

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date May 20, 1947

To Chairman Eccles

Subject: Sales of bonds for

From Richard A. Musgrave
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Treasury Account

The Federal Reserve Bank of New York, since the beginning of April, has sold approximately 250 million dollars of bonds in the open market. Altogether 229 million dollars of bonds have been sold for Treasury and 18 million dollars for the System Account, making net sales of 247 million dollars in the six statement weeks ended May 14, 1947. The net sales included 167 million dollars of restricted bonds, 57 million dollars of taxable bank eligible bonds and 23 million partially tax-exempt bonds. (See Table I)

This sales program has been a factor in holding down prices but nevertheless some price advance has been resumed following a significant decrease in the week ended April 16. (See Table II) At that time the market was very sensitive to a small show of bonds by the New York Reserve Bank, as it had been made cautious by the cash redemption of bills out of war loan balances and by the Treasury-Federal Reserve discussions on changes in credit policy. Since April 30, sales for Treasury Account appear to have gathered momentum, and, even though the sales program has been primarily in restricted bonds, their prices have firmed more than those of other bonds.

While there has not been a large outright demand for restricted issues, there has been a complete absence of a market supply. Accordingly, small outright purchases by savings banks and shifting out of eligible issues sufficed to exert a strong pressure on prices. Without additional supply of bonds from the Treasury, prices would have risen substantially, judged by the market reaction whenever the supply has been withheld for two or three days. At the same time, the effectiveness of the sales program has probably been decreasing as investors began to respond to the increased supply with additional demand, bringing funds into the market which otherwise might have stayed outside. There is no indication that the dealers have not been cooperative in making the sales program effective. Their position in restricted bonds is currently about 40 million dollars as compared with approximately zero near the end of April and 200-300 million dollars a year ago.

There is reason to expect that the price rise may be accentuated in the near future. Some of the factors involved are:

(1) The supply of bonds from System Account is, of course, strictly limited. With respect to future supply of bonds from Treasury Account, the New York Reserve Bank gives us the following information which

they wish to be held strictly secret: Present authorizations of sales of 2 1/2 per cent taxable bonds for Treasury Account amount to 101 million dollars of original authorizations totaling 300 million dollars. In addition, there is left to sell about 4 million dollars of partially tax-exempt bonds of 4 1/2 million dollars authorized and the entire amount of authorizations to sell 132 million dollars of 2 per cent bonds. The authorization is being doled out in amounts of 100 million dollars with instruction to sell only when needed to maintain an orderly market. Thus, the Treasury, to some extent, can direct open market policy and fill out the market on its own accord. The Treasury has given no indication whatsoever of the extent to which it plans to make new authorizations to sell part of the considerable amount of 2 1/2 per cent bonds (of nearly 5 billion dollars) which it holds in trust accounts, particularly Postal Savings and FDIC accounts. The sales of marketable bonds held by trust accounts are being replaced with special issues. The special issues bear 2 1/2 per cent interest which together with the premium on the sale of marketable 2 1/2 per cent bonds is judged adequate income for the trust accounts.

(2) Some pressure on reserves from the debt retirement program will continue through June, when they will be accentuated by seasonally high tax receipts. However, Treasury finances may well add to reserves in July and the pressure in August and September is likely to be only mild. The significant factor is that war loan deposits are rapidly approaching a minimum working level so that war loan calls which have exerted the main pressure on reserves are nearing their end.

(3) The effectiveness of the program of bond sales depends upon skillfully using the apparently small supply of bonds available, so as to have the maximum effectiveness in holding down prices. This requires secrecy and uncertainty.

(4) Much depends on whether the feeling of uncertainty about interest rate developments continues. If the banks begin to feel that short rates won't rise much or that such rise as will occur will not be sufficient to depress bond prices significantly, a considerably increased demand may be expected. There currently is some shifting by banks into longer term taxable bonds.

Attachments

Table I

NET SALES OF TREASURY BONDS FOR
TREASURY AND SYSTEM ACCOUNTS

(In thousands of dollars)

<u>Statement week ended</u>	<u>Restricted</u>	<u>Unrestricted, taxable</u>		<u>Partially tax exempt</u>	<u>Total</u>
		<u>Callable after 1955</u>	<u>Callable before 1956</u>		
April 9		72	4,000	13	4,085
April 16	9,155	4,250	12,000		25,405
April 23	15,500		7,000	10,000	32,500
April 30	16,440	750		111	17,301
May 7	70,250	16,798	1,000	10,500	98,548
May 14	<u>56,100</u>	<u>11,000</u>	<u> </u>	<u>2,404</u>	<u>69,504</u>
Total	167,445	32,870	24,000	23,028	247,343

Table II

BID PRICES OF SELECTED ISSUES
OF TREASURY BONDS

(Dollar premium above par of \$100)

