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INTERNATIONAL MONETARY FUND

Treasurer's Department

Foreign Exchange and Financial Markets in October 1983

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Quotations of major currencies moved divergently during the month of October with the U.S. dollar on balance firming slightly against most leading currencies over the month as a whole. Increased global political tensions played a dominant role in the movements of exchange rates during the month. Among the major currencies, the Japanese yen and the Danish krone firmed while other currencies eased against the U.S. dollar. The yen firmed by 0.68 percent against the U.S. dollar and 0.90 percent in effective (MERM) terms while the Danish krone firmed 0.16 percent in terms of U.S. dollars and 0.26 percent in effective terms. The weakest among the remaining major currencies was the Swiss franc which eased 1.06 percent against the U.S. dollar and 0.67 percent in effective (MERM) terms. The U.S. dollar eased 0.44 percent in effective (MERM) terms and 0.23 percent against the SDR (see Table 1). 1/

The U.S. dollar continued its weakening trend early in the month, reacting to market expectations of some easing of the pressure on interest rates. International developments, especially increased tensions in the Middle East and bombing deaths of a number of high South Korean officials in Burma, however, tended to push the exchange value of the dollar significantly higher in the second week of October. An unexpected decline in the U.S. M1 money supply then sparked a sharp easing of the dollar on October 17-18, offsetting much of the gains of the first few days of the previous week. The dollar resumed its firming tendency, however, following large-scale demonstrations against nuclear missile deployments in Germany, suicide bombings of the French and the U.S. headquarters of peace-keeping forces in Lebanon, and U.S. military intervention in Grenada. The dollar was also affected by the ongoing large Treasury borrowing requirements which helped keep the level of U.S. interest rates high.

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1/ The easing of the U.S. dollar in effective as well as in SDR terms, despite its firming against most other currencies, mainly reflects the difference between the representative rates taken from the domestic markets for the former and the New York quotations used for the latter.

Table 1. Changes in Exchange Rates in October 1983 <sup>1/</sup>  
(In percent)

	Monthly exchange rate changes			Change in effective exchange rate since October 1982 <sup>3/</sup>
	Against U.S. dollar <sup>2/</sup>	Against SDR	Effective exchange rate <sup>3/</sup> (In percent)	
Belgium	-0.18	-0.10	-0.18	-4.0
Denmark	+0.16	+0.26	+0.34	-2.3
France	-0.24	+0.21	+0.18	-7.2
Germany	0.00	+0.25	+0.23	+0.3
Ireland	-0.42	-0.67	-0.10	-7.8
Italy	-0.19	-0.14	-0.24	-5.9
Netherlands	-0.19	-0.18	-0.27	-2.2
Austria	-0.07	+0.18	+0.10	-1.1
Canada	-0.02	-0.25	-0.22	+0.1
Japan	+0.68	+0.82	+0.90	+22.2
Norway	-0.66	-0.53	-0.59	-0.1
Sweden	-0.21	-0.17	-0.21	-3.3
Switzerland	-1.06	-0.56	-0.67	+5.0
United Kingdom	-0.18	-0.26	-0.33	-9.4
United States	--	-0.23	-0.44	+0.3

<sup>1/</sup> Positive sign indicates appreciation of the currency.

<sup>2/</sup> Based on New York noon quotations.

<sup>3/</sup> Based on the Fund's multilateral exchange rate model (MERM).

Effective rates and rates against the SDR are based on representative exchange rates officially advised to the Fund.

Within the EMS, relative positions were little changed. The Belgian franc remained isolated at the bottom while the other currencies in the narrow band were closely bunched at or near the top (see Chart 1); the discount of the financial franc from the commercial franc, however, tended to narrow as the month progressed. The divergence indicator for the Belgian franc continued to remain below its lower threshold, creating a presumption that economic policy actions might be needed to strengthen the currency's relative position in the EMS (see Chart 2). The only policy action taken by the Belgian authorities was a 0.25 increase in rates on Treasury certificates around mid-October. Intervention by the National Bank of Belgium was scaled down in October to the equivalent of about BF 18 billion from about BF 30 billion in September. The spread in the narrow EMS band <sup>1/</sup> in the New York market fluctuated around the

<sup>1/</sup> Measured as the percentage margin of the strongest currency relative to its ECU central parity compared with the weakest currency relative to its ECU central parity.



2.25 percent limit maintained in EMS member markets. The French franc, the Netherlands guilder, the Danish krone, and the Irish pound changed positions at the top of the narrow band during the month. The Bank of France was reported to be intervening occasionally to sustain the position of the French franc in the parity grid. The Italian lira remained the strongest currency in the EMS and continued to have a spread over the Belgian franc of 4.5-5.0 percent; the lira is allowed a maximum margin of 6 percent above (below) the weakest (strongest) currency in the EMS exchange arrangements. Over the month of October, the EMS currencies eased by 0.18-0.42 percent against the U.S. dollar, except for the Danish krone, which firmed slightly and the Deutsche mark which was quoted unchanged.

Although most major currencies ended the month little changed from the end-September levels, the intra-month variations increased for many currencies. For the EMS currencies and the Austrian schilling, the average absolute daily percentage changes (MAC in Table 2 and Chart 5)

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

	<u>October 2/</u>		<u>High-low spread in percent 3/</u>		<u>MAC 4/</u>	
	High	Low	Sept.	Oct.	Sept.	Oct.
Belgium	52.355	53.480	1.5	2.1	0.32	0.44
Denmark	9.2875	9.4950	2.1	2.2	0.31	0.48
France	7.8675	8.0115	1.5	1.8	0.32	0.41
Germany	2.5668	2.6310	2.4	2.5	0.35	0.47
Ireland	1.2060	1.1805	1.6	2.2	0.30	0.41
Italy	1565.0	1597.5	2.3	2.1	0.38	0.39
Netherlands	2.8805	2.9465	2.5	2.3	0.33	0.42
Austria	18.0425	18.505	2.4	2.6	0.34	0.48
Canada	0.81317	0.81113	0.3	0.3	0.06	0.04
Japan	230.80	234.23	4.7	1.5	0.35	0.33
Norway	7.2600	7.3845	1.8	1.7	0.28	0.30
Sweden	7.7125	7.8250	1.6	1.5	0.20	0.29
Switzerland	2.08625	2.14225	3.3	2.7	0.35	0.42
United Kingdom	1.50933	1.47535	1.3	2.3	0.27	0.28

1/ Exchange rates against the U.S. dollar 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.



increased noticeably from about 0.33 percentage point to about 0.45 percentage point and the range within which these currencies traded against the U.S. dollar widened from an average of 1.9 percent to 2.2 percent, except for the Italian lira and the Netherlands guilder. For other major currencies, the most notable change from September was the sharp narrowing of the trading range recorded by the Japanese yen, reflecting the slower pace of the yen's appreciation in October. The trading range for the Swiss franc narrowed while the average daily absolute percentage change against the U.S. dollar increased.

Table 3. Foreign Exchange Reserves in October 1983 <sup>1/</sup>  
(In millions of U.S. dollars)

	End-month reserve level	Change in October	Change over 12 months
Belgium	3,937	+79	+666
Denmark	3,650	+516	+2,340
France	18,702	+71	+7,524
Germany	38,336	+1,243	+919
Ireland	2,473	-29	+58
Italy	17,753	+83	+4,794
Netherlands	8,730	+253	+1,142
Austria	4,054	-50	-165
Canada	3,312	+63	+893
Japan	20,444	-8	+1,373
Norway	5,880	+501	-768
Sweden	3,283	+298	-283
Switzerland (September)	12,578	+1,046	-280
United Kingdom	8,968	+64	-2,005
United States	6,952	+41	-2,448

<sup>1/</sup> Includes ECU holdings but excludes gold, SDRs and reserve position in the Fund. Foreign exchange reserves are gross and include balances drawn on short-term swap agreements and the proceeds from other official borrowings.

The largest change in gross foreign exchange reserves in October was a rise for Germany in excess of \$1.2 billion, a significant part of which was due to currency flows from Switzerland following reductions in time deposit rates by major Swiss banks and the announcement that the budget deficit planned for 1984 would widen. Denmark and Norway also recorded sizable reserve increases; Denmark's rise was mainly due to a sale of \$500 million in euro-bonds. Ireland reported a small reserve



loss despite significant foreign borrowings: it raised ECU 30 million and £50 million in fixed rate issues and a further £50 million on a floating rate basis (Ireland also raised DM 150 million in a bond issue in September). For the EMS countries, changes in the ECU portion of reserves were modest in relation to changes in foreign exchange holdings, except for France in which case a significant rise in ECU assets was mostly offset by a decline in other reserves. Over the past 12 months, France and Italy have had the largest increases in reserves while the United States and the United Kingdom have had the largest declines. All the EMS countries have recorded reserve increases over the past 12 months while other major industrial countries in Table 3, except Canada and Japan, have recorded declines.

### I. Developments in the Spot Exchange Markets

The U.S. dollar continued its weakening trend early in the month but numerous unsettling international political developments and less favorable prospects for lower U.S. interest rates stimulated some safe-haven buying of dollars in the second week; the dollar weakened again in midmonth but re-emergence of political tensions and the prospect of continued large Treasury borrowings aided the dollar on the exchange markets thereafter. For the month as a whole, the dollar eased by 0.44 percent in effective (MERM) terms and 0.23 percent against the SDR. The index of leading economic indicators rose 0.9 percent in September. The index of industrial production, seasonally adjusted, increased 0.8 percent in October for a 14.1 percent year-on-year rise, exceeding the pre-recession peak production level of July 1981. The trade deficit narrowed to a seasonally adjusted \$5.8 billion in September from \$7.2 billion recorded in August. The inflation rate appeared well under control; the index of producer prices rose 0.3 percent in October and was up 1.3 percent year-on-year. The U.S. civilian unemployment rate in October declined sharply to 8.8 percent from 9.3 percent in September. The Federal budget deficit for the fiscal year ended September, however, widened to \$195 billion from \$111 billion in the previous year.

