The Money Market in August

The money market was generally firm in August. Reserve distribution returned to the usual pattern of concentration in favor of banks outside the money centers during much of the month, and money market banks on occasion experienced substantial reserve pressures. As a result, these banks bid strongly for Federal funds, which were at times in rather limited supply, and the bulk of trading in Federal funds took place at 3½ per cent. The money market banks also had to acquire additional funds through sizable borrowings from the Federal Reserve Banks. Rates posted by the major New York City banks on new and renewal call loans to Government securities dealers were generally quoted within a 3⅝ to 3¾ per cent range during the period.

On August 21, the Treasury announced that it plans to offer one-year bills on a monthly basis, rather than quarterly as in the past. The first of the new series—$1 billion of one-year bills maturing on August 31, 1964—was auctioned on August 27, for payment on September 3. Subsequent issues are also expected to amount to about $1 billion a month, as compared with the $2 billion to $2.5 billion of one-year bills that had been auctioned quarterly in the past.

Treasury bill rates edged lower in early August in the face of strong nonbank demand and a very limited market supply of bills. Over the rest of the month, however, rates moved higher in response to both contracting demand and expanded offerings. During the month, the market came increasingly to feel that the trend of official policy was still in the direction of encouraging higher short-term rates and would seek to combat any pronounced decline in these rates. An upward adjustment in rates on several short-term money market instruments occurred during the month. Rates on ninety-day unendorsed bankers' acceptances rose by ⅛ of a percentage point to 3¾ per cent (bid); rates on prime four- to six-month commercial paper increased by ⅜ of a percentage point to 3⅞ per cent (offered); and rates on various maturities of sales finance company paper rose by ⅛ to ¼ of a percentage point. The offering rates for new time certificates of deposit of leading New York City banks also hardened, while the range of rates at which such certificates are offered in the secondary market rose by about 10 basis points in the three-month maturity area and by somewhat over 15 basis points in the six-month area. In the market for Treasury notes and bonds, price changes were generally small and mixed during the month in dull midsummer trading. Widespread anticipation that a Treasury advance refunding operation would soon be announced caused considerable hesitation on the part of investors during much of the period, but the current level of longer term interest rates was judged sufficiently stable to prevent major price movements. Prices of corporate and tax-exempt bonds also changed little in August.

BANK RESERVES

Market factors absorbed reserves on balance from the last statement period in July through the final statement week in August. Reserve drains—stemming mainly from a seasonal expansion in currency in circulation and a contraction in vault cash and from a routine Treasury interest payment to System Account—more than offset an increase in float and a decline in required reserves.

System open market operations during the month partially offset the net reserve losses due to market factors and, as a result, net reserve availability averaged somewhat lower in August than in July. System outright holdings of Government securities rose on average by $30 million from the last statement period in July through the final statement week in August, while holdings under repurchase agreements increased by $26 million. Net System holdings of bankers' acceptances declined by $3 million. From Wednesday, July 31, through Wednesday, August 28, System holdings of Government securities maturing in less than one year declined by $2,786 million, while holdings maturing in more than one year rose by $2,555 million. This shift primarily reflected the effect of the Treasury's August 15 refunding, in which System holdings of maturing issues were exchanged for a fifteen-month note.

CHANGES IN FACTORS TENDING TO INCREASE OR DECREASE MEMBER BANK RESERVES, AUGUST 1963

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

Factor	Daily averages—week ended Aug. 7	Aug. 14	Aug. 21	Aug. 28	Net changes
Operating transactions					
Treasury operations*	+ 144	− 114	− 19	− 42	− 31
Federal Reserve float	− 66	+ 79	+ 420	− 269	+ 74
Currency in circulation	− 142	− 176	+ 29	+ 122	− 167
Gold and foreign account	+ 9	− 12	− 21	− 9	− 33
Other deposits, etc.	− 50	+ 96	− 177	+ 2	− 129
Total	− 104	− 127	+ 232	− 207	− 285
Direct Federal Reserve credit transactions					
Government securities:					
Direct market purchases or sales	+ 329	− 120	− 259	+ 110	+ 30
Held under repurchase agreements	+ 25	− 37	+ 20	+ 15	+ 26
Loans, discounts, and advances:					
Member bank borrowings	+ 256	− 46	− 58	− 20	+ 131
Other	+ 5	+ 25	—	+ 1	+ 31
Bankers' acceptances:					
Bought outright	+ 2	—	− 2	− 3	− 3
Under repurchase agreements	—	—	—	—	—
Total	+ 619	− 178	− 298	+ 103	+ 216
Member bank reserves					
With Federal Reserve Banks	+ 525	− 305	− 95	− 194	− 69
Cash allowed as reserves†	− 260	+ 96	+ 48	+ 89	− 27
Total reserves†	+ 265	− 209	− 47	− 105	− 96
Effect of change in required reserves†	− 79	+ 204	− 27	+ 105	+ 203
Excess reserves†	+ 186	− 5	− 74	—	+ 107
Daily average level of member bank:					
Borrowings from Reserve Banks	398	352	294	274	330‡
Excess reserves†	483	478	404	404	442‡
Free reserves†	86	126	110	130	112‡

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

* Includes changes in Treasury currency and cash.

