

Confidential (F. R.)

REC-1 RECORDS SECTION

OCT 12 1959

TO: Open Market Committee

SUBJECT: The Outlook for
Member Bank Reserve
PositionsFROM: Division of Research and Statistics
Board of Governors

Projections of member bank reserve positions indicate that, in the absence of further System action, net borrowed reserves, which should continue to average about \$500 million in the current week will decline somewhat next week and then increase to above \$500 million in the last week of the month. These projections, which reflect seasonal monetary and credit demands, prospective Treasury financing operations, and an assumed further gold outflow, show further increases in needs for reserves aggregating over \$800 million from late October until early December. The usual large and rapid release of reserves will occur in January.

In the absence of System action, net borrowed reserves may ease to about \$250 million in the week of October 21, as the large mid-month rise in float is expected to more than offset an increase in required reserves. The projected increase in required reserves in the last half of October is largely due to increases in U. S. Government deposits, reflecting Treasury cash financing on October 15 and 21. Net borrowed reserves should rise above \$500 million again in the week of October 28, with the end-of-month decline in float the principal tightening factor. After the end of October, there will be a tendency for net borrowed reserves to increase in most weeks until mid-December and to continue at a high level until the end of the year.

The fourth quarter typically is the period when seasonal reserve needs are greatest. The cumulative drain for the quarter this year is estimated at about \$850. In the absence of System action, the drain of reserves would amount to about \$1,025 million by December 16, just prior to the very large mid-month expansion of Federal Reserve float. Seasonal tightening influences will have their greatest impact on member bank reserve positions after October.

The principal drain during the fourth quarter is due to a seasonal outflow of currency. Currency in circulation may be expected to show a small net increase in October and larger increases in the following two months, amounting to nearly \$600 million in November and \$350 million in December. After increasing more than seasonally in the second quarter of the year, currency has been below seasonal expectations since July--perhaps reflecting the influences of the steel strike.

Projected net increases in required reserves during the fourth quarter indicate nearly \$500 million additional pressure on member bank reserve positions as a result of seasonal credit demands. This tightening should be concentrated mainly in the first three weeks of December, although a large increase in required reserves is projected for the second half of October. The October increase reflects a buildup of U. S. Government deposits, and it is largely offset in November when the Treasury is

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expected to draw its balances down. Private deposits generally increase in most weeks of the fourth quarter. Their greatest increase this year is expected in the week of December 16.

Federal Reserve float constitutes the only major seasonal offset to the drain associated with increases in currency in circulation and in required reserves. In the fourth quarter, a net expansion in float of about \$600 million is projected, nearly all of which is expected in December. F. R. credit may increase as much as \$750 million in the two weeks ending December 23, as a result of the mid-month rise in float.

Thus, seasonal drains produced by all factors combined are estimated at about \$50 million in October, \$550 million in November, and \$250 million in December, totalling nearly \$850 million in the fourth quarter.

In January, the effects of the major factors affecting reserves are reversed, producing a rapid easing of considerable magnitude. With no System action, the seasonal inflow of currency alone could provide about \$1,200 million in reserves. Net seasonal declines in credit demands would be expected to release about \$400 million additional reserves in January. Reductions in float are expected to provide an offset of about \$700 million to the easing produced by other factors.

The net easing tendency in January is estimated at about \$950 million, or slightly greater than the fourth quarter drain of reserves. Thus, the net effect of estimated seasonal influences and an assumed gold outflow during these four months would, in the absence of System action, establish net borrowed reserves at the end of January a little below the current level.

Projections of changes in member bank reserve positions are shown weekly in Table 1 and monthly in Table 2 through January 1960. 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, which show substantial increases in November and December, followed by a rapid decline in January.
2. Any gold outflow is offset by assumed IMF sale to U. S. until mid-November, after which an outflow of \$20 million a week is assumed through December.
3. Treasury balance at Federal Reserve Banks maintained at \$500 million following the week ending October 21.
4. Required reserves estimated as follows:

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- 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 generally rising seasonal trend through the end of the year, followed by seasonal declines in January. The increase from the end of September to the end of December is estimated at \$2.4 billion, and the projected January decline is \$1.1 billion.
 - 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 include effects of cash financings of \$2.0 billion each on October 15 and 21 and assume additional cash financings of 2.0 billion each on December 3 and January 7. Tax and loan account balances which averaged \$4.9 billion in the week of October 7, are expected to decline to \$3.1 billion in the week of October 14 and to rise to a peak of \$5.2 billion in the week of October 28. Moderate fluctuations at levels somewhat above \$3.0 billion are expected through the end of the year.
5. Open market operations data include changes in System holdings through October 8, with run-offs of repurchase contracts on maturity dates stated.

