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

September 27, 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

September 27, 1985

MONETARY POLICY ALTERNATIVES

Recent Developments

(1) M1 accelerated in August to a 20-1/2 percent annual rate and, based on preliminary data, growth appears to have remained rapid in September at around an 11 percent rate. Expansion from June to September has been well above the Committee's current 8 to 9 percent short-run path for M1. From its second-quarter base, M1 has increased at about a 15 percent pace, leaving it well in excess of its longer-run range. Based on the staff estimate for nominal GNP in the third quarter, it appears that M1 velocity declined at around an 8-1/2 percent annual rate--the sharpest drop since the fourth quarter of 1982. The strength in M1 has been widespread by component. Currency growth has averaged more than 8 percent since June, while demand deposits have increased at a 7-1/2 percent rate after two months of double-digit growth in late spring. Other checkable deposits grew most rapidly, accelerating in August for the fourth consecutive month before slowing appreciably in September.

(2) Normal lagged responses to declining interest rates explain some of the strength in M1, but by no means all. The rapid increase of M1 in the third quarter particularly has been well in excess of model predictions--by about 8 to 11 percentage points at an annual rate. The model misses have been spread across all of the components of M1. While the public appears to have increased its preference for M1-type assets relative to income and interest rates, it has been difficult to identify specific factors--such as heightened uncertainties or more cautious cash management practices--that would lead to such a large shift in attitudes.

KEY MONETARY AGGREGATES
(Seasonally adjusted annual rates of growth)

	July	Aug.	Sept.pe	June to Sept.pe	QIV to Sept.pe
Money and Credit Aggregates					
M1	9.3	20.5	11	14	15[1]
M2	8.7	11.2	7	9	9-1/2
M3	4.3	8.6	9	7-1/2	8
Domestic nonfinancial debt	12.0	11.3	10	11	12-1/2
Bank credit	10.1	7.0	10	9	10
Reserve Measures[2]					
Nonborrowed reserves[3]	10.6	19.6	4	11-1/2	16
Total reserves	12.2	16.6	6	12	15-1/2
Monetary base	6.8	13.4	12	11	9-1/2
Memo: (Millions of dollars)					
Adjustment and seasonal borrowing	600	503	588[4]		
Excess reserves	855	829	629[4]		

pe--preliminary estimate

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

1. Growth from the second quarter to September. Growth from QIV to September is 12-1/2 percent.
2. Growth rates of reserve measures are adjusted to remove the effect 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.
4. Averages through September 25.

(3) Developments within M2 tend to confirm an enlarged demand for liquidity in recent months. The savings component of M2 continued to expand unusually rapidly in August and early September, and growth in MMDAs also has remained robust. At the same time, the runoff in small time deposits that began at midyear has persisted into September. However, as the month progressed, there were indications that these trends could be diminishing. Growth of M2 in the aggregate has been nearer the Committee's range than in the case of M1. Between June and September, M2 grew at around a 9 percent annual rate, somewhat above the Committee's short-run target path of 8-1/2 percent; the aggregate currently stands just above the parallel band associated with its long-run range.

(4) M3 growth averaged more than 7 percent over the June-to-September period, above its 6-1/2 percent short-run path. M3 was near the middle of its long-run range in September. Growth picked up in August and September, as commercial banks stepped up their use of managed liabilities, including RPs, Eurodollars, and large CDs, in part to fund a runoff in government deposits. Thrift institutions were net issuers of large time deposits in September for the first time since late spring.

(5) Growth in domestic nonfinancial sector debt remained generally brisk in August at about an 11-1/4 percent annual rate; debt expanded at a 12-3/4 percent annual rate from the fourth quarter through August, above its 9 to 12 percent annual growth range. Business borrowing was substantial in August, concentrated in longer-term debt markets, but appears less heavy in September. Tax-exempt financing has been quite strong, owing in part to anticipated changes in tax law. The moderating trend in consumer credit growth may have been interrupted in late August and September by special financing programs by captive auto finance companies. Treasury debt

issuance has been constrained in late September by the lack of Congressional action to raise the debt limit; the end-of-quarter financing auctions were postponed and the size of weekly bill auctions has been cut back.

(6) Total reserves expanded at an 11-1/2 percent annual rate on average in August and September, with a deceleration in the latter month reflecting some slowing in M1 growth and a drop in the average level of excess reserves. Nonborrowed reserves (including extended credit) followed a similar pattern. The nonborrowed reserve path for the intermeeting period was initially constructed allowing for $425 million of adjustment plus seasonal borrowing at the discount window, at the center of the $350 to $500 million range indicated as the Committee's preference at the August meeting. With M1 diverging further from the FOMC's path, and M2 and M3 also strong relative to objectives, the allowance was raised to $500 million in early September. Actual borrowing, after being boosted substantially by a wire transfer problem in early September, averaged $515 million in the most recent maintenance period.

(7) The federal funds rate averaged close to 7-7/8 percent in each week since the August FOMC meeting, little changed from its level prior to the meeting. The funds rate was expected to average around 8 percent following the minor adjustment in borrowing in early September. Reserve pressures did not show through until late on the settlement day of the most recent reserve period, as money market trading was dominated by market expectations that underlying restraint on bank reserve positions would be unchanged. Such attitudes in recent days were perhaps reinforced by interpretations reported in the press of the significance for monetary policy of the G-5 announcement last weekend that implied concerted action consistent with a decline in the exchange value of the dollar. Treasury bill

rates have declined about 10 to 35 basis points since the last FOMC meeting, influenced in part by the large paydown of bills occasioned by debt ceiling problems. Interest rates on Treasury bonds, meanwhile, have shown little net changes, while yields on federal agency securities have advanced rather sharply in the wake of the reports that the Farm Credit System might need substantial financial assistance. Spreads of Farm Credit securities over comparable Treasury issues are averaging about 60 to 100 basis points, compared with more normal levels of 5 to 25 basis points.

