The Money Market in July

The money market remained generally firm in July, though there were some variations in tone during the period which reflected mainly changes in reserve pressures on banks in the money centers. The market handled with facility the heavy financial flows associated first with the movements of currency around the Independence Day holiday period and later with the Treasury's advance refunding and repayment of maturing one-year bills. Substantial reserve pressures converged upon the major reserve city banks—especially during the second and third statement periods of the month—as these banks bore the brunt of the expanded financing needs of Government securities dealers that stemmed from the Treasury's massive advance refunding. For the most part, however, the money market banks were able to fill the bulk of their enlarged reserve needs in the Federal funds market, increasing only moderately their borrowings from the Federal Reserve Banks. Subsequently, there was a shift in reserves toward the money center banks, in part because of a decline in dealer financing needs, and the tone of the money market became somewhat more comfortable.

Against this background, Federal funds traded predominantly at 3½ per cent though there was some trading at lower rates on a number of days during the period when reserves shifted to the money centers. Similarly, 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, although the rate dipped at times to 3⅝ per cent. Offering rates for new six- to nine-month time certificates of deposit issued by leading New York City banks ranged from 3.90 per cent to 4 per cent in July. The rates at which three- and six-month certificates of deposit traded in the secondary market tended to decline late in the month.

In early July, the major finance companies increased their offering rates on 30- to 89-day paper by ⅛ of a per cent. Later in the month, the finance companies made two downward adjustments of ⅛ of a per cent in their rates on 30- to 89-day paper and lowered their rates on 90- to 239-day paper by ⅛ of a per cent. Commercial paper dealers also reduced their offering rates by ⅛ of a per cent. Bankers' acceptances, with rates unchanged, attracted a strong demand, and dealers' portfolios declined sharply during the latter half of the month.

Treasury bill rates rose slightly at the beginning of the month. Subsequently, however, a considerable reinvestment demand for bills developed as a by-product of the Treasury's advance refunding operation and the pay-down of $2 billion of maturing July 15 bills, and rates moved lower through midmonth. In the latter part of July, a more cautious tone emerged in the bill market following the Treasury's announcement of the sale of a $1 billion "strip" of bills. Rates moved higher only briefly, however, and then steadied and edged lower once more.

The market for Government notes and bonds was dominated during the month by expectations of, and subsequent reactions to, Treasury financing operations. In the opening days of the period, prices of outstanding Government notes and bonds moved narrowly higher in quiet trading as the market awaited word of the Treasury's plans. Market reaction to the Treasury's July 8 refunding announcement was quite favorable, and lively trading ensued as investors adjusted their portfolios in response to the new investment opportunities presented by the complex exchange operation. Despite the considerable expansion in the market supply of intermediate- and long-term securities expected to result from the refunding, market participants remained confident in the outlook for general stability in interest rates. Contributing to the optimistic atmosphere in the bond market was the Treasury's statement that it did not contemplate any additional Government financing in the longer term maturity area during the remainder of the calendar year. After the close of the refunding subscription books on July 16, a more cautious tone emerged for a time in the market for outstanding notes and bonds, partly reflecting concern over the implications of the widening differentials between domestic and foreign interest rates. After a slight decline in prices, however, demand expanded somewhat and prices of outstanding notes and bonds generally moved higher during the remainder of the month, partly in favorable reaction to the Treasury's July 29 announcement of the terms of its $4 billion August refinancing. (For details, see below.)

In other sectors of the bond market, prices of corporate and tax-exempt bonds were little changed in early July. In the latter part of the month, corporate bond prices rose when demand expanded somewhat, while prices of tax-exempt bonds held generally steady.

