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FEDERAL RESERVE BOARD

STATEMENT FOR THE PRESS

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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 period July 21 to August 19 opened with a distinct scarcity of prime Boston names, particularly on 90 day paper. Demand was excellent and orders were filled only by bringing in bills from other Districts. Country banks were good buyers of 60 and 90 day bills. Rates moved back from $5\frac{1}{2}$ per cent to $5\frac{3}{8}$ per cent bid and bills were eagerly sought at those prices. Because of the excellent demand and the fact that the supply of 90 day bills was small, the rates dropped toward the end of July to $5\frac{1}{8}$ per cent bid. The market activity ceased following the first of August and there was general apathy in the bill market until about the fifteenth when there seemed to be a spurt in buying. The demand quickly slackened and the close of the period finds the market exceedingly dull. There seemed to be a steady demand from country banks and, in fact, these would appear to be the mainstay of the market at the

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present time, although the corporations have been fair buyers. Quite a few bills have been made in Boston covering the importations of tobacco and a fair supply on burlaps. It is apparent that the demand for accommodation through acceptances is not active and good Boston names are snapped up very quickly, even in the dull market. The Federal Reserve Bank of Boston is receiving heavier demands from dealers for accommodation on short term repurchase agreements on acceptances, probably due to the lack of an active call money market on bills in Boston and the fact that brokers are obliged to pay the going call rate of 6 per cent, whereas the Boston Reserve Bank's carrying rate has been 5 per cent for the greater part of the period.

DISTRICT NO. 2 (NEW YORK)

The last week in July dealers' offering rates for prime bankers acceptances declined from $5 \frac{1}{8}$ and $5 \frac{1}{4}$ to 5 per cent, for all maturities up to three months. The lower rates were due to an increased demand for bills which accompanied a temporarily larger supply of funds at this center and lower call money rates. The low bill rate has been maintained during August in spite of firmer money rates around the middle of the month. Dealers report continued sales to out-of-town banks in fairly large volume and broadly distributed, but New York City demand has been more restricted and purchases have been confined mainly to the shorter maturities, 30 and 60 days.

Bill dealers whose portfolios have increased materially found substantial amounts of time money at their disposal which also conduced to the easier discount rate during the month.

The volume of grain and cotton export bills increased steadily during August and constituted the major portion of new offerings. For several weeks, however, purchases of bills covering the importation of raw sugar and raw silk were fairly heavy. The amount of bills drawn to furnish dollar exchange continued to decline.

DISTRICT NO. 3 (PHILADELPHIA)

During July another heavy decline in the sales of bankers' acceptances in this District was reported by dealers. The sales of five dealers totaled only \$3,818,000 as against \$6,355,000 in June and \$13,815,000 in May. The decrease in sales as compared with June was 40 per cent. In July, 1920, only four of these dealers were selling in this District. The sales for July, 1921, as compared with 1920, show an increase of 67 per cent. The continued falling off in our foreign trade has been the leading cause in the diminution in supply of bankers' bills. In the early part of July the demand was in excess of the supply, and this, together with the ease in money, caused rates to fall somewhat. Later in the month the demand for bills fell off, and since then the supply in most cases, has been found adequate, and rates have remained steady. Most of the acceptances issued covered foreign transactions, the exports of grain and cotton and the imports of sugar being the largest items of this class, and the warehousing of staple commodities and domestic trade making up the balance. As usual, commercial banks are the principal buyers, but industrial firms have bought a considerable amount. The report of twelve member banks in this District show an increase in bills executed, but a decrease in those outstanding, as compared with the previous month. The report of these banks is summarized as follows:

	Executed during <u>preceding month</u>	Outstanding on <u>date given</u>
1921 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
August 10.....	4,852,031	8,756,973

Foreign transactions are responsible for the great majority of acceptances issued by the Philadelphia reporting banks. In addition to sugar, grain and cotton, some of the articles covered are hides and skins, oil, silk and tobacco.

Selling rates are at the present writing as follows:

	<u>30 days</u>	<u>60 days</u>	<u>90 days</u>	<u>180 days</u>
Eligible members bills.....	5 - 5 1/8	5 - 5 1/8	5 - 5 1/8	5 - 5 1/4
Eligible non- members bills...	5 1/8 - 5 1/4	5 1/8 - 5 1/4	5 1/8 - 5 1/4	5 1/4 - 5 1/2

DISTRICT NO. 4 (CLEVELAND)

Twenty-two accepting banks report acceptances executed for customers during the month of July at \$3,124,814 and acceptances paid during the same period \$3,913,792. The predominating classifications are tractors for domestic shipment, oil and sugar.

A slight improvement was noticeable in the general condition of the acceptance market over the previous month. Rates remained practically the same with only momentary variations caused by supply and demand.

The erratic character of the foreign exchange market and the decided decline in some currency affected the supply of export bills. Few appeared in the market. However, the usual supply of import bills was available with a steady increase in domestic shipment bills and paper drawn against warehouse receipts. The annual supply of bills drawn against grain appeared

in the market for the first time this year. This improved the variety of names and a few new names of banks, not formerly accepting, were offered. More bills drawn against coal shipments and warehouse receipts of coal have been drawn in this District than ever before. At present a number of syndicates have been arranged to originate bills of this character.

