

The Money Market in April

The money market remained generally firm in April, although easing briefly at the close of the weeks that ended on April 3 and April 17. On these occasions the flow of funds to the money market banks coincided with an over-preparation by banks for periods of anticipated stress around the end-of-quarter statement publishing date, the April 1 Cook County tax date, and the April 15 payment date for \$2.5 billion of one-year Treasury bills. In addition, funds tended to flow to New York as the two-week reserve settlement periods for "country" banks ended on April 3 and 17. Thus Federal funds, which traded at an effective rate of 3 per cent during most of the month, dipped to $1\frac{1}{2}$ per cent on April 3 and again to $2\frac{1}{4}$ per cent on April 17. Rates posted by the major New York City banks on call loans to Government securities dealers were generally within a $3\frac{1}{8}$ to $3\frac{1}{2}$ per cent range, although they moved down to a $2\frac{3}{4}$ to 3 per cent range on April 3.

On April 9 the Treasury sold \$300 million of new Treasury bonds of 1989-94, the second sale of Treasury bonds through competitive bidding by underwriters for reoffering to the public. The successful bid—one of three submitted—was at a price of 100.55119 for a $4\frac{1}{8}$ per cent coupon, resulting in a net interest cost to the Treasury of about 4.093 per cent. The winning underwriting group reoffered the bonds to investors at 100.75 to yield 4.082 per cent. Investors showed only limited interest in the bonds at this rate, and reportedly half of the issue remained unsold when the syndicate terminated price restrictions late on April 25. (At the first such sale, held in January of this year, the winning bid carried a price of 99.85111 for a 4 per cent coupon, making the cost to the Treasury about 4.008 per cent, while the bonds were subsequently reoffered at par and sold out immediately.) On April 10, the Treasury auctioned \$2.5 billion of one-year bills, replacing \$2.0 billion of outstanding bills and raising \$500 million of new money. The bills, issued at an average rate of 3.062 per cent, were delivered on April 15.

On April 24, after the close of the market, the Treasury announced the terms of its refinancing of the three securities maturing May 15, 1963. Holders of the \$9.5 billion of maturing issues were given the opportunity to exchange them, par for par, for new $3\frac{1}{4}$ per cent cer-

tificates maturing May 15, 1964 or for additional amounts of the $3\frac{3}{8}$ per cent notes maturing February 15, 1966. Subscription books for the exchange were to be open from April 29 through May 1. Cash subscriptions were not to be accepted.

Prices of outstanding Treasury notes and bonds moved irregularly downward through about the middle of April against a background of gains in business indicators, selective advances in steel prices, and a large volume of current and prospective bond offerings by corporations and state and local governments. In addition, the Government securities market still showed the effects of the large advance refunding operations in March. The unenthusiastic reception accorded the Treasury's new $4\frac{1}{8}$ per cent bond of 1989-94 reflected this atmosphere and contributed to the sluggish tone in the markets for Government, corporate, and tax-exempt bonds. Prices of Treasury bonds steadied in the latter part of the month and improved somewhat after the Treasury announcement of terms for its May refunding in which relatively short issues were offered. Treasury bill rates changed little over the month, as increased supplies offered both in the regular weekly auctions and in the quarterly auction of one-year bills were readily absorbed by a continuing demand, particularly from public funds.

Prices for corporate and tax-exempt bonds declined gradually during most of April in response to many of the same factors influencing the market for Government bonds. A number of new offerings, especially in the corporate sector, tended to move slowly. In the latter part of the month, a steadier tone emerged in these markets and greater progress was made in distributing new issues.

