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November 14, 1980

Strictly Confidential (FR) Class I FOMC

MONETARY AGGREGATES AND MONEY MARKET CONDITIONS

Prepared for the Federal Open Market Committee

By the staff Board of Governors of the Federal Reserve System

STRICTLY CONFIDENTIAL (FR)
CLASS I - FOMC

November 14, 1980

MONETARY AGGREGATES AND MONEY MARKET CONDITIONS

Recent developments

(1) Rates of expansion of M-1A and M-1B were relatively rapid in October, though below rates of the previous two months. Growth in M-2 and M-3 accelerated slightly as inflows of time deposits at banks and thrifts strengthened and withdrawals from money market mutual funds slowed. The recent growth of M-1A--which was well above the Committee's target path for the last three months of the year--puts it within one-half percentage point of the upper end of its long-run range for the year, while growth rates of the other aggregates are now almost one percentage point above longer-run upper limits (in the case of M-1B and M-2) or equal to the upper limit (in the case of M-3). Though business lending continued to expand rapidly, growth of bank credit declined somewhat from the September rate and the year-to-date growth in this aggregate remains in the lower half of its longer-run range.

Monetary Aggregates	Sept.	Oct.	Target Growth for Sept. to December (3 months)	Growth from QIV '79 to Oct. '80	Target Growth for 1980
M-1A	12.6	9.1	2.5	5.5	3½ to 6
M-1B	15.8	11.2	5.0	7.4	4 to 6½
M-2	8.5	9.2	7.3	9.8	6 to 9
M-3	9.1	10.9	--	9.4	6½ to 9½
Memo:					
Bank Credit	15.3	13.2	--	7.2	6 to 9

(2) Total reserve growth moderated in October, reflecting a slowing of demand deposits. Nevertheless, over the intermeeting period required reserves outran the System's provision of nonborrowed reserves, leading to increasing member bank borrowings and firming conditions in the funds market.[1/] In the most recent statement week, borrowings reached a level of about $2 billion, somewhat higher than expected (a $1.6 billion level of borrowing had been implied by the nonborrowed path). The federal funds rate rose from around 12½ percent in mid-October to an average of 14-5/8 percent in the most recent full statement week. In recent days, funds have traded around 14 percent.

Recent Growth in Reserve Aggregates
(SAAR)

	September over June	October
Nonborrowed reserves plus special borrowings	2.8	3.5
Total reserves	14.3	6.0
Monetary base	11.5	10.1
Memo: ($ million) Average level of member bank borrowings in last month of period:		
Adjustment borrowings	1,221	1,310
Special borrowings	90*	0

* Special borrowings include emergency credit as well as a large borrowing by one bank in the week ended September 24 that resulted from a breakdown of computer facilities.

1/ See Appendix I for the reserve paths and adjustments for the intermeeting period.

(3) Since the last meeting, short-term interest rates have risen about 1¾ to 2½ percentage points on balance, while bond yields increased about 3/4 of a percentage point. Municipal bond yields have now returned to their all-time highs set last spring, and corporate and Treasury bond yields are also close to their earlier peaks. A one percentage point increase in the basic discount rate to 12 percent, and a surcharge of 2 percentage points applicable to large frequent borrowers of adjustment credit, were announced after the markets closed on Friday.

(4) The Treasury continued to be a large borrower in the intermeeting period, raising about $5½ billion in cash through bills and another $4½ billion through coupon issues. Short-term credit demands of business remained strong as rate relationships continued to induce shifting of business credit demands from the capital market. Such demands continued to be focussed on commercial banks, with commercial paper run-offs accelerating in response to aggressive bank loan pricing. Reflecting both rising bond rates and the increasing cost of deposit funds, the average commitment rate on conventional mortgages at S&L's rose by 30 basis points over the intermeeting period to 14.08 percent; even at that rate the spread of the mortgage rate over the corporate bond rate remained narrow by historical standards. In some areas of the country mortgage rates of 15 to 16 percent have been posted.

(5) Reflecting the further increase in U.S. interest rates, while rates abroad were essentially unchanged, the weighted average foreign exchange value of the dollar has risen by more than 2 percent, on balance, since the last FOMC meeting.

U.S. authorities purchased

\$1¾ billion, nearly all against DM, as the System and the Treasury accumulated balances, with the latter seeking to cover its Carter bond obligations.

(6) The table on the next page shows seasonally adjusted annual rates of change, in percent, for selected monetary and financial flows over various time periods.

