Form F. R. 131

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date June 21, 1937

To Chairman Eccles

Subject:

From Mr. Goldenweiser EAG

In connection with your Treasury meeting.

CONFIDENTIAL

Cc 31
June 21, 1937

CURRENT COMMENTS

Member bank reserves

Wide fluctuations in member bank reserves during the period of Treasury financing did not result in disturbances in the money market or in changes in money rates. Excess reserves, which declined by about $180,000,000 during the week ending June 16, have increased somewhat in subsequent days, and it is expected that on the statement day on June 23 excess reserves will be in the neighborhood of $850,000,000.

Gold and capital movements

Despite the recurrence of a French financial crisis, the movement of foreign gold to the United States has declined steadily from the peak reached during the gold and war-threat scares in the first week of June. French capital has gone mainly to England and most of the gold lost in support of the franc has been sold to the British Fund. Gold dishoarding and the flow of the proceeds of dishoarded gold to the United States have diminished. Last week the movement of foreign gold to this country was at about the April-May average of $40,000,000 a week. It is estimated that on June 19 the monetary gold stock amounted to $12,245,000,000, which would make the inactive account $1,015,000,000.

Reporting member banks

During the week ended June 16, reporting member banks acquired a considerable amount of the new issue of Treasury notes, and their total holdings of United States obligations increased by $300,000,000, of which $80,000,000 was at New York banks.

Commercial loans at New York banks rose by $34,000,000 and loans to banks by $45,000,000. The volume of borrowing by New York banks is now substantially larger than immediately after the increase in reserve requirements in May. By the end of May these banks had completely repaid debt incurred earlier in the month but in the past three weeks their borrowings from other banks have increased to $53,000,000, largely in the form of purchases of Federal funds.

Bond market

Treasury bond prices declined slightly last week, and the average yield on the longer-term issues was 2.64 percent on Saturday, as compared with a yield of 2.63 percent the previous week. The average yield on Treasury notes maturing in 3 to 5 years was 1.56 percent on Saturday. This compares with a yield of 1.51 percent at the close of the previous week. The increase reflected entirely the inclusion of the new notes of March 1942 and the elimination of the notes of June 1940, which now mature in less than three years.

Prices of corporate bonds declined moderately last week. Lower-grade railroad and other bonds lost more than a point, while the highest grade issues remained firm. The average yield on Moody's Aaa bonds was 3.27 percent on Friday, unchanged from the previous week. Municipal bond prices also were a little lower last week. The volume of bond transactions on the New York Stock Exchange remained at the low level of recent periods.

New security issues offered last week totalled about $151,000,000, as compared with $89,000,000 in the week ending June 11. The total last week is the largest since the week ending March 13. About $94,000,000 of last week's offerings consisted of municipal issues, including $60,000,000 of 1-year notes of the State of Pennsylvania. The latter were reported to be selling fairly well to institutional investors.

Stock market

There was some increase in activity in the stock market during the week ending June 19. The average daily turnover approximated 950,000 shares, which compares with about 650,000 shares during other recent weeks. Stock prices, after a sharp decline on Monday to the lowest levels of the year, increased somewhat thereafter, particularly on Thursday and Friday. At the end of the week the Standard Statistics index for 90 issues was accordingly slightly above the low for the year.

The market price of seats on the New York Stock Exchange, after declining to $85,000 a week or two ago, advanced during the week to $89,000.

Foreign selling of American stocks increased last week, and the largest sales balance since the middle of May was recorded.

Factory employment and payrolls

Factory employment, which usually declines at this season, showed little change from April to May and the Board's adjusted index advanced somewhat further. There were increases in employment at factories producing machinery, automobiles, and rubber tires. Changes in other industries were small and for the most part seasonal. Factory payrolls remained at the April level but were 30 percent larger than a year ago.

Commodity prices

Prices of commodities traded in on organized markets showed little change last week.

CONFIDENTIAL

Cc. 30
June 14, 1937

CURRENT COMMENTS

Member bank reserves

Excess reserves of member banks increased by $70,000,000 during the week ending June 9 to a total of $930,000,000. The two principal factors in this increase in excess reserves were a decline in the amount of currency in circulation, following the sharp increase in the preceding week, and a reduction in Treasury deposits with Federal Reserve banks. Within recent weeks the Treasury has been issuing certificates against silver formerly held in Treasury cash and depositing them with the Reserve banks. These transfers, which eventually result in additions to member bank reserves,have amounted to about $40,000,000 in the past month.

