The Money Market in December

The money market came through the December period of tax and dividend payments with no appreciable strain, in contrast to some other years when that period has been marked by considerable pressure on liquidity and reserve positions. Indeed, the money market eased at the beginning of December when banks in the leading money centers adjusted their reserve positions in preparation for enlarged credit demands over the midmonth corporate tax and dividend dates. As a portion of the substantial excess reserves previously lodged in the "country" banks began to converge on the principal money markets, banks in the money centers were able to reduce their borrowings from the Federal Reserve Banks and to become, for a limited time, net sellers of Federal funds. Consequently, some Federal funds trading occurred at rates well below the 3½ per cent ceiling on each of the first eight business days of the month.

In the latter part of December, reserve distribution returned to its more usual pattern and the money market ended the month with about the same degree of firmness that had prevailed in recent months. Federal funds again traded almost exclusively at 3½ per cent, while borrowings at Federal Reserve "discount windows" expanded moderately until the final days of the month when the customary bulge (and subsequent sharp decline) in borrowings occurred around the year-end bank statement date. A similar intramonthly pattern was reflected in the rates posted by the major New York City banks on call loans to Government securities dealers. These were quoted in a 3 to 3¾ per cent range through December 11, and rose to a 3¾ to 4 per cent range in the last half of the month. Rates on prime four- to six-month commercial paper increased by ⅛ of a per cent to 4 per cent (offered), while rates on other short-term money market instruments were little changed during the month.

Treasury bill rates moved in a narrow range during December, ending the month at a slightly higher level than at the start. Seasonal pressures in this market were comparatively mild and were taken in stride. On the other hand, there was also no marked downward rate movement in response to the easier money market early in the month. This easiness was generally regarded at the time as a temporary phenomenon, an appraisal that turned out to be correct.

As time passed after the shock of President Kennedy's assassination, basic market influences began to reassert themselves in the longer term market. Favorable views on the business outlook for next year, prospects for a tax cut, and indications that the balance-of-payments problem is far from solved, all contributed to a feeling that interest rates may move higher in the new year. Prices of Treasury notes and bonds declined irregularly through most of the month, reaching new lows for the year just before Christmas. A steadier atmosphere emerged in the closing days of the year, and prices recovered slightly. Prices of corporate and tax-exempt bonds, which had adjusted lower earlier in the autumn, remained comparatively steady.

BANK RESERVES

Market factors absorbed reserves on balance from the last statement period in November through the final statement week in December. Reserve drains—largely reflecting a seasonal outflow of currency into circulation and an expansion in required reserves—more than offset reserve gains from a seasonal expansion in float.

System open market operations largely offset the absorption of reserves through market factors. System outright holdings of Government securities expanded on average by $534 million from the last statement period in November through the final statement week in December, while holdings under repurchase agreements declined by $59 million. An appreciable volume of reserves was also supplied through the acceptance market, as acceptances came into seasonally increased supply. Net System outright holdings of bankers' acceptances rose by $14 million, and holdings under repurchase agreements increased by $56 million. From Wednesday, November 27, through Wednesday, December 25, System holdings of Government securities maturing in less than one year rose by $270 million, and holdings maturing in more than one year increased by $76 million.

THE GOVERNMENT SECURITIES MARKET

Prices of Treasury notes and bonds declined irregularly through most of December. A cautious undertone has been prevalent in the bond market for some time, as market observers have been weighing the potential effects of a

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

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

Factor	Daily averages—week ended				Net changes
	Dec. 4	Dec. 11	Dec. 18	Dec. 25	
Operating transactions					
Treasury operations*	+ 181	− 40	− 59	+ 5	+ 87
Federal Reserve float	− 495	+ 268	+ 572	+ 520	+ 865
Currency in circulation	− 401	− 214	− 134	− 131	− 880
Gold and foreign account	− 15	+ 23	− 15	− 26	− 33
Other deposits, etc.	− 12	− 9	+ 80	− 28	+ 31
Total	− 742	+ 29	+ 444	+ 339	+ 70
Direct Federal Reserve credit transactions					
Government securities:					
Direct market purchases or sales	+ 572	+ 160	− 177	− 30	+ 524
Held under repurchase agreements	+ 112	− 115	− 7	− 49	− 59
Loans, discounts, and advances:					
Member bank borrowings	+ 307	− 302	+ 167	+ 45	+ 117
Other	—	—	+ 2	− 2	—
Bankers' acceptances:					
Bought outright	− 1	+ 2	+ 4	+ 9	+ 14
Under repurchase agreements	+ 1	+ 4	+ 12	+ 39	+ 56
Total	+ 993	− 333	− 10	+ 13	+ 663
Member bank reserves					
With Federal Reserve Banks	+ 251	− 304	+ 434	+ 352	+ 733
Cash allowed as reserves†	+ 34	− 26	+ 241	− 19	+ 230
Total reserves†	+ 285	− 330	+ 675	+ 333	+ 963
Effect of change in required reserves†	− 34	− 70	− 373	− 313	− 790
Excess reserves†	+ 251	− 400	+ 302	+ 20	+ 173
Daily average level of member bank:					
Borrowings from Reserve Banks	307	115	272	317	303‡
Excess reserves†	386	186	488	508	442‡
Free reserves†	79	71	216	191	139‡

