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CONFIDENTIAL (FR) August 19, 1966.

MONEY MARKET AND RESERVE RELATIONSHIPS

Money markets

Recent developments. Key short-term interest rates have risen sharply since late July. Since the Committee's last meeting, the Treasury bill rate has moved up 33 basis points to 5.10 per cent. Some trading in the Federal funds market has been reported at rates as high as 6 per cent, and two short-term Federal Agency issues were marketed this week at 6 per cent yields. Rates on dealer loans posted by New York banks touched a new high of 6-5/8 per cent and CD issuing rates have continued to press against the 5-1/2 per cent ceiling, with secondary market quotations advancing to 5-3/4 per cent and even 6 per cent. The atmosphere of tightness in the money markets was relieved only briefly at the end of recent statement weeks when the Federal funds market eased temporarily and some associated declines in very short-term bill rates occurred.

It seems possible that market anticipations, which have been a major factor in the recent sharp advance in various short-term rates, may have somewhat outrun current supply-demand pressures in the money markets. The largest upward adjustments in short-term rates recently have occurred following various announcements, including that of the $3.0 billion tax bill auction, the prime loan rate increase, and the Board's action raising reserve requirements against time deposits.

ERRATA SHEET FOR BLUE BOOK

FINANCIAL MARKET RELATIONSHIPS IN PERSPECTIVE

(Monthly averages and, where available, weekly averages of daily figures; amounts in millions of dollars)

	Money Market Indicators				Bond Yields			Flow of Reserves, Bank Credit and Money				
Period	Free Reserves	Borrowings	Federal Funds Rate	3-month Treasury Bill	U. S. Gov't. 20 yr.)	Corporate New Issues (Aaa)	Municipal (Aaa)	Non-borrowed reserves (New Series)	Total Reserves (New Series)	Bank Credit Proxy	Money Supply	Time Deposits 1/
1965--June	-176	534	4.01	3.80	4.21	4.58	3.15	+ 87	+174	+1,802	+1,800	+1,300
July	-178	527	4.07	3.83	4.21	4.61	3.16	+ 73	+ 89	+1,414	+ 700	+1,700
Aug.	-162	549	4.11	3.84	4.25	4.63	3.16	+ 27	- 14	+1,608	+ 200	+2,500
Sept.	-139	552	3.95	3.92	4.30	4.67	3.25	- 73	- 26	+ 249	+1,600	+1,500
Oct.	-132	490	4.05	4.02	4.32	4.69	3.31	+132	+ 68	+2,592	+1,300	+2,000
Nov.	- 77	418	4.09	4.08	4.40	4.72	3.34	+ 84	+ 3	+ 759	+ 100	+1,900
Dec.	- 22	452	4.28	4.37	4.50	4.85	3.39	+191	+270	+2,147	+1,700	+1,500
1966--Jan.	- 51	431	4.32	4.58	4.52	4.81	3.39	+165	+115	+1,793	+1,000	+1,000
Feb.	-117	474	4.58	4.65	4.71	4.96	3.48	+ 58	+ 81	+ 820	- 400	+ 800
Mar.	-210	545	4.64	4.58	4.72	5.09	3.55	- 97	+ 45	+ 787	+1,200	+ 800
Apr.	-277	638	4.64	4.61	4.65	5.03	3.46	+205	+256	+3,587	+1,900	+2,000
May	-339	653	4.83	4.63	4.69	5.16	3.53	- 5	+ 1	+ 465	-1,600	+1,300
June	-352	722	5.13	4.50	4.73	5.35	3.60	- 33*	- 14*	+ 970*	+1,600	+1,200*
July p	-365	739	5.18	4.78	4.84	5.48	3.77	+ 82*	+194*	+2,110*	- 500	+1,600*
July 6	-477	827	5.25	4.64	4.82	--	3.77			+1,661	+ 600	+ 500
13	- 94	818	5.38	4.75	4.84	5.49	3.77			- 390	-1,600	+ 700
20	-460	631	4.48	4.91	4.86	--	3.77			- 305	+ 100	+ 500
27 p	-429	680	5.45	4.78	4.83	5.47	3.78			+ 184	-1,000	+ 400
Aug. 3 p	-434	778	5.58	4.77	4.86	5.56	3.79			- 364	+ 500	+ 300
10 p	-301	782	5.70	4.82	4.86	--	3.87			- 253	-1,100	+ 400
17 p	-466	730	5.15	5.00	4.90	4.75	3.94			+ 129	+1,200	+ 600
						Averages			Annual rates of increase 2/			
Year 1964	107	295	3.47	3.53	4.19	4.44	3.09	+ 4.5	+ 4.2	+ 7.6	+ 4.3	+12.8
1965	- 90	467	4.05	3.95	4.27	4.58	3.16	+ 4.3	+ 5.3	+ 9.1	+ 4.8	+16.1
Recent variations in growth												
Dec. 1-Mar. 16	-111	464	4.43	4.55	4.55	5.01	3.46			+ 5.8	+ 7.3	+ 7.3
Mar. 16-June 1	-299	644	4.72	4.61	4.61	5.17	3.50			+ 8.1	- 0.8	+13.0
June 1-Aug. 17	-368	731	5.31	4.69	4.81	5.50	3.74			c + 5.6	+ 1.1	+13.2
Dec. 1-Aug. 17	-243	597	4.78	4.61	4.68	5.17	3.55			c + 6.5	+ 3.0	+10.7

1/ Time deposits adjusted at all commercial banks.
2/ Base is average for month preceding specified period or in the case of weekly periods, the first week shown.
* Changes have been adjusted for redefinition of time deposits effective June 9.
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Nevertheless, the cumulative impact of underlying supply-demand pressures has also contributed to higher yields.

Net borrowed reserves have fluctuated in a $300 - $465 million range in recent weeks and in the three statement weeks since July 27 have averaged $400 million, up from $365 million in the previous 4 weeks. Member bank borrowings have averaged about $765 million since late July, some $25 million above their average for the previous month.

Prospective developments. Probably the most critical factor in the immediate outlook for money and capital market developments, aside from the general uncertainty afflicting markets, is the shape of bank portfolio adjustments that may be undertaken in preparation for mid-September pressures arising from possible CD run-offs, the reserve requirement increase, and prospects for heavy tax-date and other loan demands. These anticipatory adjustments could include, for example, bank liquidation of intermediate-term Government securities, Agency issues and/or municipal securities, and a temporary reinvestment in short-term uses, such as Federal funds and very short Treasury bills. Such adjustments by banks -- and similar portfolio switches by other investors -- could produce diverging interest rate movements, quite apart from any changes in marginal reserve availability or actual CD run-offs that might develop before the tax date.

In consequence of such adjustments, Treasury bill rates would probably rise less than other short-term rates, and could decline in the absence of new psychological shocks to the market. This assessment assumes peak pressures on money market banks will not occur before the September tax and dividend period, when the new reserve requirements on time deposits are also scheduled to go into effect. Further, pressures that might arise in the bill market from bank sales of March and April tax bills should be relieved to some extent by large System purchases in late August and early September. On the basis of current projections, these purchases could aggregate between $1 and $1-1/4 billion, although a failure to settle the airline strike would increase float above the levels assumed in the projections and cut back the System's purchases. Finally, the short bill market probably will benefit from CD liquidations by liquidity-sensitive corporations and other investors.

Over the three-week interval until the next meeting of the Committee, therefore, yields on 3-month bills could drift downward from the 5.10 - 5.15 per cent level, assuming that net borrowed reserves range around $450 million.[1/] Under these circumstances, the Federal funds market would be subjected to conflicting interests, as pressures develop in some parts of the banking system while others are accumulating precautionary liquidity. The fund rate, therefore, may fluctuate widely from day to day, probably in a range of from 5-1/2 to over 6 per cent.

