FEDERAL RESERVE BANK OF NEW YORK

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Foreign Exchange Markets, January-June 1962

Short-term capital flows continued to exert a marked impact on the foreign exchange markets during the first half of 1962, although such flows on the whole appeared to be smaller than the massive movements of funds that dominated the exchanges during much of 1961.[1] Early in the year short-term capital returned to London and New York, as Continental commercial banks reversed operations undertaken shortly before to increase their liquid domestic assets for year-end statement purposes. The funds were reinvested not only in New York money market assets and short-term sterling assets but also in relatively high-yielding Euro-dollar deposits. These capital movements resulted in some weakening of the exchange rates of a number of major Continental currencies and a strengthening of sterling.

Later in the year, and particularly following the widespread stock market breaks of late May, funds once more began to flow in volume to the Continent. Monetary conditions had tightened in several Continental countries and eased in the United Kingdom. Moreover, doubt regarding the future exchange value of the Canadian dollar had grown more pervasive and had led to a massive outflow of funds from Canada until decisive action was taken just before midyear. Thus, the Canadian dollar came under severe pressure, while exchange rates for most of the major Continental currencies strengthened; sterling, although easier, remained well above par, owing in part to a considerable improvement in Britain's trade balance.

FEDERAL RESERVE AND TREASURY FOREIGN EXCHANGE OPERATIONS

The various pressures noted above generated currents of uncertainty in exchange markets, where traders were well aware that reduced, but nevertheless substantial, underlying payments imbalances persisted between the major financial countries. Accordingly, official intervention by United States authorities remained devoted to the task of dampening potentially disruptive short-term disturbances and thus to assist in maintaining international exchange rate stability over the longer term. The Treasury had carried the brunt of the tactical defense of the dollar in the foreign exchange markets in 1961. It soon became clear, however, that the Federal Reserve System could and should share in this endeavor. Therefore, on February 13, 1962 the System associated itself directly in the effort. The Federal Open Market Committee authorized the Federal Reserve Bank of New York to undertake transactions in foreign currencies for System Open Market Account in accordance with the Committee's instructions.[2]

The Committee noted that operations would be designed "to help safeguard the value of the dollar in international exchange markets". They would, in addition, "aid in making the existing system of international payments more efficient and in avoiding disorderly conditions in exchange markets". The Committee also set down in the following terms the specific aims of System operations:

(1) To offset or compensate, when appropriate, the effects on U. S. gold reserves or dollar liabilities of those fluctuations in the international flow of payments to or from the United States that are deemed to reflect temporary disequilibrating forces or transitional market unsettlements;

(2) To temper and smooth out abrupt changes in spot exchange rates and to moderate forward premiums and discounts judged to be disequilibrating;

(3) To supplement international exchange arrangements such as those made through the International Monetary Fund; and

(4) In the long run, to provide a means whereby reciprocal holdings of foreign currencies may contribute to meeting needs for international liquidity as required in terms of an expanding world economy.

[1] Earlier articles on this subject are "Foreign Exchange Markets, January-June 1961", this *Review*, July 1961, pp. 114-16 and "Foreign Exchange Markets, July-December 1961", this *Review*, January 1962, pp. 2-5.

[2] The Committee's action was made public as a part of the House of Representatives' hearings on a recent international agreement to enlarge the resources of the International Monetary Fund; see *Bretton Woods Agreements Act Amendment*, Hearings before the Committee on Banking and Currency, House of Representatives, 87th Congress, Second Session, on H.R. 10162, February 27-28, 1962, Washington, United States Government Printing Office, 1962.

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FEDERAL RESERVE SYSTEM
RECIPROCAL CURRENCY AGREEMENTS, 1962

Agreement concluded with	Amount in millions of dollars	Date of agreement
Bank of France	50	March 4
Bank of England	50	May 30
Netherlands Bank	50	June 14
National Bank of Belgium	50	June 20
Bank of Canada	250	June 26
Bank for International Settlements	100	July 16
Swiss National Bank	100	July 16
German Federal Bank	50	August 2
Total	700	

Against this background, the System moved to acquire foreign currency balances. First, small amounts of several convertible currencies were purchased from the United States Treasury. Then, more substantial resources became available through a series of reciprocal currency swap arrangements concluded with the central banks of France, England, the Netherlands, Belgium, and Canada, as well as—after midyear—Switzerland and Germany, and with the Bank for International Settlements (see table). Such agreements provided, to the occasionally nervous exchange markets, forceful demonstrations of the growing degree of international financial cooperation. Using its newly gained resources, the System on several occasions during the first half of 1962 operated in the New York foreign exchange market to moderate temporary disturbances.

