The Money and Bond Markets in April

The money market in April was dominated by heavy Treasury borrowing. While most short-term interest rates changed little, rates on some longer term Treasury bills rose over the month. Overall, the Treasury raised about $9 billion in new cash in April, the bulk of it through the sale of new notes and additions to the weekly bill auctions. In the face of this substantial borrowing, investors revealed a preference for short-term maturities, and the yield curve for Treasury bills grew increasingly steep. An initial difference of roughly 40 basis points between three- and twelve-month Treasury bill rates widened to about 80 basis points by the month end.

Yields rose, in some cases substantially, in the long-term markets. The expectation that heavy Treasury borrowing would continue through fiscal year 1976 and the attempts to distribute the large issues of Treasury coupon securities auctioned recently placed great pressure on the market for United States Government securities despite a brief respite from Treasury financing after mid-month. Some of these pressures were reflected in the corporate bond market where rates generally increased, although cancellations and postponements of issues helped reduce the calendar to more manageable proportions. Investors' preferences for intermediate-term maturities continued to provide borrowers with the incentive to include intermediate-term issues in their debt financing. Despite a manageable calendar in the municipal bond market, rates moved up there as well, as the lack of sizable demand from banks continued to be a stumbling block. On May 1, the Treasury lowered the projections of its new cash needs over the May-June period and the bond market rallied strongly the next day, with the prices of some long-term Treasury bonds rising as much as 1⅜ points.

According to preliminary data, the growth of M_1—private demand deposits adjusted plus currency outside commercial banks—moderated in April from the very rapid pace experienced in March. Time deposits other than large certificates of deposit (CDs) continued to rise sharply, and thus the slowing in the growth of M_2—which combines M_1 with these time deposits—was less pronounced. With business loans remaining sluggish and consumer time deposits growing rapidly, large commercial banks were less aggressive in selling CDs and the amount outstanding declined.

Long-term monetary growth rate targets were disclosed by Federal Reserve Board Chairman Arthur F. Burns on May 1. The target rate of growth for M_1 from March 1975 to March 1976 is a range from 5 to 7½ percent. In comparison, M_1 grew at a seasonally adjusted rate of 4.7 percent in 1974 and at a 3.5 percent annual rate in the first quarter of 1975.

