The Money Market in January

The money market remained firm during most of January while smoothly accommodating the substantial flows associated with the unwinding of year-end financial adjustments and the Treasury's January advance refunding. At times, particularly in the first half of the month, sizable reserve pressures converged upon the New York City banks, as those banks met a large part of the expanded financing needs of Government securities dealers. Accordingly, banks in the central money market made large purchases of Federal funds, which were generally in good supply from banks outside the money centers, although a margin of needs remained to be satisfied at the "discount window". Later in the month, a somewhat easier tone developed at times, as the needs of money market banks declined while a good availability continued at other banks. Thus, Federal funds traded almost exclusively at

3½ per cent through the middle of the month but occasionally dipped lower in the latter part of the month when member bank borrowing also declined. Unexpected additions to reserves from float and other market factors contributed to the occasionally easier market tone.

Treasury bill rates edged higher in early January as offerings—particularly from commercial banks—expanded. In the latter part of the month, rates receded slightly, largely reflecting both reinvestment demand from holders of "rights" issues in the Treasury's advance refunding and seasonal nonbank demand. Rates posted by the major New York City banks on new and renewal call loans to Government securities dealers were most often quoted in a 3⅞ to 4 per cent range through January 20, and largely in a 3½ to 3⅞ per cent range thereafter. Toward the middle of the month, dealers in bankers' acceptances, after experiencing a sharp rise in inventories to a record level, increased their rates on all maturities by ⅛ per cent, making the rate on 90-day unendorsed paper 3⅞ per cent (bid); subsequently, demand for acceptances improved considerably and inventories were reduced substantially in the latter part of the month. Offering rates for new time certificates of deposit issued by the leading New York City banks moved moderately higher during the early part of the month, as did the range of rates at which such certificates were offered in the secondary market, and then declined in the latter part of January. Rates on directly placed finance company paper were reduced by ⅛ per cent on paper maturing in less than 179 days, with an offering rate of 3¾ per cent being quoted on 90- to 179-day paper at the month end. Late in the month, commercial paper dealers lowered their rates by ⅛ of a per cent, making the rate on prime 4- to 6-month paper 3⅞ per cent (offered).

On January 8, the Treasury announced the terms of an advance refunding operation in which holders of $24.7 billion of six outstanding notes and bonds maturing in 1964 and 1965—including $15.3 billion held by the public—were given the opportunity to exchange these securities for reopened 4 per cent bonds of August 1970 or for additional amounts of the outstanding 4¼ per cent bonds of May 1975-85. Subscription books were open from January 13 through January 17, with total potential allotments limited to $4 billion additional 4's of 1970 and $750 million 4¼'s of 1975-85. On January 21, the Treasury disclosed that subscriptions had totaled $3.1 billion—including $2.2 billion for the 4 per cent bonds ($189 million from official accounts) and $900 million for the 4¼ per cent bonds ($150 million from official accounts). Subscriptions for the 4 per cent bonds consequently were allotted in their entirety; subscriptions for the 4¼ per cent bonds were allotted in full up to $50,000, while subscriptions in excess of $50,000 were subject to an 83⅓ per cent allotment, with $50,000 the minimum allotment.

Prices of outstanding Treasury notes and bonds drifted slightly lower in early January. With reaction both to the refunding and its results favorable, a firm tone generally prevailed in the market for Government notes and bonds in the latter part of the month. During that period, the market was also influenced by various official messages stressing, along with the desirability of a tax cut, the need to hold down Federal spending and restrain inflation. For the month as a whole, prices of coupon securities were generally higher, although the issues reopened in the advance refunding—and a few others—declined. Prices of corporate and tax-exempt bonds moved somewhat higher.

After the close of business on January 30, the Treasury announced the terms of its February refunding operation. Holders of $8.4 billion of the 3¼ per cent certificates and the 3 per cent bonds maturing on February 15—$4.3 billion of which is publicly held—were given the opportunity to exchange their holdings either for a new 3⅞ per cent note maturing on August 13, 1965 (priced at 99.875 to yield approximately 3.96 per cent) or for additional amounts of the outstanding 4 per cent notes of August 15, 1966 (priced at par). Subscription books were open from February 3 through February 5, and the exchange of securities was scheduled for February 17 (cash subscriptions were not acceptable).

