

MASTER FILES
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July 20, 1998

To: Members of the Executive Board
From: The 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

July 20, 1998

The **U.S. dollar** fell against most other major currencies in the period from noon Friday to noon today in London. The U.S. trade deficit rose to a monthly record of \$15.8 billion in May from \$14.3 billion in April; the value of U.S. imports rose by 0.5 percent while the value of exports declined by 1.3 percent. During the first five months of the year, the U.S. trade deficit rose by 40 percent year on year to \$64.9 billion. The **Japanese yen** appreciated by 0.9 percent against the dollar as the three announced candidates for Japanese prime minister outlined their positions. Tokyo markets are closed today for a national holiday. The **deutsche mark** rose by 0.4 percent against the dollar in light trading ahead of expected approval today by the IMF of a loan to Russia.

The currencies participating in the exchange rate mechanism (ERM) of the European Monetary System appreciated by 0.38–0.46 percent against the U.S. dollar. Outside the ERM, the **pound sterling** rose against the dollar but fell slightly against the deutsche mark following news that U.K. money growth (M4) slowed to 9.0 percent year on year in June from 9.2 percent in May. The **Canadian dollar** rose slightly against its U.S. counterpart; the Canadian trade surplus rose to Can\$1.7 billion in May from Can\$1.2 billion in April.

In the emerging markets, Asian currencies were mostly lower against the U.S. dollar and stock markets were mixed. The **Indonesian rupiah** fell by 5.3 percent against the dollar on reports of unrest in the country, according to traders. The **Korean won** fell by 0.5 percent against the dollar while stock prices in Seoul rose sharply; the Korean finance ministry announced it was lifting, effective Wednesday, the prohibition, imposed last October, on corporations and individuals to hold foreign exchange; individuals would again be allowed to hold up to \$20,000. Elsewhere, the **Russian ruble** rose slightly against the dollar; Russian Prime Minister Kiriyenko said that some of Russia's budget problems will have to be resolved by presidential decree. Traders said that the interest rate on the dollar-denominated Eurobonds that are replacing ruble-denominated treasuries will be at least $8\frac{3}{8}$ percentage points above yields on U.S. treasuries. The **South African rand** fell by about 1 percent against the dollar following news that Moody's Investor Service said that it might cut the country's credit rating, which currently lies just a notch above Moody's ratings for speculative investments.

Money market rates and bond yields were generally little changed. The price of **gold** in London was fixed at \$294.65 p.f.o. this morning compared with \$293.60 p.f.o. on Friday.

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Exchange Rates Against the U.S. Dollar and Gold Prices
Jul 20, 1998

Currencies in the EMS	London noon	Appreciation (+) or depreciation (-) from	Spreads in the parity
<u>Exchange Rate Mechanism</u>	<u>quotations 1/</u>	<u>Friday, in percent</u>	<u>grid 2/</u>
Austrian schillings	12.53	0.40	0.06
Belgian francs	36.73	0.38	0.06
Danish kroner	6.787	0.38	0.15
Deutsche mark	1.781	0.39	0.05
Finnish markkaa	5.415	0.39	0.04
French francs	5.971	0.39	0.10
Greek drachmas	295.5	0.46	8.88
Irish pounds	1.411	0.38	1.28
Italian lire	1756	0.38	0.44
Netherlands guilders	2.008	0.39	--
Portugese escudos	182.2	0.40	0.25
Pounds sterling (suspended)	1.647	0.30	
Spanish pesetas	151.2	0.38	0.29
<u>Other European Currencies</u>			
Norwegian kroner	7.514	0.44	
Russian ruble 3/	6.200	0.15	
Swedish kronor	7.898	0.37	
Swiss francs	1.502	0.42	
<u>Other currencies</u>			
Japanese yen	138.8	0.86	
Australian dollars	0.6267	-0.44	
Canadian dollars	0.6727	0.21	
Brazilian real	1.160	0.07	
Mexican peso	8.795	0.40	
Indian rupee	42.50	0.06	
Indonesian rupiah	14000	-5.27	
Korean won	1289	-0.47	8/
Malaysian ringgit	4.120	-0.49	
Philippine peso	41.84	-0.84	
Thai baht	40.81	-0.13	
<u>Composite rates 4/</u>			
Effective U.S. dollar	107.3	-0.47	
U.S. dollar/SDR	1.33751	-0.28	
U.S. dollar/ECU	1.107	-0.37	
<u>Selected cross rates</u>			
	<u>Today</u>	<u>Friday</u>	<u>Intervention limits of ERM currencies 5/</u>
French francs/Deutsche mark	3.352	3.352	2.8881 - 3.8948
Deutsche mark/Pounds sterling	2.933 -0.6 6/	2.935 -0.5 6/	2.7780 - 3.1320
Italian lire/Deutsche mark	986.2	986.1	852.59-1149.56
Japanese yen/Deutsche mark	77.91	78.28	
<u>Morning gold fixings 7/</u>			
	<u>Today</u>	<u>Friday</u>	
London	\$294.65	\$293.60	
For the week beginning	<u>7/20/98</u>	<u>7/13/98</u>	
SDR interest rate	4.29%	4.27%	

1/ Expressed in terms of currency units per U.S. dollar, except for 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 Brazilian real and the Mexican peso refer to quotations near London noon time. The Indian rupee, Indonesian rupiah, Korean won, Malaysian ringgit, Philippine peso and the Thai baht refer to closings in the domestic markets.

