DM/86/57

INTERNATIONAL MONETARY FUND

Treasurer's Department

Foreign Exchange and Financial Markets in July 1986

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August 18, 1986

The value of the U.S. dollar continued to decline during July as the release of economic data confirmed expectations of continued weakness in the U.S. economy. The value of sterling declined more sharply than that of the dollar, reflecting concern about prospects for the British economy partly caused by weak oil prices. Short-term interest rate movements were mixed in July: rates eased in the United States, firmed in the United Kingdom and were unchanged or slightly higher in France, Germany and Japan. Inflation rates continued to fall, in many cases to the lowest levels in more than 20 years.

I. Foreign Exchange Markets

The U.S. dollar continued its downward trend in July, declining in value by almost 2 3/4 percent in effective (MERM) terms. As of the end of the month, the cumulative effective depreciation of the U.S. currency since February of last year, the month in which the dollar hit its recent peak level, amounted to 29 percent; 21 percentage points of this depreciation took place following last year's G-5 meeting in late September. In July, the U.S. dollar declined against all the leading currencies reported in Table 1, except for the pound sterling which eased markedly both against the dollar and in effective terms. Just nine percentage points of the pound sterling's 42 percent increase from its low against the dollar in February 1985 took place after the G-5 meeting. By comparison, more than three-quarters of the Japanese yen's 71 percent increase, and about one-half of both the 65 percent increase in the Deutsche mark and the 55 percent increase in the French franc took place after the G-5 meeting (see Table 2).

As in June, news about economic developments in the United States was one of the main factors contributing to the dollar's decline in July. Most of the data released during July supported expectations of both continuing weakness in the U.S. economy and U.S. interest rate declines. In fact, the U.S. Federal Reserve cut its discount rate by

Table 1. Changes in Exchange Rates During July 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 July 1985
Belgium	+3.68	+1.43	+0.35	+5.12
Denmark	+3.15	+1.07	+1.21	+8.77
France	+3.14	+0.86	+0.03	+2.85
Germany	+5.14	+2.72	+2.01	+9.67
Ireland	+2.90	-0.57	-0.01	+8.38
Italy	+4.90	+2.71	+1.97	+6.60
Netherlands	+5.10	+2.62	+2.16	+10.25
Austria	+4.79	+2.62	+2.27	+11.26
Canada	+0.54	-1.65	-0.34	-9.39
Japan	+6.47	+4.61	+5.62	+39.31
Norway	+1.19	-0.76	-0.73	-6.56
Spain	+3.46	+1.53	+1.53	+2.44
Sweden	+2.18	-0.15	-0.19	+0.37
Switzerland	+7.07	+4.47	+3.78	+12.48
United Kingdom	-2.64	-4.72	-5.43	-14.37
United States	--	-2.17	-2.71	-18.11

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)

	Through end-July 1986	
	From February 1985 2/	From September 20, 1985 3/
U.S. dollar effective exchange rate (MERM)	-28.72	-20.62
Deutsche mark	+64.92	+36.00
Pound sterling	+41.76	+9.08
French franc	+55.05	+27.48
Japanese yen	+71.05	+56.08

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

2/ The date for the U.S. dollar effective exchange rate (MERM) is February 25 when it recorded its peak. Dates are February 12 for the Japanese yen, February 25 for the Deutsche mark and the French franc, and February 26 for the pound sterling, the dates when these currencies recorded lows against the U.S. dollar.

3/ Last business day prior to the G-5 statement on September 22, 1985.

one-half percentage point, effective July 11, fulfilling earlier expectations of a discount rate cut. Afterward, however, expectations persisted that still another half-point cut could be possible in the near future, as much of the data released continued to point to weak economic activity, often to a degree even weaker-than-expected. Moreover, strong indications from German and Japanese officials that they had no plans to cut their official interest rates contributed further to the downward pressure on the U.S. dollar.

Some of the indicators of economic weakness in the United States were the following: industrial production fell a seasonally adjusted 0.5 percent in June after a revised 0.4 percent decline in May; capacity utilization fell to 78.3 percent in June from 78.9 percent in May and 79.4 percent a year earlier; housing starts fell a seasonally adjusted 0.8 percent in June after a downward-revised 7.9 percent decline

in May; real GNP growth was 1.1 percent at a seasonally adjusted annual rate in the second quarter, down from 3.8 percent in the first quarter (revised from 2.9 percent); new orders for manufactured goods fell a seasonally adjusted 0.3 percent in June after a downward-revised 0.5 percent decline in May; and the U.S. trade deficit widened to $14.17 billion in June from $13.12 billion in May (revised from $14.21 billion).

Statements by U.S. officials tended to focus market attention on the size of the U.S. trade deficit, and appeared to reinforce the bearish sentiment toward the dollar stemming from the release of the latest trade data. In particular, comments at the end of July by the U.S. Secretary of State that there was room for a further decline in the dollar's value seemed to have a visible impact on the market. And, in congressional testimony earlier in the month, the U.S. Federal Reserve Chairman stressed the importance of U.S. trade performance to U.S. economic health, and his belief that dollar depreciation could prove beneficial in this regard, especially in the absence of stronger economic growth in the other industrial countries. The significance of the size of the U.S. trade deficit may have been heightened further by its contrast to the comparatively strong trade data for Germany and Japan that were also released near month-end. Germany's trade surplus was a provisional DM 9.9 billion in June, up from DM 8.1 billion in May and DM 5.5 billion a year earlier, and just short of the record surplus of DM 10 billion registered in April of this year. The current account in Germany was in surplus by a provisional DM 4.2 billion in June compared with a surplus of DM 5.9 billion in May and a deficit of DM 348 million a year earlier. In Japan, the current account surplus was $7.647 billion in June, little changed from the $7.653 billion surplus recorded in May, while the trade surplus was $7.81 billion in June compared with $8.30 billion in May.

The Bank of Japan was reported to have intervened in the foreign exchange markets on several occasions during July, particularly around the time of the Japanese parliamentary elections on July 6. The U.S. dollar was under considerable downward pressure, hitting a record low against the Japanese yen, and the Bank of Japan intervened to support the dollar in amounts estimated by market participants at roughly $3.5-$4.0 billion dollars over the period July 3-9. The Bank of Japan also purchased an estimated $1 billion at the end of the month when the dollar moved down sharply amid the release of trade data. Market concerns over actual intervention, as well as over the possibility of dollar-support intervention by both the Bank of Japan and the Bundesbank seemed, at times, to moderate the dollar's fall. Comments fairly early in the month by the German State Finance Secretary that a further dollar decline was inappropriate may similarly have been a restraining factor.

The Japanese yen, nevertheless, posted a particularly large appreciation against the U.S. dollar in July, rising by 6.47 percent against

the U.S. currency. At the end of the month, the Japanese yen stood at a record high of ¥ 153.80 per U.S. dollar. In effective (MERM) terms, the yen was the currency that recorded the largest monthly increase, 5.62 percent, and the largest year-on-year increase, 39.31 percent.

The only currency to post a larger increase against the U.S. dollar in July was the Swiss franc, which appreciated by over 7 percent. While interest rates in other industrial countries have tended to ease, Swiss interest rates have been rising. At the same time, market participants view the Swiss National Bank as holding to a policy, facilitated by Switzerland's low unemployment rate, of restricting monetary growth and eliminating inflation. In effective (MERM) terms, the Swiss franc recorded the second largest increase, 3.78 percent.

The currencies participating in the exchange arrangements of the European Monetary System (EMS) firmed by 2.90-5.14 percent against the U.S. dollar in July. The Italian lira, after the first two days of the month, replaced the French franc as the strongest currency in the EMS; the French franc remained the strongest currency in the narrow band. The weakest currency in the EMS each day was the Danish krone. The divergence indicator for the French franc was above its upper threshold early in the month but then fell below it, while the other currencies were within their thresholds. During the last two days of July, the Bank of France reportedly sold Deutsche mark for French francs at the Paris fixing in an amount estimated at DM 300-450 million.

Among the other currencies reported in Table 1, only the pound sterling eased against the U.S. dollar in July, while the other currencies firmed by 0.54-4.79 percent. The pound sterling eased by 2.64 percent against the U.S. dollar, and against the Deutsche mark it posted a very sharp depreciation of almost 7 1/2 percent, closing the month at a record low of DM 3.12 per pound sterling. Reflecting these movements, sterling depreciated by 5.43 percent in effective (MERM) terms. Weak oil prices hit the value of sterling especially hard, with numerous political difficulties seeming to reinforce the downward pressure on that currency. The Norwegian krone, also influenced by weak oil prices, declined in effective (MERM) terms as well, but by considerably less (-0.73 percent), while the Canadian dollar and the Swedish krona posted small declines (0.34 percent and 0.19 percent, respectively) in effective (MERM) terms.

