The Money Market in January

The money market was moderately firm in January, and the usual seasonal dip in short-term interest rates failed to materialize. Early in the month the market eased temporarily, as funds flowed to the money centers before the January 9 "country" bank settlement date. Subsequently the money market became firmer despite a modest expansion in nation-wide reserve availability, as reserve distribution shifted in favor of the country banks while dealer financing needs expanded. Later in the month, this firmness was maintained by a decline in reserve availability. The effective rate on Federal funds, which ranged from 2 per cent to 3 per cent through January 9, was generally 3 per cent over the remainder of the month. 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 3⅜ per cent range through January 11 and within a 3 to 3½ per cent range thereafter. During the month, dealers in bankers' acceptances raised their rates by ⅛ per cent. The new rate on 90-day unendorsed paper moved to 3¼ per cent (bid).

In the market for Treasury bills, rates fluctuated narrowly during the month, as the impact of a substantial investment demand and the January 3 reduction in the British bank rate were counterbalanced by the spreading market view that monetary policy had become somewhat less easy and by the firmer money market atmosphere during most of the month. The Treasury's announcement on January 22 that it would auction $1 billion of 138-day tax anticipation bills on January 30, without permitting payment by credit to Tax and Loan Accounts, also tended to keep rates from moving lower. The June tax bills elicited good bidding interest, however, and the average issuing rate was somewhat below initial market expectations. On January 31 the newest three-month bill was bid at 2.93 per cent, unchanged from December 31.

In the Treasury bond market, interest in the early part of the month centered on the Treasury's successful auction of $250 million of long-term bonds through competitive bidding by syndicates. Prices moved higher through mid-January in the wake of this successful sale. Around mid-month, a more hesitant atmosphere developed and prices declined, as market sentiment was affected by the prospect of large Federal deficits, by spreading concern about the balance-of-payments situation, and by the approach of the Treasury's February refunding. In late January a steadier atmosphere emerged in very quiet trading, as the market awaited the Treasury's refunding announcement.

After the close of business on January 30, the Treasury announced that holders of $9.5 billion of Treasury securities maturing February 15 will have the right to exchange them either for a new 3¼ per cent certificate of indebtedness to be dated February 15, 1963 and to mature February 15, 1964, priced at par, or for an additional amount of the outstanding 3¾ per cent Treasury bonds of 1968, originally issued April 18, 1962 and due to mature on August 15, 1968, also priced at par. The maturing issues eligible for exchange include $5.7 billion of 3½ per cent certificates, $1.5 billion of 2⅝ per cent notes, and $2.3 billion of 3¼ per cent notes. No cash subscriptions for the new securities will be accepted. Subscription books were scheduled to be open February 4 through 6. The Treasury also revealed that the refunding operation would constitute the first step in a probable three-phase program. Subject to future market developments, the Treasury plans, upon completion of the February 15 financing, to announce a "junior" advance refunding adapted to the requirements of the market. The Treasury is also considering the employment for the second time of the newly developed technique for offering long-term bonds at competitive bidding. Subject to future conditions in the market, it appears likely that the bidding for the second such offering of long-term bonds will occur during the first half of April.

BANK RESERVES

Market factors provided reserves, on balance, during the five weeks ended January 30. Reserves released by the effects of a heavy seasonal decline in currency in circulation and a contraction in required reserves were only partially offset by a post-holiday decline in float that was both later and smaller than usual and by a rise in Treasury deposits at the Federal Reserve Banks. System open market operations, however, virtually absorbed the net reserves released by market factors. Outright System holdings of Government securities declined on average by $514 million from the last statement period in December through the last statement week in January, although holdings under repurchase agreements increased by $127 million. Net System holdings of bankers' acceptances (both outright and under repurchase agreements) rose by $2 million. From Wednesday, December 26, through Wednesday, January 30, outright System holdings of Government securities maturing in less than one year declined by $293 million while holdings maturing in more than one year contracted by $35 million.