At the same time, the New York Reserve Bank, in its role of fiscal agent, continued to carry out Treasury operations in convertible currencies. Taking advantage of the generally stronger position of the United States dollar early in the year, the Treasury liquidated at maturity its outstanding forward commitments in German marks, reduced further its forward Swiss franc obligations, and repaid its outstanding Swiss franc borrowing. On the other hand, the Treasury entered the Italian lira market, borrowing in the process the equivalent of $75 million from official Italian sources against certificates of indebtedness.

THE DEFENSE OF THE CANADIAN DOLLAR

The broadening of international cooperation in defense of exchange stability was also convincingly demonstrated during June 1962 in the case of the Canadian dollar, when international assistance was quickly mobilized to meet the Canadian Government's request for resources sufficient to withstand an attack upon the Canadian dollar. In scope and manner, this assistance recalled the massive cooperative effort that had helped ward off intensive pressures upon the world's major currencies following the March 1961 revaluations of the German mark and Dutch guilder.

During the first four months of 1962 the Canadian authorities maintained the United States dollar value of the Canadian dollar—without a par value since November 1950—at about $0.95¼ by supplying substantial amounts of United States dollars to the market. During this period, however, there were growing expectations in the exchange markets that the value of the Canadian dollar would decline, and this led to a substantial build-up of so-called "leads and lags" in commercial payments adverse to Canada. Foreign firms sold Canadian dollar earnings promptly upon receipt, or even in advance of receipt (through the forward market). Canadian firms at the same time delayed conversion of foreign currency earnings into Canadian dollars as long as possible and anticipated their foreign currency requirements through forward purchases of such currencies. Thus, a continuous excess supply of Canadian dollars was offered on the exchange market, with the pressure increasing steadily.

Toward the end of April, the pressure was reinforced by substantial outright speculation against the Canadian dollar. Then, on May 2, the Canadian authorities, with the approval of the International Monetary Fund, reestablished a par value for the Canadian dollar at $0.925, a rate some 2¾ cents below the level they had been maintaining (see chart). Confidence was not restored in the succeeding weeks, however, and the rate for the Canadian dollar dropped to $0.9174, where it was held by Bank of Canada sales of United States dollars. When the drain on Canada's reserves accelerated in mid-June, the Canadian Government acted decisively to defend the new par value without resort to exchange or capital controls. International assistance in the form of loans and credits totaling $1,050 million was made available to Canada by the IMF, the Export-Import Bank, the Federal Reserve System, and the Bank of England. The Canadian Government then announced, on June 24, not only this massive aid package, but also the adoption of forceful measures designed to reduce Canada's payments deficit. These steps brought to an immediate end the attack on the Canadian dollar. By early July, the rate had risen to $0.92⅝ as funds again flowed into Canada, and it was clear that the initial goals of the stabilization program had been achieved.

THE EUROPEAN CURRENCIES

The influence of relative interest rates on international short-term capital movements, and thus on exchange rates, continued very much in evidence during the first half of

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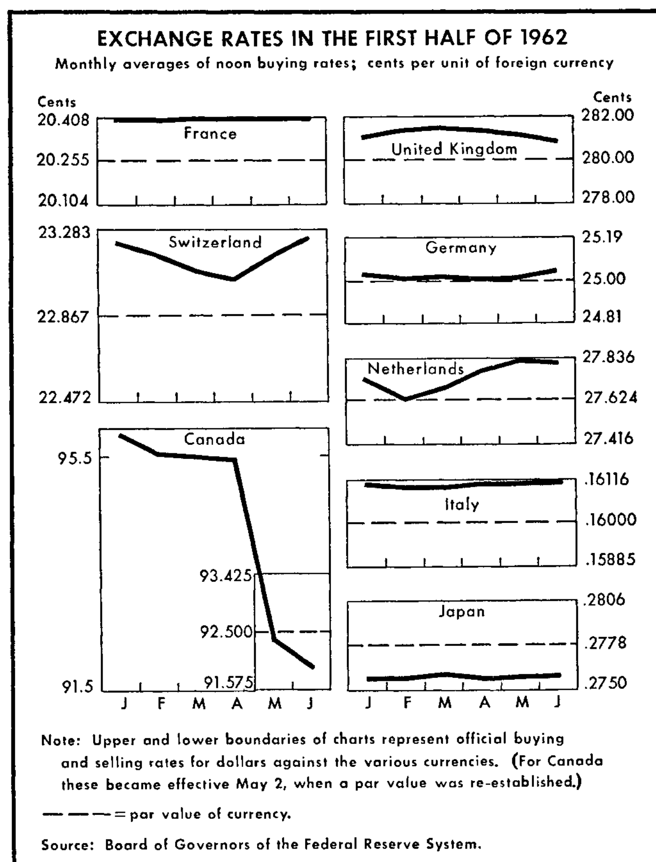
1962. During the first quarter of the year, interest rates in the United Kingdom remained close to the levels to which they had been raised during the sterling crisis of July 1961. With comparable interest rates lower in most other industrial countries, the resultant incentive to move short-term funds to Britain—on both a covered and an uncovered basis—led to a considerable movement of capital into British assets, especially from Continental countries. (Foreign investors were also placing funds in longer term British securities.) This inflow, coupled with strong commercial demand for sterling due to an improvement in Britain's current balance-of-payments accounts and favorable seasonal factors, brought a steady strengthening of sterling rates and a marked gain in British international reserves, much of which was used to prepay Britain's IMF debt.