The volatility of exchange rates against the U.S. dollar, as indicated by the measures given in Table 3, declined for most major currencies in July. For the EMS currencies, the high-low spreads fell to 2.9-4.6 percent in July from 5.4-5.6 percent in June, and the average of absolute daily percentage changes (MAC in Table 3) fell for each of these currencies and averaged 0.49 percent in July compared with 0.56 percent in June. The high-low spreads declined for all but one of the other major currencies, the Canadian dollar, while changes in MAC were mixed; on an average basis, MAC fell slightly to 0.47 percent in July from 0.48 percent in June.

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

	July 2/		High-low spread in percent 3/		MAC 4/	
	High	Low	June	July	June	July
Belgium	43.335	44.990	5.4	3.8	0.55	0.49
Denmark	7.9010	8.1750	5.4	3.5	0.54	0.45
France	6.8075	7.0250	5.5	3.2	0.56	0.47
Germany	2.0930	2.1885	5.6	4.6	0.57	0.54
Ireland	1.41430	1.37470	5.4	2.9	0.59	0.46
Italy	1438.00	1503.00	5.4	4.5	0.52	0.50
Netherlands	2.3585	2.4643	5.5	4.5	0.57	0.51
Austria	14.730	15.395	5.8	4.5	0.60	0.48
Canada	0.72765	0.71965	0.9	1.1	0.23	0.16
Japan	153.800	163.300	6.8	6.2	0.54	0.61
Norway	7.4140	7.6430	4.4	3.1	0.42	0.45
Sweden	6.9710	7.1480	3.6	2.5	0.41	0.32
Switzerland	1.6773	1.7890	7.4	6.7	0.64	0.70
United Kingdom	1.55000	1.48100	3.9	4.7	0.50	0.57

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.

Gross foreign exchange reserves continued to rise in most major countries in July, with Japan registering a very large increase (Table 4). Over the latest 12-month period most major countries also registered increases in their gross foreign exchange reserves. The largest increases were recorded in France, Japan and the United States. Moderate declines were recorded in Ireland, Italy, Denmark and Canada.

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

(In millions of U.S. dollars)

	End-month reserve level	Change in July	Change over 12 months
Belgium	4,857	+21	+806
Denmark	4,231	+393	-402
France (June)	32,084	+2,574	+10,399
Germany	39,734	+779	+3,797
Ireland	2,899	-107	-670
Italy	19,084	+817	-451
Netherlands	10,238	+905	+2,188
Austria	4,488	-299	+969
Canada	1,743	+138	-296
Japan	33,778	+4,328	+9,991
Norway	13,379	+260	+773
Sweden	5,997	+4	+289
Switzerland	16,426	-35	+3,799
United Kingdom	11,676	+189	+3,567
United States	16,147	+918	+8,189

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

In July, short-term interest rates were mixed among the major countries. They eased in the United States, Canada, and Italy, were unchanged in France, and were firmer in the United Kingdom, Germany and Japan. During the course of the month, differences of opinion emerged between countries on the advisability of coordinated interest rate reductions; in particular, the U.S. authorities expressed regret that the Federal Reserve decision to lower the discount rate in early July had not been followed by similar decisions in some other countries. Annual inflation rates edged downward during the month and now stand at 2 percent or less in many major countries (see Table 5).

Interest rates in the United States continued to decline during the month of July, with the exception of rates on 20- and 30-year securities which edged upward. With effect from July 11 the Federal Reserve cut its discount rate by 0.5 percentage point to 6.0 percent, the lowest level since October 1977. The Federal Reserve explained that the reduction "appeared appropriate in the context of a pattern of relatively slow growth." On the same day, commercial banks cut their prime rate from 8.5 percent to 8.0 percent. From statements made by the Federal Reserve Board Chairman and by the Secretary for the Treasury during the course of the month, it seemed evident that the U.S. authorities were disappointed that the U.S. discount rate reduction had not been matched by other countries, and by Germany and Japan in particular.

Within the United States, discussion continued throughout the month on whether, given the continuing sluggish rate of economic growth, a further reduction in the discount rate should be made before the end of the summer. In this climate, at the short-term end of the market, the yield on three-month Treasury bills declined during the month to 5.96 percent, 0.17 percentage point lower than at end-June. The Federal funds rate, expressed as a monthly average, fell from 6.92 percent to 6.56 percent. As a result of the decline in short-term interest rates, the yield curve which had flattened in the previous month began to steepen; the differential between the yield on three-month Treasury bills and that on 30-year Treasury securities rose from 1.11 percentage points at end-June to 1.50 percentage points at end-July.

The M1 measure of the U.S. money supply, seasonally adjusted, averaged $676.9 billion in the week ended July 28, compared with $666.3 billion in the week ended June 30. The annual growth rate of M1 through July from the fourth quarter of 1985 base period was more than 13 percent, and thus considerably above the upper end of the Federal Reserve's target range of 3-8 percent annual growth. However, Federal Reserve officials have indicated that the relationship of M1 to economic trends and to the rate of inflation, in particular, has seemed somewhat distorted in recent years and that, in consequence, its importance in the formulation of monetary policy has diminished.

Table 5. Inflation Rates and Short-Term Interest Rates

	Month 2/	Inflation rates 1/ (year-on-year percent changes) Wholesale price index 3/		Consumer price index 4/		Short-term interest rates 5/ (end-of-month) June	July
Austria	May/July	-5.2	(-5.9)	1.5	(1.5)	4.00	4.00
Belgium	May/July	-7.1	(-7.4)	0.7	(1.2)	7.30	7.30
Canada	June	0.3	(0.3)	3.7	(4.1)	8.45	8.33
Denmark	May	-7.3	(-7.4)	3.8	(4.0)	7.00	7.00
France	.../July	...	(...)	2.1	(2.3)	7.22	7.22
Germany	July	-8.7	(-7.9)	-0.5	(-0.2)	4.69	4.77
Italy	June/July	-1.8	(-1.8)	5.9	(6.3)	12.00	11.56
Japan	July/June	-10.7	(-10.1)	0.5	(1.1)	4.66	4.72
Netherlands	Mar./July	-5.5	(-4.0)	-0.7	(0.2)	6.06	5.56
Norway	June	5.8	(5.5)	6.7	(5.6)	14.09	14.57
Spain	Apr./May	1.8	(2.1)	7.8	(7.7)	12.65	12.38
Sweden	June	1.4	(1.5)	3.4	(3.3)	8.00	8.00
Switzerland	June/July	-4.2	(-4.0)	0.5	(0.8)	5.07	4.69
United Kingdom	June	4.5	(4.6)	2.5	(2.8)	9.50	9.75
United States	July/June	-2.3	(-1.7)	1.7	(1.6)	6.13	5.96

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/ Industrial price index for Spain.

4/ Retail price index for Belgium, France and the United Kingdom, and cost of living index for Germany, the Netherlands, and Switzerland.

5/ 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, Norway, and Spain; three-month euro-franc rate for Switzerland; discount rate on two-month private bills for Japan (converted to a bond equivalent yield); four-month certificates of the Government Securities Stabilization Fund for Belgium; central bank discount rates for Austria, Denmark, and Sweden.

Money market conditions were mixed in July in the countries participating in the EMS. In Germany, the three-month interbank rate eased slightly below its end-June level, but firmed in the last two days of the month ending the month up 0.08 percentage point at 4.77 percent. The Bundesbank stood firm against reported pressures from the United States and rejected calls for reductions in its discount and Lombard rates. Officials explained that such reductions would be inappropriate in the present context of excessive monetary expansion, and uncertain prospects for the external account. Moreover, they argued, there were signs that some expansion of the German domestic economy was already under way. They also pointed out that, although the growth in the cost of living index was now negative, the GNP deflator, which reflected domestically induced inflation, was growing by 2.5-3.0 percent. During July, Germany's central bank money stock grew at an annual rate of 6.7 percent, compared with 6.4 percent in June, and thus moved further above the 5.5 percent target ceiling set for 1986.

In France, and Belgium, short-term interest rates moved little during July; the three-month interbank rate in France was unchanged at 7.22 percent throughout the month and in Belgium the four-month Fonds des Rentes was steady at 7.30 percent. In the Netherlands, money market conditions eased somewhat during July as the guilder strengthened within the EMS. On July 10, the Netherlandsche Bank lowered by 0.25-0.75 percentage point the surcharge it applies to financial institutions for overdrafts in excess of their basic quotas. Money market conditions also eased in Italy, where the three-month interbank rate declined by 0.44 percentage point to 11.56 percent.

