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INTERNATIONAL MONETARY FUND

Treasurer's Department

Foreign Exchange and Financial Markets in January 1986

Prepared by Robert A. Feldman and Michael Blackwell

Approved by Edgardo Decarli

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In January the U.S. dollar depreciated sharply against the Japanese yen and, but to a lesser extent, against most other leading currencies. The U.S. currency did, however, appreciate against the pound sterling and the Canadian dollar which were, to varying degrees, adversely affected by a marked decline in world oil prices. The strength of the Japanese yen toward the end of the month appeared to contribute to a pronounced decline in short-term interest rates on yen-denominated instruments, with Japan's discount rate being cut by one-half percentage point. Short-term interest rates on other currencies, by comparison, either rose (notably on the Italian lira, the pound sterling, the Canadian dollar, and, in the euromarket, the French franc) or were little changed.

I. Foreign Exchange Markets

The U.S. dollar continued to ease against most other leading currencies in January for its fifth consecutive monthly decline. Up to the last two weeks of the month, however, the U.S. currency generally remained near or somewhat above its end-December levels. Comments by Japanese officials stressing a desire to see the yen stabilize gave temporary upward support to the U.S. dollar early in the month, after which favorable U.S. economic data released through around mid-month, particularly the strong employment figures, supported the dollar. Weaker economic data over the last two weeks of the month then renewed expectations of U.S. interest rate declines. A sharp downward revision of the "flash" estimate of fourth quarter U.S. real GNP growth triggered the dollar's fall, while later data showing a record U.S. trade deficit in December and weaker-than-expected leading indicators further contributed to the dollar's decline. Calls from various U.S. officials for an even lower dollar and new statements by Japanese officials that a further appreciation of the yen to ¥ 190 per U.S. dollar would be acceptable also appeared to reinforce the dollar's decline. Over December as a whole, the U.S. dollar depreciated by 1.15 percent against the SDR and by 2.03 percent in effective (MERM) terms.

The pound sterling and the Canadian dollar were the only two major currencies to ease against the U.S. dollar in January. Expectations of declining oil prices and ultimately actual sharp price declines adversely affected the pound sterling on the exchange markets. Despite an increase in U.K. base rates and other U.K. interest rates as well (see Section IV) the pound sterling eased very sharply by 4.38 percent in effective (MERM) terms and by 2.28 percent against the U.S. dollar over the month as a whole. The Canadian dollar also continued to ease. The potential adverse effect of falling world oil prices on the Canadian economy, through such factors as falling foreign investment and a weakening of the financial condition of domestic banks with large energy sector exposure, seemed to contribute to the Canadian dollar's weakness. The Canadian dollar eased by 2.85 percent in effective (MERM) terms and by 1.80 percent against the U.S. dollar. The only other currency to ease in effective (MERM) terms was the Swedish krona, doing so by 0.49 percent, while against the U.S. dollar it firmed by 0.37 percent.

The Japanese yen appreciated by a sharp 4.07 percent against the U.S. dollar in January, while the other leading currencies firmed by 1.04-2.46 percent (see Table 1 and Charts 2, 4, and 5.) The currencies participating in the European Monetary System (EMS) firmed by 2.01-2.46 percent, except for the Danish krone and the Irish pound which firmed by 1.04-1.28 percent. The divergence indicators for the currencies in the EMS all remained within their thresholds throughout January (Chart 3), while the spread in the EMS parity grid remained below the permitted maximum 2.25 percent margin on most days in the month. The Deutsche mark and the Netherlands guilder alternated as the strongest currency, except on a few days mostly at the end of January when the French franc was the strongest currency. The Belgian franc remained the weakest currency in the EMS for most of the month, being replaced at times around the last week by the Irish pound. The Belgian Treasury on different occasions reportedly continued to sell foreign currencies to support the franc within the EMS. In other policy actions, Italy announced measures on January 16 to discourage speculation against the lira, including among others an increase in the interest rate on short-term Treasury bills (see Section IV). The lira's spread from the weakest currency in the EMS stood at 1.87 percent at the end of the month, compared with 1.65 percent at the beginning of the month and a low of 1.20 percent.

From its peaks of last February, the U.S. dollar has depreciated by over 20 percent in effective (MERM) terms through the end of January. The Japanese yen has risen by 37 percent against the U.S. dollar while both the Deutsche mark and the French franc have appreciated by around 44 percent and the pound sterling by 34 percent. Most of the Japanese yen's appreciation (25 percent) has taken place since late September when the G-5 Ministers agreed on coordinated efforts to encourage a lower dollar. The appreciation of the other G-5 currencies, by comparison, has been less marked since then, at around 19 percent for both the Deutsche mark and the French franc, and only 3 percent for the pound sterling (Table 2 and Chart 1).

Table 1. Changes in Exchange Rates in January 1986 1/

(In percent)

	Monthly exchange rate changes			
	Against U.S. dollar 2/	Against SDR 3/	Effective exchange rate 4/	Changes in effective exchange rate since January 1985
Belgium	+2.27	+1.86	+0.61	+5.16
Denmark	+1.04	+0.58	+0.06	+9.60
France	+2.46	+2.15	+1.29	+11.19
Germany	+2.36	+1.84	+0.89	+10.13
Ireland	+1.28	+0.68	+0.43	+10.24
Italy	+2.30	+1.87	+0.88	-1.85
Netherlands	+2.01	+1.55	+0.50	+10.75
Austria	+2.41	+2.01	+1.21	+12.11
Canada	-1.80	-2.92	-2.85	-13.57
Japan	+4.07	+3.34	+3.42	+19.42
Norway	+1.42	+0.65	+0.12	+4.62
Sweden	+0.37	+0.20	-0.49	+1.98
Switzerland	+1.68	+1.19	+0.11	+11.59
United Kingdom	-2.28	-3.34	-4.38	+4.52
United States	--	-1.15	-2.03	-15.79

1/ Positive signs 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.

Table 2. Changes in Selected Exchange Rates 1/

(In percent)

	Between end-June 1980 and lows against the U.S. dollar (February 1985) 2/	Through end-January 1986	
		From February 1985 2/	From September 20, 1985 3/
Deutsche mark	-48.90	+44.57	+19.23
Pound sterling	-55.33	+34.20	+3.27
French franc	-61.22	+44.24	+18.59
Japanese yen	-16.44	+36.84	+24.86
U.S. dollar effective exchange rate (MERM)	+73.82	-21.23	-12.28

1/ Based on New York noon quotations for the value of currencies in U.S. dollar terms, and on the Fund's multilateral exchange rate model (MERM) for the U.S. dollar effective exchange rate. Positive sign indicates appreciation of the currency.

2/ Dates are February 12 for the Japanese yen; February 25 for the Deutsche mark, the French franc and the U.S. dollar effective exchange rate (MERM); and February 26 for the pound sterling.

3/ Last business day prior to the G-5 statement on September 22, 1985 on concerted intervention in foreign exchange markets.

The volatility of exchange rates for major currencies against the U.S. dollar, as indicated by the measures given in Table 3, was mixed in January, after having declined for most major currencies in December. For the EMS currencies, the high-low spreads fell to 2.9-3.8 percent in January from 3.0-4.1 percent in December, except for the French franc whose spread rose to 3.9 percent from 3.5 percent. For the other major currencies most high-low spreads also rose in January, to 2.1-5.4 percent from 0.8-5.1 percent, except for the Norwegian krone and the Swedish krona whose spreads fell. The average of absolute daily percentage changes of major currencies against the U.S. dollar (MAC in Table 3 and Chart 6) were mixed. This measure rose for all the EMS currencies except the Belgian franc, and on an average basis for all the EMS currencies it rose from 0.38 percent to 0.41 percent; thus while the high-low spreads suggested reduced volatility in January for these currencies, MAC suggested somewhat higher volatility. For the other major currencies, MAC rose for the Austrian schilling, the Canadian dollar, and the Japanese yen, but it fell for the Norwegian krone, the Swedish krona, the Swiss franc, and the pound sterling; however, on an average basis it was little changed, rising slightly to 0.37 percent in January from 0.36 percent in December. The Canadian dollar remained the least volatile currency against the U.S. dollar in January while the pound sterling and the Japanese yen were among the most volatile.

Table 3. Intra-Month Variations of Exchange Rates of Major Currencies 1/

	January 2/		High-low spread in percent 3/		MAC 4/	
	High	Low	Dec.	Jan.	Dec.	Jan.
Belgium	48.690	50.415	3.8	3.5	0.42	0.38
Denmark	8.7800	9.0500	3.4	3.1	0.35	0.37
France	7.2860	7.5735	3.5	3.9	0.38	0.42
Germany	2.3785	2.4673	4.0	3.7	0.37	0.41
Ireland	1.27200	1.23625	3.0	2.9	0.36	0.48
Italy	1622.00	1684.00	4.1	3.8	0.40	0.41
Netherlands	2.6868	2.7800	4.1	3.5	0.38	0.40
Austria	16.728	17.410	4.0	4.1	0.35	0.39
Canada	0.71764	0.70272	0.8	2.1	0.16	0.27
Japan	192.250	202.650	2.3	5.4	0.34	0.42
Norway	7.4350	7.6140	2.5	2.4	0.35	0.32
Sweden	7.5040	7.6450	2.6	1.9	0.33	0.31
Switzerland	2.0193	2.0925	3.4	3.6	0.44	0.38
United Kingdom	1.45475	1.38400	5.1	5.1	0.54	0.53

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.

Changes in the gross foreign exchange reserves of the major industrial countries in January were mixed (Table 4). Switzerland showed the largest decline, while significant losses were also recorded by Denmark and Italy. Germany posted the largest increase, while significant gains were also recorded by the United States, Japan, and Sweden. Over the latest twelve-month period, most major industrial countries registered large increases in their gross foreign exchange reserves. The United States recorded the largest increase, while France, Germany, Norway, the United Kingdom and Switzerland also experienced comparatively large foreign exchange gains. Italy continued to register the largest foreign exchange loss in the latest twelve-month period.

Table 4. Gross Foreign Exchange Reserves in January 1986 1/

(In millions of U.S. dollars)

	End-month reserve level	Change in January	Change over 12 months
Belgium	3,837	-132	+208
Denmark	4,345	-660	+1,510
France (December)	24,319	+2,817	+5,217
Germany	39,653	+628	+5,450
Ireland	2,506	-192	-14
Italy	12,204	-1,824	-6,873
Netherlands	9,367	+197	+1,743
Austria	3,948	-164	+721
Canada	1,491	-84	-49
Japan	22,769	+441	+225
Norway (December)	13,124	-32	+4,477
Sweden	3,533	+498	-411
Switzerland	14,835	-2,628	+2,465
United Kingdom	9,834	+93	+3,094
United States	13,318	+462	+7,048

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.

II. Other Highlights in Foreign Exchange Markets

New foreign currency option contracts were introduced on two exchanges in January. 1/ On January 30 the London International Financial Futures Exchange (LIFFE) began trading a new U.S. dollar/Deutsche mark option contract. The new option has a contract size of $50,000, and it differs from similar contracts that are traded in the United States in that the premium is in Deutsche mark and striking prices are quoted

1/ Foreign currency options were described in detail in DM/85/47 (8/14/85). There are two basic types of foreign currency options: call options and put options. A call (put) option is a contract that provides the contract holder with the right, but not obligation, to purchase (sell) an agreed amount of foreign currency at a specified price on or before the maturity date of the contract. The specified price at which the foreign currency can be bought or sold is called the striking price. The buyer of the contract pays to the seller of the contract a fee, called the premium.

in marks per dollar ("European terms"). On January 16 the Sydney stock exchange in Australia started trading a U.S.-Australian dollar option contract, with a contract size of $10,000.

Trading in foreign currency options in 1985 continued to grow rapidly on the Philadelphia Stock Exchange, the oldest and largest of the organized markets. As shown in Table 5 below, the volume of all foreign currency option contracts traded in 1985 rose by around 150 percent from the year before. Appendix B reports some of the premiums associated with different striking prices at the end of December and the end of January on the Deutsche mark and Japanese yen option contracts expiring in March.

