The Money and Bond Markets in June

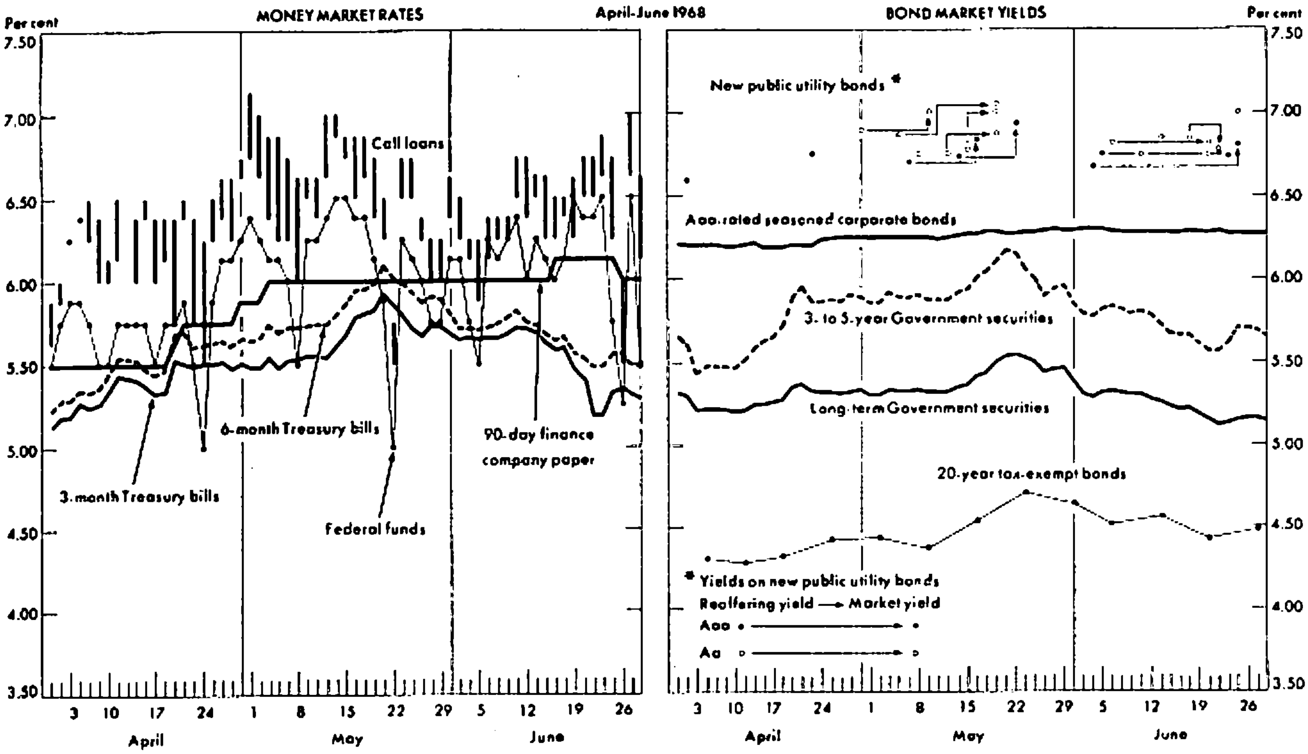
Yields on long-term securities declined through most of June from the record levels reached in late May. This sharp decline largely reflected the credit market's increasing confidence in the likelihood of favorable Congressional action on the proposed fiscal restraint package, which included a 10 per cent income tax surcharge and a cut in budgeted Federal spending for fiscal 1969. After the House of Representatives voted its approval of the legislation on June 20, thereby assuring passage, market yields drifted somewhat higher. Investment demand remained light, while profit taking by dealers in United States Government securities was widespread. Despite the weakening in the market toward the end of the month, however, yields on Treasury coupon securities closed the month substantially below end-of-May levels—18 basis points in the intermediate maturity area and 23 basis points in the long-term area. By comparison with their late May peaks, average yields on Treasury issues were about 51 and 39 basis points lower, respectively, in the intermediate- and long-term maturity range (see right-hand panel of chart). The affirmative House vote on the tax legislation helped relieve the congestion in both the corporate and tax-exempt markets, which had been restrained earlier in June by heavy debt offerings. Toward the end of the month, however, a degree of pressure returned to these markets, as the volume of tax-exempt offerings expanded and substantial additions were made to the July calendar of both corporate and tax-exempt financing.

