DM/82/91

INTERNATIONAL MONETARY FUND

Treasurer's Department

Foreign Exchange and Financial Markets in November

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December 23, 1982

The generally firming trend of the U.S. dollar since late July was reversed in mid-November and the dollar eased against most currencies over the month as a whole. The Japanese yen rebounded sharply and appreciated by 11 per cent after easing 5.8 per cent over the preceding two months, responding to the expectation of a more decisive Cabinet under the newly elected Prime Minister, inflows of long-term capital and continuing strength in Japan's external position. Interest rate factors exerted an important influence on exchange market developments in general, especially the long-awaited cut at midmonth in the Federal Reserve discount rate from 9.5 per cent to 9 per cent and market expectation of further cuts later; the projections of a sharply worsening U.S. trade deficit also contributed to the weakening of the dollar. The pound sterling was the weakest among the major currencies during the month, attributed mainly to reductions in interest rates and expectations of adverse effect on U.K. balance of payments resulting from declining world oil prices. Intervention by the Bank of England was limited and the continuing decline in the pound sterling was checked late in the month by a sharp one percentage point increase in the Bank's intervention rates and major commercial bank lending rates. Some progress toward an early implementation of an expansion of Fund quotas and on IMF-led loan programs to Argentina, Bolivia, Brazil, Hungary, Mexico and other countries appeared to help ameliorate fears of an international banking collapse and might also have contributed to the recovery of the pound sterling and the sharp rise in the Japanese yen. The Canadian dollar reversed its firming trend of the previous three months and eased moderately against the U.S. dollar in November. The only major central bank interventions reported were by the Bank of Italy, mostly in the first half of the month, and by the National Bank of Denmark in the second half. Trading activity was generally quiet, although occassionally hectic in Tokyo.

In the first week of November, the dollar continued its firming trend, principally as interest rate differentials continued to favor the dollar while some European countries reduced their official rates. With the discount rate cut becoming increasingly likely, the U.S. dollar tended to stabilize, and once the rate was reduced in midmonth to 9.0 per cent with major banks lowering their prime lending rates to 11.5 per cent the dollar eased sharply. Predictions toward the end of November of a widening in the U.S. trade deficit to record levels and expectation of a further discount rate cut contributed to sustain this easing trend.

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

	November 2/		High-low spread in per cent		MAC 3/	
	High	Low	Oct.	Nov.	Oct.	Nov.
Belgium	48.425	50.21	2.6	3.7	0.45	0.43
Denmark	8.6675	9.0925	2.5	4.9	0.51	0.42
France	6.9715	7.3275	2.7	5.1	0.40	0.45
Germany	2.4645	2.5955	2.9	5.3	0.41	0.43
Ireland	1.3663	1.3114	2.8	4.2	0.42	0.48
Italy	1,427.0	1,489.5	3.5	4.4	0.37	0.42
Netherlands	2.72025	2.82075	2.2	3.7	0.38	0.37
Austria	17.455	18.165	2.6	4.1	0.43	0.46
Canada	0.82014	0.80668	1.3	1.7	0.17	0.18
Japan	249.10	277.60	5.7	11.4	0.66	0.71
Norway	7.0225	7.33375	4.2	4.4	0.46	0.40
Sweden	7.3760	7.5725	18.8	2.7	1.00	0.32
Switzerland	2.11625	2.23975	4.4	5.8	0.55	0.59
United Kingdom	1.68475	1.59425	2.9	5.7	0.38	0.60

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/ Monthly average of absolute daily changes in spot exchange rates in percentage terms.

The variability of exchange rates increased sharply during the month (see Table 1) in terms of the range within which rates fluctuated for most major currencies except the Swedish krona, for which the high-low spread was extremely large in October reflecting its 16 per cent devaluation. The increase in this volatility measure for the Japanese yen was especially marked and reflected the 11.2 per cent appreciation of the yen over the month as a whole. Day-to-day volatility as measured by the average of absolute percentage changes (MAC) was on balance slightly higher than in October. The Japanese yen was again the most volatile currency against the U.S. dollar during the month associated with its strong appreciation. Volatility for the Swedish krona fell sharply from October but it rose markedly for the pound sterling in terms of both the measures.

Table 2. Changes in Exchange Rates and in Foreign Exchange Holdings in November 1982

	Exchange rate changes 1/ (In per cent)			Changes in foreign exchange reserves 4/ (In millions of U.S. dollars)
	Against U.S. dollar 2/	Against SDR	Effective exchange rate 3/	
Belgium	+2.16	+0.20	-0.63	-155
Denmark	+3.89	+1.06	+1.06	+494
France	+3.82	+1.64	+1.13	--
Germany	+3.84	+1.56	+0.79	+1,211
Ireland	+2.81	+0.49	+0.81	-292
Italy	+2.80	+2.38	-0.38	-1,160
Netherlands	+1.83	+0.12	-0.40	+180
Austria	+3.20	+1.34	+0.71	+64
Canada	-0.90	-2.49	-2.06	+49
Japan	+11.20	+7.82	+8.65	+78
Norway	+3.13	+0.52	+0.26	+112
Sweden	+1.05	-1.95	-2.45	+310
Switzerland	+4.25	+1.99	+1.00	+704
United Kingdom	-2.76	-5.20	-6.16	-360
United States	--	-1.59	-2.75	+1,349

1/ Positive sign indicates appreciation of the currency.
2/ Based on New York noon quotations.
3/ Based on MERM calculations.
4/ Including ECU holdings, but excluding gold, SDRs and reserve position in the Fund.

For the month as a whole, the U.S. dollar eased by 2.75 per cent in effective (MERM) terms and by 1.59 per cent against the SDR. All major currencies firmed against the dollar except for the pound sterling and the Canadian dollar (see Table 2). Within the EMS the Netherlands guilder firmed by 1.83 per cent against the U.S. dollar and was replaced at the top of the parity grid by the Danish krone at the end of the month; the krone was the strongest EMS currency in November firming by 3.89 per cent against the dollar. The National Bank of Denmark supported the krone in the second half of the month through purchases of DKr 3.4 billion. The Belgian franc remained at the bottom of the parity grid throughout the month and the margin between it and the next weakest currency in the grid widened sharply from 0.31 percentage point at the start of the month to 1.49 percentage points on November 30; limited amounts of intervention were reported by the National Bank. The Bank of Italy continued heavy intervention to support the lira in the early part of November, selling $400 million up to November 9 following that of about $1.7 billion in October. Interest rates were then raised and a stringent foreign exchange deposit requirement imposed on exporters extending foreign currency trade credit. The amount of intervention required by the Bank of Italy then appeared to ease, and relatively small amounts of dollars and Deutsche mark were sold at the official fixings in Milan over the remainder of the month. The spread in the narrow band of the parity grid widened slightly in London over the month from 2.09 per cent to 2.17 per cent, and fluctuated within the range of 2.06-2.26 per cent.

During the month, the United States recorded a gross foreign exchange reserve increase of $1.349 billion, followed closely by Germany whose foreign exchange reserves rose by $1.2 billion. The largest reserve loss was recorded by Italy, with a large drop in ECU assets only partly offset by a rise in other reserves. France revealed that it had drawn about $1.3 billion of its $4 billion euro-loan by the end of November and intended to draw, but not necessarily use, the remainder in stages over the near future. Part of the reserve loss of the United Kingdom was due to net official loan repayments of $135 million while Denmark announced a new $250 million euro-market borrowing and gained reserves despite some official intervention.

In early December, the Federal Reserve Bank of New York revealed that it had bought Japanese yen and Deutsche mark equivalent to $102 million on August 4 and three days in the first week of October; the amount is small in relation to the intervention of many other major central banks over the same August-October period.

I. Developments in the Spot Exchange Markets

The main feature of foreign exchange market developments in November was the reversal in midmonth of the generally firming trend of the U.S. dollar since late July. Other key features were the sharp appreciation of the Japanese yen and the weakness of the pound sterling. The U.S. dollar ended the month easier against other major currencies except the pound sterling and the Canadian dollar; it eased 2.75 per cent in effective (MERM) terms and by 1.59 per cent against the SDR. The index of leading economic indicators rose 0.2 per cent in October and the rise in September was revised from 0.5 per cent to 1.1 per cent; the index has risen in six of the last seven months. The index of industrial production, seasonally adjusted, however, fell

0.4 per cent in November for a 7.3 per cent year-on-year decline. The unemployment rate, seasonally adjusted, in November rose to 10.8 per cent from 10.4 per cent in October and 8.4 per cent in November 1981. The trade deficit widened in October to $5.3 billion from $4.2 billion in September and the deficit for the year is expected to exceed the previous record of $42 billion, sufficiently large to turn the current account from a surplus last year to a deficit in 1982. The Treasury officials reportedly indicated that the 1983 current account deficit may be in the range of $30-40 billion. The producer price index rose 0.6 per cent in November for a year-on-year rise of 3.7 per cent compared with 3.6 per cent in the previous two months.

Among the EMS currencies, the Deutsche mark firmed 3.84 per cent against the U.S. dollar and 0.79 per cent in effective (MERM) terms. The proposed 1983 budget provided for a 2.9 per cent increase in spending and net government borrowing of DM 41.5 billion, slightly higher than that of nearly DM 40 billion this year. The current account posted a surplus of DM 694 million in October compared with a revised deficit of DM 303 million in September and a surplus of DM 3.2 billion in October 1981. The unemployment rate increased in November to 8.4 per cent from 7.9 per cent in October and 6.4 per cent in November 1981. Industrial production, seasonally adjusted, declined 1.0 per cent in October from an upward-revised level in September for a 6.5 per cent decline year-on-year. The producer price index fell 0.1 per cent in November but rose 4.1 per cent year-on-year compared with 4.6 per cent in October while the wholesale price index rose 0.2 per cent for a 3.2 per cent year-on-year rise compared with 3.6 per cent in October.

