Treasury and Federal Reserve Foreign Exchange Operations

February-April 1993

The dollar depreciated modestly against most major currencies during the February-April period, but declined significantly against the Japanese yen amid concerns relating to the growing Japanese trade surplus. Over the period, the dollar declined 1.6 percent against the German mark, 10.9 percent against the Japanese yen, and 3.2 percent on a trade-weighted basis.[1]

On April 27, the U.S. monetary authorities intervened in the foreign exchange markets, purchasing $200 million against the yen in amounts shared equally by the Treasury and Federal Reserve.

Developments in dollar exchange markets

The Japanese yen appreciated throughout the period. Japanese trade data released on February 5 indicated that the 1992 Japanese current account surplus was materially higher than in 1991. Subsequent observations about the contribution that the exchange rate might make to correct Japan's widening trade surplus, and a perceived acquiescence to gradual yen appreciation by Japanese officials, contributed to the dollar's decline from its period high of ¥125.20 on February 2.

The yen's appreciation was particularly pronounced in February, when many market participants expected the Group of Seven (G-7) to announce support for a stronger yen following its meeting at the end of the month. However, the meeting did not result in a call for yen appreciation.

The yen's rise paused temporarily throughout most of March in response to indications that policy makers were focusing on the merits of revitalizing Japan's economy as a means both to address Japan's current account surplus and to promote more satisfactory economic performance globally. Consequently, market attention shifted to the progress the Japanese government was making in developing a new supplementary fiscal package to stimulate the Japanese economy as well as to the anticipated repatriation of funds by Japanese companies ahead of the fiscal year end.

The yen's rise resumed in late March. Comments by Japanese officials on March 31 that yen appreciation was inevitable and acceptable if it remained gradual, along with the April 13 announcement that the fiscal stimulus package of ¥13.2 trillion would allocate a larger than expected portion to immediate economic recovery, gave continued strength to the yen through April.

The dollar hit a historical low of ¥109.15 against the yen on April 27. Later that day, the U.S. monetary authorities purchased $200 million against the yen in operations coordinated with another monetary authority. U.S. officials also indicated that "[t]he Administration believes that exchange rates should reflect fundamentals, and attempts to artificially influence or manipulate exchange rates are inappropriate. Moreover, excessive volatility is counterproductive for growth. Therefore we

This report, presented by William J McDonough, Executive Vice President and Manager of the System Open Market Account, describes the foreign exchange operations of the United States Department of Treasury and the Federal Reserve System for the period from February through April 1993 John W. Dickey was primarily responsible for preparation of the report.

[1]The dollar's movements on a trade-weighted basis are measured using an index developed by the staff of the Board of Governors of the Federal Reserve System