Interest rates remained fairly stable in Japan during July. The interest rate on two-month private bills firmed slightly by 0.06 percentage point and ended July at 4.72 percent. There was considerable public discussion during the month on the advisability of following the example of the United States by cutting the discount rate. Some support for a cut was expressed by the International Trade and Industry Minister, but both the Ministry of Finance and the Bank of Japan remained opposed, arguing, among other things, that more time should be given to evaluating the impact of the previous discount rate reductions. Japan's broadly-defined money supply average of M2 plus certificates of deposit rose an estimated 8.7 percent in July from a year earlier, after an 8.5 percent year-on-year rise in June.

In the United Kingdom, interest rates on three-month Treasury bills rose during July, ending the month at 9.75 percent, up from 9.50 percent at end-June. Market commentators observed that the authorities' desire to lower interest rates was being inhibited by the instability of sterling during an unsettled period for oil prices. Although the importance of the sterling M3 monetary aggregate has been downplayed by the Treasury, its recent growth has also been perceived as discouraging further interest rate reductions. Sterling M3 grew by only 0.1 percent in the four weeks to July 16, after a 1.3 percent rise in banking June,

but grew by 19.3 percent year-on-year, still significantly above the 11-15 percent annual growth target. The narrow M0 monetary aggregate rose by 0.2 percent in banking July after its 0.5 percent rise in the previous banking month. Year-on-year M0 rose by 3.0 percent, at the lower end of the 2-6 percent target range. While the much smaller rise in the monetary aggregates was in line with expectations, concern was expressed in the markets at the large increase of about £3 billion in bank lending to the private sector during July.

In Canada, the three-month Treasury bill rate declined by 0.12 percentage point to 8.33 percent during July and in Switzerland there was evidence of some relaxation of the recent tight money market conditions as the interest rate on three-month euro-Swiss franc deposits fell back to 4.69 percent from 5.07 percent at end-June.

Three-month interest rates in the eurocurrency market were mixed in July. Rates on eurodollars and euro-Swiss francs declined markedly by 0.37 percentage point and 0.44 percentage point, respectively, to 6.44 percent and 4.69 percent. The rate on euro-French francs ended the month unchanged while rates on euro-Deutsche marks and euro-yen firmed slightly to 4.63 percent and 4.78 percent, respectively. The rate on euro-sterling firmed by 0.13 percentage point to 9.94 percent.

Reflecting movements in eurodollar and domestic interest rates, uncovered interest differentials favoring investments in domestic currencies over investments in eurodollars tended to widen while those favoring investments in eurodollars tended to narrow. Forward discounts and premia moved in a similar pattern. As a result of these movements, covered interest differentials in favor of domestic investment narrowed for Belgium, Germany and Japan, but widened somewhat for Italy. Differentials favoring eurodollar instruments narrowed for both France and the United Kingdom. In the Netherlands, the differential switched from favoring eurodollar investment to favoring domestic investment (see Table 6 and Charts 8 and 9).

Table 6. Covered Interest Differentials for Three-Month Investments (End-Month)

(In percentage points)

	Uncovered interest differentials 1/ (1)		Forward exchange quotations 2/ (2)		Covered interest differentials 1/ (3) = (1)-(2)	
	June	July	June	July	June	July
Belgium	-0.49	-0.86	-0.25	-0.80	-0.24	-0.06
France	-0.41	-0.78	-0.62	-0.85	+0.21	+0.07
Germany	+2.12	+1.67	+2.34	+1.83	-0.22	-0.16
Italy	-5.19	-5.12	-4.83	-4.64	-0.36	-0.48
Japan	+2.15	+1.72	+2.29	+1.77	-0.14	-0.05
Netherlands	+0.75	+0.88	+0.69	+0.91	+0.06	-0.03
United Kingdom	-2.69	-3.31	-2.85	-3.38	+0.16	+0.07

1/ Positive sign indicates differential in favor of eurodollar investment relative to domestic investment, while negative sign indicates the reverse. Domestic interest rates for France, Germany, Italy and the Netherlands are interbank rates. For Japan the discount rate for two-month private bills is used, for the United Kingdom the three-month Treasury bill rate, and for Belgium the rate on four-month certificates of the Government Securities Stabilization Fund.

2/ Positive sign indicates three-month forward premium of domestic currency against the U.S. dollar, while negative sign indicates forward discount.

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

During July, the SDR interest rate declined for the sixth consecutive month, reflecting mainly the 0.22 percentage point fall in the yield on three-month U.S. Treasury bills. Yields on the other instruments in the SDR interest rate basket were mixed. The yield on the Japanese instrument firmed by 0.06 percentage point to 4.72 percent while the yield on the U.K. instrument firmed more markedly by 0.25 percentage point to 9.75 percent. The yield on the French instrument was unchanged at 7.22 percent and the yield on the German instrument declined marginally to 4.66 percent.

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

	June 30	July 7	July 14	July 21	July 28
SDR interest rate	6.13	6.09	6.03	6.03	6.06
Rate of remuneration	5.98	5.94	5.88	5.88	5.91

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

During the period covered by Table 8 (June 25-July 30), combined domestic rates eased for all maturities. This reflected mainly the continued decline across the board of U.S. dollar instruments. Rates on the Deutsche mark, French franc and Japanese yen instruments were mostly lower, whereas rates on pound sterling instruments with maturities of six months or more rose by 0.31-0.60 percentage point. In the eurocurrency market, the decline in rates on eurodollar instruments more than offset the general rise in rates on the other currencies in the SDR interest rate basket; as a result, combined eurocurrency (offered) rates declined by 0.12 percentage point to 6.38 percent for both the three-month and six-month maturities (see Chart 10). During the same period, average interest rates on SDR-denominated deposits of selected commercial banks eased across the board by 0.17-0.21 percentage point.

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

	June	July
Combined market interest rates: 2/		
a. Based on domestic rates		
3-month maturity (Rule T-1)	6.18	6.09
6-month maturity	6.25	6.13
12-month maturity	6.31	6.19
2-1/2 year maturity	6.75	6.63
5-year maturity	6.94	6.81
b. Based on eurocurrency offered rates		
3-month maturity	6.50	6.38
6-month maturity	6.50	6.38
Average commercial bank deposit rates 3/		
1-month deposits	6.35	6.14
3-month deposits	6.31	6.13
6-month deposits	6.30	6.13
12-month deposits	6.37	6.18

1/ Rates pertain to last Wednesday of the month.

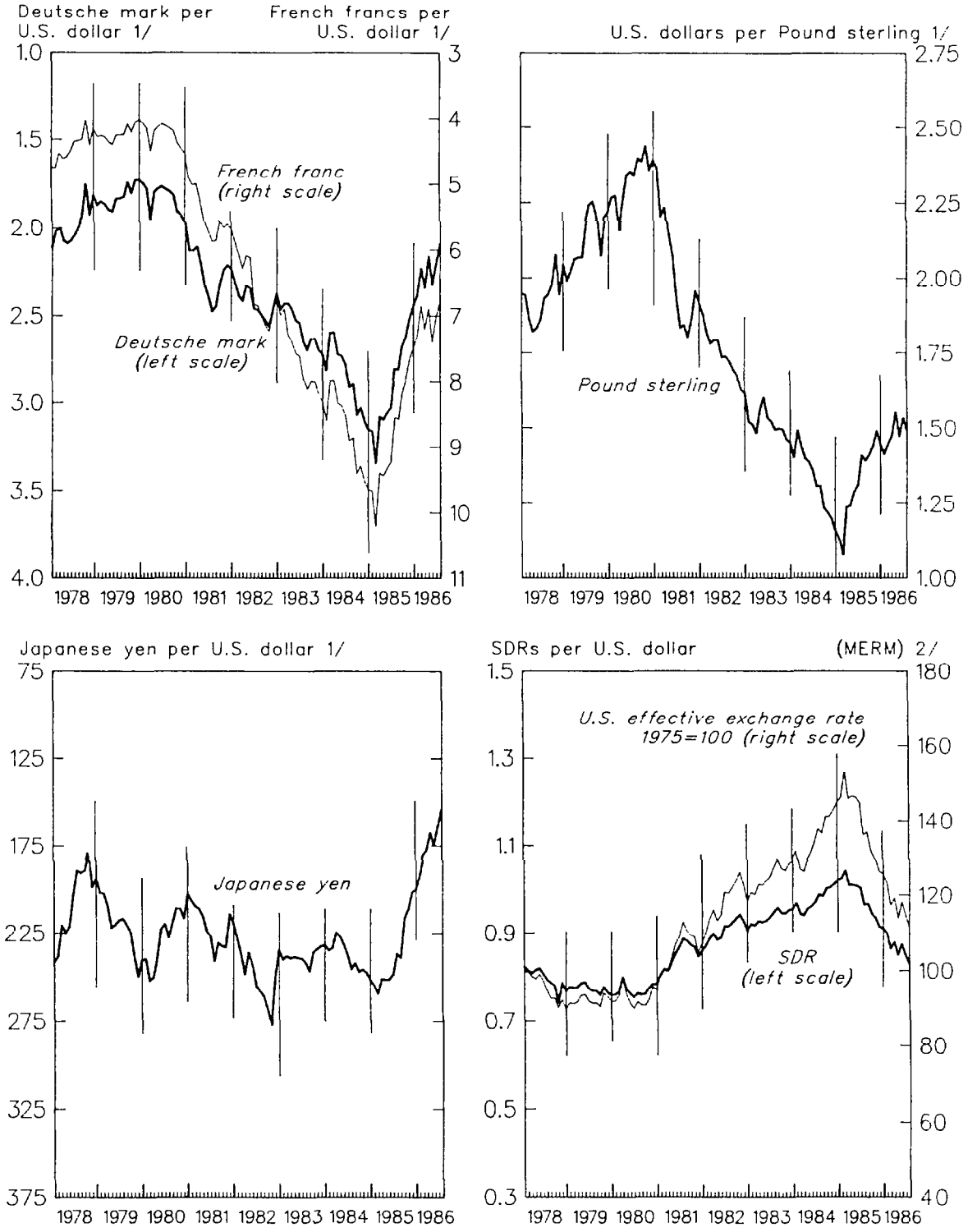
2/ Combined market rates (according to the Rule T-1) are calculated by multiplying the yields or rates of each of the respective instruments by the number of units of the corresponding currency listed in Rule O-1 and the value in terms of the SDR of a unit of that currency as determined by the Fund under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