But other money market rates -- including those on longer bills -- could well continue to work higher. And intermediate maturities probably will continue to face very difficult market conditions, especially

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1/ Exclusive of any additional adjustment assistance credits discussed in the draft memorandum on coordination of discount administration distributed to the Committee separately.

if there are additional sales of participation certificates. There exists the possibility of discontinuities developing in the pattern of rate movements for particular issues from time to time.

If monetary policy moves in the direction of gradually increased firmness in money market conditions (one reflection of which would be net borrowed reserves ranging upwards from $500 million[2/]), markets would be affected both by the ensuing tighter bank positions and by the impact of the deeper net reserve figures on market psychology. Under these conditions 3-month bill rates would be expected to move generally higher, perhaps within a 5.00 - 5.25 per cent range, and associated yields on other money market instruments probably would be correspondingly higher. Federal fund and dealer loan rates would undoubtedly reach new highs (perhaps as high as 6-1/2 and 7 per cent, respectively) toward the end of the period, as tax, dividend, and reserve requirement pressures begin to converge.

Under either monetary policy assumption, the Staff believes that long-term interest rates will rise further in the period ahead. Heavy capital market financing prospects, the expected further loss of bank support for municipals, and widespread anticipations of tighter monetary policy and substantial CD run-offs point to significantly higher yields in all sectors of the long-term market.

The potential for cumulating CD run-offs at the major banks, in fact, poses problems in interpreting current money market statistics. Given current rate relationships, such run-offs could commence at any

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2/ See footnote 1 on page 3.

time, but are likely to be most marked during the September tax and dividend period. And if hard-hit banks borrow temporarily from the Federal Reserve to meet such run-offs in a period of increasing loan demands, the resulting bulge in member bank borrowings would complicate open market operations. Maintaining a given net borrowed reserve target under such circumstances would result in large amounts of total reserves being supplied and also a significant redistribution of reserves. In this process, net reserve positions would be eased for banks not suffering CD run-offs, and some money market rates might move lower. To avoid such easing tendencies, it would be necessary to absorb by open market sales a major portion of the reserves provided through the discount window, even in the face of deepened net borrowed reserve figures.

The developments outlined in the preceding paragraph would follow whether or not the proposed additional assistance program is put into operation, but the operation of the program would likely produce larger and longer-lived borrowing by the hard-hit banks and consequently require more offsetting open market operations to counter easing tendencies in some money market rates.

The alternative policy of allowing net borrowed reserves to rise more or less in line with member bank borrowings could have a sharp psychological effect on market attitudes and market rates. This effect might be moderated if it were understood that the change represented a deliberate shift in reserve management practices, toward providing more of the needed expansion in aggregate reserves through borrowing relative to open market operations. To the extent that it proves possible to distinguish between "regular" and "special program" borrowings, it may be possible to retain the net borrowed reserve concept (in adjusted form) as a useful indicator of marginal reserve pressures.

Reserve flows, bank credit, and money

Recent developments. Daily average deposit figures now available for all of July indicate slightly smaller growth in bank credit than estimated in the last Blue Book. Nevertheless, a 10 per cent annual rate of growth was posted for the month, despite persistent downward drift in the weekly figures following sharp expansion in late June and early July. The moderation in growth of member bank deposits shown by the weekly figures has continued through mid-August, and appears to have been balanced on the asset side by greater than normal repayments of security and finance company loans, continued bank sales of U.S. Governments, and most recently, a considerable weakening in business loan expansion, especially at New York City banks. These tendencies reflect in part the short-term nature of June tax-period borrowing, and also the shifting of corporate withholding tax payments from August to July and June.

It should be pointed out, however, that the average deposit figures probably significantly understated average expansion in bank credit in July and early August. In this period, U.S. banks borrowed over $900 million of existing dollar deposits from their foreign branches, a development which was not necessarily offset by lower deposits in the United States. Such borrowing, if added to domestic deposit expansion, would have raised the bank credit growth estimates by about two percentage points (annual rate) over the last six or seven weeks.

Movements of funds between private and U.S. Government demand deposits were unusually large in July and in the first half of August. Since late June, when large corporations began accelerating payments of employee withholding taxes to the Treasury, the weekly deposit data have shown relatively large week-to-week shifts. On balance, however, private demand deposits have declined moderately over this period.

Time deposits grew more rapidly in July than in the preceding two months, and weekly estimates through August 17 indicate only a slight reduction from the July rate. Most of this strength in time deposit expansion has been in the country banks, which apparently are less exposed to competition from the money market. In the latest week ending August 17, however, reserve city banks reported a large increase in total time and savings deposits, probably reflecting some success in advance funding of the heavy September CD maturities.

Total reserves increased about 9 per cent in July following little change in May and June.[3/] Nonborrowed and required reserves both increased less than total reserves, as excess reserves and borrowings increased, in part because of the effect of the airline strike on float and on the distribution of reserves.

3/ The aggregate reserve series have been revised to take account of the change in requirements in July and of changes in seasonal factors.

Prospective developments. Projection of member bank deposits and reserves in coming weeks and months will be influenced greatly by Treasury financing operations, the continuing shift to accelerated tax payment schedules and the banking system's experience in handling CD maturities at increasingly unfavorable differentials in rates. The latter is perhaps the pivotal factor that makes projections more than usually uncertain. Large CD run-offs, on the one hand, would tend to hold down the rate of bank credit expansion. But to the extent that CD funds may be diverted to demand deposit balances rather than to market instruments, the reduction in bank credit expansion would be less and there would be some offset to the decline in required reserves.

The ways in which banks obtain needed reserves could produce divergent movements also in nonborrowed and total reserves over the coming month. For example, if banks come to the discount window for temporary accommodation, and if any easing in money market conditions is countered by open market operations, net borrowed reserves will increase and growth in nonborrowed reserves would be slower than growth in required and total reserves. On the other hand, if bank and investor adjustments in September bring such adverse money market reactions as to require System injection of nonborrowed reserves, it is conceivable that borrowings might not increase very much. Open market injections of reserves would tend to create excesses, which then could be tapped in the Federal funds market by banks experiencing CD run-offs.

August projections indicate a relatively small monthly average increase in the credit proxy -- about 2 to 3 per cent. Time deposit expansion is expected to slow, but for the month on average there should still be substantial growth -- around 13 per cent. A large reduction in U.S. Government demand deposits is projected, despite the $3.0 billion financing to be credited to tax and loan accounts on August 26. Loan repayments and credit rationing are expected to hold private demand deposit expansion down on average to about a 3 per cent annual rate. Consequently, required reserves may decline about 2 per cent.

Assuming no appreciable further change in money market conditions, and also assuming no significant run-off in CD's, a sizable increase in bank credit and deposits would be expected in September. Both the credit proxy and required reserves would be expected to increase about 8 per cent. Private demand deposits would be expected to increase 14 per cent, reflecting large temporary shifts from Government deposits in the second half of August and in September. Time deposits would be expected to expand more slowly, at about an 8 per cent annual rate compared to 13 per cent in August, reflecting the passing of the interest-crediting period and the assumed leveling off in the volume of outstanding CD's.

Even under present money market rate relationships, however, a more likely assumption is that there will be a CD run-off in September. If money market conditions continue to tighten, it would not be unreasonable to anticipate a large run-off, perhaps as much as 10 per cent or $1.8 billion over the course of the month, although any quantification is necessarily sheer conjecture at this time. If the funds flowed largely to market securities, and the reserves released were absorbed by open market operations, a CD liquidation on this scale would reduce bank credit expansion for the month by about 5 percentage points (from 8 per cent to 3 per cent annual rate). Assuming some offsetting expansion in demand deposit growth, total required reserves would rise on the order of 7 per cent annual rate.

