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May 18, 1984

Strictly Confidential (FR) Class I FOMC

# MONETARY POLICY ALTERNATIVES

Prepared for the Federal Open Market Committee

By the staff Board of Governors of the Federal Reserve System

STRICTLY CONFIDENTIAL (FR)
CLASS I - FOMC

May 18, 1984

## MONETARY POLICY ALTERNATIVES

### Recent developments

(1) The average level of M1 was the same in April as it was in March, but data thus far available for the first part of May show a considerable pick-up, bringing the increase since March roughly in line with the 6-1/2 percent annual rate growth path sought by the Committee for the March to June period. The failure of M1 to expand in April probably reflected in part the inability of seasonal adjustment factors so far fully to catch up with the effects on money holdings around the mid-April tax date of recent shifts to alternative payment instruments and expanded flows into IRAs. The slowing in M1 in April was concentrated in its other checkable deposits component; growth in currency and demand deposits was at about a 6-1/4 percent annual rate.

(2) Despite the weakness in M1, expansion in M2 strengthened to a 7-1/4 percent rate in April, only slightly below the 8 percent rate specified by the Committee for March to June, as growth in the nontransactions component of this aggregate accelerated markedly from its unusually slow March pace. Growth of M2 appears to be strengthening somewhat further this month.

(3) While M1 and M2 thus far appear to be running at rates close to the Committee's short-run paths, M3 is expanding at a pace well above its 8-1/2 percent March-to-June growth path. M3 accelerated to a 10-3/4 percent rate in April, and there appears to have been little, if any, slowing from this pace thus far in May. The non-M2 components of

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

| | Jan. | Feb. | Mar. | Apr. | QIV to Apr. |
|---|---|---|---|---|---|
| Money and Credit Aggregates | | | | | |
| M1 | 10.7 | 6.6 | 5.0 | 0.0 | 5.4 |
| M2 | 5.7 | 8.4 | 3.7 | 7.2 | 6.6 |
| M3 | 6.7 | 10.4 | 9.0 | 10.8 | 9.5 |
| Domestic nonfinancial debt[1] | 13.0 | 13.3 | 10.3 | 15.0 | 13.1 |
| Reserve Measures[2] | | | | | |
| Nonborrowed reserves [3] | 9.9 | 24.6 | -11.0 | -9.0 | 2.7 |
| Total reserves | 7.6 | 19.0 | 1.3 | 0.1 | 5.6 |
| Monetary base | 12.8 | 10.5 | 0.8 | 5.7 | 7.4 |
| | | | | | 1st Half May |
| Memo: (millions of dollars) | | | | | |
| Adjustment and seasonal borrowing | 712 | 562 | 925 | 1190 | 2702 4/ |
| Excess reserves | 613 | 942 | 709 | 492 | |

1. Growth rates of domestic nonfinancial debt are measured on an end-of-period basis.
2. 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.
3. Includes "other extended credit" from the Federal Reserve.
4. Reflects about $3.8 billion of borrowing per day since May 10 related to a special situation. Apart from this borrowing the average for the first half of May would be $928 million.

this aggregate have expanded quite rapidly, as both banks and thrifts continued to rely heavily on large time deposits and term RPs to fund credit extensions.

(3) The growth of domestic nonfinancial debt is estimated to have accelerated in April to a 15 percent annual rate (preliminary estimate) from the 12-1/4 percent pace of the first quarter. The pick-up was attributable entirely to a faster pace of borrowing by the federal government. Borrowing by the nonfederal sector also was rapid--at 11-1/2 percent--with merger finance contributing very little to this expansion. Business firms stepped up bond offerings in April as expectations of near-term declines in bond rates apparently dissipated, but stock issuance slid further with the weakness in stock prices. Although business borrowing from banks slowed sharply in April, commercial paper issuance picked up further. In the household sector, growth in consumer credit was at a 17 percent annual rate in the first quarter and seems to have remained generally strong in April; mortgage borrowing also appears to have remained vigorous.

(4) The level of total reserves showed little net change in April, as a further decline in excess reserves offset continuing increases in required reserves. With total reserves flat and borrowing rising on average by about $265 million from March to April, nonborrowed reserves declined at a 9 percent annual rate in April. In the three complete reserve maintenance periods since the March FOMC meeting, adjustment plus seasonal borrowing averaged just under $1.2 billion, declining from almost $1.3 billion immediately following the meeting to $1 billion in

the most recent two-week period. Borrowing at the discount window thus far in the current two-week statement period has increased considerably because of advances to one large bank as a result of large deposit drains caused by market uncertainties about the bank's underlying condition. Credit advanced to this institution averaged about $3.8 billion through the first eight days of the period, while adjustment and seasonal credit to other institutions averaged around $850 million. The provision of nonborrowed reserves has been reduced to offset reserves being provided through this exceptional borrowing.

(5) The federal funds rate has risen from an average of around 10 percent in the weeks just preceding the March FOMC meeting to about 10-1/2 percent recently, reflecting in part a 1/2 point rise in the discount rate to 9 percent in the first week of April. Most other interest rates have increased even more sharply since the last FOMC meeting, as market participants have reacted with mounting concern to the strength of economic activity and private credit demands and the lack of progress in reducing federal deficits. Widely publicized losses by an insurance broker, the failure of a small government securities dealer, persistent rumors that a major bank was in serious financial difficulty, and various statements by high officials also contributed to a somewhat heightened sense of anxiety and unusually volatile conditions in credit markets, particularly during the period surrounding the Treasury's large mid-quarter refunding. In general, market interest rates--both short- and long-term--have risen 1/2 to 1-1/4 percentage points over the intermeeting period. The commercial bank prime rate was boosted twice, by a total of one percentage point, to 12-1/2 percent. Treasury bill yields have advanced by less than private short-term market yields, reflecting concerns about

credit quality, as well as a substantial temporary reduction in the outstanding amount of bills because of the debt ceiling constraint. The spread of CD over Treasury bill rates (3 month bill at an investment yield) rose from about 5/8 of a percentage point in late April and early May to a high of near 1-1/2 points a few days ago, before declining prior to the announcement by bank regulatory agencies of a comprehensive financial assistance program for Continental Illinois Bank. There was little initial reaction in markets to that announcement, and the current spread appears to be around 1 to 1-1/4 percentage points.