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 percent, except for the spread between deutsche mark and the Netherlands guilder, which is 2.25 percent.

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

4/ The effective U.S. dollar index uses 1989-91 trade weights for 19 partner countries estimated by the Competitiveness Indicators System (1997=100). An increase (decrease) in the index indicates an appreciation (depreciation) of the U.S. dollar.

5/ In the case of the pound sterling, the fixed intervention limits are those before the suspension of this currency in the exchange rate mechanism of European Monetary System in September 1992.

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

7/ Expressed in U.S. dollars per fine ounce.

8/ Percentage change from July 16, 1998.

Monetary Conditions
July 20, 1998

	Interest rates 1/ (Percent per annum)			
	Today	Change from Thursday	Average for Q2/1998	Average for Q3/ 1998
<u>United States (Opening)</u>				
Discount rate	5.00	0.00	5.00	5.00
Federal funds	5.56	+0.06	5.56	5.58
Three-month Tbill	5.13	-0.02	5.11	5.10
Ten-year Tbond	5.51	+0.01	5.59	5.44
Thirty-year Tbond	5.74	+0.02	5.85	5.65
Eurodollar 1/	5.62	0.00	5.73	5.64
Six-month libor	5.75	0.00	5.85	5.75

Money market rates were mixed while bond yields rose slightly.

<u>Japan (Closing)</u>				
Discount rate	n.a.	n.a.	0.50	0.50
Key overnight call rate	n.a.	n.a.	0.43	0.40
Three-month CDS	n.a.	n.a.	0.66	0.74
Ten-year benchmark bond	n.a.	n.a.	1.64	1.68
Euro-yen 1/	0.71	+0.01	0.61	0.65

Markets are closed for a holiday.

<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	3.39	0.00	3.41	3.40
Three-month interbank	3.51	0.00	3.57	3.52
Ten-year benchmark bond	4.69	+0.01	4.89	4.70
Euro-deutsche mark 1/	3.49	0.00	3.69	3.51

Money market rates and bond yields were little changed.

<u>United Kingdom (Midmorning)</u>				
Base lending rate	7.50	0.00	7.33	7.50
Three-month interbank	7.75	0.00	7.58	7.82
Ten-year benchmark gilt	5.92	-0.01	5.88	5.90
Euro-sterling 1/	7.68	+0.03	7.50	7.72

Money market rates and bond yields were little changed.

<u>France (Midmorning)</u>				
Intervention rate	3.30	0.00	3.30	3.30
Five-ten days rate	4.60	0.00	4.60	4.60
Day-to-day	3.40	-0.01	3.41	3.41
Three-month interbank	3.61	0.00	3.65	3.61
Ten-year Treasury bond	4.81	0.00	4.95	4.81
Euro-French franc 1/	3.84	+0.02	3.70	3.78

Money market rates and bond yields were little changed.

1/ The rates are the midpoints of the three-month maturity.

