

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 activity which prevailed in the bill market last month did not continue in December. Occasionally, buying was moderately active but there was one week when sales, as reported by the bill dealers, were at the lowest point for the year. Undoubtedly, the influence of tax payments coming simultaneously with the new certificate issue and the year-end adjustments has had a deterrent effect on the investors and bill buyers. The dealers have had more recourse than formerly to the Reserve Bank on repurchase agreements. Should a large supply of bills appear on the market with the apathy which exists in buying at present, it should cause an increase in the rate. The Federal Reserve

Bank has not reduced its buying rate to a point where it would be profitable for banks to buy from dealers to sell to it, preferring to let the market adjust itself without interference. Corporations seem to have been the best buyers of bills, augmented by one or two of the large Boston banks. The prevailing opinion among the bill dealers is that no great activity will occur until after the turn of the year.

DISTRICT NO. 2 (NEW YORK).

A considerable decline in the foreign trade of the United States during 1921, in addition to the fall in prices, resulted in a reduction in the amount of bankers bills in the New York market. There, was, however, a steadily broadening market. Dealers reported considerable numbers of new customers not only among savings banks, commercial banks, and trust companies, but also among industrial corporations, and private investors wishing to place funds in an investment affording satisfactory rate, minimum risk and instant convertibility. While purchases by New York City banks were relatively restricted during the year, the demand from country banks was good and the list of country member banks for whom bills were purchased by the Federal Reserve Bank of New York increased from 217 to 250 and purchases for foreign banks considerably more than doubled. On a number of occasions dealers were unable to secure sufficient bills to meet the demand.

In consequence of the smaller volume of bill offerings and the strengthening market, rates moved consistently downward during the year. By December all maturities were offered at $4\frac{1}{8}$ per cent as compared with a range of 6 to $6\frac{1}{2}$ per cent in December, 1920. Rates at which dealers purchased bills were generally $\frac{1}{8}$ of one per cent above the offering rate.

The continued increase not only in the number of dealers handling acceptances but in the amount of capital which they are able to command has been an important factor in the steadiness of rates. The dealers provide a two-way market; that is, they not only sell bills to customers, but they repurchase bills from them. The maintenance of such facilities is essential to the development of the American market for bills, which in turn is a highly important factor in financing American foreign trade.

The same dealers who handle bills commonly deal in Treasury certificates, which, like bills bearing banking endorsement, are available for purchase by a Federal Reserve Bank or as collateral for loans at the Reserve Banks. As in previous years, the Federal Reserve Banks stood ready to purchase such bankers acceptances and Treasury certificates as the market could not readily absorb. In consequence, however, of the broadening market, the decreased volume of bills, and easier money conditions, the market was less dependent upon the Reserve Banks than at any other time since its inception in 1916. On December 22, the Federal Reserve Bank of New York held \$59,000,000 of purchased bills, as compared with \$114,000,000 on December 31, 1920, and \$203,000,000 on December 31, 1919. There was a corresponding decrease in the bill holdings of the entire Reserve System.

A highly important development of 1921 was the growth of a market for call money lent against the security of bankers acceptances and Treasury certificates, large amounts of which are ordinarily carried in portfolio by the dealers. By far the largest part of their portfolios, which usually range between \$50,000,000 and \$100,000,000 is carried on borrowed money. In order that their business may offer a reasonable prospect of profit, the rates for such loans should be related to the rates which their secur-

ities earn, rather than be subject to conditions peculiar to the other great market for call money, that on the Stock Exchange. With the easing of credit conditions such funds have become available at rates 1/2 to 1 per cent below those prevailing on the Stock Exchange.

DISTRICT NO. 3 (PHILADELPHIA).

Four dealers in acceptances operating in the Third Federal Reserve District report sales during November totaling \$16,743,000 as compared with \$9,980,000 in October, and \$9,093,000 in November, 1920. Three of these, who also give country-wide figures, report an increase of only .5 per cent over October, and a decline of 15 per cent from November, 1920. Of five dealers, only one states that the supply is not sufficient to meet the demand. Twelve banks in this District executed \$3,564,000 of acceptances during the month ending December 10, which is a marked decline from the previous month's figure of \$6,325,000. Acceptances of these banks outstanding on December 10, however, were not much lower than on November 10, the decrease being from \$11,824,000 to \$11,231,000. Exports of grain, flour, cotton and meat products, imports of sugar and coffee, and the warehousing of cotton and tobacco were the principal transactions that gave rise to acceptances executed recently. Dollar exchange operations were also of importance. Two of the largest dealers give the following estimates of the relative importance of the various types of transactions in connection with acceptances of the past month:

