The Money Market in February

The money market was steady and generally firm in February, with a good supply of Federal funds available at 3½ per cent on most days. Average member bank borrowings from the Federal Reserve Banks remained near the January level, while average free reserves receded somewhat from the levels to which they had risen in December and January. Rates posted by the major New York City banks on new and renewal call loans to Government securities dealers were predominantly in a 3¾ to 3⅞ per cent range during the month. Offering rates for new time certificates of deposit issued by the leading New York City banks were little changed, while the range of rates at which such certificates were offered in the secondary market declined slightly. Treasury bill rates, which had moved lower in January, rose irregularly during February, in part reflecting market reaction after midmonth to press comments suggesting the likelihood of an early increase in the British bank rate. After that rate was raised from 4 per cent to 5 per cent effective February 27, bill rates rose further to close about 4 to 15 basis points higher over the month, on bills of comparable maturities.

Prices of outstanding Treasury notes and bonds edged higher through the early part of the month in the wake of the favorable reception accorded the Treasury's February exchange refunding. After midmonth, prices drifted lower, as market uncertainty over the outlook for bond prices that had prevailed in earlier months revived amid discussion of a possible shift in monetary policy toward less ease and of the implications of a possible British bank rate move. After the announcement of the British action, prices declined somewhat further, closing 3⁄32 to 14⁄32 lower for the month. Prices of corporate and tax-exempt bonds were steady during most of the month but tended to be easier at the close.

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

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

Factor	Daily averages—week ended Feb. 5	Feb. 12	Feb. 19	Feb. 26	Net changes
Operating transactions					
Treasury operations*	+ 96	− 215	—	+ 62	− 57
Federal Reserve float	− 347	+ 79	+ 350	− 11	+ 71
Currency in circulation	+ 77	− 175	− 7	+ 161	+ 56
Gold and foreign account	+ 11	− 25	− 9	− 28	− 56
Other deposits, etc.	+ 75	+ 13	− 8	− 79	+ 1
Total	− 89	− 331	+ 320	+ 111	+ 17
Direct Federal Reserve credit transactions					
Government securities:					
Direct market purchases or sales	+ 240	+ 235	− 352	− 112	+ 11
Held under repurchase agreements	+ 30	+ 31	− 86	− 25	—
Loans, discounts, and advances:					
Member bank borrowings	+ 65	+ 125	− 76	− 91	+ 23
Other	+ 3	− 30	− 5	—	− 32
Bankers' acceptances:					
Bought outright	− 1	− 3	—	− 3	− 6
Under repurchase agreements	+ 1	+ 1	− 2	—	—
Total	+ 338	+ 358	− 470	− 231	− 5
Member bank reserves					
With Federal Reserve Banks	+ 249	+ 27	− 144	− 120	+ 12
Cash allowed as reserves†	− 229	− 70	+ 140	− 19	− 178
Total reserves†	+ 20	− 43	− 4	− 139	− 166
Effect of change in required reserves†	− 27	+ 77	+ 28	+ 38	+ 116
Excess reserves†	− 7	+ 34	+ 24	− 101	− 50
Daily average level of member bank:					
Borrowings from Reserve Banks	242	367	291	200	275‡
Excess reserves†	366	400	424	323	378‡
Free reserves†	124	33	133	123	103‡

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 February 26, 1964.

BANK RESERVES

Market factors absorbed reserves on balance from the last statement period in January through the final statement week in February. Drains—primarily reflecting an increase in currency outside the banking system[1]—were only partly counterbalanced by a decline in required reserves.

System open market operations supplied $5 million of reserves over the period as a whole, while $45 million

[1] "Currency in circulation" less "cash allowed as reserves".

of reserves was absorbed by market factors. System outright holdings of Government securities rose on average by \$11 million from the last statement period in January through the final statement week in February. As in January, no System holdings of Government securities under repurchase agreements were outstanding in the final statement period of the month. From Wednesday, January 29, through Wednesday, February 26, System holdings of Government securities maturing in less than one year contracted by \$3,200 million, and holdings maturing in more than one year expanded by \$3,411 million; this maturity shift largely reflected the effects of the Treasury's February exchange refunding operation.

