The Money and Bond Markets in March

Conditions in the money market were somewhat more comfortable during March than in the previous month. Federal funds traded chiefly in a range of 7 to 8½ percent, while they had traded around 9 percent through much of February. Member bank borrowings from the Federal Reserve Banks also eased back. In the Treasury bill market, rates on new issues dropped sharply to the lowest levels in almost a year before rising again toward the close of the month.

There was a noteworthy quickening in the growth of monetary and credit aggregates during the month (see Chart I). Both the money supply and the adjusted bank credit proxy expanded in March. From December through March the money supply grew at a 3.2 percent seasonally adjusted annual rate, compared with a 0.6 percent rate in the last half of 1969. The adjusted bank credit proxy also exhibited some modest growth for the quarter as a whole after having declined during the first two months.

In the capital markets the burgeoning calendar of corporate bonds for March and April gradually dissipated the optimism built up in February. A sharp rise in new issue yields and a disappointing investor response generated a gloomy atmosphere that spread to the markets for Treasury coupon securities, Federal agency issues, and eventually municipal bonds. The gathering gloom quickly gave way to ebullience on March 18, however, when Chairman Burns' testimony before a Congressional committee was taken as confirmation that some relaxation of monetary policy was under way. The subsequent rally extended to most segments of the capital markets over the next few days, and further impetus was provided on March 25 when a number of money center banks reduced their lending rates to prime borrowers by ½ percentage point to 8 percent.

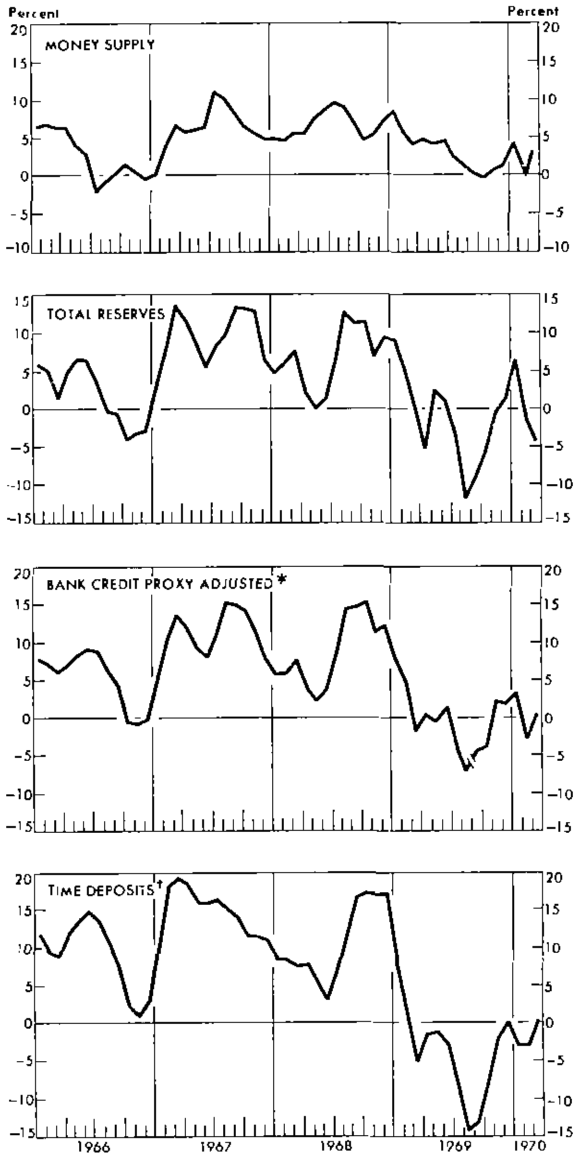
BANK RESERVES AND THE MONEY MARKET

The effective rate on Federal funds averaged 7.7 percent during March, compared with an 8.9 percent level a month earlier. Average borrowings at the discount window declined to $880 million (see Table I) from $1.1 billion in February, and net borrowed reserves were also lower. Among short-dated money market instruments the bid rate on ninety-day bankers' acceptances fell ¾ percentage point to 7½ percent, while rates on directly

Chart I

CHANGES IN MONETARY AND RESERVE AGGREGATES FROM THREE MONTHS EARLIER

Seasonally adjusted annual growth rates



Note: Rates for the latest month are based on preliminary data.