Table 5. Volume of Option Contracts Traded on the Philadelphia Stock Exchange

(Rounded to nearest thousand contracts)

Currency	Percent growth 1985/84	1985	1984	1983
Canadian dollar	88	137	73	7
Deutsche mark	143	906	373	46
French franc	943	78	8	--
Japanese yen	141	587	243	35
Swiss franc	107	682	330	39
Pound sterling	203	1,361	450	68
Total	154	3,751	1,477	194

III. Developments in Major Factors Affecting the Exchange Markets in January

The U.S. dollar eased in January against most other leading currencies, depreciating by 2.03 percent in effective (MERM) terms and by 1.15 percent against the SDR. Up to the last two weeks of the month the dollar held fairly firm, supported in part by some favorable December economic data released through January 17. The seasonally adjusted unemployment rate, for example, declined to 6.9 percent in December from 7.0 percent in November. Industrial production, seasonally adjusted, rose 0.7 percent in December after a revised increase of 0.6 percent in November, and capacity utilization rose to 80.5 percent from 80.1 percent in those two months. Seasonally adjusted housing starts also rose in December by 17.5 percent, their highest monthly increase since the 18 percent recorded in May 1985, following a 11.6 percent decline in November. In the last two weeks of January, however, most of the economic news pointed to a more sluggish economy, and along with the comments by Japanese and U.S. officials noted in the introduction moved the dollar down. Real GNP growth in the fourth quarter was revised to 2.4 percent at a seasonally adjusted annual rate from the "flash" estimate of 3.2 percent. Durable goods orders rose 4.2 percent after rising by 0.7 percent in November, but excluding transportation, which was the major contribution to the December rise because of an increase in commercial aircraft, this economic indicator would have declined by 2.0 percent. The seasonally adjusted merchandise trade deficit hit a record high of $17.37 billion in December compared with $13.68 billion in November, and leading indicators rose a less-than-expected 0.9 percent in December after a slightly upward revised 0.2 percent increase in the previous month.

On the price front, the implicit GNP price deflator rose 3.3 percent at a seasonally adjusted annual rate in the fourth quarter, revised from the "flash" estimate of 2.5 percent, while the consumer price index rose 0.4 percent in December after a 0.6 percent increase in the previous month. The producer price index fell, however, in January by 0.7 percent after a revised 0.5 percent increase in December. In other developments, the Federal budget deficit was $14.67 billion in December, approximately the same as a year earlier; for the fiscal year so far, the deficit was $75.13 billion for the three months through December compared with $71.47 billion for the same period a year earlier. Labor market data released in February showed that the unemployment rate fell to 6.7 percent in January, its lowest rate since March 1980, from 6.9 percent in December and 8.0 percent in January 1985.

The Deutsche mark firmed by 2.36 percent against the U.S. dollar and by 0.89 percent in effective (MERM) terms. The current account surplus rose to DM 6.8 billion in December from DM 5.0 billion in November, and for all of 1985 it hit a record surplus of DM 38.6 billion compared with DM 17.8 billion in 1984 and the previous all-time peak of DM 26.6 billion in 1974. The visible trade surplus was a record DM 72.3 billion in 1985 compared with DM 50.1 billion in 1984. Industrial production, seasonally adjusted, fell 2.4 percent in December after a 0.5 percent decline in the previous month, but it rose 1.7 percent year-on-year. The unemployment rate (unadjusted) was 10.4 percent in January, down from the 10.6 percent recorded a year earlier. Inflation remained low. The cost of living index rose 0.2 percent in January and 1.4 percent year-on-year, while import prices fell 1.1 percent in December for a 6.5 percent drop from a year earlier. Producer prices also fell in December by 0.3 percent, but rose 0.9 percent from their year-earlier level.

The French franc firmed by 2.46 percent against the U.S. dollar and by 1.29 percent in effective (MERM) terms. France's real GDP rose 0.6 percent in the fourth quarter after growing by the same amount in the previous quarter. On a year-on-year basis, real GDP grew by 2.0 percent in the fourth quarter of 1985, up from 1.6 percent in the fourth quarter of 1984. Seasonally adjusted industrial production rose a provisional 2.2 percent in November after a 0.75 percent increase in October for a 3.8 percent year-on-year gain, and the number of persons unemployed fell 1.4 percent in December and 3.3 percent year-on-year. France's seasonally adjusted current account surplus narrowed to F 1.16 billion in December from F 2.70 billion in November, and for all of 1985 the surplus was F 2.8 billion compared with a deficit of F 6.6 billion in the previous year. Inflation remained subdued. Retail prices rose 0.1 percent in December following a 0.2 percent increase in the previous month for a 4.7 percent year-on-year rise. At the wholesale level prices actually declined, with industrial wholesale prices falling by a provisional 0.3 percent in December and 1.8 percent year-on-year.

The Belgian franc firmed by 2.27 percent against the U.S. dollar and by 0.61 percent in effective (MERM) terms; however it remained, as noted earlier, the weakest currency in the EMS throughout most of January, and the Belgian Treasury continued to sell foreign currencies in the foreign exchange market to support the franc within the EMS. Industrial production fell 1.5 percent in October but rose 4.2 percent year-on-year and the unemployment rate was 12.8 percent in January, down from 12.9 percent in December and 14.7 percent a year earlier. Belgium's trade account was in surplus by BF 13.0 billion in December after a BF 4.3 billion deficit in Novmber and a BF 0.3 billion surplus a year earlier. For all of 1985, the trade deficit narrowed to BF 140.4 billion from BF 203.7 billion in 1984. The consumer price index rose a provisional 0.1 percent in January following no change in the previous month and was 3.5 percent higher than a year earlier.

The Netherlands guilder firmed by 2.01 percent against the U.S. dollar and by 0.50 percent in effective (MERM) terms. The visible trade surplus rose to f. 1.9 billion in December from f. 1.1 billion in the previous month and f. 700 million a year earlier; for all of 1985 the surplus was F 10.1 billion, down from f. 11.8 billion in 1984. Seasonally adjusted industrial production in November was unchanged from October and September; on a year-on-year basis it rose 0.9 percent in November. The number of persons unemployed rose a seasonally adjusted 0.2 percent in January but was down 5.3 percent year-on-year. Producer prices fell 0.3 percent in October and 0.2 percent in September, while the cost of living index rose 1.3 percent in the year to mid-January after rising by 1.7 percent in the year to mid-December.

The Danish krone firmed by 1.04 percent against the U.S. dollar and by 0.06 percent in effective (MERM) terms. The merchandise trade deficit widened to a preliminary DKr 2.98 billion in December from DKr 37 million in November and DKr 953 million a year earlier; for 1985 as a whole the trade deficit was DKr 12.09 billion compared with DKr 6.48 billion in 1984. The National Bank of Denmark reportedly intervened to support the krone against the Deutsche mark, after the announcement of the trade figures led to pressure on the Danish currency. Denmark's seasonally adjusted unemployment rate fell to 8.1 percent in December from 8.3 percent in November and 9.5 percent a year earlier. Wholesale prices fell 0.5 percent in December and 0.3 percent year-on-year while consumer prices fell 0.1 percent in December but rose 3.5 percent year-on-year.

The Irish pound firmed by 1.28 percent against the U.S. dollar and by 0.43 percent in effective (MERM) terms. The unemployment rate was 17.9 percent in January, little changed from December.

The Italian lira firmed by 2.30 percent against the U.S. dollar and by 0.88 percent in effective (MERM) terms. Around midmonth, as previously noted, Italy announced measures to discourage speculation against the lira. Throughout January, the Italian currency remained within the narrow EMS band with a positive spread of 1.20-2.06 percent from the weakest currency. Italy's trade deficit in December narrowed to Lit 1.94 trillion from Lit 3.0 trillion in November but compared with Lit 1.4 trillion in December 1984; the deficit for all of 1985 was Lit 23.0 trillion after Lit 19.1 trillion in 1984. Industrial production fell 0.3 percent over the year to November after a 0.9 percent decline over the year to October. Wholesale prices rose 0.1 percent in November and 5.8 percent year-on-year.

The pound sterling eased by 2.28 percent against the U.S. dollar and by 4.38 percent in effective (MERM) terms. Considerable pressure on money market interest rates developed in early January in response to concerns over oil prices and the pound sterling's weakness. After a base rate increase signalled by the Bank of England, the pound sterling resumed its easing trend and money market rates at times firmed very sharply although base rates were not further changed (see Section IV). In other developments, the seasonally adjusted trade account posted a provisional £125 million surplus in December after a revised deficit of £132 million in November, and the current account surplus expanded to £691 million in December after a revised £268 million surplus in November. Industrial production fell a provisional 2.3 percent in December after rising by 1.2 percent in November for a 3.8 percent year-on-year increase while seasonally adjusted real consumption spending was unchanged in the fourth quarter but up 2.5 percent from the same quarter a year earlier and seasonally adjusted retail sales volume was virtually unchanged in December after a 2.1 percent increase in November. The unemployment rate, seasonally adjusted, was a provisional 13.2 percent in January, unchanged from the previous month but up from 12.9 percent a year earlier. The Public Sector Borrowing Requirement was £1.7 billion in December on a provisional basis compared with £0.6 billion a year earlier; for the first nine months of the 1985-86 fiscal year it was £7.8 billion compared with £10.2 billion for the same period a year earlier. Retail prices rose 0.1 percent in December and 5.7 percent year-on-year. Average earnings rose 8.6 percent in the year to November compared with 6.0 percent in the year to October.

The Swiss franc firmed by 1.68 percent against the U.S. dollar and by 0.11 percent in effective (MERM) terms. Switzerland's trade deficit widened to Sw F 853 million in January from Sw F 570 million in the previous month and Sw F 727 million a year earlier. Consumer prices rose 2.2 percent in the year to January following a 3.2 percent increase in the year to December.

The Japanese yen firmed by 4.07 percent against the U.S. dollar and by 3.42 percent in effective (MERM) terms. Early in the month, Japanese officials stressed a desire to see the yen stabilize, but toward the end of the month they said that a ¥ 190 per U.S. dollar exchange rate would be acceptable. The yen closed January at ¥ 192.25 per U.S. dollar, firming sharply from ¥ 200.08 at the end of December and about ¥ 202.50 around midmonth. An announcement by the Bank of Japan on January 29 that it would cut its discount rate to 4.5 percent from 5.0 percent, effective January 30, did not stop the yen from appreciating against the U.S. dollar. Japan's trade surplus hit a record $7.05 billion in December after reaching $5.35 billion in November and $5.29 billion a year earlier, and its current account also hit a record, reaching a surplus of $6.81 billion in December compared with $4.52 billion in November and $4.80 billion a year earlier. Industrial production rose a seasonally adjusted 0.7 percent in December and 1.7 percent year-on-year, but the seasonally adjusted unemployment rate while unchanged in December at 2.9 percent was up markedly from the 2.4 percent recorded a year earlier. Consumer prices rose 0.1 percent in December and 1.8 percent year-on-year, while wholesale prices fell for the eleventh consecutive month, declining by 0.2 percent in January and 4.6 percent year-on-year.

The Canadian dollar eased by 1.80 percent against the U.S. dollar and by 2.85 percent in effective (MERM) terms. The composite leading indicator index rose 1.4 percent in November, its sixth consecutive monthly rise. The merchandise trade surplus rose to Can$1.25 billion in December from Can$0.53 billion in November and compared with Can$1.55 billion in December 1984. Canada's GNP, seasonally adjusted, rose 0.7 percent in November following a 0.6 percent increase in October for a 4.85 percent year-on-year rise, and its seasonally adjusted unemployment rate fell to 9.8 percent in January from 10 percent in the previous month and 11.2 percent a year earlier. Consumer prices rose 0.5 percent in December and 4.4 percent year-on-year after rising by 0.4 percent in November and 4.0 percent year-on-year.

The Austrian schilling firmed by 2.41 percent against the U.S. dollar and by 1.21 percent in effective (MERM) terms. The current account deficit widened to S 5.7 billion in November from S 2.0 billion in October but was unchanged from a year earlier. The unemployment rate rose to 7.1 percent in January from 6.3 percent in the previous month and 6.9 percent in January 1985. Consumer prices rose 0.3 percent in December and 2.8 percent year-on-year.

The Norwegian krone firmed by 1.42 percent against the U.S. dollar and by 0.12 percent in effective (MERM) terms. Oil market considerations tended to push the krone down against some Western European currencies like the Deutsche mark and the French franc, but since the krone also strengthened against the pound sterling and the U.S. dollar, its effective rate was little changed. The Bank of Norway also intervened at record levels in currency markets in the week beginning January 20, reportedly selling $628 million. Earlier in the month, Norway's Finance Minister announced new money and credit policy measures, including an increase in primary reserve requirements for commercial and savings banks. Norway's trade surplus narrowed to NKr 1.17 billion in January from NKr 2.89 billion in December and NKr 4.03 billion in January 1985. The unemployment rate was 2.7 percent in January compared with 2.5 percent in the previous month and 4.1 percent a year earlier. Consumer prices rose 0.3 percent in December and 5.6 percent year-on-year.

