The Money and Bond Markets in January

Attention in the market for Government coupon issues was focused during much of the month on the Treasury's February refunding, for which terms were announced after the close of business on January 28. Prior to the announcement, there was considerable anticipatory selling by dealers of outstanding issues with maturities in the range expected to be offered in the February refunding. It was generally thought that the refunding would be a "rights" rather than a cash offering and that it would also include an advance refunding of the bonds due on March 15. Since only holders of maturing bonds would be eligible to buy the new issues in a rights refunding, there was increased demand for both the February and March maturities prior to the announcement. During the first half of the month there was an improved tone in the coupon market, reflecting the favorable performance in the corporate bond market and further indications of a slowdown in economic activity. Despite some deterioration later in the period, over the month as a whole price gains of from $\frac{2}{32}$ to $1\frac{13}{16}$ points occurred on most issues other than those under pressure from the awaited refunding.

The terms of the February refinancing were as follows: holders of some \$4.4 billion of 4 percent Treasury bonds maturing February 15 and almost \$2.3 billion of 2½ percent bonds due on March 15 were offered three issues in exchange. These included an 8¼ percent 18-month note, an 8⅛ percent 3½-year note, and an 8 percent 7-year note, all priced at par. The offering rates were the highest on comparable issues in more than a century, and initial market reaction was quite favorable. The public holds about \$5.6 billion of the maturing bonds, and about \$1.1 billion is held by Federal Reserve and Government accounts. Subscription books were open from February 2 through February 4.

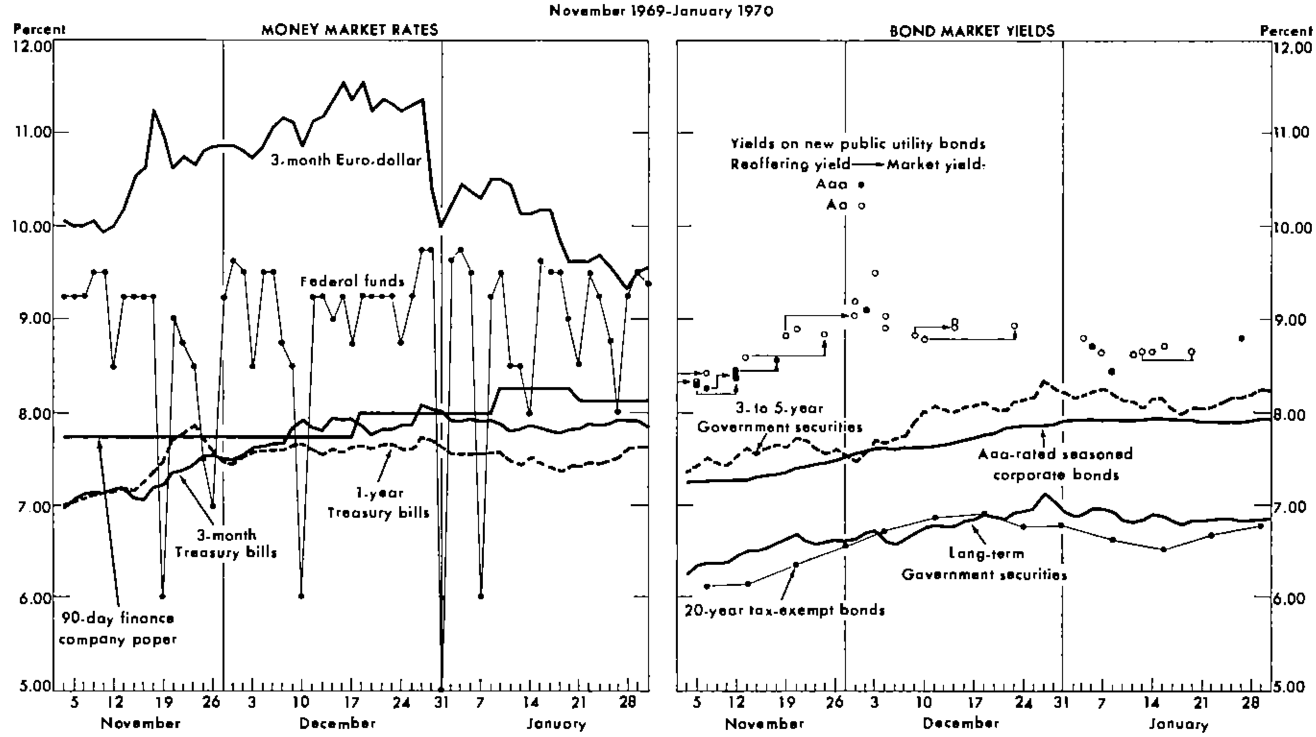
Rates on Treasury bills also declined in January, partly in response to considerable demand from individual investors. Noncompetitive tenders, which are usually utilized by small investors, accounted for more than one third of new bills awarded in the first three weekly auctions, well above the proportion at the start of earlier years. Average issuing rates on new three- and six-month bills moved steadily lower during this period, as those with competitive tenders bid aggressively for the remaining supply. Subsequently, small investor interest declined somewhat, and rates backed up as high financing costs discouraged dealers from adding to their positions.

