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To: Members of the Executive Board
From: The Associate Secretary
Subject: Daily Report on Foreign Exchange and Financial Markets

The attached daily report on Foreign Exchange and Financial Markets is circulated for the information of Executive Directors.

Att: (1)

INTERNATIONAL MONETARY FUND

Treasurer's Department

Daily Report on Foreign Exchange and Financial Markets

October 22, 1996

The U.S. dollar eased against most major currencies in uneventful trading in the period from noon yesterday to noon today in London. The dollar was slightly weaker against the Japanese yen in quiet technical trading and it eased against the mark which was supported by mark/yen cross trading and buying interest ahead of the November DM 15 billion stock offer of Deutsche Telecom.

The currencies participating in the exchange rate mechanism (ERM) of the European Monetary System rose by 0.23-0.35 percent against the U.S. dollar on a London noon-to-noon basis. The deutsche mark was steady in the ERM grid. The Finnish markka lost slightly against the mark amid a narrowing of the German-Finnish bond yield gap. Outside the ERM grid, the pound sterling rose against the dollar but slipped against the mark in what has been interpreted as corrective selling after a period of sterling strength related to higher oil prices and current account improvements. The Australian dollar eased against the U.S. dollar and the Japanese yen amid investor expectations that forthcoming data releases on wages and inflation may set the stage for a cut in official interest rates. The Canadian dollar eased against the U.S. dollar; the Canadian CPI rose slightly less than expected, by 0.1 percent in September (1.5 percent year on year). In other news, the State Bank of Pakistan devalued the Pakistan rupee by 7.86 percent against the U.S. dollar and raised its repo rate from 17 percent to 20 percent.

Money market rates were slightly firmer and bond yields were mixed. The Bank of Sweden as expected cut the repo rate by 10 basis points to 4.85 percent; amid record low inflation this was the 22nd cut since the beginning of this year when the repo rate was 8.91 percent. The price of gold in London was fixed at \$382.40 p.f.o this morning compared with \$380.00 p.f.o. yesterday.

Exchange Rates Against the U.S. Dollar and Gold Prices
October 22, 1996

Currencies in the EMS Exchange Rate Mechanism	London noon quotations <u>1/</u>	Appreciation (+) or depreciation (-) from yesterday, in percent	Spreads in the parity grid <u>2/</u>
Austrian schillings	10.800	+0.28	0.74
Belgian francs	31.610	+0.35	0.90
Danish kroner	5.8744	+0.33	0.41
Deutsche mark	1.5345	+0.34	0.78
Finnish markkaa	4.5981	+0.23	2.24
French francs	5.1865	+0.30	--
Irish pounds	1.6074	+0.32	3.10
Italian lire (suspended)	1530.00	+0.33	
Netherlands guilders	1.7214	+0.34	1.22
Portuguese escudos	154.6000	+0.33	2.53
Pounds Sterling (suspended)	1.5953	+0.16	
Spanish pesetas	129.1100	+0.33	1.90
<u>Other European Currencies</u>			
Greek drachmas	239.9200	+0.28	
Norwegian kroner	6.5029	+0.30	
Russian ruble <u>3/</u>	5437.0000	-0.02	
Swedish kronor	6.5999	+0.35	
Swiss francs	1.2643	+0.38	
<u>Other currencies</u>			
Japanese yen	112.77	+0.06	
Australian dollars	0.7955	-0.21	
Canadian dollars	0.73937	-0.18	
Mexican new peso	7.7375	-0.10	
<u>Composite rates <u>4/</u></u>			
Effective U.S. dollar	98.70	-0.13	
U.S. dollar/SDR	1.43811	-0.13	
U.S. dollar/ECU	1.25489	-0.31	
<u>Selected cross rates</u>			
	<u>Today</u>	<u>Yesterday</u>	<u>Intervention limits of ERM currencies <u>5/</u></u>
French francs/Deutsche mark	3.3799	3.3788	2.8881 - 3.8948
Deutsche mark/Pounds sterling	2.4480 (- 17.0) <u>6/</u>	2.4523 (- 16.9) <u>6/</u>	2.7780 - 3.1320
Italian lire/Deutsche mark	997.07 (- 19.5) <u>6/</u>	996.95 (- 19.5) <u>6/</u>	784.62 - 820.68
Italian lire/Pounds sterling	2440.81	2444.79	2229.56 - 2513.64
Japanese yen/Deutsche mark	73.49	73.29	
<u>Morning gold fixings <u>7/</u></u>			
	<u>Today</u>	<u>Yesterday</u>	
London	\$382.40	\$380.00	
Paris	\$381.66(F 63,800)	\$377.98(F 63,700)	
<u>For the weeks beginning</u>			
SDR interest rate	<u>10/21/96</u> 3.82%	<u>10/14/96</u> 3.81%	

1/ Expressed in terms of currency units per U.S. dollar, except for the pound sterling, the Irish pound, the Canadian and Australian dollars, the SDR, and the ECU which are expressed in U.S. dollars per currency unit. The Mexican new peso refers to the London opening.

