The Money Market in June

The money market remained generally firm in June, continuing the firmer tone that developed in the latter half of May. Reserve distribution tended to favor banks outside the money centers during much of the month, while reserve positions of banks in the money centers were under some pressure—particularly in the latter half of the month, after the midmonth corporate tax payment date and the enlargement of Government securities dealers' financing needs. As in the preceding month, Federal funds traded almost entirely at the 3 per cent "ceiling", with the supply of funds available at this rate often falling short of a substantial demand. Member bank borrowing from the Federal Reserve Banks continued at about the levels reached in the latter part of May. Rates posted by the major New York City banks on call loans to Government securities dealers were generally quoted within a 3¼ to 3½ per cent range throughout the period. The tone of the money market became quite firm early in July, reflecting both the lingering effects of the end-of-June commercial bank quarterly statement date and the reserve pressures developing in advance of the July 4 holiday.

On June 6, the Treasury announced that it would offer for cash approximately $1¼ billion of new bonds to be dated June 20, 1963 and to mature August 15, 1970. Subscriptions for the bonds—carrying a 4 per cent coupon and offered at par—were to be received on June 11, with payment, which could be made through credit to Treasury Tax and Loan Accounts, due on June 20. It was also announced on June 6 that subscriptions in amounts up to and including $100,000 would be allotted in full while amounts subscribed over $100,000 would be allotted on a percentage basis. At the same time, the Treasury indicated that it was prepared to enlarge the issue by 10 to 15 per cent if investor interest proved sufficiently extensive.

The results of the bond offering were announced after the close of business on June 14. The issue was very heavily oversubscribed, with the response far exceeding the Treasury's expectations. Subscriptions numbered almost 24,000 and amounted to approximately $16¼ billion—a figure that was much inflated as subscribers expected a low allotment and consequently padded their subscriptions. Even so, it soon became clear that allotting in full the first $100,000 of each subscription would absorb about $1.4 billion—leaving virtually no percentage allotment on larger subscriptions unless the Treasury overallotted by a wider margin than had been indicated earlier. In these unusual circumstances the Treasury accepted $1.9 billion of subscriptions, subjecting that portion of subscriptions in excess of $100,000 to a 5 per cent allotment. Because the total amount allotted substantially exceeded the $1¼ billion originally sought by the Treasury, no allotments were made to Government Investment Accounts.

In the market for Treasury notes and bonds, interest focused during most of the month on the Treasury's sale of 4 per cent bonds of 1970. Price changes for outstanding issues were generally quite narrow and mixed, with moderate declines centered in the intermediate-term area, where the supply of securities was expanded by the new bonds. Treasury bill rates continued to rise into early June, then receded from June 4 through June 10 in the face of expanding demand. In the latter part of the month, bill rates held generally steady. Prices of corporate bonds drifted slightly lower early in the month, but moved moderately higher over the remainder of the period as the calendar of new offerings grew lighter and investor demand expanded. In the tax-exempt sector, prices moved down sharply at the beginning of June, then receded gradually over the balance of the month.

