The Money Market in June

The money market once again demonstrated in June its capacity for accommodating without undue strain the large flows of funds and securities associated with heavy corporate dividend and tax payments. Aided by the expansion of bank credit to securities dealers and to nonbank financial institutions, corporations managed to shift Government securities to dealers and to redeem finance company paper. In addition, business corporations borrowed from commercial banks to meet their quarterly obligations. The money market retained a steadily firm tone throughout the month, with Federal funds trading almost exclusively at 3½ per cent. Rates posted by the major New York City banks on new and renewal call loans to Government securities dealers were generally in a 3¾ to 3⅞ per cent range. Treasury bill rates edged upward around midmonth, but declined subsequently when demand reappeared. Offering rates for new time certificates of deposit issued by the leading New York City banks held generally steady during the month, reflecting in part steps taken by the banks in May to compensate for certificates maturing in June; rates at which such certificates traded in the secondary market varied little over the month. In early June, the major finance companies lowered their offering rates on short-term directly placed paper by ⅛ of a per cent. Prior to the midmonth tax date, these rates were readjusted upward by ⅛ of a per cent. Subsequently, however, rates on short-term finance company paper were lowered again, presumably as the finance companies recouped funds they had lost over the tax date. The offering rates on some longer maturities were raised by ⅛ of a per cent in the latter part of the month.

The increased financial demands of the period did bring additional pressure on banks in the major money centers, especially around mid-June. With nation-wide reserve availability adequately provided by System operations, however, these banks were able to meet the demands through advance preparation and the smooth functioning of the Federal funds market. Toward the end of the month, reserve pressures on these banks diminished.

In the market for Treasury notes and bonds, price changes in early June were narrowly mixed in generally listless trading. Subsequently, demand for coupon issues expanded, and prices of intermediate- and long-term issues registered modest gains in the latter part of the month. Prices of corporate and tax-exempt bonds moved lower in the opening days of June, but later stabilized and then rose as investment demand improved while the near-term calendar of new offerings remained moderate.

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

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

Factor	Daily averages—week ended				Net changes
	June 3	June 10	June 17	June 24	
Operating transactions					
Treasury operations*	+ 15	+ 12	+ 38	− 5	+ 58
Federal Reserve float	− 218	− 50	+ 352	+ 313	+ 397
Currency in circulation	− 134	− 230	− 126	+ 39	− 451
Gold and foreign account	− 13	+ 9	+ 3	− 7	− 8
Other deposits, and other Federal Reserve accounts (net)†	− 30	− 53	+ 71	− 40	− 52
Total	− 382	− 312	+ 337	+ 301	− 56
Direct Federal Reserve credit transactions					
Open market operations					
Purchases or sales‡					
Government securities	+ 508	+ 203	− 92	− 11	+ 608
Bankers' acceptances	− 2	+ 1	+ 1	—	—
Repurchase agreements					
Government securities	+ 34	+ 173	− 74	− 153	− 20
Bankers' acceptances	—	+ 25	− 12	+ 11	+ 24
Member bank borrowings	+ 56	+ 25	+ 38	− 95	+ 24
Other loans, discounts, and advances	—	− 1	+ 1	− 1	− 1
Total	+ 596	+ 425	− 138	− 249	+ 634
Member bank reserves					
With Federal Reserve Banks	+ 214	+ 113	+ 199	+ 52	+ 578
Cash allowed as reserves§	− 134	− 121	+ 229	+ 64	+ 38
Total reserves§	+ 80	− 8	+ 428	+ 116	+ 616
Effect of change in required reserves§	− 116	+ 43	− 305	− 211	− 589
Excess reserves§	− 36	+ 35	+ 123	− 95	+ 27
Daily average level of member bank:					
Borrowings from Reserve Banks	264	289	327	232	278‖
Excess reserves§	295	330	453	358	359‖
Free reserves§	31	41	126	126	81‖

Note: Because of rounding, figures do not necessarily add to totals.

* Includes changes in Treasury currency and cash.

† Includes assets denominated in foreign currencies.

‡ May also include redemptions.

§ These figures are estimated.

‖ Average for four weeks ended June 24, 1964.

BANK RESERVES

Market factors[1] had a sizable impact on member bank reserves during the interval from the last statement week in May through the statement week ended June 24. These factors first absorbed reserves over the Memorial Day holiday and the following week, and then turned around sharply to supply reserves in the final two weeks of the period. The net effect of these fluctuations over the month as a whole was to drain $607 million in reserves. During the early part of the period, the drains largely reflected a substantial seasonal increase in currency outside banks, in part to meet needs for cash over the May 30-May 31 holiday week end. Some of this currency returned to the banking system in the latter two weeks of the period and, coupled with the usual midmonth bulge in float, more than offset reserves absorbed by an increase in required reserves. (The rise in required reserves reflected the expansion in bank credit which accompanied a build-up in deposits by corporations preparing to make quarterly dividend and tax payments.)

To offset the effects of these large fluctuations in market factors, System open market operations provided reserves in the two-week period ended June 10 and absorbed reserves in the following two weeks. Over the four-week period as a whole, the weekly average of System outright holdings of Government securities rose by $608 million, while holdings of Government securities under repurchase agreements declined by $20 million. Total System holdings of bankers' acceptances rose by $24 million. From Wednesday, May 27, through Wednesday, June 24, System holdings of Government securities maturing in less than one year expanded by $420 million, while holdings maturing in more than one year increased by $88 million.

