

Confidential (F. R.)

January 23, 1959

TO: Open Market Committee SUBJECT: The Outlook for
 Member Bank Reserve
FROM: Division of Research and Statistics Positions
 Board of Governors

Member bank reserve projections indicate that, in the absence of further System action, reserve positions will tighten considerably in the current week ending January 28 and will continue relatively tight through the middle of February. Net borrowed reserves would average about \$200 million during the three weeks ending February 11. In the second half of February, however, reserve positions are expected to ease and net free reserves may reappear. Without System operations free reserves would then be maintained through April, fluctuating somewhat around an average level of about \$150 million. After April generally tighter reserve positions are indicated, with net borrowed reserves averaging over \$400 million at the end of June.

In the week of January 28, a large increase in tax and loan accounts, associated with the Treasury financing, should more than offset declines in other deposits and cause a sharp increase in required reserves. This tightening influence and the end-of-month decline in float will be only partially offset by a continued inflow of currency, and in the absence of further System action, net borrowed reserves would average a little above \$100 million for the week.

Early in February required reserves should again decline, reflecting continued seasonal reduction in private deposits, as well as a decline in tax and loan accounts. However, drains of reserves associated with other factors are expected to offset this easing influence, raising net borrowed reserves to around \$250 million through the week of February 11. In the second half of February, further reduction in required reserves, a return flow of currency, and an increase in float should combine to ease reserve positions substantially, establishing net free reserves of about \$240 million in the week of February 25.

During March and April free reserves should average about \$150 million, reaching peaks of around \$300 million in the weeks of March 18 and April 22, associated with the midmonth rise in float. After the week of April 22, member bank reserve positions should tighten considerably as all factors except required reserves produce net drains over the remainder of the period through June. Net borrowed reserves are expected to average about \$100 million in May and \$200 million in June.

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Projections of changes in member bank reserve positions are shown through June 1959, weekly in Table 1 and monthly in Table 2. Estimated levels of free reserves (last column in Table 1) are net results of other factors, which are derived on the following basis:

1. Customary seasonal changes in currency in circulation.
2. Gold outflow at the rate of \$25 million a week through the end of June 1959.
3. Treasury balance at Federal Reserve Banks maintained at \$500 million following the week ending February 4.
4. Required reserves estimated as follows:
 - a) Usual seasonal changes in demand deposits adjusted, time deposits, and interbank deposits, with no allowance for growth. Weekly projections of demand deposits adjusted indicate a decline of \$5 billion from the end of December to early April, with moderate fluctuations in the second quarter.
 - b) Treasury tax and loan accounts projected on basis of cash receipts and expenditures and of attrition on maturing issues as estimated by Board's staff. Estimates assume cash financing of \$600 million in March; \$3.5 billion on April 6; and \$1.1 billion on May 15. Tax and loan account balances, which averaged \$1.1 billion in the week of January 21, and are estimated at about \$3.9 billion this week, are expected to decline to a low level of about \$1.1 billion in mid-March and to vary between that level and \$3.7 billion during the rest of the period.
5. Open market operations data include changes in System holdings through January 22.

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Table 1
ESTIMATED CHANGES IN BANK RESERVES, WITH RELEVANT FACTORS
(Weekly averages; in millions of dollars)

Period	Member Bank Reserves			Factors affecting reserves 1/					Open market operations	Member bank borrowings	Estimated level of "free" reserves
	Required	Excess	Total	Currency in circulation	Treasury operations	Other nonmember deposits and F. R. accounts	Gold stock and foreign deposits	F. R. Float			
1959:											
Jan. 21*	- 74	- 58	- 132	+ 325	- 19	- 25	- 71	+ 277	- 344	- 275	68
Jan. 28	+ 160	----	+ 160	+ 240	- 40	+ 30	+ 20	- 250	- 21	+ 181	- 113
Feb. 4	- 135	----	- 135	+ 30	- 50	- 30	- 25	- 230		+ 170	- 283
11	- 150	----	- 150	- 40	----	- 40	- 25	- 15		- 30	- 253
18	- 150	----	- 150	+ 25	----	- 75	- 25	+ 145		- 220	- 33
25	- 180	----	- 180	+ 75	----	- 45	- 25	+ 85		- 270	237
Mar. 4	+ 20	----	+ 20	- 60	----	+ 85	- 25	- 55		+ 75	162
11	- 135	----	- 135	- 30	----	----	- 25	- 50		- 30	192
18	+ 75	----	+ 75	----	----	- 5	- 25	+ 210		- 105	297
25	+ 105	----	+ 105	+ 95	----	+ 5	- 25	- 170		+ 200	97
Apr. 1	- 240	----	- 240	- 65	----	- 105	- 25	- 75		+ 30	67
8	- 60	----	- 60	+ 30	----	+ 130	- 25	- 15		- 180	247
15	+ 255	----	+ 255	+ 30	----	----	- 25	+ 30		+ 220	27
22	- 50	----	- 50	+ 65	----	- 15	- 25	+ 220		- 295	322
29	- 60	----	- 60	+ 30	----	+ 45	- 25	- 315		+ 205	117
May 6	- 60	----	- 60	- 95	----	+ 5	- 25	- 20		+ 75	42
13	- 15	----	- 15	- 60	----	----	- 25	- 10		+ 80	- 38
20	+ 60	----	+ 60	+ 45	----	- 115	- 25	+ 245		- 90	52
27	- 25	----	- 25	+ 30	----	- 5	- 25	- 200		+ 175	- 123
June 3	----	----	----	- 140	----	+ 15	- 25	- 70		+ 220	- 343
10	- 90	----	- 90	- 65	----	+ 5	- 25	+ 75		- 80	- 263
17	+ 35	----	+ 35	+ 40	----	- 25	- 25	+ 215		- 170	- 93
24	+ 165	----	+ 165	+ 70	----	+ 30	- 25	+ 140		- 50	- 43
July 1	- 25	----	- 25	- 100	----	+ 30	- 25	- 310		+ 380	- 423

