# The Money and Bond Markets in November

The money market was relatively firm in the first half of November and short-term interest rates were under some upward pressure, despite an increase in overall net reserve availability in the banking system. In large part, the firmness reflected the fact that money center banks were moving into unusually deep basic reserve deficits, while the reserves that were available were widely dispersed. As the increased nationwide net reserve availability persisted and reserve positions of the money center banks improved in the second half of the month, somewhat easier conditions emerged in the money market and short-term interest rates declined, with Treasury bill rates recording especially sharp decreases. By late November, many market participants began to feel that the Federal Reserve was permitting some relaxation of the degree of pressure prevailing earlier in the fall.

Rates on Treasury bills exhibited considerable movement during November. After having declined sharply in October, bill rates moved higher in a generally cautious market atmosphere in early November. Demand fell off from the levels which had prevailed in October, and dealers made more aggressive offerings in the firm money market environment. Investment demand subsequently expanded again, to which were added sizable purchases by the Federal Reserve toward the end of November. At the same time, money market conditions also became a little easier. In this environment, bill rates declined sharply, and at the month end three-month bills were bid at a rate of 5.16 per cent, down 29 basis points from the midmonth peak and 6 basis points below the comparable rate at the end of October.

In early November, an atmosphere of renewed caution emerged in the capital markets, largely in response to a sizable buildup in the calendar of scheduled offerings of corporate and tax-exempt bonds following the general respite of the preceding weeks. Some talk that the sale of Federal agency participation certificates might be resumed before the year-end, and a feeling for a time that a tax increase had become somewhat less likely, also were depressing influences. The Treasury executed a successful refunding operation at the very beginning of the month, although even then prices of outstanding Treasury issues were declining.[1] Prices of long-term issues continued to decline in subsequent days, and investors exhibited a generally indifferent response to a number of corporate and tax-exempt offerings despite rising yields. The improvement in the bill market around midmonth helped bring some price firming in the shorter term coupon sector. Subsequently, discussion of a possible change in the mix of fiscal and monetary policy and of the slightly easier conditions that had already emerged in the money market led to an improved atmosphere throughout the Treasury coupon market. Over the month as a whole, prices of short- and intermediate-term Treasury notes and bonds showed mixed changes, while the gains in prices of longer term issues at the end of the month offset only part of the large declines earlier in November.

## MONEY MARKET AND BANK RESERVES

As was the case in some other recent months, indicators of monetary conditions moved in somewhat divergent patterns in November. Nationwide net borrowed reserves, on the one hand, averaged somewhat lower over the month than in the preceding several months, and member banks as a group also borrowed less, on average, from their Reserve Banks (see Table I). With the reserves that were available dispersed for a good part of the month outside the money centers, however, and with a fair amount of churning in the markets—partly related to Treasury financing operations—short-term interest rates came under some upward pressure for a time. The Federal funds rate and dealer loan rates posted by the New York City banks moved in a higher range in the first half of November than at the end of October, and Treasury

[1] For the terms and results of the financing operation, see this *Review* (November 1966), pages 252-53.