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

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

Factor	Daily averages—week ended				Net changes
	June 5	June 12	June 19	June 26	
Operating transactions					
Treasury operations*	+ 87	− 118	− 8	− 109	− 198
Federal Reserve float	− 128	+ 64	+ 471	+ 1	+ 408
Currency in circulation	− 188	− 199	− 88	+ 63	− 368
Gold and foreign account	− 23	− 50	+ 17	− 2	− 57
Other deposits, etc.	− 10	− 22	+ 13	+ 32	+ 13
Total	− 311	− 324	+ 400	− 27	− 203
Direct Federal Reserve credit transactions					
Government securities:					
Direct market purchases or sales	+ 281	+ 322	− 269	+ 186	+ 520
Held under repurchase agreements	+ 102	− 28	− 1	+ 80	+ 153
Loans, discounts, and advances:					
Member bank borrowings	− 60	+ 33	+ 35	− 60	− 32
Other	—	+ 1	− 1	—	—
Bankers' acceptances:					
Bought outright	− 3	+ 1	—	− 2	− 4
Under repurchase agreements	—	—	+ 1	+ 1	+ 2
Total	+ 320	+ 329	− 234	+ 215	+ 639
Member bank reserves					
With Federal Reserve Banks	+ 17	+ 5	+ 226	+ 188	+ 436
Cash allowed as reserves†	− 177	− 15	+ 142	+ 70	+ 20
Total reserves†	− 160	− 10	+ 368	+ 258	+ 456
Effect of change in required reserves†	+ 25	+ 89	− 289	− 377	− 552
Excess reserves†	− 135	+ 79	+ 79	− 119	− 96
Daily average level of member bank:					
Borrowings from Reserve Banks	216	248	284	234	246‡
Excess reserves†	340	419	498	379	409‡
Free reserves†	124	171	214	145	163‡

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 June 26.

BANK RESERVES

Market factors absorbed reserves on balance from the last statement period in May through the final statement week in June. Reserve drains—stemming mainly from an expansion in Treasury deposits with the Federal Reserve Banks, an outflow of currency into circulation, and a large increase in required reserves—more than offset a midmonth rise in float. The expansion in required reserves primarily reflected an increase in loans to brokers and dealers, as they took on securities from corporations raising cash to make quarterly payments; reserves were also required to cover the increase in loans to corporations which occurred over the quarterly tax and dividend dates. Additional required reserves were generated when commercial banks paid for the new Treasury bonds on June 20 by directly crediting Treasury Tax and Loan Accounts.

System open market operations during the month approximately counterbalanced the net reserve drains due to market factors. System outright holdings of Government securities expanded on average by $520 million from the last statement period in May through the final statement week in June, while holdings under repurchase agreements rose by $153 million. Net System outright holdings of bankers' acceptances declined by $4 million, while holdings under repurchase agreements rose by $2 million. From Wednesday, May 29, through Wednesday, June 26, System holdings of Government securities maturing in less than one year rose by $444 million, while holdings maturing in more than one year expanded by $64 million.

THE GOVERNMENT SECURITIES MARKET

Prices of Treasury notes and bonds moved irregularly lower in early June, as the market continued to weigh the outlook for interest rates with caution, particularly in view of further improvements in business statistics and news of a renewed outflow of gold. Additional uncertainty was generated by expectations that a Treasury cash financing was imminent. In this atmosphere, expanded offerings encountered only limited investment demand. Price declines centered in the 1968-72 maturity area, where the market anticipated that Treasury financing might be executed. Response to the Treasury's announcement, after the close of business on June 6, that it would sell approximately $1¼ billion of new 4 per cent bonds of 1970 was favorable, and became increasingly enthusiastic as the subscription date approached. The Tax and Loan Account feature of the financing made the new bonds particularly attractive to commercial banks, while news that subscriptions up to $100,000 would be allotted in full drew considerable interest from small investors. Response from other market sources was also substantial, based in part on the expectation that only small percentage allotments might accrue to large subscribers and that a sizable premium would develop on the new issue once trading began.

The market for outstanding notes and bonds was buoyed both by the enthusiastic reaction to the financing terms for the new issue and by a widely held belief that recent advances in interest rates had already reflected any shift that might have taken place in monetary policy. Prices of outstanding issues generally rose from $\frac{1}{32}$ to $\frac{10}{32}$ from June 7 through the close of subscription books on June 11. Offerings of five- to ten-year maturities being sold to make room in portfolios for the 4's of 1970 were limited and were readily absorbed by professional demand. The new bonds were quoted at premium bids of from $\frac{7}{32}$ to $\frac{9}{32}$ in "when-issued" trading. From June 12 through the June 20 payment date for the 4's, price changes for outstanding issues were narrowly mixed, with the bulk of activity consisting of outright sales and switches out of 1968-80 maturities into the new bonds. Activity in the new issue tapered off prior to the Treasury's allotment announcement, as considerable market uncertainty developed over the possibility of unusually small percentage allotments. The Treasury's June 14 announcement that the total amount of the issue would be increased to $1.9 billion brought forth a sizable volume of offerings of the new bonds, but these were readily absorbed by a broadly based demand.

