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August 20, 1982

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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

August 20, 1982

MONETARY POLICY ALTERNATIVES

Recent developments

(1) M1 was about unchanged in July. While data thus far available for the first half of August suggest a strengthening, the aggregate has been running below the Committee's 5 percent annual rate growth objective for the June to September period. Relative to the expectations built into the intermeeting path for M1, the shortfall in growth has been in currency and demand deposits. NOW accounts through the first half of August have increased on balance by somewhat more than expected, with most of the growth taking place in late July and the first half of August.

(2) M2 growth in July--at 9.4 percent--was consistent with the targeted path for the June-to-September period as stronger growth in its nontransaction component offset the weakness in M1. In the first half of August, however, M2 strengthened and moved above the Committee's near-term objective, reflecting the pickup in M1 growth and a further acceleration in the nontransaction component of M2. Money funds and small time deposits have been the primary sources of strength in M2 in July and early August. Savings deposits, in contrast, have declined sharply, after growing moderately over the first half of the year. The strengthening of M2, and the recent pick-up of M1 paced by NOW accounts, raises the possibility that somewhat more of the tax cut is being saved than earlier anticipated, or at least saved in more liquid forms.

KEY MONETARY POLICY AGGREGATES  
(Seasonally adjusted, annual rates of growth)

	1982			1981 Q4 to	
	June	July	June to 1st Half August <sup>1/</sup>	1982: Q2	1982: July
<u>Money and Credit Aggregates</u>					
M1	-0.3	-0.5	3.6	6.9	5.0
M2	6.6	9.4	n.a.	9.7	9.6
(Nontransaction component)	8.7	12.5	n.a.	10.6	11.0
M3	8.9	12.5	n.a.	9.8	10.3
Bank credit	5.1	6.4	n.a.	8.3 <sup>4/</sup>	7.8 <sup>4/</sup>
<u>Reserve Measures</u> <sup>2/</sup>					
Nonborrowed reserves <sup>3/</sup>	-1.4	13.1	20.6	2.6	4.1
Total reserves	3.3	-0.5	7.4	5.2	4.3
Monetary base	7.9	3.0	5.8	7.7	7.2
Memo: (Millions of dollars)					
			1st Half August <sup>1/</sup>		
Adjustment borrowing	1101	641	333	--	--
Excess reserves	308	312	337	--	--

n.a. - Not available.

<sup>1/</sup> First two full statement weeks of August.

<sup>2/</sup> Growth rates of reserve measures are adjusted to remove the effects of discontinuities resulting from phased changes in reserve ratios under the Monetary Control Act.

<sup>3/</sup> Nonborrowed reserves include special borrowing and other extended credit from the Federal Reserve.

<sup>4/</sup> Measured from December-January average base.

(3) M3 growth has accelerated markedly since the last Committee meeting, reflecting more rapid expansion in both large CDs and institutional money funds. Large CD issuance has been boosted in response to cost advantages in the domestic market versus the Eurodollar market and, reportedly, by a desire of some banks to build liquidity in an uncertain environment by issuing longer-term CDs. The recent surge in institutional money fund inflows has been prompted by attractive returns in comparison to faster declining market rates.

(4) Bank credit grew at about a 6-1/2 percent annual rate in July, somewhat faster than in June but still below the pace of the first half as a whole. Business loan growth tapered off in July and large bank figures suggest a further weakening in early August. Other forms of short-term borrowing offset the weakness in business loans in July, as loans booked at foreign branches of U.S. banks and commercial paper issuance by nonfinancial corporations accelerated, but data for early August suggest a slowing in these forms of short-term borrowing as well. Corporate bond issuance in domestic markets strengthened moderately in July and, impelled by the recent rally in debt markets, appears to be strengthening further.

(5) After showing virtually no growth in June, nonborrowed reserves expanded at about a 20 percent annual rate through the first half of August. A relatively substantial growth was implicit in the higher targeted growth rate for money decided at the last Committee meeting and the initial borrowing assumption of \$800 million that was lower than the actual June level. Nonborrowed reserves grew even more than the initial path implied mainly because of adjustments to accommodate greater than anticipated expansion of large time deposits as well as adjustments in

response to the considerable shortfall of M1 from the short-run money target. <sup>1/</sup> Meanwhile, with actual borrowing at the discount window (other than extended credit) declining to about \$335 million in the first two full statement weeks of August, total reserve growth from June through the first half of August was at about a 7-1/2 percent annual rate.

(6) With bank reserve positions easing and the discount rate reduced in three steps to 10-1/2 percent, the federal funds rate fell from the 14-3/4 percent area in early July to around 10 percent on average in the last full statement week; however, trading in very recent days has been around 9 percent, perhaps in sympathetic reaction to the general market ebullience. Since the July Committee meeting, other short-term market rates have declined 4-1/2 to 6-1/2 percentage points. Even as rates have declined, there has been a marked widening of quality spreads on commercial paper and a more pronounced tiering in the CD and RP markets, in the aftermath of the Penn Square failure, the recent bankruptcy of Lombard-Wall, and rumors about bank problems with Mexican loans.

