

Fifth District Investors and the Bill Market

In 1969 individuals, particularly small investors, became increasingly important as purchasers of Treasury bills. These obligations have traditionally been a popular short-term investment for banks and other financial institutions, nonfinancial corporations, state and local governments, and U. S. Government trust accounts. The Federal Reserve System carries out its open-market operations mostly through purchases and sales of Treasury bills. Individual investors have shown little interest in Treasury bills, generally placing their funds in commercial bank savings deposits or with savings and loan associations or mutual savings banks where interest rate ceilings are fixed by the various regulatory agencies. In 1969, as rates paid on Treasury bills greatly exceeded these ceilings, individuals began increasingly to invest their money directly in Treasury bills and other market instruments, bypassing the financial institutions. This article discusses the changing par-

ticipants in Fifth District Treasury bill auctions during 1969 and early 1970.

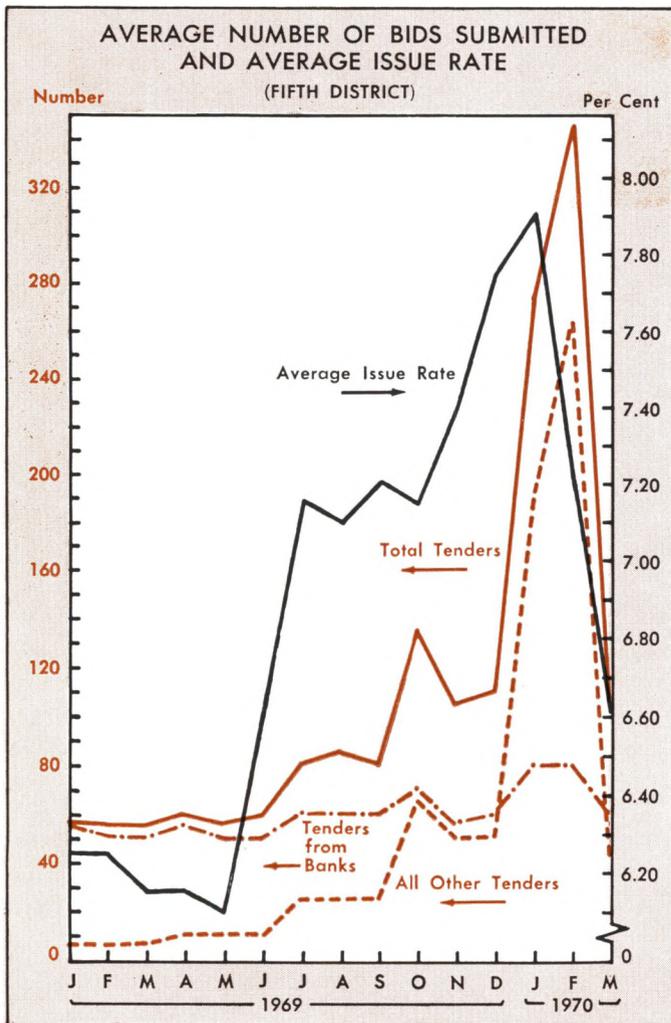
At present the Treasury sells four types of bills on a regular basis. Each month the Treasury auctions \$0.5 billion of bills maturing in nine months and \$1.2 billion of bills maturing in twelve months. And each week the Treasury offers \$1.8 billion of bills due in three months and \$1.3 billion of six-month bills. The bills sold in these regular auctions replace maturing issues. In addition to its regular bill auctions, the Treasury occasionally offers strips of bills, tax anticipation bills, notes, and bonds.

The Federal Reserve Banks act as agents of the U. S. Treasury in marketing the new Federal issues. The weekly auctions of three- and six-month bills are held each Monday at the various Federal Reserve Banks and their branches.

Tenders for Treasury bills may be submitted through commercial banks, or directly to the Federal Reserve Bank by the subscriber or his agent. Often a single tender form from a commercial bank may contain bids from many investors. In 1969, as a growing number of investors entered the market, more and more banks began to charge a fee for this service. As a result many investors in the Fifth District submitted their bids directly to the Federal Reserve Bank of Richmond or to its Baltimore or Charlotte Branches. The first chart shows a monthly average of the number of tenders submitted and the average issue rates for the weekly bill auctions. The average number of tenders submitted directly increased from 57 in January 1969 to 272 in January 1970.

The second chart shows that the number of subscribers submitting bids in weekly auctions, whether directly or through banks, increased from an average of 310 in January 1969 to 992 in January 1970. The number of bids submitted by Fifth District banks, nonbank financial institutions, nonprofit institutions, state and local governments, and businesses remained relatively stable over the year. The bulk of the gain came from individuals whose bids numbered on average around 200 a week in early 1969 and 858 bids a week in January 1970.

As the number of participants in weekly bill auctions increased, the total dollar value of bids submitted rose. As shown in the third chart the average weekly value of bids in the Fifth District climbed from \$12.8 million in January 1969 to \$31.4 million in January 1970. Not all of the rise was due to in-



creased participation of individuals in the market. While the number of banks and other institutions submitting bids did not grow substantially, there was an increase in the size of bids, particularly from banks, nonbank financial institutions, and state and local governments. The average size of bids from individuals remained relatively constant at about \$20 thousand during most of 1969, but dropped to around

the \$16 thousand level in December 1969 due to the increased number of small bids.

The peak of activity in weekly Treasury bill auctions was reached in January and February 1970, after having begun to accelerate in July 1969. March 1970 saw a reversal of this trend. The Treasury Department increased the minimum denomination of Treasury bills from \$1,000 to \$10,000, effective March 5, 1970. The increased minimum denomination of bids together with declining rates and the lifting of interest rate ceilings at banks and other thrift institutions led to reduced participation in Treasury bill auctions. The number of tenders offered in the Fifth District fell from 345 in February to 107 in March, primarily because of a decline in directly submitted tenders. The number of bids placed dropped from an average of 850 a week in February to 381 in March. This decrease was due almost entirely to reduced bids from individuals. The average size of individual bids increased to about \$23 thousand in March, following the increase in the minimum denomination of Treasury bills.

Wynnelle Wilson and Marjorie Solomon