* Total member bank deposits subject to reserve requirements plus liabilities to foreign branches and, beginning in September 1969, other nondeposit liabilities including Euro-dollars borrowed directly from foreign banks or through brokers and dealers, bank liabilities to own branches in United States territories and possessions, commercial paper issued by bank holding companies or other bank affiliates, and loans or participation in pools of loans sold under repurchase agreement to other than banks and other than banks' own affiliates or subsidiaries.

† At all commercial banks.

placed commercial paper were reduced by as much as ⅞ percentage point. The yield on prime four- to six-month dealer-placed paper declined by ⅜ percentage point to 8⅛ percent over the month, and the bid rate on three-month Euro-dollars fell below 9 percent for the first time in a year (see Chart II), partly as a result of reduced borrowings by the major money center banks.

In a pattern which also occurred during the two preceding years (see Chart III), the basic reserve deficit of the major money center banks deepened over the month, though some improvement occurred in the final two weeks (see Table II). To a large extent the churning of funds was related to the March corporate tax and dividend payment dates and a rundown of Treasury balances prior to the April tax date. Inflows of private deposits to the major banks were substantial during March but were offset by other factors. The most significant drains on their aggregate basic position were a $2.1 billion rise in loans and investments and somewhat smaller declines in Treasury deposits and Euro-dollar liabilities. The deterioration in the basic position of the forty-six banks for the month as a whole amounted to $1.2 billion, most of which was attributable to the behavior of the reserve positions of the eight New York City banks.

System open market operations provided about $4[illegible] million of reserves during March through an increase in United States Government securities held outright. Market operating factors, in contrast, absorbed $395 million of reserves largely as a result of a rise in currency outside banks. Required reserves of member banks showed little change during the month.