	$1978^{1/}$	$1979^{1/}$	QIII '80 over QIV '79	Past Three Months Oct. '80 over July '80	Past Month Oct. '80 over Sept. '80
Nonborrowed reserves	6.7	0.7	7.9	6.3	6.2
Total reserves	6.6	2.9	4.1	15.3	6.0
Monetary base	9.2	7.7	7.7	12.0	10.1
Concepts of Money					
M-1A (Currency plus demand deposits) 2/	7.4	5.0	3.9	13.8	9.1
M-1B (M-1A plus other checkable deposits)	8.2	7.6	5.7	16.4	11.2
M-2 (M-1B plus small time and savings deposits, money market mutual fund shares and overnight RP's and Eurodollars)	8.4	8.9	9.6	10.8	9.2
M-3 (M-2 plus large time deposits and term RP's)	11.3	9.8	8.9	11.3	10.9
Bank Credit					
Loans and investment of all commercial banks 3/	13.5	12.3	5.4	15.5	13.2
Managed Liabilities of Banks (Monthly average change in billions)					
Large time deposits	4.3	1.2	1.1	2.5	2.6
Eurodollars	0.6	1.8	-2.5	-0.9	2.2
Other borrowings 4/	1.3	1.0	1.7	2.0	2.6
Memo					
Nonbank commercial paper	0.3	0.9	1.2	-1.6	-1.8

1/ QIV to QIV.
2/ Other than interbank and U.S. Government.
3/ Includes loans sold to affiliates and branches.
4/ Primarily federal funds purchases and securities sold under agreements to repurchase.
NOTE: All items are based on averages of daily figures except for data on total loans and investment of commercial banks, commercial paper, and thrift institutions--which are derived from either end-of-month or Wednesday statement date figures. Growth rates for reserve measures in this and subsequent tables are adjusted to remove the effect of discontinuities from breaks in the series when reserve requirements are changed.

Prospective developments

(7) The upper panel of the following table shows three alternative sets of targets for the monetary aggregates for the current quarter; for comparative purposes, the last column indicates the targets for this period established at the last Committee meeting. The lower panel of the table displays the growth rates for the last two months of the quarter implied by these targets. Associated federal funds rate ranges for the intermeeting period are also shown. (Detailed and longer-run data for the monetary aggregates are contained in the table on the next two pages.)

	Alt. A	Alt. B	Alt. C	Target Established at October Meeting
Growth from September to December (3 months)				
M-1A	4½	2½	1	2½
M-1B	6¾	5	3½	5
M-2	8¼	7¾	7½	7¼
Implied Growth from October to December (2 months)				
M-1A	2	-¾	-3	--
M-1B	4½	1¾	-½	--
M-2	7¾	7	6½	--
Intermeeting range for Federal funds	12 to 17	13 to 18	14 to 19	9 to 15

(8) With only six weeks remaining in the year the Committee's policy decision can have little impact on growth rates for the year as a whole, measured from QIV '79 to QIV '80. Under each of the alternatives, growth in M-1B and M-2 over the year would be above, and M-3 near, the upper

Alternative Levels and Growth Rates for Key Monetary Aggregates

	M-1A			M-1B		
	Alt. A	Alt. B	Alt. C	Alt. A	Alt. B	Alt. C
1980--October	386.6	386.6	386.6	410.7	410.7	410.7
November	388.0	387.8	387.6	413.0	412.9	412.7
December	387.9	386.1	384.7	413.8	411.9	410.4
Growth Rates						
Monthly						
1980 November	4.3	3.7	3.1	6.7	6.4	5.8
December	-0.3	-5.3	-9.0	2.3	-2.9	-6.7
September '80-December '80	4.4	2.5	1.0	6.8	4.9	3.4
Quarterly Average						
1980--QI	4¾	4¾	4¾	6	6	6
QII	-4	-4	-4	-2½	-2½	-2½
QIII	11	11	11	13½	13½	13½
QIV	9	8¼	7¾	11½	10¾	10¼
1979 QIV to 1980 QII	0.4	0.4	0.4	1.8	1.8	1.8
1980 QII to 1980 QIV	10	9¾	9½	12¾	12¼	12
1979 QIV to 1980 QIV	5¼	5	5	7¼	7	7

Alternative Levels and Growth Rates for Key Monetary Aggregates (cont'd)

	M-2			M-3		
	Alt. A	Alt. B	Alt. C	Alt. A	Alt. B	Alt. C
1980--October	1653.3	1653.3	1653.3	1917.8	1917.8	1917.8
November	1664.8	1664.7	1664.6	1940.7	1940.5	1940.3
December	1674.5	1672.9	1671.6	1952.9	1951.4	1950.4
Growth Rates						
Monthly						
1980--November	8.3	8.3	8.2	14.3	14.2	14.1
December	7.0	5.9	5.0	7.5	6.7	6.2
September '80-December '80	8.2	7.8	7.5	11.0	10.7	10.5
Quarterly Average						
1980--QI	7¼	7¼	7¼	7¾	7¾	7¾
QII	5½	5½	5½	5¾	5¾	5¾
QIII	15½	15½	15½	12½	12½	12½
QIV	9¼	9	9	11¼	11¼	11
1979 QIV to 1980 QII	6.4	6.4	6.4	6.8	6.8	6.8
1980 QII to 1980 QIV	12½	12½	12½	12	12	12
1979 QIV to 1980 QIV	9¾	9½	9½	9¾	9½	9½

NOTE: The following annual rates of growth in bank credit for the year and for the quarters are expected under alternative B: year 1980, 7; QI, 9½; QII, -½; QIII, 6¾; QIV, 11½. Only minor variations in growth rates would be expected under alternatives A and C.

end of their respective longer-run ranges. Growth of M-1A would be somewhat above the midpoint of its longer-run range. However, as may be seen in the charts following this page, the alternatives have different implications for the level of the aggregates relative to growth cones by year-end, particularly for the narrow aggregates. Moreover, the choice among these policy options could have a significant effect on inflationary expectations and real economic activity over the months ahead, and thus on the pattern of economic and financial developments associated with achieving next year's monetary targets.

