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The Question of International Liquidity at the Fund Meeting

The question of international liquidity was the main theme of this year's annual meeting of the International Monetary Fund held in Washington during the week beginning September 30. The general consensus of the participants was that liquidity is at present adequate to satisfy the needs of the world economy, and is likely to remain so in the immediate future. However, lest the growth of world economic activity be hampered by a possible liquidity shortage at some future date, it was thought useful to study ways in which the international financial system could be further improved and strengthened. A series of actions to reinforce the international payments mechanism through cooperative measures has, of course, been taken over the last few years. Furthermore, the mechanism has been under constant study and review by a number of official bodies, including the IMF, the central bankers who meet regularly at the Bank for International Settlements in Basle, Working Party 3 of the Economic Policy Committee of the Organization for Economic Cooperation and Development (OECD) in Paris (which deals particularly with financial policies of member countries), and national treasuries and central banks. Two new studies, however, will now be undertaken on a somewhat more formal basis.

A comprehensive study of the future of the international payments system will be undertaken by the so-called Group of Ten—a group of ten countries whose combined international reserves account for 80 per cent of the world total. These countries have been associated since 1961 under the General Agreements to Borrow, which are designed to augment the IMF's resources in case of need.[1] The IMF—whose broad membership (102 countries) and wealth of experience make it a center of the international financial world—will also be conducting an examination of the subject, with a special report on the potential contributions of the IMF. The Fund's analyses will be utilized by the Group of Ten as their comprehensive study proceeds.

World liquidity, as understood in this context, refers to the generally accepted official means of settling imbalances in international payments. Thus, it comprises the gold and foreign exchange holdings of monetary authorities, plus such additional means of payment as may be available to them through international and bilateral credit facilities. An appropriate level and distribution of world liquidity are essential to the attainment of a continuous and stable expansion of world trade and investment, which is in turn a major stimulus to world-wide economic growth. In this respect, the present international financial system has performed very satisfactorily. International reserves, including credit facilities, have proved adequate to meet the difficult problems posed by an unprecedented expansion of world trade and by large shifts in the direction and structure of trade, and to meet the equally difficult problems arising from very substantial increases in the movement of short-term and long-term capital across national frontiers. In the recent past international liquidity has been bolstered, and its effectiveness increased, by cooperation among the central banks and treasuries of the major industrial nations and by an enlargement of the resources, and greater use of the facilities, of the IMF. These developments have included the resumption of United States intervention in the exchange markets, the development and rapid expansion of inter-central-bank credit facilities, and the issuance by the United States Treasury of certificates and bonds denominated in foreign currencies. The IMF, strengthened by a general increase in quotas in 1959 as well as by the 1961 Paris agreement, has expanded its activities in support of the major currencies, including the provision of large stabilization credits to the United Kingdom in 1961 and to Canada in 1962. In July 1963, the United States also entered into a stand-by agreement with the Fund.

As a result of these arrangements, the international monetary system has been able to absorb both the strain of persistent heavy imbalances in payments among major countries—including especially the United States deficits since 1958—and the successive shocks of such events as

[1] These agreements—concluded in Paris in December 1961, ratified by the United States Congress in June 1962, and effective since October 1962—established a network of facilities under which the IMF can borrow up to $6 billion equivalent of group-member currencies. The group consists of Belgium, Canada, France, West Germany, Italy, Japan, the Netherlands, Sweden, the United Kingdom, and the United States. For background of the agreements, see "The Vienna Meeting of the Internationl Monetary Fund", this *Review*, October 1961, pp. 167-69.

the revaluation of the German mark and the Dutch guilder in March 1961, the Berlin crisis in the fall of 1961, the attack on the Canadian dollar prior to and following the re-establishment of a fixed par value for that currency in May 1962, the Cuban crisis in the fall of 1962, and the rejection of the British application for membership in the Common Market early this year. The evolution of the present international monetary system and its capacity to cope with crises were reviewed by four central bankers in a recent issue of this *Review*.[2]

