11

DM/86/8

INTERNATIONAL MONETARY FUND

Treasurer's Department

Foreign Exchange and Financial Markets in December 1985

Prepared by Robert A. Feldman and Michael Blackwell

Approved by Orlando Roncesvalles

January 27, 1986

The U.S. dollar continued to ease against most other leading currencies in December, but by significantly less than in the previous month and in very quiet and generally less volatile year-end trading. In the first three weeks of December the dollar fluctuated without trend, but it subsequently eased in a generally steady fashion. The major factors affecting the markets were expectations of lower U.S. interest rates, with speculation centering around a cut in the discount rate, and concerns that central banks would intervene if the dollar were to show a rising trend, as was reportedly the case when the central banks of Germany and the United Kingdom intervened during the second week of the month. The dollar recorded a particularly sizable decline in the last two trading days of December led by the release of data showing of a wider-than-expected U.S. trade deficit in November. Over December as a whole, the U.S. dollar depreciated by about half a percent in effective (MERM) terms and against the SDR.

Apart from the U.S. dollar, several other currencies eased in effective (MERM) terms in December, with the pound sterling and the Canadian dollar posting the largest declines. Weakness in the world oil market and the announcement by OPEC Ministers of plans to protect their market share adversely affected the pound sterling on the exchange markets, even as U.K. interest rates remained at a relatively high level. The Bank of England, as noted above, intervened in the exchange market in the second week of December, when the pound sterling, under heavy selling pressure, depreciated by more than 4 percent against the U.S. dollar in the three days to December 11 to $1.4153 per pound on that date. Although the U.K. currency subsequently firmed to some extent, it remained depreciated by 2.95 percent against the U.S. dollar over the month as a whole; in effective (MERM) terms, the pound sterling eased by 3.45 percent. The Canadian dollar continued to ease, by about 1 percent against the U.S. dollar and by 1.27 percent in effective (MERM) terms, reflecting in part market concerns over domestic banking problems in Canada. The Norwegian krone, the Swedish krona, and the Swiss franc also eased in effective (MERM) terms by 0.31-0.66 percent.

The other leading currencies firmed by 0.44-2.79 percent against the U.S. dollar, with the currencies participating in the European Monetary System (EMS) firming by 1.71-2.79 percent (see Table 1 and Charts 2, 4, and 5). The divergence indicators for the currencies in the EMS all remained well within their thresholds throughout December except for the Belgian franc which came close to but did not cross its threshold (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. On two occasions before midmonth, when the French franc was the strongest currency in the EMS, its spread from the weakest currency widened beyond the permitted maximum margin, but returned to within the margin on the next day. After midmonth, the Deutsche mark or the Netherlands guilder frequently replaced the French franc as the strongest currency. The forward discount on the French franc widened markedly during the second part of December and the

Table 1. Changes in Exchange Rates in December 1985 1/

(In percent)

	Monthly exchange rate changes			Annual changes	
	Against U.S. dollar 2/	Against SDR 3/	Effective exchange rate 4/	Against U.S. dollar 2/	Effective exchange rate 4/
Belgium	2.11	0.75	0.11	26.48	4.91
Denmark	2.19	1.14	1.13	26.57	9.92
France	2.20	0.89	0.53	28.68	9.66
Germany	2.79	1.57	1.34	29.06	9.48
Ireland	1.71	0.78	0.86	26.43	7.78
Italy	2.79	1.18	0.82	16.22	-2.79
Netherlands	2.73	1.46	1.04	29.50	10.10
Austria	2.68	1.59	1.40	28.67	10.65
Canada	-0.98	-1.44	-1.27	-5.44	-11.04
Japan	0.99	0.27	0.32	25.73	14.46
Norway	0.44	-0.57	-0.59	20.20	4.47
Sweden	1.03	-0.20	-0.31	18.86	2.76
Switzerland	1.03	-0.26	-0.66	26.25	8.36
United Kingdom	-2.95	-3.05	-3.45	24.77	7.47
United States	--	-0.48	-0.50	--	-13.15

1/ Positive sign indicates appreciation of the currency.
2/ Based on end-month 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.

Bank of France reportedly intervened on occasion to support the French franc. The Belgian franc remained the weakest currency in the EMS throughout the month, and appeared at times to be under some speculative pressure. The forward discount on the Belgian franc widened during the month, and the National Bank of Belgium helped support its currency by intervening in the exchange markets and by raising interest rates (see Section II).

The volatility of exchange rates for major currencies against the U.S. dollar, as indicated by the measures given in Table 2, declined for most major currencies in December, after having risen in the previous month. For the EMS currencies, the high-low spreads fell to 3.0-4.1 percent in December from 3.9-4.6 percent in November, except for the Italian lira whose spread rose to 4.1 percent from 3.6 percent. For other currencies this measure similarly fell, to 0.8-5.2 percent from 1.2-5.5 percent. The average of absolute daily percentage changes of major currencies (MAC in Table 3 and Chart 6) against the U.S. dollar also declined. For the EMS currencies this measure dropped to an average of 0.38 percent in December from 0.47 percent in November. For most other major currencies, this measure was lower or unchanged, but it was somewhat higher for the Canadian dollar and the pound sterling; however, on an average basis it fell slightly to 0.36 percent in December from 0.37 percent in November. The Canadian dollar remained the least volatile currency against the U.S. dollar in December while the pound sterling was the most volatile.

Changes in the gross foreign exchange reserves of the major industrial countries in December were mixed (Table 3). Switzerland showed the largest gain while Denmark and Germany posted relatively small losses; each of these three countries posted significant increases in the previous month. Elsewhere, Italy continued to register a substantial loss, while the United Kingdom also continued to lose reserves. Most of the reserve increases, other than in Switzerland, were fairly moderate in December, except in Austria where reserves rose by over 10 percent. Over the latest 12-month period, most major industrial countries registered large increases in their gross foreign exchange reserves. The United States recorded a comparatively large increase, most of it accumulated during September and October when the Federal Reserve made large purchases of Deutsche mark and Japanese yen. Denmark, Germany, Switzerland, and the United Kingdom also experienced comparatively large foreign exchange gains in the latest 12-month period. Italy registered the largest foreign exchange loss in the latest 12-month period, with consecutive substantial declines in the latest four months, while Canada and Sweden also registered losses.

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

	December 2/		High-low spread in percent 3/		MAC 4/	
	High	Low	Nov.	Dec.	Nov.	Dec.
Belgium	49.975	51.875	3.9	3.8	0.48	0.42
Denmark	8.9120	9.2170	4.3	3.4	0.48	0.35
France	7.497	7.758	4.4	3.5	0.47	0.38
Germany	2.444	2.543	4.6	4.1	0.49	0.37
Ireland	1.25075	1.21380	4.3	3.0	0.47	0.36
Italy	1664.50	1732.000	3.6	4.1	0.40	0.40
Netherlands	2.7510	2.86375	4.6	4.1	0.48	0.38
Austria	17.195	17.885	4.4	4.0	0.48	0.35
Canada	0.720	0.714	1.2	0.8	0.12	0.16
Japan	200.075	204.715	4.1	2.3	0.42	0.34
Norway	7.558	7.743	4.1	2.5	0.35	0.35
Sweden	7.555	7.753	3.4	2.6	0.34	0.33
Switzerland	2.059	2.128	3.8	3.4	0.44	0.44
United Kingdom	1.488	1.415	5.5	5.2	0.47	0.54

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. Gross Foreign Exchange Reserves in December 1985 1/

(In millions of U.S. dollars)

	End-month reserve level	Change in December	Change over 12 months
Belgium	3,969	+60	+361
Denmark	5,004	-235	+2,361
France (November)	21,502	+421	+1,035
Germany	38,852	-151	+3,824
Ireland	2,698	-377	+555
Italy	14,028	-1,722	-5,061
Netherlands	9,170	+277	+1,392
Austria	4,112	+498	+526
Canada	1,574	-218	-167
Japan	22,328	+334	+45
Norway (November)	13,156	-4	+4,245
Sweden	3,035	-44	-379
Switzerland	17,463	+2,814	+2,757
United Kingdom	9,741	-547	+2,769
United States (November)	12,856	+303	+6,200

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.

From its peaks of last February, the U.S. dollar has depreciated substantially against the G-5 currencies and by almost 20 percent in effective (MERM) terms. The Japanese yen has risen by 30 percent against the U.S. dollar while both the Deutsche mark and the French franc have appreciated by around 41 percent and the pound sterling has appreciated by 37 percent. Most of the Japanese yen's appreciation (20 percent) has taken place since late September when the G-5 Ministers agreed on coordinated efforts to encourage a lower U.S. dollar. The appreciation of the other G-5 currencies, by comparison, has been less marked since then, at around 16 percent for both the Deutsche mark and the French franc, and 6 percent for the pound sterling (Table 4 and Chart 1).

Table 4. Changes in Selected Exchange Rates 1/

(In percent)

	Between end-June 1980 and lows against the U.S. dollar (February 1985) 2/	Through end-December 1985	
		From February 1985 2/	From September 20, 1985 3/
Deutsche mark	-48.90	+41.25	+16.48
Pound sterling	-55.33	+37.34	+5.68
French franc	-61.22	+40.78	+15.75
Japanese yen	-16.44	+31.49	+19.98
U.S. dollar effective exchange rate (MERM)	+73.82	-19.60	-10.47

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.

Over the calendar year 1985, the U.S. dollar eased substantially against all the major currencies reported in Table 1, except against the Canadian dollar. The U.S. dollar, as noted above, hit its peak in late February, supported by strong U.S. economic growth in the latter part of 1984 and expectations that strong growth would continue. The dollar was further supported by expectations that U.S. budget deficits were unlikely to narrow substantially in 1985 and would provide continued upward pressure on interest rates. The dollar's rapid rise in February was, however, arrested late in that month by large-scale concerted central bank intervention, estimated at about $4 billion over the three days starting on February 27. Subsequently, a number of other factors contributed to downward pressure on the dollar. A sharp slowdown of U.S. economic growth became evident for the first half of the year, and reports of financial difficulties at some U.S. savings and banking institutions contributed to market nervousness. Of possibly greater importance was the significant decline in U.S. interest rates over the first half of the year--the Federal Reserve cut its discount rate from 8 percent to 7 1/2 percent in May--while interest rates remained comparatively steady or rose in a number of other countries. Downward pressure on the dollar was renewed in late September when the G-5 countries (Germany, Japan, France, the United Kingdom, and the United States) agreed to concerted action to lower the value of the U.S. dollar. The G-5 central banks sold more than $8 billion in the six weeks through October 31. Such intervention appeared to be a major factor affecting market sentiment toward the dollar, and its effects on the dollar's value against the yen were aided further by a rise in Japanese interest rates and against all currencies by the sluggishness of the U.S. economy, and its expanding trade and current account deficits. Toward the end of the year, the U.S. dollar was further weakened by expectations of declining U.S. interest rates and of a cut in the Federal Reserve's discount rate. The U.S. dollar eased by about 13 percent in effective (MERM) terms from the end of 1984 to the end of 1985.