Table 3. Global Stock Market Indices

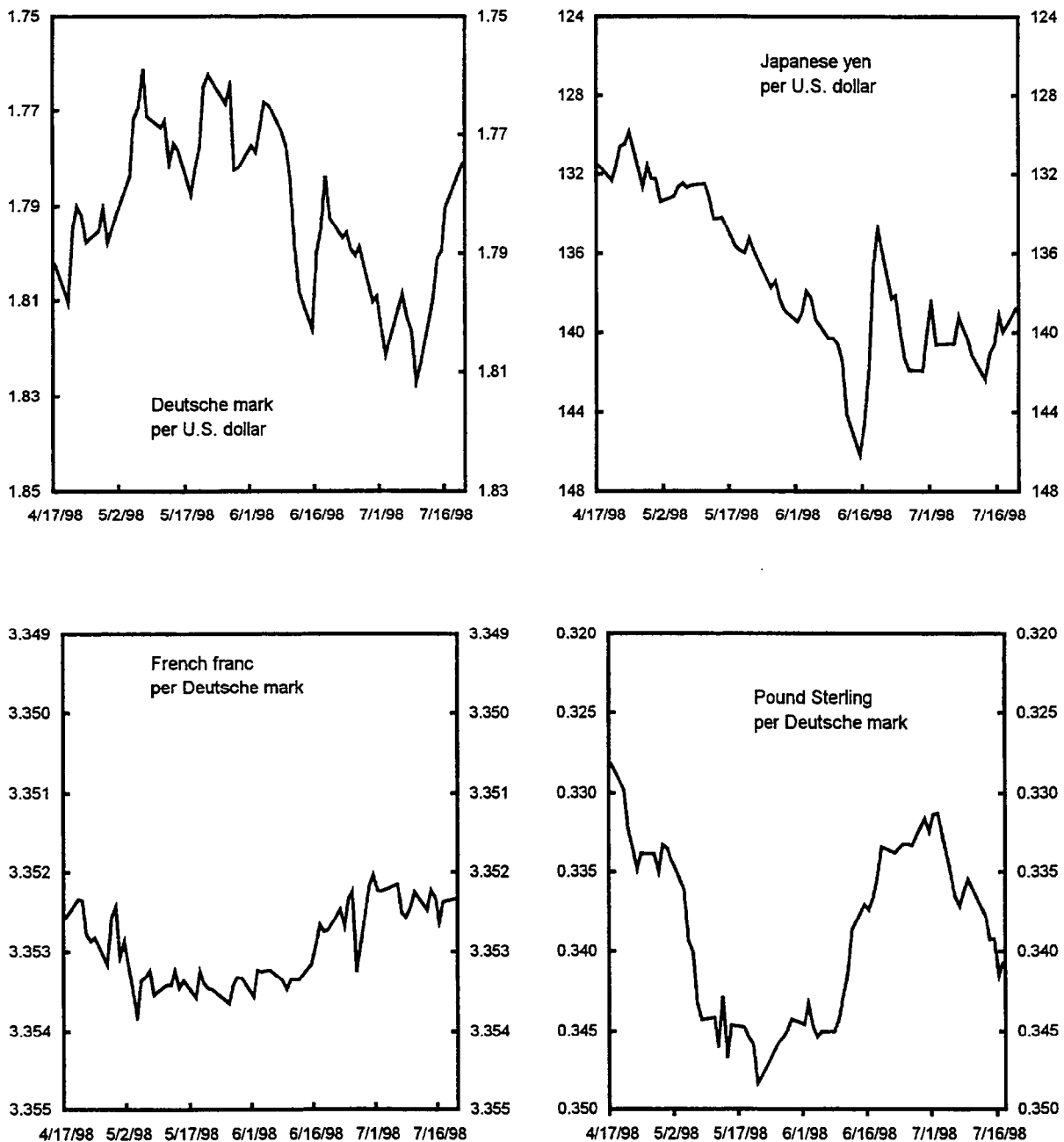
July 20, 1998

ASIA				Percentage	Percentage
(Close to close)	20 JUL 1998	17 JUL 1998	Change	In US\$ Terms 1/	Change
Tokyo: Nikkei 225	--	16570.8	--	--	--
Bangkok: Composite SET	297.7	295.3	0.8	0.7	0.7
Hong Kong	8493.3	8628.9	-1.6	-1.6	-1.6
Jakarta	488.7	486.2	0.5	-4.8	-4.8
Kuala Lumpur	445.3	445.3	0.0	-0.5	-0.5
Manila	1734.5	1787.3	-3.0	-3.8	-3.8
Seoul	365.2	330.4 2/	10.5	10.0	10.0
Singapore	1102.3	1095.1	0.7	0.7	0.7
Australia: All Ordinaries Index	2787.9	2814.7	-1.0	-1.4	-1.4
EUROPE				Percentage	Percentage
(Close to midday)	20 JUL 1998	17 JUL 1998	Change	In US\$ Terms 1/	Change
London: FTSE 100	6167.4	6174.0	-0.1	0.2	0.2
Paris: CAC-40	4378.7	4388.5	-0.2	0.2	0.2
Frankfurt: DAX	6181.8	6147.9	0.6	0.9	0.9
Milan: Mibtel	25940.0	25722.0	0.8	1.2	1.2
Moscow: 21-Share	191.4	193.4	-1.0	-0.9	-0.9
AFRICA				Percentage	Percentage
(Close to midday)	20 JUL 1998	17 JUL 1998	Change	In US\$ Terms 1/	Change
Johannesburg: All-share	7331.1	7431.0	-1.3	-2.1	-2.1
WESTERN HEMISPHERE				Percentage	Percentage
(Close to close)	17 JUL 1998	16 JUL 1998	Change	In US\$ Terms 1/	Change
New York: DJIA	9338.0	9328.2	0.1	0.1	0.1
U.S.: Nasdaq Comp.	2008.8	2000.6	0.4	0.4	0.4
Toronto: 300 Comp.	7418.3	7405.8	0.2	0.4	0.4
Mexico: IPC	4674.5	4655.4	0.4	0.8	0.8
Buenos Aires: MerVal	628.6	616.9	1.9	1.9	1.9
Sao Paulo: Bovespa	11057.0	10908.0	1.4	1.4	1.4
Santiago	92.8	89.6	3.5	3.5	3.5

1/ Based on exchange rates from page 2 where available, otherwise on exchange rate closings in domestic markets for Asian countries, and exchange rates as reported by Reuters for others.