The Swedish krona firmed by 0.37 percent against the U.S. dollar but eased by 0.49 percent in effective (MERM) terms. The trade surplus narrowed sharply in 1985 to SKr 15.8 billion for the year from SKr 24.3 billion in 1984. The trade surplus continued to narrow in 1986, contracting to SKr 1.3 billion in January from SKr 2.2 billion in December. Industrial production rose a seasonally adjusted 1.3 percent in November after rising by 0.3 percent in October for a 1.7 percent year-on-year increase. The unemployment rate rose, however, to 2.9 percent in January from 2.7 percent in November but fell compared with 3.4 percent a year earlier. Consumer prices rose 0.4 percent in December and 7.0 percent year-on-year.

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

In January short-term interest rates were mixed, with sharp upward movements recorded in Canada, Italy and the United Kingdom and a sharp decrease in Japan. Predictions that Ministers of the Group of Five meeting in London on January 19 would reach agreement on a coordinated reduction of interest rates proved unfounded. Inflation rates declined in a number of countries and generally remained subdued with year-on-year price increases at less than 5 percent in most countries (Table 6 and Chart 8).

Interest rates in the United States closed the month of January, little changed from their end-December levels. During the first part of the month, the release of economic data pointing to better than expected economic growth, the softening of oil prices, and the Federal Reserve's reported concern about the dangers of an acceleration in the depreciation of the dollar dampened earlier expectations of a cut in the discount rate and tended to push interest rates higher. During the latter part of the month, however, this trend was reversed; first, because of speculation about the results of the Group of Five meeting and later because of the release of less optimistic data about the U.S.

Table 6. Inflation Rates and Short-Term Interest Rates

	Month 2/	Inflation rates 1/ (year-on-year percent changes): Wholesale price index		Consumer price index 3/		Short-term interest rates 4/ (end-of-month): December	January
Austria	Oct./Dec.	0.7	(3.1)	2.8	(2.7)	4.00	4.00
Belgium	Dec./Jan.	-0.3	(-0.2)	3.5	(4.0)	9.75	9.75
Canada	December	2.8	(2.6)	4.4	(4.0)	9.26	10.65
Denmark	December	-0.3	(0.6)	3.5	(3.4)	7.00	7.00
France	December	-1.8	(-1.4)	4.7	(4.8)	9.13	9.00
Germany	Dec./Jan.	-1.2	(-0.6)	1.4	(1.8)	4.95	4.72
Italy	Nov./Dec.	5.8	(5.9)	8.6	(8.6)	14.75	15.69
Japan	December	-4.2	(-3.8)	1.8	(1.9)	7.79	6.06
Netherlands	... /Jan.	...	(...)	1.3	(1.7)	5.84	5.78
Norway	Nov./Dec.	3.4	(5.3)	5.6	(5.8)	12.50	13.15
Sweden	Nov./Dec.	4.2	(4.1)	5.7	(7.0)	10.50	9.50
Switzerland	Dec./Jan.	0.7	(1.0)	2.2	(3.2)	4.06	4.13
United Kingdom	Nov./Dec.	5.1	(5.1)	5.7	(5.4)	11.48	12.44
United States	December	1.8	(1.5)	3.8	(3.6)	7.28	7.19

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, the Netherlands, and Norway; 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, and Sweden.

economy and of expectations, realized on January 29, of a cut in Japan's discount rate. In these circumstances, the yield on three-month Treasury bills, after rising by 0.20 percentage point by mid-month, ended the month at 7.19 percent, 0.09 percentage point lower than the end-December level. The 90-day CD rate, however, firmed marginally to 7.75 percent (up 0.03 percentage point) over the month. The yield on U.S. Treasury securities with a maturity of one year eased by the same small margin of 0.03 percentage point during the course of the month. However, yields on Treasury securities with maturities from two to 30 years edged upward by 0.01 to 0.08 percentage point from end-December to end-January; the five-year constant maturity rate rose from 8.49 percent to 8.53 percent. The effective Federal funds rate quickly dropped from its end-December peak of 13.46 percent and, from January 6 to the end of the month, the Federal Reserve maintained the rate within the narrow range of 7.78-8.09 percent. It ended the month at the top of this range--8.09 percent, and in terms of monthly averages, the rate eased from 8.27 percent to 8.14 percent. The M1 measure of the U.S. money supply, seasonally adjusted, averaged $628.6 billion in the week ended January 27, compared with $624.7 billion in the week ended December 30. The rise left M1 $2.4 billion above the upper limit of the Federal Reserve's target range of 4-7 percent annual growth in 1986.

Money market conditions were mixed in January in the countries participating in the European Monetary System (EMS), reflecting largely the growing speculation about an imminent currency realignment. With some exceptions, rates on the weaker currencies tended to firm while those on the stronger currencies eased. Italy adopted a package of measures in mid-January to support the lira, including strict limits on bank credit for the first six months of 1986, an export-deposit scheme, and an increase in the interest on Italian Treasury paper of 1.00 percentage point to 14.75 percent for three-month debt and of 0.70 percentage point to 13.78 percent on six-month placements. Italy's three-month interbank money rate rose steadily from 14.75 percent at end-December to 15.69 percent at end-January. The Bank of Ireland raised its money-market intervention rates by 1.5 percent to take pressure off the pound and rates rose in Denmark for similar reasons. Domestic interest rates on the other two currencies which are reportedly expected to be realigned downwards--the Belgian franc and the French franc--were held steady. The French authorities have reportedly worked actively to prevent interest rates from rising and, in fact, France's three-month interbank rate fell from 9.13 percent to 9.00 percent over the course of the month. In Belgium the four-month Fonds des Rentes was unchanged at 9.75 percent. The magnitude of speculation against all of these currencies was however made evident by the sharp increases in rates on the same currencies in the euromarkets, as detailed below. Rates on the two remaining EMS currencies which are reportedly expected to be realigned upwards declined: The Netherlands' three-month interbank rate fell by 0.06 percentage point to 5.78 percent; and the equivalent rate in Germany fell by 0.23 percentage point to 4.72 percent.

Among the other major countries, short-term interest rates rose markedly in Canada and the United Kingdom. The three-month Treasury bill rate in Canada firmed from 9.26 percent at end-December to 10.65 percent at end-January as the Canadian dollar continued weak in the exchange markets. In the United Kingdom, the three-month interbank rate which had not risen above 12.00 percent since August 1985 rose sharply under market pressures to 12.78 percent on January 8 after the Bank of England released information showing a £2.1 billion upsurge in bank lending for the month of December. The Bank of England raised its dealing rate by one percentage point on the same day and clearing banks responded by raising their base rates to 12.5 percent. These moves strengthened sterling, but only temporarily, as North Sea oil prices fell near the middle of the month. To most market participants a further increase in base rates was deemed inevitable, particularly as the three-month interbank rate rose to 13.56 percent on January 22, but the Bank of England held them firm, and interest rates in the money markets started to fall again in the last days of the month as pressure on sterling softened. The rate on the three-month Treasury bill ended the month at 12.44 percent, up 0.96 percentage point from end-December but down 1.00 percentage point from its midmonth peak. Similarly, the three-month interbank rate ended the month at 12.88 percent, up 1.00 percentage point from end-December but down 0.69 percentage point from its midmonth peak. The latest Bank of England data showed that sterling M3, seasonally adjusted, rose 0.10 percent in the five weeks to January 15, following a 0.6 percent rise in the three weeks to December 11. The year-on-year growth rate was 14.00 percent in January, 1.10 percentage point lower than in December, but well above the annual target range of 5-9 percent for M3 growth in the year ending in March 1986. However, the U.K. authorities have stated their willingness for the time being to tolerate some overshooting of the sterling M3 target. During the same period M0 grew by 1.4 percent after a rise of 0.30 percent in banking December. The year-on-year growth rate for M0 was 4.50 percent, sharply higher than the 2.40 percent annual rate recorded in December.

In Japan the authorities came under increasing pressure from political and business circles during January to ease interest rates so as to halt or slow down the strengthening of the yen and to guard against what were seen as signs of an impending economic recession. On January 29 the Bank of Japan authorized a cut in the official discount rate from 5 percent to 4.50 percent. Following this announcement the rate on two-month private bills, which had been falling steadily in small increments over the month, eased precipitately, ending the month at 6.06 percent compared with 7.79 percent at end-December. Japan's broadly defined money supply average of M2 plus Certificates of Deposits rose a preliminary 9.00 percent in January from a year earlier, down from a 9.3 percent year-on-year rise in December. In Sweden, the Bank of Sweden cut its discount rate by 1.00 percent to 9.50 percent on January 16 in order to bring it closer in line with market rates. The Swedish authorities observed that the adjustment should not be seen as contradicting the message of the 1986-87 budget, presented earlier in the month, that fiscal policy would need to be tightened to strengthen public sector finances and the current account of the balance of payments.

The three-month interest rates in the eurocurrency markets were mixed in January. For the second consecutive month the rate on the euro-French franc rose sharply amid rumors of a possible realignment within the EMS, ending January at 16.25 percent up from 13.38 percent at end-December. As mentioned above, rates on the other currencies perceived as likely to be adjusted downwards in a pending realignment of the EMS also rose sharply; dealers were reported to have borrowed these currencies in the interbank eurodeposit markets and then sold them forward in currency markets, anticipating that they would be able to buy back more cheaply in two or three months' time. As in the U.K. domestic markets, the rate on sterling rose markedly in the euro-markets in mid-January; it peaked at 13.69 percent, but fell back to 12.81 percent at the month-end compared with 11.88 percent at end-December. The eurodollar interest rate was volatile during the month, moving within the range 7.94-8.31 percent, and closing the month at 8.00 percent up 0.06 percentage point from end-December. The rate on the euro-Swiss franc was similarly volatile rising to as much as 4.31 percent before declining to 4.13 percent at the end of January up 0.07 percentage point from the month before. The rate on the euro-yen rose during the first three weeks of January, but then declined markedly ending the month at 6.19 percent compared with 6.69 percent at end-December. The rate on the euro-Deutsche mark eased steadily over the course of the month ending January at 4.63 percent, down 0.18 percentage point from the month before.

As a result of the movements of eurodollar and domestic interest rates in January, the uncovered interest differentials favoring eurodollar investment widened sharply for Japan and to a lesser extent for Germany and the Netherlands. During the same month the uncovered interest differentials favoring domestic investment narrowed slightly for Belgium and France but widened for Italy and the United Kingdom (see Table 7).

In the forward exchange market, the premia against the U.S. dollar widened for the Deutsche mark, the Japanese yen and the Netherlands guilder. The discounts against the U.S. dollar widened markedly for the Belgian franc, the French franc and the Italian lira, and to a lesser extent for the pound sterling. As a result of the above-mentioned movements in interest differentials and forward exchange quotations, the covered interest differentials for France and Italy moved further toward favoring eurodollar investment. In Belgium and Japan they moved from favoring domestic investment to favoring eurodollar investment and in Germany, the Netherlands and the United Kingdom, they remained little changed (see Table 7 and Charts 9 and 10).

Table 7. Covered Interest Differentials for Three-Month Investments (End-month)

	Uncovered interest differentials 1/ (1)		Forward exchange quotations 2/ (2)		Covered interest differentials 1/ (3) = (1)-(2)	
	December	January	December	January	December	January
Belgium	-1.81	-1.75	-1.57	-3.56	-0.24	+1.81
France	-1.19	-1.00	-5.42	-7.48	+4.23	+6.48
Germany	+2.99	+3.29	+3.21	+3.49	-0.22	-0.20
Italy	-6.81	-7.69	-7.95	-10.15	+1.14	+2.46
Japan	+0.15	+1.94	+1.21	+1.84	-1.06	+0.10
Netherlands	+2.10	+2.22	+2.16	+2.26	-0.06	-0.04
United Kingdom	-3.54	-4.44	-3.65	-4.53	+0.11	+0.09

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.