Table A-1

MARGINAL RESERVE MEASURES

(Dollar amounts in millions, based on period averages of daily figures)

Period	Excess reserves	Member banks borrowings	Free reserves		
	As revised to date			As first published each week	As expected at conclusion of each week's open market opeations
Monthly (reserves weeks ending in):					
1965--June	358	534	-176		
July	349	527	-178		
August	387	549	-162		
September	413	552	-139		
October	358	490	-132		
November	341	418	- 77		
December	430	452	- 22		
1966--January	380	431	- 51		
February	357	474	-117		
March	335	545	-210		
April	361	638	-277		
May	315	653	-339		
June	370	722	-352		
July p	374	739	-365		
Weekly					
1966--April 6	333	623	-290	-225	-241
13	360	603	-243	-286	-282
20	373	685	-312	-281	-270
27	380	642	-262	-280	-316
May 4	286	617	-331	-280	-280
11	340	780	-340	-324	-310
18	319	663	-344	-315	-341
25	314	653	-339	-351	-370
June 1	436	812	-376	-364	-342
8	207	547	-340	-375	-360
15	465	788	-323	-341	-336
22	282	691	-409	-417	-394
29	459	771	-312	-350	-368
July 6	350	827	-477	-456	-473
13	724	818	- 94	-155	-133
20	171	631	-459	-479	-528
27 p	250	680	-432	-441	-445
Aug. 3 p	344	778	-434	-427	-427
10 p	481	782	-301	-383	-417
17 p	264	730	-466	-466	-487

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TABLE A-2

AGGREGATE RESERVES AND RELATED MEASURES

Retrospective Changes, Seasonally Adjusted
(In per cent, annual rates based on monthly averages of daily figures)

	Reserve Aggregates				Monetary Variables			
			Required reserves				Money Supply	
	Total Reserves	Nonborrowed Reserves	Total	Against Demand Deposits	Total Member Bank Deposits (credit) 1/	Time Deposits (comm. banks)	Total	Private Demand Deposits
Annually:		(Series Revised)						
1963	+ 3.5	+ 3.2	+ 3.8	+ 1.7	+ 7.5	+14.7	+ 3.8	+ 3.2
1964	+ 4.2	+ 4.5	+ 4.9	+ 3.1	+ 7.6	+12.8	+ 4.3	+ 4.0
1965	+ 5.3	+ 4.3	+ 5.2	+ 2.4	+ 9.1	+16.1	+ 4.8	+ 4.6
Monthly:								
1965--January	+ 6.1	+ 1.9	+ 1.8	+ 0.2	+10.5	+20.9	+ 2.3	+ 1.0
February	+10.5	+ 7.7	+ 8.1	+ 3.0	+11.1	+20.5	- 2.3	- 3.8
March	+ 6.4	+ 2.1	+ 8.4	+ 9.0	+ 9.7	+10.1	+ 4.5	+ 4.8
April	+ 9.2	+ 7.6	+ 6.4	+14.8	+14.1	+12.7	+ 6.0	+ 7.6
May	- 0.8	+ 2.1	+ 6.7	- 1.3	+ 4.1	+ 9.9	- 8.2	-12.3
June	+ 9.5	+ 4.8	+ 7.2	+ 7.8	+ 9.6	+11.6	+13.5	+16.3
July	+ 4.8	+ 4.1	+ 4.8	+ 0.7	+ 7.5	+15.0	+ 5.2	+ 4.7
August	- 0.8	+ 1.5	- 1.8	- 7.1	+ 8.4	+21.8	+ 1.5	--
September	- 1.4	- 4.0	- 2.4	-11.1	+ 1.3	+12.8	+11.8	+13.2
October	+ 9.9	+ 7.3	+ 9.7	+ 8.1	+13.5	+16.9	+ 9.5	+ 9.3
November	+ 0.2	+ 4.6	- 2.4	- 6.9	+ 3.9	+15.9	+ 0.7	- 0.9
December	+14.5	+10.5	+14.3	+11.2	+11.0	+12.4	+12.3	+14.8
1966--January	+ 6.1	+ 9.0	+ 6.4	+12.0	+ 9.1	+ 8.2	+ 7.2	+ 5.5
February	+ 4.3	+ 3.1	+ 3.1	+ 2.9	+ 4.1	+ 6.5	- 2.9	- 5.5
March	+ 2.4	- 5.2	+ 2.3	+ 1.5	+ 4.0	+ 6.5	+ 8.6	+10.1
April	+13.5	+11.1	+12.2	+17.7	+17.9	+16.0	+13.5	+15.4
May	+ 0.1	- 0.3	+ 1.9	- 6.0	+ 2.3	+10.3	-11.2	-16.1
June 2/	- 0.7	- 1.8	- 0.6	+ 2.1	+ 4.8	+10.2	+11.3	+14.5
July 2/ p	+ 8.9	+ 4.4	+ 5.8	+ 5.1	+10.2	+14.0	-10.5	-16.1

1/ Includes all deposits subject to reserve requirements. Movements in this aggregate correspond closely with movements in total member bank credit.

2/ Changes in reserves, total deposits, and time deposits have been adjusted for redefinition of time deposits effective June 9. Changes in reserves have been adjusted for increases in reserve requirements in July.

p - Preliminary.

