The Money Market in March

The money market remained generally firm in March, handling smoothly the large flows of funds associated with the quarterly corporate tax and dividend payment dates and the impending April 1 Cook County, Illinois, personal property tax date. Although the reserve positions of banks in the leading money centers came under moderate pressures at times during the month, these banks were able to satisfy a large part of their reserve needs in the Federal funds market—where a 3½ per cent effective rate generally prevailed—and member bank borrowings from the Federal Reserve Banks declined slightly over the period as a whole. Rates posted by the major New York City banks on new and renewal call loans to Government securities dealers were mainly in a 3¾ to 4 per cent range. Offering rates for new time certificates of deposit issued by the leading New York City banks moved slightly higher in March, as did the range of rates at which such certificates were offered in the secondary market. Rates on some maturities of directly placed finance company paper also rose moderately over the month as a whole.

In the Treasury bill market, demand expanded in March and bill rates receded somewhat from the levels to which they had risen in late February in the wake of the British bank rate increase. Prices of Treasury notes and bonds, on the other hand, declined during most of the month, reflecting market expectations that interest rates would trend upward during the remainder of the year if economic expansion continued and rates moved higher in foreign countries. The same sentiment was evident in the corporate and tax-exempt bond markets, and prices in these markets also moved downward during the period.

After the close of business on Thursday, March 26, the Treasury announced the terms of a new cash borrowing operation. An additional $1 billion of the outstanding 3⅞ per cent notes due August 13, 1965 was offered at a price of 99.70 to yield approximately 4.10 per cent. Subscriptions were received only on Tuesday, March 31, with payment due April 8. Payments may be made through credit to Treasury Tax and Loan Accounts. (At the same time the Treasury announced another in the series of one-year bills—$1 billion of bills maturing March 31, 1965, to be auctioned April 3 for payment April 8, with commercial banks permitted to pay for 50 per cent of their purchases through crediting Tax and Loan Accounts.)

After the close of business on April 2, the Treasury announced that early reports indicated subscriptions for the reopened 3⅞ per cent notes of approximately $10.2 billion. The Treasury will allot in full subscriptions of $50,000 or less. Larger subscriptions will be subject to a 9 per cent allotment (with a minimum of $50,000).

BANK RESERVES

The month was characterized by sizable week-to-week movements in aggregate free reserve levels. These reserve fluctuations were not accompanied by any similar swings in money market conditions, however, as their effects were largely offset by movements in the distribution of reserves as between "city" and "country" banks. At the beginning of the month, money market banks made extensive preparations for anticipated mid-March seasonal reserve pressures. Typically, such pressures arise as a result of expanded bank loans to corporations, nonbank financial institutions, and Government securities dealers over the quarterly tax and dividend dates. Accordingly, in early March, banks in the money centers increased their offering rates on time certificates of deposit in order to minimize net time deposit withdrawals around the tax and dividend dates. In addition, these banks relied more heavily than usual on the sale of bankers' acceptances and of intermediate-term Government securities to acquire reserves. These transactions, together with an ample supply of Federal funds during much of the period, facilitated smooth midmonth adjustments on the part of the banking system.

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

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

Factor	Daily averages—week ended Mar. 4	Mar. 11	Mar. 18	Mar. 25	Net changes
Operating transactions					
Treasury operations*	− 98	+ 59	+ 46	− 131	− 124
Federal Reserve float	− 306	+ 80	+ 149	+ 215	+ 138
Currency in circulation	− 37	− 193	− 154	+ 35	− 349
Gold and foreign account	− 3	+ 2	+ 5	− 16	− 12
Other deposits, etc.	+ 1	− 22	+ 64	+ 59	+ 102
Total	− 444	− 94	+ 112	+ 102	− 324
Direct Federal Reserve credit transactions					
Government securities:					
Direct market purchases or sales	+ 495	+ 192	− 242	+ 106	+ 551
Held under repurchase agreements	—	—	+ 75	+ 8	+ 83
Loans, discounts, and advances:					
Member bank borrowings	+ 162	− 109	+ 105	− 79	+ 79
Other	—	—	—	—	—
Bankers' acceptances:					
Bought outright	+ 2	+ 1	− 2	+ 1	+ 2
Under repurchase agreements	+ 6	+ 16	+ 11	+ 18	+ 51
Total	+ 664	+ 101	− 54	+ 55	+ 766
Member bank reserves					
With Federal Reserve Banks	+ 220	+ 7	+ 58	+ 217	+ 502
Cash allowed as reserves†	− 73	− 213	+ 178	+ 89	− 18
Total reserves†	+ 147	− 205	+ 236	+ 306	+ 484
Effect of change in required reserves†	− 10	+ 31	− 177	− 161	− 317
Excess reserves†	+ 137	− 174	+ 59	+ 145	+ 167
Daily average level of member bank:					
Borrowings from Reserve Banks	363	253	358	279	313‡
Excess reserves†	490	316	375	520	425‡
Free reserves†	128	63	17	241	112‡

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 March 25, 1964.

