The Money Market in August

The money market was comfortable during the opening days of August, but a generally firm tone prevailed thereafter. The slightly easier tone at the beginning of the month, which had carried over from the end of July, largely reflected an easing of reserve pressures at the major money center banks. Subsequently, however, these banks again came under pressure, as they expanded their loans to Government securities dealers whose financing needs were sharply enlarged in connection with the Treasury's late July and early August financing operations. Member bank borrowings from the Federal Reserve, after having averaged on the low side in the final weeks of July and the first week of August, were somewhat higher over the rest of the month.

Federal funds traded predominantly at 3½ per cent during the month, while 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. Offering rates for new time certificates of deposit issued by leading New York City banks were little changed in August. After having edged lower around the end of July, the rates at which three- and six-month certificates of deposit traded in the secondary market tended slightly higher early in August and fluctuated narrowly thereafter. Treasury bill rates rose irregularly at the beginning of the month in a somewhat cautious atmosphere. However, a more confident tone soon reappeared when good demand materialized at the slightly higher yield levels. Rates fluctuated narrowly during most of the last two thirds of the month, tending downward toward the close.

After advancing in July, prices of Government notes and bonds continued to rise in early August. Subsequently prices moved in a narrow range, despite international political tensions. Toward the close of the month, most prices drifted lower, reflecting domestic economic buoyancy and renewed concern regarding the United States balance of payments. Elsewhere in the bond market, prices of corporate issues and tax-exempt bonds were little changed over the month.

BANK RESERVES

Market factors absorbed $554 million of member bank reserves, on balance, over the four weeks ended August 26. Reserve drains were concentrated in the first two weeks of the period when currency outside banks, Treas-

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

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

Factor	Daily averages—week ended				Net changes
	Aug. 5	Aug. 12	Aug. 19	Aug. 26	
Operating transactions					
Treasury operations*	− 55	− 188	+ 41	+ 2	− 200
Federal Reserve float	− 160	+ 94	+ 470	− 305	+ 99
Currency in circulation	− 71	− 229	+ 1	+ 115	− 184
Gold and foreign account	− 5	− 4	− 4	—	− 13
Other deposits, and other Federal Reserve accounts (net)†	+ 7	+ 25	+ 5	− 101	− 64
Total	− 289	− 303	+ 513	− 289	− 368
Direct Federal Reserve credit transactions					
Open market operations					
Purchases or sales‡					
Government securities	+ 623	+ 117	− 242	+ 74	+ 572
Bankers' acceptances	—	+ 1	− 1	− 2	− 2
Repurchase agreements					
Government securities	− 29	+ 168	− 300	+ 122	− 39
Bankers' acceptances	—	+ 7	− 25	—	− 18
Member bank borrowings	+ 81	+ 116	− 98	+ 51	+ 150
Other loans, discounts, and advances	+ 2	− 2	+ 1	—	+ 1
Total	+ 677	+ 407	− 666	+ 245	+ 663
Member bank reserves					
With Federal Reserve Banks	+ 388	+ 104	− 153	− 44	+ 295
Cash allowed as reserves§	− 153	− 66	+ 137	+ 79	− 3
Total reserves§	+ 235	+ 38	− 16	+ 35	+ 292
Effect of change in required reserves§	− 252	+ 87	− 69	+ 51	− 183
Excess reserves§	− 17	+ 125	− 85	+ 86	+ 109
Daily average level of member bank:					
Borrowings from Reserve Banks	260	376	278	329	311‖
Excess reserves§	351	476	391	477	424‖
Free reserves§	91	100	113	148	113‖

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 August 26, 1964.

ury deposits with the Federal Reserve Banks, and required reserves all expanded. In contrast, during the week ended August 19 market factors provided a substantial volume of reserves primarily as a result of the sharp midmonth rise in float coupled with a reflux of currency to the banking system. In the final statement period of the month, market factors again absorbed reserves as float contracted.

Moving counter to fluctuations in market factors, System open market operations provided reserves in early August, withdrew reserves over the midmonth period, and supplied reserves in the final week of the period. Over the four-week period as a whole, the weekly average of System outright holdings of Government securities rose by $572 million, while average holdings of Government securities under repurchase agreements declined by $39 million. Average total System holdings of bankers' acceptances decreased by $20 million. From Wednesday, July 29, through Wednesday, August 26, System holdings of Government securities maturing in less than one year rose by $2,025 million, while holdings maturing in more than one year contracted by $1,758 million, largely reflecting an exchange of holdings of the maturing August 15 issues and maturity shifts within the portfolio.

THE GOVERNMENT SECURITIES MARKET

In the market for Government notes and bonds, prices edged higher during the opening days of the month in a carry-over of earlier investment demand favoring the active 2½ per cent wartime issues, the new 4⅛ per cent bonds of 1973, and the recently reopened 4¼ per cent bonds of 1987-92. During this period, the atmosphere continued favorable for the August refinancing in which the Treasury sold for cash new 3⅞ per cent eighteen-month notes to replace securities maturing on August 15.[1] The terms of the financing, announced late in July, were in line with market expectations and had little effect on prices of outstanding obligations. Following the close of subscription books on August 3, the Treasury announced that subscriptions had totaled $14.9 billion, of which approximately $4 billion was accepted. Subscriptions from states, political subdivisions, public funds, the Federal Reserve, and other official accounts aggregated $1.9 billion and were allotted in full. Subscriptions from other sources were allotted in full up to $100,000, while larger subscriptions were subject to a 15 per cent allotment but assured of a minimum award of $100,000.

