The Money and Bond Markets in April

The slightly firmer tone which had developed in the money market during the latter part of March generally also prevailed in April. Nationwide net reserve availability fluctuated about the lower levels reached in late March, and reserve positions at banks in the major money centers remained under pressure. A number of these banks raised their interest rates on brokers' call loans secured by stock exchange collateral, while some other short-term interest rates also rose during the month. Despite this general firmness in the money market, Treasury bills continued to be in strong demand. Bill rates were little changed during the first two thirds of the month and moved slightly lower in the latter part of April.

Prices of Treasury notes and bonds receded at the beginning of the month in quiet trading, as the market evaluated the continued rapid advance of the domestic economy and awaited disclosure of the new British budget. This budget, presented on April 6, was well received. Subsequently, investment demand for coupon issues expanded moderately, and a steadier atmosphere emerged. Over the remainder of the month, prices of intermediate- and long-term Government securities fluctuated narrowly as market attention focused upon the Treasury's approaching May refinancing operation. Prices of corporate and tax-exempt bonds were little changed in early April, receded temporarily around midmonth, and held generally steady during the remainder of the month.

THE MONEY MARKET AND BANK RESERVES

With nationwide net reserve availability remaining at the lower levels reached toward the end of March, the money market was steadily firm in April. Federal funds traded predominantly in a 4 to 4⅛ per cent range during the month, and member bank borrowings from the Federal Reserve averaged somewhat higher in April than in the preceding month. Rates posted by the major New York City banks on call loans to Government securities dealers were generally quoted in a 4⅜ to 4½ per cent range during the month. Offering rates for new time certificates of deposit issued by leading New York City banks and the range of rates at which such certificates traded in the secondary market edged higher in April. New York banks expanded their volume of outstanding negotiable certificates of deposit substantially during the month, and they accounted for the bulk of nationwide growth in such certificates. Early in the month, three dealers in bankers' acceptances temporarily rescinded a ⅛ of a per cent increase in rates that they had posted in late March. However, dealer holdings remained heavy, and on April 23 all five dealers raised their rates by ⅛ of a per cent, quoting ninety-day unendorsed bills at 4⅜ per cent bid, 4¼ per cent offered.

In the early part of the month, market factors absorbed an unexpectedly large volume of reserves, particularly reflecting a substantial rise in required reserves and an increase in currency outside banks. System open market operations offset a part of these reserve drains, primarily through repurchase agreements with Government securities dealers, but reserve positions of banks in the major money centers remained under considerable pressure. These banks were strong bidders for Federal funds, generally at a 4⅛ per cent rate, but with only a limited supply of funds coming into the market, a substantial portion of their reserve needs had to be obtained through borrowing from the Reserve Banks. Money market banks continued to incur basic reserve deficiencies in the statement period ended April 14. Federal funds still traded primarily at a 4⅛ per cent rate, but the availability of such funds improved as "country" banks released some of their reserve surpluses accumulated the week before. Borrowings from the Reserve Banks thus declined somewhat.

After mid-April, reserve distribution again favored the country banks, and the reserve positions of banks in the major money centers came under heightened pressure in the wake of increased bank lending over the April 15 income tax date. Toward the end of the month, pressures on the central money market abated, in good part reflecting the fact that heavy Treasury tax receipts were temporarily redeposited with major money market banks. As a result, Federal funds traded more frequently at 4 per cent than at 4⅛ per cent in the final days of the month.

After having absorbed a substantial volume of reserves during the first half of April, market factors released a larger amount of reserves in the final two statement periods of the month. Over the month as a whole, market factors provided $157 million of reserves partly as a result of a seasonally large rise in float, while System open market operations absorbed $145 million. The weekly average of System outright holdings of Government securities decreased by $58 million from the final statement week in March through the last week in April, and average System holdings of Government securities under repurchase agreements were unchanged on balance. Average net System holdings of bankers' acceptances, both outright and under repurchase