(6) The dollar has appreciated relatively steadily over most of the period since the last FOMC meeting, to a level currently just one percent below its peak for the floating rate period, reached in January. On a weighted-average basis, the dollar has risen 5-1/4 percent since the March FOMC. An increase in dollar interest rates relative to foreign rates--together with industrial unrest in Europe, especially Germany, and conflict in the Persian Gulf--apparently have contributed to the dollar's rise.

Prospective developments

(7) The upper panel of the table below shows alternative specifications for the monetary aggregates for the March-to-June period, along with the specifications for this period chosen by the Committee at its March meeting. Differences among the alternatives are fairly small, given the relatively short time remaining in the second quarter following the meeting; somewhat greater contrast can be seen in the lower panel, which gives the implied growth from April to June for each alternative and for attainment of the Committee's current short-run paths, given actual growth in April. The middle panel of the table shows associated federal funds rate ranges. (More detailed data can be found on the charts and table on the following pages.)

| | Alt. A | Alt. B | Alt. C | Memo: Adopted in March |
|---|---|---|---|---|
| Growth from March to June | | | | |
| M1 | 7 | 6-1/2 | 6 | 6-1/2 |
| M2 | 8-1/4 | 8 | 7-3/4 | 8 |
| M3 | 10-1/4 | 10 | 9-3/4 | 8-1/2 |
| Federal funds rate ranges | 7 to 11 | 7-1/2 to 11-1/2 | 8 to 12 | 7-1/2 to 11-1/2 |
| Implied growth from April to June | | | | |
| M1 | 10-1/4 | 9-1/2 | 9 | 9-1/2 |
| M2 | 8-3/4 | 8-1/2 | 8 | 8-1/2 |
| M3 | 10 | 9-1/2 | 9 | 7-1/4 |

(8) The specifications of alternative B, which are expected to be consistent with little, if any, change from the current degree of pressure on bank reserve positions, call for growth in M1 and M2 at rates chosen by the Committee in March. With regard to M1, this implies a substantial rebound in growth during May and June, partly as seasonal

