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DM/84/76

**INTERNATIONAL MONETARY FUND**

**Treasurer's Department**

**Foreign Exchange and Financial Markets in November 1984**

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December 14, 1984

The principal feature of the foreign exchange market developments in November was the resurgence of the U.S. dollar. The easing trend of the dollar that ensued in October continued in the early part of the month, mainly on lower U.S. interest rates, but reversed in the second half of the month, reportedly on strong commercial demand. Trading conditions were relatively quiet earlier in the month but turned hectic later as the dollar surged amid some nervousness about the possibility that the Bundesbank might intervene heavily as in September. Notwithstanding the declining trend in U.S. interest rates, the dollar had more than recovered by the end of November the loss it sustained in October and in the first few days of November. Over the month as a whole, the U.S. dollar firmed by 1.10 percent in effective (MERM) terms and by 0.70 percent against the SDR (see Table 1). The dollar's 12-month effective (MERM) appreciation was in excess of 11 percent. Leading currencies eased against the U.S. dollar by 0.70-2.53 percent in November with the Canadian dollar and the Japanese yen easing by relatively smaller margins than the European currencies.

The weakness of the dollar during the first few days of November was attributed mainly to lower U.S. interest rates and the expectation of their further decline in light of indications of a slowing down in the pace of U.S. economic expansion in the second half of the year from the remarkably fast pace of the first half. The Fed was active in injecting liquidity into the market while the M1 measure of money supply stayed slightly above the lower end of the target range. A reduction in the Fed's discount rate was expected after the presidential election but it did not materialize until the end of the third week of the month. In the second week of November, the market appeared to have stabilized somewhat, and the U.S. dollar was traded within a relatively narrow range amid some suspicion that the downward trend of U.S. interest rates might have bottomed out. The Bundesbank reportedly sold about \$80 million on November 14 and around \$50 million on November 15, which though not significant in volume, appeared to have had some psychological effect in holding down the rate of the dollar's appreciation.

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

(In percent)

	Monthly exchange rate changes			Changes in effective exchange rate since November 1983 <u>4/</u>
	Against U.S. dollar <u>2/</u>	Against SDR <u>3/</u>	Effective exchange rate <u>4/</u>	
Belgium	-1.99	-1.08	-0.44	-1.64
Denmark	-1.95	-1.05	-0.69	-3.59
France	-2.42	-0.51	--	-4.66
Germany	-2.53	-1.47	-1.09	-3.68
Ireland	-1.52	-0.79	-0.44	-3.79
Italy	-1.90	-0.88	-0.36	-5.42
Netherlands	-2.36	-1.48	-0.99	-3.96
Austria	-2.37	-1.52	-1.17	-4.26
Canada	-0.70	-0.01	-0.29	-2.41
Japan	-0.73	+0.27	+0.35	+1.73
Norway	-1.81	-0.80	-0.49	-8.21
Sweden	-2.04	-1.03	-0.69	-0.40
Switzerland	-2.39	-1.43	-1.11	-7.32
United Kingdom	-1.76	-0.79	-0.41	-10.32
United States	--	+0.70	+1.10	+11.09

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.

The U.S. dollar began firming steadily in the second half of the month, attributed mainly to strong year-end corporate demands, generated largely by the multinational companies which had reportedly ended their wait and see attitude as regards conversion of their currency holdings into dollars for the purpose of profit repatriation. The Bundesbank's dollar sales in the open market on November 19 (\$120 million) and on November 22 (\$50 million) and the discount rate cut by the Fed on November 21 depressed the dollar only briefly. Although U.S. interest rates eased significantly, any further reduction was expected to be matched by similar actions in Europe so as to maintain interest rate differentials in favor of dollar-denominated investments; the U.K. interest rates declined in step with the U.S. rates and the Bundesbank was expected to cut its administered rates. The dollar firmed further

toward the end of the month, despite further indications of a slowing down of the U.S. economy, partly in reaction to the report of a \$6.7 billion increase in U.S. money supply (M1) in the week ended November 19 and a lower trade deficit for October.

There were little movement in the relative positions of currencies within the EMS in November as market activity remained centered around the U.S. dollar. The spread between the strongest and weakest currency remained in the range of 0.80-1.56 percent, well within the 2.25 percent range permitted in the arrangement. The Belgian franc remained the weakest currency in the EMS while the Danish krone was at the top of the narrow band during 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 during most of the month with spreads from the Belgian franc in the range of 1.13-1.76 percent, well within the 6 percent range permitted for the lira. The divergence indicators for all the EMS currencies were within their thresholds (see Chart 2).

The volatility of exchange rate movements, as indicated by certain statistical measures (see Table 2), increased in November for most currencies. The range within which major currencies were traded against the U.S. dollar widened except for those recorded by the Canadian dollar and the Japanese yen, which narrowed to 1.1 percent and 1.2 percent, respectively, from 1.3 percent and 2.1 percent in October. The trading ranges for the EMS currencies widened to 4.8-6.2 percent in November from 3.2-4.3 percent in October. Those for the remaining currencies also widened to 4.7-6.3 percent from 2.5-5.2 percent. The average of absolute daily percentage changes in November (MAC in Table 2 and Chart 5) were little changed from October. The MACs for the EMS currencies and the Austrian schilling were 0.50-0.60 percent in November, compared with 0.57-0.65 percent in October. The MACs for the other currencies also increased to 0.30-0.75 percent in November from 0.27-0.59 percent in October, except for that recorded by the Canadian dollar which fell to 0.11 percent from 0.17 percent.

Movements in gross foreign exchange reserves were generally modest for major industrial countries in October/November except for a large increase of \$1.25 billion recorded by Italy (see Table 3). Among other countries, Norway, Switzerland, and Japan recorded relatively large reserve increases while Germany and Canada recorded the largest reserve losses; Germany's reserve loss amounted to \$486 million (mostly ECU assets) while Canada's loss amounted to \$459 million. Over the latest 12-month period, significant reserve gains were posted by France (to October), Italy, Japan, and Norway while significant losses were recorded by Germany, Canada, and the United Kingdom (to October). The Federal Reserve Bank of New York reported that it bought \$280 million equivalent of Deutsche mark in August-October period, \$50 million in early September, \$135 million in late September, and \$95 million in mid-October. The purchases were designed to counter disorderly market conditions.

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

	November 2/		High-low spread in percent 3/		MAC 4/	
	High	Low	Oct.	Nov.	Oct.	Nov.
Belgium	59.215	62.475	3.6	5.5	0.60	0.51
Denmark	10.5955	11.18425	4.2	5.6	0.64	0.58
France	8.99125	9.5225	4.0	5.9	0.61	0.57
Germany	2.92825	3.1085	4.3	6.2	0.65	0.59
Ireland	1.0545	1.001	3.9	5.3	0.61	0.60
Italy	1829.5	1918.0	3.2	4.8	0.61	0.50
Netherlands	3.3015	3.5015	4.1	6.1	0.63	0.59
Austria	20.54	21.825	4.0	6.3	0.57	0.56
Canada	0.76391	0.75523	1.3	1.1	0.17	0.11
Japan	244.40	247.45	2.1	1.2	0.27	0.30
Norway	8.56	8.972	3.0	4.8	0.44	0.52
Sweden	8.4415	8.8385	2.5	4.7	0.41	0.43
Switzerland	2.409	2.554	4.0	6.0	0.54	0.60
United Kingdom	1.2725	1.1975	5.2	6.3	0.59	0.75

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.

Table 3. Foreign Exchange Reserves in November 1984 <sup>1/</sup>

(In millions of U.S. dollars)

	End-month reserve level	Change in November	Change over 12 months
Belgium	3,631	-274	-212
Denmark	4,091	+206	+279
France (October)	20,403	+125	+1,701
Germany	35,471	-486	-2,436
Ireland (October)	1,899	-199	-575
Italy	19,995	+1,249	+1,658
Netherlands	8,004	-117	-703
Austria	3,010	-276	-839
Canada	1,631	-459	-1,427
Japan	22,021	+309	+1,860
Norway	8,911	+514	+3,050
Sweden	3,542	-207	+27
Switzerland	12,241	+429	+55
United Kingdom (October)	6,798	+177	-2,169
United States (October)	6,317	+281	-633

<sup>1/</sup> 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 firmed against other major currencies during November, despite easier U.S. interest rates and further signs of the slowing down of U.S. economic expansion. The real growth rate of GNP in the third quarter was revised downward to 1.9 percent (annual rate) from 2.7 percent, compared with 7.1 percent in the second quarter. The slowdown was mainly due to a sluggish personal consumption and a large decrease of net exports. The growth in the implicit GNP deflator for the third quarter was revised upward to 3.7 percent from 3.6 percent, compared with 3.3 percent in the preceding quarter. The index of leading economic indicators fell by 0.7 percent in October while the 0.4 percent gain in September was revised to 0.6 percent gain. The Commerce Department regards this slowdown as a modest inventory-adjustment and expects a pick-up in the first quarter of next year with interest rates falling. Among the individual economic indicators,

industrial production rose 0.4 percent in November after revised declines of 0.4 percent in October and 0.6 percent in September. Industrial capacity utilization declined slightly to 81.8 percent in October from 81.9 percent in September. The civilian unemployment rate, however, declined to 7.2 percent in November from 7.4 percent in October. The trade deficit, seasonally adjusted, narrowed to \$9.18 billion in October from the record \$12.65 billion deficit in September, mainly due to a decline in imports of non-petroleum commodities; in the first ten months of 1984, the trade deficit aggregated \$105.51 billion, compared with \$55.47 billion a year ago. The budget deficit rose to \$28.79 billion in October from \$25.07 billion a year ago.

