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Treasurer's Department

Foreign Exchange and Financial Markets in April 1985

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Exchange rates for major currencies against the U.S. dollar continued to display marked volatility in April although the end-month to end-month changes were small compared with the sharp monthly movements recorded in February and March. Central bank intervention in April was minimal compared with the reported sale of \$11 billion concentrated in the mid-February to early-March period to stem the U.S. dollar's rising value against other currencies. The dollar's erratic movements in April were partly attributable to fluctuating views by market participants on the likely course of U.S. interest rates. For the month as a whole, most currencies eased slightly against the U.S. dollar, except for the Swiss franc, which was unchanged, and the pound sterling and the Canadian dollar, which both firmed slightly. The U.S. dollar firmed 0.45 percent in effective (MERM) terms and was essentially unchanged against the SDR. Over the past 12 months the U.S. dollar was the only major currency to firm in effective (MERM) terms (over 13 percent) while the Italian lira was the weakest on this basis, easing by 5.7 percent (see Table 1 and Charts 1, 3 and 4).

Chronologically in April, the U.S. dollar rebounded from its sharp depreciation of the previous month in generally light trading early in the month ahead of the Easter weekend. After the holiday, however, renewed weakness was sparked by nervousness over the possible repercussion of the failure of another small U.S. financial institution and was reinforced by indications that U.S. economic growth might be faltering causing U.S. interest rates to decline. The dollar depreciated especially sharply following the announcement on April 18 that the first quarter real GNP grew at only a 1.3 percent annual rate compared with the preliminary "flash" estimate of 2.1 percent made in March. After the ensuing weekend, however, the currency rebounded once again, in part because of comments made by U.S. Federal Reserve Chairman Volcker that U.S. dependence on foreign capital inflows makes declines in U.S. interest

rates difficult to achieve. Over the last three trading days in April, a part of this latter appreciation was retraced thereby establishing little net change for the month in the exchange rate for the dollar against the other major currencies.

Table 1. Changes in Exchange Rates in April 1985 ^{1/}

(In percent)

	Monthly exchange rate changes			Changes in effective exchange rate since April 1984
	Against U.S. dollar ^{2/}	Against SDR ^{3/}	Effective exchange rate ^{4/}	
Belgium	-0.76	-0.29	+0.01	-0.18
Denmark	-1.54	-1.64	-1.35	-1.34
France	-0.48	-0.45	-0.75	-3.34
Germany	-0.50	+0.10	+0.31	-2.34
Ireland	-0.09	-0.04	+0.36	-1.45
Italy	-0.63	+0.44	+1.09	-5.74
Netherlands	-0.74	-0.39	-0.98	-4.25
Austria	-0.31	-0.21	+0.06	-2.66
Canada	+0.05	+0.08	+0.40	-0.76
Japan	-0.22	+0.11	+0.37	-4.01
Norway	-0.64	-0.41	-0.11	-4.55
Sweden	-1.08	-0.79	-0.44	-1.14
Switzerland	0.00	+1.25	+1.53	-4.09
United Kingdom	+0.42	+0.11	+0.37	-1.42
United States	--	+0.01	+0.45	+13.24

^{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.

Within the EMS, relative positions were little changed during April except that the Danish krone eased significantly more than the other currencies and was replaced at the top of the parity grid by the Irish pound. The Belgian franc remained at the bottom of the narrow band of the parity grid through most of the month but was occasionally replaced by the Netherlands guilder late in April. The divergence indicators for the Irish pound and the Danish krone were occasionally above their upper thresholds (see Chart 2). The spread in the parity grid remained significantly below the permitted 2.25 percent margin indicating an absence of speculative pressures within the System. The Italian lira was the weakest currency in the EMS during the month and ended April with a spread of 3.56 percent from the Irish pound. ^{1/} The Bank of Italy sold insignificant amounts of U.S. dollars at the fixing in Milan compared with sales of about \$400 million and about DM 270 million during March to moderate the lira's depreciation. The EMS currencies eased by 0.09-0.76 percent against the U.S. dollar over the month, except for the Danish krone which eased by 1.54 percent.

The volatility of exchange rate movements against the U.S. dollar, as indicated by certain measures in Table 2, declined somewhat from the extremely high levels of March but continued to be very substantial even though most currencies displayed relatively small end-month to end-month changes against the U.S. dollar. The high-low spreads for the EMS currencies declined to 6.1-6.8 percent from 8.0-11.8 percent in March. The high-low spreads for the other currencies also declined, in many cases to about half their March levels. The largest spreads in April continued to be recorded for the Swiss franc and the pound sterling while the smallest spread continued to be recorded by the Canadian dollar. The average absolute daily percentage changes (MAC in Table 2 and Chart 5) declined only moderately, reflecting the marked intra-month volatility of exchange rates in April. For the EMS currencies, these measures declined to 0.76-0.88 percent from 0.90-0.96 percent in March, and similar degrees of reduction were recorded for the other currencies. As with the high-low spread measure, the Swiss franc and the pound sterling were the most volatile currencies on the basis of the MAC measure while the Canadian dollar was the least volatile.

The largest changes in gross foreign exchange reserves in the latest month were increases posted by Norway (over \$1.2 billion), Germany, Sweden and the United States (March). Significant reserve declines were recorded by Denmark, Switzerland and Canada (see Table 3). Over the past 12-month period, large reserve declines were recorded by Germany (over \$8 billion) and the Netherlands while significant increases were posted by Norway, Japan and France.

^{1/} The Italian lira is permitted a 6 percent spread above (below) the weakest (strongest) currency in the narrow band of the EMS exchange arrangements.

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

	April 2/		High-low spread in percent 3/		MAC 4/	
	High	Low	Mar.	Apr.	Mar.	Apr.
Belgium	60.075	63.925	11.6	6.4	0.96	0.86
Denmark	10.7300	11.4100	11.5	6.3	0.90	0.85
France	9.0800	9.7000	11.5	6.8	0.91	0.86
Germany	2.9780	3.1770	11.3	6.7	0.96	0.88
Ireland	1.0515	0.9845	11.6	6.8	0.92	0.84
Italy	1907.0	2024.0	8.0	6.1	0.95	0.76
Netherlands	3.3685	3.5855	11.8	6.4	0.96	0.86
Austria	20.9025	22.255	11.1	6.5	0.93	0.84
Canada	.74038	0.72622	2.4	1.9	0.34	0.23
Japan	247.35	255.40	4.2	3.3	0.46	0.39
Norway	8.6750	9.1375	10.4	5.3	0.79	0.75
Sweden	8.7600	9.1700	9.0	4.7	0.77	0.67
Switzerland	2.4755	2.6865	12.6	8.5	0.93	0.89
United Kingdom	1.29425	1.1945	17.2	8.4	1.23	1.10

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 April 1985 ^{1/}

(In millions of U.S. dollars)

	End-month reserve level	Change in April	Change over 12 months
Belgium	3,803	+87	+358
Denmark	3,063	-520	-45
France (March)	19,602	+100	+1,071
Germany	32,828	+727	-8,110
Ireland (March)	2,723	+193	+87
Italy	16,894	+157	-375
Netherlands	7,404	+33	-1,301
Austria	3,210	+144	-462
Canada	1,985	-380	+248
Japan	22,782	+303	+1,603
Norway	10,796	+1,218	+3,515
Sweden	3,910	+692	+664
Switzerland	12,191	-401	-140
United Kingdom	7,476	+456	-300
United States (March)	7,041	+740	+221

^{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 in April

The U.S. dollar firmed by 0.45 percent in effective (MERM) terms and was essentially unchanged against the SDR although intra-month volatility was high, as explained above. Among factors contributing to periods of marked appreciation in exchange rates against the U.S. dollar in April were indications that U.S. economic growth may be faltering contributing to the interest rate developments outlined in Section II. For example, real GNP grew at an annual rate of only 1.3 percent in the first quarter of 1985 compared with the "flash" estimate of 2.1 percent made in March. Industrial production, seasonally adjusted, rose 0.3 percent in March following a downward-revised fall of 0.2 percent in February and was up only 2.9 percent year-on-year. Industrial capacity utilization was unchanged in March at 80.8 percent and the civilian unemployment rate was unchanged in April at 7.3 percent.

The index of leading economic indicators fell 0.2 percent in March following a downward-revised rise of 0.5 percent in February. The trade deficit narrowed slightly to \$11.05 billion in March from \$11.45 billion in February and the Federal budget deficit also narrowed slightly to \$28.46 billion from \$28.56 billion in March 1984. The producer price index rose 0.3 percent in April but was up only 0.7 percent year-on-year.