(8) The weighted average foreign exchange value of the dollar has declined on balance about 4 percent since the last meeting. In the first three weeks of the intermeeting period the dollar rose by more than 5 percent in reaction to apparently more favorable data on economic activity, particularly August employment figures. Subsequent economic indicators looked less buoyant, however, and the dollar began to retreat. Then, on September 23, following the G-5 announcement, the dollar dropped more than 4 percent, with somewhat larger declines against the mark and the yen. Over the next four days, the dollar declined a little further on average, reflecting in particular weakness against the yen.

. The Desk has sold (for Treasury and System account) a total of $310 million—$214 million against yen and the remainder against marks.

Policy Alternatives

(9) The table below provides three alternative specifications for growth of the monetary aggregates from September to December along with associated federal funds rate ranges. (More detailed data, including growth implied for each alternative from the base periods for the long-run ranges to the fourth quarter, are presented in the table and charts on the following pages.)

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

(10) Each alternative involves a marked slowing in M1 growth, but at the same time all would lead to growth over the second half of the year well above the FOMC's target range for that period. For M1 to reach the top of its cone by December would require a decline at a one percent annual rate from September, and a much sharper drop of about 5-1/2 percent at an annual rate would be necessary to produce a fourth-quarter average consistent with the upper bound of the Committee's range. Although M1 demand can be expected to abate following its extraordinary surge since late spring, a decline in outstanding M1 over a three-month period seems unlikely, given the upward tilt provided by inflows of savings funds into NOW accounts at around current or even somewhat higher interest rates.

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--July	595.8	595.8	595.8	2490.6	2490.6	2490.6	3113.7	3113.7	3113.7
August	606.0	606.0	606.0	2513.8	2513.8	2513.8	3136.0	3136.0	3136.0
September	611.4	611.4	611.4	2528.2	2528.2	2528.2	3159.1	3159.1	3159.1
October	614.6	614.2	613.9	2543.2	2541.7	2540.2	3178.7	3177.3	3175.9
November	618.8	617.8	616.9	2560.2	2556.5	2552.9	3198.0	3195.0	3192.0
December	622.9	621.3	619.8	2575.6	2570.9	2566.1	3215.2	3211.2	3207.3
Growth Rates Monthly									
1985--July	9.3	9.3	9.3	8.7	8.7	8.7	4.3	4.3	4.3
August	20.5	20.5	20.5	11.2	11.2	11.2	8.6	8.6	8.6
September	10.7	10.7	10.7	6.9	6.9	6.9	8.8	8.8	8.8
October	6.3	5.5	4.9	7.1	6.4	5.7	7.4	6.9	6.4
November	8.2	7.0	5.9	8.0	7.0	6.0	7.3	6.7	6.1
December	8.0	6.8	5.6	7.2	6.8	6.2	6.5	6.1	5.8
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	15.0	15.0	15.0	10.2	10.2	10.2	7.5	7.5	7.5
Q4	9.5	8.9	8.3	7.8	7.2	6.7	7.8	7.4	7.1
Long-run base period to Sept. 85	14.8	14.8	14.8	9.3	9.3	9.3	8.1	8.1	8.1
Long-run base period to Dec. 85	11.9	11.4	10.9	9.0	8.9	8.7	8.0	7.8	7.7
Long-run base period to Q4 85	12.4	12.1	11.8	9.1	9.0	8.8	8.0	7.9	7.8
1985 June to Sept.	13.7	13.7	13.7	9.0	9.0	9.0	7.3	7.3	7.3
1985 Sept. to Dec.	7.5	6.5	5.5	7.5	6.8	6.0	7.1	6.6	6.1