The currencies participating in the exchange arrangements of the European Monetary System firmed by 26-30 percent against the U.S. dollar over this period, except for the Italian lira which firmed by around 16 percent. Pressures within the EMS were fairly subdued until July when concerns about Italy's external accounts played an important role in the devaluation of the lira in that month. After the devaluation, the lira was the strongest currency in the EMS until November when it was replaced by the French franc. Other currencies firmed by 19-29 percent against the U.S. dollar in 1985, except for the Canadian dollar which eased by about 5 1/2 percent. The Japanese yen, the pound sterling, and the Swiss franc all firmed by about 25 percent.

Interest rates ended the calendar year in most industrial countries at somewhat lower levels than those prevailing at the end of 1984. As a general pattern, interest rates tended to firm during the first quarter, reaching peaks for the year in the month of March, eased in the second and third quarters, and firmed again in the final quarter. The two most important exceptions to this picture were interest rates in Japan and the United Kingdom which firmed significantly as domestic monetary conditions were tightened in support of the authorities' exchange rate policies (see below). In the United States, short-term rates firmed in the early part of the year as the domestic economy continued to grow strongly and amid market concerns over the large Government budget deficit. By April, however, indications of a slowdown of the U.S. economy led to expectations, which were soon realized, that the Federal Reserve would ease constraints on the availability of bank reserves, and rates fell to their lowest levels in June. Expectations of an accommodative stance in the Federal Reserve's policies were supported by a reduced emphasis given to money supply growth that remained well above the target ranges, even after these ranges were rebased on 1985 second quarter levels. For the remainder of the year, U.S. interest rates remained fairly steady, with the average bond equivalent yield on three-month U.S. Treasury bills for December of 7.33 percent being 1 percentage point lower than in December 1984. In Japan, money market conditions were relatively stable during the first ten months of the year with the monthly average interest rate on two-month private bills firming by about 0.38 percentage point in comparison with the December 1984 level of 6.41 percent. The average rate for the final two months of the year, however, rose very sharply as the Japanese authorities aimed at stimulating the demand for yen-denominated assets as part of the effort to help boost the value of the yen as called for by the G-5 understanding of late September. The monthly average rate for December was 8.10 percent, 1.69 percentage points higher than in December 1984. As mentioned in Section II, yen interest rates began to ease somewhat in the second half of December following the desired significant appreciation of the yen against the U.S. dollar through most of October and November. In the United Kingdom, the yield on three-month Treasury bills rose by more than 4 percentage points during the first quarter as sterling came under heavy downward pressure. After reaching a peak monthly average of 13.44 percent in March, the Treasury bill rate declined to 11.25 percent in August and then stayed relatively stable, finishing the year at 11.41 percent in December compared with the average rate of 9.29 percent for December 1984. Rates on the Canadian dollar, the Deutsche mark, and the French franc all followed a similar pattern; they reached their peak level in March, gradually eased toward the middle of the year and closed the year on a firming trend. The average short-term interest rate on the Canadian dollar for the month of December was 9.06 percent down 1.15 percentage points from December 1984. Corresponding rates for the Deutsche mark and the French franc were 4.91 percent (down 1.00 percentage point) and 9.07 percent (down 1.83 percentage points).

I. Developments in Major Factors Affecting the Exchange Market in December

The U.S. dollar eased in December against most other leading currencies, depreciating by 0.50 percent in effective (MERM) terms and by 0.48 percent against the SDR. Most of its depreciation occurred during the latter part of the month and reflected in part expectations of easing U.S. interest rates to stimulate the sluggish economy. Declining oil prices and approval of balanced budget legislation also helped fuel expectations of a more accommodative Federal Reserve policy and therefore of easing U.S. interest rates. A number of indicators continued to point to a sluggish economy, most roughly in line with market expectations. One major exception was the U.S. merchandise trade data released on the last day of the month when the dollar posted a significant decline; the data showed a wider-than-expected trade deficit of $13.68 billion in November, the third highest level ever, after an October deficit of $11.45 billion. The U.S. trade deficit for the first 11 months of 1985 was $131.8 billion, compared with $115.36 billion for the same period of 1984. The index of leading economic indicators, released on the second to the last day of the month, posted an unexpectedly small increase of 0.1 percent in November after 0.4 percent growth in each of the two preceding months, and this also pushed the dollar down at month end.

U.S. real GNP grew by a somewhat stronger-than-expected 3.2 percent at a seasonally adjusted annual rate in the fourth quarter, according to the "flash" estimate, but third quarter growth was revised downward to 3 percent from 4.3 percent; growth in the implicit GNP price deflator was 2.5 percent in the fourth quarter and was revised from 2.3 percent to 2.9 percent in the previous quarter. Retail sales rose 1.1 percent in November, but the previously reported decline of 3.3 percent in October was revised to 4.2 percent. U.S. factory orders rose 1.0 percent in November after a 1.0 percent decline in October, and industrial production rose 0.4 percent in November after a similar percentage decline in October. Housing starts fell 12.2 percent in November after a revised increase of 9 percent in October. Capacity utilization, however, rose to 80.1 percent in November from 79.9 percent in October, while personal income rose 0.6 percent in November after a 0.5 percent increase in October. The Federal Budget deficit was $33.4 billion in November compared with $27.1 billion in October and $28.9 billion a year earlier. Labor market data suggested some economic strength, with the unemployment rate (released in January) declining to 6.9 percent in December from 7.0 percent in November; the average rate for 1985 was 7.2 percent, down from 7.5 percent for 1984 and the lowest since 7.1 percent in 1980. Inflation remained moderate: the producer price index rose 0.4 percent in December after a 0.8 percent increase in November and the consumer price index rose 0.6 percent in November after a 0.3 percent increase in October.

The Deutsche mark firmed by 2.79 percent against the U.S. dollar, *the largest of any currency, and by 1.34 percent in effective* (MERM) terms. Comments by German officials rejecting calls for a more relaxed monetary policy, and optimism about the prospects for the German economy in terms of strong real growth and low inflation supported demand for Deutsche mark. On the price front, the cost of living index rose 0.1 percent in December and 1.8 percent year-on-year after similar increases in the previous month, while import prices fell 0.8 percent in November and were 4.8 percent lower than a year earlier, and the wholesale price index rose 0.2 percent in November but fell 0.6 percent year-on-year. On the output front, although Germany's seasonally adjusted industrial production index fell a provisional 0.2 percent in November, it rose 4.6 percent year-on-year, and October's increase was revised up from 1.8 percent to 3.1 percent. Further, the volume of manufacturing industry incoming orders, seasonally adjusted, rose 1.8 percent in November after rising 1.9 percent in October, while seasonally adjusted unemployment was unchanged in December. Real GNP rose a provisional 2.5 percent in 1985 after a gain of 2.6 percent in 1984. In other developments, the current account surplus narrowed to a provisional DM 4.7 billion in November from DM 6.2 billion in October and DM 6.1 billion in November 1984.

The French franc firmed by 2.20 percent against the U.S. dollar and by 0.53 percent in effective (MERM) terms. France's trade account, seasonally adjusted, switched to a deficit of F 486 million in November from a surplus of F 982 million in October; for the first 11 months of 1985 the unadjusted trade deficit widened to F 20.2 billion from F 19.4 billion in the same 1984 period. France's current account surplus expanded, however, to a seasonally adjusted F 1.6 billion in October from F 1.1 billion in September. Industrial production rose by a seasonally adjusted 0.75 percent in October following a 1.5 percent decline in the previous month and was unchanged year-on-year. The number of persons unemployed subsequently fell by a seasonally adjusted 0.5 percent in November after a 0.7 percent decline in October. Real GDP rose 0.3 percent in the third quarter after growing by 1.0 percent in the second quarter. Retail prices rose a provisional 0.1 percent in December and 4.7 percent year-on-year while industrial wholesale prices fell a provisional 1 percent in November after a 0.7 percent decline in October for a 1.3 percent year-on-year drop.

The Belgian franc firmed by 2.11 percent against the U.S. dollar and by 0.11 percent in effective (MERM) terms; it remained, however, the weakest currency in the EMS throughout December, and interest rates were raised in support of the currency during the month (see Part II). The Belgium-Luxembourg Economic Union posted a BF 4.3 billion trade deficit in November after a BF 4.3 billion surplus in October. Belgium's industrial production rose 18 percent in September, due mostly to the start-up of the building industry after summer holidays, and by 5.3 percent year-on-year. The unemployment rate rose slightly to 12.9 percent at end-December from 12.8 percent at end-November, but it was down sharply from the 14.7 percent recorded at end-December 1984. Consumer prices were unchanged in December and up 4.0 percent year-on-year.

The Netherlands guilder firmed by 2.73 percent against the U.S. dollar and by 1.04 percent in effective (MERM) terms. The Netherlands' trade account posted a provisional f. 200 million surplus in October after swinging to a f. 600 million surplus in September from a f. 600 million deficit in the preceding month. Its seasonally adjusted current account surplus narrowed to f. 2.8 billion in the third quarter from f. 5.3 billion in the second quarter and f. 4.0 billion in the third quarter of 1984. Industrial production, seasonally adjusted, was unchanged in October, after a 3.9 percent drop in September, but increased 1.9 percent year-on-year. The number of persons unemployed fell a seasonally adjusted 0.5 percent in December and 5.1 percent from a year earlier.

The Danish krone firmed by 2.19 percent against the U.S. dollar and by 1.13 percent in effective (MERM) terms. Denmark's trade deficit was DKr 90 million in November compared with DKr 1.87 billion in October and a surplus of DKr 355 million in November 1984. Its seasonally adjusted unemployment rate fell to 8.2 percent in November from 8.3 percent in October and 9.6 percent a year earlier. Wholesale prices fell 0.4 percent in November and 0.1 percent year-on-year while consumer prices rose 0.4 percent and 3.4 percent, respectively, in the same period.

