

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date June 28, 1937

To Mr. Eccles

Subject: _____

From Mr. Goldenweiser

EAG
puSSB

In connection with your Treasury meeting.

CURRENT COMMENTS

Excess reserves

Member bank excess reserves increased by \$60,000,000 during the week ending June 23, reaching a total of \$810,000,000. This increase was largely the result of disbursements by the Treasury from its deposits with the Reserve banks.

It is expected that during the week ending June 30 excess reserves will show a further slight increase. An increase in funds from net disbursements by the Treasury of about \$70,000,000, and a decline in nonmember deposits will be partly offset by a seasonal increase in money in circulation which in this week may amount to \$50,000,000.

It is estimated that money in circulation may increase by \$130,000,000 between June 23 and July 3, and that this currency demand may reduce excess reserves from the present level of \$810,000,000 to about \$750,000,000. After July 3 the amount of currency in circulation will decline by at least \$150,000,000, restoring excess reserves to about \$900,000,000 by the end of the month.

Gold and capital movements

Gold imports have been in reduced volume compared with the first half of the month. Recent additions to monetary gold stock have been as follows:

Week ending Saturday	Increase in gold stock (millions of dollars)
June 5	77
12	106
19	78
26	40 (est.)

It is estimated that on June 26 the gold stock amounted to \$12,290,000,000 and the inactive account to \$1,060,000,000.

New York City banks

In the week ending June 23, holdings of Government securities by New York City member banks declined by \$120,000,000, reflecting principally Treasury repayment of maturing bills. After this decline total holdings of Governments by these banks were about the same as at the beginning of June.

Brokers' loans at New York banks increased further, by \$50,000,000, during the week. Interbank borrowings decreased.

Bond market

Treasury bonds and notes were generally unchanged last week. The average yield on the longer-term bond issues was unchanged at 2.65 percent during the week and that on 3- to 5-year notes was about 1.57 percent most of the week.

Trading in the bond market last week remained at the very low levels generally prevailing since the middle of May. Prices of high-grade bonds and of municipals were off only slightly. Moody's average of Aaa bond yields was 3.29 percent on Friday as compared with 3.27 percent a week earlier. There was a continued decline in lower-grade corporate bond prices, lower-grade railroad bonds losing nearly 2 points, and Moody's Baa bond yield average rose to 5.05 percent on Friday, higher than at any time since early January 1936.

Despite the recent lack of strength in bond markets, the June aggregate of new security issues is likely to exceed \$450,000,000 which will be the largest since the February total of \$500,000,000. Last week's offerings

totalled about \$130,000,000, as compared with \$150,000,000 in the week ended June 18. Municipal issues were again substantial and included a \$40,000,000 issue of New York State which was reported to have been reasonably well distributed. Two moderately large refunding issues, of a telephone company and a power company respectively, met with a good reception.

Stock market

Activity in the stock market, after increasing substantially in the week ending June 19, declined again in the week ending June 26 to the low level of other recent weeks--with sales approximating 540,000 shares per day. Fluctuations of stock prices, as indicated by the daily Standard Statistics index for 90 stocks, were relatively narrow, at a level slightly above the low for the year reached about two weeks ago. Prices of railroad stocks which have been especially weak declined again and reached a new low for the year on June 26.

The volume of foreign selling on the New York stock market declined last week to a negligible figure. The French were consistent but light buyers.

Commodity prices

Prices of grains advanced last week, and there was also an increase in tin prices, accompanying a general rise in nonferrous metal prices abroad. Cotton goods continued to decline, while prices of most other basic commodities showed little change. Leading manufacturers of housefurnishings announced further substantial price advances to become effective this autumn.

Federal budget deficit

Present indications are that the budget deficit, exclusive of debt retirements, for the fiscal year 1937 which ends on June 30 will be about

\$2,700,000,000 or \$150,000,000 more than that shown in the official estimates made public in April. Receipts are somewhat larger than anticipated but net repayments to the Reconstruction Finance Corporation and the Commodity Credit Corporation have fallen short of the estimates. Certain expenditures are also higher than estimated.