(9) Alternative B continues the Committee's current targets for the fourth quarter, as indexed by M-1A and M-1B. Given what has already occurred in October, to achieve these targets M-1A would have to contract over the remaining weeks of the year. The staff still believes that a significant slowing in the growth of transactions balances is likely, partly because of the sharp run-up in interest rates of the last three months and partly on the assumption that the recent very rapid month-to-month growth in economic activity slows significantly. However, achieving the negative growth in M-1A over the balance of the year implied by alternative B would probably require further near-term increases in short-term interest rates.

(10) To achieve the specifications of alternative B, total reserves would have to increase at about a 6 percent annual rate over the October to December period.[1/] Nonborrowed reserves would have to contract by about a 1 percent annual rate if the level of adjustment borrowing is around

1/ About 4 percentage points of this increase reflect the additional required reserves associated with the substantial reduction of weekend Eurodollar arbitrage activities.

Chart 1

Actual and Targeted M-1A and M-1B

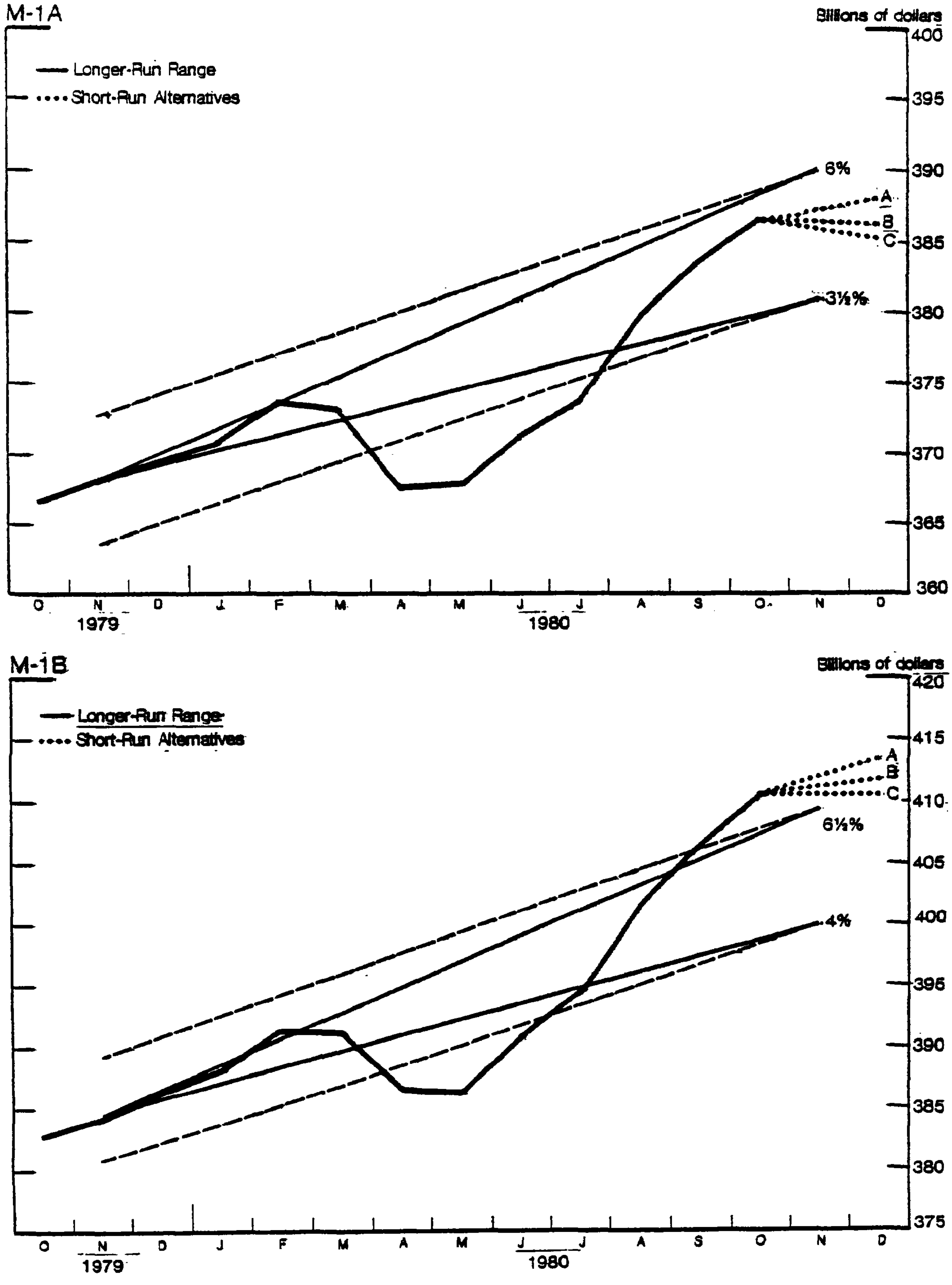
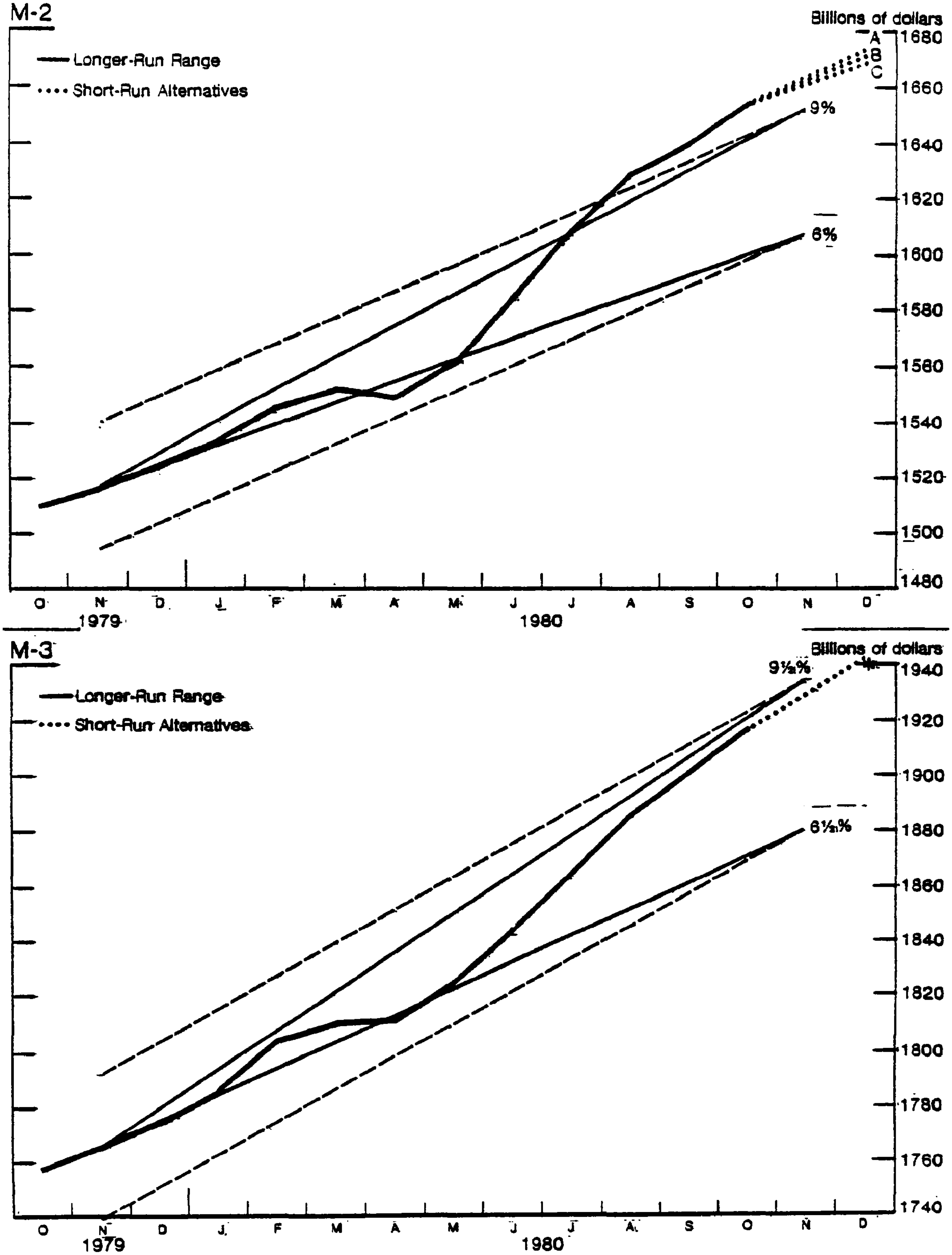