The demand for prime bills has exceeded the supply. Country banks and corporations have purchased steadily, but in smaller amounts, and have shown decided preference to the shorter maturity. In the agricultural section of the southern district, the demand for short time securities has appeared for the first time in some months. There is a dropping off in the demand by banks in the strictly manufacturing centers. Indications show money is now being used in opening up business and preparing for a renewal of activity.

Rates on bankers' acceptances are as follows:

Spot Delivery

90 days	5 1/4 to 5
60 "	5 1/8 to 5
30 "	5 1/8 to 5

For Delivery in 30 days

Eligible member banks	5 1/4
Eligible non-member banks	5 3/4
Non-eligible bills	5 3/4

DISTRICT NO. 6 (ATLANTA)

Responses were received from sixteen member banks in the District to our questionnaire in regard to acceptance market conditions in July, sent to all accepting banks. Twelve of the reports showed that these banks had no transactions in acceptances during the month, while only one report

showed any substantial amount of acceptances executed. While three of the reports show acceptances disposed of, the purchase of paper is indicated in only one report and the amount is small. Banks generally have no great amount of money at this season of the year to invest. Many farmers, if not a majority, still owe a large part of their 1920 indebtedness.

The amount of acceptances purchased in the open market by the Federal Reserve Bank of Atlanta during July was 0.9 per cent larger than during June, and with the exception of April, was the largest since January.

DISTRICT NO. 7 (CHICAGO)

July reports from 29 banks in the Seventh Federal Reserve District show a notable increase in bills accepted, and a decrease in bills held. A continued demand from corporations and small buyers is reported. Maturities of bills purchased in July were divided as follows: 30 day, 9.6 per cent; 60 day 10.4 per cent; 90 day 60.1 per cent, and 180 day 19.9 per cent.

The classification of purchases shows 87.7 per cent of bills bought were based on transactions involving importation or exportation of goods. A comparison of returns from 29 banks shows an increase of 4 per cent in bills bought; 9 per cent in bills sold; 25.1 per cent in bills accepted and a decrease of 14.6 per cent in bills held at close of month. The comparison of acceptance transactions reported by banks for July and June follows:

29 Banks	July (In thousands of dollars)	June
Bills bought.....	15,500	14,911
Bills sold.....	17,101	13,671
Held at close of month.....	4,899	5,734
Amount accepted.....	22,651	16,821

DISTRICT NO. 8 (ST. LOUIS)

The market for bankers' acceptances in this District during the past thirty days was inert and featureless. Scarcely any such bills have originated in this District, and the volume taken by member banks has been insignificant. From time to time the city banks have purchased, but the aggregate of this buying make a light showing.

DISTRICT NO. 9 (MINNEAPOLIS)

No acceptances were purchased by the Minneapolis Federal Reserve Bank during July, following the policy of this Bank for the past four months. Last year in July this Bank purchased \$2,674,000 worth of bankers' acceptances and \$100,000 in dollar exchange. No bankers acceptances were discounted by this Bank during July and none in July last year, although there were discounts of bankers acceptances to the extent of \$50,000 in June this year. Discounts of trade acceptances in July this year show the smallest total of any month since February, amounting to only \$173,529, as compared with discounts of trade acceptances of \$263,252 in June and \$336,000 in July last year. Discount rates for acceptances remained unchanged during July.

DISTRICT NO. 11 (DALLAS)

July reports show a further reduction in the volume of outstanding acceptances created in this District, the total on July 31, being \$823,000, which compares with \$1,341,000 on June 30th. Approximately \$500,000 of these bills, were used to finance the domestic shipment and storage of goods, while the remainder covered import and export transactions. The Federal Reserve Bank of Dallas at the close of the month had only \$100,000 invested in bankers' acceptances, of which about one-half consisted of bills executed by banks in other Districts. As has been previously re-

ported, the banks of this District are carrying such a large amount of farmers' loans carried over from 1920 that they have practically no surplus funds available for the purchase of acceptances or other investment paper originating outside of this District, and no important change is expected to occur in this condition until after the harvesting and marketing of the cotton crop. Even then the margin of profit on the crop is expected to be so narrow, that it does not seem likely that the Dallas District will develop a broad demand for this class of paper until at least another year has passed.

DISTRICT NO. 12 (SAN FRANCISCO)

Improvement in general credit conditions and the appearance of funds from the marketing of crops have been reflected during the month ending August 15th by a steadily increasing demand for acceptances, especially from banks in the agricultural district which have already moved their products. It is apparent that the idea of including a certain proportion of acceptances in the secondary reserve of banks is meeting with wider favor. Demand from country banks has so far been most active in California, although there is a growing interest in the northwest.

The supply of bills has been somewhat larger, due in part to the renewal of a large block of sugar bills. As is natural at this season, canned goods have also been the basis of many acceptance transactions. Bills drawn for the purpose of creating dollar exchange have not been a factor in this market.

The gradual decline in the bill rate which began in June continued during July and early August, being accelerated by the lowering of the Federal Reserve Bank's rediscount rate on July 25th to 5 1/2 per cent. Two days later the basic rate on prime ninety day bills dropped to 5 1/8 per cent and on July 29th it was again reduced to 5 per cent, at which rate it now stands for all maturities under 90 days. (The rate for eligible non-member bills is 5 1/4 per cent). The bill rate also reflects the extreme ease of the money market in Eastern centers which prevailed towards the close of July, but the subsequent stiffening there has as yet had no effect on the bill market here.