	<u>Dealer No. 1</u>	<u>Dealer No. 2</u>
Warehousing	20%	20%
Exports and imports	50	60
Domestic shipments	20	19
Dollar exchange	10	1

Selling rates in effect in the middle of the months of December, 1921, November, 1921, and December, 1920, follow:

	<u>Dec. 1921</u>	<u>Nov. 1921</u>	<u>Dec. 1920</u>
Members:			
30 to 90 days	4-1/8	4-1/4 - 4-3/8	6 - 6-1/4
180 days	4-1/8 - 4-3/8	4-1/2 - 4-3/4	
Nonmembers:			
30 to 90 days	4-1/4 - 4-3/8	4-1/2 - 4-3/4	6-1/4 - 6-1/2
180 days	4-3/8 - 4-5/8	4-5/8 - 5	

DISTRICT NO. 4 (CLEVELAND).

Bankers acceptances bought by this Bank during November, 1921, amount to \$3,326,713, and the maturing and paid, \$3,579,216. Of twenty banks in this District, eight report acceptances executed during November to the amount of \$1,983,400, and acceptances paid, \$1,729,159. Twelve of the twenty banks report no acceptances executed or paid. There was no improvement in the acceptance market over the previous month. With exports falling off each month and domestic holiday shipments consummated a comparatively small supply of prime bills came into the market.

DISTRICT NO. 6 (ATLANTA).

Of fourteen reports regarding acceptance transactions during November, 1921, received from accepting member banks in this District, only four showed any transactions. Domestic acceptances executed by these reporting banks were about five times as large in November as in October, but approximately 22 1/2 per cent less than were executed during November last year. Foreign acceptances executed during November were approximately 24 per cent less than during October, and 31.4 per cent less than during November of last year. Acceptances purchased in the open market during November by the Federal Reserve Bank of Atlanta were smaller in amount by 44 per cent than those purchased during October 1921, but were larger by 28.4 per cent than the total for November 1920. The total for November was larger than for any previous

month this year except September and October.

DISTRICT NO. 7 (CHICAGO).

Reports from banks in this District indicate a general falling off in acceptance transactions during November. Bills accepted were 53 per cent and bills bought, sold, and held at the close of the month approximately 70 per cent of the corresponding October amounts. Purchase rates for November were reported ranging from $4\frac{1}{8}$ to $4\frac{7}{8}$ per cent, although most of the rates reported were less than $4\frac{1}{2}$ per cent. The maturities of bills purchased were divided as follows: 30-day, 1.7 per cent; 60-day, 16.4 per cent; 90-day, 81.5 per cent; and 180-day, 0.4 per cent. The greater part of the bills were reported drawn against meats, meat products, tobacco, and canned goods.

A detailed summary of returns of twenty-nine banks follows:

	In Thousands of Dollars	
	November	October
* Bills bought	\$5,009	\$6,905
** Bills sold	12,710	17,699
Bills held at close of month	4,650	6,551
Amount accepted	8,981	16,885

* Exclusive of bills purchased by the accepting bank, and of purchases for the account of specific customers.

** Exclusive of bills purchased for the account of, and sold to specific customers.

Comparison of statistics on bankers acceptances at the Federal Reserve

Bank of Chicago for October and November follows:

	November	October
During month		
Bankers acceptances rediscounted	\$ 2,637	\$ 175,000
*Bankers acceptances bought	12,287,463	10,626,197
Bankers acceptances sold from holdings	190,000	25,000
Held at close of month		
Bankers acceptances rediscounted	2,637	None
*Bankers acceptances bought	5,194,568	3,427,354

* 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).

After a fair display of activity during late October and early November, the acceptance market has lapsed into a period of extreme quiescence. The Principal cause of the slowing down in the demand is the decline in rates, which in November ranged from $4\frac{1}{4}$ to $4\frac{7}{8}$ per cent, but since December 1, have dropped to $4\frac{1}{8}$ to $4\frac{3}{8}$ per cent. Total holdings of acceptances by this Bank at the close of November were \$3,981,663, of which \$793,000 originated in St. Louis. This compared with \$750,730 for October, of which \$394,000 originated in St. Louis. Between November 16 and December 15 the high, low and customary interest rates prevailing in St. Louis, Louisville, Memphis and Little Rock, as reported by banks in those cities were as follows:

	St. Louis			Louis- ville			Memphis			Little Rock		
	H.	L.	C.	H.	L.	C.	H.	L.	C.	H.	L.	C.
Bankers' Acceptances of 60 to 90 days:												
Endorsed				$4\frac{5}{8}$	$4\frac{3}{8}$	$4\frac{3}{8}$	..	..	..	..	..	..
Unendorsed				$4\frac{1}{4}$	$4\frac{1}{4}$	$4\frac{1}{4}$	..	..	..	..	..	..

