

## **Prefatory Note**

The attached document represents the most complete and accurate version available based on original copies culled from the files of the FOMC Secretariat at the Board of Governors of the Federal Reserve System. This electronic document was created through a comprehensive digitization process which included identifying the best-preserved paper copies, scanning those copies,<sup>1</sup> and then making the scanned versions text-searchable.<sup>2</sup> Though a stringent quality assurance process was employed, some imperfections may remain.

Please note that this document may contain occasional gaps in the text. These gaps are the result of a redaction process that removed information obtained on a confidential basis. All redacted passages are exempt from disclosure under applicable provisions of the Freedom of Information Act.

---

<sup>1</sup> In some cases, original copies needed to be photocopied before being scanned into electronic format. All scanned images were deskewed (to remove the effects of printer- and scanner-introduced tilting) and lightly cleaned (to remove dark spots caused by staple holes, hole punches, and other blemishes caused after initial printing).

<sup>2</sup> A two-step process was used. An advanced optimal character recognition computer program (OCR) first created electronic text from the document image. Where the OCR results were inconclusive, staff checked and corrected the text as necessary. Please note that the numbers and text in charts and tables were not reliably recognized by the OCR process and were not checked or corrected by staff.

# MONETARY AGGREGATES AND MONEY MARKET CONDITIONS

---

Prepared for the Federal Open Market Committee

By the staff Board of Governors of the Federal Reserve System

August 14, 1981

MONETARY AGGREGATES AND  
MONEY MARKET CONDITIONS

Recent developments

(1) M1-B, adjusted for shifts into NOW accounts, expanded at a 3½ percent annual rate in July, after contracting at nearly a 7 percent annual pace in the previous two months. Available data for the first two weeks of August are very strong, however; part of that increase, perhaps one-quarter, seems to reflect the transitory influence of demand balances accumulated to pay for stock tendered in connection with mergers. Even after allowance for this, M1-B in early August appears to be back to a level more nearly in line with the 7 percent June to September target path. M2 expanded at an 8 percent annual rate in July, as its non-transactions component rose more rapidly last month than had been previously anticipated. Fragmentary data for early August suggest a further strengthening in that component. This strengthening, together with the sizable increase in M1-B so far this month, suggests that M2 has moved to a level above its third-quarter target path.

(2) Through July, as shown in the last column of the table on the next page, growth in M1-B was well below the lower end of its 3½ to 6 percent range for the year, M2 was just below the upper end of its 6 to 9 percent range, and M3--though its growth had decelerated in July--remained well above the 9½ percent upper end of its range. The early August data would place M1-B a little closer to the long-run path this month, but still well below it, and would probably place M2 at/or somewhat above, the upper end of its range.

Key Monetary Policy Aggregates  
(Seasonally adjusted annual rates of growth)

	March '81 over <u>Dec. '80</u>	June '81 over <u>March '81</u>	July '81 over <u>June '81</u>	July '81 over <u>QIV '80</u>
<u>Money and Credit Aggregates</u>				
M1-B (shift-adjusted)	2.3	1.0	3.4	1.2
M2	11.8	7.1	8.0	8.7
M3	12.8	9.9	8.5	11.1
Bank Credit	7.7	7.3	5.7	8.3
<u>Reserve Measures</u>				
Nonborrowed reserves <sup>1/</sup>	5.9	-7.2	20.0	2.8
Total reserves <sup>1/</sup>	-1.3	3.4	8.4	2.7
Monetary base <sup>1/</sup>	4.9	6.0	9.6	6.2

1/ Growth rates for reserve measures are adjusted to remove the effects of discontinuities from breaks in the series when Regulations D and M are changed. In addition, such measures are adjusted to remove discontinuities associated with the distorting effects of weekend reserve avoidance activities in late 1980.

Memorandum:

Target ranges for 1981 (percent increase):

M1-B (shift adjusted)	3½ to 6
M2	6 to 9
M3	6½ to 9½
Bank Credit	6 to 9

(3) Credit growth at U.S. banking offices was at a  $5\frac{1}{2}$  percent annual rate in July. Business loan growth accelerated somewhat, as businesses chose to meet an increased share of their credit needs at banks rather than in the commercial paper or capital markets, where net issuance slowed. Merger activity was an insignificant factor in July loan expansion at U.S. banking offices, since virtually all of such loans were booked offshore by both U.S. and foreign banks. However, in early August business loans at large banks expanded sharply, with a little over half the growth reflecting merger loans.

(4) In line with the Committee's decision to strengthen growth in M1-B, the reserve aggregates expanded rapidly in July (as shown in the table on the preceding page). Nonborrowed reserves rose particularly sharply. At the same time, borrowings declined, dropping by about \$350 million in July on average and another \$500 million in the first half of August, as weakness of M1-B in the latter part of July reduced required reserves (with a lag) relative to the nonborrowed reserve path.<sup>1/</sup> Member bank borrowing averaged about \$1.2 billion in the first two statement weeks of August.

(5) The federal funds rate, which averaged a bit over 19 percent in June and July, recently has traded in a  $17\frac{1}{2}$  to  $18\frac{1}{2}$  percent range. Despite this decline, most other interest rates--both short- and long-term--have risen by  $\frac{1}{2}$  to  $1\frac{1}{2}$  percentage points on balance since the July Committee meeting. The upward pressure on interest rates generally reflected increasing concern about the Treasury's longer-run financing

---

<sup>1/</sup> See Appendix I for adjustments made to the reserves path during the intermeeting period.

needs following enactment of the Administration's tax proposals, a slower than expected drop in the funds rate, incoming economic news that has been less weak than many had anticipated, and the market's need to absorb a large amount of new Treasury issues in a relatively short period in late July and early August. Since late July the Treasury has announced issues to raise \$7.9 billion of new money, with issues ranging from a 23-day cash management bill to a 30-year bond in the current mid-August refunding.