The Irish pound firmed by 1.71 percent against the U.S. dollar and by 0.86 percent in effective (MERM) terms. The unemployment rate rose to 18.0 percent in December from 17.2 percent in November.

The Italian lira appreciated by 2.79 percent against the U.S. dollar and by 0.82 percent in effective (MERM) terms. The lira, which had been the strongest currency in the EMS from the time of its devaluation in July through part of November, remained within the narrow band throughout December. Italy's overall balance of payments deficit was Lit 2,048 billion in November compared with Lit 495 billion in October. Industrial production fell 0.9 percent over the year to October after a 4.5 percent increase over the year to September, while the unemployment rate rose to 11 percent in October from 10.6 percent in July (the last available monthly figure) and 10.2 percent in October 1984. Inflation, as measured by wholesale prices, slowed to 0.3 percent in October and 5.9 percent year-on-year from 0.5 percent in September and 6.4 percent year-on-year. Consumer prices rose 0.7 percent in December and 8.6 percent year-on-year, the same as in November.

The pound sterling eased by 2.95 percent against the U.S. dollar and by 3.45 percent in effective (MERM) terms. Declining oil prices put downward pressure on the pound, and more than offset the effects of relatively high U.K. interest rates and some Bank of England intervention. The U.K. current account surplus was estimated at a seasonally adjusted £259 million in November compared with £400 million in October, with the trade account moving to a £141 million deficit in November from balance in October. Industrial production, seasonally adjusted, fell 0.3 percent in October but was up 5.4 percent from a year earlier, while the volume of retail sales rose a seasonally adjusted 0.3 percent in December after a 3.7 percent increase in the previous month. The seasonally adjusted unemployment rate rose slightly to 13.2 percent in December from 13.1 percent in November. The public sector borrowing requirement was £702 million (provisional) in November, bringing the total for the first eight months of the 1985/86 fiscal year to £6.1 billion compared with £9.6 billion in the first eight months of the previous fiscal year. Producer prices rose a provisional 0.2 percent in December following a 0.4 percent rise in November for a 5.0 percent year-on-year increase. Average earnings rose 6.0 percent in the year to October after a 10.1 percent year-on-year increase in September and the retail price index rose 0.3 percent in November for a 5.5 percent year-on-year rise.

The Swiss franc firmed by 1.03 percent against the U.S. dollar but eased by 0.66 percent in effective (MERM) terms. Switzerland's trade balance swung to a Sw F 90.9 million surplus in November from deficits of Sw F 582.8 million in October and Sw F 184.6 million in November 1984. Real GDP rose 3.2 percent year-on-year in the third quarter following a 3.4 percent year-on-year increase in the previous quarter, and the unemployment rate rose slightly to 0.9 percent in November from 0.8 percent in both September and October. In December, consumer prices rose 0.1 percent and were up 3.1 percent year-on-year, while wholesale prices in November were unchanged but up 1.0 percent year-on-year.

The Japanese yen firmed by 0.99 percent against the U.S. dollar and by 0.32 percent in effective (MERM) terms. Market participants interpreted statements by Japanese officials to mean that a further fall of the dollar against the yen was not considered desirable. The Governor of the Bank of Japan said, for example, that short-term interest rates would no longer be kept high to push up the value of the Japanese currency. Japan's current account surplus narrowed to \$4.52 billion in November from \$4.77 billion in October, but its trade surplus widened over the same period to \$4.78 billion from \$4.40 billion. Industrial output, seasonally adjusted fell 1 percent in November after a 1 percent increase in the previous month, and the unemployment rate rose 0.1 percentage point in November to 2.9 percent. Consumer prices fell 1 percent in November after a 1.4 percent increase in October for a 1.9 percent year-on-year increase.

The Canadian dollar eased by 0.98 percent against the U.S. dollar and by 1.27 percent in effective (MERM) terms. Canada's trade surplus fell to Can\$0.5 billion in November from Can\$2.2 billion in October and Can\$2.0 billion in November 1984. Retail sales, seasonally adjusted, rose 0.1 percent in October after a 0.6 percent increase in September for a 11.4 percent year-on-year rise. Canada's composite leading indicator index posted its fourth consecutive monthly increase with a 1.26 percent rise in September after a 1.02 percent increase in August. The seasonally adjusted unemployment rate fell to 10.0 percent in December from 10.2 percent in November and 10.9 percent in December 1984. The Federal Government's budget deficit widened to Can\$2.79 billion in September from Can\$2.65 billion a year earlier and for the April-September period, the first six months of the Government's financial year, the combined deficit was Can\$16.88 billion compared with Can\$16.97 billion a year earlier. Consumer prices rose 0.4 percent in November and 4.0 percent year-on-year.

The Austrian schilling firmed by 2.68 percent against the U.S. dollar and by 1.40 percent in effective (MERM) terms. Consumer prices rose 0.2 percent in November and 2.6 percent year-on-year, while wholesale prices rose 0.4 percent in November but fell 0.1 percent year-on-year.

The Norwegian krone firmed by 0.44 percent against the U.S. dollar but eased by 0.59 percent in effective (MERM) terms. Norway's trade surplus widened to NKr 614 million in November from NKr 573 million in October. Its unemployment rate rose to 2.5 percent in December from 2.3 percent in November but fell from the 3.8 percent recorded in December 1984. Consumer prices rose 0.3 percent in December and 5.6 percent year-on-year.

The Swedish krona firmed by 1.03 percent against the U.S. dollar but eased by 0.31 percent in effective (MERM) terms. Sweden's trade surpus widened to SKr 3.4 billion in November from SKr 2.0 billion in October and SKr 2.9 billion a year earlier; November was the seventh consecutive month to show a rising trade surplus. Its current account was in deficit by SKr 100 million in October, however, after a surplus of SKr 600 million in the previous month; in the nine months up to October Sweden had a deficit of SKr 11.1 billion compared with a surplus of SKr 2.9 billion in the same 1984 period. Industrial production rose 0.3 percent in October and 0.9 percent year-on-year while the unemployment rate was 2.7 percent in December, up from 2.6 percent in November but down from 2.8 percent a year earlier. The producer price index rose 0.5 percent in November and 4.2 percent year-on-year, while consumer prices in the same period rose 0.7 percent and 7.0 percent, respectively.

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

In December short-term interest rates were mixed; they firmed in the Western European countries and Canada but eased in the United States and Japan. Inflation rates declined in several countries and generally remained subdued with year-on-year price increases at less than five percent in most countries (Table 5 and Chart 8).

During the month of December in the United States, there were persistent expectations that the Federal Reserve might consider lowering the discount rate. These expectations were fueled by economic data released during December, which pointed to sluggish economic growth and, after the OPEC meeting of December 7-8, by the prospect of softer oil prices and continuing low inflation. In these circumstances, the yield on three-month U.S. Treasury bills eased by 0.11 percentage point in December to 7.28 percent at the end of the month, while the 90-day CD rate eased by 0.13 percentage point over the same period to 7.72 percent. Longer-term interest rates eased by greater amounts, attributed in large part to the passing of the Gramm-Rudman Act that would require automatic yearly reductions of the government budget deficit. Yields on U.S. Treasury securities with maturities from one to 30 years fell markedly by 0.25 to 0.60 percentage point from end-November to end-December; the five-year constant maturity rate fell from 9.07 percent at end-November to 8.49 percent at end-December. In contrast, the effective Federal funds rate was firmer in December, moving with the range of 7.62-9.08 percent (and up to 13.46 percent on the last day of the month), compared with a

Table 5. 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): November	December
Austria	October	0.7	(3.1)	2.7	(2.9)	4.00	4.00
Belgium	Sept./Dec.	-1.0	(-1.0)	4.0	(4.2)	8.60	9.75
Canada	Sept./Nov.	4.8	(4.3)	4.0	(4.2)	8.85	9.26
Denmark	November	-0.1	(0.6)	3.4	(3.8)	7.00	7.00
France	Nov./Dec.	-0.6	(-1.3)	4.7	(4.8)	8.87	9.13
Germany	Nov./Dec.	-0.6	(-1.4)	1.8	(1.8)	4.87	4.95
Italy	Nov./Dec.	5.8	(5.9)	8.6	(8.6)	14.63	14.75
Japan	November	-3.8	(-3.2)	1.9	(2.3)	8.17	7.79
Netherlands	Aug./Nov.	1.0	(1.3)	1.7	(1.9)	5.81	5.84
Norway	Nov./Dec.	3.4	(5.3)	5.6	(5.8)	8.00 5/	12.50
Sweden	November	4.2	(4.1)	7.0	(6.9)	10.50	10.50
Switzerland	November	1.0	(0.9)	3.1	(3.0)	4.06	4.06
United Kingdom	November	5.1	(5.1)	5.5	(5.4)	11.31	11.48
United States	Dec./Nov.	1.8	(1.5)	3.6	(3.2)	7.39	7.28

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; interbank 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.
5/ The rate for November is the central bank discount rate; from December 1985 the Norwegian three-month interbank rate will be used.

range of 7.29-8.58 percent in November. In terms of monthly averages the rate moved up from 8.05 percent to 8.27 percent. The M1 measure of the U.S. money supply, seasonally adjusted, averaged $624.7 billion in the week ended December 30, compared with $621.00 billion in the week ended November 25. M1 grew by 11.6 percent over the year, well above the upper limit of the Federal Reserve's target range based on 3-8 percent annual growth from the second to the fourth quarter of 1985.

Money market conditions firmed in December in most of the countries participating in the exchange arrangements of the European Monetary System (EMS). As the Belgian franc came under pressure in the EMS, Belgium raised the rate of interest on one-, two- and three-month Treasury bills by 0.25 percentage point on December 13 and by a further 0.90 percentage point to 9.75 percent on December 17. The National Bank of Belgium raised its discount rate by 1.00 percentage point to 9.75 percent and its Lombard rate by 1.25 percentage points to 10.25 percent. The rate on four-month Fonds des Rentes was raised by 1.15 percentage points to 9.75 percent in the last week of the month. In France, the three-month interbank money rate rose from 8.87 percent at end-November to 9.13 percent at end-December. The Bank of France announced that it would move its focus from M2 to a revised version of M3 in the formulation of monetary policy during 1986. 1/ The Bank set a target range of 3-5 percent for M3 growth between the last quarters of 1985 and 1986--somewhat less than the actual increase of the preceding 12-month period. In Italy the three-month interbank money rate firmed from 14.63 percent at end-November to 14.94 percent at mid-December before easing back to 14.75 percent at the month end. In Germany the three-month interbank deposit rate was narrowly mixed during December, but ended the month at 4.95 percent up 0.08 percentage point from end-November. According to provisional estimates, Germany's central bank money stock, seasonally adjusted, fell by DM 400 million in December to DM 203.3 billion, resulting in a yearly increase of 4.5 percent, which was within the 3-5 percent target range set by the Bundesbank for growth from the fourth quarter of 1984 through the fourth quarter of 1985. The Bundesbank set a slightly higher target range of 3.5-5.5 percent growth during the same period in 1985-86.