The Deutsche mark eased most sharply among the major currencies and declined by 2.53 percent against the U.S. dollar and by 1.09 percent in effective (MERM) terms. Germany's industrial production, seasonally adjusted, rose 2.5 percent in October after a revised decline of 0.4 percent in September. Unemployment rate rose to 8.8 percent in November from 8.6 percent in October. The trade surplus rose to a record DM 8.8 billion in October from DM 5.33 billion in September and DM 4.18 billion in October 1983. The current account also turned to a record surplus of DM 6.5 billion in October from a deficit of DM 200 million in September and a surplus of DM 3.82 billion a year earlier. The strong external position of Germany did not appear to have had an impact on the value of the mark on the exchange markets. The wholesale price index rose 0.9 percent in October and 2.1 percent year-on-year.

The French franc eased by 2.42 percent against the U.S. dollar but was unchanged in effective (MERM) terms. The exchange controls introduced in the austerity program of March last year was relaxed further, effective November 14; the measures concern direct business investments abroad, transfers of money abroad by private individuals and ECU-denominated loans by E.C. institutions. Industrial production, seasonally adjusted, fell by 3.7 percent in September following a 4.6 percent increase in July/August. The number of unemployed persons rose by 0.3 percent in October and 16.4 percent over the year. The GDP grew by 1 percent in the third quarter, following a decline of 0.5 percent in the second quarter. The current account, seasonally adjusted, showed a record surplus of F 6.6 billion in the third quarter, compared with a deficit of F 5.7 billion in the preceding quarter. However, the trade balance swung to a deficit of F 3.39 billion in October from a surplus of F 477 million in September, mainly due to rising imports of capital goods. Industrial wholesale prices rose slightly by 0.2 percent in October and by 11.8 percent year-on-year.

The Belgian franc eased by 1.99 percent against the U.S. dollar and 0.44 percent in effective (MERM) terms. It remained as the weakest currency in the EMS but its divergence indicator was well above the lower threshold; the discount of the financial franc vis-a-vis the official franc narrowed in November. Belgium's wholesale price index was unchanged in October but 4.0 percent higher than that a year earlier. The Netherlands guilder eased by 2.36 percent against the U.S. dollar and 0.99 percent in effective (MERM) terms. The Netherlands' industrial

production fell by 1.0 percent in September but was 7.4 percent higher than its level a year earlier. The unemployment rate, seasonally adjusted, fell slightly to 17.3 percent in October from 17.5 percent in September. The trade surplus narrowed to f. 600 million in September from f. 1.3 billion in September 1983; the trade balance was in deficit of f. 400 million in August.

The Danish krone eased by 1.95 percent against the U.S. dollar and 0.69 percent in effective (MERM) terms. The krone was the strongest currency in the narrow band of the EMS for most of the month. Denmark's trade deficit, seasonally adjusted, widened to DKr 2.2 billion in October from DKr 460 million in September and DKr 633 million a year earlier. The wholesale price index rose 0.9 percent in October and 6.0 percent year-on-year. The Irish pound eased by 1.52 percent against the U.S. dollar and 0.44 percent in effective (MERM) terms. The Irish pound was occasionally at the top of the narrow band of the EMS parity grid in mid-November.

The Italian lira eased by 1.90-percent against the U.S. dollar and 0.36 percent in effective (MERM) terms. The lira was the strongest currency in the EMS during most of the month and was within the narrow band on most occasions. Italy's GDP grew 1.1 percent (annual rate) in the third quarter after a 0.7 percent increase in the second quarter. Italy's overall balance of payments turned to a surplus of Lit 1.105 trillion in October from deficits of Lit 597 billion in September 1984 and Lit 661 billion in October 1983. The wholesale price index rose 0.9 percent in September for a year-on-year increase of 9.6 percent.

The pound sterling eased by 1.76 percent against the U.S. dollar and 0.41 percent in effective (MERM) terms. The pound continued to be affected by easier oil prices and industrial disruptions. The U.K. unemployment rate, seasonally adjusted, was unchanged at 12.9 percent in November. Industrial production, seasonally adjusted, rose 1.3 percent in September but was 1.8 percent lower than that a year earlier. The GDP measured on an output basis rose by 0.2 percent in the third quarter and 1.1 percent over its level a year earlier. The Statistical Office estimated that the coal dispute reduced the U.K. GDP by about 1 1/4 percent in the second and the third quarters and that in the absence of the dispute, the third quarter GDP would have shown nearly 2 1/2 percent increase year-on-year. The public sector borrowing requirement (PSBR) widened to £448 million in October from £192 million a year ago; for the first seven months of this fiscal year which started in April, the PSBR widened to £7.7 billion from £7.1 billion for the same period in the previous fiscal year. The current account deficit narrowed to £73 million in October from £578 million in September and £356 million a year earlier. The producer output prices rose 0.3 percent in November and 6.0 percent year-on-year.

The Swiss franc eased by 2.39 percent against the U.S. dollar and 1.11 percent in effective (MERM) terms. Switzerland's wholesale prices rose 0.1 percent in October for a year-on-year increase of 3.6 percent.

The Japanese yen eased by 0.73 percent against the U.S. dollar but firmed against major European currencies, attributed mainly to its strong external position and easier oil prices in the world market. It was the only currency other than the U.S. dollar to firm in effective (MERM) terms by a moderate 0.35 percent. Japan's GNP growth rate slowed down to an annual rate of 3.0 percent in the third quarter from 7.6 percent in the second quarter, attributed in part to the negative contribution of net exports. Industrial production, seasonally adjusted, increased by 2.9 percent in October and 11.7 percent over the year. Unemployment rate was unchanged at 2.6 percent in October. The current account surplus narrowed to \$3.89 billion in October from \$4.35 billion in September but widened from \$2.32 billion in October 1983. The wholesale price index fell by 0.2 percent in November but was 0.4 percent higher than a year earlier.

The Canadian dollar eased by 0.70 percent against the U.S. dollar and 0.29 percent in effective (MERM) terms. Canada's real GNP, seasonally adjusted, grew at an annual rate of 7.6 percent in the third quarter, following a 3.2 percent growth in the second quarter, reflecting mainly an increase in net exports. The unemployment rate, seasonally adjusted, was unchanged at 11.3 percent in November. The budget deficit rose to \$2.65 billion in September from \$2.14 billion a year earlier. The trade surplus widened to \$2.3 billion in October from \$1.9 billion in September.

The Austrian schilling eased by 2.37 percent against the U.S. dollar and 1.17 percent in effective (MERM) terms. Austria's unemployment rate rose sharply to 4.8 percent in November from 4.0 percent in October. Wholesale prices rose 1.3 percent in November and 3.3 percent year-on-year. The Norwegian krone eased by 1.81 percent against the U.S. dollar and 0.49 percent in effective (MERM) terms. The Swedish krona eased by 2.39 percent against the U.S. dollar and 0.69 percent in effective (MERM) terms. Sweden's unemployment rate fell to 2.9 percent in November from 3.1 percent in October and 3.3 percent in November 1983. The producer price index rose 0.4 percent in October and 8.0 percent year-on-year.