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

The SDR interest rate firmed to 7.60 percent for the week beginning January 27 from 7.49 percent for the week beginning December 30 (see Table 8). The increase was due entirely to the change made in the currency components of the SDR basket on January 1, 1986; the increased amounts of pound sterling and French francs--the two currencies attracting the highest rates of interest in domestic markets--caused a significant rise in the combined rate of interest of the SDR interest rate basket. Indeed, had the previous currency components been maintained, the SDR rate of interest would have declined to 7.45 percent by the month end. Although rates on the U.K. three-month Treasury bill rose by 0.96 percentage point, rates on the relevant instruments of the other component currencies were easier. The rate on two-month private bills in Japan eased sharply by 1.73 percentage points and rates on the relevant U.S., German and French instruments eased by 0.09-0.23 percentage point.

Table 8. The SDR Interest Rate and the Rate of Remuneration 1/

	December 30	January 6	13	20	27
SDR interest rate	7.49	7.61	7.69	7.63	7.60
Rate of remuneration	6.97	7.08	7.15	7.10	7.07 2/

1/ The rates apply to the weeks beginning with the dates indicated.
2/ 7.07 percent applies through January 31 only. The rate for February 1-2 was 6.99 percent.

In January, combined domestic interest rates were little changed (Table 9 and Chart 11). Yields on the relevant U.K. instruments firmed markedly by 1.94 percentage points for the three-month maturity and by 0.47-1.00 percentage point for the others. However, these increases were offset by decreasing yields on the relevant French, German and Japanese instruments. In Japan, yields eased by 0.12-0.99 percentage point, with those on the three- and six-month maturities easing most sharply. In France yields eased by 0.13-0.53 percentage point and in Germany by 0.12-0.19 percentage point. Yields in the United States were virtually unchanged.

Combined eurocurrency offered rates for the three- and six-month maturities firmed by 0.38 percentage point and 0.13 percentage point respectively. This increase resulted from the re-emergence of speculation about a possible realignment in the European Monetary System, which for the second consecutive month pushed rates on euro-French francs sharply higher (1.28-2.75 percentage points) and from the softening of oil prices which helped push rates on euro-sterling up by 1.06 percentage points. These upward movements were offset only in part by the marked decrease in euro-yen rates, which eased by 1.00-1.88 percentage points as the authorities took action to slow down or halt the appreciation of the yen against the U.S. dollar, and by the more modest decrease in rates on the euro-Deutsche mark (down 0.31 percentage point) and on the eurodollar (down 0.06 percentage point).

Average interest rates on SDR-denominated deposits of selected commercial banks firmed by 0.17-0.32 percentage point between December 18 and January 27. Average deposit rates on the latter date ranged from 8.14 percent for one-month deposits to 8.00 percent for twelve-month deposits.

Table 9. Yields on Selected SDR-Denominated Assets 1/

	December	January
Combined market interest rates: 2/		
a. Based on domestic rates		
3-month maturity (Rule T-1)	7.54	7.63
6-month maturity	7.63	7.63
12-month maturity	7.44	7.50
2-1/2 year maturity	8.00	8.00
5-year maturity	8.19	8.25
b. Based on eurocurrency offered rates		
3-month maturity	8.38	8.75
6-month maturity	8.25	8.38
Average commercial bank deposit rates 3/		
1-month deposits	7.97	8.14
3-month deposits	7.92	8.24
6-month deposits	7.82	8.13
12-month deposits	7.77	8.00

1/ Rates pertain to last Wednesday of the month (December 18 for commercial bank deposit rates in December).

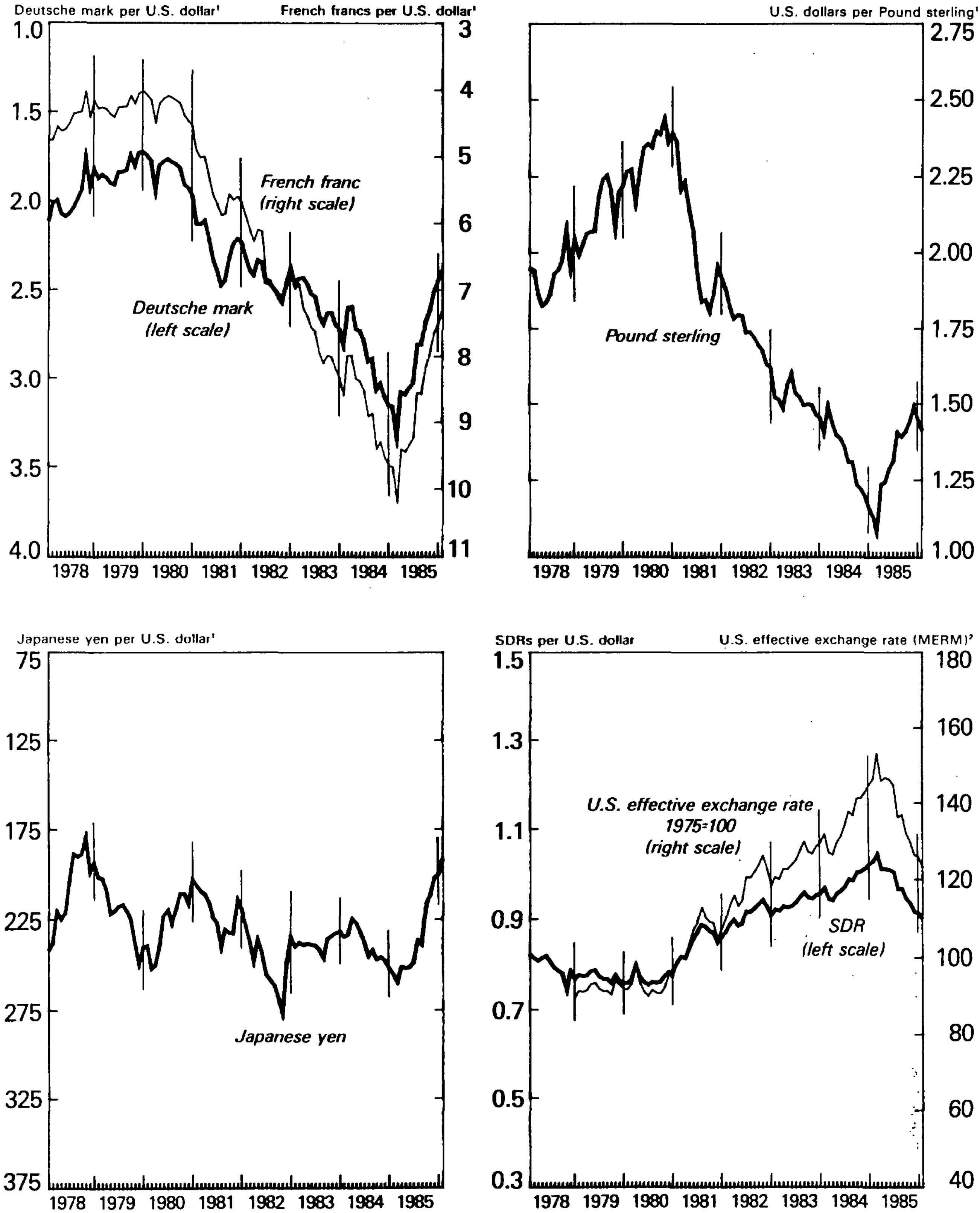
2/ Combined market rates (according to the Rule T-1) are calculated by multiplying the yields or rates of each of the respective instruments by the number of units of the corresponding currency listed in Rule O-1 and the value in terms of the SDR of a unit of that currency as determined by the Fund under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

3/ As quoted by selected commercial banks.

CHART 1

SPOT EXCHANGE RATES 1978-1986

(end of month)



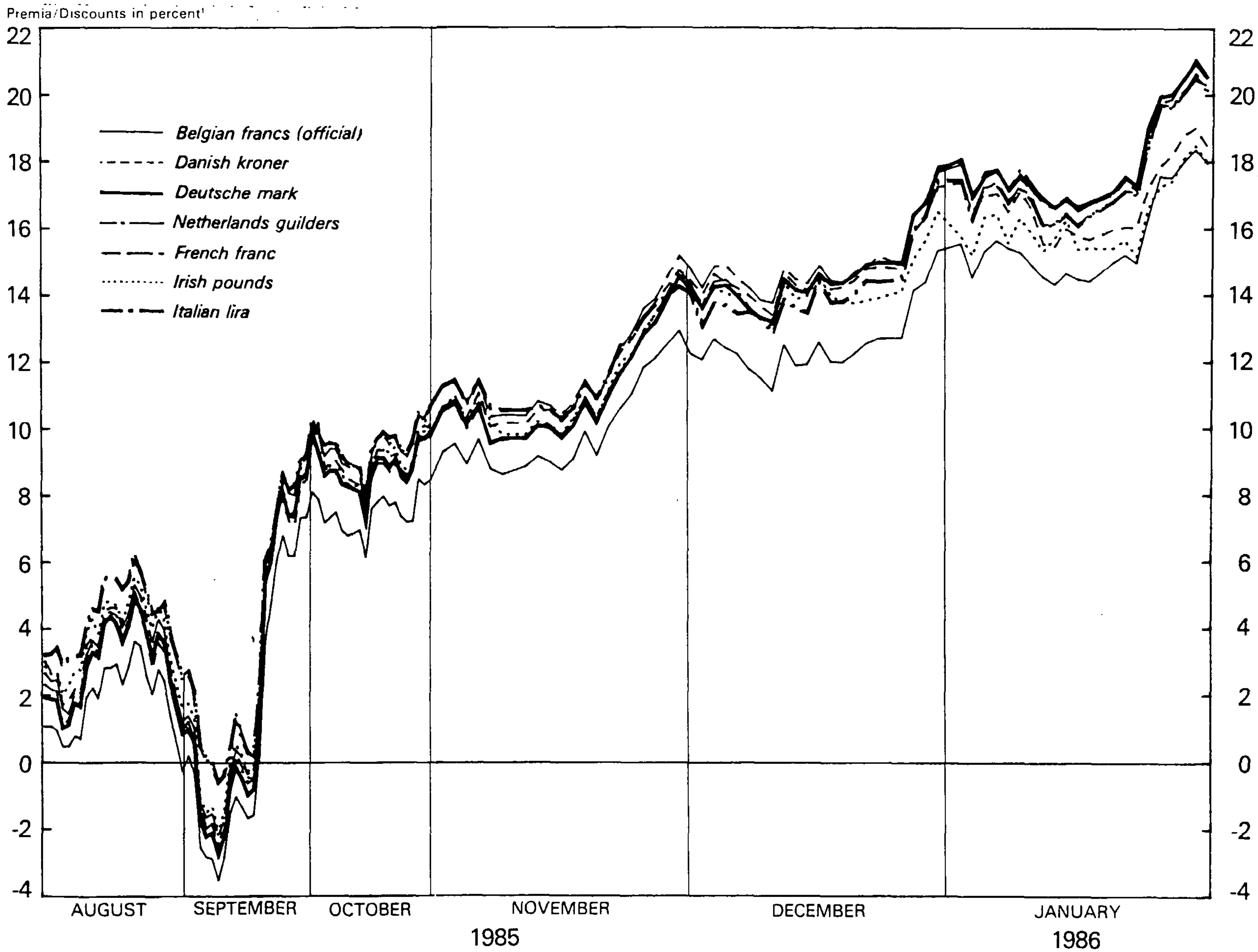
[1]New York noon quotations.

[2]IMF's multilateral exchange rate model. Increase in the index means appreciation.

