

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date January 7, 1948

To Chairman Eccles

Subject: Current Treasury financing.

From Woodlief Thomas

Mr. Rouse telephoned to report a conversation with Mr. Bartelt, who wants to send a memorandum to the Secretary regarding the current program of Treasury financing. Mr. Bartelt had figured that the Treasury will have an excess of cash receipts (including savings bond sales) over cash expenditures (excluding debt retirement) of \$1.4 billion in January, \$2.7 billion in February, and \$2.7 billion in March.

This will make it possible for the Treasury to retire all Federal Reserve holdings of maturing certificates and bonds, but Mr. Bartelt doubted if it would be advisable to resume retirement of any bills next week.

Mr. Rouse feels, and I agree, that for psychological reasons it would be well to resume the bill retirement program as early as possible. Our own figures, moreover, given in the attached memorandum, indicate that the Treasury will have adequate funds to begin next week retirement of \$100 million bills a week as well as to meet other needs. *Our figures differ very little from the Treasury's estimate, except in March.*

Mr. Bartelt contemplates making no more calls on war loan deposits but to permit those accounts to build up for use in the second quarter to offset an excess of Treasury payments into the market at that time. We have also made the same allowance in our estimates but believe it would be better to make a small call at the beginning of February, if necessary, but resume bill retirements, and to retire Federal Reserve holdings of February 1 certificates. *Or the Treasury can use the overdraft privilege.*

The first question for consideration then is whether bill retirement should be resumed next week.

The second question is the February 1 exchange offer. Mr. Bartelt has in mind a 12-month, 1-1/8 per cent certificate. Presumably there is general agreement as to this proposal.

Mr. Rouse himself raised a question as to the relation of the 1-1/8 per cent certificate rate to a discount rate of 1-1/4 per cent. He felt it might be difficult to hold the certificate rate down to 1-1/8 per cent if the discount rate were raised. For some reason he thought that the discount rate increase should be postponed for another two weeks. He thought that the Treasury should be consulted and made aware of the probable difficulty in keeping to a 1-1/8 certificate rate until June. He is going to discuss the matter with Allan Sproul this afternoon.

Mr. T.

Attachment.

PROSPECTIVE MONEY MARKET EFFECT OF TREASURY
TRANSACTIONS IN FIRST QUARTER 1948

During the first quarter of 1948, an excess of current cash receipts by the Treasury over cash expenditures (other than for debt retirement) will result in the transfer of about 6.3 billion dollars from the market to the Reserve Banks. In addition, it is estimated that sales of new nonmarketable securities will add about 1.5 billion to war loan deposit accounts at commercial banks. This total of 7.8 billion dollars will be available for retirement of maturing marketable public debt obligations. It can be used, moreover, so as to exert considerable pressure on the money market and make it necessary for commercial banks to sell large amounts of securities to the Federal Reserve in order to maintain reserve positions.

Money-market effect.--The money-market effect of Treasury operations during this period will result in the first instance from the Treasury surplus of receipts at the Federal Reserve plus any calls made on war loan deposits but in the final analysis will depend upon the holdings of securities that are selected for retirement and to some extent upon the timing of the retirement. The 6.3 billion dollars of excess cash receipts will in the first instance, regardless of the retirement program, exert a drain on the reserves of those banks which experience an excess of withdrawals over receipts of Treasury funds. The drain would be increased by calls on war loan deposits. Most banks will probably be thus affected. If, however, the Treasury should retire securities held by banks or by nonbank investors, then to that extent bank reserves would be restored. Such operations could, hypothetically, be conducted so that the net drain on bank reserves over any period of a few weeks would be relatively small.

To the extent that retirements are limited largely to securities held by Federal Reserve Banks, then the banks will suffer a sustained loss of reserves and will be under constant pressure to maintain their reserve positions. They can do this by selling securities from their portfolios to the Federal Reserve. Assuming that debt retirement will be limited as much as possible to Federal Reserve holdings, the amount of drain upon the banks' reserves during the quarter will be the 6.3 billion of net cash receipts deposited in Treasury balances at the Federal Reserve, plus the amount of any calls made on war loan deposits, minus cash redemption of securities held outside the Federal Reserve. The announced calls totaling 683 million in the first eight days of January should about equal voluntary redemptions outside the Federal Reserve during the first quarter.