The Deutsche mark eased by 0.50 percent against the U.S. dollar but firmed by 0.31 percent in effective (MERM) terms. Germany's industrial production, seasonally adjusted, rose 0.1 percent in March following a 0.3 percent fall in February and was up 2.6 percent year-on-year. The unemployment rate declined to 9.3 percent in April from 10.0 percent in March due to seasonal factors. The current account surplus widened to DM 2.7 billion in March from DM 2.3 billion in February. The wholesale price index rose 1.0 percent in March and 2.6 percent year-on-year while the producer index rose 0.2 percent in April (the same as in March) and was up 2.8 percent over April 1984.

The French franc eased by 0.48 percent against the U.S. dollar and 0.75 percent in effective (MERM) terms. The number of persons unemployed in France, seasonally adjusted, declined by 0.2 percent in March. Industrial production, seasonally adjusted, rose 4.7 percent in February and was up 1.5 percent year-on-year. The trade deficit, seasonally adjusted, narrowed sharply to F 567 million in March from F 6.5 billion in February. Industrial wholesale prices rose 0.3 percent in March and were up 8.2 percent year-on-year.

The Belgian franc eased by 0.76 percent against the U.S. dollar but was essentially unchanged in effective (MERM) terms. The franc remained the weakest currency in the narrow band of the EMS parity grid throughout most of April. Belgium's industrial production, seasonally adjusted, rose by 9.9 percent in February (after falling by 11.0 percent in January) but declined by 0.2 percent year-on-year. The unemployment rate fell to 13.0 percent at the end of April from 13.8 percent at the end of March, largely because of relaxation of registration rules for long-term unemployed persons over the age of 50 years. The wholesale price index fell 0.2 percent in March but was up 1.8 percent year-on-year.

The Netherland's guilder eased by 0.74 percent against the U.S. dollar and 0.98 percent in effective (MERM) terms and replaced the Belgian franc at the bottom of the narrow band of the EMS parity grid on occasions late in the month. The Netherlands' industrial production, seasonally adjusted, fell 1.9 percent in February but was up 5.0 percent year-on-year while the number of persons unemployed, seasonally adjusted, declined 0.5 percent in April. The trade surplus widened to f. 1.4 billion in February from f. 900 billion in January and f. 600 million in February 1984.

The Danish krone eased by 1.54 percent against the U.S. dollar and 1.35 percent in effective (MERM) terms but remained one of the strongest currencies in the EMS. Denmark's unemployment rate, seasonally adjusted, rose to 9.8 percent in February from 9.6 percent in January. The trade

deficit widened to DKr 2.05 billion in March from DKr 972 million in February and DKr 487 million in March 1984. The wholesale price index rose 0.8 percent in March and was up 6.0 percent year-on-year.

The Irish pound eased by only 0.09 percent against the U.S. dollar and firmed by 0.36 in effective (MERM) terms; the currency was occasionally at the top of the parity grid late in April. Ireland's trade surplus, seasonally adjusted, widened to the equivalent of \$160.5 million in March from the equivalent of \$88 million in February. The wholesale price index rose 0.7 percent in January and was up 5.6 percent year-on-year.

The Italian lira eased by 0.63 percent against the U.S. dollar but firmed by 1.09 percent in effective (MERM) terms. The lira remained the weakest currency in the EMS in April although the level of sales of U.S. dollars and Deutsche mark by the Bank of Italy at the fixings in Milan were sharply reduced from the substantial levels recorded in March. Italy's industrial production rose 3.1 percent year-on-year in March following a rise of 1.7 percent year-on-year in February and a fall of 2.7 percent year-on-year in January. The unemployment rate rose to 10.8 percent in January from 10.2 percent in October but declined from 11.0 percent recorded in January 1984. The trade deficit widened to Lit 3,157 billion in February from Lit 1,392 billion in the same month of 1984. The wholesale price index rose 0.8 percent in February and was up 7.9 percent year-on-year.

The pound sterling firmed by 0.42 percent against the U.S. dollar and 0.37 percent in effective (MERM) terms. U.K. industrial production, seasonally adjusted, fell 0.2 percent in February (following an upward-revised rise of 1.5 percent in January) but was up 0.9 percent year-on-year. The unemployment rate, seasonally adjusted, rose to 13.1 percent in April from 13.0 percent in March. The current account balance swung into a deficit, seasonally adjusted, of £456 million in March from a surplus of £131 million in February, in part due to a surge in oil imports. The Public Sector Borrowing Requirement was £2.46 billion in March; for the full fiscal year it was £10.1 billion or the equivalent of 3.1 percent of GDP. Producer output prices rose 1.1 percent in April and 5.5 percent year-on-year while input costs fell 2.5 percent and their rise was reduced to 6.0 percent year-on-year.

The Swiss franc was unchanged against the U.S. dollar and firmed by 1.53 percent in effective (MERM) terms. Switzerland's unemployment rate fell to 1.1 percent in March from 1.2 percent in February. The trade deficit narrowed to Sw F 922.8 million in April from Sw F 994.6 million in March but widened from Sw F 638.1 million recorded in April 1984. The wholesale price index rose 0.1 percent in April (the same as in March) and was up 3.4 percent year-on-year.

The Japanese yen eased by 0.22 percent against the U.S. dollar but firmed by 0.37 percent in effective (MERM) terms. The Japanese Government said that by July it would have worked out details of a three-year program

to provide other countries with improved access to Japanese markets. The measures are expected to include some tariff reductions, liberalization of test requirements for medical products and permission for internal Japanese use of large international size containers. Prime Minister Nakasone also urged Japanese to be receptive toward foreign produced goods in a nationally-televised address. Japan's unemployment rate was unchanged in March at 2.8 percent while industrial production, seasonally adjusted, fell 1.1 percent in March but was up 5.2 percent year-on-year. The current account surplus, seasonally adjusted, narrowed to \$2.5 billion in March from \$2.67 billion in February while the trade surplus, seasonally adjusted, widened to \$2.88 billion in April from \$2.52 billion in March. Japan's wholesale price inflation rate remained negligible like that in the United States; the wholesale price index fell by 0.4 percent in April (after falling by 0.3 percent in March) and rose only 0.6 percent year-on-year.

The Canadian dollar firmed by 0.05 percent against the U.S. dollar and by 0.40 percent in effective (MERM) terms. Canada's real GDP, seasonally adjusted, rose by 0.2 percent in February (the same as in January) and was up 4.9 percent year-on-year while industrial production, seasonally adjusted, declined by 0.3 percent after falling 0.8 percent in January. The trade surplus, seasonally adjusted, widened to Can\$2.23 billion in March from Can\$1.70 billion in February. The unemployment rate, seasonally adjusted, declined to 10.9 percent in April from 11.2 percent in March.

The Austrian schilling eased by 0.31 percent against the U.S. dollar but firmed marginally in effective (MERM) terms. Austria's unemployment rate fell to 5.0 percent in April from 5.9 percent in March but rose from 4.7 percent recorded in April 1984. The wholesale price index rose 0.1 percent in April and 4.6 percent year-on-year. The Norwegian krone eased by 0.64 percent against the U.S. dollar and 0.11 percent in effective (MERM) terms. Norway's unemployment rate fell to 3.3 percent in April from 3.6 percent in March and 4.1 percent recorded in April 1984. The trade surplus narrowed slightly to Nkr 3.67 billion in April from Nkr 3.68 billion in April 1984. The Swedish krona eased by 1.08 percent against the U.S. dollar and 0.44 percent in effective (MERM) terms. Sweden's industrial production, seasonally adjusted, declined by 1.1 percent in February but was up 5.4 percent year-on-year. The producer price index rose 0.7 percent in March and 7.3 percent year-on-year.

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

Money market conditions tended to ease in the major industrial countries in April. Short-term interest rates declined in most countries, generally representing a continuation of an easing of these rates from the previous month. While one exception was Germany, the decline in German interest rates in April more than offset their rise in the previous month.

Short-term interest rates in the United States eased through most of April, firming somewhat towards the end of the month but still remaining well below their end-March levels. As new data were released over the first three weeks of April, evidence mounted that the U.S. economy had slowed down sharply in the first quarter. Particularly significant was the release of first quarter real GNP data on April 18 showing much weaker-than-expected growth of only 1.3 percent at an annual rate compared with the preliminary "flash" estimate of 2.1 percent and the 1984 fourth quarter rate of 4.3 percent. Weaker-than-expected U.S. economic growth, and the subsequent effect of raising market expectations that the Federal Reserve would be more likely to ease its degree of restraint on the availability of bank reserves as a result of the sluggish economic growth, helped to push short-term interest rates down. Toward the end of April rates firmed, however, as market sentiment appeared to change under the influence of statements by Federal Reserve Chairman Volcker concerning the difficulty of reducing interest rates with such high Federal budget deficits to finance. Another reinforcing factor was the release of U.S. consumer price data showing a 0.5 percent increase in March which dampened expectations that the Federal Reserve had room to ease its policy. A growing belief that U.S. economic growth would pick-up significantly in the second quarter also appeared to help move interest rates higher. The Federal funds rate eased from over 8 1/2 percent at the end of March and into early April to below 8 percent in the April 18-24 period and then firmed to average 8.34 percent for the remainder of the month. For April as a whole the average Federal funds rate was 8.27 percent compared with an average rate of 8.58 percent for the previous month. The yield on three-month U.S. Treasury bills fell from 8.46 percent at the end of March to a low of 7.92 percent on April 22 and then firmed to close the month at 8.12 percent, a 0.34 percentage point decline in April. The rate on 90-day CDs similarly eased in April, falling from 8.78 percent at end-March to a low of 8.17 percent on April 23 and closing the month at 8.33 percent. Yields on U.S. Treasury securities with maturities from one to ten years eased by progressively smaller margins in the 0.24-0.50 percentage point range, with the five-year constant maturity rate falling from 11.29 percent at end-March to 10.91 percent at end-April. The M1 measure of the U.S. money supply, seasonally adjusted, averaged \$575.2 billion in the week ended April 29 compared with \$572.9 billion in the week ended March 25. The annual growth rate from the fourth quarter of 1984 base period was about 8 1/2 percent, above the 4-7 percent target range for the year.