Chart 1

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# Actual and Targeted M1

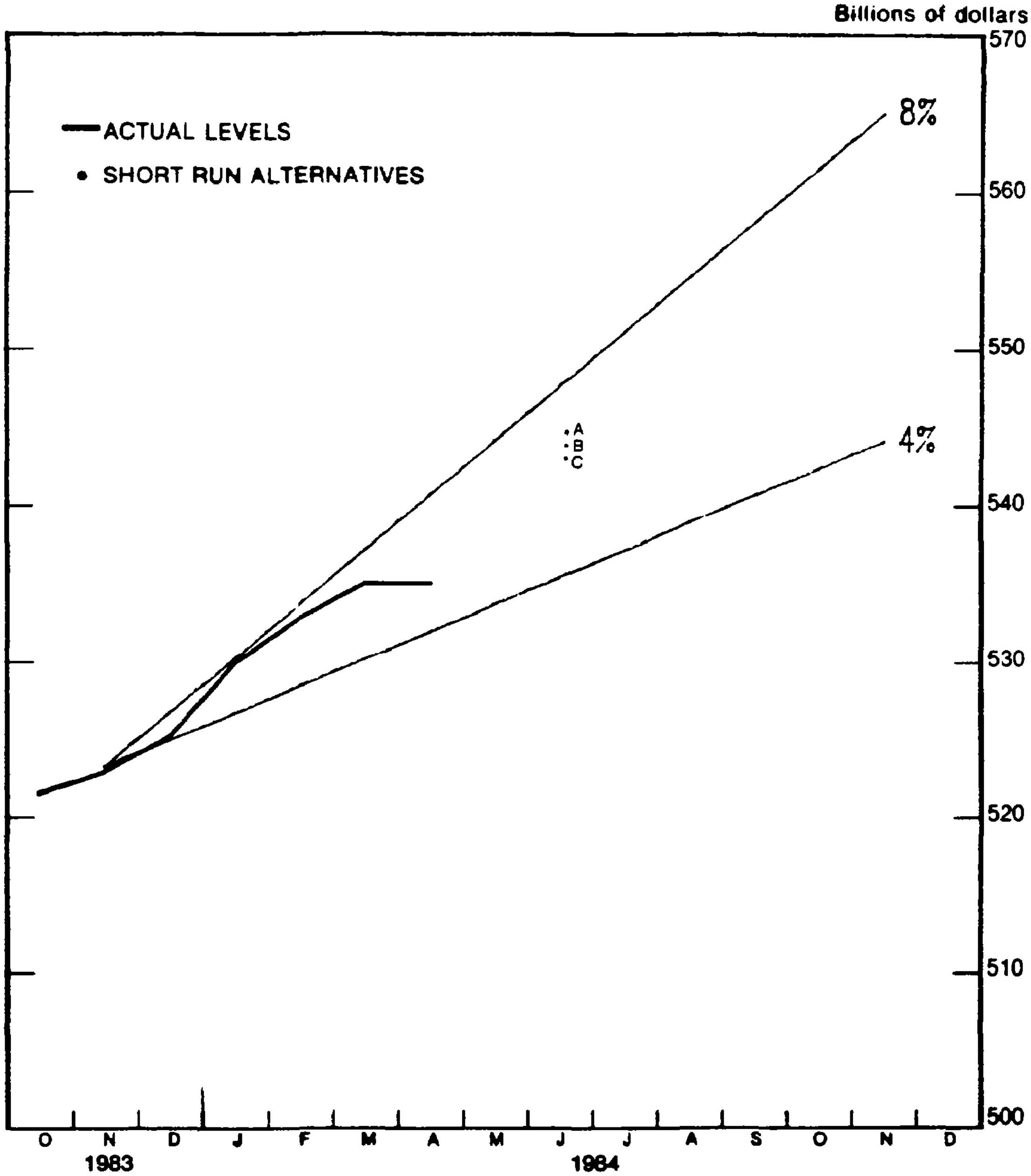

Chart 2



## Actual and Targeted M2

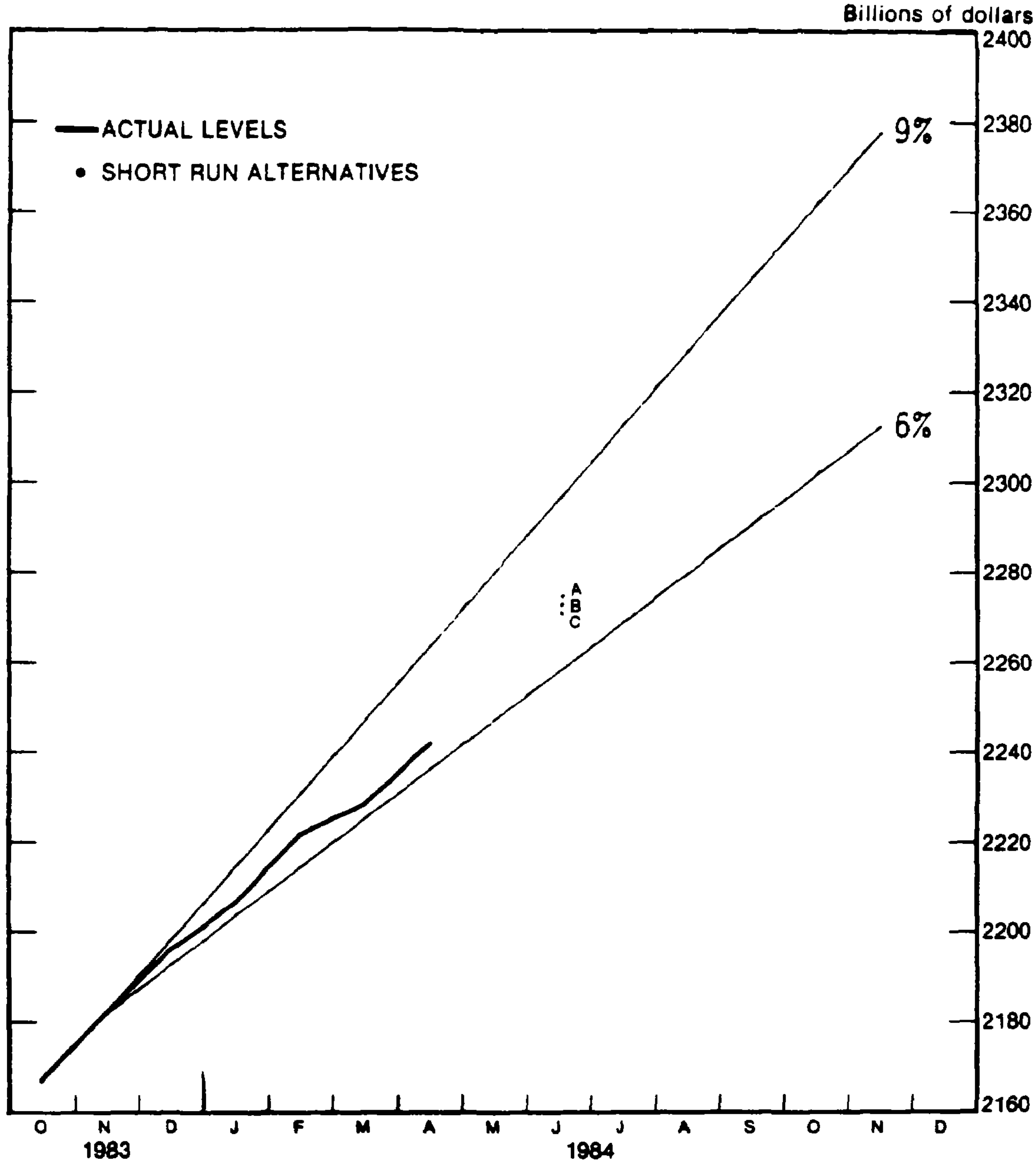

Chart 3

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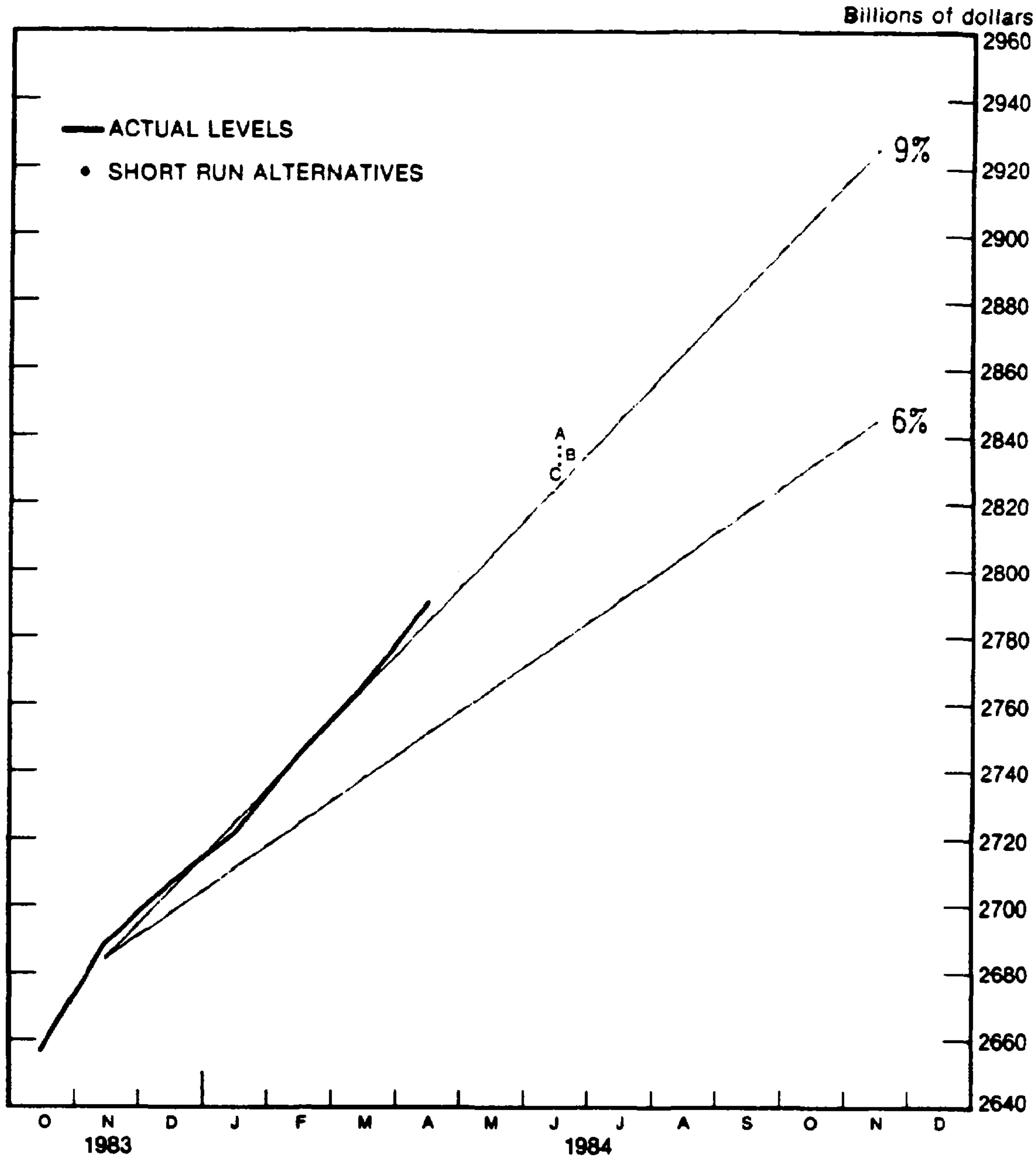
## Actual and Targeted M3



