

TREASURY FINANCING AND BANK CREDIT

In the first quarter of 1948 commercial bank reserves will be affected by the following factors:

<u>Factors decreasing reserves:</u>	<u>(In millions of dollars)</u>
Treasury cash transactions--excess of receipts over expenditures (including about 800 million for voluntary retirement of maturing securities held by others than the Federal Reserve but excluding retirement of Federal Reserve holdings).	5,800
Sales of savings bonds and notes through war loan accounts and calls on those accounts	<u>1,500</u>
Making a total drain from Treasury transactions of	7,300

These will be partly offset by the following:

Increase in gold stock of about	500
Decrease in currency in circulation of	700
Decrease in required reserves of member banks	700
Decrease in excess reserves	<u>700</u>
Total	<u>2,600</u>
Federal Reserve System will need to purchase in the market to maintain bank reserves a net amount of	*4,800
Of which it appears that purchases from nonbank investors may be as much as	2,100
Leaving purchases from banks of about	2,700

Funds will be available for retirement of all Federal Reserve holdings of certificates and bonds maturing in the quarter (about 2.5 billion dollars) and of bills at the rate of 100 million a week and still leave the Treasury on March 31 with 4.6 billion on deposit with Federal Reserve Banks

* Failure to balance exactly with difference between two previous totals is due to other factors and to rounding.

and about a billion in war loan accounts. These balances could be reduced by more rapid retirement of bills or could be retained for subsequent retirement of Federal Reserve-held debt.

These estimates assume a further increase in bank loans of about 1.5 billion in the quarter, as well as continued heavy nonbank sales of Government securities, which will tend to increase bank deposits as an offset to the drain by the Treasury. Nevertheless commercial bank deposits will decline by about 5 billion. They also assume no tax reduction effective in the first quarter. They assume that war loan deposits will be permitted to increase to about 1 billion dollars (the amount held on December 31) and then be retained at about that level.

Estimates as to System purchases of Government securities from nonbank investors, assumed to be \$150 million each week, may be wide of the mark. Purchases of restricted bonds amounted to nearly \$500 million in the first half of January and if they should continue that large the indicated pressure on banks would be greatly ameliorated. On the other hand should sales by these investors be smaller than the amount assumed, the pressure on banks will be greater. Pressure might also be increased to the extent that nonbank investors used proceeds from sales of bonds to purchase bills and certificates from the Federal Reserve. It is difficult to estimate how much these offsetting transactions may be.

Timing of changes.---The attached tables show the amount of these various changes by weeks and months during the first quarter of the year and by months for the second quarter. The last column on the first table

gives the estimates of the amount of securities that commercial banks will presumably have to sell to the Federal Reserve in order to maintain their reserve position. These figures are a measure of the extent of pressure on the banks.

It will be noted that the pressure does not begin until the last week of January and will continue rather large for about four weeks. It will then be moderate for another period of four weeks and be very large in the last half of March. This timing reflects principally the flow of income tax receipts. The figures shown are based upon estimates of total taxes that are slightly larger than those implied in the President's budget statement and assume a weekly receipts corresponding closely to the precedent of the last two or three years. This means large receipts in the latter half of January and the first half of February and again in the latter half of March.

In view of the unreliable basis for the assumptions as to nonbank sales of securities to the Federal Reserve, this schedule could be considerably altered by changes in those transactions.

Estimates for second quarter.--In the second quarter of the year, Treasury cash transactions may be expected to put over 1.5 billion dollars of funds back into the market. The Treasury can meet these payments, retire about 1.8 billion of Federal Reserve-held securities, and still have a cash balance of 2.3 billion at the end of June. Some of this could be used to retire a small part of the large July 1 maturities.

Since increases in required reserves and currency will be approximately balanced by continued gold inflow in this quarter, the Federal Reserve will have to sell about 1.5 billion of securities or take other action to keep banks from gaining reserves. To the extent that there are further purchases of securities by the Federal Reserve from nonbank investors, there will be correspondingly larger amounts of bank reserves to be absorbed.

These are the tables which may
possibly have been left off of
the memo on "Treasury Financing
and Bank Credit". Perhaps the
Chairman should see them.