Among the countries participating in the exchange arrangements of the European Monetary System, short-term interest rates eased in France, Belgium, and Germany. The three-month interbank money rate in France eased by 0.25 percentage point in April to close the month at 10.52 percent, thus extending the 0.13 percentage point decline of the previous month. The Bank of France cut its money market intervention rate by 1/4 percentage point on April 25 to 10 1/4 percent. The intervention rate had fallen from 12 percent in May 1984 to 10 1/2 percent at the beginning of 1985, and the latest cut is expected to be followed by a new round of cuts in the base lending rates of French commercial banks;

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>	March	April
Austria	April	4.6 (5.3)	3.8 (3.6)	4.50	4.50
Belgium	Mar./Apr.	1.7 (3.0)	5.5 (5.7)	10.70	10.10
Canada	Feb./Mar.	3.1 (3.3)	3.7 (3.7)	10.35	9.85
Denmark	February	5.8 (5.2)	5.3 (5.8)	7.00	7.00
France	March	8.2 (9.0)	6.4 (6.4)	10.77	10.52
Germany	Mar./Apr.	2.6 (1.5)	2.5 (2.5)	6.39	6.03
Italy	Feb./Apr.	7.9 (8.1)	8.8 (8.6)	15.56	15.38
Japan	Apr./Mar.	0.6 (0.9)	1.6 (1.4)	6.38	6.38
Netherlands	Dec./Apr.	3.7 (4.1)	2.5 (2.4)	6.81	6.94
Norway	April	-- (--)	5.4 (--)	8.00	8.00
Sweden	March	7.3 (--)	8.1 (8.8)	9.50	9.50
Switzerland	April	3.4 (3.5)	3.6 (3.9)	5.56	5.25
United Kingdom	Apr./Mar.	5.5 (5.5)	6.1 (5.4)	12.64	12.24
United States	Apr./Mar.	0.7 (0.3)	3.7 (3.5)	8.46	8.12

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.

base lending rates were last reduced by 1/2 percentage point to 11 1/2 percent in January. Short-term interest rates also continued to ease in Belgium. The rate of interest on one-month Treasury bills was reduced by 0.20 percentage point in the first week of April to 10 1/4 percent. This reduction was followed by cuts of 1/4 percentage point on one-month bills and cuts of 0.20-0.25 percentage point on two- and three-month bills in each of three subsequent weeks, so that the rate of interest on one-month bills closed April at 9 1/2 percent and on two- and three-month bills at 9 3/4 percent. The rate of interest on Belgium's four-month Fonds des Rentes certificates was also lowered on three occasions during April to close the month at 10.10 percent compared with 10.70 percent at the end of March. The reductions in Belgian interest rates were reportedly taken to bring the rates into line with declines in short-term rates in other currencies, mainly U.S. dollars. In Germany, the three-month interbank deposit rate fell by 0.36 percentage point in April to close the month at 6.03 percent, more than offsetting the 0.15 percentage point decline in the previous month. Germany's central bank money stock, seasonally adjusted, grew at a 4.4 percent annual rate through April from the fourth quarter of 1984 base period, within the 3-5 percent target range through the fourth quarter of 1985.

Among the other major countries, short-term interest rates eased in Canada and the United Kingdom but were unchanged in Japan. The rate for two-month (private) bills in Japan was 6.38 percent at the end of April, the same as at the end of the previous month. Japan's broadly defined money supply M2+CDs rose 7.9 percent in March from its year-earlier level, after an identical year-on-year rise in February. In Canada, short-term interest rates appeared to move broadly in line with rates in the United States. The three-month Canadian Treasury bill rate fell from 10.35 percent at the end of March to a low of about 9.50 percent after mid-April and then firmed toward the end of April to close the month at 9.85 percent; the Canadian Treasury bill rate thus declined by 0.50 percentage point from end-March to end-April. Most Canadian banks lowered their prime lending rates to 11 percent from 11 1/4 percent around mid-month. In the United Kingdom, the major clearing banks cut their base lending rates at different times during the month. Early in April the range of base rates for the major banks narrowed to the 13-13 1/4 percent range from 13-13 1/2 percent. Some major banks cut further their base rates on April 12 while others did so on April 19, leaving base rates generally in the range of 12 1/2-12 3/4 percent. The Bank of England also cut its money market dealing rates for most maturities by 1/2 percentage point on April 19. The yield on three-month U.K. Treasury bills fell from 12.64 percent at end-March to 12.27 percent on April 12 and then to 11.97 percent on April 19; the yield firmed toward the end of the month to close at 12.24 percent, still 0.40 percentage point below the end-March level. The latest Bank of England data (released in May) show that sterling M3, seasonally adjusted, rose by an estimated 2 3/4-3 percent in the four weeks to April 17, following a 1.0 percent rise in the four weeks to March 20. This brought sterling M3 growth since mid-February 1984 to around 12 percent, well above the top of the target range of 6-10 percent growth for the 14-month period started in February 1984.

In other domestic interest rate developments, the National Bank of Denmark on April 3 lowered its second tranche lending rate to banks from 5 percent to 3 percent above its official discount rate, while its first credit tranche rate was kept unchanged. Ireland's central bank on April 12 cut its short-term facility lending rate to commercial banks to 13 1/2 percent from 14 percent, and on April 19 the rate was cut again to 12 3/4 percent. Major Swiss banks cut their customer time deposit rates by 1/4 percentage point to 4 3/4 percent, effective April 17.

In the eurocurrency markets, three-month interest rates eased for all the major currencies in April, with the euro-sterling and eurodollar rates falling by 0.44 percentage point and 0.37 percentage point, respectively, to 12.75 percent and 8.69 percent. The euro-French franc rate posted the next largest decline, easing by 0.32 percentage point to 10.56 percent, followed by the euro-Swiss franc rate which eased by 0.31 percentage point to 5.25 percent. The euro-Deutsche mark rate fell by 0.06 percentage point to 5.88 percent and the euro-yen rate fell by 0.03 percentage point to 6.31 percent.

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

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)	
	March	April	March	April	March	April
Belgium	-1.64	-1.41	-1.24	-0.68	-0.40	-0.73
France	-1.71	-1.83	-1.89	-1.86	+0.18	+0.03
Germany	+2.67	+2.66	+3.16	+2.98	-0.49	-0.32
Italy	-6.50	-6.69	-5.31	-4.20	-1.19	-2.49
Japan	+2.68	+2.31	+2.81	+2.50	-0.13	-0.19
Netherlands	+2.25	+1.75	+2.51	+1.68	-0.26	+0.07
United Kingdom	-3.58	-3.55	-3.88	-3.77	+0.30	+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, Japanese yen, and the Netherlands guilder. The discounts against the U.S. dollar narrowed for the Belgian franc, the French franc, the Italian lira, and the pound sterling. As a result of the above-mentioned movements in interest differentials and forward exchange quotations, the covered interest differentials favoring eurodollar investment narrowed for France and the United Kingdom. The covered interest differentials favoring domestic investments widened for Belgium, Italy, and Japan but narrowed for Germany and switched for the Netherlands from favoring domestic investment at the end of March to favoring eurodollar investment at the end of April.

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

The SDR interest rate fell to 8.09 percent for the week beginning April 29 from 8.64 percent for the week beginning March 25 (see Table 6). Among the component rates, the three-month U.S. Treasury bill rate posted the largest decline, easing by 0.74 percentage point, followed by the three-month U.K. Treasury bill rate which eased by 0.53 percentage point. Yields on the relevant instruments in France and Germany also eased, by 0.38 percentage point and 0.35 percentage point respectively, and the yield on the relevant Japanese instrument fell 0.13 percentage point. The rate of remuneration paid on creditor positions in the Fund (90 percent of the SDR interest rate) fell to 7.28 percent in the last two days of April from 7.78 percent in the last week of March; the rate of remuneration rose to 7.42 percent, effective May 1, as a result of raising the remuneration coefficient from 90 percent to 91.66 percent.