In dealing with the financing of future swings in payments accounts, the central bankers noted that they saw no effective alternative to reliance upon a further development of mutual credit facilities among the major trading nations. At the same time, however, the central bankers emphasized that even strong currency defenses cannot be a substitute for the eventual correction of major underlying payments imbalances—a point heavily stressed at the IMF meetings as well. In this respect, the continued balance-of-payments deficits of the United States have been a source of concern. The delegates at the IMF meeting noted the efforts undertaken by the United States to re-establish balance in its foreign accounts, and also the reaffirmation by both President Kennedy and Secretary of the Treasury Dillon that the United States does not regard a possible enlargement of the methods of providing world liquidity as relieving this country of the task of solving its payments deficit. In fact, one of the important reasons for studying future world liquidity needs is the prospect of an improvement in the United States balance of payments. President Kennedy underlined this point graphically in his address to the Fund, when he said: "We recognize that the reserve position of other countries is a mirror image of our own—and that as the United States moves toward equilibrium, it will be more difficult for others to increase their reserves."

The Fund's inquiry will be conducted by its staff, and it is hoped that some conclusions may have emerged by the time of next year's annual meeting in Tokyo. In speaking of its aims, Pierre-Paul Schweitzer, the Fund's new Managing Director, said in his address to the meeting:

> In my view the members of the Fund, taken as a whole, are not at present being prevented from adopting or carrying out desirable policies by any shortage of international liquidity. But it is wise and prudent to look into the future to consider what difficulties might arise and to devise ways of meeting them. This has been the habit of the Fund. All the main developments in the policies and practices of the Fund . . . have been preceded by long periods of study which have laid the foundation for positive action. In the coming year the Fund will develop and intensify its studies regarding international liquidity, the functioning of the international monetary system, and the effective role of the Fund in this field.

This initiative of the Fund was widely endorsed by the participants at the meeting. Among them, Governor Holtrop of the Netherlands Bank expressed his approval and pointed to an important reason for such a study:

> International liquidity has of late become so much of a subject of public controversy, upon which such a variety of highly contradictory opinions are being held and propagated, that one often is reminded of the saying that "money has made even more people mad than love". Under these circumstances there is great need for authoritative answers to a great number of questions. I am happy that a body like the Fund will give concentrated attention to this subject.

At the same time, Mr. Schweitzer stated in his address that "there is a wholly understandable interest in this important range of problems which extends beyond the Fund" and hence "other bodies, groups of countries, and individual members will be engaged on similar inquiries".

The study conducted by representatives of the Group of Ten will be a broad-ranging one. These representatives, who intend to cooperate closely with the Fund, will include high-ranking officials from the ten countries, with United States Under Secretary of the Treasury Robert V. Roosa acting as chairman and Emile van Lennep, Treasurer General of the Netherlands Finance Ministry, as vice chairman. The results of their investigation will be reported to the ministers and central bank governors of the Ten. The study is to encompass "a thorough examination of the outlook for the functioning of the international monetary system and its probable future needs for liquidity". It will also evaluate various alternatives for covering such needs. Two possible courses were ruled out explicitly: a change in the present price of gold and the adoption of a system of fluctuating exchange rates.

Individual countries, of course, have made it clear that inquiry into certain other matters—the transformation of

[2] See "Conversations on International Finance" by C. A. Coombs, M. Iklé, E. Ranalli, and J. Tüngeler, this *Review*, August 1963, pp. 114-21.

the IMF into a supranational central bank, for example—may not be especially fruitful. Another such matter is that of generalized "guarantees" of the gold value of the present official holdings of foreign currencies. In the view of the United States, such guarantees cannot provide any meaningful assurance. Instead, the real basis for confidence in a currency is to be found in the strength, performance, and stability of the issuing country's financial system.[3]

The discussion at the IMF meetings, on the other hand, did point to certain general areas of widespread interest for these studies. It was unanimously held, for example, that any study of the question of international liquidity should consider ways of strengthening incentives for individual countries to rectify imbalances in their international payments. To be sure, ample reserves must be readily available to finance temporary deficits, so that the flow of international trade and payments will not be disrupted. But as Reginald Maudling, the British Chancellor of the Exchequer, put it:

> . . . the availability of liquid resources should not be such as to promote, or encourage countries to tolerate, the continuance of basically unsound domestic or international positions in the guise of temporary fluctuations. The basic dilemma is clear. If adequate resources are not available automatically or nearly automatically, their usefulness in times of trouble may be problematic; but, to the extent to which they are automatically available, they may present a temptation to refrain from the necessary corrections of policy.