Table I

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

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

Factor	Daily averages—week ended April 7	April 14	April 21	April 28	Net changes
"Market" factors					
Member bank required reserves*	− 130	+ 119	− 236	+ 82	− 165
Operating transactions (subtotal)	− 249	− 156	+ 651	+ 170	+ 322
Federal Reserve float	+ 33	+ 78	+ 469	− 189	+ 391
Treasury operations†	+ 183	− 183	+ 11	− 25	− 9
Gold and foreign account	− 29	− 26	− 137	+ 13	− 169
Currency outside banks*	− 455	− 60	+ 135	+ 380	+ 9
Other Federal Reserve accounts (net)‡	+ 14	+ 26	+ 58	− 9	+ 89
Total "market" factors	− 379	− 87	+ 815	+ 258	+ 157
Direct Federal Reserve credit transactions					
Open market instruments					
Outright holdings:					
Government securities	+ 95	+ 127	− 137	− 143	− 58
Bankers' acceptances	+ 8	− 3	− 1	+ 1	—
Repurchase agreements:					
Government securities	+ 211	+ 29	− 150	− 90	—
Bankers' acceptances	− 7	− 37	− 11	− 32	− 87
Member bank borrowings	+ 83	− 173	+ 175	− 227	− 142
Other loans, discounts, and advances	+ 1	− 1	+ 2	− 2	—
Total	+ 390	− 58	− 122	− 493	− 287
Excess reserves*	+ 7	− 95	+ 193	− 235	− 130
Daily average levels of member bank:					
Total reserves, including vault cash*	21,503	21,290	21,718	21,401	21,478§
Required reserves*	21,130	21,011	21,247	21,165	21,138§
Excess reserves*	373	278	471	236	340§
Borrowings	570	397	572	345	471§
Free reserves*	− 197	− 119	− 101	− 109	− 131§
Nonborrowed reserves*	20,933	20,893	21,146	21,056	21,007§

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 four weeks ended April 28, 1965.

Table II

RESERVE POSITIONS OF MAJOR RESERVE CITY BANKS APRIL 1965

In millions of dollars

Factors affecting basic reserve positions	Daily averages—week ended April 7	April 14	April 21	April 28*	Average of four weeks ended April 28*
Eight banks in New York City					
Reserve excess or deficiency(−)†	13	14	9	12	12
Less borrowings from Reserve Banks	125	54	133	3	79
Less net interbank Federal funds purchases or sales(−)	455	705	726	173	515
Gross purchases	*895*	*1,168*	*1,255*	*924*	*1,061*
Gross sales	*440*	*463*	*530*	*751*	*546*
Equals net basic reserve surplus or deficit(−)	− 567	− 744	− 849	− 164	− 581
Net loans to Government securities dealers	534	459	670	639	576
Thirty-eight banks outside New York City					
Reserve excess or deficiency(−)†	1	13	2	− 17	—
Less borrowings from Reserve Banks	173	92	190	54	127
Less net interbank Federal funds purchases or sales(−)	306	364	339	248	314
Gross purchases	*904*	*1,062*	*989*	*1,054*	*1,002*
Gross sales	*598*	*697*	*650*	*805*	*688*
Equals net basic reserve surplus or deficit(−)	− 478	− 443	− 528	− 319	− 442
Net loans to Government securities dealers	304	333	431	373	360

* 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.

agreements, declined by $87 million during the period. From Wednesday, March 31, through Wednesday, April 28, System holdings of Government securities maturing in less than one year fell by $231 million, while holdings of issues maturing in more than one year remained unchanged.

THE GOVERNMENT SECURITIES MARKET

The market for Treasury notes and bonds took on a cautious atmosphere at the beginning of April. On the domestic scene, attention focused on the continuing surge in bank lending to business, the moderate contraction in nationwide reserve availability, and reports that the unemployment rate had declined in March to the lowest level since 1957, while the market also awaited the details of the forthcoming British budget for 1965-66. Prices of notes and bonds drifted lower amid light trading. A small net investment demand did remain in evidence, however, and in the absence of significant selling pressures dealers gradually reduced their inventories. As the technical position of the market progressively strengthened, a somewhat more confident tone developed. The new British budget announced in the House of Commons on April 6 was generally accepted as a constructive effort to help deal with the British balance of payments problem and to strengthen international confidence in the pound sterling; a subsequent reduction in the French bank rate was also favorably received by the market. Against this background, a fairly good demand emerged, particularly for low-coupon issues in the intermediate-term maturity area, and prices of Government notes and bonds tended to move higher from April 6 through April 14.