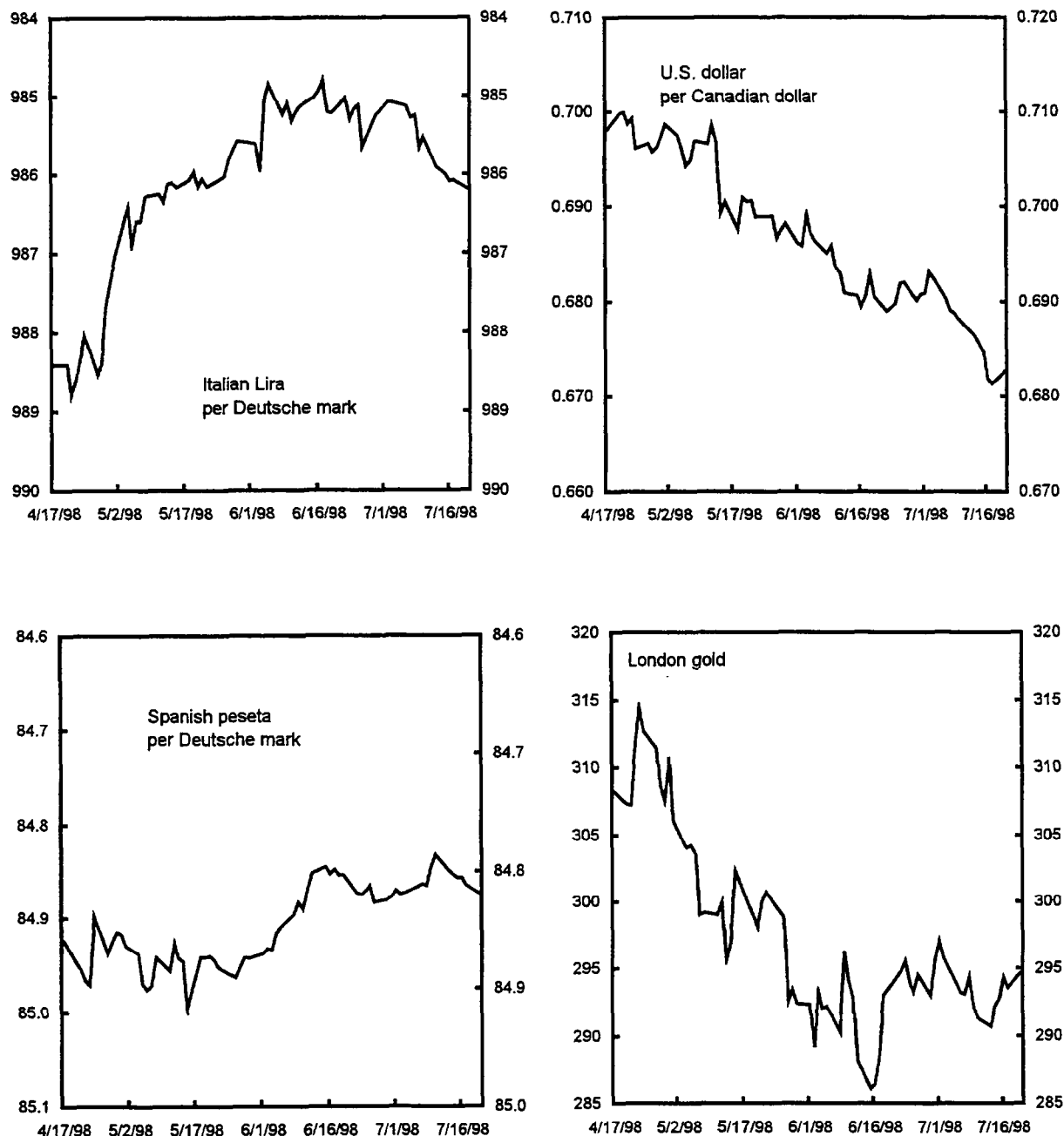
2/ Close figure on July 16, 1998.

Figure 1. Spot Exchange rates^{1/} and Gold Price
April 17, 1998 - July 20, 1998



1/ Based on London noon quotations. when London is closed, New York or Frankfurt quotations are used.

Figure 2. Spot Exchange rates^{1/} and Gold Price
April 17, 1998 - July 20, 1998



1/ Based on London noon quotations. When London is closed, New York or Frankfurt quotations are used.