In fact, insufficient balance-of-payments discipline alone may create a shortage of liquidity by destroying confidence in currencies that supplement gold in official reserves. It is therefore important, in the words of Ludger Westrick, the German delegate, that

> any improvements that might be thought out for our international monetary system—and there is always room for improvements—should not be concentrated only on the question of how best to finance balance-of-payments deficits, but also on the even more important question of how to provide sufficient incentives for curing them.

In addition to such general areas, certain concrete questions relating to the composition of international liquidity were suggested for examination by some of the participants. What are the possibilities for international reserves to be held in currencies other than the dollar and sterling? What are the implications of the existing discrepancies in the ratio of gold to total reserves among the major countries? Changes are conceivable that would potentially increase total world liquidity and would also meet the criticism that the current system is not fully reciprocal in the sharing of currency risks between countries which hold uneven proportions of gold and foreign exchange. The last point was stressed by the French Finance Minister Valéry Giscard d'Estaing:

> Within the monetary system itself, certain countries maintain a policy of keeping their reserves in gold, and of holding foreign currency only to the minimum extent required by current transactions. Other countries, the list of which varies, hold large amounts of foreign currencies, at times as much as half their total reserves. This situation certainly does not reflect an equitable distribution of the burdens of international monetary cooperation.

Thus, a broad range of subjects will be reviewed by both the IMF and the Group of Ten. But, as Under Secretary Roosa pointed out shortly before this year's meeting, there is not any reason to assume "that daring or revolutionary approaches will in fact emerge for the future. The process of evolution may very well take us where we want to go."[4] In actual fact, of course, evolutionary changes of the type that have taken place over the last few years — including both the increase in the IMF quotas and the Paris agreement — already add up to major reforms of the international financial system. Similarly, the various cooperative arrangements concluded among the central banks and treasuries of the major industrial countries have been striking innovations, creating new sources of international liquidity. Furthermore, the distinct advantage of these cooperative measures has been that they did not necessitate either radical institutional changes or complex new operating mechanisms and have thus been capable of rapid implementation while also gaining widespread acceptance. The commanding questions now are whether, and how, these achievements in cooperation can be flexibly adapted to meet the needs in the years ahead.

[3] See Robert V. Roosa, "Assuring the Free World's Liquidity", Federal Reserve Bank of Philadelphia, *Business Review* (Supplement), September 1962.

[4] Robert V. Roosa, "Reforming the International Monetary System", *Foreign Affairs*, October 1963, p. 121.

