The Money Market in November

The entire financial community shared the shock of the nation over the assassination of President Kennedy on the afternoon of Friday, November 22, but an emotional backlash on financial values that could have had disturbing consequences for the economy was largely avoided. In an atmosphere of great uncertainty, the stock exchanges suspended trading shortly after 2 p.m., Friday. The Government securities market, where trading had come to a standstill upon receipt of the news, also closed early, as did other securities markets. Over the week end and the day of national mourning on Monday, November 25, the public had ample opportunity to reflect on the orderly transfer of authority to the new President and on President Johnson's assurances that the nation's purposes and policies would remain unchanged. When trading was resumed on Tuesday, a basically confident tone quickly reappeared in the financial markets, and by Wednesday the underlying tension seemed to have been dispelled from these markets, with operations returning to normal.

This general tone of continuity in the financial markets was already evident at a special meeting of the General Committee of the New York Money Market, called by Alfred Hayes, President of this Bank, on Friday afternoon. Representatives of commercial banks, investment banking houses, insurance companies, stock exchanges, and Government securities dealers agreed with the Federal Reserve Bank that there was no need for special action in the financial markets. Mr. Hayes, after conferring with Chairman Martin of the Board of Governors of the Federal Reserve System, stated that the System had ample power to deal with any situation that might arise. Mr. Hayes added that he was confident that the close cooperation among central banks would be maintained. A public announcement summarizing the sense of the meeting was released to the press by this Bank before the end of the day.

In contrast to most domestic markets, the New York foreign exchange market remained open throughout Friday afternoon. Immediately upon receipt of the news from Dallas, the Federal Reserve Bank of New York moved into the market with sizable offerings of five major foreign currencies at existing market rates to help keep exchange rates stable and the markets orderly. These offerings had the backing, not only of the actual foreign currency holdings of the United States, but also of the nearly $2 billion of foreign currencies available under the Federal Reserve's network of swap arrangements with foreign central banks. Before the end of Friday, joint plans of action for Saturday and Monday were worked out in telephone contacts with foreign central banks. With foreign exchange markets abroad open on Saturday and Monday, operations by foreign central banks in their respective markets reinforced the New York Federal Reserve Bank's intervention on Friday afternoon in New York. As a result, foreign exchange markets remained orderly and speculative movements were held to a minimum. The speed of action and the stability of the markets once again demonstrated the crucial role that central bank cooperation can play in mobilizing massive amounts of liquidity to buttress the world's payments system.

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The money market remained generally firm in November. Although nation-wide reserve availability increased somewhat for the month as a whole, reserve distribution continued to favor banks outside the money centers and the reserve positions of money market banks remained under some pressure through most of the interval. With these banks strongly bidding for Federal funds over much of the period, the effective rate on such funds generally was 3½ per cent while borrowings from the Federal Reserve Banks were little changed over the month as a whole. Rates posted by the major New York City banks on call loans to Government securities dealers were quoted in a 3½ to 3⅞ per cent range during the month. Rates on other short-term money market instruments were little changed over the period as a whole. Offering rates for new time certificates of deposit issued by the leading New York City banks rose slightly, and the range of rates at which such certificates were offered in the secondary market held steady throughout November.

A heavy atmosphere carried over from October into the Government securities market at the start of November, reflecting continuing market concern about further increases in interest rates that might result from expanding economic activity. An improved tone subsequently emerged, however, as the Treasury cut back by $100 million the amounts offered at two consecutive weekly bill auctions. Furthermore, the market learned that the balance-of-payments deficit had declined sharply in the third quarter of 1963. Thus, bill rates generally rose early in November, then receded gradually in the latter part of the month, while prices of Treasury notes and bonds gave ground through November 6 but were steady to higher thereafter. Elsewhere in the capital markets, prices of corporate bonds also drifted lower at the beginning of November and then firmed over the remainder of the month; prices of tax-exempt bonds generally declined but steadied late in the month.

