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October 17, 1980

Strictly Confidential (FR) Class I FOMC

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# MONETARY POLICY ALTERNATIVES

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Prepared for the Federal Open Market Committee

By the staff Board of Governors of the Federal Reserve System

October 17, 1980

MONETARY AGGREGATES AND  
MONEY MARKET CONDITIONS

Recent developments

(1) The growth of M-1A and M-1B continued rapid in September, and was substantially above the pace targeted by the Committee for the August to December period (as shown in the table below). In terms of their September levels, M-1A was just above the midpoint and M-1B above the upper end of their respective longer-run ranges. Despite the rapid expansion of M-1B, a much slower growth for nontransactions accounts limited the September rise in M-2 growth to an 8½ percent annual rate, just below the target pace for the last four months of the year. Nonetheless, the level of M-2 in September remained above the upper end of its longer-run range, reflecting the sharp growth in this aggregate over the late spring and summer. With loan growth strong, both banks and thrifts stepped up their issuance of managed liabilities, and M-3 grew more rapidly than M-2 in September for the first time since the spring.

<u>Monetary</u> <u>Aggregates</u>	<u>Aug.</u>	<u>Sept.</u>	<u>Target Growth</u> <u>for August</u> <u>to December</u> <u>(4 months)</u>	<u>Growth from</u> <u>QIV '79 to</u> <u>Sept. '80</u>	<u>Target Range</u> <u>for 1980</u>
M-1A	19.3	12.3	4.0	5.1	3½ to 6
M-1B	21.6	15.2	6.5	6.9	4 to 6½
M-2	14.5	8.2	8.5	9.7	6 to 9
M-3	13.6	9.7	--	9.2	6½ to 9½
Memo:					
Bank Credit	17.4	15.3	--	6.5	6 to 9

(2) In September, as in August, Desk operations to attain the nonborrowed reserve target--which was adjusted downward in light of the strength in total reserves--were accompanied by a substantial increase

	<u>Growth in Reserve Aggregates in 1980 (SAAR)</u>			
	<u>June over March</u>	<u>July</u>	<u>Aug.</u>	<u>Sept.</u>
Nonborrowed reserves plus special borrowings	28.6	0.7	7.9	-0.8
Total Reserves	0.2	2.7	16.1	22.9
Monetary Base	5.3	8.5	15.2	10.4
Memo: (\$ million)				
Average level of member bank borrowings:				
Adjustment borrowings	72 <sup>1/2</sup>	142	417	1221
Special borrowings <u>2/</u>	307 <sup>1/2</sup>	253	241	90

1/ Average levels for June.

2/ Special borrowings include emergency credit as well as a large borrowing by one bank in the week ended September 24 that resulted from a breakdown of computer facilities.

in member bank borrowings.<sup>1/</sup> Although nonborrowed reserves (defined to include special borrowing) declined slightly on average last month, total reserves increased at the most rapid rate in ten years as banks borrowed to obtain the reserves required by the surge of deposits. The increased demand for reserves was associated with further upward pressure on the federal funds rate, which was intensified by the increase in the discount rate from 10 to 11 percent announced on September 25. Federal funds, which were generally trading in the 10½ to 11 percent area at the time of the September Committee meeting, most recently have been trading in the 12½ to 13 percent zone.

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1/ See Appendix I for the pattern of reserve targets over the intermeeting period.

(3) Other short-term interest rates also moved up sharply in late September, but these increases were pared in early October as the growth of the monetary aggregates slowed and at least some measures of inflation moderated. On balance, short-term rates are presently about  $\frac{1}{2}$  to  $1\frac{1}{2}$  percentage points higher than their mid-September levels, with the largest increases in private short-term rates. At current levels, short-term interest rates have retraced roughly half of the decline from their spring peaks.

(4) Bond yields also fluctuated widely during recent weeks, but on balance have shown little net change since the last Committee meeting. At current levels they have retraced almost two-thirds to three-quarters of their declines during the spring. The high level of bond yields has continued to deter new corporate offerings and to encourage a shift into shorter maturity borrowing by businesses. The Treasury sold a \$1.5 billion 15-year bond in early October, all for new money, and raised another \$2.4 billion in coupon offerings with additions to its regular 2- and 4-year notes auctioned in late September.

(5) Following several months of weakness, business loans at banks expanded rapidly in August and again in September. Even with another contraction in outstanding nonfinancial commercial paper last month, owing in part to more competitive pricing of short-term loans by banks, total short- and intermediate-term business borrowing was much larger in August and September than in earlier months. This apparently reflects both the strengthening in economic activity and some rate-induced shift in borrowing out of capital markets. Other lending at commercial banks about maintained its August pace. At thrift institutions it is reported that the demand for mortgage commitments has fallen off in recent weeks as mortgage rates increased sharply.

(6) The foreign exchange value of the dollar has risen by about 1 percent on a weighted average basis since the last Committee meeting, reflecting a relative increase in short-term U.S. interest rates over this period, and the further indication of a strengthening of the U.S. trade balance. The dollar's strength against the DM and other Continental currencies was partially offset by a decline against the yen and a small decline against sterling, currencies that have been quite strong generally.

. The United States sold about \$1 billion, mainly to acquire DM used to repay swap drawings and to add to balances.

(7) The table on the next page shows seasonally adjusted annual rates of change, in percent, for selected monetary and financial flows over various time periods.

	1978 <sup>1/</sup>	1979 <sup>1/</sup>	QIII '80 over QIV '79	Past Three Months Sept. '80 over June '80	Past Month Sept. '80 over Aug. '80
Nonborrowed reserves	6.7	0.7	7.9	4.8	3.7
Total reserves	6.6	2.9	4.1	14.0	22.9
Monetary base	9.2	7.7	7.7	11.4	10.4
<u>Concepts of Money</u>					
M-1A (Currency plus demand deposits) <sup>2/</sup>	7.4	5.0	3.9	13.3	12.3
M-1B (M-1A plus other checkable deposits)	8.2	7.6	5.7	16.2	15.2
M-2 (M-1B plus small time and savings deposits, money market mutual fund shares and overnight RP's and Eurodollars)	8.4	8.9	9.6	13.8	8.2
M-3 (M-2 plus large time deposits and term RP's)	11.3	9.8	8.9	12.4	9.7
<u>Bank Credit</u>					
Loans and investment of all commercial banks <sup>3/</sup>	13.5	12.3	5.4	13.6	15.3
<u>Managed Liabilities of Banks</u> (Monthly average change in billions)					
Large time deposits	4.3	1.2	1.1	0.3	4.5
Eurodollars	0.6	1.8	-2.5	-3.0	-3.0
Other borrowings <sup>4/</sup>	1.3	1.0	1.7	2.5	4.4
<u>Memo</u>					
Nonbank commercial paper	0.3	0.9	1.2	-0.8	-1.3

<sup>1/</sup> QIV to QIV.

