# The Money and Bond Markets in March

The money market turned distinctly more comfortable in March, as increased reserve availability and expectations of further monetary ease generated a widespread decline in short-term interest rates. The money and capital markets, in fact, handled with facility the special demands of the corporate dividend and tax payment dates as well as a record volume of new long-term issues.

Federal funds traded mainly in the vicinity of the discount rate at 4½ to 4¾ per cent during March, compared with the 5 to 5¼ per cent range that prevailed over much of February. Rates on most Treasury bills declined by 41 to 56 basis points over the month. Rates on commercial and finance company paper, bankers' acceptances, and negotiable certificates of deposit (C/D's) also dropped over the month. Moreover, the move to a 5½ per cent bank lending rate on prime business loans became general near the end of the month.

Nationwide net reserve availability increased considerably during March, as System open market operations enabled member banks to reduce their borrowings at the "discount window" and at the same time to expand loans and investments. Even so, the money market tone did not always correspond to the higher levels of net reserve availability. In the post-tax-date week, "country" banks did not fully employ in the Federal funds market the reserves accruing to them from reserve shifts and from the second-stage cut in reserve requirements against savings deposits and certain time deposits. Consequently, bidding by the major money center banks kept the Federal funds rate above the discount rate for a time, and borrowings from the Reserve Banks rose in that week. Even this suggestion of firmness, however, had faded by the end of the month.

The long-term capital markets absorbed about $2.8 billion of new corporate and municipal public offerings in March without particular difficulty, contrary to earlier misgivings. A series of developments, beginning with the reserve requirement reduction announced on the final day of February, strengthened expectations that credit conditions would continue to ease. The broad decline in domestic interest rates and in the bank rates of several European countries contributed to expectations of a reduction in the Federal Reserve discount rate in the near future. Treasury note and bond prices recovered sharply in the course of the month. At the close, underwriters approached a heavy calendar of current and prospective issues with confidence, in marked contrast to the caution that had developed for a time in February.

#### BANK RESERVES AND THE MONEY MARKET

Money market conditions became more comfortable during March, as System open market operations provided reserves in abundance to the banking system. Member bank free reserves averaged $166 million during March (see Table I), up from a $37 million average for the preceding month. Most trading in Federal funds was at 4½ to 4¾ per cent, as noted, and average member bank borrowings from the Reserve Banks dropped sharply to $196 million in March from $366 million in February.

In the comfortable money market atmosphere, the major banks experienced no difficulty in replacing their large March maturities of C/D's. Indeed, offering rates posted by the major New York City banks fell back to a range of 4⅝ to 4⅞ per cent on three- to six-month maturities from 5 to 5⅛ per cent at the beginning of the month. Rates available from other major banks tended to decline somewhat more slowly. Over the four weeks ended on March 22, C/D's outstanding rose $212 million at the major New York City banks and $560 million at all weekly reporting banks. The gain at all weekly reporting banks was $695 million in the preceding four weeks.

Other short-term interest rates also declined significantly during the month. Rates on three- and six-month Treasury bills fell by 53 and 48 basis points, respectively, to 4.01 per cent and 4.06 per cent by the month's end. Offering rates on directly placed finance company paper maturing in ninety days declined ¼ of a percentage point to 4⅞ per cent, and the rate on four- to six-month commercial paper dropped by ⅜ of a percentage point to 5 per cent. In five separate steps over the month, dealers in bankers' acceptances reduced rates by a total of ⅝ of a percentage point to 4½ per cent bid on maturities of three months or less and a range of 4½ to 4⅝ per cent bid on longer maturities.