In March the Bank of England reduced its discount rate (to 5 per cent in two steps from 6 per cent), mainly in order to lessen the pull of London interest rates on short-term capital. Although sterling continued to rise after the first of these reductions—reaching $2.8180 on March 15, the highest since April 1959—it subsequently eased somewhat to about $2.81½. Following a further bank rate reduction (to 4½ per cent) in April, sterling began to decline slowly, as the inflow of capital first tapered off and then was apparently partly reversed while commercial payments moved seasonally against sterling-area countries. By the end of June the rate had moved down to $2.80⅞, almost a full cent below the high but still well above par. As United Kingdom interest rates declined, the discount on forward sterling narrowed, moving from approximately 2.70 per cent for three-month forward sterling in January to 0.80 per cent at the end of June.



The counterpart to rising sterling rates in the first quarter of the year was a moderate weakening of several major Continental currencies. As commercial banks in Switzerland, Germany, and the Netherlands reversed year-end repatriations of short-term assets and reinvested in Euro-dollar deposits and sterling assets, the currencies of those countries declined somewhat. The Swiss franc in particular declined steadily through April, as the influence of Switzerland's current and long-term capital account deficits became more apparent in the absence of substantial net short-term capital inflows. Nevertheless, the low point for the Swiss franc for the year to date ($0.23) was still well above the franc's gold parity. Similarly, the first-quarter declines in the German mark and Dutch guilder brought these currencies down only to par or very slightly below, as in both countries the fundamental payments position remained strong. The French franc and Italian lira were less affected by movements of short-term funds than other major currencies, partly because stricter controls on such capital movements have been retained in those countries and partly because their domestic money markets are more limited. Both currencies stayed close to their ceilings against the dollar throughout the first half of the year, reflecting the large international payments surpluses of these countries.

Therefore, despite some easing of Continental exchange rates during the first quarter of 1962, these rates continued to be relatively strong in terms of the United States dollar. To be sure, the deficit in the United States balance of payments dropped substantially in the first quarter of 1962, compared with the final quarter of 1961. Nevertheless, the deficit remained at a $1.9 billion seasonally adjusted annual rate.

The deficit was further reduced during the second quarter, but the effect of this improvement on dollar exchange rates was largely offset by the development of a somewhat uneasy atmosphere in the exchange markets in the wake of the Canadian crisis and the stock market declines of May and June. Funds once again moved into

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Switzerland seeking the traditional "safe haven" of the Swiss franc. During June this flow was bolstered by the repatriation of funds by Swiss commercial banks seeking domestic liquidity for midyear statement purposes. Consequently, the Swiss franc rose to, and remained at or near, the Swiss National Bank's current buying rate for dollars, and a substantial volume of dollars was added to Swiss official reserves. Furthermore, a return flow of capital to the Netherlands had already produced a marked rise in the guilder rate early in the second quarter, with Dutch banks repatriating funds to ease a domestic liquidity shortage. Finally, the German mark began to rise to above par for similar reasons, and the French franc and the Italian lira remained at about their ceilings throughout the quarter. Thus, at midyear, sterling and the German mark were well above par while the other major Continental currencies were near or at their ceilings.

OTHER CURRENCY DEVELOPMENTS

The Japanese yen, under considerable pressure during the latter half of 1961, showed a firmer undertone, as Japan's balance-of-payments position improved markedly in the first half of 1962. Although the slightly higher rates for the yen recorded early in the year were not sustained beyond the first quarter, Japan's international reserves continued to increase through June, as the country's trade balance improved and there was a continued, though somewhat reduced, inflow of both short- and long-term capital. In Brazil there was a further depreciation of the cruzeiro, and three times during the period the Bank of Brazil raised its official buying and selling rates for dollars. As a result, the selling rate on June 30 was 365 cruzeiros to the dollar. Chile introduced a dual exchange rate system on January 15. The official market is open only to commercial banks and only for exports, imports, and some nonmerchandise transactions; the rate in this market—currently 1.053 escudos per dollar—is set by the central bank. All other transactions must be settled through the "broker's market" in which the rate is permitted to fluctuate freely (and in June was about 1.65 escudos to the dollar). Also during the first half of 1962 the Argentine peso began to fluctuate more freely and depreciated rapidly, reaching 130 pesos to the dollar in the open market before recovering somewhat in July under the influence of stringent measures to restrain imports.