The Deutsche mark was quoted unchanged against the U.S. dollar over the month of October but firmed 0.23 percent in effective (MERM) terms. Industrial production, seasonally adjusted, was unchanged in September from an upward-revised level in August but was 2.0 percent higher year-on-year. The unemployment rate in October rose to 8.7 percent from 8.6 percent in September and on a seasonally adjusted basis, it eased to 9.3 percent from the constant 9.4 percent level recorded since March. The current account deficit in September narrowed to DM 600 million from DM 3.4 billion in August. The wholesale price index declined 0.1 percent in October but rose by the same margin year-on-year while the producer price index rose 0.1 percent but was up 1.2 percent over October 1982.





The French franc eased 0.24 percent against the U.S. dollar but firmed 0.18 percent in effective (MERM) terms. The Bank of France reportedly continued some intervention to broadly maintain the franc's relative position in the EMS. Some exchange restrictions on French tourists traveling abroad were relaxed at the end of October. The unemployment rate, seasonally adjusted, rose to 8.9 percent in October from 8.8 percent in September. Industrial production fell 1.5 percent in September but was 2.4 percent higher than in September 1982. The trade balance, seasonally adjusted, swung into a deficit of F 893 million in October from a surplus of F 323 million in September. Industrial wholesale prices rose 1.1 percent in September following a 2.2 percent rise in August and were up 13.0 percent year-on-year.

The Belgian franc eased by 0.18 percent against the U.S. dollar and also in effective (MERM) terms. As noted earlier, the franc continued to remain isolated at the bottom of the EMS parity grid and its divergence indicator was below the lower threshold throughout the month (see Charts 1 and 2). The only economic policy action taken during the month to strengthen the currency was a quarter percentage point increase in rates on Treasury certificates around midmonth. Speculative pressures against the franc did not, however, appear to be severe as indicated by a relatively modest discount of the financial franc from the commercial franc and a reduction in the scale of intervention by the National Bank of Belgium, which declined to the equivalent of about BF 18 billion from about BF 30 billion in September. The trade balance of the Belgo-Luxembourg Economic Union (BLEU) swung into a BF 2.9 billion surplus in July from a revised BF 600 million deficit in June but narrowed from the surplus of BF 3.6 billion recorded in July 1982. The wholesale price index rose 1.5 percent in September and was up 7.8 percent year-on-year.

The Netherlands guilder eased by 0.19 percent against the U.S. dollar and 0.27 percent in effective (MERM) terms. The number of unemployed, seasonally adjusted, declined marginally in October; the unemployment rate in September was 17.7 percent. The trade surplus widened in September to f. 1.1 billion from f. 600 million in August and f. 700 million in September 1982. The producer price index for consumer and investment goods rose 0.6 percent in August and was up 2.1 percent year-on-year.

The Danish krone was the strongest of the EMS currencies in October; it firmed 0.16 percent against the U.S. dollar and 0.34 percent in effective (MERM) terms. The relative firmness of the krone and rising foreign exchange reserves allowed the National Bank of Denmark to cut its discount rate late in the month to 7 percent from 7.5 percent. The trade deficit in September widened to DKr 1.05 billion from DKr 396 million in August and DKr 248 million in September 1982. The unemployment rate rose to 10.2 percent in September from 9.9 percent in August.



The Irish pound eased 0.42 percent against the U.S. dollar and was marginally easier in effective (MERM) terms. The number of persons unemployed rose a seasonally adjusted 1.0 percent in October and was 18.6 percent higher year-on-year; the unemployment rate was unofficially estimated at about 15 percent.

The Italian lira eased 0.19 percent against the U.S. dollar and 0.24 percent in effective (MERM) terms. In terms of ECU central parities, the lira continued to remain the strongest currency in the EMS, maintaining a margin above the Belgian franc in the range of 4.5-5.0 percent. The index of industrial production, seasonally adjusted, rose 1.1 percent in September and the trade deficit narrowed to Lit 1,770 billion in September from Lit 2,180 billion in September 1982. The wholesale price index rose 1.8 percent in September and was up 9.5 percent year-on-year.

The pound sterling eased 0.18 percent against the U.S. dollar and 0.33 percent in effective (MERM) terms. The Bank of England cut its money market intervention rate early in the month, and major banks lowered their base lending rate from 9.5 percent to 9 percent. A revised system of leading economic indicators instituted in August suggested that economic recovery would be stronger than previously predicted and will continue well into 1984. Real GDP rose 0.9 percent in the third quarter and was up 1.8 percent over the same period of 1982. The unemployment rate, seasonally adjusted, fell to 12.3 percent in October from 12.4 percent in September. The index of industrial production rose 0.1 percent in September for a 1.6 percent increase over the year. The current account surplus, seasonally adjusted, widened in September to £270 million from £22 million in August, due mostly to a surge in exports. The index of producer output prices rose 0.5 percent in October and 5.5 percent year-on-year.

The Swiss franc was the weakest major currency in October; it eased 1.06 percent against the U.S. dollar and 0.67 percent in effective (MERM) terms. Major Swiss banks lowered their time deposit rates early in the month and the budget planned for 1984 involves a wider deficit of SW F 1.16 billion compared with the deficit of Sw F 962 million expected in 1983. The unemployment rate in October was unchanged at 0.8 percent. The trade deficit widened to Sw F 499 million in October from Sw F 404 million in September and Sw F 375 million in October 1982. The wholesale price index declined 0.3 percent in October but was up 0.3 percent year-on-year.

The Japanese yen continued its sharp appreciation of the previous month and was the strongest of the major currencies in October; it firmed 0.68 percent against the U.S. dollar and 0.90 percent in effective (MERM) terms. The yen continued to strengthen despite several stimulatory policy moves: domestic lending ceilings for the fourth quarter were increased, the discount rate was reduced from 5.5 percent to 5.0 percent, some tariffs were cut and the government proposed a package of tax and spending measures that many analysts, however, felt



were not expansionary enough. Industrial production rose 0.6 percent in September, following a 2.7 percent rise in August and was 5.1 percent above the preceding year's level. The current account surplus, seasonally adjusted, narrowed in September to \$1,964 million from \$2,052 million in August. The trade surplus in October, however, widened to a seasonally adjusted \$1.41 billion from \$1.34 billion in September. The wholesale price index fell 0.7 percent in October and was 4.0 percent lower than that a year ago.

The Canadian dollar was practically unchanged against the U.S. dollar but eased 0.22 percent in effective (MERM) terms. Industrial production rose a seasonally adjusted 0.4 percent in August and was up 5.7 percent year-on-year. The unemployment rate eased to 11.1 percent in October from 11.3 percent in September. The trade surplus, seasonally adjusted, narrowed to Can\$1.12 billion in September from Can\$1.40 billion in August. The wholesale price index was unchanged in September but rose 5.0 percent year-on-year while industrial selling prices fell 0.1 percent but were up 2.8 percent over the year.

The Austrian schilling was marginally easier against the U.S. dollar but marginally firmer in effective (MERM) terms. The Norwegian krone eased 0.66 percent against the U.S. dollar and 0.59 percent in effective (MERM) terms. The Swedish krona eased 0.21 percent against the U.S. dollar and also in effective (MERM) terms.

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

Monetary and credit conditions in most major industrial countries were slightly easier or unchanged in October, except in Germany where interest rates continued to firm.

In the United States, short-term interest rates registered divergent movements and there were growing concerns in the market that the massive budget deficit and the resulting Treasury funding would keep interest rates firm at least until the end of the year. M2 rose to \$2.161 trillion in October compared with \$2.145 trillion in September and M3 increased to \$2.561 trillion in the same month from \$2.543 trillion. M1 rose slightly to \$517.7 billion in October from \$517.1 billion in September and, for the latest 13 weeks, it increased at a modest annual rate of 5 percent from the preceding 13 weeks. M1 showed some erratic movement during the month, increasing by \$2.4 billion in the week ended October 12, falling by \$2.4 billion in the following week, but rising again by \$0.9 billion in the last week of October. However, the short-term interest rates moved within a rather narrow range. While the three-month bond-equivalent yield on Treasury bills eased from 9.05 percent at the end of September to 8.83 percent at the end of October, other rates tended to rise. The 90-day CD rate firmed



Table 4. Inflation Rates and Short-Term Interest Rates

	Month <u>2/</u>	Inflation rates <u>1/</u> (year-on-year percent changes)				Short-term interest rates <u>4/</u> (end-of-month)	
		Wholesale price index	Consumer price index <u>3/</u>			Sept.	Oct.
Austria	June/Sept.	-1.5 (-3.0)	3.6 (3.3)			3.75	3.75
Belgium	October	7.8 (7.8)	6.5 (7.3)			9.00	9.00
Canada	Sept./Oct.	5.0 (5.5)	4.9 (5.0)			9.20	9.20
Denmark	September	4.9 (5.0)	6.0 (6.1)			7.50	7.00
France	September	13.0 (12.1)	10.3 (10.1)			12.67	12.42
Germany	Sept./Oct.	0.9 (0.2)	2.6 (2.9)			5.91	6.27
Italy	Aug./Oct.	8.7 (9.4)	13.3 (13.6)			17.50	17.63
Japan	Oct./Sept.	-4.0 (-3.2)	0.7 (1.2)			6.83	6.38
Netherlands	Aug./Oct.	2.1 (1.6)	2.5 (2.5)			6.19	6.13
Norway	September	5.6 (5.7)	7.8 (7.6)			8.00	8.00
Sweden	September		9.5 (9.3)			8.50	8.50
Switzerland	October	0.3 (0.8)	1.4 (1.4)			4.13	4.19
United Kingdom	Sept./Oct.	5.3 (5.3)	5.0 (5.1)			9.14	9.04
United States	Sept./Oct.	1.4 (1.4)	2.9 (2.9)			9.05	8.83

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 France and the United Kingdom, and cost of living index for Germany, the Netherlands, and Switzerland.

4/ Three-month rates are: Market yields on Treasury bills for the United States and the United Kingdom; Treasury bill rate for Canada; inter-bank rates for Germany, France, Italy, and the Netherlands; three-month euro-franc rate for Switzerland; discount rate on two-month private bills for Japan; central bank discount rates for Austria, Belgium, Denmark, Norway and Sweden.





from 9.15 percent to 9.21 percent, widening the spread over the Treasury bill rate from 0.10 percentage point at the end of September to 0.38 percentage point at the end of October. The Federal funds rate averaged 9.36 percent in the last week of October, up from 9.04 percent in the last week of September. The prime lending rate remained unchanged at 11.0 percent.

