

REC'D IN RECORDS SECTION

MAY 1, 1959

TO: Open Market Committee

SUBJECT: ~~The Outlook for Member~~FROM: Division of Research and Statistics  
Board of Governors

Bank Reserve Positions

Member bank reserve projections indicate that, in the absence of further System action, reserve positions will continue to tighten in the current two weeks ending May 13. Net borrowed reserves, which have been revised upward since the beginning of April, would be expected to rise from a revised average level of \$253 million in the week of April 29 to about \$400 million in the week of May 13. During this period, reserves drained by an increase in currency in circulation, a decline in float, and continued outflow of gold would be offset only in small part by those supplied by Treasury operations and a decline in required reserves. Recent movements in float and currency and foreign gold purchases now scheduled indicate that these factors will absorb substantially more reserves in the current two weeks than indicated in the mid-April projections. In addition, required reserves may remain at higher levels than previously projected due to higher levels of Government deposits now expected.

Without System action further tightening in reserve positions would be expected in the second half of May. Net borrowed reserves would average about \$430 million in the week of May 20, as the mid-month rise in float should nearly offset drains due to other factors. In the following week, the effects of changes in required reserves and other reserve factors should largely cancel out. A seasonal outflow of currency and decline in float would cause a further rise in net borrowed reserves in the week of June 3 to a level of more than \$600 million.

During June, little change in reserve positions is expected until the last week of the month, as seasonal movements in required reserves and the net of other reserve factors should be roughly balancing. The effect of an increase in required reserves, associated with tax-period credit and deposit expansion around the middle of June, should be offset by the mid-month rise in float and a net inflow of currency in circulation. The end of month decline in float, however, would give rise to substantial reserve tightening in the last week of the month, with net borrowed reserves rising to \$970 million in the week ending July 1.

Increasing pressure on reserve positions is indicated early in July also, in connection with currency outflow associated with holiday needs and an increase in required reserves reflecting projected Treasury financing. In the absence of System action, reserve positions should ease somewhat after the first week in July. Net borrowed reserves would be expected to fluctuate within the July range of \$850-\$1,250 million through the end of August.

- 2 -

Projections of changes in member bank reserve positions are shown through August 1959, weekly in Table 1 and monthly in Table 2. Estimated levels of free reserves (last column in Table 1) are net results of other factors, which are derived on the following basis:

1. Customary seasonal changes in currency in circulation, which show a general rising tendency with substantial increases around the holidays.
2. Gold outflow at the rate of \$25 million a week through the end of September.
3. Treasury balance at Federal Reserve Banks maintained at \$500 million following the week ending May 13.
4. Required reserves estimated as follows:
  - a) Usual seasonal changes in demand deposits adjusted, time deposits, and interbank deposits, with no allowance for growth. Weekly projections of demand deposits adjusted indicate a decline of \$1.6 billion from the end of April to the end of May, followed by moderate fluctuations at somewhat higher levels through August.
  - b) Treasury tax and loan accounts projected on basis of cash receipts and expenditures and of attrition on maturing issues as estimated by Board's staff. In addition to projected effects of cash financing announced for May, estimates assume cash financing of \$3.4 billion on July 2 and \$2.0 billion on August 3. Tax and loan account balances, which averaged \$3.4 billion in the week of April 29, are expected to average about \$4.2 billion in May and \$3.5 billion in June. A peak level of \$6.6 billion is projected in the week of July 8, reflecting assumed financing early in that week.
5. Open market operations data include changes in System holdings through midday May 1, with run-offs of repurchase contracts in maturity dates stated.

Confidential (F. R.)

Table 1  
ESTIMATED CHANGES IN BANK RESERVES, WITH RELEVANT FACTORS  
(Weekly averages; in millions of dollars)

