The Money and Bond Markets in June

The money market remained firm in June while handling readily the substantial financial flows generated by quarterly corporate dividend and tax payments. Heavy midmonth credit demands associated with these payments increased the pressure on the reserve positions of the money market banks. While these banks were able to cover part of the special needs of the period in the Federal funds market, their borrowings from the Federal Reserve Banks also increased. Treasury bill rates generally declined during most of the month in response to a steady demand from commercial banks, public funds, and other sources, but edged higher toward the end of June.

Prices of Treasury notes and bonds fluctuated narrowly in the early part of June when the outlook for interest rates was clouded by the congestion evident in the corporate and tax-exempt bond markets. Around midmonth, as selling of Governments by investors failed to expand, a more confident tone developed. Demand for coupon issues picked up, and prices moved higher in fairly active trading until late in the month when both activity and prices receded. In the corporate and tax-exempt bond sectors, market supplies of new and recent issues remained very heavy and prices declined during the first third of the month. A better tone subsequently emerged in the corporate sector, as progress was gradually made in distributing bonds to investors, but prices of tax-exempt bonds continued to move lower throughout the month in the face of persistent market congestion.

THE MONEY MARKET AND BANK RESERVES

Nationwide net reserve availability in June fluctuated in approximately the same range which had prevailed in other recent months. The money market remained firm, with Federal funds trading on most days primarily at 4⅛ per cent. Rates on new call loans to Government securities dealers were most frequently quoted in a 4¼ to 4½ per cent range by the major New York City banks, while rates on renewal call loans were generally in a 4¼ to 4⅜ per cent range (see the left-hand panel of the chart on page 139). Offering rates for new time certificates of deposit issued by leading New York City banks edged slightly higher in early June and then receded. The range of rates at which such certificates traded in the secondary market moved irregularly lower during the month. Rates on bankers' acceptances were unchanged and dealer inventories increased only slightly in June, as the usual substantial expansion in dealer portfolios over the June 30 statement date for banks failed to materialize. On June 1, the major sales finance companies raised their offering rates on 30- to 89-day directly placed paper by ⅛ of a percentage point, thus setting a uniform rate of 4¼ per cent for all such paper in the 30- to 270-day maturity category.

The month began with a consistently firm tone in the money market. System open market operations released reserves in the two statement weeks ended June 2 and June 9 as an offset to the absorption of reserves resulting from the movements in "market" factors. The distribution of reserves favored the major New York City banks, which continued to add to their negotiable certificates of deposit outstanding, presumably to be in a good position to meet credit demands expected over the June dividend and tax dates. In the meantime, these banks sold Federal funds on balance, including the sizable volume which they normally purchase from their correspondents. The major money center banks outside New York City were able to cover a good portion of their substantial reserve needs in the Federal funds market. Member bank borrowings from the Reserve Banks, however, remained around the half billion dollar mark.

Table I

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

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

Factor	Daily averages—week ended June 2	June 9	June 16	June 23	June 30	Net changes
"Market" factors						
Member bank required reserves*	— 28	+ 20	— 151	— 398	+ 85	— 802
Operating transactions (subtotal)	— 729	— 169	+ 229	+ 493	— 173	— 348
Federal Reserve float	— 152	+ 110	+ 76	+ 405	— 359	+ 80
Treasury operations†	— 63	+ 8	+ 18	— 68	+ 90	— 15
Gold and foreign account	— 49	+ 16	— 25	+ 22	— 98	— 128
Currency outside banks*	— 311	— 305	+ 97	+ 63	+ 122	— 334
Other Federal Reserve accounts (net)‡	— 161	+ 4	+ 63	+ 70	+ 72	+ 48
Total "market" factors	— 750	— 149	+ 48	+ 95	— 88	— 850
Direct Federal Reserve credit transactions						
Open market instruments						
Outright holdings:						
Government securities	+ 674	+ 53	+ 12	+ 169	+ 44	+ 953
Bankers' acceptances	— 1	— 4	— 2	— 3	+ 1	— 9
Repurchase agreements:						
Government securities	+ 68	+ 119	— 84	— 211	+ 51	— 62
Bankers' acceptances	+ 9	— 7	— 10	— 5	+ 8	— 7
Member bank borrowings	+ 35	— 44	+ 137	— 28	— 97	+ 3
Other loans, discounts, and advances	—	+ 6	— 5	— 2	+ 1	—
Total	+ 778	+ 124	+ 40	— 81	+ 6	+ 878
Excess reserves*	+ 28	— 25	+ 97	+ 14	— 82	+ 26
Daily average level of member bank:						
Total reserves, including vault cash*	21,414	21,369	21,647	22,059	21,832	21,676§
Required reserves*	21,087	21,067	21,248	21,646	21,501	21,322§
Excess reserves*	327	302	309	413	331	354§
Borrowings	518	474	611	583	486	534§
Free reserves*	— 191	— 172	— 212	— 170	— 155	— 180§
Nonborrowed reserves*	20,896	20,895	21,036	21,476	21,406	21,142§

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 June 30, 1965.