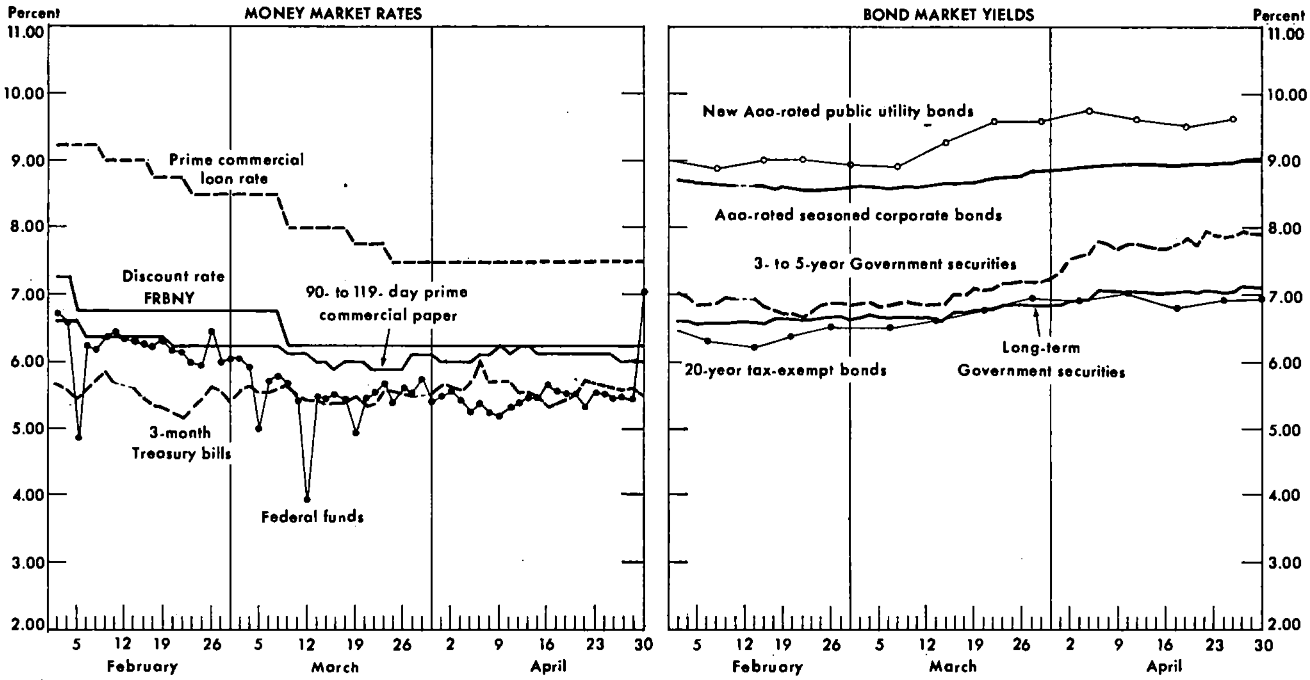
THE MONEY MARKET, BANK RESERVES, AND THE MONETARY AGGREGATES

Money market rates leveled off in April (see Chart I), bringing to a halt—at least temporarily—the rather steady decline of the previous seven months. Most rates moved up early in the month, then declined somewhat in response to a rally in the Treasury bill market, and finished the period about unchanged. For the month as a whole, the Federal funds rate averaged 5.49 percent, down only 5 basis points from the March average. The rate on 90- to 119-day dealer-placed prime commercial paper remained at 6⅛ percent for most of April and closed the period at 6 percent. Similarly, rates on CDs in the secondary market and rates on bankers' acceptances fluctuated in a narrow range and finished the month relatively unchanged. Meanwhile, most major commercial banks kept their prime lending rate at 7½ percent for the month, although one major bank was quoting 7¼ percent.

Weakness was still quite evident in business demand for short-term credit. Commercial and industrial loans at large commercial banks declined by $529 million in the first four statement weeks of April, and the amount of nonfinancial commercial paper outstanding was basically unchanged. The combined total of these two series generally increases sharply in April, owing in part to business borrowing over the April tax date.

Preliminary data indicate that M_1 grew in April at

Chart I
SELECTED INTEREST RATES
February - April 1975



Note: Data are shown for business days only.

MONEY MARKET RATES QUOTED: Prime commercial loan rate at most major banks; offering rates (quoted in terms of rate of discount) on 90- to 119-day prime commercial paper quoted by three of the five dealers that report their rates, or the midpoint of the range quoted if no consensus is available; 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-month Treasury bills.

BOND MARKET YIELDS QUOTED: Yields on new Aaa-rated public utility bonds are based on prices asked by underwriting syndicates, adjusted to make them equivalent to a standard Aaa-rated bond of at least twenty years' maturity; daily averages of yields on seasoned Aaa-rated corporate bonds; daily averages of yields on long-term Government securities (bonds due or callable in ten years or more) and on 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, Inc., and The Bond Buyer.

less than half its March rate. M_1 increased at a 5.4 percent seasonally adjusted annual rate in the four-week period ended April 23 from its average level of the four weeks ended March 26. Three months of fairly rapid expansion in M_1 have brought its growth in the first four statement weeks of April from its average level in the corresponding period thirteen weeks earlier to a 7.2 percent rate (see Chart II). M_2 grew at an 8.1 percent annual rate from the four weeks ended March 26 to the four weeks ended April 23, as other time deposits rose at an 11.1 percent rate. The adjusted bank credit proxy—total member bank deposits subject to reserve requirements plus certain nondeposit sources of funds—grew at roughly a 6 percent rate in the same period even though outstanding CDs declined. There was little pressure on member bank reserves in April, and member bank borrowings from the discount window averaged $102 million for the five statement weeks ended April 30 (see Table I).