BANK RESERVES

Market factors drained a net of $67 million in member bank reserves over the five weeks ended July 29. The bulk of these drains occurred in the first two weeks of the period, reflecting the usual contraction in float at the end of June as well as the movement of currency into circulation around the Independence Day holiday. In the week ended July 22, in contrast, float rose to its mid-month peak, currency flowed back into the banking system, and member bank required reserves declined, partly reflecting the redemption on July 15 of the last of the Treasury's quarterly series of one-year bills. Subsequently, as float fell off sharply toward the end of July, market factors again absorbed reserves.

These July fluctuations in market factors were offset on balance by the effects of System open market operations. Thus, System Account transactions released reserves in early July, absorbed reserves over the following two weeks, and again provided reserves in the final week of the period. Over the five-week period as a whole, the weekly average of System outright holdings of Government securities declined by $70 million, while average holdings of Government securities under repurchase agreements increased by $161 million. Average total System holdings of bankers' acceptances fell by $22 million. From Wednesday, June 24, through Wednesday, July 29, System holdings of Government securities maturing in less than one year rose by $281 million, while holdings maturing in more than one year remained unchanged.

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

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

Factor	Daily averages—week ended					Net changes
	July 1	July 8	July 15	July 22	July 29	
Operating transactions						
Treasury operations*	+ 21	+ 13	— 64	+ 100	+ 64	+ 134
Federal Reserve float	— 318	+ 64	— 95	+ 408	— 569	— 510
Currency in circulation	— 41	— 301	— 183	+ 130	+ 155	— 240
Gold and foreign account	— 1	+ 7	+ 11	— 8	— 2	+ 7
Other deposits, and other Federal Reserve accounts (net)†	+ 5	— 7	+ 51	+ 78	+ 11	+ 138
Total	— 325	— 222	— 280	+ 706	— 340	— 471
Direct Federal Reserve credit transactions						
Open market operations						
Purchases or sales‡						
Government securities	+ 396	+ 392	— 185	— 638	— 35	— 70
Bankers' acceptances	—	— 2	— 1	— 4	— 2	— 9
Repurchase agreements						
Government securities	+ 18	+ 102	+ 164	— 274	+ 151	+ 161
Bankers' acceptances	— 1	+ 31	— 22	— 39	+ 18	— 13
Member bank borrowings	— 11	+ 42	+ 187	— 301	+ 20	— 63
Other loans, discounts, and advances	—	—	—	—	—	—
Total	+ 402	+ 564	+ 143	—1,255	+ 161	+ 10
Member bank reserves						
With Federal Reserve Banks	+ 68	+ 242	— 137	— 549	— 179	— 455
Cash allowed as reserves§	+ 50	— 282	+ 325	— 11	+ 66	+ 45
Total reserves§	+ 118	— 40	+ 188	— 563	— 113	— 410
Effect of change in required reserves§	— 67	— 71	+ 93	+ 268	+ 136	+ 359
Excess reserves§	+ 51	— 111	+ 281	— 295	+ 23	— 51
Daily average level of member bank:						
Borrowings from Reserve Banks	221	263	460	159	179	256‖
Excess reserves§	402	291	572	277	300	368‖
Free reserves§	181	28	112	118	121	112‖

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 five weeks ended July 29, 1964.

THE GOVERNMENT SECURITIES MARKET

In the market for Government notes and bonds, prices of most outstanding issues edged irregularly higher at the beginning of July. A moderate investment demand favoring the 2½ per cent wartime issues was in evidence; however, activity tended to be restrained, as participants awaited announcement of the Treasury's July financing plans. Although uncertainty prevailed over the nature of a possible debt operation in July, confidence remained high in the underlying near-term stability of interest rates.