CHART 2

SPOT EXCHANGE RATES: EUROPEAN MONETARY SYSTEM

(Based on noon quotations in New York)

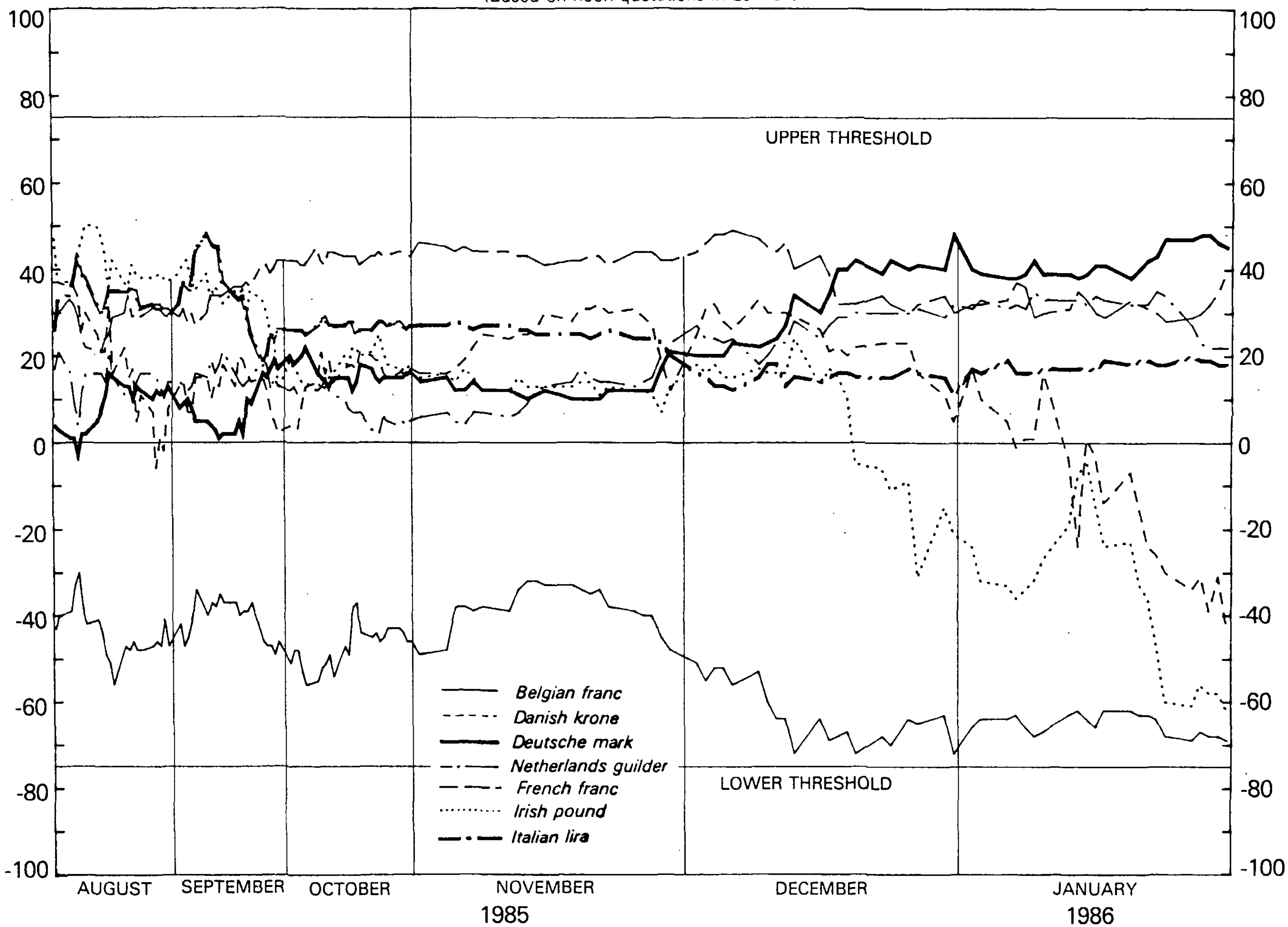


[1]Premia/Discounts over declared ECU central rates converted to U.S. dollar terms on the basis of 1 ECU=$0.777846 effective July 22, 1985.

CHART 3

EUROPEAN MONETARY SYSTEM: DIVERGENCE INDICATORS

(Based on noon quotations in London)



[1]On July 22, 1985, the Italian lira was devalued by 6 percent while the other currencies were revalued by 2 percent.

CHART 4
SPOT EXCHANGE RATES

(Noon quotations in New York)

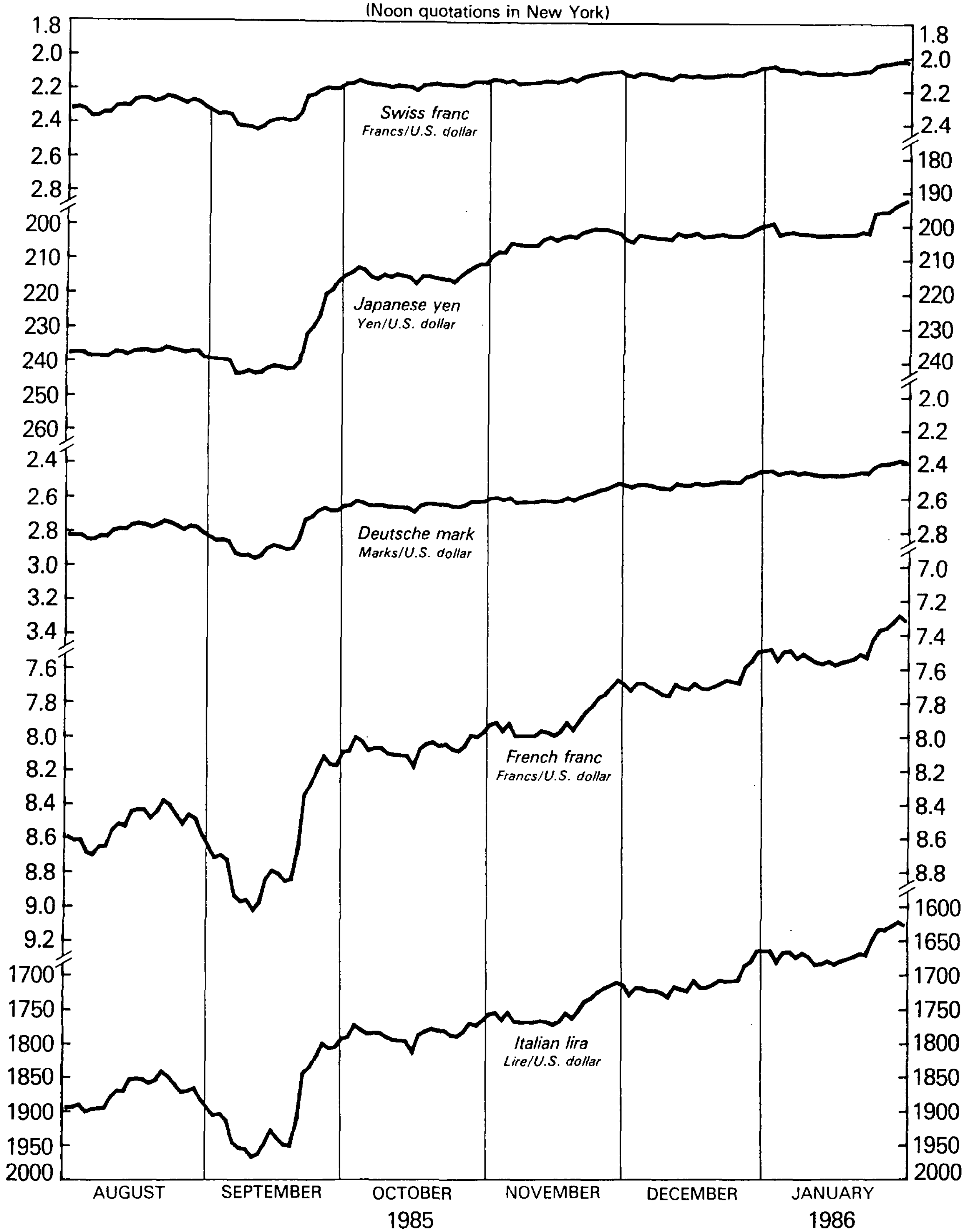


CHART 5

SPOT EXCHANGE RATES

(Noon quotations in New York)

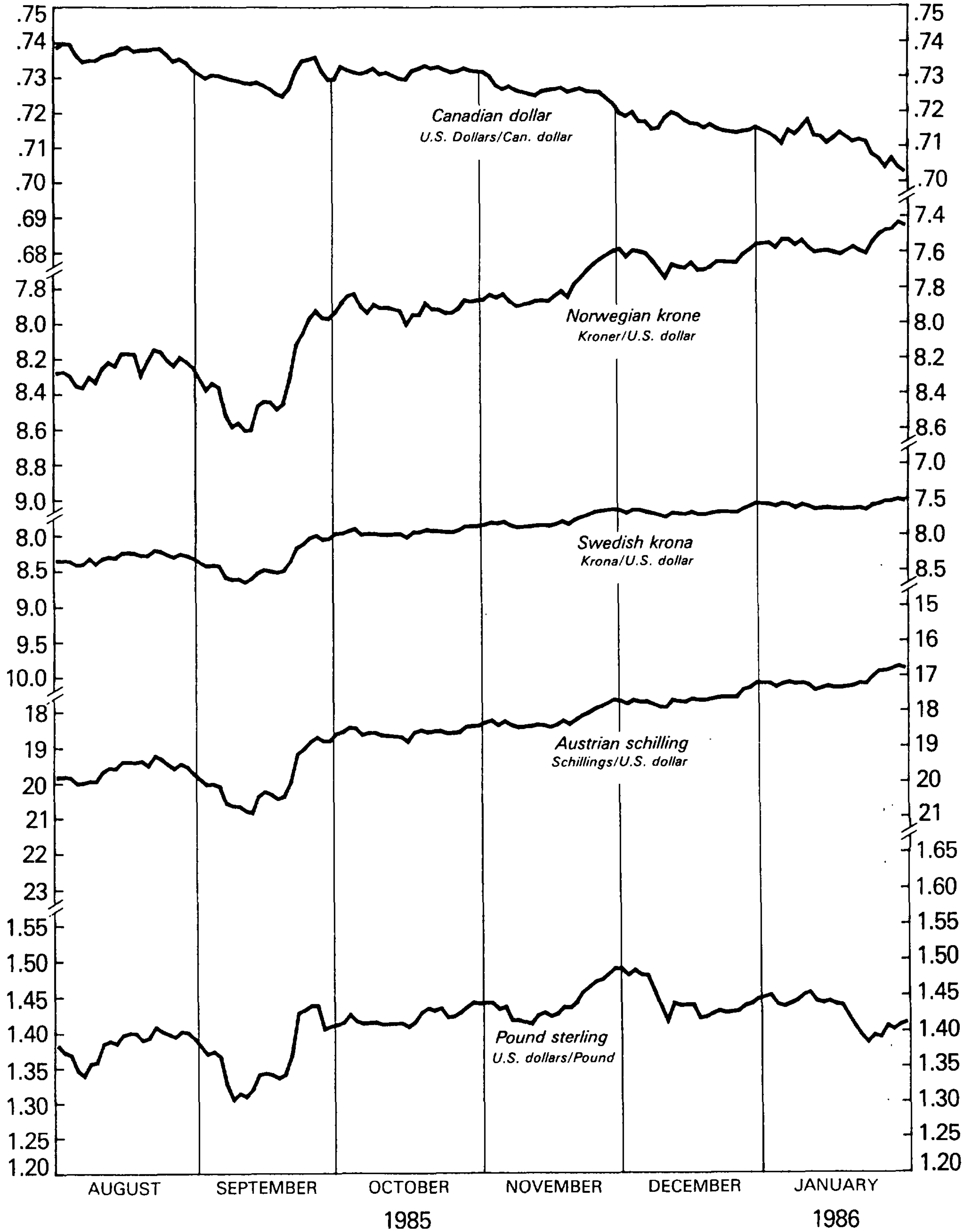
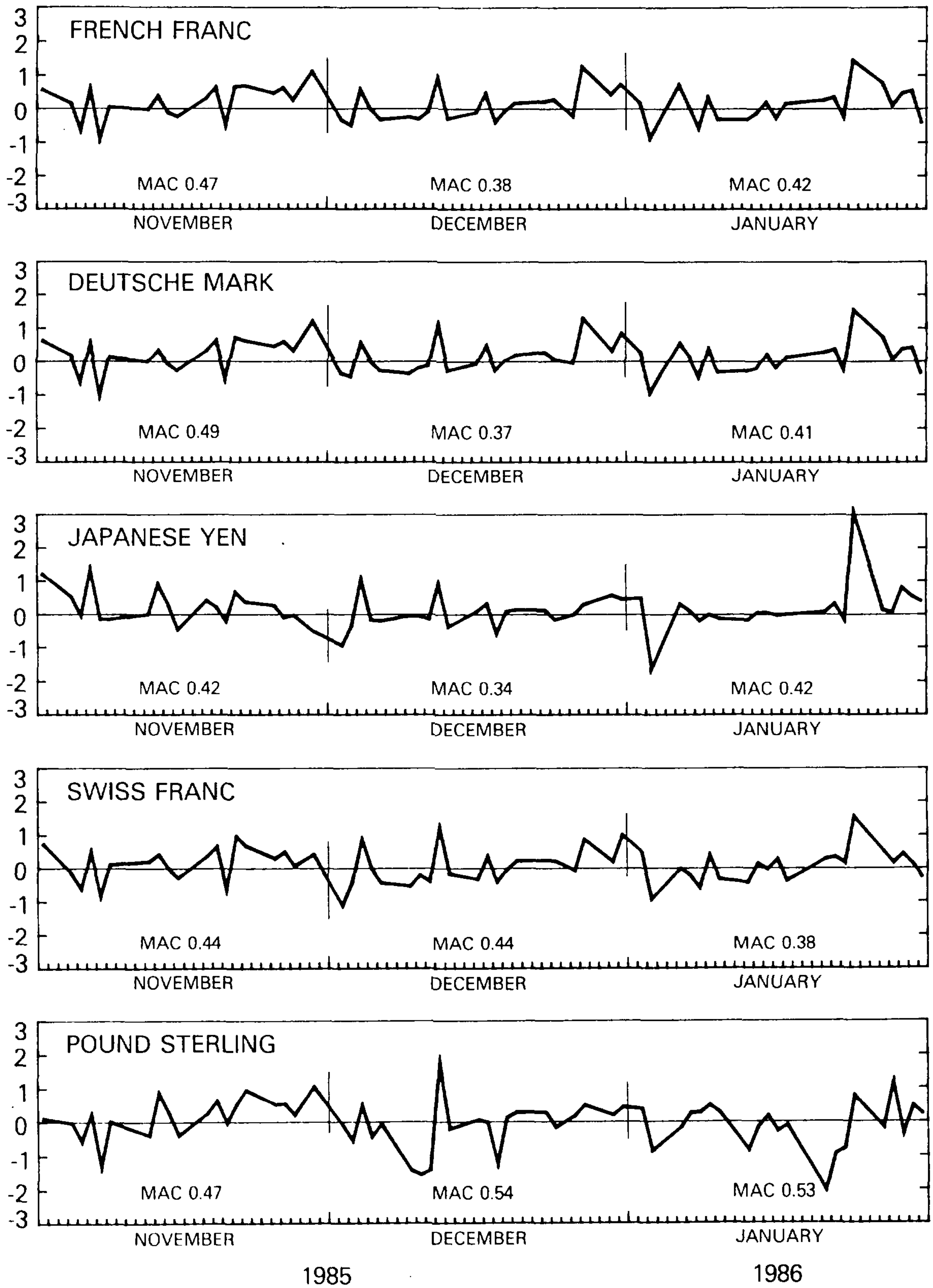