On April 9, the Board of Governors of the Federal Reserve System announced that it had lowered the reserve requirement on Euro-dollar borrowings from 8 percent to 4 percent. The reduction will initially affect reserves that must be maintained against Euro-dollar borrowings in the four-week period beginning May 22. The actual reserves held during that period will be based on the level of borrowings in the period April 10 through May 7. The move will reduce required reserves of member banks by approximately $65 million and will also release about $15 million of reserves maintained voluntarily by foreign-owned banking institutions. In commenting on its action, the Board noted that the move will bring reserve requirements against Euro-dollar borrowings into better alignment with reserve requirements against time deposits and that it may strengthen the position of the dollar in foreign exchange markets. During the first week in which the new, lower reserve requirements were in effect, New York City banks began substituting Euro-dollar borrowings for purchases of Federal funds, and their liabilities to foreign branches increased by about $450 million in the statement week ended April 16.

THE GOVERNMENT SECURITIES MARKET

Yields on most Treasury securities rose in April, as the market for Treasury obligations was buffeted by the Treasury's heavy borrowing requirements. The scope of the Treasury's near-term needs became clearer when the tax-reduction bill was enacted at the end of March. The Treasury announced on March 31 that it expected to borrow an additional $17.5 billion in the April-June period, raising total borrowing for the first half of 1975 to $41 billion. In comparison, early in the year, private forecasts had estimated that the Treasury's new cash needs in the first half of 1975 would be close to $20 billion, while at the end of February the Treasury said it expected to raise $28 billion to $38 billion in the first half. For the month of April the Treasury concentrated its borrowing in the short maturity area, raising approximately $6 billion in new cash through the bill market and another $3 billion with twenty-month and two-year notes. The market for Treasury securities improved after May 1, in the wake of the Treasury's announcement that its net financing in the first half of 1975 had been reduced to $36 billion.

Treasury bill rates rose sharply in the first few days of April in response to heavy new supplies. The Treasury raised $800 million of new cash at the regular weekly bill auction on March 31, $400 million at the regular monthly auction on April 2, $800 million at the weekly auction on April 7, and $1.5 billion at a special auction on April 8. At April's first regular weekly auction, the three-month bill was sold in cautious bidding at an average rate of 6.02 percent, 46 basis points above the rate at the previous auction, while the rate on the six-month bill was 57 basis points higher at 6.35 percent (see Table II). By the next day, however, it appeared that rates had moved up sufficiently to encourage investor demand and the special auction of 292-day bills drew good interest, with the average issuing rate set at 6.56 percent. Investor de-