### Table I

**FACTORS TENDING TO INCREASE OR DECREASE MEMBER BANK RESERVES, NOVEMBER 1966**

In millions of dollars: (+) denotes increase, (—) decrease in excess reserves

| Factors | Changes in daily averages—week ended | | | | | Net changes |
|---|---|---|---|---|---|---|
| | Nov. 2 | Nov. 9 | Nov. 16 | Nov. 23 | Nov. 30 | |
| "Market" factors | | | | | | |
| Member bank required reserves* | + 19 | + 124 | + 173 | + 53 | — 20 | + 349 |
| Operating transactions (subtotal) | — 192 | — 533 | — 6 | + 262 | — 481 | — 950 |
| Federal Reserve float | — 273 | + 120 | + 61 | + 499 | — 548 | — 141 |
| Treasury operations† | + 112 | + 78 | + 48 | + 13 | +154 | + 405 |
| Gold and foreign account | — 28 | — 5 | + 33 | — 20 | — 41 | — 61 |
| Currency outside banks* | + 14 | — 677 | — 88 | — 74 | — 17 | — 842 |
| Other Federal Reserve accounts (net)‡ | — 15 | — 50 | — 59 | — 156 | — 29 | — 309 |
| Total "market" factors | — 173 | — 409 | + 167 | + 315 | — 501 | — 601 |
| Direct Federal Reserve credit transactions | | | | | | |
| Open market instruments | | | | | | |
| Outright holdings: | | | | | | |
| Government securities | + 243 | + 323 | — 16 | — 306 | + 212 | + 456 |
| Bankers' acceptances | — 1 | + 2 | — 3 | + 1 | — | — |
| Repurchase agreements: | | | | | | |
| Government securities | — 18 | + 132 | — 43 | — 132 | + 338 | + 277 |
| Bankers' acceptances | + 4 | — | + 1 | + 10 | + 28 | + 43 |
| Member bank borrowings | + 76 | + 52 | + 65 | — 272 | + 197 | + 118 |
| Other loans, discounts, and advances | + 1 | — 1 | — | + 1 | — 2 | — 1 |
| Total | + 305 | + 508 | + 4 | — 697 | + 773 | + 892 |
| Excess reserves* | + 132 | + 99 | + 171 | — 382 | + 271 | + 291 |
| | **Daily average levels** | | | | | |
| Member bank: | | | | | | |
| Total reserves, including vault cash* | 23,380 | 23,355 | 23,353 | 22,918 | 23,209 | 23,243§ |
| Required reserves* | 23,101 | 22,977 | 22,804 | 22,751 | 22,771 | 22,881§ |
| Excess reserves* | 279 | 378 | 549 | 167 | 438 | 362§ |
| Borrowings | 594 | 646 | 711 | 439 | 631 | 605§ |
| Free reserves* | — 315 | — 268 | — 162 | — 272 | — 193 | — 243§ |
| Nonborrowed reserves* | 22,786 | 22,709 | 22,642 | 22,479 | 22,578 | 22,638§ |
| | **Changes in Wednesday levels** | | | | | |
| System Account holdings of Government securities maturing in: | | | | | | |
| Less than one year | + 785 | — 268 | +6,410 | — 272 | + 950 | +7,605 |
| More than one year | — | — | —6,457 | — | — | —6,457 |
| Total | + 785 | — 268 | — 47 | — 272 | + 950 | +1,148 |

*Note:* Because of rounding, figures do not necessarily add to totals.
* These figures are estimated.
† Includes changes in Treasury currency and cash.
‡ Includes assets denominated in foreign currencies.
§ Average for five weeks ended November 30.

### Table II

**RESERVE POSITIONS OF MAJOR RESERVE CITY BANKS NOVEMBER 1966**

In millions of dollars

| Factors affecting basic reserve positions | Daily averages—week ended | | | | | Average of five weeks ended Nov. 30* |
|---|---|---|---|---|---|---|
| | Nov. 2 | Nov. 9 | Nov. 16 | Nov. 23 | Nov. 30* | |
| **Eight banks in New York City** | | | | | | |
| Reserve excess or deficiency(—)† | 8 | 17 | 22 | 28 | 25 | 20 |
| Less borrowings from Reserve Banks | 43 | 213 | 152 | — | 90 | 100 |
| Less net interbank Federal funds purchases or sales(—) | 233 | 624 | 835 | 446 | — 74 | 413 |
| *Gross purchases* | *1,053* | *1,221* | *1,551* | *1,315* | *1,083* | *1,245* |
| *Gross sales* | *820* | *598* | *716* | *869* | *1,157* | *832* |
| Equals net basic reserve surplus or deficit(—) | — 268 | — 820 | — 965 | — 418 | 9 | — 492 |
| Net loans to Government securities dealers | 501 | 441 | 326 | 255 | 227 | 350 |
| **Thirty-eight banks outside New York City** | | | | | | |
| Reserve excess or deficiency(—)† | 20 | 20 | 12 | 144 | — 18 | 36 |
| Less borrowings from Reserve Banks | 144 | 108 | 238 | 131 | 142 | 153 |
| Less net interbank Federal funds purchases or sales(—) | 602 | 1,095 | 887 | 1,052 | 805 | 888 |
| *Gross purchases* | *1,603* | *2,088* | *1,943* | *2,247* | *1,953* | *1,967* |
| *Gross sales* | *1,001* | *994* | *1,056* | *1,195* | *1,148* | *1,079* |
| Equals net basic reserve surplus or deficit(—) | — 725 | —1,182 | —1,113 | —1,039 | — 965 | —1,005 |
| Net loans to Government securities dealers | 367 | 320 | 239 | 123 | 142 | 238 |