(7) Bond rates declined about 1-3/4 percentage points on balance over the intermeeting period. A substantial part of these declines occurred in the unusually sharp bond market rally on August 17, when record price increases were also established in the stock market, spurred in good part by a greatly revised forecast of interest trends by prominent market analysts. Interest rates on new conventional mortgages have as usual lagged the decline in market rates, falling about 50 basis points since

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<sup>1/</sup> Reserve paths and intermeeting adjustments are shown in Appendix I.

the July meeting. With the federal deficit expanding, the Treasury has stepped up its borrowing in the note sector, as well as in the bill market; statutory authority to issue new bonds is included in the new tax legislation just passed. Tax-exempt offerings have continued at about the same rapid pace seen over the first half of the year.

(8) The weighted average value of the dollar fell in July, rose again to a new peak in mid-August, and is now just below the high level recorded at the last FOMC meeting. The net decline in U.S. short-term interest rates over the intermeeting period greatly exceeded the moderate rate declines in major foreign countries. Thus, the continued strength of the dollar seems to reflect investors' preference for dollars at a time of widespread political and financial strains.

Alternative near-term targets

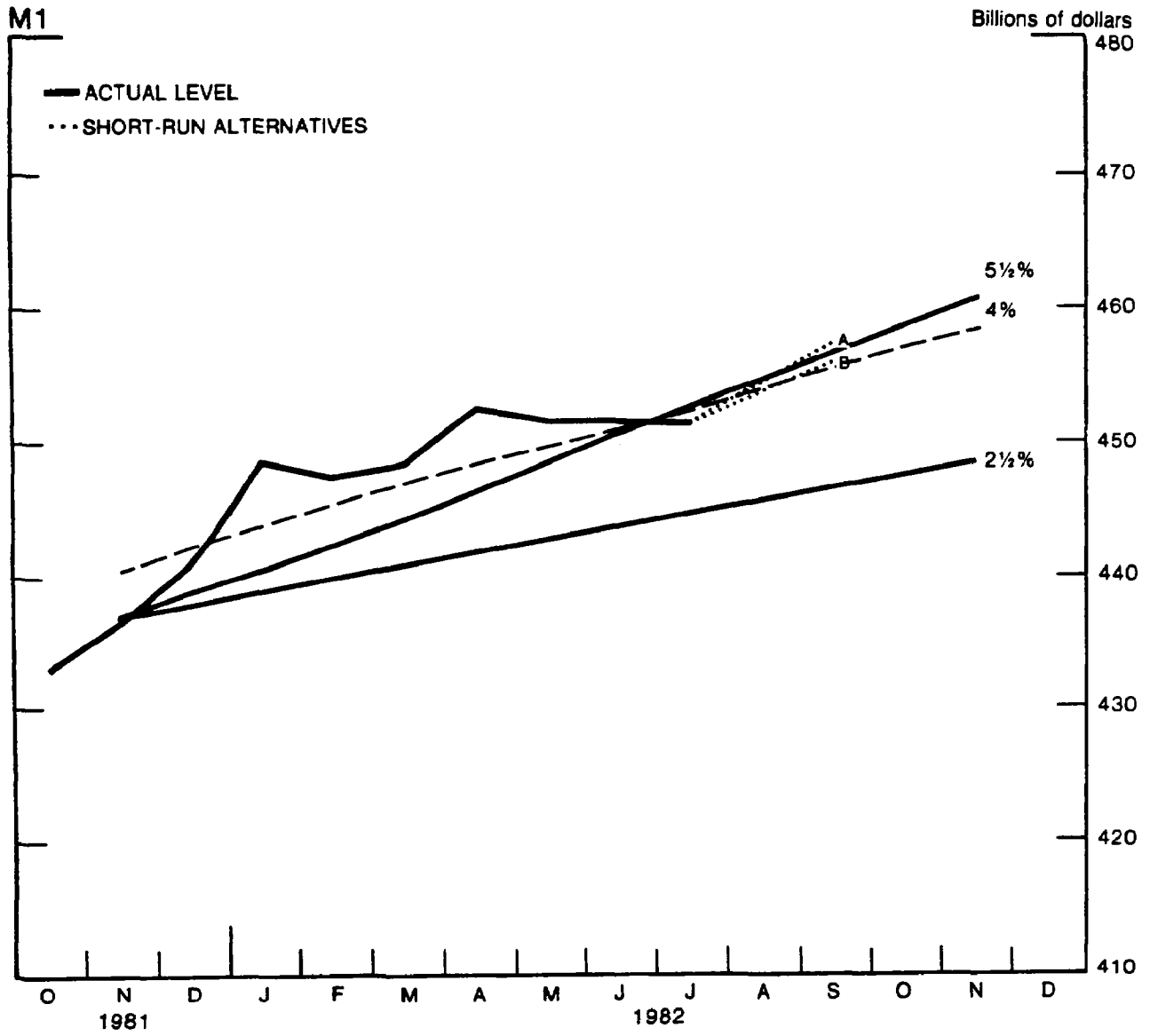
(9) The upper panel of the following table presents alternative targets for M1 and M2 for the third quarter. The middle panel indicates the implied two-month July-to-September growth rates for each alternative, and the last row suggests possible associated intermeeting ranges for the federal funds rate. More detailed data for the alternatives are shown in the table and charts on the next few pages, and the quarterly interest rate path underlying the staff's GNP projection is contained in Appendix II.