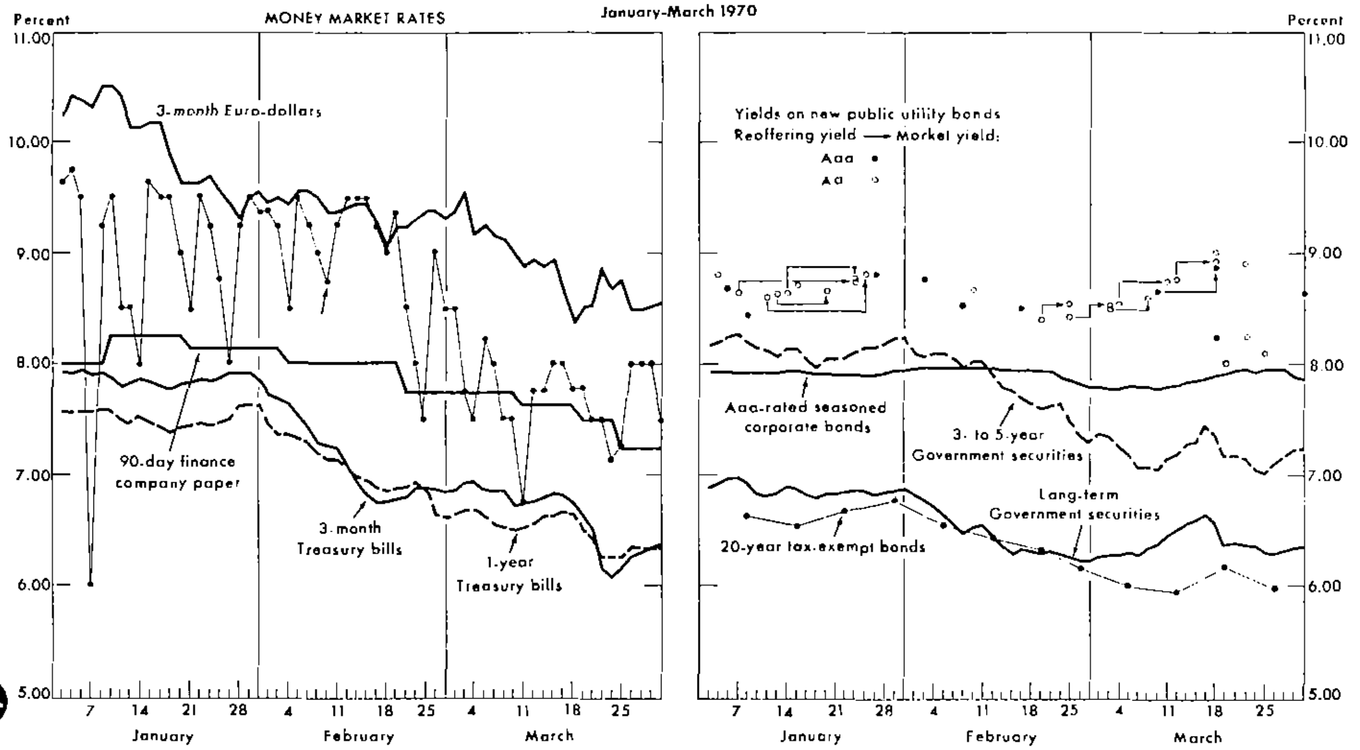
THE GOVERNMENT SECURITIES MARKET

Prices of most Treasury notes and bonds declined over the first half of March and then rallied sharply, as the Government securities market reacted to a variety of influences. A cautious tone pervaded trading in long-term bonds through midmonth largely in response to the difficulties corporate financings were encountering. Prices of long-term Governments declined by as much as 3 percentage points during that time. However, expanded investment demand developed for shorter dated issues as the month began, and most issues due within seven years registered improvements over the first week in March. During the following week, in contrast, there was growing concern that the Treasury would meet its pretax-date cash needs through the use of a coupon issue, and prices on all maturities declined. Adding to the heavier tone were new Commerce Department projections showing high

Chart II

SELECTED INTEREST RATES

January-March 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.

capital spending than had been expected earlier and the lukewarm investor response to a long-term Federal agency offering.

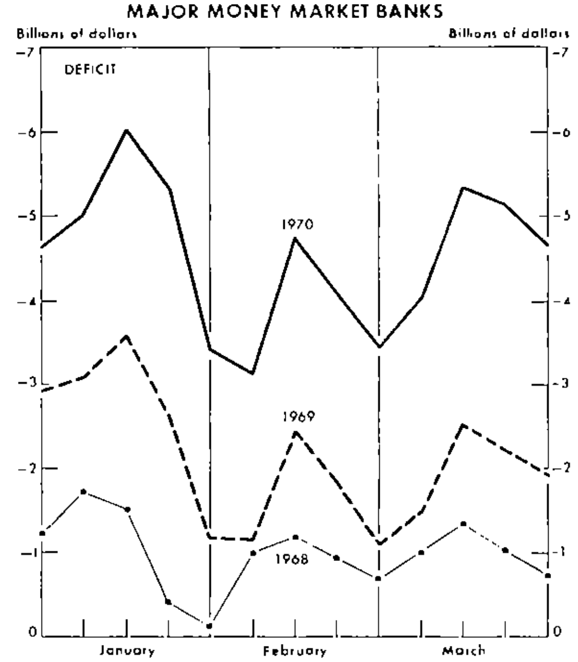
The coupon market experienced some temporary relief from the Treasury's announcement on March 13 that it would raise funds through a $1.75 billion tax anticipation bill (TAB) rather than issue a note. The improvement was short-lived, however, as an atmosphere of caution was generated by the weight of uudigested new issues in the corporate bond market and by sizable dealer and investor selling. The drop in prices was quite sharp, but it was soon reversed as the market responded enthusiastically to Chairman Burns' testimony before the Senate Banking and Currency Committee on Wednesday, March 18. Participants found in his statements confirmation of their belief that the System had relaxed monetary restraint and drew hope concerning interest rates from his expressed desire for moderate growth in the money supply. Price gains of ¾ point and more were posted by several issues on that day. The market continued to rally over the next few days, drawing support from banking statistics that were taken as indicating a less restrictive monetary policy. Then, with the prime rate reductions which began at major banks on March 25, the rally was given new impetus. However, some profit taking emerged toward the close of the month. Over the month as a whole, issues due within seven years generally registered gains of from 9/32 to 1 point. Long-term issues declined, however, by as much as 1¾ points.

Despite occasional rate increases due to restrained investor demand, the performance of the Treasury bill market was generally strong during March. Bidding in the first weekly auction was only routine, and the average issuing rate on three-month bills was 6 basis points higher than at the close of February. The rate on the six-month bill declined, however, and in succeeding weekly auctions rates were set progressively lower on each of the bills until the final auction on March 30. Bidding in the monthly auction was also aggressive, with rates on the nine- and twelve-month bills set at 6.100 percent and 6.132 percent, respectively, their lowest levels since April 1969.