<sup>2/</sup> Other than interbank and U.S. Government.

<sup>3/</sup> Includes loans sold to affiliates and branches.

<sup>4/</sup> Primarily federal funds purchases and securities sold under agreements to repurchase.

NOTE: All items are based on averages of daily figures except for data on total loans and investment of commercial banks, commercial paper, and thrift institutions--which are derived from either end-of-month or Wednesday statement date figures. Growth rates for reserve measures in this and subsequent tables are adjusted to remove the effect of discontinuities from breaks in the series when reserve requirements are changed.

Prospective developments

(8) Shown below for Committee consideration are alternative sets of monetary aggregate targets for the fourth quarter. Alternative A retains the Committee's September target of a 4 percent annual growth rate for M-1A over the last four months of the year. Given September growth, this implies M-1A expansion from September to December at an annual rate of  $1\frac{1}{2}$  percent, as shown in the upper panel of the table. Alternative B is designed to achieve the  $4\frac{1}{2}$  percent midpoint of the Committee's QIV '79 to QIV '80 range for M-1A, which implies growth over the last three months of 1980 of this aggregate at an annual rate more than 2 percentage points faster than under alternative A. The lower panel of the table shows growth for the two alternatives on a quarterly average basis. Associated federal funds rate ranges for the intermeeting period are also shown. (Detailed and longer-run data for the monetary aggregates--including implied growth for the one year QIV '79 to QIV '80 period--are contained in the tables on the following two pages.)

	<u>Alt. A</u>	<u>Alt. B</u>
<u>Growth from September to December:</u>		
M-1A	$1\frac{1}{2}$	$3\frac{1}{2}$
M-1B	4	6
M-2	7	$7\frac{1}{2}$
<u>Growth from QIII to QIV</u>		
M-1A	$6\frac{1}{2}$	$7\frac{1}{2}$
M-1B	9	10
M-2	$8\frac{1}{2}$	$8\frac{1}{2}$
Intermeeting range for federal funds	$8\frac{1}{2}$ to 15	8 to 14



Alternative Levels and Growth Rates for Key Monetary Aggregates

	<u>M-1A</u>		<u>M-1B</u>	
	<u>Alt. A</u>	<u>Alt. B</u>	<u>Alt. A</u>	<u>Alt. B</u>
1980--September	383.6	383.6	406.7	406.7
October	385.0	385.0	409.1	409.1
November	384.9	385.9	409.8	410.8
December	384.8	386.9	410.7	412.8
<u>Growth Rates</u>				
<u>Monthly</u>				
1980 October	4.4	4.4	7.1	7.1
November	-0.3	2.8	2.1	5.0
December	-0.3	3.1	2.6	5.8
September '80 - December '80	1.3	3.4	3.9	6.0
<u>Quarterly Average</u>				
1980--QI	4½	4½	6	6
QII	-4	-4	-2½	-2½
QIII	11	11	13½	13½
QIV	6½	7½	9	10
1979 QIV to 1980 QII	0.4	0.4	1.8	1.8
1980 QII to 1980 QIV	8½	9½	11½	12
1979 QIV to 1980 QIV	4½	4½	6½	7

Alternative Levels and Growth Rates for Key Monetary Aggregates (cont'd)

	<u>M-2</u>		<u>M-3</u>	
	<u>Alt. A</u>	<u>Alt. B</u>	<u>Alt. A</u>	<u>Alt. B</u>
1980--September	1640.3	1640.3	1901.5	1901.5
October	1650.6	1650.6	1916.1	1916.1
November	1660.2	1661.3	1930.8	1931.6
December	1669.5	1671.8	1943.6	1945.4
<u>Growth Rates</u>				
<u>Monthly</u>				
1980--October	7.5	7.5	9.2	9.2
November	7.0	7.8	9.2	9.7
December	6.7	7.6	8.0	8.6
September '80 - December '80	7.1	7.7	8.9	9.2
<u>Quarterly Average</u>				
1980--QI	7½	7½	7½	7½
QII	5½	5½	5½	5½
QIII	15½	15½	12½	12½
QIV	8½	8½	9½	10
1979 QIV to 1980 QII	6.4	6.4	6.8	6.8
1980 QII to 1980 QIV	12	12½	11½	11½
1979 QIV to 1980 QIV	9½	9½	9½	9½