2/ As measured by percentage deviations from currency at bottom of the band calculated on the basis of central rates. The maximum spread at the European fixings is 15.0 percent, except for the spread between the deutsche mark and the Netherlands guilder, which is 2.25 percent.

3/ Russian ruble exchange rate is a Moscow Interbank Currency Exchange quote.

4/ Based on London noon quotations for the effective U.S. dollar index (MERM weights) and the SDR. Appreciation/Depreciation relates to that of the U.S. dollar.

5/ In the case of the pound sterling and the Italian lira, the fixed intervention limits are those before the suspension of these two currencies in the Exchange Rate Mechanism of EMS.

6/ Percentage change from central rate of the pound sterling or lira against the deutsche mark.

7/ Expressed in U.S. dollars per fine ounce and, in Paris, French francs per kilo.

- 3 -
 Monetary Conditions
 October 22, 1996

	Interest rates 1/ (Percent per annum)			
	Today	Change from yesterday	Average for Q3/1996	Average for Q4/1996
<u>United States (Opening)</u>				
Discount rate	5.00	0.00	5.00	5.00
Federal funds	5.19	0.00	5.28	5.23
Three-month Tbill	5.15	+0.03	5.24	5.11
Ten-year Tbond	6.53	+0.04	6.77	6.56
Thirty-year Tbond	6.82	+0.03	6.96	6.83
Eurodollar	5.47	+0.02	5.53	5.50
Six-month libor	5.58	+0.03	5.79	5.67

The federal funds rate was steady; the Federal Reserve added liquidity via three-day fixed system repurchase agreements when federal funds were trading slightly below their 5.25 percent target rate. Treasury yields were steady in slow trading in the absence of new data releases. The Dow Jones industrial ended broadly unchanged at 6,091.

<u>Japan (Closing)</u>				
Discount rate	0.50	0.00	0.50	0.50
Key overnight call rate	0.49	+0.01	0.46	0.47
Three-month CDs	0.53	0.00	0.65	0.53
Ten-year benchmark bond	2.70	-0.05	3.13	2.78
Euro-yen	0.48	0.00	0.60	0.48

The key overnight rate was steady; the Bank of Japan injected ¥ 500 billion. Bond yields declined amid expectations that an investment fund which was set up to buy problem loans might eventually channel funds into the bond market. Traders also increasingly doubt that a large supplementary budget will be passed. The Economic Planning Agency reported that the index of leading indicators dropped to 33 mainly due to temporary factors; a reading below 50 indicates the economy may contract within the next six months.

<u>Germany (Midmorning)</u>				
Discount rate	2.50	0.00	2.50	2.50
Lombard rate	4.50	0.00	4.50	4.50
Call rate	3.05	+0.03	3.20	3.03
Three-month interbank	3.08	0.00	3.22	3.08
Ten-year benchmark bond	5.98	+0.01	6.34	6.01
Euro-deutsche mark	3.10	+0.06	3.21	3.05

The call rate firmed amid expectations of a tighter stance at tomorrow's weekly liquidity allocation by the Bundesbank; the latter announced a tender for 14-day securities repos at a rate of 3.0 percent. Bond yields were steady in uneventful trading.

<u>United Kingdom (Midmorning)</u>				
Base lending rate	5.75	0.00	5.75	5.75
Three-month interbank	6.00	0.00	5.75	5.91
Sixteen-year benchmark gilt	8.00	-0.02	8.27	7.94
Euro-sterling	5.97	0.00	5.75	5.93

Money market rates were steady; the Bank of England provided £800 million of assistance after forecasting a shortage of £1,500 million. Gilt yields were steady. A survey by the Confederation of British Industry showed increasing business optimism amid rising manufacturing orders and output.

<u>France (Midmorning)</u>				
Intervention rate	3.25	0.00	3.45	3.25
Five-ten days rate	4.75	0.00	4.81	4.75
Day-to-day	3.38	+0.04	3.55	3.39
Three-month interbank	3.56	+0.09	3.84	3.52
Ten-year Treasury bond	5.93	+0.01	6.36	5.97
Euro-French franc	3.41	-0.01	3.79	3.47

Money market rates firmed slightly and bond yields were steady in quiet trading. French manufacturing output rose a stronger-than-expected 2.9 percent in July and August (down 0.3 percent year on year) partly due to a government car sales incentive scheme.

1/ Eurocurrency rates are quoted at 11:00 a.m. in London, except for the euro-sterling rate which is quoted in Paris. The rates are the midpoints of the three-month maturity, except for the six-month Eurodollar London interbank offered rate (libor).