MONEY AND ECONOMIC BALANCE

The Federal Reserve Bank of New York has just published a 32-page booklet, *Money and Economic Balance*. Intended as an aid to high school teachers, it is also of interest to the layman seeking a simplified explanation of the role of money in our economy and how our money's value changes. It gives a capsule explanation of the business cycle and describes how the Federal Reserve System analyzes the business situation and uses its powers over bank credit and money creation to promote balance in our economy. Copies are available, free, upon request, from the Public Information Department, Federal Reserve Bank of New York, 33 Liberty Street, New York 45, N. Y.

The Business Situation

The rate of economic expansion slowed markedly in June, but early evidence pointed to some improvement in July. Part of the sluggishness in June reflected the temporary influences of a strike at the Ford Motor Company and a continued runoff of steel inventories that had been stockpiled in anticipation of a steel strike. In July, with the Ford dispute settled, auto assemblies advanced counterseasonally, and reports from the steel industry suggested that ingot production was bottoming out. In addition, consumer spending in July, including purchases of new cars, appeared to have strengthened.

The economy continues, however, to operate well below capacity levels. Moreover, some of the June figures—especially new orders for durable goods and the number of housing starts—raise questions about the strength of underlying demand in the months ahead. Some stimulus

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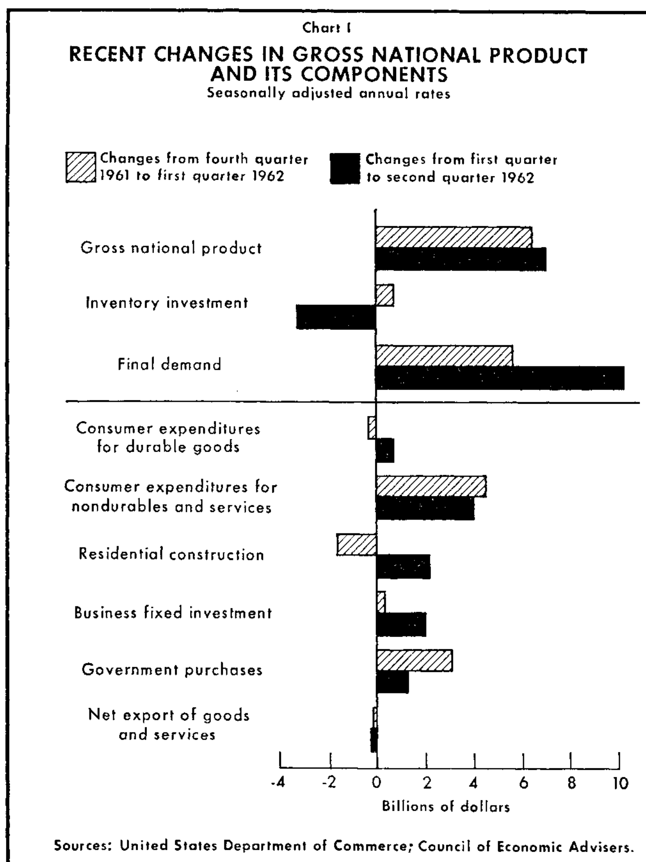

may be provided by the Treasury Department's newly issued depreciation rules, and there has been increased discussion of an early tax cut that would encourage additional spending and that would be consistent with a general tax reform aimed at enhancing the long-term growth prospects of the economy.

SPENDING PATTERNS IN THE SECOND QUARTER

Taking the second quarter as a whole, gross national product rose by $7.0 billion to a seasonally adjusted annual rate of $552.0 billion, according to preliminary estimates by the Council of Economic Advisers.[1] The increase was only slightly larger than the relatively modest advance scored in the first quarter (see Chart I). This reflects, however, a sizable reduction in inventory investment, as steel users worked off the stocks accumulated early in the year before the wage settlement had been reached. The second-quarter increase in final demand (GNP less the change in inventories) was $10.2 billion, nearly double the first-quarter rise and the largest increase in the current upswing save for the fourth quarter of 1961. Moreover, the sharp advance occurred in spite of a relatively small rise in government purchases of goods and services.