DISTRICT NO. 9 (MINNEAPOLIS).

During the month of November trade acceptances to the amount of \$143,000 were discounted by this Bank, which was a decrease of \$111,000 from the October figures. In October there were also \$75,000 worth of bankers acceptances discounted as compared with none in November. A year ago in November \$538,000 worth of bankers acceptances were purchased by the Minneapolis Federal Reserve Bank and \$222,000 worth of trade acceptances were discounted. Minneapolis Federal Reserve/ rates were reduced on November 7, to $5\frac{1}{2}$ per cent on all classes of paper.

DISTRICT NO. 11 (DALLAS).

Accepting banks of this District materially reduced their aggregate acceptance liability during the past month. Total acceptances outstanding on November 30th aggregated \$3,252,387, representing a decrease of \$439,194 from the total of \$3,691,580 outstanding on October 31st, which was the highest mark of the year. Acceptances drawn against import and export transactions amounted to \$1,675,228, while \$1,577,159 were drawn against domestic shipments and storage of goods. Bankers acceptances held by this Bank on November 30th amounted to \$190,000, which represents a decrease of \$15,000 from our holdings on October 31st. All acceptances held were executed by banks of this District.

DISTRICT NO. 12 (SAN FRANCISCO).

Bills originating on the Pacific Coast are appearing in larger quantities on the open discount market and are no longer confined to one or two cities. This supply, however, is still insufficient to meet the investment demand of coast buyers, and prime eastern bills continue in good demand. Easier money conditions and a scarcity of prime bills combined during the period November 15 to December 15 to effect a further reduction in rates, and prime bills of all maturities are now (December 15) selling on a $4\frac{1}{8}$ per cent basis compared with a $4\frac{3}{8}$ per cent basis on November 15. During the latter part of November the demand for acceptances was steady with a heavy call for bills which would fall due before the end of the year. At the same time a gradual broadening of the market

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was noticeable, chiefly among country banks, but to a lesser extent among corporations and private individuals. By the middle of December this firmness had begun to disappear, due to the semi-annual conservation of cash holdings by the banks, and this tendency became more marked after the announcement of the new Government offering of Certificates of Indebtedness on December 15. The principal dealer on the Coast reports that ninety-day bills continue to be in greatest favor, although a larger supply of sixty-day bills resulted in a greater proportion of bills of that maturity being marketed during the past month than in the previous period. A rough classification of bills marketed follows:

30 day	6.5%
60 day	33.0
90 day	56.3
120 day	3.6
150 day	0.6

Thirty-six leading banks of the District reported total November purchases of acceptances of \$9,103,681 compared with \$7,392,415 in August, the increase being almost entirely in purchases of bills originating in this District. These bills were based primarily on grains, sugar, canned goods, and cotton with a scattering of silk, rice and coffee bills. Purchases and holdings of acceptances of the 36 reporting banks are as follows:

AMOUNT BOUGHT

	Amount Accepted		Created in		All Other		Total		Amount held at	
			12th Fed. Res. District:						close of month	
	November	October	November	October	November	October	November	October	November	October
Pacific										
Northwest..	\$1,451,433	\$1,140,199	\$ 225,982	\$ 270,081	\$1,957,511	\$2,601,886	\$2,183,493	\$2,871,967	\$ 6,679,742	\$7,752,824
Northern										
California	3,461,612	3,580,105	2,291,734	\$2,078,211	\$2,571,826	937,664	4,863,560	3,015,875	2,916,197	3,109,149
Southern										
California	651,006	539,005	235,961	172,041	1,820,667	1,332,532	2,056,628	1,504,573	2,903,347	2,057,149
Other										
Districts	---	---	---	---	---	---	---	---	---	---
Total	\$5,564,051	\$5,259,309	\$2,753,677	\$2,520,333	\$6,350,004	\$4,872,082	\$9,103,681	\$7,392,415	\$12,499,286	\$12,919,122

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