BANK RESERVES

Market factors provided reserves on balance from the last statement period in March through the final statement week in April. Gains stemming primarily from increases in float and in vault cash were only partly offset by expansions in currency in circulation and in required reserves. Net reserve gains due to market factors were partially counterbalanced, however, by the effects of System open

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

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

| Factor | Daily averages—week ended | | | | Net changes |
|---|---------------------------|----------|----------|----------|-------------|
| | April 3 | April 10 | April 17 | April 24 | |
| Operating transactions | | | | | |
| Treasury operations* | + 133 | - 4 | + 81 | - 176 | + 34 |
| Federal Reserve float | - 253 | + 80 | + 205 | + 389 | + 391 |
| Currency in circulation | - 110 | - 229 | - 170 | + 330 | - 370 |
| Gold and foreign account | - 9 | + 5 | - 6 | - 9 | - 6 |
| Other deposits, etc. | - 13 | - 5 | + 69 | + 38 | + 78 |
| Total | - 244 | - 147 | + 165 | + 379 | + 183 |
| Direct Federal Reserve credit transactions | | | | | |
| Government securities: | | | | | |
| Direct market purchases or sales | + 330 | + 251 | - 160 | - 367 | + 70 |
| Hold under repurchase agreements | + 28 | - 60 | - 40 | - 42 | - 116 |
| Loans, discounts, and advances: | | | | | |
| Member bank borrowings | - 67 | - 87 | + 70 | - | - 84 |
| Other | - | - | - | + 1 | + 1 |
| Bankers' acceptances: | | | | | |
| Bought outright | - 1 | - | - 1 | - 2 | - 4 |
| Under repurchase agreements | - | - | - | - | - |
| Total | + 294 | + 103 | - 131 | - 309 | - 133 |
| Member bank reserves | | | | | |
| With Federal Reserve Banks | + 50 | - 44 | + 34 | - 20 | + 20 |
| Cash allowed as reserves† | - 40 | - 191 | + 279 | + 61 | + 102 |
| Total reserves‡ | + 10 | - 235 | + 313 | + 41 | + 122 |
| Effect of change in required reserves | - 19 | + 180 | - 189 | - 57 | - 79 |
| Excess reserves | - 9 | - 79 | + 154 | - 16 | + 50 |
| Daily average level of member bank: | | | | | |
| Borrowings from Reserve Banks | 174 | 87 | 157 | 157 | 144 |
| Excess reserves† | 484 | 375 | 529 | 613 | 468 |
| Free reserves† | 310 | 288 | 372 | 356 | 321 |

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 April 24.

market operations. System holdings of Government securities under repurchase agreements declined on average by \$116 million from the last statement period in March through the last statement week in April, while outright holdings expanded by \$70 million. Net System holdings of bankers' acceptances fell by \$4 million. From Wednesday, March 27, through Wednesday, April 24, System holdings of Government securities maturing in less than one year declined by \$242 million while holdings maturing in more than one year rose by \$142 million.

THE GOVERNMENT SECURITIES MARKET

Prices of Treasury notes and bonds moved irregularly lower in early April, continuing the declines that had been in progress since about the middle of March, as the market weighed the implications for interest rates of advances in business indicators, the expanding calendar of corporate and tax-exempt flotations, and the imminent Treasury bond auction. All of these factors contributed to a feeling in the market that interest rates were unlikely to

decline and might well increase. The vigorous advance of stock prices seemed to reinforce this view.

Against this background, underwriter bidding at the April 9 Treasury bond auction was less aggressive than at the first such auction in January. Moreover, the new bonds encountered considerable investor resistance when reoffered by the winning syndicate, and the slow distribution of the new issue contributed to the mildly bearish tone already evident in the market. Additional market caution was induced by further favorable business news and by the announcements of selected steel price increases beginning April 10 which suggested to some observers the possibility of inflationary repercussions. At the same time, the Government bond market was influenced by the heavier tone in the market for corporate issues—in part as a result of the announcement that a \$250 million corporate refunding issue would be offered in early May. It also still reflected the heavy extension of Treasury debt in the March advance refunding. As a result of these various influences prices fell rather sharply from April 8 through April 17, with largest reductions centered in long-term issues.