Period	Member Bank Reserves			Factors affecting reserves 1/					Open market operations	Member bank borrowings	Estimated level of "free" reserves
	Required	Excess	Total	Currency in circulation	Treasury operations	Other nonmember deposits and F. R. accounts	Gold stock and foreign deposits	F. R. Float			
1959:											
Apr. 29*	- 113	- 153	- 266	+ 88	- 101	+ 71	- 64	- 230	+ 64	- 93	- 253
May 6	- 30	---	- 30	- 110	+ 55	---	- 70	- 75	+ 147	+ 23	- 276
13	- 15	---	- 15	- 100	+ 5	---	- 30	- 50	+ 38	+ 122	- 398
20	+ 90	---	+ 90	---	---	- 115	- 25	+ 270	- 69	+ 29	- 427
27	- 145	---	- 145	+ 50	---	- 5	- 25	- 170	- 11	+ 16	- 443
June 3	- 30	---	- 30	- 150	---	+ 20	- 25	- 75		+ 200	- 643
June 10	- 30	---	- 30	- 75	---	+ 10	- 25	+ 45		+ 15	- 658
17	+ 105	---	+ 105	- 15	---	- 35	- 25	+ 225		- 45	- 613
24	+ 245	---	+ 245	+ 85	---	+ 15	- 25	+ 150		+ 20	- 633
July 1	- 75	---	- 75	- 80	---	+ 40	- 25	- 350		+ 340	- 973
July 8	+ 150	---	+ 150	- 200	---	+ 5	- 25	+ 90		+ 280	-1,253
15	- 10	---	- 10	+ 10	---	---	- 25	+ 50		- 45	-1,208
22	- 45	---	- 45	+ 160	---	---	- 25	+ 145		- 325	- 883
29	- 95	---	- 95	+ 155	---	+ 20	- 25	- 230		- 15	- 868
Aug. 5	- 60	---	- 60	- 95	---	- 20	- 25	- 50		+ 130	- 998
12	- 120	---	- 120	- 70	---	- 20	- 25	- 80		+ 75	-1,073
19	- 15	---	- 15	---	---	- 75	- 25	+ 200		- 115	- 958
26	+ 15	---	+ 15	+ 65	---	- 25	- 25	- 120		+ 120	-1,078
Sept. 2	---	---	---	- 65	---	+ 40	- 25	- 60		+ 110	-1,188

\* Actual.

1/ Sign indicates effect on reserves.

Confidential (F. R.)

Table 2  
ESTIMATED CHANGES IN BANK RESERVES, WITH RELEVANT FACTORS  
(Based on weekly averages for last week in each month; in millions of dollars)

Period (figures in parentheses indicate number of weeks)	Member Bank Reserves			Factors affecting reserves 1/					Open market operations	Member bank borrowings
	Required	Excess	Total	Currency in circulation	Treasury operations	Other nonmember deposits and F. R. accounts	Gold stock and foreign deposits	F. R. Float		
1959:										
January (4)*	- 87	-263	- 350	+1,306	+ 100	+ 37	+ 23	-544	- 971	- 301
February (4)*	- 445	+ 17	- 428	+ 39	- 45	- 242	- 51	- 24	- 71	- 33
March (5)*	- 132	+ 66	- 66	- 114	- 61	+ 10	- 89	- 52	+ 83	+ 156
April (4)*	+ 301	- 73	+ 228	- 19	- 19	+ 224	- 19	- 98	+ 115	+ 44
May (5)	- 130	---	- 130	- 310	+ 60	- 100	- 175	-100	+ 105	+ 390
June (4)	+ 245	---	+ 245	- 85	---	+ 25	- 100	+ 70		+ 335
July (4)	---	---	---	+ 125	---	+ 45	- 100	+ 55		- 125
August (5)	- 180	---	- 180	- 165	---	- 125	- 125	-110		+ 345
September (4)	+ 155	---	+ 155	- 30	---	+ 35	- 100	+190		+ 60
October (4)	+ 140	---	+ 140	- 95	---	+ 45	---	+ 65		+ 125
November (5)	+ 15	---	+ 15	- 475	---	- 90	---	+ 55		+ 525
December (4)	+ 425	---	+ 425	- 410	---	+ 25	---	+585		+ 225
1958:										
Jan.-Mar.*	-1,212	+ 31	-1,181	+1,323	+ 22	- 231	- 265	-774	- 745	- 512
Apr.-June*	+ 374	- 41	+ 333	- 527	+ 135	- 33	-1,036	+ 39	+1,803	- 47
July-Sept.*	- 430	-195	- 625	- 52	+ 10	---	- 476	+ 89	- 499	+ 303
Oct.-Dec.*	+ 737	+196	+ 933	-1,241	- 63	+ 12	- 395	+714	+1,514	+ 390
1959:										
Jan.-Mar.*	- 664	-180	- 844	+1,231	- 6	- 195	- 117	-620	- 959	- 178
Apr.-June	+ 416	- 73	+ 343	- 414	+ 41	+ 149	- 294	-128	+ 220	+ 769
July-Sept.	- 25	---	- 25	- 70	---	- 45	- 325	+135		+ 280
Oct.-Dec.	+ 580	---	+ 580	- 980	---	- 20	---	+705		+ 875

\* Actual.

1/ Sign indicates effect on reserves

Banking Section, Division of Research and Statistics  
May 1, 1959