Chart 1
ACTUAL AND TARGETED M1

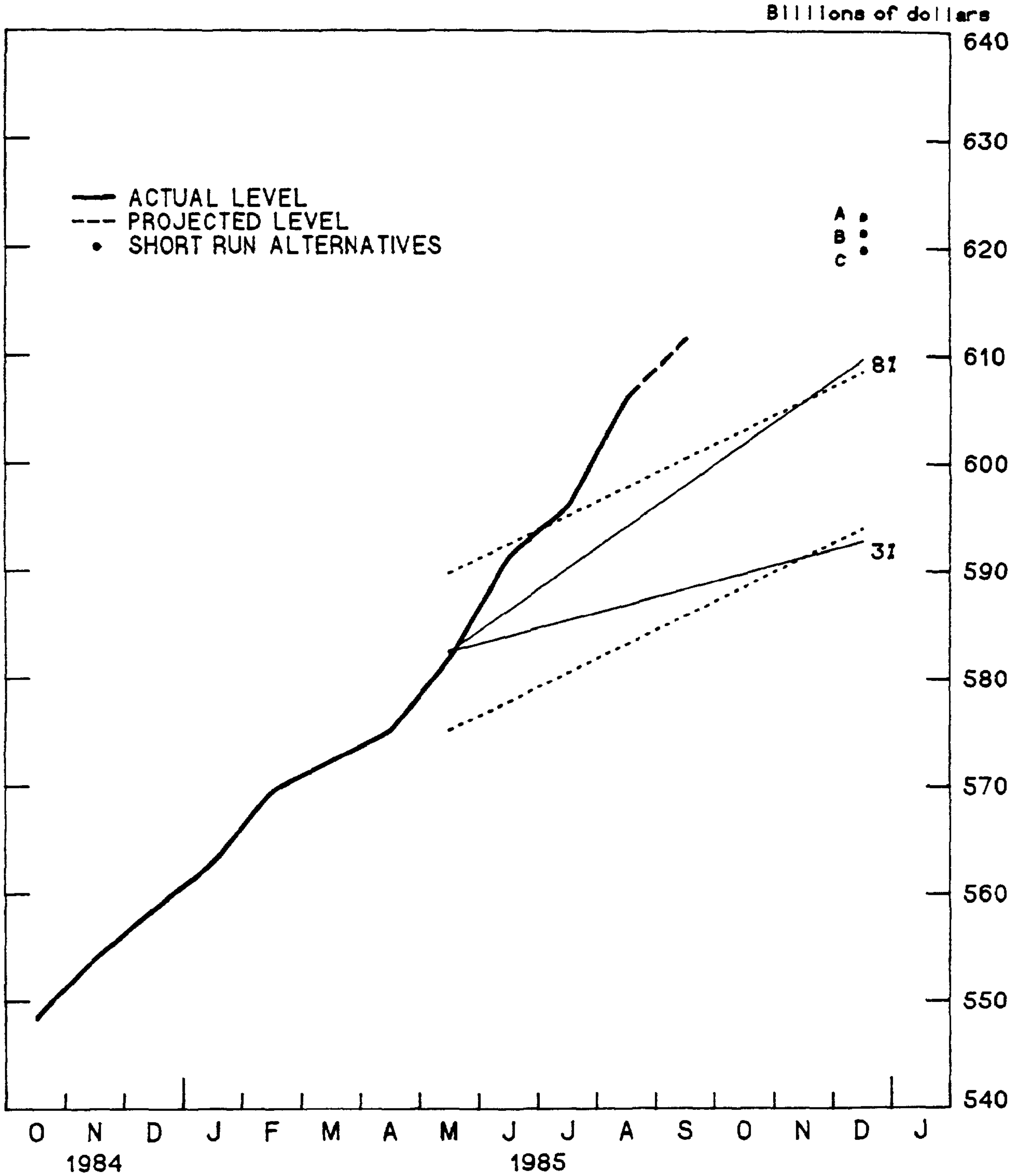


Chart 2
ACTUAL AND TARGETED M2

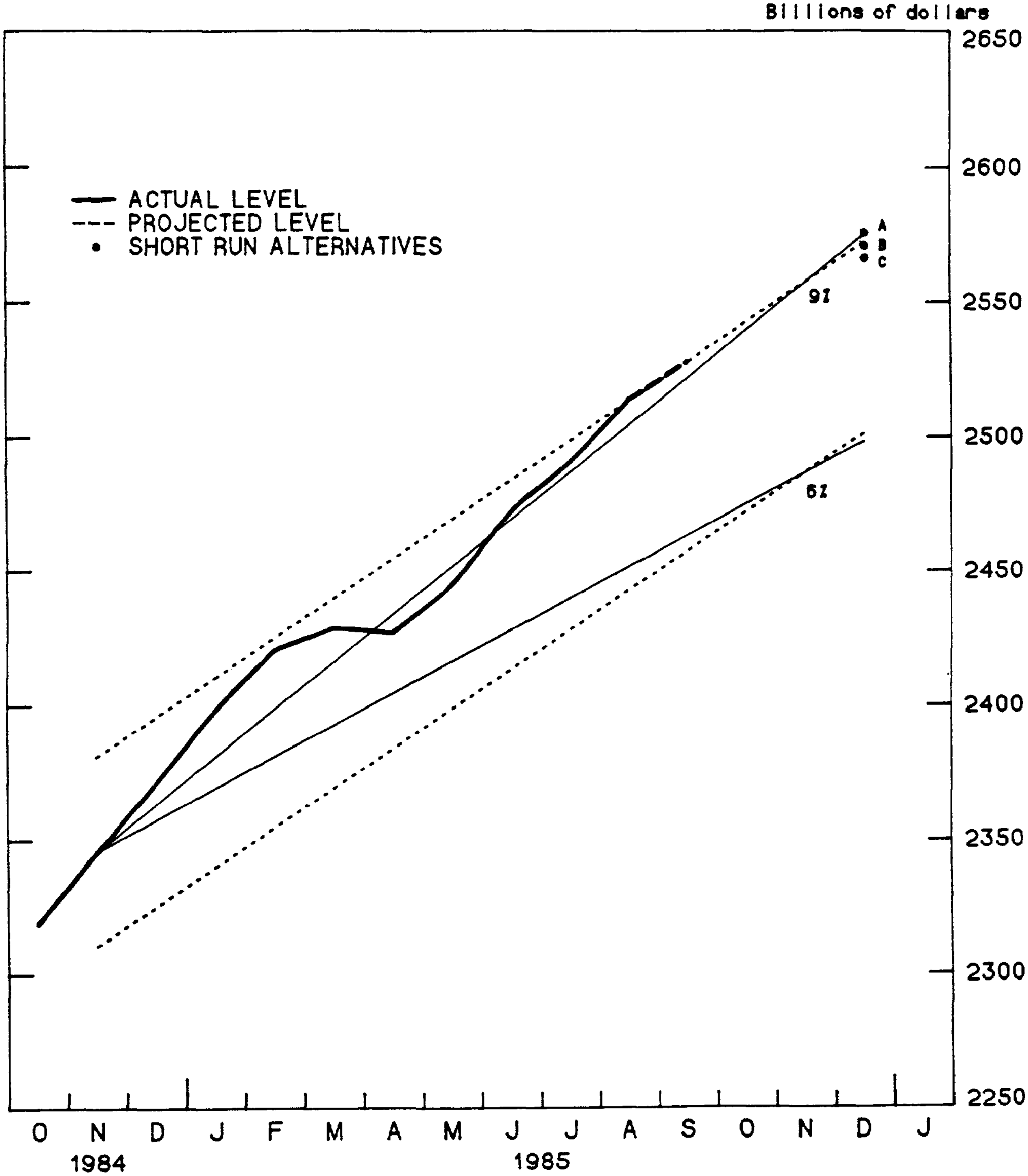


