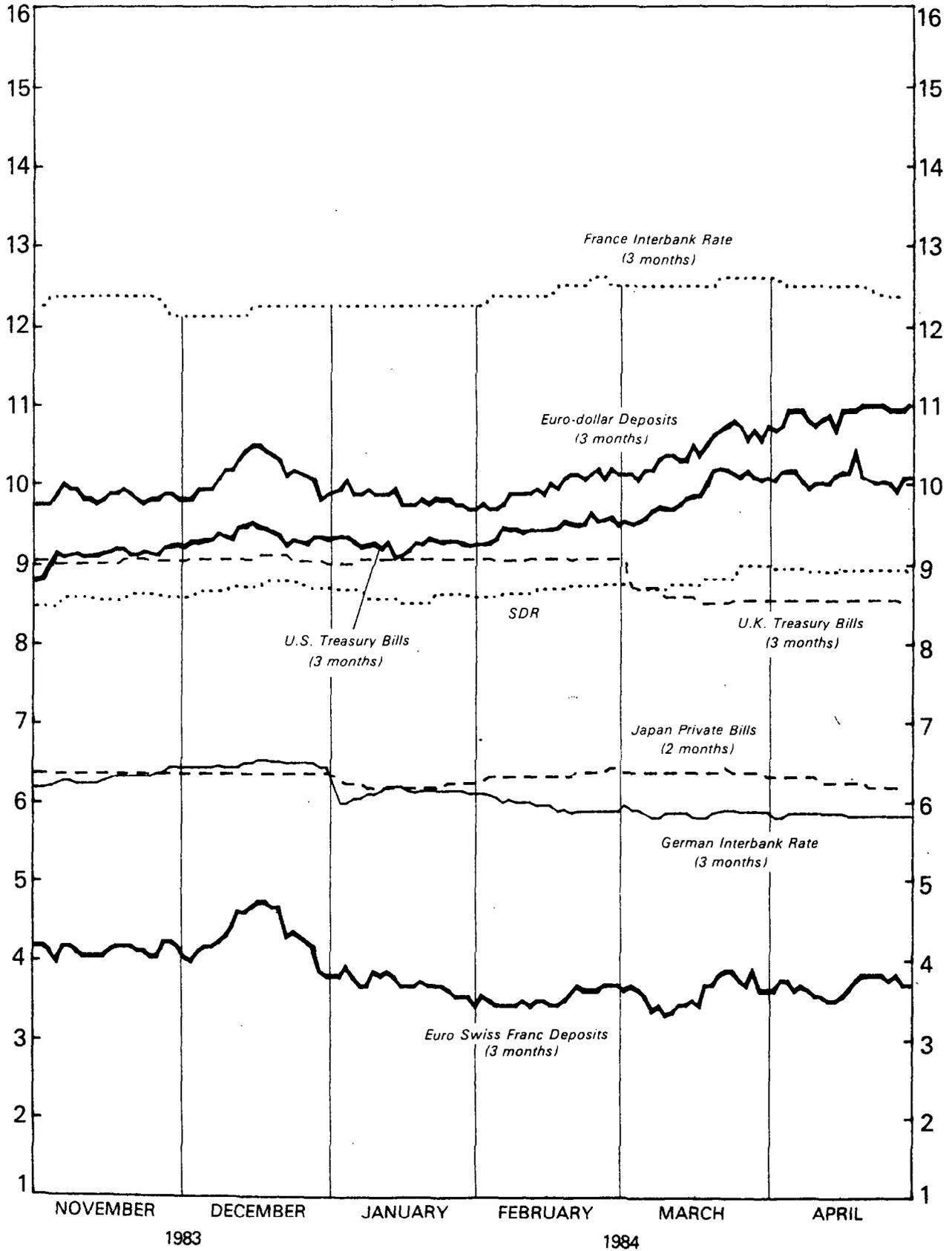


CHART 8 THREE-MONTH FORWARD RATES

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