3/ Average of rates quoted by selected commercial banks.

CHART 1

SPOT EXCHANGE RATES 1978–1986

(end of month)

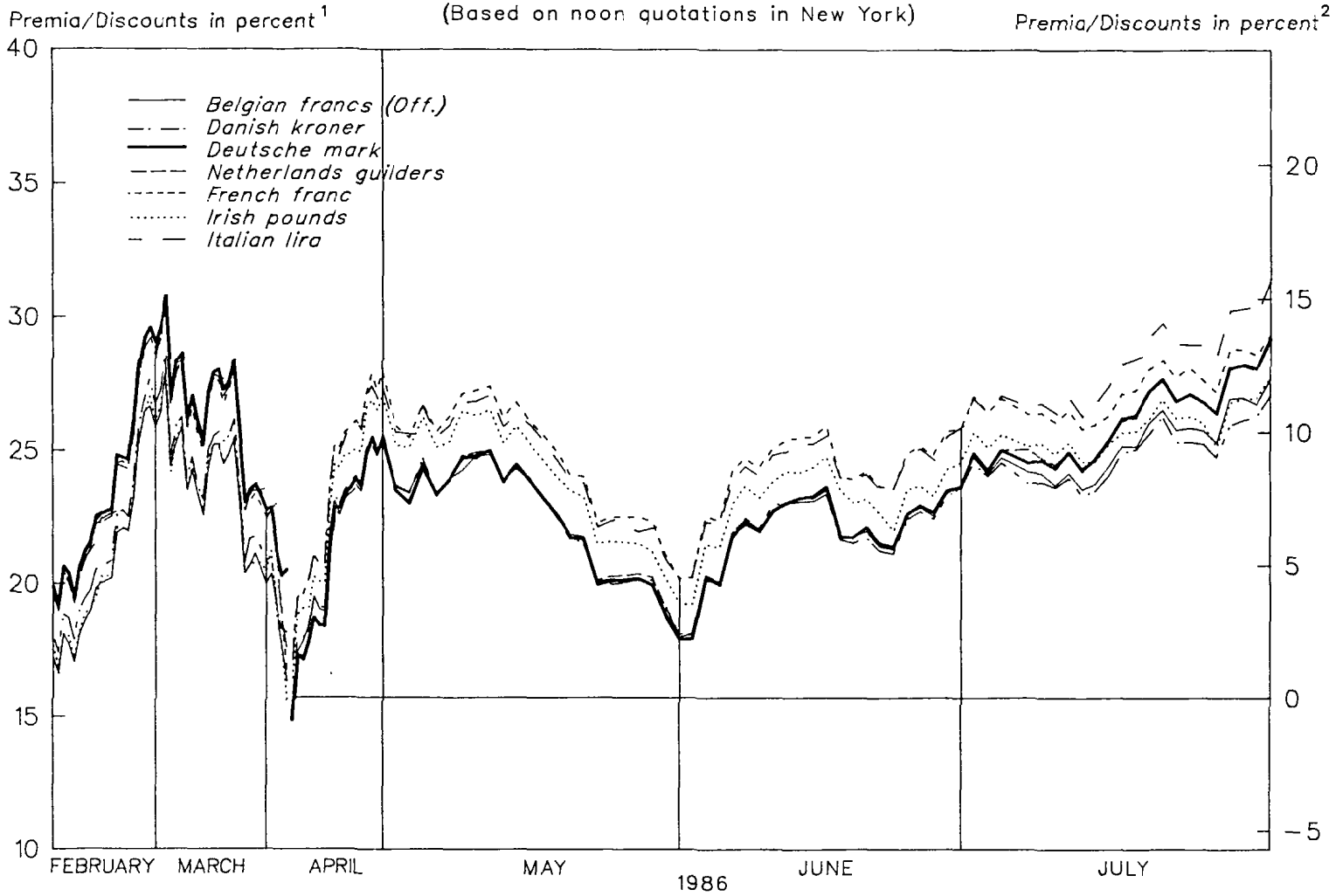


1/ New York noon quotations.
2/ IMF's multilateral exchange rate model. Increase in the index means appreciation.

CHART 2

SPOT EXCHANGE RATES: EUROPEAN MONETARY SYSTEM

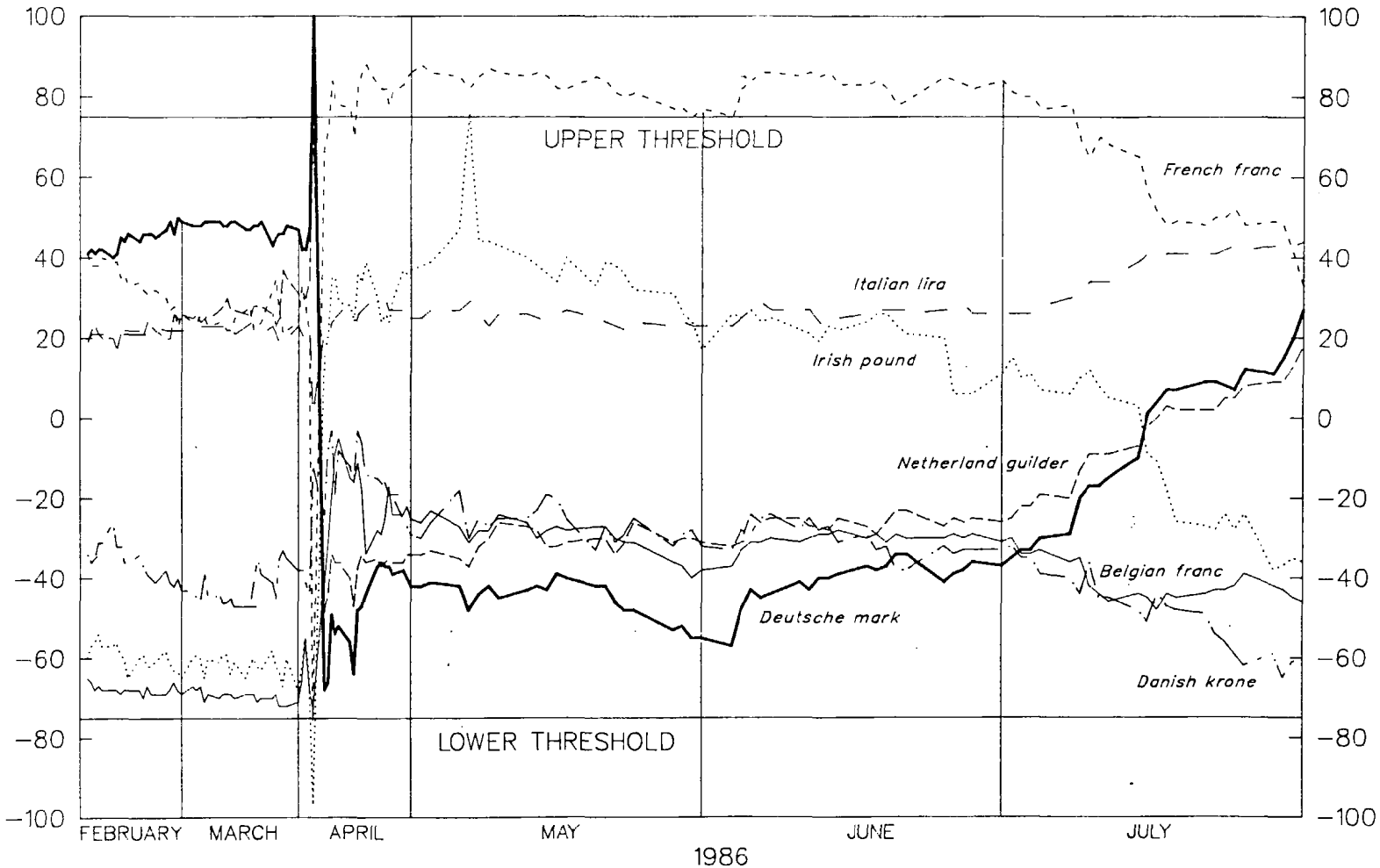
(Based on noon quotations in New York)



[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.
[2] Premia/Discounts over declared ECU central rates converted to U.S. dollar terms on the basis of 1 ECU=$0.900139 effective April 7, 1986.