BANK RESERVES

Market factors provided reserves on balance from the last statement period in December through the final statement week in January. Reserve gains—largely reflecting sharp seasonal contractions in currency in circulation and in required reserves—were only partially absorbed by declines in float and in vault cash. During part of the month, float declined more slowly than expected as snowstorms delayed the processing of checks.

System open market operations absorbed reserves during the month and more than offset the release of reserves by market factors. System outright holdings of Government securities decreased on average by $813 million from the last statement period in December through the final statement week in January, while holdings under repurchase agreements declined by $34 million. System outright holdings of bankers' acceptances rose by $10 million, and such holdings under repurchase agreements were reduced by $56 million. From Wednesday, December 25, through Wednesday, January 29, System holdings of Government

CHANGES IN FACTORS TENDING TO INCREASE OR DECREASE MEMBER BANK RESERVES, JANUARY 1964

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

Factor	Daily averages—week ended Jan. 1	Jan. 8	Jan. 15	Jan. 22	Jan. 29	Net changes
Operating transactions						
Treasury operations*	− 25	− 49	− 69	− 19	+ 177	+ 15
Federal Reserve float	− 239	− 291	− 258	+ 162	− 601	− 1,227
Currency in circulation	+ 30	+ 416	+ 323	+ 293	+ 326	+ 1,388
Gold and foreign account	− 70	+ 17	+ 1	+ 19	+ 6	− 27
Other deposits, etc.	+ 49	+ 94	—	—	+ 28	+ 169
Total	− 255	+ 188	− 5	+ 456	− 67	+ 317
Direct Federal Reserve credit transactions						
Government securities:						
Direct market purchases or sales	+ 11	− 32	− 193	− 394	− 205	− 813
Held under repurchase agreements	+ 68	+ 75	− 11	− 156	—	− 34
Loans, discounts, and advances:						
Member bank borrowings	+ 241	− 194	− 3	− 197	+ 13	− 140
Other	− 1	—	+ 1	—	− 1	− 1
Bankers' acceptances:						
Bought outright	+ 10	+ 4	+ 1	− 1	− 4	+ 10
Under repurchase agreements	+ 32	− 8	− 13	− 22	− 45	− 56
Total	+ 352	− 156	− 217	− 770	− 242	− 1,033
Member bank reserves						
With Federal Reserve Banks	+ 97	+ 32	− 222	− 314	− 309	− 716
Cash allowed as reserves†	+ 345	− 305	− 44	− 127	+ 2	− 129
Total reserves†	+ 442	− 273	− 266	− 441	− 307	− 845
Effect of change in required reserves†	− 145	− 49	+ 403	+ 128	+ 284	+ 621
Excess reserves†	+ 297	− 322	+ 137	− 313	− 23	− 224
Daily average level of member bank:						
Borrowings from Reserve Banks	558	364	361	164	177	325‡
Excess reserves†	786	463	600	287	264	480‡
Free reserves†	227	99	239	123	87	155‡

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 29, 1964.

securities maturing in less than one year fell by $951 million, and holdings maturing in more than one year were unchanged.

THE GOVERNMENT SECURITIES MARKET

In the market for Government notes and bonds, prices drifted lower in the first few trading sessions of the new year when offerings expanded moderately. Sharper downward price adjustments immediately followed the Treasury's announcement, after the close of business on January 8, of an advance refunding operation. The announcement surprised many investors, who had apparently not expected such a financing until somewhat later in the year, but reaction to the terms of the refunding was generally favorable. Activity both in rights—the issues eligible for conversion—and in the reopened securities, was restrained at first as investors cautiously appraised the offering in the light of a fairly widespread market feeling that interest rates might move upward in 1964. In early trading, prices of rights rose by 1/64 to 5/64, while the reopened 4 and 4¼ per cent bonds declined by 13/32 and 22/32, respectively. Prices of other outstanding intermediate- and long-term bonds moved slightly lower in adjustment to the prospective additional market supply in these maturity areas.