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

Monetary and credit conditions appeared to have eased in most major industrial countries in November with short-term interest rates declining in the United States, Canada, the United Kingdom, Germany and Belgium. In the United States, interest rates eased for the third consecutive month with the rate on three-month U.S. Treasury bills falling by more than 2 1/4 percentage points in the last three months. In Canada and the United Kingdom, three-month Treasury bill rates eased by larger margins than the U.S. rate but their cumulative declines were smaller: they closed November around 1 2/3 percentage points lower in Canada and slightly less than one percentage point lower in the United Kingdom, compared with their levels three months earlier. Short-term interest



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		Consumer		Oct.	Nov.
		price index		price index <u>3/</u>			
Austria	Nov./Oct.	3.3	(3.1)	5.2	(5.6)	4.50	4.50
Belgium	Oct./Nov.	4.0	(4.0)	5.2	(5.8)	11.00	10.75
Canada	Sept./Oct.	3.6	(4.0)	3.4	(3.8)	11.43	10.48
Denmark	October	6.0	(5.6)	6.1	(6.2)	7.00	7.00
France	October	11.8	(12.1)	7.0	(7.1)	10.39	10.77
Germany	Oct./Nov.	2.1	(1.0)	2.1	(2.1)	6.13	5.93
Italy	Sept./Nov.	9.6	(10.6)	8.6	(9.1)	17.31	17.06
Japan	Nov./Oct.	0.4	(0.7)	2.2	(2.3)	6.38	6.51
Netherlands	Aug./Nov.	3.7	(4.2)	3.0	(3.1)	6.03	5.81
Norway	May/Nov.	6.4	(7.0)	6.0	(6.1)	8.00	8.00
Sweden	September	—	(—)	7.7	(7.8)	9.50	9.50
Switzerland	Oct./Nov.	3.6	(3.1)	3.0	(3.1)	5.06	5.06
United Kingdom	Nov./Oct.	6.0	(6.2)	5.0	(4.7)	10.12	9.24
United States	October	1.4	(1.9)	4.2	(3.8)	9.35	8.74

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.

rates in Germany and Japan recorded comparatively less movement during the past three months with the relevant rates easing moderately in Germany while firming moderately in Japan. The three-month interbank money rate in France firmed in November after easing in the three preceding months.

In the United States, the Federal funds and other interest rates continued to ease markedly in November. Subdued inflation, aided in part by falling oil prices, and further evidence of a weakening economy helped push interest rates lower. These together with sluggish money supply growth also helped to fuel the expectation that the Federal Reserve would continue to ease reserve restraint in November. A summary of the minutes of the October Federal Open Market Committee meeting confirmed the expectation that the Federal Reserve had been in favor of an easier policy on monetary restraint. The easier policy was continued in November and the discount rate was cut by a 1/2 percentage point to 8 1/2 percent on November 21. Federal funds traded near or below 9 percent in the last week of November after trading around 10 percent toward the end of October; the rate averaged 9.43 percent for November as a whole, 0.56 percentage point lower than that for the previous month. The bond-equivalent yield on three-month U.S. Treasury bills also eased significantly from 9.35 percent at the end of October to 8.74 percent at the end of November, and the interest rate on three-month CDs declined similarly from 9.59 percent to 8.84 percent. Yields on U.S. Treasury securities of longer maturities also eased, but by smaller margins so that the yield curve steepened a bit in November. The five-year constant maturity rate on Treasury securities, for example, fell from 11.59 percent at end-October to 11.25 percent at end-November. Following two similar cuts in October, major U.S. banks lowered their prime lending rate twice in November, from 12 percent to 11 3/4 percent early in the month and to 11 1/4-11 1/2 percent in the week after the Federal Reserve's discount rate cut. The M1 measure of the U.S. money supply, seasonally adjusted, averaged \$545.4 billion in the week ended November 12 (announced November 22), little changed from \$544.1 billion recorded in the week ended October 29 and \$546.4 billion recorded in the week ended September 24. In the week ended November 19, however, M1 rose sharply by \$6.7 billion followed by a further increase of \$2.2 billion in the next week to stand at \$554.2 billion in the week ended November 26. The annual growth rate through November from the fourth quarter of 1983 base period was about 5 2/3 percent, within the 4-8 percent target range for the year.

Among the countries participating in the European Monetary System, short-term domestic interest rates firmed in France and eased in Germany and Belgium in November. The three-month interbank money rate in France rose from 10.39 percent at the end of October to 10.77 percent at the end of November. The November rate, however, stood 0.38 percentage point below its end-September level of 11.15 percent. The Bank of France on November 27 reduced its money market intervention rate to 10 3/4 percent from 11 percent. The three-month interbank money rate in Germany eased in November by 0.20 percentage point to 5.93 percent, just offsetting

the rise recorded in the previous month. Germany's central bank money stock 1/, seasonally adjusted, grew at a 4.7 percent annual rate through November from the fourth quarter of 1983 base period, compared with 4.9 percent growth through October and the 4-6 percent target range through the fourth quarter of 1984. In Belgium, the rate of interest paid on one-, two-, and three-month Treasury bills was reduced by 0.25 percentage point to 10.75 percent on November 9; a few days later the rate on Fonds des Rentes certificates was also cut by 0.25 percentage point to 10.75 percent.

Among the other major countries, short-term interest rates eased markedly in Canada and the United Kingdom but firmed moderately in Japan. In Canada, short-term interest rates continued to move with U.S. interest rates with the three-month Canadian Treasury bill rate closing November at 10.48 percent, 0.95 percentage point lower than that at the end of October. Major Canadian banks also cut their prime rate around midmonth from 12 1/2 percent to 12 percent. In the United Kingdom, the rate on three-month Treasury bills eased from 10.12 percent at the end of October to 9.24 percent at the end of November. Major U.K. banks lowered their base lending rate by 1/2 percentage point to 10 percent on November 7. On November 19, one major bank cut its base rate further to 9 3/4 percent while other major banks cut their rate to 9 1/2 percent on November 22. The latest Bank of England data released in December show that growth in sterling M3, seasonally adjusted, rose sharply to an estimated 2.75 percent in the five weeks to November 21 compared with the 0.3 percent growth in the four weeks to October 17. This brought sterling M3 growth since mid-February to 12.25 percent at an annual rate, well above the target range of 6-10 percent growth at an annual rate for the 14-month period starting February 1984. A Bank of England statement noted, however, that broad money growth in November was erratically high, with provisional information on the components appearing to be consistent with a substantial building up of deposits in anticipation of the British Telecom offer for sale. In Japan, the rate for two-month private bills firmed moderately and stood at 6.51 percent at the end of November, 0.13 percentage point higher than the rate at the end of October. Japan's broadly defined money supply M2+CDs rose 7.7 percent in October from its year-earlier level, compared with a 8.1 percent year-on-year rise in September.

In the eurocurrency markets, three-month interest rates for most currencies eased in November. Both eurodollar and euro-sterling rates eased by 0.87 percentage point to 9.13 percent and 9.69 percent respectively. The euro-Deutsche mark rate eased by 0.25 percentage point to 5.63 percent and the euro-French franc rate eased by 0.12 percentage point to 10.88 percent. The euro-yen rate firmed, however, by 0.07 percentage point to 6.41 percent while the euro-Swiss franc rate was unchanged at 5.06 percent.

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1/ Currency in circulation (excluding the banks' cash balances of domestic notes and coins) plus required reserves on domestic liabilities (calculated at constant reserve ratios, base: January 1974).

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

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

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)	
	October	November	October	November	October	November
Belgium	-1.00	-1.62	-0.66	-1.31	-0.34	-0.31
France	-0.39	-1.64	-0.85	-1.63	+0.46	-0.01
Germany	+3.87	+3.20	+4.42	+3.58	-0.55	-0.38
Italy	-7.31	-7.93	-5.15	-4.88	-2.16	-3.05
Japan	+3.62	+2.62	+3.92	+2.87	-0.30	-0.25
Netherlands	+3.97	+3.32	+4.25	+3.36	-0.28	-0.04
United Kingdom	-0.12	-0.11	-0.34	-0.36	+0.22	+0.25

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 declined steadily during the month to 8.21 percent for the week beginning November 26 from 8.78 percent for the week beginning October 29 (see Table 6). The yields on three-month U.S. and U.K. Treasury bills eased by 0.95 and 0.92 percentage points respectively, while the three-month interbank rate in Germany eased by 0.20 percentage point. Yields on the relevant instruments in France and Japan firmed, however, by 0.38 and 0.13 percentage points respectively, 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 similarly to 7.25 percent in the last week of November from 7.76 percent in the last week of October.

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

	October 29	November			
		5	12	19	26
SDR interest rate	8.78	8.55	8.34	8.30	8.21
Rate of remuneration	7.76	7.55	7.37	7.33	7.25

<sup>1/</sup> The rates apply to the weeks beginning with the dates indicated above.

Combined domestic interest rates for various maturities eased by 0.42-0.62 percentage point (see Table 7). Yields on the relevant instruments for various maturities in the United States and in the United Kingdom posted the largest declines, easing by 0.56-0.81 percentage point and 0.63-0.92 percentage point respectively. Yields on the relevant German instruments also eased, by 0.20-0.28 percentage point, and those on Japanese instruments eased by 0.07-0.34 percentage point for maturities longer than three months. The yield at the shortest maturity in Japan, however, firmed by 0.13 percentage point, and yields on the relevant instruments in France firmed by 0.25-0.49 percentage point except for the two and a half-year yield which eased.