Note: Because of rounding, figures do not necessarily add to totals.
* Estimated reserve figures have not been adjusted for so-called "as of" debits and credits. These items are taken into account in final data.
† Reserves held after all adjustments applicable to the reporting period less required reserves and carry-over reserve deficiencies.

### Table III

**AVERAGE ISSUING RATES* AT REGULAR TREASURY BILL AUCTIONS**

In per cent

| Maturities | Weekly auction dates—November 1966 | | | |
|---|---|---|---|---|
| | Nov. 7 | Nov. 14 | Nov. 21 | Nov. 28 |
| Three-month | 5.432 | 5.459 | 5.252 | 5.202 |
| Six-month | 5.705 | 5.695 | 5.501 | 5.337 |

| Maturities | Monthly auction dates—September-November 1966 | | |
|---|---|---|---|
| | September 27 | October 25 | November 23 |
| Nine-month | 5.807 | 5.567 | 5.552 |
| One-year | 5.806 | 5.544 | 5.519 |

* Interest rates on bills are quoted in terms of a 360-day year, with the discounts from par as the return on the face amount of the bills payable at maturity. Bond yield equivalents, related to the amount actually invested, would be slightly higher.

bill rates rose through midmonth. Subsequently, these rates dropped back toward, or even below, their late October levels.

Throughout the month, demand for bank credit did not appear particularly strong. The major banks were able to replace a sizable proportion of their maturing negotiable certificates of deposit during November, but even so they suffered a net loss in outstanding certificates in the five weeks ended November 30 amounting to $429 million. Moreover, a good part of the certificates issued during November apparently continued to be of relatively short maturity, in many cases running for only a month, thus building up December maturities to an estimated $5½ billion.

The first half of November was marked by a shift in the distribution of reserves away from the banks in the central money market. The major banks in New York City, which had been in a fairly comfortable reserve position in late October, experienced sizable basic reserve deficits in the following several weeks—and on a larger scale than in similar periods in other recent years. Their deficit reached nearly $1 billion in the week ended November 16 (see Table II). In contrast, the net reserve deficit of the banking system as a whole was declining during this period, with net borrowed reserves falling to an average of $162 million in the November 16 statement week.

Some of the extra reserve availability in the banking system during this period remained lodged outside the money centers. Thus, excess reserves of "country" banks in the week ended November 16—the first week of a new biweekly settlement period—rose to an average of $490 million (preliminary). A large amount of reserves flowed back into the money centers, however, via the Federal funds market, where trading was mostly in a 5¾ to 6 per cent range. As a result, borrowings by the major money center banks from the Federal Reserve expanded only modestly. Government securities dealers were also able to locate a sizable amount of money at rates below those posted in New York City to finance their enlarged bill positions and make payment at midmonth for their allotments of Treasury notes won in the November refunding. The rates posted by the New York City banks for new call loans to Government securities dealers were generally in a 6½ to 6¾ per cent range during the first half of the month, and as high as 6⅞ per cent on several days around midmonth.

A somewhat more comfortable tone reemerged in the money market over the final two weeks of November. Net borrowed reserves were a bit higher on average in these two weeks than at their midmonth low, but reserves shifted back toward the money center banks, and there was a plentiful supply of money in the Federal funds market at rates generally between 5 and 5¾ per cent. In the November 23 statement week, a large part of these funds came from country banks, which ran their excess reserves down to an average of $82 million (preliminary) in the second week of their reserve settlement period, following the considerably higher level the week before. The ready availability of money enabled banks as a group to reduce their borrowings from the Federal Reserve to an average of $439 million in the November 23 statement period, the lowest level since February. A number of banks borrowed fairly heavily from their Reserve Banks over the final weekend of the month, but borrowings subsequently fell off again when easier conditions persisted in the money market.