Chart 3

ACTUAL AND TARGETED M3

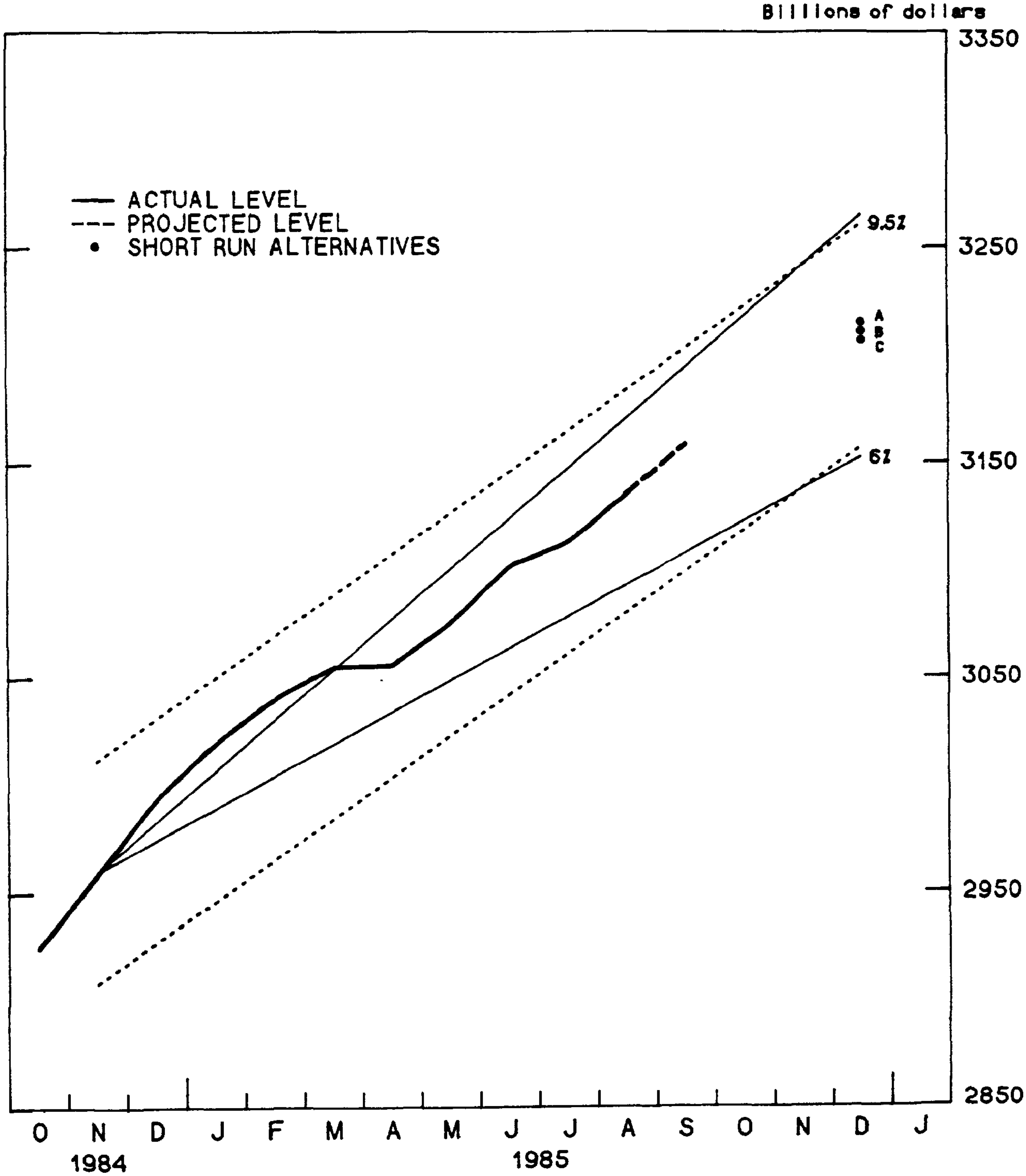
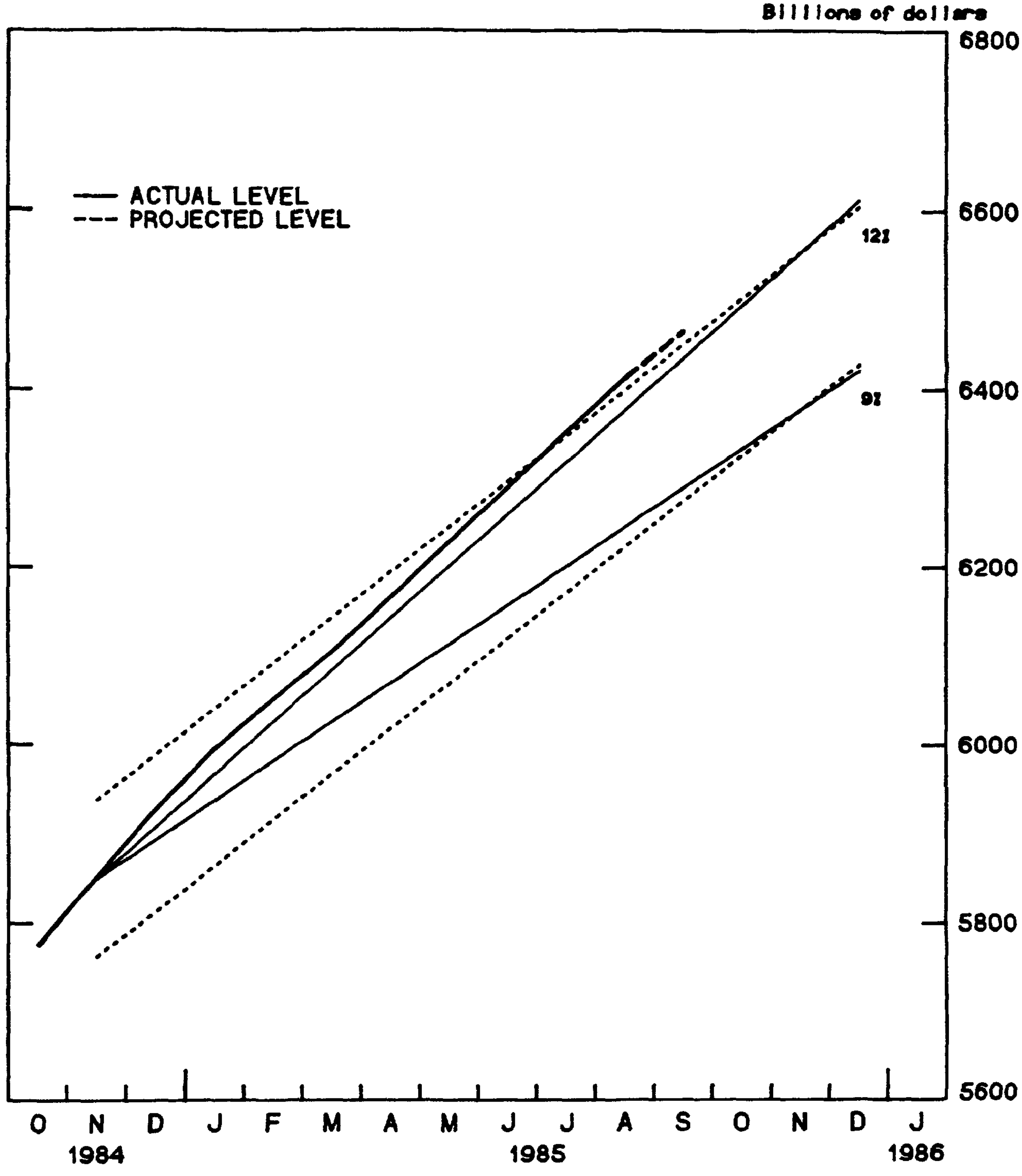