The combined eurocurrency offered rates eased by 0.50 percentage point for the three-month maturity and by 0.37 percentage point for the six-month maturity. Interest rates on eurodollars and on euro-sterling eased by 0.81 and 0.75 percentage points, respectively, for the three-month maturity and by 0.75 and 0.56 percentage points, respectively, for the six-month maturity. Interest rates on euro-Deutsche mark eased by

0.25 percentage point for the three-month maturity and by 0.19 percentage point for the six-month maturity, and euro-French franc rates eased by 0.06 percentage point at both maturities. Both euro-yen rates firmed, however, by 0.06 percentage point.

Average interest rates on SDR-denominated deposits of selected commercial banks eased by 0.53-0.66 percentage point. Deposit rates in November ranged from 8.01 percent for one-month deposits to 8.86 percent for 12-month deposits.

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

	October	November
Combined market interest rates: <u>2/</u>		
a. Based on domestic rates		
3-month maturity (Rule T-1)	8.59	8.17
6-month maturity	8.94	8.38
12-month maturity	9.13	8.63
2-1/2 year maturity	10.00	9.38
5-year maturity	10.25	9.81
b. Based on eurocurrency offered rates		
3-month maturity	9.13	8.63
6-month maturity	9.25	8.88
Average commercial bank deposit rates <u>3/</u>		
1-month deposits	8.67	8.01
3-month deposits	8.87	8.33
6-month deposits	9.11	8.56
12-month deposits	9.39	8.86

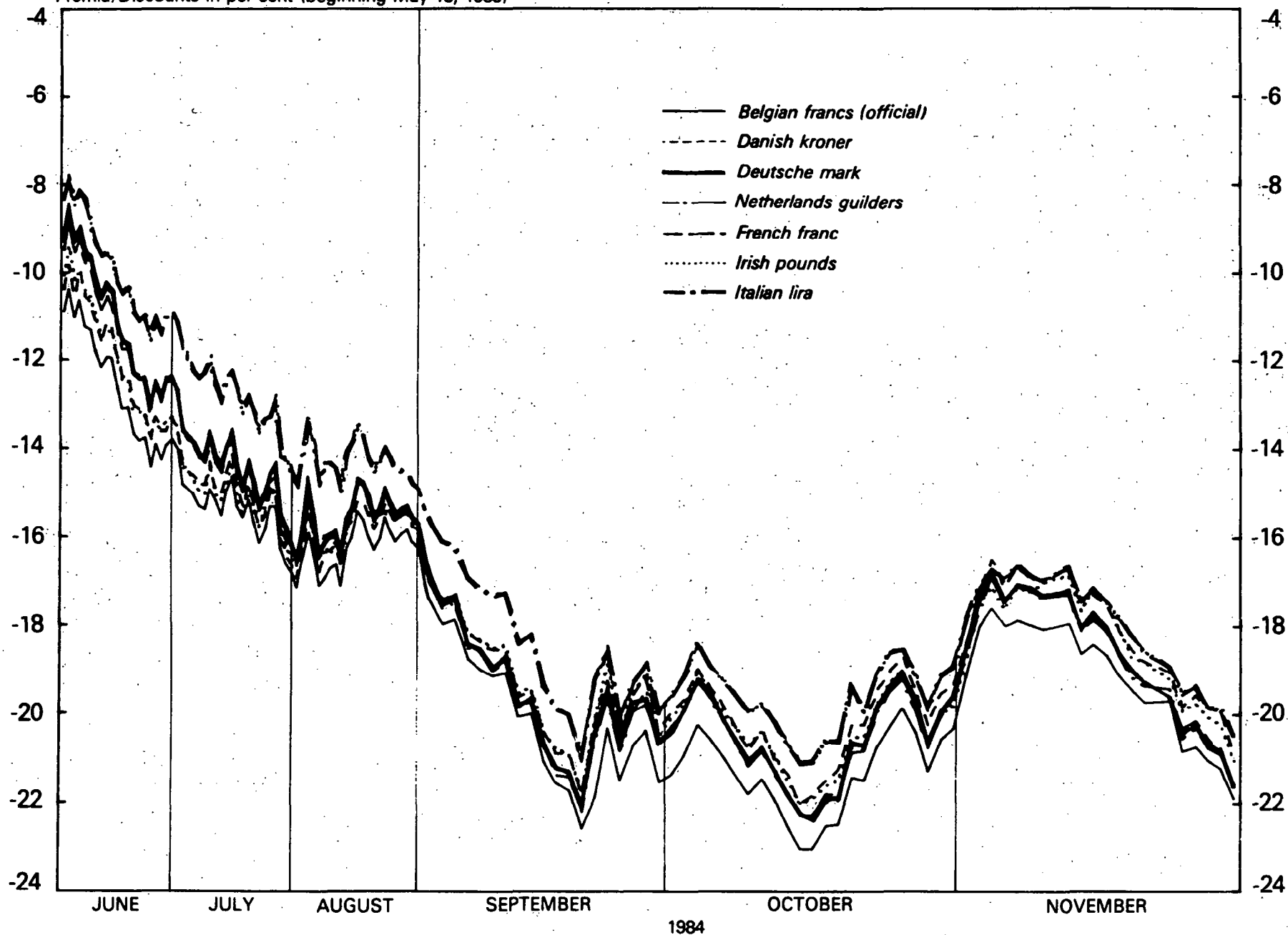
1/ Rates pertain to last Wednesday of the month.

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

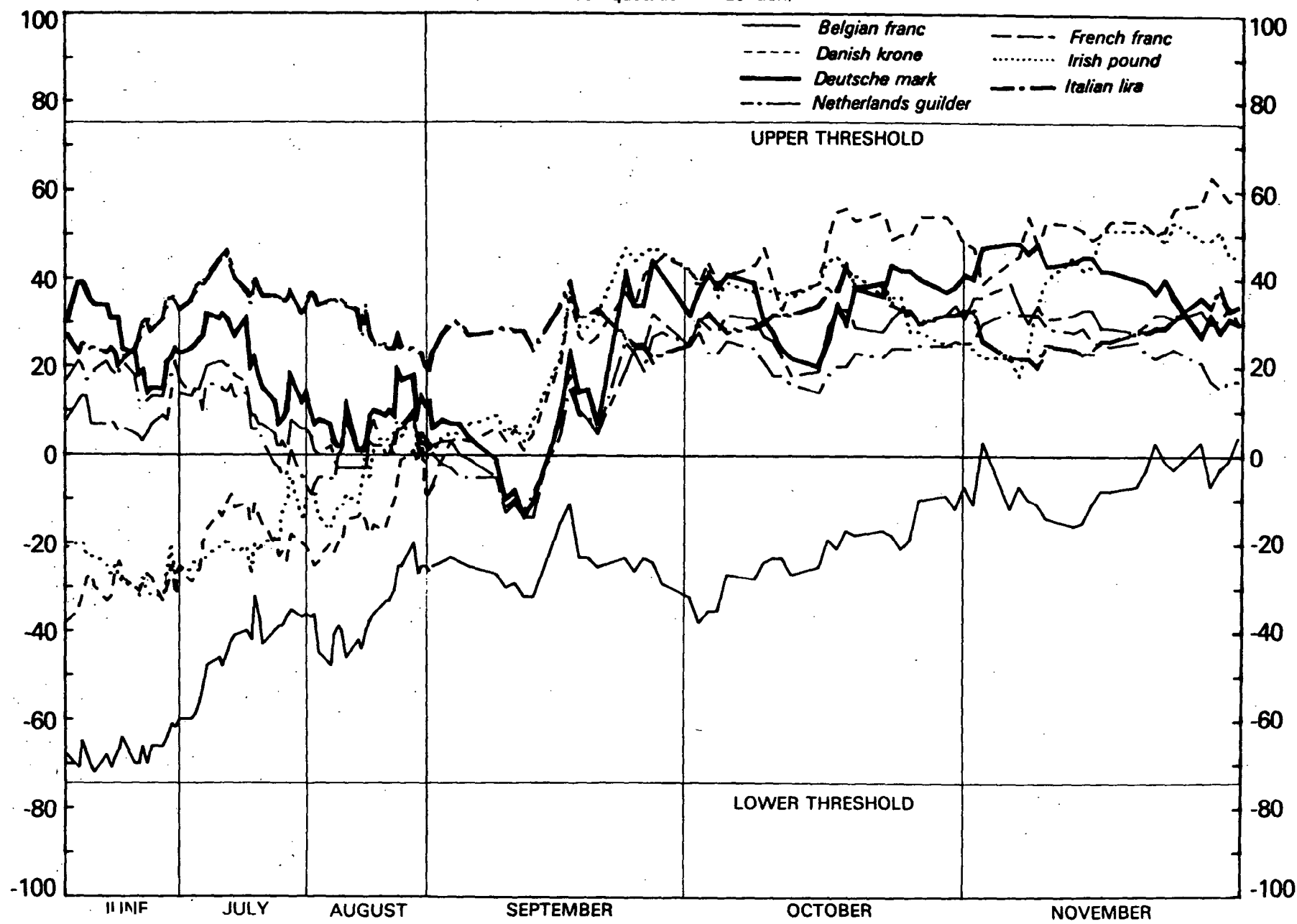
(Based on noon quotations in New York)

