

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

# Office Correspondence

Date April 18, 1938

To Chairman Eccles

Subject: \_\_\_\_\_

From Mr. Goldenweiser

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Attached is a preliminary draft of this week's Current  
Comments. The final draft to be prepared tomorrow will con-  
tain additional material.

CONFIDENTIAL

Cc. 70  
April 18, 1938

CURRENT COMMENTS  
(Preliminary draft)

Excess reserves

Following the reduction in reserve requirements April 16, excess reserves increased to a total of \$2,500,000,000, which compares with an average level of about \$1,500,000,000 maintained during March. Excess reserves are now substantially higher than at any time since the first increase in reserve requirements August 16, 1936. The reduction in reserve requirements amounted to \$750,000,000 and excess reserves have been further augmented since the first of April by a reduction of \$200,000,000 in Treasury deposits with the Reserve banks. These deposits now amount to \$1,500,000,000, reflecting the deposit of \$1,390,000,000 of inactive gold and excess gold in the working balance made on April 14. As this gold was included in Treasury cash, its deposit at the Reserve bank had no immediate effect upon excess reserves. With the excess of Treasury expenditures over the next few months, the balance will be drawn down and added to member bank reserves.

During the current statement week ending April 20, it is anticipated that excess reserves will be increased somewhat further through net Treasury expenditures and some further reduction in money in circulation.

Reporting member banks

Total loans at reporting member banks in leading cities declined substantially during the week ending April 13, reflecting further reductions in loans to security brokers and dealers in New York and in commercial loans

in 100 other cities. Brokers' loans are now close to the lowest levels of 1932 and 1933. Holdings of United States Government obligations increased by \$60,000,000 at New York City banks but showed little change elsewhere.

#### Government security market

The Government security market was firm in the early part of last week and advanced sharply in the latter part of the week following the release of the President's message.

The average yield on long-term Treasury bonds declined to 2.40 percent on Saturday, the lowest yield this year. The average yield on Treasury notes maturing in 3 to 5 years declined to 0.86 percent compared with the previous low of 0.92 percent in December 1936.

#### Bond market

Prices of industrial and public utility bonds moved generally higher last week, but railroad bonds were weaker. Losses of the latter averaged about 3 points in the lower grades, but were limited to less than a point for the highest grade issues. Municipal bonds showed small mixed changes.

New security issues offered for sale last week were limited to a few municipal issues totalling about \$5,000,000.

#### Stock market

Stock prices rose again last week, continuing an advance which began April 1. Shares of industrial corporations advanced sharply, but shares of utility corporations advanced only moderately, and railroad shares declined slightly. The volume of sales on the New York Stock Exchange averaged 1,000,000 shares per day.

Prices of British stocks in London advanced further last week.

### Brokers' balances

Preliminary reports to the Board of member firms of the New York Stock Exchange indicate that the volume of credit extended by these firms to their customers (reported as "customers' debit balances") declined further during March by an amount which probably exceeded \$100,000,000, bringing the total of these borrowings to about \$830,000,000, which is \$730,000,000, or 47 percent, below the post-depression peak reached in April 1937, and \$140,000,000 above the depression low reached in the summer of 1932. Total borrowings of these firms from banks and other sources in New York and elsewhere decreased during March by about \$60,000,000, and customers' free credit balances (which constitute another source of funds available to the brokers) decreased by about \$40,000,000. The decline in the credit balances may have been due to customers' withdrawals of such balances following the Whitney failure.

### Foreign purchases of American stocks

Foreigners turned buyers of domestic stocks last week. As a result of steady buying, their net purchases were larger than the purchase or sales balance for any other week since the beginning of the year.

### Industrial production

The latest estimates show little change in output of steel and automobiles. Steel production this week is estimated at 32.4 percent of capacity and automobile production last week was about 62,000 cars.

Employment conditions

Figures for the country as a whole indicate that factory employment declined somewhat and payrolls showed little change from the middle of February to the middle of March, although increases are usual at this season. The number employed in the machinery industries decreased considerably further and, on a seasonally adjusted basis, most other major groups of industries showed some decline.

Commodity prices

Following the President's message last Thursday, there was a slight advance in prices of commodities traded in on the exchanges. The Dow-Jones index of commodity futures at noon on Monday was at 50.56 as compared with 49.51 at the close last Wednesday.

Gold movements and foreign exchange rates

The United States acquired \$12,000,000 of foreign gold on balance in the week ending last Saturday. Imports of \$14,000,000, which were added to the reported stock, were offset to the extent of \$2,000,000 by net Stabilization Fund sales. Gross sales by the Fund were rather more than \$4,000,000, most of which represented gold earmarked for French account. The French franc turned strong following the overwhelming vote of full financial powers to the Daladier Government by the Chamber on April 12, and the French Fund is reported to have purchased substantial quantities of gold, mainly in London. The franc rose from 3.10 cents on April 12 to 3.15 cents on the 13th, but the Fund operations prevented any further substantial rise. It is currently quoted at about 3.16 1/2.

The stronger tendency in leading foreign currencies which became evident on Monday the 11th, following announcement that a spending program was under consideration in the United States, continued throughout the week. The advance was accelerated following the President's message to Congress on the 14th recommending new public works expenditure and announcing desterilization of gold and a reduction in member bank reserve requirements. Sterling, which was quoted at \$4.96-1/4 on April 9, passed \$5.00 on Saturday the 16th and rose to nearly \$5.01 on the 18th. Present foreign exchange quotations may undergo some revision, however, when the leading European markets, which closed on Friday, reopen on Tuesday.

#### New French financial program

On April 12 and 13 the French Parliament almost unanimously voted the new Daladier Cabinet power to take financial and economic measures by decree until July 31. In approving the grant of powers, conservative leaders declared that the new Government possesses the confidence of investors, and that it will be able to issue the internal loan its predecessors were unable to float. An issue of 15,000,000,000 francs is planned.

The special powers will be used to raise the 35,000,000,000 francs the Treasury estimates it will require by the end of the year. It is understood that in addition to the public issue 10,000,000,000 francs will be borrowed from the Bank of France. Part of the remainder will be obtained from bills drawn by armament contractors on the Treasury, which can be discounted at the Bank of France and at commercial banks. These bills, which will enable contractors to realize immediately on amounts due them from the State, are said to be modeled on the German work-creation bills. There will also be increases in taxes on profits in the armament industries and on monopolies, and in some tariff schedules.

The program lacks the more controversial features of former Premier Blum's proposals, notably the capital levy, a modified form of exchange control, and revaluation of the gold stock.

After voting the decree powers Parliament adjourned until May 31.

Before acting on his financial program, the Chamber accorded Daladier an almost unanimous vote of confidence. Thus the present Government, by winning support from the Communists to the extreme right, is the nearest approach to a "National Union" government yet achieved, although the overwhelming majorities obtained initially do not necessarily mean equally strong support in the future. The Socialist party, which voted as a unit in the Chamber, divided fairly evenly in party caucus on the question of backing the Government, while the extremes of right and left have made it clear that their backing cannot be relied upon when Parliament reconvenes. The Government will be greatly strengthened if it can settle the current labor disputes in a manner satisfactory to both sides, but there appear to have been no significant developments as yet.