CHART 6

DAILY CHANGES IN SPOT EXCHANGE RATES

(In percent against the U.S. dollar, based on noon quotations in New York)[1]



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

CHART 7

INDEXES OF EXCHANGE RATES OF FIVE MAJOR CURRENCIES AGAINST THE SDR

JUNE 1974 - JANUARY 1986

(June 28, 1974=100)

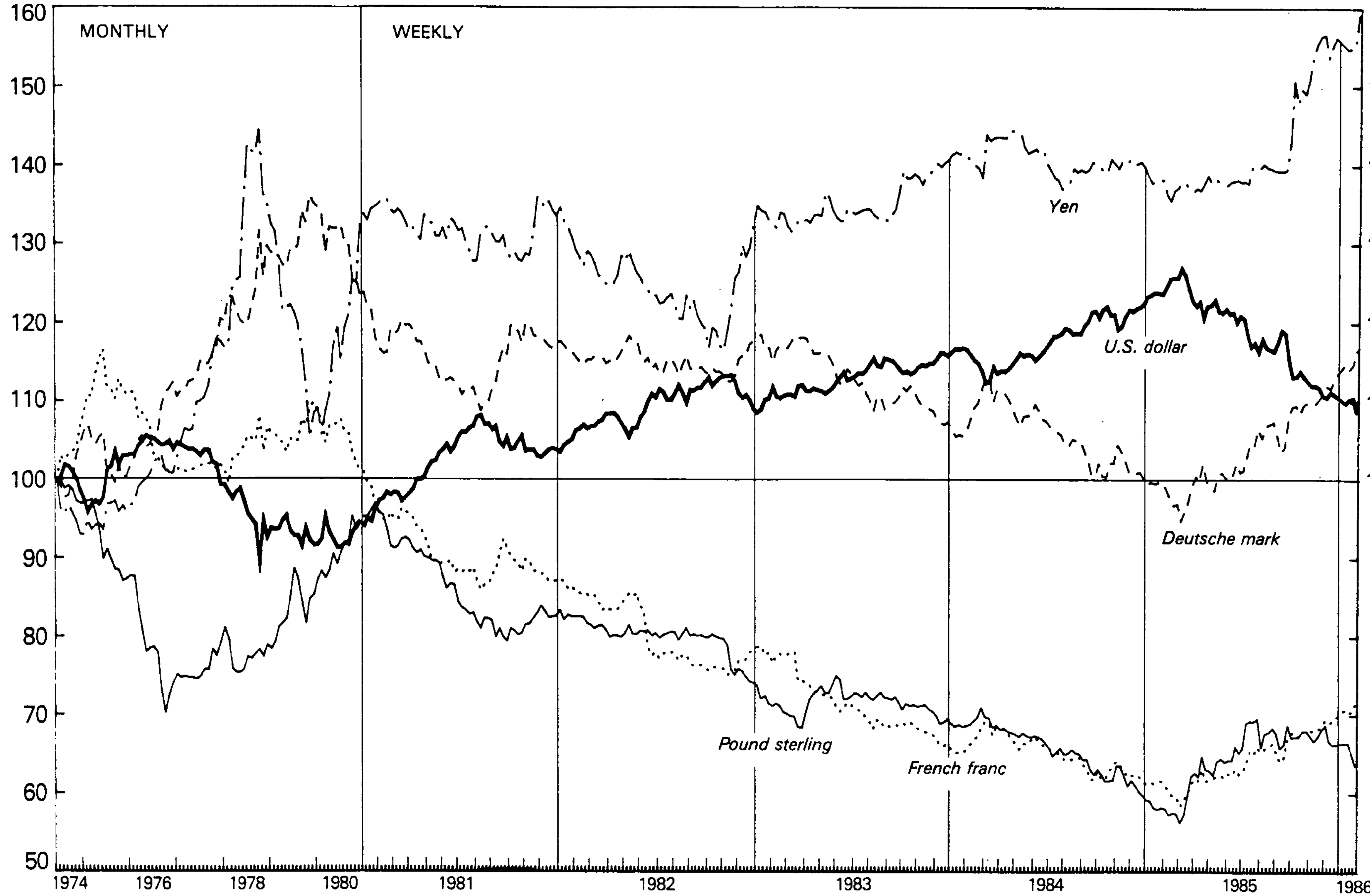


CHART 8

SHORT-TERM MONEY MARKET RATES

(Percent per annum)

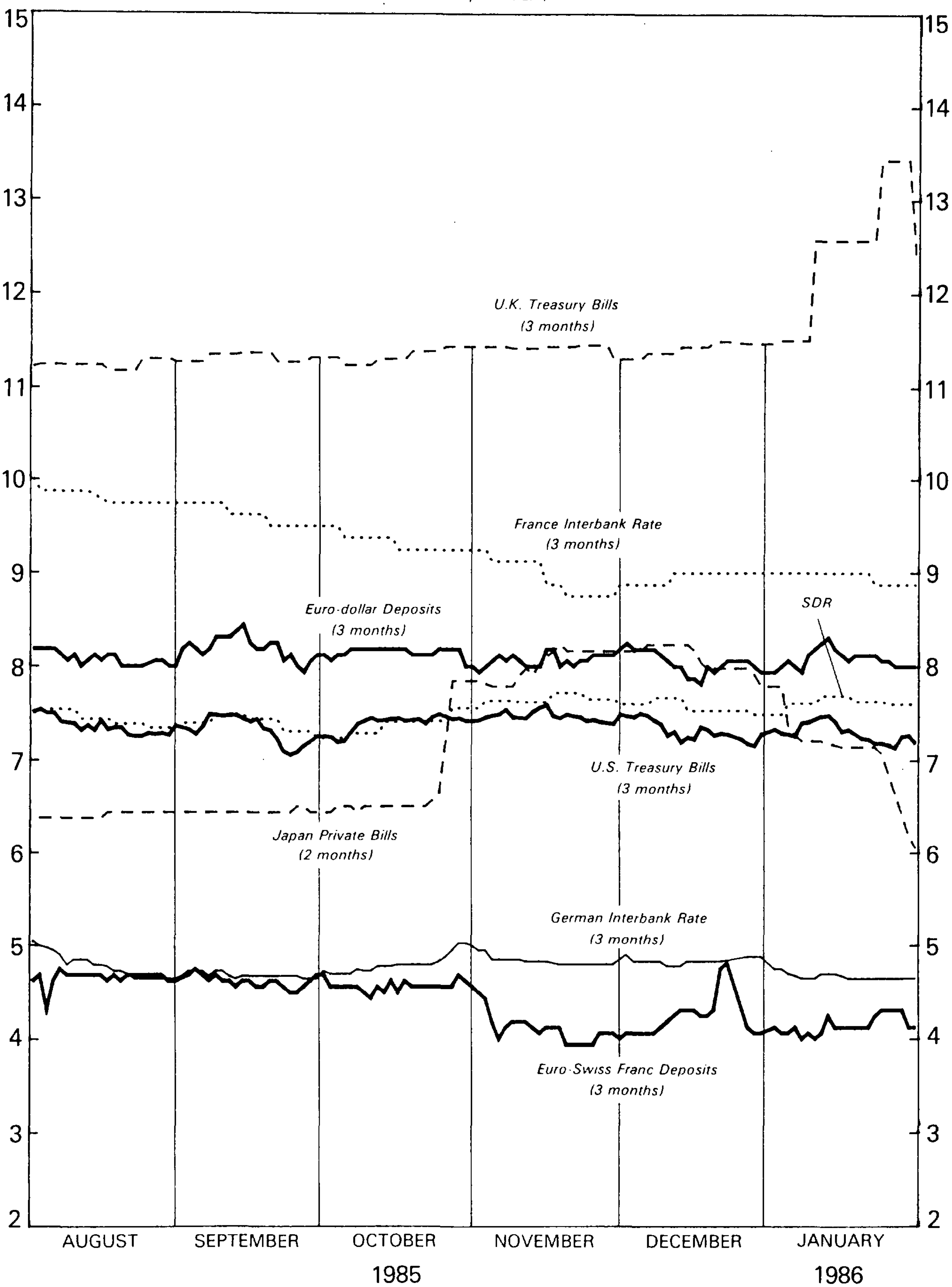


CHART 9

THREE-MONTH FORWARD RATES

Margins from Spot Rates based on noon quotations in New York

(Percent per annum)

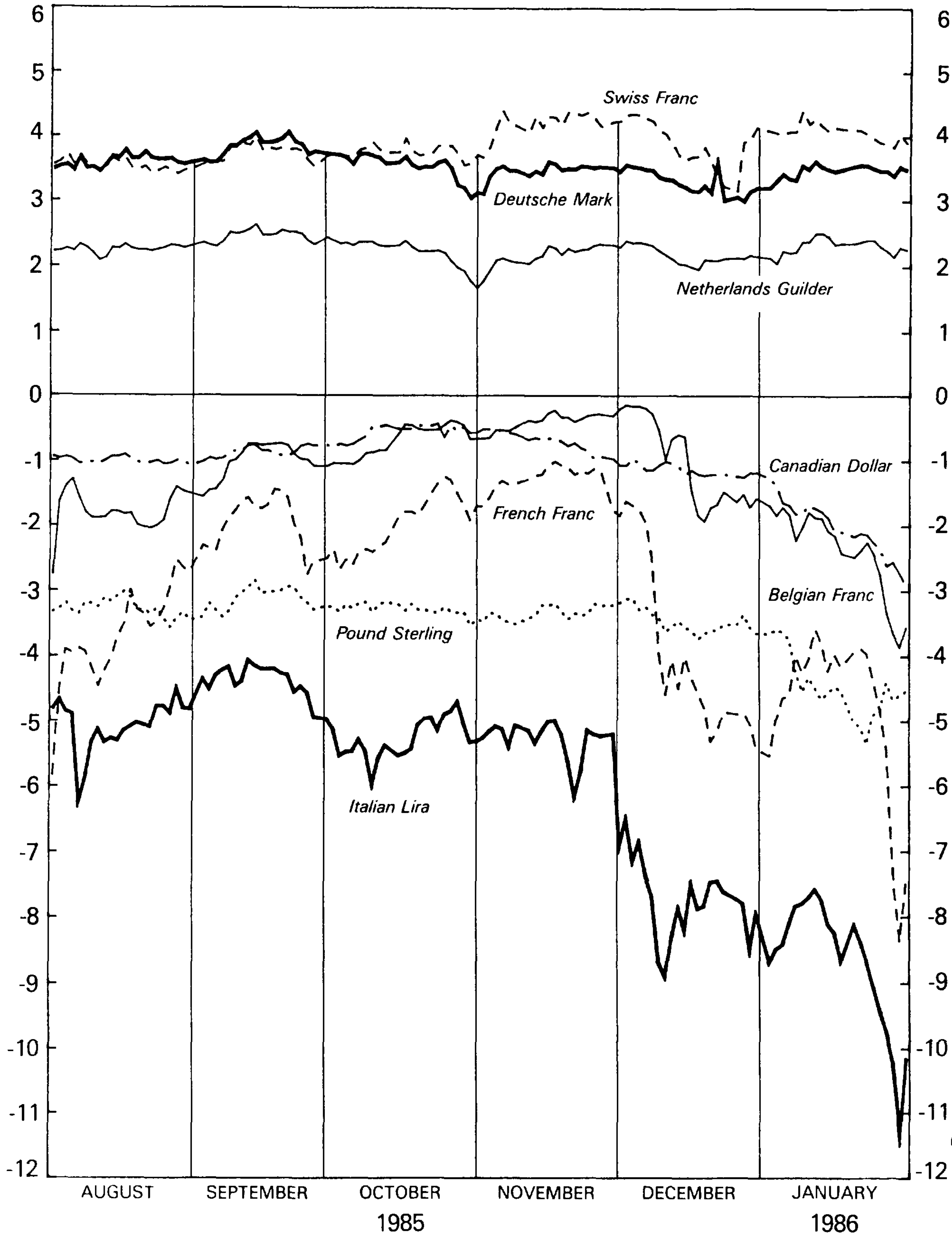


CHART 10

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)