During the week ending June 16 it is estimated that excess reserves will be reduced by about $300,000,000. Treasury operations will absorb $160,000,000 and an increase in reserve requirements arising from the increased Government deposits will absorb about $140,000,000 of excess reserves. New York City banks will probably lose nearly $200,000,000 of excess reserves during this period. The loss for the country in Treasury transactions arises from cash sales of the new issues amounting to $200,000,000, income tax collections, and a call from depositaries, which more than offset bill redemptions,, interest payments, and Treasury expenditures.

Gold and capital movements

Last week, apparently reflecting American and British statements that no changes in gold policy were contemplated, dishoarding declined and the movement of foreign gold to the United States was cut to approximately half that in the preceding week. This reduced movement, however, was larger than the April-May average of about $40,000,000 a week. Monetary gold stock on June 12 was $12,172,000,000, of which $941,000,000 was in the inactive account.

Reporting member banks

Demand deposits adjusted at reporting member banks in leading cities increased by $230,000,000 in the week ending June 9, following a decrease of $250,000,000 the previous week. Balances due to banks declined by $37,000,000 in New York and by $63,000,000 in other leading cities, while total balances due from banks were reduced by only $15,000,000, indicating further substantial withdrawals by nonreporting banks.

In the week ending June 9 commercial loans of member banks in New York City increased by $23,000,000. Loans to brokers and dealers in securities at all reporting banks increased by $36,000,000, ~~reflecting principally increased borrowing by dealers in Government securities~~. Holdings of U. S. Government obligations increased by $15,000,000 at New York City banks, but declined by $26,000,000 at Chicago banks, and by $8,000,000 at other reporting banks.

Bond market

Treasury bond prices showed little change last week and the average yield on bonds callable after eight years remained unchanged at 2.63 percent. Following the announcement of the terms of the new note issues the average yield on Treasury notes rose slightly at the beginning of the week. Among the individual issues Treasury notes maturing in 1939 and 1941 showed the greatest increase in yields.

Prices of corporate bonds showed small changes last week. The average yield on Aaa bonds was 3.27 percent on Friday, as compared with 3.29 on June 4. Municipal bond prices also moved narrowly. The volume of bond transactions on the New York Stock Exchange continues to be small.

The amount of new security issues was larger last week, about $89,-000,000 in comparison with $18,000,000 in the week ending June 5. The increase resulted from the private sale to several insurance companies of a $75,000,000 issue by a petroleum company for new capital purposes. There was also a public offering of $30,000,000 of debentures of the Federal Intermediate Credit banks with maturities of 4 to 9 months.

Stock market

Stock prices declined from 1 to 3 points on the average last week, continuing the downward trend of the past three months. Trading was light, with average daily sales of about 635,000 shares.

Foreigners again sold American stocks on balance last week, but the volume was small.

Preliminary figures for May 31 from member firms of the Exchange who carry margin accounts indicate a decrease of about $50,000,000 in the amount of credit extended to customers by such firms, reported as customers' debit balances. This decline followed an increase of $270,000,000 during the preceding nine months and was accompanied by a decline in borrowings and in customers' free credit balances.

Industrial production

Volume of industrial production in May continued at about the level of the two preceding months and the Board's seasonally adjusted index remained at 118 percent of the 1923-1925 average. Production of pig iron, steel ingots, and lumber increased further partly on the basis of a large volume of orders placed in earlier months. Output of bituminous coal, crude petroleum, and iron ore also increased. Production of nondurable manufactures showed a decline in May, with considerable decreases at meat-packing establishments and silk mills. At cotton mills activity remained at about the same high rate as in other recent months.

In the first two weeks of June activity at steel mills declined sharply to around 77 percent of capacity as compared with an average of 90 percent in May, reflecting strikes at plants of three large producers while other units continued to operate at previous levels. Output of automobiles showed a decline which was largely seasonal.

Construction

The Dodge figures on contracts awarded showed a decline in private projects from April to May, particularly for residential construction, which increased sharply in April. Contracts were larger in the last half of May than in the first half. Preliminary building permit data show increases in some cities and decreases in others. Reports from the field indicate that in some instances projects have been postponed on account of advances in wage rates, material prices, and other costs. Wholesale prices of building materials have shown little change since the beginning of April and are currently about 13 percent higher than a year ago, while average hourly wages are about 11 percent higher, according to the Bureau of Labor Statistics.

Commodity prices

Prices of commodities traded in on organized markets generally moved lower last week. Corn, cotton, and rubber declined considerably and there were also decreases in the prices of steel scrap, copper scrap, and print cloths. Silk prices advanced. At the end of the week cash corn was selling for about $1.20 a bushel as compared with a high of $1.40 reached in May. December futures were quoted at 74 cents a bushel, reflecting the prospect of a larger crop this season. Wheat for July delivery closed at $1.06 a bushel, about 25 cents lower than the high which was reached early in April.