The Money Market in April

The money market continued generally firm in April, although Federal funds traded in volume a shade below 3½ per cent on a number of occasions. Nation-wide net reserve availability expanded slightly in April, while average member bank borrowings from the Federal Reserve Banks declined somewhat. Banks in the money centers were under considerable reserve pressure in the first half of the month, partly reflecting a drawing-down of Treasury deposits in such banks. Subsequently, the reserve positions of these banks improved, as a portion of Federal individual income tax receipts from all parts of the country was redeposited in Treasury Tax and Loan Accounts at Class C banks.[1] Rates posted by the major New York City banks on new and renewal call loans to Government securities dealers generally moved in a 3⅝ to 4 per cent range.

In the Treasury bill market, where good investor demand persisted and the redemption of $2.5 billion of April 15 bills reduced outstanding supplies, rates declined 7 to 20 basis points in April. Both offering rates for new time certificates of deposit issued by the leading New York City banks and the rates at which such certificates traded in the secondary market declined somewhat in April. Rates on prime four- to six-month commercial paper were lowered

[1] In the Treasury's classification of the commercial banks that are depositaries of Tax and Loan Account funds, Class C banks are the largest ones—those with *total* deposits of $500 million or more. These banks are subject to Treasury Tax and Loan Account calls or redeposits on only a few hours' notice.

by ⅛ of a per cent to 3⅞ per cent (offered), while net downward adjustments of approximately ⅛ to ¼ of a per cent in rates on several maturities of directly placed finance company paper occurred during the month. Dealers in bankers' acceptances raised their rates on all maturities by ⅛ of a per cent early in the month, but this increase was rescinded toward midmonth.

Prices of Government coupon securities rose in April, as commercial bank selling subsided and market participants gradually came to feel that interest rates were not likely to rise significantly in the near future. Prices of corporate and tax-exempt bonds generally stabilized in April somewhat above the lower levels reached the month before, and a sizable volume of new issues moved into investors' portfolios.

After the close of business on Wednesday, April 29, the Treasury announced the terms of its May refunding operation. Holders of $10.6 billion of notes and certificates maturing on May 15 were given the opportunity to exchange them for either a new 4 per cent note maturing on November 15, 1965, priced to yield about 4.09 per cent, or for a new 4¼ per cent bond maturing on May 15, 1974, offered at par. Subscription books were open from May 4 through May 6, and the exchange of securities was scheduled for May 15. The market's initial reaction to the refinancing terms was favorable. In early trading, prices of "rights"—the issues eligible for conversion—rose by about ⅜₂. The 4¼ per cent bonds of May 1974, trading on a "when-issued" basis, closed the month at a bid quotation of 100¹⁵⁄₆₄, while the 4 per cent notes of November 1965 were bid at 100⁹⁄₃₂, or ⁷⁄₃₂ above the Treasury's offering price.

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

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

Factor	Daily averages—week ended Apr. 1	Apr. 8	Apr. 15	Apr. 22	Apr. 29	Net changes
Operating transactions						
Treasury operations*	+ 198	— 60	— 80	+ 80	— 20	+ 122
Federal Reserve float	— 461	+ 81	+ 163	+ 410	— 394	— 201
Currency in circulation	— 75	— 107	— 159	+ 86	+ 99	— 156
Gold and foreign account	— 5	+ 17	+ 12	+ 2	— 7	+ 19
Other deposits, etc.	— 8	— 88	+ 40	+ 69	— 19	— 6
Total	— 351	— 155	— 23	+ 648	— 340	— 221
Direct Federal Reserve credit transactions						
Government securities:						
Direct market purchases or sales	+ 233	+ 382	— 73	— 793	— 65	— 316
Held under repurchase agreements	— 42	+ 22	— 63	—	+ 101	+ 18
Loans, discounts, and advances:						
Member bank borrowings	— 124	+ 53	— 18	+ 129	— 184	— 144
Other	—	+ 1	—	+ 1	—	+ 2
Bankers' acceptances:						
Bought outright	— 2	—	— 2	— 4	— 2	— 10
Under repurchase agreements	— 1	+ 6	— 14	— 41	+ 34	— 17
Total	+ 64	+ 464	— 170	— 708	— 116	— 466
Member bank reserves						
With Federal Reserve Banks	— 287	+ 309	— 193	— 60	— 456	— 687
Cash allowed as reserves†	+ 86	— 268	+ 211	+ 14	+ 86	+ 129
Total reserves†	— 201	+ 41	+ 18	— 46	— 370	— 558
Effect of change in required reserves†	— 35	+ 109	— 141	+ 188	+ 134	+ 255
Excess reserves†	— 236	+ 150	— 123	+ 142	— 236	— 303
Daily average level of member bank:						
Borrowings from Reserve Banks	155	208	190	319	135	201‡
Excess reserves†	272	423	299	441	205	328‡
Free reserves†	117	214	109	122	70	127‡

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 April 29, 1964.

BANK RESERVES

Market factors provided excess reserves on balance from the last statement period in March through the final statement week in April. Member banks gained excess reserves primarily through contractions in Treasury deposits with the Federal Reserve Banks and in required reserves. These gains were only partly offset by a decline in float.

