

FEDERAL RESERVE BOARD  
STATEMENT FOR THE PRESS

For release in morning papers,  
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CONDITION OF THE ACCEPTANCE MARKET

The Federal Reserve Banks report the condition of the acceptance market in their respective Districts as follows:

District No. 1 (Boston)

The acceptance market may be described as quiet but steady. The excellent demand for bills which prevailed at the close of the period of the last report, June 20, did not continue, although there was a fair demand for acceptances until within a few days of July 1. Notwithstanding the small demand that has since existed, more bills were sold in this District than were made. Dealers anticipated that July disbursements would cause a slackening in demand in New York, influenced by higher call money rates. After the first of the month investments buying again developed, money became somewhat easier and bills moved reasonably well. As the month advanced, toward the 15th, sales slackened considerably and dealers' holdings increased somewhat, but owing to the small number of bills being made, there was no large volume in their portfolios.

Undoubtedly the open market on certificates of indebtedness

competes with the acceptance market but the scarcity of certificates and the fact that all issues are now selling at a premium has, at least in some instances, reacted to the benefit of the acceptance market. Instances are known of banks advising customers to buy short time bills to mature about the time the new certificate issues are anticipated and this advice has undoubtedly been followed.

Buying rates for about two weeks previous to July 23 were very generally  $5 \frac{3}{8}$  per cent for 90-day bills, although there has been some buying at  $5 \frac{1}{2}$  per cent.

District No. 2 (New York)

The dealers' offering rates for prime unindorsed 90-day bills in the New York market became firmly established at  $5 \frac{1}{4}$  per cent early in July. Despite fluctuations in the demand for bills and in the supply of funds with which to finance portfolios, the dealers were able to maintain offerings at this rate throughout the month. Shorter maturities were sold at  $5 \frac{1}{8}$  per cent, during the period while four and six months bills were offered at  $5 \frac{3}{8}$  and  $5 \frac{1}{2}$  per cent.

Bills covering the importation of raw silk and raw sugar were numerous. The portfolios of several important dealers were composed largely of bills drawn under recent sugar import credits and these dealers had difficulty at times in filling orders for bills on other commodities. There appeared to be some increase in the volume of grain and cotton export bills during the month. There has been continuing lack of acceptances drawn overseas in financing foreign trade transactions.

The bill market, as a whole, has broadened materially in the past two months and offerings of bills to the Federal Reserve Bank both by dealers and by member banks have steadily declined. At the end of July the bill holdings of the Federal Reserve Bank were the smallest in several years, aggregating \$5,747,000 on July 20, as against a maximum of \$231,257,000 (in February a year ago.) Purchases by this bank for the account of its foreign correspondents were an important factor in maintaining market activity.

District No. 3 (Philadelphia)

A further decline during June in the sale of bankers' acceptances has been reported by dealers. Five dealers had sales totaling \$6,355,000 in June, as compared with \$13,185,000 in May, a decrease of 53 per cent. As a result of the decline in foreign trade, the volume of prime bankers' bills is not large, and demand is in excess of supply. Import and export transactions in sugar, cotton, wool, silk, and grain are lately the principal sources of acceptances. Twelve member banks in this Reserve District show a smaller amount of their own acceptances outstanding on July 10 than on June 10, although for this month they report a small increase in the amount executed. Comparative figures for these banks are given below:

| 1921.         | Executed during preceding month | Outstanding on date given |
|---------------|---------------------------------|---------------------------|
| March 10..... | \$5,325,000                     | \$14,127,000              |
| April 10..... | 4,558,000                       | 13,234,000                |
| May 10.....   | 5,611,000                       | 12,892,000                |
| June 10.....  | 2,795,000                       | 10,798,000                |
| July 10.....  | 3,121,000                       | 9,286,000                 |

- 4 -

National banks were empowered to accept by the Federal Reserve Act, but did not make active use of this privilege until 1916 and 1917. Data which appear in the Comptroller's call reports, though not very recent, show the trend clearly. The highest amount of acceptances outstanding on any call date thus far was \$438,430,000 on May 4, 1920. The decline since that time has been steady - \$431,198,000 on June 30, 1920; \$375,416,000 on December 29, 1920; and \$345,644,000 on February 21, 1921;