The French franc firmed by 3.82 per cent against the U.S. dollar and 1.13 per cent in effective (MERM) terms. After negotiations with unions and employers, the government announced a compromise 13 per cent cut in unemployment benefits for 1983 which had been projected to cost F 94 billion. Real GDP in the third quarter declined 0.9 per cent after a revised increase of 1.1 per cent in the second quarter for no change year-on-year. The index of industrial wholesale prices rose 0.1 per cent in October for an 8 per cent year-on-year rise.

The Belgian franc firmed by 2.16 per cent against the U.S. dollar but eased 0.63 per cent in effective (MERM) terms. The Belgian franc remained at the bottom of the narrow band of the EMS parity grid throughout the month and the margin between it and the next weakest currency in the EMS widened considerably. Relatively limited amounts of intervention support were reported by the National Bank. The discount of the financial franc from the commercial franc narrowed from 4.10 per cent at the end of October to 2.01 per cent at the end of November. The unemployment rate rose to 11.4 per cent at the end of November from 11.2 per cent at the end of October and 9.9 per cent at the end of November 1981. The wholesale price index increased 0.1 per cent in October for a 6.8 per cent year-on-year rise.

The Netherlands guilder firmed the least against the U.S. dollar among the EMS currencies, but remained at the top of the EMS band until being replaced by the Danish krone at the end of the month; the guilder firmed only 1.83 per cent against the dollar and was easier 0.40 per cent in effective (MERM) terms. The government announced plans to cut the public sector deficit from the equivalent of 11.9 per cent of GNP next year to the equivalent of 7.4 per cent by 1986, extending previously announced spending cuts for 1983 into 1984-86. It also proposed a three-month wage and price freeze from January 1, 1983. The index of industrial production, seasonally adjusted, was unchanged in October but down 7.2 per cent from October 1981. The trade surplus in October narrowed to f. 700 million from f. 800 million in September and f. 1.0 billion in October 1981. The unemployment rate rose in November to 13.7 per cent from 13.4 per cent in October. The producer price index for consumer and investment goods rose 0.1 per cent in October for a 4.9 per cent year-on-year rise.

The Danish krone was the strongest EMS currency against the U.S. dollar at the end of November, firming by 3.89 per cent (1.06 per cent in effective (MERM) terms) which was aided by intervention by the National Bank in the second half of the month amounting to DKr 3.4 billion. The krone replaced the Netherlands guilder at the top of the EMS parity grid at the end of the month. The trade deficit, seasonally adjusted, widened in October to DKr 1.25 billion from DKr 1.03 billion in September. The unemployment rate in October, seasonally adjusted, was unchanged at 9.8 per cent but up from 9.4 per cent recorded in October 1981. The wholesale price index rose 0.5 per cent in October for a 10.8 per cent year-on-year rise.

The Irish pound firmed 2.81 per cent against the U.S. dollar and 0.81 per cent in effective (MERM) terms. The government, which had proposed a five-year austerity program, was voted out of office in general elections late in the month. The trade deficit, seasonally adjusted, widened in October to Ir£71 million from Ir£51.6 million in September; for the year as a whole, the current account deficit is expected to ease to about the equivalent of 9.5 per cent of GNP from about 13 per cent. The unemployment rate at the end of November increased to 13.3 per cent from 13.1 per cent at the end of October and 10.5 per cent at the end of November 1981.

The Italian lira firmed by 2.80 per cent against the U.S. dollar but eased 0.38 per cent in effective (MERM) terms; extensive intervention support by the Bank of Italy, especially in the first half of the month, was reported. Interest rates were raised and exporters allowing customers deferred payment in foreign currencies for up to 360 days were required to deposit 70 per cent of the expected receipts in foreign exchange deposits with the Italian banks. The scale of intervention required by the Bank of Italy then eased although some U.S. dollars and Deutsche mark continued to be sold at the official fixings in Milan. Toward the end of the month, a new coalition government was formed but only after modification of some aspects of the Prime Minister's economic austerity program. Real GDP fell 3 per cent in the third quarter and was down 0.8 per cent year-on-year. Industrial production, seasonally adjusted, declined 4.1 per cent in October. Employment in large industry fell 4.4 per cent in September over the year earlier level and hours worked per employee fell 3.8 per cent. The trade deficit in October narrowed to Lit 1,120 billion from Lit 2,179 billion in September but widened from Lit 456 billion in October 1981. The wholesale price index in October rose 1.0 per cent for a 12.8 per cent year-on-year rise.

The pound sterling was the weakest major currency in November, easing 2.76 per cent against the U.S. dollar and 6.16 per cent in effective (MERM) terms. The pound eased sharply on November 22 after a weekend newspaper story which claimed that the Treasury would not be concerned if the pound fell to around $1.50 as it would promote export competitiveness. At the same time, the opposition Labor Party advocated a 30 per cent devaluation. The government, however, denied having any exchange rate target, and the slide in the pound was halted late in the month which was associated with a sharp one percentage point rise in the Bank of England's money market intervention rates and major commercial bank base lending rates. After easing 5 per cent up to November 22 (when it hit the low of $1.59425 per pound in New York) the pound firmed 2.3 per cent against the dollar during the remainder of the month. The government announced plans to reduce public spending slightly in real terms next year and to reduce the public sector borrowing requirement to £8 billion in 1983-84 (equivalent to nearly 3 per cent of GDP) from £9 billion in 1982-83. Industrial production, seasonally adjusted, fell 0.4 per cent in October for a 0.6 per cent decline year-on-year. The current account surplus in October, seasonally adjusted, widened slightly to £459 million from £439 million in September but weakening oil prices were expected to lead to a marked deterioration of the balance. The unemployment rate, seasonally adjusted, calculated on a new lower basis, rose in November to 12.5 per cent from 12.4 per cent in October; the rate in October on the old basis of calculation was 12.8 per cent. The wholesale price index rose 0.5 per cent in November and was up 7.4 per cent year-on-year, unchanged from October.

The Swiss franc was the second strongest major currency during the month, firming 4.25 per cent against the U.S. dollar and 1.00 per cent in effective (MERM) terms. The unemployment rate rose to 0.7 per cent in November from 0.5 per cent in October and 0.2 per cent in November 1981. The wholesale price index declined 0.3 per cent in November but was higher than 1.5 per cent over the year.

The Japanese yen rebounded very sharply from losses in the previous two months, firming 11.2 per cent against the U.S. dollar and 8.65 per cent in effective (MERM) terms. The Cabinet of the new Prime Minister announced a revised budget at the end of November including substantial spending cuts, reversing the fiscal direction adopted in the previous month. Real GNP increased 0.6 per cent in the third quarter, following an upward revised increase of 1.9 per cent in the second quarter. Industrial production fell 2.9 per cent year-on-year in October after a rise of 0.5 per cent over the 12 months to September. The unemployment rate in October rose to 2.48 per cent from 2.44 per cent in September, equalling the 26-year high recorded in June. The trade surplus, seasonally adjusted, narrowed in November to $209.5 million from $710.2 million in October. The wholesale price index declined 0.2 per cent in November.

The Canadian dollar reversed the trend of the previous three months and eased against the U.S. dollar; it eased 0.90 per cent against the U.S. dollar and 2.06 per cent in effective (MERM) terms in November. The trade surplus narrowed slightly in October to Can$1.682 billion from Can$1.74 billion in September; in the third quarter, however, the current account surplus, seasonally adjusted, widened to a record Can$1.02 billion from Can$542 million in the second quarter. Real GNP, seasonally adjusted, fell at an annual rate of 4 per cent in the third quarter, the fifth consecutive quarterly decline for a 6.9 per cent cumulative drop. The unemployment rate, seasonally adjusted, was unchanged at 12.7 per cent in November compared with 8.3 per cent in November 1981.

The Swedish krona firmed 1.05 per cent against the U.S. dollar and eased 2.45 per cent in effective (MERM) terms. The Norwegian krone firmed 3.13 per cent against the U.S. dollar and 0.26 per cent in effective (MERM) terms.

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

Major industrial countries continued to ease their monetary policies by further reducing their official interest rates in November. In the United States, the Federal Reserve, citing prevailing pattern of market interest rates, lowered its discount rate to 9.00 per cent from 9.50 per cent, effective November 22. Following this reduction in the discount rate, other short-term interest rates in the United States declined further in November, except for the three-month bond-equivalent yield on U.S. Treasury bills, which firmed modestly from 8.17 per cent at the end of October to 8.57 per cent at the end of November. The U.S. federal funds rate and the 90-day CD rate eased by 0.48 and 0.18 percentage points to 8.93 per cent and 8.87 per cent, respectively, while the U.S. prime lending rate eased by 0.50 percentage point to 11.50 per cent between the end of October and the end of November. In a more recent development, the Federal Reserve lowered the discount rate further by 0.50 percentage point to 8.50 per cent with effect from December 14, 1982. The U.S. basic money supply M1 rose to a seasonally adjusted average of $476.00 billion in the week ended December 1, from $474.2 billion in the previous week. M1 averaged $474.6 billion in November, up from $468.3 billion in October, while for the latest 13 weeks, the narrow aggregate averaged $468.1 billion for a rise of 13.8 per cent. M2, the broader measure, averaged $1.9861 trillion in the latest month, up from $1.9677 trillion in October.

