The Money Market in March

The money market remained generally firm in March. Early in the month, reserve pressures centered on the New York City banks, which met a substantial portion of the enlarged dealer financing needs associated with the Treasury's advance refunding operation. These banks managed to balance their positions without difficulty, however, primarily through substantial purchases of Federal funds which were in good supply at 3 per cent. Reserve pressures diminished somewhat at city banks prior to midmonth, as loan needs associated with the refunding were reduced by delivery of the new securities and as corporations shifted funds to the money centers in preparation for the March 15 tax and dividend payments. However, the money market continued moderately firm over the balance of the month. The effective rate on Federal funds was 3 per cent during most of the month, while rates posted by the major New York City banks on call loans to Government securities dealers were generally within a 3¼ to 3⅜ per cent range.

The Treasury's massive advance refunding operation was successfully concluded in March, with the closing of subscription books for individual investors on March 8 and the delivery of the new securities on March 15. On March 14, the Treasury indicated that approximately $8 billion of eligible securities had been exchanged for $4.3 billion of the new 3⅝ per cent notes of 1967, $1.5 billion of the reopened 3⅞ per cent bonds of 1971, $1.1 billion of the reopened 3⅞ per cent bonds of 1974, and $1.1 billion of the reopened 4 per cent bonds of 1980. Public exchanges totaled $7.7 billion, or 38 per cent of eligible public holdings. As a result of the refunding, the average maturity of the marketable public debt was extended by approximately two and one-half months to five years and one month, the longest average maturity since September 1958.

On March 20, the Treasury announced that it would offer $300 million in Treasury bonds of 1989-94 at competitive bidding to underwriters for reoffering to the public. (The previous sale of long-term bonds involving this technique—the first sale of its kind—had taken place in January of this year and resulted in a reoffering yield of 4 per cent.) Bids for the bonds were to be received at the Federal Reserve Bank of New York until 11 a.m. on Tuesday, April 9, with the successful bidder required, as in the last such auction, to make a bona fide reoffering of all of the bonds to the investing public. The payment date for the bonds will be April 18. On April 3, the Treasury indicated that, as in the preceding auction, underwriters would be offered the option of bidding on either a 4 per cent or a 4⅛ per cent coupon rate and that each bidder would be allowed to submit only one bid specifying one of the two coupon rates.

On April 2, the Treasury announced that it would raise $500 million in new cash by the sale on April 10 of $2.5 billion of special 366-day Treasury bills which will replace $2.0 billion of maturing one-year bills. The new bills will be dated April 15, 1963 and will mature on April 15, 1964. Payment through credit to Treasury Tax and Loan Accounts will not be permitted.

Treasury bill rates declined somewhat in the first week of March under the impact of persistent investment demand. Rates then moved irregularly higher over the remainder of the month under the influence of the quarterly tax and dividend dates, the sale by the Treasury of $1.5 billion of June tax anticipation bills in a special auction, and—later in the month—the increase of $100 million in the last regular weekly auction. Prices of outstanding Treasury notes and bonds moved upward at the beginning of the month in the favorable atmosphere which surrounded the advance refunding. Later, prices generally fell back to their end-of-February levels, as temporary holders sold issues they had taken in the refunding. At the end of the month, demand expanded at the lower price levels and a firmer tone developed. In the market for corporate and tax-exempt bonds, prices were unchanged to slightly higher in March.

BANK RESERVES

Market factors absorbed reserves on balance from the last statement period in February through the last statement week in March. Reserve drains stemmed largely from a greater than seasonal expansion in currency in circulation, from increases in Treasury deposits at the

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

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

Factor	Daily averages—week ended March 6	March 13	March 20	March 27	Net changes
Operating transactions					
Treasury operations*	− 40	+ 77	− 59	− 173	− 204
Federal Reserve float	+ 69	− 138	+ 345	− 274	+ 2
Currency in circulation	− 51	− 176	− 57	+ 96	− 167
Gold and foreign account	+ 7	− 4	+ 12	− 0	+ 9
Other deposits, etc.	+ 81	+ 53	+ 31	+ 12	+ 187
Total	+ 66	− 188	+ 272	− 340	− 194
Direct Federal Reserve credit transactions					
Government securities:					
Direct market purchases or sales	+ 41	+ 126	− 98	+ 89	+ 158
Held under repurchase agreements	+ 106	− 27	− 123	+ 116	+ 72
Loans, discounts, and advances:					
Member bank borrowings	+ 18	− 5	− 80	+ 184	+ 112
Other	—	+ 1	− 1	—	—
Bankers' acceptances:					
Bought outright	− 4	+ 1	− 4	− 1	− 8
Under repurchase agreements	—	—	—	—	—
Total	+ 156	+ 96	− 306	+ 388	+ 334
Member bank reserves					
With Federal Reserve Banks	+ 222	− 90	− 34	+ 42	+ 140
Cash allowed as reserves†	− 182	− 6	+ 120	+ 50	− 18
Total reserves†	+ 40	− 96	+ 86	+ 92	+ 122
Effect of change in required reserves†	− 111	+ 188	− 194	− 7	− 124
Excess reserves†	− 71	+ 92	− 108	+ 85	− 2
Daily average level of member bank:					
Borrowings from Reserve Banks	142	137	57	241	144‡
Excess reserves†	396	489	380	465	432‡
Free reserves†	254	351	328	224	288‡

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 March 27, 1963.