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

	March 25	April				
		1	8	15	22	29
SDR interest rate	8.64	8.41	8.38	8.27	8.07	8.09
Rate of remuneration	7.78	7.57	7.54	7.44	7.26	7.28 ^{2/}

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

^{2/} The 7.28 percent applies through April 30 only. The rate for May 1-5 was 7.42 percent.

Combined domestic interest rates eased by 0.48-0.57 percentage point (see Table 7). Yields on the relevant instruments in the United States eased by 0.62-0.83 percentage point and those in the United Kingdom eased by 0.31-0.80 percentage point. In Germany and France, yields on

the relevant instruments fell by 0.32-0.45 percentage point and 0.13-0.29 percentage point respectively, except for the two and a half-year French rate which firmed marginally, while Japanese rates fell by 0.02-0.13 percentage point except for the 12-month rate which firmed slightly.

Combined eurocurrency offered rates eased by 0.38-0.50 percentage point. Eurodollar rates eased by 0.56-0.75 percentage point and euro-sterling rates eased by 0.25-0.94 percentage point. Other eurocurrency rates also eased; rates on euro-French franc declined by 0.38-0.50 percentage point, those on euro-Deutsche mark by 0.06-0.13 percentage point and on euro-yen by 0.06 percentage point.

Average interest rates on SDR-denominated deposits of selected commercial banks eased by 0.34-0.64 percentage point. Average deposit rates in April ranged from 8.08 percent for one-month deposits to 8.74 percent for 12-month deposits.

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

	March	April
Combined market interest rates: <u>2/</u>		
a. Based on domestic rates		
3-month maturity (Rule T-1)	8.52	8.04
6-month maturity	8.88	8.38
12-month maturity	9.13	8.56
2-1/2 year maturity	9.88	9.38
5-year maturity	10.25	9.75
b. Based on eurocurrency offered rates		
3-month maturity	8.88	8.50
6-month maturity	9.25	8.75
Average commercial bank deposit rates <u>3/</u>		
1-month deposits	8.42	8.08
3-month deposits	8.72	8.23
6-month deposits	8.98	8.38
12-month deposits	9.38	8.74

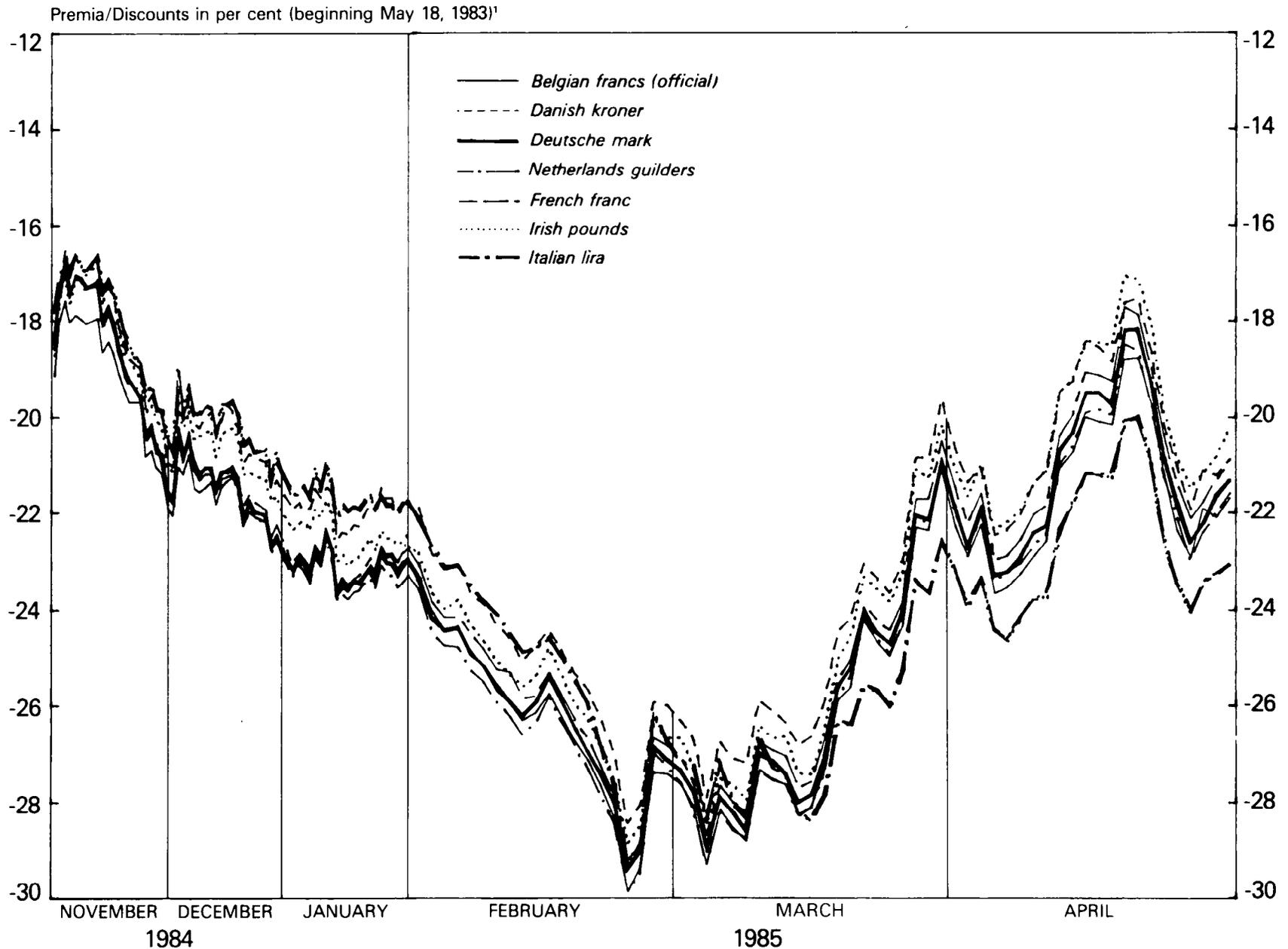
1/ Rates pertain to last Wednesday of the month.

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.

CHART 1
SPOT EXCHANGE RATES: EUROPEAN MONETARY SYSTEM

(Based on noon quotations in New York)



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)

