The Money Market in October

The money market continued to exhibit in October about the same degree of firmness as in August and September. Federal funds traded largely at the 3½ per cent ceiling (equal to the Federal Reserve discount rate), with a sizable margin of demand for reserves being satisfied by member bank borrowings at this rate from the Federal Reserve Banks. Rates posted by the major New York City banks on call loans to Government securities dealers were quoted in a 3⅝ to 4 per cent range during the month, but dealers found financing from nonfinancial corporations readily available at more attractive rates much of the time. Over the first two thirds of October, rates on Treasury bills maturing in 1964 moved generally higher, as the market adjusted to enlarged supplies and as some uneasiness developed over the near-term outlook for interest rates, while rates on scarce shorter maturities declined. Later in the month, bill rates generally declined on strong corporate demand in a more confident atmosphere, although in the final days rates edged up again to close not far from their earlier high points. The increased availability of corporate money apparently also prompted the major sales finance companies to reduce their rates during the month by ⅛ to ¼ of a percentage point on various maturities of their directly placed paper, but rates were increased again by about ⅛ of a percentage point near the month end. Leading New York City banks increased during the month their offering rates for new time certificates of deposit, while the range of rates at which such certificates were offered in the secondary market rose from 10 to 15 basis points and from 10 to 20 basis points on three- and six-month maturities, respectively.

After the close of business on October 23, the Treasury announced that it would offer at par about $7.6 billion of eighteen-month 3⅞ per cent notes dated November 15, 1963 and maturing on May 15, 1965, replacing a corresponding amount of certificates and notes maturing on November 15. Subscription books for the refunding were open only on October 28, with payment in the form of either cash or the two maturing securities due on November 15. The new offering was well received with subscriptions totaling $20.1 billion. On October 31, the Treasury announced that total allotments of about $8.0 billion would be made, including full allotments to official accounts and to subscriptions up to $100,000, and partial allotments of 21 per cent to all other subscribers but with no subscriptions in excess of $100,000 allotted less than that amount.

Hesitancy also pervaded the market for Treasury notes and bonds in the first two thirds of the month. Distribution to investors of the longer term issues arising from the September advance refunding continued amid an atmosphere of caution, as some signs of strength in the economy generated uncertainty over the outlook for long-term interest rates. The erosion in prices over the first two thirds of the month led to some subsequent increase in investor demand, and prices firmed. As in the bill market, however, a more cautious atmosphere developed in the final days of the period and prices declined again. Prices of corporate and tax-exempt bonds held steady in the first half of October but moved down later in the month when the volume of new issues increased.

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

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

Factor	Daily averages—week ended Oct. 2	Oct. 9	Oct. 16	Oct. 23	Oct. 30	Net changes
Operating transactions						
Treasury operations*	− 53	− 9	− 24	+ 14	+ 12	− 60
Federal Reserve float	− 392	− 18	+ 40	+ 303	− 514	− 581
Currency in circulation	− 5	− 206	− 174	+ 70	+ 99	− 216
Gold and foreign account	− 14	+ 1	+ 8	− 23	+ 5	− 23
Other deposits, etc.	+ 15	− 23	+ 33	+ 63	+ 8	+ 76
Total	− 450	− 260	− 122	+ 477	− 395	− 749
Direct Federal Reserve credit transactions						
Government securities:						
Direct market purchases or sales	+ 409	+ 168	− 96	− 295	+ 187	+ 373
Held under repurchase agreements	+ 62	+ 357	− 156	− 263	+ 61	+ 61
Loans, discounts, and advances:						
Member bank borrowings	− 45	+ 49	− 83	+ 52	− 162	− 189
Other	—	—	—	+ 1	− 1	—
Bankers' acceptances:						
Bought outright	− 2	+ 1	+ 1	+ 3	+ 1	+ 4
Under repurchase agreements	+ 1	+ 6	+ 2	− 9	+ 2	+ 2
Total	+ 425	+ 581	− 333	− 511	+ 88	+ 250
Member bank reserves						
With Federal Reserve Banks	− 25	+ 323	− 455	− 34	− 307	− 499
Cash allowed as reserves†	+ 2	− 306	+ 248	− 12	+ 107	+ 40
Total reserves†	− 23	+ 17	− 207	− 46	− 200	− 459
Effect of change in required reserves†	− 85	+ 69	+ 152	+ 91	+ 99	+ 326
Excess reserves†	− 108	+ 86	− 55	+ 45	− 101	− 133
Daily average level of member bank:						
Borrowings from Reserve Banks	343	392	309	361	199	321‡
Excess reserves†	352	438	383	428	327	386‡
Free reserves†	9	46	74	67	128	65‡

Note: Because of rounding, figures do not necessarily add to totals.
* Includes changes in Treasury currency and cash.
† These figures are estimated.
‡ Average for five weeks ended October 30, 1963.

BANK RESERVES

Market factors absorbed reserves on balance from the last statement period in September through the final statement week in October. Reserve drains—primarily reflecting a seasonal contraction in float and an outflow of currency into circulation—more than absorbed reserves released by a decline in required reserves and by the effects of movements in other factors. System open market operations during the month more than offset the net reserves drained by changes in market factors. System outright holdings of Government securities expanded on average by $373 million from the last statement period in September through the final statement week in October, while holdings under repurchase agreements rose by $61 million. Net System outright holdings of bankers' acceptances increased by $4 million, and such holdings under repurchase agreements rose by $2 million. From Wednesday, September 25, through Wednesday, October 30, System holdings of Government securities maturing in less than one year increased by $570 million, while holdings maturing in more than one year expanded by $102 million.

