The Money and Bond Markets in March

The money market displayed a steadily firm tone during March, readily accommodating the substantial flows of funds which occurred early in the month in connection with the quarterly corporate dividend and tax payments and again in late March in anticipation of the April 1 Cook County, Illinois, personal property tax date. The heavy demands placed upon the money market were reflected in higher rates on some short-term money market instruments, including certificates of deposit. In the Treasury bill market, however, yields edged lower through most of the month in response to good demand—apparently reflecting to some degree a reflow of short-term funds from foreign countries—which persisted even over the midmonth corporate dividend and tax payment period.

In the market for Treasury notes and bonds, the uncertainty about the potential repercussions of international financial developments which had clouded the atmosphere in February carried over into the early part of March, but a much more confident tone soon developed following favorable reports regarding the initial results of the President's balance-of-payments program. Activity expanded and prices of coupon issues moved progressively higher. Later in the month, a cautious tone reemerged and prices receded for a time before steadying at the close. Elsewhere in the capital markets, prices of corporate and tax-exempt bonds continued to decline at the beginning of March but rebounded subsequently, partly in response to the same factors that affected the Government bond market.

THE MONEY MARKET AND BANK RESERVES

The money market in March retained the firmer tone that had emerged during the previous month. Nationwide reserve availability continued to fluctuate around the lower levels that had begun to prevail in February. Federal funds traded mainly in a 4 to 4⅛ per cent range, and rates posted by the major New York City banks on call loans to Government securities dealers were generally quoted in a 4¼ to 4⅝ per cent range in the first half of the month, and in a 4⅜ to 4¾ per cent range thereafter. Offering rates for new time certificates of deposit issued by leading New York City banks increased early in the month, as banks sought to minimize the net decline in outstanding certificates over the dividend and tax period. At the same time, rates on such certificates also edged higher in secondary market trading. Rates on new and outstanding certificates stayed at the higher levels over much of the remainder of the month and then receded slightly late in the period. Toward the close of the month most dealers in bankers' acceptances increased their rates by 1/8 of a percentage point on all maturities of unendorsed paper, following a substantial rise in dealer holdings of acceptances.

As the month opened, reserve availability contracted somewhat when reserves absorbed through market factors were only partially offset by System open market operations. However, the money market banks, particularly those in New York City, were able to satisfy the major portion of their enlarged reserve needs in the Federal funds market where excess reserves previously accumulated by the "country" banks were redistributed. As a result, member banks reduced their borrowings from the Federal Reserve Banks despite the contraction in average nationwide reserve availability in the statement week ended March 3.

Over the following two statement periods, the money market once again demonstrated impressive flexibility in accommodating smoothly the increased credit demands and the massive transfers of funds and securities during the corporate dividend and tax period. System open market operations offset a substantial volume of reserves drained by market factors, and nationwide reserve availability was slightly greater than the levels prevailing in early March. Nevertheless, the reserve positions of banks in the leading money centers came under heightened pressure as these banks experienced a runoff of time certificates of deposit, reinforced by an expanding loan demand from corporations, finance companies, and securities dealers. The money market banks continued to fill a large part of their needs in the Federal funds market—where trading generally took place in a 4 to 4 1/8 per cent range—and expanded their borrowings at the "discount" window moderately.

The money market remained quite firm during the last two statement weeks of the month. Reserve positions of money center banks continued under heavy pressure. First, tax checks cleared—wiping away the temporary accumulations of tax deposits over the midmonth corporate tax date. Then, the approach of both the March 31 quarterly bank statement date and the April 1 Cook County, Illinois, personal property tax date generated reserve needs. Federal funds were in strong demand throughout this period, and trading remained primarily within a 4 to 4 1/8 per cent range. At the same time, the margin of unsatisfied demand for Federal funds increased and member bank borrowings from the Reserve Banks expanded—particularly during the statement week ended March 24, when available reserves were lodged with country banks at the start of their biweekly statement period.