Treasury bill rates also declined sharply in June, but rates on most other short-term money market instruments were unchanged to slightly higher. Bank reserve positions were under sustained pressure during the month. The effective rate for Federal funds generally remained above the discount rate, and this premium rose as high as 1 per cent at times. The large New York City banks generally continued to quote Regulation Q ceiling rates on large-denomination negotiable certificates of deposit (C/D's). However, other issuers of money market instruments did not lower rates on balance over the month, so that C/D's remained at a yield disadvantage relative to bankers' acceptances, commercial paper, and finance company paper. At midmonth, the city banks experienced a fairly large attrition of C/D's as about half of such instruments maturing on the quarterly tax date were not renewed. As a result of the sharp yield declines in the Government securities market, however, C/D's had achieved a yield advantage over three-month Treasury bills by the latter part of June.

THE GOVERNMENT SECURITIES MARKET

Prices of Treasury coupon securities were marked sharply higher on the first trading day of June in a continuation of the favorable market reaction to a speech by President Johnson on the May 30 Memorial Day holiday. The President had indicated that he would reluctantly accept the recommendation of a joint Senate-House Committee for a $6 billion reduction in Federal expenditures budgeted for fiscal 1969 in combination with a 10 per cent tax surcharge. With a major deterrent to the passage of the long-awaited income tax legislation thus removed, prices rose sharply. The market enthusiasm soon wavered, however, when significant investment demand failed to appear, and dealers embarked on profit taking. Additional downward pressure on prices came from the heavy volume of new corporate and Federal agency securities scheduled to be marketed during the month.

SELECTED INTEREST RATES



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.

On June 6 the House Ways and Means Committee announced a postponement of the tax vote until June 19 or 20. This further delay in the long-awaited tax legislation injected a temporary note of caution into the market which, however, was dispelled later on the same day by a statement of Committee Chairman Mills expressing confidence that the tax-spending package would be adopted. Subsequently, between June 6 and June 20, when the tax measure was finally passed by the House, prices of Treasury coupon issues drifted moderately higher. However, activity in the market was generally light, and trading was largely professional.

After the passage of the income tax legislation, there was heavy swapping activity by commercial banks. Prices of intermediate-term Treasury securities declined, largely in response to profit taking by market professionals while prices of long-term issues edged irregularly higher. For the month as a whole, prices of Treasury issues rose by about ¾ point in the intermediate maturity area and 2 points on long-term issues. (President Johnson signed the fiscal restraint bill into law on June 28.)

The Treasury announced on June 26 that it would auction $4 billion of tax anticipation bills on Tuesday, July 2, for delivery and payment on Thursday, July 11. Of the total, half will mature on March 24, 1969 and half on April 22, 1969. Commercial banks will be permitted to make payment by crediting Treasury Tax and Loan Accounts. The Treasury also indicated that it plans to continue adding $100 million to each weekly sale of six-month bills, probably through the end of the current cycle which extends through the October 10 delivery date.

Treasury bill rates declined sharply at the beginning of June, as a broad investment demand reinforced the market strength resulting from the President's statement on the income tax proposal. With demand centering in the longer bill issues, the rate differential between three-month and one-year Treasury bills narrowed rapidly to about 6 basis points from 25 basis points near the end of May. In the regular weekly auction of bills on June 3, bidding was aggressive, particularly for the longer issue, and average issuing rates on the three- and six-month issues declined to 5.649 per cent and 5.699 per cent, respectively (see Table III), about 5 and 17 basis points below the rates in the previous auction.