Among the other major countries, short-term interest rates rose in Canada and the United Kingdom but declined on balance in Japan. The three-month Treasury bill rate in Canada firmed from 8.85 percent at the end of November to 9.26 percent at the end of December. Short-term interest rates in the United Kingdom firmed during the month as the softening of oil prices subjected the pound to speculative pressures. The three-month Treasury bill rate firmed, amid fluctuations, to 11.48 percent at the end of December from 11.31 percent at the end of the previous month. The three-month interbank rate also fluctuated throughout the month but closed December at 11.88 percent up from the

---

1/ In France M2 money supply comprises currency in circulation and sight and term deposits held at banks and at the Treasury. The revised M3 money supply embraces M2 plus negotiable securities issued by banks and short-term deposits of open-ended mutual funds and other equity funds.

11.56 percent recorded at end-November. The latest Bank of England data showed that sterling M3, seasonally adjusted, rose 0.60 percent in the three weeks to December 11, following a 2.0 percent rise in the five weeks to November 20. The year-on-year growth rate was 15.10 percent in December, 0.60 percentage point higher than in November, and well above the annual target for the year ending in March 1986 of 5-9 percent. However, in the formulation of monetary policy, the U.K. authorities are now placing less emphasis on sterling M3 and focusing more on M0 which grew more modestly by 0.30 percent in banking December and by 2.40 percent year-on-year. 1/ Short-term interest rates in Japan firmed in the first half of December amid heavy seasonal demand for liquidity but declined steadily thereafter as the Japanese authorities adopted an easier monetary policy, with a view to preventing the yen exchange rate strengthening further beyond ¥ 200 per U.S. dollar. At end-December the rate on two-month private bills had fallen to 7.79 percent from 8.17 percent at end-November and from its mid-December peak of 8.24 percent.

Three-month interest rates in the eurocurrency markets were mixed in December. Rates on the euro-French franc rose sharply from 9.75 percent at end-November to 13.38 percent at end-December amid rumors of a possible realignment within the European Monetary System. Rates on euro-sterling rose steadily ending the month up by 0.32 percentage point at 11.88 percent. In contrast, rates on the euro-yen and the eurodollar eased over the course of the month. Rates on the euro-yen firmed from 7.75 percent at end-November to 7.94 percent at midmonth, but then, as in the domestic markets, began to decline, ending December some 1.25 percentage points lower than the midmonth peak at 6.69 percent. Eurodollar interest rates were volatile during the month, moving within the range 7.94-8.25 percent, but closing the month at the bottom of this range, down 0.19 percentage point from end-November. Rates on the euro-Deutsche mark and the euro-Swiss franc while firming in midmonth had eased back by the end of the month to the same levels recorded at end-November, 4.81 percent and 4.06 percent respectively.

As a result of the movements of eurodollar and domestic interest rates since the end of November, the uncovered interest differentials favoring eurodollar investment narrowed for Germany and the Netherlands. During the same month the uncovered interest differentials favoring domestic investment in November widened for Belgium, France, Italy and the United Kingdom, but switched back to favoring eurodollar investment in Japan (see Table 6).

1/ Sterling M3 comprises all notes and coins in circulation plus all sterling deposits (including certificates of deposit) held by U.K. residents in the private sector. M0 comprises all notes and coins in circulation with the public plus banks' till money and banks' operational balances with the Bank of England.

Table 6. 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)	
	November	December	November	December	November	December
Belgium	-0.47	-1.81	-0.31	-1.57	-0.16	-0.24
France	-0.74	-1.19	-1.76	-5.42	+1.02	+4.23
Germany	+3.26	+2.99	+3.52	+3.21	-0.26	-0.22
Italy	-6.50	-6.81	-5.20	-7.95	-1.30	+1.14
Japan	-0.04	+0.15	+0.37	+1.21	-0.41	-1.06
Netherlands	+2.32	+2.10	+2.32	+2.16	--	-0.06
United Kingdom	-3.18	-3.54	-3.22	-3.65	+0.04	-0.29

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, and the Netherlands guilder, but widened for the Japanese yen. The discounts against the U.S. dollar widened very sharply for the French franc, and also for the Italian lira, the Belgian franc, and 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 sharply toward favoring eurodollar investment. They moved toward favoring domestic investment for Japan, the United Kingdom and (to a lesser extent) Belgium. Covered interest differentials were little changed for Germany and the Netherlands.

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

The SDR interest rate eased to 7.49 percent for the week beginning December 30 from 7.65 percent for the week beginning November 25 (see Table 7). The three-month U.S. Treasury bill rate eased by 0.28 percentage point while the discount rate on two-month private bills in Japan eased by 0.19 percentage point. The yield on the relevant French instrument firmed, however, by 0.25 percentage point while the relevant U.K. and German yields were little changed.

Table 7. The SDR Interest Rate and the Rate of Remuneration 1/

	November 25	December 2	9	16	23	30
SDR interest rate	7.65	7.60	7.67	7.53	7.53	7.49
Rate of remuneration	7.11	7.07	7.13	7.00	7.00	6.97

1/ The rates apply to the weeks beginning with the dates indicated.

Over the calendar year, the SDR interest rate eased from 7.79 percent in the week beginning December 31, 1984 to 7.49 percent in the week beginning December 30, 1985. The SDR interest rate rose steadily in the first two months of 1985 reaching its highest point, 8.78 percent, in the week beginning March 4. It then fell gradually until it reached its lowest point, 7.24 percent, in the week beginning September 30. It fluctuated during the remainder of the year but did not rise beyond 7.72 percent. Overall, the SDR interest rate fluctuated less than in 1984 when it moved in the range of 7.79-9.67 percent but more than in 1983 when it moved within the narrow range of 8.47-9.03 percent. The maximum absolute weekly change in the SDR interest rate was 0.38 percentage point that occurred between the weeks of March 4 and March 11.

In December, combined domestic interest rates eased by 0.06-0.38 percentage point. Yields on the relevant instruments in the United States and in Japan eased across the board by 0.13-0.56 percentage point and by up to 1.05 percentage points respectively. Interest rates in Germany eased by 0.01-0.16 percentage point for maturities of 12 months or more, remained unchanged for the six-month maturity and firmed by 0.10 percentage point for the three-month maturity. Interest rates in the United Kingdom firmed by 0.04-0.60 percentage point. In France, interest rates firmed by 0.15-0.38 percentage point with the exception of the rate for the two and a half-year maturity which eased by 0.07 percentage point.

Combined eurocurrency offered rates for the three- and six-month maturities firmed by 0.38 percentage point and 0.25 percentage point respectively, in large part as a result of the speculation about a possible realignment in the European Monetary System, which pushed rates on euro-French francs sharply higher by 3.19-4.00 percentage points. Rates on the euro-Deutsche mark and euro-sterling also rose by 0.19-0.25 percentage point and 0.25-0.44 percentage point respectively. These upward movements were offset only in part by the decreases in rates on the eurodollar and euro-yen, which eased by 0.06 percentage point and 0.25-0.56 percentage point respectively.

Average interest rates on SDR-denominated deposits of selected commercial banks were not available in the last week of December, but in the period from end-November to December 18, rates on deposits with three-month maturities firmed by 0.05 percentage point while rates on deposits with six-month and 12-month maturities eased by 0.05 percentage point and 0.12 percentage point respectively. Average deposit rates during the third week of December ranged from 7.97 percent for one-month deposit to 7.77 percent for 12-month deposits.

Table 8. Yields on Selected SDR-Denominated Assets 1/

	November	December
Combined market interest rates: 2/		
a. Based on domestic rates		
3-month maturity (Rule T-1)	7.60	7.54
6-month maturity	7.75	7.63
12-month maturity	7.63	7.44
2-1/2 year maturity	8.38	8.00
5-year maturity	8.50	8.19
b. Based on eurocurrency offered rates		
3-month maturity	8.00	8.38
6-month maturity	8.00	8.25
Average commercial bank deposit rates 3/		
1-month deposits	7.81	7.97
3-month deposits	7.87	7.92
6-month deposits	7.87	7.82
12-month deposits	7.89	7.77