Chart 2

Actual and Targeted M-2 and M-3



* Note: A, B, and C alternatives are indistinguishable on this scale.

$1½ billion and by more if the level of borrowing rises further. However, the exact setting on the nonborrowed reserve operating path will depend in part on bank responses to the new discount rate structure. If past experience with the surcharge is any guide, banks are likely to become less willing borrowers, thereby reducing the level of borrowing for any given spread of the funds rate over the basic discount rate. However, earlier experience with the surcharge was within the context of a bank credit restraint program, and bank behavior may differ under current circumstances. Thus, there is more than usual uncertainty about the demand for borrowing, and therefore about the level of the nonborrowed reserve path consistent with money supply and total reserve targets of alternative B.

(11) Under alternative B, a funds rate in the 15 to 16 percent range is likely to emerge over the weeks immediately ahead, and possibly higher before the year is out. The 3-month bill rate may move up into a 14 to 15 percent range and the 3-month CD rate about a point higher, reflecting in part continued relatively strong demands on short-term credit markets over the balance of the year. The Treasury is expected to raise about $4½ billion in cash in the bill market and $7.5 billion in coupon offerings of 2, 4, and 5 years. Business credit demands may fall most heavily on short-term markets, especially if, as seems likely, long-term rates rise further under this alternative, inducing added restraint on corporate bond offerings. Finally, continued intervention by the U.S. to slow the appreciation in the foreign exchange value of the dollar--which is likely to continue rising under alternative B--could generate additional pressure on Treasury yields as the Federal Reserve or Treasury offers securities to the market to finance foreign currency purchases.

