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August 16, 1985

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

August 16, 1985

MONETARY POLICY ALTERNATIVES

Recent Developments

(1) M1 increased at an annual rate of about 9 percent in July, down considerably from the pace of May and June but still well above the Committee's target path of 5 to 6 percent for the June-to-September period. Moreover, data for early August suggest stronger growth this month. The recent strength of M1 has reflected rapid growth in other checkable deposits (OCDs) together with the absence so far of any unwinding of the extraordinary surge in demand deposit growth of late spring.

(2) The extent of the bulge in M1 since May appears to have no clear single explanation. With econometric models underpredicting M1 growth in recent months, one might argue that there has been an upward demand shift for narrow money, but it is difficult to find reasons for such a shift to have occurred. According to surveys, consumer confidence remains generally high, so that from that perspective precautionary demands for cash are unlikely to have increased significantly. Nonetheless, the recent strength in OCDs may be an aspect of a general shift toward more liquid deposit forms affecting the total of M1 and the structure of M2 at a time when the opportunity cost of holding liquid deposits is on the low side of recent experience. For instance, OCDs, savings deposits, and MMDAs have all shown considerable strength recently, while small time deposits have been weakening—indeed the total outstanding of such deposits has been declining since midyear.

(3) With regard to the demand deposit bulge, examination of individual bank data indicates that the increase in such deposits since

KEY MONETARY AGGREGATES
(Seasonally adjusted annual rates of growth)

	May	June	July	QIV to July
Money and Credit Aggregates				
M1	13.8	19.8	9.1	13.5[1]
M2	8.6	13.7	8.6	9.2
M3	7.7	10.7	4.2	7.8
Domestic nonfinancial debt	12.0	11.6	12.3	12.8
Bank credit	13.3	9.3	9.5	10.0
Reserve Measures[2]				
Nonborrowed reserves[3]	7.9	33.0	10.7	17.0
Total reserves	18.1	24.8	12.3	16.0
Monetary base	10.6	13.5	6.8	8.4
Memo: (Millions of dollars)				
Adjustment and seasonal borrowing total	800	540	600	—
Excluding special situation borrowing	607	506	—	—
Excess reserves	804	905	859	

NOTE: Monthly reserve measures, including excess reserves and borrowing, are calculated by prorating averages for 2-week reserve maintenance periods that overlap months.

1. Growth from the second quarter to July. Growth from QIV to July is 11.4 percent.
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, but not special situation borrowing by thrifts that was part of adjustment plus seasonal borrowing until it was entirely reclassified as extended credit in mid-June.

the middle of the second quarter has been distributed roughly proportionately by size class of banks, though weighted a bit toward large banks. Very recent contacts with selected banks experiencing large demand deposit increases identified no consistent set of special factors to account for the unusual strength over recent months. The decline in interest rates was seen to be raising compensating balances of businesses, but by no more than might normally have been expected; banks generally reported no change in corporate cash management practices; a number indicated the increase in deposits may have simply reflected reduced incentives to manage cash carefully as interest rates declined. Finally, it should be noted that the demand deposit ownership survey sample indicated a disproportionate share of the increase in gross demand deposits from March to June in household demand accounts, perhaps reflecting the unusual pattern of tax refunds, with only about one quarter of the rise in deposits of financial and nonfinancial businesses.

(4) The broader aggregates also decelerated in July. Nonetheless, M2 growth at an 8-1/2 percent annual rate was somewhat above the Committee's 7-1/2 percent path for June to September, and left this aggregate a bit above the upper bound of its range for the year. Growth of the nontransactions component of M2, although slowing from June, remained strong as rapid growth in MMDAs and savings accounts offset the decline in small time deposits. M3 expanded at only a 4-1/4 percent annual rate in July, well below its 3-month objective of 7-1/2 percent. With core deposit growth still fairly robust and Treasury deposits rising while asset growth at depository institutions remained moderate, CDs and other managed liabilities in M3 fell.

(5) Growth in total domestic nonfinancial debt is estimated to have continued at roughly a 12 percent annual rate. Federal borrowing

surged and state and local governments, responding to the decline in interest rates since late winter, continued to issue large volumes of bonds in anticipation of refundings. There was no net borrowing from banks and the commercial paper market by nonfinancial businesses last month, while bond issuance, although quite strong, receded somewhat from the June pace when it had been boosted by several exceptionally large offerings to retire equity. In the household sector, consumer credit growth appears to have slowed in recent months, but mortgage borrowing seems to have continued at around its spring pace.

(5) In July, total reserves and the monetary base decelerated to annual growth rates of around 12-1/4 and 6-3/4 percent, respectively, as expansion of transactions deposits and currency slowed from the rapid May-June pace. Nonborrowed reserves (including extended credit) grew at a 10-3/4 percent pace in July.[1] The nonborrowed reserve path over the first two complete maintenance periods after the last FOMC meeting was constructed assuming $350 million of adjustment plus seasonal borrowing. With M1 and M2 running above the Committee's short-run paths, against a background of a weaker dollar and moderate strength in economic activity, desk operations in the maintenance period just completed were conducted with a view to borrowing in a $350 to $450 million range. Borrowing averaged about $605 million in the first two maintenance periods as demands for excess reserves proved unusually strong;[2] in the most recent complete maintenance period, borrowing averaged about $480 million.

1. The much larger rise in June reflected in part the reclassification, as extended credit, of borrowing by financial institutions--principally thrifts--in special situations.

2. The allowance for excess reserves used in drawing the reserve path was raised from $650 to $700 million over the intermeeting period, to reflect the generally higher average levels of excess reserves that have come to prevail in recent months.