System open market operations absorbed reserves over the period as a whole, more than offsetting reserves provided by market factors. System outright holdings of Government securities declined on average by $316 million from the last statement period in March through the final statement week in April, while System holdings of Government securities under repurchase agreements rose by $18 million. System holdings of bankers' acceptances contracted by $27 million. From Wednesday, March 25, through Wednesday, April 29, System holdings of Government securities maturing in less than one year fell by $279 million, and holdings maturing in more than one year rose by $36 million.

THE GOVERNMENT SECURITIES MARKET

Prices of Treasury notes and bonds edged irregularly higher through most of April, as offerings contracted and demand expanded somewhat. Market confidence in the near-term stability of interest rates was bolstered by reports of a substantial improvement in the balance of payments during the first quarter, and by the strength of investor demand for short-term securities which kept the three-month Treasury bill rate below the discount rate for most of the month. Commercial bank offerings of Treasury coupon issues tapered off after having exerted considerable downward pressure on prices in March. In addition, moderate investment demand was evident throughout the period, augmented from time to time by professional short covering. Trading activity tended to decline during the month, however, as investors moved to the sidelines to await the terms of the Treasury's approaching May refinancing operation. At the close of the month, prices of Government notes and bonds were generally $\frac{2}{32}$ to $\frac{18}{32}$ above end-of-March levels, with the largest gains recorded by the 2½ per cent wartime issues.

In the market for Treasury bills, rates receded in April to the lowest levels since autumn of last year as a consequence of both special and seasonal factors. Early in the month, reinvestment in short-term securities of the proceeds of the recent $1.2 billion American Telephone and Telegraph Company common stock offering exerted a pervasive downward influence on short-term yields. At the same time, state and local governmental units were active buyers of bills, reflecting a seasonal expansion in tax receipts. Investment demand thus was strong, and dealer stocks became increasingly depleted—first of short-term maturities, but later of longer maturities as well. Reinvestment resulting from the redemption on April 15 of $2.5 billion of Treasury bills added further to demand. Market sentiment was also strengthened by the Treasury's decision to confine the last three regular weekly auctions of the month to the roll-over of maturing bills. These offerings were $100 million smaller in each case than in several prior weekly auctions when the amounts offered had included roll-overs resulting from an earlier bill strip financing. Toward the end of the month, demand subsided somewhat but rates stabilized near their lows for the month as market participants anticipated additional demand for bills in connection with the impending May refunding of coupon issues.

During April, rates on outstanding bills declined by a net of approximately 7 to 20 basis points. At the last regular weekly auction of the month held on April 27, average issuing rates were 3.446 per cent for the new three-month issue and 3.616 per cent for the new six-month bill—8 and 9 basis points lower, respectively, than the rates produced in the final auction in March. The April 30 auction of $1 billion of new one-year bills resulted in an average issuing rate of 3.705 per cent, compared with an average issuing rate of 3.765 per cent on the comparable issue sold in February. (At the one-year bill auctions held in February and April, banks were not accorded the privilege of paying by credit to Treasury Tax and Loan Accounts. In March when they were permitted to pay for 50 per cent of purchases in this way, an average issuing rate of 3.719 per cent emerged.) The newest outstanding three-month bill closed the month at 3.45 per cent (bid) as against 3.54 per cent (bid) at the end of March, while the newest outstanding six-month bill was quoted at 3.59 per cent (bid) on April 30, compared with 3.72 per cent (bid) on March 31.

OTHER SECURITIES MARKETS

A firmer tone also emerged in the markets for corporate and tax-exempt bonds in early April, following the sharp price declines of March. Lower dealer inventories and the light volume of new offerings reaching the market contributed to an improvement in the corporate sector during this period. At the same time, the tax-exempt sector was encouraged by the excellent reception accorded a large new issue marketed at the beginning of the month. Against this background, investor interest in both sectors of the market expanded at the prevailing higher yield levels and prices held generally steady in the first half of April. The good investor reaction to several large new flotations marketed in the latter part of the month further reinforced market confidence, and prices of both corporate and tax-exempt bonds rose slightly toward the end of the period. Over the month as a whole, the average yield on Moody's seasoned Aaa-rated corporate bonds rose by 1 basis point to 4.41 per cent, while the average yield on similarly rated tax-exempt bonds declined by 4 basis points to 3.12 per cent.

The volume of new corporate bonds floated in April amounted to approximately $375 million, compared with $355 million in the preceding month and $345 million in April 1963. The largest new corporate bond issue marketed during the month was a $100 million Aaa-rated telephone and telegraph company debenture issue maturing in 1999 and nonredeemable for five years. Reoffered to yield 4.48 per cent, the debentures were accorded a good initial reception, although some of the bonds were still unsold at the end of the month. New tax-exempt flotations in April totaled approximately $1,125 million, as against $770 million in March 1964 and $810 million in April 1963. The Blue List of tax-exempt securities advertised for sale rose by $77 million during the month to $597 million on April 30. The largest new tax-exempt bond issue marketed in April consisted of a series of $141 million of Aaa-rated housing authority bonds. Reoffered to yield from 2 per cent in 1964 to 3.50 per cent in 2004, the bonds were very well received. Other new corporate and tax-exempt bonds floated in April encountered generally favorable investor receptions, although investors responded slowly to aggressively priced issues on several occasions.