

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

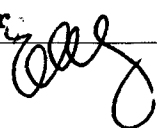
Office Correspondence

Date July 6, 1937

To Chairman Eccles

Subject: _____

From Mr. Goldenweiser



In connection with your Treasury meeting.

CURRENT COMMENTS

Excess reserves

During the week ending June 30, excess reserves of member banks increased by \$60,000,000 to a total of \$870,000,000. Factors in the increase were declines of \$60,000,000 in Treasury deposits with Federal Reserve banks and \$40,000,000 in nonmember deposits, offset in part by a seasonal increase of \$50,000,000 in money in circulation.

In the next few weeks it is expected that movements in excess reserves will largely reflect seasonal changes in money in circulation and by the end of July excess reserves are likely to be about \$900,000,000.

Gold movement and French crisis

Last week was dominated by the French crisis. The gold movement to the United States, however, was comparatively moderate. The capital exodus from France was stopped on Tuesday by closing the Paris exchange. On Wednesday full powers were granted to the French Government to deal with the financial situation and provision was made to supply the Treasury with cash by authorizing it to borrow an additional 15,000,000,000 francs from the Bank of France. The Government immediately removed the lower limit of 4.35 cents that had stood in the way of a substantial downward readjustment of French exchange, and the effort to defend the rate of approximately 4.46 cents that had been maintained for a month preceding the crisis was abandoned. When the exchange was again opened on Thursday the franc was tentatively moved to a new level about 14 percent lower (to about 3.84 cents). This less

vulnerable level for the franc, the passing of the immediate Treasury crisis, and the drastic measures promised to balance the budget appear to have led to some covering of short positions in the franc. Consequently the French crisis contributed little during the week to the gold movement toward the United States, although it was a matter of major concern.

Gold acquired by the United States abroad during the week amounted to \$40,000,000, the same figure as the week before.

New York City banks

The reserve position of New York City banks improved considerably in the last week of June. Their excess reserves were built up to \$240,000,000 and their borrowings at other New York banks incurred early in the month were completely repaid. Investment holdings declined by \$40,000,000, reflecting largely the redemption of an issue of New York State notes; there were small increases in most classes of loans, except loans to banks.

Security market

Prices of high-grade bonds showed little change during the week but prices of lower-grade corporate bonds and of stocks, ~~increased sharply~~ after declining to new lows in the early part of the week, ^{the week.} increased during the rest of the week.

Moody's average of Baa corporate bond yields, after reaching a new high for the current movement of 5.14 percent on Tuesday, closed at 5.05 percent on Friday, as compared with 5.05 percent a week earlier.

The general level of stock prices, after declining on Monday, increased during the rest of the week, and the average closing price on Friday of the 90 issues included in the daily Standard Statistics index was the highest of the last three weeks and about 4 percent above the low for the year.

Total borrowings by member firms of the New York Stock Exchange, including both brokers and dealers, as reported to the Exchange for the end of June, showed an increase during the month of about \$35,000,000 following a decrease of about the same amount during May.

After moderate purchases of American stocks on Monday, foreigners shifted to the selling side for the remainder of the week. ~~The Dutch alone were buyers on balance~~

Capital issues

New security issues continued to be offered in large volume during the week ended July 2 and the total was about \$150,000,000, compared with about \$130,000,000 in the preceding week. Most of the large corporate bond issues floated in June are now selling above their offering prices. Distribution of a \$95,000,000 bond issue of the Union Electric Company of Missouri offered on Monday, chiefly for refunding, was reported as substantially completed within the week, and a \$50,000,000 nonconvertible preferred stock issue of Dupont was very well received on Wednesday. The latter issue was one of the largest issues for new capital in recent periods. The proceeds ^{are} ~~will~~ to be used to increase general corporate funds for future needs, and no specific allocation of the funds was stated by the issuer.

Commodity prices

Prices of most commodities traded in on the organized exchanges showed little change last week. Wheat prices advanced further, partly on reports of additional black rust damage in the United States and continued drought conditions in Canada, and on Saturday wheat for September delivery closed at \$1.25 a bushel, about 20 cents higher than in the middle of June. The

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price of winter wheat for immediate delivery is now about the same as last summer following the drought, and considerably lower than during the first quarter of this year.