(6) Federal funds have traded generally in a range around 7-3/4 percent since the last FOMC meeting, with the average in the most recent statement period close to 7-7/8 percent. Other short-term market rates are up about 20 to 45 basis points over the intermeeting period, reflecting mainly a reassessment of the likelihood of near-term easing by the Federal Reserve. Yield spreads between short-term private and Treasury securities have widened slightly over the past couple of weeks, reflecting adverse news about the earnings of some financial institutions; these spreads remain well below the highs of mid-1984, though somewhat above the very low levels reached early in 1985. Intermediate- and long-term Treasury yields, which have risen by about 30 to 40 basis points, were also affected by some disappointment in the budget process and the decline in the dollar on exchange markets. Corporate bond yields have moved up a little more than Treasury yields. The dollar has depreciated by about 4-3/4 percent, net, on a weighted average basis over the intermeeting period, even though yield spreads favoring foreign currencies have narrowed as U.S. interest rates have risen some and foreign rates have declined.

Policy alternatives

(7) It seems unlikely, given recent developments, that the Committee's June-to-September objective of 5 to 6 percent growth (annual rate) for M1 can be attained short of a very sharp rise in the federal funds rate to perhaps the 10 to 11 percent area. Assuming some slight decrease in M1 in the second half of August, it would take about a 5 percent annual rate of decline in September for growth over the three months to reach 6 percent. It is likely, however, that such a rise in the funds rate would need to be reversed later in the year to sustain economic activity, consistent with growth of M1 around the upper limit of its range. The alternatives presented below are based on less extreme movements in money and interest rates. Of the alternatives, B and C are most consistent with moving near to or somewhat below the upper end of the FOMC's 3 to 8 percent long-run range for M1 by the fourth quarter, although the tighter alternative C would provide more assurance. Alternative A would very probably involve growth for the second half above the Committee's M1 target. (More detailed data are shown in the following tables and charts).

	Alt. A	Alt. B	Alt. C
Growth from June to September			
M1	10	9	8
M2	9-1/4	8-1/2	7-3/4
M3	7	6-1/4	5-3/4
Associated federal funds rate range	5 to 9	6 to 10	7 to 11

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
1985--April	575.0	575.0	575.0	2427.3	2427.3	2427.3	3056.2	3056.2	3056.2
May	581.6	581.6	581.6	2444.7	2444.7	2444.7	3075.9	3075.9	3075.9
June	591.2	591.2	591.2	2472.6	2472.6	2472.6	3103.3	3103.3	3103.3
July	595.7	595.7	595.7	2490.3	2490.3	2490.3	3114.1	3114.1	3114.1
August	602.8	602.6	602.4	2511.3	2510.9	2510.5	3132.6	3132.1	3131.6
September	606.1	604.6	603.1	2529.3	2524.7	2520.1	3156.7	3151.9	3147.1
Growth Rates									
Monthly									
1985--April	6.1	6.1	6.1	-1.0	-1.0	-1.0	0.2	0.2	0.2
May	13.8	13.8	13.8	8.6	8.6	8.6	7.7	7.7	7.7
June	19.8	19.8	19.8	13.7	13.7	13.7	10.7	10.7	10.7
July	9.1	9.1	9.1	8.6	8.6	8.6	4.2	4.2	4.2
August	14.3	13.9	13.5	10.1	9.9	9.7	7.1	6.9	6.7
September	6.6	4.0	1.4	8.6	6.6	4.6	9.2	7.6	5.9
Growth Rates									
1985--Q1	10.6	10.6	10.6	12.0	12.0	12.0	10.7	10.7	10.7
Q2	10.2	10.2	10.2	5.3	5.3	5.3	5.2	5.2	5.2
Q3	13.0	12.6	12.2	10.1	9.9	9.6	7.3	7.0	6.8
Long-run base period to July 85[1]	13.5	13.5	13.5	9.2	9.2	9.2	7.8	7.8	7.8
Long-run base period to Sept. 85[1]	12.1	11.3	10.6	9.4	9.2	8.9	8.0	7.8	7.6
1985 June to Sept.	10.1	9.1	8.1	9.2	8.4	7.7	6.9	6.3	5.7
1985 July to Sept.	10.5	9.0	7.5	9.4	8.3	7.2	8.2	7.3	6.4