(6) The dollar strengthened further in foreign exchange markets over the intermeeting period, rising on balance 3 percent on a weighted average basis, reflecting relatively high and rising interest rates here and political uncertainties abroad.

Prospective developments

(7) Shown below for Committee consideration are two alternative monetary policy strategies for the current quarter. The upper panel of the table shows growth rates for the June-to-September interval covered by the Committee's short-run targets adopted at the last meeting, while the next panel shows implied July-to-September growth rates, given last month's actual growth. Possible intermeeting ranges for the federal funds rate also are shown. More detailed data on these and other aggregates may be found on pages 6 and 7, and charts indicating the relationship of the alternative two-month targets to the Committee's existing longer-run ranges for 1981 may be found on the next three pages.

	<u>Alt. A</u>	<u>Alt. B</u>
Growth from June to September		
M1-B	7	6
M2	10½	10
Implied Growth from July to September		
M1-B	8½	7½
M2	11½	10½
Federal funds rate range	15 to 21	16 to 22

(8) Alternative A retains the Committee's 7 percent June-to-September target for M1-B adopted at the last meeting, a target that would require an 8½ percent annual rate of growth over the two-month July-to-September period. However, in view of the greater than expected strength of the nontransactions component of M2, it seems likely that attaining the M1 target for the third quarter will result in M2 expansion in excess of the growth rate of 9 percent or less desired by the Committee at its last meeting. We would now expect growth in M2 from June to September under

Alternative Levels and Growth Rates for Key Monetary Aggregates

	<u>M1-A</u>		<u>M1-B</u>	
	<u>Alt. A</u>	<u>Alt. B</u>	<u>Alt. A</u>	<u>Alt. B</u>
1981--May	393.3	393.3	422.1	422.1
June	390.0	390.0	419.0	419.0
July	390.9	390.9	420.2	420.2
August	394.5	394.2	424.1	423.8
September	396.4	395.4	426.3	425.3
<u>Growth Rates</u>				
<u>Monthly</u>				
1981--June	-10.1	-10.1	-8.8	-8.8
	(-9.9)	(-9.9)	(-7.5)	(-7.5)
July	2.8	2.8	3.4	3.4
	(-0.7)	(-0.7)	(4.2)	(4.2)
August	11.1	10.1	11.1	10.3
	(7.6)	(4.6)	(12.0)	(11.1)
September	5.8	3.7	6.2	4.2
	(4.6)	(2.3)	(6.9)	(5.0)
June '81 - September '81	6.6	5.5	7.0	6.0
	(3.9)	(2.1)	(7.7)	(6.8)
July '81 - September '81	8.4	6.9	8.7	7.3
	(6.1)	(3.5)	(9.5)	(8.1)
<u>Quarterly Average</u>				
1981--QI	-1.7	-1.7	-0.8	-0.8
QII	5.1	5.1	5.3	5.3
QIII	1.0	0.6	1.7	1.3

-6-

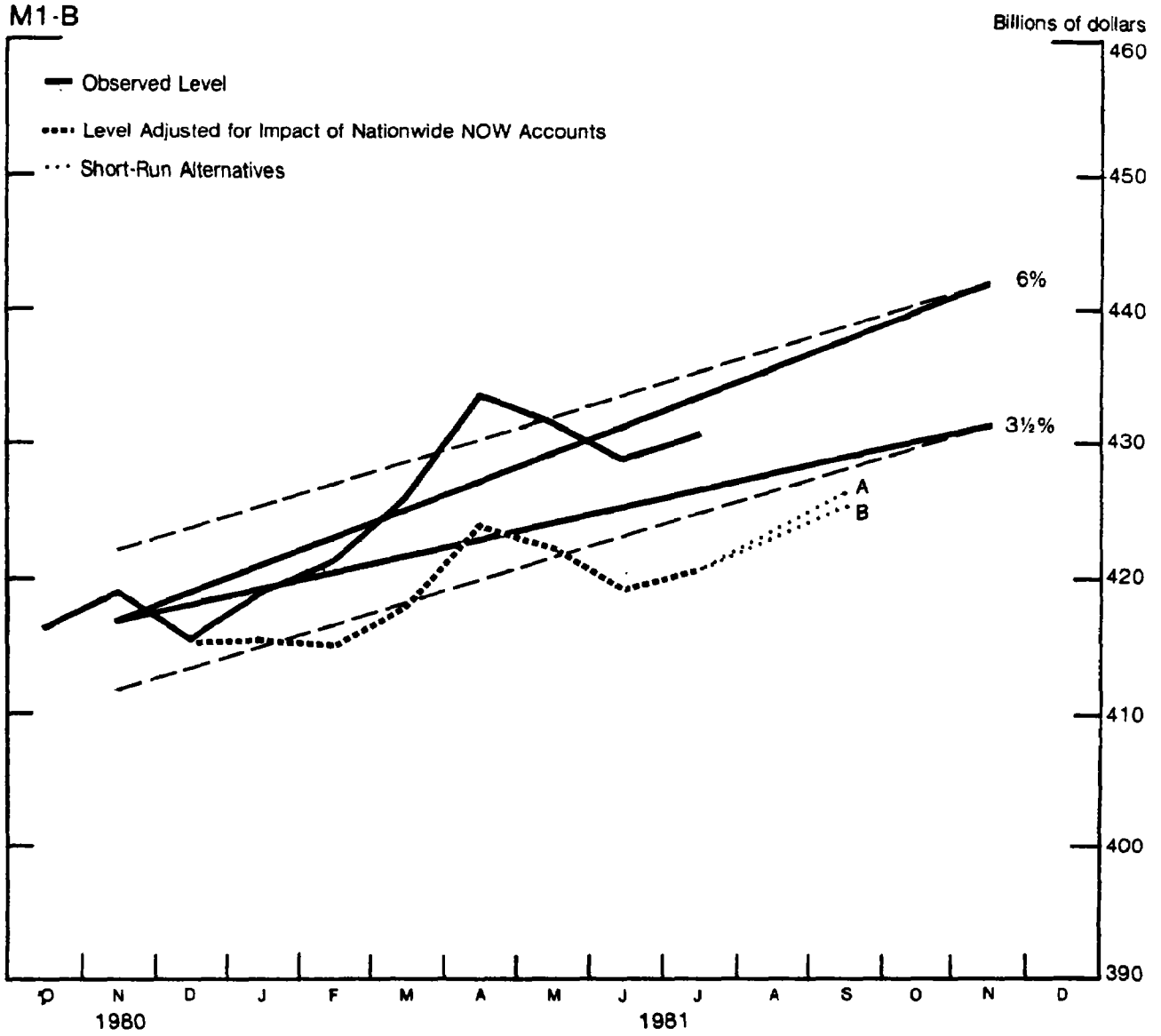
NOTE: Growth rates shown in parentheses are for the observed levels of the aggregates.