* Actual.

1/ Sign indicates effect on reserves.

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Table 2
ESTIMATED CHANGES IN BANK RESERVES, WITH RELEVANT FACTORS
(Based on weekly averages for last week in each month; in millions of dollars)

Period (figures in parentheses indicate number of weeks)	Member Bank Reserves			Factors affecting reserves 1/					Open market operations	Member bank borrowings
	Required	Excess	Total	Currency in circulation	Treasury operations	Other nonmember deposits and F. R. accounts	Gold stock and foreign deposits	F. R. Float		
1950:*										
October (4)	+ 219	+ 62	+ 281	- 84	- 52	+ 109	- 184	+ 73	+ 365	+ 55
November (5)	+ 239	- 14	+ 225	- 758	+ 42	- 103	- 33	+ 110	+ 843	+ 124
December (4)	+ 279	+ 148	+ 427	- 399	- 53	+ 6	- 178	+ 531	+ 306	+ 211
1959:										
January (4)	- 248	+ 10	- 238	+1,311	+ 64	+ 37	- 16	- 580	- 881	- 173
February (4)	- 615	---	- 615	+ 90	- 50	- 190	- 100	- 15	- 350	
March (5)	- 175	---	- 175	- 60	---	- 20	- 125	- 140	+ 170	
April (4)	+ 85	---	+ 85	+ 155	---	+ 160	- 100	- 80	- 50	
May (5)	- 40	---	- 40	- 220	---	- 100	- 125	- 55	+ 460	
June (4)	+ 85	---	+ 85	- 55	---	+ 40	- 100	+ 120	+ 80	
July (4)	- 90	---	- 90	+ 95	---	+ 40	---	+ 20	- 245	
August (5)	- 90	---	- 90	- 160	---	- 95	---	- 150	+ 315	
September (4)	+ 220	---	+ 220	- 30	---	+ 30	---	+ 190	+ 30	
October (4)	+ 130	---	+ 130	- 95	---	+ 40	---	+ 60	+ 125	
November (5)	+ 80	---	+ 80	- 475	---	- 95	---	+ 50	+ 600	
December (4)	+ 425	---	+ 425	- 410	---	+ 20	---	+ 585	+ 230	
1958:*										
Jan.-Mar.	-1,212	+ 31	-1,181	+1,323	+ 22	- 231	- 265	- 774	- 745	- 512
Apr.-June	+ 374	- 41	+ 333	- 527	+135	- 33	-1,036	+ 39	+1,803	- 47
July-Sept.	- 430	- 195	- 625	- 52	+ 10	---	- 476	+ 89	- 499	+ 303
Oct.-Dec.	+ 737	+ 196	+ 933	-1,241	- 63	+ 12	- 395	+ 714	+1,514	+ 390
1959:										
Jan.-Mar.	-1,038	+ 10	-1,028	+1,341	+ 14	- 173	- 241	- 735	- 881	- 353
Apr.-June	+ 130	---	+ 130	- 120	---	+ 100	- 325	- 15	+ 490	
July-Sept.	+ 40	---	+ 40	- 95	---	- 25	---	+ 60	+ 100	
Oct.-Dec.	+ 635	---	+ 635	- 980	---	- 35	---	+ 695	+ 955	

* Actual.

1/ Sign indicates effect on reserves.

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Banking Section, Division of Research and Statistics