	<u>Alternative A</u>	<u>Alternative B</u>
Growth from June to September		
M1	5	4
M2	10	9-1/2
Implied growth from July to September		
M1	7-3/4	6-1/4
M2	10-1/4	9-1/2
Federal funds rate range	7 to 12	8 to 13

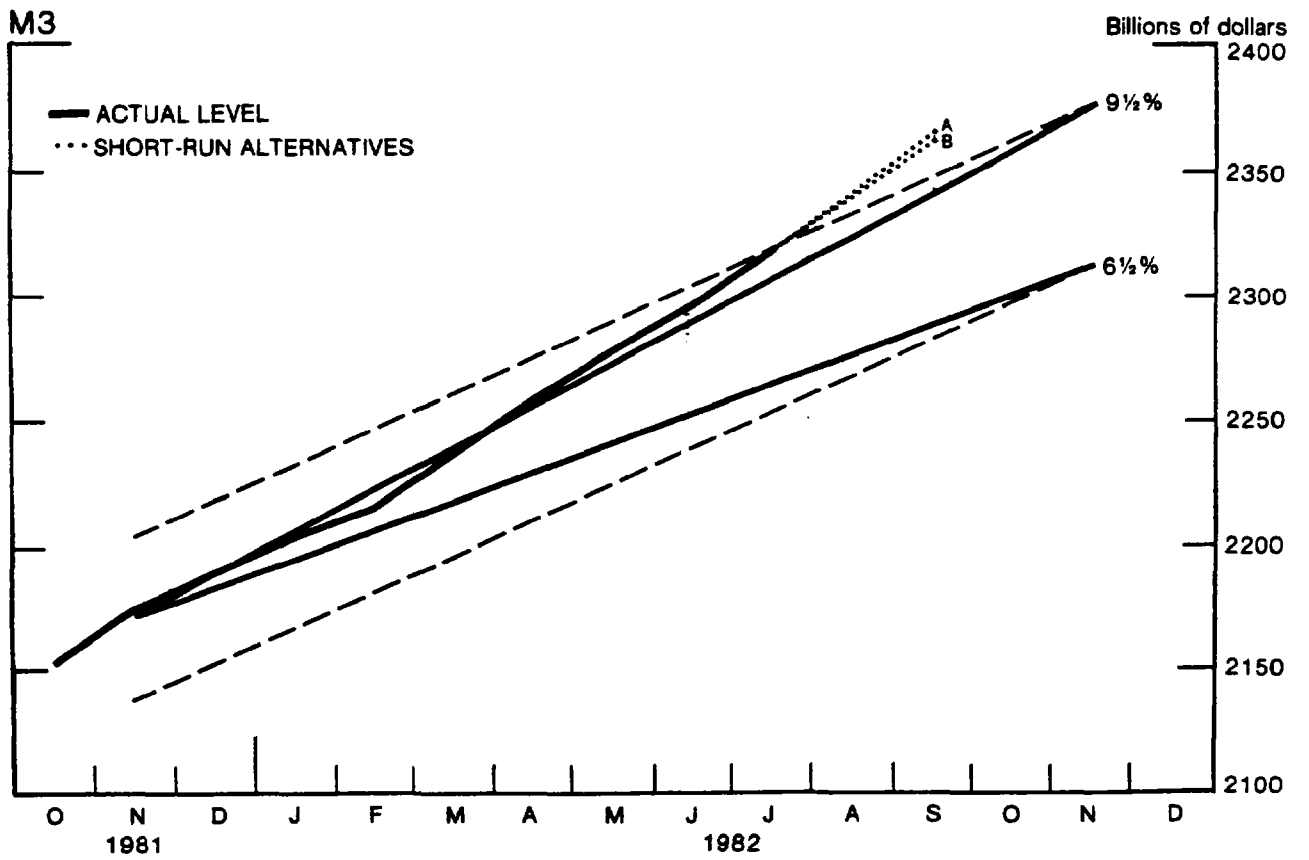
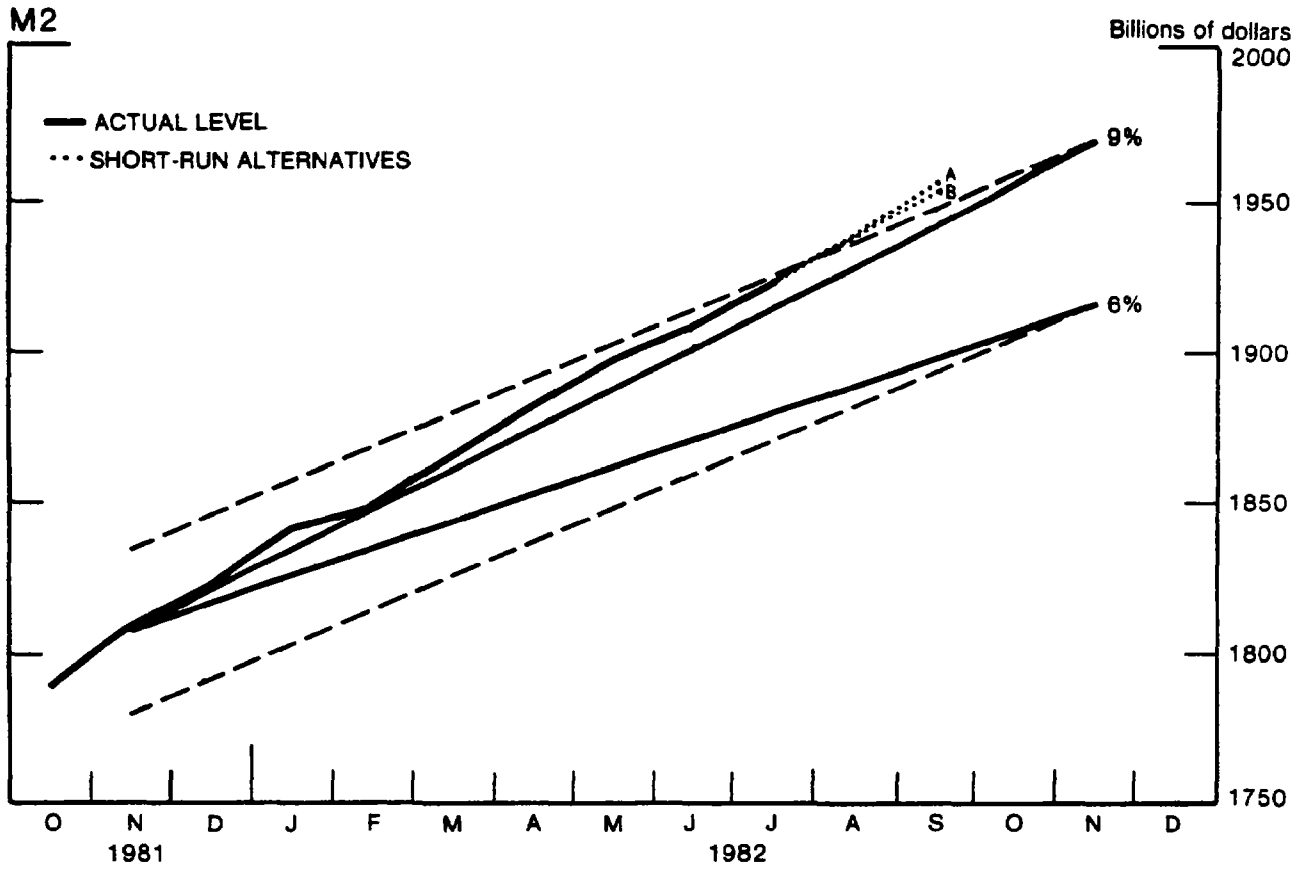
(10) Alternative A represents the Committee's current third-quarter M1 target of 5 percent, but with an upward revision of the M2 target from 9 to 10 percent in reflection of the strength of this aggregate currently. To attain the 5 percent target, M1 would have to accelerate to a 7-3/4 percent annual rate of growth on average in August and September. This is likely to be consistent with short-term rates over the intermeeting period at around recent levels, or perhaps a little higher--with the funds rate in the 9 to 9 1/2 percent area. Such growth in M1 would imply a rise on a quarterly average basis of only about 2 percent at an annual rate,



