BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date December 10, 1947

To Chairman Eccles

Subject: Treasury bills

From Thomas L. Smith T.L.S.

Since the first of July, about the time of the unpegging of the bill rate, Treasury bills held by the Federal Reserve have declined by 1.6 billion dollars and bills held outside the Federal Reserve have increased by 1.2 billion. In effect, commercial banks and corporations have purchased about 1.2 billion largely by out bidding the Federal Reserve at the time of the weekly exchanges, and the Federal Reserve has lost another 400 million through the cash retirement of bills.

A good market for bills was not established until October and November, coincident with a rise of the bill rate from about .80 per cent to .944 per cent on November 28 and a sharp decline in the prices of short and intermediate bonds. Banks have been selling short and intermediate bonds and longer-term certificates and notes and have been buying bills and short-term certificates in seeking liquidity and replacing the drain on reserves occasioned by the retirement program. This is entirely constructive, though it does place downward pressure on bond prices. Corporations have been temporarily investing the proceeds of new financing in bills.

Under these conditions, the .95 per cent bill rate is at least as attractive to investors as the 1 1/8 per cent rate on notes. If the weakness in bank eligible bonds continues or is increased in the next quarter, as expected, and is allowed to be reflected in rising yields, it may subsequently prove desirable to consider increasing the one-year rate and therefore possibly the bill rate. The issue offered in exchange for the maturing February 1, 1948 certificate issue is the first that could be affected.