Chart 4
DEBT



Billions of dollars
ACTUAL LEVEL
PROJECTED LEVEL
6800
6600
6400
6200
6000
5800
5600
12%
9%
O
N
D
J
F
M
A
M
J
J
A
S
O
N
D
J
1984
1985
1986

Thus, a very sharp tightening of reserve pressures would appear necessary to bring M1 within the current longer-run range by year-end. On the other hand, M2 and M3 are likely to be near or within their respective ranges for the year without so substantial a tightening.

(11) Alternative B assumes unchanged pressures on reserve positions, with adjustment plus seasonal borrowing at the discount window between $450 and $550 million and federal funds trading around 8 percent, or a bit higher. M1 growth would be anticipated to slow to a 6-1/2 percent annual rate from September to December. Available data for September suggest that some abatement of the pronounced shifting to highly liquid monetary assets, including transactions deposits, already is in train. This process would be further encouraged if public expectations of higher interest rates on market instruments and small time deposits, which seemed to contribute in a degree to the earlier liquification, began to give way in the face of essentially stable short-term interest rates through year-end. In addition, M1 could be relatively weak in October if its unusual contraction in October 1984 indicated the emergence of a new seasonal pattern (not yet reflected in seasonal factors). Even with the slowing of M1 in coming months anticipated by this alternative, growth on a quarterly average basis, at about 8-3/4 percent for the fourth quarter, implies a further decline in velocity on the order of 3 percent, given the staff GNP forecast. Such a decrease would bring the drop for the year to around 5-1/2 percent, about matching the decline over 1982 that was unprecedented over a four-quarter period in the postwar years.

(12) Growth of M2 and M3 is also expected to slow in the September-to-December period under alternative B, owing primarily to the deceleration of their M1 component. This slowing would bring M2 to the

upper bound of its annual range by the fourth quarter, implying average growth in the fall quarter more in line with, though still above, the projected expansion of nominal GNP. M3 should remain around the middle of its long-run range. Issuance of managed liabilities is anticipated to pick up as core deposit growth slows. Banks may more actively offer such liabilities, however, should they decide to enlarge their securities portfolios greatly given the unusually heavy fourth-quarter issuance of Treasury debt and tax-exempt securities.

(13) The debt of domestic nonfinancial sectors is projected to grow faster over the final three months of the year as Treasury borrowing surges far above the third-quarter pace to finance an enlarged deficit and to make up for postponements related to debt ceiling problems. Heavier issuance of debt by the business sector also is expected, reflecting a resumption of inventory accumulation and a bit weaker cash flow, while net equity issuance is assumed to remain deeply negative as the pace of merger and other financial restructuring activities continues substantial. Slower growth of consumer credit over the quarter as a whole, related to a weakening in household spending on durable goods, is likely to more than offset an edging up of mortgage borrowing. Overall, growth of domestic nonfinancial debt for the year is projected at more than 12-1/2 percent, compared with the 12 percent upper bound of the FOMC's monitoring range. Roughly one percentage point of the growth reflects unusual merger and financial restructuring activity and another small amount (perhaps 1/4 percentage point or so) represents acceleration of tax-exempt borrowing in anticipation of possible tax law changes.

(14) Both total and nonborrowed reserves are likely to grow at around a 7 percent annual rate over the final three months of the year, given reserve pressures assumed under alternative B. With federal funds trading persistently around 8 percent, other private short-term rates would rise from current levels. A relatively larger upward adjustment of bill yields could occur once the debt ceiling is raised and net issuance of bills is resumed. The 3-month bill rate might increase to the 7-1/4 percent area. Bond yields would also rise, at least temporarily, as the Treasury, partly because of debt ceiling problems, markets about $47 billion of notes and bonds ($26 billion for new cash) within a short period in the latter part of October and early November. The firming of interest rates that appears possible under this alternative could exert some upward pressure on the dollar in foreign exchange markets. Under those conditions, a continued decline in the dollar would depend in part on the timing and extent of exchange market intervention activity. The interaction between the dollar and interest rates is, of course, two-way. As the dollar declines, interest rates could come under further upward pressure, reflecting market concerns that more attractive returns would be required on U.S. securities at a time when external financing needs remained large and foreign investors may come to expect further exchange losses.