A more confident atmosphere developed during the January 13-17 subscription period. The market was encouraged by its belief that Treasury borrowing needs would be smaller than had been anticipated earlier, since the President's State of the Union Address and the Budget Message forecast a decline in the Federal deficit in fiscal 1965. At the same time, demand spilled into the Government securities market from the corporate bond sector, where the calendar of scheduled flotations remained light. Hence, demand expanded both for rights and for the "when-issued" securities—the two reopened bonds offered in the exchange—while switching activity was also generated. Broad buying interest—including some short covering—also developed for the 2½ per cent wartime issues and for selected issues in the 1965-67 area. Offerings of high-coupon issues, moreover, which appeared against swaps into the reopened 4's of 1970, were readily absorbed. Accordingly, prices of the reopened issues and of outstanding securities moved irregularly higher from January 13 through the end of the month. The advance refunding results announced on January 21 buoyed the market, particularly since subscriptions for the 4¼ per cent bonds had exceeded most expectations. Subsequently, a somewhat more hesitant atmosphere appeared briefly, as the payment date for the advance refunding approached and talk of the possibility of higher interest rates resumed. At the month end, however, a more confident tone reappeared. Official statements suggested that interest rates might remain relatively stable near current levels, and the announcement of the February refunding terms dissipated lingering fears that the Treasury might offer an issue that would compete with the reopened 4's of 1970. Over the month as a whole, prices of Government notes and bonds were generally 1/32 to 12/32 higher.

Treasury bill rates edged a bit higher in the opening days of January, as offerings expanded both from commercial banks—which were disposing of bills purchased in late December for year-end "window-dressing" purposes—and from other investors. At the higher yield levels, demand for bills increased somewhat, and a steadier tone emerged from January 6 through January 13. Nevertheless, interest was rather light at the January 9 auction of $2.5 billion of 159-day tax-anticipation bills—apparently as attention was devoted to the advance refunding terms announced the night before—and the new bills were sold at an average issuing rate of 3.650 per cent with some bills sold at rates as high as 3.69 per cent in the auction. In the latter part of the month, a lively demand for bills from the holders of the one-year issue—which matured on January 15—as well as from sellers of rights to the Treasury's advance refunding and from other investors exerted some downward pressure on bill rates. By the end of January, rates for outstanding bills were slightly below rate levels prevailing at the end of December. At the last regular weekly auction of the month held on January 27, average issuing rates were 3.501 per cent for the new three-month issue and 3.613 per cent for the new six-month bill—2 and 4 basis points, respectively, below the rates established in the final weekly auction in December. The January 30 auction of $1 billion of new one-year bills resulted in an average issuing rate of 3.680 per cent, compared with an average issuing rate of 3.707 per cent at the preceding month's one-year bill auction. The newest outstanding three-month bill closed the month at 3.50 per cent (bid) as against 3.53 per cent (bid) at the end of December, while the newest outstanding six-month bill was quoted at 3.61 per cent (bid) on January 31, compared with 3.65 per cent on December 31. The June tax bill, which had elicited only modest investor interest when auctioned at an average rate of 3.65 per cent, closed the month at 3.55 per cent (bid).

OTHER SECURITIES MARKETS

Prices of seasoned corporate and tax-exempt bonds generally were fractionally higher in January as activity expanded seasonally. The corporate sector was buoyed by the good receptions accorded the small volume of new bond issues floated during the period, and by indications of a relatively light calendar immediately ahead. Early in the month, a somewhat more cautious atmosphere prevailed in the tax-exempt sector, where a sizable calendar of scheduled flotations took shape and dealers already held large inventories. However, the market atmosphere improved notably during the month, as both new and recently marketed tax-exempt issues moved well. Over the period as a whole, the average yield on Moody's seasoned Aaa-rated corporate bonds was unchanged at 4.37 per cent and the average yield on similarly rated tax-exempt bonds declined by 3 basis points to 3.08 per cent.

The total volume of new corporate bonds reaching the market in January amounted to approximately $335 million, compared with $590 million in the preceding month and $345 million in January 1963. The largest new corporate bond flotation marketed during the month was an Aaa-rated $130 million utility issue consisting of 4⅝ per cent refunding mortgage bonds maturing in 2004. The bonds, which were reoffered to yield 4.53 per cent and are not redeemable for five years, were very well received. New tax-exempt bond flotations in January totaled approximately $915 million, as against $405 million in December 1963 and $840 million in January 1963. The Blue List of tax-exempt securities advertised for sale rose by $19 million (from the revised December 31 level of $490 million) to $509 million on January 31. One of the large new tax-exempt bond issues of the period consisted of $140 million Aaa-rated housing authority bonds. The bonds, which were reoffered to yield from 1.90 per cent in 1964 to 3.50 per cent in 2004, were accorded an excellent investor reception. Most other new corporate and tax-exempt bonds marketed in January were also well received.