Around midmonth, offerings increased somewhat and prices briefly declined when the market learned that several large money market banks were raising their interest rates on brokers' call loans secured by stock exchange collateral. Activity tapered off in the latter part of the month, as the market geared itself for the terms of the Treasury's May refinancing operation, but a moderate investment demand persisted and was augmented at times by some professional interest. As a result, prices edged irregularly upward from April 20 through Wednesday, April 28. After the close of business on the latter day, the Treasury announced the refunding terms. Holders of $1.8 billion of 4⅝ per cent notes and $6.6 billion of 3⅞ per cent notes coming due on May 15 were given the opportunity to exchange the maturing securities either for the reopened 4 per cent notes of August 1966 (offered at a discount to yield about 4.12 per cent) or for the reopened 4¼ per cent bonds of May 1974 (offered at a premium price to yield about 4.22 per cent). Subscription books were open from May 3 through May 5, with the payment and delivery date for the Treasury's offerings scheduled for May 17. The market reacted mildly to the terms of the refunding, and the Treasury's announcement had little impact on prices of outstanding coupon issues. Prices of the "rights" issues—the maturing securities eligible for exchange—which had advanced prior to the Treasury's announcement, receded slightly in the closing days of the month, while prices of other outstanding notes and bonds were narrowly mixed.

In the Treasury bill sector, the supply of securities in the market generally increased during the month. In the early days of the period, the usual portfolio adjustments following the April 1 Cook County, Illinois, personal property tax date triggered expanded offerings, and the Treasury enlarged the first two regular weekly auctions of the month by a total of $300 million over the amounts maturing. In addition, some commercial bank selling developed as a consequence of the prevailing firm money market atmosphere, while relatively high dealer financing costs made dealers more willing to trim their inventories. These enlarged offerings were readily absorbed, however, by considerable demand from public funds and, to a lesser extent, from corporations. As a result, bill rates fluctuated narrowly through April 20. Subsequently, rates receded slightly in response to professional and investment demand, which arose partially in connection with the Treasury's refunding operation.

At the last regular weekly auction of the month, held on April 26, average issuing rates were 3.916 per cent for the new three-month issue and 3.977 per cent for the new six-month bill—about 1 and 2 basis points lower, respectively, than the average rates at the final weekly auction in March. The April 23 auction of $1 billion of new one-year bills produced an average issuing rate of 3.996 per cent, as against 3.987 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 3.91 per cent and 3.97 per cent, respectively.

OTHER SECURITIES MARKETS

Prices of corporate and tax-exempt bonds were little changed in sluggish activity during the first half of April, as investors continued to focus their attention upon equities. Investment demand for new bond flotations was selective, and dealers made little progress in reducing their inventories of recently marketed issues and seasoned bonds. Over the midmonth period, prices eased slightly in both sectors, largely in reaction to news of the increase in broker loan rates. In the latter part of April, prices of corporate and tax-exempt bonds held generally steady as the Treasury's impending refunding and a buildup in the calendar of scheduled flotations tended to restrain activity. Over the month as a whole, the average yield on Moody's seasoned Aaa-rated corporate bonds rose by 2 basis points to 4.44 per cent while the average yield on similarly rated tax-exempt bonds was unchanged at 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 April amounted to an estimated $395 million, compared with $570 million in March 1965 and $375 million in April 1964. The largest publicly offered new corporate bond issue of the month consisted of $65 million of 4 per cent convertible debentures maturing in 1985. The debentures, which were unrated by Moody's, were offered at par and were quickly sold. New tax-exempt flotations in April totaled about $920 million as against $950 million in March 1965 and $1,125 million in April 1964. The Blue List of tax-exempt securities advertised for sale closed the month at $821 million, compared with $750 million at the end of March. The largest new tax-exempt bond flotation during the month consisted of $125 million of A-rated municipal various-purpose bonds. Reoffered to yield from 2.35 per cent in 1966 to 3.40 per cent in 1995, the bonds were accorded a fair investor reception. Other new corporate and tax-exempt bonds publicly offered during the period were accorded fair to good investor receptions.