Renewed investor interest was also evident in the corporate and municipal bond markets early in the month, and rates on new offerings were generally several basis points lower than those on issues sold in mid-December, prior to the holiday lull. However, faced with heavy calendars of new issues and limited interest on the part of institutions, both markets encountered resistance as the month progressed, and toward the end of January both interest rates and the volume of unsold bonds began to move higher.

The average effective rate on Federal funds edged up to 9 percent in January, and offering rates on longer term directly placed commercial paper also moved higher. The rate on prime four- to six-month dealer-placed paper declined, however, by ½ percentage point and the bid rate on ninety-day bankers' acceptances by ⅜ percentage point. Both member bank excess reserves and borrowings at the Federal Reserve Banks also declined on average during the month.

Several changes were enacted or proposed by the authorities regulating depository institutions during the month. On January 20 the Board of Governors of the Federal Reserve System raised the ceilings on interest rates member banks may pay on time and savings deposits to 4½ percent on passbook accounts and a maximum of 7½ percent on large certificates of deposit with maturities of a year or more. At the same time the Board published for comment a proposal to impose a 10 percent reserve requirement on funds obtained by member banks through the issuance of commercial paper or similar obligations by bank affiliates, including a member bank's parent company—either a one-bank holding company or a company registered under the Bank Holding Company Act

Chart I
SELECTED INTEREST RATES
November 1969-January 1970



Note: Data are shown for business days only.

MONEY MARKET RATES QUOTED: Bid rates for three-month Euro-dollars in London; 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-month and one-year Treasury bills.

BOND MARKET YIELDS QUOTED: Yields on new Aaa- and Aa-rated public utility 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 seasoned Aaa-rated corporate bonds; daily averages of yields on long-term Government securities (bonds due or callable in ten years or more) and on 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 the same day the Federal Deposit Insurance Corporation issued identical new interest ceilings for the commercial banks under its jurisdiction and comparable changes for the mutual savings banks which it supervises. There was no change in the 5 percent maximum which savings banks may pay on passbook accounts, but they may now pay 5¼ percent on ninety-day notice accounts and are permitted to offer certificate accounts at rates as high as 7½ percent. The following day the Federal Home Loan Bank Board announced new ceilings for the savings and loan associations under its jurisdiction. The passbook rate was raised to 5 percent (most associations had been limited to 4¾ percent), and rates on certificates were raised to a maximum of 7½ percent on those of $100,000. (For further details, see the box on page 39.)

