

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date June 27, 1947

To Chairman Eccles

Subject: Position of Dealers in Govern-

From Richard A. Musgrave
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Ment Securities March 1946- June 1947

The position of reporting dealers in Government securities (excluding Treasury bills) on June 16, 1947 was .8 billion dollars as compared with 1.3 billion in March 1946 when their position was the largest since the Victory Loan drive at the end of 1945. The period was marked by two precipitate drops in April and July followed by partial recoveries in subsequent months to a level of almost 1 billion at the end of November; by another decline to a low of about .2 billion by mid-March; and by a rise to .9 billion by the end of May. Most of the last increase occurred during the month of May, and consisted primarily of notes and certificates.

Certificates now account for about one half of total dealer holdings. They have shown no trend since the beginning of the retirement program but have fluctuated widely in response to swings in the market demand for short-term securities. They have been the major factor of change in dealer positions. Holdings of restricted bonds declined more or less constantly from March 1946 to February 1947, when they were nearly liquidated; since then holdings have fluctuated at a very low level. Similarly, dealer holdings of partially tax exempt bonds have steadily declined since March 1946, while holdings of taxable unrestricted bonds have fluctuated but without any noticeable trend. There has recently been an increase in the holdings of certificates, notes and taxable bonds from abnormally low levels reached in March 1947.

The fluctuations in dealers' holdings of certificates and notes coincides with the state of the market. During every period of temporary weakness when certificates were in supply, dealers have added to their position, and conversely when certificates were in demand dealers have sold certificates. This has reduced the volume of Federal Reserve purchases and sales required to support the 7/8 per cent certificate rate.

Holdings at present are at a reasonable level. They are some 300 million dollars less than at the start of the Treasury's retirement program in March 1946 and also below levels maintained during the greater part of 1945 and 1946. The recent increase in dealer positions above the low reached in March resulted from dealer support of a weak certificate market and the need for increased bond holdings due to a somewhat more active bond market. Sales for Treasury account were kept uncertain so that this source of supply did not relieve the need for some dealer position.

The New York Reserve Bank reported in its weekly reports on open market operations during the second half of 1946 that the positions of two dealers in restricted bonds were overly large relative to their capital and volume of business. This situation has since been corrected.

**POSITION OF REPORTING DEALERS IN GOVERNMENT SECURITIES
ON SELECTED DATES, MARCH 1946 - JUNE 1947**

(In millions of dollars)

	Certif- icates of indebt- edness	Treasury notes	Eligible bonds			Notes and elig- ible bonds	Restricted bonds	Total excluding Treasury bills
			Partially tax- exempt bonds	Taxable unre- stricted bonds	Total			
March 14, 1946	528.5	51.4	353.1	130.3	483.4	534.8	277.5	1,340.8
April 18, 1946	198.4	53.8	243.8	78.4	322.2	376.0	251.3	825.7
June 28, 1946	570.8	93.9	166.3	68.2	234.5	328.4	177.2	1,076.4
July 18, 1946	205.7	- 2.8	199.6	- 17.3	182.3	179.5	143.3	528.5
Sept. 23, 1946	402.5	77.4	164.6	67.4	232.0	309.4	121.5	833.4
Oct. 11, 1946	141.2	56.2	162.8	75.0	237.8	294.0	70.4	505.6
Nov. 29, 1946	438.0	135.8	153.7	159.1	312.8	448.6	80.4	967.0
Jan. 20, 1947	173.6	28.7	113.3	66.4	179.7	208.4	63.8	445.8
Feb. 24, 1947	423.0	77.5	117.4	102.0	219.4	296.9	3.5	723.4
March 19, 1947	45.7	- 2.1	96.4	51.5	147.9	145.8	28.1	219.6
May 29, 1947	430.2	136.1	90.1	142.7	232.8	368.9	76.6	875.7
June 16, 1947	408.5	88.3	96.7	162.4	259.1	347.4	31.7	787.6