During the midmonth statement week, the money market dealt smoothly with the huge flows set in motion by the most popular dividend payment date, June 10, and the quarterly corporate tax date, both of which fell in the same statement week. Total demand deposits (including checks in process of collection) at weekly reporting member banks rose by $8.4 billion during the week, as corporations acquired the deposits to pay out a substantial amount of dividends and several billion dollars in Federal taxes. On the assets side, the weekly reporting member banks extended approximately $2.7 billion in loans over the week ended June 16, over 50 per cent more than in the same period of 1964. Commercial and industrial loans rose substantially, while loans to sales finance companies and to brokers and dealers for purchasing or carrying securities also increased considerably. (During this period corporations not only borrowed from banks, but also reduced their holdings of Government securities under repurchase agreements with securities dealers as well as their holdings of finance company paper.) These heavy credit demands brought a notable increase in reserve pressure on the New York City banks, while other major banks continued to have sizable basic reserve deficits. However, reserves were in good supply at 4⅛ per cent in the Federal funds market, and borrowings from the Reserve Banks increased only moderately.

The pressures generated by the tax date led to heavy borrowing at the Federal Reserve "discount window" over the June 18-20 weekend. Subsequently, the money market became easier and Federal funds were available to buyers at a nominal rate at the end of the June 23 statement week. A comfortable atmosphere carried over into the following statement week, but the tone of the money market tightened as the week progressed. Borrowings from the Reserve Banks rose very sharply on the eve of the midyear