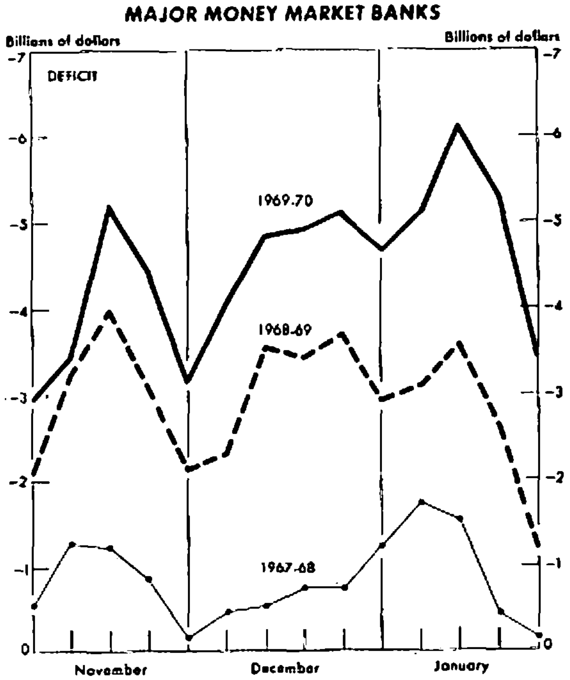
BANK RESERVES AND THE MONEY MARKET

Money market conditions continued firm during January, with member banks bidding aggressively for Federal funds much of the time as seasonal churnings produced uncertainties concerning reserve positions. Over the month as a whole the effective rate on Federal funds averaged 9 percent, slightly higher than the average in December. The effective rate declined at the close of each of the first three statement weeks in its usual pattern (see Chart I) but, in the first two, this was in part the result of unexpectedly large increases in float earlier in the week. Despite the general easing of the effective rate at the close of these periods, some trading did occur at rates as high as 11 percent late on the January 14 and January 21 settlement days when last minute buyers encountered a restricted supply. During the final statement week the effective rate moved progressively lower as reserves shifted toward the major money center banks. Accumulated reserves were absorbed by Wednesday, however, and the effective rate rose 1¼ percentage points on that day. The enlarged availability of reserves from operating factors led average borrowings at the discount window to decline to $928 million in January (see Table I) from $1,127 million in the preceding month. Since average excess reserves also declined by $113 million, however, net borrowed reserves were reduced by only $85 million, on average, to a level of $767 million.

In a largely seasonal reversal of the December pattern, the forty-six money center banks decreased their average loans and investments by $5.9 billion during January. However, the December rise and January fall apparently also reflected the shifts of loans between the banks and their holding companies and affiliates related to the establishing of a favorable tax position at the end of the year. Mainly as a result of the January decrease in loans and investments that offset sizable deposit outflows, the average basic reserve deficit of these banks declined by $1.3 billion from the statement week ended on December 31 to that ended on January 28.

Chart II

BASIC RESERVE POSITION OF MAJOR MONEY MARKET BANKS



Note: Calculation of the basic reserve position is illustrated in Table II.

Over the first two statement weeks in January the average basic reserve deficit of the forty-six banks deepened by $1.4 billion despite a $3.3 billion contraction of loans and investments. The deterioration resulted primarily from a substantial net outflow of all types of deposits. In addition, the banks also reduced their Euro-dollar and other borrowing and had a large increase in required reserves based on their liabilities of two weeks earlier.

The trend was reversed during the last half of the month when the basic reserve position of the money center banks showed a marked improvement (see Chart II). The deficit at the eight New York City banks declined by $1.6 billion and that at the thirty-eight other banks by $1.2 billion (see Table II). Although deposits in private demand and time accounts continued to decline, there was a large rise in United States Government deposits during this period. Moreover, there was a reduction of some $500 million in required reserves. A further $2.7 billion runoff of loans and investments combined with these factors to produce most of the improvement over the final two weeks.

System open market operations absorbed $2,025 million of reserves during January through outright sales, matched sale-purchase transactions, and maturities of repurchase agreements. Market operating factors provided reserves totaling $2,432 million on a daily average basis largely through a decline in currency in circulation and an increase in the gold stock.

The money supply expanded at a seasonally adjusted annual rate of 9.0 percent in January, according to preliminary data. Over the three months ended in January the money supply grew at a 4.2 percent annual rate, compared with a 0.4 percent decline in the July-to-October period and a 2.5 percent rise for 1969 as a whole. Total member bank deposits subject to reserve requirements, adjusted to include Euro-dollar and other nondeposit liabilities, declined at a seasonally adjusted annual rate of 3.1 percent in January; the increase for the quarter ended in January was 3.4 percent, compared with a decline of 4.0 percent for the previous three months and essentially no change for the year 1969 as a whole.