Table I

FACTORS TENDING TO INCREASE OR DECREASE MEMBER BANK RESERVES, APRIL 1975

In millions of dollars; (+) denotes increase and (—) decrease in excess reserves

Factors	Changes in daily averages—week ended					Net changes
	April 2	April 9	April 16	April 23	April 30	
"Market" factors						
Member bank required reserves	— 137	+ 261	— 521	— 81	— 146	— 624
Operating transactions (subtotal)	+ 983	+1,566	— 108	—2,629	—3,891	—4,079
Federal Reserve float	+ 657	+ 124	— 634	+ 209	— 266	+ 90
Treasury operations*	+ 604	+ 914	+ 951	—2,539	—4,460	—4,530
Gold and foreign account	— 100	+ 118	+ 91	— 22	+ 10	+ 97
Currency outside banks	+ 90	— 192	— 379	— 159	+ 887	+ 247
Other Federal Reserve liabilities and capital	— 268	+ 602	— 137	— 119	— 62	+ 16
Total "market" factors	+ 846	+1.827	— 629	—2,710	—4,037	—4,703
Direct Federal Reserve credit transactions						
Open market operations (subtotal)	— 493	—2,016	+ 610	+2,383	+4,096	+4,589
Outright holdings:						
Treasury securities	+ 455	—2,009	+ 197	+1,977	+1.785	+2,405
Bankers' acceptances	+ 15	— 6	— 16	+ 4	+ 23	+ 20
Federal agency obligations	+ 209	— 1	—	—	—	+ 208
Repurchase agreements:						
Treasury securities	— 838	—	+ 345	+ 328	+1,030	+1,771
Bankers' acceptances	— 159	—	+ 34	+ 28	+ 127	+ 25
Federal agency obligations	— 175	—	+ 59	+ 51	+ 225	+ 160
Member bank borrowings	— 104	— 19	— 11	+ 144	+ 76	+ 86
Seasonal borrowings†	—	—	— 2	+ 1	—	— 1
Other Federal Reserve assets‡	— 114	+ 2	+ 89	+ 190	— 37	+ 80
Total	— 711	—2,033	+ 647	+2,717	+4,134	+4,754
Excess reserves‡	+ 135	— 206	+ 18	+ 7	+ 97	+ 51

	Daily average levels					Monthly averages§
Member bank:						
Total reserves, including vault cash‡	35.096	34,674	35,213	35,301	35,544	35,166
Required reserves	34,817	34,556	35,077	35,158	35,304	34,982
Excess reserves	279	118	136	143	240	183
Total borrowings	51	32	21	165	241	102
Seasonal borrowings†	7	7	5	6	6	6
Nonborrowed reserves	35,045	34,042	35,192	35,136	35,303	35,064
Net carry-over, excess or deficit (—)‖	49	129	55	95	40	75

Note: Because of rounding, figures do not necessarily add to totals.
* Includes changes in Treasury currency and cash.
† Included in total member bank borrowings.
‡ Includes assets denominated in foreign currencies.
§ Average for five weeks ended April 30, 1975.
‖ Not reflected in data above.

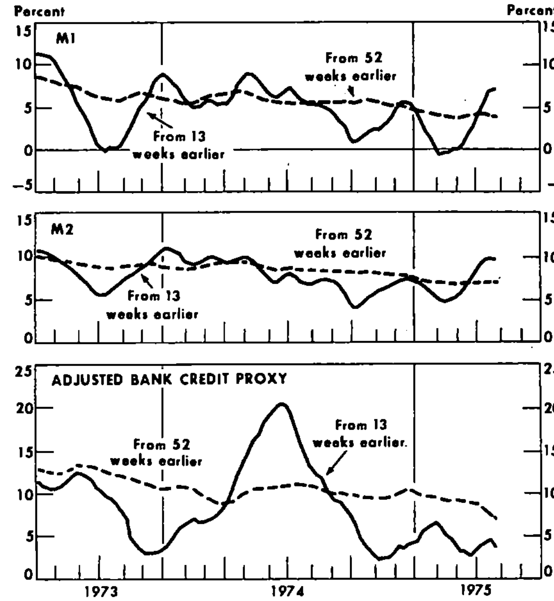
mand remained strong and bill rates retraced their early April increases, spurred by Federal Reserve purchases for foreign customer accounts. While interest in the second weekly auction was routine at prevailing rate levels, sizable declines had already occurred and the average issuing rates were about 50 basis points lower. Bill rates fluctuated within a narrow range for the rest of the month, and the average issuing rates at the auctions moved up slightly. For the month as a whole, bill rates were generally 12 basis points lower to 52 basis points higher.