CHART 3

EUROPEAN MONETARY SYSTEM: DIVERGENCE INDICATORS



[1] On April 7, 1986, central parities were adjusted relative to each other by plus 3 percent for the Deutsche mark and the Netherlands guilder, plus 1 percent for the Belgium franc and the Danish krone, unchanged for the Italian lira and the Irish pound, and minus 3 percent for the French franc.

CHART 4

SPOT EXCHANGE RATES

(Noon quotations in New York)

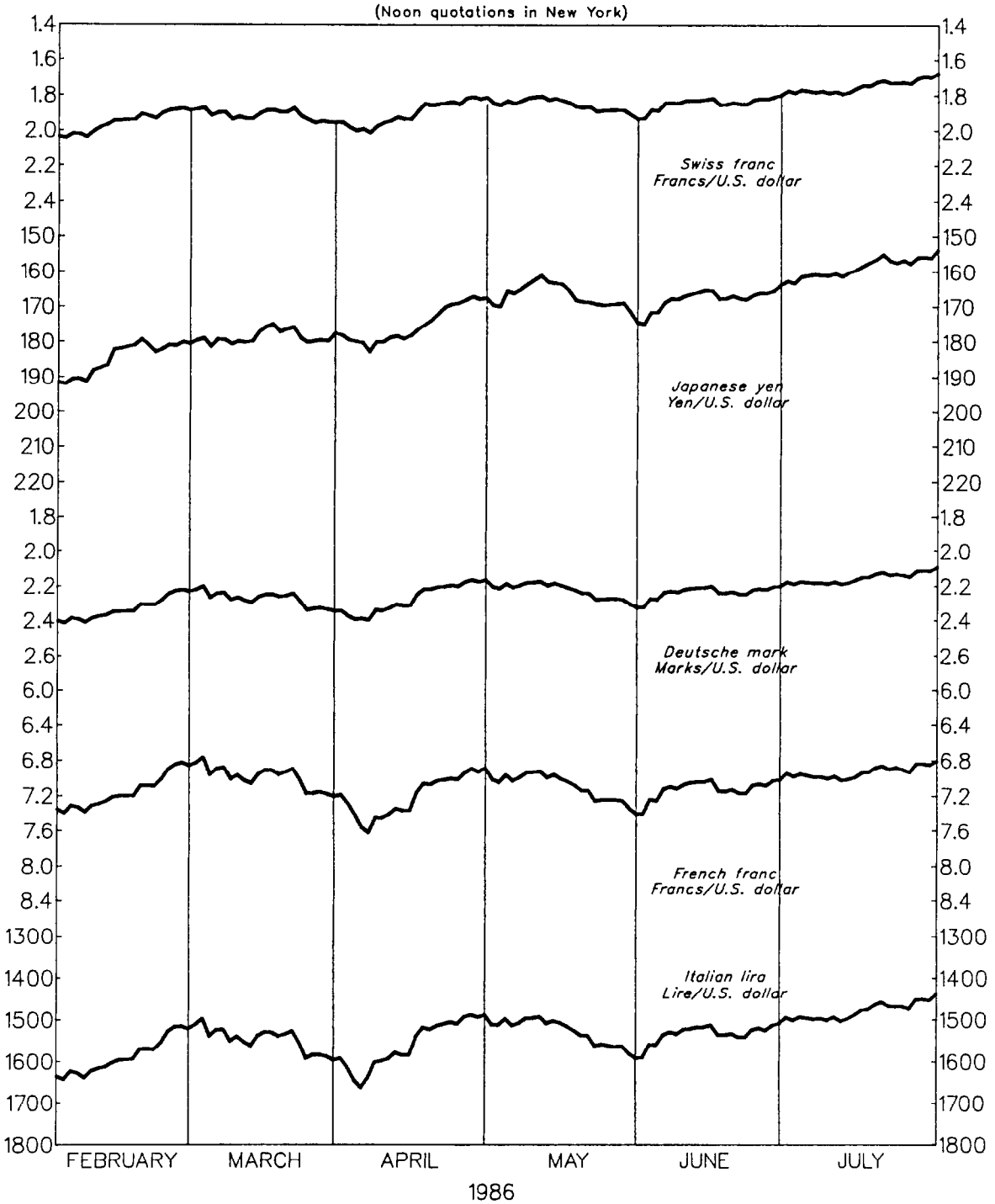


CHART 5

SPOT EXCHANGE RATES

(Noon quotations in New York)

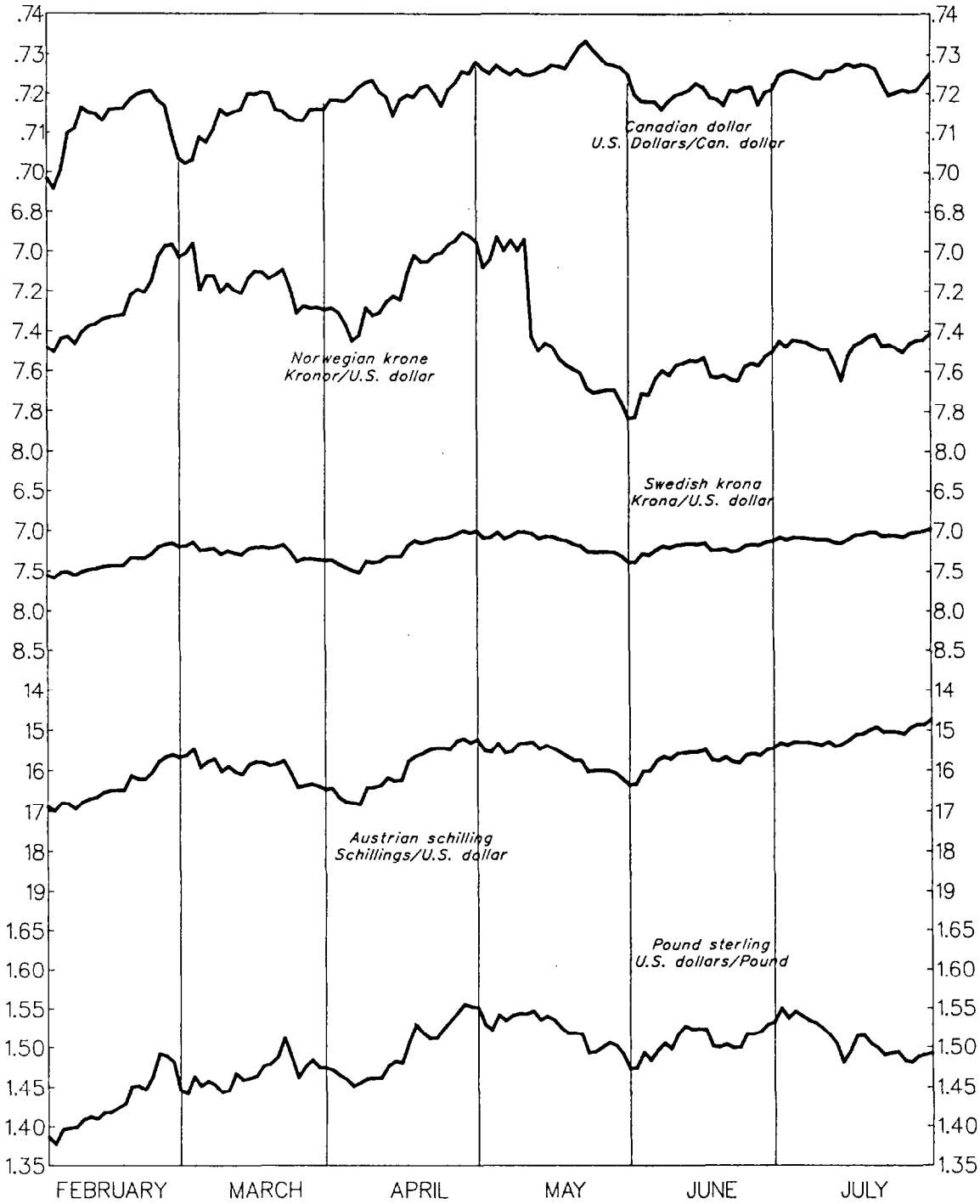


CHART 6

INDEXES OF EXCHANGE RATES OF
FIVE MAJOR CURRENCIES AGAINST THE SDR

JUNE 1974 – JULY 1986
(June 28, 1974=100)