THE GOVERNMENT SECURITIES MARKET

Prices of most Treasury notes and bonds advanced at the beginning of the month in the favorable atmosphere surrounding the Treasury's February refunding operation. The refinancing of \$8.4 billion of securities maturing on February 15—\$4.3 billion of which was publicly held—proceeded routinely. Moderate offerings of "rights" issues (the maturing 3¼ per cent certificates and 3 per cent bonds eligible for exchange) were readily absorbed by broadly based investor and professional demand. Considerable investor interest also developed for the "when-issued" securities (the new 3⅞ per cent notes of August 1965 and the reopened 4 per cent notes of August 1966 offered in the refunding). After the conclusion of the February 3 to 5 subscription period, the Treasury announced that all but \$362 million—or about 8 per cent of the two maturing issues held by the public—would be converted, with public exchanges into the 3⅞ per cent notes and 4 per cent notes totaling approximately \$2.2 billion and \$1.8 billion, respectively.

The fact that the refunding offerings were confined to the relative short-term maturity area bolstered the intermediate- and long-term sectors of the market. In addition, the strength of the corporate bond market and the resultant narrowing of the spread between yields on Government and corporate bonds of comparable maturities reinforced confidence in the immediate outlook for Treasury bond prices. Against this background, prices of most outstanding Treasury coupon issues rose through February 7 in response to good investment demand and professional short covering. Prices drifted progressively lower over the balance of the month, however, as press comments suggested the possibility of a shift in monetary policy toward less ease during 1964 should the tax cut have inflationary repercussions. At the same time, the market was influenced by more frequent discussion of the likelihood of a change in the British bank rate. In the last calendar week of the month, a market letter report that the Treasury might offer a long-term bond in its April financing operations contributed to the heavier atmosphere. Investment demand was generally good, however, at lower prices, and considerable progress was made in distributing to investors the 4's of 1970 and 4¼'s of 1975-85 acquired by the dealers in the Treasury's January advance refunding. Progress was also made in distributing the issues acquired in the February exchange refunding. After the British rate was increased by 1 percentage point to 5 per cent on February 27, prices declined $\frac{2}{32}$ to $\frac{5}{32}$ in moderately active trading. At the close of the month, prices were generally $\frac{1}{32}$ to $\frac{14}{32}$ below the end-of-January levels.

Treasury bill rates, after having declined moderately in January, edged upward in February. Investor demand, which had been very strong in January, tapered off somewhat and tended to favor the shorter maturities. The reduced demand for longer bills led to some increase in rates on these maturities, as dealers sought to lighten their holdings amid press comments about the possibility of higher interest rates. After the increase in the British bank rate was announced, Treasury bill rates increased generally by 3 to 5 basis points. Over the month as a whole, rates for outstanding bills maturing in three months or less were generally 7 to 14 basis points higher, while rates for longer bills were about 4 to 15 basis points higher. At the last regular weekly auction of the month held on February 24, average issuing rates were 3.547 per cent for the new three-month issue and 3.703 per cent for the new six-month bill —5 and 9 basis points, respectively, above the rates established in the final auction in January. The February 25 auction of \$1 billion of new one-year bills resulted in an average issuing rate of 3.765 per cent, compared with an average issuing rate of 3.680 per cent at the preceding month's one-year bill auction. The newest outstanding three-month bill closed the month at 3.60 per cent (bid), as against 3.50 per cent (bid) at the end of January, while the newest outstanding six-month bill was quoted at 3.77 per cent (bid) on February 28, compared with 3.61 per cent (bid) on January 31.

OTHER SECURITIES MARKETS

Prices of corporate bonds registered further gains early in February, under the impact of persisting demand from institutional investors, and then steadied as new-issue activity increased. Following the British bank rate increase, however, the market was somewhat easier. In the tax-exempt sector, where dealer inventories were sizable and the calendar of scheduled flotations was large, investor resistance to further markups developed and prices eased back from the higher levels reached in January. Over the period as a whole, the average yield on Moody's seasoned Aaa-rated corporate bonds declined by 2 basis points to 4.35 per cent and the average yield on similarly rated tax-exempt bonds rose by 1 basis point to 3.09 per cent.

The total volume of new corporate bonds reaching the market in February amounted to approximately $270 million, compared with $335 million in the preceding month and $275 million in February 1963. The largest new corporate bond flotation marketed during the month was a $75 million Baa-rated issue of sinking fund debentures maturing in 1992. The debentures, which were offered to yield 4.967 per cent and are not refundable for eight years, were well received. New tax-exempt bond flotations in February totaled approximately $740 million, as against $915 million in January 1964 and $710 million in February 1963. The Blue List of tax-exempt securities advertised for sale rose by $124 million to $633 million on February 28. The largest new tax-exempt bond issue marketed in February was a $100 million Aa-rated issue of state water bonds. Reoffered to yield from 2.85 per cent in 1973 to 3.625 per cent in 2012, the bonds attracted broad investor demand and were quickly sold. Other new corporate and tax-exempt bonds floated in February were accorded mixed receptions by investors.