## Alternative Levels and Growth Rates for Key Monetary Aggregates

| | M1 | | | M2 | | | M3 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Alt. A | Alt. B | Alt. C | Alt. A | Alt. B | Alt. C | Alt. A | Alt. B | Alt. C |
| 1984--January | 530.0 | 530.0 | 530.0 | 2206.6 | 2206.6 | 2206.6 | 2721.7 | 2721.7 | 2721.7 |
| February | 532.9 | 532.9 | 532.9 | 2222.0 | 2222.0 | 2222.0 | 2745.2 | 2745.2 | 2745.2 |
| March | 535.1 | 535.1 | 535.1 | 2228.8 | 2228.8 | 2228.8 | 2765.7 | 2765.7 | 2765.7 |
| April | 535.1 | 535.1 | 535.1 | 2242.1 | 2242.1 | 2242.1 | 2790.6 | 2790.6 | 2790.6 |
| May | 540.7 | 540.7 | 540.7 | 2259.2 | 2259.2 | 2259.2 | 2815.3 | 2815.3 | 2815.3 |
| June | 544.3 | 543.7 | 543.0 | 2275.0 | 2273.4 | 2271.8 | 2836.9 | 2834.8 | 2832.8 |
| Growth Rates | | | | | | | | | |
| Monthly | | | | | | | | | |
| 1984--January | 10.7 | 10.7 | 10.7 | 5.7 | 5.7 | 5.7 | 6.7 | 6.7 | 6.7 |
| February | 6.6 | 6.6 | 6.6 | 8.4 | 8.4 | 8.4 | 10.4 | 10.4 | 10.4 |
| March | 5.0 | 5.0 | 5.0 | 3.7 | 3.7 | 3.7 | 9.0 | 9.0 | 9.0 |
| April | 0.0 | 0.0 | 0.0 | 7.2 | 7.2 | 7.2 | 10.8 | 10.8 | 10.8 |
| May | 12.6 | 12.6 | 12.6 | 9.2 | 9.2 | 9.2 | 10.6 | 10.6 | 10.6 |
| June | 8.0 | 6.7 | 5.1 | 8.4 | 7.5 | 6.7 | 9.2 | 8.3 | 7.5 |
| 1984 March to June | 6.9 | 6.4 | 5.9 | 8.3 | 8.0 | 7.7 | 10.3 | 10.0 | 9.7 |
| 1984 April to June | 10.3 | 9.6 | 8.9 | 8.8 | 8.4 | 7.9 | 10.0 | 9.5 | 9.1 |
| Growth Rates | | | | | | | | | |
| Quarterly Average | | | | | | | | | |
| 1983--Q1 | 12.8 | 12.8 | 12.8 | 20.5 | 20.5 | 20.5 | 10.8 | 10.8 | 10.8 |
| Q2 | 11.6 | 11.6 | 11.6 | 10.6 | 10.6 | 10.6 | 9.3 | 9.3 | 9.3 |
| Q3 | 9.5 | 9.5 | 9.5 | 6.9 | 6.9 | 6.9 | 7.4 | 7.4 | 7.4 |
| Q4 | 4.8 | 4.8 | 4.8 | 8.5 | 8.5 | 8.5 | 9.9 | 9.9 | 9.9 |
| 1984--Q1 | 7.2 | 7.2 | 7.2 | 6.8 | 6.8 | 6.8 | 8.9 | 8.9 | 8.9 |
| Q2 | 5.5 | 5.3 | 5.2 | 7.2 | 7.0 | 7.0 | 10.2 | 10.1 | 10.0 |
| '83 Q4 to June '84 | 6.9 | 6.7 | 6.5 | 7.3 | 7.2 | 7.1 | 9.8 | 9.6 | 9.5 |

factor "errors" average out, but more basically reflecting underlying demands for cash balances over the quarter as a whole from growth of income and spending. M2 appears to be in process of expanding in somewhat closer alignment to growth of income, following the unusual increases in velocity in the second half of the last year and in the first quarter. M2 velocity would still be expected to increase during the second quarter, but at about a 2 percent annual rate, a slower pace than it averaged over the previous three quarters. On the other hand, M1 velocity would be expected again to increase relatively rapidly--at around a 3-3/4 percent annual rate in the second quarter, given the staff's GNP projection. This outlook for velocity of M1 and M2 assumes that there is no significant increase in precautionary demands for liquidity from uncertainties about the economic and financial outlook that might conceivably arise from the recent problems in financial markets.