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

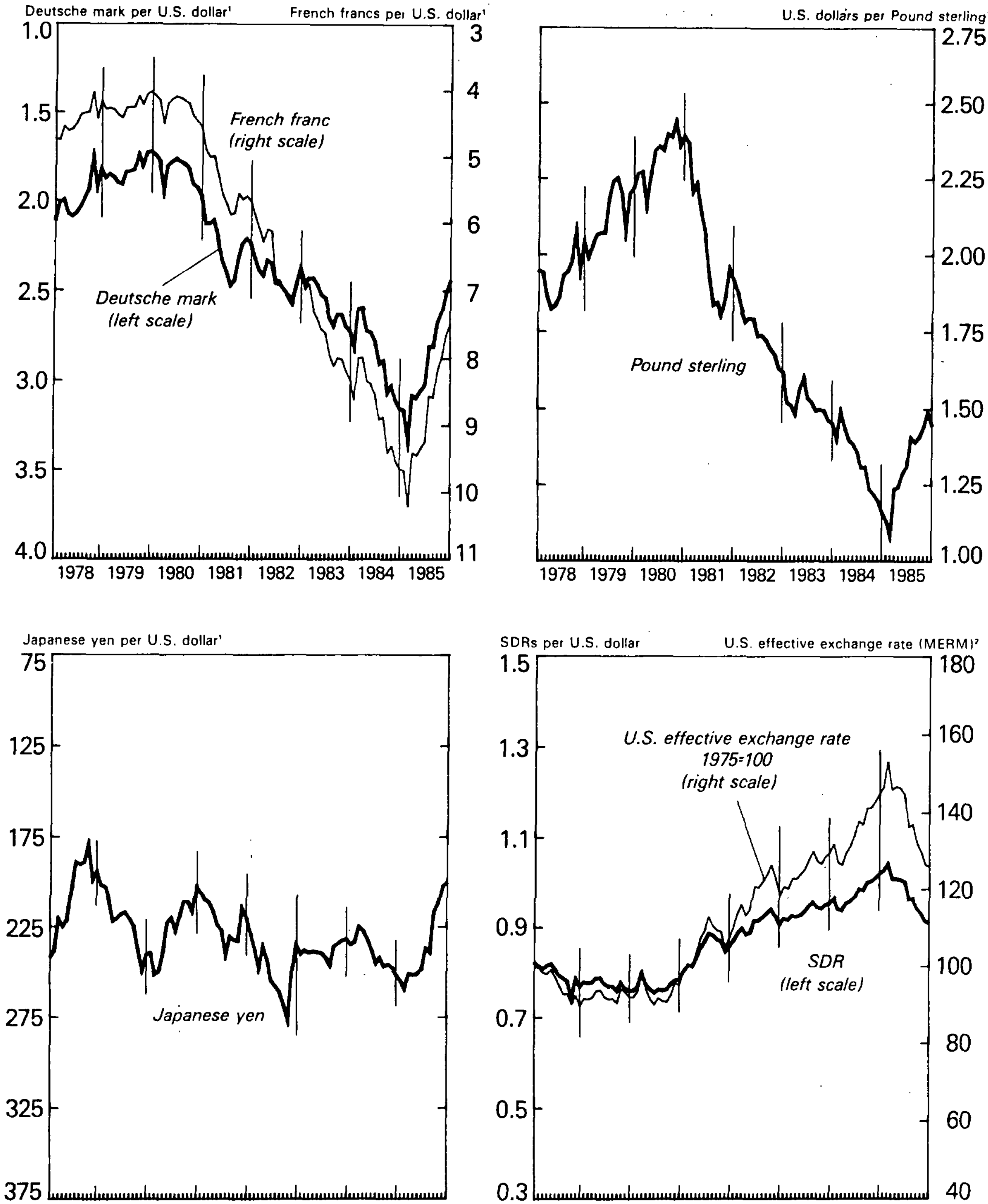
2/ Combined market rates (according to the Rule T-1) are calculated by multiplying the yields or rates of each of the respective instruments by the number of units of the corresponding currency listed in Rule O-1 and the value in terms of the SDR of a unit of that currency as determined by the Fund under 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 1978-1985

(end of month)



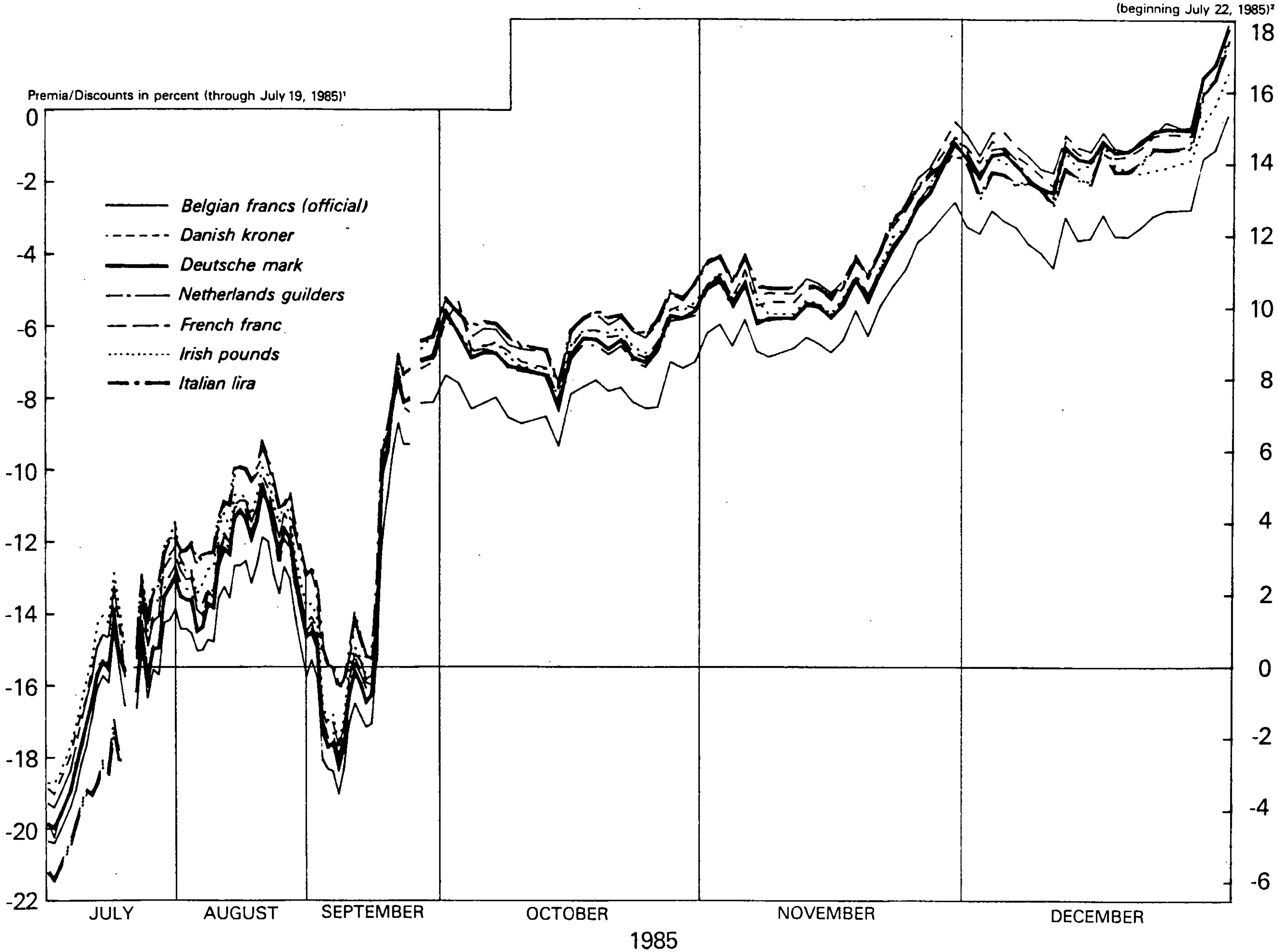
[1]New York noon quotations.

[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)

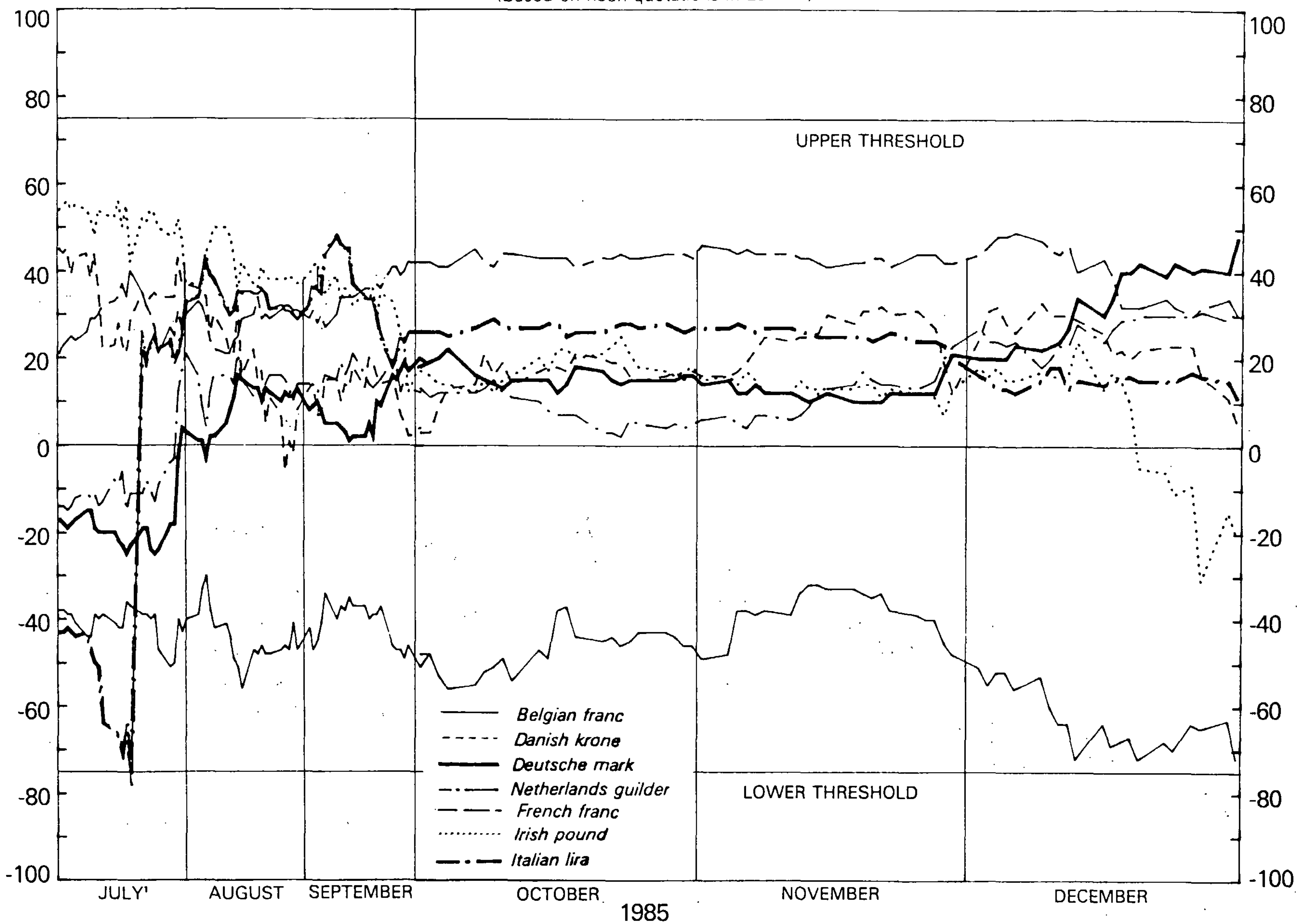


[1]Premia/Discounts over declared ECU central rates converted to U.S. dollar terms on the basis of 1 ECU=\$0.920041 effective May 18, 1983.
[2]Effective July 22, 1985, the Italian lira was devalued by 6 percent while the other currencies were revalued by 2 percent. Consequently, the premia/discounts over declared ECU central rates are calculated on the basis of the rate as of July 22, 1985 of 1 ECU=\$0.777846.

