The Money Market in September

The money market remained generally firm in September. Federal funds traded predominantly at 3½ per cent, although there was trading at rates below that level on occasion. Member bank borrowing from the Federal Reserve Banks was temporarily high prior to the Labor Day holiday, and after the midmonth quarterly corporate dividend and tax payment dates which brought relatively heavy pressures on reserve positions at banks in the leading money centers.[1] Rates posted by the major New York City banks on new and renewal call loans to Government securities dealers were in a 3⅝ to 4 per cent range during the first half of the month but most frequently in a 3⅞ to 4⅛ per cent range thereafter.

Offering rates for new time certificates of deposit issued by the leading New York City banks remained virtually steady, while the range of rates at which three- and six-month certificates of deposit traded in the secondary market edged slightly higher. Several upward adjustments in the rates of other short-term money market instruments occurred during the month. Thus, at the end of September, the major sales finance companies were quoting a 3¾ per cent offering rate on 30- to 89-day directly placed paper as against a 3⅝ per cent rate at the end of August. Similarly, at the month end commercial paper dealers posted a 4 per cent offering rate on prime 4- to 6-month paper, compared with a 3⅞ per cent rate at the end of August.

Treasury bill rates worked irregularly higher in September. This trend reflected additions to the supply of bills, seasonal pressures over the quarterly corporate dividend and tax dates, and the spreading view that monetary policy had shifted slightly toward less ease. Dealer holdings of bankers' acceptances rose sharply in September, as seasonal influences brought about increased bank selling of these instruments and a contraction in demand for them. Rates on bankers' acceptances, however, remained unchanged throughout the month.

The gradual downward drift in prices of Government notes and bonds which began late in August extended into early September, as market participants continued to react with caution to the uncertainties in the balance-of-

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[1] As announced in the August issue of the *Federal Reserve Bulletin*, the Board of Governors is now releasing on a weekly basis a new set of statistics giving information on reserve positions and purchases and sales of Federal funds by forty-six major money-center banks, eight of which are in New York. Certain information on the financing of Government securities dealers by these banks is also provided. The *Bulletin* gives data for the period September 1959 through July 1964, and subsequent data can be obtained from the new current release and from future *Bulletins*. An analysis of the historical data and other related material will be published by the Board this fall in a special monograph.

payments outlook and auto labor negotiations, to the possibility of rising credit demands over the fall season, and to the view that a slight shift in Federal Reserve policy might be taking place. Subsequently, as the distribution of securities acquired in the July and August Treasury financings proceeded in an orderly fashion, a firmer atmosphere reappeared. Prices of coupon issues generally edged higher from September 16 through September 22, and then moved narrowly through the end of the month. In the markets for corporate and tax-exempt bonds, prices came under downward pressure as underwriters probed for yield levels at which the month's large supply of new securities could be distributed. Investment buying appeared at the higher yield levels and prices were generally firm at the end of the month.

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

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

Factor	Daily averages—week ended					Net changes
	Sept. 2	Sept. 9	Sept. 16	Sept. 23	Sept. 30	
Operating transactions						
Treasury operations*	+ 74	− 7	− 60	− 64	+ 42	− 15
Federal Reserve float	− 268	+ 112	+ 283	+ 610	− 522	+ 221
Currency in circulation	− 8	− 238	− 152	+ 253	+ 118	− 77
Gold and foreign account	− 19	+ 33	− 11	+ 11	− 31	− 17
Other deposits, and other Federal Reserve accounts (net)†	+ 12	− 18	+ 51	+ 110	− 5	+ 150
Total	− 210	− 116	+ 81	+ 905	− 397	+ 266
Direct Federal Reserve credit transactions						
Open market operations						
Purchases or sales‡						
Government securities	+ 215	+ 90	+ 28	− 368	+ 253	+ 228
Bankers' acceptances	− 1	+ 2	− 1	− 3	—	− 3
Repurchase agreements						
Government securities	− 104	+ 359	− 242	− 135	+ 29	− 93
Bankers' acceptances	+ 3	+ 23	− 8	− 12	+ 38	+ 42
Member bank borrowings	− 14	+ 103	− 253	+ 184	− 131	− 51
Other loans, discounts, and advances	—	—	—	+ 1	+ 1	+ 2
Total	+ 99	+ 630	− 476	− 333	+ 190	+ 126
Member bank reserves						
With Federal Reserve Banks	− 111	+ 520	− 394	+ 585	− 208	+ 392
Cash allowed as reserves§	+ 21	− 362	+ 454	− 72	+ 10	+ 51
Total reserves§	− 90	+ 158	+ 60	+ 513	− 198	+ 443
Effect of change in required reserves§	+ 7	− 49	− 186	− 405	+ 24	− 609
Excess reserves§	− 83	+ 109	− 126	+ 108	− 174	− 166
Daily average level of member bank:						
Borrowings from Reserve Banks	375	478	225	409	278	341‖
Excess reserves§	388	497	371	479	305	408‖
Free reserves§	13	19	146	70	27	67‖