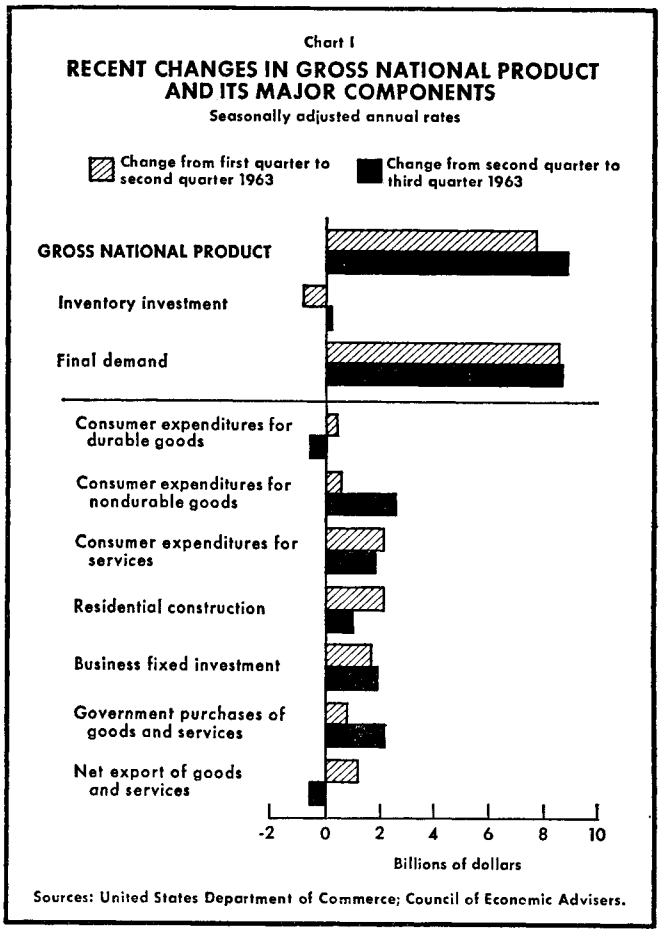
The Business Situation

The economy posted another significant advance in the third quarter of the year. The rise in gross national product was the largest for any quarter in nearly two years, with a particularly heavy gain being scored by consumer purchases of nondurable goods. To be sure, there was some sluggishness in the statistical measures in August, but most September business indicators showed more strength, as the automobile industry experienced a pickup and the decline in iron and steel production virtually ceased. With the fourth quarter getting under way, moreover, available data suggest that retail sales, sparked by heavy sales of new car models, advanced substantially more than seasonally in October. At the same time, there appears to have been a significant increase in auto output in October—even after allowing for the normal seasonal rise—while steel output held about unchanged.

Prospects for the fourth quarter as a whole appear encouraging. The Department of Commerce-Securities and Exchange Commission's August survey of businessmen's plans for plant and equipment spending suggests a substantial further gain in such spending over the third quarter. The outlook for the realization of such a gain appears to have received support in September, both from a substantial rise in new orders for machinery and equipment following two months of decline and from a considerable advance in the output of business equipment. At the same time, some increase in spending by the Federal Government—due particularly to the military pay rise—and by state and local governments appears likely, while the sharp recovery of housing starts and new home permits in September has improved the outlook for residential building activity. One major area of uncertainty is the prospective strength of consumer spending, which has been increasing less rapidly this year than in 1962. According to a recent survey, however, consumer plans to buy houses, household goods, and cars remain strong.

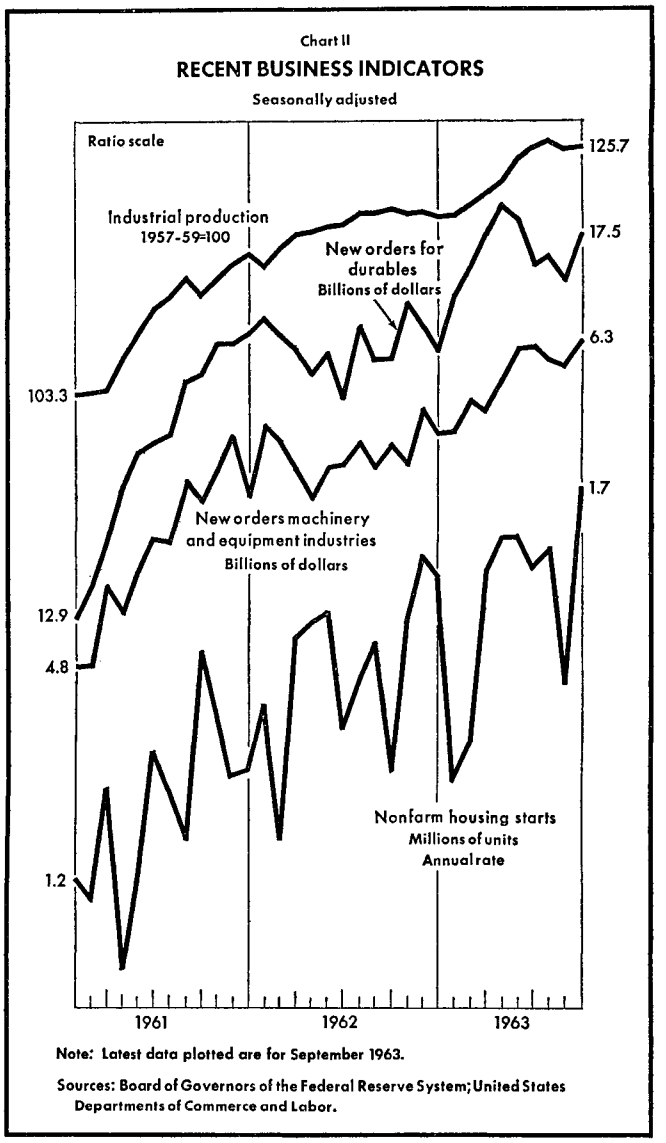
GROSS NATIONAL PRODUCT IN THE THIRD QUARTER