About half of the increase in final demand was accounted for by higher consumption expenditures. The $4.8 billion rise in consumer outlays was somewhat greater than the first-quarter increase, largely owing to a reversal of the first quarter's decline in spending for durables. Despite some slowdown in May and June, purchases from automotive dealers—which are the most volatile component of durables consumption—were comparatively high for the spring as a whole.

Spending for residential construction turned around sharply from the first quarter's decline, as the better weather that began in March permitted building activity to shake off its winter doldrums. With a continued rise in apartment house building, total outlays for residential construction moved up by more than 10 per cent to the highest level since the second quarter of 1959.

Final demands by the business sector were also up markedly in the second quarter. Outlays for fixed investment increased by more than 4 per cent, in contrast to the first-quarter rise of less than 1 per cent. The advance was about in line with what had been expected from the May survey of plant and equipment spending plans taken by the Commerce Department and the Securities and Exchange Commission.

RECENT DEVELOPMENTS

Despite these rather impressive over-all gains during the second quarter, the pace slackened in June. The scant rise of 0.3 per cent in industrial production, for example, was smaller than in any of the preceding four months (see Chart II). Much of the slowdown reflected the two special influences noted earlier—a 7½ per cent decline in iron and steel production, resulting from the adjustment of steel inventories, and a 5 per cent decrease in the output of motor vehicles and parts stemming from the Ford strike. Outside the steel and auto industries, production rose by about 0.9 per cent. Although this increase was somewhat smaller than occurred in the preceding month, it was not very different from the average rate of gain since January. In July, production of steel ingots appeared to have declined only slightly, after seasonal adjustment. And, auto assemblies rose counterseasonally, with Ford stepping up its production schedules for both July and August.

[1] The usual midyear revision of the national income accounts has lowered the earlier estimates of GNP for each of the four preceding quarters by some $3-4 billion.

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A somewhat disturbing development in June was the 4 per cent decrease (seasonally adjusted) in new orders received by manufacturers of durable goods. This forward-looking series has now declined in four of the past five months, following a continuous advance from January 1961 through January 1962 (see Chart II). In part, of course, both the rise and the decline reflect corresponding movements in steel orders, which swelled late last fall and early this year and then fell off sharply once the steel labor settlement was in sight. In June, however, declines were relatively widespread in industries other than steel, although part of this slack apparently was attributable to the failure of defense orders to show their usual fiscal-year-end bulge.

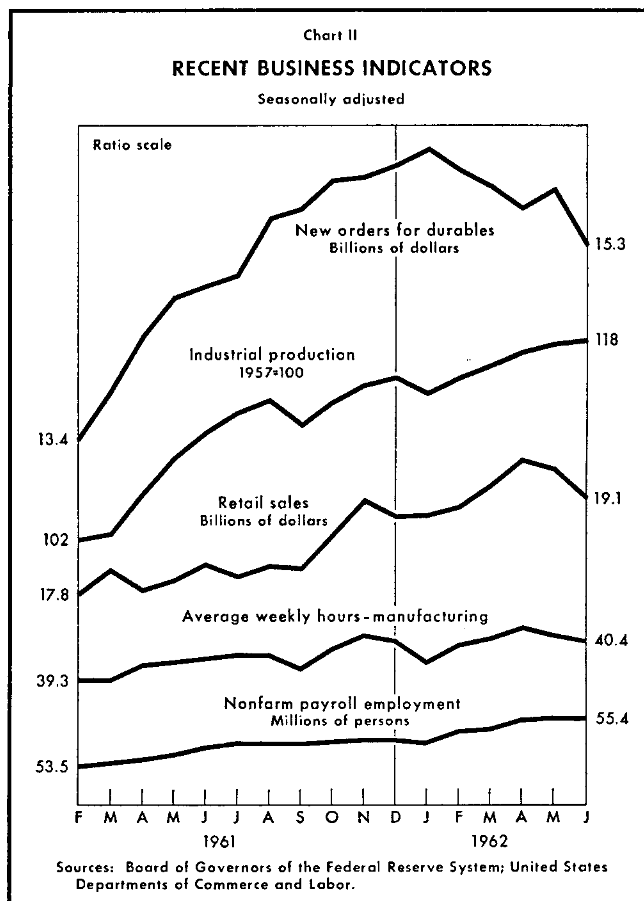
The diminished rate of advance in June was also apparent in nonagricultural employment (as measured by the payroll survey), which increased only slightly following a moderate gain in the preceding month. In manufacturing industries, employment was virtually unchanged, and average weekly hours (seasonally adjusted) clocked by production workers declined for the second month in a row (see Chart II). In July, according to the Census Bureau's household survey, total employment showed a little improvement, and the unemployment rate (unemployment as a percentage of the civilian labor force) fell to 5.3 per cent. However, a large part of this decline reflected a reduction in the labor force. Thus far this year, the civilian labor force has grown at a significantly lower rate than was implied in the Labor Department's long-term projections.