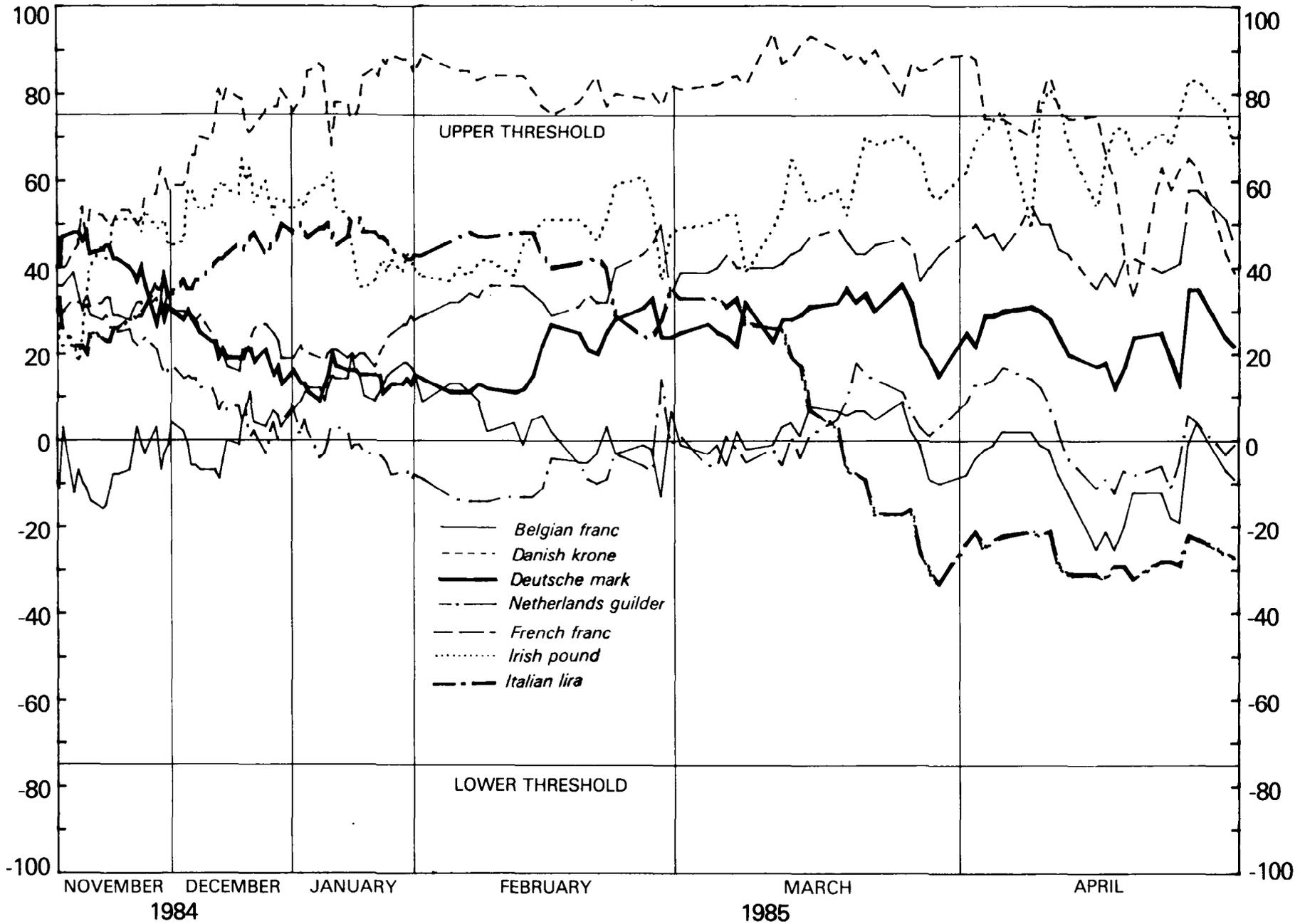


CHART 3 SPOT EXCHANGE RATES

(Noon quotations in New York)

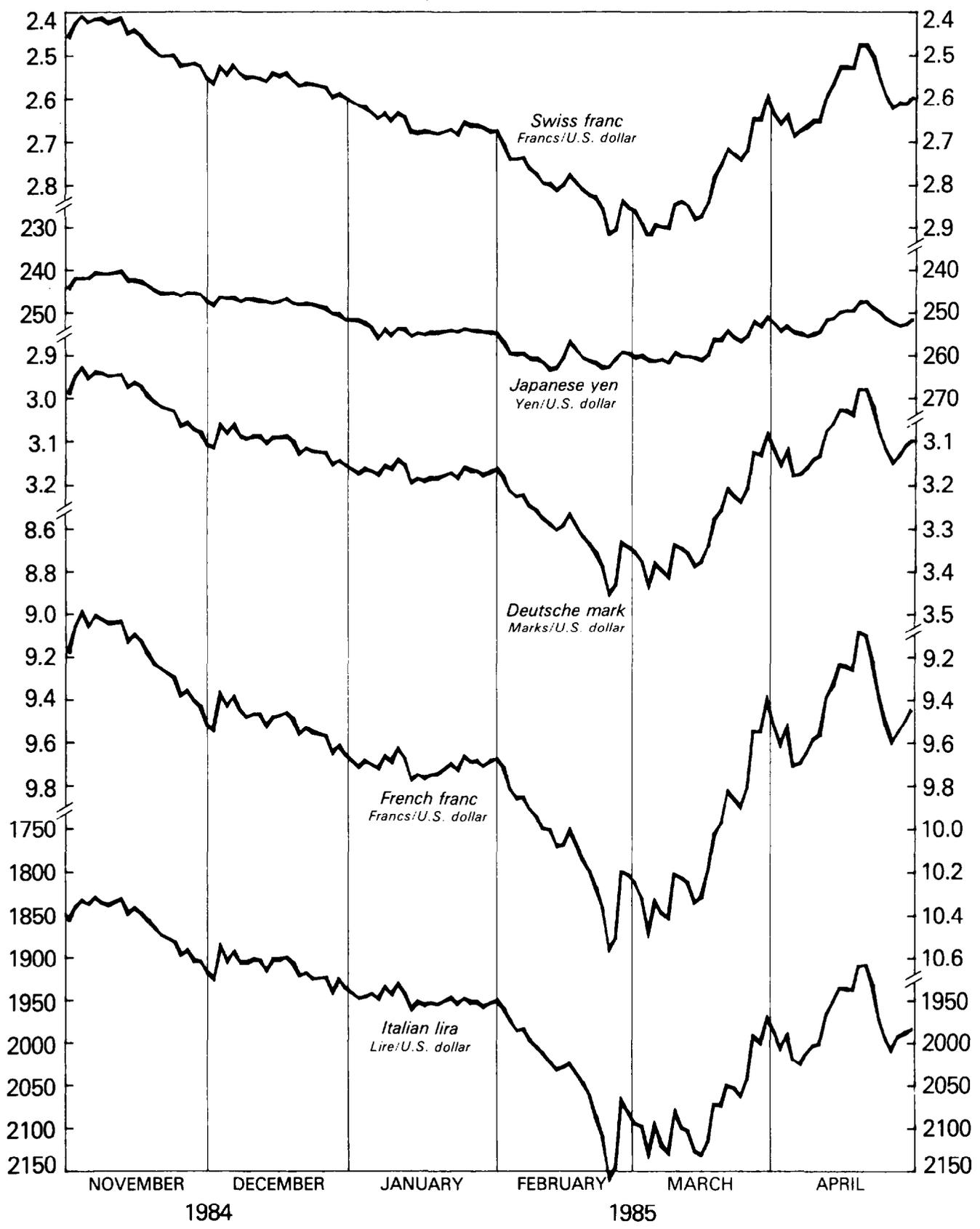


CHART 4 SPOT EXCHANGE RATES

(Noon quotations in New York)