FOUND IN RECORDS SECTION
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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:											
Oct. 7*	+ 8	+ 234	+ 242	- 124	+ 153	- 15	+ 8	- 93	+ 28	+ 285	- 513
Oct. 14	- 105	---	- 105	- 160	+ 44	+ 30	- 30	- 70	+ 92	- 11	- 502
21	+ 225	---	+ 225	+ 50	+ 5	+ 65	---	+ 470	- 120	- 245	- 257
28	+ 80	---	+ 80	+ 120	- 16	+ 55	---	- 350		+ 271	- 528
Nov. 4	+ 15	---	+ 15	- 110	---	- 35	---	- 90		+ 250	- 778
11	- 75	---	- 75	- 160	---	- 40	---	- 20		+ 145	- 923
18	+ 5	---	+ 5	- 85	---	---	- 20	+ 235		- 125	- 798
25	- 90	---	- 90	- 70	---	- 95	- 20	+ 30		+ 65	- 863
Dec. 2	- 35	---	- 35	- 160	---	+ 50	- 20	- 110		+ 205	-1,068
Dec. 9	+ 150	---	+ 150	- 110	---	---	- 20	---		+ 280	-1,348
16	+ 180	---	+ 180	- 130	---	- 5	- 20	+ 195		+ 140	-1,488
23	+ 155	---	+ 155	- 135	---	- 15	- 20	+ 550		- 225	-1,263
30	- 25	---	- 25	+ 20	---	+ 65	- 20	- 150		+ 60	-1,323
1960:											
Jan. 6	+ 5	---	+ 5	+ 340	---	---	---	- 215		- 120	-1,203
13	- 100	---	- 100	+ 285	---	---	---	- 300		- 85	-1,118
20	- 90	---	- 90	+ 290	---	---	---	+ 190		- 570	- 548
27	- 125	---	- 125	+ 240	---	+ 30	---	- 150		- 245	- 303
Feb. 3	- 75	---	- 75	+ 40	---	+ 40	---	- 225		+ 70	- 373

* Actual ✓ Sign indicates effect on reserves Banking Section, Division of Research and Statistics
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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		
1959: January (4)*	-87	-263	-350	+1,306	+100	+37	+23	-544	-971	-301
February (4)*	-445	+17	-428	+39	-45	-242	-51	-24	-71	-33
March (5)*	-124	+58	-66	-114	-61	+10	-89	-52	+83	+156
April (4)*	+328	-100	+228	-19	-19	+224	-19	-98	+115	+44
May (5)*	-162	-65	-227	-397	+27	-126	-168	-47	+293	+193
June (4)*	+48	+14	+62	-217	+311	+52	-475	+179	+140	+72
July (4)*	+284	+32	+316	-32	-1	+66	-68	-34	+414	-31
August (5)*	-188	+52	-136	-42	-18	-116	-100	-162	+227	+75
September (4)*	-25	-147	-172	+123	-95	-6	-81	+262	-130	-244
October (4)	+208	+234	+442	-114	+186	+135	-22	-43	--	+300
November (5)	-180	--	-180	-585	--	-120	-60	+45	+540	--
December (4)	+460	--	+460	-355	--	+45	-80	+595	+255	--
1960: January (5)	-385	--	-385	+1,195	--	+70	--	-700	-950	--
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.*	-656	-188	-844	+1,231	-6	-195	-117	-620	-959	-178
Apr.-June.*	+214	-151	+63	-633	+319	+150	-662	+34	+548	+309
July-Sept.*	+71	-63	+8	+49	-114	-56	-249	+66	+511	-200
Oct.-Dec.	+488	+234	+722	-1,054	+186	+60	-162	+597	--	+1,095

*--Actual.

1/ Sign indicates effect on reserves.