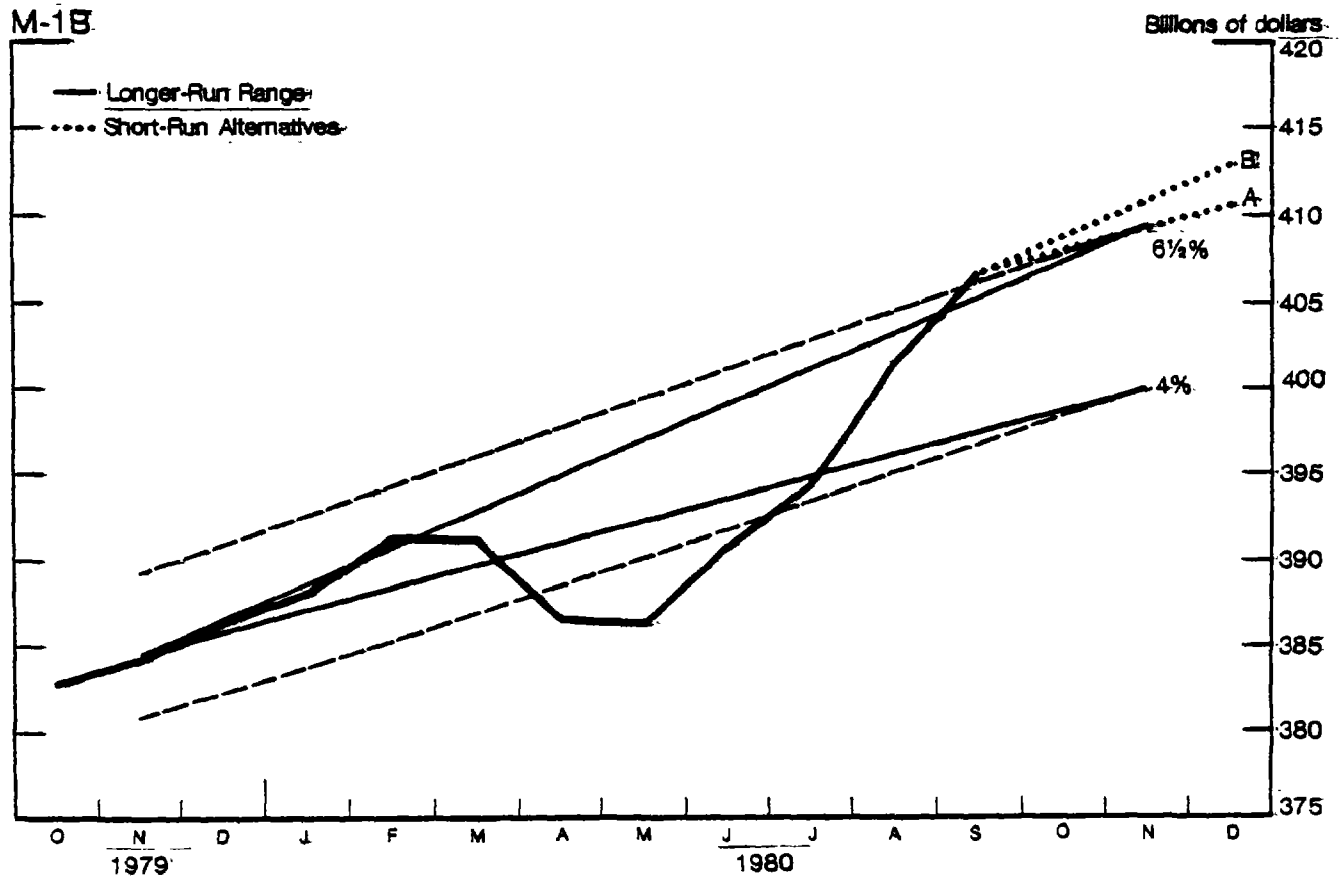
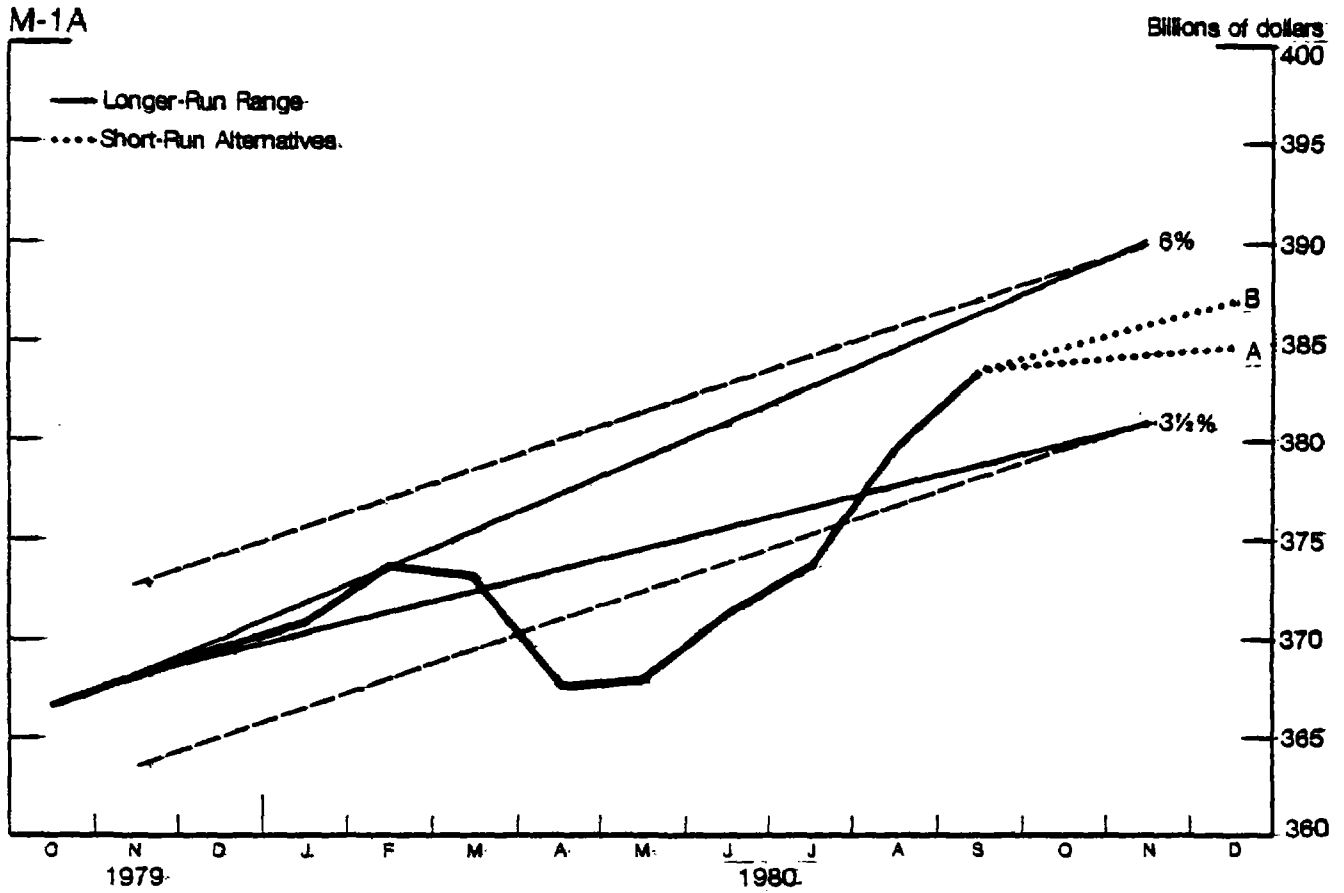
NOTE: The following annual rates of growth in bank credit for the year and for the quarters are expected under alternative A: year 1980, 6½; QI, 9½; QII, -½; QIII, 6½; QIV, 10½. Only minor variations in growth rates would be expected under alternative B.