### Table I

**FACTORS TENDING TO INCREASE OR DECREASE MEMBER BANK RESERVES, MARCH 1967**

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

| Factors | Changes in daily averages— week ended | | | | | Net changes |
|---|---|---|---|---|---|---|
| | March 1 | March 8 | March 15 | March 22 | March 29 | |
| **"Market" factors** | | | | | | |
| Member bank required reserves* | — 25 | + 430 | — 65 | — 225 | + 193 | + 308 |
| Operating transactions (subtotal) | + 36 | — 565 | + 173 | + 121 | — 203 | — 438 |
| Federal Reserve float | — 179 | — 123 | — 88 | + 393 | — 281 | — 278 |
| Treasury operations† | + 119 | + 134 | + 211 | — 340 | — 71 | + 24 |
| Gold and foreign account | — 35 | — 4 | — 6 | — 1 | — | — 45 |
| Currency outside banks* | + 169 | — 466 | + 30 | — 13 | + 165 | — 134 |
| Other Federal Reserve accounts (net)‡ | — 37 | — 96 | + 27 | + 88 | — 6 | — 28 |
| Total "market" factors | + 11 | — 135 | + 108 | — 104 | — 10 | — 130 |
| **Direct Federal Reserve credit transactions** | | | | | | |
| Open market instruments | | | | | | |
| Outright holdings: | | | | | | |
| Government securities | + 98 | + 334 | — 148 | + 250 | + 151 | + 685 |
| Bankers' acceptances | — | — 6 | — 2 | + 1 | — 4 | — 11 |
| Special certificates | — | — | + 64 | — 64 | — | — |
| Repurchase agreements: | | | | | | |
| Government securities | — 340 | + 84 | + 100 | — 28 | — 204 | — 388 |
| Bankers' acceptances | + 11 | — 1 | — 74 | — | + 39 | — 25 |
| Federal agency obligations | — 8 | — 5 | — 3 | — 4 | — 5 | — 25 |
| Member bank borrowings | — 310 | + 35 | — 29 | + 129 | — 167 | — 342 |
| Other loans, discounts, and advances | — | — | — | — | + 3 | + 3 |
| Total | — 449 | + 391 | — 92 | + 283 | — 186 | — 53 |
| Excess reserves* | — 438 | + 256 | + 16 | + 179 | — 196 | — 183 |
| | **Daily average levels** | | | | | |
| **Member bank:** | | | | | | |
| Total reserves, including vault cash* | 23,381 | 23,207 | 23,288 | 23,692 | 23,303 | 23,374§ |
| Required reserves* | 23,266 | 22,836 | 22,901 | 23,126 | 22,933 | 23,012§ |
| Excess reserves* | 115 | 371 | 387 | 566 | 370 | 362§ |
| Borrowings | 167 | 202 | 173 | 302 | 135 | 196§ |
| Free reserves* | — 52 | + 169 | + 214 | + 264 | + 235 | + 166§ |
| Nonborrowed reserves* | 23,214 | 23,005 | 23,115 | 23,390 | 23,168 | 23,178§ |
| | **Changes in Wednesday levels** | | | | | |
| **System Account holdings of Government securities maturing in:** | | | | | | |
| Less than one year | — 681 | +1,266 | — 665 | + 258 | — 402 | — 224 |
| More than one year | — | + 50 | — | — | + 51 | + 101 |
| Total | — 681 | +1,316 | — 665 | + 258 | — 351 | — 123 |

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 29, 1967.

### Table II

**RESERVE POSITIONS OF MAJOR RESERVE CITY BANKS MARCH 1967**

In millions of dollars

| Factors affecting basic reserve positions | Daily averages—week ended | | | | | Average of five weeks ended March 29 |
|---|---|---|---|---|---|---|
| | March 1 | March 8 | March 15 | March 22 | March 29* | |
| **Eight banks in New York City** | | | | | | |
| Reserve excess or deficiency(—)† | 26 | — 9 | 22 | 20 | 58 | 24 |
| Less borrowings from Reserve Banks | — | 13 | 61 | 192 | — | 53 |
| Less net interbank Federal funds purchases or sales(—) | 538 | 797 | 1,254 | 943 | 1,125 | 931 |
| *Gross purchases* | *1,155* | *1,294* | *1,740* | *1,410* | *1,599* | *1,440* |
| *Gross sales* | *618* | *498* | *486* | *467* | *474* | *509* |
| Equals net basic reserve surplus or deficit(—) | — 511 | — 819 | —1,293 | —1,116 | —1,067 | — 961 |
| Net loans to Government securities dealers | 687 | 783 | 879 | 796 | 837 | 796 |
| **Thirty-eight banks outside New York City** | | | | | | |
| Reserve excess or deficiency(—)† | 32 | 20 | 23 | 23 | 24 | 24 |
| Less borrowings from Reserve Banks | 5 | 68 | 12 | 27 | 89 | 40 |
| Less net interbank Federal funds purchases or sales(—) | 1,412 | 1,119 | 1,047 | 1,523 | 1,360 | 1,292 |
| *Gross purchases* | *2,113* | *1,744* | *1,939* | *2,273* | *2,108* | *2,035* |
| *Gross sales* | *700* | *626* | *892* | *750* | *748* | *743* |
| Equals net basic reserve surplus or deficit(—) | —1,386 | —1,167 | —1,036 | —1,527 | —1,425 | —1,308 |
| Net loans to Government securities dealers | 698 | 644 | 643 | 992 | 927 | 781 |

