

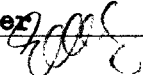
BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

# Office Correspondence

Date June 1, 1937

To Chairman Eccles

Subject: \_\_\_\_\_

From Mr. Goldenweiser 

\_\_\_\_\_

**In connection with your Treasury meeting.**

## CURRENT COMMENTS

Excess reserves

During the week ended May 26 excess reserves of member banks increased \$30,000,000 to a total of \$940,000,000. A decline of \$40,000,000 in Treasury deposits was the principal factor accounting for the increase in excess reserves. During the current week ending June 2, it is anticipated that excess reserves will decline as a result of a substantial rise in money in circulation, reflecting the holiday demand for currency and month-end requirements. Excess reserves, however, are not likely to decline much, if any, below \$900,000,000.

Treasury balances

The Treasury now holds \$80,000,000 on deposit with Reserve banks and little net change in this balance is expected for this week. The Treasury is issuing an additional \$50,000,000 of bills on June 2, which brings the total bills maturing at the September tax date to \$350,000,000, or \$50,000,000 more than had been originally scheduled. On June 2 the Treasury balances with depository banks and with the Reserve banks will amount to only about \$225,000,000, and they will be drawn down slightly further before the June income tax payments start coming in.

Gold

The gold inflow continues in large volume, with \$70,000,000 of gold purchased by the Treasury last week. A part of this, however, was due to release of gold earmarked for foreign central banks. On May 29, \$57,000,000 of gold was in transit to the United States. Since the sterilization program has been in effect a total of \$750,000,000 of gold has been placed in the inactive account.

Reporting member banks in New York and Chicago

In the week ending May 26 there were further withdrawals of bankers' balances from central reserve city banks. Other deposits, however, increased, especially in New York, and New York City banks continued to gain reserves. On May 26 they held \$245,000,000 of excess reserves.

Total loans and investments of reporting banks in New York and Chicago showed little change, reflecting some increase in loans, chiefly in commercial loans, which was largely offset in New York by a small decline in security holdings. Loans to banks decreased and borrowings by New York banks were completely liquidated during the week.

Security markets

Treasury bond prices advanced somewhat last week and the average yield on bonds callable after eight years was 2.62 percent at the end of the week, compared with 2.66 a week earlier. The average yield on Treasury notes maturing in 3-5 years remained steady and closed at 1.46 percent on Friday. The new issue of 9-month Treasury bills sold at an average discount of 0.562 percent, as compared with a yield of 0.617 percent for the previous week. The average yield on the September bills was 0.375 percent, as compared with 0.430 percent the previous week.

Trading was extremely light in the corporate bond and stock markets last week. Average daily sales of stocks on the New York Stock Exchange was about 650,000 shares, the smallest in about two years. Prices were steady or sagged slightly; railroad shares and lower-grade railroad and public utility bonds showed some weakness.

New bond issues were limited to a few small municipal flotations totalling less than \$5,000,000.

Prices of British stocks in London showed little change for the week, but declined somewhat on Monday, May 31, in reflection of increased tension between Germany and other powers over the trouble in Spain.

Foreign buying of American stocks

Foreigners showed little interest in American stocks last week. There was a small purchase balance.

Business conditions

Prices of most raw and semifinished commodities showed little change last week. There were decreases, however, in the prices of grains, wool, lumber and glass.

Yesterday, accompanying threatening developments in the Spanish war area and renewed rumors of change in the gold policy of the United States, prices abroad declined, but in today's trading they advanced. Domestic commodity markets were closed yesterday and opened today generally lower than at the close Saturday.

Activity in the steel industry has been reduced during the past week by strikes at the plants of several independent companies. Most of the industry, however, is operating under agreements with the steel workers union and no sustained interruption of steel output by strikes seems likely.