After the close of business on July 8, the Treasury announced that the further improvement of its cash position made unnecessary any immediate substantial cash borrowing. At the same time, the Treasury disclosed the terms of the largest advance refunding offer it had ever made. Holders of approximately $42 billion of nine selected note and bond issues maturing from August 1964 through February 1967 were given an opportunity to exchange their holdings for additional amounts of the outstanding 4 per cent bonds of October 1969, for new 4⅛ per cent bonds of November 1973, or for reopened 4¼ per cent bonds of August 1987-92. The outstanding issues eligible for conversion—$26.6 billion of which was publicly held—were the 5 per cent and 3¾ per cent notes of August 1964, the 4⅞ per cent and 3¾ per cent notes of November 1964, the 3⅞ per cent notes of May 1965, the 3⅝ per cent notes of February 1966, the 3¾ per cent bonds of May 1966, the 4 per cent notes of August 1966, and the 3⅝ per cent notes of February 1967. Subscription books were open from July 13 through July 16, with the actual exchange taking place on July 24.

The market greeted the Treasury's July 8 advance refunding offer with considerable enthusiasm. Activity expanded sharply, as news of the operation triggered heavy trading in the issues directly involved in the exchange as well as extensive switching transactions in other Government securities. A broad professional and investment demand quickly developed for the refunding "rights" and pushed prices of those issues as much as $\frac{9}{32}$ higher in early trading. Subsequently, however, these price gains were pared as a heavy volume of rights offerings gradually satiated the spirited demand for them.

Prices of outstanding high coupon securities maturing beyond 1969 adjusted $\frac{5}{32}$ to $\frac{18}{32}$ lower after the refunding announcement, reflecting both the potential addition to debt in this area and the immediate increase in market supplies of such maturities as a result of switching into the "when-issued" refunding securities. At the same time, prices of those short-term coupon issues that were not rights moved higher, largely in response to reinvestment demand from sellers of rights; interest in the popular 2½ per cent wartime issues remained strong. With the conclusion of the refunding subscription period on July 16, activity tapered off while the market awaited the results of the operation.

A slightly hesitant tone developed briefly in the Government securities market, following the closing of the books, as the widening spread between interest rates here and abroad generated some apprehension. However, the bond market took in stride the July 20 announcement that early reports indicated a refunding exchange of about $9 billion, implying larger additions to the supplies of intermediate and longer term maturities than most participants had expected. Details of the exchange, released on July 21, indicated a highly successful operation for the Treasury. Subscriptions from the public totaled $9.3 billion—or 34.7 per cent of their eligible holdings. Public holders subscribed for approximately $3.7 billion of the reopened 4 per cent bonds of 1969, $4.4 billion of the new 4⅛ per cent bonds of 1973, and $1.2 billion of the reopened 4¼ per cent bonds of 1987-92. Subscriptions from official accounts totaled $26 million.

From July 21 through the end of the month, prices were generally steady, as fairly good investment demand enabled dealers to make some progress in redistributing issues acquired in the advance refunding. The market reacted favorably to the terms of the Treasury's August refunding, announced after the close of business on July 29. In replacement of $1.2 billion of the 5 per cent notes and $2.9 billion of the 3¾ per cent notes maturing on August 15, the Treasury offered about $4 billion of new eighteen-month 3⅞ per cent notes, priced at par, for cash subscription. Books were to be open only on August 3 for the new notes, which will be dated August 15, 1964 and will mature on February 15, 1966. (At the same time, the Treasury announced plans to offer about $1 billion to $1½ billion of March tax bills later in August.)

In the Treasury bill market, offerings expanded somewhat and rates edged slightly higher through July 7. The increase in offerings reflected commercial bank selling of shorter maturities in a firm money market and sales of various maturities by investors seeking to make room in their portfolios for the delivery of new one-year bills on July 7. Subsequently, however, a good investment demand from public funds and other sources developed—especially for longer bill maturities—and a steady tone reappeared in the bill market. In addition, the Treasury disclosed, in conjunction with its July 8 refunding announcement, that its immediate cash needs were much smaller than had been anticipated and that it would, for the time being, confine its cash borrowings to increases in the weekly bill issue. The bill sector was encouraged by this news. Following the advance refunding announcement, demand—particularly for longer bill maturities—expanded sharply, as sellers of refunding rights reinvested the proceeds both in outstanding coupon issues and in Treasury bills. Considerable demand for the scarce shorter maturity bills also arose from the reinvestment of a portion of the proceeds of $2 billion of one-year bills which matured on July 15. Against this background, bill rates generally receded from July 9 through midmonth. A more cautious atmosphere emerged in the bill market in the latter part of the month, however, as participants began to question the viability of prevailing bill rate levels in view of the growing gap between short-term money market rates abroad and the lower rates prevailing in this country. This caution was reinforced by the