As a result of the shorter workweek in manufacturing industries, wages and salaries in these industries moved downward in June, the first decline since January. Payrolls in other industries continued to rise, but the increase in total personal income in June was only half the moderate gain of the previous month. At the same time, retail sales declined for the second consecutive month (see Chart II). Sales of durables fell by 2½ per cent, while volume in most types of nondurables stores also declined. Evidence on sales in July, however, suggests an improvement in consumer spending. Unit sales of new cars bounced back to, and may even have surpassed, their high spring levels, while department store sales increased by more than 3 per cent.

Chart II

RECENT BUSINESS INDICATORS

Seasonally adjusted



Sources: Board of Governors of the Federal Reserve System; United States Departments of Commerce and Labor.

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The Money Market in July

The money market was moderately firm over most of July. Nation-wide reserve availability was higher on average than in June, but during much of the period excess reserves were lodged in general in country banks. Toward the end of the month, a somewhat easier tone emerged, as the distribution of reserves moved in favor of the money market banks. The effective rate on Federal funds was in a 2¾ to 3 per cent range over most of the period. Rates posted by the major New York City banks on call loans to Government securities dealers held generally within a 3 to 3½ per cent range over most of the period and declined to a 2¾ to 3 per cent range as the money market turned somewhat easier for a few days.

Treasury bill rates rose fairly sharply over the first two thirds of the month. The market supply was expanded by continued additions of $200 million to the weekly auctions, and $2 billion of one-year bills was sold at a special auction on July 10 to replace an equal amount maturing on July 15. Over the final third of the period, however, bill rates declined, and by the close of the month yields on shorter term issues had fallen to levels somewhat below those prevailing at the start. Prices of Treasury notes and bonds declined over the month as a whole, as losses registered early in the period were only partly offset by intermittent gains later in the month. The markets for corporate and tax-exempt bonds were unusually quiet during most of the period, and prices moved fractionally lower in both sectors.

After the close of business on July 26, the Treasury announced that it would refund in a single cash operation $7.5 billion of securities maturing on August 15 and raise about $1 billion of new money. Investors were offered the following three new issues for cash: (1) $6.5 billion of one-year 3½ per cent certificates, priced at par; (2) $1.5 billion of 4 per cent 6½-year bonds maturing February 15, 1969, priced at par; and (3) up to $750 million of 4¼ per cent thirty-year bonds, maturing August 15, 1992 and callable after August 15, 1987, priced at 101 to yield 4.19 per cent. Subscription books for the three new issues were open on one day, Monday, July 30. Commercial banks were permitted to pay for the bonds by credit to Tax and Loan Accounts.

MEMBER BANK RESERVES

Operating transactions provided a small volume of member bank reserves on balance over the four statement weeks in July. Reserves were drained by movements in gold and foreign accounts and by a substantial outflow of currency into circulation around the holiday early in the month, which was only partly offset by an inflow in the last two weeks. However, the net impact of movements in float, together with other factors, more than offset these losses. Indeed, throughout the month float was

CHANGES IN FACTORS TENDING TO INCREASE OR DECREASE MEMBER BANK RESERVES, JULY 1962

In millions of dollars; (+) denotes increase, (—) decrease in excess reserves

Factor	Daily averages—week ended				Net Changes
	July 4	July 11	July 18	July 25	
Operating transactions					
Treasury operations*	+ 17	+ 85	— 39	— 69	— 6
Federal Reserve float	— 170	+ 129	+ 412	— 71	+ 300
Currency in circulation	— 274	— 297	+ 64	+ 190	— 317
Gold and foreign account	+ 15	+ 13	— 135	+ 65	— 42
Other deposits, etc.	+ 163	— 12	+ 96	— 53	+ 194
Total	— 248	— 83	+ 398	+ 62	+ 129
Direct Federal Reserve credit transactions					
Government securities:					
Direct market purchases or sales	+ 474	+ 163	— 566	— 74	— 3
Held under repurchase agreements	+ 90	— 85	— 92	—	— 87
Loans, discounts, and advances:					
Member bank borrowings	— 48	— 65	+ 108	— 104	— 109
Other	— 15	— 7	— 11	—	— 33
Bankers' acceptances:					
Bought outright	+ 3	+ 1	+ 5	+ 1	+ 10
Under repurchase agreements	+ 27	— 4	— 24	+ 3	+ 2
Total	+ 531	+ 3	— 580	— 175	— 221
Member bank reserves					
With Federal Reserve Banks	+ 283	— 80	— 182	— 113	— 92
Cash allowed as reserves†	— 105	— 19	+ 133	+ 24	+ 33
Total reserves†	+ 178	— 99	— 49	— 89	— 59
Effect of change in required reserves†	— 128	+ 102	+ 65	+ 103	+ 142
Excess reserves†	+ 50	+ 3	+ 16	+ 14	+ 83
Daily average level of member bank:					
Borrowings from Reserve Banks	120	55	163	59	99‡
Excess reserves†	543	546	562	576	557‡
Free reserves†	423	491	399	517	458‡