Over the five statement weeks ended January 30, free reserves averaged $344 million, compared with $308 million (revised) in the four weeks ended December 26. Average excess reserves rose by $93 million to $569 million, while average borrowings from the Federal Reserve Banks increased by $58 million to $225 million.

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

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

Factor	Daily averages—week ended: Jan. 2	Jan. 9	Jan. 16	Jan. 23	Jan. 30	Net changes
Operating transactions						
Treasury operations*	+ 29	− 95	− 54	− 60	− 13	− 202
Federal Reserve float	− 158	+ 44	− 330	− 85	− 602	− 1,227
Currency in circulation	+ 122	+ 817	+ 828	+ 333	+ 251	+ 1,391
Gold and foreign account	− 70	+ 54	− 21	− 28	+ 5	− 60
Other deposits, etc.	− 52	+ 76	+ 19	+ 37	− 22	+ 58
Total	− 118	+ 898	− 64	+ 180	− 442	− 39
Direct Federal Reserve credit transactions						
Government securities:						
Direct market purchases or sales	− 11	− 74	− 177	− 329	+ 77	− 514
Held under repurchase agreements	+ 99	− 120	—	—	+ 148	+ 127
Loans, discounts, and advances:						
Member bank borrowings	+ 407	− 661	+ 16	+ 91	− 71	− 208
Other	+ 1	—	− 1	+ 1	—	+ 1
Bankers' acceptances:						
Bought outright	+ 5	+ 7	+ 2	− 2	+ 2	+ 14
Under repurchase agreements	+ 27	− 25	− 5	+ 3	− 12	− 12
Total	+ 528	− 862	− 166	− 235	+ 144	− 590
Member bank reserves						
With Federal Reserve Banks	+ 411	− 466	− 280	− 46	− 298	− 629
Cash allowed as reserves†	+ 343	− 317	+ 85	− 140	+ 14	− 66
Total reserves†	+ 754	− 788	− 195	− 186	− 284	− 694
Effect of change in required reserves†	− 281	+ 187	+ 280	+ 147	+ 164	+ 497
Excess reserves†	+ 473	− 590	+ 85	− 39	− 120	− 197
Daily average level of member bank:						
Borrowings from Reserve Banks	714	63	79	170	99	225‡
Excess reserves†	1,034	438	523	484	304	569‡
Free reserves†	320	375	444	314	205	344‡

Note: Because of rounding, figures do not necessarily add to totals.
* Includes changes in Treasury currency and cash.
† These figures are estimated.
‡ Average for five weeks ended January 30, 1963.

THE GOVERNMENT SECURITIES MARKET

Treasury bill rates fluctuated within a narrow range through most of January. A strong interest was shown in the special January 9 auction of $2.5 billion of one-year bills which raised $500 million in new cash, and the average issuing rate of 3.015 per cent was somewhat below earlier market estimates. After the regular bill auction on January 7, the Treasury ceased to add to the weekly supply of new bills, and this also tended to reinforce the downward rate influences. As the month progressed, investor demand for bills remained good but apparently fell short of dealers' expectations. Dealer bill inventories continued high longer than is normal for January. At the same time, there appeared to be a growing belief in the market that monetary policy had become somewhat less easy. Market caution was reinforced by official comments on the balance-of-payments and the prospect for additional gold outflows in early 1963. These suggested to the market the possibility of further changes in credit policy. Meanwhile, the firmer money market tone which emerged prior to midmonth at times caused the marginal cost of financing dealer inventories to exceed the yield on securities carried. In this environment, Treasury bill rates tended to move higher beginning at midmonth. Toward the end of January, however, a continuing customer demand succeeded in reducing dealer inventories and bill rates stabilized.