According to preliminary estimates by the Council of Economic Advisers, GNP rose by a sizable $8.9 billion in the third quarter to a $588.5 billion seasonally adjusted annual rate (see Chart I). Only a small part of the advance was due to a rise in the rate of inventory accumulation, indicating that the expansion in final demand was a bit larger than the already substantial second-quarter increase. Most components of final demand contributed significantly to the rise in GNP. Major gains were scored by consumer purchases of nondurables, which had shown only a small increase in the second quarter, and by spending of state and local governments. Outlays by these governments, which normally show a fairly steady growth, had declined in the second quarter, owing to a temporary curtailment of some highway construction, but rebounded



sharply in the third quarter. Total spending for goods and services by the Federal Government, on the other hand, was virtually unchanged, and two components of GNP—net exports and consumer purchases of durable goods—edged down. As regards consumer purchases of durable goods, a concentration of car model change-overs and the relatively low remaining inventories of 1963 models resulted in reduced automobile sales in the latter part of the third quarter.

In line with businessmen's plans as reported in the Government's plant and equipment spending survey, business outlays on fixed investment during the third quarter showed one of the sharpest advances of recent years, actually exceeding somewhat the large second-quarter gain. The rise in nonfarm residential construction in the third quarter, on the other hand, was only about half the second-quarter increase—a slowdown which had been clearly apparent in the monthly data on construction activity.



DEVELOPMENTS IN SEPTEMBER AND OCTOBER

The Federal Reserve Board's index of industrial production was virtually unchanged in September at 125.7 per cent (seasonally adjusted) of the 1957-59 average (see Chart II). It will be recalled that during August sharp declines in the production of both steel and new cars had resulted in a drop of nearly a point in the over-all index. In September, on the other hand, a further small reduction in the iron and steel component was about offset by a small rise in the output of motor vehicles and parts. Gains and losses in the output of other goods also about offset each other in September, whereas there had been some rise on balance in August and fairly sizable increases in most earlier months of the year. Incomplete data for October point to little change in steel ingot production, after allowing for seasonal factors, but auto output rose sharply and very preliminary production schedules for November appear to suggest continued strength. Large car production and sales are in turn supporting steel production, although steel inventories remain fairly high.

One particularly favorable factor in the near-term outlook for production is the 4 per cent September rise (seasonally adjusted), to the highest level since May, in new orders received by manufacturers of durable goods. The August decline in these orders had largely reflected reduced deliveries of automobiles, which are recorded as new orders when delivered to dealers. To be sure, a substantial part of the September gain was due to renewed heavy deliveries as new car models came off the assembly lines. Nevertheless, orders of other durable goods also posted a good advance. With new orders exceeding sales in September, the backlog of unfilled orders received by manufacturers of durable goods increased by 1.1 per cent (seasonally adjusted), after declines in the three preceding months, while total orders received by all manufacturers advanced to record levels.

Following a slight August decline, nonfarm payroll employment resumed its upward movement in September, but the increase of 100,000 persons was small and was concentrated mainly in the public sector. Payroll employment in manufacturing recouped less than half its August decline. In October, total employment showed virtually no

change after seasonal adjustment, according to the Census Bureau's household survey, nor did the seasonally adjusted unemployment rate, at 5.5 per cent, change significantly. One encouraging development in the unemployment picture is the reduced rate of unemployment among married men. Unlike the aggregate unemployment rate, which has shown little net change in the past year, the unemployment rate for this group has trended generally downward throughout most of the current business expansion. At 2.9 per cent in September and October, it was at its lowest level since August 1957.