(12) The further increase in interest rates under alternative B would intensify pressures on mortgage markets and thrift institutions. Deposit flows are projected to decelerate, but to remain relatively ample. Nonetheless, mortgage rates would be expected to rise considerably in reflection of the increases in the cost of deposit funds and yields on alternative assets. With mortgage rates already at levels that have begun to choke off demand, new commitment activity for longer-term residential mortgages at thrift institutions would probably become quite depressed.

(13) The further rise in interest rates under alternative B--the underlying assumption for the Greenbook projection--is an element in the staff's anticipation that real GNP will decline in early 1981. The dampening of the transactions demand for money in lagged response to the run-up in interest rates and to the projected weakening in economic activity suggest that interest rates could temporarily ease in early 1981, assuming 1981 monetary targets as reported to the Congress in July.[1/] However, for all of next year, the effects of inflation on the transactions demand for money are expected to require historically high interest rates in order to restrain growth in the monetary aggregates to the preliminary FOMC targets.

(14) Alternative A encompasses somewhat higher money targets for the fourth quarter than alternative B--targets that are thought to be achievable with little change in interest rates from current levels. Assuming a level of member bank borrowing of around $1½ billion, nonborrowed and total reserves under this alternative would be expected to increase at annual rates of 4 and 7 percent, respectively, over the October to December period, and the federal funds rate may be around the 14 to 15 percent area. Other market interest rates also would be expected to remain at about their current levels. However, some short-term rates might adjust up slightly

1/ See Appendix II for the projected quarterly pattern of interest rates under alternative B.

further due to the strength in short-term credit demands and, in the case of the prime and mortgage rates, to lagged adjustments to the tightening that has already occurred. With interest rates lower over the balance of the year than under alternative B, money growth and economic activity would be expected to be less weak in early 1981.

(15) Alternative C contemplates a reduction in the Committee's current fourth quarter money growth target, and implies a substantial reduction in money growth over the balance of the year that brings the level of M-1B into the FOMC's target zone by December. To achieve the alternative C specifications would probably require a reduction in nonborrowed reserves at about a 5 percent annual rate over the last two months of the year, if a borrowing level of $2 billion, or a bit higher, is assumed. The funds rate may move up to around the 16 to 17 percent area over the next few weeks, and possibly higher by year-end. This alternative increases the risk of a more significant drop-off in money growth and economic activity in early 1981, and consequently increases the likelihood that interest rates will be lower in the first quarter of the year than under the other two alternatives. However, the staff would anticipate that, even under this alternative, interest rates over the next year would still have to be high by historical standards to constrain money growth to the Committee's preliminary targets.

Directive language

(16) Given below are suggested operational paragraphs for the directive consistent with the form of the directive adopted at the October meeting. The language continues to call for expansion of reserve aggregates at a pace consistent with the desired rate of monetary growth over the last three months of the year, provided that the weekly average federal funds rate remains within a specified range. The specifications adopted at the October meeting are shown in strike-through form.

> In the short run, the Committee seeks behavior of reserve aggregates consistent with growth of M-1A, M-1B, and M-2 over the PERIOD FROM September to December ~~period~~ at annual rates of about ~~2½~~ ____ percent, ~~5~~ ____ percent, and ~~7½~~ ____ percent respectively, ~~or somewhat less,~~ provided that in the period before the next regular meeting the weekly average federal funds rate remains within a range of ~~9 to 15~~ ____ TO ____ percent.
>
> If it appears during the period before the next meeting that the constraint on the federal funds rate is inconsistent with the objective for the expansion of reserves, the Manager for Domestic Operations is promptly to notify the Chairman, who will then decide whether the situation calls for supplementary instructions from the Committee.

Appendix I

RESERVE TARGETS AND RELATED MEASURES
FOR 4 WEEKS ENDED NOVEMBER 19
($ millions, not seasonally adjusted)

	Targets for 4-Week Averages		Projections for 4-week Averages			
	Total Reserves (1)	Nonborrowed Reserves (2)	Total Reserves (3)	Required Reserves (4)	Excess Reserves (5)	Adjustment Borrowing (3)-(2)
As of						
October 21 (FOMC Meeting)	41,625	40,325	41,625	41,400	225	1,300
October 24	41,795 1/	40,495 1/	42,004	41,779	225	1,509
October 31	41,795	40,495	41,996	41,805	191	1,501
November 7	41,420 2/3/	40,020 2/3/	41,639 2/	41,358 2/	280	1,619
14	41,445 2/4/	39,995 2/4/	41,745 2/	41,358 2/	387	1,750

1/ Total and nonborrowed reserves path adjusted upward by $170 million on October 24, 1980 to account for changes in multiplier relationships.

2/ Targets and projections adjusted to reflect the impact of the implementation of the MCA on reserve aggregates in the week ending November 19.

3/ Total and nonborrowed reserves path adjusted upward by $400 million on November 7, 1980 to account for changes in multiplier relationships. In addition, the nonborrowed reserves path was further adjusted downward by $100 million because of the strength in total reserves.