Among the countries in the European Monetary System, the Bundesbank lowered its discount and lombard rates by a full percentage point each to 5.00 per cent and 6.00 per cent, respectively; the two key rates were last changed on October 22, when they were lowered by a full percentage point each to 6.00 per cent and 7.00 per cent, respectively. The Bank of France lowered its money market intervention rate on December 3 to 12.75 per cent from 13.00 per cent and on the same day, the Bank reduced its seven-day Treasury bill discount rate to 13.50 per cent from 14.00 per cent. The Netherlands Bank lowered its key interest rates by 0.50 percentage point with effect from December 3: the discount rate to 5.00 per cent, interest on advances to 5.50 per cent, and discount on promissory notes to 6.00 per cent. These rates were last reduced by 0.50 percentage point on November 8, 1982. The Denmark National Bank lowered its discount rate on November 30 to 10.00 per cent from 11.00 per cent. The Bundesbank reported that the narrowly defined money supply M1 decreased by DM 1.0 billion to a seasonally adjusted DM 252.5 billion in October for a projected annual growth rate of 6.7 per cent. At the same time, the two broader measures M2 and M3 declined by DM 2.2 billion and DM 0.5 billion to a seasonally adjusted DM 485.4 billion and DM 796.1 billion, reflecting respective growth rates of 5.1 per cent and 5.5 per cent.

The Directorate of the Swiss National Bank, after consulting with the Bank Committee, lowered the discount and lombard rates by 0.50 percentage point each to 4.50 per cent and 6.00 per cent, respectively, effective December 12. The last change in the discount and lombard rates was on August 26, when they were reduced by 0.50 percentage point each to 5.00 per cent and 6.50 per cent, respectively.

The Bank of Japan reported that its broadly defined money supply M3 grew at an average year-on-year rate of 8.3 per cent in October, compared with a year-on-year growth rate of 8.9 per cent in September; this marked the seventh consecutive month of single-digit year-on-year increase for the broader aggregate. At the same time, the narrowly defined money supply M1 grew an average 4.7 per cent in October from a year earlier, compared with a year-on-year increase of 5.3 per cent in September.

The Bank of England reported that the sterling M3 rose by a seasonally adjusted average of £770 million or 0.9 per cent in each of the banking months ended October 20 and November 17. The narrowest aggregate M1 rose by 1.4 per cent per month during October and November, while the broadest measure, Public Sector Liquidity 2 (PSL2), rose by 0.7 per cent during the same two months. The Government's annual growth target range for the three monetary aggregates is 8-12 per cent during the 14-month period from mid-February 1982 to mid-April 1983.

Among other countries, the Austrian National Bank lowered its discount rate from 5.75 per cent to 4.75 per cent and its lombard rate from 6.25 per cent to 5.25 per cent, effective December 3, 1982. The two key rates were last reduced on October 22 by 0.50 percentage point each to 5.75 per cent and 6.25 per cent, respectively.

Short-term money market rates in industrial countries showed a firming trend with the rates in the United States, France, Italy, Japan, the United Kingdom, Switzerland, and the Netherlands firming by 0.06-1.34 percentage points at the end of November. Interest rates in Austria, Belgium, Canada, and Denmark eased by 0.35-1.00 percentage point, while those in Germany, Norway, and Sweden remained unchanged between the end of October and the end of November (see Table 3).

In the euro-currency market, the three-month euro-dollar interest rate eased modestly by 0.12 percentage point to 9.94 per cent at the end of November. As a result, the uncovered interest differentials favoring euro-dollar investment narrowed for Germany and the Netherlands, while for the United Kingdom, the differentials switched to favor domestic investment at the end of November. The uncovered interest differentials favoring domestic investment widened for France and Italy, while that for Belgium narrowed slightly between the end of October and the end of November.

In the forward exchange market, the premia against the U.S. dollar narrowed for the Deutsche mark and the Netherlands guilder, while for the pound sterling, the premia turned to a discount at the end of November. The discount against the U.S. dollar widened for the Belgian franc and the Italian lira, while for the French franc, the discount narrowed modestly between the end of October and the end of November. Consequently, the covered interest differentials favoring domestic investment narrowed for Germany and remained unchanged for the Netherlands at the end of November. The covered interest differentials favoring euro-dollar investment widened for Belgium and Italy, while for France and the United Kingdom, the differentials narrowed between the end of October and the end of November.

Table 3. Inflation Rates and Short-Term Interest Rates

	Month 2/	Inflation Rates 1/ (year-on-year per cent changes) Wholesale price index		Consumer price index 3/		Short-term interest rates 4/ (end-of-month) Oct.	Nov.
Austria	June/Nov.	5.0	(4.8)	4.7	(4.7)	5.75	4.75
Belgium	June/Sept.	7.4	(8.9)	9.4	(9.0)	12.85	12.50
Canada	November			9.9	(10.0)	11.20	10.70
Denmark	Oct./Sept.	10.8	(10.2)	9.9	(9.4)	11.00	10.00
France	Sept/Oct.	10.6	(11.3)	9.3	(10.1)	13.18	13.31
Germany	Nov.	3.2	(3.6)	4.7	(4.9)	7.45	7.45
Italy	Sept./Nov.	13.0	(13.2)	16.7	(17.2)	18.88	19.38
Japan	October	1.8	(1.4)	3.1	(3.2)	7.15	7.21
Netherlands	Oct.			4.9	(5.4)	6.63	6.75
Norway	Nov./Oct.	7.3	(5.9)	11.3	(10.8)	9.00	9.00
Sweden	Sept./Oct.	10.2	(11.9)	8.6	(7.5)	10.00	10.00
Switzerland	November	1.5	(1.5)	5.8	(6.2)	3.69	4.00
United Kingdom	November	7.4	(7.4)	6.3	(6.8)	8.98	10.32
United States	November	3.7	(3.6)	4.6	(5.1)	8.17	8.57

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 and the Netherlands.

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

Table 4. Covered Interest Differentials for Three-Month Investments in Europe (End-month)

	Uncovered interest differentials 1/ (1)		Forward exchange quotations 2/ (2)		Covered interest differentials 1/ (3)=(1)-(2)	
	Oct.	Nov.	Oct.	Nov.	Oct.	Nov.
Belgium	-2.60	-2.56	-2.74	-3.14	+0.14	+0.58
France	-3.12	-3.37	-9.13	-8.83	+6.01	+5.46
Germany	+2.61	+2.49	+3.03	+2.88	-0.42	-0.39
Italy	-8.82	-9.44	+10.06	-12.86	+1.25	+3.43
Netherlands	+3.44	+3.19	+3.48	+3.24	-0.05	-0.05
United Kingdom	+1.08	-0.38	+0.65	-0.40	+0.43	+0.02

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 the United Kingdom the Treasury bill rate is used, 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

For the calendar quarter beginning October 1, 1982, the SDR interest rate declined sharply to 8.90 per cent from 12.01 per cent in the previous quarter, reflecting declines in the domestic interest rates for the United States, Germany, France, and the United Kingdom in September 1982 from their levels in June 1982. The rate of remuneration paid on creditor positions in the Fund (85 per cent of the SDR interest rate) decreased similarly from 10.21 per cent in the previous quarter to 7.57 per cent in the current quarter. As shown in Appendix B, the average three-month domestic interest rates, which are used by the Fund to calculate the SDR-combined market interest rate, firmed modestly for the United States and Japan, while those for Germany, France, and the United Kingdom eased in November. As a result, the average combined market rate firmed marginally by 0.03 percentage point to 8.59 per cent in November.

The combined market interest rates (based on domestic rates) for maturities ranging from three months to five years eased by 0.04-0.28 percentage point at the end of November, except for that on twelve-month maturity, which firmed marginally (see Table 5). This mainly reflected easier rates for the United States, which eased by 0.05-0.56 percentage point at the end of November; other domestic interest rates were mixed. The combined market rates displayed a rising yield curve moving up from 8.50 per cent on three-month maturity through 8.71 per cent and 8.98 per cent on six- and twelve-month maturities, respectively, to 10.17 per cent on five-year maturity.

The combined market interest rates (based on euro-currency deposit rates) eased by 0.40 percentage point to 9.69 per cent for the three-month maturity and by 0.24 percentage point each to 9.93 per cent and 10.03 per cent for the six- and twelve-month maturities, respectively, at the end of November. This reflected generally easier euro-deposit rates for the five currencies included in the SDR basket, which eased by 0.26-1.50 percentage points for the three-month maturity, 0.06-0.38 percentage point for the six- and twelve-month maturities between the end of October and the end of November.

Average interest rates on SDR-denominated deposits of selected commercial banks eased by 0.22-0.87 percentage point at the end of November. The deposit rates displayed a rising yield curve moving up from 8.89 per cent on one-month deposits through 9.49 per cent and 9.73 per cent on three- and six-month deposits, respectively, to 9.84 per cent on twelve-month deposits. The yields on SDR-denominated bonds quoted on the Luxembourg Stock Exchange eased sharply at the end of November. The current yield ranged from 9.31 per cent to 13.77 per cent, with the average current yield easing by 0.97 percentage point to 10.69 per cent at the end of November, while the yield to maturity ranged from 10.51 per cent to 18.24 per cent, with the average yield to maturity easing by 1.05 percentage points to 13.72 per cent between the end of October and the end of November.

Table 5. Yields on the SDR and Other SDR-Denominated Assets

	Oct.	Nov.	Dec.
SDR quarterly rate	8.90	8.90	8.90
Rate of remuneration	7.57	7.57	7.57
Yields on other SDR-denominated assets 1/			
Combined market interest rates 2/			
Based on domestic rates			
3-month maturity (Rule T-1)	8.54	8.50	
6-month maturity	8.88	8.71	
12-month maturity	8.93	8.98	
5-year maturity	10.45	10.17	
Based on euro-currency rates			
3-month maturity	10.09	9.69	
6-month maturity	10.17	9.93	
12 month maturity	10.27	10.03	
Average commercial bank deposit rates 3/			
1-month deposits	9.76	8.89	
3-month deposits	9.90	9.49	
6-month deposits	10.02	9.73	
12-month deposits	10.06	9.84	
Bonds quoted on the Luxembourg Stock Exchange 4/			
Average current yield	11.66	10.69	
Average yield to maturity	14.77	13.72	

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.