(9) The relationships of the September-to-December targets to the Committee's longer-run ranges are depicted in the charts on the following pages. Under alternative A, M-1A growth would be somewhat below the midpoint of its longer-run range, but the staff believes that in the fourth quarter M-1B would be at, and M-2 slightly above, their respective longer-run upper bounds. Under alternative B, both M-1B and M-2 would exceed their longer-run upper bounds, though differences from the one-year growth rates implied by alternative A are slight because of the short time period remaining in the year. Under both alternatives, M-3 is expected to be a shade below the upper end of its longer-run range.

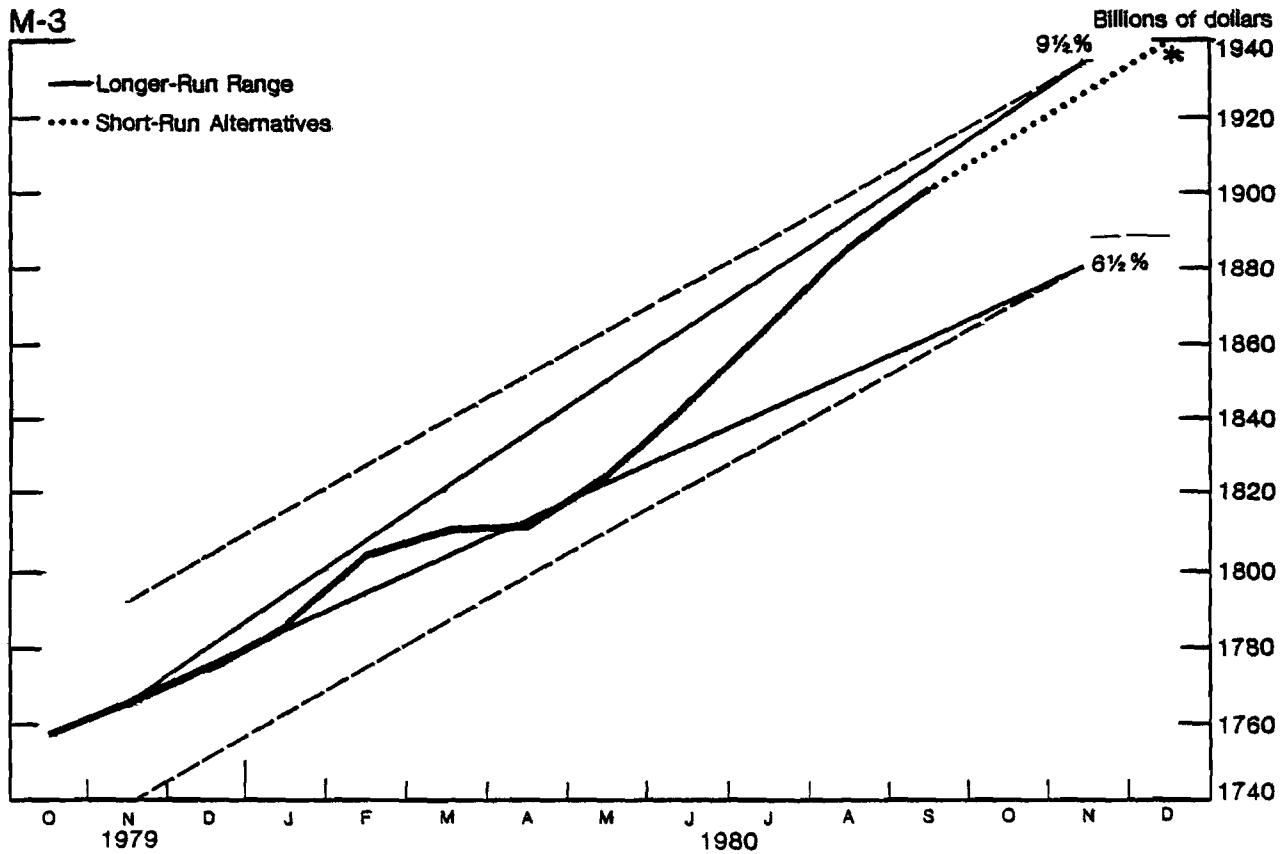
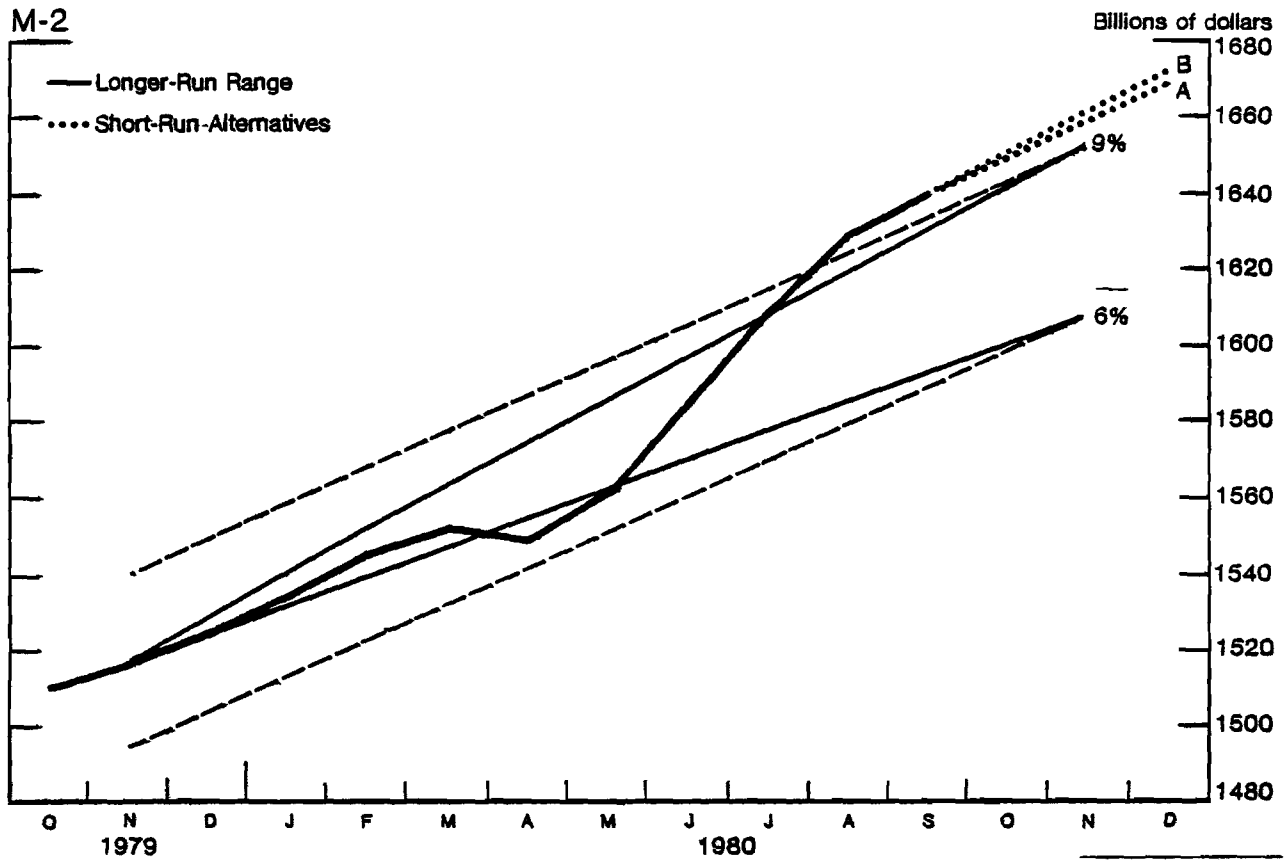
(10) Under either of the alternatives, the monthly growth rates in M-1A over the last three months of the year would represent a substantial slowing from the third quarter pace. There are reasons to believe that considerably slower growth could be achieved without strong upward interest rate pressures. Even with the staff's projection of rapid growth in nominal GNP for the current quarter, much of the money needed to conduct the expanded transactions of this quarter may already be in the hands of the public due to rapid growth of money late in the third quarter. In addition, the  $4\frac{1}{2}$  to  $5\frac{1}{2}$  percentage point increase in short-term interest rates that has occurred since June is likely to be restraining the quantity of money demanded relative to income in the fourth quarter.