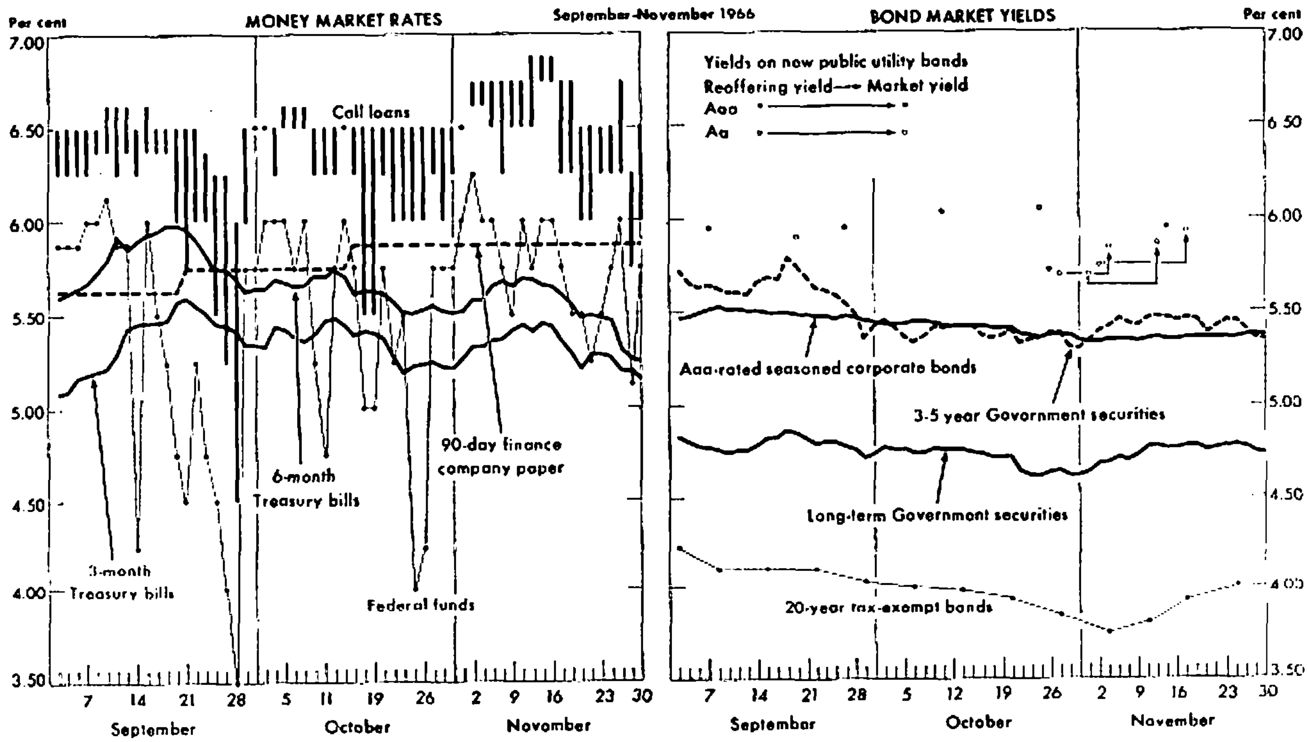
## THE GOVERNMENT SECURITIES MARKET

In the Treasury bill market, where rates had declined progressively in October, a more cautious tone emerged during the early part of November. Investment demand for bills abated somewhat at the lower rate levels that had emerged, and dealers began to focus on the additions to the supply of bills that would be forthcoming when the Treasury met the remainder of its fall cash needs. Although dealers were able to finance much of their enlarged positions in bills at fairly attractive rates outside New York City, the higher loan rates being posted by the New York City banks exerted a cautionary influence. Against this background, dealers became more aggressive in their offerings of bills, and rates edged irregularly higher through midmonth when the latest three-month bill reached a rate of 5.45 per cent (bid), compared with 5.22 per cent at the end of October. (See the left-hand panel of the chart on page 266.)