Selling rates declined further during the month, in keeping with the general lowering of money rates. Comparative rates for eligible members' bills follows:

| <u>Maturity.</u> | <u>July</u>  | <u>June</u>  | <u>May</u>   | <u>April</u> |
|------------------|--------------|--------------|--------------|--------------|
| 30 days          | 5-1/8 - 1/4% | 5-1/2 - 5/8% | 5-1/2 - 5/8% | 5-1/2 - 5/8% |
| 60 days          | 5-1/8 - 1/4% | 5-1/2 - 5/8% | 5-5/8 - 3/4% | 5-1/2 - 3/4% |
| 90 days          | 5-1/4 - 3/8% | 5-1/2 - 5/8% | 5-5/8 - 7/8% | 5-5/8 - 3/4% |
| 6 months         | 5-3/8 - 1/2% | 5-3/4 - 6%   | -----        | -----        |

District No. 4 (Cleveland)

The continuing general inactivity of industry and commerce, both domestic and foreign, was again very perceptibly reflected in the acceptance market. Fewer bills were created than in the previous month, and only a few new names appeared among the makers.

Most of the paper now offered is a continuation of previously arranged acceptance syndicates, and is made by manufacturers producing absolute necessities. Little change is noticed in the volume of foreign bills, either against imports or exports. There

- 5 -

was little increase in domestic bills drawn against shipments.

The demand for prime bills, in comparison to the available supply, is much improved over some months past. The information that the Government would not issue another series of Certificates of Indebtedness to replace the maturing Certificates of Indebtedness, brought into the market many banks that were not previously found among the brokers' consistent customers. Corporations and individuals also bought more heavily than during the previous month.

There is larger demand for the shorter time bills, inasmuch as it is expected that funds will again be in demand for industrial purposes in September. The New York call money rates fluctuated around 6% and the demand for prime bills exceeded the supply.

Rates for eligible bills ranged from 5-3/8 to 6-1/8 for thirty day bills, 5-3/8 to 6-1/4 for 60 day bills, and 5-1/2 to 6-1/2 for ninety day bills.

Of a total of twenty-one accepting banks in this District, nine reported the executing of acceptances for customers to the total volume of \$3,445,295. The bulk of these bills covered sugar and oil. The amount of acceptances reported as paid by those institutions was \$3,371,003. Acceptances bought by the Federal Reserve Bank of Cleveland during the month of June were \$3,233,045.85 and acceptances paid, \$6,953,342.79.

#### District No. 6 (Atlanta)

A questionnaire regarding acceptance operations and market conditions for June was sent to accepting member banks in the Sixth Federal Reserve District, and thirteen replies were received. Ten of these replies showed no dealings of any kind in acceptances during June.

- 6 -

According to three other reports, domestic acceptances executed during June were approximately  $2\frac{1}{2}$  per cent less than those executed during the preceding month of May, and about 22 per cent less than were executed during June 1920. As reported by only one bank, foreign acceptances executed in June were  $38\frac{1}{2}$  per cent less than in May, and about 50 per cent less than in June 1920.

Acceptances sold by drawers to other than Federal Reserve Banks were approximately 25 per cent less in June than in May, but about 50 per cent more than in June 1920. Acceptances held in the Bank's own portfolios and not sold, were reported the same for June as for May. No figures are available for June of last year.

The amount of acceptances purchased in the open market during June by the Federal Reserve Bank of Atlanta, including the New Orleans Branch, was 41.2 per cent greater than during May, but considerably less than in April.

#### District No. 7 (Chicago)

Reports from Banks in the Seventh Federal Reserve District show an increase in purchases of acceptances during the month of June, although dealers' purchases show a decrease. In both cases sales showed a marked decrease. Country banks are reported to have purchased less, the demand coming from corporations and small buyers.

The maturities of bills purchased were divided as follows:

|         |               |
|---------|---------------|
| 30 day  | 13.3 per cent |
| 60 day  | 18.8 per cent |
| 90 day  | 65.6 per cent |
| 180 day | 2.3 per cent  |

Classification of practically all purchases shows that 68 per cent of bills purchased were based on transactions involving importation.

or exportation of goods.

Comparison of returns from 29 banks shows an increase of 22.3 per cent in bills bought; of 75.4 per cent in bills held at the close of the month; and of 4.2 per cent in bills accepted. Bills sold decreased 17.5 per cent. Reporting dealers show decrease in all the items; 27.3 per cent in bills bought; 52.2 per cent in bills sold, and 15.6 per cent in bills held at the close of the month.