R. Jones

Estimated Changes in Bank Reserves and Reserve Bank Purchases of Government Securities
(In millions of dollars)

January 19, 1948

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Period	Major factors causing reserve needs			Member bank reserves			Reserve Bank credit																	
	Gold stock	Currency in circulation	Treasury deposits with F.R. Banks ^{1/}	Required	Excess	Total	Borrowings and float	Government security holdings																
								Total	Securities retired	Net market purchases (+) or sales (-)														
								Total	Securities retired	Total	Nonbank holders ^{2/}	Banks ^{2/}												
Week ending:																								
1948 - January	7..	+	8	-	205	-	308	-	9	-	387	-	396	+	15	-	876	400	-	476	+	163	-	639
	14..	+	28	-	284	+	257	+	23	+	337	+	360	+	35	+	213	---	+	213	+	300	-	87
	21..	+	49	-	200	+	471	-	22	-	250	-	272	-	50	+	1	90	+	91	+	150	-	59
	28..	+	50	-	61	+	610	-	55	-	200	-	255	-	150	+	394	90	+	484	+	150	+	334
February	4..	+	50	+	50	-	1,110	-	75	-	100	-	175	-	50	-	1,235	1,740	+	505	+	150	+	355
	11..	+	50	---	---	+	1,030	-	147	-	100	-	247	---	+	733	90	+	823	+	150	+	673	
	18..	+	40	-	50	+	610	-	75	---	---	-	75	+	100	+	345	90	+	435	+	150	+	285
	25..	+	40	---	---	+	120	-	9	---	---	-	9	-	100	+	171	90	+	261	+	150	+	111
March	3..	+	50	+	50	-	220	-	15	---	---	-	15	---	---	-	235	435	+	200	+	150	+	50
	10..	+	40	---	---	+	140	-	15	---	---	-	15	---	+	85	90	+	175	+	150	+	25	
	17..	+	40	-	50	+	290	-	67	---	---	-	67	+	100	-	33	240	+	273	+	150	+	123
	24..	+	40	---	---	+	1,360	-	197	---	---	-	197	-	100	+	1,223	90	+	1,313	+	150	+	1,163
	31..	+	40	+	50	+	480	-	72	---	---	-	72	---	+	418	90	+	508	+	150	+	358	
	Total...	+	525	-	700	+	3,730	-	735	-	700	-	1,435	-	200	+	1,270	3,535	+	4,805	+	2,113	+	2,692
Month ending:																								
1948 - January.....		+	175	-	700	+	1,330	-	105	-	600	-	705	-	200	-	50	670	+	620	+	838	-	218
February.....		+	175	---	---	+	500	-	290	-	100	-	390	---	---	-	65	2,010	+	1,945	+	600	+	1,345
March.....		+	175	---	---	+	1,900	-	340	---	---	-	340	---	+	1,385	855	+	2,240	+	675	+	1,565	
April.....		+	175	---	---	-	1,300	+	188	---	---	+	188	---	---	-	1,287	575	-	712	---	---	---	
May.....		+	175	+	50	-	800	+	130	---	---	+	130	---	---	-	795	360	-	435	---	---	---	
June.....		+	175	---	---	-	1,200	+	117	---	---	+	117	---	---	-	1,258	840	-	418	---	---	---	
January-March...		+	525	-	700	+	3,730	-	735	-	700	-	1,435	-	200	+	1,270	3,535	+	4,805	+	2,113	+	2,692
April-June.....		+	525	+	50	-	3,300	+	435	---	---	+	435	---	---	-	3,340	1,775	-	1,565	---	---	---	
Six months...		+	1,050	-	650	+	430	-	300	-	700	-	1,000	-	200	-	2,070	5,310	+	3,240	---	---	---	

^{1/} See attached table for factors causing changes in Treasury balances.

^{2/} Figures for nonbank holders for past dates represented by purchases or sales of restricted issues, while those for banks are changes in System holdings of all eligible issues. Projections for future are guesses.