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

<sup>1</sup>Effective 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

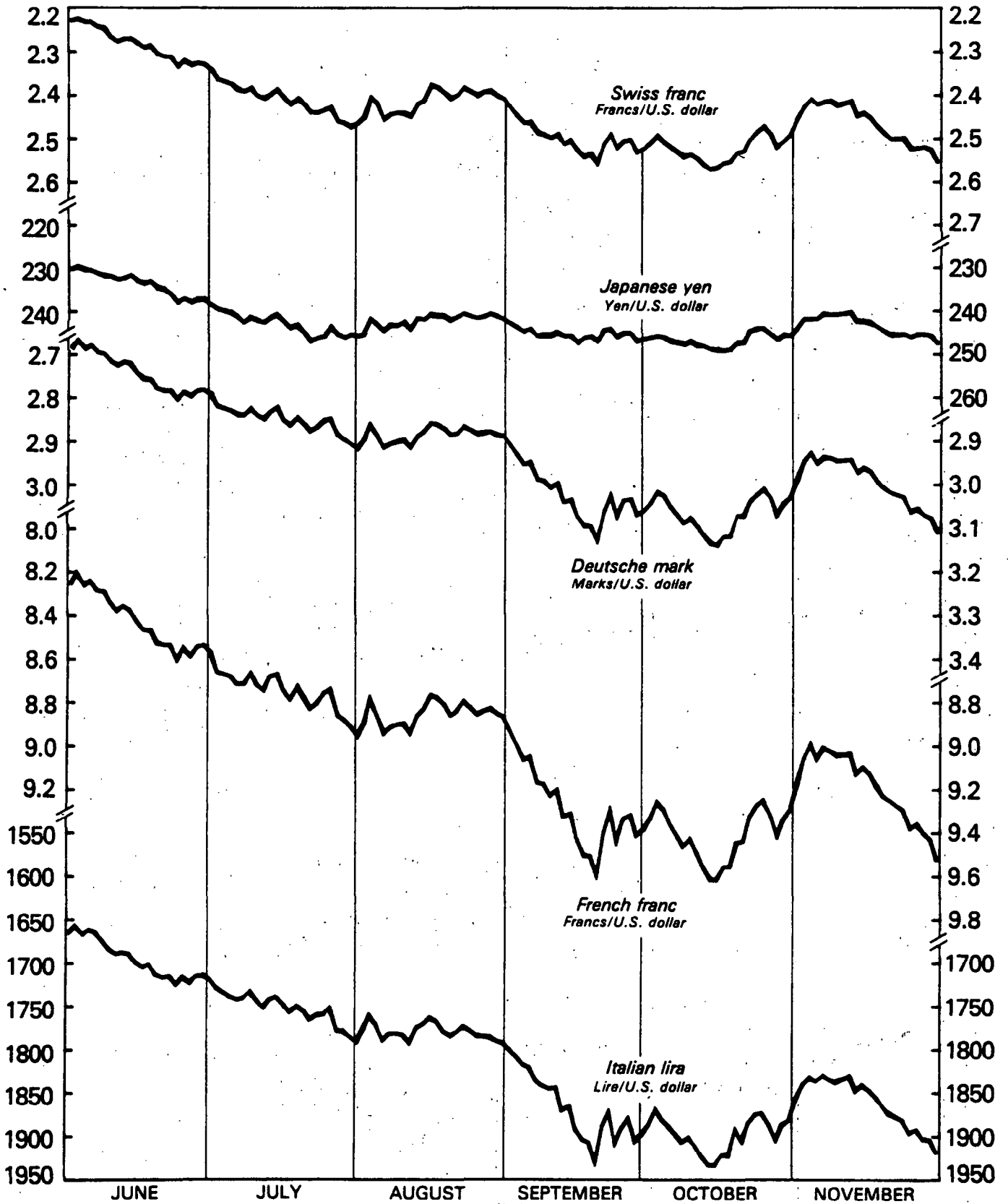
(Based on noon quotations in London)





# CHART 3 SPOT EXCHANGE RATES

(Noon quotations in New York)



# CHART 4 SPOT EXCHANGE RATES

(Noon quotations in New York)

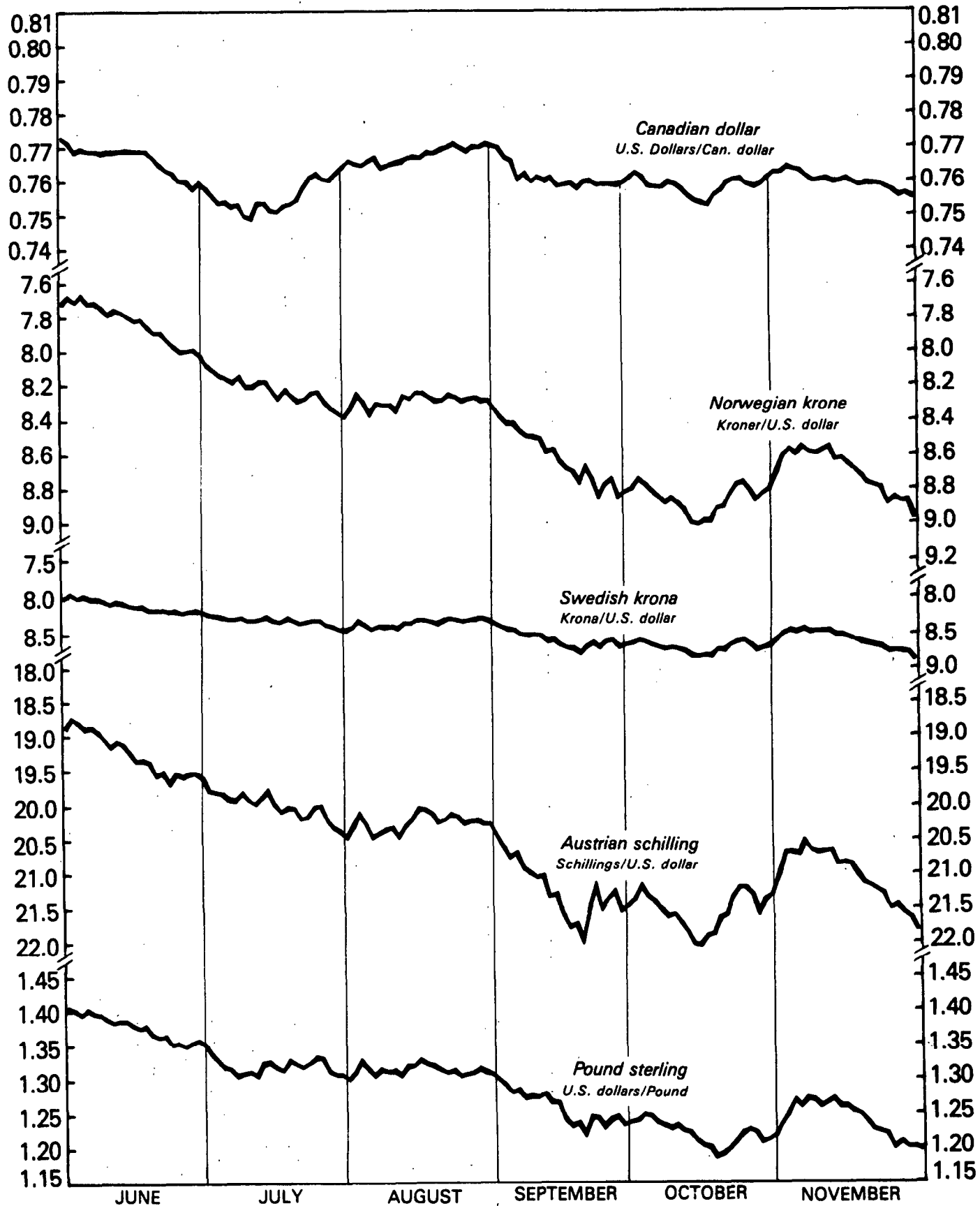
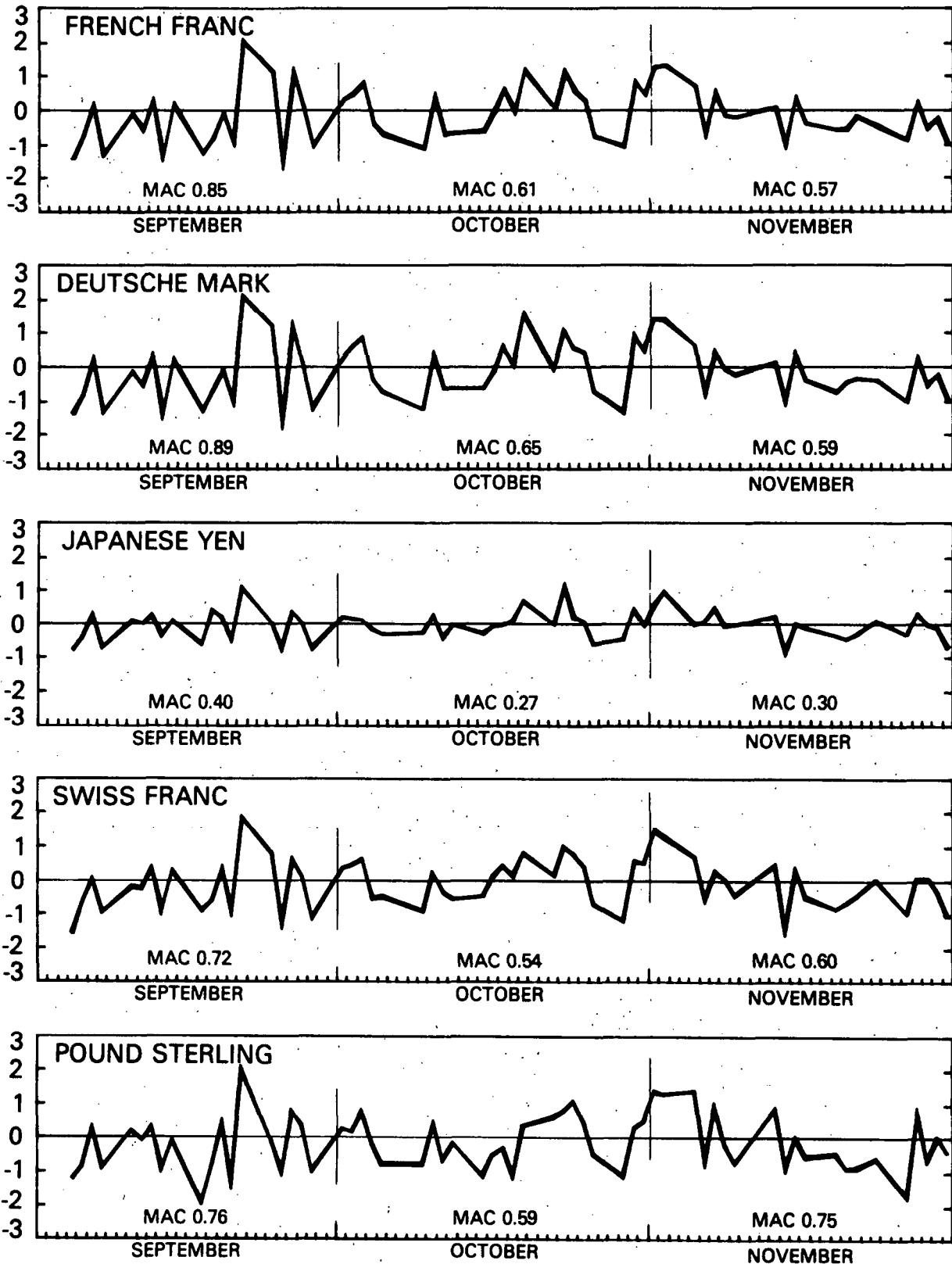