This prospective drain on reserves resulting from Treasury transactions, amounting to more than 6 billion dollars, will be partly offset by a return flow of currency and a gold inflow, which together will probably exceed 1 billion dollars in the quarter. In addition banks begin the quarter with excess reserves close to 1.5 billion dollars, about twice as large as usual, and required reserves will decline with the decrease in deposits. Thus banks will probably need to sell, and the Reserve System will need to buy, close to 4 billion dollars of securities in the quarter to maintain bank reserves. This is an average of about 60 million dollars per working day.

Debt retirement program.--Table 1 attached shows holdings of maturing issues, together with past and probable future refundings. The System account

holds about 2.9 billion dollars of issues, other than bills, maturing in the first quarter of this year. Of these holdings about 2.6 billion can be retired for cash, since about 350 million of the System's holdings of 750 million of the January 1 certificate issue have already been exchanged for the new issue. In addition, voluntary cash redemptions by other holders may amount to about 600 million. Thus, about 3.2 billion of the available funds might be used to retire maturing issues other than bills, leaving about 4.6 billion available to the Treasury to retire bills or build up cash balances.

Table 2 attached presents estimates of changes in the Treasury cash balance by weeks for the next quarter and by months for the half year, based on the following assumptions as to debt retirement and the holding of balances:

- (1) All Federal Reserve holdings of maturing certificates and bonds will be retired and there will be moderate voluntary cash redemptions of these issues by other holders.
- (2) Bills will be retired at a rate of 100 million dollars a week beginning January 15. (This could be increased to 200 million for several weeks beginning the middle of February, without any important difference in money-market effect.)
- (3) There will be no calls on war loan accounts during the first quarter, except those already made for January 2 and 8. War loan balances will increase to about 1.8 billion by March 31, and then be drawn down to about 800 million by the end of June.
- (4) Treasury receipts and expenditures, together with the debt retirement program and calls assumed, will result in an increase of the Treasury's balance with the Federal Reserve to about 3.5 billion on March 31 and a reduction to 1.6 by the end of June. (These amounts would be smaller in case of larger bill retirements.)

Summary figures showing the effect of the program by months are as follows:

Month	Change in Treasury deposits with F. R. Banks					Amt. outstanding end of mo.			
	Drain on bank reserves				Retire- ment of F. R. held sec.	Net change	Treasury deposits with Federal Reserve	War loan balance	Treasury cash balance (includ- ing gold
	Calls	Retirement other than Fed. Res. held	Other net deposits at F. R. (excl. ret.)	Total drain (+)					
(In billions of dollars)									
<u>1947:</u>									
Dec.	1.1	- .3	- .9	- .1	- .3	- .5	.9	1.0	2.9
<u>1948:</u>									
Jan.	.7	- .1	1.3	1.9	- .8	+1.1	2.0	1.0	4.1
Feb.	--	- .3	2.2	1.9	-2.0	- .1	1.9	1.4	4.4
Mar.	--	- .3	2.8	2.5	- .9	+1.6	3.5	1.8	6.4
Apr.	1.0	- .2	- .9	*	- .6	- .6	2.9	1.2	5.2
May	.7	*	- .7	*	- .4	- .4	2.6	.8	4.5
June	.4	- .4	- .2	- .2	- .8	-1.0	1.6	.8	3.5

* Less than 50 million dollars.

Debt retirement could be made more rapid, in which case there would be a smaller increase in the cash balance through March and a smaller decrease subsequently. An accelerated debt retirement program would not, however, add to the pressure on bank reserves. On the contrary, unless confined to the retirement of additional Treasury bills, it would greatly ease the pressure. Also, enough should be retained in the cash balance to prevent it from falling below 2 billion in July or August when there will be a deficit of funds.

The program as it stands will make it necessary for banks to sell large amounts of Government securities to the Federal Reserve. Even greater pressure could be exerted in the first quarter by making larger calls on war loan balances. If this were done, however, Treasury operations would result in an easing of the money market in the second quarter. In that period, Treasury cash payments other than for debt retirement will probably exceed cash receipts (including war loan deposits of 1.2 billion from the sale of nonmarketable securities) by about 500 million, and voluntary cash redemption of securities not held by the Federal Reserve will return an additional 600 million to the market. The effect of these net payments to the market can be offset only by permitting war loan balances to increase as much as possible in the first quarter and drawing these balances down during the second quarter.