### Actual and Targeted M1



### Actual and Targeted M2 and M3



Alternative Levels and Growth Rates for Key Monetary Aggregates

	<u>M1</u>		<u>M2</u>		<u>M3</u>	
	<u>Alt. A</u>	<u>Alt. B</u>	<u>Alt. A</u>	<u>Alt. B</u>	<u>Alt. A</u>	<u>Alt. B</u>
1982--April	452.4	452.4	1880.7	1880.7	2258.1	2258.1
May	451.5	451.5	1897.5	1897.5	2278.9	2278.9
June	451.4	451.4	1907.9	1907.9	2295.8	2295.8
July	451.2	451.2	1922.9	1922.9	2319.8	2319.8
August	454.0	453.9	1944.0	1943.7	2353.0	2352.5
September	457.0	455.9	1955.6	1953.3	2367.9	2364.8
<b>Growth Rates</b>						
<u>Monthly</u>						
1982--April	11.0	11.0	10.0	10.0	12.0	12.0
May	-2.4	-2.4	10.7	10.7	11.1	11.1
June	-0.3	-0.3	6.6	6.6	8.9	8.9
July	-0.5	-0.5	9.4	9.4	12.5	12.5
August	7.4	7.2	13.2	13.0	17.2	16.9
September	7.9	5.3	7.2	5.9	7.6	6.3
June-September	5.0	4.0	10.0	9.5	12.6	12.0
July-September	7.7	6.3	10.2	9.5	12.4	11.6
<b>Growth Rates</b>						
<u>Quarterly Average</u>						
1982--Q1	10.4	10.4	9.8	9.8	8.7	8.7
Q2	3.3	3.3	9.5	9.5	10.7	10.7
Q3	2.0	1.7	9.6	9.4	12.2	12.0
<b>Memo :</b>						
Growth Q4 1981 to September 1982	5.6	5.3	9.8	9.7	10.9	10.7

as compared with the 7-1/2 percent annual rate of expansion in nominal GNP projected for this quarter by the staff.

(11) Total reserves under alternative A would expand at about a 4-3/4 percent annual rate over the balance of the quarter. This probably would be associated with somewhat more rapid growth in nonborrowed than in total reserves, assuming borrowing drops to around \$250 million, a nearly frictional level after taking account of seasonal borrowing. For this level of borrowing to be consistent with no more than a modest back-up in short-term rates may, however, require a drop in the discount rate from the current 10-1/2 percent level.