Chart 1

The Dollar against the German Mark and the Japanese Yen

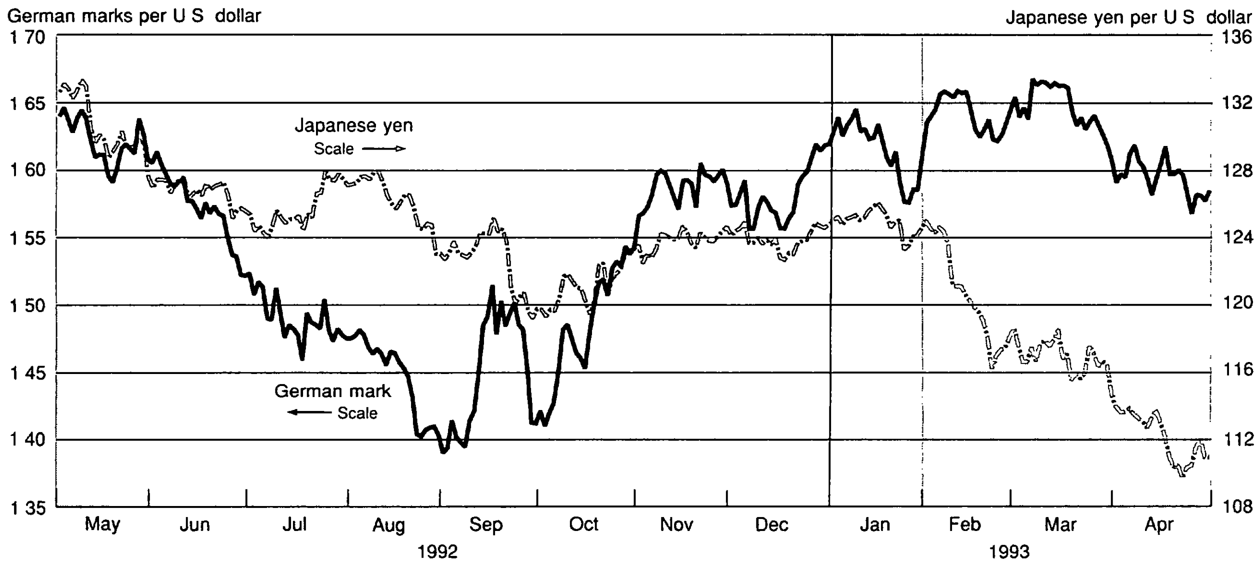
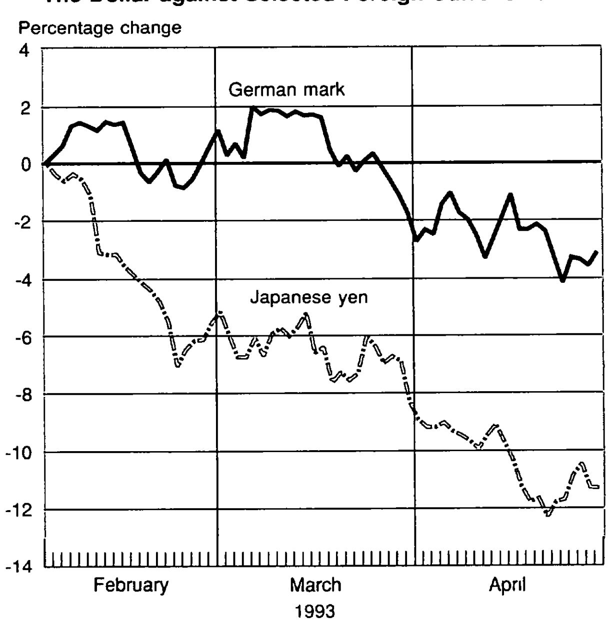


Chart 2

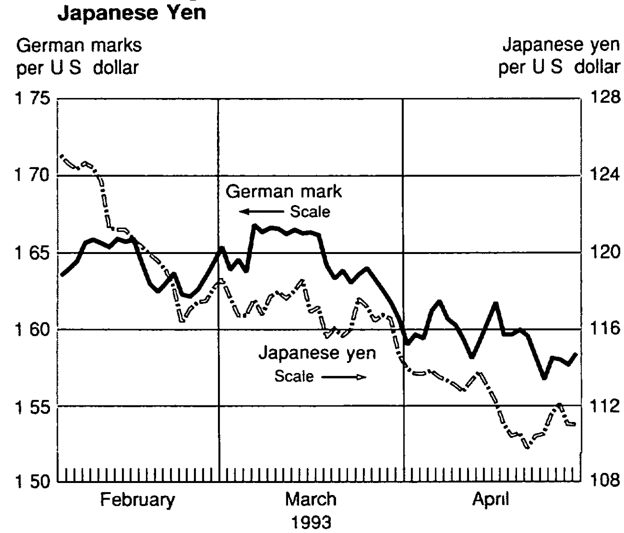
The Dollar against Selected Foreign Currencies



Notes The chart shows the percentage change in daily rates for the dollar from February 1993 through April 1993 All figures are calculated from New York closing rates

Chart 3

The Dollar against the German Mark and the Japanese Yen



are monitoring developments closely and stand ready to cooperate in exchange markets with our G-7 partners as conditions may warrant" In response, the dollar stabilized and then traded between ¥112 10 and

¥111.05 for the remaining days of the period.

The dollar/mark exchange rate was relatively stable
The dollar traded between DM 1.6730, reached on March 11, and DM 1.5640, reached on April 26.