Recent gains in residential construction represent a marked improvement from the summer performance. Following a substantial decline in August, the seasonally adjusted annual rate of private nonfarm housing starts advanced by 17 per cent in September to the highest level since the current series became available in January 1959. Large—and quickly reversed—movements in housing starts are, of course, not uncommon. Nevertheless, the September gain was sufficient to pull the third-quarter average to within less than 2 per cent of the very high second-quarter average and is an encouraging development. Moreover, the seasonally adjusted index of new home permits, after two months of decline, also rose sharply in September and reached a new high. In October, outlays on residential construction rose only slightly—a leveling-off in activity associated with low housing starts in August.

Total retail sales dropped 1½ per cent in September. Although shortages of new cars were responsible for some of the weakness, there were declines in other groups as well—in contrast to some growth, apart from auto sales, in August. Preliminary data suggest that retail sales in October may have substantially recovered these losses.

Consumer spending on durables, which has remained relatively sluggish so far in 1963, is receiving support from a rising level of disposable income. The favorable outlook for such spending is supported by a study made in August and early September by Michigan University's Survey Research Center, which indicates that consumer plans to buy houses, household goods, and cars are strong. Heavy sales of new cars in October suggest, moreover, that the public's initial reaction to the new models was favorable.

The Money Market in October

The money market continued to exhibit in October about the same degree of firmness as in August and September. Federal funds traded largely at the 3½ per cent ceiling (equal to the Federal Reserve discount rate), with a sizable margin of demand for reserves being satisfied by member bank borrowings at this rate from the Federal Reserve Banks. Rates posted by the major New York City banks on call loans to Government securities dealers were quoted in a 3⅝ to 4 per cent range during the month, but dealers found financing from nonfinancial corporations readily available at more attractive rates much of the time. Over the first two thirds of October, rates on Treasury bills maturing in 1964 moved generally higher, as the market adjusted to enlarged supplies and as some uneasiness developed over the near-term outlook for interest rates, while rates on scarce shorter maturities declined. Later in the month, bill rates generally declined on strong corporate demand in a more confident atmosphere, although in the final days rates edged up again to close not far from their earlier high points. The increased availability of corporate money apparently also prompted the major sales finance companies to reduce their rates during the month by ⅛ to ¼ of a percentage point on various maturities of their directly placed paper, but rates were increased again by about ⅛ of a percentage point near the month end. Leading New York City banks increased during the month their offering rates for new time certificates of deposit, while the range of rates at which such certificates were offered in the secondary market rose from 10 to 15 basis points and from 10 to 20 basis points on three- and six-month maturities, respectively.

After the close of business on October 23, the Treasury announced that it would offer at par about $7.6 billion of eighteen-month 3⅞ per cent notes dated November 15, 1963 and maturing on May 15, 1965, replacing a corresponding amount of certificates and notes maturing on November 15. Subscription books for the refunding were open only on October 28, with payment in the form of either cash or the two maturing securities due on November 15. The new offering was well received with sub-

scriptions totaling $20.1 billion. On October 31, the Treasury announced that total allotments of about $8.0 billion would be made, including full allotments to official accounts and to subscriptions up to $100,000, and partial allotments of 21 per cent to all other subscribers but with no subscriptions in excess of $100,000 allotted less than that amount.

Hesitancy also pervaded the market for Treasury notes and bonds in the first two thirds of the month. Distribution to investors of the longer term issues arising from the September advance refunding continued amid an atmosphere of caution, as some signs of strength in the economy generated uncertainty over the outlook for long-term interest rates. The erosion in prices over the first two thirds of the month led to some subsequent increase in investor demand, and prices firmed. As in the bill market, however, a more cautious atmosphere developed in the final days of the period and prices declined again. Prices of corporate and tax-exempt bonds held steady in the first half of October but moved down later in the month when the volume of new issues increased.