Soon after that auction, however, a somewhat nervous tone developed in the bill market. The changed market atmosphere was partly attributable to the announced delay in the House vote on the tax measure and partly to technical factors. Money market conditions had become firmer, and dealers, whose awards of the new bills auctioned on June 3 had not been fully distributed to investors, were apprehensive about the additional market supply of bills expected around the quarterly dividend and tax dates. Moreover, it was widely expected that the Treasury would meet its need for additional cash in July through the sale of tax anticipation bills. Consequently, the issuing rates established in bidding for new bills on June 10 were somewhat above those set a week earlier. Around the income tax date the market tone improved, and bill rates entered an irregular downward trend. After midmonth, there was strong demand from the Federal Reserve System in the course of supplying reserves and from the holders of tax anticipation bills who redeemed for cash on June 24 bills not tendered in payment of income tax liabilities. The passage of the income tax legislation by the House, as well as commercial bank buying prior to the quarterly statement date, contributed further to market optimism over the final week of June. At the close of the month, the three- and six-month bills were bid at 5.30 per cent and 5.48 per cent, respectively, down 38 and 31 basis points from rates at the end of May.

The pattern of price movements in the market for Federal agency securities during June was similar to that in other sectors of the capital market. Prices scored impressive gains over the month, despite a large increase in the volume of agency flotations. Included in the month's offerings were two large issues to raise new cash—$500 million of 6⅝ per cent participation certificates of the Export-Import Bank due in 1971 and $300 million of 6.30 per cent one-year Federal Home Loan Bank bonds, both priced at par. Other large offerings, partly to retire outstanding securities, were $279 million of a 6¼ per cent fifteen-month loan of the Federal land banks and $409 million of 6¼ per cent nine-month debentures of the Federal intermediate credit banks, both priced at par. The yield on the latter issue, offered on June 19, was 20 basis points lower than that on a similar offering by the same agency on May 21, when capital market yields were at record highs. Virtually all the agency offerings of the month were well received by investors.

OTHER SECURITIES MARKETS

The corporate and tax-exempt bond markets shared in the generally optimistic mood which pervaded the money and capital markets at the opening of June. However, the heavy calendar of new corporate offerings for the month and the prospect of an upsurge in the municipal calendar tended to counteract the favorable effect of President Johnson's statement regarding the pending income tax legislation. Thus, price increases on outstanding issues were relatively moderate, amounting to one point or less, and new bonds reoffered at yields slightly higher than those on comparable recent offerings made a fairly poor market showing. The corporate and tax-exempt sectors were also adversely affected in early June by the postponement of voting on the income tax legislation in the House and by the announced suspension of trading on major stock exchanges on three days of the month—June 12, 19, and 26 as well as on July 5. The trading suspensions forced the rescheduling of several corporate offerings. During the first part of the month, a few corporate and tax-exempt bond financings were postponed or reduced in size due to market conditions.

After midmonth, a bullish tone reappeared in the markets, reflecting both optimism over the approaching tax legislation and an expansion in demand. Moreover, it was expected that the corporate calendar would decline seasonally in July. In the corporate market a $75 million Aa-rated public utility issue, carrying five-year call protection, reoffered on June 18 to yield 6.85 per cent, was fully distributed to investors by June 20 when the House voted its approval of the tax measure. On June 21, distribution was finally completed on a utility issue which had been in underwriters' hands since June 5. The issue, a $150 million Aaa-rated offering of forty-year telephone bonds carrying five-year call protection, had previously moved sluggishly at a reoffering yield of 6.75 per cent.