(15) Alternative A assumes a reduction of adjustment plus seasonal borrowings to a $250 to $350 million range, or a cut in the discount rate. The federal funds rate would drop to around 7-1/2 percent. The 3-month Treasury bill rate would probably move down to the 6-1/2 to 6-3/4 percent range, around the low reached briefly in mid-June. Private short-term rates would also decline. Quality spreads, which have tended to

widen in recent months, would probably narrow somewhat as debt servicing burdens are lessened by lower market rates and in reflection of more favorable odds of a strengthening in real economic growth. Market edginess about Farm Credit System and FHLB securities is likely to persist, however, until resolution of the problems of these agencies seem more clearly in prospect. The international value of the dollar could be expected to move lower, perhaps substantially given the context of the recent G-5 announcement and intervention policy. In that case bond yields might not decline in sympathy with short-term rates, partly for reasons noted in paragraph (14) but also partly because of possible concerns about inflationary implications of a rapid drop in the dollar occurring in tandem with an easing of money markets and relatively rapid M1 growth.

(16) An easing of reserve pressures would be expected to keep M1 farther above its upper bound than under alternative B and increase the likelihood that M2 would remain slightly above the upper end of its range through December. The fall in market rates under alternative A could retard a movement by the public away from highly liquid monetary assets. Deposits subject to interest prohibitions or ceilings would become relatively more attractive, while because of adjustment lags on offering rates, spreads for super NOWs, MMDAs, and money funds relative to market instruments would temporarily improve. In contrast, M3 would very likely stay well within its annual range, moving only slightly more above its midpoint by December, as reduced reliance by depository institutions on issuance of managed liabilities partly offsets the greater influx of core deposits.

(17) Alternative C assumes some tightening of reserve conditions consistent with a marked slowing of M1 growth over the next three months to around a 5-1/2 percent annual rate and with enough moderation of M2 growth

possibly to move just within the target range for the year. Borrowing is assumed to average $650 to $750 million, with federal funds moving up to around 8-1/2 percent. Such a firming of policy would tend to surprise markets. The 3-month bill rate might rise to around 7-3/4 percent, and bond yields would also show a substantial increase, particularly during the Treasury financing periods. Private interest rates may rise somewhat more than comparable Treasury yields because of market concerns about the health of certain sectors and financial institutions. Some upward pressure on the exchange value of the dollar may also be expected, partly as the efficacy of intervention operations in that context is brought into question. However, more favorable investor attitudes toward the dollar would be tempered if expectations about U.S. economic activity worsened in the wake of higher interest rates.

Directive language

(18) Proposed language is shown below not only for the operational paragraph of the directive but also for a paragraph dealing with the long-run ranges for the monetary aggregates for 1985, should the Committee wish to reconsider them at this time. Such a re-evaluation may be needed in particular because of developments affecting M1. The proposed paragraph on the long-run ranges, shown immediately below, could be placed in the directive just before the operational paragraph.

PROPOSED ADDITIONAL PARAGRAPH ON 1985 RANGES

At its October meeting the Committee reviewed the long-run ranges for the monetary aggregates for 1985, particularly the range for M1 established in July. Taking account of the further sharp drop in M1 velocity in the third quarter, and evidence of a shift in preferences by the public toward highly liquid assets, the Committee agreed that growth of M1 above the 3 to 8 percent range covering the period from the second quarter to the fourth quarter of 1985 would be appropriate [acceptable]. The Committee reaffirmed its earlier views with respect to the other aggregates.

(19) With regard to the operational paragraph, two variants are presented. The first closely follows the format of the previous directive, and includes suggested deletions from the current directive and proposed additions indicated in the usual manner. A proposed option in this variant (shown in brackets) would explicitly indicate acceptability of a shortfall in the rate of M1 growth from expectations.

The second variant is presented for consideration should the Committee wish to restructure the directive to reflect the more coordinate treatment of money and the other financial and economic variables in the implementation of policy that has characterized recent Committee practice. The word "possibly" shown in the bracketed section is intended to provide an option for asymmetric intermeeting reserve adjustments--an option that has been indicated in past directives by the use of "might" or "would" in the sentences pertaining to unexpected growth in the aggregates that have been superseded by the proposed wording in variant II. The last sentence of the variant has been adjusted to conform with the more coordinate treatment of the aggregates and other variables.

OPERATIONAL PARAGRAPH

Variant 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 ~~sought in recent weeks~~. This action is expected to be consistent with growth in M2 and M3 at annual rates of around ~~8-1/2 and 6-1/2~~ ___ AND __ percent, respectively, during the period from ~~June to~~ September TO DECEMBER. M1 growth is expected to slow from its ~~recent~~ THIRD-QUARTER pace~~,~~ TO AN ANNUAL RATE OF AROUND ___ PERCENT ~~but given the rapid growth in recent weeks, expansion~~ over the ~~June to~~ September TO DECEMBER period; [EVEN SLOWER GROWTH OVER THE NEXT THREE MONTHS WOULD BE APPROPRIATE IN THE CONTEXT OF SATISFACTORY ECONOMIC PERFORMANCE AND GIVEN RECENT VERY RAPID GROWTH IN M1] ~~may be at an 8 to 9 percent annual rate~~. Somewhat greater restraint would be acceptable in the event of substantially higher growth in the monetary aggregates. Somewhat lesser restraint would be acceptable in the event of substantially slower growth. In either case such a change would be considered in the context of appraisals of the strength of the business expansion, developments in foreign exchange markets, progress against inflation, and conditions in domestic and international credit markets. The Chairman may call for Committee consultation if if 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.