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.

### Table III

**AVERAGE ISSUING RATES* AT REGULAR TREASURY BILL AUCTIONS**

In per cent

| Maturities | Weekly auction dates—March 1967 | | | |
|---|---|---|---|---|
| | March 6 | March 13 | March 20 | March 27 |
| Three-month | 4.344 | 4.308 | 4.102 | 4.150 |
| Six-month | 4.340 | 4.265 | 4.005 | 4.073 |

| Maturities | Monthly auction dates—January-March 1967 | | |
|---|---|---|---|
| | January 24 | February 21 | March 28 |
| Nine-month | 4.656 | 4.718 | 4.078 |
| One-year | 4.576 | 4.696 | 4.074 |

* Interest rates on bills are quoted in terms of a 360-day year, with the discounts from par as the return on the face amount of the bills payable at maturity. Bond yield equivalents, related to the amount actually invested, would be slightly higher.

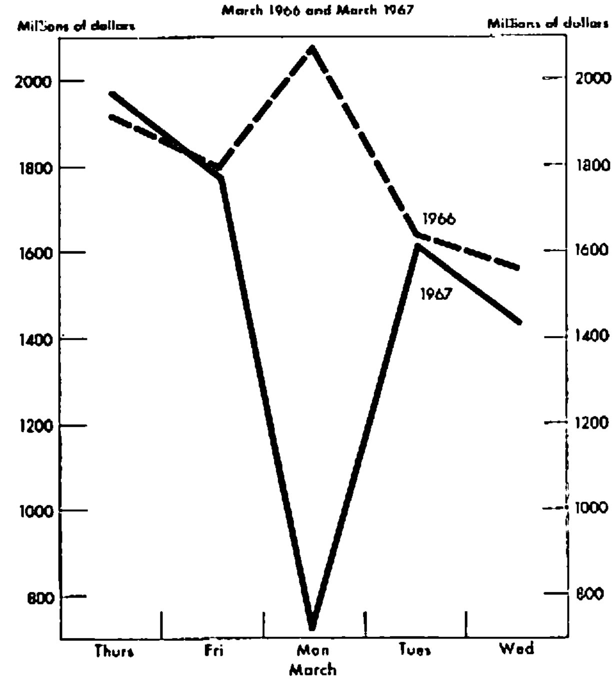
In the midst of this general decline in money market rates, a major New York City bank announced on Wednesday, March 22, that it was lowering its lending rate on prime business loans from 5¾ per cent to 5½ per cent—a rate posted by another major bank since late January. Over the next few days, the rate reduction spread to most other banks in the country.

Several factors affecting reserve positions during the month were of particular interest. Required reserves rather consistently averaged higher than expected as deposit growth picked up in the comfortable money market environment. That perennially volatile element—float—also caused some problems, in large part because of the new patterns introduced when all Reserve Banks (effective after February 17) discontinued counting Saturday as a business day in crediting cash items in the process of collection.[1] As a result of this modification, the average Monday level of float in March declined by $1.4 billion from that in the same month a year ago (see Chart I).

An incomplete adjustment to this new float pattern may have been partly responsible for a relatively low level of excess reserve balances at country banks early in March. It had been expected that excess reserves might tend to pile up in country banks in the March 8 statement week, during which the first step in the earlier announced reduction in required reserves was put into effect.[2] In fact, during that week country bank excess reserves averaged only $342 million, a rather low amount for the first week in their settlement period. Subsequently, in the statement week ended on March 22, when the second and final step in the reduction in required reserves occurred, country bank excess reserves rose to an average of $485 million. However, a sizable shift in reserves away from the major money market banks may have contributed to this buildup.