CHART 5

# DAILY CHANGES IN SPOT EXCHANGE RATES

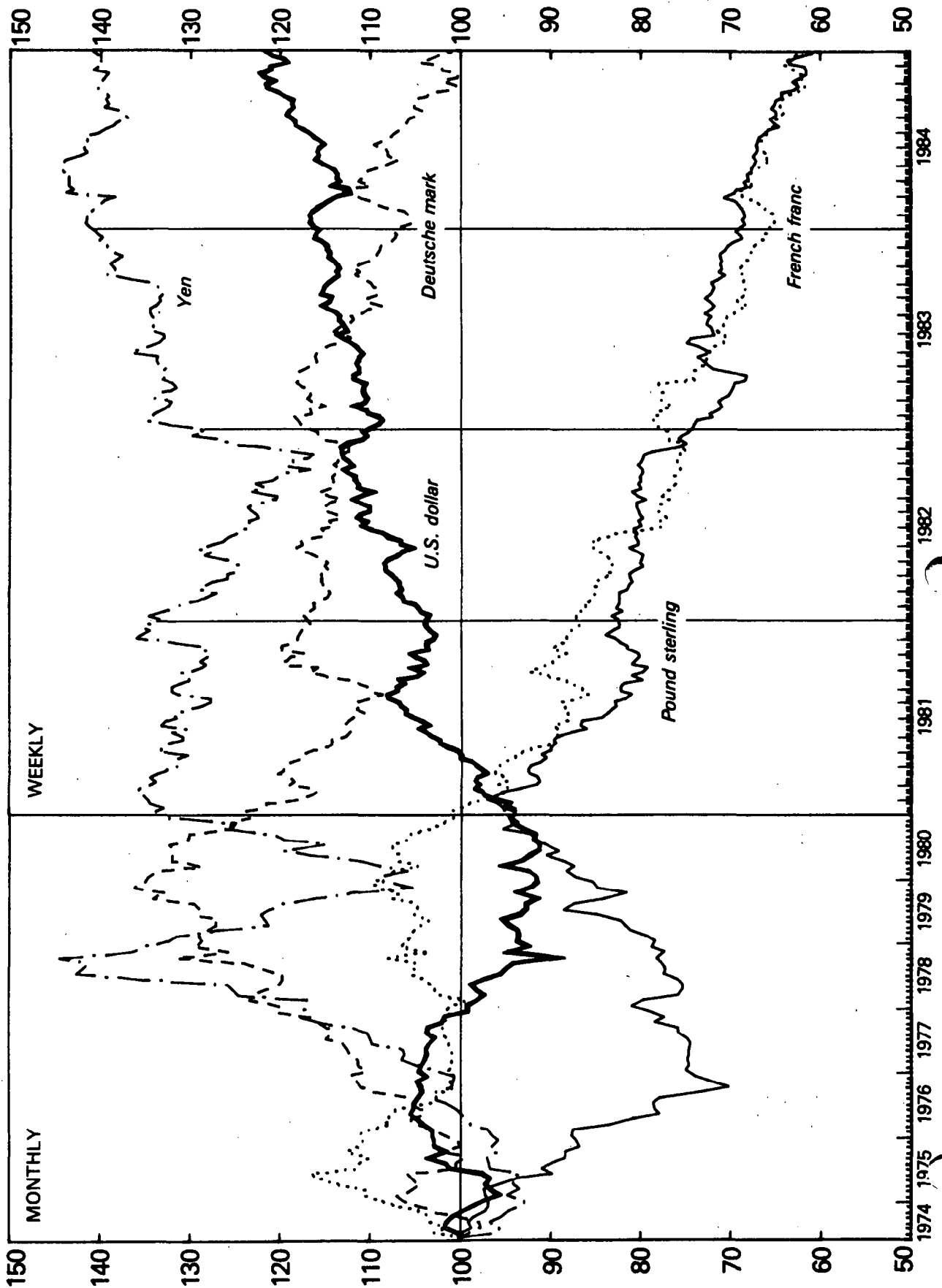
(In per cent against the U.S. dollar, based on noon quotations in New York)<sup>1</sup>



1984

<sup>1</sup>Monthly averages of absolute percentage changes (MAC) are also indicated.

CHART 6  
INDEXES OF EXCHANGE RATES OF  
FIVE MAJOR CURRENCIES AGAINST THE SDR  
JUNE 1974 - NOVEMBER 1984  
(June 28, 1974=100)



# CHART 7 SHORT-TERM MONEY MARKET RATES

(Per cent per annum)