From August 5 through August 12, a somewhat more hesitant atmosphere briefly emerged in the market, partly in response to developments in Southeast Asia and in the Mediterranean area. The cautious tone also reflected renewed uncertainty over the balance-of-payments outlook and future domestic price stability. Slightly expanded offerings encountered only modest investment demand, and prices of notes and bonds receded. Selling pressure remained very moderate, however, and price losses were small. Declines centered in the 2½ per cent wartime issues —which were in supply on swaps into higher coupon issues —and in selected long-term bonds. With the immediate concern over the international situation subsiding toward midmonth, an improved tone emerged in the market. Offerings contracted and a fairly good investment demand developed for high coupon issues, particularly for the 4⅛ per cent bonds of 1973, which were in demand both outright and on switching transactions. Moderate interest in the new 3⅞ per cent notes of 1966 was also evident. Accordingly, from August 13 through August 21, prices of notes and bonds edged irregularly higher in light trading. Thereafter, a more hesitant tone crept into the market as investment demand receded as often happens in August. Contributing to the change in atmosphere were further signs of continuing strength in the domestic economy and some concern about balance-of-payments developments.

In the Treasury bill market, rates moved irregularly upward through August 11. A hesitant market undertone during this period largely reflected expectations that investor interest in bills would contract substantially in August following the heavy reinvestment demand for bills generated by the Treasury's July refunding. With market supplies enlarged as a result of the Treasury's late-July bill auctions, professional sources were willing sellers of bills at slightly higher rates. At these yield levels, however, a good demand appeared, particularly from public funds, and over the midmonth period bill rates first steadied and then receded. In the latter part of August, investment demand moved progressively from shorter maturities, in which some scarcities developed, out beyond the three-month area. Longer bills attracted little interest and tended to edge higher in rate, partly because of strong corporate interest in the auction on August 26 of $1 billion of tax anticipation bills dated September 2 and maturing on March 22, 1965. On August 31, the Treasury announced that it would add an additional $100 million to the 91-day bill issues offered in the next four weekly auctions and rates backed up slightly after the announcement. Over the month as a whole, rates on most outstanding short-term bills were 2 basis points lower to 10 basis points higher, while longer bills were generally 7 basis points lower to 11 basis points higher.

[1] The details of the offering were discussed in last month's *Review*, p. 149.

Bidding was cautious in the August 25 auction of $1 billion of new one-year bills, which resulted in an average issuing rate of 3.688 per cent, compared with an average issuing rate of 3.644 per cent on the comparable issue sold in July. In contrast, bidding was aggressive the next day for $1 billion of new tax anticipation bills, which sold at an average issuing rate of 3.580 per cent. At the last regular weekly auction of the month held on August 31, average issuing rates were 3.512 per cent for the new three-month issue and 3.629 per cent for the new six-month bill, in each case approximately 4 basis points higher than the average rates at the final weekly auction in July. The newest outstanding three-month bill closed the month at 3.50 per cent (bid), as against 3.47 per cent at the end of July, while the newest outstanding six-month bill was quoted at 3.63 per cent (bid) on August 31, compared with 3.57 per cent at the close of the preceding month.

OTHER SECURITIES MARKETS

Prices of new and seasoned corporate bonds were largely unchanged during the month in a quiet "summer market". The volume of new corporate offerings reaching the market remained seasonally light and underwriters continued to bid aggressively for the scarce supply of new corporate flotations. Subsequent investor demand for these issues was selective, and late in the month, with the approach of September's heavier calendar, several slow-moving issues were released from syndicate price restrictions. In contrast, several negotiated corporate offerings met with excellent receptions. In the tax-exempt sector, prices of new and outstanding bonds declined slightly early in the month. With investment demand quite limited, dealers' advertised inventories, swollen by July's heavy flow of new issues, held close to their high point for the year. Subsequently, however, demand for tax-exempt bonds expanded moderately in response to slight price concessions, and dealers were able to make some progress in reducing their inventories. Toward the end of the month, two negotiated offerings of revenue bonds—one very large and the other medium sized—were enthusiastically received by investors. At the same time, the fairly heavy calendar of forthcoming issues exerted a restraining influence on the market in general. 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 1 basis point to 3.08 per cent. (These indexes are based on only a limited number of issues.)

The volume of new corporate bonds floated in August amounted to approximately $170 million, compared with $230 million in the preceding month and $255 million in August 1963. There were no large corporate issues offered during the month. New tax-exempt flotations in August totaled approximately $705 million, as against $835 million in July 1964 and $710 million in August 1963. The Blue List of tax-exempt securities advertised for sale closed the month at $611 million, compared with $725 million on July 31. The largest new tax-exempt bond issue during the period and one of the largest tax-exempt issues of recent years, a $314 million A-rated issue, consisted of approximately $208 million of 3⅞ per cent term bonds maturing in 2003, and $106 million of serial bonds maturing from 1970 through 1986. Both the term bonds, which were reoffered to yield 3.85 per cent, and the serial bonds, which were reoffered to yield from 3 per cent in 1970 to 3.70 per cent in 1986, were immediately sold and the term bonds moved to a premium bid. Other new corporate and tax-exempt issues floated in August were accorded mixed investor receptions.