A moderate investment demand developed as prices moved down, however, and market sentiment strengthened in the latter part of the month. While continuing favorable business news still exerted a restraining influence, the market was bolstered by expectations—subsequently confirmed—that the Treasury would confine its May refinancing offering to the relatively short-term area and by press comments to the effect that monetary policy was likely to remain relatively easy.

The refunding announcement of April 24, described above, was well received in the market, causing minimal price impact on outstanding issues. Trading activity in "rights" and "when-issued" securities was reported to be relatively light, and most observers expected "attrition" to be low. At the close on April 30, dealers quoted the issues offered in the exchange at 100½ (bid) on a when-issued basis.

After the close of the market on April 25, the syndicate marketing the \$300 million of new 4½ per cent bonds of 1989-94 was terminated. The next day the bonds began to trade at about 100¾, compared with the syndicate's offering price of 100¾, and it was reported that good progress was being made in distributing the issue to investors. By the end of the month, the new bonds were quoted at 100½ (bid). Over the month as a whole, prices of outstanding intermediate and longer term issues were from ½ higher to ¾ lower.

Rates for Treasury bills were steady to slightly lower during the early part of April, as buying by state trust funds added significantly to a moderate demand from

other sources—readily absorbing the \$100 million increases sold by the Treasury in each weekly auction. This trend was interrupted on April 10 and 11 in the wake of both the long-term bond auction and the auction of the new one-year bills where dealer awards were substantial and where the Treasury was raising \$500 million of new cash. Investment demand remained strong, however, and after a small upward movement through about the middle of April, bill rates edged lower again until about April 22 when a cautious note reappeared.

After the announcement of the Treasury's forthcoming refinancing on April 24, some demand for bills arose from switching operations out of the issues coming due in May, but this activity was relatively light. The month closed in an atmosphere of caution, with some feelings in the market that rates might be pressing close to the lower end of the range likely to be experienced in the near future. At the final auction of the month, held on April 29, average issuing rates were 2.898 per cent for the new three-month issue and 2.988 per cent for the new six-month issue, 2 basis points lower and 1 basis point higher, respectively, than the rates established in the last auction in March.

OTHER SECURITIES MARKETS

Prices of corporate and tax-exempt bonds edged lower through most of April, but steadied in the latter part of the month. As in the Government market, investor hesitancy was nurtured by a somewhat more optimistic business outlook, by concern over the implications of the steel price increases, and by the slow distribution of the new Treasury bonds. In addition, a relatively heavy volume of

new issues flowed into the tax-exempt sector during the month, while an expanding calendar of forthcoming flotations contributed to a cautious tone in both sectors. Against this background, investor demand proved selective and the distribution of recently marketed bonds generally proceeded slowly at progressively higher yields. Several slow-moving issues moved up as much as 5 to 10 basis points in yield in market trading immediately after syndicate price restrictions were removed. Over the month as a whole, the average yield on Moody's seasoned Aaa-rated corporate bonds rose by 4 basis points to 4.23 per cent, while the average yield on similarly rated tax-exempt bonds increased by 7 basis points to 3.00 per cent.

The total volume of new corporate bonds reaching the market in April amounted to approximately \$345 million, compared with \$490 million in the preceding month and \$640 million in April 1962. The largest new corporate issue publicly marketed during the month was a \$50 million (Aa-rated) 4½ per cent utility company debenture issue maturing in 2003. Reoffered to yield 4.37 per cent, the debentures—which are not redeemable for five years—were given only a fair investor reception. New tax-exempt flotations during the month totaled approximately \$810 million, as against \$930 million in March 1963 and \$870 million in April 1962. The Blue List of advertised dealer offerings of tax-exempt securities receded by \$4 million during the month, to \$631 million on April 30, after having reached a record level of \$681 million on April 17. The largest new tax-exempt offering during the period consisted of \$109 million (A-rated) municipal various-purpose bonds. Reoffered to yield from 1.70 per cent in 1964 to 3.40 per cent in 1993, the bonds were well received.