The Money Market in February

A firm tone pervaded the money market in February. Nation-wide reserve availability declined slightly from the float-inflated January level, but the market handled without undue strain the heavy activity associated with large Treasury debt operations. As is usual in such a period, banks in the money centers experienced large basic reserve deficits, but they were able to balance their positions without difficulty through large purchases of Federal funds and some increase in their average borrowings from the Reserve Banks. Federal funds traded at a steady 3 per cent on virtually every day, and the rates posted by the major New York City banks on call loans to Government securities dealers were generally within a 3⅛ to 3¼ per cent range.

The final details of the Treasury's combined "pre-refunding" and "junior" advance refunding, the second step in the three-phase financing plan announced on January 30, were released after the close of business on Wednesday, February 20. (The third step—a long-term bond auction—is planned, subject to market developments, for the first half of April.) The Treasury said that the issues eligible for the pre-refunding would include the 3½ per cent certificate and the 2½ per cent bond maturing in August 1963, the 3⅛ per cent certificate maturing in November 1963, and the 3 per cent bond maturing in February 1964. Owners of these securities were given the option of exchanging them for a new 3⅝ per cent note maturing in February 1967, or for additional amounts of the outstanding 3⅞ per cent bond of November 1971 or of the outstanding 4 per cent bond of February 1980. Based on the prices of the potential pre-refunding "rights" before the announcement, adjusted for the cash payments by the Treasury, yields on the 1967, 1971, and 1980 offerings worked out to about 3.63 to 3.65 per cent, 3.96 to 3.97 per cent, and 4.03 to 4.04 per cent, respectively. The issues eligible for exchange in the junior advance refunding were the 3½ per cent note maturing in November 1965, the 3⅝ per cent note maturing in February 1966, the 3 per cent bond of August 1966, and the 3⅜ per cent bond due in November 1966. Holders of these issues were offered the opportunity to exchange them for the 3⅞ per cent bond of November 1974, which is being reopened to yield from 3.97 to 3.98 per cent after allowing for the cash payments connected with the exchange, or for the 1980 bond mentioned above. The subscription books were open for all investors from February 25 through February 28, and are to remain open for individual investors through March 8. Settlement for the exchange is scheduled to occur on March 15. The public holds about $10.6 billion of the issues eligible for the pre-refunding and $9.7 billion of those eligible for the advance refunding.

Treasury bill rates, after a brief upward adjustment in early February, moved downward on good demand until late in the month when they again edged irregularly higher. In the market for Treasury notes and bonds, interest centered on the exchange refunding of maturing debt early in February and the advance refunding described above. Over the month, prices tended to strengthen in the shorter coupon issues and to soften in the intermediate area where additional issues were expected—and were offered—in the advance refunding. In the market for corporate and tax-exempt bonds, prices moved somewhat lower in the first few days of February, as underwriters sought to attract additional investor interest in new issues. Thereafter, prices edged slightly higher in the corporate sector and steadied in the tax-exempt sector until late in the month when a somewhat easier tone spread from the Government securities market.

BANK RESERVES

Market factors absorbed reserves on balance from the last statement period in January through the last statement period in February. Reserve drains primarily reflected the effects of a routine Treasury interest payment to the Federal Reserve Banks and an expansion of currency in the hands of the public. These effects were only partly offset by a further seasonal decline in required reserves. System open market operations, however, counterbalanced reserves drained by market factors in February. Outright System holdings of Government securities increased on average by $386 million from the last statement period in January through the last statement week in February, while holdings under repurchase agreements declined by $104 million. Net System holdings of bankers' acceptances fell by $17 million. From Wednesday, January 30, through Wednesday, Feb-

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

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

Factor	Daily averages—week ended				Net changes
	Feb. 6	Feb. 13	Feb. 20	Feb. 27	
Operating transactions					
Treasury operations*	+ 61	− 65	− 77	+ 94	+ 13
Federal Reserve float	− 257	− 39	+ 353	− 106	− 19
Currency in circulation	− 25	− 158	− 30	+ 65	− 148
Gold and foreign account	+ 14	− 6	+ 25	− 58	− 25
Other deposits, etc.	− 5	+ 11	− 139	− 43	− 176
Total	− 211	− 257	+ 102	− 49	− 355
Direct Federal Reserve credit transactions					
Government securities:					
Direct market purchases or sales	+ 260	+ 212	− 110	+ 34	+ 386
Held under repurchase agreements	+ 157	+ 84	− 284	− 11	− 104
Loans, discounts, and advances:					
Member bank borrowings	+ 124	− 58	− 8	− 23	+ 35
Other	—	− 2	—	+ 30	+ 28
Bankers' acceptances:					
Bought outright	—	—	− 1	− 1	− 2
Under repurchase agreements	− 5	− 10	—	—	− 15
Total	+ 535	+ 175	− 401	+ 13	+ 323
Member bank reserves					
With Federal Reserve Banks	+ 324	− 53	− 239	− 36	− 3
Cash allowed as reserves†	− 251	+ 20	+ 128	+ 46	− 57
Total reserves†	+ 73	− 62	− 111	+ 10	− 90
Effect of change in required reserves†	− 47	+ 106	+ 34	+ 48	+ 141
Excess reserves†	+ 26	+ 44	− 77	+ 58	+ 51
Daily average level of member bank:					
Borrowings from Reserve Banks	223	168	157	129	169‡
Excess reserves†	457	501	424	482	466‡
Free reserves†	234	336	267	353	297‡

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 February 27, 1963.

ruary 27, outright System holdings of Government securities maturing in less than one year rose by $252 million while holdings maturing in more than one year declined by $60 million.