(9) In contrast to behavior of M1 and M2, M3 over May and June can be expected to grow above the Committee's short-run path and also to remain above its longer-run range. Depository institutions are likely to seek substantial amounts of funds through managed liabilities. However, the rate of increase in these borrowings is expected to diminish, partly as credit demands on institutions, though remaining generally strong, moderate a bit from the first quarter pace. Moreover, if the current sizable spread of CD rates over bill rates is sustained over the next several weeks, M3 growth might be held down as depository institutions shied away from CD issuance and became more cautious lenders--unless they were readily able to attract an enlarged volume of retail deposits.

(10) Total debt of nonfinancial sectors is projected to increase in May and June at rates above the upper end of the Committee's range, bringing growth for the first half of the year to around 12-1/2 percent at an annual rate. The federal government will remain a relatively heavy borrower in May and June, and growth in the debt of non-federal sectors is expected to continue brisk. Business credit demands will be strengthening as the growth of internal funds fails to match the rise in investment spending. The increase in household indebtedness--though still quite substantial--is projected to moderate a bit as rising interest rates damp demands for mortgage and consumer credit.

(11) The specifications of alternative B are expected to be consistent with borrowing from the discount window continuing at about $1 billion (apart from any special borrowing related to the Continental situation), and with growth in nonborrowed and total reserves at annual rates of 8-1/2 and 5 percent, respectively, over May and June. This would likely be associated with a federal funds rate averaging 10-1/2 percent. Federal funds may continue to trade in a fairly wide range around this level, reflecting in part the greater scope for expectational and other influences in the two-week maintenance period. In addition, banks might manage their reserve positions more cautiously (holding more excess reserves or seeking to conserve borrowing access at the discount window) should the banking environment become uncertain in the aftermath of the Continental package, thereby placing upward pressure on the funds rate unless compensating adjustments are made to reserve paths.

(12) Interest rates generally may well continue to fluctuate around current levels under alternative B, but credit markets are in a highly sensitive state. The behavior of quality spreads will depend in part on the extent to which concerns about banks are allayed by the Continental package. Long-term interest rates have been extremely volatile recently, and they will no doubt continue to be sensitive to incoming economic data, statements by officials, and the outlook for the budget. Nonetheless, the severity of the decline in bond prices in recent weeks suggests that this market--where yields have risen as much or more than short-term rates--could have overadjusted, and, if short rates do not rise further, some decline in long-term rates could develop. However, even if bond rates fell, mortgage rates probably would continue to move higher in lagged response to previous increases in market interest rates and to emerging earnings pressures on thrift lenders.

(13) The specifications of alternative A contemplate some easing of pressures on bank reserve positions over the coming intermeeting period consistent with somewhat faster growth of the aggregates than under alternative B. M1 and M2 would be expected to grow a little faster than the pace chosen by the Committee in March. Borrowing might fall to around $600 to $750 million and the federal funds rate drop to an average of around 9-3/4 to 10 percent under this alternative. Nonborrowed reserves would be expected to increase at around a 15 percent annual rate.

(14) A considerable near-term rally would probably develop in financial markets in response to the easing of money market conditions. The Treasury bill rate would be likely to drop into the 9-1/4 to 9-1/2

percent area, and bond yields would also move downward. The size of the decline in long rates might well be limited by larger corporate bond offerings and by expectations that the lower level of money market rates could not be sustained with economic activity still expanding rapidly and credit growth strong relative to the Federal Reserve's range. M1 would be in the middle of the upper half of its range by June under this alternative, but demand for this, and other, aggregates would be boosted in the third quarter by the lower level of short-term interest rates that developed as well as by a perhaps somewhat more robust expansion of economic activity than now implied in the staff forecasts. Thus, alternative A increases the odds that renewed tightening of money market conditions might be necessary later in the year if the Committee wishes to hold M1 and M2 close to the midpoints of their ranges and M3 and credit to near the upper ends of their ranges.

(15) Alternative C involves restraining growth of M1 and M2 to rates below current FOMC short-run objectives and sets in train forces that would work to bring M3 and credit growth back toward their longer-run ranges. Discount window borrowing might rise toward $1-1/2 billion under alternative C, which probably would be associated with federal funds trading consistently somewhat above 11 percent. Nonborrowed reserves would be expected to contract slightly on average in May and June.

(16) Interest rates might well rise substantially further under this alternative, especially in an environment in which markets were still particularly sensitive to problems of the banking system. Private rates might rise distinctly more than Treasury rates, as quality concerns intensify, reflecting at least in part greater worries about

the willingness of developing countries to service their debt. CD rates could rise another percentage point or so, exerting similar upward pressure on the prime rate. Although the higher interest rates would have only small effects on money growth in the current quarter, such a rise would tend to hold down growth in money, credit, and income over the summer, thus tending to raise the odds on a decline of interest rates later this year. The dollar would probably rise considerably further in the near term on exchange markets as interest rates rose, though it could be expected to decline later in response to fundamental balance of payments forces.

Directive language

(17) Proposed language for the operational paragraph of the directive is shown below. The bracketed phrase referring to "unusual financial strains" is suggested should the Committee wish to give explicit recognition, in the aftermath of the Continental package and recent market turbulence, to the possibility that operations may need to be modified, at least temporarily, in face of unusual financial developments.

In the short run, [WHILE TAKING ACCOUNT OF ANY UNUSUAL FINANCIAL STRAINS,] the Committee seeks to /maintain [EXISTING]/ INCREASE SOMEWHAT/DECREASE SOMEWHAT/ pressures on bank reserve positions, ~~judged to be~~ consistent with growth in M1, M2, and M3 at annual rates of around ~~6-1/2~~ __, 8 __, and ~~8-1/2~~ __ percent, respectively, during the period from March to June. Greater reserve restraint would be acceptable in the event of more substantial growth of the monetary aggregates, while somewhat lesser restraint might be acceptable if growth of the monetary aggregates slowed significantly; in either case, such a change would be considered in the context of appraisals of the continuing strength of the business expansion, inflationary pressures, and the rate of credit growth. 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 ~~7-1/2 to 11-1/2~~ ___ TO ___ percent.