Among the countries in the European Monetary System, interest rates continued to firm in Germany with the three-month interbank rate rising to 6.27 percent at the end of October from 5.91 percent at the end of September, despite the Bundesbank's actions to provide short-term liquidity to the market in order to stimulate the sluggish economic growth. In September, Germany's broad money supply M3 grew at an annual rate of 5.5 percent, down from 6.5 percent in August and 7.6 percent in September 1982. M2 rose by 3.1 percent in September, following an increase of 3.2 percent in August and M1's increase fell sharply to an annual rate of 5.6 percent from 10.0 percent. The Bank of France kept its money market intervention rate unchanged in October at 12.25 percent, despite a significant fall of euro-French franc interest rates. The domestic three-month interbank rate also eased to 12.42 percent at the end of October from 12.67 percent at the end of September. As noted earlier, the National Bank of Belgium raised the interest rate on three-month Treasury certificates from 9.25 percent to 9.50 percent on October 10. The rates on one- and two-month certificates were left unchanged at 9 percent and 9.25 percent, respectively; they were last raised by 0.25 percentage point on September 19. In Italy, most interest rates eased slightly in October. The Bank of Italy reported that the minimum bank lending rate eased to 18.88 percent from 18.93 percent and the average deposit rate fell to 12.06 percent from 12.10 percent. But the three-month interbank rate rose to 17.63 percent at the end of October from 17.50 percent at the end of September.

Major clearing banks in the United Kingdom cut their base lending rate by 0.5 percentage point to 9 percent on October 3. The recent slowdown in the growth of money supply, deceleration of economic growth and the pound sterling's stability in the foreign exchange market were expected to soften interest rates. The yield on three-month Treasury bills eased by 0.10 percentage point to 9.14 percent during October and the three-month interbank rate fell to 9.38 percent at the end of October from 9.56 percent at the end of September. In the banking month ended October 19, sterling M3 increased by 1.5 percent or £1.430 billion, compared with a fall of 0.4 percent in September and an increase of 0.2 percent in August. M1 also increased by 1.5 percent in October, compared with a decrease of 0.2 percent in September, and Public Sector Liquidity 2 rose by 1.0 percent, following an increase of 0.2 percent. Over the eight months since mid-February, sterling M3 grew at an annual rate of 10.8 percent, M1 at 12.7 percent, and PSL2 at 13.1 percent, compared with the target annual rate of increase for each of the three aggregates of a 7-11 percent during the 14 months from mid-February 1983 to mid-April 1984.



The Bank of Japan cut its discount rate by half a percentage point to 5 percent on October 20, as part of the package measures by the government to stimulate domestic demand and imports. Short-term money market rates fell by about the same percentage point in reaction to this measure, with the two-month interbank rate falling to 6.38 percent at the end of October from 6.83 percent at the end of September. In September Japan's broadly defined money supply, M2 and CDs, grew at an average rate of 7.2 percent from a year earlier, up from an increase of 6.9 percent in August, attributed mainly to a rise in demand deposits. M1 grew by an average 3.2 percent in September, compared with the average increase of 2.5 percent in August. M3 and CDs at the end of September fell 8.3 percent from a year earlier, compared with a year-on-year increase of 8.5 percent at the end of August.

Table 5. Covered Interest Differentials for  
Three-Month Investments (End-month)

	Uncovered interest differentials <u>1/</u> (1)		Forward exchange quotations <u>2/</u> (2)		Covered interest differentials <u>1/</u> (3) = (1)-(2)	
	Sept.	Oct.	Sept.	Oct.	Sept.	Oct.
France	-3.11	-2.67	-4.58	-2.75	+1.47	+0.08
Germany	+3.65	+3.48	+3.87	+3.96	-0.22	-0.48
Italy	-7.94	-7.88	-8.10	-7.06	+0.16	-0.82
Japan	+2.73	+3.37	+2.97	+3.46	-0.24	-0.09
Netherlands	+3.37	+3.63	+3.44	+3.65	-0.07	-0.02
United Kingdom	+0.42	+0.71	+0.15	+0.49	+0.27	+0.22

1/ Positive sign indicates differential in favor of euro-dollar 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 and for the United Kingdom, the three-month Treasury bill rate.

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

In the euro-currency markets, the three-month euro-dollar interest rates firmed by 0.19 percentage point to 9.75 percent at the end of October. As a result, the uncovered interest differentials favoring domestic investments narrowed for Germany, France, and Italy and those favoring euro-dollar investments widened for Japan, the Netherlands, and the United Kingdom between the end of September and the end of October.



In the forward exchange market, the discount against the U.S. dollar narrowed for the French franc and the Italian lira. The premia against the U.S. dollar widened for the Deutsche mark, the Japanese yen, the Netherlands guilder, and the pound sterling. Consequently, covered interest differentials favoring euro-dollar investments narrowed sharply for France, slightly for the United Kingdom and switched to favor domestic investment for Italy. Interest differentials favoring domestic investments narrowed for Japan and the Netherlands but widened for Germany.

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

Yields on the SDR and other SDR-denominated assets eased in October reflecting a general declining trend of yields on the underlying assets denominated in the different currencies. The SDR interest rate declined to 8.56 percent and 8.53 percent in the first and the second week of October, respectively, from 8.64 percent in the last week of September. After rising to 8.63 percent in the third week, it declined again to 8.50 percent and 8.47 percent in the fourth and the fifth week, respectively. The rate of remuneration paid on creditor positions in the Fund (85 percent of the SDR interest rate) eased to 7.20 percent in the last week of October from 7.34 percent in the last week of September.

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

	Sept. 26	October				
		3	10	17	24	31
SDR interest rate	8.64	8.56	8.53	8.63	8.50	8.47
Rate of remuneration	7.34	7.28	7.25	7.34	7.23	7.20

<sup>1/</sup> The rate pertains to the week beginning on the date indicated above.

As shown in Appendix B, the monthly averages of interest rates on domestic instruments for currencies included in the SDR basket eased by 0.17-0.37 percentage point in the United States, the United Kingdom and Japan while those in Germany and France firmed by 0.32 and 0.01 percentage point, respectively, during October. As a result, the average combined market interest rate eased to 8.54 percent in October from 8.74 percent in September.



The combined domestic interest rates for maturities ranging from three months to 12 months eased by 0.05-0.10 percentage point from the end of September to the end of October, reflecting easier interest rates on the relevant instruments in the United States, France, and Japan, which eased by 0.01-0.45 percentage point, while those in Germany and the United Kingdom were mixed. However, the combined market rate for the five-year maturity firmed by 0.08 percentage point during October reflecting higher interest rates on the relevant instruments in the United States and in France which firmed by 0.06-0.16 percentage point, partly offset by those in Germany, the United Kingdom, and Japan which eased by 0.03-0.21 percentage point. The combined domestic rate displayed a somewhat steeper rising yield curve moving up from 8.49 percent on the three-month maturity, through 8.81 percent and 9.19 percent on the six- and twelve-month maturities, respectively, to 10.56 percent on the five-year maturity.

Combined euro-currency interest rates for three, six, and twelve months eased moderately by 0.07, 0.12, and 0.04 percentage point, respectively, to 8.84 percent, 9.08 percent, and 9.40 percent at the end of October. This reflected lower euro-sterling, euro-French franc and euro-yen interest rates, which eased by 0.19-1.31 percentage point, partly offset by higher euro-dollar rates which firmed by 0.06-0.13 percentage point, while euro-Deutsche mark rates were mixed.

Average interest rates on SDR-denominated deposits of selected commercial banks eased by 0.08-0.16 percentage point at the end of October. The deposit rates displayed a rising yield curve moving up from 8.50 percent on one-month deposits through 8.70 percent and 8.91 percent on three- and six-month deposits, respectively, to 9.14 percent on twelve-month deposits. The yields on SDR-denominated bonds quoted on the Luxembourg Stock Exchange eased modestly between the end of September and the end of October. The current yield ranged from 8.79 percent to 11.39 percent with the average current yield easing by 0.08 percentage point to 9.77 percent at the end of October. The yield to maturity ranged from 9.66 percent to 14.28 percent, with the average yield to maturity easing by 0.02 percentage point to 11.22 percent.





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

	September	October
Combined market interest rates <u>2/</u>		
Based on domestic rates		
3-month maturity (Rule T-1)	8.59	8.49
6-month maturity	8.88	8.81
12-month maturity	9.24	9.19
5-year maturity	10.48	10.56
Based on euro-currency rates		
3-month maturity	8.91	8.84
6-month maturity	9.20	9.08
12 month maturity	9.44	9.40
Average commercial bank deposit rates <u>3/</u>		
1-month deposits	8.59	8.50
3-month deposits	8.78	8.70
6-month deposits	9.07	8.91
12-month deposits	9.30	9.14
Bonds quoted on the Luxembourg Stock Exchange <u>4/</u>		
Average current yield	9.85	9.77
Average yield to maturity	11.24	11.22

1/ Rates pertain to last Wednesday of the month.

2/ As of January 1, 1981, combined market rates (according to the Rule T-1) are calculated by multiplying the yields or rates of each of the respective instrument 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). Domestic rates are those used to determine interest rates on the SDR or on borrowings by the Fund. Euro-currency rates are midpoint midmorning rates in London, and for sterling, in Paris.