Over the four statement weeks ended February 27, free reserves averaged $297 million, compared with $357 million (revised) in the five weeks ended January 30. Average excess reserves fell by $116 million to $466 million, while average borrowings from the Federal Reserve Banks declined by $56 million to $169 million.

THE GOVERNMENT SECURITIES MARKET

Treasury debt operations, in process and pending, dominated the market for Treasury notes and bonds in February. At the beginning of the month, market attention focused on the Treasury's exchange refunding in which holders of $9.5 billion of Treasury notes and certificates maturing on February 15 were given the opportunity to convert these securities into new 3¼ per cent certificates of 1964 or increased amounts of the 3¾ per cent bonds of 1968. Initial market reaction to the terms of the exchange was very favorable. Prices of the rights, the three maturing issues eligible for conversion, moved up as much as $\frac{6}{32}$ in early trading, while prices of both of the securities to be issued were quoted at premium bids of from $\frac{4}{32}$ to $\frac{7}{32}$ in "when-issued" trading. The success of the refunding, for which the subscription books were open from February 4 through 6, was reflected in the fact that attrition on the $5.5 billion publicly held portion of the maturing securities amounted to only 4 per cent. Approximately $6.8 billion of the maturing securities was converted into the 3¼ per cent certificates of 1964, and $2.5 billion was turned in for the reopened 3¾ per cent bonds of 1968.

Once the books closed on the February refunding, market attention shifted to the forthcoming advance refunding expected in the latter half of February. Prior to the announcement of the terms of the operation on February 20, prices of outstanding issues due through 1966 moved generally upward, reflecting market views that some of these issues would become rights in this refunding and that supplies in this maturity area would accordingly be reduced. Concurrently, prices of issues due later than 1966 generally edged lower, prompted by investor expectations that the refunding would add to the supply of securities, perhaps as far out as 1980. In mid-February, trading activity contracted as the market awaited the precise terms of the offering.

The Treasury revealed on February 19 that it was considering enlarging the scope of its forthcoming financing to include not only a junior advance refunding, as earlier indicated, but also a pre-refunding of issues of Government securities maturing within one year. Complete details (discussed above) were released on the following day. Subsequently, trading was heavy and prices moved fractionally lower, as investors adjusted their positions in the light of the numerous alternatives made available by the refunding and as Government securities dealers absorbed a heavy volume of rights. Over the month as a whole, prices of Treasury notes and bonds due through 1966 ranged from $\frac{6}{32}$ higher to $\frac{5}{32}$ lower, those in the 1967-72 maturity category were $\frac{7}{32}$ higher to $\frac{21}{32}$ lower, and long-term issues were $\frac{2}{32}$ higher to $1\frac{6}{32}$ lower.

Treasury bill rates moved slightly higher in the first few days of the month. Reinvestment demand arising from switches out of rights to the Treasury's early February exchange refunding was relatively light, and dealers' awards in the first weekly bill auction of the month were fairly large. At the higher yield levels, however, demand expanded, resulting in a decline in seasonally swollen dealer positions. The market was also buoyed by anticipations that additional demand for bills might result from the February redemption of a large Government agency issue and from the Treasury's advance refunding operation. Against this background, bill rates edged lower from February 6 through 21. In the final auction of the month held on February 25, average issuing rates were 2.870 per cent for the new three-month issue and 2.922 per cent for the six-month bills, in each case 5 basis points below the rates established in the last auction in January. Dealer awards in the auction were large and yields subsequently moved higher, as demand for bills from corporations selling the short-term rights dried up when the prices of the short-term rights declined.

OTHER SECURITIES MARKETS

Prices of seasoned corporate and tax-exempt bonds moved fractionally lower at the beginning of February, but a better tone emerged in both sectors of the market later in the month. The improvement was most pronounced in the corporate sector, which was strengthened by a relatively small supply of new issues and by a light calendar of scheduled flotations. In the tax-exempt sector, on the other hand, the heavy volume of new and forthcoming issues represented a restraining influence. Against this background, prices of corporate bonds edged higher until late in the month when a more hesitant tone appeared in the market, while tax-exempt bonds were generally steady. For the month as a whole, the average yield on Moody's seasoned Aaa-rated corporate bonds declined by 2 basis points to 4.19 per cent, while the average yield on similarly rated tax-exempt bonds rose by 5 basis points to 3.02 per cent. (These indexes comprise only a limited number of issues and do not always constitute an accurate guide to the tone of the market.)

The total volume of new corporate bonds reaching the market in February amounted to approximately $275 million, compared with $345 million in the preceding month and $490 million in February 1962. One of the two largest new corporate issues marketed during the month was a $50 million Aaa-rated 4⅜ per cent utility company debenture issue maturing in 2003, which reached the market early in February. When reoffered to yield 4.29 per cent, the debentures—which are not redeemable for five years—were well received. However a second $50 million utility issue floated later in the month, consisting of Aa-rated 4⅜ per cent first mortgage bonds maturing in 1998 and reoffered to yield 4.27 per cent, encountered investor resistance. New tax-exempt flotations during the month totaled approximately $735 million, as against $890 million in January 1963 and $1,125 million in February 1962. The Blue List of advertised dealer offerings of tax-exempt securities declined by $54 million during the month to $516 million on the final day in February. The largest new tax-exempt offering during the period consisted of a two-part municipal bridge and tunnel authority revenue bond offering. The flotation, which was not rated by Moody's, included $50 million of 3½ per cent bonds reoffered to yield 3.45 per cent in 1985 and $50 million of various coupon bonds reoffered to yield from 2.60 per cent in 1970 to 3.20 per cent in 1978 and was well received. Other new corporate and tax-exempt bond issues marketed during the period were accorded mixed receptions.