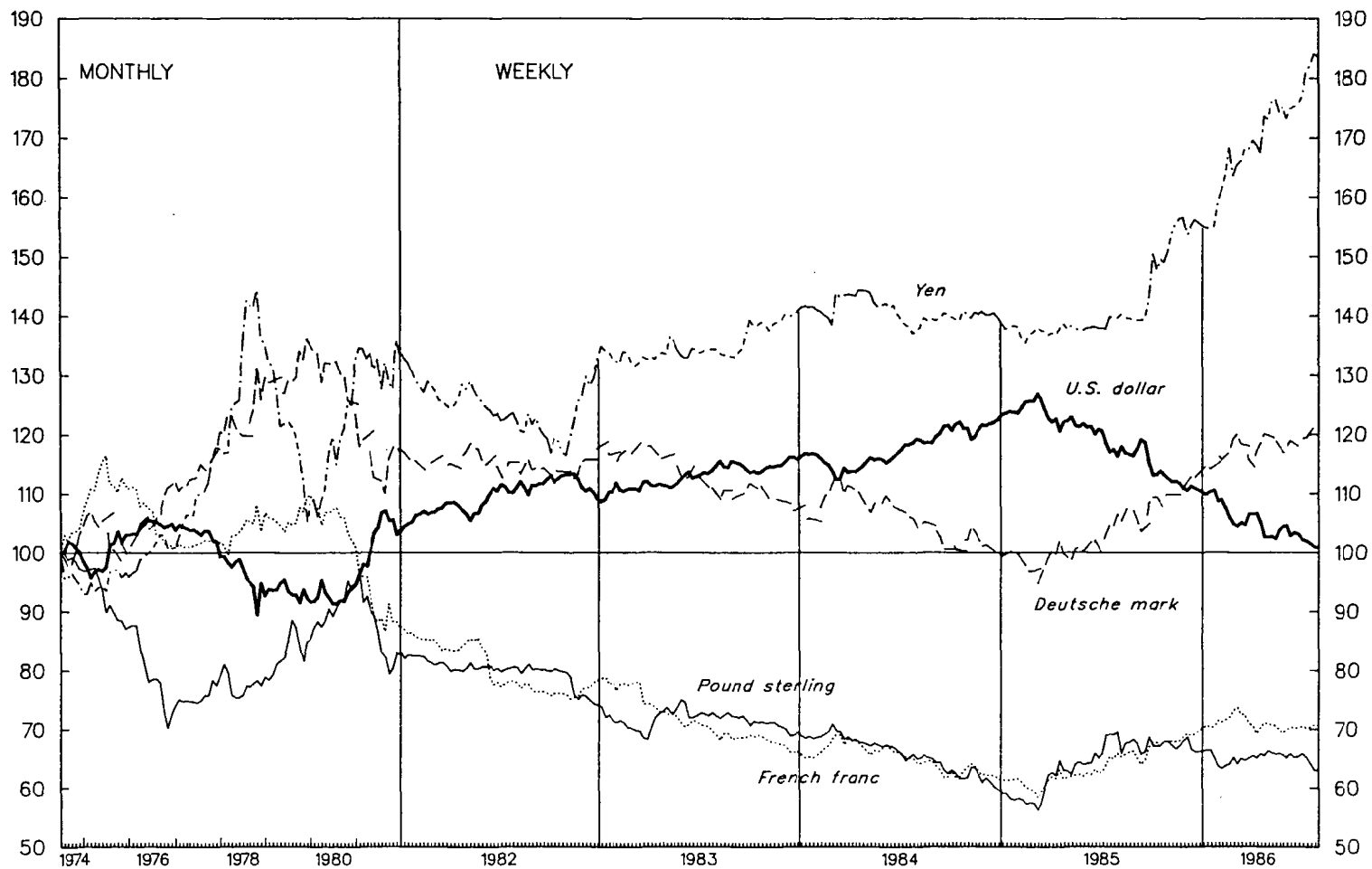


CHART 7

SHORT-TERM MONEY MARKET RATES

(Percent per annum)