Over the month as a whole, market factors drained $794 million of reserves, primarily as a result of an increase in required reserves and a decline in float, as well as changes in gold and foreign accounts; on the other hand, System open market operations provided $699 million of reserves. The weekly average of System outright holdings of Government securities rose by $683 million from the final statement week in February through the last week in March, while average System holdings of Government securities under repurchase agreements de-

Table I

CHANGES IN FACTORS TENDING TO INCREASE OR DECREASE MEMBER BANK RESERVES, MARCH 1965

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

Factor	Daily averages—week ended March 3	March 10	March 17	March 24	March 31	Net changes
"Market" factors						
Member bank required reserves*	− 274	+ 227	− 144	− 210	+ 60	− 350
Operating transactions (subtotal)	+ 80	− 622	+ 68	+ 337	− 307	− 444
Federal Reserve float	+ 194	− 300	− 27	+ 408	− 629	− 354
Treasury operations†	− 30	+ 109	− 105	− 66	+ 48	− 44
Gold and foreign account	− 56	− 90	− 54	− 186	− 7	− 383
Currency outside banks*	+ 16	− 292	+ 90	+ 98	+ 173	− 4
Other Federal Reserve accounts (net)‡	− 42	+ 30	+ 150	+ 86	+ 110	+ 343
Total "market" factors	− 194	− 305	− 76	+ 118	− 247	− 794
Direct Federal Reserve credit transactions						
Open market instruments						
Outright holdings:						
Government securities	+ 117	+ 276	+ 97	− 3	+ 96	+ 683
Bankers' acceptances	− 1	+ 1	− 1	—	—	− 1
Repurchase agreements:						
Government securities	− 18	+ 32	− 46	− 63	+ 18	− 76
Bankers' acceptances	+ 23	+ 29	+ 23	− 20	+ 39	+ 93
Member bank borrowings	− 250	+ 115	− 16	+ 93	+ 24	− 33
Other loans, discounts, and advances	—	− 4	− 23	+ 1	− 4	− 30
Total	− 130	+ 549	+ 30	+ 8	+ 173	+ 636
Excess reserves*	− 324	+ 154	− 40	+ 126	− 74	− 158
Daily average levels of member bank:						
Total reserves, including vault cash*	21,136	21,063	21,167	21,512	21,378	21,251§
Required reserves*	20,924	20,697	20,841	21,060	21,000	20,904§
Excess reserves*	212	366	326	452	378	347§
Borrowings	270	385	370	463	487	395§
Free reserves*	− 58	− 19	− 44	− 11	− 109	− 48§
Nonborrowed reserves*	20,866	20,678	20,797	21,049	20,891	20,856§

Note: Because of rounding, figures do not necessarily add to totals.
* These figures are estimated.
† Includes changes in Treasury currency and cash.
‡ Includes assets denominated in foreign currencies.
§ Average for five weeks ended March 31, 1965.

Table II

RESERVE POSITIONS OF MAJOR RESERVE CITY BANKS MARCH 1965

In millions of dollars

Factors affecting basic reserve positions	Daily averages—week ended					Average of five weeks ended March 31*
	March 3	March 10	March 17	March 24	March 31*	
Eight banks in New York City						
Reserve excess or deficiency(—)†	16	10	— 1	23	65	23
Less borrowings from Reserve Banks	115	76	73	180	96	108
Less net interbank Federal funds purchases or sales(—)	510	546	539	614	440	530
Gross purchases	*1,063*	*950*	*1,005*	*1,070*	*957*	*1,009*
Gross sales	*553*	*404*	*467*	*456*	*517*	*479*
Equals net basic reserve surplus or deficit(—)	— 609	— 612	— 612	— 770	— 471	— 615
Net loans to Government securities dealers	546	331	418	460	434	438
Thirty-eight banks outside New York City						
Reserve excess or deficiency(—)†	4	19	5	18	46	18
Less borrowings from Reserve Banks	40	129	104	88	193	111
Less net interbank Federal funds purchases or sales(—)	201	69	322	257	85	187
Gross purchases	*1,057*	*884*	*1,016*	*944*	*922*	*965*
Gross sales	*856*	*815*	*694*	*687*	*837*	*778*
Equals net basic reserve surplus or deficit(—)	— 237	— 179	— 421	— 326	— 232	— 279
Net loans to Government securities dealers	365	190	333	421	276	317

* Estimated reserve figures have not been adjusted for so-called "as of" debits and credits. These items are taken into account in final data.

† Reserves held after all adjustments applicable to the reporting period less required reserves and carry-over reserve deficiencies.

clined by $76 million. Average net System holdings of bankers' acceptances, both outright and under repurchase agreements, rose by $92 million during the period. From Wednesday, February 24, through Wednesday, March 31, System holdings of Government securities maturing in less than one year increased by $818 million, while holdings of issues maturing in more than one year expanded by $92 million.