Chart 1a

MEMBER BANK RESERVES

SEASONALLY ADJUSTED MONTHLY AVERAGES OF DAILY FIGURES

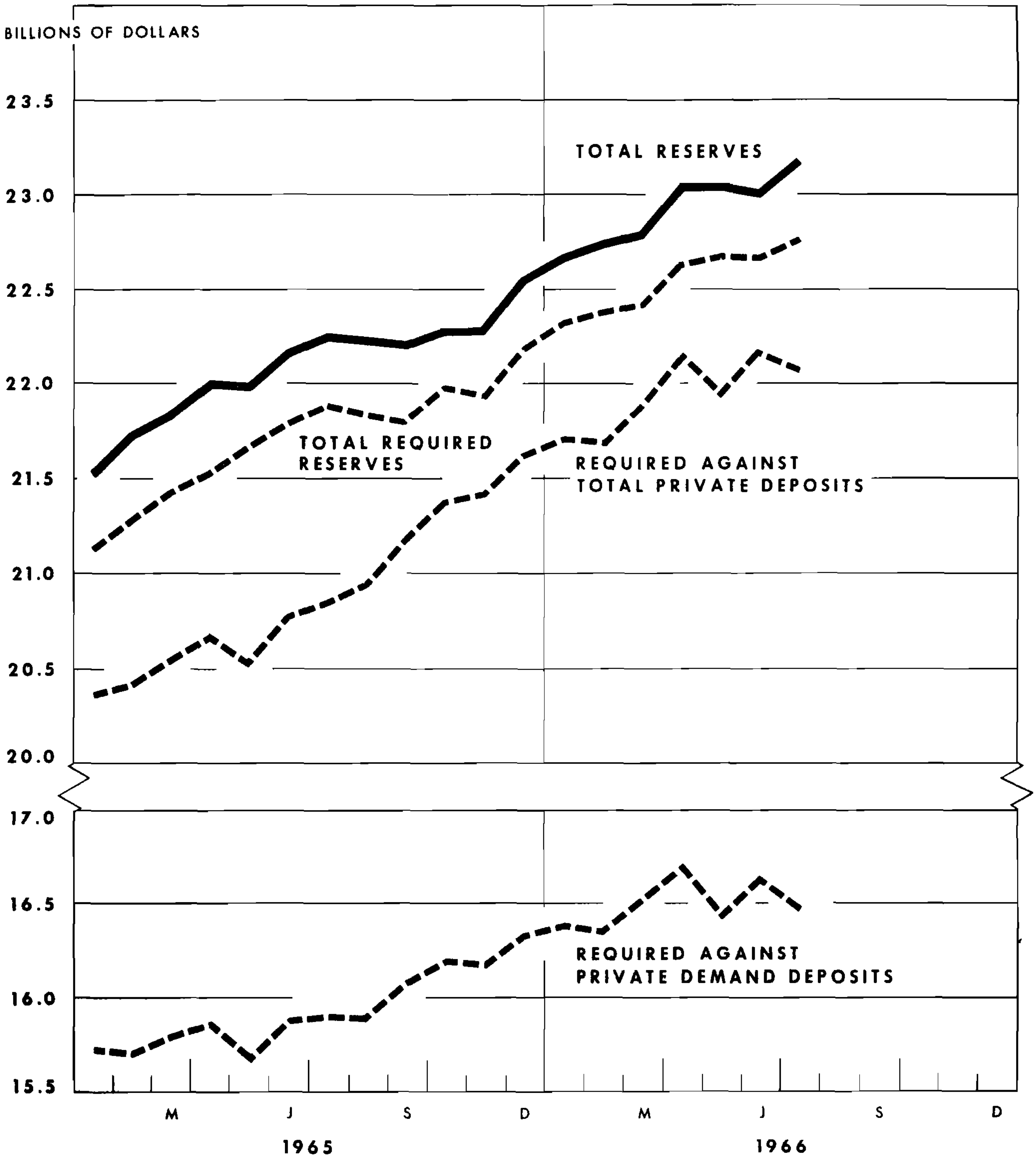


Chart 1b

MEMBER BANK RESERVES

MONTHLY AVERAGES OF DAILY FIGURES

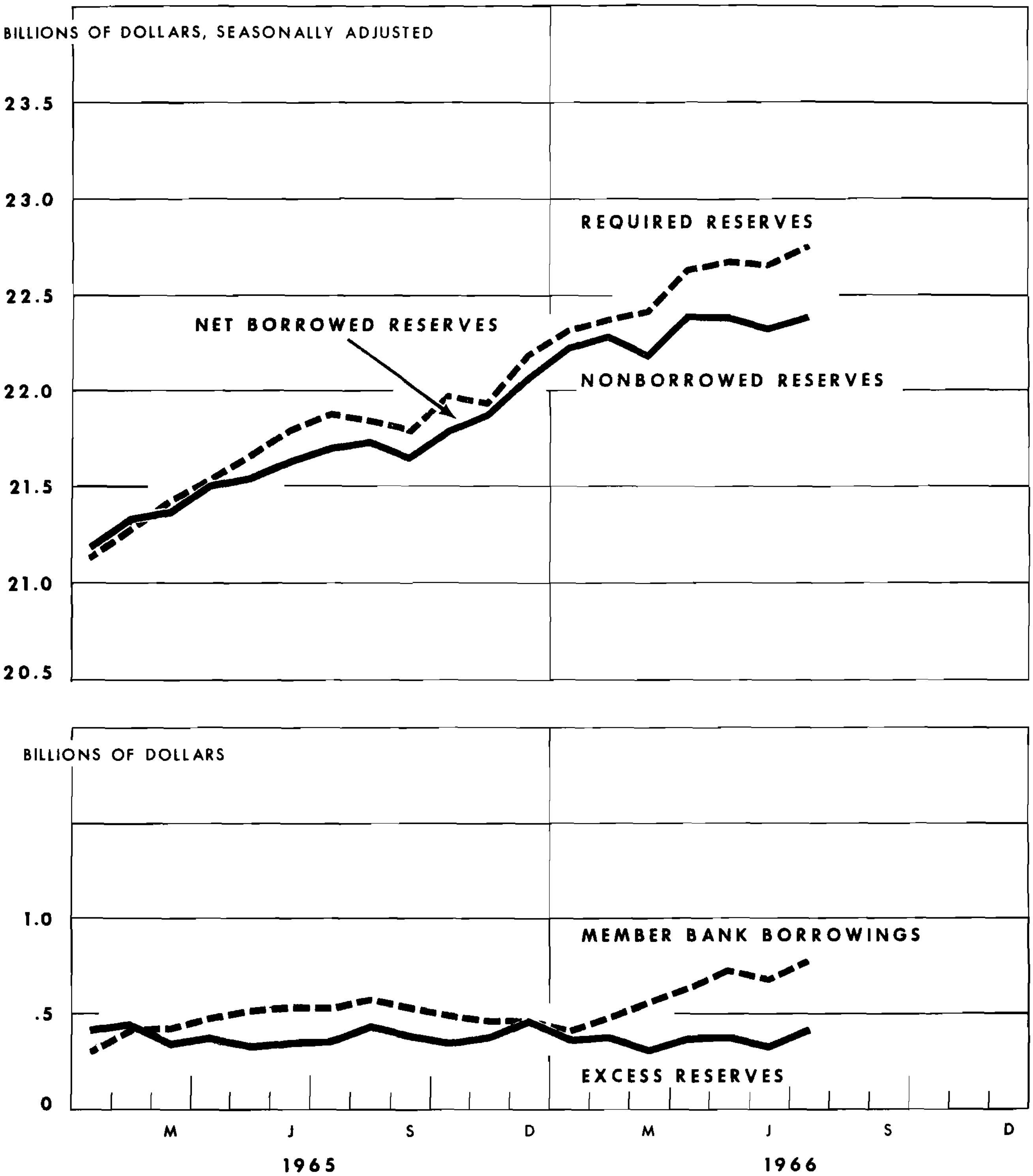
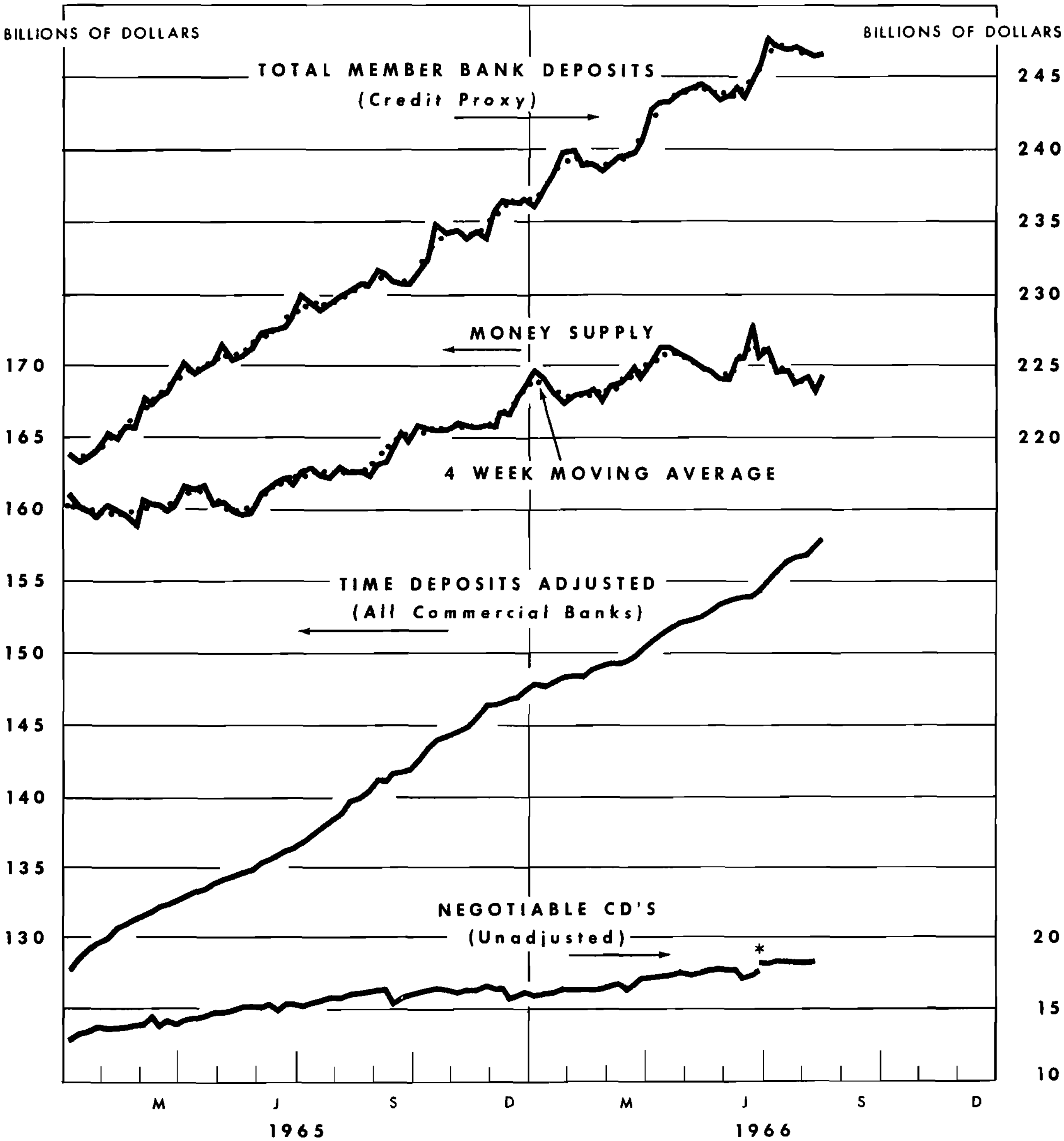