Similarly, activity revived strongly in the tax-exempt market with the approach of the House vote on the tax measure. Prices of outstanding issues advanced, and a

Table I

FACTORS TENDING TO INCREASE OR DECREASE MEMBER BANK RESERVES, JUNE 1968

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

Factors	Changes in daily averages— week ended on				Net changes
	June 5	June 12	June 19	June 26	
"Market" factors					
Member bank required reserves*	− 187	+ 41	− 243	− 340	− 729
Operating transactions (subtotal)	+ 11	− 155	+ 121	− 627	− 650
Federal Reserve float	+ 39	+ 80	+ 220	− 83	+ 228
Treasury operations†	+ 305	− 36	− 200	− 16	+ 47
Gold and foreign account	− 146	+ 137	+ 11	− 15	− 13
Currency outside banks*	− 472	− 352	+ 140	+ 245	− 439
Other Federal Reserve accounts (net)‡	+ 286	+ 57	− 58	− 758	− 473
Total "market" factors	− 176	− 114	− 122	− 967	−1,379
Direct Federal Reserve credit transactions					
Open market instruments					
Outright holdings:					
Government securities	+ 30	− 10	+ 241	+ 947	+1,208
Bankers' acceptances	− 2	− 3	+ 1	+ 1	− 3
Repurchase agreements:					
Government securities	—	+ 261	− 153	+ 38	+ 146
Bankers' acceptances	—	+ 25	− 3	+ 42	+ 65
Federal agency obligations	—	+ 29	− 14	+ 51	+ 66
Member bank borrowings	− 5	− 81	− 14	+ 143	+ 43
Other loans, discounts, and advances	—	—	—	—	—
Total	+ 23	+ 220	+ 60	+1,224	+1,527
Excess reserves*	− 153	+ 106	− 62	+ 257	+ 148
	Daily average levels				
Member bank:					
Total reserves, including vault cash*	25,339	25,404	25,585	26,182	25,628§
Required reserves*	25,122	25,081	25,324	25,664	25,298§
Excess reserves*	217	323	261	518	330§
Borrowings	759	678	664	807	727§
Free (+) or net borrowed (−) reserves*	− 542	− 355	− 403	− 289	− 397§
Nonborrowed reserves*	24,580	24,726	24,921	25,375	24,901§
	Changes in Wednesday levels				
System Account holdings of Government securities maturing in:					
Less than one year	+ 161	+ 771	+ 550	+ 248	+1,730
More than one year	—	—	− 308	+ 85	− 223
Total	+ 161	+ 771	+ 242	+ 333	+1,507

Note: Because of rounding, figures do not necessarily add to totals.
* These figures are estimated.
§ Average of four weeks ended on June 26.
† Includes changes in Treasury currency and cash.
‡ Includes assets denominated in foreign currencies.

Table II

RESERVE POSITIONS OF MAJOR RESERVE CITY BANKS JUNE 1968

In millions of dollars

Factors affecting basic reserve positions	Daily averages—week ended on				Averages of four weeks ended on June 26*
	June 5	June 12	June 19	June 26*	
Eight banks in New York City					
Reserve excess or deficiency(−)†	23	16	35	35	27
Less borrowings from Reserve Banks	75	36	93	84	72
Less net interbank Federal funds purchases or sales(−)	320	447	640	516	481
Gross purchases	*1,164*	*1,255*	*1,399*	*1,346*	*1,291*
Gross sales	*844*	*808*	*759*	*830*	*810*
Equals net basic reserve surplus or deficit(−)	− 372	− 467	− 698	− 565	− 526
Net loans to Government securities dealers	684	620	734	542	645
Thirty-eight banks outside New York City					
Reserve excess or deficiency(−)†	32	11	21	13	19
Less borrowings from Reserve Banks	182	178	94	216	168
Less net interbank Federal funds purchases or sales(−)	551	701	897	513	665
Gross purchases	*2,193*	*1,997*	*2,233*	*2,081*	*2,126*
Gross sales	*1,642*	*1,296*	*1,336*	*1,568*	*1,461*
Equals net basic reserve surplus or deficit(−)	− 702	− 869	− 970	− 716	− 814
Net loans to Government securities dealers	151	121	127	56	114

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—June 1968			
	June 3	June 10	June 17	June 24
Three-month	5.649	5.713	5.578	5.238
Six-month	5.699	5.790	5.633	5.485