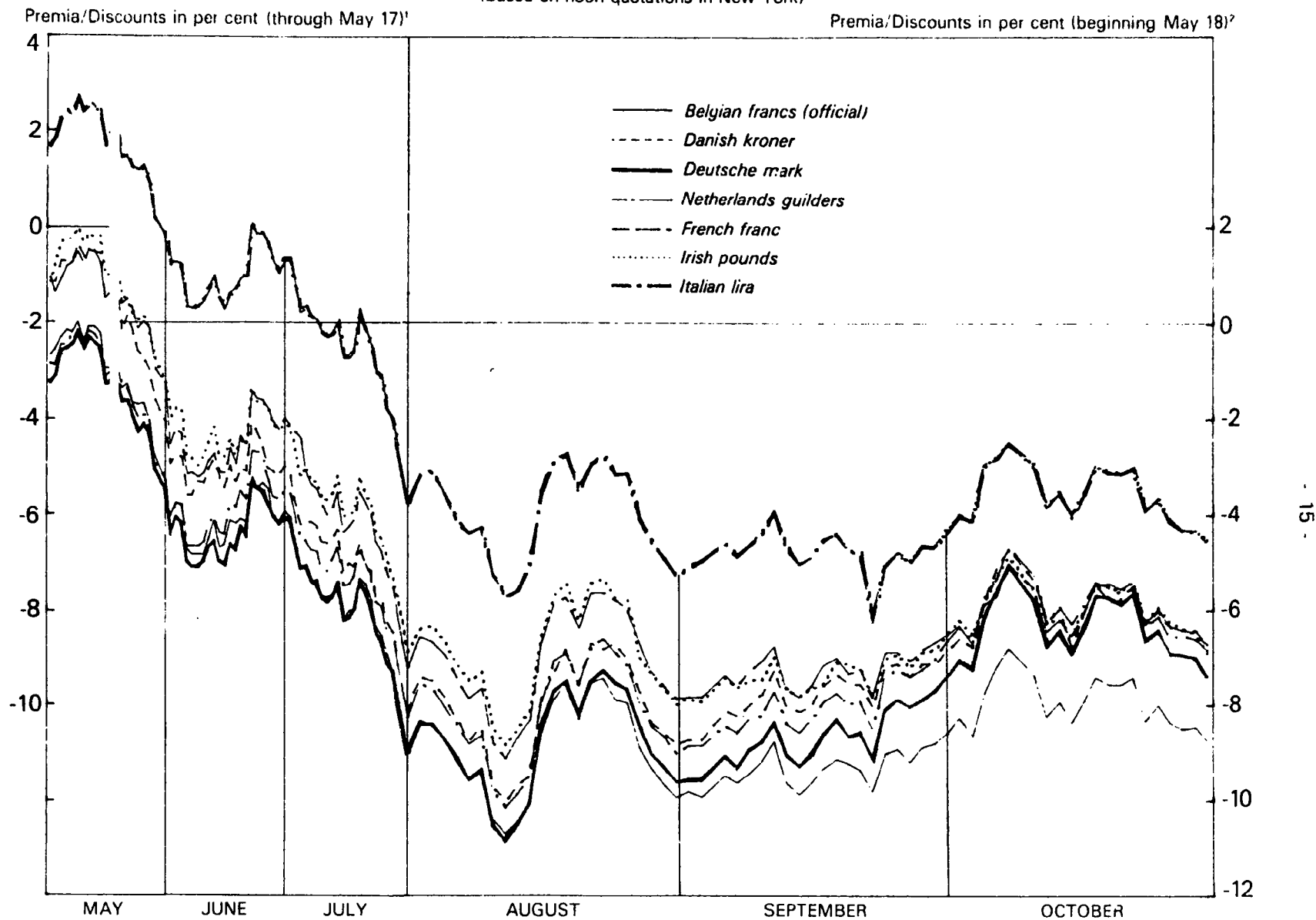
3/ Average of rates quoted by selected commercial banks.

4/ Maturity dates for these issues range from 1984 to 1989.



# CHART 1 SPOT EXCHANGE RATES: EUROPEAN MONETARY SYSTEM

(Based on noon quotations in New York)



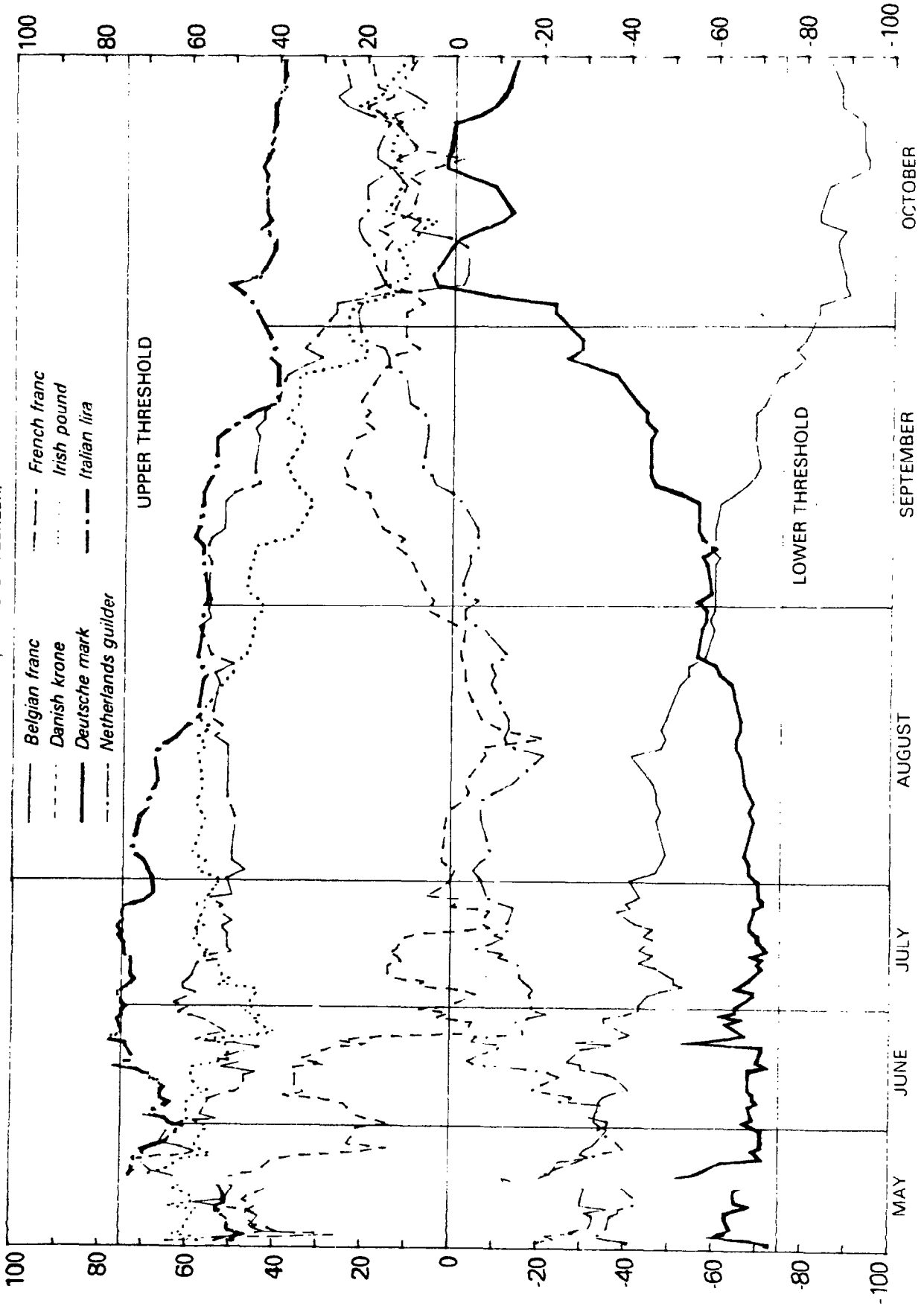
<sup>1</sup> Effective March 21, the Deutsche mark, the Netherlands guilder, the Danish krone and the Belgian franc were revalued by 5.5, 3.5, 2.5, and 1.5 per cent, respectively, and the French franc, the Italian lira, and the Irish pound were devalued by 2.5, 2.5, and 3.5 per cent respectively. Consequently, the premia discounts over declared ECU central rates are calculated on the basis of the rate as of March 22 of 1 ECU = \$0.930217.

<sup>2</sup> Effective May 18 the central ECU rate of the pound sterling was appreciated and those of the other participants depreciated in connection with the Common Agricultural Policy. Premia discounts over declared ECU central rates have been converted into U.S. dollar terms at the rate of 1 ECU = 920041.



# CHART 2 EUROPEAN MONETARY SYSTEM: DIVERGENCE INDICATORS

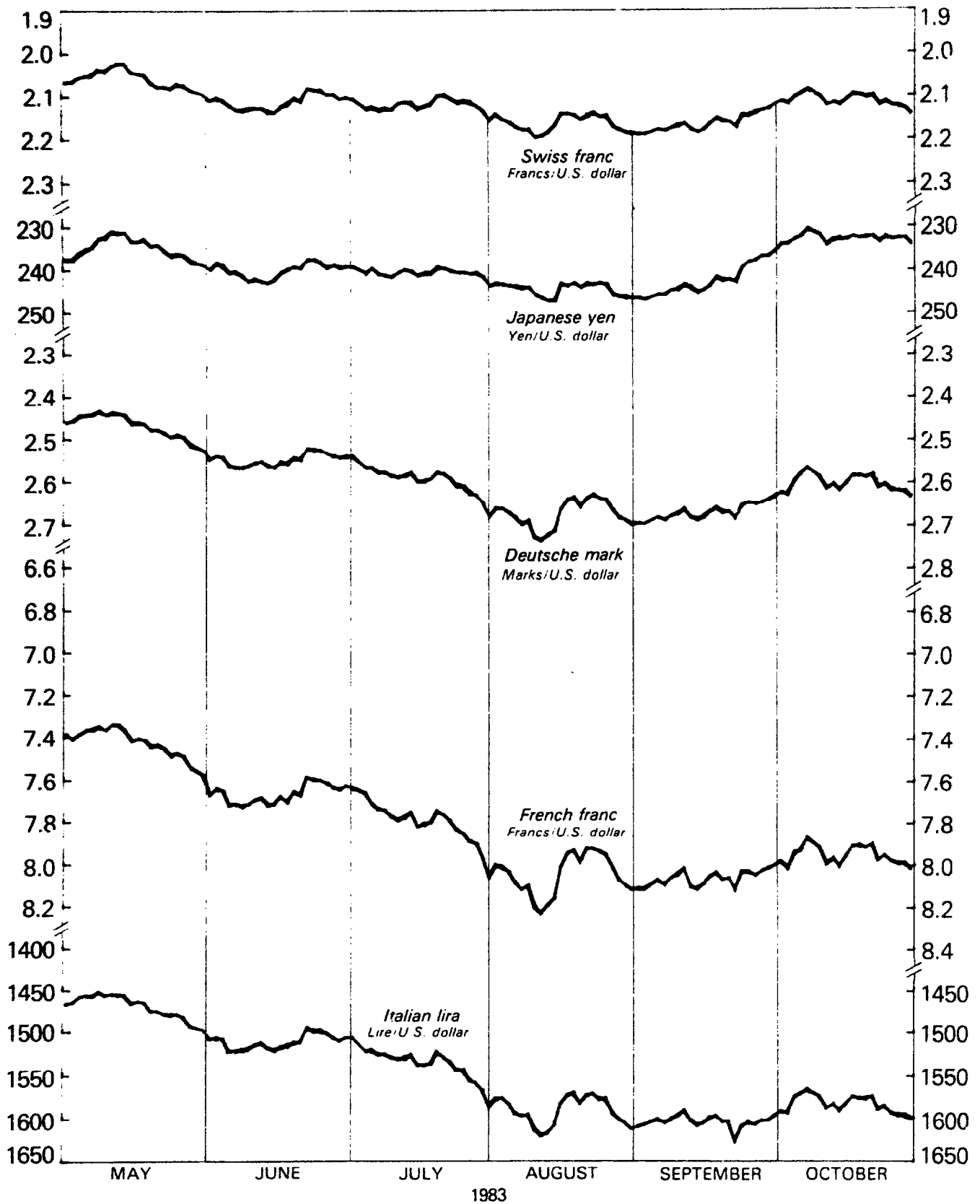
(Based on noon quotations in London)