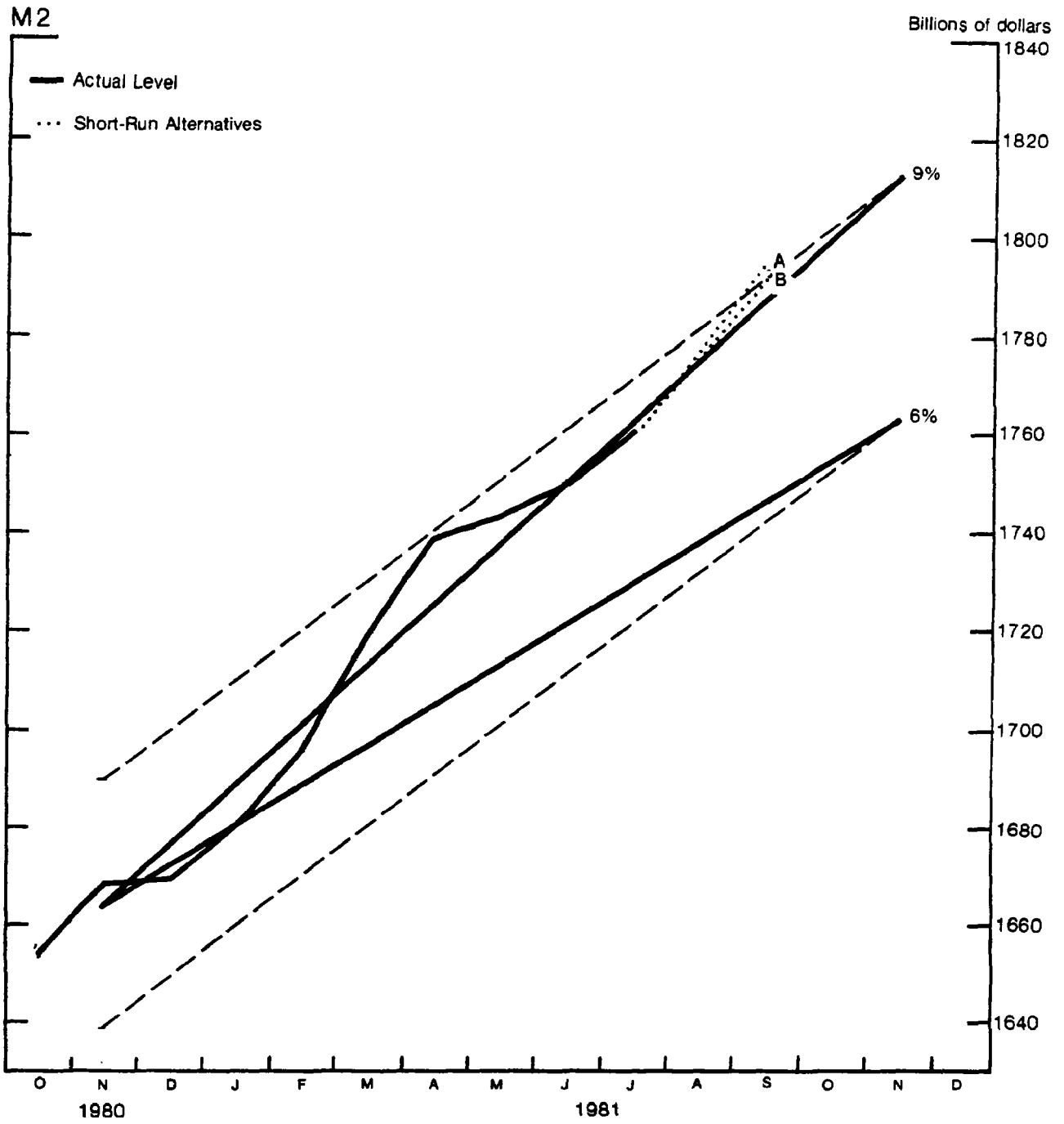
Alternative Levels and Growth Rates for Key Monetary Aggregates (cont'd)