1. The long-run base period is the second quarter of 1985 for M1 and the fourth quarter of 1984 for M2 and M3.

Chart 1

ACTUAL AND TARGETED M1

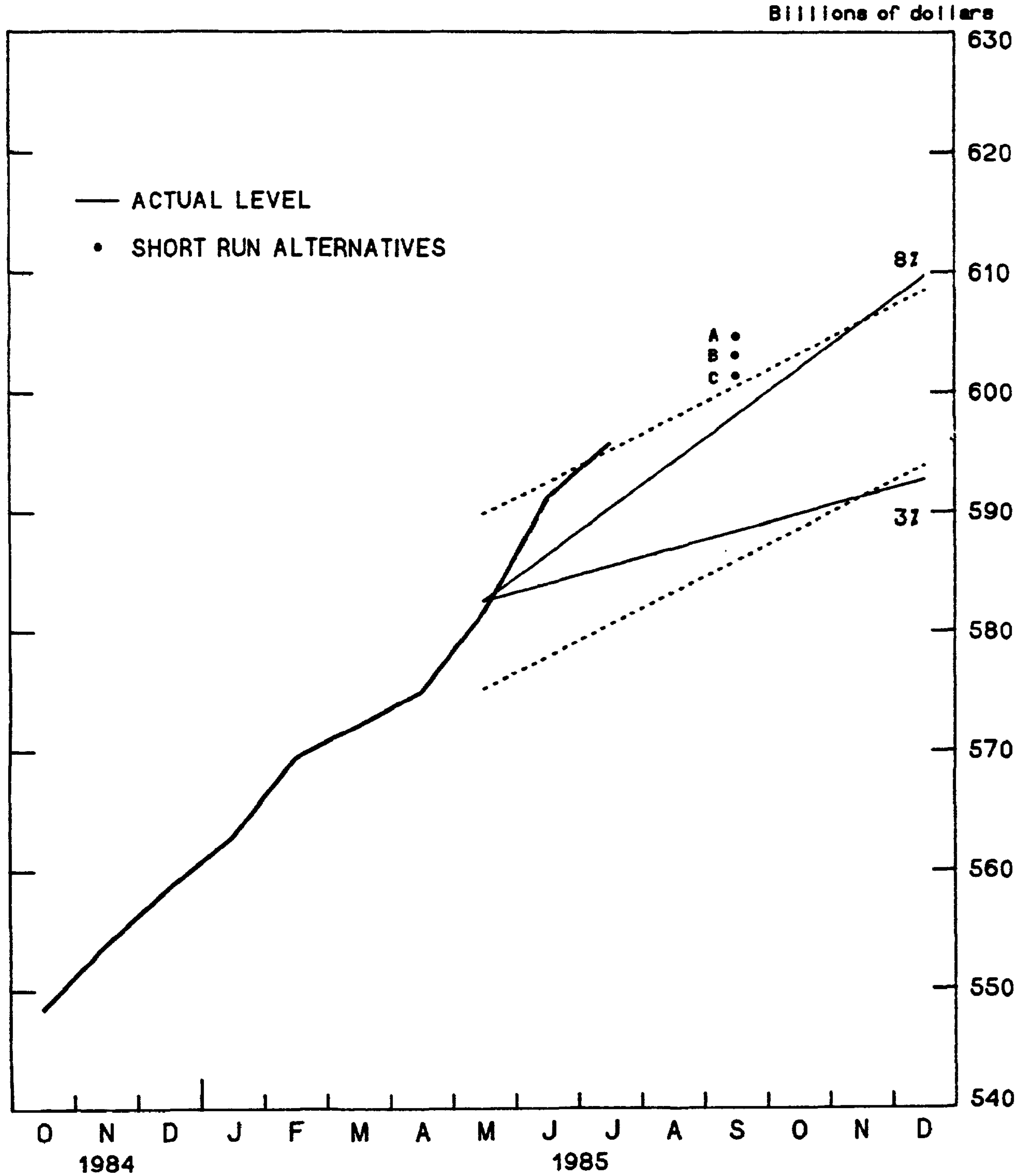


