Form F. P. 131

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date June 7, 1937

To Chairman Eccles

Subject:

From Mr. Goldenweiser

In connection with your Treasury meeting.

CONFIDENTIAL

Cc. 29
June 7, 1937

CURRENT COMMENTS

Excess reserves

During the week ending June 2 excess reserves of all member banks declined to $860,000,000, a decrease of $80,000,000 for the week. The principal reason for the decrease was a growth of $90,000,000 in money in circulation, which was somewhat larger than is usual over Memorial Day. This was caused in part by the failure of currency to return from circulation owing to a strike of armored-car employees in New York. The decrease in reserves during the week was entirely at New York City banks.

During the current week ending June 9, it is expected that excess reserves will increase by about $100,000,000 as a result of a return flow of currency and a reduction in Treasury deposits with Federal Reserve banks.

Reporting member banks

In the week ending June 2 demand deposits at reporting member banks declined by $250,000,000, chiefly as a result of the increase in currency in circulation and a decline in holdings of Government securities. Bankers' balances in New York, however, increased by $66,000,000 and in other leading cities by $41,000,000.

At banks outside New York holdings of Governments declined by $70,000,000 during the week. At New York banks they increased by $45,000,000, the largest increase in any week since June 1936, reflecting the continued purchase of

Treasury bills, which had in other recent weeks been offset by the selling of bonds and notes. Commercial loans increased by $20,000,000 in New York but showed little change elsewhere.

Security markets

Treasury bond prices were generally unchanged last week, and the average yield on the longer-term issues at 2.62 percent on Saturday was the same as a week earlier. Following announcement Thursday morning of plans for new note issues the average yield on 3- to 5-year Treasury notes rose to 1.50 percent and remained at that level the rest of the week. This yield compares with 1.46 percent at the close of the previous week.

After beginning the week with a decline following the double holiday, corporate bond prices rose to slightly above the average of the week before. The average yield on Aaa bonds was 3.29 percent on Friday, in comparison with 3.30 on May 28. Prices of lower-grade public utility bonds also improved, for the first time in several weeks, but lower-grade railroad issues continued to lose ground. Municipal bond prices rose somewhat more on the average than did corporates. The daily volume of trading on the New York Stock Exchange last week was again very small.

New security issues totalled about $16,000,000, most of which was in a single public utility issue for new capital. The total is only slightly larger than the $12,000,000 offered in the previous week, which was reported to be the smallest weekly offering since last November.

The general level of stock prices showed little net change last week. The volume of trading in stocks continued relatively small -- with average daily sales approximating 675,000 shares.

Commodity prices

Last week grain prices were considerably lower than in the preceding week and there were slight declines in rubber and textiles, while prices of most other commodities showed little change.

Foreign selling of American stocks

After having purchased small amounts of American stocks on balance for two weeks foreigners returned preponderantly to the selling side last week. The selling was mainly for British account, with the Netherlands and France also participating.

Gold and capital movements

Last week the movement of foreign gold to the United States was more than double the $39,000,000 of the previous week. Monetary gold stock on June 5 is estimated at $12,060,000,000, of which the $828,000,000 in the inactive account represents purchases since December 23. Gold still in transit to the United States on June 5 amounted to $63,000,000.

The increase in the movement of gold to the United States reflected two developments at the end of May. Further rumors concerning the future price of gold led to a sharp rise in the volume of dishoarding, and the war scare resulting from the Spanish-German clash intensified the demand for dollars on the part of dishoarders and others.

Developments on Saturday and Monday indicate a return to conditions similar to those before the recent flurry. The special demand for dollars that resulted from Spanish war fears has subsided, and dishoarding has dropped to its earlier volume, probably reflecting the President's statement on Friday that no change in gold policy was contemplated. With this shift in the situation the British Fund has been able to relax its support of the bullion market and to permit foreign purchases of gold in London to strengthen sterling exchange.