THE GOVERNMENT SECURITIES MARKET

Most Treasury coupon issues registered price gains during January, with the exception of some intermediate maturities and a few bonds due after fifteen years. The price declines on intermediate issues largely reflected

Table I

FACTORS TENDING TO INCREASE OR DECREASE MEMBER BANK RESERVES, JANUARY 1970

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

Factors	Changes in daily averages—week ended on Jan. 7	Jan. 14	Jan. 21	Jan. 28	Net changes
"Market" factors					
Member bank required reserves	— 283	— 473	— 290	+ 811	— 238
Operating transactions (subtotal)	+ 197	+2,137	+ 438	— 340	+2,432
Federal Reserve float	— 289	+ 71	— 160	— 527	— 905
Treasury operations*	+ 145	+ 6	+ 101	— 88	+ 224
Gold and foreign account	— 44	+1,226	+ 20	+ 24	+1,226
Currency outside banks	+ 215	+1,011	+ 470	+ 303	+1,999
Other Federal Reserve accounts (net)†	+ 170	— 178	— 53	— 52	— 113
Total "market" factors	— 86	+1,664	+ 142	+ 474	+2,194
Direct Federal Reserve credit transactions					
Open market operations (subtotal)	— 171	—1,055	— 61	— 738	—2,025
Outright holdings:					
Government securities	— 174	— 883	— 57	— 788	—1,662
Bankers' acceptances	+ 5	+ 2	— 4	—	+ 3
Repurchase agreements:					
Government securities	+ 30	— 296	—	—	— 266
Bankers' acceptances	— 4	— 35	—	—	— 39
Federal agency obligations	— 28	— 43	—	—	— 71
Member bank borrowings	— 250	+ 10	+ 102	+ 62	— 76
Other Federal Reserve assets†	+ 251	— 857	+ 13	+ 140	— 447
Total	— 170	—1,902	+ 54	— 580	—2,548
Excess reserves	— 256	— 238	+ 196	— 56	— 354

	Daily average levels				
Member bank:					
Total reserves, including vault cash	28,700	28,985	29,437	28,677	28,910‡
Required reserves	28,444	28,917	29,213	28,309	28,743‡
Excess reserves	256	18	214	158	162‡
Borrowings	854	864	966	1,028	928‡
Free, or net borrowed (—), reserves	— 598	— 846	— 752	— 870	— 767‡
Nonborrowed reserves	27,846	28,071	28,461	27,549	27,982‡
Net carry-over, excess or deficit (—)§	215	167	54	93	130‡

	Changes in Wednesday levels				
System Account holdings of Government securities maturing in:					
Less than one year	— 463	— 992	+ 456	— 587	—1,586
More than one year	—	—	—	—	—
Total	— 463	— 992	+ 456	— 587	—1,586

Note: Because of rounding, figures do not necessarily add to totals.
* Includes changes in Treasury currency and cash.
† Includes assets denominated in foreign currencies.
‡ Average for four weeks ended on January 28.
§ Not reflected in data above.

Table II

RESERVE POSITIONS OF MAJOR RESERVE CITY BANKS JANUARY 1970

In millions of dollars

Factors affecting basic reserve positions	Daily averages—week ended on Jan. 7	Jan. 14	Jan. 21	Jan. 28	Average of four weeks ended on Jan. 28
Eight banks in New York City					
Reserve excess or deficiency (—)*	11	— 21	42	— 29	1
Less borrowings from Reserve Banks	196	234	75	86	148
Less net interbank Federal funds purchases or sales (—)	1,215	1,407	1,243	— 3	966
Gross purchases	2,351	2,532	2,475	1,658	2,254
Gross sales	1,136	1,125	1,232	1,661	1,289
Equals net basic reserve surplus or deficit (—)	—1,400	—1,662	—1,276	— 112	—1,113
Net loans to Government securities dealers	980	811	558	486	711
Net carry-over, excess or deficit (—)†	76	16	10	34	34
Thirty-eight banks outside New York City					
Reserve excess or deficiency (—)*	198	— 74	24	74	56
Less borrowings from Reserve Banks	327	281	340	217	291
Less net interbank Federal funds purchases or sales (—)	3,576	4,091	3,755	3,152	3,644
Gross purchases	5,276	5,688	5,429	4,961	5,339
Gross sales	1,700	1,597	1,674	1,809	1,695
Equals net basic reserve surplus or deficit (—)	—3,705	—4,446	—4,061	—3,295	—3,877
Net loans to Government securities dealers	207	381	130	101	207
Net carry-over, excess or deficit (—)†	33	59	— 30	6	17

Note: Because of rounding, figures do not necessarily add to totals.
* Reserves held after all adjustments applicable to the reporting period less required reserves.
† Not reflected in data above.

