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F E D E R A L R E S E R V E B O A R D

S T A T E M E N T F O R T H E P R E S S

For release in afternoon papers,
Monday, October 3, 1921.

CONDITION OF THE ACCEPTANCE MARKET

The following reports have been received from the Federal Reserve Banks concerning the condition of the acceptance market in their respective Districts:

DISTRICT NO. 1 (BOSTON)

The demand for commercial paper from the banks outside of Boston has been steadily increasing during the month and brokers' portfolios are fairly bare of the highest grade names. While these are quoted at 5 per cent, that rate is hard to maintain and choicest names have a tendency toward shading downward. The acceptance market has been rather dull, fewer bills being made and brokers carrying fairly large portfolios in anticipation of a falling rate. While there has been a fairly active demand for bills at 5 to 5-1/8 per cent, dealers' lists appear on the market offering from 1 to 90 days bills at 4-7/8 and one dealer as low as 4-3/4. There has also been evidence that new funds have been turned into acceptances, when it has been found impossible to invest them in the new Treasury Certi-

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ificates, the offering of which on September 15th was oversubscribed. Offerings of acceptances to the Reserve Bank have been very light and the Bank's holdings, including those carried for dealers, are at a low point, indicating the wide distribution of acceptances in the District.

DISTRICT NO. 2 (NEW YORK)

During the first two weeks of September two of the dealers reduced their selling rates for prime bills of 30 to 90 days maturities $1/8$ of one per cent, to $4-7/8$ per cent. As a result, chiefly, of these reductions the remaining dealers the following week made corresponding adjustments in their rates, and one dealer made a further reduction in his selling rate to $4-1/4$ per cent. The new level of selling rates on September 21 was, therefore, $4-3/4$ to $4-7/8$ per cent, for all maturities up to four months. Dealers' buying rates for bills of these maturities ranged $1/8$ of one per cent, higher. There were few six-months bills in the market, due to quiet conditions in foreign trade.

The lower bill rates were the reflection of generally easier money conditions rather than of an active demand for bills. Dealers reported that buying of bills was slow, but that the supply of bills was so light that their portfolios were small. Dealers continued to find a steadier market with the country banks than with the banks in this city, and they continued to get new customers outside the city.

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Of bills purchased by the dealers, sugar, grain, cotton, and dollar exchange bills preponderated. Offerings of grain bills continued comparatively heavy, as in August and July, but there was some decrease in offerings of sugar and cotton bills, and a further decline in the volume of dollar exchange bills. Silk bills were also much less frequently offered.

DISTRICT NO. 3 (PHILADELPHIA)

The increase in foreign trade during August, in both exports and imports, is reflected in the total of acceptances sold and in the total of those executed by the banks in this District during that period. Four dealers, operating in this District, sold \$8,149,000 as against \$3,445,000 in July, an increase of 236 per cent. In August, 1920, although only some of these dealers were selling acceptances here at that time, the sales were \$9,551,000. It should be noted, however, that the purchases of the Federal Reserve Bank of Philadelphia in that month, as shown by the table below, increased enormously, and in fact were far larger than ever before. Most of the acceptances sold by these dealers covered exports and imports of staple commodities, chief among which were grain, cotton and sugar, in the order named. Warehousing transactions were next in importance.

Rates were slightly easier, and owing to this, the demand has slackened and the supply has been adequate. This Federal Reserve Bank was by far the heaviest buyer. Comparison of its purchases for the past three months and for the corresponding months of 1919 and

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1920 is shown in the following table:

	1919	1920	1921
June	\$135,000	\$1,033,000	\$4,000,000
July	279,000	616,000	1,403,000
August	510,000	8,058,000	4,303,000

Twelve banks executing acceptances in this District report an increase both in bills issued and in bills outstanding, as compared with the previous month. The following figures give the totals for the past six months:

	Executed during preceding month	Outstanding on date given
1921 April	\$ 4,558,000	\$13,234,000
May	5,611,000	12,892,000
June	2,795,000	10,798,000
July	3,121,000	9,286,000
August	4,852,000	8,757,000
September	5,312,000	9,009,058

DISTRICT NO. 4 (CLEVELAND)

Of twenty-three reporting accepting banks, fourteen report acceptances executed for customers to the amount of \$5,416,839 and the amount paid \$5,999,443. The Federal Reserve Bank bought acceptances during August, 1921 amounting to \$3,482,056; paid \$2,886,966.

During the past month there has been a decided improvement in the acceptance market, it being much the best month since February. The rates have remained stationary until the past few days when they dropped $\frac{1}{8}$ of 1 per cent on all bills.

The continued erratic character of the foreign exchange market and the further decline in some currencies was very noticeable in the supply of export bills. Of these, practically all were drawn against the exportation of motors and a very few arose out of the exportation

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of oils, tires and machinery tools. By far the largest supply of bills were drawn against domestic shipments of tractors and coal. An appreciable increase is noticed in paper drawn against warehouse receipts. The supply of such bills available were in the following order: coal, canned vegetables, wheat, evaporated milk, flour and oil with almost a third of these being coal bills. A larger number of import bills were also available, all of which were drawn against the importation of paints and oils. The maturity of the bill has played little part in the usual demand during the past month.

During the first two weeks of the month there was a greater demand for short time bills, but later bills of longer maturities were disposed of just as readily. There has been a greater demand on the part of city banks and corporations, but at the same time the country banks, especially in the southern part of the District, have been heavy buyers in the acceptance market. At times sufficient bills could not be secured to meet the demand which arose simultaneously from all classes of banks, as well as from all parts of the District.