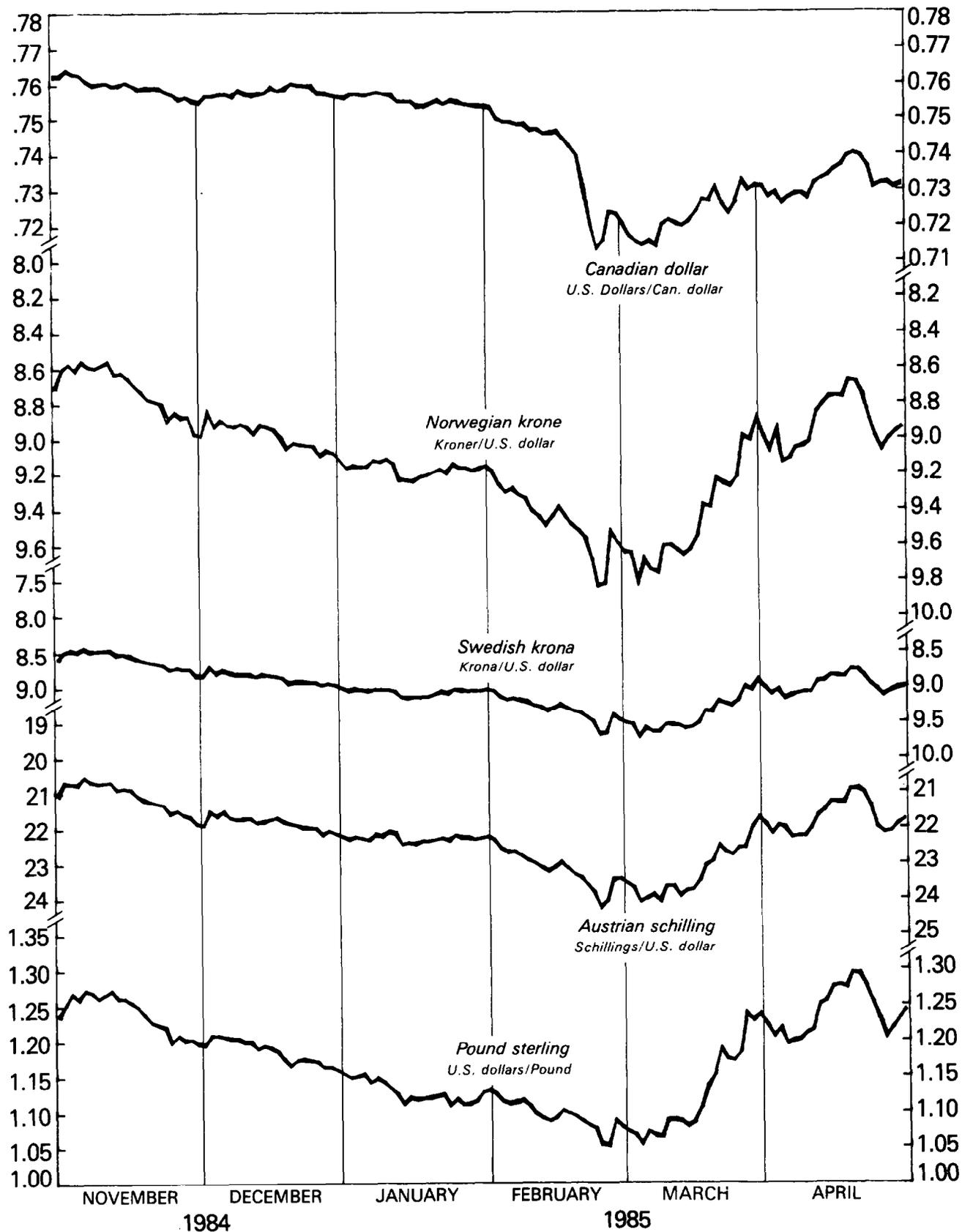
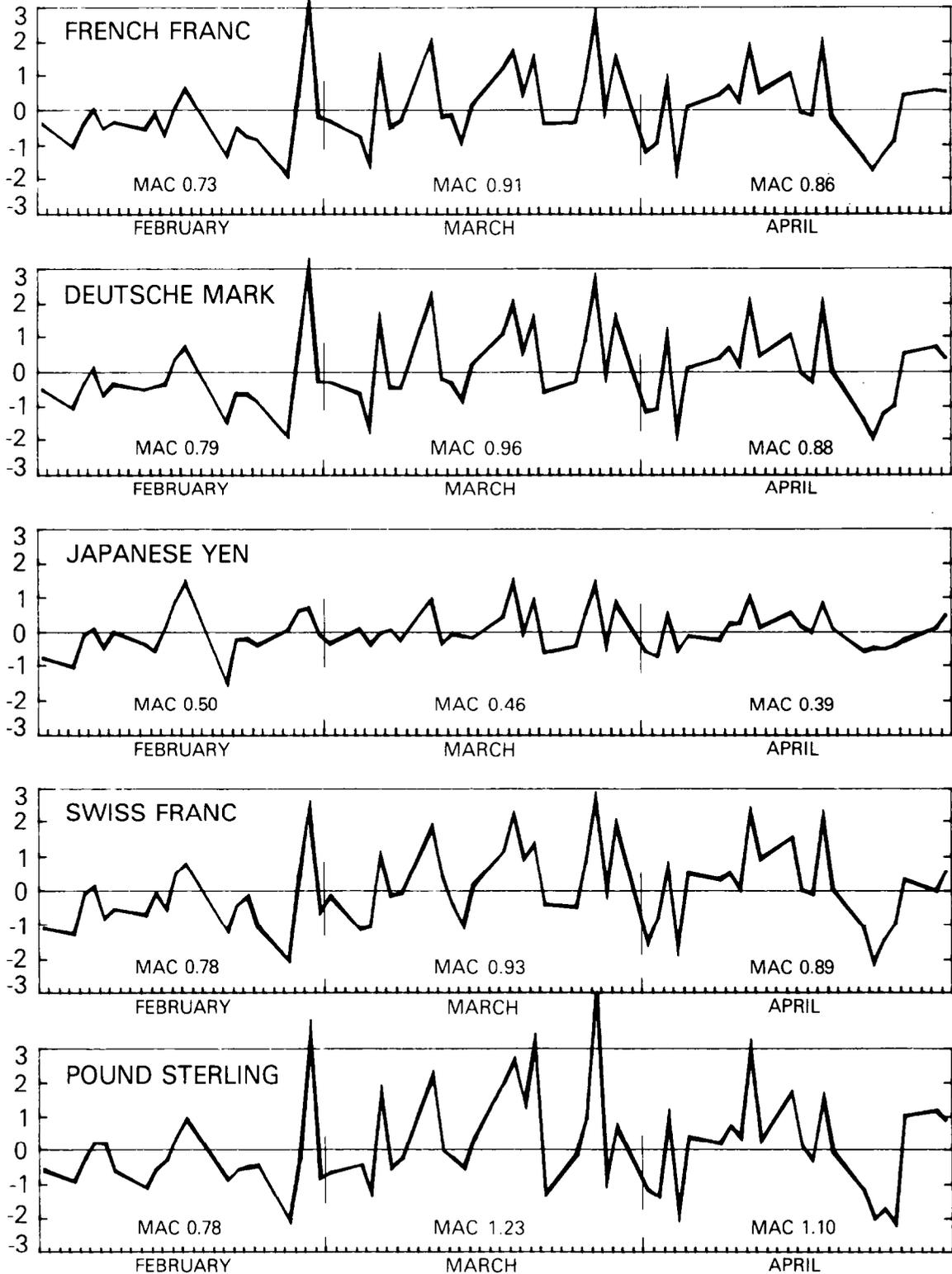


CHART 5

DAILY CHANGES IN SPOT EXCHANGE RATES

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



1985

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

INDEXES OF EXCHANGE RATES OF FIVE MAJOR CURRENCIES AGAINST THE SDR

JUNE 1974 - APRIL 1985
(June 28, 1974=100)

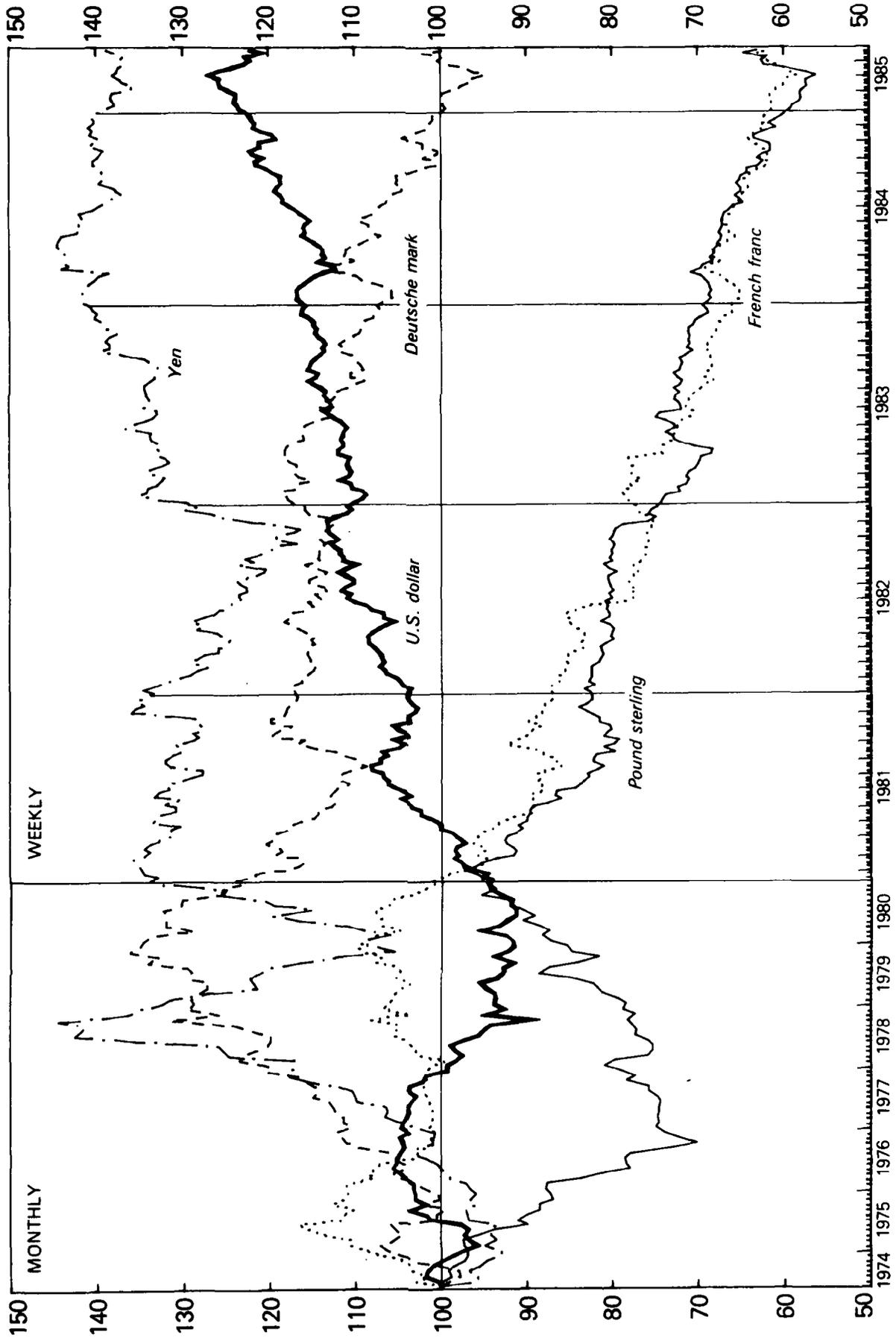


CHART 7 SHORT-TERM MONEY MARKET RATES

(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)