Some apprehension developed in the bill market following the Treasury's announcement of its September TAB offering and, consequently, rates on several longer term bills edged somewhat higher. Renewed investor interest emerged as the auction approached, however, brought about in part by Chairman Burns' testimony, and the TAB offering proved quite successful. The September 1970 bill was auctioned on March 19 at an average issuing rate of 6.178 percent and elicited strong bidding by commercial banks, which were permitted to pay by crediting their Treasury Tax and Loan Accounts. The average issuing rate was the lowest yield on TAB's since an issue sold in January 1969. Further support was given to the market by the measured pace of bank selling of TAB's following the auction and bill purchases related to quarterly statement purposes and the Cook County, Illinois, April 1 tax date. Spirited bidding in the March 23 auction drove the average issuing rates on three- and six-month bills 57 and 52 basis points below those of a week earlier (see Table III). The size of the decline proved unsustainable, however, and rates on the key three- and six-month issues closed at 6.38 and 6.48 percent. Even so, these rates were 47 and 32 basis points below those prevailing at the end of February.

Four Federal agency issues that were marketed after midmonth received very good receptions. However, a fifth offering which came earlier in the period when corporate bonds were declining experienced a mixed response. This was a $1.2 billion financing by the Federal Home Loan Banks in the form of $850 million of one-year bonds and $350 million of bonds maturing in nine years and eleven months. The shorter maturity sold quite well at a yield of 7.70 percent, but the longer bonds at 7.75 percent were apparently too aggressively priced to withstand the subsequent deterioration in the market and traded at a substantial discount for most of the month.

Chart III
BASIC RESERVE POSITION OF
MAJOR MONEY MARKET BANKS



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

OTHER SECURITIES MARKETS

Confronted with an unusually heavy calendar of new issues scheduled for sale during March and April, the corporate bond market came under heavy pressure during the first half of March. Individual buyers became more selective, and institutional investors returned to the sidelines in the knowledge that a large volume of offerings would soon be forthcoming and the prospect that higher yields might then be available. Including the $1.6 billion rights offering of the American Telephone and Telegraph Company, which will begin in April, a record two-month volume of some $5 billion in new corporate offerings is slated for marketing in March and April.

In an attempt to rouse investor interest, prices on new issues were marked progressively lower, but the response in several instances was only lukewarm. Thus, despite a higher yield than many participants had expected, a $100 million offering of Chrysler Corporation 25-year bonds got off to a slow start and backlogs of other unsold issues also contributed to a buildup in dealer inventories. Aware of

Table I

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

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

Factors	Changes in daily averages—week ended on March 4	March 11	March 18	March 25	Net changes
"Market" factors					
Member bank required reserves	+ 120	+ 107	— 211	+ 100	+ 35
Operating transactions (subtotal)	— 83	— 21	— 174	— 112	— 395
Federal Reserve float	— 177	+ 30	+ 41	+ 205	+ 108
Treasury operations*	+ 97	— 22	— 6	— 150	— 90
Gold and foreign account	— 71	+ 55	+ 11	+ 114	+ 109
Currency outside banks	+ 144	— 87	— 380	— 176	— 499
Other Federal Reserve liabilities and capital	— 81	— 6	+ 160	— 95	— 22
Total "market" factors	+ 41	+ 66	— 485	— 12	— 370
Direct Federal Reserve credit transactions					
Open market operations (subtotal)	— 95	— 309	+ 647	— 201	+ 42
Outright holdings:					
Government securities	+ 213	— 207	+ 513	— 81	+ 338
Bankers' acceptances	— 3	— 2	—	— 2	— 7
Repurchase agreements:					
Government securities	— 226	—	+ 80	— 82	— 210
Bankers' acceptances	— 23	—	+ 8	— 5	— 20
Federal agency obligations	— 56	—	+ 37	— 31	— 50
Member bank borrowings	— 231	+ 101	— 117	+ 119	— 128
Other Federal Reserve assets†	+ 251	+ 25	+ 56	+ 20	+ 252
Total	— 75	— 183	+ 556	— 62	+ 286
Excess reserves	— 33	94	+ 101	— 74	— 100
	Daily average levels				
Member bank:					
Total reserves, including vault cash	27,414	27,210	27,625	27,451	27,425‡
Required reserves	27,275	27,168	27,479	27,379	27,325‡
Excess reserves	139	45	146	72	101‡
Borrowings	833	934	817	936	880‡
Free, or net borrowed (—), reserves	— 694	— 889	— 671	— 864	— 779‡
Nonborrowed reserves	26,581	26,276	26,808	26,515	26,545‡
Net carry-over, excess or deficit (—)§	140	67	80	87	96‡
	Changes in Wednesday levels				
System Account holdings of Government securities maturing in:					
Less than one year	— 685	— 142	+1,079	— 826	+ 26
More than one year	—	—	— 154	—	— 154
Total	— 685	— 142	+1,325	— 826	— 128

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 March 25.