DISPOSITION OF MATURED MARKETABLE TREASURY BONDS, NOTES AND CERTIFICATES, JULY 1, 1947 - JUNE 30, 1949
(In millions of dollars)

Issue	Held by			Total Outstanding	Redeemed for cash			Amount Exchanged	Description of new securities	
	Commercial Banks	F. R. Banks	Nonbank Investors*		Total	Commercial Banks*	F. R. Banks			Nonbank Investors*
1947: July 1, 7/8% C/I	1,081	665	1,170	2,916	174	84	90	2,742	7/8% C/I 7/1/48	
Aug. 1, 7/8% C/I	541	260	422	1,223	97	54	43	1,127	7/8% C/I 7/1/48	
Sept. 1, 7/8% C/I	707	797	837	2,341	132	60	72	2,209	7/8% C/I 7/1/48	
Sept. 15, 1 1/2% T/N	1,747	57	903	2,707	128	84	44	2,580	1% T/N 10/1/48	
Sept. 15, 1 1/4% T/N	689	17	981	1,687	175	72	103	1,512		
Oct. 1, 7/8% C/I	680	73	687	1,440	86	43	43	1,354	1% C/I 10/1/48	
Oct. 15, 4 1/4% T/B	477	12	270	759	759	477	270	--	--	
Nov. 1, 7/8% C/I	710	203	862	1,775	308	47	58	1,467	1% C/I 10/1/48	
Dec. 1, 7/8% C/I	820	139	2,322	3,281	375	62	174	2,906	1 1/8% T/N 1/1/49	
Dec. 15, 2% T/B	521	--	180	701	74	55	19	627		
1948: Jan. 1, 7/8% C/I	1,340	751	1,043	3,134	543	80	63	2,591	1 1/8% C/I 1/1/49	
Feb. 1, 7/8% C/I	1,023	1,676	1,248	3,947	*1,900	101	*1,676	*2,047	1 1/8% C/I 2/1/49*	
Mar. 1, 7/8% C/I	880	348	914	2,142	* 500	75	* 348	*1,642	1 1/8% C/I 3/1/49*	
Mar. 15, 2% T/B	708	50	357	1,115	* 300	110	* 151	*2,038	1 1/8% T/N 4/1/49*	
Mar. 15, 2 3/4% T/B	903	101	219	1,223						
Apr. 1, 7/8% C/I	443	125	753	1,321	* 250	46	* 125	*1,071	1 1/8% C/I 4/1/49*	
June 1, 7/8% C/I	381	419	977	1,777	* 650	65	* 419	*1,127	1 1/8% C/I 6/1/49*	
June 15, 1 3/4% T/B	1,995	66	1,001	3,062	* 200	89	* 66	*2,962	1 1/8% C/I or T/N 7/1/49*	
July 1, 7/8% C/I (F)	655	1,429	658	2,742						
July 1, 7/8% C/I (G)	306	534	287	1,127						
July 1, 7/8% C/I (H)	467	1,058	684	2,209						
Sept. 5, 1 1/2% T/N	2,290	548	910	3,748						
Sept. 1, 2 1/2% T/B	370	--	81	451						
Oct. 1, 1% T/N	2,162	928	1,002	4,092						
Oct. 1, 1% C/I (J)	661	165	528	1,354						
Oct. 1, 1% C/I (K)	* 663	293	511	1,467						
Dec. 15, 1948-50 2% T/B	464	--	107	571						
1949: Jan. 1, 1 1/8% T/N	*1,224	--	2,309	3,533						
Jan. 1, 1 1/8% C/I	*1,260	351	980	2,591						
June 15, 1949-51 2% T/B	746	5	263	1,014						
Totals: 1947 July - Dec.	7,973	2,223	8,634	18,830	2,308	1,038	354	916	16,524	
1948 Jan. - June	7,673	3,536	6,512	17,721						
1949 July - Dec.	8,038	4,955	4,768	17,761						
1949 Jan. - June	3,230	356	3,552	7,138						

*Estimated

NOTE: Debt outstanding and Federal Reserve Bank holdings are for December 31, 1947. Commercial bank data are from Treasury Survey of Ownership of U. S. Government securities for which latest date is October 31, 1947. Exceptions to these dates include issues prior to and subsequent to dates mentioned.