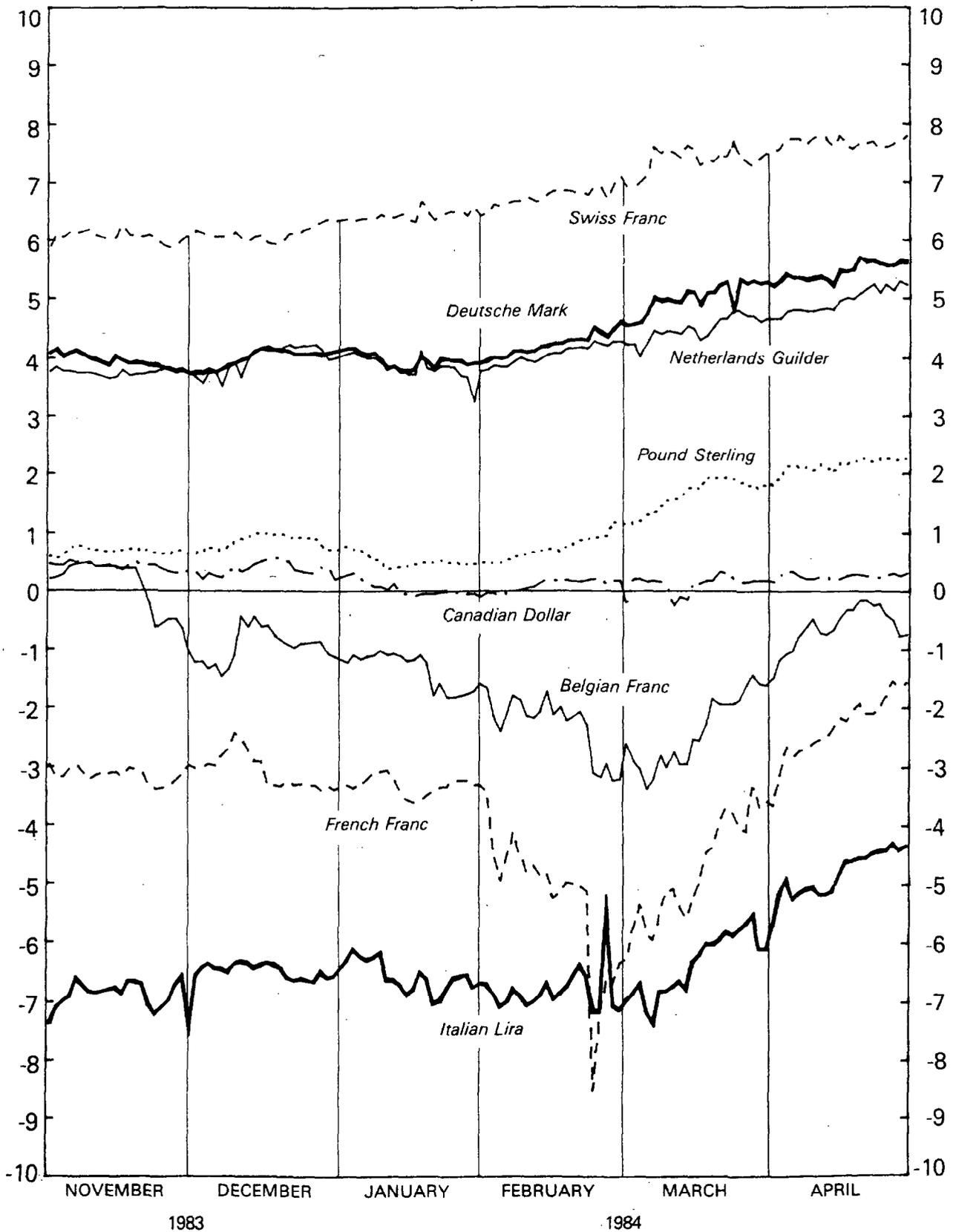
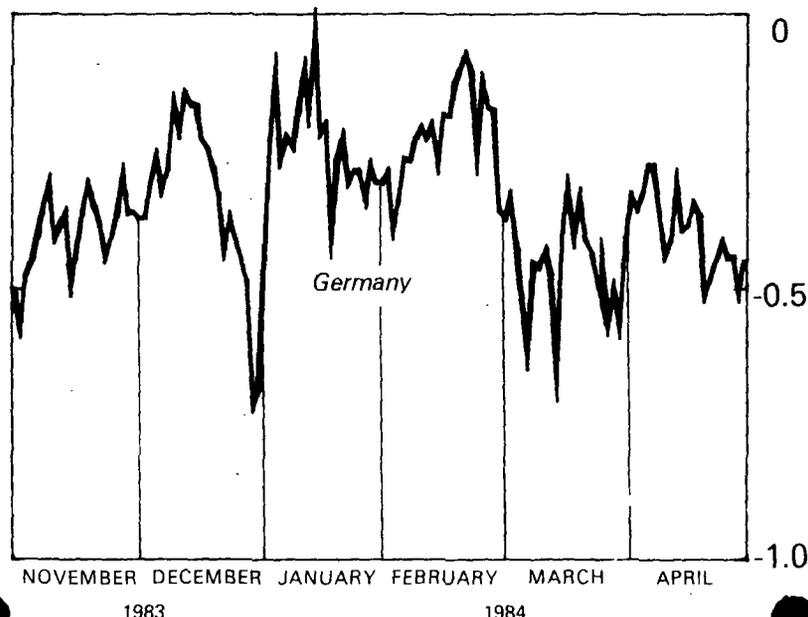