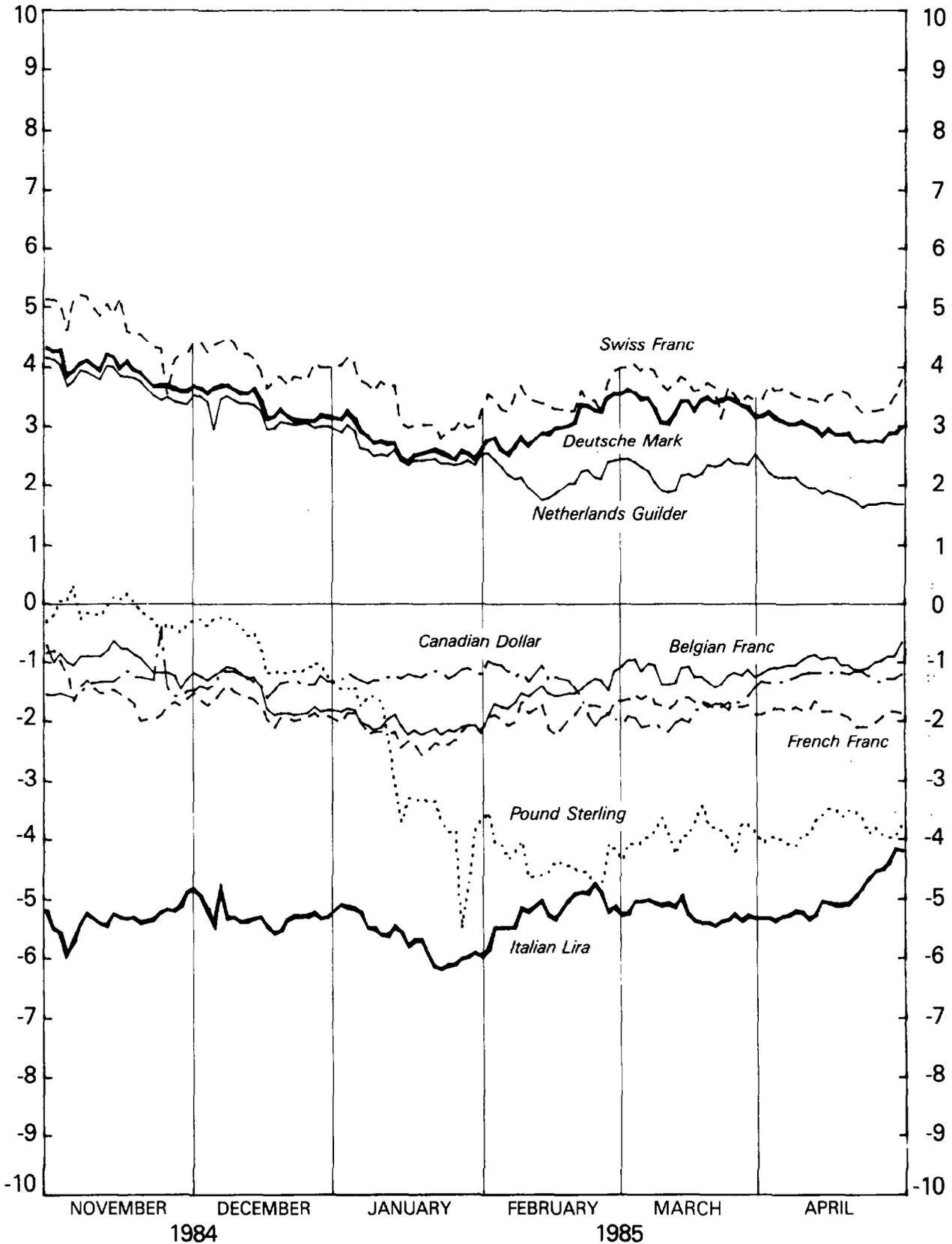
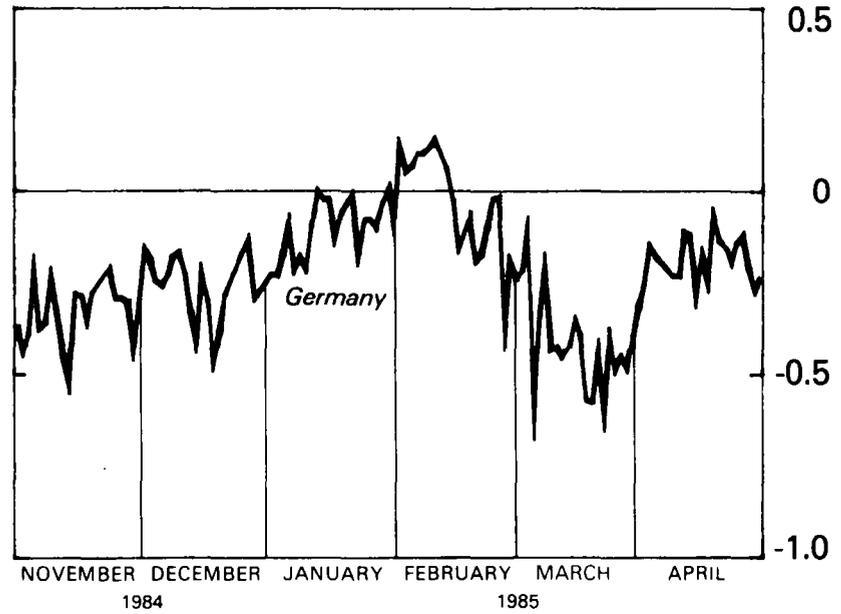
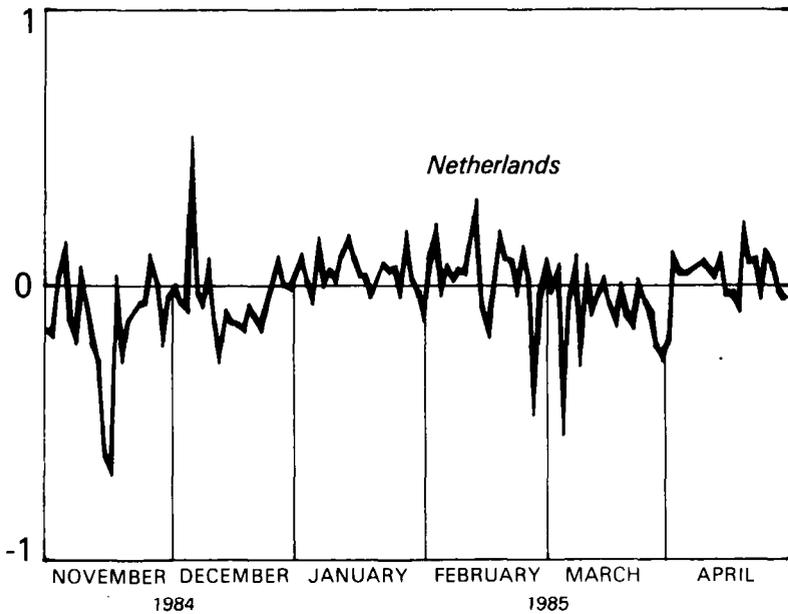
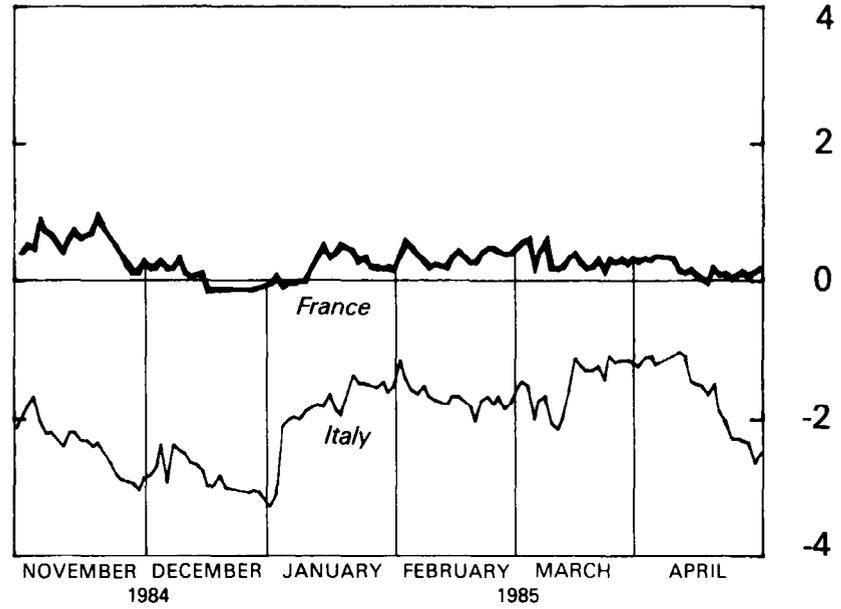
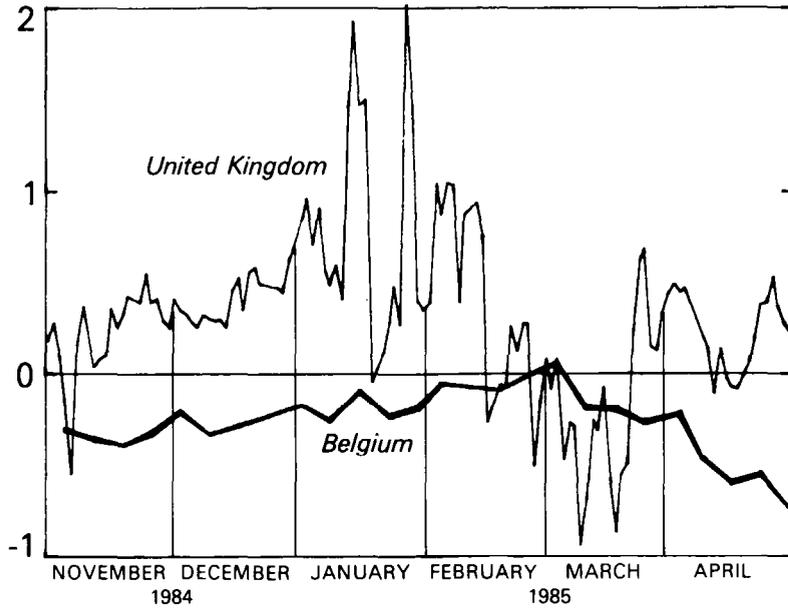