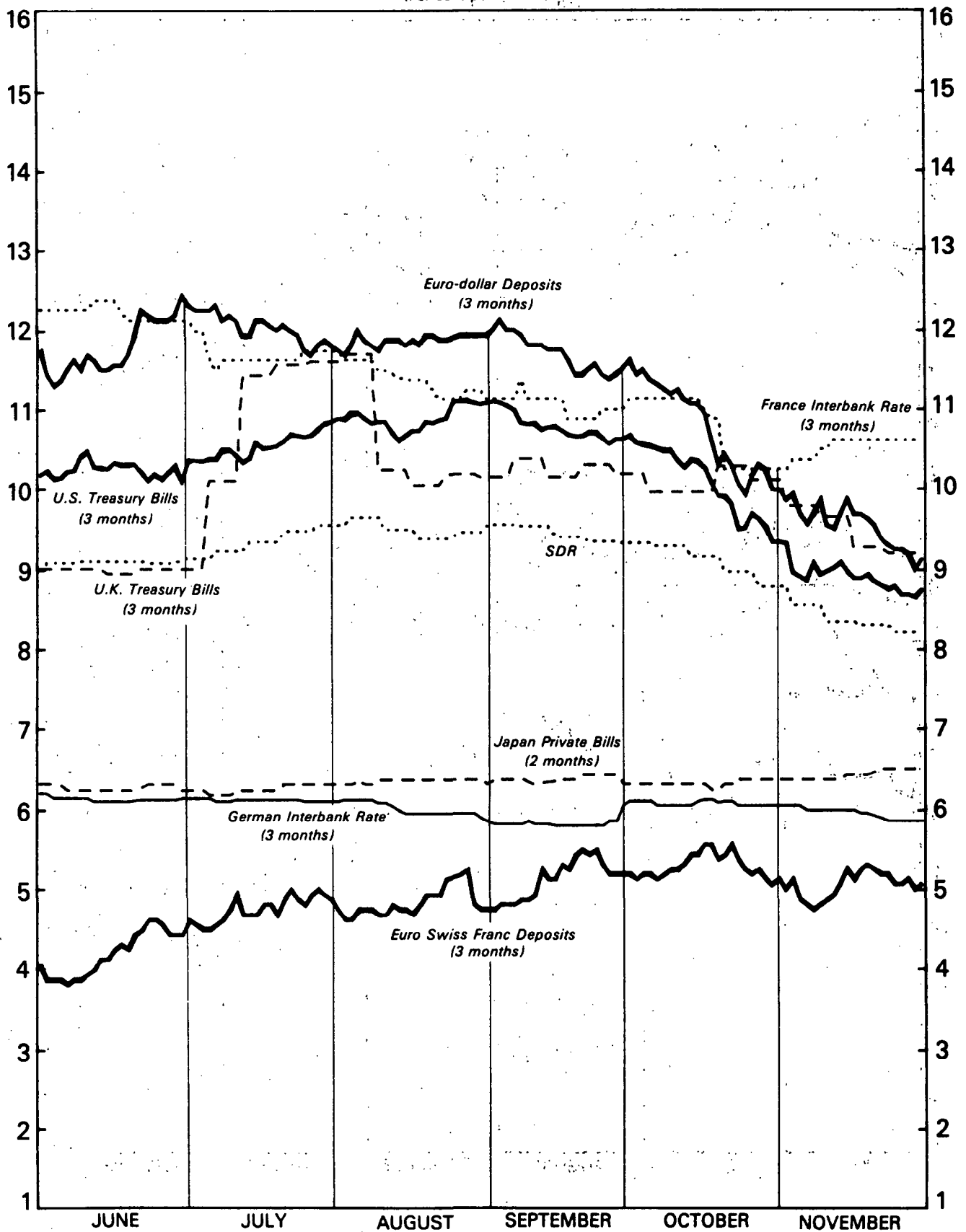


CHART 8

# THREE-MONTH FORWARD RATES

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

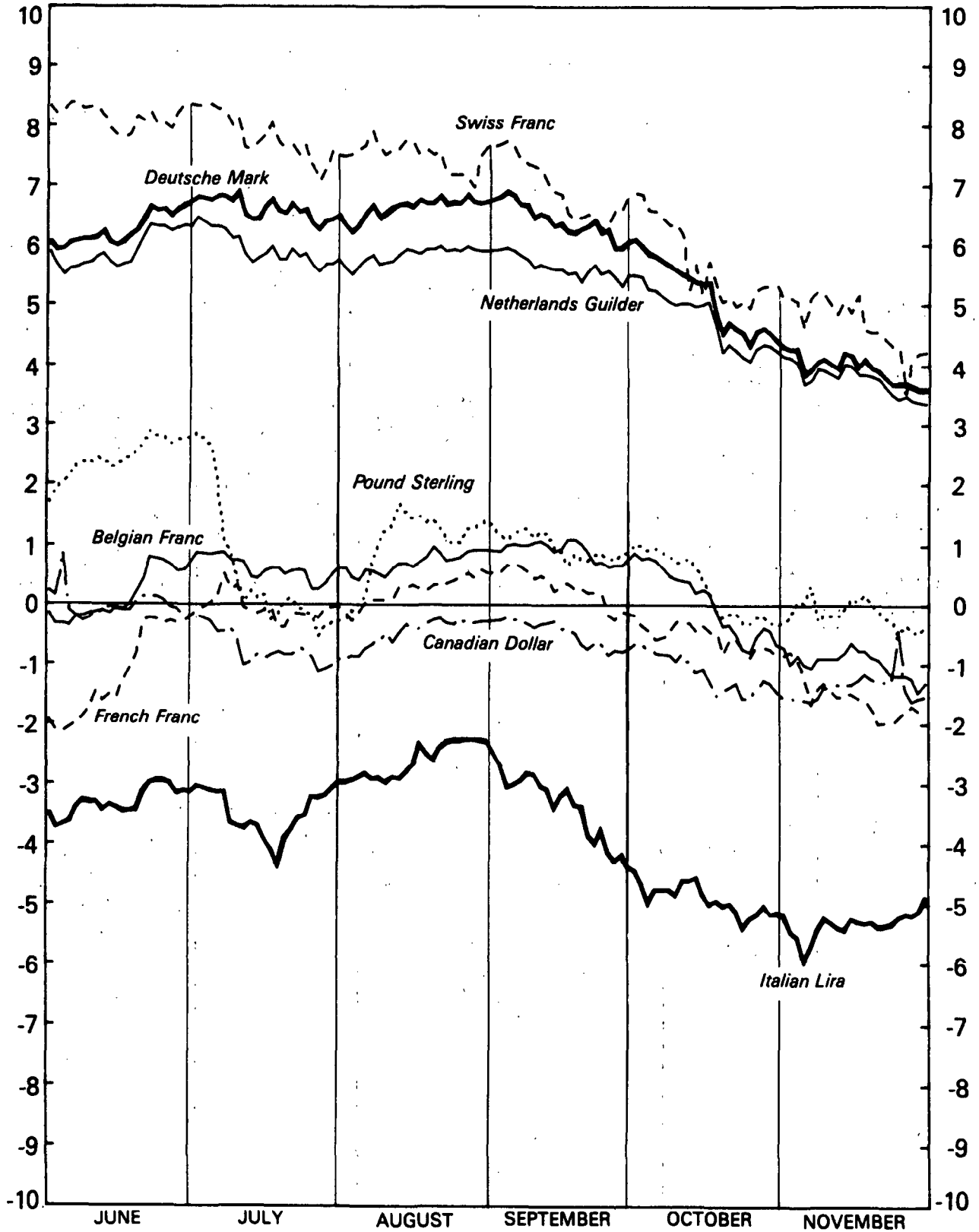
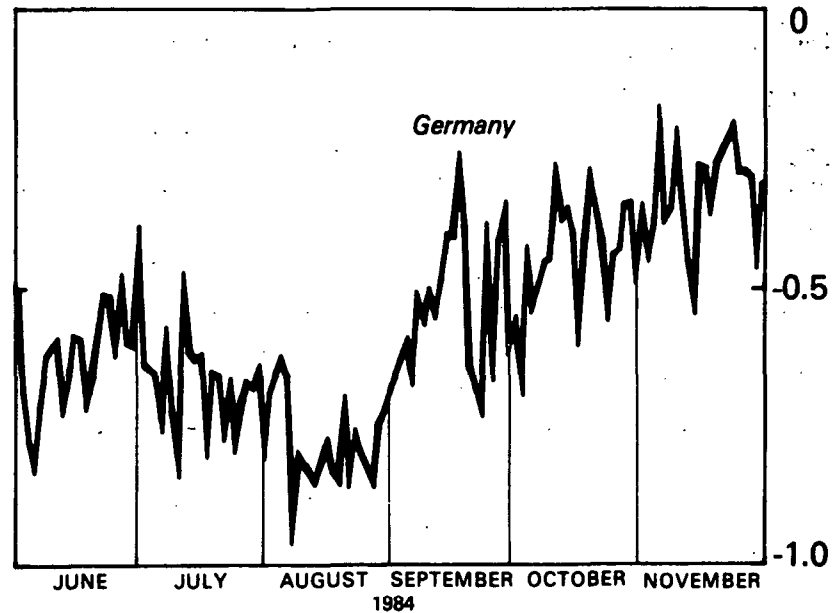
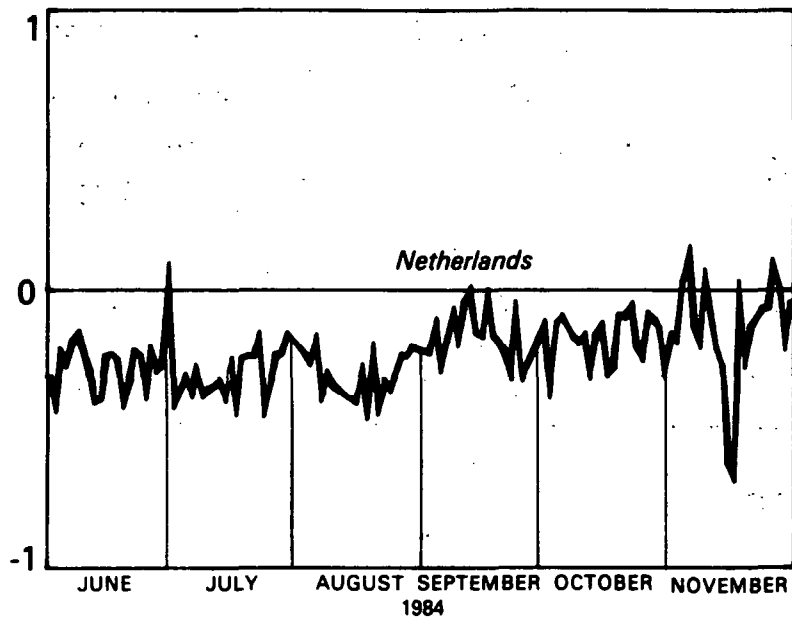
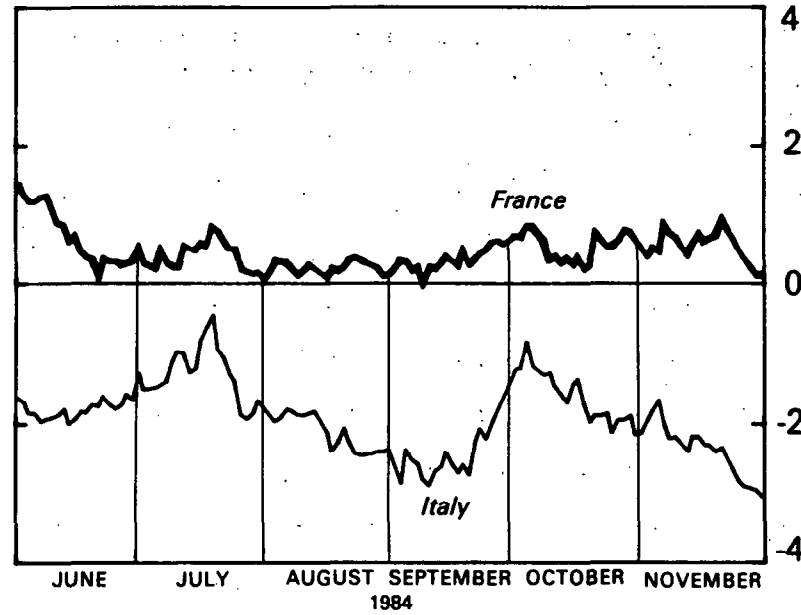
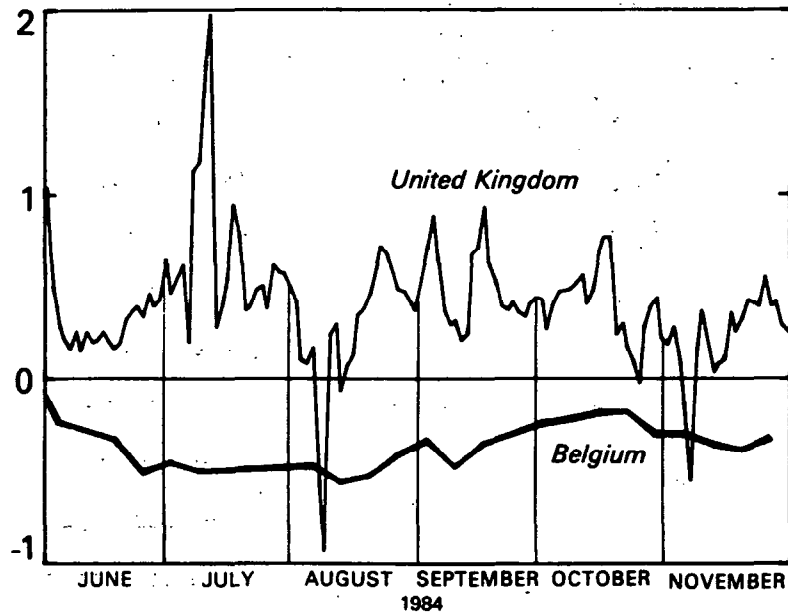