Note: Because of rounding, figures do not necessarily add to totals.
* Includes changes in Treasury currency and cash.
† These figures are estimated.
‡ Average for four weeks ended July 25, 1962.

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especially unpredictable in part because of the labor dispute in the airlines. System Account open market operations absorbed reserves on balance between the last statement week in June and the final week in July, as average outright holdings of Government securities declined by $3 million and average holdings under repurchase agreements fell by $87 million. From Wednesday, June 27, through Wednesday, July 25, System Account holdings of Government securities declined by $203 million.

Over the four statement weeks in July, free reserves averaged $458 million, compared with $368 million in the four statement weeks ended June 27. Average excess reserves rose by $90 million to $557 million, while average borrowings from the Federal Reserve Banks were unchanged at $99 million.

THE GOVERNMENT SECURITIES MARKET

Treasury bill rates rose fairly steadily until July 18, as the Treasury continued to add $100 million to the regular weekly auctions of both three- and six-month bills and rolled over $2 billion of one-year bills maturing July 15. In addition, uncertainty regarding the implications for credit policy of the balance-of-payments problem, coupled with the slow rate of economic recovery, continued to influence the market. In each of the first three weekly auctions during the month, average issuing rates advanced on both three- and six-month issues, reaching 2.983 per cent and 3.134 per cent, respectively, in the July 16 auction. These rates were 19 and 26 basis points higher, respectively, than those reached in the auction of June 25 and were the highest since mid-1960. The advance in bill rates was interrupted several times, however, by intermittent buying by commercial banks and other investors. Considerable investor interest developed at the special auction of one-year bills on July 10, when the average issuing rate was set at 3.257 per cent.

Beginning July 18, the rate advance was reversed when a strong demand appeared from both commercial bank and nonbank sources. In the regular auction on July 23, average issuing rates were set at 2.892 per cent and 3.103 per cent for three- and six-month bills, respectively, about 9 and 3 basis points below a week earlier. Following the auction, the market for Treasury bills continued to gain strength, and rate declines were particularly marked in short-dated maturities, where scarcities had developed. In the final auction of the month on July 30, average issuing rates, at 2.874 per cent and 3.075 per cent on three- and six-month bills, respectively, were about 2 and 3 basis points below the previous week. Over the month as a whole, three-month bill rates declined by about 4 basis points while rates on six-month bills rose by approximately 11 basis points.

Prices of Treasury notes and bonds moved lower on balance until July 19 in quiet trading. A number of uncertainties pervaded the market. Among these were questions concerning the terms of the Treasury refinancing in August, the strength of the economic advance, and discussion of possible changes in fiscal and monetary policy. In this cautious atmosphere, dealers attempted to lighten their inventories. Yet, from July 10 through July 13 prices moved moderately higher in quiet trading, partially reflecting the enthusiastic reception accorded a large Aaa-rated new corporate issue at a 4.45 per cent yield and a more optimistic official appraisal of the balance-of-payments outlook. The cautious tone reappeared around midmonth, however, when press discussions focused attention on possible changes in monetary and fiscal policy.

On July 19 the market turned around, as increased demand emerged, particularly for short and intermediate maturities. Subsequent price gains also reflected lighter dealer inventories as well as the absence of any significant volume of offerings. With the approach of the date of the Treasury's announcement of its terms for the refunding, activity slackened and prices fluctuated within a narrow range. The Treasury's announcement on July 26 was favorably received, and a good investor response to the new issues was expected. Following the announcement, prices of outstanding notes and bonds adjusted somewhat lower, as some offerings appeared against subscriptions for the new issues. Over the month as a whole, prices of Treasury notes and bonds ranged from $\frac{3}{32}$ higher to 1¼ points lower.