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 25.

possibly more favorable business outlook on prices of fixed income securities. This hesitant mood was clearly in evidence during December and was reinforced by discussion of the possibility that a rise in interest rates might follow a tax cut should that measure contribute to a further rise in economic activity. In this atmosphere, investor interest in intermediate- and longer term coupon issues was quite limited and selective throughout the month. A substantial share of trading occurred in connection with switching operations, as some investors sought to establish gains or losses for tax purposes. There were also some outright purchases and sales, with dealers more willing to sell than buy and managing to lighten their positions in longer issues over most of the month. In the final week of the month, the atmosphere steadied and prices recovered slightly, as higher yields attracted some investment buying and as dealers covered short positions to some extent. Over the period as a whole, declines centered in the intermediate- and longer term maturity areas, where prices were generally 10/32 to 29/32 lower; prices of short-term Governments receded by about 1/32 to 14/32.

In the market for Treasury bills, rates fluctuated narrowly during the month, closing the period slightly above rate levels prevailing at the end of November. In the opening days of December, limited offerings from commercial banks and from other sources exerted a modest upward pressure on rates. From December 4 through December 10, however, rates declined slightly in the temporarily easier money market. Commercial banks purchased Treasury bills during this period, while additional demand came from public funds—and from corporations despite the imminent quarterly corporate dividend and tax dates. Against this background, the System sold some bills to absorb reserves and help restore a firm tone to the money market. Subsequently, as the midmonth tax date drew near, investor demand tapered off and some limited corporate selling developed. Consequently, bill rates turned upward from December 11 to 16 and then moved narrowly during the remainder of the month. At the last regular weekly auction of the month, held on December 27, average issuing rates were 3.524 per cent for the new three-month issue and 3.651 per cent for the new six-month issue—4 and 2 basis points, respectively, above the rates established in the final auction in November. The December 30 auction of $1 billion of new one-year bills resulted in an average issuing rate of 3.707 per cent, compared with an average issuing rate of 3.590 per cent set at the preceding month's one-year bill auction. Most of the rate difference was accounted for by the fact that banks were not permitted to pay for the new bills partially through direct crediting to Treasury Tax and Loan Accounts, as they had been allowed to do the month before. The outstanding three-month bill closed the month at 3.53 per cent (bid) as against the end-of-November rate of 3.50 per cent (bid), while the outstanding six-month bill was quoted at 3.65 per cent (bid) on December 31, compared with 3.64 per cent (bid) on November 29.

After the close of business on Thursday, January 2, the Treasury announced that on January 9 it would auction $2.5 billion of 159-day tax anticipation bills dated January 15, 1964 and maturing on June 22, 1964. Only cash payments will be accepted for the new bills, which will replace a corresponding amount of one-year bills coming due on January 15.

OTHER SECURITIES MARKETS

In the market for corporate and tax-exempt bonds, the early December release from syndicate of several slow-moving issues, with resulting upward adjustments in reoffering yields of from 4 to 10 basis points, generated an improved tone in both sectors of the market. Throughout the remainder of the month, seasoned corporate and tax-exempt bonds were steady to slightly higher in price, with the better tone particularly apparent in the tax-exempt sector. Over the period as a whole, the average yield on Moody's seasoned Aaa-rated corporate bonds rose 4 basis points to 4.37 per cent and the average yield on similarly rated tax-exempt bonds declined by 6 basis points to 3.11 per cent.

The total volume of new corporate bonds reaching the market in December amounted to approximately $590 million, compared with $200 million in the preceding month and $245 million in December 1962. The largest new corporate bond issue publicly marketed during the month consisted of $150 million A-rated 4.60 per cent oil company sinking fund debentures. The issue, which was reoffered at par and is not refundable for five years, was very well received, and traded at a small premium soon after the offering. Considerable attention in the corporate market was also given to the flotation of a $100 million issue of long-term notes by a major New York City bank. The notes, which are not rated by Moody's, carry a 4½ per cent coupon; reoffered at par, they were well received. New tax-exempt flotations during the month totaled approximately $405 million, as against $665 million in November 1963 and $455 million in December 1962. The Blue List of tax-exempt securities advertised for sale declined by $39 million during the month to $514 million on December 31. The largest new tax-exempt issue during the period was a $53 million state flotation consisting of $40.6 million refunding bonds reoffered to yield from 2.10 per cent in 1965 to 3.10 per cent in 1983, and $12.8 million school bonds reoffered to yield from 2.80 per cent in 1973 to 3.10 per cent in 1983. Both offerings were Aa-rated and were well received by investors. Other new corporate and tax-exempt issues marketed in December were accorded mixed receptions by investors.