Chart 2

ACTUAL AND TARGETED M2

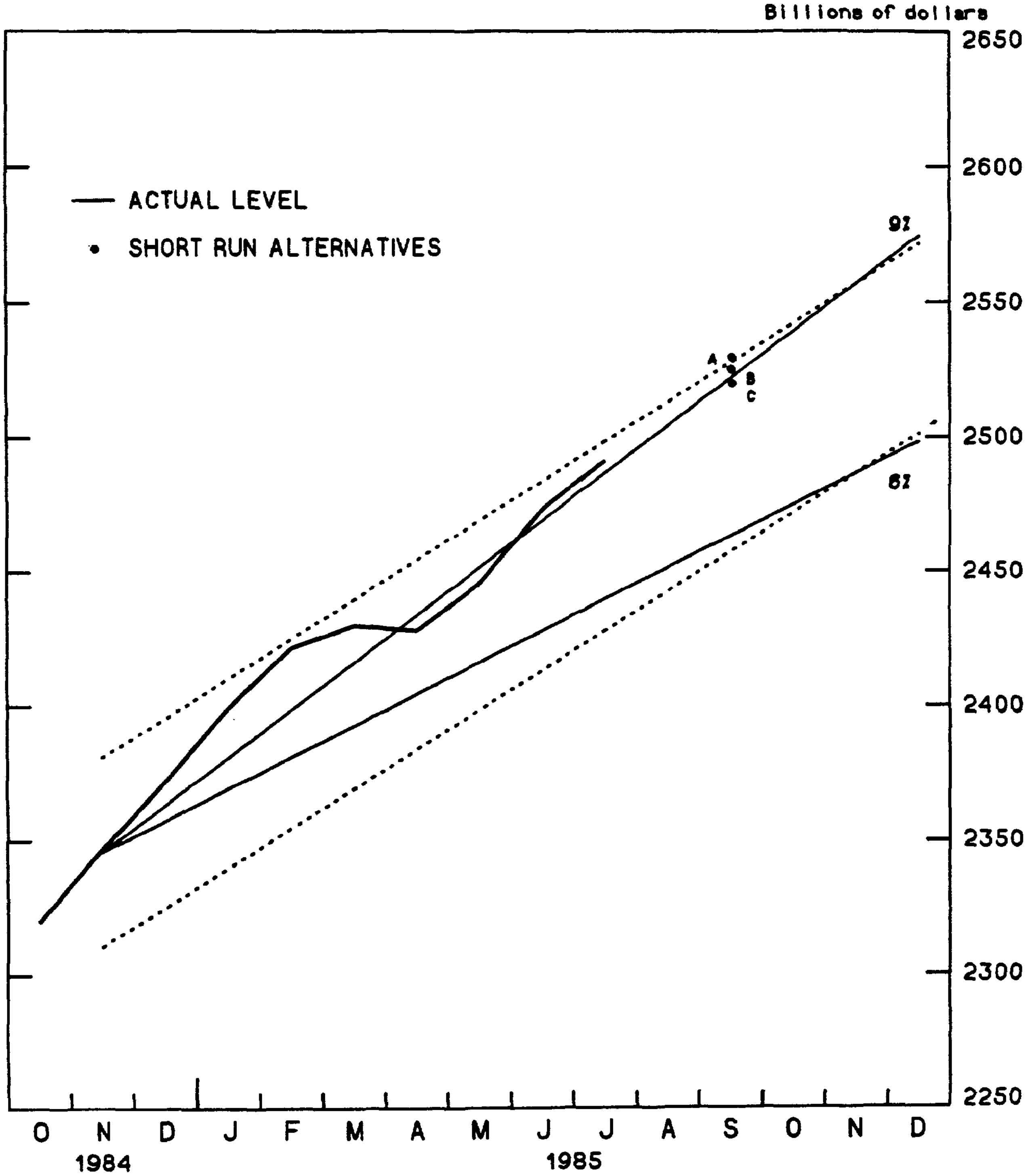


Chart 3

ACTUAL AND TARGETED M3

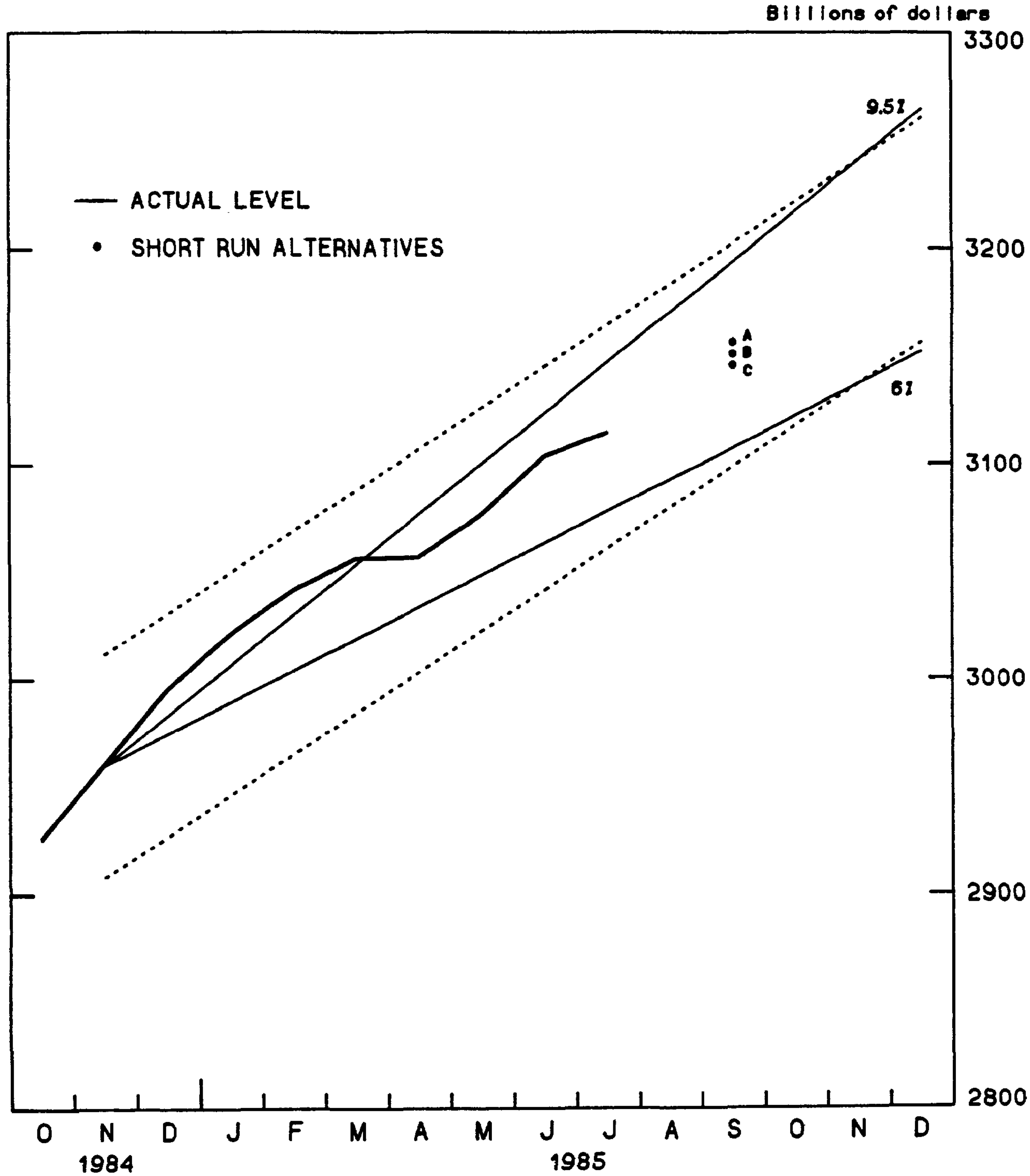
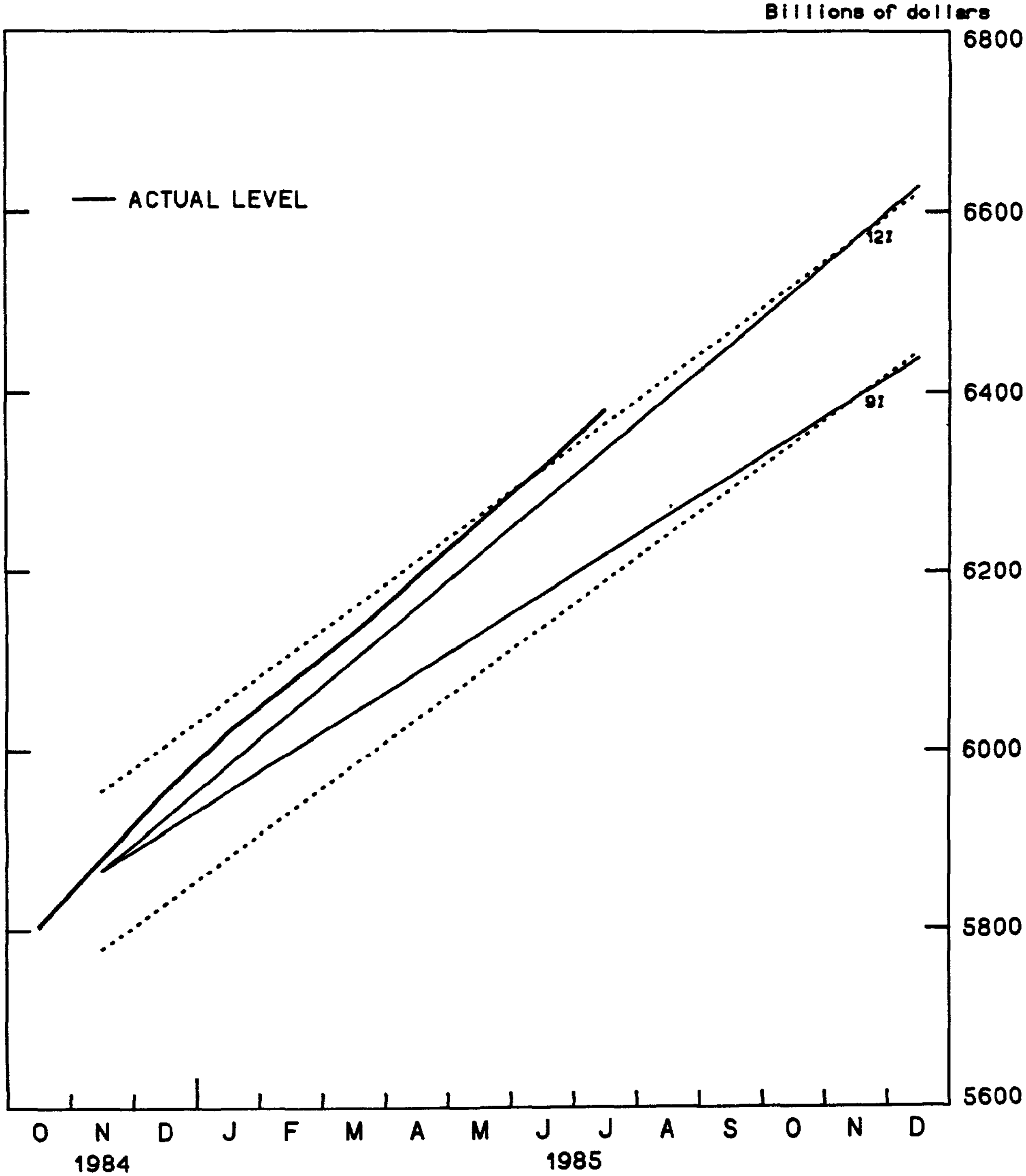