Table 2

ESTIMATED TREASURY CASH BALANCE
(In millions of dollars)R&S 100-2557
January 5, 1948

STRICTLY CONFIDENTIAL

Period	Treasury cash bal. ^{1/} (end of period)	Treasury deposits with Federal Reserve Banks										War loan deposits			Change in Treasury dep. with F.R. Banks	Redemptions of System holdings	Net effect on bank reserves
		Amount (end of period)	Income taxes	Calls	Change				Treas. acct. net pur's of mktb. sec.	Inter-national payments	Other	Amount (end of period)	Change				
					Total	Bills	C/Is	Notes & bonds					New secur's	Calls			
Week ending																	
1947 - Dec. 3*	3,286	1,256	+ 173	+ 673	- 451	- 99	- 350	- 2	-155	--	- 298	970	+128	- 673	- 58	230	- 172
10*	2,805	934	+ 307	+ 241	- 114	-101	- 13	--	-191	-127	- 433	817	+ 89	- 241	- 322	90	+ 232
17*	2,250	616	+ 969	+ 324	- 178	-101	- 11	- 66	-281	--	-1,152	582	+ 89	- 324	- 318	90	+ 228
24*	2,690	929	+ 872	--	- 6	--	--	- 6	-127	- 50	- 376	703	+123	--	+ 313	--	- 313
31*	2,896	870	+ 226	--	- 2	--	--	- 2	--	--	- 283	968	+271	--	- 59	--	+ 59
1948 - Jan. 7	2,410	744	+ 370	+ 527	- 543	--	- 543	--	--	-100	- 380	611	+170	- 527	- 126	400	- 274
14	2,680	1,020	+ 490	+ 156	--	--	--	--	--	-100	- 270	605	+150	- 156	+ 276	--	- 276
21	3,030	1,230	+ 870	--	- 100	-100	--	--	--	-100	- 460	745	+140	--	+ 210	90	- 300
28	3,730	1,800	+1,180	--	- 100	-100	--	--	--	-100	- 410	875	+130	--	+ 570	90	- 660
Feb. 4	2,750	650	+1,150	--	-1,950	-100	-1,850	--	--	- 50	- 300	1,045	+170	--	-1,150	1,740	- 590
11	3,560	1,370	+1,250	--	- 130	-100	- 30	--	--	-150	- 250	1,135	+ 90	--	+ 720	90	- 810
18	4,230	1,970	+1,170	--	- 110	-100	- 10	--	--	-150	- 310	1,205	+ 70	--	+ 600	90	- 690
25	4,290	1,960	+ 680	--	- 110	-100	- 10	--	--	-150	- 430	1,275	+ 70	--	- 10	90	- 80
Mar. 3	4,150	1,660	+ 580	--	- 560	-100	- 460	--	--	-100	- 220	1,435	+160	--	- 300	435	- 135
10	4,370	1,800	+ 780	--	- 130	-100	- 30	--	--	-100	- 410	1,515	+ 80	--	+ 140	90	- 230
17	4,740	2,110	+1,800	--	- 390	-100	- 10	-280	--	-100	-1,000	1,575	+ 60	--	+ 310	240	- 550
24	5,960	3,250	+1,770	--	- 120	-100	--	- 20	--	- 50	- 460	1,655	+ 80	--	+1,140	90	-1,230
31	5,325	3,540	+ 810	--	- 100	-100	--	--	--	- 50	- 370	1,785	+130	--	+ 290	90	- 380
Month ending:																	
1947 - Nov.*	3,749	1,277	+1,510	+ 423	- 726	-397	- 300	- 29	-195	-136	- 999	1,423	+411	- 423			
Dec.*	2,896	870	+2,491	+1,113	- 650	-202	- 374	- 74	-694	-177	-2,490	968	+659	-1,113	- 407	320	+ 87
1948 - Jan.	4,080	2,040	+3,500	+ 683	- 843	-300	- 543	--	--	-400	-1,770	985	+700	- 683	+1,170	670	-1,840
Feb.	4,380	1,940	+4,000	--	-2,300	-400	-1,900	--	--	-600	-1,200	1,385	+400	--	- 100	2,010	-1,910
Mar.	6,380	3,540	+5,400	--	-1,200	-400	- 500	-300	--	-300	-2,300	1,785	+400	--	+1,600	855	-2,455
Apr.	5,180	2,940	+1,750	+1,000	- 750	-500	- 250	--	--	-700	-1,900	1,185	+400	-1,000	- 600	575	+ 25
May	4,480	2,590	+1,800	+ 750	- 400	-400	--	--	--	-800	-1,700	835	+400	- 750	- 350	360	- 10
June	3,480	1,590	+3,500	+ 400	-1,250	-400	- 650	-200	--	-1,000	-2,650	835	+400	- 400	-1,000	840	+ 160

** Actual

^{1/}Including gold in General Fund balance not shown separately.

GOVERNMENT FINANCE SECTION, BOARD OF GOVERNORS