CHANGES IN FACTORS TENDING TO INCREASE OR DECREASE MEMBER BANK RESERVES, OCTOBER 1963

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

Factor	Daily averages—week ended					Net changes
	Oct. 2	Oct. 9	Oct. 16	Oct. 23	Oct. 30	
Operating transactions						
Treasury operations*	— 53	— 9	— 24	+ 14	+ 12	— 60
Federal Reserve float	— 392	— 18	+ 40	+ 363	— 514	— 521
Currency in circulation	— 5	— 206	— 174	+ 70	+ 99	— 216
Gold and foreign account	— 14	+ 1	+ 3	— 23	+ 5	— 28
Other deposits, etc.	+ 15	— 28	+ 33	+ 53	+ 3	+ 76
Total	— 450	— 259	— 122	+ 477	— 395	— 749
Direct Federal Reserve credit transactions						
Government securities:						
Direct market purchases or sales	+ 409	+ 168	— 96	— 295	+ 187	+ 373
Held under repurchase agreements	+ 62	+ 357	— 156	— 263	+ 61	+ 61
Loans, discounts, and advances:						
Member bank borrowings	— 45	+ 49	— 83	+ 52	— 162	— 189
Other	—	—	—	+ 1	— 1	—
Bankers' acceptances:						
Bought outright	— 2	+ 1	+ 1	+ 3	+ 1	+ 4
Under repurchase agreements	+ 1	+ 6	+ 2	— 9	+ 2	+ 2
Total	+ 425	+ 581	— 333	— 511	+ 88	+ 250
Member bank reserves						
With Federal Reserve Banks	— 25	+ 322	— 455	— 34	— 307	— 499
Cash allowed as reserves†	+ 2	— 305	+ 248	— 12	+ 107	+ 40
Total reserves†	— 23	+ 17	— 207	— 46	— 200	— 459
Effect of change in required reserves†	— 85	+ 69	+ 152	+ 91	+ 99	+ 326
Excess reserves†	— 108	+ 86	— 55	+ 45	— 101	— 133
Daily average level of member bank:						
Borrowings from Reserve Banks	343	392	309	361	199	321‡
Excess reserves†	352	438	383	428	327	386‡
Free reserves†	9	46	74	67	128	65‡

Note: Because of rounding, figures do not necessarily add to totals.

* Includes changes in Treasury currency and cash.

† These figures are estimated.

‡ Average for five weeks ended October 30, 1963.

BANK RESERVES

Market factors absorbed reserves on balance from the last statement period in September through the final statement week in October. Reserve drains—primarily reflecting a seasonal contraction in float and an outflow of currency into circulation—more than absorbed reserves released by a decline in required reserves and by the effects of movements in other factors. System open market operations during the month more than offset the net reserves drained by changes in market factors. System outright holdings of Government securities expanded on average by $373 million from the last statement period in September through the final statement week in October, while holdings under repurchase agreements rose by $61 million. Net System outright holdings of bankers' acceptances increased by $4 million, and such holdings under repurchase agreements rose by $2 million. From Wednesday, September 25, through Wednesday, October 30, System holdings of Government securities maturing in less than one year increased by $570 million, while holdings maturing in more than one year expanded by $102 million.

THE GOVERNMENT SECURITIES MARKET

The market for Treasury bills was the focal point of attention during the month, as the Treasury auctioned bills to raise $1.5 billion of new money after having already added $2 billion to the supply of bills outstanding by two earlier auctions of one-year bills in August and September. A hesitant tone prevailed in the market at the beginning of October, reflecting expectations that the supply of outstanding issues would soon be augmented by an offering of March tax anticipation bills, by a possible "strip" issue, and by another in the series of monthly one-year bills. At the same time, an early-month contraction in the level of nation-wide reserve availability led to market discussion about the possibility of a further shift toward less ease in monetary policy. Rates edged generally higher through October 7, although scarce shorter bill maturities moved down in yield on good demand. Subsequently, through midmonth, demand picked up at the higher rate levels and rates on shorter bills moved down, while yields were narrowly mixed in the 1964 maturity area where additional bill supplies were expected to be forthcoming.

Demand was fairly good in the October 9 auction of $2 billion of March tax anticipation bills—an issue which partly replaced $2.5 billion of one-year bills maturing October 15—and an average issuing rate of 3.537 per cent on the new bills was established.

On October 16, the Treasury announced after the close of business that it would auction on October 22 a $1 billion strip of bills for payment on October 28, representing additions of $100 million each to ten outstanding bill issues maturing from February 6 through April 9, 1964. (Commercial banks were not permitted to pay for the bills through credit to Treasury Tax and Loan Accounts.) Market observers—already concerned about the implications for interest rates of what was judged to be a strengthening economy and of lower levels of net reserve availability—tended to interpret the strip offering as indicating an official desire for higher bill rates, and rates rose from 2 to 5 basis points for 1964 maturities following the announcement. Subsequently, however, market participants became more confident with regard to the current level of short-term rates. Corporate demand for bills was quite strong, and rates tended to move lower until the end of the month when corporate selling contributed to a rise in rates on near-term maturities.