(12) Persistence of short-term interest rates at around recent lower levels would tend to be associated with growth in M2 and M3 at a relatively rapid pace, largely in consequence of an exceptionally strong August advance. A considerable slowing in growth rates is likely in September as returns on money market fund shares move closer to alignment with market rates, and perhaps as investors shift into stocks and bonds. On September 1, the new 7-to-31 day consumer time deposit will become available, but this is not expected to have a very significant effect on the overall demand for M2.

(13) Under this alternative corporate bond rates might remain around 14 percent or fall somewhat lower, depending in part on how large a surge in corporate bond issuance develops. Most of the proceeds from expansion in bond issues would be used to pay down bank loans and to redeem commercial paper. The weakening of business loan demand and sustained

relatively low market rates would likely cause banks to cut the prime rate to less than 13 percent over the next few weeks. The mortgage markets would benefit from the decline in interest rates generally and from improved prospects for thrift institution profitability. Mortgage rates are unlikely to fall below the 15 percent level, however, so that the boost to housing would be modest. Short-term U.S. interest rates at around recent levels would give foreign authorities greater scope to ease their interest rates further, which would probably forestall any appreciable weakening of the dollar on exchange markets over the near-term.

(14) Alternative B, which calls for 4 percent growth in M1 over the third quarter, likely would be consistent with a federal funds rate in the vicinity of the current 10-1/2 percent discount rate. M1 would be expected to grow at about a 6-1/4 percent annual rate on average in August and September, with total reserves expanding at a 3-3/4 percent annual rate over the balance of the quarter. Borrowing at the discount window may be in the \$350 to \$400 million area.

(15) The firming of the funds rate from very recent levels contemplated in this alternative would seem to run counter to the expectations of a good many market participants. As a result, it is quite likely that short-term rates would back up, with the 3-month bill rate moving back toward 9 percent. Bond yields would retrace some of their recent declines, though any reaction in credit markets could be mild in the context of M1 remaining below the 5-1/2 percent upper bound of the

Committee's 1982 target range (which is assumed in the path) and if incoming economic data continue weak. Because money market fund yields would more quickly come into alignment with market rates, M2 and especially M3 growth would probably be a bit slower than under alternative A. The very recent downward pressures on the dollar in exchange markets probably would abate, and may be reversed.

(16) Given the staff's GNP projection, the outstanding debt of domestic nonfinancial sectors is projected to expand at about an 8-1/2 percent annual rate over the third quarter, the same pace as in the first half of the year, but down from the 9-1/2 to 9-3/4 percent increases of 1980 and 1981. Total funds raised would amount to about 12-1/2 percent of the projected third quarter GNP, up from 12 percent on average in the first half. This rise reflects a sharp increase from 3-1/2 to 5-1/4 percent in the ratio of federal government borrowing to GNP, while private credit demands abate. The strength of federal government borrowing, reflecting in part a marked shift toward greater fiscal stimulus as evidenced by a larger high employment deficit, is working to hold up income and interest rates.

(17) In the fourth quarter of the year, interest rates may be under upward pressure as compared with levels anticipated between now and September in either alternative A or B. Nominal GNP growth is expected to be maintained at close to the third-quarter rate in part because of lagged effects of the recent tax cut. And in the degree that the quantity of money demanded is also increased from the lagged effects of recent short-term rate declines there will be a greater likelihood that a rebound in short-term rates would result from efforts to constrain money growth to

the upper end of the longer-run M1 range, with the odds on a rebound greater under alternative A than alternative B. To the extent that the Committee is willing to tolerate growth for the year above the 5-1/2 percent limit--say, at around 6 percent--the chances of a rate rebound would be diminished. The table below shows fourth quarter M1 growth rates for alternative 1982 M1 outcomes, given the two current short-term policy alternatives. In any event growth in M2 and M3 for the year seems likely to be fractionally above the Committee's ranges.

	Growth Rate Over September-December to Attain M1 Growth for 1982 at		
	<u>5%</u>	<u>5-1/2%</u>	<u>6%</u>
Alternative A	3	5	7
Alternative B	4	6	8

Directive language

Given below is a suggested operational paragraph for the directive. The specifications adopted at the meeting on June 30 - July 1 are shown in strike-through form. Deletion of the second qualifying sentence is proposed since it no longer seems relevant. However, the first qualifying sentence still appears to be germane, particularly in light of the current strength of M2.

OPERATIONAL PARAGRAPH

In the short run, the Committee seeks behavior of reserve aggregates consistent with growth of M1 and M2 from June to September at annual rates of about 5 \_\_\_ percent and about 9 \_\_\_ percent respectively. Somewhat more rapid growth would be acceptable depending on evidence that economic and financial uncertainties are leading to exceptional liquidity demands and changes in financial asset holdings. ~~It was also noted that seasonal uncertainties, together with increased social security payments and the initial impact of the tax cut on cash balances, might lead to a temporary bulge in the monetary aggregates, particularly M1.~~ 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 10-15 \_\_\_ TO \_\_\_ percent.