<u>Statement week ended</u>	<u>Unrestricted, taxable</u>		<u>Restricted</u>	
	<u>December 1952-54</u>	<u>September 1956-59</u>	<u>June 1959-62</u>	<u>December 1967-72</u>
April 9	3.07	5.15	2.26	3.16
April 16	2.29	5.06	2.15	3.04
April 23	3.02	5.10	2.17	3.07
April 30	2.30	5.08	2.19	3.08
May 7	2.30	5.07	2.22	3.08
May 14	2.28	5.09	2.24	3.09

Table I
Price and Yield Changes of United States Securities
May 16, 1947, to May 23, 1947

(Based on mean of closing bid and asked quotations)

Security	Prices			Yields		
	May 16, 1947	May 23, 1947	Change	May 16, 1947	May 23, 1947	Change
	(Decimals are thirty-seconds)			(Percent)		
TAXABLE SECURITIES						
Bills						
Average rate last issue	-	-	-	.376	.376	.000
Certificates 1/						
7/8 6/1/47	-	-	-	.64	.45	-.19
7/8 7/1/47	-	-	-	.78	.75	-.03
7/8 8/1/47	-	-	-	.78	.76	-.02
7/8 9/1/47	-	-	-	.81	.80	-.01
7/8 10/1/47	-	-	-	.83	.82	-.01
7/8 11/1/47	-	-	-	.84	.84	.00
7/8 12/1/47	-	-	-	.85	.84	-.01
7/8 1/1/48	-	-	-	.85	.85	.00
7/8 2/1/48	-	-	-	.85	.85	.00
7/8 3/1/48	-	-	-	.85	.85	.00
7/8 4/1/48	-	-	-	.84	.84	.00
7/8 6/1/48	-	-	-	-	.85w1	-
Taxable Notes						
1-1/2 9/15/47	100.06‡	100.06‡	.00	.87	.83	-.04
1-1/4 9/15/47	100.04	100.04	.00	.86	.84	-.02
1-1/2 9/15/48	100.21‡	100.21	.00‡	.99	.99	.00
Taxable Bonds						
2 3/15/48-50	100.28	100.28	.00	.93	.91	-.02
1-3/4 6/15/48	100.27	100.27	.00	.96	.94	-.02
2 6/15/49-51	101.25	101.26	+.01	1.13	1.11	-.02
2 9/15/49-51	101.29	101.30	+.01	1.17	1.15	-.02
2 12/15/49-51	102.01	102.02	+.01	1.20	1.18	-.02
2 3/15/50-52	102.05	102.06	+.01	1.22	1.20	-.02
2 9/15/50-52	102.12	102.13	+.01	1.27	1.25	-.02
1-1/2 12/15/50	101.02	101.04	+.02	1.20	1.18	-.02
2 9/15/51-53	102.22	102.23	+.01	1.36	1.35	-.01
2 12/15/51-55	102.28	102.29	+.01	1.35	1.34	-.01
2-1/2 3/15/52-54	105.04	105.05	+.01	1.40	1.39	-.01
2 6/15/52-54	102.30	103.00	+.02	1.40	1.38	-.02
2-1/4 6/15/52-55	104.04	104.05	+.01	1.40	1.40	.00
2 12/15/52-54	103.00	103.03	+.03	1.44	1.42	-.02
2-1/2 3/15/56-58	106.31	107.01	+.02	1.65	1.64	-.01
2-1/4 9/15/56-59	105.10	105.12	+.02	1.63	1.63	.00
2-1/4 6/15/59-62	102.25	102.25	.00	1.00	1.09	.00
2-1/4 12/15/59-62	102.25	102.25	.00	2.00	2.00	.00
2-1/2 6/15/62-67	105.11	105.13	+.02	2.09	2.08	-.01
2-1/2 12/15/63-68	104.31	105.01	+.02	2.14	2.14	.00
2-1/2 6/15/64-69	104.19	104.18	-.01	2.18	2.18	.00
2-1/2 12/15/64-69	104.17	104.17	.00	2.19	2.19	.00
2-1/2 3/15/65-70	104.13	104.14	+.01	2.20	2.20	.00
2-1/2 3/15/66-71	104.12	104.13	+.01	2.21	2.21	.00
2-1/2 6/15/67-72	103.10	103.10	.00	2.29	2.29	.00
2-1/2 9/15/67-72	105.15	105.18	+.03	2.17	2.16	-.01
2-1/2 12/15/67-72	103.10	103.10	.00	2.30	2.30	.00
TAX-EXEMPT SECURITIES						
Partially Tax-exempt Bonds						
4-1/4 10/15/47-52	101.14	101.12	-.02	.71	.69	-.02
2 12/15/47	100.23	100.23	.00	.74	.70	-.04
2-3/4 3/15/48-51	101.20	101.19	-.01	.77	.76	-.01
2-1/2 9/15/48	102.07	102.07	.00	.81	.79	-.02
2 12/15/48-50	101.27	101.26	-.01	.82	.82	.00
3-1/8 12/15/49-52	105.13	105.15	+.02	.99	.95	-.04
2-1/2 12/15/49-53	103.27	103.29	+.02	.98	.95	-.03
2-1/2 9/15/50-52	104.26	104.28	+.02	1.02	1.00	-.02
2-3/4 6/15/51-54	106.21	106.23	+.02	1.08	1.05	-.03
3 9/15/51-55	108.03	108.05	+.02	1.08	1.06	-.02
2-1/4 12/15/51-53	105.07	105.10	+.03	1.08	1.05	-.03
2 6/15/53-55	105.04	105.06	+.02	1.13	1.11	-.02
2-1/4 6/15/54-56	107.06	107.06	.00	1.19	1.19	.00
2-7/8 3/15/55-60	111.24	111.25	+.01	1.29	1.28	-.01
2-3/4 9/15/56-59	112.09	112.09	.00	1.34	1.34	.00
2-3/4 6/15/58-63	113.09	113.09	.00	1.45	1.45	.00
2-3/4 12/15/60-65	114.09	114.09	.00	1.58	1.58	.00