Treasury's announcement that it would auction on July 24 a $1 billion strip of bills for payment on July 29, representing additions of $100 million to each of ten of the outstanding weekly bill issues maturing from October 15 through December 17, 1964. (Commercial banks were not permitted to pay for the bills through credit to Treasury Tax and Loan Accounts.) Market observers regarded the strip offering as indicative of an official desire for higher bill rates, and rates on outstanding bills generally rose 2 to 4 basis points following the strip announcement. Subsequently, rates steadied and edged lower again from July 22 through the month end, as continued investment demand—particularly for the shorter maturities—pressed against a thin market supply of bills. Over the month as a whole, rates on most outstanding short-term bills were 1 to 12 basis points lower, while long-term bills were generally 5 basis points lower to 5 basis points higher.

An average issuing rate of 3.505 per cent was set at the strip bill auction on July 24. At the last regular weekly auction of the month held on July 27, average issuing rates were 3.475 per cent for the new three-month issue and 3.591 per cent for the new six-month bill, virtually unchanged and 6 basis points higher, respectively, than the average rates at the final weekly auction in June. The July 30 auction of $1 billion of new one-year bills resulted in an average issuing rate of 3.644 per cent, compared with an average issuing rate of 3.691 per cent on the comparable issue sold in June. The newest outstanding three-month bill closed the month at 3.47 per cent (bid), as against 3.48 per cent at the end of June, while the newest outstanding six-month bill was quoted at 3.57 per cent (bid) on July 31, compared with 3.52 per cent at the close of the preceding month.

OTHER SECURITIES MARKETS

Prices of seasoned corporate and tax-exempt bonds were unchanged to a shade higher in the early part of the month. Market activity was somewhat restrained as participants first awaited, and then assessed, the implications of the Treasury's advance refunding operation for the corporate and tax-exempt markets. A moderate revival in demand for recent flotations still bound by syndicate price restrictions developed after aggressive bidding by underwriters had pushed reoffering yields on new issues in both sectors down somewhat. Investor interest in these new issues was selective, however, at the higher price levels.

In the latter part of the month the tone of the corporate sector strengthened, in response to expanded demand from institutional investors and a slackening calendar of scheduled flotations. In the tax-exempt sector, however, where a heavier than seasonal volume of new issues continued to reach the market, prices remained generally steady. Over the month as a whole, the average yield on Moody's seasoned Aaa-rated corporate bonds was unchanged at 4.40 per cent, while the average yield on similarly rated tax-exempt bonds declined by 2 basis points to 3.09 per cent. (These indexes are based on only a limited number of issues.)

The volume of new corporate bonds floated in July amounted to approximately $230 million, compared with $460 million in the preceding month and $345 million in July 1963. The largest new corporate bond issue publicly marketed during the month consisted of $60 million of unrated 4½ per cent debentures maturing in 1989. The debentures, which carry five-year call protection, were offered to yield 4.60 per cent and were well received. New tax-exempt flotations in July totaled approximately $835 million, as against $780 million in June 1964 and $800 million in July 1963. The Blue List of tax-exempt securities advertised for sale closed the month at $725 million, compared with $595 million on June 30. The largest new tax-exempt bond issue during the period consisted of $123 million of A-rated various purpose municipal bonds. Reoffered to yield from 2.30 per cent in 1966 to 3.50 per cent in 1995, the bonds were accorded a good investor reception. Other new corporate and tax-exempt issues floated in July met with mixed investor receptions.