Table III

AVERAGE ISSUING RATES* AT REGULAR TREASURY BILL AUCTIONS

In percent

Maturities	Weekly auction dates—January 1970 Jan. 5	Jan. 12	Jan. 19	Jan. 26
Three-month	7.960	7.837	7.789	7.888
Six-month	7.991	7.784	7.663	7.770

Maturities	Monthly auction dates—November-January 1970 Nov. 25	Dec. 23	Jan. 27
Nine-month	7.778	7.801	7.725
One-year	7.592	7.561	7.633

* 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.

the belief that the Treasury's February refunding would include issues in this maturity area. Some long-term bonds suffered from investor switching into higher yielding corporate securities.

Activity in the market for notes and bonds was generally light during the early part of the month and, after a brief carry-over from the year-end rally, prices moved lower in the wake of commercial bank selling of intermediate-term issues and restrained investor demand. Following the successful sale of a large corporate offering at a lower interest rate level, a firm tone developed toward the close of the week ended on January 9. In addition, there was a widespread hope at the time that the latest banking statistics indicated a slightly less restrictive monetary policy. The improved atmosphere continued after the weekend, but by midweek prices again turned downward in response to selling pressures from dealers adjusting their positions in preparation for the refunding and from investors moving out of Governments into corporate issues. Reports of a further decline in industrial production and no growth in real gross national product during the fourth quarter halted the downtrend, however, and most issues due within six years posted gains for the week of January 16.

Prices drifted irregularly lower in quiet trading over the remainder of the period prior to the Treasury's announcement of its refunding terms on January 28. During this time, some $1.8 billion of Federal agency issues were brought to market in addition to agency offerings totaling $1.5 billion in the first half of the month, contributing to the cautious atmosphere preceding the Treasury's statement. Initial market reaction to the terms of the refunding was very good, and the "when-issued" notes quickly moved to premiums.

There was considerable small investor interest in the bill market during the first half of January, and record amounts of some $1 billion of noncompetitive tenders were accepted in the first two weekly auctions. Average issuing rates on new three- and six-month bills moved progressively lower through the auction of January 19 (see Table III) and, despite a rise in the final week, were still 21 and 32 basis points, respectively, below their highs set on December 29. Rates on outstanding bills also turned down during January except for those in the shorter term area. Over the month as a whole, most bills with maturities of more than seven weeks registered declines of from 7 to 17 basis points.

Demand for Treasury bills was widespread at the start of the month, and sizable odd-lot buying emerged as a number of small investors withdrew funds from savings accounts following the interest-crediting period. Noncompetitive awards rose to a record one third of all new bills allotted in the auction of January 5, and on succeeding days substantial demand developed from those whose competitive tenders were rejected in the Monday auction. Some light but steady demand continued as the week drew to a close, and rates on most bills of three- to six-month maturities declined over the week. Prior to the next weekly auction, rates moved sharply lower in anticipation of aggressive bidding and another large volume of noncompetitive tenders. Small investors garnered almost two fifths of total awards, a new record, and once again strong market demand emerged from unsuccessful bidders following the auction. Interest in the bill market then began to wane until news of the latest economic statistics showing a further slowdown sparked a firmer tone.

Bidding in the auction of January 19 was relatively routine, and rates fluctuated narrowly over the remainder of that week in generally light activity. Pressure on rates resulted from some investor selling of short-term issues and the rise in interest ceilings on time deposits. However, selective demand for certain issues continued, and over the week changes in the bill market were mixed.

During the week ended on January 30, rates rose on bills of longer than three-month maturity in the wake of some foreign account and dealer selling and only light investment demand. Short-term bills showed some gains, however, in response to investor interest in this area. Bidding in the monthly auction on January 27 was fairly good, and the average issuing rates on the new nine- and twelve-month bills were set at 7.725 percent and 7.533 percent, respectively, down 8 and 3 basis points from the previous auction.

OTHER SECURITIES MARKETS

There was a considerable improvement in the corporate bond market during the first full week of trading in 1970 and, despite new issue yields that were several basis points lower than those offered prior to the December holiday lull, investor response was generally very good. A $100 million issue of Bell System telephone bonds, for example, was priced to yield 8.70 percent, down 40 basis points from the record high for the Bell System set in December, and was oversubscribed almost immediately. Two other large issues of $100 million and $150 million with reduced yields were also sold quickly. To a large extent, however, these successful sales depended on funds from small investors, and the halt to the rally during the following week was attributable in part to the lack of significant institutional demand. Since the January calendar of new issues was unusually heavy, many institutional investors were apparently marking time in order to see what future offerings would yield.