In the final regular auction of the month on January 28, average issuing rates were set at 2.917 per cent for the new three-month issue and 2.972 per cent for the six-month bills, virtually unchanged from the rates established in the last auction in December. On January 30, as noted above, the auction of $1 billion of June tax anticipation bills attracted a good interest, with the average issuing rate set at 2.929 per cent.

In the market for Treasury notes and bonds, attention focused early in the month on the above-mentioned auction of $250 million of long-term Treasury bonds. (Details of the auction, in which the two top bids were only $275 apart, were presented in last month's *Review*.) The new 4 per cent issue of 1988-93 was accorded an enthusiastic investor response when reoffered by the winning syndicate at par and was reported to be oversubscribed only a few hours after the auction. The bonds immediately moved to a premium in "when-issued" trading, and by January 11 had risen to $100^{11}/_{32}$ (bid).

Prices of outstanding intermediate and longer term issues moved irregularly higher in early January, strengthened by the success of the Treasury bond auction, the reduction in the British bank rate, and a moderate investment demand which encountered only a limited volume of offerings. Prices generally receded from about January 17 to 23, however, as the market weighed the implications for interest rates of a large Federal deficit in fiscal 1964 and later years which was foreshadowed by the President's State of the Union and Budget messages. Market caution was also fostered by the monetary and balance-of-payments considerations already mentioned, news of a decline in the gold stock, and the approach of the Treasury's February refunding operation. By January 22, the new 4 per cent bonds were bid at $99^{30}/_{32}$, and most longer term bond issues had moved $^{14}/_{32}$ to $^{18}/_{32}$ below their midmonth highs.

In the last few days of the month, a steady to firm atmosphere returned to the market, where activity was relatively quiet as the refunding terms were awaited. Market reaction to the refunding announcement was generally favorable, with rights moving to premium quotations of $^{5}/_{32}$ to $^{6}/_{32}$, while maturities close to the reopened 1968 issue showed small declines. Over the month as a whole, prices of Treasury notes and bonds generally ranged from $^{19}/_{32}$ higher to $^{20}/_{32}$ lower.

OTHER SECURITIES MARKETS

Prices of tax-exempt bonds changed little in the first half of January. Corporate bond prices edged up, in response to the success of the Treasury bond auction, coupled with sizable reductions in dealer inventories. Subsequently, however, the prospect of a substantial fiscal 1964 deficit induced considerable hesitation in these markets. The tax-exempt sector was also adversely affected by an expanding calendar of forthcoming issues and by the rapid accumulation of dealer inventories that resulted from the large volume of recent flotations. Against this background, prices of tax-exempt bonds generally receded after midmonth while corporate issues were generally steady. For the month as a whole, the average yield on Moody's seasoned Aaa-rated corporate bonds declined by 1 basis point to 4.21 per cent, while the average yield on similarly rated tax-exempt bonds rose by 3 basis points to 2.97 per cent.

The total volume of new corporate bonds reaching the market in January amounted to approximately $345 million, compared with $245 million in the preceding month and $270 million in January 1962. The largest new corporate issue marketed during the month consisted of $70 million 4¼ per cent Aaa-rated refunding mortgage bonds maturing in 2000. Reoffered to yield 4.21 per cent, the bonds—which are not redeemable for five years—were accorded a fair reception. New tax-exempt flotations during the month totaled roughly $890 million, as against $455 million in December 1962 and $885 million in January 1962. The Blue List of advertised dealer offerings of tax-exempt securities rose by $47 million during the month to $570 million on the final day in January. The largest new tax-exempt offering during the period consisted of $193 million of various-coupon municipal revenue bonds. The offering was made in two parts comprising $104 million of Aaa-rated bonds due in 1965-85 and reoffered to yield from 1.70 per cent in 1965 to 3.00 per cent in 1985, and $89 million of A-rated bonds due in 1964-81 which were reoffered to yield from 1.65 per cent in 1964 to 3.10 per cent in 1981. The combined offering was well received. Other new corporate and tax-exempt bond issues marketed during the period were accorded mixed receptions.