CONFIDENTIAL

Chairman Eccles
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TREASURY BILLS

The cycle of an increase of 200 million dollars a week in outstanding Treasury bills will be completed with the issue dated August 3. Before making the following week's offering on August 4, the Treasury will need to decide whether to increase outstanding bills further at that time. If a further increase is to be made, the Treasury will need to decide upon the amount.

The table below indicates that between May 10 and June 21 the Federal Reserve Banks increased their bill holdings by more than the increase in outstanding bills as a result principally of a reduction in holdings by New York City banks. Following the release of reserves in connection with the drive, however, bank holdings increased sharply and Federal Reserve holdings declined. This latter trend is already being reversed, however, as required reserves are again increasing.

OWNERSHIP OF TREASURY BILLS
(In millions of dollars)

	May 10	June 21	July 19
Total	13,165	14,327	15,131
Federal Reserve Banks	7,604	9,246	8,655
Weekly reporting member banks:			
New York City	987	582	1,358
Other	1,831	1,799	2,549
Other investors	2,743	2,700	2,569

If there is no further increase in outstanding bills, we estimate that the Treasury's cash balance at the middle of November will be between 5 and 6 billion dollars, the same level as before the fifth drive. It is obvious, therefore, that the Treasury will not need to raise additional funds before the next drive in order to maintain a very comfortable balance.

On the other hand, Federal Reserve holdings of Government securities are likely to increase by 4.0 billion dollars between now and the next drive. If banks reduce their bill holdings to the June 21 level, which is probably the smallest amount that they wish to hold in order to meet sudden drains, the Federal Reserve will be able to obtain 2.0 billion dollars of securities from this source. The Federal Reserve will also find it necessary to purchase certificates from banks that need reserves but that have no bills or only small amounts. Between February 9 and June 21, this increase was about 700 million dollars. A similar increase can reasonably be expected between now and the next drive.

It appears, therefore, that, unless there is a further increase of 1.3 billion dollars in outstanding bills, the Federal Reserve will supply reserves during the next few months by purchasing more than 700 million of certificates or by purchasing longer-term securities. Since Federal Reserve earnings are already large, there is no need for the Treasury to pay to the Federal Reserve more than a nominal rate of interest in supplying reserves. It appears, therefore, that the Treasury should make a further increase of 100 million dollars a week for the next 13 weeks. At the end of that time, the program could be reconsidered in the light of intervening developments.

It seems likely that an increase in the bill rate should not be recommended at this time. A considerable part of the argument in the supplementary memorandum rested upon the substitution of 5/8 per cent bills for 7/8 per cent certificates in raising funds between drives. If there is no interdrive financing other than sufficient bills to meet the System's needs, however, the argument for increasing the rate will be weakened.

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