Appendix I

RESERVE TARGETS AND RELATED MEASURES  
INTERMEETING PERIOD

(Millions of dollars; not seasonally adjusted)

Date Reserves Path Constructed	Reserve Targets for Intermeeting Sub-Period (average for sub-period)		Projection of Reserves Demanded (average for sub-period)			Implied Adjustment Borrowing	
	Total Reserves (1)	Non-borrowed Reserves (2)	Total Reserves (3)	Required Reserves (4)	Excess Reserves (5)	Average for Sub-Period (6)	For Remaining Statement Weeks of Intermeeting Period <sup>1/</sup> (7)
4-Week Sub-Period: July 7 to July 28							
July 2	39,978	39,178	39,978	39,678	300	800	800
9	40,078 <sup>2/</sup>	39,278 <sup>2/</sup>	39,994	39,620	374	716	626
16	40,114 <sup>3/</sup>	39,399 <sup>3/4/</sup>	40,017	39,678	339	618	500
23	40,085 <sup>5/</sup>	39,370 <sup>5/</sup>	40,002	39,646	356	632	493
Actual 4-week Average	39,964	39,324	39,964	39,648	312	639	-
4-Week Sub-Period: August 4 to August 25							
July 30	40,411 <sup>6/</sup>	39,711 <sup>6/7/</sup>	40,203	39,878	325	492	492
August 6	40,411	39,711	40,156	39,848	308	445	373
13	40,391 <sup>8/</sup>	39,752 <sup>8/9/</sup>	40,139	39,818	321	387	292
20	40,343 <sup>10/</sup>	39,704 <sup>10/</sup>	40,112	39,800	312	408	307

- 1/ Represents borrowing in remaining statement weeks (as intermeeting sub-period progresses) implied by each weekly updating of the sub-period average nonborrowed reserves path. The movement in implied borrowing represents deviations in total reserves from target as well as any compensation for misses in nonborrowed reserves from target in earlier weeks of the intermeeting sub-period.
- 2/ Total and nonborrowed reserves paths adjusted upward by \$100 million due to changes affecting the reserves multiplier.
- 3/ Total and nonborrowed reserves paths adjusted upward by \$36 million due to changes affecting the reserves multiplier.
- 4/ Nonborrowed reserves path adjusted upward by \$85 million after taking account of the general trend in the aggregates and existing market conditions.
- 5/ Total and nonborrowed reserves paths adjusted downward by \$29 million due to changes affecting the reserves multiplier.
- 6/ Total and nonborrowed reserves paths adjusted upward by \$223 million due to changes affecting the M1 reserves multiplier. Preliminary upward adjustments of \$24 million, on net, had been taken earlier.
- 7/ Nonborrowed reserves path adjusted upward by an additional \$100 million due to the weakness in total reserves.
- 8/ Total and nonborrowed reserves paths adjusted downward by \$20 million due to changes affecting the M1 reserves multiplier.
- 9/ Nonborrowed reserves path adjusted upward by \$61 million to reflect the reclassification of adjustment borrowing of one bank to extended credit during the week of August 11.
- 10/ Total and nonborrowed reserves paths adjusted downward by \$48 million due to changes affecting the M1 reserves multiplier.

Appendix II

INTEREST RATES UNDERLYING THE GREENBOOK  
GNP FORECAST

(Quarterly averages, in percent)

	<u>Federal Funds</u>	<u>3-month Treasury Bills</u>	<u>Recently Offered Corporate Bonds</u>	<u>Fixed- Rate Mortgage Commitments</u>
1982--Q1 (act.)	14.23	12.81	15.68	17.39
Q2 (act.)	14.51	12.42	15.50	16.76
Q3	11	10	15-1/8	16-1/2
Q4	10-1/2	9-1/2	14-1/2	16
1983--Q1	11-1/2	10-1/4	14-1/2	15-3/4
Q2	12	10-1/2	14-3/4	15-3/4
Q3	12-1/2	11	15	16
Q4	13	11-1/2	15	16