Variant II

In the implementation of policy for the immediate future, the Committee seeks to decrease somewhat/ maintain/ increase somewhat the existing degree of pressure on reserve positions. This action is expected to be consistent with growth in M2 and M3 over the period from September to December at annual rates of ___ and ___ percent, respectively. A marked slowing of M1 growth over the period to a _____ percent annual rate is also anticipated. Somewhat greater or lesser reserve restraint [somewhat greater or possibly somewhat lesser/ somewhat lesser or possibly somewhat greater] would be acceptable depending on behavior of the aggregates, appraisals of the strength of the business expansion, developments in foreign exchange markets, progress against inflation, and conditions in domestic and international credit markets. The Chairman may call for Committee consultation if it appears to the Manager for Domestic Operations that reserve conditions during the period before the next meeting are likely to be associated with a federal funds rate persistently outside a range of __ to __ percent.

Selected Interest Rates

Percent

September 30, 1985

Period	Short-Term							
	federal funds	Treasury bills secondary market			CDs secondary market 3-month	comm. paper 1-month	money market mutual fund	bank prime loan
		3-month	6-month	1-year				
	1	2	3	4	5	6	7	8
1984--High	11.77	10.65	10.76	11.09	11.71	11.35	10.72	13.00
Low	7.95	7.71	8.01	8.39	8.24	8.04	8.38	11.00
1985--High	8.75	8.65	9.03	9.21	9.13	8.83	8.31	10.75
Low	7.13	6.77	6.92	7.07	7.34	7.22	7.00	9.50
1984--Aug.	11.64	10.47	10.61	10.71	11.47	11.19	10.58	13.00
Sept.	11.30	10.37	10.47	10.51	11.29	11.11	10.62	12.97
Oct.	9.99	9.74	9.87	9.93	10.38	10.05	10.16	12.58
Nov.	9.43	8.61	8.81	9.01	9.18	9.01	9.34	11.77
Dec.	8.38	8.06	8.28	8.60	8.60	8.39	8.55	11.06
1985--Jan.	8.35	7.76	8.00	8.33	8.14	7.99	8.00	10.61
Feb.	8.50	8.27	8.39	8.56	8.69	8.46	7.80	10.50
Mar.	8.58	8.52	8.90	9.06	9.02	8.74	7.97	10.50
Apr.	8.27	7.95	8.23	8.44	8.49	8.31	7.97	10.50
May	7.97	7.48	7.65	7.85	7.92	7.80	7.71	10.31
June	7.53	6.95	7.09	7.27	7.44	7.34	7.21	9.78
July	7.88	7.08	7.20	7.31	7.64	7.58	7.03	9.50
Aug.	7.90	7.14	7.32	7.48	7.81	7.73	7.08	9.50
1985--June 12	7.62	7.12	7.21	7.37	7.46	7.40	7.29	10.00
19	7.13	6.77	6.92	7.10	7.34	7.22	7.26	9.86
26	7.46	7.00	7.19	7.38	7.52	7.34	7.01	9.50
July 3	8.06	6.91	7.04	7.22	7.55	7.49	7.12	9.50
10	8.07	6.90	6.96	7.07	7.44	7.46	7.09	9.50
17	7.77	7.03	7.15	7.27	7.59	7.51	7.01	9.50
24	7.88	7.21	7.32	7.43	7.75	7.68	7.00	9.50
31	7.64	7.23	7.39	7.51	7.78	7.69	7.00	9.50
Aug. 7	7.92	7.26	7.46	7.61	7.85	7.78	7.05	9.50
14	7.88	7.13	7.36	7.51	7.79	7.71	7.05	9.50
21	8.06	7.12	7.29	7.44	7.83	7.73	7.14	9.50
28	7.78	7.05	7.18	7.39	7.77	7.69	7.07	9.50
Sept. 4	7.88	7.09	7.25	7.43	7.82	7.74	7.07	9.50
11	7.80	7.22	7.40	7.60	7.93	7.81	7.05	9.50
18	7.85	7.19	7.37	7.57	8.01	7.93	7.12	9.50
25	7.96	6.94	7.14	7.42	7.90	7.80	7.18	9.50
Daily--Sept. 20	7.93	7.01	7.27	7.51	7.99	7.89	---	9.50
26	7.87	6.94	6.93	7.33	7.78	7.66	---	9.50

Period	Long-Term							
	U.S. government constant maturity yields			corporate A utility recently offered	muni-cipal Bond Buyer	home mortgages		
	3-year	10-year	30-year			conven-tional at S&Ls	VA ceiling	S&L 1-year ARM
	9	10	11	12	13	14	15	16
1984--High	13.44	13.84	13.81	15.30	11.44	14.68	14.00	12.31
Low	10.39	11.30	11.36	12.70	9.86	13.14	12.50	10.81
1985--High	11.19	11.95	11.89	13.23	10.31	13.29	13.00	11.14
Low	8.83	10.00	10.30	11.37	9.13	12.03	11.50	9.47
1984--Aug.	12.50	12.72	12.54	14.12	10.40	14.47	13.70	12.14
Sept.	12.34	12.52	12.29	13.86	10.54	14.35	13.50	12.00
Oct.	11.85	12.16	11.98	13.52	10.77	14.13	13.38	11.96
Nov.	10.90	11.57	11.56	12.98	10.69	13.64	12.75	11.54
Dec.	10.56	11.50	11.52	12.88	10.40	13.18	12.50	11.01
1985--Jan.	10.43	11.38	11.45	12.78	9.96	13.08	12.50	10.84
Feb.	10.55	11.51	11.47	12.76	10.07	12.92	12.50	10.63
Mar.	11.05	11.86	11.81	13.17	10.23	13.17	12.63	10.92
Apr.	10.49	11.43	11.47	12.75	9.85	13.20	12.75	10.83
May	9.75	10.85	11.05	12.25	9.46	12.91	12.30	10.56
June	9.05	10.16	10.45	11.60	9.18	12.21	11.50	9.89
July	9.18	10.31	10.50	11.64	9.20	12.06	11.50	9.68
Aug.	9.31	10.33	10.56	11.76	9.44	12.19	11.50	9.52
1985--June 12	9.09	10.10	10.43	11.50	9.18	12.27	11.50	9.90
19	8.86	10.02	10.34	11.71	9.19	12.05	11.50	9.83
26	9.22	10.39	10.60	11.62	9.24	12.15	11.50	9.77
July 3	9.11	10.25	10.47	11.37	9.25	12.13	11.50	9.72
10	8.83	10.00	10.30	11.53	9.18	12.03	11.50	9.78
17	9.08	10.19	10.39	11.62	9.13	11.94	11.50	9.56
24	9.34	10.42	10.57	11.81	9.25	12.03	11.50	9.73
31	9.46	10.60	10.73	11.83	9.35	12.17	11.50	9.62
Aug. 7	9.54	10.60	10.72	11.78	9.40	12.23	11.50	9.57
14	9.31	10.40	10.64	11.82	9.47	12.24	11.50	9.47
21	9.21	10.23	10.52	11.70	9.45	12.18	11.50	9.59
28	9.19	10.14	10.42	11.73	9.43	12.11	11.50	9.45
Sept. 4	9.27	10.20	10.43	11.89	9.41	12.15	11.50	9.52
11	9.49	10.45	10.68	11.92	9.60	12.24	11.50	9.57
18	9.45	10.43	10.65	11.91	9.69	12.21	11.50	9.51
25	9.29	10.36	10.61	11.80p	9.74	12.17	11.50	9.49
Daily--Sept. 20	9.40	10.36	10.58	---	---	---	---	---
26	9.12	10.22	10.50	---	---	---	---	---