Chart 4
ACTUAL AND TARGETED DEBT



(8) Alternative B, which assumes reserve pressures indexed by borrowing in a $350 to $450 million range, encompasses growth in M1 from June to September at a 9 percent annual rate. Nonborrowed and total reserves would be expected to expand at about 8 and 5 percent annual rates, respectively, over the last two months of the quarter. Federal funds would probably trade mostly a little above 7-3/4 percent.

(9) We would expect rapid growth of M1 in August of around 14 percent at an annual rate, based on data thus far available, to be followed by a very substantial moderation to about a 4 percent annual rate in September. It still seems likely that the extraordinary bulge in demand deposits of late spring and early summer will be partly reversed. More generally, the waning impact on money demand of earlier declines in rates, along with the effects of the more recent firming of money market conditions, should also work to moderate growth of M1, including OCDs.

(10) On a quarterly average basis M1 growth would be at about a 12-1/2 percent annual rate in the third quarter, implying an even sharper drop in velocity--at about a 6-3/4 percent annual rate--than in the first half of the year. With such a continued large build-up in money relative to GNP, the staff expects that much of the increase in nominal GNP in the fourth quarter will be financed, given current levels of interest rates, out of existing cash balances. Velocity growth is likely to turn positive, and growth of money from September to December may be at around a 2-1/2 to 3 percent annual rate (implying a quarterly average growth of near 4-1/2 percent annual rate). Such a development would imply growth in M1 from QII '85 to QIV '85 at about an 8-1/2 percent annual rate, a little above the upper limit of the FOMC's range for the second half of the year.

(11) Under alternative B, both M2 and M3 would be expected to diverge somewhat from the Committee's June-to-September specification for growth at about a 7-1/2 percent annual rate set at the July meeting. Growth of M2 is likely to be higher, around 8-1/2 percent, while growth of M3 should be lower, about 6-1/4 percent. M2 growth has been boosted recently by its M1 component, and it is likely to show some deceleration as M1 growth slows. M3 growth, however, is expected to pick up a little over the balance of the quarter as banks increase their issuance of managed liabilities to replace declining Treasury deposits.

(12) The debt of nonfinancial sectors is projected to grow at an 11-1/2 percent annual rate in the third quarter, a little slower than in the second, but leaving this aggregate around the 12 percent upper end of its 1985 range. The federal government's net need for funds, though still quite large, is expected to moderate somewhat this quarter on a seasonally adjusted basis. On the other hand, businesses' net external needs for funds are projected to increase over the quarter to finance further advances in investment spending as internal funds remain flat. Equity retirements associated with mergers and stock buy-backs are expected to moderate a little in the third quarter, restraining the rise in business borrowing. In the household sector, mortgage borrowing should continue to edge higher along with the projected pickup in housing activity, but consumer credit growth is expected to slow.

(13) Unchanged reserve conditions, as contemplated under alternative B, are likely to be associated with short- and long-term interest rates remaining close to current levels over the upcoming intermeeting period. The 3-month Treasury bill rate would be expected to fluctuate around the 7-1/8 to 7-1/4 percent area. The dollar might drift down a

bit more on exchange markets. Bond markets are likely to be sensitive to Congressional actions to implement the budget resolution in September after the recess, and to also significant changes in the foreign exchange value of the dollar.

(14) Alternative C assumes a tightening of reserve positions, with borrowing rising to the $750 to $850 million area. The restrained provision of nonborrowed reserves, with little net growth over August and September, would lead to a rise in the funds rate to about 8-1/2 percent or somewhat higher and to a more rapid slowing of M1 growth. For the June-to-September period, growth of M1 would still be relatively high, about 8 percent. Expansion over the fourth quarter would be expected to drop to an annual rate of near one percent as the cumulative impact of higher interest rates, and perhaps some slowing of transaction demands relative to the staff GNP forecast, takes hold. For the second half, M1 growth would be a little under 7-1/2 percent.

(15) Such a move toward greater reserve restraint would probably lead to a sharp rise in short-term rates generally, with the 3-month bill rate rising to around 8 percent. Private short-term rates may rise by a bit more as concerns about the financial condition of certain depository institutions and financial intermediaries intensified under current circumstances. Longer-term rates would also come under fairly substantial upward pressure, at least for a short while, until the large volume of corporate and municipal bonds currently overhanging the market was worked down or withdrawn. The dollar would rise on exchange markets, although this would probably prove to be no more than a temporary interruption of a long-term downward trend.