<sup>1</sup> Effective May 1983, the rate for the pound sterling was revalued by 7.3 per cent and those for the other participating currencies devalued at the same rate.



CHART 3  
SPOT EXCHANGE RATES  
(Noon quotations in New York)







# CHART 4 SPOT EXCHANGE RATES

(Noon quotations in New York)

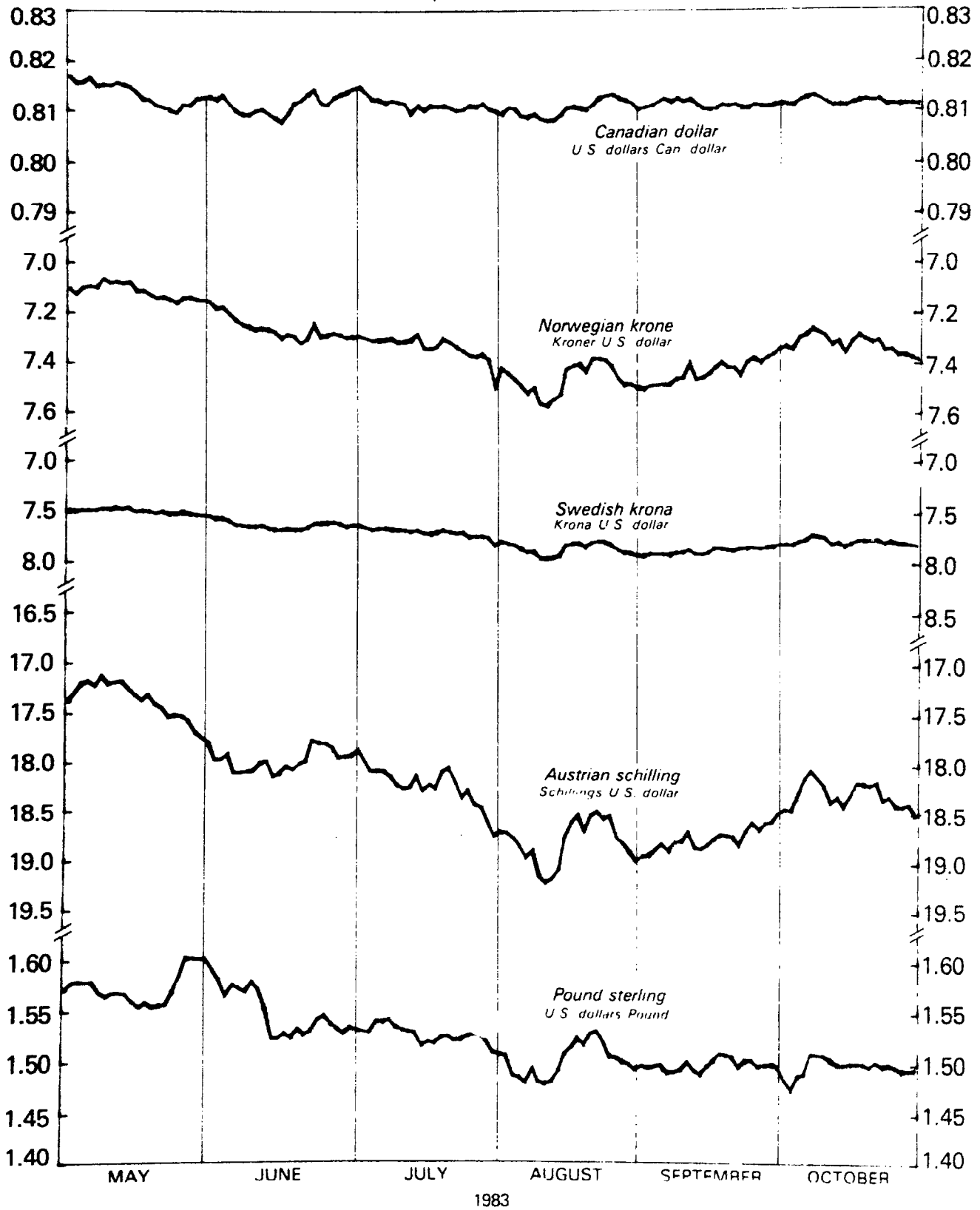
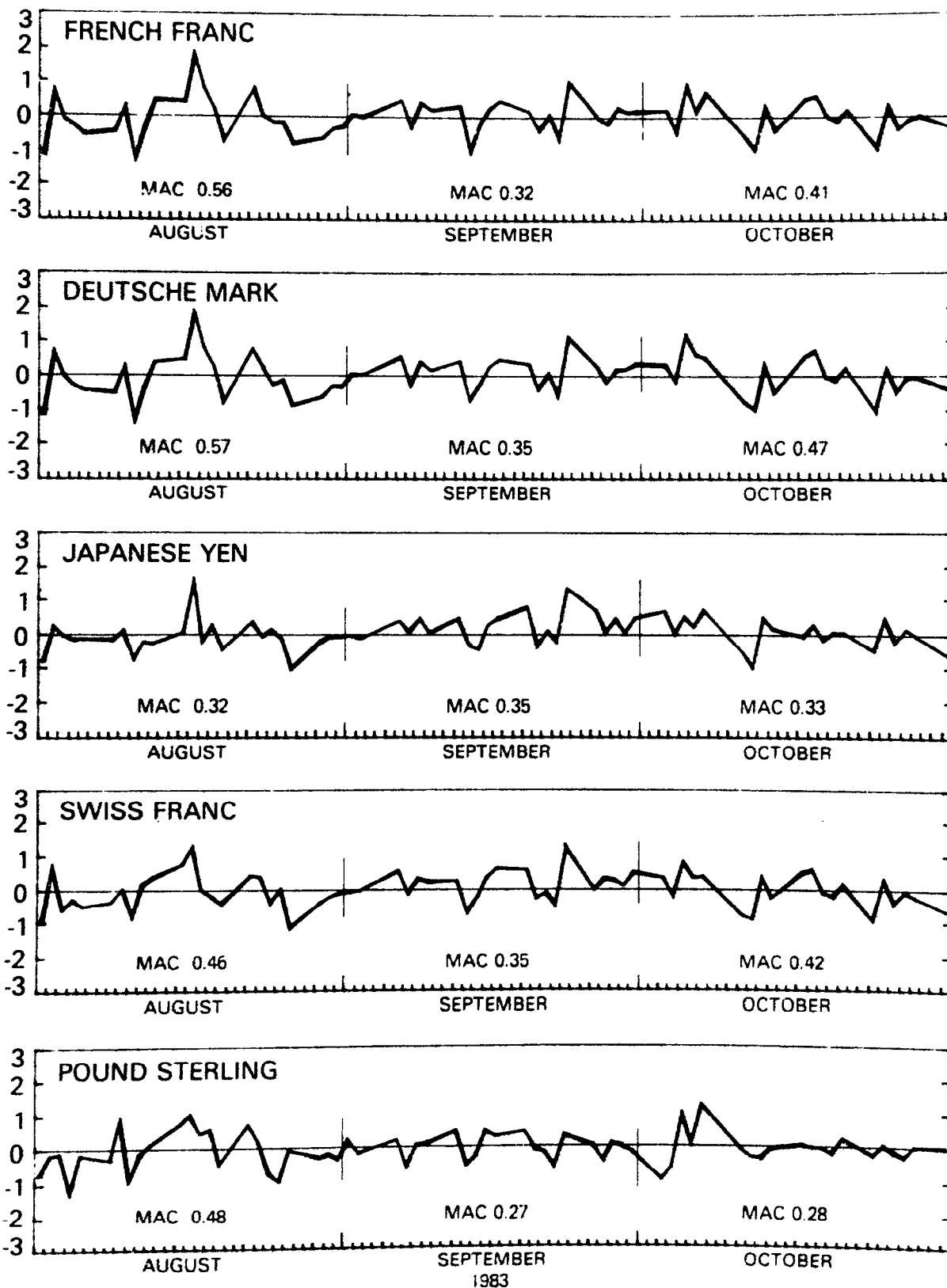