# Selected Interest Rates

Percent

May 21, 1984

| Period | Short-Term: federal funds | Short-Term: Treasury bills secondary market, 3-month | Short-Term: Treasury bills secondary market, 6-month | Short-Term: Treasury bills secondary market, 1-year | Short-Term: CDs secondary market 3-month | Short-Term: comm. paper 1-month | Short-Term: money market mutual fund | Short-Term: bank prime loan | Long-Term: U.S. government constant maturity yields, 3-year | Long-Term: U.S. government constant maturity yields, 10-year | Long-Term: U.S. government constant maturity yields, 30-year | Long-Term: corporate A utility recently offered | Long-Term: municipal Bond Buyer | Long-Term: home mortgages, conventional at S&Ls | Long-Term: home mortgages, FHA/VA ceiling | Long-Term: home mortgages, FNMA 1-year ARM |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 |
| 1983—High | 10.21 | 9.49 | 9.64 | 9.79 | 9.93 | 9.85 | 8.79 | 11.50 | 11.57 | 12.14 | 12.11 | 13.42 | 10.56 | 13.89 | 13.50 | 12.53 |
| Low | 8.42 | 7.63 | 7.72 | 7.82 | 8.15 | 8.02 | 7.71 | 10.50 | 9.40 | 10.18 | 10.32 | 11.64 | 9.21 | 12.55 | 11.50 | 10.49 |
| 1984—High | 10.70 | 9.94 | 10.27 | 10.55 | 11.39 | 10.66 | 9.58 | 12.50 | 12.73 | 13.44 | 13.48 | 14.05 | 10.82 | 13.63 | 13.50 | 13.00 |
| Low | 9.41 | 8.84 | 8.94 | 9.01 | 9.35 | 9.16 | 8.70 | 11.00 | 10.87 | 11.62 | 11.69 | 12.83 | 9.86 | 13.19 | 12.50 | 11.25 |
| 1983—Mar. | 8.77 | 8.35 | 8.37 | 8.36 | 8.69 | 8.56 | 7.77 | 10.50 | 9.84 | 10.51 | 10.63 | 12.47 | 9.78 | 12.80 | 12.00 | 10.71 |
| Apr. | 8.80 | 8.21 | 8.30 | 8.29 | 8.63 | 8.58 | 7.96 | 10.50 | 9.76 | 10.40 | 10.48 | 12.04 | 9.40 | 12.78 | 12.00 | 11.04 |
| May | 8.63 | 8.19 | 8.22 | 8.23 | 8.49 | 8.36 | 7.83 | 10.50 | 9.66 | 10.38 | 10.53 | 11.92 | 9.56 | 12.63 | 11.63 | 10.68 |
| June | 8.98 | 8.79 | 8.89 | 8.87 | 9.20 | 8.97 | 8.01 | 10.50 | 10.32 | 10.85 | 10.93 | 12.40 | 10.07 | 12.87 | 11.88 | 11.36 |
| July | 9.37 | 9.08 | 9.26 | 9.34 | 9.50 | 9.15 | 8.34 | 10.50 | 10.90 | 11.38 | 11.40 | 12.79 | 10.06 | 13.42 | 12.30 | 11.93 |
| Aug. | 9.56 | 9.34 | 9.51 | 9.60 | 9.77 | 9.41 | 8.69 | 10.89 | 11.30 | 11.85 | 11.82 | 13.16 | 10.25 | 13.81 | 13.38 | 12.16 |
| Sept. | 9.45 | 9.00 | 9.15 | 9.27 | 9.39 | 9.19 | 8.77 | 11.00 | 11.07 | 11.65 | 11.63 | 12.98 | 10.20 | 13.73 | 13.00 | 11.86 |
| Oct. | 9.48 | 8.64 | 8.83 | 8.98 | 9.18 | 9.03 | 8.67 | 11.00 | 10.87 | 11.54 | 11.58 | 12.89 | 10.14 | 13.54 | 13.00 | 11.40 |
| Nov. | 9.34 | 8.76 | 8.93 | 9.08 | 9.36 | 9.10 | 8.55 | 11.00 | 10.96 | 11.69 | 11.75 | 13.14 | 10.22 | 13.44 | 12.50 | 11.40 |
| Dec. | 9.47 | 9.00 | 9.17 | 9.24 | 9.69 | 9.56 | 8.69 | 11.00 | 11.13 | 11.83 | 11.88 | 13.29 | 10.40 | 13.42 | 12.50 | 11.56 |
| 1984—Jan. | 9.56 | 8.90 | 9.02 | 9.07 | 9.42 | 9.23 | 8.80 | 11.00 | 10.93 | 11.67 | 11.75 | 12.99 | 10.03 | 13.37 | 12.50 | 11.45 |
| Feb. | 9.59 | 9.09 | 9.18 | 9.20 | 9.54 | 9.35 | 8.72 | 11.00 | 11.05 | 11.84 | 11.95 | 13.05 | 10.00 | 13.23 | 12.50 | 11.38 |
| Mar. | 9.91 | 9.52 | 9.66 | 9.67 | 10.08 | 9.81 | 8.91 | 11.21 | 11.59 | 12.32 | 12.38 | 13.63 | 10.37 | 13.39 | 12.70 | 11.91 |
| Apr. | 10.29 | 9.69 | 9.84 | 9.95 | 10.41 | 10.17 | n.a. | 11.93 | 11.98 | 12.63 | 12.65 | 13.96p | 10.26 | 13.65 | 13.00 | 12.30 |
| Mar. 7 | 9.74 | 9.22 | 9.36 | 9.39 | 9.75 | 9.46 | 8.78 | 11.00 | 11.28 | 12.09 | 12.18 | 13.55 | 10.41 | 13.30 | 12.50 | 11.70 |
| 14 | 9.79 | 9.37 | 9.54 | 9.55 | 9.96 | 9.67 | 8.84 | 11.00 | 11.50 | 12.27 | 12.36 | 13.60 | 10.41 | 13.37 | 12.50 | 11.80 |
| 21 | 10.04 | 9.65 | 9.76 | 9.78 | 10.16 | 9.90 | 8.94 | 11.21 | 11.66 | 12.40 | 12.48 | 13.81 | 10.39 | 13.48 | 13.00 | 12.10 |
| 28 | 9.97 | 9.76 | 9.89 | 9.90 | 10.37 | 10.11 | 9.03 | 11.50 | 11.82 | 12.46 | 12.49 | 13.80 | 10.28 | 13.55 | 13.00 | 12.25 |
| Apr. 4 | 10.41 | 9.73 | 9.89 | 9.92 | 10.36 | 10.07 | 9.15 | 11.50 | 11.91 | 12.56 | 12.56 | 13.86 | 10.36 | 13.63 | 13.00 | 12.25 |
| 11 | 10.13 | 9.66 | 9.83 | 9.85 | 10.39 | 10.18 | 9.25 | 12.00 | 11.88 | 12.53 | 12.54 | 13.87 | 10.25 | 13.58 | 13.00 | 12.30 |
| 18 | 10.37 | 9.74 | 9.84 | 9.93 | 10.35 | 10.12 | 9.29 | 12.00 | 11.91 | 12.57 | 12.60 | 14.05 | 10.21 | 13.67 | 13.00 | 12.25 |
| 25 | 9.98 | 9.67 | 9.79 | 9.99 | 10.49 | 10.24 | 9.36 | 12.00 | 12.07 | 12.75 | 12.77 | 14.18 | 10.23 | 13.73 | 13.00 | 12.40 |
| May 2 | 10.70 | 9.67 | 9.88 | 10.08 | 10.52 | 10.24 | 9.35 | 12.00 | 12.16 | 12.79 | 12.83 | 14.40 | 10.34 | 13.78 | 13.00 | 12.45 |
| 9 | 10.46 | 9.90 | 10.22 | 10.37 | 10.85 | 10.34 | 9.40 | 12.14 | 12.45 | 13.08 | 13.11 | 14.77 | 10.61 | 13.87 | 13.50 | 12.70 |
| 16 | 10.52 | 9.94 | 10.27 | 10.55 | 11.39 | 10.66 | 9.58 | 12.50 | 12.73 | 13.44 | 13.48 | 14.87 | 10.82 | 14.04 | 13.50 | 13.00 |
| 23 | | | | | | | | | | | | | | | | |
| 30 | | | | | | | | | | | | | | | | |
| Daily—May 11 | 10.58 | 10.01 | 10.30 | 10.57 | 11.49 | 10.70 | -- | 12.50 | 12.79 | 13.46 | 13.51 | -- | -- | -- | -- | -- |
| 17 | 9.92 | 9.78 | 10.30 | 10.62 | 11.26 | 10.48 | -- | 12.50 | 12.83 | 13.54 | 13.57 | -- | -- | -- | -- | -- |
| 18 | 9.00p | 9.81 | 10.25 | 10.59 | 11.24 | 10.32 | -- | 12.50 | 12.79p | 13.44p | 13.48p | -- | -- | -- | -- | -- |