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)

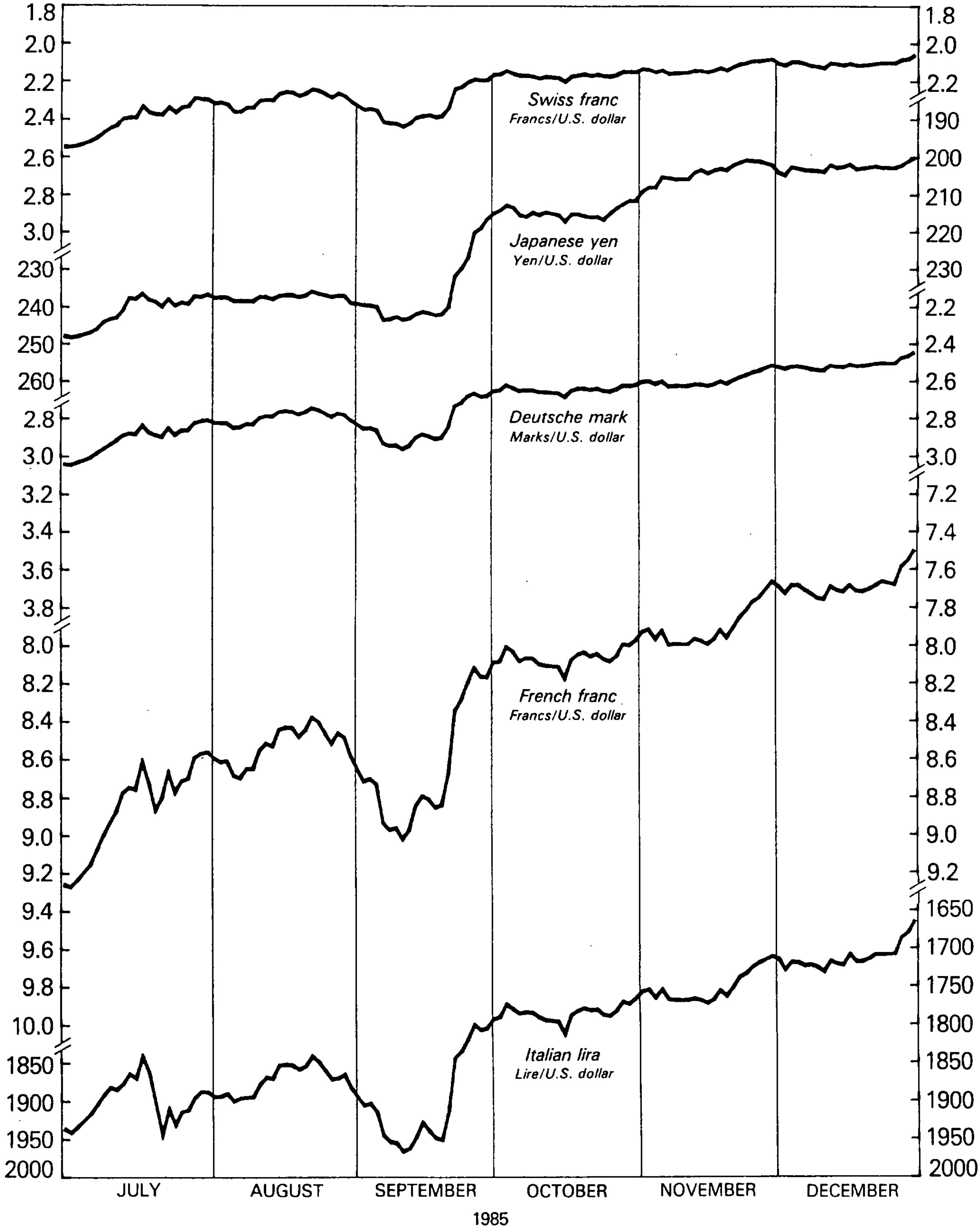


CHART 5

SPOT EXCHANGE RATES

(Noon quotations in New York)

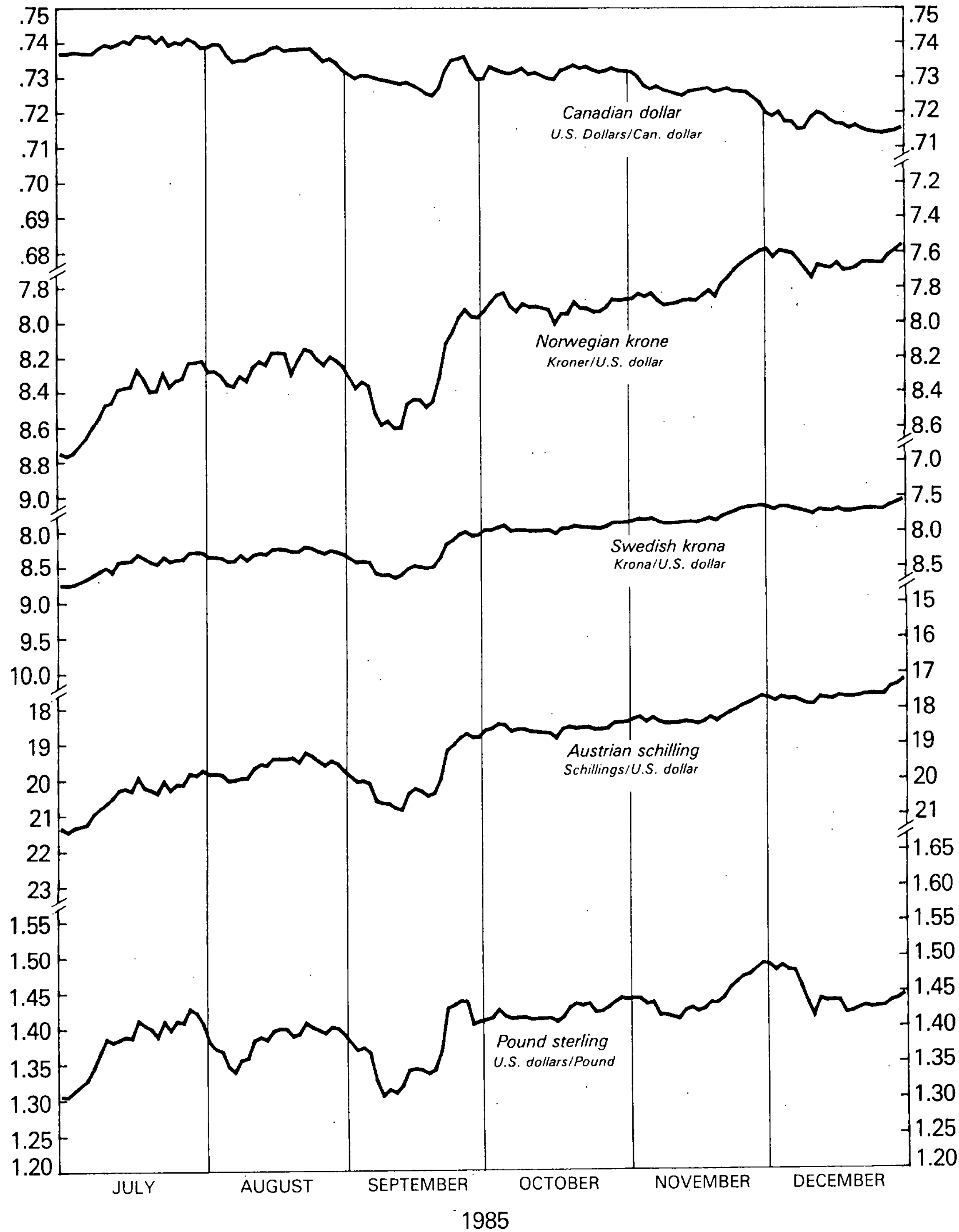
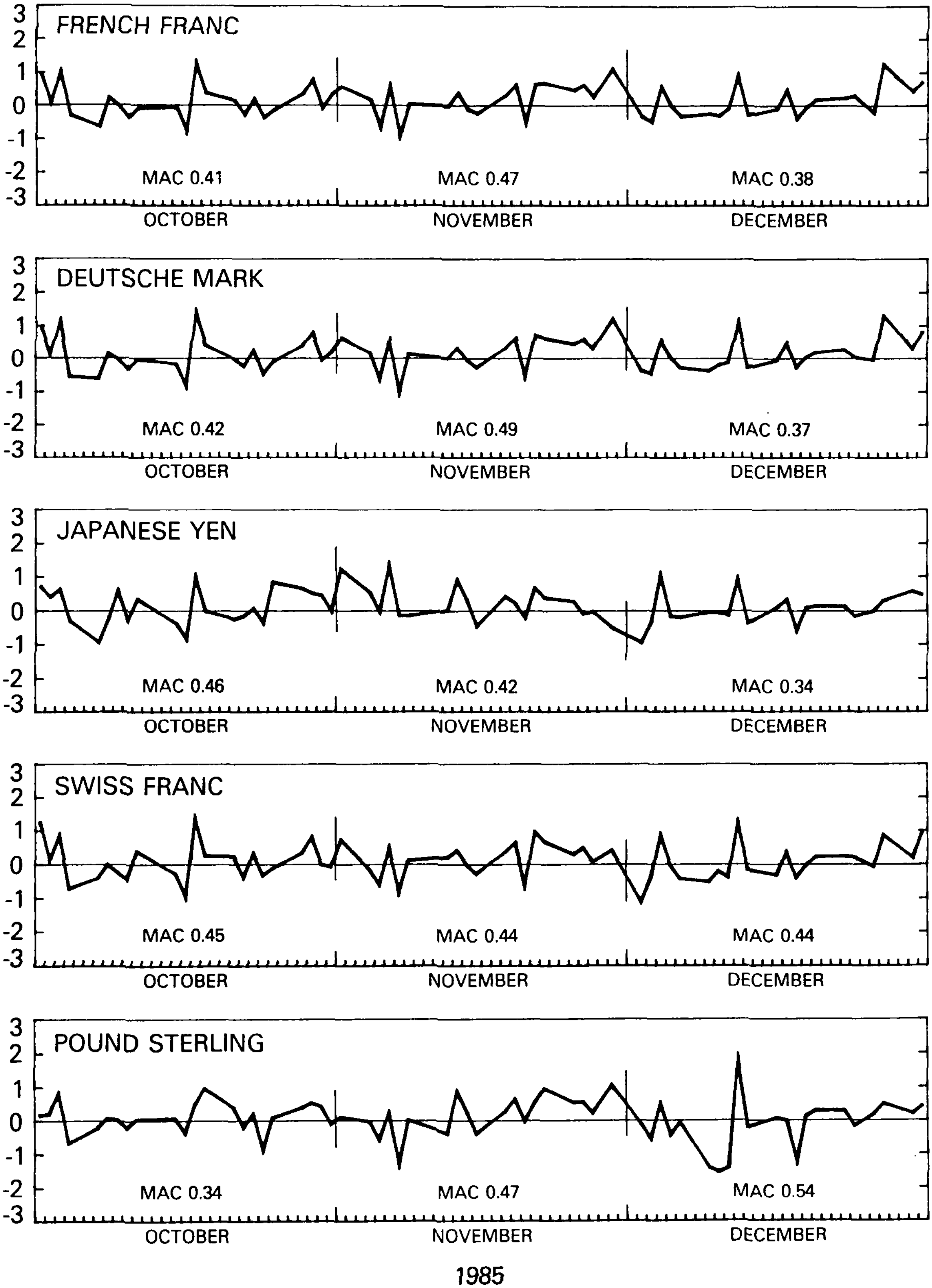