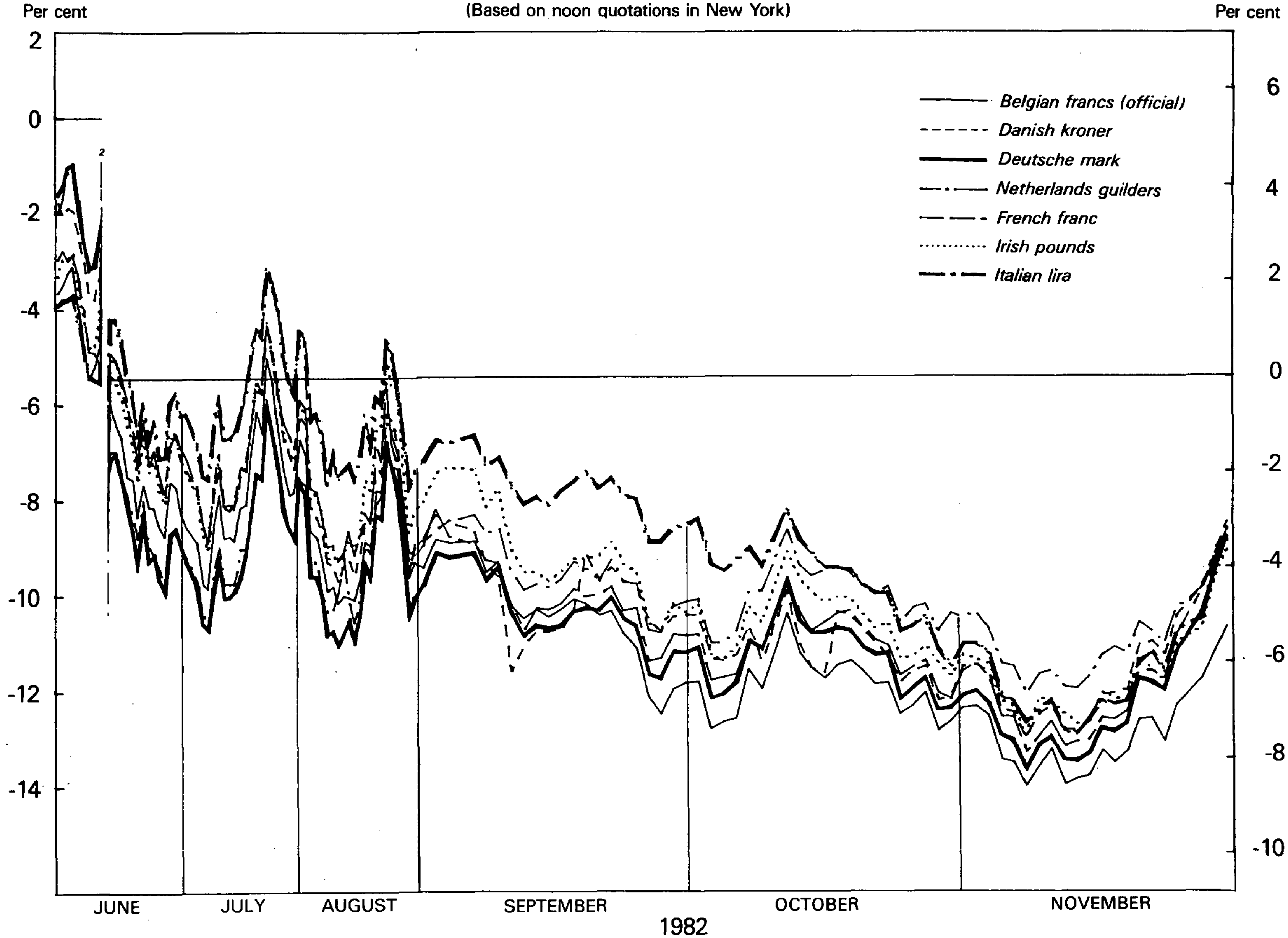
4/ Maturity dates for these issues range from 1983 to 1989.

CHART 1

SPOT EXCHANGE RATES

(DEVIATIONS FROM CENTRAL RATES EXPRESSED IN U.S. DOLLARS)[1]

(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 February 22, 1982 rate of 1 ECU=$1.0343.

[2]Effective June 14, 1982 the French franc and the Italian lira were devalued by 5.75 and 2.75 per cent respectively, and the Deutsche mark and Netherlands guilder were revalued by 4.25 per cent each. Premia/discounts are converted to U.S. dollar terms on the basis of 1 ECU=$0.98.

CHART 2

EUROPEAN MONETARY SYSTEM: DIVERGENCE INDICATORS

(Based on noon quotations in London)

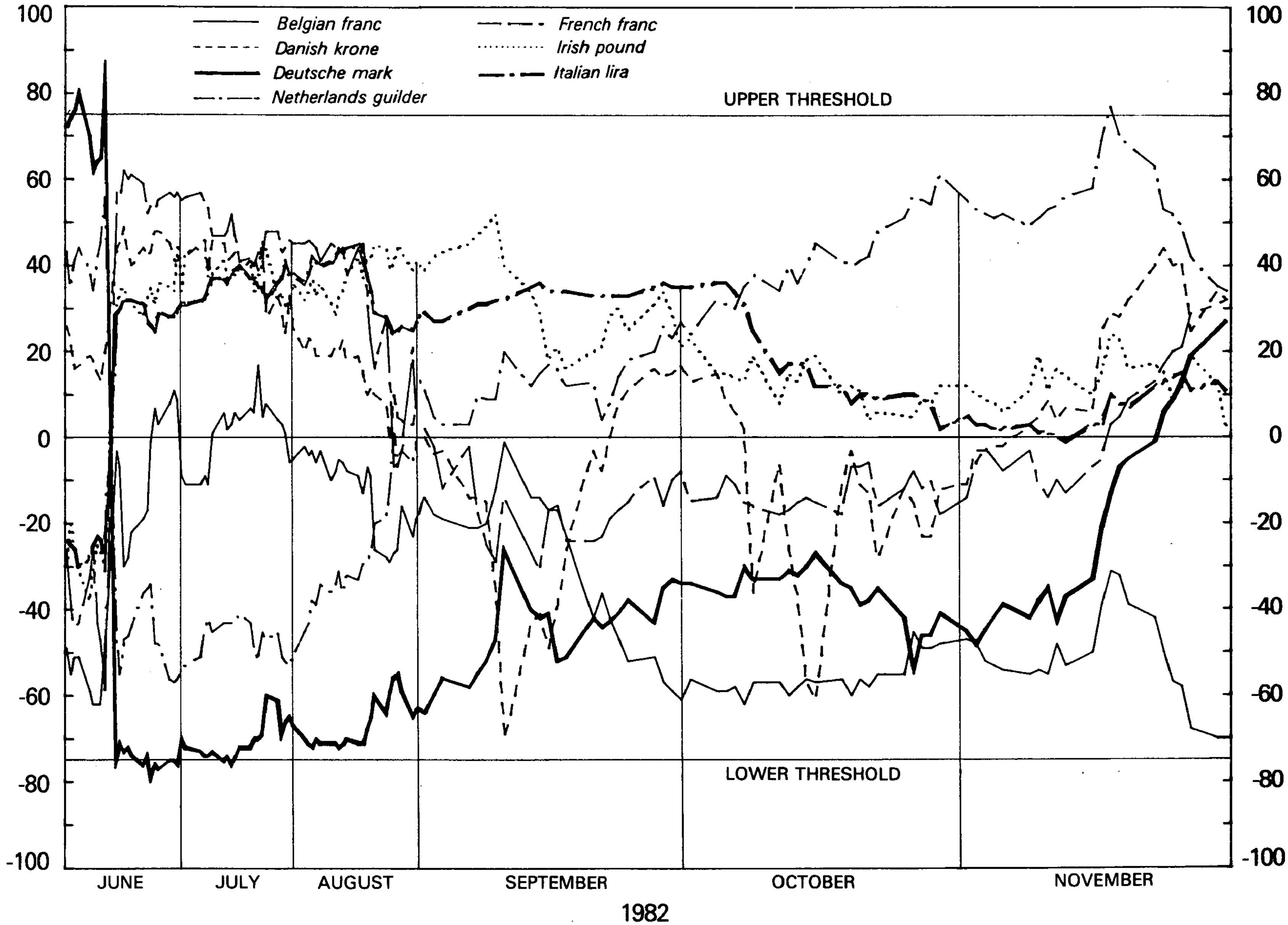


CHART 3

SPOT EXCHANGE RATES

(Noon quotations in New York)