Chart 2

MONEY SUPPLY AND BANK DEPOSITS

SEASONALLY ADJUSTED WEEKLY AVERAGES OF DAILY FIGURES



* CHANGE IN SERIES

Chart 3

DEMAND DEPOSITS AND CURRENCY

SEASONALLY ADJUSTED WEEKLY AVERAGES OF DAILY FIGURES

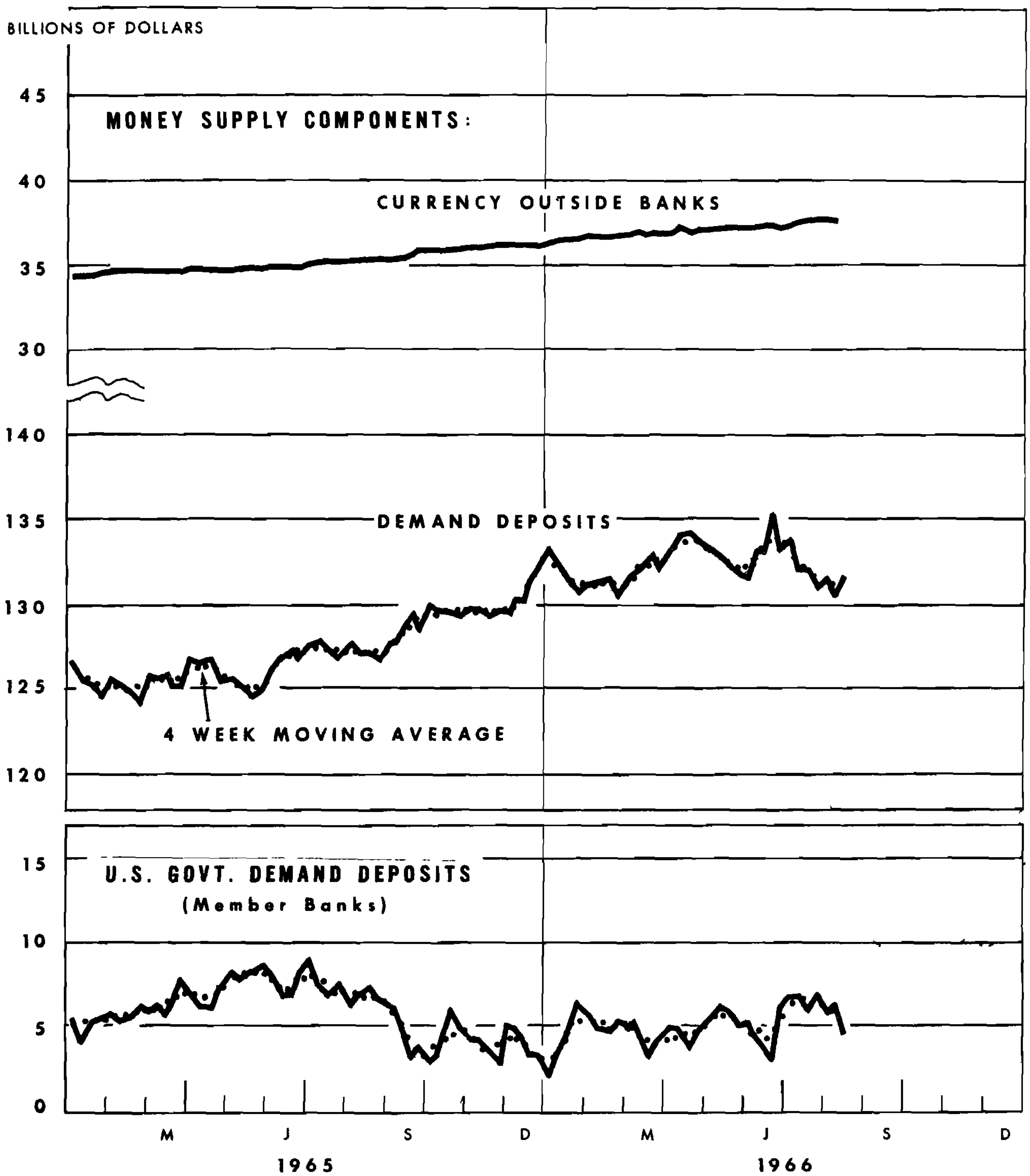


Table B-1

MAJOR SOURCES AND USES OF RESERVES

Retrospective and Prospective
(Dollar amounts in millions, based on weekly averages of daily figures)

Period	Factors affecting supply of reserves				= Change in total reserves	= Bank use of reserves	
	Federal Reserve credit (excl. float) 1/	Gold stock	Currency outside banks	Technical factors net 2/		Required reserves 3/	Excess reserves
ACTUAL							
Year:							
1964 (12/25/63 - 12/23/64)	+3,219	- 165	-1,847	-365	+840	+ 910	- 70
1965 (12/23/64 - 12/22/65)	+3,926	-1,578	-2,228	+845	+966	+1,136	-170
Year-to-date:							
(12/30/74 - 8/18/65)	+2,167	-1,530	- 454	-661	-477	- 244	-233
(12/29/65 - 8/17/66)	+1,444	- 454	- 755	-511	-469	- 272	-197
Weekly:							
1966--June 22	- 224	- 28	+ 60	+578	+389	+ 572	-183
29	+ 393	- 73	+ 217	-320	+217	+ 40	+177
July 6	+ 851	+ 2	- 748	+135	+237	+ 346	-159
13	+ 5	+ 1	- 134	+205	+ 79	- 295	+374
20	-1,264	- 1	+ 212	+736	-317	+ 226	-533
27 p	+ 228	- 28	+ 212	-408	+ 3	- 77	+ 79
Aug. 3 p	+ 655	- 174	- 73	-460	+ 50	- 43	+ 94
10 p	+ 141	+ 1	- 405	+173	- 90	- 227	+137
17 p	- 634	- 1	+ 106	+242	-287	- 70	-217
PROJECTED 4/							
Aug. 24	- 70	- 20	+ 65	- 30	- 55	- 55	--
31	+1,180	- 55	+ 20	-745	+400	+ 400	--
Sept. 7	+ 515	- 10	- 600	+ 80	- 15	- 15	--
14	- 130	- 10	+ 280	+310	+450	+ 450	--
21	- 520	- 10	+ 210	+765	+445	+ 445	--
28	+ 240	- 10	+ 45	-400	-125	- 125	--
Oct. 5	+ 685	- 10	- 265	-300	+110	+ 110	--

1/ For retrospective details, see Table B-4.
2/ For factors included, see Table B-3.
3/ For required reserves by type of deposits, see Table B-2.
4/ See reverse side for explanation of projections.