Pressures on the banking system were at their peak for March around midmonth. On top of the usual dividend- and tax-related loan demands, there were special pressures associated with the March 13 payment for the $2.7 billion of June tax anticipation bills that had been auctioned on March 7. Over the week ended on March 15, loans at weekly reporting banks (other than interbank loans) rose $3.5 billion, and holdings of United States Government securities rose $2.0 billion, wholly reflecting an increase in Treasury bills. The major New York City banks came under particular pressure, and their basic reserve deficit averaged $1.2 billion in the two weeks surrounding the tax date. The financing needs of Government securities dealers were an important source of pressure, and the New York City banks maintained dealer loan rates in a 5 to 5½ per cent range during most of the month. Dealer financing was also heavy at out-of-town banks after midmonth.

Chart I
FEDERAL RESERVE FLOAT
March 1966 and March 1967




Note: Figures plotted are average levels for each day, based on four observations covering the periods from March 5 to April 1, 1966 and from March 6 to March 31, 1967.

Source: Board of Governors of the Federal Reserve System.

## THE GOVERNMENT SECURITIES MARKET

The tone in the market for Treasury notes and bonds turned distinctly buoyant in March, in the wake of the

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[1] Formerly, some Reserve Banks had considered Saturday a business day for the purpose of determining when checks presented to them for collection were eligible for crediting to member bank reserve accounts. Thus, a portion of checks that previously would have been credited to member bank reserve accounts on Monday now are not credited until Tuesday. In addition, for some portion of the checks, payments are received by the Reserve Banks from the drawee member banks on Monday, and reserve credit is made to the payee banks on Tuesday.

[2] Reserve requirements were reduced from 4 per cent to 3 per cent on all member banks' savings deposits and Christmas and vacation club accounts and on the first $5 million of time deposits at each member bank. The reduction was in two stages, with half made effective in the statement week beginning March 2 and the remainder made effective two weeks later. Required reserves declined by an estimated $850 million as a result of the reduction.

announcement on the final day of February of the reduction in reserve requirements against member bank savings deposits and certain time deposits. Market optimism was sustained throughout the month by a succession of developments which were interpreted as enhancing the prospects for continued easing in credit conditions. Reports of further weakness in some economic indicators served to bolster this feeling.

The President's call for a restoration of the 7 per cent investment tax credit to become effective retroactively on March 9 prompted some initial caution, but on balance the measure appeared to have a positive impact on market psychology. Market participants generally came around to the view that the proposal signaled official recognition of additional softening in the economy, and interpreted the generally comfortable money market atmosphere as indicating that the Federal Reserve was actively seeking to combat any tendencies toward recession. Indeed, the steep decline in short-term interest rates led many to conclude that a reduction in the Federal Reserve discount rate was a near-term possibility. Expectations of such a move were heightened by ½ percentage point reductions in the Dutch and British bank rates on March 14 and March 16, respectively, and later in the period by the widely publicized cut from 5¾ per cent to 5½ per cent in the prime lending rate.

The rise in prices of Treasury coupon obligations was interrupted on several occasions during the month, but the succession of developments mentioned above served to rekindle professional expectations of lower interest rates ahead. Government securities dealers and large trading banks were particularly active during the month as the reservations they had felt in February faded into the background. At the same time, there was also outright investment demand by commercial banks seeking to expand their depleted holdings of Treasury coupon issues. However, some institutional selling of intermediate- and longer term Treasury issues developed against purchases of corporate bonds and the participation certificates of the Federal National Mortgage Association offered late in the month. Over the month as a whole, prices of Treasury notes and bonds rose by $^{10}/_{32}$ to $1^{28}/_{32}$ points, with the gains most pronounced in the intermediate maturity sector. The price gains on longer term obligations were somewhat smaller because of the supply coming into that sector of the market from investors.