4/ Total and nonborrowed reserves paths adjusted upward by $25 million to account for estimated impact on excess reserves of the implementation of MCA. In addition, the nonborrowed reserves path was adjusted downward by $50 million to adjust for strength in total reserves.

APPENDIX II

Interest Rates Consistent with the Greenbook GNP Forecast
(percent)

	Federal funds	3-month Treasury bill	New Aaa-Utility Bond	Conventional Mortgage Commitment
1980--Q4	14¼	13½	13¾	14-3/8
1981--Q1	14½	13	13½	14½
Q2	14	12¾	13-3/8	14¼
Q3	14½	13¼	13-3/8	14¼
Q4	15½	14	13½	14-3/8

NOTE: These rate projections are based on the assumption that M-1A will grow 5 percent in 1980 (consistent with Bluebook alternative B), and 4¼ percent in 1981 abstracting from the impact of nationwide NOW/ATS accounts. Such growth would imply M-1A velocity increases in the two years of 4 and 5¼ percent, respectively. The Board's quarterly econometric model indicates that historical money demand relationships would require roughly 3½ percentage points greater growth of M-1A in 1981 to achieve the GNP and interest rates in the staff's judgmental Greenbook projection. Thus, these interest rate projections assume a further so-called downward shift in money demand as judged from the prediction error in the Board's model.

TABLE 1
SELECTED INTEREST RATES
(Percent)

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Period	Short-term							Long-term								
	Federal funds	Treasury Bills			CDs Secondary Market	Comm. Paper	Bank Prime Rate	U.S. Govt. Constant Maturity Yields			Corp.-Aaa Utility		Muni-cipal Bond Buyer	Home Mortgages		
		Market		Auction										Primary	Secondary market	
		3-mo	1-yr	6-mo	3-mo	3-mo		3-yr	10-yr	30-yr	New Issue	Recently Offered		Conv.	FNMA Auc.	GNMA Sec.
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)
1979--High	15.61	12.60	11.89	12.65	14.53	14.26	15.75	11.68	10.87	10.42	11.50	11.45	7.38	12.90	13.29	11.77
Low	9.93	8.85	8.64	8.87	9.84	9.66	11.50	8.76	8.79	8.82	9.40	9.39	6.08	10.38	10.42	9.51
1980--High	19.39	15.61	14.39	15.70	18.04	17.60	20.00	14.29	13.33	12.73	14.22	14.12	9.64	16.35	15.93	14.17
Low	8.68	6.49	7.18	6.66	8.17	7.97	11.00	8.61	9.51	9.54	10.53	10.79	7.11	12.18	12.28	10.73
1979--Oct.	13.77	11.70	11.23	11.34	13.66	13.23	14.39	10.95	10.30	9.85	10.97	10.91	7.08	11.63	12.52	11.25
Nov.	13.18	11.79	11.22	11.86	13.90	13.57	15.55	11.18	10.65	10.30	11.42	11.36	7.30	12.83	12.75	11.57
Dec.	13.78	12.04	10.92	11.85	13.43	13.24	15.30	10.71	10.39	10.12	11.25	11.33	7.22	12.90	12.49	11.35
1980--Jan.	13.82	12.00	10.96	11.85	13.39	13.04	15.25	10.88	10.80	10.60	11.73	11.77	7.35	12.88	12.91	11.94
Feb.	14.13	12.86	12.46	12.72	14.30	13.78	15.63	12.84	12.41	12.13	13.57	13.35	8.16	13.03	14.49	13.16
Mar.	17.19	15.20	14.03	15.10	17.57	16.81	18.31	14.05	12.75	12.34	14.00	13.90	9.17	15.28	15.64	13.79
Apr.	17.61	13.20	11.97	13.62	16.14	15.78	19.77	12.02	11.47	11.40	12.90	12.91	8.63	16.33	14.61	12.64
May	10.98	8.58	8.66	9.15	9.79	9.49	16.57	9.44	10.18	10.36	11.53	11.64	7.59	14.26	12.88	11.30
June	9.47	7.07	7.54	7.22	8.49	8.27	12.63	8.92	9.78	9.81	10.96	11.00	7.63	12.71	12.35	11.07
July	9.03	8.06	8.00	8.10	8.65	8.41	11.48	9.27	10.25	10.24	11.60	11.41	8.13	12.19	12.66	11.53
Aug.	9.61	9.13	9.39	9.44	9.91	9.57	11.12	10.63	11.10	11.00	12.32	12.31	8.67	12.56	13.92	12.34
Sept.	10.87	10.27	10.48	10.55	11.29	10.97	12.23	11.57	11.51	11.34	12.74	12.72	8.94	13.20	14.77	12.84
Oct.	12.81	11.62	11.30	11.57	12.94	12.52	13.79	12.01	11.75	11.59	13.18	13.13	9.11	13.79	14.95	12.91
1980--Sept.3	10.47	9.97	10.08	10.25	10.93	10.61	11.50	11.28	11.46	11.18	12.34	12.42	8.78	13.03	14.41	12.57
10	10.22	9.92	9.97	10.23	10.76	10.40	11.71	11.00	11.20	11.06	12.60	12.48	8.82	13.08	--	12.59
17	10.64	10.29	10.50	10.88	11.25	10.86	12.21	11.61	11.48	11.29	--	12.78	8.98	13.25	14.60	12.74
24	10.85	10.25	10.66	10.82	11.24	10.97	12.46	11.85	11.61	11.45	13.10	13.03	9.18	13.43	--	12.93
Oct. 1	12.38	11.05	11.19	11.72	12.35	12.12	13.00	12.16	11.92	11.76	13.08	13.06	9.22	13.60	15.30	13.35
8	12.59	11.34	10.93	11.14	12.52	12.18	13.50	11.60	11.50	11.39	13.02	12.87	9.01	13.73	--	12.70
15	12.64	11.12	10.84	11.28	12.49	12.25	13.50	11.58	11.37	11.19	12.62	12.85	8.81	13.78	14.60	12.59
22	12.55	11.39	11.16	11.41	12.68	12.26	13.93	11.91	11.66	11.48	13.21	13.03	9.06	13.85	--	12.98
29	13.17	12.17	11.82	12.28	13.51	12.92	14.07	12.51	12.10	11.92	13.92	13.79	9.45	14.00	15.30	13.35
Nov. 5	13.99	12.96	12.41	13.27	14.43	13.81	14.50	13.07	12.50	12.27	--	13.97	9.64	14.08	--	13.42
12	14.65	13.30	12.32	13.23	15.17	14.80	15.50	13.18	12.74	12.54	--	13.69p	9.50	n.a.	15.57	13.61
19																
26																
Daily--Nov. 6	15.35	13.50	12.61	--	15.31	14.82	15.50	13.49	13.04	12.59	--	--	--	--	--	--
13	14.00	13.09	12.05	--	14.82	14.32	15.50	12.80	12.49	12.23	--	--	--	--	--	--