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Table B-2

CHANGES IN REQUIRED RESERVE COMPONENTS

Retrospective and Prospective Seasonal and Nonseasonal Changes
(Dollar amounts in millions, based on weekly averages of daily figures)

Period	Total required reserves	Supporting U. S. Gov't. demand deposits	Supporting private deposits				
			Total	Seasonal changes		Other than seasonal changes	
				Demand	Time	Demand	Time
ACTUAL							
Year:							
1964 (12/25/63 - 12/23/64)	+ 910	-115	+1,025	+ 16	--	+542	+467
1965 (12/23/64 - 12/22/65)	+1,136	-170	+1,306	+113	--	+529	+664
Year-to-date:							
(12/30/64 - 8/18/65)	- 241	+136	- 377	-943	+ 70	+ 77	+419
(12/29/65 - 8/17/66)	- 272	-139	- 133	-930	+ 63	- 25	+759
Weekly:							
1966--June 8	+ 65	-200	+ 265	+120	- 9	+141	+ 13
15 1/	- 132	-353	+ 221 1/	+263	+ 9	- 11	- 40
22	+ 572	+283	+ 289	- 16	- 18	+315	+ 8
29	+ 40	+630	- 590	-298	+ 18	-315	+ 5
July 6	+ 346	+121	+ 225	+ 86	+ 10	+115	+ 14
13	- 295	-244	- 51	+167	- 19	-236	+ 37
20 2/	+ 236	-191	+ 527	+113	+ 9	+ 37	+368
27 p 2/	- 77	+ 39	- 116	- 69	--	-146	+ 99
Aug. 3 p	- 43	-155	+ 112	+ 82	- 18	+ 44	+ 4
10 p	- 227	+ 1	- 228	- 95	--	-147	+ 14
17 p	- 70	-135	+ 65	-135	- 10	+180	+ 29
PROJECTED							
Aug. 24	- 55	-100	+ 45	-165	- 10	+210	+ 10
31	+ 400	+265	+ 135	+ 45	- 10	+ 90	+ 10
Sept. 7	- 15	- 85	+ 70	+ 50	+ 10	--	+ 10
14 2/	+ 450	-185	+ 635	+350	--	- 75	+360
21 2/	+ 445	+ 20	+ 425	+215	- 35	+165	+ 80
28	- 130	+405	- 535	-500	+ 20	- 60	+ 5
Oct. 5	+ 105	- 40	+ 145	+115	+ 10	+ 15	+ 5

1/ Redefinition of time deposits subject to reserve requirements released $34 million of reserve effective June 9.
2/ Increase in percentage reserve requirements against time deposits absorb an estimated $360 million of reserves at city banks effective July 14 and again September 8 and $80 million at country banks effective July 21 and again September 15.
p - Preliminary.

Table B-3

TECHNICAL FACTORS AFFECTING RESERVES

Retrospective and Prospective Changes
(Dollar amounts in millions, based on weekly averages of daily figures)

Period	Technical factors (net)	Treasury operations	Float	Foreign deposits and gold loans	Other nonmember deposits and F. R. accounts
ACTUAL	(Sign indicates effect on reserves)				
Year:					
1964 (12/25/63 - 1/23/64	-365	-470	- 84	+ 11	+178
1965 (12/23/64 - 1/22/65)	+845	+232	- 13	- 7	+651
Year-to-date:					
(12/30/64 - 8/18/65)	-661	- 21	-1,114	+ 43	+517
(12/29/65 - 8/17/66)	-511	-201	-189	- 17	-104
Weekly:					
1966--June 22	+578	+ 96	+445	- 25	+ 62
29	-320	- 78	-275	+ 2	+ 31
July 6	+135	+184	+ 27	- 56	- 20
13	+205	-302	+424	+ 56	+ 27
20	+736	-136	+795	- 13	+ 90
27	-408	- 71	-450	+ 18	+ 95
Aug. 3	-460	- 29	-336	-177	+ 82
10	+173	+203	-115	+184	- 99
17	+242	+ 29	+200	+ 5	+ 8
PROJECTED					
Aug. 24	- 30	+ 15	+ 80	--	-125
31	-745	+155	-900	--	--
Sept. 7	+ 80	--	+ 80	--	--
14	+310	--	+250	--	+ 60
21	+765	--	+700	--	+ 65
28	-400	--	-400	--	--
Oct. 5	-300	--	-300	--	--

Table B-4

SOURCES OF FEDERAL RESERVE CREDIT

Retrospective Changes
(Dollar amounts in millions, based on weekly averages of daily figures)

Period	Total Federal Reserve credit (excl. float)	U. S. Government securities				Bankers' acceptances	Member bank borrowings
		Total holdings	Outright		Repurchase agreements		
			Bills	Other			
Year:							
1964 (12/25/63 - 12/23/64)	+3,219	+3,340	+2,086	+1,022	+232	- 61	- 60
1965 (12/23/64 - 12/22/65)	+3,926	+3,898	+3,226	+ 916	-244	+ 67	- 39
Year-to-date:							
(12/30/64 - 8/18/65)	+2,167	+2,200	+1,808	+ 758	-267	- 20	- 13
(12/29/65 - 8/17/66)	+1,250	+1,151	+ 739	+ 439	- 27	- 52	+184
Weekly:							
1966--May 4	+ 369	+ 391	+ 292	+ 17	+ 82	+ 3	- 25
11	+ 422	+ 402	+ 185	--	+217	- 43	+ 63
18	- 309	- 292	- 128	--	-164	--	- 17
25	+ 99	+ 68	+ 203	--	-135	+ 41	- 10
June 1	+ 627	+ 442	+ 411	+ 31	--	+ 26	+159
8	- 6	+ 225	+ 166	+ 38	+ 21	+ 34	-265
15	+ 185	- 23	- 73	+ 13	+ 37	- 33	+241
22	- 224	- 131	- 72	- 1	- 58	+ 4	- 97
29	+ 393	+ 267	+ 173	+ 94	--	+ 46	+ 80
July 6	+ 851	+ 790	+ 706	+ 80	+ 4	+ 5	+ 56
13	+ 5	+ 71	+ 61	+ 11	- 1	- 57	- 9
20	-1,264	- 972	- 966	- 3	- 3	-105	-187
27	+ 228	+ 189	+ 186	+ 3	--	- 10	+ 49
Aug. 3	+ 655	+ 572	+ 414	--	+158	- 15	+ 98
10	+ 141	+ 138	- 56	--	+194	- 1	+ 4
17	- 634	- 580	- 422	--	-158	- 2	- 52