At the start of the week ended on January 16, new issues continued to be aggressively priced at yields below the preceding week. The bonds moved slowly, however, and subsequent new offerings were sold at increasingly higher yields but without much success until the final day of the week, when this market also responded favorably to reports of additional signs of an economic slowdown. On the following Tuesday the Ford Motor Company conducted its first public borrowing in the United States through the issuance of $125 million four-year notes and $75 million twenty-year debentures. This offering received considerable presale interest because of its size and Aaa rating, and the four-year notes were successfully marketed at a yield of 8.20 percent. The debentures, however, were priced more aggressively than had been anticipated and met with investor resistance. Wednesday, January 21, brought an announcement by American Telephone and Telegraph Company of plans to offer shareholders $1.57 billion of thirty-year debentures plus stock-purchase warrants, reportedly the largest single financing ever undertaken by a private corporation. Although this will probably not occur before April, the combination of the AT&T announcement, a sizable buildup in unsold bonds, and a continuing heavy calendar of new issues resulted in a market slide during the remainder of the month.

The municipal bond market also registered price gains as the new year began but later experienced difficulties, particularly in the longer term maturities where investor interest waned as the month progressed. On January 6, an issue of A-rated highway revenue bonds provided yields about 10 basis points below those of similar securities marketed in mid-December, and a week later the first sizable Aaa-rated tax-exempt bonds were scaled to yield some 50 basis points less than similarly rated bonds at the mid-December peak.

The reception to new issues was generally enthusiastic during the first week and a half, but investors became increasingly selective after that time. As a result, underwriters found it necessary to cut offering prices in an attempt to improve sales. Nevertheless, inventories of unsold bonds mounted, and the Blue List of advertised dealer stocks rose from $249 million on January 12 to $448 million at the close of the month. Reflecting the reversal in the tax-exempt market, *The Weekly Bond Buyer's* index of yields on twenty municipal bonds dropped from 6.79 percent on December 30 to 6.53 percent on January 15 and then turned up, climbing to 6.78 percent on January 29.

NEW INTEREST CEILINGS ON TIME AND SAVINGS DEPOSITS
In percent

Institution and instrument	New maximum	Previous maximum
Federal Reserve and Federal Deposit Insurance Corporation ceilings for commercial banks		
Passbook savings	4.50	4.00
Deposits of less than $100,000:		
30- to 89-day multiple maturity*	4.50	4.00
90-day and over multiple maturity*	5.00	5.00
30-day to 1-year single maturity	5.00	5.00
1-year single maturity	5.50	5.00
2-year single maturity	5.75	5.00
Deposits of $100,000 or more, with single maturities of:		
30 to 59 days	6.25	5.50
60 to 89 days	6.50	5.75
90 to 179 days	6.75	6.00
180 days to 1 year	7.00	6.25
1 year or more	7.50	6.25
Federal Home Loan Bank Board ceilings for savings and loan associations		
Passbook savings	5.00	4.75 or 5.00†
90-day notice passbook accounts	5.25	5.00
Certificates of less than $100,000, with maturities of:		
3 to 6 months	5.25	—
6 months to 1 year	5.25	5.25
1 year but under 2 years	5.75	5.25
2 years or more	6.00	6.00
Certificates of $100,000 or more, with maturities of:		
60 to 89 days	6.50	—
90 to 179 days	6.75	—
180 days to 1 year	7.00	—
1 year or more	7.50	—
Federal Deposit Insurance Corporation ceilings for insured mutual savings banks		
Passbook savings	5.00	5.00
Deposits of less than $100,000:		
90-day multiple maturity*	5.25	5.00
Single maturity of:		
90 days to 1 year	5.25	5.00
1 year to 2 years	5.75	5.00
2 years or more	6.00	5.00
Deposits of $100,000 or more, with single maturities of:		
30 to 59 days	6.25	—
60 to 89 days	6.50	—
90 to 179 days	6.75	—
180 days to 1 year	7.00	—
1 year or more	7.50	—

* Multiple maturity time deposits include deposits that are automatically renewable at maturity without action by the depositor and deposits that are payable after written notice of withdrawal.

† The higher ceiling previously applied without qualification to associations located in Alaska, California, Hawaii, and Nevada. The ceiling in other areas varied, depending in part on rates paid by mutual savings banks.