

STRICTLY CONFIDENTIAL

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

November 5, 1943

Chairman Eccles

L. M. Piser

Purchase of short-term securities

The System Account has recently been purchasing a large amount of short-term tax-exempt securities as well as certificates, as shown in the attached table. I talked with Mr. Rouse this morning concerning these purchases, since the yields after taxes on most of these partially tax-exempt issues are as low as the yields after taxes on the certificates. He said that the earlier purchases of both kinds of issues were made for the purpose of relieving some of the pressure on the bill market. In addition, he thought it desirable to purchase these issues, because they may be given rights to exchange for 2 per cent bonds. The more recent purchases were made to remove from the market a supply that dealers were finding it impossible to sell. I suggested that by paying present prices he might be encouraging investors to sell. He said that in one instance he had purchased guarantees that an investor was selling in order to switch to certificates, and he said further that perhaps he had gone too far in supporting the prices of the partially tax-exempt securities.

	Week ended		
	Oct. 27	Nov. 3	Nov. 10 (to date)
Certificates:			
December 1	+3,900	-700	--
February 1	+47,100	+3,000	--
April 1	+24,200	+25,000	+10,200
May 1	--	+5,000	+1,000
August 1	--	--	+19,700
October 1	-2,000	-12,500	--
Total certificates .	+73,200	+19,800	+30,900
Treasury notes:			
Sept. 1944	-1,500	--	--
Treasury bonds:			
1944-46	--	--	+1,900
1944-54	+4,500	--	--
1946-56	--	--	+750
FFMC:			
1944-64	+1,000	--	--
1944-49	+3,236	+1,164	+750
HOLC:			
1944-52	+700	+9,886	+3,100
Total partially tax-exempt	+9,436	+11,050	+6,500