(11) The growth of M-1A for September to December under alternative A is so low, however, that it may be expected to be associated with further, relatively moderate, upward interest rate pressures in the

### Actual and Targeted M-1A and M-1B



Actual and Targeted M-2 and M-3



\* Note: A, and B alternatives are indistinguishable on this scale

fourth quarter.<sup>1/</sup> To achieve the specifications for the aggregates of alternative A, total reserves would probably have to remain about unchanged from September to December and, given the near-term pattern of growth, expand at only about a 1 percent rate from September to November.<sup>2/</sup> Assuming adjustment borrowing of about \$1½ billion, nonborrowed reserves would be expected to decline at about a 3 percent annual rate from September to November. Such borrowing is likely to be reflected in a federal funds rate in the 13 to 14 percent area, given the present 11 percent discount rate.

(12) The higher federal funds rate and increased member bank borrowing likely to be associated with alternative A would probably be accompanied by an upward adjustment in both short- and long-term market interest rates. Upward rate pressures would be intensified by the need to finance a substantial Treasury deficit in prospect for the fourth quarter. However, the pressures on rates could abate as the quarter progresses. A rising level of long-term yields is likely to inhibit further the pace of new corporate and municipal bond offerings. And if signs of a weakening in economic activity emerge, as would be consistent with the staff's GNP projections, expectations of future rate declines would become more prevalent and influence the actual market rate structure.

(13) Under alternative B there is less chance that interest rates will rise in the near term. To achieve the aggregates specified

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<sup>1/</sup> Appendix II displays the quarterly interest rate and monetary aggregates pattern underlying alternative A and the staff's GNP projection for 1981, contained in the current Greenbook.

<sup>2/</sup> Effective with the statement week beginning November 13--the last week of the forthcoming intermeeting period--the phase-down of required reserves will begin for member banks, as will the phase-in for nonmember depository institutions. The targeted reserve growth rates in the text are calculated so as to eliminate the discontinuity from the change in reserve requirements.

for this alternative, total reserves would have to expand at a  $2\frac{1}{2}$  percent annual rate from September to November. Assuming adjustment borrowing of  $\$1\frac{1}{2}$  billion, about the same as the September average, nonborrowed reserves would expand at only about a  $1\frac{3}{4}$  percent rate. The federal funds rate is likely to remain within its recent  $12\frac{1}{2}$  to 13 percent zone. Under such circumstances, other market rates would likely fluctuate around current levels.

(14) Even with no further rise in most market rates, the rate on new home mortgage commitments, now about  $13\frac{3}{4}$  percent, would be expected to edge up further in the weeks ahead as such rates continue to adjust with a lag to the higher level of interest rates generally. Owing in part to the adjustment in MMC and SSC ceiling rates last spring, disintermediation pressures at depository institutions are likely to be less than at similar interest rates last winter. Even so, the expected level of mortgage rates is likely to damp housing demand and mortgage borrowing. While borrowers may have grown more accustomed to the higher nominal mortgage rates, monthly housing payments represent a substantial barrier to many potential home buyers.

(15) Under both alternatives A and B the non-transaction component of M-2 is expected to continue increasing at a moderate rate. A turnaround in MMMF growth is expected as their portfolio yields catch up with short-term market rates. However, flows into small denomination time and savings deposits may be somewhat weaker as an acceleration of time deposits might not fully offset the slower growth, and possible outflows, of savings accounts that is expected at the sustained higher level of market rates in the fourth quarter. With slower demand and small denomination time and savings deposit growth, both banks and thrifts are expected to

continue to place reliance on managed liabilities--especially large CD's-- to finance their portfolio growth. Bank credit growth is expected to remain relatively large over the balance of the year, though slowing from the unusually rapid pace of the past two months. The projected increase in bank credit will place this aggregate in the fourth quarter at a level in the lower half of its longer-run range.



