The Money Market in December

The money market was moderately comfortable in the first half of December but became firmer in the second half, as the distribution of reserves first tended to favor the money centers and then shifted toward the country banks. The shift in atmosphere was associated in good part with the midmonth tax date, as corporations sold securities to dealers, both outright and as a result of maturing repurchase agreements, while the dealers in turn resorted to heavy borrowing from the money market banks in New York to finance their enlarged inventories. Thus, the effective rate on Federal funds was generally 2⅞ per cent through December 13, but moved to 3 per cent thereafter while member bank borrowing from the Federal Reserve increased. Similarly rates posted by the major New York City banks on new and renewal call loans to Government securities dealers were quoted within a 2¾ to 3¼ per cent range in the first half of December, and largely in a 3¼ to 3½ per cent range in the latter part of the month.

On December 20, the Treasury issued a public invitation for bids on $250 million of Treasury bonds. The operation represents the first sale of Treasury bonds through competitive bidding by underwriters for reoffering to the public. The bonds will be dated January 17, 1963 and will mature on February 15, 1993 but may be called for payment on February 15, 1988 or on any interest payment date thereafter. Under the terms of the offering, the successful bidder will be required to make a bona fide reoffering of all of the bonds to the investing public. On January 2, the Treasury indicated that underwriters would be offered the option of bidding on either a 4 per cent or 4⅛ per cent coupon rate and that each bidder might submit only one bid, specifying one of the two coupon rates. Bids were received until 11 a.m., January 8, 1963. Shortly thereafter the Treasury announced that the successful bid carried a price of 99.85111 for a 4 per cent coupon, making the cost to the Treasury equal to 4.008210 per cent. The winning underwriting group reoffered the bonds at par.

Also on January 2, the Treasury announced that it would auction $2.5 billion of one-year Treasury bills for new cash and in exchange for $2 billion of one-year bills maturing on January 15, 1963. The new bills will be dated January 15, 1963 and will mature on January 15, 1964. Tenders were to be received through 1:30 p.m., January 9, 1963.

On December 17, the Treasury announced that holders of $75 million of the $458 million of outstanding Series F and G savings bonds maturing from January 1, 1963 through April 1, 1964 had elected to convert their holdings into the two marketable Treasury issues offered in the exchange. Conversions into the 3⅞ per cent bonds of 1971 totaled $41 million, while $34 million was exchanged for the 4 per cent bonds of 1980.

In the market for Treasury bills, rates moved slightly lower in early December under the impact of a persistent investment demand. Around the midmonth tax and dividend period, however, the rate decline was reversed, as demand contracted and the volume of offerings grew. Over the balance of the month, rates moved irregularly higher, with the three-month bill closing at 2.93 per cent (bid) compared with 2.86 per cent at the end of November. Prices of Treasury notes and bonds showed small declines in the opening days of the month. This trend, however, was subsequently reversed, reflecting the strong technical position of the market. In the closing days of the month, prices receded again as increased caution developed about current price levels. For the month as a whole, prices of most intermediate issues were up on balance while some of the longest term issues showed slight declines. In the market for corporate and tax-exempt bonds, prices were unchanged to slightly lower in early December but moved higher until the closing days of the month, as demand expanded and the supply of new issues contracted.

BANK RESERVES

Market factors absorbed reserves in December, on balance, as seasonal expansions in float and vault cash were more than offset by the effects of the holiday-induced outflow of currency into circulation and a substantial expansion in required reserves. This latter increase reflected the usual December rise in loans to corporations making quarterly tax and dividend payments, together with the related increase in borrowing by Government securities dealers, as the dealers took on securities from corporations raising cash to make quarterly payments. Reserves drained by market factors were partially offset by System open market operations. Average outright System holdings of Government securities increased by $495 million from the last statement week in November through the last statement period in December, while holdings under repurchase agreements rose by $3 million and net holdings of bankers' acceptances (both outright and under repurchase agreements) increased by $38 million. From Wednesday, No-

CHANGES IN FACTORS TENDING TO INCREASE OR DECREASE MEMBER BANK RESERVES, DECEMBER 1962

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

Factor	Daily averages—week ended				Net changes
	Dec. 5	Dec. 12	Dec. 19	Dec. 26	
Operating transactions					
Treasury operations*	− 3	+ 19	− 187	+ 13	− 159
Federal Reserve float	− 277	− 77	+ 688	+ 399	+ 733
Currency in circulation	− 51	− 372	− 140	− 105	− 668
Gold and foreign account	+ 6	—	—	− 2	+ 4
Other deposits, etc.	− 98	+ 47	+ 48	− 33	− 36
Total	− 423	− 381	+ 408	+ 270	− 126
Direct Federal Reserve credit transactions					
Government securities:					
Direct market purchases or sales	+ 229	+ 380	− 110	− 4	+ 495
Held under repurchase agreements	+ 170	− 93	− 95	+ 21	+ 3
Loans, discounts, and advances:					
Member bank borrowings	− 3	+ 15	+ 56	+ 144	+ 212
Other	− 7	+ 1	− 1	—	− 7
Bankers' acceptances:					
Bought outright	+ 2	+ 5	+ 2	+ 2	+ 11
Under repurchase agreements	—	+ 24	− 6	+ 9	+ 27
Total	+ 391	+ 333	− 164	+ 171	+ 741
Member bank reserves					
With Federal Reserve Banks	− 32	− 48	+ 254	+ 441	+ 616
Cash allowed as reserves†	− 69	+ 46	+ 170	− 64	+ 83
Total reserves†	− 101	− 2	+ 424	+ 377	+ 698
Effect of change in required reserves†	− 69	+ 68	− 356	− 328	− 685
Excess reserves†	− 170	+ 66	+ 68	+ 49	+ 13
Daily average level of member bank:					
Borrowings from Reserve Banks	92	107	163	307	167‡
Excess reserves†	380	446	515	563	476‡
Free reserves†	288	339	352	256	309‡

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 December 26, 1962.

vember 28, through Wednesday, December 26, System outright holdings of Government securities maturing in less than one year expanded by $313 million while holdings maturing in more than one year rose by $262 million.