BANK RESERVES

Market factors absorbed a substantial volume of reserves from the last statement period in October through the final statement week in November. Reserve drains—largely reflecting a seasonal expansion of currency in circulation, an increase in required reserves, and the effects of a routine Treasury interest payment to System Account—more than offset reserves released by a sharp mid-month expansion in float. System open market operations during the period, however, partially counterbalanced the net reserves drained by market factors, with System outright holdings of Government securities expanding on average by $605 million from the last statement period in October through the final statement week in November, while holdings under repurchase agreements rose by $32 million. Net System outright holdings of bankers' acceptances increased by $1 million, and such holdings under repurchase agreements declined by $2 million. From Wednesday, October 30, through Wednesday, November 27, System holdings of Government securities maturing in less than one year rose by $2,942 million, while holdings maturing in more than one year declined by $2,395 million. Most of this shift in the maturity structure of Federal Reserve holdings simply reflected the passage of time.

THE GOVERNMENT SECURITIES MARKET

The hesitant mood which had settled over the Government securities market in October persisted through early November. Market apprehension over the future course of interest rates was intensified by several factors—an apparent acceleration in the pace of economic expansion; the rise in the three-month bill rate above the Federal Reserve discount rate, which led some observers to talk of a possible increase in that rate; and the November 6 increase in margin requirements on stocks, which was interpreted by some as heralding a further shift toward a less easy monetary policy. A more confident atmosphere, however, subsequently emerged, as market participants were encouraged to believe—by a cutback in the month's last two weekly Treasury bill auctions—that the financial authorities were in fact satisfied with current levels of interest rates.

Against this background, prices of Government notes and bonds drifted progressively lower through November 6. Although no real selling pressure developed, dealers marked down quotations, in order to reduce inventories, and investor demand remained at a low ebb. A mild reversal in sentiment commenced on November 7, and prices of coupon issues edged irregularly higher during the remainder of the month, but the rise seemed to be topping off toward the end of November. Investment demand revived, some professional short covering took place, and the technical position of the market strengthened. Trading

CHANGES IN FACTORS TENDING TO INCREASE OR DECREASE MEMBER BANK RESERVES, NOVEMBER 1963

In millions of dollars; (+) denotes increase, (−) decrease in excess reserves

Factor	Daily averages—week ended Nov. 6	Nov. 13	Nov. 20	Nov. 27	Net changes
Operating transactions					
Treasury operations*	+ 95	− 71	− 162	+ 53	− 85
Federal Reserve float	− 101	+ 266	+ 500	− 54	+ 710
Currency in circulation	− 184	− 375	− 97	− 150	− 806
Gold and foreign account	+ 12	+ 9	+ 2	− 7	+ 16
Other deposits, etc	+ 33	+ 13	− 220	− 20	− 204
Total	− 145	− 158	+ 122	− 188	− 369
Direct Federal Reserve credit transactions					
Government securities:					
Direct market purchases or sales	+ 400	+ 58	− 107	+ 248	+ 605
Held under repurchase agreements	+ 148	+ 90	− 123	− 83	+ 32
Loans, discounts, and advances:					
Member bank borrowings	+ 206	− 104	+ 131	− 231	+ 1
Other	—	—	+ 1	+ 2	+ 3
Bankers' acceptances:					
Bought outright	+ 2	+ 1	− 1	− 1	+ 1
Under repurchase agreements	+ 16	− 14	− 4	—	− 2
Total	+ 780	+ 30	− 102	− 69	+ 639
Member bank reserves					
With Federal Reserve Banks	+ 635	− 128	+ 20	− 257	+ 270
Cash allowed as reserves†	− 229	+ 32	+ 102	+ 46	+ 11
Total reserves†	+ 406	− 96	+ 122	− 211	+ 281
Effect of change in required reserves†	− 284	+ 54	− 104	+ 43	− 291
Excess reserves†	+ 122	− 42	+ 18	− 168	− 10
Daily average level of member bank:					
Borrowings from Reserve Banks	404	300	431	200	334‡
Excess reserves†	470	428	506	338	436‡
Free reserves†	66	128	75	138	102‡