Directive language

(16) Given below are suggested operational paragraphs for the directive consistent with the form of the directive adopted at recent meetings. The language calls for expansion of reserve aggregates at a pace consistent with the desired rate of monetary growth over the last three months of the year, provided that the weekly average federal funds rate remains within a specified range. The specifications adopted at the September meeting are shown in strike-through form.

In the short run, the Committee seeks expansion of reserve aggregates consistent with growth of M-1A, M-1B, and M-2 over the ~~August~~ SEPTEMBER to December period at annual rates of about 4 \_\_\_\_ percent, 6½ \_\_\_\_ percent, and 8½ \_\_\_\_ percent respectively, provided that in the period before the next regular meeting the weekly average federal funds rate remains within a range of ~~8-to-14~~ \_\_\_\_ TO \_\_\_\_ percent.

If it appears during the period before the next meeting that the constraint on the federal funds rate is inconsistent with the objective for the expansion of reserves, the Manager for Domestic Operations is promptly to notify the Chairman, who will then decide whether the situation calls for supplementary instructions from the Committee.

APPENDIX I

RESERVE TARGETS AND RELATED MEASURES  
FOR 5-WEEKS ENDED OCTOBER 22  
(\$ millions, not seasonally adjusted)

	Targets for 5-Week Averages		Projections for 5-week Averages			
	Total Reserves (1)	Non- borrowed Reserves (2)	Total Reserves (3)	Required Reserves (4)	Excess Reserves (5)	Adjustment Borrowing (3)-(2)
<u>As of</u>						
September 19	41,199	40,449	41,581	41,356	225	1,132
26	41,199	40,449	41,694	41,491	203	1,245
October 3	41,199	40,249 <sup>1/</sup>	41,522	41,323	199	1,273
10	41,299 <sup>2/</sup>	40,349 <sup>2/</sup>	41,741	41,472	269	1,392
17	41,299 <sup>2/</sup>	40,349 <sup>2/</sup>	41,737	41,463	274	1,388

<sup>1/</sup> Nonborrowed reserves path adjusted downward by \$200 million on October 3, 1980 in light of the continued strength in total reserves.

<sup>2/</sup> Total and nonborrowed reserves path adjusted upward by \$100 million on October 10, 1980 to account for changes in multiplier relationships.

APPENDIX II

Interest Rates Consistent with the Greenbook GNP Forecast  
(percent)

	<u>Federal funds</u>	<u>3-month Treasury bill</u>	<u>New Aaa Utility Bond</u>	<u>Conventional Mortgage Commitment</u>
1980--Q4	13-1/4	11-3/4	13-1/8	14
1981--Q1	13-3/4	12-1/4	13-1/4	14-1/8
Q2	14-1/4	12-3/4	13-1/4	14-1/8
Q3	14-1/2	13	13-3/8	14-1/4
Q4	14-1/2	13	13-3/8	14-1/4

NOTE: These rate projections are based on the assumption that M-1A will grow 4-1/2 percent in 1980 (consistent with Bluebook alternative A), and 4-1/4 percent in 1981 abstracting from the impact of nationwide NOW/ATS accounts. Such growth would imply M-1A velocity increases in the two years of 3-1/2 and 5-1/2 percent, respectively. The Board's quarterly econometric model indicates that historical money demand relationships would require almost 3-1/2 percentage points greater growth of M-1A in 1981 to achieve the GNP and interest rates in the staff's judgmental Greenbook projection. Thus, these interest rate projections assume a further so-called downward shift in money demand as judged from the prediction error in the Board's model.

TABLE 1  
SELECTED INTEREST RATES  
(Percent)