Prices were little changed from June 20 through the end of the month. Over the month as a whole, prices of intermediate and longer term issues ranged from $\frac{6}{32}$ higher to $\frac{16}{32}$ lower, while the new 4's of 1970, which continued in good demand throughout the period, closed the month at $100\frac{10}{32}$ (bid).

In the Treasury bill market, rates moved higher at the beginning of June in a cautious atmosphere reflecting market concern over reduced reserve availability, a further decline in the gold stock, and the possibility of still higher short-term interest rates. After the June 3 auction —at which rates were up 5 basis points from the preceding week on the three-month bill and 4 basis points on the six-month issue—demand, particularly from banks and public funds, revived at the higher rate levels. Thus, dealers were easily able to absorb bills returned to them under maturing repurchase agreements as corporations prepared for June 10 dividend payments. Against this background, rates edged generally lower from June 4 through June 10. Subsequently, a note of hesitancy developed in the wake of the June 10 auction, in which dealer awards were heavy. Offerings expanded moderately prior to the June 15 corporate tax payment date and encountered only limited retail demand. Over the remainder of the month, rates fluctuated within a narrow range in moderate trading, with persisting demand from nonbank sources balancing some net supply from banks in the continuing firm money market. At the final auction of the month, held on June 24, average issuing rates were 2.979 per cent for the new three-month issue and 3.070 per cent for the new six-month issue—about 1 and 2 basis points, respectively, above the rates established in the final auction in May. The newest three-month bill closed the month at 2.99 per cent (bid) as against 3.00 per cent at the end of May.

OTHER SECURITIES MARKETS

In the market for corporate and tax-exempt bonds, prices moved lower in early June as market participants became increasingly convinced that somewhat higher interest rates were in prospect. The price decline was more pronounced in the tax-exempt sector, where underwriters attempting to reduce their large inventories in the face of a substantial volume of new offerings made sizable price concessions. Yields on some recent tax-exempt issues rose by 5 to 15 basis points, and demand subsequently expanded at the lower price levels; dealers, however, continued to reduce prices throughout the month in order to trim swollen inventories. In the corporate sector, where the calendar of forthcoming issues contracted seasonally, resurgent investor demand permitted dealers to reduce their unsold balances; several new, fully priced corporate issues encountered some investor resistance, however. Over the month as a whole, prices of corporate bonds moved generally higher, while prices of tax-exempt bonds declined. The average yield on Moody's seasoned Aaa-rated corporate bonds was unchanged at 4.23 per cent, while the average yield on similarly rated tax-exempt bonds rose by 10 basis points to 3.10 per cent.

The total volume of new corporate bonds reaching the market in June amounted to approximately $455 million, compared with $535 million in the preceding month and $470 million in June 1962. The largest new corporate bond issue publicly marketed during the month consisted of $75 million (Aa-rated) 4¼ per cent industrial debentures maturing in 1988 and not refundable for five years. Reoffered to yield 4.30 per cent, the debentures were very well received and the issue was quickly sold. New tax-exempt flotations during the month totaled approximately $990 million, as against $830 million in May 1963 and $730 million in June 1962. The Blue List of tax-exempt securities fell by $53 million during the month to $643 million on June 28. The largest new tax-exempt offering during the period consisted of $109 million of 3.60 per cent revenue bonds issued by a state housing finance agency and due to mature from 1966 through 2005. The bonds, which were AA-rated by Standard and Poor's, were reoffered to yield from 2.20 per cent on the 1966 maturity to 3.62 per cent on the 2005 maturity and were very well received.