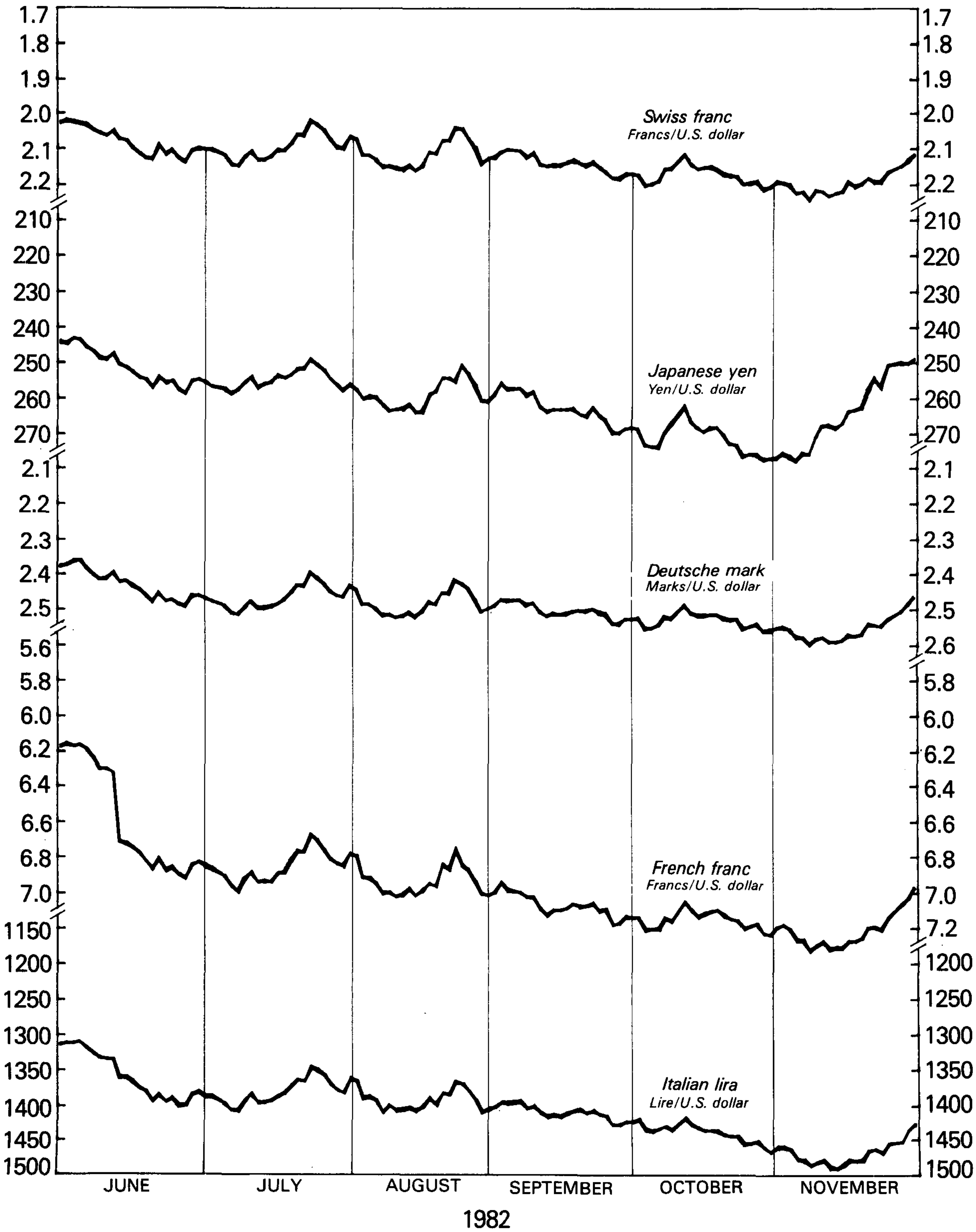


CHART 4

SPOT EXCHANGE RATES

(Noon quotations in New York)

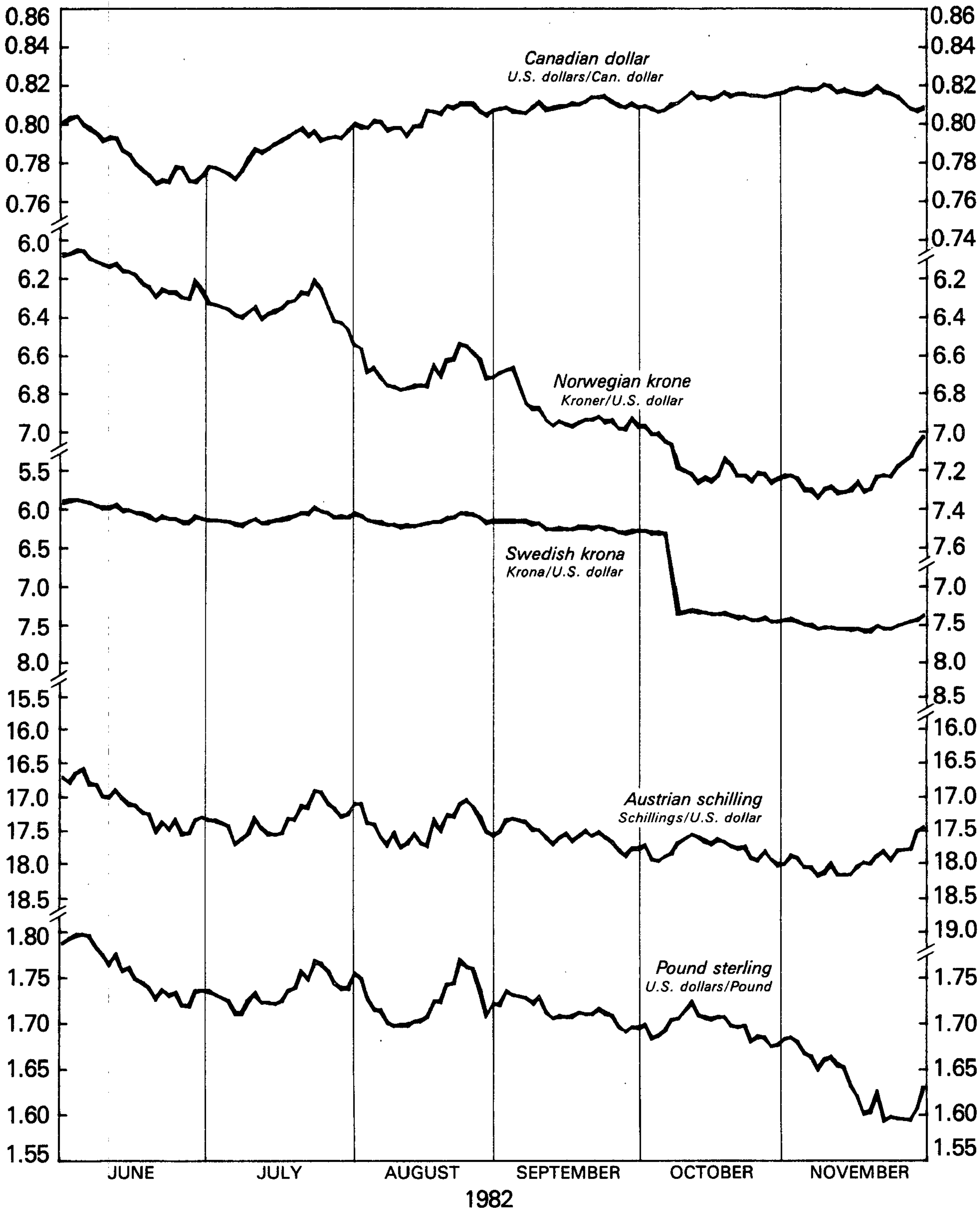
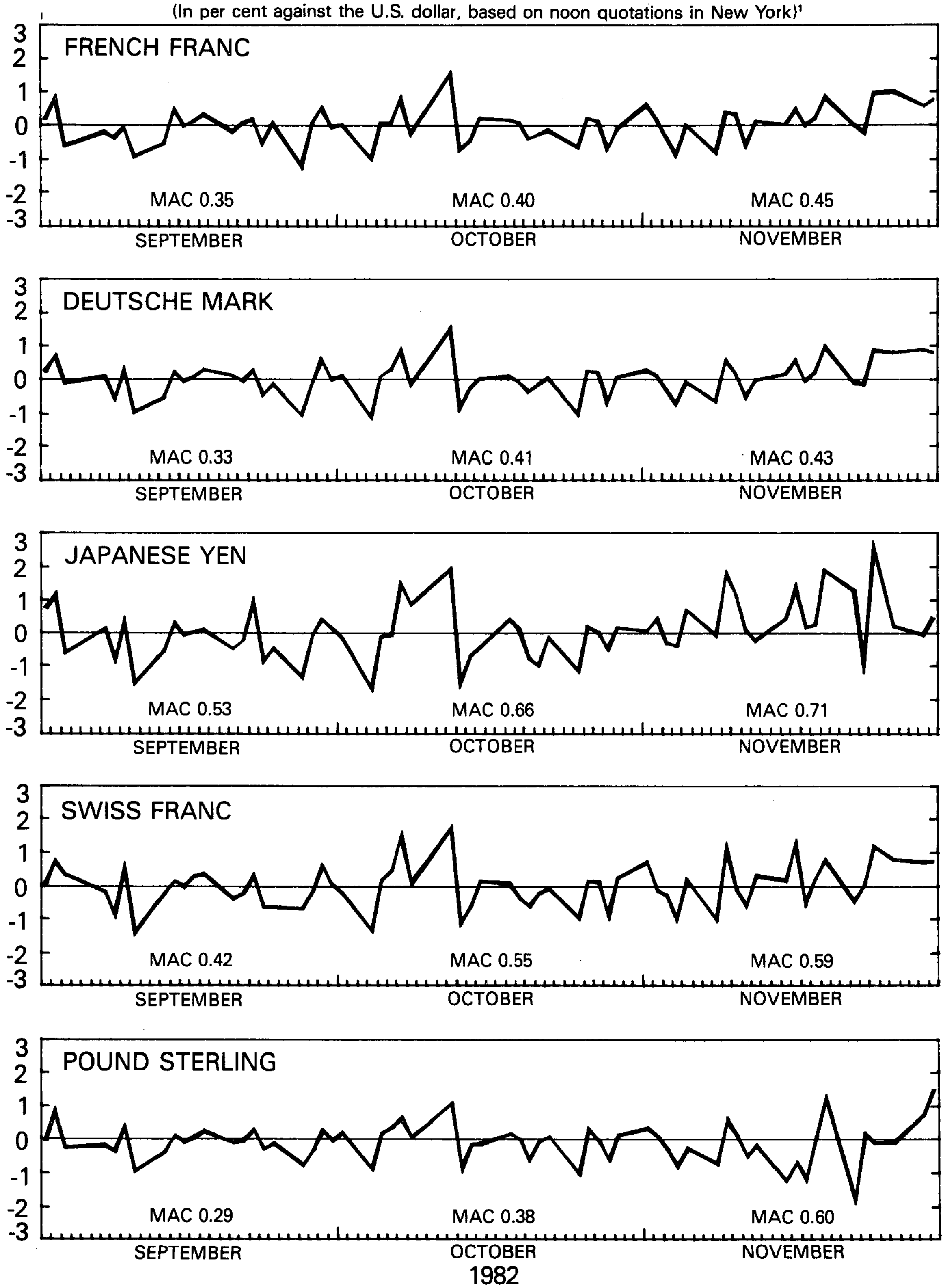