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 September 30, 1964.

BANK RESERVES

Nation-wide net reserve availability averaged somewhat lower over the five-week period ended September 30 than in the four preceding statement weeks. On a weekly average basis, market factors absorbed $292 million of reserves from the final statement period in August through the final week of September while System Account operations released a somewhat smaller volume of reserves. Banks throughout the country increased their borrowing from the Federal Reserve Banks around the September 7 Labor Day holiday as they guarded against uncertainties over the long week end. After a brief subsequent easing, reserve pressures built up on money-center banks significantly around midmonth during the dividend and tax period. These banks experienced a runoff of time certificates of deposit as well as expanded loan demand from business corporations. In addition, finance companies and Government securities dealers were increasing their borrowing from banks, as finance company paper matured and corporate repurchase agreements were terminated. While the money-center banks were able to cover most of their increased needs through the Federal funds market, their borrowing from the Reserve Banks also rose during the week ended September 23. Subsequently, a shift of reserves in favor of the money centers led to a decline in such borrowing, and to the appearance of considerable ease in the money market around the September 30 reserve settlement date for "country" banks.

System open market operations helped to offset most of the effects of the fluctuations in market factors and reserve distribution that occurred during September. At the beginning of the period the System sought to avoid augmenting the already heavy demand for Treasury bills that was present in the market and injected reserves mainly through purchases of Treasury notes and bonds. The temporary reserve needs over the Labor Day holiday were supplied largely through the purchase of Government securities under repurchase agreements. Subsequently, as movements in market factors began adding to the reserve base, the System absorbed reserves through the effects of the termination of outstanding repurchase agreements as well as through outright sales of Treasury bills. In the final week of the month the System again provided reserves as an offset to the month-end absorption of reserves by market factors. Over the five-week period as a whole, the weekly average of System outright holdings of Government securities rose by $228 million, while average holdings of Government securities under repurchase agreements fell by $93 million. Average total System holdings of bankers' acceptances increased by $39 million. From

Wednesday, August 26, through Wednesday, September 30, System holdings of Government securities maturing in less than one year fell by $117 million, while holdings maturing in more than one year rose by $388 million.

THE GOVERNMENT SECURITIES MARKET

In the market for Government notes and bonds, the hesitant atmosphere which had appeared in late August remained in evidence in the early part of September. In part, this cautious tone reflected some feeling that the Federal Reserve System had permitted a slightly firmer tone to develop in the money market. At the same time, there was continued concern on the part of some participants over the balance of payments and over the possible implications for price stability of the automobile labor negotiations and contract settlements, as well as some discussion of the likelihood of increased credit demands stemming from the fall pickup in business activity.

Against this background, professional offerings expanded somewhat and prices of notes and bonds generally receded in the early part of September, with the largest losses occurring in the long-term maturity area. Offerings from nonprofessional sources remained modest, however, and some investment demand appeared at the lower price levels. At the same time, professional offerings gradually contracted as the technical position of the market strengthened, and a steadier tone emerged toward midmonth. The improvement in tone also reflected a renewed sentiment in the market that long-term interest rates were likely to remain relatively stable in the period immediately ahead. Although a consensus gradually developed that monetary policy had shifted slightly, most participants felt that such a move was aimed primarily at raising short-term rates and would not have significant effects on long-term yields. The feeling that rates in the longer maturity areas might remain fairly stable was reinforced by press comments that the Treasury's refunding and new money needs over the coming year would be relatively modest. In this improved atmosphere investment demand expanded, particularly for high-coupon securities in the five- to ten-year maturity category, while a good professional short-covering demand also developed for notes and bonds of various maturities. Accordingly, prices of most intermediate- and long-term issues edged higher from September 16 through September 22. Price movements thereafter were narrowly mixed. At the close of the month, prices of Treasury notes and bonds were generally 2/32 lower to 10/32 higher than end-of-August levels.