CHART 6

DAILY CHANGES IN SPOT EXCHANGE RATES

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

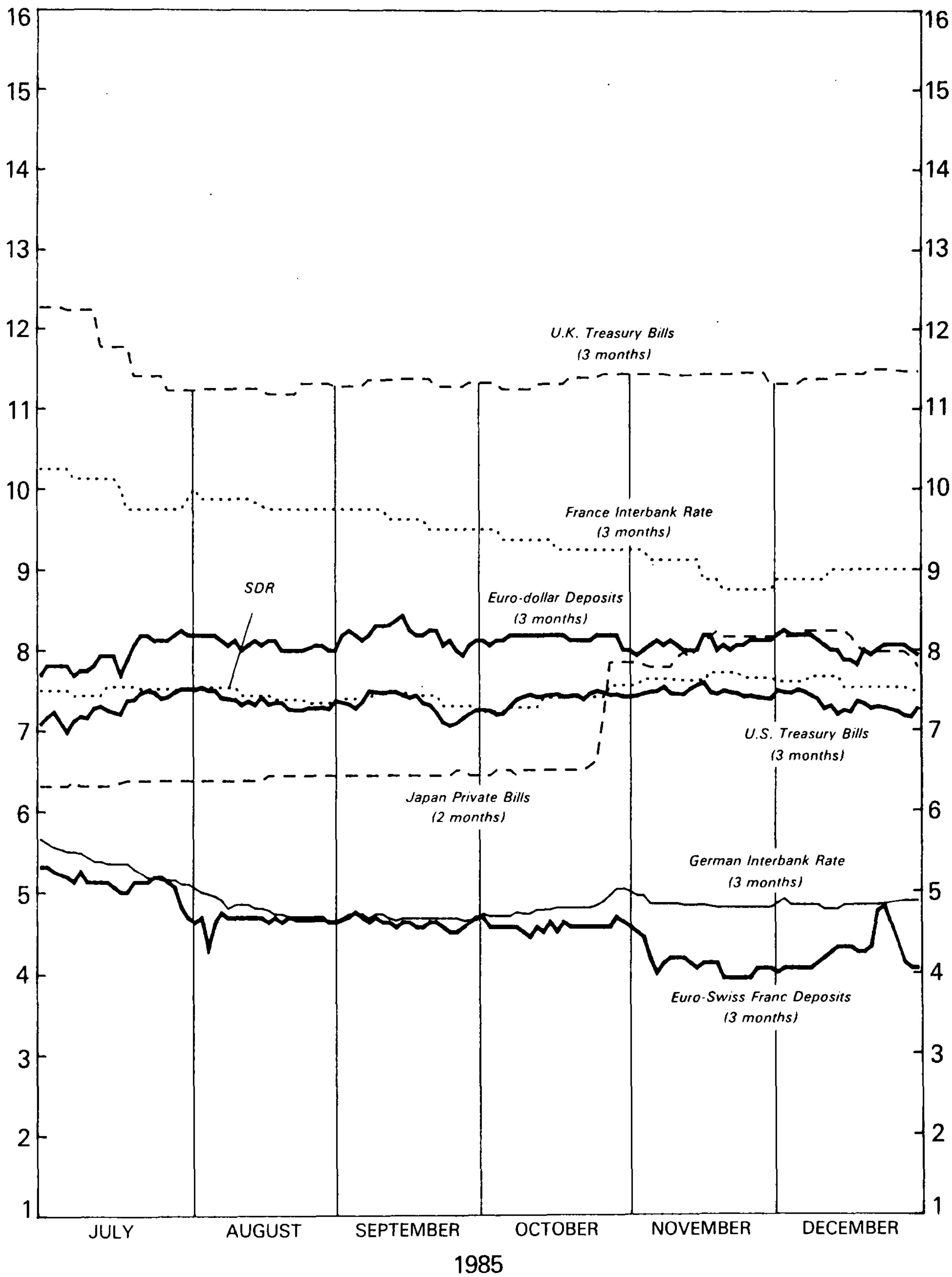


[1]Monthly averages of absolute percentage changes (MAC) are also indicated.

CHART 8

SHORT-TERM MONEY MARKET RATES

(Percent per annum)



CH[illegible]7

INDEXES OF EXCHANGE RATES OF FIVE MAJOR CURRENCIES AGAINST THE SDR

JUNE 1974 - DECEMBER 1985

(June 28, 1974=100)