NOTE: Weekly data for columns 1 through 11 are statement week averages. 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 13 is the *Bond Buyer* revenue index. Column 14 is an average of contract interest rates on new commitments for conventional first mortgages with 80 percent loan-to-value ratios at a sample of savings and loan associations on the Friday following the end of the statement week. After November 30, 1983, column 15 refers only to VA-guaranteed loans. Column 16 is the initial gross yield posted by FNMA, on the Friday following the end of the statement week, in its purchase program for adjustable-rate home mortgages having rate and payment adjustments once a year.

FR1367(4/84)

# Security Dealer Positions

Millions of dollars

May 21, 1984

| Period | Net[1] Total | Cash Positions[2] | | | | | Forward and Futures Positions | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Treasury bills | Treasury coupons | | federal agency | private short-term | Treasury bills | Treasury coupons | | federal agency | private short-term |
| | | | under 1 year | over 1 year | | | | under 1 year | over 1 year | | |
| 1983--Jan. | 24,816 | 19,808 | 1,050 | 5,332 | 5,389 | 13,166 | -7,782 | -50 | -2,766 | -2,654 | -6,677 |
| Feb. | 29,952 | 16,742 | 818 | 9,734 | 4,674 | 11,477 | -3,631 | -70 | -1,807 | -2,099 | -5,886 |
| Mar. | 24,694 | 16,590 | 1,231 | 2,144 | 5,052 | 12,087 | -1,734 | -4 | -2,357 | -1,990 | -6,325 |
| Apr. | 16,438 | 13,885 | 992 | 1,901 | 5,442 | 11,753 | -7,705 | -9 | -2,479 | -1,482 | -5,860 |
| May | 9,919 | 7,795 | 1,146 | 2,118 | 5,822 | 10,914 | -7,288 | 0 | -2,636 | -1,666 | -6,286 |
| June | 12,139 | 6,759 | 1,087 | 435 | 5,748 | 9,787 | -914 | -23 | -722 | -1,595 | -8,423 |
| July | 7,964 | 4,076 | 952 | 137 | 6,976 | 10,275 | -2,635 | -6 | -1,302 | -1,836 | -8,673 |
| Aug. | 13,676 | 5,927 | 750 | 2,638 | 8,093 | 10,360 | -1,861 | -3 | -2,706 | -3,623 | -5,899 |
| Sept. | 16,998 | 8,027 | 226 | 6,343 | 9,284 | 13,137 | -7,302 | -2 | -2,613 | -5,018 | -5,084 |
| Oct. | 14,682 | 9,696 | 608 | 3,391 | 10,252 | 14,250 | -9,132 | -12 | -1,662 | -5,911 | -6,798 |
| Nov. | 15,999 | 10,719 | 935 | 324 | 9,450 | 15,289 | -7,984 | -2 | -1,039 | -5,399 | -6,294 |
| Dec. | 18,261 | 8,655 | 1,163 | -864 | 11,605 | 15,488 | -5,539 | -2 | 670 | -7,317 | -5,598 |
| 1984--Jan. | 12,508 | 10,797 | 1,080 | 657 | 11,403 | 12,737 | -10,766 | -15 | -137 | -7,456 | -5,792 |
| Feb. | 9,137 | 9,465 | 956 | -1,550 | 12,585 | 13,308 | -8,911 | -38 | -1 | -8,064 | -8,614 |
| Mar. | 16,402 | 4,559 | 801 | -2,632 | 15,883 | 12,740 | -716 | -9 | 1,055 | -9,147 | -6,131 |
| Apr. | | | | | | | | | | | |
| 1984--Feb. 1 | 13,615 | 13,669 | 1,250 | -178 | 11,361 | 12,877 | -11,748 | -74 | -121 | -7,213 | -6,210 |
| 8 | 7,731 | 12,557 | 1,311 | -1,528 | 12,488 | 13,816 | -13,289 | -109 | -1,027 | -7,966 | -8,521 |
| 15 | 5,231 | 9,371 | 915 | -723 | 13,286 | 12,930 | -12,587 | -34 | -26 | -8,376 | -9,525 |
| 22 | 6,434 | 6,761 | 664 | -2,987 | 12,394 | 13,022 | -7,331 | -12 | 602 | -8,096 | -8,583 |
| 29 | 14,813 | 7,251 | 776 | -1,114 | 12,489 | 13,256 | -2,098 | 22 | 566 | -7,993 | -8,341 |
| Mar. 7 | 14,946 | 6,543 | 845 | -1,154 | 14,716 | 13,934 | -2,382 | -8 | 376 | -8,405 | -9,518 |
| 14 | 15,235 | 4,732 | 874 | -2,969 | 15,592 | 12,578 | -72 | -10 | 838 | -9,068 | -7,260 |
| 21 | 17,685 | 4,967 | 934 | -4,531 | 17,584 | 12,134 | 159 | -2 | 1,477 | -10,100 | -4,937 |
| 28 | 17,100 | 3,046 | 719 | -3,004 | 15,726 | 12,395 | -793 | -16 | 1,881 | -9,126 | -3,726 |
| Apr. 4 | 16,992 | 2,908 | 307 | -1,396 | 15,271 | 12,941 | -319 | -13 | 232 | -8,772 | -4,269 |
| 11 | 17,891 | 3,582 | 32 | -1,174 | 17,317 | 13,059 | -489 | -28 | 808 | -9,951 | -5,264 |
| 18 | 19,914 | 6,460 | -132 | -1,598 | 16,813 | 13,66[illegible] | -2,648 | -8 | 523 | -8,410 | -4,747 |
| 25 | 12,539* | 1,328* | -83* | -3,045* | 16,252* | 12,151* | 981* | -9* | 278* | -9,218* | -6,095* |
| May 2 | 11,823* | -2,797* | -295* | -1,125* | 16,697* | 13,047* | 771* | -3* | 281* | -9,665* | 5,088* |
| 9 | 12,549* | -7,649* | -284* | -1,682* | 17,009* | 14,118* | 4,381* | -7* | 461* | -10,394* | -3,403* |
| 16 | 15,984* | -8,475* | -1* | 186* | 16,823* | 12,104* | 6,517* | -15* | -22* | -9,874* | -1,259* |
| 23 | | | | | | | | | | | |
| 30 | | | | | | | | | | | |

