

OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date April 20, 1937

To Chairman Eccles

Subject: _____

From Mr. Goldenweiser

EAG
m.f.

In connection with your Treasury meeting.

CURRENT COMMENTS

Member bank reserves

During the statement week ended April 14 excess reserves increased \$190,000,000 and reached a total of \$1,630,000,000, the highest figure since the increase in reserve requirements on March 1. A decline in Treasury deposits of \$160,000,000 and an increase in Federal Reserve credit of \$35,000,000, including purchases of \$28,000,000 of Government securities, were the two factors chiefly responsible for the increase in reserves.

During the current statement week ending April 21, the changes in factors affecting reserves are expected to be small. Calls by the Treasury upon special depositories totaling \$107,000,000 and an issue of \$50,000,000 of new bills to mature in the September financing period will approximately cover the Treasury's cash requirements in the period. Treasury balances with the Federal Reserve banks are expected to continue at around \$100,000,000 for the rest of April and probably also during May.

It appears that member banks may have between \$300,000,000 and \$900,000,000 excess reserves after the May 1 increase in requirements, even if the Federal Reserve banks made no additional purchases of securities. The increase in reserves which has occurred in recent weeks has gone largely to the central reserve city banks in New York and Chicago, and it appears that these banks are now generally well prepared to meet the increase in requirements on May 1. The 21 leading New York banks hold excess reserves of more than \$500,000,000 as compared with the estimated

increase in requirements of about \$310,000,000, and the important Chicago banks have over \$100,000,000 of excess reserves as against an increase of \$70,000,000 in requirements. Banks elsewhere have roughly \$950,000,000 excess reserves with an anticipated increase in requirements of about \$370,000,000.

On the basis of the recent survey of the reserve position of individual member banks on March 30 it is likely that withdrawals of bankers' balances from New York City banks on May 1 will be in the neighborhood of \$100,000,000.

Reporting member banks

Holdings of United States Government direct obligations by reporting member banks in leading cities declined by \$63,000,000 during the week ending April 14. Practically all of this decline was at New York and Chicago banks. Commercial loans showed an increase of \$56,000,000, about one half of which occurred at New York banks. Since the end of January commercial loans have shown a steady increase of \$365,000,000, which was shared in by each Reserve district. Open-market loans and holdings of other securities declined during the latest report week.

Adjusted demand deposits increased outside New York City but declined in New York. Balances of domestic banks increased. Those of foreign banks were also built up, reflecting the recent inward movement of short-term funds from abroad.

U. S. Government securities at nonmember banks

Figures just released by the Comptroller of the Currency show that during the last half of 1936 holdings of United States Government securities by mutual savings banks increased by \$257,000,000 while holdings of other

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nonmember banks declined by \$68,000,000. In the same period member bank holdings declined by \$126,000,000, as a consequence of a large reduction at New York banks offset in part by continued increases elsewhere.

Bond market

Prices of United States Government bonds rose further last week. The average yield on long-term bonds declined to 2.70 percent as compared with 2.76 percent at the end of the previous week. The average yield on Treasury notes declined from 1.69 percent to 1.53 percent.

During the past week prices of corporate bonds recovered somewhat from the low levels prevailing at the beginning of the week. After further slight declines in prices of some classes of bonds on Monday prices rose on subsequent days to a net gain for the week of about a point. Lower-grade railroad bonds increased more sharply, showing an average gain of more than 2 points. The average yields of corporate Aaa bonds was 3.41 percent on Friday compared with 3.48 percent the preceding Friday and 3.43 percent on April 2. The average yield of corporate Baa bonds declined to 4.81 percent on Friday, which compared with a yield of 4.92 percent the preceding Friday.

Prices of municipal bonds also advanced during the week, but irregularly. This is the first week in 1937 that this class of issues has recorded an advance in prices. During the past two weeks investments of leading life insurance companies in State and municipal issues totaled about \$20,000,000, an amount as large as their total purchases of such issues in the preceding five weeks.

The volume of new security issues continued small, \$16,000,000 during the week as compared with \$11,000,000 in the preceding week, excluding in the earlier week \$33,000,000 of Federal Intermediate Credit Bank debentures.

Stock market

Activity in the stock market has recently diminished further. The volume of trading during the week ending April 17, which averaged about 1,200,000 shares per day, was the smallest for any week since last September. The general level of stock prices, which is about 7 percent below the high point in the middle of March, showed little net change for the week. The amount of credit extended to customers by brokers carrying margin accounts, which is reported as customers' debit balances, after increasing by \$200,000,000 in the six months ending with February, increased further during March by about \$65,000,000 to a new high level since 1931.

Prices of British stocks in London, after having declined towards the end of the preceding week, advanced to about the level that had prevailed for most of the time since the middle of March, which is about 6 percent below the high point of last December.

Foreigners selling stocks and buying dollars

Net sales of American stocks by foreigners were larger during the past week than for any week since the Securities and Exchange Commission reports began nearly a year ago. On only two days since April 8 have foreigners been buyers on balance. The heavy gold imports during this period reflect the movement of short-term funds speculating on a rise in the dollar. Foreigners unwilling to invest in an unsettled stock market have been betting on the dollar itself.

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Commodity prices

Last week prices of commodities in organized markets declined somewhat further. There were substantial reductions in grains and cotton, and prices of rubber, tin, and silk also continued to decline. Yesterday grains in both domestic and foreign markets recovered about half of the previous week's declines, while nonferrous metals abroad declined further.

Industrial production

Industrial production increased from February to March and the Board's seasonally adjusted index advanced from 116 percent of the 1923-1925 average to 119 percent. The rise reflected a sharp increase in output of minerals, chiefly coal, and an increase of somewhat more than the usual seasonal amount in manufacturing.

The large output of coal in March was due in part to stocking of coal by dealers and consumers in anticipation of a possible strike at bituminous mines on April 1 when the agreement between mine operators and the miners union expired. A new agreement was reached on April 2 and output of bituminous coal declined sharply in the first ten days of April; total production for the month will probably be considerably less than the large volume reported for March.

Activity at steel mills continued to rise during March and has been maintained in the first half of April at slightly over 90 percent of capacity. In the automobile industry a sharp increase in output at General Motors plants, following settlement of a strike, was partly

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offset by a reduction in output at Chrysler and Hudson factories, where strikes curtailed production. Since these strikes were settled, in the early part of April, total production has increased sharply. Lumber output has expanded considerably from the low level of the first two months of the year.

Production of nondurable manufactures increased further in March and was at about the level prevailing during most of 1929. Cotton consumption, which has been at an unusually high level in recent months, was larger in March than in any other month on record.