NOTE: Weekly data for columns 1, 2, 3, and 5 through 10 are statement week averages of daily data. Weekly data in column 4 are average rates set in the auction of 6-month bills that will be issued on the Thursday following the end of the statement week. For column 11, the weekly date is the mid-point of the calendar week over which data are averaged. Columns 12 and 13 are 1-day quotes for Friday and Thursday, respectively, following the end of the statement week. Column 14 is an average of contract interest rates on commitments for conventional first mortgages with 80 percent loan-to-value ratios made by a sample of insured savings and loan associations on the Friday following the end of the statement week. The FNMA auction yield is the average yield in a bi-weekly auction for short-term forward commitments for government underwritten mortgages; beginning July 7, 1980, figures exclude graduated payment mortgages. GNMA yields are average net yields to investors on mortgage-backed securities for immediate delivery, assuming prepayment in 12 years on pools of 30-year FHA/VA mortgages carrying the coupon rate 50 basis points below the current FHA/VA ceiling.

TABLE 2
NET CHANGES IN SYSTEM HOLDINGS OF SECURITIES 1/
(Millions of dollars, not seasonally adjusted)

STRICTLY CONFIDENTIAL (FR)
CLASS II - FOMC

	Treasury Bills Net Change 2/	Treasury Coupons Net Purchases 3/					Federal Agencies Net Purchases 4/					Net Change Outright Holdings Total 5/	Net RPs 6/
		Within 1-year	1 - 5	5 - 10	Over 10	Total	Within 1 year	1 - 5	5 - 10	Over 10	Total		
1975	-468	337	3,284	1,510	1,070	6,202	191	824	460	138	1,613	7,267	1,272
1976	863	472	3,025	1,048	642	5,187	105	469	203	114	891	6,227	3,607
1977	4,361	517	2,833	758	553	4,660	--	792	428	213	1,433	10,035	-2,892
1978	870	1,184	4,188	1,526	1,063	7,962	-47	45	104	24	127	8,724	-1,774
1979	6,243	603	3,456	523	454	5,035	131	317	5	--	454	10,290	-2,597
1979--Qtr. III	5,363	395	1,289	309	310	2,302	191	288	3	--	482	8,129	-2,019
IV	4,164	118	1,101	81	51	1,351	--	--	--	--	--	4,839 7/	-3,801
1980--Qtr. I	-2,945	292	355	107	81	836	--	--	--	--	--	-2,114	362
II	3,249	110 8/	1,516 8/	359	410	2,395	217	398	29	24	668	6,307	2,373
III	-3,298	137	541	236	320	1,234	--	--	--	--	--	-2,157	-1,381
1980--May	606	155	405	133	216	909	--	--	--	--	--	1,515	4,655
June	322	-153 8/	738 8/	164	129	878	--	--	--	--	--	1,198	-1,271
July	-3,214	--	--	--	--	--	--	--	--	--	--	-3,216	-1,307
Aug.	-47	137	541	236	320	1,234	--	--	--	--	--	1,187	-985
Sept.	-37	--	--	--	--	--	--	--	--	--	--	-128	911
Oct.	-241	--	--	--	--	--	--	--	--	--	--	-261	1,267
1980--Sept. 3	--	--	--	--	--	--	--	--	--	--	--	--	-1,929
10	-237	--	--	--	--	--	--	--	--	--	--	-328	1,200
17	100	--	--	--	--	--	--	--	--	--	--	100	717
24	100	--	--	--	--	--	--	--	--	--	--	100	2,072
Oct. 1	--	--	--	--	--	--	--	--	--	--	--	-3	2,914
8	-402	--	--	--	--	--	--	--	--	--	--	-402	-6,052
15	--	--	--	--	--	--	--	--	--	--	--	-18	2,287
22	648	--	--	--	--	--	--	--	--	--	--	648	1,364
29	-486	--	--	--	--	--	--	--	--	--	--	-486	1,043
Nov. 5	--	--	--	--	--	--	--	--	--	--	--	--	-116
12	-1,100	--	--	--	--	--	--	--	--	--	--	-1,100	-1,812
19													
26													
LEVEL--Nov. 12 (in billions)	45.7	11.4	36.2	13.1	14.8	75.5	2.2	4.8	1.1	0.7	8.8	130.0	-2.2