The market for Treasury coupon securities labored under the effort of distributing the Treasury's notes and bonds marketed in March (about $7 billion) and early April (another $3 billion). The price declines which had occurred at the end of March meant that underwriters and investors had sustained losses on recently issued Treasury securities. As a result, they became more defensive in their bidding at the first auction of coupon securities in April. The auction on April 1 of $1.5 billion of twenty-month notes attracted $3.8 billion in tenders, but at yields well above those prevailing on similar outstanding maturities. The average issuing yield was 7.15 percent, and a 7⅛ percent coupon was placed on the issue. Yields continued to rise, but by mid-April rates had leveled off, partly in response to the improvement in the bill market, and most participants felt that the market had established a sustainable trading range. The auction on April 15 of $1.5 billion of two-year notes attracted broad demand near the prevailing yield levels. A sizable $4.1 billion in tenders was received; the average issuing yield was 7.43 percent, and the coupon was established at 7⅜ percent. The market's confidence proved fragile, however, and toward the end of the month rates moved up in advance of the May refunding announcement. For the month as a whole, the index of yields on three- to five-year Treasury coupon securities rose 64 basis points to 7.89 percent, while the index for long-term Government securities rose by 26 basis points to 7.10 percent.

On May 1, the Treasury announced its plans to refinance $3.8 billion of publicly held debt maturing on May 15 and to raise $1.2 billion in new cash. The $5 billion of securities will be sold in three separate auctions: $2.75 billion of 3¼-year notes on Tuesday, May 6; $1.5 billion of seven-year notes on May 7; and $750 million of thirty-year bonds on May 8. The coupon rates will be determined after the tenders are allotted. The 3¼-year notes will be sold in minimum denominations of $5,000, while the other two issues will have minimum denominations of $1,000.

New offerings of Federal agency securities were well received in April at interest rates that were generally higher than those paid on recent issues. In the first week the Federal Land Banks raised $550.1 million in new money through the sale of two issues: $750.1 million of 21-month notes priced to yield 7.45 percent and $300 million of seven-year bonds priced to yield 8.15 percent. In January the Federal Land Banks had sold seven-year bonds priced to yield 7.80 percent. On April 15 the Government National Mortgage Association auctioned $245.9 million of mortgage-backed securities which were reoffered to yield 8.60 percent. The next day the Farm Credit Administration sold two issues totaling $1,231.5 million: $322.5 million of Banks for Cooperatives (BC) six-month bonds priced to yield 6.15 percent and $909 million of Federal Intermediate Credit Banks (FICB) nine-month notes priced to yield 6.60 percent. In March, comparable BC bonds were priced to yield 5.85 percent and FICB bonds were priced to yield 6.05 percent.

Chart II
CHANGES IN MONETARY AND CREDIT AGGREGATES
Seasonally adjusted annual rates



Note: Growth rates are computed on the basis of four-week averages of daily figures for periods ended in the statement week plotted, 13 weeks earlier and 52 weeks earlier. The latest statement week plotted is April 23, 1975.

M1 = Currency plus adjusted demand deposits held by the public.

M2 = M1 plus commercial bank savings and time deposits held by the public, less negotiable certificates of deposit issued in denominations of $100,000 or more.

Adjusted bank credit proxy = Total member bank deposits subject to reserve requirements plus nondeposit sources of funds, such as Euro-dollar borrowings and the proceeds of commercial paper issued by bank holding companies or other affiliates.

Source: Board of Governors of the Federal Reserve System.

THE OTHER SECURITIES MARKETS

The pressures encountered in the corporate and municipal bond markets at the end of March continued into April. In the face of rising yields early in the month, many offerings were postponed (among them a $300 million Aaa-rated corporate issue) and many underwriters scheduled a large amount of new issues on a day-to-day basis rather than set a firm sale date. Dealers reduced their inventories by releasing several recent offerings from syndicate restrictions and the prices of these issues declined, some dramatically. At midmonth, the long-term markets were bolstered by the reductions in the supply of new issues and dealers' inventories as well as by the respite from the Treasury's borrowing in the latter half of April. At the month end, however, yields were again rising in response to weakness in the Government sector.

