

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

# Office Correspondence

Date April 2, 1947

To Chairman Eccles

Subject: Bond prices

From Richard A. Musgrave R.A.M.

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Table I shows changes in bond prices during the last three months. The potential upward pressure was greater than indicated by the slight price changes as the market has been very thin.

Table II shows changes in weekly reporting member bank holdings of U. S. securities. Total holdings of these banks decreased by 1.3 billion dollars, while the amount of maturing issues held by them and paid for in cash during this period is estimated at 900 million. Long-term holdings did not change significantly.

The decrease in holdings by 400 million in excess of redemptions reflects the fact that these banks had to sell additional issues to the Federal Reserve to compensate for the loss of funds due to retirement of Federal Reserve held debt. It appears that sales by these banks ~~to the Federal Reserve~~ were larger than required to make up for the loss of funds from this source. Recently a substantial part of this supply has been absorbed by corporations and others. The Federal Reserve has been selling on balance during March.

As the market during the past three months was potentially strong, notwithstanding heavy tax payment and debt retirement, it may be expected to be stronger in the coming period when there will be less pressure on banks to sell to the Federal Reserve. Bank incomes have declined and costs have increased which makes banks eager to shift into longer terms. Pressures on reserves and uncertainties in the outlook ~~for~~ interest rates so far have tended to retard such shifts but they are likely to materialize. In view of the very thin supply of longer terms the resulting price rise ~~may~~ be quite sharp. Retirement of maturing bill issues, which are the only issues maturing between now and June 1, would restore pressure on reserves and would help to prevent this.

Table I  
PRICES OF TREASURY BONDS

	25, Dec. 54/52	2 <sup>1</sup> / <sub>2</sub> , Sept. 72/67	2 <sup>1</sup> / <sub>2</sub> , Dec. 72/67
Nov. 31, 1946	102.21	105.15	102.13
Jan. 28, 1947	103.05	106.10	103.03
Feb. 28, 1947	103.01	105.31	103.02
Mar. 31, 1947	103.06	105.31	103.09

Table II

CHANGE IN U. S. SECURITY HOLDINGS BY MEMBER BANKS\*  
DECEMBER 31 - MARCH 26

(In millions of dollars)

	Paid in Cash	Net Change
Bills	--	- 148
Certificates	500	- 718
Notes	400	- 475
Bonds	--	+ 7
Total	900	-1,334

\* Estimated as 70 per cent of change in total commercial bank holdings.