Table 1  
Selected Interest Rates  
Percent

August 23, 1982

Period	Short-Term								Long-Term							
	federal funds	Treasury bills			CDs secondary market 3-month	comm. paper 1-month	money market mutual fund	bank prime loan	U.S. government constant maturity yields			corporate Aaa utility recently offered	municipal Bond Buyer	home mortgages		
		secondary market	auction	6-month					3-year	10-year	30-year			primary conv.	secondary market	
															3-month	1-year
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	
1981--High	20.06	16.72	15.05	15.85	18.70	18.33	17.32	20.64	16.54	15.65	15.03	17.72	13.30	18.63	19.23	17.46
Low	12.04	10.20	10.64	10.70	11.51	11.39	11.84	15.75	12.55	12.27	11.81	13.98	9.49	14.80	14.84	13.18
1982--High	15.61	14.41	13.51	14.36	15.84	15.56	13.89	16.86	15.01	14.81	14.63	16.34	13.44	17.66	18.04	16.56
Low	10.11	8.68	10.32	9.82	10.51	9.65	11.38	14.71	12.59	13.01	12.73	14.10	10.82	16.44	15.78	14.70
1981--July	19.04	14.95	13.91	14.40	17.76	17.70	17.04	20.39	15.15	14.28	13.59	15.73	11.14	16.83	16.65	15.76
Aug.	17.82	15.51	14.70	15.55	17.96	17.58	17.17	20.50	16.00	14.94	14.17	16.82	12.26	17.29	17.63	16.67
Sept.	15.87	14.70	14.53	15.06	16.84	15.95	16.55	20.08	16.22	15.32	14.67	17.33	12.92	18.16	18.99	17.06
Oct.	15.08	13.54	13.62	14.01	15.39	14.80	15.32	18.45	15.50	15.15	14.68	17.24	12.83	18.45	18.13	16.61
Nov.	13.31	10.86	11.20	11.53	12.48	12.35	14.33	16.84	13.11	13.39	13.35	15.49	11.89	17.83	16.64	15.10
Dec.	12.37	10.85	11.57	11.47	12.49	12.16	12.09	15.75	13.66	13.72	13.45	15.18	12.90	16.92	16.92	15.51
1982--Jan.	13.22	12.28	12.77	12.93	13.51	12.90	12.01	15.75	14.64	14.59	14.22	15.88	13.28	17.40	17.80	16.19
Feb.	14.78	13.48	13.11	13.71	15.00	14.62	13.11	16.56	14.73	14.43	14.22	15.97	12.97	17.60	18.00	16.21
Mar.	14.68	12.68	12.47	12.62	14.21	13.99	13.49	16.50	14.13	13.86	13.53	15.19	12.82	17.16	17.29	15.54
Apr.	14.94	12.70	12.50	12.86	14.44	14.38	13.74	16.50	14.18	13.87	13.37	15.44	12.59	16.89	--	15.40
May	14.45	12.09	11.98	12.22	13.80	13.79	13.49	16.50	13.77	13.62	13.24	15.24	11.95	16.68	16.27	15.30
June	14.15	12.47	12.57	12.31	14.46	13.95	13.07	16.50	14.48	14.30	13.92	15.82	12.45	16.70	17.22	15.84
July	12.59	11.35	11.90	12.24	13.44	12.62	12.94p	16.26	14.00	13.95	13.55	14.61	12.28	16.82	--	15.56
1982--June 2	13.43	11.79	11.86	11.59	13.52	13.25	12.94	16.50	13.86	13.81	13.50	15.39	12.13	16.65	--	15.57
9	13.60	12.13	12.17	12.12	13.81	13.42	13.02	16.50	14.03	13.96	13.70	15.59	12.40	16.70	--	15.58
16	14.24	12.20	12.39	12.50	14.10	13.75	13.05	16.50	14.29	14.13	13.80	16.11	12.63	16.71	--	15.85
23	14.17	12.70	12.94	13.03	15.00	14.29	13.01	16.50	14.89	14.63	14.18	16.19	12.62	16.73	17.22	16.14
30	14.81	13.01	12.98	13.42	15.25	14.61	13.17	16.50	14.91	14.65	14.13	16.03	12.58	16.87	--	16.05
July 7	14.47	12.59	12.78	12.98	15.13	14.57	13.14	16.50	14.74	14.47	13.96	15.80	12.47	16.93	--	15.95
14	13.18	11.88	12.20	11.97	14.13	13.54	13.28	16.50	14.17	14.04	13.60	15.70	12.36	16.88	--	15.51
21	12.14	11.06	11.57	11.44	13.34	12.27	13.02	16.36	13.75	13.69	13.36	15.26	12.01	16.75	--	15.30
28	11.02	10.51	11.39	11.38	12.08	11.04	12.22	16.00	13.65	13.76	13.40	15.47	11.97	16.65	--	15.46
Aug. 4	11.15	9.92	11.18	10.67	11.63	10.73	11.89	15.29	13.36	13.62	13.33	15.16	11.87	16.55	--	15.12
11	10.90	9.99	11.25	10.94	11.65	10.77	11.52	15.00	13.36	13.73	13.31	15.11	11.86	16.44	--	15.17
18	10.11	8.68	10.32	9.82	10.51	9.65	11.38	14.71	12.59	13.01	12.73	14.10p	10.82	n.a.	15.78	14.70
25																
Daily--Aug. 13	10.38	9.25	10.70	--	11.20	10.29	--	15.00	12.95	13.20	12.98	--	--	--	--	--
19	9.10	7.52	9.39	--	9.55	8.56	--	14.00	11.91	12.47	12.31	--	--	--	--	--
20	8.65p	7.08	9.18	--	9.59	8.13	--	14.00	11.60p	12.22p	12.11p	--	--	--	--	--

NOTE: Weekly data for columns 1, 2, 3, and 5 through 11 are statement week averages. 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. Data in column 7 are taken from Donoghue's Money Fund Report. 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; 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