Period	Treasury deposits with Federal Reserve Banks						War loan deposits			Total Treasury deposits ^{1/} (end of period)	
	Amount (end of period)	Calls	Change			Income taxes	Other	Amount (end of period)	Change		
			Bills	C/I	Treas. bonds				New securities		Calls
Statement week ended:											
1947 - December 31*	870							968			1,838
1948 - January 7*	562	+527	--	- 543	--	+ 463	- 755	619	+140	-527	1,181
14*	819	+156	--	--	--	+ 507	- 406	598	+136	-156	1,417
21	1,290	--	-100	--	--	+1,020	- 450	740	+140	--	2,030
28	1,900	--	-100	--	--	+1,390	- 680	880	+140	--	2,780
February 4	790	--	-100	-1,850	--	+1,220	- 380	1,080	+200	--	1,870
11	1,820	+200	-100	- 30	--	+1,030	- 70	970	+ 90	-200	2,790
18	2,430	--	-100	- 10	--	+1,020	- 300	1,040	+ 70	--	3,470
25	2,550	--	-100	- 10	--	+ 560	- 330	1,110	+ 70	--	3,660
March 3	2,330	+200	-100	+ 460	--	+ 540	- 400	1,070	+160	-200	3,400
10	2,470	+150	-100	- 30	--	+ 600	- 480	1,000	+ 80	-150	3,470
17	2,760	--	-100	- 10	-280	+1,650	- 970	1,060	+ 60	--	3,820
24	4,120	+150	-100	--	- 20	+1,900	- 570	990	+ 80	-150	5,110
31	4,600	+100	-100	--	--	+1,000	- 520	1,020	+130	-100	5,620
Month ending:											
1948 - January	2,200	+683	-300	- 543	--	+4,100	-2,610	1,020	+700	-683	3,220
February	2,700	+400	-400	-1,900	--	+3,400	-1,000	1,020	+400	-400	3,720
March	4,600	+400	-400	- 500	-300	+5,400	-2,700	1,020	+400	-400	5,620
April	3,300	+400	-500	-250	--	+1,750	-2,700	1,020	+400	-400	4,320
May	2,500	+400	-400	--	--	+1,800	-2,600	1,020	+400	-400	3,520
June	1,300	+400	-400	-650	-200	+3,500	-3,850	1,020	+400	-400	2,320

* Actual

^{1/} Total of Treasury deposits at Federal Reserve Banks and war loan deposit accounts; total does not include free gold, which amounts to about 1,050 million dollars, and other small items in the General Fund balance.

GOVERNMENT FINANCE SECTION, BOARD OF GOVERNORS

PRICES AND YIELDS OF TAXABLE TREASURY BONDS
(Prices in 32nds; yields in percentages)

Issue	Taxable Treasury Bond Quotations 12/12/47		Proposed Curve	
	Price	Yield	Yield (Curve Reading)	Price Equiv.
Bank eligible:				
2 %	June 49-51	101.06	1.20	1.24 101.04
2 %	Sept. 49-51	101.08	1.27	1.35 101.04
2 %	Dec. 49-51	101.11	1.31	1.36 101.08
2 %	Mar. 50-52	101.13	1.37	1.37 101.12
2 %	Sept. 50-52	101.17	1.44	1.49 101.12
1 1/2%	Dec. 50	100.15	1.34	1.50 100.00
2 %	Sept. 51-53	101.20	1.56	1.62 101.12
2 %	Dec. 51-55	101.25	1.54	1.64 101.12
2 1/2%	Mar. 52-54	103.23	1.59	1.74 103.04
2 %	June 52-54	101.24	1.59	1.69 101.08
2 1/4%	June 52-55	102.23	1.62	1.75 102.04
2 %	Dec. 52-54	101.27	1.61	1.76 101.04
2 1/2%	Mar. 56-58	105.01	1.84	2.14 102.24
2 1/4%	Sept. 56-59	103.12	1.83	2.13 101.00 <i>05</i>
2 1/2%	Sept. 67-72	103.07	2.29	2.44 101.00
Bank restricted:				
2 1/4%	June 59-62	100.13	2.21	2.27 99.24
2 1/4%	Dec. 59-62	100.13	2.21	2.27 99.24
2 1/2%	June 62-67	102.20	2.29	2.40 101.08
2 1/2%	Dec. 63-68	102.06	2.34	2.42 101.00
2 1/2%	June 64-69	101.28	2.36	2.44 100.24
2 1/2%	Dec. 64-69	101.26	2.37	2.45 100.24
2 1/2%	Mar. 65-70	101.25	2.37	2.45 100.24
2 1/2%	Mar. 66-71	101.24	2.38	2.47 100.16
2 1/2%	June 67-72	100.00	2.43	2.47 100.08
2 1/2%	Dec. 67-72	101.00	2.44	2.47 100.08

