

FEDERAL RESERVE SYSTEM

# Office Correspondence

Date November 15, 1937

Chairman Eccles

Subject: \_\_\_\_\_

m Woodlief Thomas

*W.T.*

In connection with your usual Treasury meeting.

CURRENT COMMENTS  
(Preliminary draft)

Excess reserves

There was little change last week in the volume of excess reserves. Total reserve balances declined slightly, and required reserves showed a further decrease. New York banks had smaller reserves last week than in the previous week, while reserve city and country banks gained reserves.

In the current statement week ending November 17, excess reserves are expected to increase slightly further. Treasury deposits with the Federal Reserve banks and money in circulation may decline somewhat. Other influences on excess reserves are expected to show little change.

Reporting member banks

Total loans and investments of reporting member banks in leading cities declined by \$50,000,000 during the week ending November 13, reflecting moderate reductions in loans to security brokers and dealers, in loans to banks, and in investments. Commercial loans, which had declined during the three previous weeks, increased somewhat at reporting banks both in New York City and outside. Holdings of United States Government obligations showed a further increase at New York City banks but continued to decline elsewhere. In the past three weeks, New York City banks have purchased \$130,000,000 of additional Governments.

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Deposits at reporting banks showed little change during the week. Adjusted demand and time deposits increased somewhat, while United States Government and interbank deposits declined.

Government security market

The Government security market improved slightly further last week, with the best demand reported for the longer-term Treasury notes. Prices of intermediate Treasury notes increased by 4/32, while the longer-term notes increased by 6/32. There was some demand reported for short-term Treasury bonds also, and these prices increased by 2/32. Long-term Treasury bonds declined by 2/32. Reflecting these price changes, the average yield on 3 to 5 year Treasury notes reached a further new low since the break in the market last March and was 1.30 percent on Saturday as compared with 1.35 percent on Monday. The average yield on Treasury bonds callable after 8 years was 2.62 percent on Saturday as compared with 2.63 on Monday.

Bond market

After some declines early last week, prices of corporate bonds rallied on Wednesday and on Saturday were about the same as a week earlier. The average yield on Aaa bonds on Friday was 3.26 percent, as compared with 3.25 on November 5. Yields on municipal bonds declined slightly.

New security issues offered last week, as in the previous week, amounted to about \$4,000,000, all of which represented municipal issues.

Stock market

During the week ending November 13, stock prices recovered about three-quarters of their decline during the preceding week. The closing prices on Saturday, according to the Standard Statistics Index for 90 stocks, were about 7 percent above those of the preceding Saturday and 11 percent above the year's lowest closing prices reached October 18. The volume of sales on the New York Stock Exchange was slightly larger than last week and averaged about 1,500,000 shares per session.

Prices of British stocks in London declined during the week but remained somewhat above the lowest prices for the year.

Preliminary reports to the Board from member firms of the New York Stock Exchange indicate that during October the volume of credit extended by these firms to their customers, reported as "customers' debit balances", declined by about \$300,000,000, or 22 percent, to about \$1,060,000,000, the lowest since May, 1933. This is the largest decline for any month in this series, which is available since the end of 1931. The volume of "customers' debit balances" on October 30 was \$500,000,000 below the post-depression peak of \$1,559,000,000 reached last April, and about \$350,000,000 above the depression low reached in the summer of 1932. Borrowings of these firms from banks and other sources in New York City and elsewhere also declined during October by about \$300,000,000, or about 28 percent, to about \$790,000,000, the lowest since October, 1935.

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Foreign buying of American stocks

Last week's upturn in stock prices brought with it a shift by foreigners from the selling to the buying side. Foreign purchases exceeded sales on every day except Monday, with a moderate purchase balance resulting for the week as a whole. Heaviest net purchases occurred on Wednesday, when stock prices bounded upward.

Gold and capital movements

The withdrawal of foreign short-term funds appears to have reached a peak on Monday, November 8. On Tuesday the pressure against the dollar subsided measurably, and remained light during the rest of the week. There can be little doubt that foreigners are still wary of the dollar, but the news that United States gold was being sold to support the dollar at its present parity and that the Administration was preparing to combat the recession by "sound" measures, has reassured foreign markets for the time being, and the gold outflow has ceased.

Commodity prices

Copper prices, which had declined from 11 3/4 cents per pound at the beginning of November to 10 cents last Monday, advanced to 11 cents later in the week. Tin, rubber, and wheat prices have also advanced since last Monday, following sharp declines in the preceding week. Prices of steel scrap, wool, worsted yarns, and cotton goods, on the other hand, have continued to decline.

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Industrial production

Steel ingot production in the current week is estimated at 36.4 percent of capacity as compared with 41 percent last week and an average for October of 59 percent. Activity in the Pittsburgh district is expected to show an increase but in most other districts, and particularly at Chicago, declines are anticipated.

Automobile assemblies declined last week to around 85,000 cars and trucks, according to Ward's Automotive Reports, Inc., as compared with about 90,000 in each of the preceding four weeks. Output at Ford plants remained in negligible amount.

In October cotton consumption showed a sharp decline and was about 25 percent below the high level maintained during the first half of this year. The rate of consumption in October was about the same as in the spring of 1936.