(16) Growth of M2 may slow fairly substantially over the next month or two under this alternative, partly as yields on the nontransactions components lag, as usual, behind rising market rates. M3 also would be expected to slow, though perhaps not as much as M2. It is probable that bank issuance of CDs and other managed liabilities would pick up as credit market demands shift toward banks, and also the commercial paper market, in a rising rate environment.

(17) Alternative A involves an easing of pressures on bank reserve positions, either through a reduction in borrowings to the $100 to $200 million area or by a drop in the discount rate of, say, 1/2 percentage point with a smaller or no accompanying decline in borrowing. The federal funds rate would drop toward 7 percent, and the decline in the dollar on foreign exchange markets would accelerate. Long- and short-term interest rates would retrace their recent rise and probably fall still further, although the drop in long-term rates may be damped by the implications for inflation and for foreign interest in U.S. securities of a substantial weakening of the dollar.

(18) Adoption of this alternative, which would tend to strengthen economic activity, would probably mean that M1 growth for the second half would come in well above the upper limit of the FOMC's range. Growth of M2 also may be above its range, though perhaps only marginally, as lower market rates increase the relative attractiveness of bank and thrift deposits. Financing demands can be expected to strengthen, though much of this may fall on the open market rather than banks as bond yields decline and rising stock prices increase the attractiveness of equity financing.

Directive language

(19) Two alternative operational paragraphs for the directive are given below. Alternative I represents the current paragraph, with proposed updating modifications shown in the usual way. Alternative II is suggested in case the Committee wishes to restructure the paragraph in light of the probability that M1 growth will exceed by a substantial margin the 5 to 6 percent rate originally anticipated at the July meeting.

Alternative I

In the implementation of policy for the immediate future, the Committee seeks to DECREASE SOMEWHAT (Alt. A), maintain (Alt. B), INCREASE SOMEWHAT (Alt. C), the existing degree of pressure on reserve positions. This action is expected to be consistent with growth in M2 and M3 at ~~an~~ annual ~~rate~~ RATES of around ~~7-1/2~~ ___ AND ___ percent RESPECTIVELY during the period from June to September, and with a substantial slowing of M1 growth to an annual rate of ~~5-to-6~~ ___ percent. Somewhat lesser reserve restraint might (WOULD) be acceptable in the event of substantially slower growth of the monetary aggregates while somewhat greater restraint would (MIGHT) be acceptable in the event of substantially higher growth. In either case such a change would be considered in the context of appraisals of the strength of the business expansion, progress against inflation, and conditions in domestic credit and foreign exchange markets. 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 ~~6-to-10~~ ___ TO ___ percent.

Alternative II

In the implementation of policy for the immediate future, the Committee seeks to DECREASE SOMEWHAT (Alt. A), maintain (Alt. B), INCREASE SOMEWHAT (Alt. C), the existing degree of pressure on reserve positions. This action is expected to be consistent with growth in M2 and M3 at ~~an~~ annual ~~rate~~ RATES of around ~~7-1/2~~ ___ and ___ percent, RESPECTIVELY, during the period from June to September, ~~and with a substantial slowing of M1 growth to an annual rate of 5 to 6 percent~~. M1 GROWTH IS EXPECTED TO SLOW MARKEDLY FROM ITS RECENT PACE, BUT GIVEN RELATIVELY RAPID GROWTH IN JULY AND EARLY AUGUST, EXPANSION OVER THE JUNE TO SEPTEMBER PERIOD MAY BE AT AN ___ TO ___ PERCENT ANNUAL RATE. SOMEWHAT GREATER RESTRAINT WOULD [MIGHT] BE SOUGHT IN THE EVENT OF SUBSTANTIALLY HIGHER GROWTH IN THE MONETARY AGGREGATES. SOMEWHAT LESSER RESTRAINT MIGHT [WOULD] BE SOUGHT IN THE EVENT OF SUBSTANTIALLY SLOWER GROWTH, ALTHOUGH IN THE CASE OF M1 A WEAKENING OVER THE NEAR TERM THAT BROUGHT GROWTH FOR THE THIRD QUARTER TO THE 5 TO 6 PERCENT ANNUAL RATE ESTABLISHED AT THE PREVIOUS MEETING WOULD BE ACCEPTABLE. In either case such a change would be considered in the context of appraisals of the strength of the business expansion, progress against inflation, and conditions in domestic credit and foreign exchange markets. 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 ~~6 to 10~~ ___ TO ___ percent.