Rates moved sharply lower in the market for Treasury bills during March. Good corporate and commercial bank demand, particularly for tax anticipation bills, was augmented by state and municipal purchases and System buying. Comfortable money market conditions and a growing feeling that the discount rate might be reduced in the near future contributed to market strength. Banks held on to a considerable proportion of the $2.7 billion June tax anticipation bills which they purchased in the March auction at an average issuing rate of 4.295 per cent. There was also bank buying of other bills in advance of the end-of-quarter statement publishing date, as well as a sizable accumulation of bills by Chicago banks prior to the April 1 Cook County tax date. Bill demand continued remarkably good around the March 15 tax date, slackened for a time later, and closed strong.

Acting on their expectations of lower rates ahead, dealers in March sought to maintain their Treasury bill positions in the face of demand. Bidding was aggressive in both the regular weekly auctions on March 13 and on March 20, and rates fell sharply. Some congestion developed temporarily after the latter auction as dealers, who were having to pay around 5 per cent for financing a sizable part of their positions, began to feel that the rate decline had perhaps gone too far. Rates accordingly backed up somewhat, but bidding was again strong in the auction of nine-month and one-year bills on March 28. The average issuing rates on these two issues were set at 4.078 per cent and 4.074 per cent, respectively, down 64 and 62 basis points from the average issuing rates of a month earlier. Good demand reappeared in the last few days of March, and rates on Treasury bills of under-one-year maturity closed at their lows for the month. (For information on average issuing rates, see Table III on page 68.)

In the market for Government agency obligations, prices moved higher over the month as investors took heart from the optimistic climate in other sectors of the capital markets. Over the month as a whole, new public offerings by agencies totaled approximately $1.4 billion. Attention centered on the Federal National Mortgage Association's offering of $900 million of participation certificates on Wednesday, March 22. The offering consisted of $450 million of two-year notes at 4¾ per cent, $250 million of a five-year issue at 5 per cent, and $200 million of a twenty-year issue at 5.10 per cent, all priced at par. Treasury trust accounts were allotted $50 million of each issue. The public awards of each issue were well received. Other new agency offerings during the month were also accorded good receptions at declining rates.

## OTHER SECURITIES MARKETS

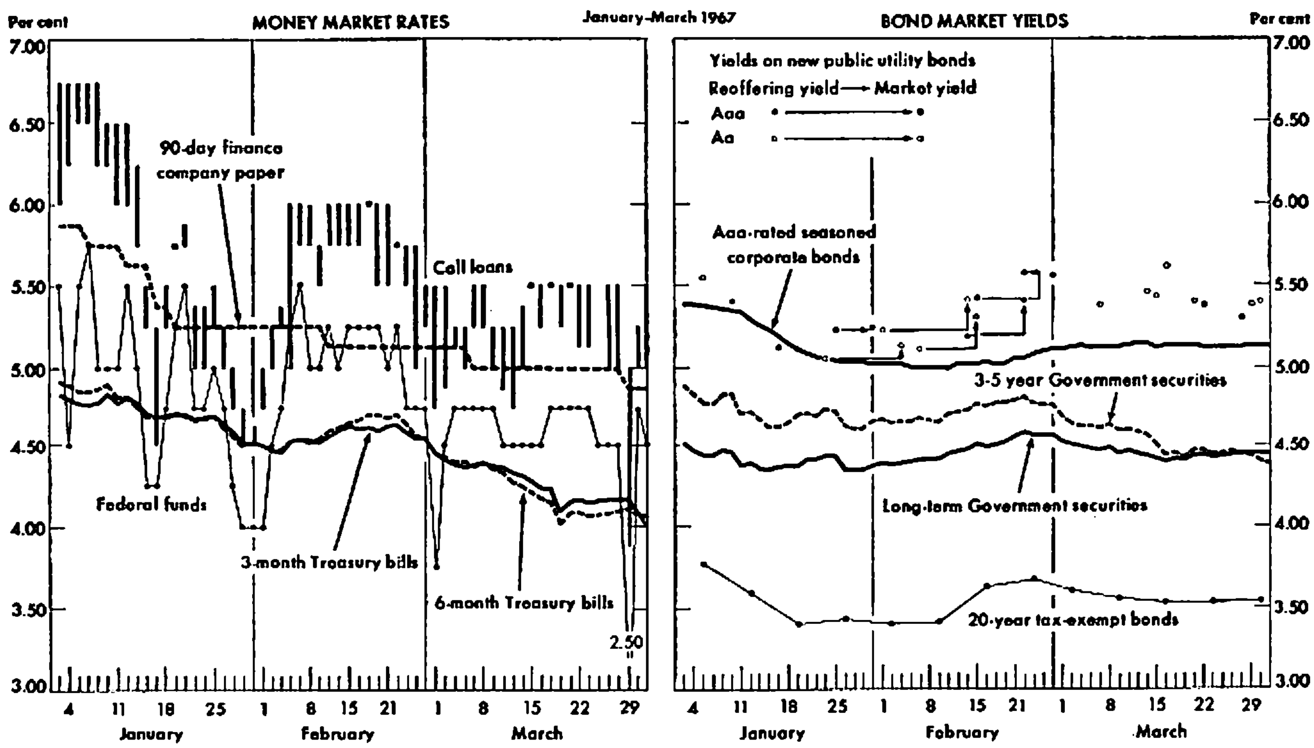
The corporate and tax-exempt bond markets absorbed a record volume of new issues during March, and the bulk of these were placed with investors. Along with the other capital market sectors, participants in these markets were buoyed by the weakness in some economic indicators and the possibility of a further easing of credit conditions. Underwriters were undaunted by selective initial investor interest in new offerings during the month, allowing inventories to rise in the favorable market climate. Distribution of slower moving issues was aided near the end of the month when the 5½ per cent prime rate became general throughout the country.