CHART 5

# DAILY CHANGES IN SPOT EXCHANGE RATES

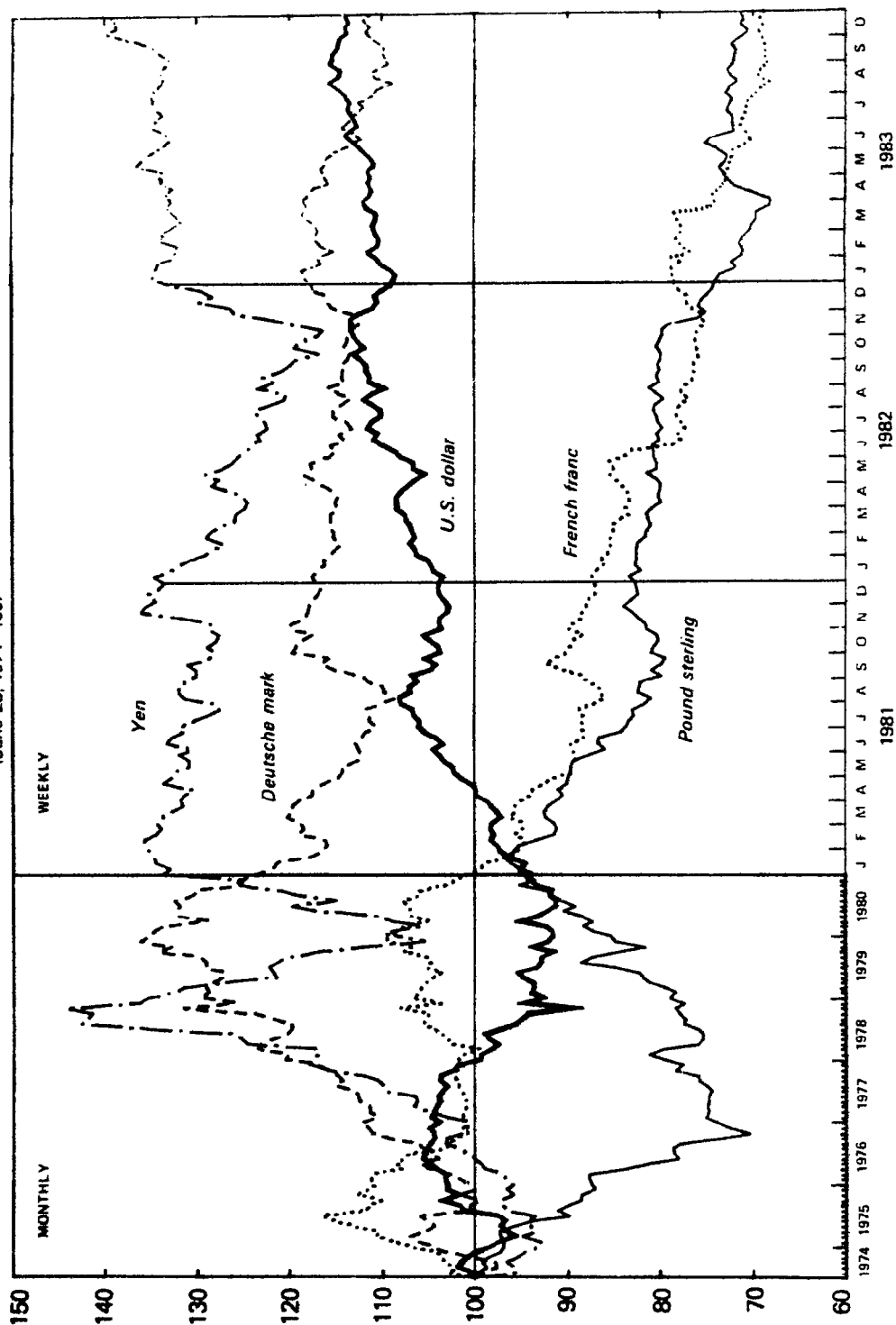
(In per cent against the U.S. dollar, based on noon quotations in New York)<sup>1</sup>



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



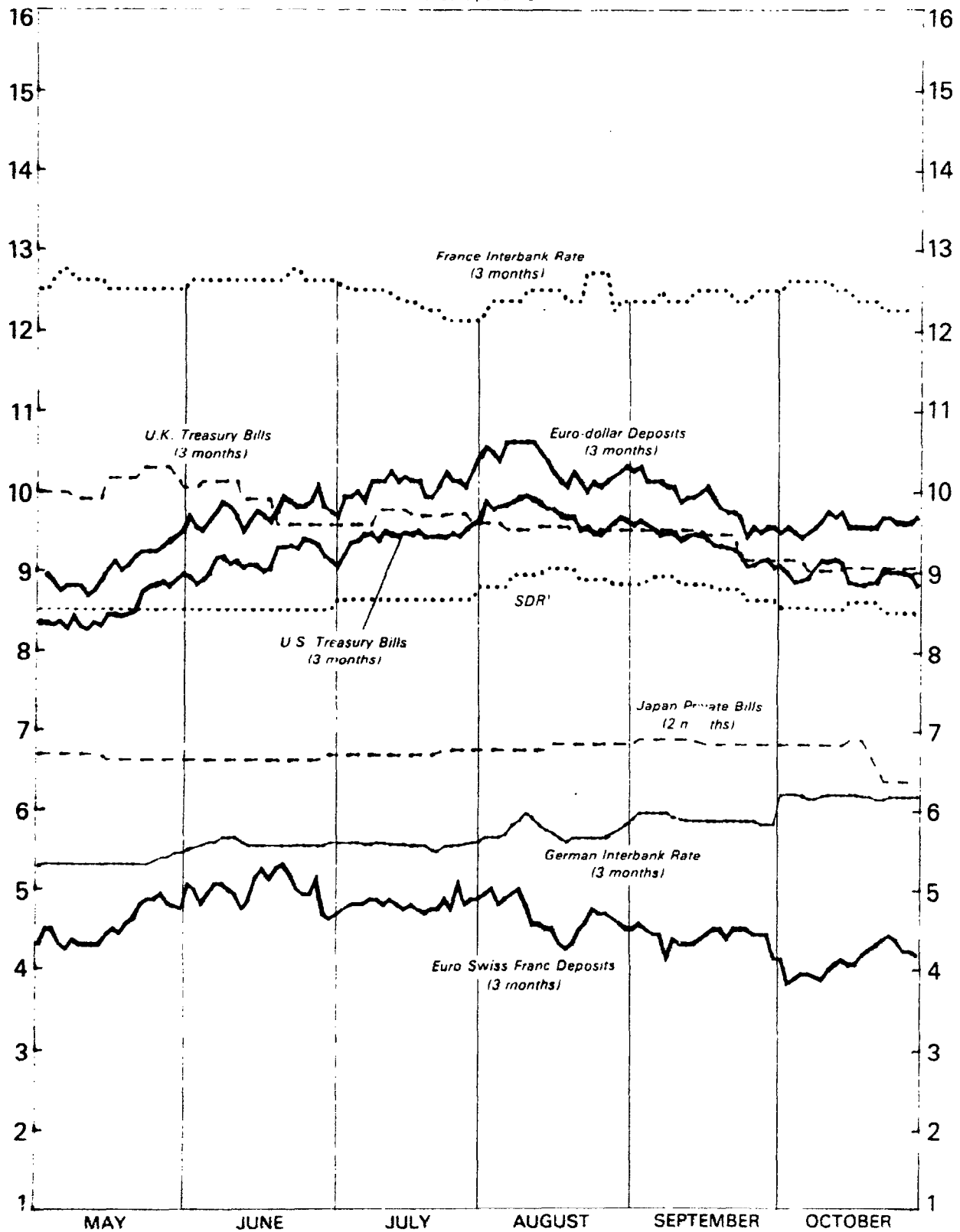
CHART 6  
**INDEXES OF EXCHANGE RATES OF  
 FIVE MAJOR CURRENCIES AGAINST THE SDR**  
 JUN. 1974 - OCT. 1983  
 (June 28, 1974 = 100)





# CHART 7 SHORT-TERM MONEY MARKET RATES

(Per cent per annum)



1983

The rate of interest on SDR holdings for each quarter, under Rule T-1(b), is based on a combined market rate of interest