CHART 9

# 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, September-October 1984

	O c t o b e r					N o v e m b e r			
	3	10	17	24	31	7	14	21	28
Austrian schilling	21.1950	21.6000	21.9050	21.2100	21.3088	20.5400	20.8700	21.2000	21.5725
Belgian franc									
Official	61.190	62.125	62.990	61.210	61.230	59.425	59.975	60.780	61.800
Financial	61.775	62.825	63.500	62.865	61.675	59.445	60.250	61.105	62.305
Canadian dollars	0.76234	0.75953	0.75355	0.76011	0.76054	0.76269	0.75962	0.75904	0.75560
Danish kroner	10.9200	11.1095	11.2700	10.9250	10.9660	10.6155	10.7185	10.8965	11.0425
Deutsche mark	3.01550	3.07600	3.11950	3.02285	3.03000	2.93775	2.97250	3.01800	3.07075
French francs	9.2575	9.4250	9.5525	9.2738	9.2925	9.0075	9.1260	9.2500	9.4050
Irish pounds	1.0273	1.0093	0.9940	1.0235	1.0165	1.0510	1.0440	1.0295	1.0135
Italian lire	1869.00	1901.50	1921.00	1874.00	1881.50	1829.500	1847.000	1873.500	1903.000
Japanese yen	245.70	246.97	249.05	244.09	245.65	240.750	242.400	245.500	245.400
Netherlands guilder	3.3985	3.4675	3.5175	3.4100	3.4190	3.3115	3.3495	3.4043	3.4645
Norwegian kroner	8.7500	8.8615	8.9950	8.7825	8.8095	8.5605	8.6325	8.7750	8.8780
Pounds sterling	1.2498	1.2335	1.2006	1.2223	1.2190	1.2725	1.2610	1.2275	1.2015
Swedish kroner	8.5825	8.6885	8.7850	8.6125	8.6585	8.4415	8.5215	8.6390	8.7385
Swiss francs	2.49400	2.53625	2.55700	2.48425	2.49300	2.41550	2.44850	2.50100	2.51950

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															
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
Nov.	8.92	6.04	9.50	10.69	6.43	8.32	9.56	5.76	9.91	11.12	6.42	5.07	9.90	11.77	11.33
1983 Week ending:															
Oct. 7	8.95	6.27	9.12	12.78	6.83	8.56	9.50	5.81	9.47	14.68	6.71	3.94	9.69	11.00	11.15
14	9.14	6.28	9.02	12.74	6.83	8.65	9.71	5.81	9.38	14.89	6.56	4.02	9.85	11.00	11.36
21	8.86	6.27	9.04	12.57	6.89	8.50	9.56	5.76	9.28	14.35	6.43	4.17	9.75	11.00	11.20
28	8.99	6.26	9.04	12.42	6.38	8.48	9.65	5.81	9.37	13.16	6.42	4.34	9.84	11.00	11.39
Nov. 4	8.92	6.28	9.04	12.50	6.38	8.46	9.75	5.89	9.31	13.23	6.42	4.14	9.94	11.00	11.42
11	9.11	6.35	9.01	12.55	6.38	8.57	9.90	5.98	9.31	13.12	6.45	4.14	10.11	11.00	11.50
18	9.15	6.38	9.02	12.55	6.38	8.60	9.85	6.14	9.34	13.05	6.44	4.13	10.06	11.00	11.42
25	9.13	6.43	9.06	12.55	6.38	8.60	9.80	6.89	9.33	13.02	6.45	4.13	10.06	11.00	11.35
Dec. 2	9.23	6.52	9.05	12.32	6.38	8.64	9.84	6.21	9.32	13.06	6.68	4.15	10.09	11.00	11.38
9	9.32	6.55	9.07	12.29	6.38	8.70	10.01	6.30	9.32	12.93	6.61	4.21	10.31	11.00	11.52
16	9.45	6.58	9.09	12.34	6.38	8.79	10.39	6.43	9.49	13.14	6.70	4.63	10.59	11.00	11.62
23	9.35	6.61	9.11	12.42	6.38	8.73	10.29	6.33	9.51	13.74	6.67	4.56	10.46	11.00	11.55
30	9.31	6.56	9.03	12.42	6.38	8.70	9.92	6.03	9.39	13.44	6.41	3.96	10.21	11.00	11.54
1984 Week ending:															
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	9.03	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
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	12.61	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
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	9.53	11.89	5.73	12.14	12.05	6.40	4.90	12.53	13.00	13.03
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
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
Oct. 5															