Treasury Department, Division of Research and Statistics.

May 26, 1947

1/ Quoted on a yield basis.

Table II
Price and Yield Changes of United States Securities
September 1, 1942, to May 23, 1947

Issues outstanding on both dates only

(Based on mean of closing bid and asked quotations)

Security	Prices			Yields			Issues with 3 months or more to run	
	Sept. 1, 1942	May 23, 1947	Change	Sept. 1, 1942	May 23, 1947	Change	Estimated change in yield required to maintain pattern of rates	Estimated change in yield relative to Sept. 1, 1942, pattern of rates

(Decimals are thirty-seconds)

(Percent)

(Percent)

TAXABLE SECURITIES

<u>Bills</u>								
Average rate last issue	-	-	-	.367	.376	+0.009	.000	+0.009
<u>Taxable Bonds</u>								
2 3/4 3/15/48-50	101.05	100.28	-.09	1.78	.91	-.87	-1.08	+.21
2 6/15/49-51	100.11	101.26	+1.15	1.95	1.11	-.84	-.76	-.08
2 9/15/49-51	100.08	101.30	+1.22	1.96	1.15	-.81	-.70	-.11
2 12/15/49-51	100.06	102.02	+1.28	1.97	1.18	-.79	-.66	-.13
2 12/15/51-55	100.02	102.29	+2.27	1.99	1.34	-.65	-.40	-.25
2-1/2 3/15/52-54	103.23	105.05	+1.14	2.07	1.39	-.68	-.38	-.30
2-1/4 6/15/52-55	101.06	104.05	+2.31	2.12	1.40	-.72	-.36	-.36
2-1/2 3/15/56-58	103.03	107.01	+3.30	2.23	1.64	-.59	-.18	-.41
2-1/2 6/15/62-67	100.13	105.13	+5.00	2.47	2.08	-.39	-.10	-.29
2-1/2 9/15/67-72	101.06	105.18	+4.12	2.44	2.16	-.28	-.08	-.20

TAX-EXEMPT SECURITIES

<u>Partially Tax-exempt Bonds</u>								
4-1/4 10/15/47-52	114.28	101.12	-13.16	1.24	.69	-.55	-.87	+.32
2 12/15/47	104.09	100.23	-3.18	1.16	.70	-.46	-.85	+.39
2-3/4 3/15/58-51	107.10	101.19	-5.23	1.37	.76	-.61	-.80	+.19
2-1/2 9/15/48	106.28	102.07	-4.21	1.31	.79	-.52	-.74	+.22
2 12/15/48-50	104.06	101.26	-2.12	1.30	.82	-.48	-.71	+.23
3-1/8 12/15/49-52	110.19	105.15	-5.04	1.58	.95	-.63	-.62	-.01
2-1/2 12/15/49-53	106.09	103.29	-2.12	1.58	.95	-.63	-.62	-.01
2-1/2 9/15/50-52	106.20	104.28	-1.24	1.62	1.00	-.62	-.58	-.04
2-3/4 6/15/51-54	108.12	106.23	-1.21	1.72	1.05	-.67	-.53	-.14
3 9/15/51-55	110.15	108.05	-2.10	1.74	1.06	-.68	-.52	-.16
2-1/4 12/15/51-53	105.01	105.10	+.09	1.66	1.05	-.61	-.50	-.11
2 6/15/53-55	103.15	105.06	+1.23	1.65	1.11	-.54	-.42	-.12
2-1/4 6/15/54-56	105.13	107.06	+1.25	1.74	1.19	-.55	-.37	-.18
2-7/8 3/15/55-60	110.02	111.25	+1.23	1.97	1.28	-.69	-.33	-.36
2-3/4 9/15/56-59	109.10	112.09	+2.31	1.99	1.34	-.65	-.26	-.39
2-3/4 6/15/58-63	109.15	113.09	+3.26	2.05	1.45	-.60	-.20	-.40
2-3/4 12/15/60-65	110.02	114.09	+4.07	2.09	1.58	-.51	-.14	-.37