OTHER SECURITIES MARKETS

The markets for corporate and tax-exempt bonds were unusually quiet over the month, and uncertainty and caution were the dominant sentiments. Investor attitudes largely reflected the same influences that were prevalent in the market for United States Government securities. In this atmosphere, new offerings, while moderate in volume, met mixed investor receptions. New corporate issues marketed during the month amounted to approximately $220 million, compared with $470 million in June 1962 and $425 million in July 1961. The largest corporate public offering of the month was a $50 million Aaa-rated telephone company issue of 4½ per cent debentures maturing in 2002. Nonrefundable for five years and reoffered to yield 4.45 per cent, these securities were quickly sold out and moved to a slight premium. On the other hand, a utility company offering of $25 million to yield 4.30 per

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cent was regarded as closely priced and met a poor reception. The total volume of tax-exempt bonds floated during the month came to $590 million, as against $730 million in June 1962 and $422 million in July 1961. The largest new tax-exempt offering during the period was a $103.7 million issue of A-rated local government serial bonds. Reoffered to yield from 1.75 per cent in 1963 to 3.70 per cent in 1992, this offering met a fair initial reception.

Prices of seasoned corporate and tax-exempt obligations changed little on balance over the month. Prices declined somewhat in both sectors of the market during the early part of the period, but then edged upward toward the middle of the month when a few new issues were accorded good receptions. Over most of the remainder of the month, the market for corporate bonds maintained a firm tone, although prices fell following the Treasury financing announcement toward the end of the month. Prices of tax-exempt securities moved slightly lower, as dealers made small price concessions in an effort to lighten their still heavy inventories. The Blue List of advertised dealer offerings fell to $479 million at the end of July from $538 million a month earlier. Over the month as a whole, Moody's average yield on seasoned Aaa-rated corporate bonds rose by 7 basis points to 4.36 per cent, while the average yield on similarly rated tax-exempt issues rose by 3 basis points to 3.11 per cent.

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Publications of the Federal Reserve Bank of New York

The following publications are available free (except where a charge is indicated) from the Public Information Department, Federal Reserve Bank of New York, New York 45, N. Y. Copies of charge publications are available at half price to educational institutions.

DOMESTIC MONETARY ECONOMICS

1. MONEY: MASTER OR SERVANT? (1954) by Thomas O. Waage. A 48-page booklet explaining in nontechnical language the role of money and banking in our economy. Includes a description of the structure of our money economy, tells how money is created, and how the Federal Reserve System influences the cost, supply, and availability of credit, as it seeks to encourage balanced economic growth at high levels of employment.

2. THE MONEY SIDE OF "THE STREET" (1959) by Carl H. Madden. A 104-page booklet giving a layman's account of the workings of the New York money market and seeking to convey an understanding of the functions and usefulness of the short-term wholesale money market and of its role in the operations of the Federal Reserve. 70 cents per copy.

3. FEDERAL RESERVE OPERATIONS IN THE MONEY AND GOVERNMENT SECURITIES MARKETS (1956) by Robert V. Roosa. A 105-page booklet describing how Federal Reserve operations are conducted through the Trading Desk in execution of the directions of the Federal Open Market Committee. Discusses the interrelation of short-term technical and long-range policy factors in day-to-day operations. Has sections on the role of the national money market, its instruments and institutions, trading procedures in the Government securities market, what the Trading Desk does, the use of projections and the "feel" of the market, and operating liaison with the Federal Open Market Committee.

4. DEPOSIT VELOCITY AND ITS SIGNIFICANCE (1959) by George Garvy. An 88-page booklet discussing the behavior of deposit velocity, over the business cycle and over long periods, with emphasis on the institutional and structural forces determining its behavior. 60 cents per copy.

INTERNATIONAL ECONOMICS

5. THE QUEST FOR BALANCE IN THE INTERNATIONAL PAYMENTS SYSTEM (Reprinted from *Annual Report 1961*, Federal Reserve Bank of New York.) A 17-page article reviewing steps taken to strengthen the international financial system, the matter of dealing with basic payments difficulties, and the continuing task of achieving financial stability and economic balance.

6. THE NEW YORK FOREIGN EXCHANGE MARKET (1959) by Alan R. Holmes. A 56-page booklet primarily concerned with a description of the New York foreign exchange market as it exists today. Includes material on forward exchange and interest arbitrage. 50 cents per copy.

7. FOREIGN CENTRAL BANKING: THE INSTRUMENTS OF MONETARY POLICY (1957) by Peter G. Fousek. A 116-page booklet describing the development of central banking techniques abroad during the postwar period. Includes discussions on discount policy, open market operations, reserve requirements, liquidity ratios, and selective and direct credit controls. The final chapter describes foreign money markets, and outlines many of the measures taken in various foreign countries since the end of World War II to broaden these markets.

8. MONETARY POLICY UNDER THE INTERNATIONAL GOLD STANDARD, 1880-1914 (1959) by Arthur I. Bloomfield. A 62-page booklet analyzing in the light of current monetary and banking theory, the performance and policies of central banks within the framework of the pre-1914 gold standard. 50 cents per copy.

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