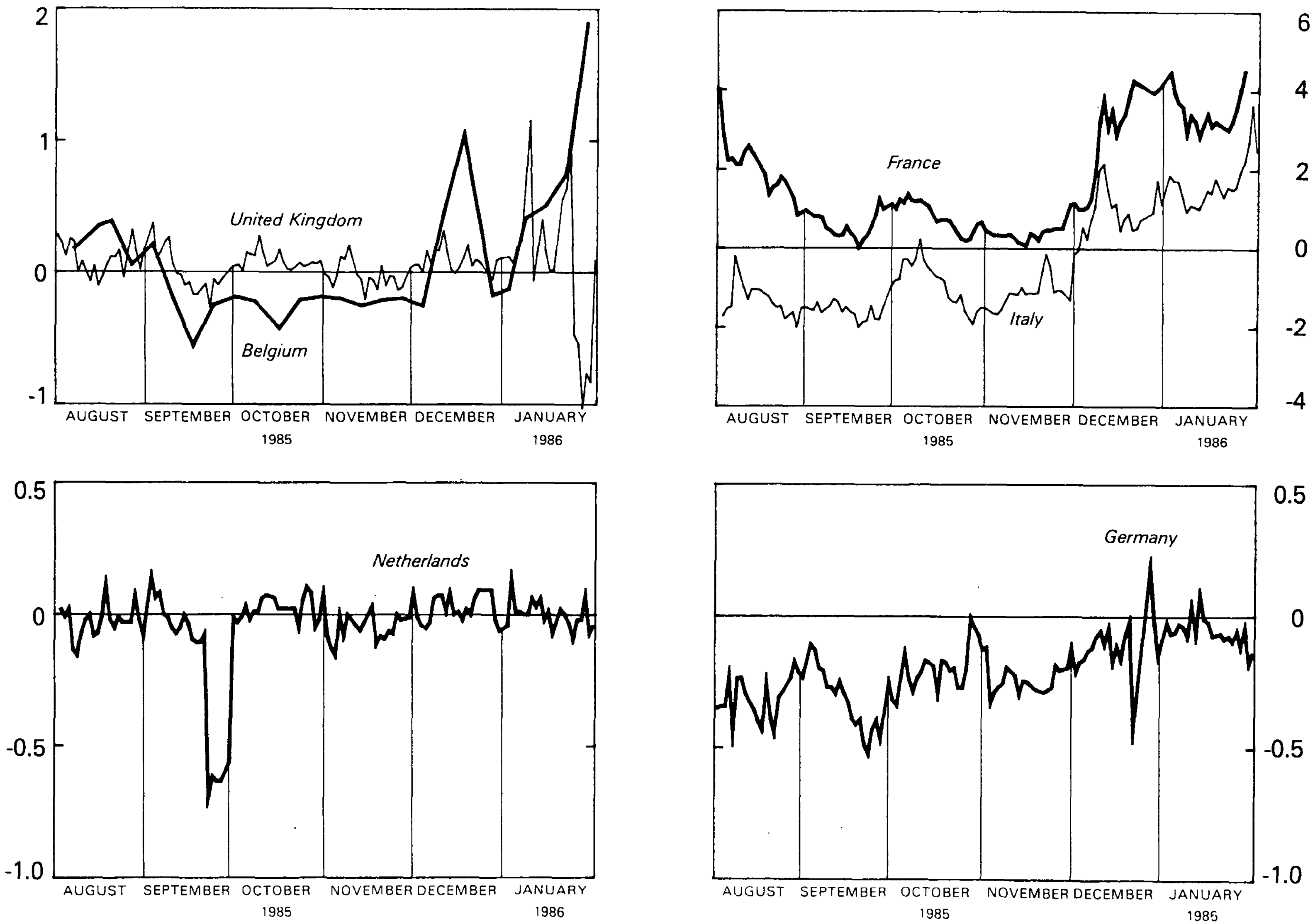
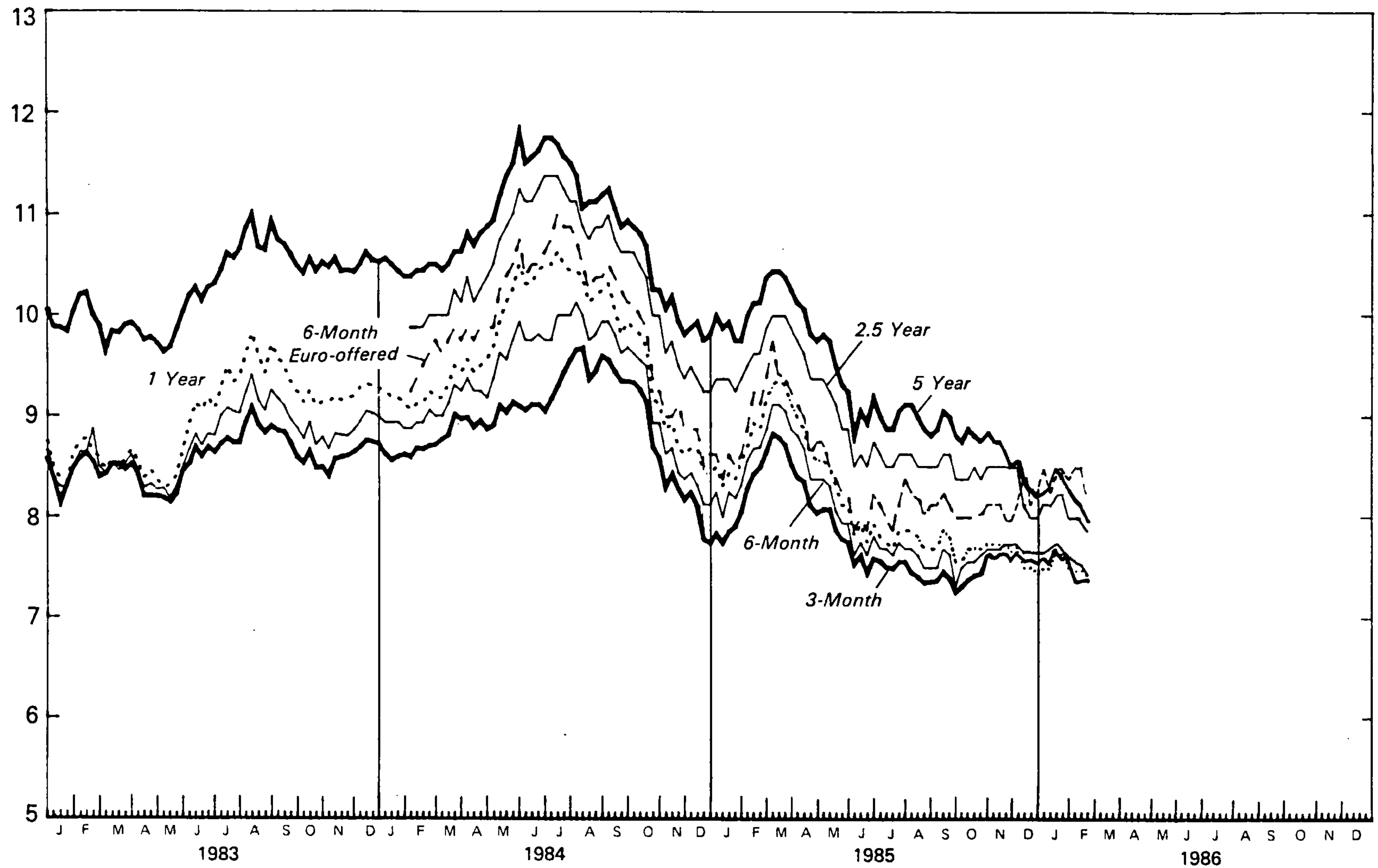


CHART 11

INTEREST RATES ON FUND-RELATED SDR ASSETS[1]

(In percent per annum; weekly Wednesday observations)



[1] Combined market rates according to Rule T-1.

Foreign Exchange Rates, December 1985-January 1986 1/

	December					January				
	4	11	18	24	31	2	8	15	22	29
Austrian schilling	17.6850	17.8850	17.6750	17.5950	17.1950	17.1950	17.2150	17.2950	17.2050	16.7950
Belgian franc										
Official	51.145	51.875	51.470	51.140	49.975	49.885	49.945	50.265	50.025	48.855
Financial	51.335	52.175	51.690	51.565	50.475	50.525	50.585	50.965	50.655	49.545
Canadian dollars	0.72002	0.71839	0.71659	0.71459	0.71556	0.71390	0.71365	0.71101	0.71197	0.70656
Danish kroner	9.1165	9.2170	9.1535	9.1000	8.9120	8.90350	8.97000	9.00950	9.00500	8.80300
Deutsche mark	2.51900	2.54250	2.51750	2.50300	2.44375	2.43750	2.45600	2.46225	2.44800	2.38850
French francs	7.6825	7.7575	7.7125	7.6630	7.4975	7.48400	7.53550	7.55250	7.51350	7.32550
Irish pounds	1.2263	1.2138	1.2232	1.2228	1.2508	1.24275	1.24050	1.24800	1.24150	1.26755
Italian lire	1718.500	1732.000	1718.375	1709.000	1664.500	1664.500	1674.000	1679.000	1669.000	1628.000
Japanese yen	202.600	203.850	203.100	202.725	200.075	199.100	202.050	202.450	201.650	194.050
Netherlands guilder	2.8343	2.8638	2.8365	2.8205	2.7510	2.74800	2.76675	2.77225	2.75725	2.70050
Norwegian kroner	7.5905	7.7435	7.7005	7.6555	7.5580	7.54850	7.56100	7.59400	7.59500	7.47400
Pounds sterling	1.4865	1.4153	1.4198	1.4270	1.4455	1.45100	1.44365	1.44250	1.39480	1.40300
Swedish kronor	7.6485	7.7525	7.7145	7.6750	7.5550	7.56850	7.61750	7.61900	7.62000	7.52500
Swiss francs	2.09500	2.12825	2.11350	2.10000	2.0590	2.04900	2.08500	2.09000	2.07900	2.02200

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.

Option Premiums on the Philadelphia Stock Exchange 1/

I. Deutsche Mark Contracts Expiring in March 1986 2/

	Striking price				
	38	39	40	41	42
End-of-month observations:					
	(Call option premiums)				
December	2.94	2.09	1.40	0.80	—
January	4.26	3.23	2.28	1.42	0.79
	(Put option premiums)				
December	0.11	0.23	0.49	0.95	--
January	--	0.03	0.05	0.18	0.50

II. Japanese Yen Contracts Expiring in March 1986 3/

	Striking price							
	44	45	47	48	49	50	51	52
End-of-month observations:								
	(Call Option Premiums)							
December	5.68	4.80	2.89	2.00	1.25	0.75	--	0.15
January	7.90	6.90	4.80	4.01	3.04	2.07	--	0.60
	(Put Option Premiums)							
December	--	--	--	0.14	0.34	0.74	1.44	--
January	--	--	--	0.02	--	0.08	0.26	0.60

1/ Options traded on the Philadelphia Exchange are "American options," meaning that they can be exercised at any time on or before the maturity date; so-called "European options" can only be exercised on the maturity date.