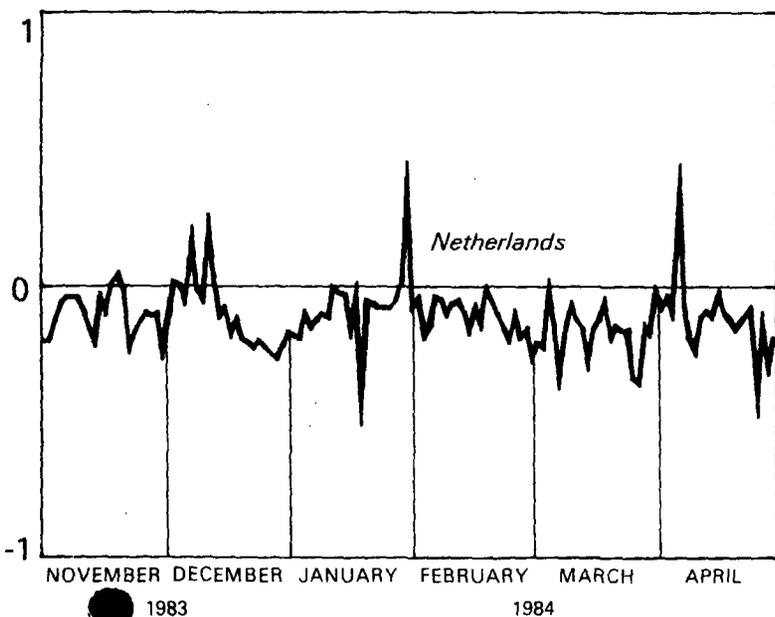
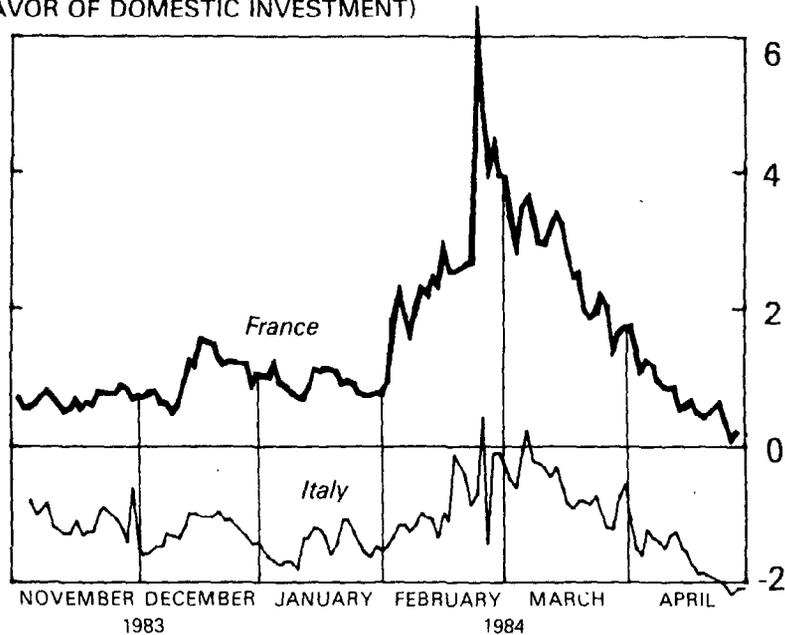
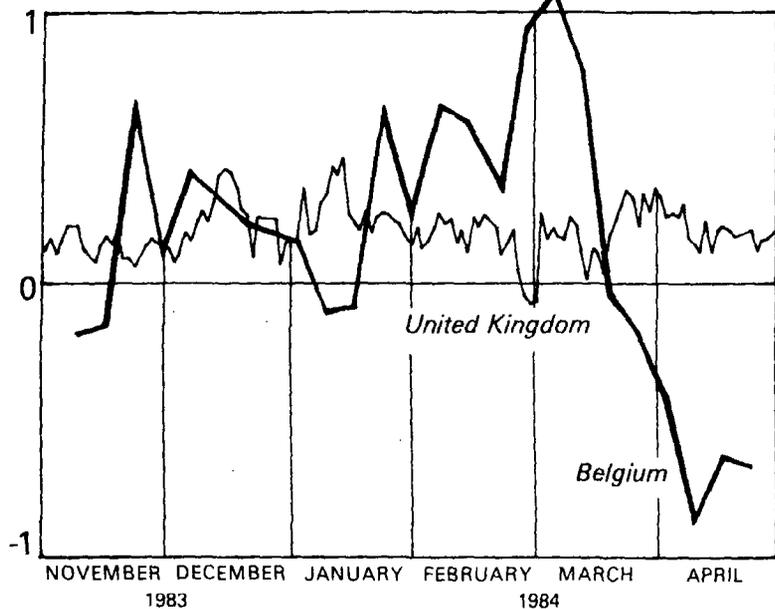