CHART 8

# THREE-MONTH FORWARD RATES

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

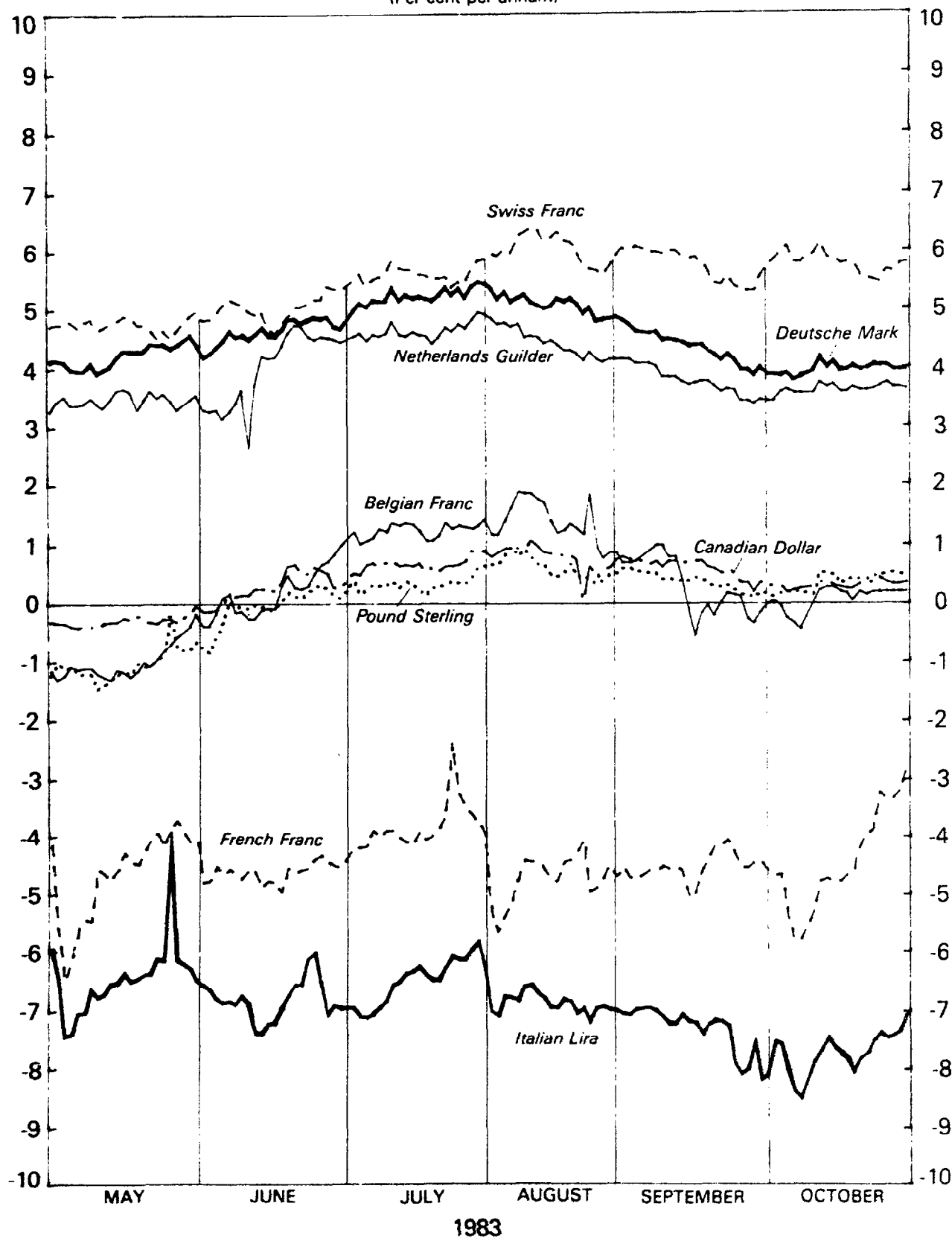
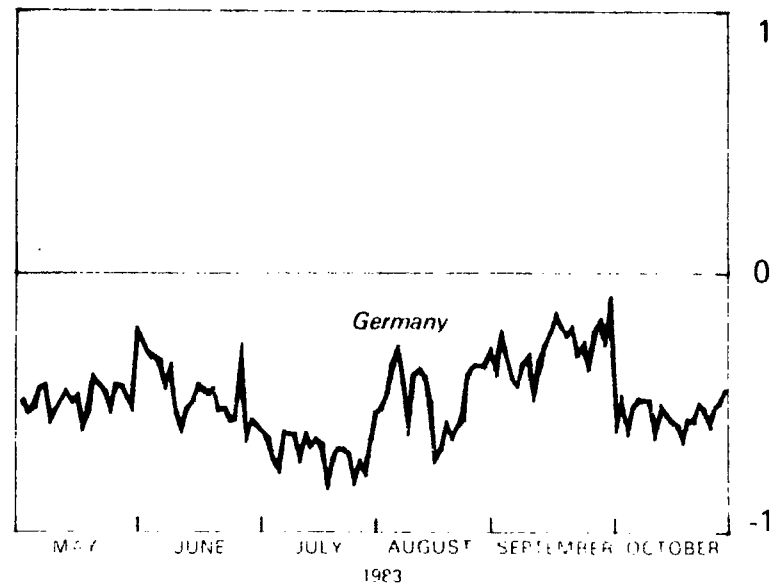
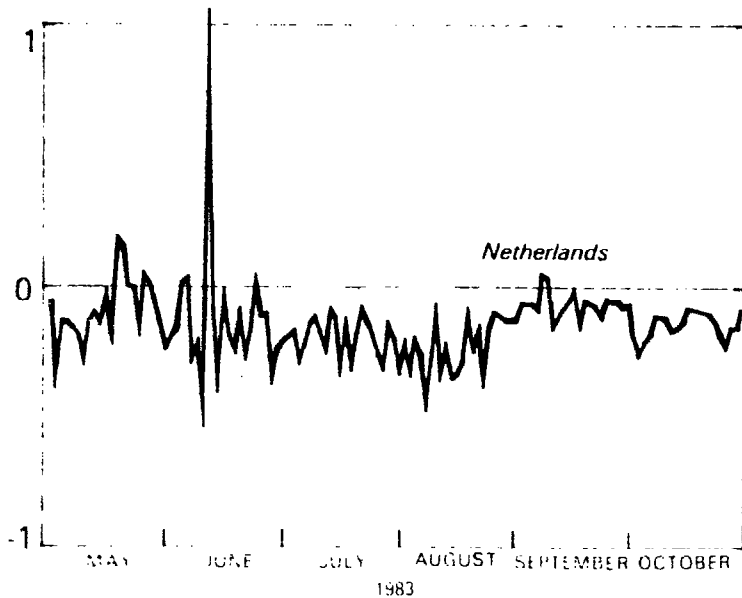
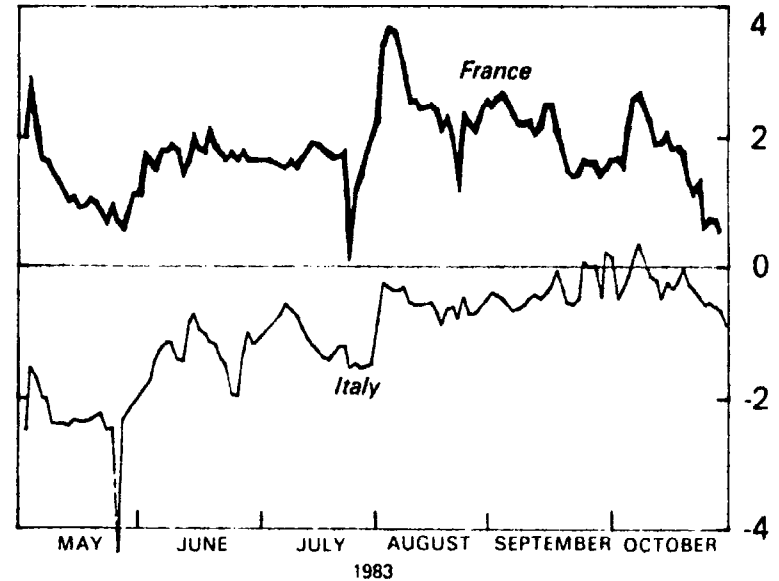
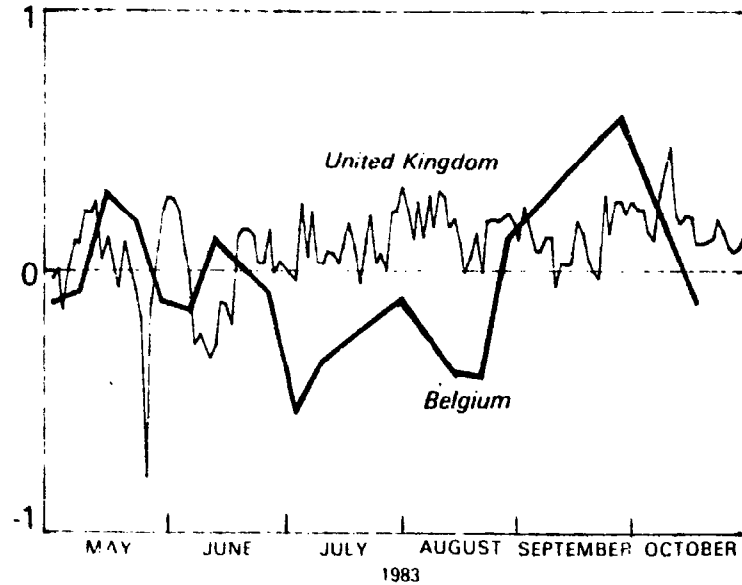




CHART 9

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

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





Foreign Exchange Rates, September-October 1983 <sup>1/</sup>

	S e p t e m b e r				O c t o b e r			
	7	14	21	28	5	12	19	26
Austrian schilling	18.8925	18.8675	18.7350	18.5850	18.2850	18.3725	18.1735	18.4075
Belgian franc								
Official	54.025	54.170	53.850	53.570	52.905	53.200	52.810	53.270
Financial	54.445	54.935	54.775	54.325	53.975	54.125	53.725	53.875
Canadian dollars	0.81192	0.81060	0.81152	0.81103	0.81222	0.81113	0.81225	0.81136
Danish kroner	9.6450	9.6355	9.5750	9.5300	9.3940	9.4365	9.3950	9.4505
Deutsche mark	2.68750	2.68635	2.66600	2.64550	2.59550	2.61300	2.58450	2.61715
French francs	8.0898	8.1088	8.0575	8.0205	7.9365	7.9885	7.9012	7.9760
Irish pounds	1.1707	1.1685	1.1758	1.1805	1.1937	1.1885	1.1980	1.1885
Italian lire	1603.500	1606.500	1602.500	1600.000	1572.000	1586.500	1574.500	1591.500
Japanese yen	245.650	245.250	242.225	236.825	232.850	234.230	232.600	232.900
Netherlands guilder	3.0040	3.0035	2.9813	2.9608	2.9123	2.9298	2.9058	2.9385
Norwegian kroner	7.4813	7.4535	7.4125	7.3725	7.2920	7.3225	7.2975	7.3645
Pounds sterling	1.4910	1.4904	1.5065	1.4996	1.4893	1.5045	1.5006	1.4983
Swedish kroner	7.9150	7.9045	7.8750	7.8335	7.7745	7.8035	7.7585	7.7940
Swiss francs	2.18025	2.18450	2.16050	2.13225	2.10075	2.12250	2.09900	2.12250

<sup>1/</sup> Wednesday noon spot quotations in New York, expressed in terms of currency units per U.S. dollar, except for the Canadian dollar, the Irish pound, and the pound sterling which are expressed in U.S. dollars per currency unit.