Note: Because of rounding, figures do not necessarily add to totals.
* Includes changes in Treasury currency and cash.
† These figures are estimated.
‡ Average for four weeks ended November 27, 1963.

was also stimulated by investment switching operations which tended to favor the 2½ per cent wartime issues. As mentioned earlier, the market was closed from late Friday afternoon, November 22, through Monday, November 25. Over the month as a whole, prices of short- and intermediate-term obligations were generally 5/32 lower to 13/32 higher, while prices of longer term Governments were generally 16/32 lower to 17/32 higher.

In the market for Treasury bills, rates moved generally higher through November 13, with the three-month bill rate reaching a peak of about 3.58 per cent (bid), somewhat above the 3.50 per cent discount rate. During this period, however, scarce shorter bill maturities, for which some demand continued in evidence, edged further downward. A stronger tone emerged in the latter part of the month when the Treasury twice trimmed $100 million from the three-month bills sold at its regular weekly auctions on November 18 and 26, with the express purpose of avoiding any disturbance in the balanced relation between money market rates here and abroad. Both bank and nonbank demand for bills expanded moderately, while market offerings gradually tapered off, and bill rates edged lower in the final half of November.

At the last regular weekly auction of the month held on November 26, average issuing rates were 3.480 per cent for the new three-month issue and 3.631 per cent for the new six-month bill—3 and 5 basis points, respectively, above the rates established in the final auction in October. An average issuing rate of 3.590 per cent was set at the November 27 auction of $1 billion of new one-year bills, which were sold with banks permitted to pay for 50 per cent of their awards through direct crediting of Treasury Tax and Loan Accounts. A month earlier—with no Tax and Loan privilege accorded—the one-year bill was auctioned at 3.633 per cent. The outstanding three-month bill closed the month at 3.50 per cent (bid) as against the end-of-October rate of 3.48 per cent (bid), while the outstanding six-month bill was quoted at 3.64 per cent (bid) on November 29, compared with 3.60 per cent (bid) on October 31. The new one-year bill closed at 3.68 per cent (bid) in "when-issued" trading.

OTHER SECURITIES MARKETS

Prices of seasoned corporate bonds receded in quiet trading at the beginning of November, then steadied, and moved narrowly during the rest of the month. In the tax-exempt sector, a more cautious tone was evident until late in the period, as the market assessed the potentially adverse effect on the demand for municipal issues of an apparent pickup in demand for bank credit. Prices of seasoned tax-exempt bonds accordingly declined, and widespread price cutting on undistributed recent issues occurred, raising reoffering yields as much as 20 basis points. Toward the end of the month, a steadier tone emerged in the tax-exempt sector. Over the month as a whole, the average yield on Moody's seasoned Aaa-rated corporate bonds rose 1 basis point to 4.33 per cent, while the average yield on similarly rated tax-exempt bonds also increased by 1 basis point to 3.17 per cent.

The total volume of new corporate bonds reaching the market in November amounted to approximately $200 million, compared with $510 million in the preceding month and $295 million in November 1962. The largest new corporate bond issue publicly marketed during the month was a $40 million A-rated utility company offering of 4⅝ per cent first mortgage bonds. Reoffered to yield 4.60 per cent, the bonds which mature in 1993 quickly sold out. New tax-exempt flotations during the month totaled approximately $665 million, as against $1,245 million in October 1963 and $470 million in November 1962. The Blue List of tax-exempt securities advertised for sale declined by $73 million during the month to $553 million on November 29. The largest new tax-exempt offering during the period was a $70 million state turnpike authority revenue bond issue which was not rated. The flotation consisted of $24 million of serial revenue bonds reoffered to yield from 3.00 per cent in 1969 to 3.80 per cent in 1985, which moved slowly, and $46 million of term bonds priced at par to yield 4.10 per cent in 2002 which quickly sold out. Investor reaction to other new corporate and tax-exempt issues marketed in November was mixed.