	<u>M2</u>		<u>M3</u>	
	<u>Alt. A</u>	<u>Alt. B</u>	<u>Alt. A</u>	<u>Alt. B</u>
1981--May	1743.4	1743.4	2059.0	2059.0
June	1749.3	1749.3	2076.1	2076.1
July	1761.0	1761.0	2090.8	2090.8
August	1781.5	1780.5	2116.7	2115.7
September	1795.2	1792.2	2134.8	2131.8
<u>Growth Rates</u>				
<u>Monthly</u>				
1981--June	4.1	4.1	10.0	10.0
July	8.0	8.0	8.5	8.5
August	14.0	13.3	14.9	14.3
September	9.2	7.9	10.3	9.1
June '81 - September '81	10.5	9.8	11.3	10.7
July '81 - September '81	11.7	10.6	12.6	11.8
<u>Quarterly Average</u>				
1981--QI	8.3	8.3	12.4	12.4
QII	10.6	10.6	10.5	10.5
QIII	8.2	7.9	10.5	10.3

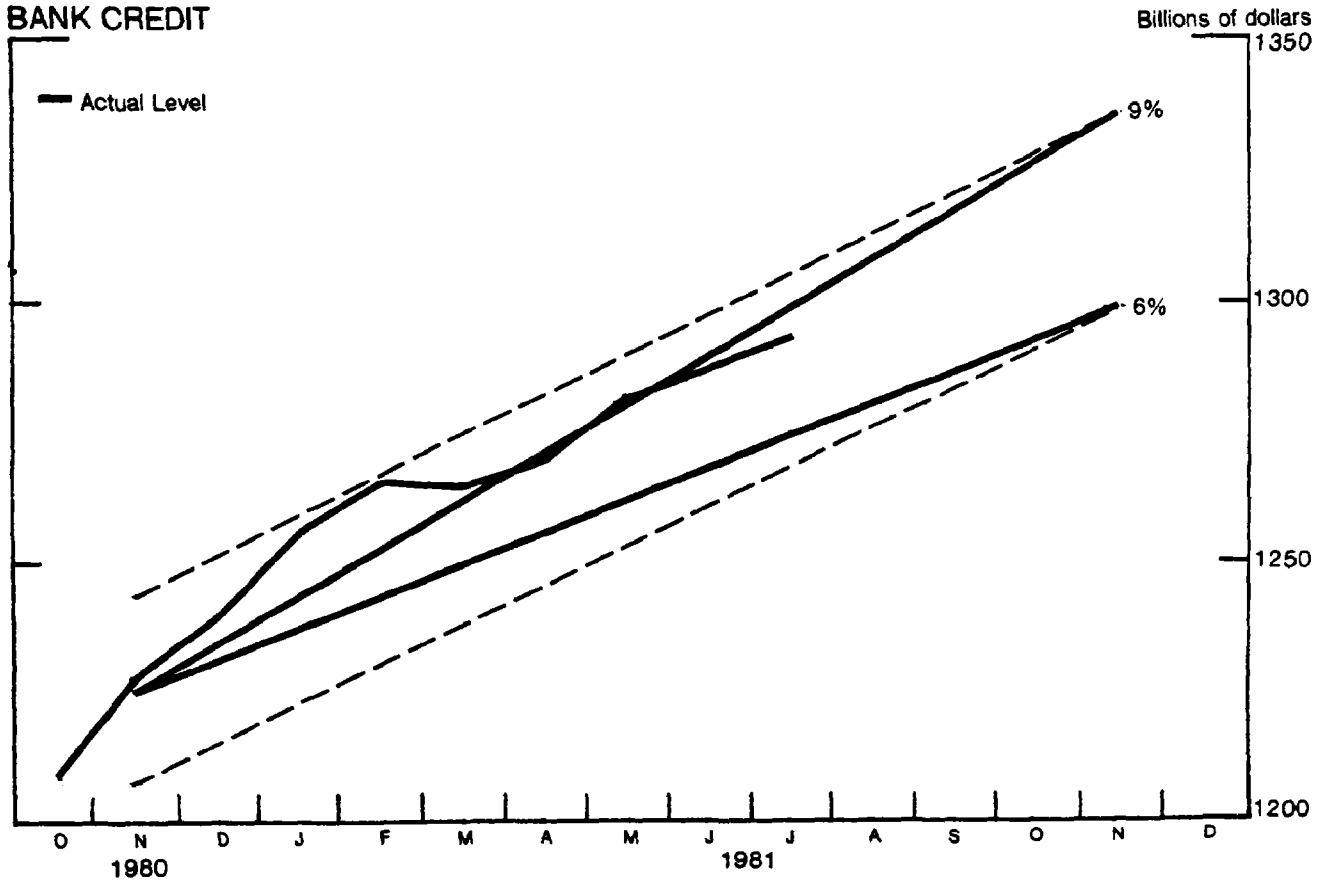
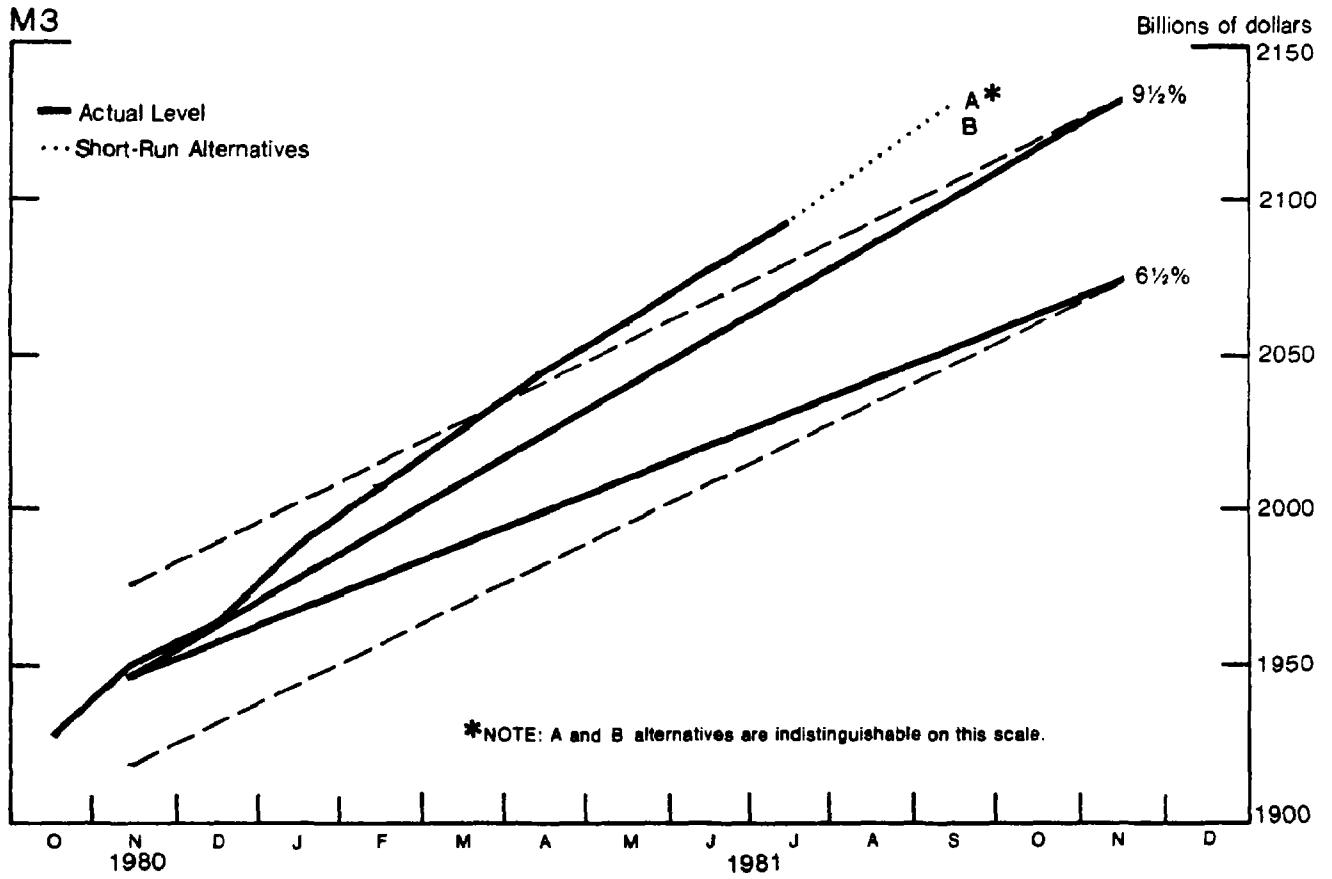
### Actual and Targeted M1-B