Table II

RESERVE POSITIONS OF MAJOR RESERVE CITY BANKS JUNE 1965

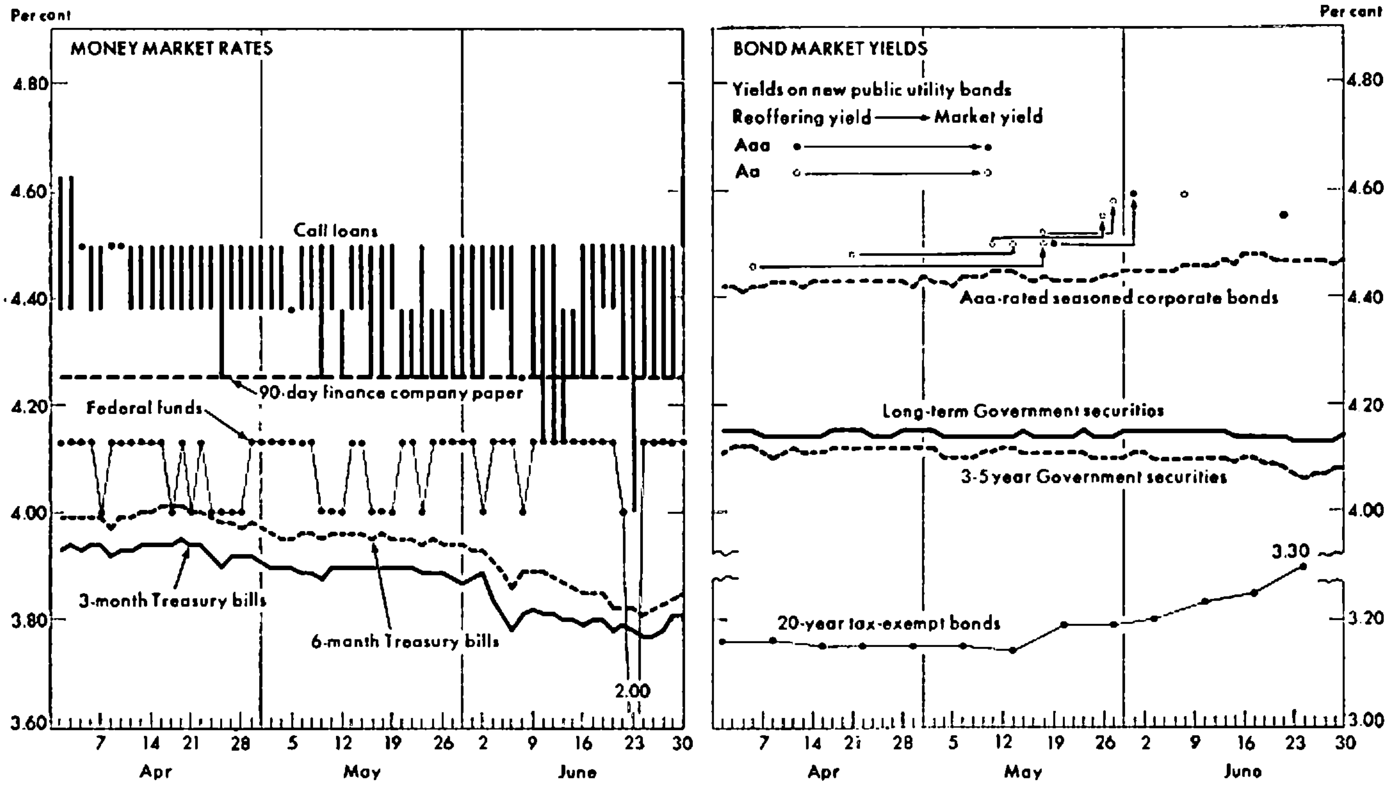
In millions of dollars

Factors affecting basic reserve positions	Daily averages—week ended June 2	June 9	June 16	June 23	June 30*	Average of five weeks ended June 30*
Eight banks in New York City						
Reserve excess or deficiency(—)†	13	4	1	64	2	17
Less borrowings from Reserve Banks	18	47	166	213	96	108
Less net interbank Federal funds purchases or sales(—)	— 124	— 83	38	158	— 26	— 7
Gross purchases	*779*	*891*	*937*	*934*	*782*	*865*
Gross sales	*903*	*974*	*899*	*777*	*808*	*872*
Equals net basic reserve surplus or deficit(—)	119	40	— 203	— 306	— 68	— 84
Net loans to Government securities dealers	486	424	831	942	998	736
Thirty-eight banks outside New York City						
Reserve excess or deficiency(—)†	16	26	21	52	13	26
Less borrowings from Reserve Banks	129	118	129	118	141	127
Less net interbank Federal funds purchases or sales(—)	289	503	493	691	367	469
Gross purchases	*1,206*	*1,391*	*1,281*	*1,303*	*1,110*	*1,258*
Gross sales	*917*	*888*	*788*	*612*	*743*	*790*
Equals net basic reserve surplus or deficit(—)	— 401	— 595	— 602	— 757	— 495	— 570
Net loans to Government securities dealers	247	179	282	401	365	295

Note: Because of rounding, figures do not necessarily add to totals.
* 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.

SELECTED INTEREST RATES*

April-June 1965



Note: Data are shown for business days only.

* MONEY MARKET RATES QUOTED: Daily range of rates posted by major New York City banks on new call loans (in Federal funds) secured by United States Government securities (a point indicates the absence of any range); offering rates for directly placed finance company paper; the effective rate on Federal funds (the rate most representative of the transactions executed); closing bid rates (quoted in terms of rate of discount) on newest outstanding three- and six-month Treasury bills.

BOND MARKET YIELDS QUOTED: Yields of new Aaa- and Aa-rated public utility bonds are plotted around a line showing daily average yields of seasoned Aaa-rated corporate bonds (arrows point from underwriting syndicate reoffering yield of a given issue to market yield of the same issue immediately after it has been released from syndicate restrictions); daily averages of yields of long-term Government securities (bonds due or callable in ten years or more) and of Government securities due in three to five years, computed on the basis of closing bid prices; Thursday averages of yields of twenty seasoned twenty-year tax-exempt bonds (carrying Moody's ratings of Aaa, Aa, A, and Baa).

Sources: Federal Reserve Bank of New York, Board of Governors of the Federal Reserve System, Moody's Investors Service, and The Weekly Bond Buyer.

statement date, on which banks ordinarily like to keep their borrowings small.

Over the month as a whole, market factors absorbed $850 million of reserves, while System open market operations provided $874 million. The weekly average of System outright holdings of Government securities rose by $952 million from the final statement week in May through the last week in June, and average System holdings of Government securities under repurchase agreements fell by $62 million. Average net System holdings of bankers' acceptances (outright and under repurchase agreements), declined by $16 million during the month. From Wednesday, May 26, through Wednesday, June 30, System holdings of Government securities maturing in less than one year expanded by $359 million, while holdings of issues maturing in more than one year rose by $452 million.

THE GOVERNMENT SECURITIES MARKET

Treasury bills were in broadly based demand in the opening days of the month. Market scarcities developed, particularly in the short-term maturity area, and rates continued along the downtrend which had begun in March (see left-hand panel of the chart). The June 3 reduction in the British bank rate from 7 per cent to 6 per cent was a factor contributing to the strength of Treasury bill prices. Around the June 10 corporate dividend payment date, bill rates generally edged a trifle higher, as dealers took on securities returning from maturing corporate repurchase agreements. A steady investment demand persisted, however, and moderate offerings related to the dividend payment date and to the subsequent midmonth corporate tax date were readily absorbed. In the latter part of June, a keen investment interest centered upon bills coming due within three months as well as on bills maturing during future tax and dividend payment periods in September and December 1965 and in 1966. The general downward movement of bill rates resumed and continued until the closing days of the month, when demand tapered off and rates rose slightly.