CHART 5

DAILY CHANGES IN SPOT EXCHANGE RATES

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



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

CHART 6

INDEXES OF EXCHANGE RATES OF FIVE MAJOR CURRENCIES AGAINST THE SDR

JUN. 1974 - NOV. 1982
(June 28, 1974=100)

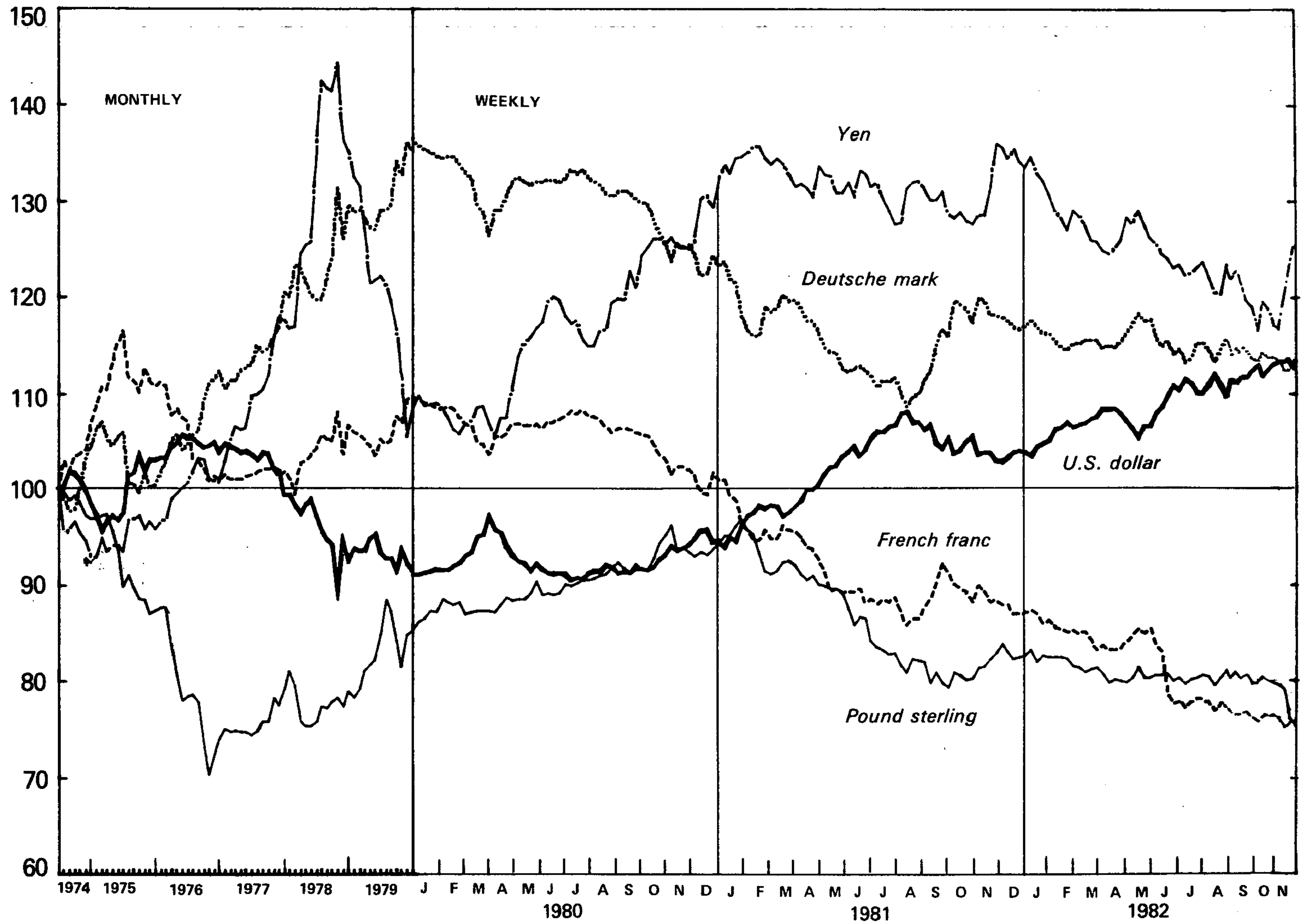
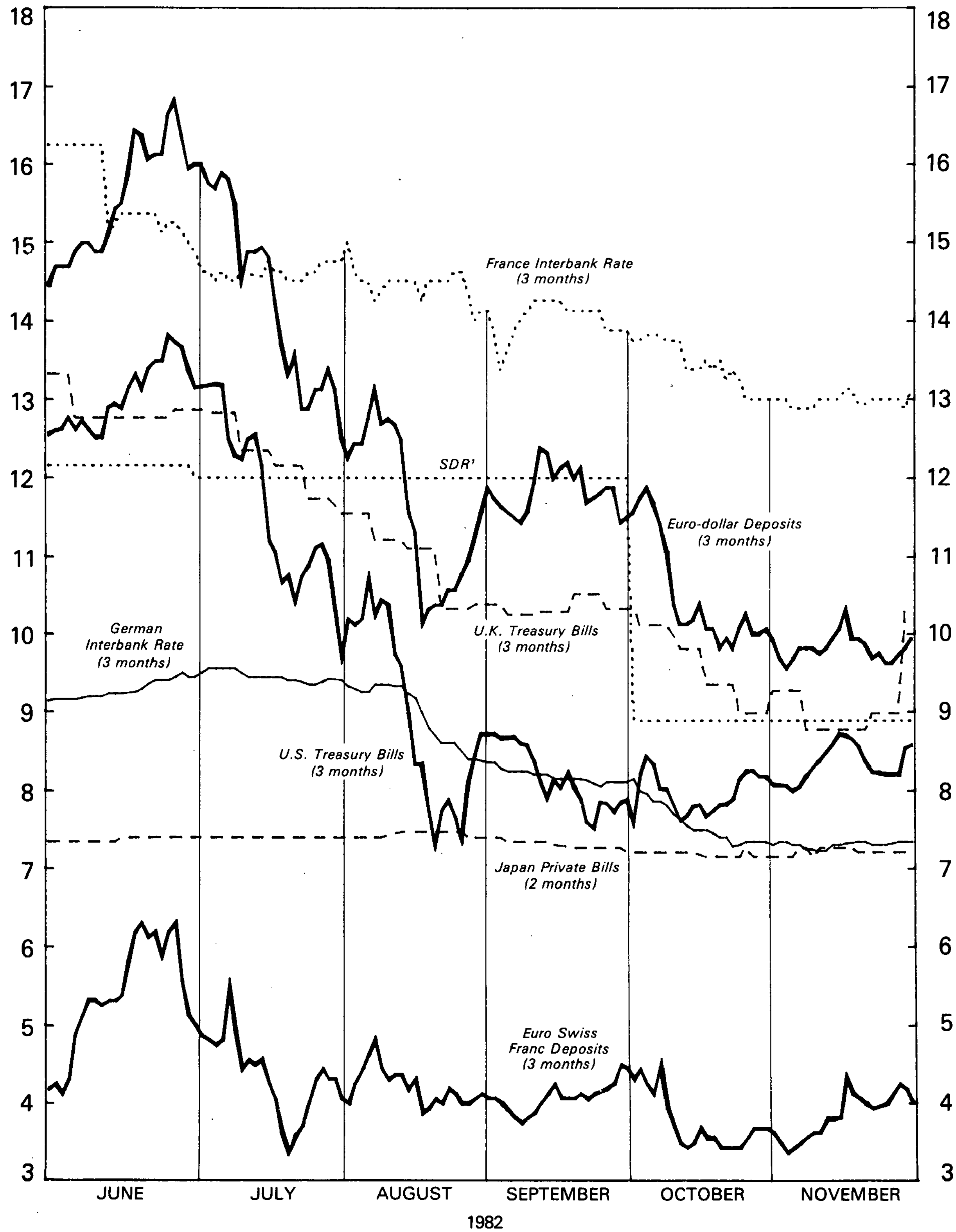


CHART 7

SHORT-TERM MONEY MARKET RATES

(Per cent per annum)



[1]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)