## Short- and Medium-Term Interest Rates

## APPENDIX B

(Monthly and weekly averages)

	National Money Markets 1/						Euro-currency Markets 2/						Lending Rate		U.S. Treasury Securities 5/
	United States (1)	Germany (2)	United Kingdom (3)	France (4)	Japan (5)	Weighted average (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)	
<b>1982</b>															
Nov.	8.14	7.41	9.08	13.16	7.23	8.59	9.82	7.07	9.35	18.77	7.12	1.83	10.06	11.85	10.18
Dec.	8.20	8.71	10.30	12.90	7.19	8.49	9.57	6.18	10.55	22.46	7.05	1.71	9.84	11.50	10.22
<b>1983</b>															
Jan.	9.15	7.90	10.72	12.76	7.00	8.32	9.74	5.53	11.17	21.16	6.52	2.80	9.25	11.16	10.03
Feb.	8.40	5.92	11.14	13.07	6.92	8.51	9.32	5.66	11.33	22.11	6.71	2.98	9.53	10.98	10.26
Mar.	8.67	5.52	10.95	12.77	6.85	8.50	9.72	5.06	10.98	26.92	6.71	3.67	9.53	10.98	10.08
Apr.	8.52	5.27	11.30	12.31	6.76	8.26	9.26	5.02	10.25	13.37	6.29	4.28	9.44	10.50	10.02
May	8.50	5.39	10.08	12.73	6.66	8.27	9.03	5.04	10.25	13.90	6.29	4.53	9.18	10.50	10.03
June	9.14	5.65	4.85	12.81	6.64	8.62	9.75	5.33	10.00	14.45	6.55	5.00	10.05	10.50	10.63
July	9.44	5.65	9.69	12.45	6.72	8.74	10.07	5.18	9.89	14.15	6.58	4.81	10.71	10.50	11.21
Aug.	9.72	5.79	9.56	12.62	6.80	8.93	10.35	5.47	9.86	15.22	6.67	4.66	10.82	11.89	11.63
Sept.	9.14	5.95	9.41	12.61	6.86	8.74	9.88	5.70	9.64	14.71	6.81	4.41	10.19	11.00	11.51
Oct.	9.97	6.27	9.06	12.62	6.69	8.54	9.60	5.80	9.37	14.29	6.51	4.13	9.78	11.00	11.28
<b>1982 Weekly</b>															
Nov. 5	8.04	7.42	9.28	13.10	7.19	8.44	9.74	6.99	9.79	19.00	7.01	3.49	9.93	12.00	10.14
12	8.15	7.35	8.78	13.12	7.25	8.55	9.82	7.07	9.16	n.a.	7.09	3.69	9.98	12.00	10.44
19	8.60	7.43	8.78	13.22	7.25	8.70	10.07	7.12	9.20	18.13	7.16	4.07	10.28	12.00	10.51
26	8.21	7.41	8.98	13.18	7.21	8.51	9.69	7.08	9.27	18.46	7.15	4.06	10.01	11.50	10.21
Dec. 3	9.42	7.23	10.32	13.03	7.21	8.17	9.80	6.88	10.23	19.35	7.31	3.89	10.14	11.50	10.31
10	8.23	6.57	9.98	12.80	7.21	8.44	9.50	6.34	10.11	19.83	6.96	3.47	9.78	11.50	10.26
17	8.07	6.67	10.52	12.90	7.21	8.45	9.63	6.44	10.66	22.85	7.05	4.17	9.93	11.50	10.21
24	8.17	6.76	10.42	12.96	7.15	8.50	9.61	6.44	11.06	26.50	7.08	3.97	9.86	11.50	10.22
31	8.28	6.62	10.25	12.93	7.15	8.51	9.41	5.98	10.72	24.21	6.88	3.36	9.61	11.50	10.15
<b>1983 Weekly</b>															
Jan. 7	8.32	6.05	10.05	12.43	7.08	8.38	9.03	5.74	10.52	23.78	6.57	3.11	9.23	11.50	10.04
14	7.92	5.74	10.25	12.67	7.02	8.12	8.80	5.38	11.33	21.43	6.44	2.69	9.00	11.36	9.88
21	8.01	5.73	11.13	12.72	n.a.	n.a.	8.88	5.40	11.14	20.28	6.40	2.55	9.10	11.00	9.92
28	8.33	6.05	11.20	12.80	6.95	8.48	9.27	5.57	11.60	19.35	6.65	2.83	9.58	11.00	10.22
Feb. 4	8.45	6.03	11.34	12.95	6.95	8.56	9.45	5.75	11.57	20.30	6.69	2.95	9.80	11.00	10.38
11	9.51	6.00	11.30	13.05	6.95	8.59	9.29	5.80	11.24	21.00	6.73	2.99	.66	11.00	10.45
18	8.44	5.90	10.98	13.16	6.91	8.51	9.18	5.68	11.13	23.63	6.68	2.89	9.46	11.00	10.28
25	8.22	5.78	11.00	13.05	6.99	8.37	9.08	5.49	11.40	22.85	6.74	3.03	9.31	11.00	9.95
Mar. 4	8.26	5.68	11.16	13.15	6.89	8.40	8.85	5.26	11.34	24.85	6.74	3.06	9.06	10.50	9.76
11	9.56	5.58	11.13	13.18	6.89	8.52	9.15	5.10	11.16	36.70	6.74	3.43	9.32	10.50	10.03
18	8.63	5.55	11.23	12.88	6.83	8.52	9.31	5.08	10.78	41.70	6.74	3.89	9.54	10.50	10.08
25	8.88	5.41	10.52	12.52	6.83	8.49	9.56	4.93	8.63	15.53	6.74	3.94	9.75	10.50	10.26
Apr. 1	8.97	5.40	10.66	12.17	6.83	8.53	9.70	4.95	10.86	12.22	n.a.	4.00	9.94	10.50	10.28
8	8.77	5.30	10.66	12.42	6.79	8.43	9.56	5.02	10.28	14.11	6.39	4.02	9.74	10.50	10.13
15	8.47	5.24	10.19	12.04	6.76	8.18	9.28	5.00	10.15	13.38	6.24	4.10	9.46	10.50	9.96
22	8.43	5.23	10.19	12.34	6.76	8.19	9.23	5.05	10.26	13.38	6.28	4.30	9.39	10.50	10.02
29	8.42	5.33	10.08	12.47	6.70	8.20	9.05	5.02	10.25	17.98	6.25	4.65	9.24	10.50	9.95
May 6	8.32	5.17	9.98	12.80	6.70	8.18	8.86	5.00	10.15	14.70	6.24	4.37	8.96	10.50	9.77
13	8.13	5.17	9.92	12.80	6.70	8.18	8.79	4.99	10.19	13.98	6.20	4.32	8.91	10.50	9.84
20	8.45	5.17	10.15	12.67	6.63	8.24	9.07	5.02	10.35	13.70	6.30	4.51	9.21	10.50	10.10
27	8.80	5.44	10.29	12.67	6.63	8.45	9.29	5.10	10.32	13.38	6.37	4.86	9.48	10.50	10.32
June 3	8.90	5.58	10.07	12.77	6.63	8.51	9.56	5.39	10.34	13.97	6.55	4.91	9.83	10.50	10.51
10	9.10	5.71	10.12	12.80	6.63	8.64	9.75	5.46	10.25	14.44	6.54	5.00	10.05	10.50	10.61
17	9.04	5.64	9.92	12.80	6.63	8.57	9.64	5.27	9.88	14.40	6.49	5.03	9.99	10.50	10.49
24	9.33	5.63	9.58	12.85	6.63	8.69	9.84	5.27	9.84	14.73	6.59	5.14	10.14	10.50	10.71
July 1	9.22	5.65	9.58	12.80	6.63	8.64	9.84	5.25	9.73	14.43	6.55	4.82	10.14	10.50	10.80
8	9.42	5.67	9.58	12.67	6.70	8.74	9.98	5.23	9.86	14.34	6.56	4.81	10.31	10.50	11.07
15	9.46	5.67	9.78	12.61	6.70	8.77	10.17	5.21	9.92	14.19	6.58	4.81	10.64	10.50	11.22
22	9.46	5.60	9.70	12.45	6.70	8.74	10.04	5.10	9.92	14.30	6.60	4.75	10.53	10.50	11.22
29	9.50	5.64	9.72	12.29	6.76	8.76	10.16	5.14	9.92	13.73	6.59	4.88	10.68	10.50	11.39
Aug. 5	9.79	5.72	9.61	12.47	6.76	8.94	10.50	5.19	9.96	15.31	6.68	4.90	10.99	10.50	11.74
12	9.91	5.94	9.54	12.62	6.76	9.05	10.60	5.25	9.92	15.58	6.69	4.77	11.13	10.71	11.89
19	9.73	5.75	9.56	12.61	6.82	8.92	10.21	5.18	9.81	15.10	6.65	4.37	10.68	11.00	11.49
26	9.52	5.71	9.53	12.85	6.83	8.83	10.09	5.13	9.77	14.91	6.65	4.64	10.51	11.00	11.34
Sept. 2	9.63	5.90	9.53	12.52	6.84	8.90	10.28	5.63	9.83	15.08	6.71	4.53	10.74	11.00	11.73
9	9.51	6.02	9.51	12.58	6.89	8.85	10.10	5.68	9.72	14.94	6.79	4.15	10.50	11.00	11.53
16	9.45	5.94	9.53	12.62	6.88	8.82	9.96	5.70	9.64	15.06	6.84	4.15	10.25	11.00	11.46
23	9.30	5.93	9.40	12.62	6.83	8.72	9.79	5.71	9.64	14.69	6.90	4.48	10.06	11.00	11.37
30	9.10	5.92	9.15	12.64	6.81	8.58	9.52	5.71	9.46	14.24	6.76	4.39	9.77	11.00	11.22
Oct. 7	8.95	6.27	9.12	12.78	6.81	8.56	9.50	5.81	9.47	14.68	6.71	3.94	9.69	11.00	11.15
14	9.14	6.28	9.02	12.74	6.81	8.45	9.71	5.81	9.38	14.89	6.56	4.02	9.85	11.00	11.36
21	8.86	6.27	9.04	12.57	6.49	8.50	9.50	5.76	9.28	14.15	6.47	4.17	9.75	11.00	11.2
28	8.99	6.36	9.04	12.42	6.38	8.48	9.45	5.81	9.37	13.16	6.42	4.34	9.84	11.00	11.39

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 0-1 and the value in terms of the SDR of a unit of that currency as determined by the Fund under Rule 0-2(a) and (b). 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 deposit rate in Germany (0.46), three-month interbank money rate against private paper in France (0.75), discount rate on two-month (private) bills in Japan (14), and market yield for three-month U.K. Treasury bills (0.071).

2/ Euro-currency 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.

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.