DISPOSITION OF MATURED MARKETABLE TREASURY BONDS, NOTES AND CERTIFICATES, JULY 1, 1947 - JUNE 30, 1949
(In millions of dollars)

Issue	Held by			Total Outstanding	Redeemed for cash			Amount Exchanged	Description of new securities
	Commercial Banks	F. R. Banks	Nonbank Investors*		Total	Commercial Banks*	F. R. Banks		
1947: July 1, 7/8% C/I	1,081	665	1,170	2,916	174	84	90	2,742	7/8% C/I 7/1/48
Aug. 1, 7/8% C/I	541	260	422	1,223	97	54	43	1,127	7/8% C/I 7/1/48
Sept. 1, 7/8% C/I	707	797	837	2,341	132	60	72	2,209	7/8% C/I 7/1/48
Sept. 15, 1 1/2% T/N	1,747	57	903	2,707	128	84	44	2,580	1% T/N 10/1/48
Sept. 15, 1 1/4% T/N	689	17	981	1,687	175	72	103	1,512	
Oct. 1, 7/8% C/I	680	73	687	1,440	86	43	43	1,354	1% C/I 10/1/48
Oct. 15, 4 1/4% T/B	477	12	270	759	759	477	270	--	--
Nov. 1, 7/8% C/I	710	203	862	1,775	308	47	58	1,467	1% C/I 10/1/48
Dec. 1, 7/8% C/I	820	139	2,322	3,281	375	62	174	2,906	1 1/8% T/N 1/1/49
Dec. 15, 2% T/B	521	--	180	701	74	55	19	627	
1948: Jan. 1, 7/8% C/I	1,340	751	1,043	3,134	543	80	63	2,591	1 1/8% C/I 1/1/49
Feb. 1, 7/8% C/I	1,023	1,676	1,248	3,947	*1,900	101	*1,676	*2,047	1 1/8% C/I 2/1/49*
Mar. 1, 7/8% C/I	880	348	914	2,142	* 500	75	* 348	*1,642	1 1/8% C/I 3/1/49*
Mar. 15, 2% T/B	708	50	357	1,115	* 300	110	* 151	*2,038	1 1/8% T/N 4/1/49*
Mar. 15, 2 3/4% T/B	903	101	219	1,223					
Apr. 1, 7/8% C/I	443	125	753	1,321	* 250	46	* 125	*1,071	1 1/8% C/I 4/1/49*
June 1, 7/8% C/I	381	419	977	1,777	* 650	65	* 419	*1,127	1 1/8% C/I 6/1/49*
June 15, 1 3/4% T/B	1,995	66	1,001	3,062	* 200	89	* 66	*2,962	1 1/8% C/I or T/N 7/1/49*
July 1, 7/8% C/I (F)	655	1,429	658	2,742					
July 1, 7/8% C/I (G)	306	534	287	1,127					
July 1, 7/8% C/I (H)	467	1,058	684	2,209					
Sept. 15, 1 1/2% T/N	2,290	548	910	3,748					
Sept. 15, 2 1/2% T/B	370	--	81	451					
Oct. 1, 1% T/N	2,162	928	1,002	4,092					
Oct. 1, 1% C/I (J)	661	165	528	1,354					
Oct. 1, 1% C/I (K)	* 663	293	511	1,467					
Dec. 15, 1948-50 2% T/B	464	--	107	571					
1949: Jan. 1, 1 1/8% T/N	*1,224	--	2,309	3,533					
Jan. 1, 1 1/8% C/I	*1,260	351	980	2,591					
June 15, 1949-51 2% T/B	746	5	263	1,014					
Totals: 1947 July - Dec.	7,973	2,223	8,634	18,830	2,308	1,038	354	916	16,524
1948 Jan. - June	7,673	3,536	6,512	17,721					
1949 July - Dec.	8,038	4,955	4,768	17,761					
1949 Jan. - June	3,230	356	3,552	7,138					

*Estimated

NOTE: Debt outstanding and Federal Reserve Bank holdings are for December 31, 1947. Commercial bank data are from Treasury Survey of Ownership of U. S. Government securities for which latest date is October 31, 1947. Exceptions to these dates include issues prior to and subsequent to dates mentioned.

YIELD OF TAXABLE TREASURY BONDS