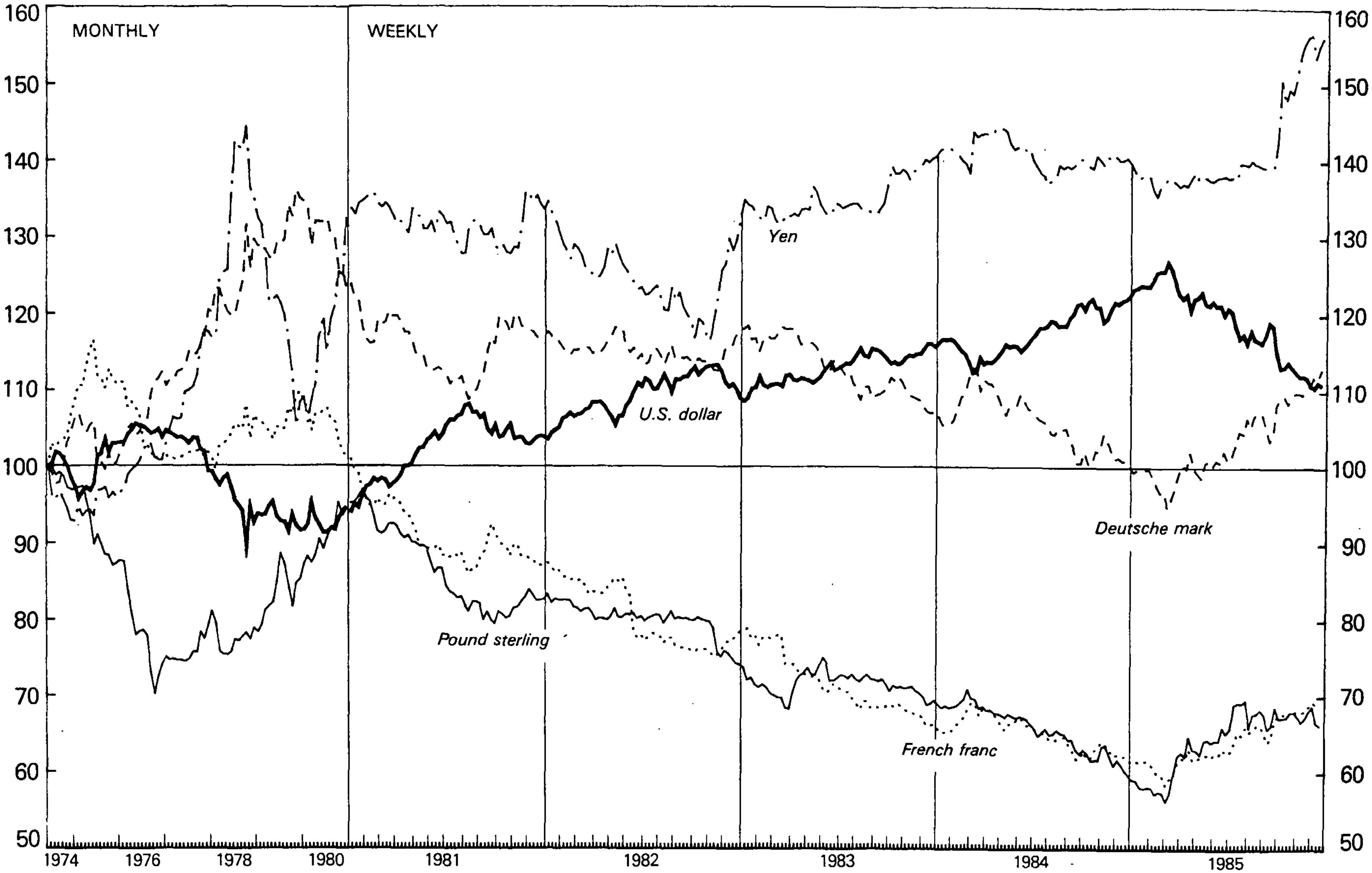


CHART 9

THREE-MONTH FORWARD RATES

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

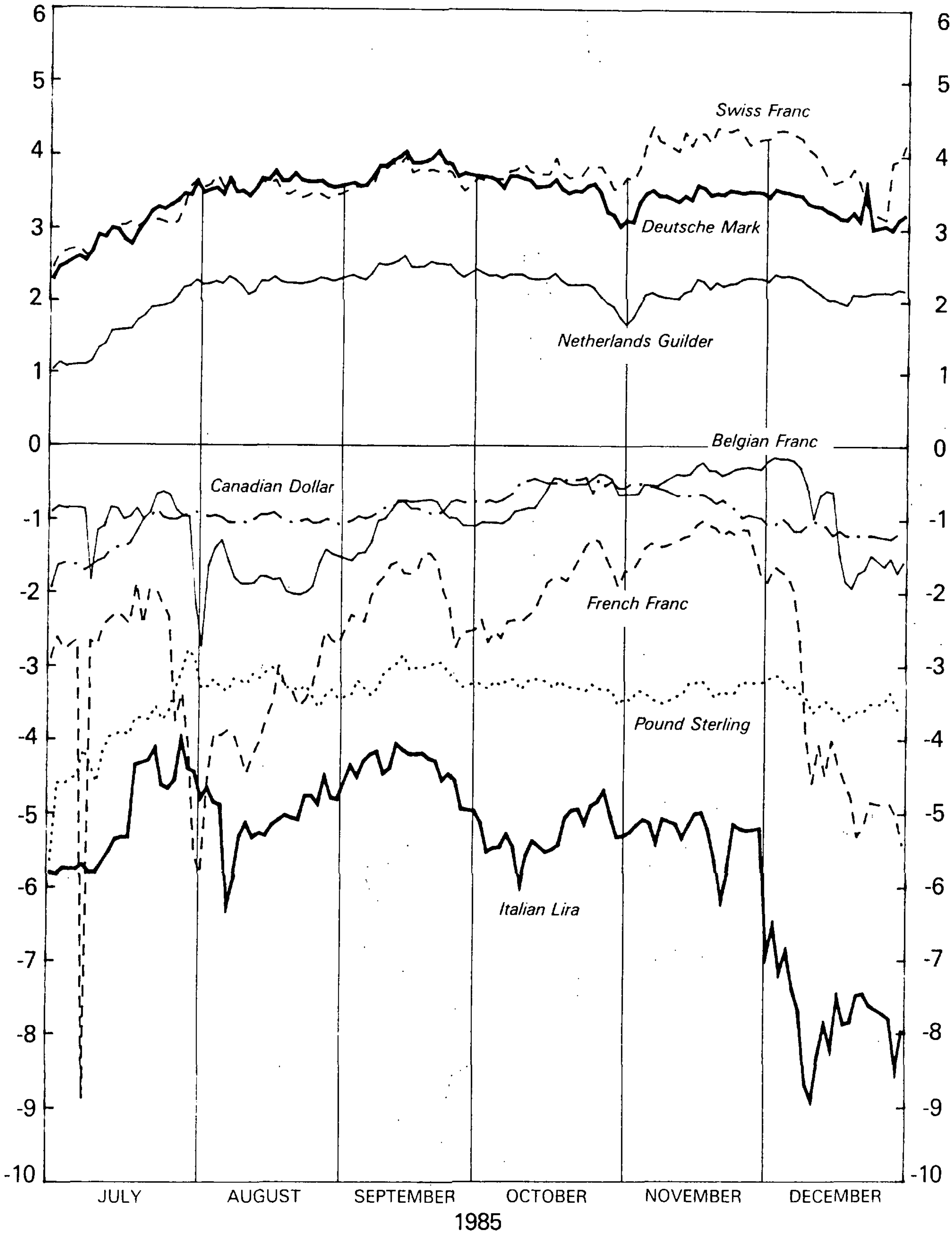
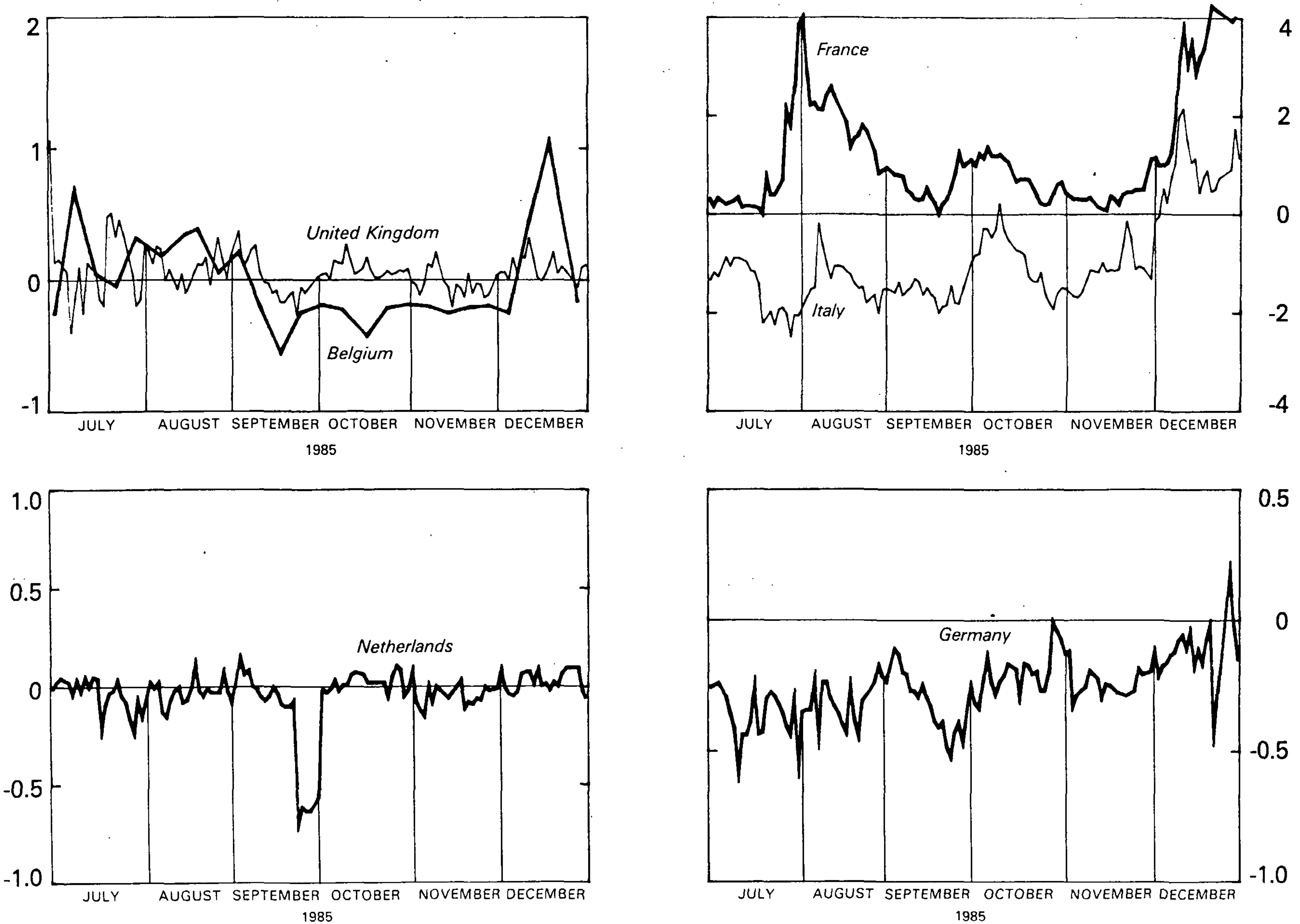


CHART 10

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)



Foreign Exchange Rates, November-December 1985 1/

	November				December				
	6	13	20	27	4	11	18	24	31
Austrian schilling	18.2700	18.3725	18.3550	17.8450	17.6850	17.8850	17.6750	17.5950	17.1950
Belgian franc									
Official	52.550	52.790	52.775	51.410	51.145	51.875	51.470	51.140	49.975
Financial	52.895	53.045	52.935	51.585	51.335	52.175	51.690	51.565	50.475
Canadian dollars	0.72666	0.72482	0.72587	0.72572	0.72002	0.71839	0.71659	0.71459	0.71556
Danish kroner	9.4100	9.4550	9.4325	9.1840	9.1165	9.2170	9.1535	9.1000	8.9120
Deutsche mark	2.59950	2.61425	2.61200	2.54225	2.51900	2.54250	2.51750	2.50300	2.44375
French francs	7.9220	7.9637	7.9590	7.7475	7.6825	7.7575	7.7125	7.6630	7.4975
Irish pounds	1.1915	1.1830	1.1840	1.2180	1.2263	1.2138	1.2232	1.2228	1.2508
Italian lire	1754.500	1766.500	1763.000	1719.000	1718.500	1732.000	1718.375	1709.000	1664.500
Japanese yen	205.200	203.950	203.400	201.000	202.600	203.850	203.100	202.725	200.075
Netherlands guilder	2.9323	2.9440	2.9380	2.8590	2.8343	2.8638	2.8365	2.8205	2.7510
Norwegian kroner	7.8325	7.8725	7.8515	7.6375	7.5905	7.7435	7.7005	7.6555	7.5580
Pounds sterling	1.4358	1.4238	1.4343	1.4741	1.4865	1.4153	1.4198	1.4270	1.4455
Swedish kronor	7.8125	7.8675	7.8475	7.6585	7.6485	7.7525	7.7145	7.6750	7.5550
Swiss francs	2.14100	2.14300	2.14125	2.08900	2.09500	2.12825	2.11350	2.10000	2.0590

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.

APPENDIX A

Short- and Medium-Term Interest Rates

APPENDIX B

(Monthly and weekly averages)

	Domestic Money Markets 1/ (three-month)						Eurocurrency Markets 2/ (three-month)						Lending Rates		U.S. Treasury
	United States (1)	Germany (2)	United Kingdom (3)	France (4)	Japan (5)	Combined rate (6)	U.S. dollar (7)	Deutsche mark (8)	Pound sterling (9)	French franc (10)	Japanese yen (11)	Swiss franc (12)	LIBOR 3/ (13)	U.S. prime 4/ (14)	Securities (five-year) 5/ (15)
1984															
Dec.	8.34	5.91	9.29	10.83	6.41	7.98	9.04	5.65	9.80	10.81	6.31	4.97	9.51	11.06	11.07
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
1984 Week ending:															
Dec. 7	8.74	5.94	9.25	10.82	6.49	8.21	9.29	5.73	9.74	10.93	6.34	4.99	9.71	11.25	11.21
14	8.56	5.93	9.30	10.75	6.44	8.11	9.20	5.73	9.72	10.77	6.36	5.05	9.71	11.25	11.19
21	8.08	5.88	9.30	10.87	6.39	7.84	8.70	5.55	9.86	10.77	6.29	5.01	9.30	11.25	10.90
28	7.93	5.88	9.29	10.90	6.36	7.75	9.02	5.58	9.96	10.79	6.27	4.83	9.27	10.75	10.96
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	6.38	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	8.13	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

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.