At the last regular weekly auction of the month, held on June 28, average issuing rates were 3.784 per cent for the new three-month issue and 3.824 per cent for the new six-month bills, about 9 and 10 basis points lower than the average rates at the final weekly auction in May. The June 24 auction of $1 billion of new one-year bills produced an average issuing rate of 3.807 per cent, as against 3.954 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 3.81 per cent and 3.85 per cent, respectively.

In the market for Treasury notes and bonds, the atmosphere of caution which had developed in the latter part of May persisted in the opening days of June. Throughout this period, participants continued to react warily to the substantial calendar of offerings scheduled for flotation elsewhere in the capital markets. In particular, as corporate bond yields moved higher, the widening spread between yields of corporate bonds and those of Government securities of comparable maturity generated some concern over the tenability of prevailing yield levels of Treasury issues. Against this background, dealer offerings of Government notes and bonds expanded somewhat. However, a moderate demand remained in evidence and provided a steadying influence. Thus, after declining slightly on June 1, prices fluctuated narrowly from June 2 through June 10 (the right-hand panel of the chart illustrates the corresponding general stability of yields early in June).

Subsequently, investment demand and switching operations increased, and the coupon sector of the Government securities market strengthened. Participants were influenced by an improved atmosphere in the corporate bond market and by the excellent reception accorded a $525 million offering of Federal National Mortgage Association participation certificates. The bond market was also influenced by the decline in stock market prices—partially reversed late in the month—which was interpreted as being likely to lead to some increase in the demand for fixed-interest securities. The expansion in investor interest in coupon issues stimulated professional demand, offerings were easily taken up, and prices generally moved higher from June 11 through 24. Demand favored the short- and intermediate-term maturities—particularly the 2½ per cent wartime issues. The System Account also made open market purchases of coupon issues during the month to supply reserves in anticipation of large needs over the July 4 holiday weekend. In the last few trading sessions, investor interest declined and prices receded on professional profit taking.

OTHER SECURITIES MARKETS

In the early part of the month, prices of corporate and tax-exempt bonds generally moved lower in a hesitant atmosphere. Considerable investor resistance contributed to, and was reinforced by, the substantial backlog of new issues and older bonds which crowded dealers' shelves. Market participants were also aware of the heavy volume of impending flotations, including two large issues of capital notes by commercial banks. In the corporate sector, a steadier tone appeared in the latter part of the month as price reductions facilitated the distribution of new and recent corporate bonds. In the tax-exempt sector, however, dealer inventories remained large and prices continued to decline over the remainder of the month. Over the month as a whole, the average yield on Moody's seasoned Aaa-rated corporate bonds rose by 2 basis points to 4.47 per cent. During the same period, the average yield on *The Weekly Bond Buyer's* series for twenty seasoned tax-exempt issues (carrying ratings ranging from Aaa to Baa) increased by 11 basis points to 3.30 per cent. (These yield series are shown in the right-hand panel of the chart.)

The volume of new corporate bonds publicly floated in June amounted to an estimated $720 million, compared with $675 million in May 1965 and $460 million in June 1964. A $250 million offering of commercial bank capital notes maturing in 1990 reached the market early in the month. Reoffered at par to yield 4.60 per cent, the issue—which cannot be called for five years—initially encountered investor resistance, but demand for the notes subsequently expanded. Another major commercial bank also offered new capital notes in June. The latter issue consisted of $266 million of 4 per cent notes maturing in 1990, which were offered at par to stockholders and were convertible into stock. The notes, which carried five-year call protection, were well received. The largest publicly offered new corporate bond issue of the month consisted of $40 million of Aaa-rated 4⅝ per cent utility company debentures maturing in 2005. The debentures, which cannot be called for five years, were reoffered to yield 4.55 per cent and were accorded a fair investor reception. New tax-exempt flotations totaled about $885 million, as against $895 million in May 1965 and $780 million in June 1964. The Blue List of tax-exempt securities advertised for sale closed the month at $834 million, compared with $872 million at the end of May. The largest new tax-exempt bond flotation during the month consisted of $67 million of state bonds which were reoffered to yield from 2.50 per cent in 1968 to 2.95 per cent in 1980. The bonds were Aaa rated by Moody's and were accorded a fair reception. Most other new corporate and tax-exempt bonds publicly offered during the period were accorded fairly good investor receptions.