### Actual and Targeted M2



### M 3 and Bank Credit



alternative A to be on the order of  $10\frac{1}{2}$  percent. Alternative B provides an option that would exert greater restraint on M2 growth, involving a lower target for M1-B growth in the third quarter, one of 6 percent.

(9) Both alternatives call for an acceleration of growth of M1-B (adjusted for shifts into NOW accounts) from its modest July pace, an increase which appears to be well in train in early August. Both would reach a level of M1-B in September below the low end of the Committee's longer-run range for this aggregate, and would imply a very slow annual growth rate on a quarterly average basis,  $1\frac{1}{4}$  to  $1\frac{1}{2}$  percent. On the other hand, both alternatives involve an acceleration of M2 over the balance of the quarter that would place this aggregate somewhat above the upper end of its longer-run range in September, though less so under B than A. The specifications for alternatives A and B assume that M1MF growth slows a bit from its recent extremely rapid pace, while small time deposit growth strengthens relative to July, owing to growth of the 30-month SSC, whose ceiling rate since August 1 can fluctuate in line with Treasury yields. M3 is expected to remain well above its longer-run range under both alternatives, reflecting continued CD growth to finance loan expansion.

(10) To achieve the alternative A specifications, total reserves probably would have to expand at about a 13 percent annual rate in August and September, considerably more than in July. Even such a rapid expansion in reserves, and the associated faster money growth, would likely be consistent with short-term interest rates holding near current levels. Nominal GNP is expected by the staff to expand at a 7 percent annual rate in the third quarter, suggesting strong transactions demands for money over the balance of the quarter. Even with the alternative A target specifications, income velocity of M1-B would rise at a relatively rapid annual

rate of about 5 percent this quarter. It seems reasonable to expect that under alternative A the federal funds rate over the next few weeks might be in the area of 18 percent. With the current level of discount and surcharge rates, borrowing at the discount window could be in a \$1 to \$1½ billion range.

(11) It is possible that long-term interest rates could decline some over the next several weeks, as investors become increasingly interested in bonds at the unusually high level of rates currently prevailing. However, the projected stability in short-term rates and the large prospective demands on bond markets would tend to limit the size-- and perhaps the duration--of any drop in rates. The Treasury is likely to raise another \$7½ billion of new money this quarter, sponsored agency borrowings will also probably continue to be relatively large, and the Treasury and sponsored agencies may need to borrow about \$44 billion in cash in the fourth quarter. In addition, any improvement in rates can be expected to call forth a substantial volume of corporate issues to fund short-term debt. Tax-exempt and foreign borrowings in U.S. capital markets are also projected to remain large.

(12) The alternative B specifications imply growth of total reserves from July to September at an 11 percent annual rate. The federal funds rate probably would be around 19 percent or higher during the intermeeting period, and, given the present discount rate structure, borrowing would likely run around \$1½ to \$2 billion. Under alternative B, market interest rates, especially short-term rates, are likely to rise, perhaps appreciably. Pressure on thrift institution earnings would be more intense under this alternative than under alternative A, and mortgage rates would probably rise further. Longer-term market rates may also rise,

at least temporarily, in reflection of higher costs of financing positions;  
business credit demands would continue to be centered on short-term markets.  
The dollar would remain under upward pressure in foreign exchange markets.