† These figures are estimated.

‡ Average for four weeks ended August 28, 1963.

THE GOVERNMENT SECURITIES MARKET

Prices of Treasury notes and bonds moved quite narrowly throughout August in light trading that was confined mainly to switching operations. The month opened on a firm note with the appearance of good professional and investment demand, including the reinvestment in intermediate-term Treasury issues of the proceeds of a recent tax-exempt bond offering. Moderate System purchases of coupon-bearing issues, undertaken to provide reserves without depressing bill rates, also added to demand at that time. From August 5 through August 14, a slightly softer undertone developed, partly reflecting renewed discussion in market advisory letters of the possibility that the Treasury might shortly announce an advance refunding or prerefunding operation which would open up new investment opportunities. Adding to the uncertain atmosphere was the August 12 increase in the Canadian bank rate from 3½ per cent to 4 per cent. Against this background, investors moved to the sidelines and activity tapered off. With a small net supply of bonds flowing into the market, including commercial bank offerings of intermediate-term issues, prices tended somewhat lower.

Demand picked up again around midmonth, partly reflecting some professional short-covering and additional System purchases as well as customer demand, and prices briefly edged upward. The market continued to be affected, however, by expectations that a Treasury advance refunding operation was imminent. In addition, the announcement on August 19 that the United States balance-ofpayments deficit had risen to an estimated annual rate of $5.2 billion in the second quarter of the year was interpreted as having a possible bearing on future monetary policy. In this setting, investment demand once more contracted and a slightly easier tone reappeared during the balance of the month with prices drifting gradually lower in very light trading. Over the month as a whole, prices of intermediate and longer term issues ranged from 2/32 higher to 13/32 lower.

In the Treasury bill market, rates declined moderately in the opening days of the month. Broad investment demand, including large-scale purchases by public funds and by corporations, encountered persistent market scarcities, particularly within the three-month maturity area. A cautious atmosphere quickly emerged at the lower rate levels, however, in part because System sales and commercial bank offerings in a firm money market added to the market supply of Treasury bills. Discussion in market advisory letters suggested that the financial authorities might favor some further rise in short-term interest rates from the then-current levels and would take steps to counteract downward pressures on bill yields. These views, reinforced by the System sales noted above, contributed to an increasingly hesitant tone and prompted market participants to expect that the Treasury would add to the supply of bills—an expectation that was subsequently confirmed by the August 21 Treasury announcement of the new series of one-year bills.

Against this background, rates generally edged higher from August 5 through the balance of the month. At the final regular bill auction of the month held on Friday, August 30, because of the Labor Day holiday on Monday, September 2, average issuing rates were 3.384 per cent for the new three-month issue and 3.487 per cent for the new six-month issue—12 and 9 basis points, respectively, above the rates established in the final auction in July. The newest three-month bill closed the month at 3.39 per cent (bid) as against 3.27 per cent at the end of July. An average issuing rate of 3.575 per cent was set at the August 27 auction of $1 billion of the new one-year bills, compared with a 3.582 per cent rate at the last auction of one-year bills on July 9.

OTHER SECURITIES MARKETS

Prices of corporate and tax-exempt bonds moved within narrow limits during much of August. Although underwriters bid aggressively for some of the new issues in both sectors of the market, investors appeared hesitant to commit their funds at prevailing rate levels. Thus, distribution both of new offerings and of older issues still in syndicate proceeded rather sluggishly. August flotations were fairly sizable in the tax-exempt sector, contributing to a somewhat heavier tone in that market, compared with the corporate sector where new bond issues were seasonally light in volume. Over the month as a whole, prices of tax-exempt bonds were unchanged to a shade lower, while prices of corporate bonds were steady to slightly higher. The average yield on Moody's seasoned Aaa-rated corporate bonds was unchanged at 4.29 per cent, while the average yield on similarly rated tax-exempt bonds rose by 1 basis point to 3.09 per cent.

The total volume of new corporate bonds publicly offered in August amounted to approximately $255 million, compared with $345 million in the preceding month and $440 million in August 1962. Among the larger new corporate offerings during the month was a $45 million issue of (Aa-rated) 4 3/8 per cent electric utility company first mortgage bonds maturing in 1993. Reoffered to yield 4.33 per cent, with no special call protection, the bonds moved only slowly into investor portfolios. Later in the month, a $35 million issue of Aa-rated gas utility bonds, maturing in 1988 and nonrefundable for five years, was reoffered to yield 4.375 per cent and won a fair reception.

New tax-exempt flotations during the month totaled approximately $710 million, as against $800 million in July 1963 and $535 million in August 1962. The Blue List of tax-exempt securities rose from $515 million at the end of July to $679 million on August 15 before receding to $631 million on August 30. The largest new tax-exempt offering during the period consisted of $116 million of Aaa-rated local housing authority bonds. Reoffered to yield from 1.80 per cent in 1964 to 3.30 per cent in 2004, the offering was accorded a fair investor response.