Maturities	Monthly auction dates—April-June 1968		
	April 23	May 23	June 25
Nine-month	5.665	6.086	5.745
One-year	5.663	6.079	5.731

* 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.

substantial proportion of the new tax-exempt securities offered during the period was successfully distributed to investors. During the final week of June, however, investors showed increasing resistance to new offerings of both corporate and tax-exempt bonds which were aggressively priced to yield 5 to 10 basis points less than yields available on comparable offerings in the previous week. The weaker market tone stemmed in part from an expansion of the calendar for July. At the close of the month the Blue List of dealers' advertised inventories stood at \$669 million, considerably above the \$513 million level at the end of May. Over the month, *The Weekly Bond Buyers'* average yield series of twenty seasoned tax-exempt bonds (carrying ratings ranging from Aaa to Baa) fell sharply to 4.48 per cent from 4.64 per cent at the end of May. The average yield on Moody's Aaa-rated seasoned corporate bonds declined by 2 basis points over the month to 6.27 per cent.

BANK RESERVES AND THE MONEY MARKET

The underlying tone of the money market was quite firm in June. Average net borrowed reserves of all member banks deepened somewhat to \$397 million for the four statement weeks ended on June 26 (see Table I) from \$380 million in May. Transactions in Federal funds were generally executed at rates well above the discount rate, but the effective rate for these funds ranged widely, declining to 5¼ per cent on one occasion and rising as high as 6½ per cent on others. Variations in the degree of pressure in the money market mainly reflected the management of reserve positions by the "country" banks, which alternately accumulated excess reserves and released these surpluses to the Federal funds market. On average, the country banks carried about the same excess reserves in June as they had in May and continued to borrow heavily from their Reserve Banks. Average borrowings of member banks, in the aggregate, were \$727 million in the four statement weeks ended in June, virtually unchanged from May.

Reserve positions of the major money market banks deteriorated markedly over the first three statement weeks of June under the impact of a sharp rise in the financing needs of United States Government securities dealers at the start of the month, heavy borrowing by businesses and sales finance companies through the quarterly corporate dividend and income tax period, and a substantial runoff of maturing C/D's in the tax week itself. The city banks continued to tap the Euro-dollar market for supplemental funds but on a very limited scale, compared with that in the last three weeks of May when average borrowings from overseas branches rose about \$650 million. The average basic reserve deficit of the eight New York City money market banks climbed to \$698 million in the statement week ended on June 19 (see Table II) from the \$135 million level to which it had fallen in the last May statement week. In the final week of June, the basic reserve deficit shrank to \$565 million as loans to Government securities dealers contracted.

Rates posted by the major New York City banks on call loans to Government securities dealers were adjusted moderately higher through mid-June, as dealer borrowings mounted and the banks were subjected to the usual tax-period demands. Late in the month, new call loans were generally quoted at a range of 6½ to 6¾ per cent, compared with 6 to 6¼ per cent near the end of May. Dealer offering rates on bankers' acceptances and on prime commercial paper were unchanged during June. In sharp contrast, rates on short-term Euro-dollars dropped precipitously before leveling off around midmonth, while rates on Treasury bills declined rapidly after a moderate markup early in June.

Large New York City banks generally continued to offer the maximum interest rates permissible under Regulation Q on large-denomination negotiable C/D's during June. In the three-month maturity area, C/D offering rates were lower than yields on competing types of money market instruments through midmonth, but higher than Treasury bill rates in the latter half of the period. In the longer maturity area, however, C/D's held a yield advantage over Treasury bills throughout the month. In the statement week ended on June 19, the large commercial banks sustained net redemptions of \$424 million of C/D's, out of the approximately \$825 million that matured on the June 17 tax date. With the sharp decline in Treasury bill rates, however, C/D's became more competitive, and the reporting banks added \$235 million to their outstanding C/D's in the final week of June. Outstanding C/D's declined by \$279 million, net, over the four weeks ended on June 26; total maturities for the month were estimated at \$5.4 billion.