[1] Operating transactions, cash allowed as reserves, and required reserves.

THE GOVERNMENT SECURITIES MARKET

Prices of Government notes and bonds rose during June in response to moderate investment demand, which was not counterbalanced by any significant selling pressure. In the early part of the month, prices fluctuated narrowly in generally light trading, as market participants appeared unable to generate any conviction that interest rates were likely to move far in either direction in the months just ahead. Subsequently, the pace of trading activity quickened somewhat, and prices of most issues rose except for a brief period in the latter part of the month when discussion of a possible July Treasury financing outside the bill area produced a more cautious atmosphere. Thus, from June 23 to June 25 some downward pressure developed on prices of issues maturing in approximately five years—the area in which many thought additional supplies might be forthcoming. Prices strengthened in the final days of June, however, following reports that the Treasury's cash needs for July and the second half of the year would be less than previously expected and that the Treasury would defer announcing any financing plans until July. Through most of June, there was continuing interest in the recently issued 4¼ per cent bonds of 1974 from pension funds, banks, and others, while the 2½ per cent wartime issues were also in considerable demand. At the close of the month, prices of Treasury notes and bonds were generally $\frac{2}{32}$ to $\frac{16}{32}$ above end-of-May levels.

Treasury bill rates edged lower in early June. During this period, a moderate demand for bills tended to favor longer maturities as market confidence in the near-term stability of interest rates apparently stimulated investor willingness to commit funds to such issues. Subsequently, investment demand tapered off while market supplies—particularly of shorter maturities—expanded around the quarterly corporate dividend and tax dates, reflecting both outright selling and the return of securities from repurchase agreements with corporations. Consequently, bill rates edged irregularly higher from June 9 through June 17 and dealers' inventories increased. In the latter part of the month, however, a broad and active demand from public funds, banks, and other sources cut the dealers' seasonal accumulations, and bill rates receded. The popularity of December bill maturities for dividends, taxes, and year-end statement date purposes contributed to a decline in the yield spread between the three- and six-month Treasury bills to as little as 4 basis points late in the month. Rates on most outstanding short-term bills were 2 to 5 basis points higher over the month as a whole, while long-term bills were generally 1 to 6 basis points lower.

At the last regular weekly auction of the month held on June 29, bidding was aggressive, especially for the new December 31 maturity. Average issuing rates were 3.479 per cent for the new three-month issue and 3.528 per cent for the new six-month bill, virtually unchanged and 7 basis points lower, respectively, than the average rates at the final weekly auction in May. The July 1 auction of $1 billion of new one-year bills resulted in an average issuing rate of 3.691 per cent, compared with an average issuing rate of 3.719 per cent on the comparable issue sold in May. The newest outstanding three-month bill closed the month at 3.48 per cent (bid), as against 3.47 per cent at the end of May, while the newest outstanding six-month bill was quoted at 3.52 per cent (bid) on June 30, compared with 3.59 per cent at the close of the preceding month.

OTHER SECURITIES MARKETS

A cautious atmosphere pervaded the corporate bond market in early June, reflecting considerable investor resistance to the lower reoffering yields on new and recent offerings still bound by syndicate price restrictions. A steadier tone emerged prior to midmonth, after several corporate issues had been released from syndicate and adjusted upward in yield. The corporate sector was also encouraged by the enthusiastic reception accorded the largest new bond issue of the month—$150 million of finance company debentures—offered on June 10 and by the moderate calendar of new public flotations on tap. Over the remainder of the month, investor interest expanded somewhat and corporate bond prices rose. In the tax-exempt bond sector, a comparatively heavy volume of new offerings added to the accumulations on dealers' shelves through much of June. In the first half of the month, investor demand for new issues was rather limited, price cutting on older issues failed to spark any general increase in demand, and prices of outstanding state and local bonds generally edged lower in quiet trading. In the latter part of the month, a large new tax-exempt issue was well received and investor interest generally expanded, while the near-term calendar of new offerings diminished somewhat. Against this background, prices of outstanding issues steadied and then rose fractionally. Over the month as a whole, the average yield on Moody's seasoned Aaa-rated corporate bonds declined by 1 basis point to 4.40 per cent, while the average yield on similarly rated tax-exempt bonds rose by 3 basis points to 3.11 per cent. (These indexes are based on only a limited number of issues.)

The volume of new corporate bonds floated in June amounted to approximately $460 million, compared with $470 million in the preceding month and $455 million in June 1963. The largest new corporate bond issue marketed during the month consisted of $150 million A-rated (Standard & Poor's) 4⅝ per cent finance company debentures maturing in 1986. The debentures, which cannot be redeemed for eight years, were offered to yield 4.643 per cent and were very well received. New tax-exempt flotations in June totaled approximately $780 million, as against $625 million in May 1964 and $990 million in June 1963. The Blue List of tax-exempt securities advertised for sale closed the month at $595 million, little changed from the end-of-May level. The largest new tax-exempt bond issue during the period consisted of about $120 million of Aaa-rated (Moody's) housing authority bonds. The bonds were reoffered to yield from 2.10 per cent in 1965 to 3.50 per cent in 2004, and were enthusiastically received. Other new corporate and tax-exempt issues floated in June met with mixed investor receptions.