STRICTLY CONFIDENTIAL (FR)  
CLASS II - FOMC  
October 20, 1980

Period	Short-term							Long-term								
	Federal funds	Treasury Bills			CD* Secondary	Comm. Paper 3-mo	Bank Prime Rate	U.S. Govt. Constant Maturity Yields			Corp.-Aaa Utility		Municipal Bond Buyer	Home Mortgages		
		Market		Auction				Market 3-mo	3-yr	10-yr	30-yr	New Issue		Recently Offered	Primary Conv.	Secondary market
		3-mo	1-yr	6-mo	FNMA Auc.	GNMA Sec.										
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	
1979--High	15.61	12.60	11.89	12.65	14.53	14.26	15.75	11.68	10.87	10.42	11.50	11.45	7.38	12.90	13.29	11.77
Low	9.93	8.85	8.64	8.87	9.84	9.66	11.50	8.76	8.79	8.82	9.40	9.39	6.08	10.38	10.42	9.51
1980--High	19.39	15.61	14.39	15.70	18.04	17.60	20.00	14.29	13.33	12.73	14.22	14.12	9.44	16.35	15.93	14.17
Low	8.68	6.49	7.18	6.66	8.17	7.97	11.00	8.61	9.51	9.54	10.53	10.79	7.11	12.18	12.28	10.73
1979--Sept.	11.43	10.26	9.89	10.13	11.89	11.63	12.90	9.69	9.33	9.17	9.93	9.87	6.52	11.30	11.09	10.31
Oct.	13.77	11.70	11.23	11.34	13.66	13.23	14.39	10.95	10.30	9.85	10.97	10.91	7.08	11.63	12.52	11.25
Nov.	13.18	11.79	11.22	11.86	13.90	13.57	15.55	11.18	10.65	10.30	11.42	11.36	7.30	12.83	12.75	11.57
Dec.	13.78	12.04	10.92	11.85	13.43	13.24	15.30	10.71	10.39	10.12	11.25	11.33	7.22	12.90	12.49	11.35
1980--Jan.	13.82	12.00	10.96	11.85	13.39	13.04	15.25	10.88	10.80	10.60	11.73	11.77	7.35	12.88	12.91	11.94
Feb.	14.13	12.86	12.46	12.72	14.30	13.78	15.63	12.84	12.41	12.13	13.57	13.35	8.16	13.03	14.49	13.16
Mar.	17.19	15.20	14.03	15.10	17.57	16.81	18.31	14.05	12.75	12.34	14.00	13.90	9.17	15.28	15.64	13.79
Apr.	17.61	13.20	11.97	13.62	16.14	15.78	19.77	12.02	11.47	11.40	12.90	12.91	8.63	16.33	14.61	12.64
May	10.98	8.58	8.66	9.15	9.79	9.49	16.57	9.44	10.18	10.36	11.53	11.64	7.59	14.26	12.88	11.30
June	9.47	7.07	7.54	7.22	8.49	8.27	12.63	8.92	9.78	9.81	10.96	11.00	7.63	12.71	12.35	11.07
July	9.03	8.06	8.00	8.10	8.65	8.41	11.48	9.27	10.25	10.24	11.60	11.41	8.13	12.19	12.66	11.53
Aug.	9.61	9.13	9.39	9.44	9.91	9.57	11.12	10.63	11.10	11.00	12.32	12.31	8.67	12.56	13.92	12.34
Sept.	10.87	10.27	10.48	10.55	11.29	10.97	12.23	11.57	11.51	11.34	12.74	12.72	8.94	13.20	14.77	12.84
1980--Aug. 6	9.60	8.65	8.62	8.87	9.33	9.01	11.00	9.92	10.74	10.73	12.03	12.10	8.61	12.25	13.58	11.99
13	8.85	8.60	8.81	8.89	9.33	8.96	11.00	10.07	10.90	10.91	12.36	12.27	8.53	12.55	--	12.41
20	9.35	8.96	9.41	9.77	9.82	9.54	11.00	10.67	11.07	11.01	12.48	12.36	8.68	12.80	14.26	12.46
27	10.03	9.81	10.16	10.25	10.49	10.15	11.25	11.34	11.38	11.17	12.62	12.68	8.85	12.95	--	12.48
Sept. 3	10.47	9.97	10.08	10.25	10.93	10.61	11.50	11.28	11.46	11.18	12.34	12.42	8.78	13.03	14.41	12.57
10	10.22	9.92	9.97	10.23	10.76	10.40	11.71	11.00	11.20	11.06	12.60	12.48	8.82	13.08	--	12.59
17	10.64	10.29	10.50	10.88	11.25	10.86	12.21	11.61	11.48	11.29	--	12.78	8.98	13.25	14.60	12.74
24	10.85	10.25	10.66	10.82	11.24	10.97	12.46	11.85	11.61	11.45	13.10	13.03	9.18	13.43	--	12.93
Oct. 1	12.38	11.05	11.19	11.72	12.35	12.12	13.00	12.16	11.92	11.76	13.08	13.06	9.22	13.60	15.30	13.35
8	12.59	11.34	10.93	11.14	12.52	12.18	13.50	11.60	11.50	11.39	13.02	12.87	9.01	13.73	--	12.70
15	12.64	11.12	10.84	11.28	12.49	12.25	13.50	11.58	11.37	11.19	12.61p	12.81p	8.81	n.a.	14.60	12.59
22																
29																
Daily-Oct. 9	12.45	11.14	10.88	--	12.46	12.08	13.50	11.57	11.39	11.21	--	--	--	--	--	--
16	12.85	10.98	10.86	--	12.44	12.11	13.50	11.65	11.47	11.27	--	--	--	--	--	--

NOTE: Weekly data for columns 1, 2, 3, and 5 through 10 are statement week averages of daily data. Weekly data in column 4 are average rates set in the auction of 6-month bills that will be issued on the Thursday following the end of the statement week. For column 11, the weekly date is the mid-point of the calendar week over which data are averaged. Columns 12 and 13 are 1-day quotes for Friday and Thursday, respectively, following the end of the statement week. Column 14 is an average of contract interest rates on commitments for conventional first mortgages with 80 percent loan-to-value ratios made by a sample of insured savings and loan associations on the Friday following the end of the statement week. The FNMA auction yield is the average yield in a bi-weekly auction for short-term forward commitments for government underwritten mortgages; beginning July 7, 1980, figures exclude graduated payment mortgages. GNMA yields are average net yields to investors on mortgage-backed securities for immediate delivery, assuming prepayment in 12 years on pools of 30-year FHA/VA mortgages carrying the coupon rate 50 basis points below the current FHA/VA ceiling.

TABLE 2  
NET CHANGES IN SYSTEM HOLDINGS OF SECURITIES<sup>1/</sup>  
(Millions of dollars, not seasonally adjusted)