In the Treasury bill market, rates edged higher through midmonth partly in response to seasonal pressures over the quarterly corporate dividend and tax payment dates and to additions to the regular weekly bill auctions.[2] As was the case in the bond market, the bill sector was influenced during this period by market discussion of a possible shift in monetary policy. Following the midmonth tax date, bill offerings tapered off, demand increased somewhat—particularly from commercial banks—and the tone of the market strengthened. Against this background, bill rates edged lower through September 18. During the remainder of the month rates edged irregularly higher as dealers—faced by higher financing costs—attempted to lighten their positions. Over the month as a whole, rates on outstanding bills were generally 5 to 22 basis points higher.

The September 24 auction of $1 billion of new one-year bills resulted in an average issuing rate of 3.773 per cent, compared with an average issuing rate of 3.688 per cent on the comparable issue sold in August. At the last regular weekly auction of the month held on September 28, average issuing rates were 3.555 per cent for the new three-month issue and 3.711 per cent for the new six-month bill, 4 and 8 basis points higher, respectively, than the average rates at the final weekly auction in August. The newest outstanding three-month bill closed the month at 3.55 per cent (bid), as against 3.50 per cent at the end of August, while the newest outstanding six-month bill was quoted at 3.72 per cent (bid) on September 30, compared with 3.63 per cent at the close of the preceding month.

OTHER SECURITIES MARKETS

In the markets for corporate and tax-exempt bonds, prices of new and seasoned issues were little changed in quiet trading during the period immediately preceding the September 7 Labor Day holiday. Subsequently, a cautious atmosphere developed in both sectors in response to some uncertainty over the posture of monetary policy as well as to the usual September increase in the calendar of scheduled corporate and tax-exempt issues. Neither the more attractive pricing of new bonds nor some price cutting on recent issues remaining on dealers' shelves sparked any significant expansion in demand, and prices of new and seasoned issues generally edged lower through midmonth. Toward the end of the month, however, the improved atmosphere of several weeks' duration in the Government securities market began to influence the corporate and tax-exempt bond markets, and these markets

[2] See this *Review*, September 1964, p. 176, for details.

firmed. A stronger tone was particularly evident in the corporate sector where aggressive syndicate bidding for new issues pushed reoffering yields down and stimulated demand for higher yielding older issues still on dealers' shelves. The corporate sector was also buoyed by the light calendar of new corporate flotations on tap in the coming weeks. In the tax-exempt sector, investor demand generally expanded during this period following the very successful marketing of a large housing authority bond issue. At the same time, however, the tax-exempt sector continued to be restrained by the large volume of dealer inventories, and by a heavy calendar of forthcoming flotations. Over the month as a whole, the average yield on Moody's seasoned Aaa-rated corporate bonds rose by 1 basis point to 4.42 per cent, while the average yield on similarly rated tax-exempt bonds increased 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 September amounted to approximately $365 million, compared with $170 million in the preceding month and $280 million in September 1963. The largest new corporate bond flotation during the period consisted of $60 million of 4⅝ per cent utility company first and refunding mortgage bonds maturing in 1994. The bonds, which were Aa-rated by Moody's, were reoffered to yield 4.53 per cent. They were initially accorded only a fair investor reception but sold out later in the month when the market atmosphere brightened. New tax-exempt flotations in September totaled approximately $850 million, as against $705 million in August 1964 and $415 million in September 1963. The Blue List of tax-exempt securities advertised for sale closed the month at $673 million, compared with $611 million on August 31. The largest new tax-exempt bond issue during the period was a $130 million Aaa-rated series of housing authority bonds. Reoffered to yield from 2.05 per cent in 1965 to 3.50 per cent in 2005, the bonds were well received. Other new corporate and tax-exempt issues floated in September were accorded mixed investor receptions.