August 23, 1982

Period	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		
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
1981	5,337	294	1,702	393	379	2,768	133	360	--	--	494	8,491	684
1981--Qtr. II	2,135	115	469	164	89	836	--	--	--	--	--	2,944	-1,352
III	2,912	122	607	64	182	976	--	--	--	--	--	3,855	424
IV	2,803	80	626	165	108	979	133	360	--	--	494	4,247	3,305
1982--Qtr. I	-4,329	20	50	--	--	70	--	--	--	--	--	-4,371	-999
II	5,585 <sup>7</sup>	-68 <sup>7</sup>	570	81	52	635 <sup>7</sup>	--	--	--	--	--	6,208	-5,375
1982--Feb.	148	20	50	--	--	70	--	--	--	--	--	191	-3,770
Mar.	-1,121	--	--	--	--	--	--	--	--	--	--	-1,134	1,871
Apr.	4,149	132	570	81	52	835	--	--	--	--	--	4,979	4,877
May	-324 <sup>7</sup>	-- <sup>7</sup>	--	--	--	-- <sup>7</sup>	--	--	--	--	--	-325	-6,290
June	1,759 <sup>7</sup>	-200 <sup>7</sup>	--	--	--	-200 <sup>7</sup>	--	--	--	--	--	1,554	-3,961
July	330	71	691	113	123	1,197	--	--	--	--	--	1,526	4,108
1982--June 2	--	--	--	--	--	--	--	--	--	--	--	--	5,071
9	386	--	--	--	--	--	--	--	--	--	--	386	-5,140
16	1,123	--	--	--	--	--	--	--	--	--	--	1,117	598
23	50 <sup>7</sup>	-- <sup>7</sup>	--	--	--	-- <sup>7</sup>	--	--	--	--	--	50	168
30	200 <sup>7</sup>	-200 <sup>7</sup>	--	--	--	-200 <sup>7</sup>	--	--	--	--	--	--	-4,016
July 7	-151	--	200 <sup>7</sup>	--	--	200 <sup>7</sup>	--	--	--	--	--	49	6,614
14	--	71	691	113	123	998	--	--	--	--	--	997	-3,539
21	1,432	--	--	--	--	--	--	--	--	--	--	1,432	348
28	-643	--	--	--	--	--	--	--	--	--	--	-643	669
Aug. 4	-684	--	--	--	--	--	--	--	--	--	--	-684	-1,588
11	501	--	--	--	--	--	--	--	--	--	--	455	1,466
18	398	--	--	--	--	--	--	--	--	--	--	398	163
25													
LEVEL--Aug. 18	54.4	15.7	36.0	12.3	16.3	80.3	2.2	5.3	.9	.5	9.0	143.7	-1.5

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

2 Outright transactions in market and with foreign accounts, and redemptions (-) 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 (+).

**Table 3**  
**Security Dealer Positions and Bank Positions**  
Millions of dollars

STRICTLY CONFIDENTIAL (FR)  
CLASS II-FOMC

August 23, 1982

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		adjustment	seasonal	extended (includes special)	total
	bills	coupons	bills	coupons							
1981--High	15,668	4,633	-12,865	-4,676	595	268	562	2,597	309	464	2,912
Low	540	540	-4,535	-2,514	0	11	-21	145	30	*	317
1982--High	9,335	7,935	-11,077	-4,740	186	237	672	1,547	268	324	1,908
Low	1,931	1,763	1,806**	-2,398	0	33	0	258	53	33	559
1981---July	2,950	3,314	-8,340	-3,012	5	153	340	1,429	247	3	1,679
Aug.	4,324	2,242	-10,071	-2,972	10	65	292	1,105	235	80	1,420
Sept.	5,611	1,614	-9,830	-2,856	2	55	414	933	222	301	1,456
Oct.	4,781	1,629	-8,575	-3,655	29	59	278	591	152	438	1,181
Nov.	5,037	3,821	-7,120	-4,307	195	106	344	403	95	165	663
Dec.	2,185	2,289	-5,416	-4,150	21	172	319	433	54	148	636
1982--Jan.	3,704	5,043	-6,344	-3,272	0	52	418	1,245	75	197	1,518
Feb.	4,557	5,327	-7,594	-3,173	8	97	304	1,426	131	232	1,790
Mar.	6,588	5,656	-6,696	-2,910	106	104	361	1,073	175	308	1,556
Apr.	7,721	4,846	-5,552	-3,402	23	76	273	1,156	167	245	1,568
May	7,390	6,713	-10,129	-4,350	84	179	359	706	235	176	1,117
June	7,284	3,791	-6,194	-2,677r	20	128	308	859	241	104	1,205
July	7,163 **	1,999**	-1,447 **	-3,417 **	17	84	316p	420p	221p	50p	692p
June 2	7,647	6,777	-9,391	-3,616	38	188	672	656	260	132	1,048
9	8,653	5,007	-6,480	-2,987	0	111	149	972	217	115	1,304
16	9,335	3,862	-6,173	-2,658	42	128	232	604	221	104	929
23	5,813	3,343	-5,512	-2,398	0	98	220	665	253	96	1,014
30	4,661	1,987	-5,676	-2,467	0	113	528	1,255	268	93	1,616
July 7	4,183	2,906	-5,743	-2,785	0	96	501	732	251	87	1,070
14	8,675	1,950	-4,057	-3,262	0	75	184	258	231	70	559
21	8,085	1,763	-928	-3,646	54	33	267	322	239	33	594
28	7,564**	2,136**	1,806**	-3,815**	40	104	311p	336p	188p	94p	548p
Aug. 4	4,595**	2,578**	4,269**	-3,661**	25	77	274p	494p	166p	20p	680p
11	4,668**	4,229**	4,629**	-3,735**	29	80	393p	172p	133p	64p	369p
18	2,618**	4,086**	6,025**	-4,280**	32	22	281p	229p	131p	123p	483p
24											

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