An average issuing rate of 3.601 per cent was set on the strip issue, somewhat below earlier market estimates. At the final regular weekly auction of the month held on October 28, average issuing rates were 3.452 per cent for the new three-month issue and 3.586 per cent for the new six-month bill—about 4 and 7 basis points, respectively, above the rates established in the final auction in September. An average issuing rate of 3.633 per cent was set at the October 30 auction of $1 billion of new one-year bills, compared with an average rate of 3.586 per cent at the preceding month's auction. The outstanding three-month bill closed the month at 3.48 per cent (bid) as against the end-of-September rate of 3.37 per cent, while the outstanding six-month bill was quoted at 3.60 per cent (bid) on October 31, compared with 3.51 per cent (bid) on September 30.

In the market for Treasury notes and bonds, a cautious tone developed early in the month, reflecting the view of some in the market that a further strengthening of the business situation might portend a rise in the level of long-term interest rates. In this setting, the upward price movement which had been under way in the Government bond market since mid-September came to a halt. Expanded offerings of the 4 per cent bonds of 1973 and the 4⅛ per cent bonds of 1989-94, which had been available in the September advance refunding, were absorbed at declining prices. Investor interest in other issues maturing in five years or more was quite limited, and prices of notes and bonds maturing beyond 1968 generally moved lower through October 18. In the shorter maturity area, however, where a portion of the proceeds of a recent large tax-exempt flotation was reinvested, prices were little changed during this period.

In the latter part of October, a more confident atmosphere developed for a time in the market for Treasury notes and bonds when investors were attracted by the lower prices that had emerged. This interest was not sustained, however, in part because of the rise in corporate bond offerings, and prices edged downward again as the month closed. The 3⅞ per cent eighteen-month note offered in the Treasury's refunding operation—a relatively short-term offering, as many had expected—was accorded a favorable reception and was quoted at a slight premium in "when-issued" trading. Over the month as a whole, prices of short- and intermediate-term issues were generally $^{2}/_{32}$ to $^{18}/_{32}$ lower while prices of longer term obligations were generally $^{20}/_{32}$ to $^{28}/_{32}$ lower.

OTHER SECURITIES MARKETS

In the market for seasoned corporate and tax-exempt bonds, prices held generally steady in the first half of the month as a fairly good investment demand developed at prevailing price levels. In the latter part of October, however, prices tended lower in both sectors, largely in response to an expanding calendar of forthcoming corporate and tax-exempt offerings. The tendency toward lower prices was reinforced in the tax-exempt sector by price cutting on recent slow-moving issues, as dealers sought to reduce the accumulation of issues on their shelves. Over the month as a whole, the average yield on Moody's seasoned Aaa-rated corporate bonds was unchanged at 4.32 per cent, while the average yield on similarly rated tax-exempt bonds rose by 1 basis point to 3.16 per cent.

The total volume of new corporate bonds reaching the market in October amounted to approximately $510 million, compared with $280 million in the preceding month and $540 million in October 1962. The largest new corporate bond issue publicly marketed during the month consisted of $150 million of A-rated 4½ per cent finance company debentures maturing in 1985 and not redeemable for eight years. The debentures were reoffered to yield 4.54 per cent and were well received. New tax-exempt flotations during the month totaled approximately $1,245 million, as against $415 million in September 1963 and $600 million in October 1962. The Blue List of tax-exempt securities increased by $132 million during the month to $626 million on October 31. The largest new

tax-exempt offering during the period was a $184 million Baa-rated hydroelectric revenue bond. The issue, which was well received, consisted of $144 million of 4 per cent term bonds maturing in 2018, reoffered to yield approximately 3.96 per cent, and $40 million of serial bonds which were reoffered to yield from 3.15 per cent in 1974 to 3.75 per cent in 1991. Other new corporate and tax-exempt issues marketed in October were accorded mixed receptions.