STRICTLY CONFIDENTIAL (FR)  
CLASS II - POMC  
October 20, 1980

	Treasury Bills Net Change <sup>2/</sup>	Treasury Coupons Net Purchases <sup>3/</sup>					Federal Agencies Net Purchases <sup>4/</sup>					Net Change Outright Holdings Total <sup>5/</sup>	Net RPs <sup>6/</sup>
		Within 1 year	1 - 5	5 - 10	Over 10	Total	Within 1 year	1 - 5	5 - 10	Over 10	Total		
1975	-468	337	3,284	1,510	1,070	6,202	191	824	460	138	1,613	7,267	1,272
1976	863	472	3,025	1,048	642	5,187	105	469	203	114	891	6,227	3,607
1977	4,361	517	2,833	758	553	4,660	--	792	428	213	1,433	10,035	-2,892
1978	870	1,184	4,188	1,526	1,063	7,962	-47	45	104	24	127	8,724	-1,774
1979	6,243	603	3,456	523	454	5,035	131	317	5	--	454	10,290	-2,597
1979--Qtr. III	5,363	395	1,289	309	310	2,302	191	288	3	--	482	8,129 <sup>7/</sup>	-2,019
IV	4,164	118	1,101	81	51	1,351	--	--	--	--	--	4,839 <sup>7/</sup>	-3,801
1980--Qtr. I	-2,945	292 <sup>8/</sup>	355 <sup>8/</sup>	107	81	836	--	--	--	--	--	-2,114	362
II	3,249	110 <sup>8/</sup>	1,516 <sup>8/</sup>	359	410	2,395	217	398	29	24	668	6,307	2,373
III	-3,298	137	541	236	320	1,234	--	--	--	--	--	-2,157	-1,381
1980--Apr.	2,321	109	373	62	64	607	217	398	29	24	668	3,594	-1,012
May	606	155 <sup>8/</sup>	405 <sup>8/</sup>	133	216	909	--	--	--	--	--	1,515	4,655
June	322	-153 <sup>8/</sup>	738 <sup>8/</sup>	164	129	878	--	--	--	--	--	1,198	-1,271
July	-3,214	--	--	--	--	--	--	--	--	--	--	-3,216	-1,307
Aug.	-47	137	541	236	320	1,234	--	--	--	--	--	1,187	-985
Sept.	-37	--	--	--	--	--	--	--	--	--	--	-128	911
1980--Aug. 6	-789	--	--	--	--	--	--	--	--	--	--	-789	-9,456
13	--	--	--	--	--	--	--	--	--	--	--	--	5,482
20	--	137	541	236	320	1,234	--	--	--	--	--	1,234	4,652
27	-47	--	--	--	--	--	--	--	--	--	--	-47	-1,963
Sept. 3	--	--	--	--	--	--	--	--	--	--	--	--	-1,929
10	-237	--	--	--	--	--	--	--	--	--	--	-328	1,200
17	100	--	--	--	--	--	--	--	--	--	--	100	717
24	100	--	--	--	--	--	--	--	--	--	--	100	2,072
Oct. 1	--	--	--	--	--	--	--	--	--	--	--	-3	2,914
8	-402	--	--	--	--	--	--	--	--	--	--	-402	-6,052
15	--	--	--	--	--	--	--	--	--	--	--	-18	2,287
22 <sup>p</sup>	762	--	--	--	--	--	--	--	--	--	--	--	--
29	--	--	--	--	--	--	--	--	--	--	--	--	--
LEVEL--Oct. 15	46.7	11.2	36.3	13.1	14.8	75.5	2.1	4.8	1.2	0.7	8.8	130.9	-2.7

(in billions)

<sup>1/</sup> Change from end-of-period to end-of period.

<sup>2/</sup> Outright transactions in market and with foreign accounts, and redemptions (-) in bill auctions.

<sup>3/</sup> Outright transactions in market and with foreign accounts, and short-term notes acquired in exchange for maturing bills. Excludes redemption, maturity shifts, rollovers of maturing coupon issues, and direct Treasury borrowing from the System.

<sup>4/</sup> Outright transactions in market and with foreign accounts only. Excludes redemptions and maturity shifts.

<sup>5/</sup> In addition to the net purchases of securities, also reflect changes in System holdings of bankers' acceptances, direct Treasury borrowings from the System and redemptions (-) of agency and Treasury coupon issues.

<sup>6/</sup> Includes changes in both RPs (+) and matched sale-purchase transactions (-).

<sup>7/</sup> On October 1, 1979, \$668 million of maturing 2- and 4-year notes were exchanged for a like amount of short-term bills, because the note auctions were delayed. On October 9 and 10, the bills were exchanged for new 2- and 4-year notes, respectively.

<sup>8/</sup> Maturing 2-year notes were exchanged on June 2 for special 2-day bills. At their maturity the bills were exchanged for new 2-year notes.

TABLE 3  
SECURITY DEALER POSITIONS AND BANK POSITIONS  
(Millions of dollars)

STRICTLY CONFIDENTIAL (FR)  
CLASS II - FOMC  
October 20, 1980

	U.S. Govt. Security Dealer Positions		Underwriting Syndicate Positions		Member Bank Reserve Positions				
	Bills	Coupon Issues	Corporate Bonds	Municipal Bonds	Excess** Reserves	Borrowing at FRB**			
						Total	Seasonal	Special	Adjustment
1979--High	8,091	902	283	404	726	2,960	207		2,866
Low	138	-2,569	0	53	-122	628	93		510
1980--High	8,838	2,263	299	466	1,080p	3,439	177	816	3,298
Low	1,972	-1,482	0	22	-228p	215p	5p	0	12
1979--Sept.	2,392	-1,608	142	52	191	1,340	174		1,167
Oct.	2,289	-1,576	75	152	272	2,023	155		1,863
Nov.	4,427	-514	17	106	244	1,911	140		1,763
Dec.	5,760	-1,901	34	164	441	1,473	81		1,390
1980--Jan.	4,380	-944	42	117	251	1,241	74		1,167
Feb.	2,937	-212	3	87	211	1,644	97		1,558
Mar.	2,964	-659	37	59	204	2,823	151	99	2,573
Apr.	7,838	167	48	89	204	2,455	155	552	1,748
May	4,008	1,372	69	138	190	1,018	63	743	212
June	3,724	1,429	112	264	223p	379p	12p	307p	61p
July	4,581	634	154	310	281p	395p	6p	253p	136p
Aug.	5,108	798	91	153	307p	658p	9p	241p	408p
Sept.	*3,681	*-416	24	171	264p	1,311p	25p	33p	1,253p
1980--Aug. 6	5,332	849	65	147	688p	828p	7p	258p	563p
13	5,278	2,263	158	134	89p	390p	6p	273p	111p
20	6,304	229	15	134	314p	345p	6p	261p	78p
27	4,264	41	28	96	89p	700p	10p	201p	489p
Sept. 3	4,274	170	3	89	489p	1,348p	20p	198p	1,130p
10	3,988	-279	15	150	239p	594p	14p	57p	523p
17	4,404	-814	78	287	304p	1,213p	21p	0	1,192p
24	*3,112	*-268	45	156	54p	1,613p	30p	0	1,600p
Oct. 1	*2,601	*-517	0	69	378p	1,873p	40p	0	1,833p
8	*2,042	*-113	0	22	394p	1,248p	48p	0	1,200p
15	*2,726	*164	10p	80	320p	1,107p	61p	0	1,046p
22									
29									

NOTE: Government security dealer trading positions are on a commitment basis. Trading positions, which exclude Treasury securities financed by repurchase agreements maturing in 16 days or more, are indicators of holdings available for sale over the near-term. Underwriting syndicate positions consist of issues still in syndicate, excluding trading positions. Weekly data are daily averages for statement weeks, except for corporate and municipal issues in syndicate, which are Friday figures.

\* Strictly Confidential.

\*\* Monthly averages for excess reserves and borrowings are weighted averages of statement week figures.