The first step in rounding out the Treasury's fall financing needs came on November 10 with the announcement of an auction on November 17 (for payment on November 25) of a $1.2 billion "strip" of bills maturing in March, April, and May 1967. The offering represented a $400 million addition to each of three outstanding bill issues, with subscribers required to take equal amounts of the reopened maturities. Commercial banks were permitted to make full payment for their purchases in the form of credits to Treasury Tax and Loan Accounts. This announcement was well received by market participants, who were encouraged by the smaller-than-expected size of the offering, the maturities chosen, and the Tax and Loan Account provisions of the operation.

By the time the strip was auctioned on November 17,

**SELECTED INTEREST RATES***




Note: Data are shown for business days only.

* MONEY MARKET RATES QUOTED: Daily range of rates posted by major New York City banks on new call loans (in Federal funds) secured by United States Government securities (a point indicates the absence of any range); offering rates for directly placed finance company paper; the effective rate on Federal funds (the rate most representative of the transactions executed); closing bid rates (quoted in terms of rate of discount) on newest outstanding three- and six-month Treasury bills.

BOND MARKET YIELDS QUOTED: Yields on new Aaa- and Aa-rated public utility bonds are plotted around a line showing daily average yields on seasoned Aaa-rated corporate bonds (arrows point from underwriting syndicate reoffering yield on a given issue to market yield on the same issue immediately after it has been released from syndicate restrictions); daily averages of yields on long-term Government securities (bonds due or callable in ten years or more) and of Government securities due in three to five years, computed on the basis of closing bid prices; Thursday averages of yields on twenty seasoned twenty-year tax-exempt bonds (carrying Moody's ratings of Aaa, Aa, A, and Baa).

Sources: Federal Reserve Bank of New York, Board of Governors of the Federal Reserve System, Moody's Investors Service, and The Weekly Bond Buyer.

a better atmosphere had reemerged in the bill market. Investment demand for outstanding bills improved, partly reflecting some reinvestment demand from holders of the Treasury coupon issues which matured on November 15. Bidding for the strip by commercial banks seeking the accompanying Tax and Loan Account deposits was quite aggressive, and an average issuing rate of 5.318 per cent was set. Following this auction, demand for outstanding bills strengthened further, scarcities started to develop, particularly in the short-term maturity area, and bill rates began moving downward. In this environment, there was fairly aggressive bidding in the regular monthly auction of new nine- and twelve-month bills on November 23. Average issuing rates on the new bills were set at 5.552 per cent and 5.519 per cent, respectively, 2 and 3 basis points below average rates set a month earlier.

Bill demand picked up even further in subsequent trading sessions, partly reflecting month-end reserve injections by the Federal Reserve. These purchases by the System, along with the somewhat more comfortable conditions prevailing in the money market, were increasingly interpreted as suggesting that the Federal Reserve had relaxed its restraint a bit. Dealers became very aggressive in their bidding in the final regular weekly auction of the month held on November 28. As a result, average issuing rates were set in the auction at 5.202 per cent on the three-month issue and 5.337 per cent on the six-month bills, down 3 and 18 basis points from the average rates set at the final weekly auction in October (see Table III). These were the lowest auction rates since early September for the three-month bills and since mid-August for the six-month issue. Moreover, bill rates moved still lower over the final two days of the month as many participants, who had missed with their bids in the auction, subsequently sought to purchase bills in the secondary market. By the month end, three-month bills were down to a rate of 5.16 per cent (bid) and six-month bills were bid at 5.25 per cent. The late November spread between three- and six-month bills was the narrowest since midsummer.

After the close of the market on November 30, the Treasury announced that it would auction $800 million of additional June tax anticipation bills on December 6 for payment on December 12. The Treasury indicated that it contemplates no further borrowing in the open market to raise new cash during the rest of calendar 1966. Initial reaction to the offering, which was slightly smaller than market participants had expected, was favorable.