Federal Reserve Banks and in required reserves, and from a decline in vault cash. System open market operations, however, partially offset reserves absorbed by market factors. Outright System holdings of Government securities expanded on average by $158 million from the last statement period in February through the last statement week in March, while holdings under repurchase agreements rose by $72 million. Net System holdings of bankers' acceptances declined by $8 million. From Wednesday, February 27, through Wednesday, March 27, System holdings of Government securities maturing in less than one year decreased by $89 million while holdings maturing in more than one year rose by $228 million.

THE GOVERNMENT SECURITIES MARKET

In the market for Treasury notes and bonds, a strong tone prevailed in early March, as steady investment and professional demand favored the new and reopened issues, while moderate offerings—partly on swaps out of outstanding issues into the new bonds—were readily absorbed. Against this background, prices of outstanding notes and bonds, including issues maturing beyond 1969, generally moved higher through March 6, despite the somewhat larger than expected exchange into the new securities, particularly the 1974 and 1980 maturities.

From March 7 through March 26, however, investment demand was more moderate, activity tapered off, and a more hesitant tone developed. The advance refunding itself had facilitated substantial adjustments in portfolios, while investment demand was not sufficiently buoyant to absorb selling by temporary holders and the distribution of securities by dealers except at declining prices. Market caution was also fed by widespread discussion concerning possible official action designed to increase interest rates—including long-term rates—for balance-of-payments reasons. The long-term sector of the market was also affected late in the month by the imminent auction of long-term bonds in early April. Nevertheless, considerable underlying confidence remained in current interest rate levels and price changes were narrowly mixed, with losses centered in a few long-term bonds. In the last days of the month a better tone emerged, as demand expanded at the lower price levels while offerings tapered off. Over the month as a whole, prices of Treasury notes and bonds were generally unchanged to 6/32 lower.

In the market for Treasury bills, rates moved lower early in the month despite the firmness of the money market, as persistent investment demand from both bank and nonbank sources readily absorbed limited offerings. Bills—particularly those of shorter maturity—were in scarce supply, partly due to the usual March build-up in bill portfolios by financial institutions in Chicago, making preparation for the April 1 Cook County personal-property-tax date. The rate decline was restrained, however, by market caution related to the March 14 auction of $1.5 billion of tax anticipation bills and to the proximity of mid-March corporate tax and dividend payments. Downward pressures on bill rates were, moreover, partially offset by the effects of sizable dealer awards at the weekly bill auctions on March 4 and 11 and later at the auction of June tax anticipation bills. (An average issuing rate of 2.855 per cent was set for the tax bills which were issued on March 22 and will mature on June 24, 1963. Payment through credit to Treasury Tax and Loan Accounts was not permitted.)

With the approach of the mid-March corporate tax and dividend payment period, which also included the March 15 date on which advance refunding settlements were to be made, demand tapered off and offerings expanded—although only by relatively modest amounts. The cautious market atmosphere that prevailed in the latter part of the month was reinforced by sluggish demand for the new June tax bills, by market expectations that the Treasury would add to supplies in the regular weekly auctions for several weeks, and by the approaching April auction of one-year bills. (The Treasury did increase bill offerings at the last regular auction in March by $100 million and added $500 million to the April offering of one-year bills.) Against this background, bill rates edged higher from March 14 until the last few days of the month, when there was a slight downward adjustment in rates on relatively good demand. At the final auction of the month, held on March 25, average issuing rates were 2.919 per cent for the new three-month issue and 2.977 per cent for the new six-month bills—5 and 6 basis points, respectively, above the rates established in the last auction in February.

OTHER SECURITIES MARKETS

The market for corporate bonds was steady during March, while prices of tax-exempt bonds were firm. Favorable receptions were accorded several new issues which were marketed during the month—although a few of the more aggressively priced new offerings moved out of syndicate slowly. New corporate issues continued in relatively light supply during most of the month, but one $200 million issue reached the market in late March. Trading activity in the tax-exempt sector picked up after the successful sale early in the month of a $150 million state bond issue —the largest tax-exempt flotation to be offered through competitive bidding in nearly two years. The tax-exempt sector absorbed a heavy volume of new offerings during the month at gently rising prices. Investor resistance developed late in the month, and the market tone was heavy at the close. Over the month as a whole, the average yield on Moody's seasoned Aaa-rated corporate bonds was unchanged at 4.19 per cent, while the average yield on similarly rated tax-exempt bonds declined by 9 basis points to 2.93 per cent.

The total volume of new corporate bonds reaching the market in March amounted to approximately $490 million, compared with $275 million in the preceding month and $335 million in March 1962. The largest new corporate issue marketed during the month was a $200 million (Aaa-rated) oil company flotation of 4¼ per cent debentures maturing in 1993 and nonrefundable for five years. Reoffered to yield 4.22 per cent, the debentures (the largest corporate bond issue of the year) were accorded a favorable initial reception but were not fully sold at the end of the month. New tax-exempt flotations during the month totaled approximately $930 million, as against $710 million in February 1963 and $600 million in March 1962. The Blue List of advertised dealer offerings of tax-exempt securities increased by $119 million during the month to $635 million on the final day in March. The largest new tax-exempt offering during the period consisted of $150 million (Aaa-rated) state mental health and educational institution bonds. Reoffered to yield from 1.50 per cent in 1964 to 3.10 per cent in 1988, the issue quickly sold out, with some maturities moving to premiums of as much as ½ point in early trading.