Investors remained cautious and continued to prefer shorter maturities. Borrowers responded by presenting offerings containing intermediate- as well as long-term components. In the second week of the month, the Aaa-rated issues of $75 million of ten-year notes and $75 million of 25-year debentures of Warner-Lambert Company were reoffered to yield 8.30 percent and 8.925 percent, respectively. This yield differential of about 63 basis points was comparable to the spreads of roughly 65 basis points which occurred on several large industrial offerings in March. During the next week, a spread of 85 basis points occurred on an A-rated $200 million offering by United Aircraft Corporation. The company's ten-year notes in the amount of $100 million were reoffered to yield 9.10 percent, and its 25-year debentures were reoffered to yield 9.95 percent. In an Aaa-rated issue during the same week, South Central Bell Telephone Company sold $100 million of eight-year notes, which were priced to yield 8.20 percent, and $200 million of 35-year debentures, which were priced to yield 9.20 percent. This differential was only slightly smaller than the 106 basis point spread on a comparable Bell issue in March.

Yields on new issues of tax-exempt securities continued their upward trend, begun in February, into early April. As a consequence of the escalation in costs and statutory limitations on interest payments, several local authorities postponed borrowing. Pressure on the market was eased somewhat at the end of the first week when New York City, which had been meeting investor resistance, received an advance payment of funds from New York State and was thus able to cancel a planned $450 million note offering slated for the middle of April. New York State, in turn, sold $400 million of 4¼ percent two-month tax anticipation notes, roughly half the rate paid by New York City on a short-term issue in March.

In the longer term municipal market, several issues met resistance in the uncertain atmosphere prevailing in the first week of the month. A $75 million offering of State of California Aaa-rated bonds sold slowly when priced to yield from 5.10 percent in 1982 to 6.50 percent in 2000, and price concessions were eventually made to move them out of inventory. The market improved somewhat during the second week, and a New Jersey offering of $75 million of Aaa-rated bonds sold out when priced to yield from 4.75 percent in 1979 to 6.30 percent in 1995—yields that were 5 to 20 basis points above those on comparable maturities of the California issue. Late in the month the Commonwealth of Massachusetts successfully brought to market April's largest municipal offering, a $150 million issue of bonds rated Aa by Moody's and AAA by Standard & Poor's. The bonds were priced to yield from 4.25 percent in 1976 to 6.70 percent in 1996-2005, between 40 and 65 basis points higher than a similar issue sold in February.

A high yield premium paid by a New York State agency illustrated, in part, the continuing impact on the municipal bond market of the problems surrounding the New York State Urban Development Corporation (UDC). Late in the month the New York State Medical Care Facilities Finance Agency sold $62 million of A-1-rated moral obligation bonds. The bonds sold out when priced to yield from 7.00 percent in 1977 to as high as 9.59 percent in 2006. These yields were roughly 1½ percentage points higher than yields on comparably rated issues sold at

Table II

AVERAGE ISSUING RATES AT REGULAR TREASURY BILL AUCTIONS*

In percent

Maturity	Weekly auction dates—April 1975			
	April 7	April 14	April 21	April 28
Three-month	6.021	5.538	5.653	5.716
Six-month	6.351	5.843	6.067	6.158
	Monthly auction dates—February-April 1975			
	February 5	March 5	April 2	April 30
Fifty-two weeks	5.313	5.637	6.475	6.400

* 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.

about the same time. During the same week, Boston sold $40 million of A-rated bonds priced to yield between 5 percent in 1976 to 7.70 percent in 1993-1995, while one week earlier the Salt River Project Agricultural Improvement and Power District had sold A-1-rated bonds priced to yield between 5.80 percent in 1983 to 7.60 percent in 2015. Both issues sold slowly, however, and the Salt River bonds were released to the resale market at price concessions.

On May 1 The Bond Buyer index of twenty municipal bond yields was 6.95 percent, unchanged from the end of March. The Blue List of dealers' advertised inventories finished the month at $463 million. It declined by $76 million for the month.