1/ Change from end-of-period to end-of-period.
2/ Outright transactions in market and with foreign accounts, and redemptions (-) in bill auctions.
3/ Outright transactions in market and with foreign accounts, and short-term notes acquired in exchange for maturing bills. Excludes redemptions, maturity shifts, rollovers of maturing coupon issues, and direct Treasury borrowing from the System.
4/ Outright transactions in market and with foreign accounts only. Excludes redemptions and maturity shifts.
5/ In addition to the net purchases of securities, also reflect changes in System holdings of bankers' acceptances, direct Treasury borrowing from the System and redemptions (-) of agency and Treasury coupon issues.
6/ Includes changes in RPs (+), matched sale-purchase transactions (-), and matched purchase-sale transactions (+).
7/ On October 1, 1979, $668 million of maturing 2- and 4-year notes were exchanged for a like amount of short-term bills, because the note auctions were delayed. On October 9 and 10, the bills were exchanged for new 2- and 4-year notes, respectively.
8/ Maturing 2-year notes were exchanged on June 2, 1980, for special 2-day bills. At their maturity the bills were exchanged for new 2-year notes.

TABLE 3
SECURITY DEALER POSITIONS AND BANK POSITIONS
(Millions of dollars)

STRICTLY CONFIDENTIAL (FR)
CLASS II - FOMC

	U.S. Govt. Security Dealer Positions		Underwriting Syndicate Positions		Member Bank Reserve Positions				
					Excess** Reserves	Borrowing at FRB**			
	Bills	Coupon Issues	Corporate Bonds	Municipal Bonds		Total	Seasonal	Special	Adjustment
1979--High	8,091	902	283	404	726	2,960	207		2,866
Low	138	-2,569	0	53	-122	628	93		510
1980--High	8,838	2,263	299	466	1,080p	3,439	177	816	3,298
Low	1,972	-1,482	0	22	-228p	215p	5p	0	12
1979--Oct.	2,289	-1,576	75	152	272	2,023	155		1,863
Nov.	4,427	-514	17	106	244	1,911	140		1,763
Dec.	5,760	-1,901	34	164	441	1,473	81		1,390
1980--Jan.	4,380	-944	42	117	251	1,241	74		1,167
Feb.	2,937	-212	3	87	211	1,644	97		1,558
Mar.	2,964	-659	37	59	186	2,823	150	99	2,575
Apr.	7,838	167	48	89	197	2,455	155	552	1,748
May	4,008	1,372	69	138	178	1,018	63	743	212
June	3,724	1,429	112	264	203	379	12	307	61
July	4,581	634	154	310	284	395	6	253	136
Aug.	5,108	798	91	153	296	658	9	241	408
Sept.	3,681	-416	24	171	264p	1,311	25	91	1,253
Oct.	*2,447	*143	14	114	221p	1,310p	66p	0	1,244p
1980--Sept.3	4,274	170	3	89	489p	1,348	20	198	1,130
10	3,988	-279	15	150	239p	594	14	57	523
17	4,404	-814	78	287	804p	1,213	21	0	1,192
24	3,112	-268	45	156	54p	1,630	30	246	1,354
Oct. 1	2,601	-517	0	69	378p	1,873	40	0	1,833
8	2,042	-113	0	22	394p	1,248	48	0	1,200
15	2,726	164	52	80	213p	1,107p	61p	0	1,046p
22	*2,470	*-50	7	232	68p	1,203p	69p	0	1,134p
29	*2,433	*728	11	166	81p	1,440p	87p	0	1,353p
Nov. 5	*2,694	*-128	0	31	567p	1,878p	72p	0	1,806p
12	*3,072	*1,005	20p	28	574p	2,067p	96p	0	1,971p
19									
26									

NOTE: Government security dealer trading positions are on a commitment basis. Trading positions, which exclude Treasury securities financed by repurchase agreements maturing in 16 days or more, are indicators of holdings available for sale over the near term. Underwriting syndicate positions consist of issues in syndicate, excluding trading positions. Weekly data are daily averages for statement weeks, except for corporate and municipal issues in syndicate, which are Friday figures.
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** Monthly averages for excess reserves and borrowing are weighted averages of statement week figures.