Directive language

(13) Given below are two alternative operational paragraphs for the directive. Alternative I retains the structure of the current directive, focusing on the June to September growth rate for M1-B, with the proviso adopted at the last meeting related to M2. The language would be consistent with either alternatives A or B (with the directive indicating under B that the Committee had lowered its third quarter M1-B target). In this directive structure, it would need to be recognized, however, that the proviso clause for M2 might well be promptly triggered given the staff's current expectation of a strengthening in M2 growth.

The language of alternative II would be consistent with a decision by the Committee to choose an M1-B growth rate over the balance of the quarter presently thought needed to exert desired restraint on M2, without prejudging that a lower growth in M1-B than earlier targeted for the quarter will in practice be required. Thus, if this directive included the July to September growth rate for M1-B in alternative B, the language of the directive would permit the higher growth in M1-B needed to meet the 7 percent quarterly target should M2 remain at or fall below the upper bound of its longer-run range. This language is similar to the approach adopted by the Committee at the last mid-quarter meeting on May 18.

Alternative I.

In the short run the Committee seeks behavior of reserve aggregates consistent with growth of M1-B from June to September at an annual rate of 7 \_\_\_ percent after allowance for the impact of flows into NOW accounts (resulting in growth at an annual rate of about 2 \_\_\_ percent from the average in the second quarter to



the average in the third quarter), provided that growth of M2 remains around the upper limit of, ~~or moves within,~~ its range for the year. It is recognized that shifts into NOW accounts will continue to distort measured growth in M1-B to an unpredictable extent, and operational reserve paths will be developed in the light of evaluation of those distortions. The Chairman may call for Committee consultation if it appears to the Manager for Domestic Operations that pursuit of the monetary objectives and related reserve paths during the period before the next meeting is likely to be associated with a federal funds rate persistently outside a range of ~~15 to 21~~ \_\_\_ TO \_\_\_ percent.

#### Alternative II

In the short run the Committee seeks behavior of reserve aggregates consistent with a pick-up in growth of M1-B from July to September to an annual rate of \_\_\_ percent, or somewhat higher, after allowance for the impact of flows into NOW accounts. Provided that growth of M2 remains around the upper limit of, or moves within, its range for the year, growth of M1-B at an annual rate somewhat higher than the \_\_\_ percent specified above would be acceptable, in light of the relatively weak growth experienced in July and the objective adopted by the Committee at its July meeting for growth from June to September at an annual rate of 7 percent (resulting in growth at an annual rate of about 2 percent from the average in the second quarter to the average in the third quarter). It is recognized that shifts into NOW accounts will continue to distort measured growth in M1-B to an unpredictable

extent, and operational reserve paths will be developed in the light of evaluation of those distortions. The Chairman may call for Committee consultation if it appears to the Manager for Domestic Operations that pursuit of the monetary objectives and related reserve paths during the period before the next meeting is likely to be associated with a federal funds rate persistently outside a range of ~~15-20-21~~ \_\_\_ TO \_\_\_ percent.

APPENDIX

Reserve Targets and Related Measures Intermeeting Period  
(\$ millions, not seasonally adjusted)

As of	Targets for 3-week Average July 15 to July 29		Projection of 3-week Average July 15 to July 29			
	Total Reserves	Nonborrowed Reserves	Total Reserves	Required Reserves	Excess Reserves	Adjustmen Borrowing
	(1)	(2)	(3)	(4)	(5)	(3)-(2)
July 7 (FOMC Meeting)	41,359	39,859	41,359	41,109	250	1,500
10	41,359	39,859	41,359	41,109	250	1,500
17	41,104 <sup>1/</sup>	39,604 <sup>1/</sup>	41,136	40,967	169	1,532
24	41,134 <sup>2/</sup>	39,634 <sup>2/</sup>	41,126	40,920	205	1,492
Actual 3-week Average	41,216	39,548	41,216	40,913	303	1,668
	Targets for 3-week Average Aug. 5 to Aug. 19		Projection for 3-week Average August 5 to August 19			
July 31	40,782 <sup>3/</sup>	39,282 <sup>3/</sup>	40,627	40,410	217	1,345
Aug. 7	40,954 <sup>4/</sup>	39,530 <sup>4/</sup>	40,815	40,522	293	1,285
14	40,982 <sup>5/</sup>	39,558 <sup>5/</sup>	40,824	40,518	306	1,266
Actual 3-week Average	n.a. <sup>6/</sup>	n.a. <sup>6/</sup>	n.a. <sup>6/</sup>	40,518	n.a. <sup>6/</sup>	n.a. <sup>6/</sup>

- <sup>1/</sup> Total and nonborrowed reserves paths adjusted downward by \$255 million due to multiplier changes.
- <sup>2/</sup> Total and nonborrowed reserves paths adjusted upward by \$30 million due to multiplier changes.
- <sup>3/</sup> Total and nonborrowed reserves paths adjusted downward by \$193 million due to multiplier changes.
- <sup>4/</sup> Total and nonborrowed reserves paths adjusted upward by \$142 million due to multiplier changes and \$30 million to account for the transitory effect of merger activity on deposits in the week of August 5. In addition, the nonborrowed reserves path was adjusted upward by another \$76 million to prevent the unexpectedly low borrowings in the week of August 5 from distorting the nonborrowed reserves path in subsequent weeks.
- <sup>5/</sup> Total and nonborrowed reserves paths adjusted upward by \$28 million due to multiplier changes.
- <sup>6/</sup> Not available at time Bluebook was prepared.