CHART 9

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, March 1984-April 1984

	M a r c h				A p r i l			
	7	14	21	28	4	11	18	25
Austrian schilling	18.0050	18.0600	18.6250	18.2475	18.4200	18.3500	18.6300	18.8625
Belgian franc								
Official	52.275	52.485	54.075	53.005	53.575	53.335	54.020	54.580
Financial	53.750	54.065	56.305	55.220	55.455	55.125	55.255	55.615
Canadian dollars	0.79362	0.78459	0.78336	0.78174	0.78140	0.78269	0.78104	0.78177
Danish kroner	9.3575	9.4100	9.6825	9.5262	9.6310	9.5950	9.7263	9.8375
Deutsche mark	2.55450	2.56500	2.64650	2.59125	2.62100	2.60875	2.64550	2.68000
French francs	7.8675	7.9075	8.1450	7.9800	8.0538	8.0225	8.1438	8.2285
Irish pounds	1.1998	1.1920	1.1560	1.1820	1.1673	1.1747	1.1577	1.1445
Italian lire	1587.000	1595.000	1636.500	1614.000	1622.500	1614.00	1633.500	1655.000
Japanese yen	223.175	223.625	226.725	224.650	225.300	222.650	224.750	225.550
Netherlands guilder	2.8833	2.8980	2.9855	2.9258	2.9565	2.9445	2.9865	3.0230
Norwegian kroner	7.4150	7.4150	7.6065	7.5025	7.5545	7.5175	7.5862	7.6550
Pounds sterling	1.4760	1.4670	1.4317	1.4470	1.4330	1.4365	1.4197	1.4119
Swedish kroner	7.6400	7.6525	7.8275	7.7200	7.7785	7.7650	7.8413	7.9175
Swiss francs	2.11500	2.12700	2.17620	2.15725	2.17075	2.16500	2.18980	2.21525

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

(Monthly and weekly averages)

	National Money Markets 1/						Eurocurrency Markets 2/						Lending Rate		U.S. Treasury Securities 5/	
	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																
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	15.37	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	
1983 Weekly																
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	9.36	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	8.93	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	6.88	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	10.02	6.30	9.32	12.93	6.61	4.21	10.31	11.00	11.52
	16	9.45	6.58	9.09	12.34	6.38	8.79	10.39	6.43	9.49	13.14	6.70	4.63	10.59	11.00	11.62
	23	9.35	6.61	9.11	12.42	6.38	8.73	10.29	6.33	9.51	13.74	6.67	4.56	10.46	11.00	11.55
	30	9.31	6.56	9.03	12.42	6.38	8.70	9.92	6.03	9.39	13.44	6.41	3.96	10.21	11.00	11.54
1984 Weekly																
Jan.	6	9.30	6.11	9.03	12.42	6.25	8.60	9.94	5.91	9.39	13.36	6.38	3.81	10.24	11.00	11.50
	13	9.21	6.24	9.08	12.42	6.19	8.57	9.90	6.08	9.51	13.17	6.33	3.81	10.14	11.00	11.42
	20	9.23	6.24	9.07	12.42	6.19	8.58	9.76	6.01	9.45	13.36	6.31	3.70	10.02	11.00	11.29
	27	9.28	6.24	9.07	12.42	6.23	8.61	9.79	5.94	9.44	13.18	6.38	3.63	10.02	11.00	11.31
Feb.	3	9.26	6.17	9.06	12.47	6.11	8.60	9.70	5.90	9.44	13.39	6.39	3.50	9.96	11.00	11.31
	10	9.24	6.09	9.05	12.55	6.31	8.68	9.85	5.84	9.39	14.68	6.38	3.45	10.05	11.00	11.43
	17	9.46	6.01	9.06	12.60	6.31	8.69	7.96	5.80	9.42	15.37	6.39	3.48	10.18	11.00	11.55
	24	9.54	5.96	9.06	12.74	6.38	8.74	10.12	5.86	9.38	17.52	6.50	3.64	10.39	11.00	11.67
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
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

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.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 rates 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.

