

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date March 9, 1937

To Chairman Eccles

Subject: _____

From Mr. Goldenweiser 

In connection with your Treasury meeting.

CURRENT COMMENTS IN BRIEF

Adjustment to new reserve requirements

The decline in excess reserves of \$790,000,000 in the week ending March 3 was mostly at New York City banks, which showed a reduction of \$480,000,000, of which \$320,000,000 reflected increased requirements and the remainder a loss of reserves. This loss of reserves at New York reflected in part withdrawals of bankers' balances of \$90,000,000 and transfers through other financial and commercial transactions. Banks outside New York City, as a consequence, gained reserves, thus offsetting in part the decrease in excess reserves resulting from increased requirements. From Wednesday to Saturday of last week outside banks showed a further increase in reserves.

Loans and investments

Commercial loans at reporting banks increased \$42,000,000 last week, making a total increase of \$93,000,000 since the end of January. Holdings of Government securities declined further at banks outside New York.

Securities markets

The stock market was more active last week and prices rose to new high levels, while corporate bond prices showed little change. Prices of Government bonds, particularly the long-term issues, declined substantially on Monday of this week. Brokers' borrowings and their advances to customers on margin accounts increased further in February.

Foreign security buying last week approached the volume of last October and November.

Business conditions

Industrial production, on a daily average basis, showed about the usual seasonal increase from January to February, and the Board's production index remained at about 114. Department store sales increased more than seasonally.

Higher prices of finished steel, pig iron, and steel scrap were announced last week and prices of nonferrous metals have risen further to new high levels for the post-depression period.

March 9, 1937

New financial program in France

The French Government on Friday, March 5, announced a program designed to draw into the Treasury the great mass of funds that are either hoarded in France or have taken flight abroad. A National Defense Loan will be floated payable in francs, dollars, or pounds. The French hoarder who has failed to turn in his gold at the old par as required by the law of October 1 is offered the opportunity to sell it to the Bank of France at the current price without identifying himself, thus putting himself in funds to purchase the loan. The capitalist who has sent his money abroad as protection against a further decline in the franc is now enabled to bring it home and invest it in the loan without sacrificing his safety in pounds or dollars. An appeal is made to all investors by the promise that Government expenditures will be curtailed. Not only will the Government refrain from demanding any new credits, with one minor exception, but it estimates that the economic recovery now in progress will permit reduction of expenditures on relief and public works by 6,000,000,000 francs -- an amount greater than the deficit in the ordinary budget. Hence it promises that the National Defense Loan will be the only long-term issue during the course of the year. Other Treasury needs it believes can easily be covered by normal operations in the short-term market.

While the move appears to be primarily designed to bring the Treasury money for its extraordinary expenditures -- in particular military expenditures -- it is also hoped that it will make easier the task of maintaining

a stable value for franc exchange and render unnecessary any form of exchange control. For the better administration of the Stabilization Fund a commission has been appointed composed of Labeyrie, Governor of the Bank of France; Rueff, a high official of the Finance Ministry and ex-officio a director of the Bank of France; Baudouin, General Manager of the Bank of Indo-China who has been seriously considered recently as a possible governor of the Bank of France; and Rist, economist,^{an} honorary governor of the Bank of France, and veteran of French finance. Almost the first act of this new group was to remove official support from the franc which had been pegged at just over 105 francs to the pound since the middle of October. With the removal of the peg the franc dropped from about 4.65 cents in New York to 4.52, from which point short-covering drove it above 4.56 yesterday. Had the French Fund not stepped in to preserve an orderly market, the advance would have been even more abrupt. The volume of short-covering suggests that speculators are unwilling to bet on the failure of the loan and the continued movement of French capital abroad -- a good augury for the French Treasury. Just where the new commission will undertake more definite stabilization operations is uncertain. It may be that instead of pegging the franc again to the pound (or the dollar) the commission will follow the British policy of giving way slowly before market trends, subject only to the condition that the franc cannot be permitted to fall below 4.35 cents nor to rise above 4.9%.

The commission will also have responsibility for "watching" the government bond market (i.e., rentes) and for cooperating with the measures to be taken to prevent an unjustifiable rise in commodity prices which

would penalize the rentier. In other words, a new monetary power has been established in France with a view to making the Popular Front's bid to the investor successful. The proposal for a National Defense Loan, which is the core of the whole program, is being presented to Parliament today. Its precise terms have not yet been announced, although there is talk of a 10-year loan at 4 percent to be offered just under par in installments aggregating altogether not more than 9,500,000,000 francs. Perhaps the most interesting feature of the loan will be the triple ratio between the franc, the pound, and the dollar, which will be established for the purpose of optional payments.