Table 1  
SELECTED INTEREST RATES  
(Percent)

STRICTLY CONFIDENTIAL (FR)  
CLASS II--FOMC  
August 17, 1981

Period	Short-Term							Long-Term								
	Federal funds	Treasury Bills			CDs Secondary Market 3-mo	Comm. Paper 3-mo	Bank Prime Rate	U.S. Govt. Constant Maturity Yields			Corp. Aaa Utility		Municipal Bond Buyer	Home Mortgages		
		Market		Auction				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)
1980--High	19.83	16.73	14.39	15.70	20.58	19.74	21.50	14.29	13.36	12.91	14.51	15.03	10.56	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
1981--High	20.06	16.72	14.65	15.68	18.70	18.04	20.64	15.83	14.84	14.10	16.77	16.69	11.94	17.11	17.26	16.55
Low	13.48	12.64	11.83	12.08	13.47	12.87	17.00	12.55	12.27	11.81	14.05	13.98	9.49	14.80	14.84	13.18
1980--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	8.12	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
Oct.	12.81	11.61	11.30	11.57	12.94	12.52	13.79	12.01	11.75	11.59	13.18	13.13	9.11	13.79	14.95	12.91
Nov.	15.85	13.73	12.66	13.61	15.68	15.18	16.06	13.31	12.68	12.37	13.85	13.91	9.56	14.21	15.53	13.55
Dec.	18.90	15.49	13.23	14.77	18.65	18.07	20.35	13.65	12.84	12.40	14.51	14.38	10.11	14.79	15.21	13.62
1981--Jan.	19.08	15.02	12.62	13.88	17.19	16.58	20.16	13.01	12.57	12.14	14.12	14.17	9.66	14.90	14.87	13.55
Feb.	15.93	14.79	12.99	14.13	16.14	15.49	19.43	13.65	13.19	12.80	14.90	14.58	10.10	15.13	15.24	14.13
Mar.	14.70	13.36	12.28	12.98	14.43	13.94	18.05	13.51	13.12	12.69	14.71	14.41	10.16	15.40	15.74	14.18
Apr.	15.72	13.69	12.79	13.43	15.08	14.56	17.15	14.09	13.68	13.20	15.68	15.48	10.62	15.58	16.54	14.59
May	18.52	16.30	14.29	15.33	18.27	17.56	19.61	15.08	14.10	13.60	15.81	15.48	10.79	16.40	16.93	15.31
June	19.10	14.73	13.22	13.95	16.90	16.32	20.03	14.29	13.47	12.96	14.76	14.81	10.67	16.70	16.17	15.02
July	19.04	14.95	13.91	14.40	17.76	17.00	20.39	15.15	14.28	13.59	16.30	15.73	11.14	16.83	16.65	15.76
1981--June 3	18.40	15.46	13.44	14.49	17.25	16.63	20.43	14.39	13.53	13.09	14.93	15.03	10.59	16.76	--	14.97
10	19.33	15.30	13.31	14.00	17.13	16.68	20.00	14.26	13.42	12.95	15.01	14.74	10.63	16.69	16.17	14.96
17	19.10	14.16	12.96	13.36	16.35	15.86	20.00	14.04	13.21	12.72	14.35	14.59	10.73	16.71	--	14.75
24	19.20	14.69	13.27	13.94	17.03	16.24	20.00	14.40	13.54	12.97	--	14.80	10.74	16.62	16.17	15.09
July 1	18.84	14.25	13.23	13.62	17.00	16.28	20.00	14.48	13.79	13.23	--	14.94	10.85	16.64	--	15.33
8	19.93	14.68	13.51	14.05	17.52	16.80	20.07	14.71	13.98	13.35	--	15.04	10.97	16.79	16.43	15.35
15	18.76	14.74	13.58	14.23	17.64	16.89	20.50	14.82	14.05	13.38	15.72	15.67	11.09	16.74	--	15.56
22	19.05	15.17	14.15	15.32	17.90	17.16	20.50	15.39	14.41	13.68	16.41	16.05	11.34	16.88	16.87	16.17
29	18.54	15.23	14.24	14.79	18.01	17.21	20.50	15.48	14.51	13.77	16.73	16.55	11.44	17.11	--	15.96
Aug. 5	18.25	15.21	14.47	15.57	17.94	17.22	20.50	15.83	14.84	14.10	--	16.50	11.63	17.13	17.26	16.55
12	18.29	15.23	14.46	15.12	17.91	17.23	20.50	15.64	14.67	13.89	15.55p	16.08p	11.94	n.a.	--	16.04
19																
26																
Daily--Aug. 7	18.51	15.44	14.73	--	18.09	17.40	20.50	15.79	14.83	14.07	--	--	--	--	--	--
13	17.92	15.42	14.54	--	17.92	17.21	20.50	15.83	14.65	13.88	--	--	--	--	--	--
14	17.55p	15.50	14.66	--	18.02	17.27	20.50	15.91p	14.67p	13.95p	--	--	--	--	--	--