A cautious atmosphere developed in the market for Treasury notes and bonds—especially in the longer term sector—during the first half of November, prompted in large part by indications of a sizable buildup in prospective demands on the capital markets for the period ahead. Of particular concern to market participants were the steady stream of additions to the future corporate and tax-exempt bond calendar and discussion of the possibility that the Federal National Mortgage Association might renew sales of participation certificates before the end of the year. In this environment, investor offerings expanded. There was outright selling of outstanding issues as well as some switching into the new 5⅝ per cent notes of 1968 and the 5⅜ per cent notes of 1971, both of which had been offered in the Treasury's November cash refinancing. Outright sales of the new notes by short-term holders were also in evidence. Although dealers tended to be willing to maintain their positions, enlarged by their allotments of the new Treasury notes, they were reluctant to add to their holdings except at declining prices. Prices of the new notes dropped below par during the period, and prices of outstanding issues fell by as much as $2\frac{10}{32}$ points through midmonth. (The right-hand panel of the chart illustrates the rise in yields which accompanied this decline in prices.)

Paralleling the improvement in the Treasury bill sector, prices of short-term Treasury issues began moving upward around mid-November. An important influence was reinvestment demand from holders of the maturing November 15 issues for other short-term coupon securities. The improvement spread gradually to the intermediate-term sector of the market as participants focused on reports of further weakness in various economic indicators, including automobile output and new housing starts. With continued additions to the calendar of future capital market financing, however, the atmosphere in the longer term sector remained heavy until quite late in the month. By then, increasing discussion of a possible shift in the mix of fiscal and monetary policy prompted some investment and dealer demand, and prices of long-term issues rose by $\frac{5}{32}$ to $\frac{22}{32}$ of a point on the final three days of the month.

Prices of Government agency obligations moved irregularly in November, with prices of short-term issues narrowly mixed and longer term issues down somewhat on balance. New offerings which reached the market during the month totaled about $1.7 billion and were generally accorded good investor receptions at somewhat higher yields than had been offered in late October. Toward the close of the month, the Federal National Mortgage Association offered $550 million of debentures at a yield of 5.98 per cent, with $300 million of the issue floated in the open market and $250 million sold to Treasury trust accounts. Approximately $93 million of the proceeds was used to refund a maturing issue. The offering was sold out immediately in the better atmosphere prevailing in the bond markets generally, and on the final day of the month the debentures traded about $\frac{4}{32}$ above the initial offering price.

## OTHER SECURITIES MARKETS

The cautious atmosphere pervading the Treasury securities market in November to a great extent reflected the heavier tone that developed in the market for corporate and tax-exempt bonds during the month. In the wake of the price advances which had been recorded in both sectors in October, investors became more resistant in early November to new and recent offerings carrying the somewhat lower prevailing yields. This investor apathy, in turn, generated caution on the part of dealers whose inventories of unsold issues were expanding. As the month progressed, large-scale additions were made to the calendar of corporate and tax-exempt flotations scheduled for the months ahead, and market sentiment became even more cautious. In this atmosphere, a number of recent issues were released from syndicate price restrictions with substantial upward yield adjustments, and new issues generally were accorded mediocre receptions despite progressively higher reoffering yields. The markets steadied somewhat on the final days of the month and a better atmosphere emerged, though they did not share in the price improvement that was experienced in the Treasury sector. The sizable future calendar of corporate issues and the large amount of unsold tax-exempt bonds still on dealers' shelves continued to exert a measure of restraint. The Blue List of advertised dealer inventories of tax-exempt bonds totaled $512 million at the month's close, compared with the relatively low $300 million to $375 million range which had predominated in October.

Over the month as a whole, the average yield on Moody's seasoned Aaa-rated corporate bonds rose by 2 basis points to 5.37 per cent. *The Weekly Bond Buyer's* series for twenty seasoned tax-exempt issues, carrying ratings ranging from Aaa to Baa, increased by 17 basis points to 4.00 per cent (see the right-hand panel of the chart). These indexes are, however, based on only a limited number of seasoned issues and do not necessarily reflect market movements fully, particularly in the case of new and recent issues.