Chart Reference Table C-1

TOTAL, NONBORROWED AND REQUIRED RESERVES

Seasonally Adjusted

(Dollar amounts in millions, based on monthly averages of daily figures)

(Revised series) 2/

Period	Total reserves	Nonborrowed reserves	Required reserves		
			Total	Against private deposits	
				Total	Demand
1964--January	20,561	20,271	20,139	19,385	15,296
February	20,588	20,302	20,192	19,448	15,319
March	20,665	20,463	20,343	19,498	15,346
April	20,794	20,517	20,370	19,570	15,381
May	20,689	20,495	20,350	19,550	15,325
June	20,966	20,716	20,554	19,655	15,392
July	21,017	20,731	20,596	19,792	15,497
August	21,127	20,832	20,748	19,915	15,557
September	21,349	20,996	20,907	20,055	15,656
October	21,319	20,983	20,919	20,187	15,736
November	21,442	21,055	21,068	20,218	15,713
December	21,416	21,158	21,097	20,316	15,762
1965--January	21,525	21,192	21,129	20,364	15,727
February	21,714	21,238	21,271	20,415	15,702
March	21,830	21,366	21,420	20,546	15,792
April	21,997	21,501	21,535	20,665	15,858
May	21,982	21,539	21,656	20,518	15,672
June	22,156	21,626	21,786	20,768	15,876
July	22,245	21,699	21,873	20,846	15,895
August	22,231	21,726	21,840	20,940	15,889
September	22,205	21,653	21,797	21,183	16,074
October	22,273	21,785	21,974	21,375	16,187
November	22,276	21,869	21,930	21,413	16,162
December	22,546	22,060	22,192	21,618	16,321
1966--January	22,661	22,225	22,311	21,702	16,377
February	22,742	22,383	22,368	21,693	16,344
March	22,787	22,186	22,411	21,885	16,508
April	23,043	22,391	22,638	22,145	16,687
May	23,044	22,386	22,673	21,938	16,434
June 1/	23,006	22,329	22,660	22,165	16,626
July p 1/	23,182	22,393	22,757	22,067	16,460

p - Preliminary.

1/ Reserves have been adjusted for redefinition of time deposits effective June 9.

2/ Revised to reflect current levels of reserve requirements and changes in seasonal factors.

Table C-2

DEPOSITS SUPPORTED BY REQUIRED RESERVES AT ALL MEMBER BANKS

Seasonally adjusted

(Dollar amounts in millions, based on monthly averages of daily figres)

Monthly	Total member bank deposits (credit) 1/	Time deposits	Private demand deposits 2/	U. S. Gov't. demand deposits
1964--January	202,981	93,563	104,407	5,011
February	203,759	94,495	104,569	4,695
March	205,068	95,011	104,749	5,308
April	206,176	95,852	104,987	5,337
May	206,613	96,677	104,609	5,327
June	208,669	97,542	105,066	6,061
July	209,312	98,273	105,783	5,256
August	211,506	99,725	106,189	5,592
September	212,906	100,670	106,868	5,368
October	214,109	101,850	107,410	4,849
November	215,849	103,090	107,259	5,500
December	216,738	104,215	107,591	4,932
1965--January	218,640	106,107	107,353	5,180
February	220,663	107,843	107,178	5,642
March	222,445	108,778	107,795	5,872
April	225,068	109,996	108,243	6,829
May	225,840	110,898	106,975	7,967
June	227,642	111,955	108,372	7,315
July	229,056	113,306	108,497	7,253
August	230,664	115,594	108,456	6,614
September	230,913	116,900	109,717	4,296
October	233,505	118,718	110,489	4,298
November	234,264	120,152	110,327	3,785
December	236,411	121,220	111,409	3,782
1966--January	238,204	121,861	111,787	4,556
February	239,024	122,401	111,562	5,061
March	239,811	123,038	112,684	4,089
April	243,398	124,898	113,905	4,595
May	243,863	125,953	112,170	5,740
June 3/	244,833	126,750	113,488	4,595
July p 3/	246,943	128,329	112,389	6,225

1/ Includes all deposits subject to reserve requirements--i.e., the total of time, private demand, and U.S. Government demand deposits. Movements in this aggregate correspond closely with movements in total member bank credit.

2/ Private demand deposits include demand deposits of individuals, partnerships and corporations and net interbank balances.

3/ Deposits have been adjusted for redefinition of time deposits effective June 9.

p - Preliminary.

TABLE C-2a

DEPOSITS SUPPORTED BY REQUIRED RESERVES AT ALL MEMBER BANKS

Seasonally adjusted

(Dollar amounts in millions, based on weekly averages of daily figures)

Week ending:	Total member bank deposits (credit) 1/	Time deposits	Private demand deposits 2/	U. S. Gov't. demand deposits
1966--Feb. 2	239.899	122,193	112,050	5,656
9	238,866	122,026	112,003	4,837
16	238,966	122,562	111,715	4,689
23	238,542	122,490	110,694	5,358
Mar. 2	238,958	122,284	111,691	4,983
9	239,366	122,288	111,957	5,121
16	239,559	122,757	112,560	4,242
23	239,710	123,335	113,155	3,220
30	240,437	123,770	113,017	3,650
Apr. 6	242,648	124,508	113,306	4,834
13	243,216	124,684	113,764	4,768
20	243,286	125,042	114,482	3,762
27	243,882	125,311	113,810	4,761
May 4	244,178	125,369	113,407	5,402
11	244,465	125,455	112,952	6,058
18	244,091	125,815	112,372	5,904
25	243,395	126,330	111,954	5,111
June 1	243,664	126,433	112,115	5,116
8	244,274	126,778	113,137	4,359
15*	242,644	125,749	113,152	3,743
22*	243,999	125,966	115,035	2,998
29*	245,028	126,079	112,924	6,025
July 6*	246,689	126,456	113,587	6,646
13*	246,299	127,377	112,265	6,657
20*	245,994	127,528	112,480	5,986
27p*	246,178	127,747	111,543	6,888
Aug. 3 p*	245,814	128,208	111,792	5,814
10 p*	245,561	128,391	110,915	6,255
17 p*	245,690	129,020	112,161	4,509

p - Preliminary.

1/ Includes all deposits subject to reserve requirements--i.e., the total of time, private demand, and U.S. Government demand deposits. Movements in this aggregate correspond closely with movements in total member bank credit.

2/ Private demand deposits include demand deposits on individuals, partnerships and corporations and net interbank balances.

* - Deposits have been adjusted for redefinition of time deposits effective June 9.

TABLE C-3

MONEY SUPPLY AND TIME DEPOSITS AT ALL COMMERCIAL BANKS

Seasonally Adjusted

(Dollar amounts in billions, based on monthly averages of daily figures)

Monthly	Money Supply	Currency 1/	Private Demand Deposits 2/	Time Deposits Adjusted
1964--January	153.6	32.6	121.0	113.5
February	153.8	32.8	121.1	114.6
March	154.1	32.9	121.2	115.3
April	154.5	33.0	121.4	116.2
May	154.5	33.3	121.2	117.3
June	155.5	33.4	122.1	118.5
July	156.6	33.6	123.0	119.4
August	157.1	33.8	123.3	121.0
September	158.2	33.9	124.3	122.1
October	158.8	34.0	124.8	123.5
November	159.1	34.2	124.8	125.1
December	159.7	34.2	125.4	126.6
1965--January	160.0	34.5	125.5	128.8
February	159.7	34.7	125.1	131.0
March	160.3	34.7	125.6	132.1
April	161.1	34.7	126.4	133.5
May	160.0	34.9	125.1	134.6
June	161.8	35.0	126.8	135.9
July	162.5	35.2	127.3	137.6
August	162.7	35.4	127.3	140.1
September	164.3	35.6	128.7	141.6
October	165.6	35.9	129.7	143.6
November	165.7	36.1	129.6	145.5
December	167.4	36.3	131.2	147.0
1966--January	168.4	36.7	131.8	148.0
February	168.0	36.8	131.2	148.8
March	169.2	36.9	132.3	149.6
April	171.1	37.1	134.0	151.6
May	169.5	37.3	132.2	152.9
June 3/	171.1	37.3	133.8	154.2
July p 3/	169.6	37.6	132.0	156.0

1/ Includes currency outside the Treasury, the Federal Reserve, and the vaults of all commercial banks.