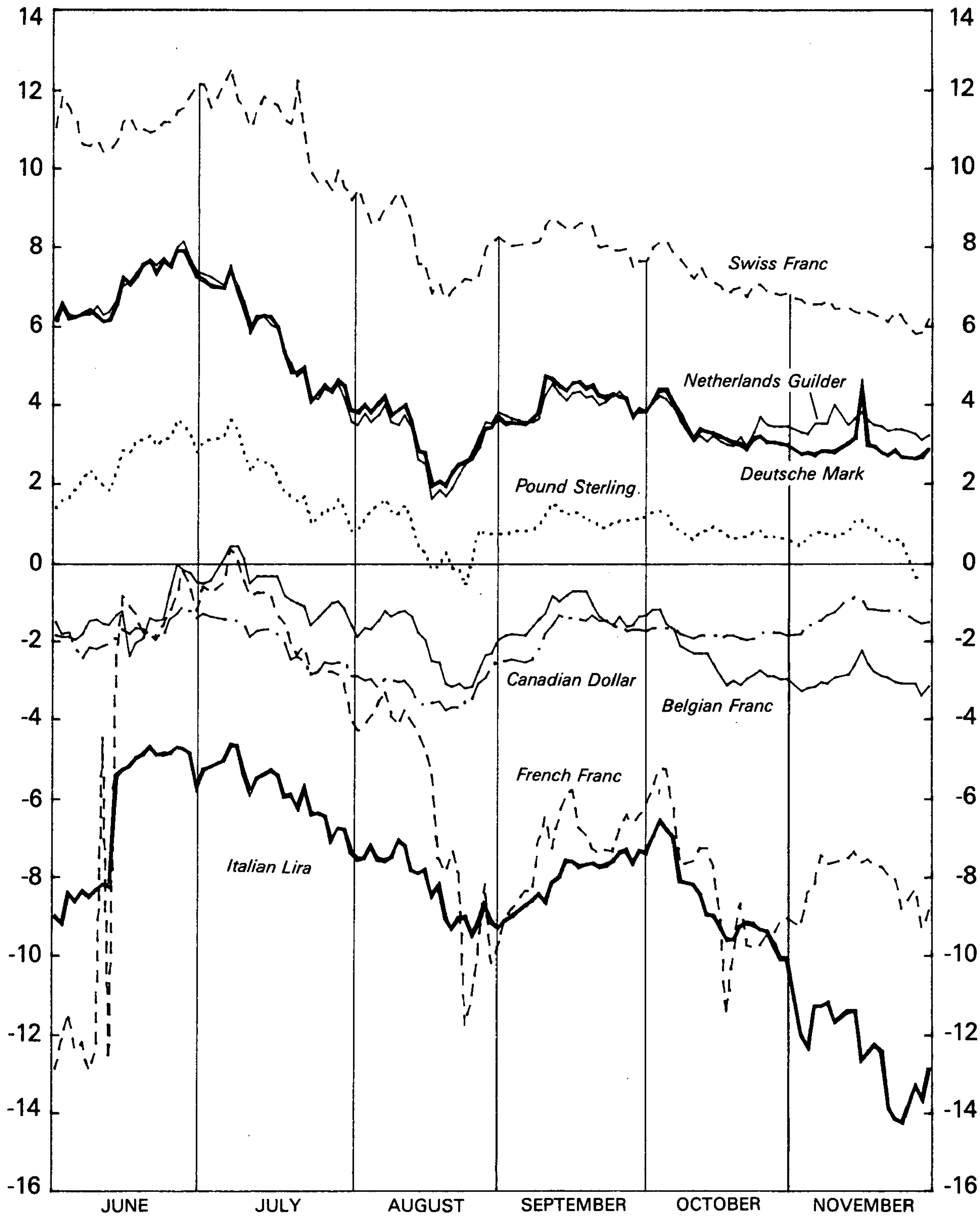
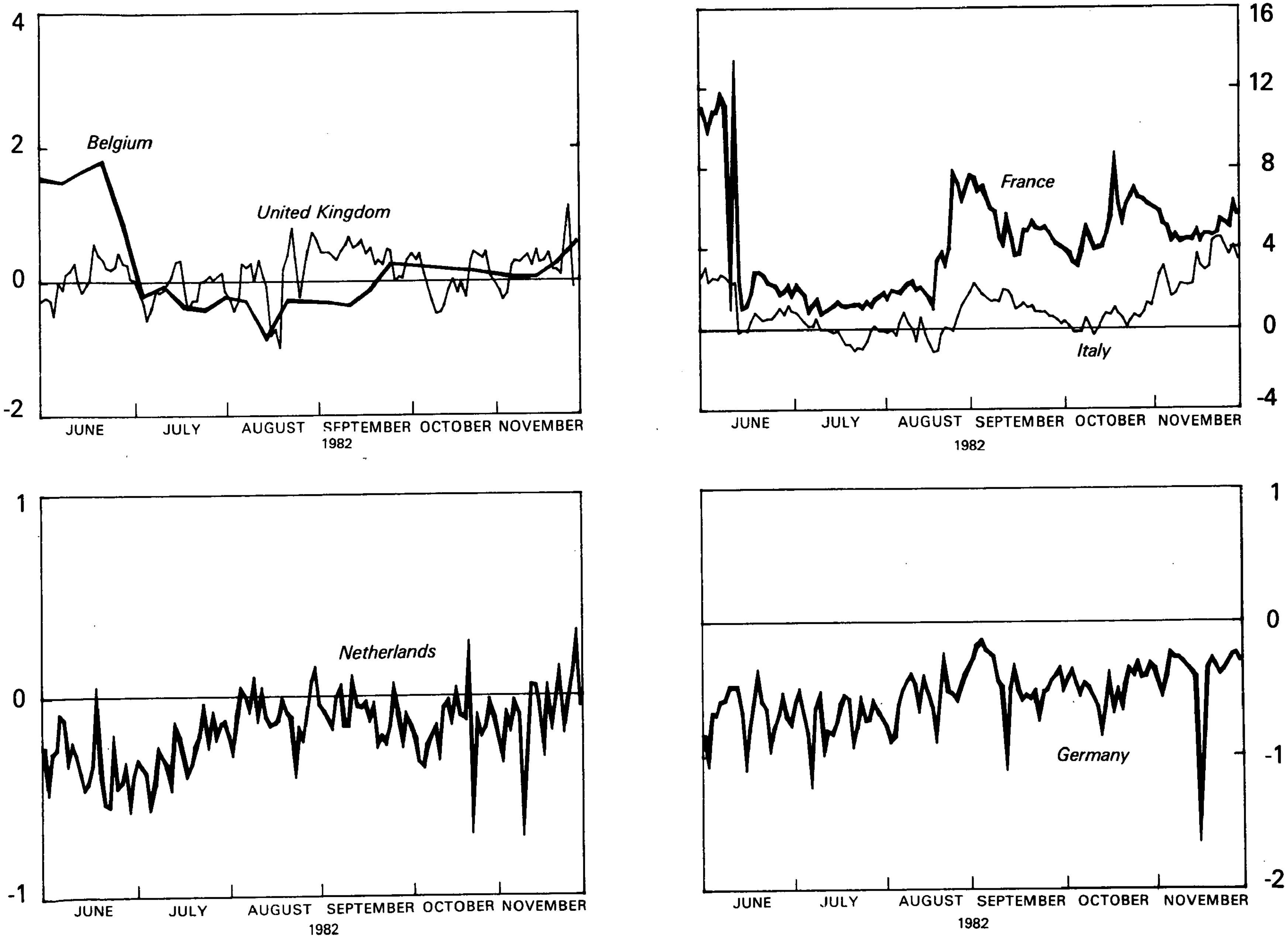


CHART 9

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, October–November 1982 1/

	October				November			
	6	13	20	27	3	10	17	24
Austrian schilling	17.8950	17.6150	17.7450	17.8250	17.9250	18.0050	17.9850	17.8050
Belgian franc								
Official	49.430	48.710	48.910	49.160	49.400	49.775	49.930	49.290
Financial	51.915	50.920	51.265	51.110	51.075	51.730	51.085	50.885
Canadian dollars	0.80746	0.81384	0.81450	0.81427	0.81890	0.81910	0.81536	0.81400
Danish kroner	8.9225	8.9000	8.8715	8.9455	8.9613	9.0275	9.0000	8.8475
Deutsche mark	2.54425	2.51000	2.52490	2.54275	2.55700	2.57630	2.57300	2.52650
French francs	7.1985	7.0985	7.1245	7.1760	7.2040	7.2750	7.2717	7.1370
Irish pounds	1.3380	1.3575	1.3475	1.3380	1.3325	1.3213	1.3225	1.3390
Italian lire	1433.250	1426.750	1441.000	1451.000	1462.500	1478.500	1479.500	1455.000
Japanese yen	273.900	266.575	270.300	276.000	276.470	268.000	263.250	250.600
Netherlands guilder	2.7805	2.7415	2.7535	2.7645	2.7793	2.8053	2.7908	2.7670
Norwegian kroner	7.0450	7.2575	7.1720	7.2175	7.2388	7.2813	7.3050	7.1775
Pounds sterling	1.6928	1.7088	1.6971	1.6851	1.6800	1.6630	1.6020	1.5960
Swedish kroner	6.3200	7.3262	7.3710	7.4000	7.4520	7.5250	7.5725	7.5137
Swiss francs	2.18750	2.14100	2.17000	2.19150	2.19925	2.21650	2.20275	2.16475

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.