Over the four statement weeks ended December 26, free reserves averaged $309 million, compared with $447 million (revised) in the four weeks ended November 28. Average excess reserves declined by $93 million to $476 million, while average borrowings from the Federal Reserve Banks rose by $44 million to $167 million.

THE GOVERNMENT SECURITIES MARKET

Treasury bill rates edged lower over the first ten days of December, as a persistent investment demand, including some commercial bank buying in a slightly easier money market, encountered only a limited volume of offerings. A fairly good interest was evident in the regular weekly auction held on December 10, when the new issues carried attractive mid-March and mid-June maturities. Average issuing rates were set at 2.807 per cent for the new three-month bill and 2.861 per cent for the six-month bill, down 5 and 8 basis points, respectively, from the previous week. Rates moved irregularly higher from December 11 through the balance of the month, reflecting a combination of investor sales associated with mid-December corporate tax and dividend payments and a firmer money market which raised dealers' financing costs on their enlarged inventories and induced some bank selling of bills. Despite this atmosphere, dealers bid aggressively in the auction on December 21 (advanced to Friday because of the Christmas holiday the next week), especially for the three-month bills, and won exceptionally large awards. The dealers' eagerness to acquire bills apparently reflected the anticipation of a strong resurgence of investor demand after the midmonth tax date. Some net demand did emerge, but dealers' inventories remained relatively high and the atmosphere continued hesitant—based on the sustained firmness in the money market, on related market discussion of the possibility that credit policy may have shifted to slightly less ease, as well as on the heaviness of dealers' portfolios. In the final auction of the month, held on Friday, December 28, because of New Year's Day, average issuing rates were set at 2.926 per cent for the new three-month issue and 2.966 per cent for the six-month bills—7 and 3 basis points, respectively, above the rates established in the last auction in November and the highest auction rates since July and August, respectively.

Prices of Treasury notes and bonds declined in the first few days of December, as retail and professional offerings outweighed a limited investment demand. Activity was largely confined to switching operations, including the usual year-end exchanges for tax purposes. By December 5 a stronger tone began to emerge and prices worked higher until the closing days of the month, buoyed by the good technical position of the market, by talk of Congressional opposition to an early-1963 tax cut, as well as by some renewed misgivings regarding the strength of the economic advance. Against this background, a moderate outright investor demand, professional short covering, and a broadening volume of switching operations developed. By December 24 a number of intermediate and longer term issues had reached new highs for the year, and the single remaining 4 per cent yield in the Treasury's bond list (available on the 4¼'s of 1987-92 marketed last August) had disappeared. After the Christmas holiday a more cautious atmosphere developed, and prices moved down over the rest of the month, as some profit-taking was induced by reappraisals of the interest rate outlook, particularly in light of the firmer money market atmosphere and discussions of the possibility of a slight shift in monetary policy. Over the month as a whole, prices of Treasury notes and bonds generally ranged from $\frac{5}{32}$ lower to $\frac{16}{32}$ higher.

OTHER SECURITIES MARKETS

Prices of seasoned corporate and tax-exempt bonds moved somewhat lower at the beginning of December under the pressure of continuing investor resistance to recent price levels and the heavy volume of dealer inventories. A better tone subsequently emerged, however, reflecting some of the same factors that underlay improvement in the Government securities market as well as a decline in the volume of new offerings. Investor interest quickened in both newly offered and outstanding issues, and prices of both corporate and tax-exempt bonds edged higher until the last few days of the period. In the final days, as in the Treasury bond market, a more cautious atmosphere developed. For the month as a whole, the average yield on Moody's seasoned Aaa-rated corporate bonds declined by 3 basis points to 4.22 per cent at the close of the period, while the average yield on similarly rated tax-exempt bonds rose by 5 basis points to 2.94 per cent. (These indexes comprise only a limited number of issues, and do not always constitute an accurate guide to the tone of the market.)

The total volume of new corporate bonds reaching the market in December amounted to $245 million, compared with $295 million the preceding month and $205 million in December 1961. The largest corporate issue marketed during the month was a $60 million Aa-rated utility issue of 4⅜ per cent first and refunding mortgage bonds maturing in 1992. The issue, which was reoffered early in the month to yield 4.33 per cent and is not refundable for five years, encountered some initial investor resistance. Later in the month, however, a similarly rated $45 million utility issue yielding 4.32 per cent was very well received, and interest also picked up in the aforementioned $60 million issue. New tax-exempt flotations during the month totaled $455 million, as against $470 million in November 1962 and $625 million in December 1961. The Blue List of advertised dealer offerings of tax-exempt securities declined by $45 million during the month to $514 million on the final day in December. The largest tax-exempt offering of the period was the $95 million (Aaa-rated) New Housing Authority issue. Awarded at a net interest cost of 3.114 per cent and reoffered to yield from 1.50 per cent in 1963 to 3.35 per cent in 2003, the bonds were well received. Most other new corporate and tax-exempt bond issues marketed during the period were accorded fairly good receptions by investors.