2/ Includes (1) demand deposits at all commercial banks, other than those due to domestic commercial banks and the U.S. Government, less cash items in process of collection and Federal Reserve float; and (2) foreign demand balances at Federal Reserve Banks.

3/ Deposits have been adjusted for redefinition of time deposits effective June 9.

p - Preliminary.

TABLE C-3a

MONEY SUPPLY AND TIME DEPOSITS AT ALL COMMERCIAL BANKS

Seasonally Adjusted

(Dollar amounts in billions, based on monthly averages of daily figures)

Week Ending	Money Supply	Currency 1/	Private Demand Deposits 2/	Time Deposits adjusted
1966--Feb. 2	167.9	36.7	131.2	148.4
9	168.1	36.9	131.3	148.4
16	168.3	36.8	131.5	148.8
23	167.5	36.9	130.6	149.0
Mar. 2	168.5	36.9	131.6	149.2
9	168.7	36.9	131.8	149.2
16	169.2	36.9	132.3	149.5
23	169.8	36.9	132.9	149.8
30	169.1	36.9	132.2	150.2
Apr. 6	160.1	36.9	133.2	150.7
13	171.2	37.2	134.0	151.2
20	171.3	37.0	134.3	151.7
27	170.8	37.1	133.7	152.1
May 4	170.4	37.2	133.2	152.3
11	170.0	37.2	132.8	152.5
18	169.7	37.3	132.3	152.9
25	169.0	37.3	131.7	153.4
June 1	168.9	37.3	131.6	153.6
8	170.5	37.3	133.2	153.8
*15	170.6	37.4	133.2	153.9
*22	172.8	37.4	135.4	154.0
*29	160.6	37.4	133.5	154.5
July *6	171.2	37.4	133.8	155.0
*13	169.6	37.6	132.1	155.8
*20	169.7	37.7	132.1	156.2
*27 p	168.7	37.7	131.0	156.6
Aug. *3 p	169.2	37.7	131.5	156.9
*10 p	168.1	37.6	130.5	157.3
*17 p	169.3	37.7	131.6	157.9

1/ Includes currency outside the Treasury, the Federal Reserve, and the vaults of all commercial banks.

2/ Includes (1) demand deposits at all commercial banks, other than those due to domestic commercial banks and the U.S. Government, less cash items in process of collection and Federal Reserve float; and (2) foreign demand balances of Federal Reserve Banks.

* - Deposits have been adjusted for redefinition of time deposits effective June 9.

p - Preliminary.

FINANCIAL MARKET RELATIONSHIPS IN PERSPECTIVE

(Monthly averages and, where available, weekly averages of daily figures; amounts in millions of dollars)

Period	Money Market Indicators				Bond Yields			Flow of Reserves, Bank Credit and Money				
	Free Reserves	Borrowings	Federal Funds Rate	3-month Treasury Bill	U. S. Gov't. 20 yr.)	Corporate New Issues (Aaa)	Municipal (Aaa)	Nonborrowed reserves (New Series)	Total Reserves (New Series)	Bank Credit Proxy	Money Supply	Time Deposits 1/
1965--June	-176	534	4.01	3.80	4.21	4.58	3.15	+ 87	+174	+1,802	+1,800	+1,300
July	-178	527	4.07	3.83	4.21	4.61	3.16	+ 73	+ 89	+1,414	+ 700	+1,700
Aug.	-162	549	4.11	3.84	4.25	4.63	3.16	+ 27	- 14	+1,608	+ 200	+2,500
Sept.	-139	552	3.95	3.92	4.30	4.67	3.25	- 73	- 26	+ 249	+1,600	+1,500
Oct.	-132	490	4.05	4.02	4.32	4.69	3.31	+132	+ 68	+2,592	+1,300	+2,000
Nov.	- 77	418	4.09	4.08	4.40	4.72	3.34	+ 84	+ 3	+ 759	+ 100	+1,900
Dec.	- 22	452	4.28	4.37	4.50	4.85	3.39	+191	+270	+2,147	+1,700	+1,500
1966--Jan.	- 51	431	4.32	4.58	4.52	4.81	3.39	+165	+115	+1,793	+1,000	+1,000
Feb.	-117	474	4.58	4.65	4.71	4.96	3.48	+ 58	+ 81	+ 820	- 400	+ 800
Mar.	-210	545	4.64	4.58	4.72	5.09	3.55	- 97	+ 45	+ 787	+1,200	+ 800
Apr.	-277	638	4.64	4.61	4.65	5.03	3.46	+205	+256	+3,587	+1,900	+2,000
May	-339	653	4.83	4.63	4.69	5.16	3.53	- 5	+ 1	+ 465	-1,600	+1,300
June	-352	722	5.13	4.50	4.73	5.35	3.60	- 33*	- 14*	+ 970*	+1,600	+1,200*
July p	-365	739	5.18	4.78	4.84	5.48	3.77	+ 82*	+194*	+2,110*	- 500	+1,600*
July 6	-477	827	5.25	4.64	4.82	--	3.77			+1,661	+ 600	+ 500
13	- 94	818	5.38	4.75	4.84	5.49	3.77			- 390	-1,600	+ 700
20	-460	631	4.48	4.91	4.86	--	3.77			- 305	+ 100	+ 500
27 p	-429	680	5.45	4.78	4.83	5.47	3.78			+ 184	-1,000	+ 400
Aug. 3 p	-434	778	5.58	4.77	4.86	5.56	3.79			- 364	+ 500	+ 300
10 p	-301	782	5.70	4.82	4.86	--	3.87			- 253	-1,100	+ 400
17 p	-466	730	5.15	5.00	4.90	4.75	3.94			+ 129	+1,200	+ 600
						Averages				Annual rates of increase 2/		
Year 1964	107	295	3.47	3.53	4.19	4.44	3.09	+ 4.5	+ 4.2	+ 7.6	+ 4.3	+12.8
1965	- 90	467	4.05	3.95	4.27	4.58	3.16	+ 4.3	+ 5.3	+ 9.1	+ 4.8	+16.1
Recent variations in growth												
Dec. 1-Mar. 16	-111	464	4.43	4.55	4.55	5.01	3.46			+ 5.8	+ 7.3	+ 7.3
Mar. 16-June 1	-299	644	4.72	4.61	4.61	5.17	3.50			+ 8.1	- 0.8	+13.0
June 1-Aug. 17	-368	731	5.31	4.69	4.81	5.50	3.74			+10.0	+ 1.1	+13.2
Dec. 1-Aug. 17	-243	597	4.78	4.61	4.68	5.17	3.55			+ 7.5	+ 3.0	+10.7

1/ Time deposits adjusted at all commercial banks.
2/ Base is average for month preceding specified period or in the case of weekly periods, the first week shown.
* Changes have been adjusted for redefinition of time deposits effective June 9.
p-Preliminary.

August 19, 1966.