Short- and Medium-Term Interest Rates

APPENDIX B

(Monthly and weekly averages)

	National Money Markets 1/						Euro-currency Markets 2/					Lending Rate		U.S.
	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)	Swiss franc (10)	French franc (11)	LIBOR 3/ (12)	U.S. prime 4/ (13)	Treasury 5/ Securities (14)
1981														
Dec.	11.30	10.96	15.17	15.51	6.91	11.57	13.35	10.75	15.36	9.76	17.26	14.11	15.75	13.60
1982														
Jan.	12.84	10.61	15.15	15.32	6.64	12.18	14.39	10.32	15.12	8.76	16.29	15.17	15.75	14.65
Feb.	14.12	10.44	14.39	14.75	6.68	12.64	15.88	10.21	14.53	8.28	15.53	15.96	16.56	14.54
Mar.	13.27	10.01	13.34	15.41	6.61	12.11	14.98	9.43	13.67	6.36	19.79	15.08	16.50	13.98
Apr.	13.30	9.46	13.45	16.61	7.15	12.24	15.22	9.04	13.80	4.98	23.12	15.30	16.50	14.00
May	12.66	9.31	13.36	16.39	7.29	11.88	14.61	8.67	13.35	3.93	24.97	14.62	16.50	13.75
June	13.04	9.40	12.86	15.90	7.37	11.99	15.55	8.98	13.05	5.38	18.70	15.75	16.50	14.43
July	11.73	9.58	12.29	14.83	7.40	11.20	14.39	9.00	12.39	4.38	15.77	14.96	16.26	14.07
Aug.	9.00	9.13	10.98	14.68	7.44	9.62	11.65	8.65	11.15	4.22	17.62	12.64	14.39	13.00
Sept.	8.21	8.29	10.36	14.24	7.31	8.94	11.85	7.83	10.93	4.08	19.43	12.75	13.50	12.25
Oct.	7.97	7.68	9.59	13.65	7.19	8.56	10.51	7.19	9.82	3.75	19.01	10.82	12.52	10.80
Nov.	8.34	7.41	9.08	13.16	7.23	8.59	9.82	7.07	9.35	3.83	18.77	10.06	11.85	10.38
1981 Weekly														
Dec. 4	10.81	10.86	14.52	15.64	7.34	11.34	12.51	10.40	14.96	9.66	16.88	13.11	15.93	13.03
11	10.90	10.83	14.63	15.46	7.13	11.33	12.85	10.54	15.00	9.63	17.13	13.48	15.75	13.47
18	11.40	11.01	15.75	15.64	6.73	11.68	13.49	10.83	15.45	9.80	17.57	14.35	15.75	13.44
25	11.61	11.17	15.40	15.42	6.70	11.74	14.06	11.22	15.85	10.12	17.30	15.12	15.75	14.03
1982 Weekly														
Jan. 1	11.84	11.04	15.64	15.34	6.65	11.84	13.94	10.69	15.67	9.49	17.15	14.61	15.75	14.04
8	12.09	10.70	15.47	15.26	6.57	11.86	13.64	10.44	15.48	8.89	16.88	14.63	15.75	14.46
15	12.61	10.70	15.40	15.34	6.60	12.11	14.20	10.38	15.50	8.78	16.57	15.04	15.75	14.79
22	13.25	10.56	15.33	15.31	6.70	12.39	14.45	10.19	15.00	8.61	16.03	15.28	15.75	14.81
29	13.39	10.46	14.39	15.36	6.70	12.34	15.26	10.26	14.50	8.75	15.68	15.73	15.75	14.52
Feb. 5	14.29	10.40	14.28	15.40	6.70	12.77	15.71	10.23	14.65	8.54	15.71	15.84	15.96	14.73
12	14.83	10.39	14.35	14.78	6.70	12.98	16.23	10.24	14.65	8.31	15.47	16.31	16.50	14.91
19	14.76	10.54	14.49	14.30	6.70	12.94	16.49	10.29	14.68	8.28	15.32	16.55	16.50	14.58
26	12.88	10.42	14.42	14.52	6.63	12.02	15.08	10.08	14.13	8.01	15.56	15.14	16.86	14.02
Mar. 5	12.82	10.36	14.08	14.19	6.63	11.90	10.75	9.83	13.85	7.13	15.65	14.79	16.50	13.76
12	13.04	10.16	13.18	14.35	6.63	11.89	14.60	9.46	13.43	6.65	15.53	14.67	16.50	13.82
19	13.46	9.98	13.11	15.79	6.58	12.20	15.15	9.38	13.75	6.28	18.96	15.21	16.50	14.04
26	13.32	9.71	13.11	16.68	6.57	12.19	15.09	9.14	13.63	5.83	26.16	15.17	16.50	14.03
Apr. 2	13.97	9.69	13.13	16.58	7.08	12.56	15.43	9.19	13.65	5.44	24.70	15.56	16.50	14.34
9	13.72	9.48	13.09	16.77	7.08	12.43	15.47	9.13	13.69	5.12	24.31	15.53	16.50	14.25
16	13.37	9.48	13.46	16.67	7.15	12.29	15.47	9.18	13.88	5.22	23.12	15.56	16.50	14.00
23	12.96	9.44	13.84	16.32	7.21	12.09	15.10	8.96	13.88	4.94	22.23	15.16	16.50	13.85
30	12.99	9.38	13.56	16.70	7.21	12.09	14.93	8.92	13.83	4.61	21.71	14.98	16.50	13.87
May 7	13.12	9.34	13.59	16.45	7.21	12.12	14.81	8.74	13.48	4.12	22.22	14.80	16.50	13.87
14	12.95	9.33	13.28	16.35	7.27	11.99	14.53	8.53	13.14	3.56	22.47	14.49	16.50	13.69
21	12.43	9.26	13.25	16.35	7.27	11.74	14.63	8.71	13.41	3.76	26.25	14.66	16.50	13.72
28	12.03	9.30	13.32	16.38	7.34	11.58	14.48	8.68	13.41	4.20	27.90	14.54	16.50	13.74
June 4	12.64	9.27	13.18	16.48	7.34	11.87	14.63	8.72	13.22	4.25	27.75	14.75	16.50	13.98
11	12.60	9.31	12.77	16.48	7.34	11.82	14.93	8.98	12.92	5.14	n.a.	15.14	16.50	14.04
18	13.04	9.36	12.77	15.51	7.38	11.93	15.68	8.91	12.91	5.67	17.88	15.86	16.50	14.48
25	13.49	9.50	12.77	15.49	7.40	12.18	16.26	9.12	13.05	6.10	17.69	16.54	16.50	14.90
July 2	13.41	9.60	12.87	15.18	7.40	12.14	16.23	9.21	13.11	5.38	16.55	16.49	16.50	14.73
9	12.78	9.68	12.82	14.73	7.40	11.80	15.72	9.16	12.72	5.00	15.82	15.98	16.50	14.48
16	12.13	9.59	12.32	14.85	7.40	11.41	14.80	9.01	12.44	4.46	15.50	15.13	16.50	14.10
23	10.72	9.55	12.15	14.75	7.40	10.68	13.54	8.86	12.27	3.65	15.71	14.21	16.36	13.66
30	10.94	9.52	11.74	14.93	7.40	10.74	13.13	8.93	11.98	4.27	16.15	14.18	16.00	13.89
Aug. 6	10.18	9.44	11.54	14.88	7.42	10.34	12.48	8.78	11.61	4.28	16.38	13.38	15.29	13.62
13	10.08	9.48	11.22	14.63	7.42	10.23	12.75	9.11	11.38	4.47	16.58	13.75	15.00	13.59
20	8.14	9.10	11.10	14.64	7.47	9.20	10.74	8.56	10.88	4.08	16.44	11.75	14.71	12.53
27	7.75	8.67	10.32	14.73	7.46	8.85	10.64	8.21	10.85	4.06	20.48	11.68	13.79	12.38
Sept. 3	8.65	8.47	10.39	14.09	7.40	9.20	11.71	8.19	10.93	4.06	21.22	12.72	13.50	12.54
10	8.63	8.35	10.25	14.26	7.34	9.16	11.61	7.86	10.91	3.81	20.19	12.66	13.50	12.43
17	8.31	8.28	10.29	14.42	7.32	9.00	12.20	7.79	10.95	4.10	18.65	13.16	13.50	12.47
24	7.78	8.22	10.52	14.32	7.27	8.74	11.88	7.69	11.00	4.10	19.31	12.73	13.50	12.11
Oct. 1	7.77	8.22	10.32	14.04	7.25	8.68	11.65	7.82	10.73	4.34	18.28	12.29	13.50	11.74
8	8.20	8.00	10.12	13.98	7.21	8.82	11.56	7.59	10.50	4.25	17.54	12.00	13.50	11.29
15	7.72	7.65	9.82	13.66	7.21	8.46	10.24	7.05	9.70	3.55	17.88	10.45	12.86	10.46
22	7.78	7.50	9.35	13.59	7.15	8.40	9.94	6.95	9.43	3.49	20.45	10.23	12.00	10.50
29	8.19	7.44	8.96	13.24	7.17	8.52	10.07	7.04	9.50	3.61	20.35	10.35	12.00	10.73
Nov. 5	8.04	7.42	9.28	13.10	7.19	8.46	9.74	6.99	9.29	3.49	19.00	9.93	12.00	10.34
12	8.35	7.35	8.78	13.12	7.25	8.55	9.82	7.07	9.16	3.69	n.a.	9.98	12.00	10.44
19	8.60	7.43	8.78	13.22	7.25	8.70	10.03	7.12	9.20	4.07	18.13	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	4.06	18.46	10.01	11.50	10.21

1/ As of January 1, 1981, the combined market interest rate under the amended Rule T-1 is calculated by multiplying the yield or rate on each of the respective instruments listed below by the number of units of the corresponding currency listed in Rule O-1 and the value in terms of the SDR of a unit of that currency as determined by the Fund under Rule O-2(a) and (b). The interest rates and the respective currency units (shown in parentheses) are as follows: market yield for three-month U.S. Treasury bills (0.54), three-month interbank deposit rate in Germany (0.46), three-month interbank money rate against private paper in France (0.74), discount rate on two-month (private) bills in Japan (34), and market yield for three-month U.K. Treasury bills (0.071).

2/ 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.