In the corporate sector, a record $1.6 billion of publicly offered new issues was offered at yields that tended to edge lower over the month. A $150 million offering of (Aaa-rated) industrial debentures, which were awarded on March 7, met with an enthusiastic reception at a reoffering yield of 5.32 per cent. (By way of comparison, a similarly rated large oil company bond issue, also with ten-year call protection, was offered at 6 per cent at the peak in interest rates in the late summer of 1966.) Other high-grade industrial issues with ten-year special call protection, on which terms were negotiated with the underwriters, also met with strong investor response and were distributed quickly. The large volume of utility issues sold at competitive bidding during the month moved somewhat more slowly, however, though distribution accelerated when the British bank rate was lowered and again when the prime lending rate was cut. For example, an $80 million offering of 5½ per cent (Aa-rated) mortgage bonds, awarded on March 14, encountered investor resistance initially at a reoffering yield of 5.45 per cent (compared with a reoffering yield of 5.75 per cent on a similar flotation by the same utility in early November 1966). Subsequently, however,

Chart II

SELECTED INTEREST RATES*

January-March 1967




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 on new Aaa- and Aa-rated public utility bonds are plotted around a line showing daily average yields on seasoned Aaa-rated corporate bonds (arrows point from underwriting syndicate reoffering yield on a given issue to market yield on the same issue immediately after it has been released from syndicate restrictions); daily averages of yields on 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 on 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.

the issue sold out and was trading to yield 5.41 per cent at the month's end.

New offerings of municipal issues during March totaled $1.2 billion. Bank demand for tax-exempt securities was stimulated somewhat by the reduction in reserve requirements against savings deposits, but banks tended to avoid the longer maturities. Underwriters, apparently expecting a continuation of active demand, bid aggressively for the new issues. As the month progressed, investor resistance developed to the lower yield levels, and longer maturities in particular began to build up on dealers' shelves. The Blue List of advertised offerings of tax-exempt issues rose from $568 million on March 1 to $783 million on March 31. However, prices tended to hold steady in the expectation that a cut in the Federal Reserve discount rate might soon take place.

Over the month of March as a whole, the average yield on Moody's seasoned Aaa-rated corporate bonds was almost unchanged at 5.12 per cent. *The Weekly Bond Buyer's* series for twenty seasoned tax-exempt issues, carrying rates ranging from Aaa to Baa, fell by 12 basis points to 3.54 per cent (see the right-hand panel of Chart II). These indexes are, however, based on only a limited number of seasoned issues and do not necessarily reflect market movements fully, particularly in the case of new and recent issues.