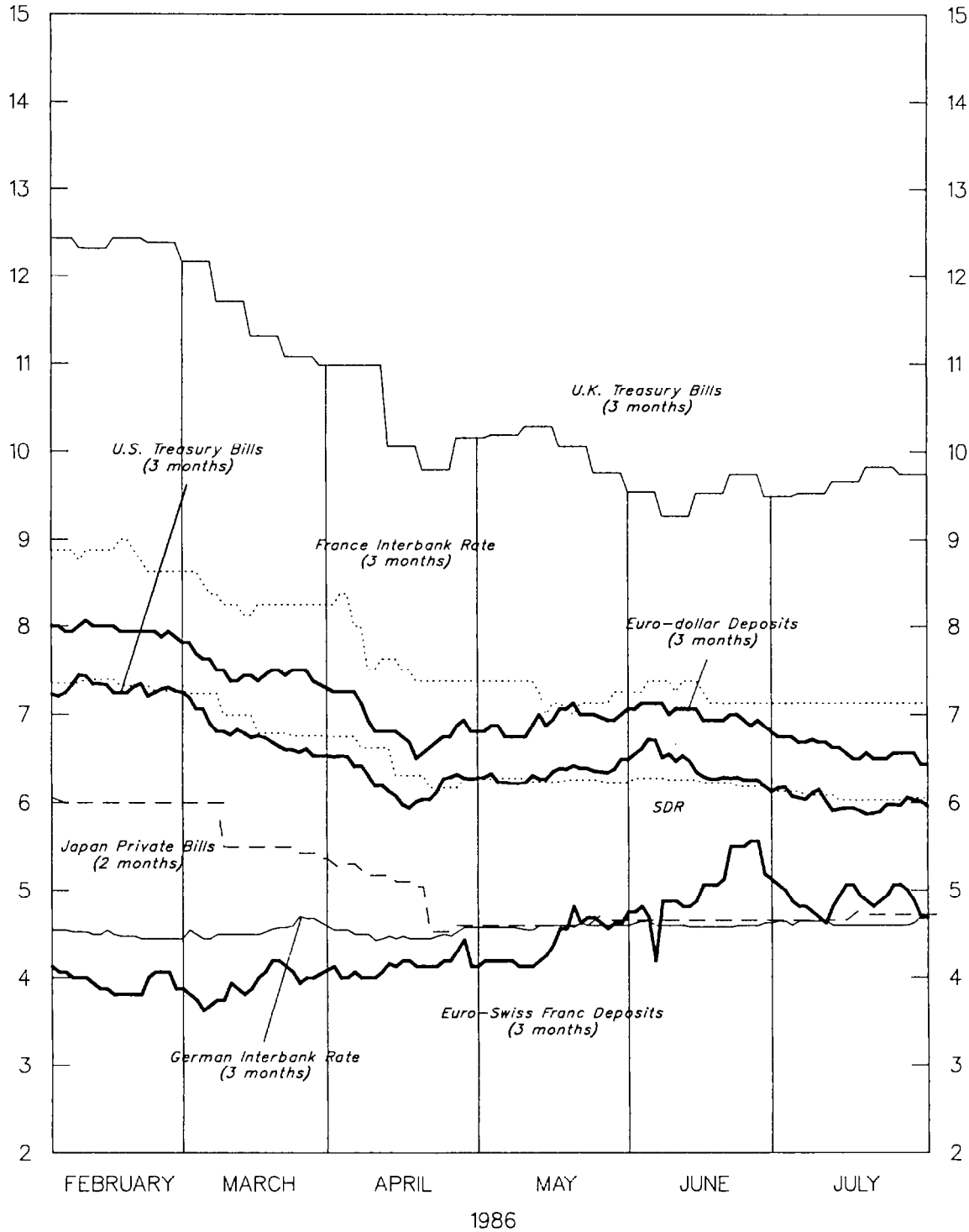


CHART 8

THREE-MONTH FORWARD RATES

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

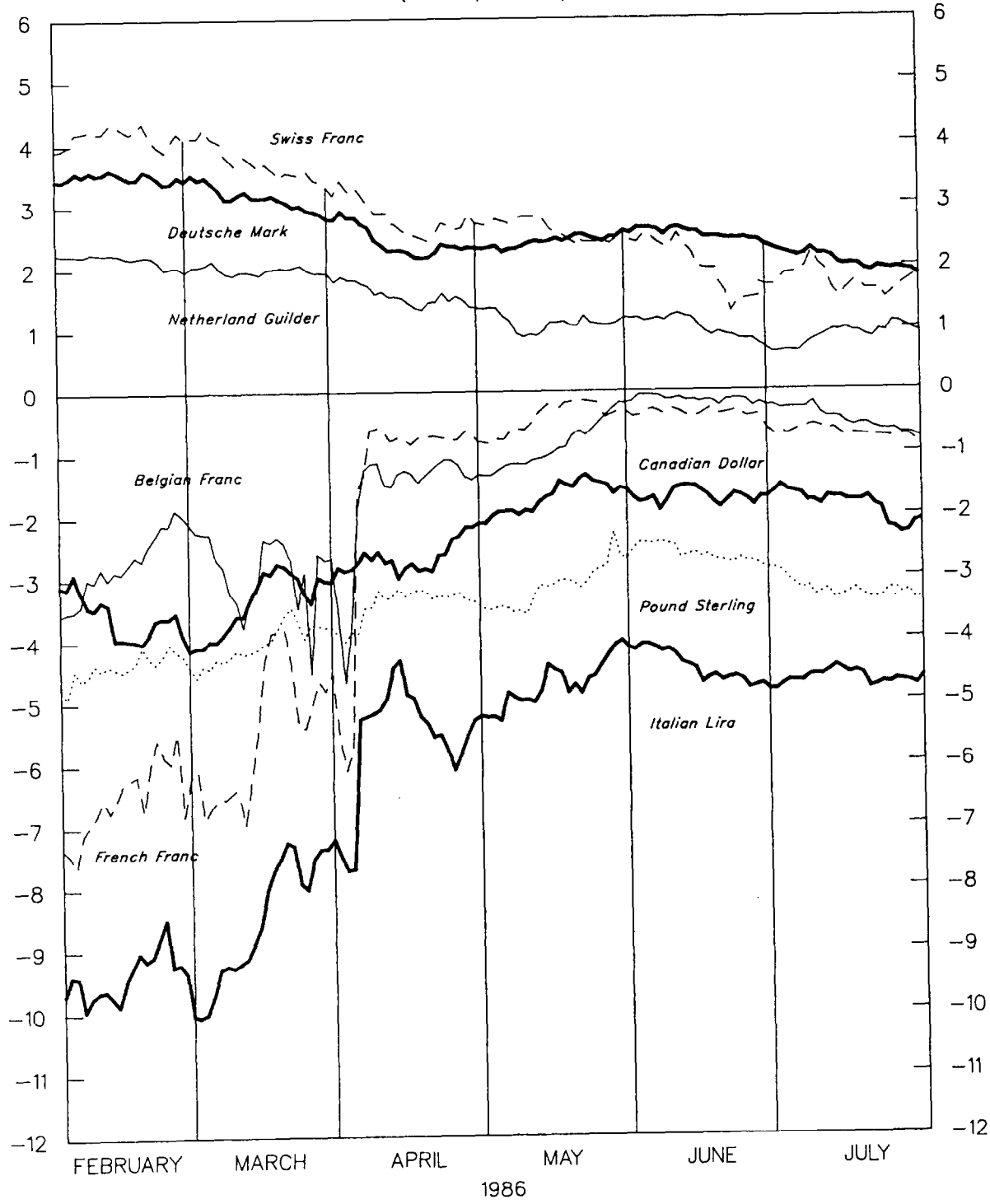


CHART 9

COVERED INTEREST DIFFERENTIALS BETWEEN THREE-MONTH EURO-DOLLAR DEPOSITS AND LOCAL SHORT-TERM INVESTMENTS

(+ IN FAVOR OF EURO-DOLLAR AND – IN FAVOR OF DOMESTIC INVESTMENT)

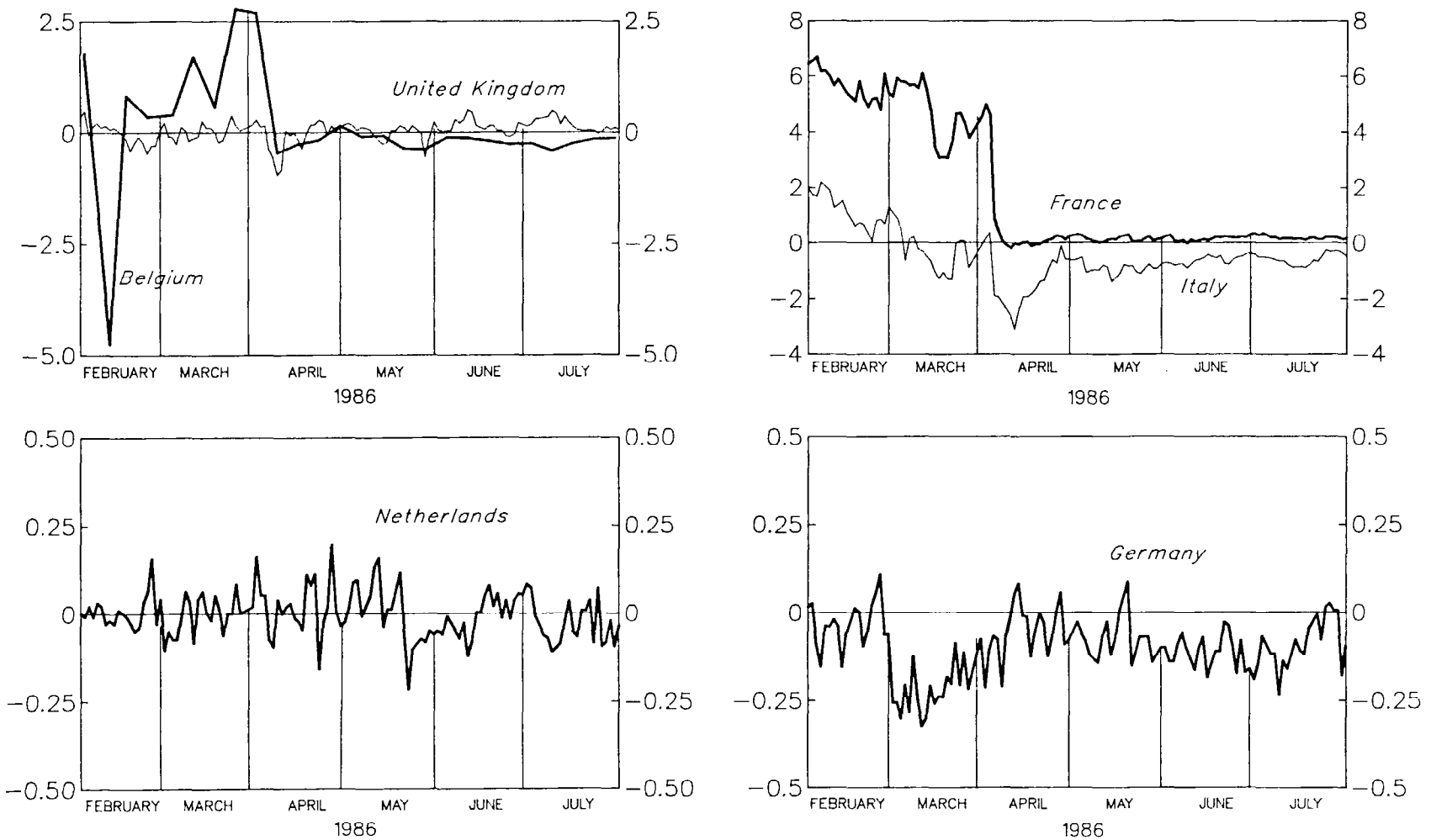
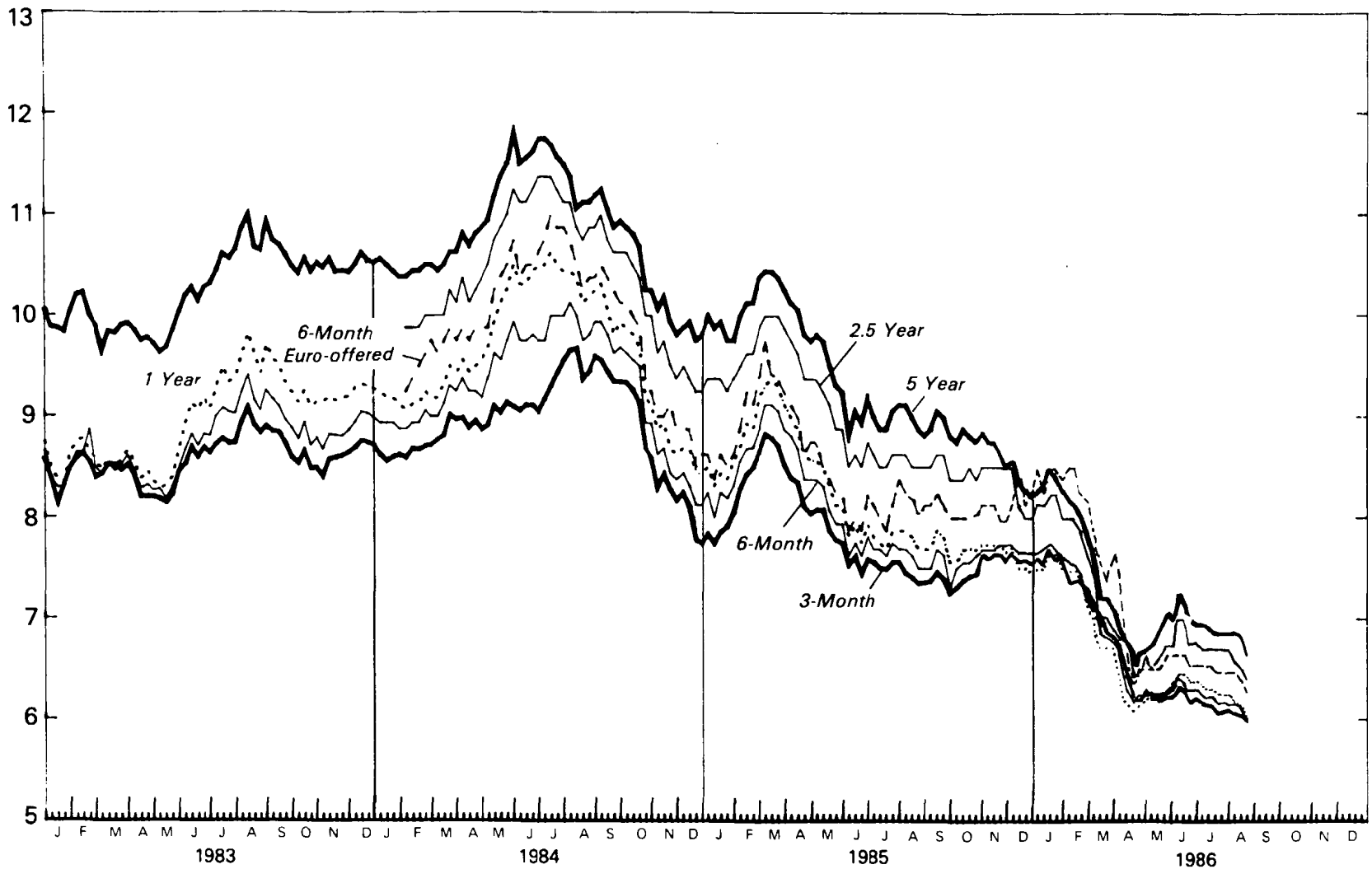