THE GOVERNMENT SECURITIES MARKET

The market for Treasury bills was the focal point of attention during the month, as the Treasury auctioned bills to raise $1.5 billion of new money after having already added $2 billion to the supply of bills outstanding by two earlier auctions of one-year bills in August and September. A hesitant tone prevailed in the market at the beginning of October, reflecting expectations that the supply of outstanding issues would soon be augmented by an offering of March tax anticipation bills, by a possible "strip" issue, and by another in the series of monthly one-year bills. At the same time, an early-month contraction in the level of nation-wide reserve availability led to market discussion about the possibility of a further shift toward less ease in monetary policy. Rates edged generally higher through October 7, although scarce shorter bill maturities moved down in yield on good demand. Subsequently, through midmonth, demand picked up at the higher rate levels and rates on shorter bills moved down, while yields were narrowly mixed in the 1964 maturity area where additional bill supplies were expected to be forthcoming.

Demand was fairly good in the October 9 auction of $2 billion of March tax anticipation bills—an issue which partly replaced $2.5 billion of one-year bills maturing October 15—and an average issuing rate of 3.537 per cent on the new bills was established.

On October 16, the Treasury announced after the close of business that it would auction on October 22 a $1 billion strip of bills for payment on October 28, representing additions of $100 million each to ten outstanding bill issues maturing from February 6 through April 9, 1964. (Commercial banks were not permitted to pay for the bills through credit to Treasury Tax and Loan Accounts.) Market observers—already concerned about the implications for interest rates of what was judged to be a strengthening economy and of lower levels of net reserve availability—tended to interpret the strip offering as indicating an official desire for higher bill rates, and rates rose from 2 to 5 basis points for 1964 maturities following the announcement. Subsequently, however, market participants became more confident with regard to the current level of short-term rates. Corporate demand for bills was quite strong, and rates tended to move lower until the end of the month when corporate selling contributed to a rise in rates on near-term maturities.

An average issuing rate of 3.601 per cent was set on the strip issue, somewhat below earlier market estimates. At the final regular weekly auction of the month held on October 28, average issuing rates were 3.452 per cent for the new three-month issue and 3.586 per cent for the new six-month bill—about 4 and 7 basis points, respectively, above the rates established in the final auction in September. An average issuing rate of 3.633 per cent was set at the October 30 auction of $1 billion of new one-year bills, compared with an average rate of 3.586 per cent at the preceding month's auction. The outstanding three-month bill closed the month at 3.48 per cent (bid) as against the end-of-September rate of 3.37 per cent, while the outstanding six-month bill was quoted at 3.60 per cent (bid) on October 31, compared with 3.51 per cent (bid) on September 30.

In the market for Treasury notes and bonds, a cautious tone developed early in the month, reflecting the view of some in the market that a further strengthening of the business situation might portend a rise in the level of long-term interest rates. In this setting, the upward price movement which had been under way in the Government bond market since mid-September came to a halt. Expanded offerings of the 4 per cent bonds of 1973 and the 4⅛ per cent bonds of 1989-94, which had been available in the September advance refunding, were absorbed at declining prices. Investor interest in other issues maturing in five years or more was quite limited, and prices of notes and bonds maturing beyond 1968 generally moved lower through October 18. In the shorter maturity area, however, where a portion of the proceeds of a recent large tax-exempt flotation was reinvested, prices were little changed during this period.

In the latter part of October, a more confident atmosphere developed for a time in the market for Treasury notes and bonds when investors were attracted by the lower prices that had emerged. This interest was not sustained, however, in part because of the rise in corporate bond offerings, and prices edged downward again as the month closed. The 3⅞ per cent eighteen-month note offered in the Treasury's refunding operation—a relatively short-term offering, as many had expected—was accorded a favorable reception and was quoted at a slight premium in "when-issued" trading. Over the month as a whole, prices of short- and intermediate-term issues were generally $^{2}/_{32}$ to $^{18}/_{32}$ lower while prices of longer term obligations were generally $^{20}/_{32}$ to $^{28}/_{32}$ lower.

OTHER SECURITIES MARKETS

In the market for seasoned corporate and tax-exempt bonds, prices held generally steady in the first half of the month as a fairly good investment demand developed at prevailing price levels. In the latter part of October, however, prices tended lower in both sectors, largely in response to an expanding calendar of forthcoming corporate and tax-exempt offerings. The tendency toward lower prices was reinforced in the tax-exempt sector by price cutting on recent slow-moving issues, as dealers sought to reduce the accumulation of issues on their shelves. Over the month as a whole, the average yield on Moody's seasoned Aaa-rated corporate bonds was unchanged at 4.32 per cent, while the average yield on similarly rated tax-exempt bonds rose by 1 basis point to 3.16 per cent.

The total volume of new corporate bonds reaching the market in October amounted to approximately $510 million, compared with $280 million in the preceding month and $540 million in October 1962. The largest new corporate bond issue publicly marketed during the month consisted of $150 million of A-rated 4½ per cent finance company debentures maturing in 1985 and not redeemable for eight years. The debentures were reoffered to yield 4.54 per cent and were well received. New tax-exempt flotations during the month totaled approximately $1,245 million, as against $415 million in September 1963 and $600 million in October 1962. The Blue List of tax-exempt securities increased by $132 million during the month to $626 million on October 31. The largest new tax-exempt offering during the period was a $184 million Baa-rated hydroelectric revenue bond. The issue, which was well received, consisted of $144 million of 4 per cent term bonds maturing in 2018, reoffered to yield approximately 3.96 per cent, and $40 million of serial bonds which were reoffered to yield from 3.15 per cent in 1974 to 3.75 per cent in 1991. Other new corporate and tax-exempt issues marketed in October were accorded mixed receptions.