The dealers rates on prime bills are now $4\frac{7}{8}$ per cent on both short and long time maturities, and on other bills from 5 per cent to $5\frac{1}{8}$ per cent. The fact that prime bills are now offered at less than 5 per cent has brought about a noticeable decrease in the demand, and at the same time very few bills are being originated.

DISTRICT NO. 6 (ATLANTA)

Little activity was reported in acceptance market conditions in this District during August. Thirteen accepting member banks replied to the

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monthly questionnaire for August, and most of these banks reported no dealings of any kind in acceptances. Four banks reported acceptances held unsold in their own portfolios in amounts approximately the same, in the aggregate, as for the preceding month, while only two banks reported domestic acceptances executed during August, and three reports showed foreign acceptances executed during the month. The moving of agricultural crops prevents the investment of large sums in acceptances or commercial paper generally, except such paper as may be executed in connection with the marketing of cotton or other products.

Open market purchases by the Federal Reserve Bank of Atlanta during August were about 12 per cent less than in July and approximately 35 per cent less than in August 1920.

DISTRICT NO. 7 (CHICAGO)

August reports from twenty-nine banks in the Seventh Federal Reserve District, show a marked increase over July in bills sold, and in bills held at the close of the month.

A continued demand from corporations and individuals is reported. Maturities of bills purchased in August were divided as follows: 30 day, 24.9 per cent; 60 day, 12.4 per cent; 90 day, 60.9 per cent; 120 day, 0.4 per cent; and 180 day, 1.4 per cent.

A comparison of returns shows an increase for August, as compared with July, of 21.8 per cent in bills bought; 42.7 per cent in bills sold; 80.5 per cent in bills held; and a decrease of 8.5 per cent in bills accepted. The greater part of the acceptances were drawn against

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meats, grain, and cotton. Detailed comparisons follow:

(In Thousands of Dollars)

<u>29 Banks</u>	<u>August</u>	<u>July</u>
Bills bought.....	\$ 18,886	\$ 15,500
Bills sold.....	24,412	17,101
Held at close of month.....	8,843	4,899
Amount accepted.....	20,729	22,651

Comparison of statistics of Bankers Acceptances at the Federal

Reserve Bank of Chicago for July and August follows:

<u>During Month</u>	<u>August</u>	<u>July</u>
Bankers acceptances rediscounted	\$ 5,000	None
*Bankers acceptances bought.....	9,614,864	\$7,855,709
Bankers acceptances sold from holdings.....	125,000	70,000
<u>Held at Close of Month</u>		
Bankers acceptances rediscounted	5,000	2,314
*Bankers acceptances bought.....	3,053,649	2,315,368

*Included in acceptances bought but not in acceptances sold, are those bought with agreement by the sellers to repurchase within fifteen days.

DISTRICT NO. 8 (ST. LOUIS)

The market for bankers' acceptances during the period under review developed a little more life than noted since the beginning of the summer. While no such bills are originating in this District, a fair volume from the Eastern centers have been traded in by banks in the St. Louis district. Quotable rates range between 5 and 6 per cent.

DISTRICT NO. 9 (MINNEAPOLIS)

Between July and August, this Federal Reserve Bank increased its discounts of trade acceptances from \$178,000 to \$329,000. A year ago in August \$289,000 of trade acceptances were discounted. No trade

acceptances have been purchased by this Bank this year or last.

No bankers acceptances were discounted by this Bank in August or July or in August a year ago, and no bankers acceptances or dollar exchange was purchased this year in August or July, but last year in August there were purchases of bankers acceptances to the amount of \$475,000 and of dollar exchange to the amount of \$50,000. The discount rates of this Bank for acceptances remained unchanged during August.

DISTRICT NO. 11 (DALLAS)

Outstanding acceptances originating in the Eleventh District amounted to \$956,751.39 on August 31st, a slight increase over the previous month. The transactions against which these acceptances were drawn were about evenly divided between foreign and domestic trade. There is still very little demand in this District for acceptances as an investment medium. It is believed, however, that the coming winter will see a material broadening in the local demand for this class of paper, especially if the recent improvement in the cotton market is maintained.

DISTRICT NO. 12 (SAN FRANCISCO)

The improvement noted in the discount market for acceptances last month has continued during the month ending September 15th. This has been reflected not so much in a larger volume of sales as in a general broadening of the demand, which has spread slightly more in the Northwest. The southern section of California with a few notable exceptions is still generally out of the market.

With a slight revival of foreign trade and the necessity for moving Coast crops, the supply of bills originating in this District has become larger. This supply has by no means, however, reached a

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point sufficient to supply even a majority of the Coast demand for acceptances.

Bills of four, five and six months duration are beginning to make their appearance in increasing numbers. After a slight hesitancy, the market has begun to absorb this new type of acceptance with increasing readiness, especially bills with a maturity of around 120 days.

The decline in the open market rate which started early in June has been arrested, at least temporarily, and rates have been steady during the whole month at the following figures:

	<u>30 days</u>	<u>60 days</u>	<u>90 days</u>
Eligible member banks	5%	5%	5%
Eligible non-members	5 $\frac{1}{4}$ %	5 $\frac{1}{4}$ %	5 $\frac{1}{4}$ %

Reports from 37 of the principal accepting banks of the District show a total of \$3,377,000 of bills accepted during August, \$2,996,000 of acceptances purchased, and a total in portfolios at the end of the month of \$4,075,000. Their reports indicate that canned goods were the principal commodity upon which acceptance transactions were based, followed by sugar, grains and miscellaneous import commodities from the Orient and Central America, chief among which was silk. Six firms are reported to have drawn acceptances for the first time during the month.