Market factors absorbed excess reserves on balance from the last statement period in February through the final statement week in March. Reserve drains arose primarily from an increase in currency outside the banking system[1] and from a rise in required reserves which partly reflected loan expansion over the quarterly corporate tax and dividend dates. An expansion in float partly offset these drains. System open market operations supplied reserves over the period as a whole, offsetting reserves absorbed by market factors. System outright holdings of Government securities rose on average by $551 million from the last statement period in February through the final statement week in March; System holdings of Government securities under repurchase agreements averaged $83 million in the final statement period of the month, whereas none had been outstanding in the last week of February. From Wednesday, February 26, through Wednesday, March 25, System holdings of Government securities maturing in less than one year rose by $429 million, and holdings maturing in more than one year increased by $22 million.

THE GOVERNMENT SECURITIES MARKET

In the market for Treasury notes and bonds, an important background factor during much of the month was a persistent feeling that continuing economic expansion at home and tendencies toward higher interest rates abroad might be accompanied by an upward trend in domestic interest rates. In the early part of the month, increased offerings—particularly of intermediate-term securities from commercial banks—encountered little demand from either investor or professional sources, and prices of intermediate- and long-term Treasury issues generally declined. The market atmosphere firmed slightly prior to midmonth, as participants began to feel that no immediate tightening in monetary policy was likely. Commercial bank offerings contracted, a modest investor demand emerged, and some professional short covering took place. After midmonth, confidence in the stability of current interest rate levels weakened once again amid further indications of business expansion and in response to the rise in stock market averages to record heights. Offerings expanded, and prices of coupon issues fell further. In the final few days of the month, a steadier atmosphere re-emerged. Some investor demand and dealer short covering developed, and in this setting the Treasury's offering of additional 3⅞ per cent notes attracted good interest. Nonetheless, reflecting declines earlier in the period, prices of notes and bonds at the

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

end of March were generally unchanged to $^{19}/_{32}$ below late February levels.

After a moderate February rise, Treasury bill rates edged irregularly lower in March. In the opening days of the month, there was an abatement of market concern that the late February increase in the British bank rate might soon trigger a shift toward a less easy monetary policy in the United States. Investment demand emerged, partly reflecting temporary reinvestment of the proceeds of sales of longer term issues; increased demand in turn contributed to a rapid improvement in the technical position of the bill sector. At the same time, the market was bolstered by reports that a foreign central bank might be taking steps to encourage its local commercial banks to purchase United States Treasury bills. Against this background, bill rates generally declined in the first week of the month. This trend was interrupted around the March 10 dividend payment date when corporate offerings of bills expanded modestly, demand temporarily diminished, and bill rates edged slightly higher. Subsequently, however, moderate investment demand reappeared, corporate selling over the mid-month quarterly tax date proved to be quite light, and bill rates moved narrowly during the rest of the month.

Over the month as a whole, rates on outstanding bills were generally 3 to 7 basis points lower for comparable maturities. At the last regular weekly auction of the month held on March 30, average issuing rates were 3.525 per cent for the new three-month issue and 3.710 per cent for the new six-month bill—2 basis points lower and 1 basis point higher, respectively, than the rates established in the final auction in February. The April 3 auction of $1 billion of new one-year bills—for which banks may pay through Tax and Loan credit to the extent of 50 per cent—resulted in an average issuing rate of 3.719 per cent, compared with an average issuing rate of 3.765 per cent at the preceding month's one-year bill auction. The newest outstanding three-month bill closed the month at 3.54 per cent (bid) as against 3.60 per cent (bid) at the end of February, while the newest outstanding six-month bill was quoted at 3.72 per cent (bid) on March 31, compared with 3.77 per cent (bid) on February 28.

OTHER SECURITIES MARKETS

Prices of seasoned corporate and tax-exempt bonds generally declined in March, as investors—appraising the outlook for interest rates cautiously in the light of optimistic business forecasts and an upsurge in stock prices—appeared reluctant to commit funds to fixed-income securities. In the tax-exempt sector, where the volume of new issues continued heavy and dealer inventories were large, reoffering yields on a number of slow-moving recent flotations were adjusted upward by 5 to 15 basis points. At the same time, several syndicate terminations occurred in the corporate sector, boosting reoffering yields as much as 6 basis points. Over the period as a whole, the average yield on Moody's seasoned Aaa-rated corporate bonds increased by 5 basis points to 4.40 per cent and the average yield on similarly rated tax-exempt bonds rose by 7 basis points to 3.16 per cent.

The volume of new corporate bonds floated in March amounted to approximately $355 million, compared with $270 million in the preceding month and $490 million in March 1963. The largest new corporate bond issue marketed during the month consisted of $50 million of A-rated[2] 4½ per cent finance company debentures maturing in 1992. The debentures, which were offered to yield 4.58 per cent and are not refundable for eight years, were accorded a fair reception. New tax-exempt flotations in March totaled approximately $770 million, as against $740 million in February 1964 and $930 million in March 1963. The Blue List of tax-exempt securities advertised for sale declined by $113 million during the month to $520 million on March 31. The largest new tax-exempt bond issue marketed in March—a $135 million flotation—included $61 million of 4 per cent term bonds maturing in 1992 and $74 million of 4.10 per cent term bonds due in 2003; both portions were reoffered at par and received good initial investor receptions. Other new corporate and tax-exempt bonds floated in March were accorded mixed receptions by investors.

[2] Rated by Standard & Poor's.