§ Not reflected in data above.

TABLE II

RESERVE POSITIONS OF MAJOR RESERVE CITY BANKS MARCH 1970

In millions of dollars

Factors affecting basic reserve positions	Daily averages—week ended on March 4	March 11	March 18	March 25	Averages of four weeks ended on March 25
	Eight banks in New York City				
Reserve excess or deficiency (—)*	16	— 20	7	2	1
Less borrowings from Reserve Banks	32	169	146	97	111
Less net interbank Federal funds purchases or sales (—)	609	1,331	1,180	961	1,020
Gross purchases	1,914	2,299	2,288	2,039	2,135
Gross sales	1,305	969	1,108	1,078	1,115
Equals net basic reserve surplus or deficit (—)	— 625	—1,520	—1,319	—1,056	—1,130
Net loans to Government securities dealers	735	798	557	741	708
Net carry-over, excess or deficit (—)†	36	40	8	13	24
	Thirty-eight banks outside New York City				
Reserve excess or deficiency (—)*	39	— 66	— 57	13	— 18
Less borrowings from Reserve Banks	46	349	216	289	225
Less net interbank Federal funds purchases or sales (—)	3,385	3,444	3,690	2,241	3,467
Gross purchases	5,275	5,252	5,307	5,016	5,212
Gross sales	1,890	1,808	1,608	1,675	1,745
Equals net basic reserve surplus or deficit (—)	—3,392	—3,860	—3,972	—3,617	—3,710
Net loans to Government securities dealers	140	193	153	151	159
Net carry-over, excess or deficit (—)†	23	69	— 3	14	25

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—March 1970: March 2	March 9	March 16	March 23	March 30
Three-month	6.803	6.576	6.536	6.262	6.330
Six-month	6.773	6.729	6.707	6.183	6.291

Maturities	Monthly auction dates—January-March 1970: January 27	February 24	March 24
Nine-month	7.725	6.904	6.100
One-year	7.533	6.933	6.132

* 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 sizable volume of securities yet to be marketed, underwriters released five issues from price restrictions on March 18, reportedly the largest number of syndicates to disband at one time. Prices initially plummeted by several points, but some of the losses were later recouped in the wake of investor bargain hunting and dealer covering of short positions. On that same day, Chairman Burns appeared before the Senate Banking and Currency Committee, and the combination of the market optimism generated by his testimony, reduced inventories, and the indefinite postponement of a large new issue resulted in a rally which lasted for several days. During this period, underwriters were able to mark up prices on new securities and still attract buyers while seasoned issues also increased in price. Prices of corporate bonds rallied further in reaction to the prime rate reductions of March 25, and the market closed the month with a good tone as investors responded favorably to a $150 million Bell Telephone System offering on the final day.

The February rally in the tax-exempt market continued into the early part of March, and yields on these securities showed further declines. In the short-term area, for example, local urban renewal agencies under the auspices of the Department of Housing and Urban Development sold $315 million of project notes on March 10 at an average interest cost of 4.27 percent, 62 basis points less than a month earlier, as the demand for short-term notes continued strong. Despite the decline in yields, there was no extensive buildup in the municipal calendar and new issues were priced more aggressively until investor resistance began to appear toward the close of the second week in March. Subsequent new offerings provided substantially higher yields, but the issues moved slowly and an increasing degree of market congestion developed. As a result, the Blue List of advertised dealer inventories climbed from $380 million on March 6 to $642 million eleven days later, prompting dealers to reprice or free from restrictions altogether some of the slow-moving securities. Reflecting the investor hesitation around midmonth, *The Weekly Bond Buyer's* index of yields on twenty municipal bonds rose by 23 basis points on March 19 from its level a week earlier, the first increase in the index in six weeks.

A more receptive atmosphere also developed in the market for municipal securities following Chairman Burns' testimony, and dealers were able to sell sizable balances of two slow-moving issues offered earlier in the month. In addition, new offerings were priced several basis points higher than in the preceding week and were enthusiastically received. Participants in the tax-exempt market also welcomed the prime rate reductions, and prices moved sharply higher in response. A note of caution developed toward the close of the month, however, as investors became more selective and prices on some issues moved lower.