Comparative figures for May and June transactions are given below:

|                        | (In thousands of dollars) |           |          |           |
|------------------------|---------------------------|-----------|----------|-----------|
|                        | June                      |           | May      |           |
|                        | 29 Banks                  | 3 Dealers | 29 Banks | 3 Dealers |
| Bills Bought           | 14,911                    | 7,978     | 12,188   | 10,967    |
| Bills Sold             | 13,671                    | 6,743     | 16,579   | 14,108    |
| Held at Close of Month | 5,734                     | 2,872     | 3,270    | 3,402     |
| Amount Accepted        | 16,821                    | -----     | 16,140   | -----     |

Statistics on Bankers Acceptances at the Federal Reserve Bank of Chicago for June are as follows:

| DURING MONTH                           | June       | May        |
|--|------------|------------|
| Bankers Acceptances Rediscounted.....  | \$ 578,281 | \$ 60,000  |
| *Bankers Acceptances Bought.....       | 8,331,600  | 10,997,981 |
| Bankers Acceptances Sold from Holdings | 199,156    | 2,331,162  |
| HELD AT CLOSE OF MONTH                 |            |            |
| Bankers Acceptances Rediscounted.....  | None       | 6,500      |
| *Bankers Acceptances Bought.....       | 3,499,624  | 4,821,453  |

\* Included in Acceptances Bought but not in Acceptances Sold, are and those bought with agreement by the seller to repurchase within 15 days.

District No. 8 (St. Louis)

There has been little change in the market for bankers' acceptances in this District during the last thirty days. The volume of such bills purchased by member banks has been small, and few, if any, bills have originated in this District. Scattering purchases have been made by city banks but the volume has been nominal and the market

dull.

|  | <u>St. Louis</u> |    |    | <u>Louisville</u> |    |    |
|--|------------------|----|----|-------------------|----|----|
| Bankers' Acceptances of 60 to 90 days. |                  |    |    |                   |    |    |
| Endorsed.....                          | 5½               | 5½ | 5½ | 5¾                | 5¾ | 5¾ |
| Unendorsed.....                        | --               | -- | -- | --                | -- | -- |

District No. 9 (Minneapolis)

During the month of June no bankers or trade acceptances or dollar exchange was purchased by the Minneapolis Federal Reserve Bank although acceptances were discounted to the amount of \$313,000, of which \$50,000 were bankers acceptances. The amount of acceptances discounted in June shows an increase of \$106,000 over the amount discounted in May, when there were \$207,000 worth of trade acceptances and no bankers acceptances discounted. In May there were no purchases of acceptances. Last year in June, discounts of trade acceptances amounted to \$375,000 and there were purchases of bankers acceptances of \$1,425,000. Discount rates of this bank for acceptances remained unchanged at 6½ per cent for trade acceptances and 6 per cent for bankers acceptances.

District No. 10 (Kansas City)

The new regulation of the Federal Reserve Board doubling the maturity period of eligible bankers' acceptances as a means of facilitating the financing of export trade has awakened interest among Western Bankers. At this time, however, the acceptance activities of the large banks of this District are confined to customers' paper on grain and flour for export. This is now assuming considerable volume, one Kansas City bank reporting \$2,000,000 of acceptances on wheat for European Government account and another \$968,000 on flour for export to Europe.



District No. 11 (Dallas)

There was no perceptible activity in the District's acceptance market during the month just past. The estimated volume of bills created in this District and outstanding on June 30th was \$1,341,000. of which approximately \$856,000 was based on domestic shipment and storage of goods, the remainder representing import and export transactions. Reports from accepting banks indicate a slight reduction in their aggregate outstanding liability as acceptors since the close of the preceding month. Our own holdings of bills on June 30th aggregated only \$150,000, all of which were executed but not endorsed by banks in this District.

District No. 12 (San Francisco)

Demand for bankers' acceptances has been uneven during the month ending July 15. Just previous to July 1, buying fell off materially, but since then there has been a brisk movement of bills, especially those with longer maturities. Buying has been fairly well distributed over the whole coast, although the bulk of the demand has come from California banks. Prime bills are still scarce and are absorbed by the market immediately upon their appearance.

The rate for prime 90's continued to drop during the month due to the easy condition of the call money market. On June 29, this basic rate fell to 5 3/8 per cent, followed by another drop on July 8 to a 5 1/4 basis, where it has remained up to July 15. Attention of bankers and others is being directed to the advantage of this form of investment for deposited funds which may be subject to withdrawal independently of the normal industrial or agricultural liquidation in a community. Examples of such funds are county, state, and municipal deposits.