CHART 10

INTEREST RATES ON FUND-RELATED SDR ASSETS

(In percent per annum; weekly Wednesday observations)



Foreign Exchange Rates, June 1986 - July 1986 1/

Currency	June 4	June 11	June 18	June 25	July 2	July 9	July 16	July 23	July 30
Austrian schilling	16.0000	15.5550	15.7550	15.5750	15.3613	15.3650	15.1005	15.0275	14.8650
Belgian franc Official	46.485	44.215	45.745	45.275	44.755	44.925	44.315	44.045	43.695
Financial	46.735	45.525	46.075	45.675	45.205	45.255	44.755	44.235	43.985
Canadian dollars	0.71800	0.72018	0.71867	0.72165	0.72555	0.72385	0.72685	0.71965	0.72273
Danish kroner	8.43000	8.19650	8.31250	8.22000	8.12000	8.15100	8.05350	8.02500	7.95500
Deutsche mark	2.27850	2.21300	2.24000	2.21550	2.18850	2.18650	2.14950	2.13200	2.11350
French francs	7.25250	7.04950	7.14750	7.06650	6.98450	7.00800	6.94050	6.88000	6.85250
Irish pounds	1.33400	1.37030	1.35500	1.36350	1.38150	1.37845	1.38875	1.39625	1.40500
Italian lire	1559.500	1521.000	1536.000	1519.500	1501.000	1501.000	1476.500	1467.500	1453.000
Japanese yen	171.490	166.300	167.600	166.050	163.300	161.030	158.360	157.400	156.075
Netherlands guilder	2.56425	2.49350	2.52350	2.49475	2.46425	2.46050	2.42350	2.40250	2.38300
Norwegian kroner	7.71500	7.55900	7.63000	7.56000	7.47750	7.49000	7.46850	7.46500	7.44300
Pounds sterling	1.48375	1.52750	1.50050	1.51700	1.53750	1.52450	1.51450	1.49250	1.48985
Swedish kronor	7.29600	7.16300	7.23500	7.16500	7.11000	7.11100	7.05100	7.05250	7.00500
Swiss francs	1.88500	1.82675	1.84925	1.81750	1.78350	1.78450	1.74200	1.72650	1.69650

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 on September 13, 1986 2/

	Striking price				
	44	45	46	47	49
End-of-month observations:					
	(Call option premiums)				
May	1.09	0.70	0.50	0.34	0.15
June	2.27	1.59	1.11	0.71	--
July	--	2.96	2.11	1.40	0.46
	(Put option premiums)				
May	1.80	2.46	--	--	--
June	0.51	0.86	1.34	--	--
July	--	0.12	0.23	0.47	1.56

II. Japanese Yen Contracts Expiring on September 13, 1986 3/

	Striking price				
	59	60	62	64	65
End-of-month observations:					
	(Call option premiums)				
May	1.24	0.64	0.48	0.25	0.20
June	3.05	1.89	1.43	0.78	0.52
July	--	5.05	3.26	1.90	1.28
	(Put option premiums)				
May	2.58	4.02	--	--	--
June	0.94	1.80	--	--	--
July	--	--	0.26	0.71	1.19

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.

Short and Medium Term Interest Rates

(Monthly and weekly averages)

	Domestic money markets 1/ (three month)						Eurocurrency markets 2 (three month)						Lending rates		U.S. Treasury 5 securities (five-year)
	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)	(15)
1985															
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
Sep	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	6.78	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	7.58	8.05	4.83	11.73	11.79	7.59	4.22	8.11	9.50	8.73
1986															
Jan	7.30	4.74	12.47	9.08	7.10	7.59	8.08	4.59	12.87	12.96	6.66	4.15	8.17	9.50	8.68
Feb	7.29	4.56	12.38	8.92	6.00	7.32	7.95	4.51	12.72	14.81	6.07	3.95	8.03	9.50	8.34
Mar	6.76	4.61	11.48	8.42	5.59	6.89	7.50	4.46	11.76	13.27	5.53	3.92	7.54	9.10	7.46
Apr	6.23	4.56	10.35	7.73	4.97	6.35	6.87	4.47	10.53	8.38	4.88	4.13	6.90	8.83	7.05
May	6.33	4.66	10.05	7.31	4.62	6.25	6.93	4.57	10.19	7.36	4.76	4.41	6.99	8.50	7.53
Jun	6.39	4.67	9.52	7.33	4.66	6.22	7.00	4.54	9.79	7.36	4.75	5.07	7.09	8.50	7.64
Jul	6.00	4.69	9.67	7.22	4.69	6.07	6.60	4.57	9.97	7.30	4.69	4.88	6.66	8.16	7.06
1986 Week ending:															
Jul 4	6.14	4.70	9.51	7.22	4.66	6.11	6.75	4.56	9.88	7.33	4.65	4.98	6.81	8.50	7.21
11	6.05	4.70	9.56	7.22	4.66	6.08	6.68	4.57	10.00	7.31	4.57	4.74	6.74	8.50	7.13
18	5.92	4.66	9.70	7.22	4.70	6.03	6.55	4.55	9.97	7.26	4.68	4.98	6.61	8.07	6.91
25	5.94	4.66	9.81	7.22	4.72	6.05	6.52	4.56	10.00	7.29	4.74	4.95	6.58	8.00	7.01

1/ As of January 1, 1986, 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 ($ 0.452), three month interbank deposit rates in Germany (DM 0.527), three month interbank money rate against private paper in France (F 1.02), discount rates on two-month (private) bills in Japan (Y 33.4), and market yield for three-month U.K. Treasury bills (£ 0.0893). Before January 1, 1986, the respective currency units were $ 0.54, DM 0.46, F 0.74, Y 34, and £ 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.