Selected Interest Rates

Percent

August 19, 1985

Period	Short Term: federal funds	Short Term: Treasury bills secondary market 3-month	Treasury bills 6-month	Treasury bills 1 year	CDs secondary market 3-month	comm paper 1-month	money market mutual fund	bank prime loan	Long-Term: U S government constant maturity yields 3 year	U S govt 10 year	U S govt 30-year	corporate A utility recently offered	muni cipal Bond Buyer	home mortgages: conven-tional at S&Ls	home mortgages: FHA/VA ceiling	home mortgages: S&L 1-year ARM
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
1984--High	11.77	10.65	10.76	11.09	11.71	11.35	10.72	13.00	13.44	13.84	13.81	15.30	11.44	14.68	14.00	12.31
Low	7.95	7.71	8.01	8.39	8.24	8.04	8.38	11.00	10.39	11.30	11.36	12.70	9.86	13.14	12.50	10.81
1985--High	8.75	8.65	9.03	9.21	9.13	8.83	8.31	10.75	11.19	11.95	11.89	13.23	10.31	13.29	13.00	11.14
Low	7.13	6.77	6.92	7.07	7.34	7.22	7.00	9.50	8.83	10.00	10.30	11.37	9.13	12.03	11.50	9.47
1984--July	11.23	10.12	10.52	10.89	11.56	11.06	10.30	13.00	13.08	13.36	13.21	14.93	10.84	14.67	14.00	12.20
Aug.	11.64	10.47	10.61	10.71	11.47	11.19	10.58	13.00	12.50	12.72	12.54	14.12	10.40	14.47	13.70	12.14
Sept.	11.30	10.37	10.47	10.51	11.29	11.11	10.62	12.97	12.34	12.52	12.29	13.86	10.54	14.35	13.50	12.00
Oct.	9.99	9.74	9.87	9.93	10.38	10.05	10.16	12.58	11.85	12.16	11.98	13.52	10.77	14.13	13.38	11.96
Nov.	9.43	8.61	8.81	9.01	9.18	9.01	9.34	11.77	10.90	11.57	11.56	12.98	10.69	13.64	12.75	11.54
Dec.	8.38	8.06	8.28	8.60	8.60	8.39	8.55	11.06	10.56	11.50	11.52	12.88	10.40	13.18	12.50	11.01
1985--Jan.	8.35	7.76	8.00	8.33	8.14	7.99	8.00	10.61	10.43	11.38	11.45	12.78	9.96	13.08	12.50	10.84
Feb.	8.50	8.27	8.39	8.56	8.69	8.46	7.80	10.50	10.55	11.51	11.47	12.76	10.07	12.92	12.50	10.63
Mar.	8.58	8.52	8.90	9.06	9.02	8.74	7.97	10.50	11.05	11.86	11.81	13.17	10.23	13.17	12.63	10.92
Apr.	8.27	7.95	8.23	8.44	8.49	8.31	7.97	10.50	10.49	11.43	11.47	12.75	9.85	13.20	12.75	10.83
May	7.97	7.48	7.65	7.85	7.92	7.80	7.71	10.31	9.75	10.85	11.05	12.25	9.46	12.91	12.30	10.56
June	7.53	6.95	7.09	7.27	7.44	7.34	7.21	9.78	9.05	10.16	10.45	11.60	9.18	12.21	11.50	9.89
July	7.88	7.08	7.20	7.31	7.64	7.58	7.04p	9.50	9.18	10.31	10.50	11.64	9.20	12.06	11.50	9.68
1985--May 8	8.19	7.76	7.94	8.13	8.19	8.06	7.82	10.50	10.16	11.22	11.33	12.49	9.56	13.02	12.50	10.61
15	8.14	7.64	7.81	8.00	8.11	7.98	7.77	10.50	9.89	11.01	11.18	12.24	9.34	12.94	12.50	10.59
22	7.91	7.32	7.48	7.70	7.77	7.67	7.74	10.29	9.49	10.69	10.93	12.01	9.39	12.83	12.00	10.52
29	7.60	7.22	7.38	7.61	7.60	7.49	7.55	10.00	9.44	10.53	10.80	11.78	9.27	12.71	12.00	10.40
June 5	7.75	7.04	7.15	7.32	7.45	7.40	7.47	10.00	9.10	10.12	10.46	11.57	9.10	12.39	11.50	10.05
12	7.62	7.12	7.21	7.37	7.46	7.40	7.29	10.00	9.09	10.10	10.43	11.50	9.18	12.27	11.50	9.90
19	7.13	6.77	6.92	7.10	7.34	7.22	7.26	9.86	8.86	10.02	10.34	11.71	9.19	12.05	11.50	9.83
26	7.46	7.00	7.19	7.38	7.52	7.34	7.01	9.50	9.22	10.39	10.60	11.62	9.24	12.15	11.50	9.77
July 3	8.06	6.91	7.04	7.22	7.55	7.49	7.12	9.50	9.11	10.25	10.47	11.37	9.25	12.13	11.50	9.72
10	8.07	6.90	6.96	7.07	7.44	7.46	7.09	9.50	8.83	10.00	10.30	11.53	9.18	12.03	11.50	9.78
17	7.77	7.03	7.15	7.27	7.59	7.51	7.01	9.50	9.08	10.19	10.39	11.62	9.13	11.94	11.50	9.56
24	7.88	7.21	7.32	7.43	7.75	7.68	7.00	9.50	9.34	10.42	10.57	11.81	9.25	12.03	11.50	9.73
31	7.64	7.23	7.39	7.51	7.78	7.69	7.00	9.50	9.46	10.60	10.73	11.83	9.35	12.17	11.50	9.62
Aug. 7	7.92	7.26	7.46	7.61	7.85	7.78	7.05	9.50	9.54	10.60	10.72	11.78	9.40	12.23	11.50	9.57
14	7.88	7.13	7.36	7.51	7.79	7.71	7.05	9.50	9.31	10.40	10.64	11.82	9.47	12.24	11.50	9.47
Daily--Aug. 9	7.61	7.16	7.38	7.51	7.79	7.71	--	9.50	9.30	10.37	10.61	--	--	--	--	--
15	8.53	7.19	7.36	7.52	7.81	7.78	--	9.50	9.28	10.36	10.64	--	--	--	--	--
16	8.17p	7.11	7.30	7.45	7.91	7.80	--	9.50	9.20p	10.30p	10.57p	--	--	--	--	--

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 average initial contract rate on new commitments for one-year ARMs at those institutions offering both fixed- and adjustable-rate mortgages with the same number of discount points