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.

1. Cash plus forward plus futures positions in Treasury, federal agency, and private short-term securities.
2. Adjusted for reverses to maturity and related transactions.
*Strictly confidential.

STRICTLY CONFIDENTIAL (FR)
CLASS II-FOMC

MAY 21, 1984

## Net Changes in System Holdings of Securities[1]

Millions of dollars, not seasonally adjusted

| 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 | | |
| 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 | 298 | 29 | 24 | 668 | 2,035 | 2,462 |
| 1981 | 5,337 | 294 | 1,702 | 393 | 379 | 2,768 | 133 | 360 | -- | -- | 494 | 8,491 | 684 |
| 1982 | 5,698 | 312 | 1,794 | 388 | 307 | 2,803 | -- | -- | -- | -- | -- | 8,312 | 1,461 |
| 1983 | 13,068 | 484 | 1,896 | 890 | 383 | 3,653 | -- | -- | -- | -- | -- | 16,342 | -5,445 |
| 1982--Qtr. IV | 4,292 | 88 | 485 | 194 | 132 | 900 | -- | -- | -- | -- | -- | 5,179 | -20 |
| 1983--Qtr. I | -1,403 | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -1,425 | -3,325 |
| II | 5,116 | 173 | 595 | 326 | 108 | 1,203 | -- | -- | -- | -- | -- | 6,208 | -793 |
| III | 4,617 | 156 | 481 | 215 | 124 | 975 | -- | -- | -- | -- | -- | 5,439 | 9,412 |
| IV | 4,738 | 155 | 820 | 349 | 151 | 1,474 | -- | -- | -- | -- | -- | 6,120 | -10,739 |
| 1983--Sept. | 2,471 | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | 2,466 | 7,737 |
| Oct. | 309 | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | 302 | -11,307 |
| Nov. | 735 | 155 | 820 | 349 | 151 | 1,474 | -- | -- | -- | -- | -- | 2,125 | 1,133 |
| Dec. | 3,695 | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | 3,693 | -565 |
| 1984--Jan. | -3,267 | -- | -- | -300 | -- | -300 | -- | -- | -- | -- | -- | -3,607 | 500 |
| Feb. | -1,060 | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -1,098 | -8,347 |
| 1984--Feb. 1 | -756 | -- | -- | -300 | -- | -300 | -- | -- | -- | -- | -- | -1,076 | -441 |
| 8 | -1,044 | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -1,044 | -876 |
| 15 | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -18 | -1,182 |
| 22 | 23 | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | 23 | 1,309 |
| 29 | 344 | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | 344 | -8,400 |
| Mar. 7 | 292 | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | 292 | 8,141 |
| 14 | 566 | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | 556 | 1,779 |
| 21 | 349 | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | 349 | -1,006 |
| 28 | 364 | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | 364 | -5,662 |
| APR. 4 | 1,633 | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | 1,633 | 3,724 |
| 11 | 321 | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | 319 | -375 |
| 18 | 652 | 198 | 808 | 200 | 277 | 1,484 | -- | -- | -- | -- | -- | 2,136 | 2,300 |
| 25 | 1,937 | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | 1,937 | 1,660 |
| MAY 2 | 278 | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | 278 | 4,978 |
| 9 | -1,214 | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -1,214 | -5,962 |
| 16 | -1,980 | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -2,020 | -5,689 |
| LEVEL--MAY 17 | 69.0 | 17.3 | 35.2 | 14.3 | 19.1 | 85.9 | 2.4 | 4.4 | 1.3 | .4 | 8.5 | 163.5 | -6.4 |

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 (+).