2/ The size of the Deutsche mark contracts is DM 62,500 and the premiums and striking prices are expressed in terms of U.S. cents per Deutsche mark.

3/ The size of the Japanese yen contracts is ¥ 6,250,000 and the premiums and striking prices are expressed in terms of U.S. cents per hundred yen.

APPENDIX C

Short- and Medium-Term Interest Rates

(Monthly and weekly averages)

	Domestic Money Markets 1/ (three-month): United States (1)	Germany (2)	United Kingdom (3)	France (4)	Japan (5)	Combined rate (6)	Eurocurrency Markets 2/ (three-month): U.S. dollar (7)	Deutsche mark (8)	Pound sterling (9)	French franc (10)	Japanese yen (11)	Swiss franc (12)	Lending Rates: LIBOR 3/ (13)	U.S. prime 4/ (14)	U.S. Treasury Securities (five-year) 5/ (15)
1985															
Jan.	8.02	5.95	10.61	10.60	6.29	7.89	8.44	5.77	11.64	10.71	6.31	5.12	8.91	10.61	10.93
Feb.	8.55	6.24	13.07	10.79	6.45	8.47	9.11	6.19	13.78	11.06	6.42	5.72	9.57	10.50	11.13
Mar.	8.82	6.48	13.45	10.88	6.48	8.70	9.36	6.18	13.62	11.11	6.41	5.80	10.04	10.50	11.52
Apr.	8.22	6.11	12.33	10.65	6.34	8.21	8.76	5.89	12.80	10.70	6.33	5.42	9.18	10.50	11.01
May	7.73	5.92	12.31	10.31	6.38	7.89	8.17	5.61	12.65	10.28	6.32	5.16	8.54	10.31	10.34
June	7.17	5.75	12.18	10.35	6.32	7.55	7.65	5.51	12.44	10.37	6.28	5.19	7.95	9.78	9.60
July	7.31	5.42	11.79	10.12	6.35	7.54	7.95	5.13	12.08	10.51	6.33	5.11	8.18	9.50	9.70
Aug.	7.36	4.85	11.24	9.95	6.41	7.42	8.08	4.65	11.50	11.86	6.37	4.66	8.33	9.50	9.81
Sept.	7.33	4.75	11.33	9.75	6.45	7.38	8.20	4.52	11.52	10.23	6.43	4.62	8.46	9.50	9.81
Oct.	7.39	4.87	11.34	9.46	6.80	7.44	8.15	4.71	11.54	10.17	6.80	4.57	8.32	9.50	9.69
Nov.	7.47	4.90	11.44	9.06	8.04	7.65	8.07	4.74	11.57	9.35	7.91	4.11	8.15	9.50	9.28
Dec.	7.33	4.90	11.41	9.07	8.10	7.57	8.05	4.82	11.73	11.79	7.59	4.22	8.11	9.50	8.73
1986															
Jan.	7.30	4.74	12.47	9.08	7.05	7.58	8.08	4.65	12.87	12.96	6.66	4.15	8.17	9.50	8.68
1985 Week ending:															
Jan. 4	8.09	5.86	9.33	10.81	6.31	7.83	8.73	5.61	10.27	10.72	6.19	4.77	9.27	10.75	11.16
11	8.01	5.85	9.57	10.67	6.25	7.79	8.39	5.60	10.23	10.60	6.22	4.75	8.94	10.75	11.07
18	7.99	6.02	10.52	10.52	6.31	7.87	8.41	5.90	12.05	10.81	6.33	5.28	8.93	10.68	11.01
25	7.91	5.96	11.74	10.52	6.31	7.91	8.31	5.77	12.17	10.77	6.39	5.35	8.75	10.50	10.70
Feb. 1	8.19	6.07	11.89	10.57	6.31	8.11	8.55	5.99	13.28	10.69	6.38	5.41	8.86	10.50	10.76
8	8.45	6.29	12.24	10.65	6.40	8.34	8.96	6.29	13.41	11.03	6.40	5.56	9.28	10.50	10.99
15	8.49	6.26	12.93	10.82	6.44	8.42	9.04	6.24	13.91	10.98	6.44	5.69	9.53	10.50	11.00
22	8.60	6.22	13.62	10.82	6.47	8.54	9.16	6.08	13.96	11.18	6.44	5.83	9.69	10.50	11.17
Mar. 1	8.77	6.26	13.84	10.87	6.50	8.66	9.41	6.15	14.07	11.14	6.43	5.88	10.02	10.50	11.47
8	9.00	6.52	13.82	10.90	6.50	8.83	8.61	6.31	14.01	11.33	6.43	5.91	10.40	10.50	11.51
15	8.85	6.60	13.73	10.90	6.48	8.75	9.33	6.31	13.59	11.15	6.43	5.80	10.01	10.50	11.54
22	8.81	6.45	13.41	10.90	6.51	8.70	9.24	6.09	13.32	11.01	6.42	5.78	9.93	10.50	11.60
29	8.58	6.39	12.74	10.82	6.44	8.50	9.20	6.00	13.47	10.95	6.38	5.73	9.78	10.50	11.43
Apr. 5	8.45	6.24	12.64	10.74	6.38	8.39	9.08	5.99	13.27	10.97	6.39	5.63	9.58	10.50	11.33
12	8.36	6.20	12.62	10.68	6.33	8.32	8.92	5.99	13.03	10.80	6.31	5.58	9.38	10.50	11.19
19	8.12	6.06	12.21	10.65	6.32	8.14	8.65	5.80	12.43	10.63	6.32	5.24	8.99	10.50	10.81
26	8.03	6.01	12.03	10.60	6.32	8.05	8.54	5.81	12.61	10.56	6.30	5.35	8.93	10.50	10.79
May 3	8.05	6.03	12.25	10.52	6.38	8.08	8.65	5.83	12.72	10.50	6.32	5.23	9.04	10.50	10.85
10	8.02	5.96	12.31	10.36	6.38	8.05	8.36	5.66	12.72	10.38	6.31	5.05	8.74	10.50	10.68
17	7.75	5.90	12.34	10.27	6.36	8.00	8.24	5.56	12.63	10.24	6.32	5.06	8.63	10.50	10.39
24	7.49	5.86	12.36	10.27	6.38	7.76	7.95	5.54	12.60	10.19	6.34	5.20	8.31	10.29	10.06
31	7.42	5.88	12.25	10.27	6.38	7.71	7.81	5.58	12.65	10.20	6.33	5.31	8.16	10.00	9.84
June 7	7.23	5.81	12.10	10.27	6.36	7.58	7.58	5.49	12.40	10.34	6.30	4.99	7.83	10.00	9.45
14	7.25	5.73	12.20	10.27	6.31	7.58	7.71	5.54	12.52	10.35	6.26	5.21	7.99	10.00	9.60
21	7.02	5.74	12.18	10.39	6.31	7.47	7.49	5.50	12.30	10.34	6.28	5.21	7.79	9.86	9.50
28	7.19	5.75	12.24	10.49	6.31	7.58	7.84	5.51	12.54	10.46	6.30	5.35	8.18	9.50	9.85
July 5	7.12	5.64	12.26	10.39	6.31	7.52	7.78	5.41	12.54	10.62	6.32	5.27	8.00	9.50	9.53
12	7.21	5.51	12.14	10.27	6.32	7.55	7.79	5.20	12.42	10.42	6.33	5.15	7.95	9.50	9.50
19	7.29	5.41	11.70	10.04	6.36	7.52	7.90	5.13	11.95	10.12	6.34	5.06	8.11	9.50	9.64
26	7.45	5.25	11.37	9.89	6.38	7.54	8.15	5.02	11.92	10.24	6.32	5.15	8.39	9.50	9.91
Aug. 2	7.51	5.15	11.23	9.99	6.38	7.55	8.20	4.86	11.40	12.42	6.32	4.78	8.53	9.50	10.01
9	7.44	4.96	11.24	10.01	6.38	7.47	8.14	4.76	11.54	12.00	6.33	4.61	8.43	9.50	9.98
16	7.35	4.88	11.23	9.97	6.39	7.41	8.08	4.67	11.43	12.30	6.38	4.68	8.33	9.50	9.84
23	7.30	4.76	11.20	9.89	6.44	7.36	8.03	4.50	11.41	11.38	6.40	4.68	8.25	9.50	9.67
30	7.30	4.71	11.30	9.89	6.44	7.37	8.03	4.55	11.61	11.06	6.40	4.67	8.27	9.50	9.66
Sept. 6	7.37	4.76	11.29	9.89	6.44	7.41	8.19	4.61	11.63	10.53	6.41	4.69	8.38	9.50	9.76
13	7.47	4.76	11.36	9.81	6.44	7.46	8.35	4.55	11.62	10.14	6.41	4.63	8.68	9.50	9.95
20	7.35	4.75	11.36	9.70	6.44	7.38	8.23	4.47	11.50	9.84	6.42	4.60	8.55	9.50	9.85
27	7.10	4.73	11.29	9.63	6.48	7.25	8.04	4.45	11.34	10.42	6.45	4.55	8.28	9.50	9.66
Oct. 4	7.24	4.76	11.31	9.61	6.47	7.31	8.12	4.56	11.51	10.64	6.44	4.61	8.27	9.50	10.16
11	7.40	4.80	11.26	9.51	6.49	7.38	8.19	4.64	11.52	10.56	6.45	4.52	8.38	9.50	10.26
18	7.44	4.86	11.33	9.43	6.51	7.42	8.18	4.70	11.51	10.19	6.54	4.56	8.37	9.50	10.11
25	7.45	4.89	11.40	9.38	6.69	7.46	8.15	4.73	11.56	9.71	6.92	4.56	8.31	9.50	10.03
Nov. 1	7.43	5.05	11.44	9.38	7.85	7.65	8.06	4.94	11.61	9.74	7.79	4.59	8.22	9.50	9.55
8	7.49	4.94	11.44	9.28	7.79	7.65	8.08	4.78	11.63	9.51	7.73	4.19	8.17	9.50	9.38
15	7.53	4.90	11.43	9.19	7.99	7.68	8.05	4.73	11.53	9.34	8.10	4.14	8.14	9.50	9.30
22	7.47	4.87	11.45	8.92	8.18	7.65	8.06	4.71	11.54	9.16	8.03	4.02	8.13	9.50	9.21
29	7.41	4.87	11.43	8.87	8.17	7.62	8.12	4.71	11.56	9.30	7.83	4.01	8.18	9.50	9.17
Dec. 6	7.48	4.92	11.32	9.00	8.18	7.66	8.20	4.81	11.56	9.93	7.83	4.05	8.25	9.50	9.12
13	7.32	4.87	11.39	9.05	8.24	7.59	8.08	4.80	11.74	11.95	7.94	4.19	8.14	9.50	8.76
20	7.29	4.90	11.45	9.13	8.08	7.56	7.90	4.80	11.76	12.55	7.45	4.29	7.96	9.50	8.55
27	7.25	4.92	11.49	9.13	7.98	7.53	8.04	4.94	11.83	12.46	7.31	4.56	8.11	9.50	8.54
1986 Week ending:															
Jan. 3	7.27	4.88	11.48	9.13	7.85	7.55	7.97	4.78	11.86	13.25	6.78	4.08	8.03	9.50	8.50
10	7.36	4.73	11.72	9.13	7.25	7.56	8.06	4.64	12.28	12.49	6.72	4.05	8.13	9.50	8.65
17	7.40	4.75	12.57	9.13	7.17	7.67	8.19	4.68	13.14	12.08	6.83	4.14	8.27	9.50	8.86
24	7.21	4.71	12.74	9.07	7.14	7.57	8.12	4.63	13.15	12.20	6.86	4.19	8.21	9.50	8.75
31	7.21	4.71	13.24	9.00	6.13	7.45	8.01	4.63	12.95	14.90	6.28	4.24	8.12	9.50	8.56

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 O-1 and the value in terms of the SDR of a unit of that currency as determined by the Fund under Rule O-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 money market 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 rate in London.

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

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.