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--FOMC  
August 17, 1981

Period	Treasury Bills Net Change 2/	Treasury Coupons Net Purchases 3/					Federal Agencies Net Purchases 4/					Net Change Outright Holdings Total 5/	Net RPs 6/
		Within 1 year	1 - 5	5 - 10	Over 10	Total	Within 1 year	1 - 5	5 - 10	Over 10	Total		
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
1980	-3,052	912	2,138	703	811	4,564	217	398	29	24	668	2,035	2,462
1980--Qtr. II	3,249	110 <sup>7/</sup>	1,156 <sup>7/</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
IV	-58	100	--	--	--	100	--	--	--	--	--	-1	1,107
1981--Qtr. I	-2,514	-23	--	--	--	-23	--	--	--	--	--	-2,555	-1,694
II	2,135	115	469	164	89	836	--	--	--	--	--	2,944	-1,352
1981--Feb.	-357	-23	--	--	--	-23	--	--	--	--	--	-382	832
Mar.	1,607	--	--	--	--	--	--	--	--	--	--	1,592	-831
Apr.	1,141	115	469	164	89	836	--	--	--	--	--	1,975	-588
May	790	--	--	--	--	--	--	--	--	--	--	790	-2,166
June	204	--	--	--	--	--	--	--	--	--	--	179	1,502
July	1,225	122	607	64	182	976	--	--	--	--	--	2,200	1,768
1981--June 3	-90	--	--	--	--	--	--	--	--	--	--	-90	4,272
10	295	--	--	--	--	--	--	--	--	--	--	295	-4,921
17	--	--	--	--	--	--	--	--	--	--	--	--	4,597
24	--	--	--	--	--	--	--	--	--	--	--	--	-1,986
July 1	--	--	--	--	--	--	--	--	--	--	--	-13	917
8	--	--	--	--	--	--	--	--	--	--	--	--	5,241
15	347	122	607	64	182	976	--	--	--	--	--	1,322	-4,104
22	978	--	--	--	--	--	--	--	--	--	--	978	3,894
29	-100	--	--	--	--	--	--	--	--	--	--	-100	-4,105
Aug. 5	--	--	--	--	--	--	--	--	--	--	--	--	-710
12	915	--	--	--	--	--	--	--	--	--	--	915	-898
19													
26													
LEVEL--Aug. 12	48.8	14.6	33.8	13.1	15.9	77.4	2.4	4.6	1.0	0.6	8.7	134.8	-3.4

1/ Change from end-of-period to end-of-period.

2/ Outright transactions in market and with foreign accounts, and redemption (-) in bill auctions.

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

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

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

6/ Includes changes in RPs (+), matched sale-purchase transactions (-), and matched purchase-sale transactions (+).

7/ Maturing 2-year notes were exchanged on June 2, 1980, 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  
 August 17, 1981

Period	U.S. government securities dealer positions				Underwriting syndicate positions		excess reserves	Member bank reserve positions borrowing at FRB			
	cash		futures and forwards		corporate bonds	municipal bonds		seasonal	special	adjustment	total
	bills	coupons	bills	coupons							
1980--High	8,838	2,263			299	466	881	174	816	3,298	3,438
Low	1,972	-1,482			0	22	19	5	0	12	215
1981--High	15,668	4,633	-12,865	-3,599	66	268	741	309	214	2,614	2,923
Low	1,273	1,105	-5,930	-2,560	0	28	-165	105	0	581	768
1980--July	4,581	634	2,438	-1,015	154	310	284	6	253	136	395
Aug.	5,108	798	3,081	-1,974	91	153	302	9	241	408	658
Sept.	3,681	-416	414	-1,185	24	171	256	25	91	1,196	1,311
Oct.	2,447	143	-1,556	-1,685	14	114	206	66	0	1,244	1,310
Nov.	3,047	149	-7,068	-2,663	17	57	498	97	0	1,963	2,059
Dec.	4,287	20	-9,812	-2,751	4	70	552	116	0	1,574	1,690
1981--Jan.	9,985	1,584	-11,976	-2,884	8	68	544	120	48	1,226	1,395
Feb.	13,317	1,812	-12,203	-2,798	8	95	183	148	0	1,156	1,303
Mar.	13,579	3,415	-11,561	-3,251	46	124	381	196	0	804	1,000
Apr.	8,518	3,149	-7,277	-3,050	15	194	144	162	0	1,176	1,338
May	1,676	2,745	-6,486	-2,822	2	110	263	269	0	1,959	2,228
June	5,547	3,278	-9,934	-2,925	42	192	333	291	0	1,746	2,037
July	2,950*	3,314*	-8,340*	-3,012*	5	153	370	247	0	1,432	1,679
June 3	3,004	3,101	-8,643	-2,838	20	83	245	287	0	1,667	1,954
10	4,675	3,105	-9,022	-2,897	66	242	249	277	0	1,930	2,207
17	8,857	2,939	-11,500	-3,221	83	243	289	279	0	1,616	1,895
24	6,425	3,317	-10,465	-2,858	0	200	364	306	0	1,999	2,305
July 1	3,046	4,255	-9,416	-2,799	3	257	488	306	0	1,429	1,735
8	3,224	4,385	-8,462	-3,111	0	120	501	242	0	1,624	1,866
15	3,349	3,380	-7,339	-3,053	15	137	129	241	0	1,054	1,295
22	2,756*	2,285*	-8,712*	-3,089*	7	135	330p	244p	0	1,486p	1,730p
29	2,732*	3,367*	-8,528*	-2,930*	0	115	449p	257p	0	1,721p	1,978p
Aug. 5	2,985*	2,064*	-7,606*	-2,794*	0	67	379p	228p	0	890p	1,118p
12	4,215*	2,696*	-8,879*	-2,828*	0	58	288p	223p	0	1,012p	1,271p
19											
26											

NOTE: Government securities dealer cash positions consist of securities already delivered, commitments to buy (sell) securities on an outright basis for immediate delivery (5 business days or less), and certain "when-issued" securities for delayed delivery (more than 5 business days). Futures and forward positions include all other commitments involving delayed delivery; futures contracts are arranged on organized exchanges. Underwriting syndicate positions consists of issues 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. Monthly averages for excess reserves and borrowing are weighted averages of statement week figures. Monthly data for dealer futures and forwards are end-of-month figures for 1980.

\*Strictly confidential