THE GOVERNMENT SECURITIES MARKET

In the market for Treasury notes and bonds, a cautious tone persisted at the beginning of the month as participants continued to evaluate the implications of the balance-of-payments problem. Moderate offerings of selected issues by commercial banks and dealers outweighed a steady demand from public funds and other investors, and prices of most coupon issues tended slightly lower in the opening days of the period. At the lower price levels, however, offerings were readily absorbed and a steadier tone began to emerge. The market reacted favorably to reports of a February rise in Britain's official international reserves, but news of a further United States gold loss exerted some restraint upon the coupon sector. Against this background, prices fluctuated narrowly from March 3 through March 10 in light trading.

As the month progressed, a growing conviction emerged among market participants that the Administration's balance-of-payments program was yielding promising initial results, and this feeling produced a considerable improvement in market atmosphere. Offerings of securities tapered off while a steady investment demand appeared, including commercial bank interest in the 2½ per cent wartime issues and moderate institutional purchases of higher coupon issues. Investment demand in turn prompted increased dealer interest, and prices of most Treasury notes and bonds moved steadily higher from March 11 through March 17. Some profit taking then developed, and the price advance halted for a few days. Subsequent price movements were mainly irregular, although the generally favorable market atmosphere and steady investment demand continued to prevail. Toward the end of the month, a hesitant tone reappeared and modest price declines were registered, partly as a result of renewed concern over the pound sterling, but prices steadied at the close.

Treasury bill rates generally moved lower during most of the month in response to a broadly based demand, which focused on the increasingly scarce shorter maturities. In the early part of the month, a sizable demand for bills from public funds and commercial banks was augmented by corporate purchases, despite the approach of the quarterly corporate tax and dividend payment period. One factor contributing to the demand for bills appeared to be a reflux from abroad of corporate short-term funds under the recently initiated voluntary restraint program to curb capital outflows. Both March 10, a popular dividend payment date, and the midmonth corporate tax payment date passed with little evidence of strain despite the return of securities to the market from maturing repurchase agreements with corporations. During this period as through much of the month, the strong contraseasonal demand, which also included sizable public fund buying, readily absorbed the modest offerings that appeared.

At the last regular weekly auction of the month, held on March 29, average issuing rates were 3.921 per cent for the new three-month issue and 3.993 per cent for the new six-month bill—7 and 5 basis points lower, respectively, than the average rates at the final weekly auction in February. The March 25 auction of $1 billion of new one-year bills produced an average issuing rate of 3.987 per cent, as against 4.062 per cent on the comparable issue sold a month earlier. The newest outstanding three- and six-month bills closed the month at bid rates of 3.93 per cent and 4.00 per cent, respectively.

OTHER SECURITIES MARKETS

After a hesitant opening, a better tone soon developed in the corporate and tax-exempt sectors, partly in response to the favorable reception accorded major new issues. Subsequently, prices of corporate and tax-exempt bonds edged upward as the relatively higher yields available on new offerings, coupled with the recent price concessions made by dealers on older issues, stimulated expanded investor interest. The corporate and tax-exempt sectors were also encouraged by the more optimistic view of balance-of-payments developments as reflected in the improved atmosphere of the Government securities market, and by the rapid distribution to investors of the General Aniline and Film Corporation common stock sold by the United States Government through an underwriting group. Trading activity became lighter toward the close of the month, however, as an increased volume of secondary stock offerings appeared to be diverting investor interest from the bond markets while continued strong business loan demand reduced commercial bank interest in the tax-exempt market. Over the month as a whole, the average yield on Moody's seasoned Aaa-rated corporate bonds increased by 1 basis point to 4.42 per cent while the average yield on similarly rated tax-exempt bonds rose by 6 basis points to 3.09 per cent. (These indexes are based on only a limited number of issues and therefore do not necessarily reflect market movements fully.)

The volume of new corporate bonds publicly floated in March amounted to an estimated $570 million, compared with $185 million in February 1965 and $355 million in March 1964. The largest publicly offered new corporate bond issue of the month consisted of $100 million of Ba-rated 4 per cent subordinated convertible debentures maturing in 1990. The debentures, which were offered to yield 3.87 per cent, were quickly sold. New tax-exempt flotations in March totaled about $950 million, as against $850 million in February 1965 and $770 million in March 1964. The Blue List of tax-exempt securities advertised for sale closed the month at $750 million, compared with $827 million at the end of February. The largest new tax-exempt bond flotation during the month consisted of $115 million of Aaa-rated housing authority bonds. The bonds, which were reoffered to yield from 2.10 per cent in 1965 to 3.40 per cent in 2005, were very well received. Other new corporate and tax-exempt bonds publicly offered during the period were accorded mixed investor receptions.