Security Dealer Positions

Millions of dollars

August 19, 1985

Period	Net[1] Total	Cash Positions					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		
1984--High	32,155	15,505	1,296	6,840	19,525	21,064	8,272	131	3,381	-7,223	-4
Low	5,107	-8,251	-1,038	-5,664	11,086	11,263	-14,456	-327	-986	-10,679	-13,053
1985--High	53,685	14,672	2,068	6,479	24,613*	21,623	3,800	117	6,909	-6,190	7,028
Low	8,154	535	-390	-6,920*	16,693	14,603	-14,946	-128	-373	-10,756*	-28,599
1984--July	12,355	-2,382	-604	-3,391	16,040	14,751	-2,528	-89	2,800	-9,650	-2,592
Aug.	11,499	4,542	-89	-1,184	16,098	15,556	-7,312	-240	2,504	-9,073	-9,304
Sept.	17,976	10,316	310	623	14,063	17,695	-9,771	-122	2,156	-8,334	-8,960
Oct.	21,955	11,649	116	2,649	13,168	16,285	-9,867	-72	2,154	-8,815	-5,312
Nov.	19,094	9,748	-487	5,087	16,106	17,950	-8,549	-76	533	-9,229	-11,991
Dec.	26,220	13,841	-416	4,762	18,470	19,180	-11,718	59	-389	-8,313	-9,256
1985--Jan.	24,023	11,614	-110	2,467	19,416	19,977	-13,318	-31	702	-7,033	-9,659
Feb.	32,957	12,456	851	227	19,614	19,444	-3,648	-12	2,494	-8,179	-10,289
Mar.	48,495	14,028	1,316	-4,337	19,337	16,216	843	-52	4,677	-8,353	4,822
Apr.	36,619	11,538	1,203	-4,536	18,049	17,560	-2,963	10	5,567	-7,833	-1,975
May	22,504	8,004	1,082	-3,965	19,819	19,313	-5,881	95	6,108	-7,902	-14,169
June	13,759	4,588	845	-3,874	22,746	19,268	-4,991	61	4,466	-9,616	-19,733
July	20,558*	2,946*	1,293*	-4,099*	23,461*	18,370*	-5,230*	-15*	3,780*	-10,102*	-9,845*
1985--May 22	15,183	6,546	999	-5,148	19,634	18,546	-7,051	56	6,031	-8,136	-16,292
29	9,314	3,832	913	-5,221	20,721	19,378	-7,152	117	5,245	-8,055	-20,464
June 5	12,647	7,193	1,014	-2,737	22,182	21,551	-7,302	113	4,477	-8,858	-24,987
12	8,154	7,132	1,083	-3,907	23,420	21,497	-6,737	114	4,233	-10,082	-28,599
19	12,358	5,379	745	-3,898	22,541	18,119	-6,008	68	4,928	-9,672	-19,844
26	17,087	1,155	585	-5,533	22,628	17,399	-2,873	-7	4,435	-9,684	-11,019
July 3	22,160	535	893	-900	22,329	18,339	-1,493	-3	3,654	-9,054	-12,141
10	21,584	2,908	1,022	-1,320	24,178	21,413	-5,389	-5	2,820	-9,340	-14,702
17	18,034	4,107	1,138	-3,686	24,613	18,538	-7,087	-1	3,395	-10,449	-12,534
24	22,582*	4,089*	1,435*	-6,920*	23,605*	17,428*	-4,595*	-13*	4,389*	-10,756*	-6,081*
31	19,365*	2,041*	1,651*	-5,916*	22,083*	16,275*	-5,815*	-45*	4,549*	-10,352*	-5,108*
Aug. 7	20,108*	2,520*	1,301*	-8,541*	22,748*	18,011*	-6,389*	-1*	4,900*	-10,613*	-3,828*
14	24,514*	8,332*	1,394*	-5,220*	23,754*	17,593*	-7,046*	-37*	6,615*	-11,831*	-9,040*

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.

* Strictly confidential

Net Changes in System Holdings of Securities[1]

Millions of dollars, not seasonally adjusted

STRICTLY CONFIDENTIAL (FR)
CLASS II-FOMC

August 19 1985

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		
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
1984	3,779	826	1,938	236	441	3,440	--	--	--	--	--	6,964	1,450
1984--QTR. I	-1,168	--	--	-300	--	-300	--	--	--	--	--	-1,555	-286
II	491	198	808	200	277	1,484	--	--	--	--	--	1,918	70
III	-424	600	--	--	--	600	--	--	--	--	--	169	1,982
IV	4,880	28	1,130	335	164	1,657	--	--	--	--	--	6,432	-316
1985--QTR. I	-2,044	961	465	-100	--	1,326	--	--	--	--	--	-735	462
II	7,183	245	846	108	96	1,295	--	--	--	--	--	8,409	-350
1985--Jan	-4,268	--	--	-100	--	-100	--	--	--	--	--	-4,368	-2,315
Feb.	2,362	--	--	--	--	--	--	--	--	--	--	2,345	3,095
Mar.	-138	961	465	--	--	1,426	--	--	--	--	--	1,289	-318
Apr.	6,026	245	846	108	96	1,295	--	--	--	--	--	7,321	6,141
May	-942	--	--	--	--	--	--	--	--	--	--	-951	-9,257
June	2,099	--	--	--	--	--	--	--	--	--	--	2,039	2,766
July	-200	--	--	--	--	--	--	--	--	--	--	-246	-1,815
1985--May 15	-880	--	--	--	--	--	--	--	--	--	--	-300	350
22	-300	--	--	--	--	--	--	--	--	--	--	3	449
29	3	--	--	--	--	--	--	--	--	--	--	--	--
June 5	249	--	--	--	--	--	--	--	--	--	--	249	286
12	2,010	--	--	--	--	--	--	--	--	--	--	1,950	-444
19	--	--	--	--	--	--	--	--	--	--	--	--	-1,385
26	--	--	--	--	--	--	--	--	--	--	--	--	851
July 3	75	--	--	--	--	--	--	--	--	--	--	75	739
10	--	--	--	--	--	--	--	--	--	--	--	--	1,687
17	--	--	--	--	--	--	--	--	--	--	--	--	921
24	-200	--	--	--	--	--	--	--	--	--	--	-200	-3,000
31	--	--	--	--	--	--	--	--	--	--	--	-46	701
Aug. 7	68	--	6	6	--	12	--	--	--	--	--	79	406
14	524	--	--	--	--	--	--	--	--	--	--	494	1,369
LEVEL--Aug. 15	78.1	18.4	36.4	15.2	20.8	90.8	2.6	4.0	1.2	.4	8.2	179.5	-2.3

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 (+).