

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date July 19, 1937

To Chairman Eccles

Subject: _____

From Woodlief Thomas

W. T.

In connection with your usual Treasury meeting.

CONFIDENTIAL

Cc. 35
July 19, 1937

CURRENT COMMENTS
(Preliminary)

Dwindling gold movement

By the end of last week new gold shipments to the United States had come to a virtual halt. Less than \$5,000,000 appears to have been engaged for shipment to this country during the week or acquired directly from foreigners by the Treasury. Not only did offerings of gold in the London market continue to be small, but the London gold price rose to a level which made it unprofitable to ship gold to the United States. Last week, for the first time in a great many months, no London market gold was taken for United States account. This situation in the gold market, together with a further rise of sterling to the highest level since the tripartite arrangement became effective, appears to reflect the cessation of gold dishoarding and a strengthening of the demand for sterling in this country for commercial and other purposes. Among the latter, it is reported, Japanese operations have been important, the proceeds of Japanese gold sales in this country having been transferred to London for the purpose of meeting short-term debt payments in that market.

Break in the French franc

A break in the French franc, which declined on Friday and Saturday to new low levels, featured the exchange market at the close of last week. This reversal of the previous moderate upward tendency of the franc was

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not linked to any particular event, but reflected, rather, the cumulative effect of a number of developments casting doubt on the success of the new financial program. The decline in the franc was substantial, amounting to more than 3 percent in London at its maximum. It is believed that the French control did little to restrain the fall, but on Monday of this week the Fund was reported to have intervened to some extent, and the franc recovered slightly. Because of the Fund's policy of conserving its newly acquired gold and allowing the franc to decline, pressure on franc exchange has not resulted in any gold movements of importance.

Excess reserves

Excess reserves of member banks increased \$80,000,000 to a total of \$960,000,000 in the week ending July 14. The major factor responsible for the increase in reserves was a decline of \$70,000,000 in money in circulation. Treasury deposits with the Reserve banks also declined slightly, as did foreign bank deposits. The decline in foreign bank deposits reflected purchases of short-term Treasury bills in this market for account of foreign correspondents. Excess reserves of leading New York banks continued to increase during the week. On July 14 these banks held \$230,000,000 of excess reserves as compared with \$170,000,000 a week earlier, and approximately \$100,000,000 on July 2.

During the current statement week ending July 21, it is anticipated that excess reserves will show a small decline owing to an increase in Treasury deposits with the Reserve banks. The Reconstruction Finance Corporation is making some large payments to the Treasury, and the Treasury's

balance will therefore be built up to a somewhat higher level than it has been accustomed to keep in the past few weeks.

Reporting member banks

In the week ending July 14, total loans and investments of reporting member banks in New York City declined further, while banks in other leading cities showed a small increase. At New York banks holdings of Government obligations decreased by \$40,000,000, making a total decline of nearly \$190,000,000 since the Treasury note issue of June 15. Loans to brokers and dealers declined by \$70,000,000 during the week, while commercial loans, which had shown little change since the middle of June, showed an increase of \$75,000,000, of which half was at New York banks.

Adjusted demand deposits increased by \$180,000,000, following a decline of \$430,000,000 in the two preceding weeks. Of last week's increase only about \$50,000,000 was at New York City banks, where the decrease in preceding weeks had exceeded \$250,000,000.

Government security market

Treasury bonds and notes advanced further during the past week. The average yield on the longer-term bonds declined to 2.59 percent, as compared with 2.62 percent on Saturday of the previous week, and the yield on 3- to 5-year notes declined to 1.44 percent from 1.48 percent a week earlier. These yields, which are the lowest since March, compare with the April highs of 2.78 percent for bonds and 1.70 percent for notes.

Bond market

Moody's averages of corporate bond yields on Friday showed no net change from the preceding Friday. The Aaa average remained at 3.27 percent, and the Baa average at 4.95 percent. Second-grade rails lost about 1/2 point in price during the week, following the rapid advances of the previous fortnight, but other classes were relatively unchanged in price. Market trading in bonds was exceptionally light.

Stock market

During the week ending July 17 the stock market was somewhat less active than during the preceding week, with average daily sales of about 850,000 shares. The general level of stock prices has shown very little net change during the past ten days, and is now about 8 percent above the low for the year, reached about a month ago.

Prices of British stocks in London declined during the week, but remained somewhat above the low for the year, reached about two weeks ago.

Foreign purchases and sales of American stocks were approximately equal last week, with business in small volume.

New capital issues

About 20 new security issues were offered last week and the total amount was about \$70,000,000. The largest issue was an industrial preferred stock issue of \$45,000,000, of which about half was for new capital and half for refunding. Reception of the week's issues was favorable, and the technical position of the market appears to be strong. It seems, however, that the total of new issues in July will be as small as in any period since the revival of the capital market in March 1935.