The German Bundesbank reduced its official discount rate and its Lombard rate each by 100 basis points in a series of steps undertaken during the February-April period to stimulate the weakening German economy Following official rate reductions, the mark depreciated slightly against many European currencies. Tensions within the European Exchange Rate Mechanism diminished, although the Spanish peseta faced repeated selling pressure.

Table 1

Federal Reserve
Reciprocal Currency Arrangements
Millions of Dollars

Institution	Amount of Facility April 30, 1993
Austrian National Bank	250
National Bank of Belgium	1,000
Bank of Canada	2,000
National Bank of Denmark	250
Bank of England	3,000
Bank of France	2,000
Deutsche Bundesbank	6,000
Bank of Italy	3,000
Bank of Japan	5,000
Bank of Mexico	700
Netherlands Bank	500
Bank of Norway	250
Bank of Sweden	300
Swiss National Bank	4,000
Bank for International Settlements	600
Dollars against Swiss francs	
Dollars against other authorized European currencies	1,250
Total	30,100

Other operations
The Federal Reserve and the Treasury's Exchange Stabilization Fund (ESF) each realized profits of $22.0 million from the sales of yen in the market. Cumulative bookkeeping or valuation gains on outstanding foreign currency balances as of the end of April were $4,152 0 million for the Federal Reserve and $3,221.8 million for the ESF.

The Federal Reserve and the ESF regularly invest their foreign currency balances in a variety of instruments that yield market-related rates of return and that have a high degree of liquidity and credit quality. A portion of the balances is invested in securities issued by foreign governments As of the end of April, the Federal Reserve and the ESF held either outright or under repurchase agreements $9,376.6 million and $9,438 9 million, respectively, in foreign government securities valued at end-of-period exchange rates.

Chart 4

Short-Term Interest Rates for Selected Countries

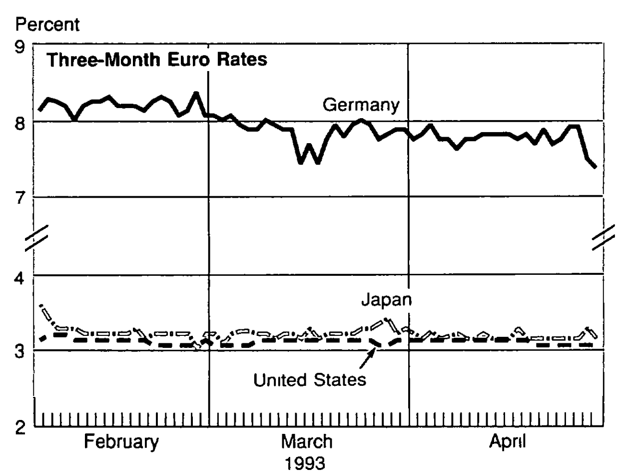


Table 2

Drawings and Repayments by Foreign Central Banks under Special Swap Arrangements with the U.S. Treasury
Millions of Dollars, Drawings(+) or Repayments(−)

Central Bank Drawing on the U S Treasury	Amount of Facility	Outstanding as of January 31, 1993	February	March	April	Outstanding as of April 30, 1993
Central Reserve Bank of Peru	470 0†	—	—	+470 0 −470 0	—	—

Note Data are on a value-date basis Components may not add to totals because of rounding
†Represents U S Treasury's arrangement with Peru as part of a multilateral credit facility

Table 3

Net Profits (+) or Losses (−) on United States Treasury and Federal Reserve Foreign Exchange Operations

Millions of Dollars

	Federal Reserve	U.S. Treasury Exchange Stabilization Fund
Valuation profits and losses on outstanding assets and liabilities as of January 31, 1993	+2,868.4	+1,749.9
Realized profits and losses February 1, 1993-April 30, 1993	+22.0	+22.0
Valuation profits and losses on outstanding assets and liabilities as of April 30, 1993	+4,152.0	+3,221.8

Note: Data are on a value-date basis.

In other operations, the Treasury, through the ESF, participated in a $900 million multilateral facility to assist Peru in repaying its arrears to international creditors. The Treasury's share of the facility was $470 million, established by a special arrangement with Peru on March 9. The total amount of the facility was drawn on March 18 and repaid in full on the same day. The facility expired on March 31.