CHART 9

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-April 1985

	M a r c h				A p r i l			
	6	13	20	27	3	10	17	24
Austrian schilling	23.9600	23.9025	22.9125	22.5450	21.9300	22.0200	21.2700	21.9550
Belgian franc								
Official	67.950	67.440	65.600	62.800	62.750	63.025	61.135	62.850
Financial	68.300	67.840	66.000	63.500	63.000	63.400	61.425	63.170
Canadian dollars	0.71441	0.72046	0.72701	0.73287	0.72913	0.72780	0.73692	0.73099
Danish kroner	12.0800	12.0175	11.6660	11.1800	11.2100	11.2190	10.9030	11.2000
Deutsche mark	3.38000	3.35625	3.25700	3.12600	3.12050	3.13400	3.03600	3.11700
French francs	10.3300	10.2400	9.9700	9.5450	9.5275	9.5585	9.2550	9.5050
Irish pounds	0.9190	0.9300	0.9565	1.0005	1.0020	1.0005	1.0330	1.0038
Italian lire	2095.000	2102.000	2072.000	1991.500	1990.000	2000.000	1937.000	1992.500
Japanese yen	261.100	260.200	256.250	251.900	253.100	254.200	249.525	251.200
Netherlands guilder	3.8250	3.7945	3.6800	3.5335	3.5215	3.5395	3.4300	3.5240
Norwegian kroner	9.6825	9.6250	9.3850	8.9910	8.9550	9.0260	8.7710	8.9925
Pounds sterling	1.0730	1.0864	1.1515	1.2383	1.2170	1.2153	1.2743	1.2308
Swedish kroner	9.5950	9.5525	9.3575	8.9960	9.0400	9.0755	8.8725	9.0450
Swiss francs	2.89400	2.84850	2.75400	2.64875	2.64100	2.65150	2.53000	2.59350

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)

APPENDIX B

	Domestic Money Markets 1/					Eurocurrency Markets 2/					U.S. Treasury Securities 3/			
	United States (1)	Germany (2)	United Kingdom (3)	France (4)	Japan (5)	Combined Rate (6)	U.S. dollar (7)	Deutsche mark (8)	Three-month Sterling (9)	French franc (10)	Japanese yen (11)	LIBOR 3/ (12)	U.S. prime 4/ (13)	
1984														
Jan.	9.45	8.24	9.06	12.62	6.32	6.09	9.96	5.84	9.38	15.78	6.45	3.54	10.21	11.00
Feb.	9.68	5.94	8.81	12.72	6.38	8.85	10.45	5.67	8.98	15.57	6.38	3.61	10.81	11.21
Mar.	10.07	5.92	8.55	12.65	6.25	8.22	10.89	5.12	8.87	13.36	6.23	3.67	11.22	11.32
Apr.	10.22	6.18	8.97	12.32	6.24	9.07	11.00	5.66	9.37	12.77	6.35	3.90	12.18	12.39
May	10.26	6.22	8.99	12.39	6.28	9.11	11.24	5.88	9.51	12.91	6.29	4.19	12.44	13.48
June	10.32	6.21	10.04	11.87	6.26	9.29	12.07	5.83	11.38	12.13	6.31	4.25	12.73	13.60
July	10.29	6.16	10.25	11.51	6.28	9.15	11.73	5.63	11.81	11.82	6.30	4.39	12.51	12.55
Aug.	10.29	6.16	10.25	11.51	6.28	9.15	11.73	5.63	11.81	11.82	6.30	4.39	12.51	12.55
Sept.	10.12	6.16	10.16	11.51	6.28	9.15	11.73	5.63	11.81	11.82	6.30	4.39	12.51	12.55
Oct.	8.32	6.06	9.50	10.69	6.23	8.43	9.36	5.75	9.91	11.32	6.42	5.07	9.90	11.27
Nov.	8.34	6.06	9.29	10.83	6.21	7.98	9.04	5.65	9.80	10.81	6.31	4.97	9.51	11.07
Dec.	8.34	6.06	9.29	10.83	6.21	7.98	9.04	5.65	9.80	10.81	6.31	4.97	9.51	11.07
1985														
Jan.	8.02	5.95	10.61	10.60	6.29	7.89	8.34	5.77	11.04	10.71	6.31	5.12	8.91	10.61
Feb.	8.55	6.24	13.07	10.79	6.45	8.27	9.11	6.19	13.74	11.06	6.42	5.72	9.59	10.50
Mar.	8.42	6.26	13.55	10.85	6.24	8.31	8.76	6.18	15.62	11.11	6.41	5.80	9.24	10.50
Apr.	8.22	6.11	12.53	10.85	6.24	8.31	8.76	6.18	12.80	10.70	6.33	5.82	9.18	10.50
1984 week ending:														
Feb.	9.42	8.09	9.05	12.67	6.27	8.60	9.20	5.80	9.44	13.39	6.39	3.50	9.96	11.00
Mar.	9.42	8.09	9.05	12.67	6.27	8.60	9.20	5.80	9.44	13.39	6.39	3.50	9.96	11.00
Apr.	9.42	8.09	9.05	12.67	6.27	8.60	9.20	5.80	9.44	13.39	6.39	3.50	9.96	11.00
1984 week ending:														
Feb.	9.42	8.09	9.05	12.67	6.27	8.60	9.20	5.80	9.44	13.39	6.39	3.50	9.96	11.00
Mar.	9.42	8.09	9.05	12.67	6.27	8.60	9.20	5.80	9.44	13.39	6.39	3.50	9.96	11.00
Apr.	9.42	8.09	9.05	12.67	6.27	8.60	9.20	5.80	9.44	13.39	6.39	3.50	9.96	11.00
1985 week ending:														
Jan.	8.02	5.95	10.61	10.60	6.29	7.89	8.34	5.77	11.04	10.71	6.31	5.12	8.91	10.61
Feb.	8.55	6.24	13.07	10.79	6.45	8.27	9.11	6.19	13.74	11.06	6.42	5.72	9.59	10.50
Mar.	8.42	6.26	13.55	10.85	6.24	8.31	8.76	6.18	15.62	11.11	6.41	5.80	9.24	10.50
Apr.	8.22	6.11	12.53	10.85	6.24	8.31	8.76	6.18	12.80	10.70	6.33	5.82	9.18	10.50
1985 week ending:														
Jan.	8.02	5.95	10.61	10.60	6.29	7.89	8.34	5.77	11.04	10.71	6.31	5.12	8.91	10.61
Feb.	8.55	6.24	13.07	10.79	6.45	8.27	9.11	6.19	13.74	11.06	6.42	5.72	9.59	10.50
Mar.	8.42	6.26	13.55	10.85	6.24	8.31	8.76	6.18	15.62	11.11	6.41	5.80	9.24	10.50
Apr.	8.22	6.11	12.53	10.85	6.24	8.31	8.76	6.18	12.80	10.70	6.33	5.82	9.18	10.50

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 (a) and the value in terms of the \$M of a unit of that currency as determined by the Fund under Rule (b)(2)(A) and (b). The interest rates and the respective bank money market rate in Germany (3d), and market yield for three-month U.S. Treasury bills (0.25d), three-month Eurocurrency (four-month private) bills in Japan (3d), and market yield for three-month U.K. Treasury bills (0.071d) in France (0.25d), three-month 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).

2/ LIBOR is six-month euro-dollar offered rate in London.

3/ Prior lending rate of major New York banks. Weekly figures are averages of seven calendar days ending on Wednesday.

4/ Yield is adjusted to constant interest maturity by the U.S. Treasury and is based on only recently issued, actively traded securities. The interest rate paid to lenders and changes on drawings under the supplementary financing facility are based on this rate.

