Mr. Sternlight made the following statement:

Desk operations since the last meeting of the Committee have been directed steadily at maintaining conditions of reserve availability consistent with a Federal Funds rate around 6 1/2 percent. Estimated growth of the monetary aggregates was perceived to be well within the designated ranges throughout the interval, though the period started with estimated growth somewhat above the midpoints while later revisions placed growth in the lower portion of the ranges. For the most part, actual funds trading hugged the desired rate closely, with weekly averages deviating no more than a few basis points from 6 1/2 percent.

Desk operations drained reserves in the second half of November through matched sale purchase transactions in the market as well as with foreign accounts, and through outright sales of $360 million of bills to those accounts. Starting December 1, the System began making outright purchases of bills from foreign accounts, acquiring a total of about $1,350 million in preparation for major mid-December reserve drains. To this same end, the System bought $977 million of Treasury coupon issues in the market on December 13, and $24 million of notes from a foreign account. A large reserve need remains to be met next week, some of which can be accomplished through further outright purchases, while additional reserves can be injected through repurchase agreements. If not all the need can be met that way we expect the Treasury to help out by reducing its calls on tax and loan accounts or possibly even making redeposits

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to commercial banks.

Short-term interest rates changed little over the past month, against the background of a steady funds rate. Bill rates came down slightly, despite some Treasury additions to supply, as customer demand remained good-notably from foreign central banks that were investing dollars acquired from foreign exchange market operations. Yesterday, 3- and 6-month bills were auctioned at about 5.99 and 6.34 percent, compared with 6.09 and 6.37 percent the day before the last meeting. Some other short rates--including commercial paper and bank certificates of deposit--edged slightly higher reflecting increased credit demands.

Intermediate and long-term Government securities rose moderately over the period--by some 5 to 18 basis points--apparently reflecting market views that higher rates are likely next year because of a stronger economy than was anticipated a month or two earlier. There has also been an expectation of larger Treasury deficits. Market observers are now more inclined to take official estimates of a sizable deficit about at face value whereas earlier this year there was a tendency, well-founded in recent experience, to expect deficits to fall short of official estimates. While there is little anticipation in the market of a very near-term change in System policy--and the recent moderation in the aggregates has generated some complacency on this score--the predominant market view is that the next change, perhaps a few months off, is likely to be toward higher rates.

A $3 billion two-year note is to be auctioned tomorrow, with early rate ideas around 7.15 percent compared with 7.13 percent on a similar maturity last month. Also coming up is a $1.5 billion 15-year bond, announced yesterday for auction next week and payment in early January.