CONFIDENTIAL

R&S 100-1087

TREASURY REFUNDING

An issue of 4.1 billion dollars of certificates matures on September 1 and two issues of notes totaling about 900 million mature on September 15. Nearly half of the certificates and the larger part of the notes are held by the banking system. The latest figures on ownership are shown in the following table:

(In millions of dollars)

	Sept. 1 certificates	Taxable Sept. 15 notes	Tax-exempt Sept. 15 notes
Coupon rate (per cent)	7/8	3/4	1
Outstanding	4,122	635	283
Commercial banks	1,527	436	22
Federal Reserve Banks	500	41	24
Nonbank investors	2,095	158	237

One possibility is for the Treasury to permit holders of the notes to exchange for a new issue of 1 1/4 per cent notes of June 1947 and to give to holders of the certificates an option to exchange for either these notes or new one-year certificates. Although a single issue would keep the number of individual Treasury issues at the lowest possible point, the size of the refunding, 5 billion dollars, and the fact that the maturing issues consist of both certificates and notes indicate that two issues are desirable. A new issue of notes also is suggested, because the March 1947 notes are outstanding in the amount of 1.9 billion dollars and are quoted at a premium of 10/32.

Most of the maturing certificates probably would be exchanged for new certificates. Some investors, however, would prefer to exchange for notes. Although such a refunding would represent a very modest start in refunding short-term debt, an early start will result in an early completion and consequently in an advance in the time when the Federal Reserve will be free to alter the pattern of rates if it should appear desirable to do so.

The suggested combination of the certificate and note refunding would reduce by one the number of refunding operations that the Treasury will need to undertake. During the remainder of the calendar year, refunding will comprise 3.5 billion dollars of certificates on October 1, an equal amount on December 1, and a billion of 4 per cent bonds on December 15. Anticipation of these maturities would not be desirable because of the problem of interest adjustment.

L. M. Piser
July 25, 1944