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. 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

September 30, 1985

Period	Net[1] Total	Cash Positions: Treasury bills	Cash Positions: Treasury coupons under 1 year	Cash Positions: Treasury coupons over 1 year	Cash Positions: federal agency	Cash Positions: private short-term	Forward and Futures Positions: Treasury bills	Forward and Futures Positions: Treasury coupons under 1 year	Forward and Futures Positions: Treasury coupons over 1 year	Forward and Futures Positions: federal agency	Forward and Futures Positions: private short-term
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	53,514	14,775	2,069	6.479	24,613	21,623	3,800	117	6,909	-6,190	7,036
Low	8,162	578	-390	-8.570	16,692	14,603	-14,946	-138*	-373	-11,972*	-28,599
1984--Aug.	11,499	4,542	-89	-1,184	16,098	15,556	-7 312	-240	2.505	-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.	48,604	14,133	1,316	-4,342	19,342	16,216	845	-52	4,676	-8,353	4,823
Apr.	36,699	11,621	1,203	-4,550	18,050	17,560	-2,966	10	5.569	-7,833	-1,975
May	22,467	7,996	1,082	-3,979	19,818	19,313	-5,888	95	6,104	-7,903	-14,172
June	13,311	4,638	844	-3,868	22,746	19,268	-4,991	61	4,464	-9,616	-19,733
July	20,579	2,949	1,293	-4,131	23,461	18,388	-5,200	-15	3,781	-10,102	-9,845
Aug.	17,340	5,327	1,376	-5,426	23,108	17,316	-7,415	-64	5,256	-11,323	-10,216
1985--June 19	12,445	5,454	745	-3,891	22,541	18,119	-6,008	68	4,933	-9,672	-19,844
26	17,167	1,226	586	-5,526	22,628	17,399	-2,873	-7	4,436	-9,684	-11,019
July 3	22,206	578	893	-895	22,329	18,339	-1,493	-3	3,654	-9,054	-12,141
10	21,751	2,908	1,022	-1,320	24,178	21,413	-5,221	-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	19,309	2,041	1,651	-6,056	22,083	16,355	-5,815	-45	4,553	-10,352	-5,108
Aug. 7	20,067	2,521	1,310	-8,570	22,784	18,032	-6,388	-1	4,935	-10,600	-3,956
14	24,457	8,312	1,394	-5,228	23,755	17,623	-7,027	-37	6,538	-11,833	-9,040
21	14,677	5,356	1,336	-6,202	22,988	17,346	-7,819	-42	5,110	-11,972	-11,425
28	13,982	5,280	1,356	-2,841	22,944	16,381	-8,262	-138	4,885	-10,920	-14,704
Sept. 4	16,687*	6,413*	1,455*	-2,107*	23,033*	17,757*	-7,443*	-141*	3,615*	-11,291*	-14,604*
11	15,019*	4,622*	1,007*	-4,840*	24,290*	17,901*	-3,990*	-120*	3,700*	-12,394*	-15,155*
18	16,836*	6,002*	1,081*	-6,058*	24,227*	16,607*	-4,464*	-107*	4,056*	-12,196*	-12,312*
25	14,659*	7,474*	938*	-5,740*	23,749*	17,929*	-9,361*	-28*	5,043*	-11,307*	-14,038*

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

STRICTLY CONFIDENTIAL (FR)
CLASS II-FOMC

Net Changes in System Holdings of Securities[1]

Millions of dollars, not seasonally adjusted

September 30, 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--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
Aug.	3,056	--	6	6	--	12						3,038	-53
1985--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
21	32	--	--	--	--	--	--	--	--	--	--	32	-1,669
28	155	--	--	--	--	--	--	--	--	--	--	155	2,224
Sept. 4	2,615	--	--	--	--	--	--	--	--	--	--	2,615	813
11	10	--	--	--	--	--	--	--	--	--	--	10	1,207
18	307	--	--	--	--	--	--	--	--	--	--	307	-5,192
25	510	--	--	--	--	--	--	--	--	--	--	510	4,785
LEVEL--Sept. 26	79.3	19.3	35.1	14.9	21.5	90.8	2.5	4.1	1.3	.4	8 2	183.1	-4.7

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 (+).