

Confidential (F. R.)

REC'D IN RECORDS SECTION
July 24, 1959

TO: Open Market Committee
FROM: Division of Research and Statistics
Board of Governors

SUBJECT: The Outlook for
Member Bank Reserve
Positions

JUL 27 1959

Projections of member bank reserve positions, based upon customary seasonal variations in monetary and credit demands, prospective Treasury financing operations, and an assumed continued gold outflow, indicate that, in the absence of further System action, net borrowed reserves will tend to increase from now until the end of the year. From a level of about \$500 million in the current week, there will be an increase during the next six weeks of over \$400 million, followed by fluctuations in September and a further increase of nearly \$400 million in October.

Net borrowed reserves are expected to average about \$650 million during August. During the next few weeks, required reserves will decline considerably, as tax and loan account balances are drawn down from the current high level. This easing influence, however, should be more than offset by reserve drains from other factors, especially from declining float.

Reserve positions may be expected to tighten after mid-August, due at first to declining float in the two weeks ending September 2. An outflow of currency, associated with the Labor Day holiday, should also tighten reserves in late August and early September. With no further System operations, net borrowed reserves of about \$950 million are indicated for the week of September 9.

In mid-September required reserves are expected to increase due in part to quarterly tax-period credit expansion, but this should be more than offset by the mid-month rise in float and return flow of currency. As a result, net borrowed reserves would be expected to decline to about \$600 million in the week of September 23.

Substantially tighter reserve positions are indicated for October with net borrowed reserves averaging over \$1,185 for the month. The principal factor contributing to this tightening is the increase in required reserves that would be associated with the large Treasury cash financing projected for October 7. Net borrowed reserves would reach a peak of about \$1.5 billion in the following week in the absence of System action. Changes in float and currency in circulation during October also may be expected to show large weekly effects on reserve positions, but the intra-monthly changes in both of these factors should be largely offsetting over the month as a whole.

In the last quarter of 1959, seasonal needs for reserves, together with an assumed continued outflow of gold, are expected to amount to about \$1.5 billion. The seasonal drain due to currency outflow is estimated at about \$1.0 billion, while float is expected to provide about \$650 million of seasonal reserves, mostly in December. Seasonal projections of required reserves indicate an increase of about \$650 million, due mainly to a projected \$4.3 billion increase in demand deposits adjusted.

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Projections of changes in member bank reserve positions are shown weekly through October 1959 in Table 1 and monthly through December 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 1959.
3. Treasury balance at Federal Reserve Banks maintained at \$500 million following the week ending August 5.
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 little change through mid-August followed by a decline of about \$1.0 billion in the last half of the month. A generally rising seasonal trend is projected through the second half of the year with an increase of \$1.2 billion projected from the end of July to the end of October.
 - 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. Estimates assume cash financing of \$500 million on August 31, \$4.0 billion on October 7, and \$1.1 billion on November 9. Tax and loan account balances, which averaged \$5.5 billion in the week of July 22, are expected to decline to \$1.5 billion in the week of September 16 and thereafter to rise with tax receipts and cash financing to a peak level of \$5.4 billion in the week of October 14.
5. Open market operations data include changes in System holdings through July 24, with run-offs of repurchase contracts in maturity dates stated.

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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			
July 22*	+ 217	+ 119	+ 336	+ 158	- 59	+ 6	- 12	+ 377	- 43	- 90	- 348
July 29	- 125	---	- 125	+ 130	- 48	+ 40	- 45	- 350	+ 10	+ 138	- 486
Aug. 5	- 60	---	- 60	- 100	+ 16	- 40	- 25	- 50	- 21	+ 160	- 646
12	- 150	---	- 150	- 80	---	- 20	- 25	- 80	- 30	+ 85	- 731
19	- 30	---	- 30	---	---	- 75	- 25	+ 200		- 130	- 601
26	- 45	---	- 45	+ 60	---	- 10	- 25	- 130		+ 60	- 661
Sept. 2	+ 15	---	+ 15	- 65	---	+ 25	- 25	- 80		+ 160	- 821
Sept. 9	- 30	---	- 30	- 150	---	---	- 25	+ 25		+ 120	- 941
16	+ 45	---	+ 45	- 30	---	---	- 25	+ 150		- 50	- 891
23	+ 90	---	+ 90	+ 110	---	- 5	- 25	+ 285		- 275	- 616
30	+ 10	---	+ 10	+ 70	---	+ 45	- 25	- 320		+ 240	- 856
Oct. 7	- 70	---	- 70	- 120	---	- 40	- 25	- 10		+ 125	- 981
14	+ 315	---	+ 315	- 130	---	+ 40	- 25	- 80		+ 510	-1,491
21	+ 45	---	+ 45	+ 50	---	---	- 25	+ 470		- 450	-1,041
28	- 55	---	- 55	+ 120	---	+ 20	- 25	- 350		+ 180	-1,221

* Actual.

1/ Sign indicates effect on reserves

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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)*	- 124	+ 58	- 66	- 114	- 61	+ 10	- 89	- 52	+ 83	+ 156
April (4)*	+ 328	- 100	+ 228	- 19	- 19	+ 224	- 19	- 98	+ 115	+ 44
May (5)*	- 162	- 65	- 227	- 397	+ 27	- 126	- 168	- 47	+ 293	+ 193
June (4)*	+ 43	+ 19	+ 62	- 217	+ 311	+ 52	- 475	+ 179	+ 140	+ 72
July (4)	+ 223	+ 242	+ 465	- 55	+ 40	+ 66	- 47	- 83	+ 415	+ 129
August (5)	- 270	----	- 270	- 185	+ 15	- 120	- 125	- 140	- 50	+ 335
September (4)	+ 115	----	+ 115	----	----	+ 40	- 100	+ 140	+ 35	
October (4)	+ 235	----	+ 235	- 80	----	+ 20	- 100	+ 30	+ 365	
November (5)	+ 45	----	+ 45	- 530	----	- 155	- 125	+ 50	+ 805	
December (4)	+ 385	----	+ 385	- 410	----	+ 25	- 100	+ 565	+ 305	
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.*	- 656	- 188	- 844	+1,231	- 6	- 195	- 117	- 620	- 959	- 178
Apr.-June*	+ 209	- 146	+ 63	- 633	+ 31.9	+ 150	- 662	+ 34	+ 548	+ 309
July-Sept.	+ 68	+ 242	+ 310	- 240	+ 55	- 14	- 272	- 83	+ 365	+ 499
Oct.-Dec.	+ 665	----	+ 665	-1,020	----	- 110	- 325	+ 645	+1,475	

* Actual.

1/ Sign indicates effect on reserves.

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