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May 16, 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

May 16, 1980

MONETARY AGGREGATES AND MONEY MARKET CONDITIONS

Recent developments

(1) The record decline in demand deposits in April led to a contraction in all of the targeted monetary aggregates last month. M-1A and M-1B showed particularly sharp rates of decrease, even after allowing for a probable 5 to 8 percentage point impact from larger-than-seasonal reductions in private demand balances in connection with the Treasury's quicker processing of nonwithheld tax payments. The underlying weakness in money supply over the past several weeks most likely reflects not only the lagged effect of previous high interest rates, but also net repayment of bank debt at a time of sizable reduction in economic activity. The non-transactions component of M-2 also was weaker in April, largely as a result of marked slowing of the growth of MMMF shares that followed the Board's March 14 actions and of reductions in overnight RP and Eurodollar deposits. Total managed liabilities at banks declined as bank credit contracted. Owing mainly to the April developments, the growth in the monetary aggregates over the first four months of 1980 has been

	Target	Actual	
Monetary Aggregates	Dec. to June	Dec. to April	April
M-1A	4½	-1.5	-18.5
M-1B	5	0.0	-14.4
M-2	7¾	4.6	-2.8
M-3	--	6.0	-0.3
Memo:			
Bank Credit	--	7.3	-5.1

considerably below the target pace for the first half set at the last Committee meeting. In early May, there was a substantial increase in both demand deposits and money market fund shares.

(2) With the aggregates weakening in April, required reserves in the four-week intermeeting period began to fall well below levels built into the total reserve path thought to be consistent with the Committee's April decision. As the Desk adhered to the nonborrowed reserves path (defined to include special borrowings, which have averaged about $775 million during the period), the weaker demand for reserves by banks led to a sharp reduction in adjustment borrowing; such borrowings averaged only about $200 million in the last complete statement week, down from $1.9 billion in the week of the April meeting.[1/] Total reserves over the four-week intermeeting period turned out to be about $850 million below path.[2/]

(3) As the demand for reserves weakened, the federal funds rate, which had averaged above 18 percent just before the April meeting, almost immediately began to fall below the 16 percent level. In a telephone consultation on April 28, the Committee reconfirmed that the federal funds rate could fluctuate in the full 13 to 19 percent range adopted at the April meeting. In early May, the funds rate began to approach the lower limit of the range, and on May 6 the Committee voted to reduce the lower limit to 10½ percent. Later in the day, the Board eliminated the 3 percent surcharge on continuous

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1/ The original path had assumed adjustment borrowing averaging between $1¼ to $1½ billion.

2/ See Appendix I for reserve paths and other adjustments during the intermeeting period.

borrowing. In the most recent complete statement week, the federal funds rate averaged 10-7/8 percent, and, as noted above, adjustment borrowing fell to minimal levels.

(4) The broad rally in debt markets gained momentum during the intermeeting period, as market participants reacted to evidence that a recession had begun, to the sustained money stock weakness, and to the decline in the federal funds rate. Treasury bill rates and private short-term rates have fallen substantially further; the 3-month bill rate is currently around 9 percent and the 3-month CD rate around 10 percent. Most short-term rates are now about 5 to 8 percentage points below their recent highs. The prime lending rate at banks, however, has declined only about 3½ percentage points from its 20 percent peak, as banks attempt to maintain profit margins.

(5) Capital markets have also rallied further since the last FOMC meeting, with bond yields declining ½ to 1½ percentage points. In response to the lower levels of bond yields--down 2½ to 3 percentage points since their March highs--corporate and municipal bond offerings increased markedly in April and early May, far eclipsing the first quarter pace. The Treasury conducted its quarterly financing auction in early May, and in the ebullient market atmosphere the $7.5 billion offering of two notes and a long bond was well bid; the new issues did, however, soon drop below their auction prices. The average rate on new mortgage commitments at S&Ls declined to 14.68 percent in early May from the record high of 16.35 percent, and recent press reports indicate much larger cuts in mortgage rates at some S&Ls as these lenders anticipate larger deposit inflows at the lower short-term market rates of interest.

(6) Since the last FOMC meeting, the dollar has declined by about 3½ percent on a weighted-average basis, reflecting the relative decline in U.S. short-term interest rates. Toward the end of the period the dollar stabilized as some market participants began looking for some back-up in U.S. interest rates and as news of the April Producer Price Index provided some indication of a slowing of U.S. inflation.

(7) 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.

	1977 1/	1978 1/	1979 1/	QI '80 over QIV '79	Apr. '80 over Jan. '79	Past Month Apr. '80 over Mar. '80
Nonborrowed reserves	3.5	5.6	2.7	4.3	-9.8	13.8
Total reserves	4.9	6.3	4.1	5.1	1.7	2.7
Monetary base	8.3	9.0	7.6	7.9	5.0	1.9
Concepts of Money						
M-1A (Currency plus demand deposits) 2/	7.7	7.1	5.7	5.5	-3.2	-18.5
M-1B (M-1A plus other checkable deposits)	8.1	8.2	7.7	6.0	-1.3	-14.4
M-2 (M-1B plus small time and savings deposits, money market mutual fund shares and overnight RP's and Eurodollars)	10.9	8.2	8.8	7.4	3.8	-2.8
M-3 (M-2 plus large time deposits and term RP's)	12.4	11.1	9.3	8.4	5.3	-0.3
Bank Credit						
Loans and investment of all commercial banks 3/	10.9	13.6	11.5	9.4	5.4	-5.1
Managed Liabilities of Banks (Monthly average change in billions)						
Large time deposits	2.0	4.3	1.4	2.0	4.5	5.0
Eurodollars	0.6	0.6	1.9	-0.8	-0.1	-4.6
Other borrowings 4/	1.0	1.3	1.1	2.3	0.0	-5.9
Memo						
Nonbank commercial paper	0.2	0.3	0.9	1.5	1.6	1.1

1/ December to December.
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 investments 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 and short-term targets

(8) The recent shortfall in money growth appears to make it impractical to achieve the Committee's December to June targets for the M's adopted at the last meeting. To reach these targets, M-1A would have to expand at a 16¾ percent annual rate over the two months of May and June, M-1B at 15 percent rate, and M-2 at an 11 percent rate. Attempts to encourage such a large rebound over a short period would probably entail a drop in the funds rate in the near term to levels as low as in the 1 to 5 percent range. It would also very probably entail a sharp subsequent reversal of those rates to keep money growth in later months within the Committee's longer-run ranges.

(9) The staff expects some rebound of money growth to occur in any event in May and June--for example, a growth of 7 percent on average in M-1A at around current interest rate levels and growth of about 7¾ percent in M-2. The recent contraction in transactions balances implies a need by the public to rebuild their cash holdings to sustain growth in nominal economic activity in the second quarter at the projected 4½ percent annual rate. Moreover, the lagged impacts of the recent sharp drop in interest rates should serve to increase the quantity of money demanded in the months ahead. Our projected expansion of M-1A in May-June would generate a 1¼ percent annual rate of growth over the 6 months from December to June, and a one percent rate of growth from the QIV '79 average level to the QII '80 average. Associated growth in M-2 over the December to June period would be about 5¾ percent,[1/] somewhat closer to the Committee's target than in the case of M-1.

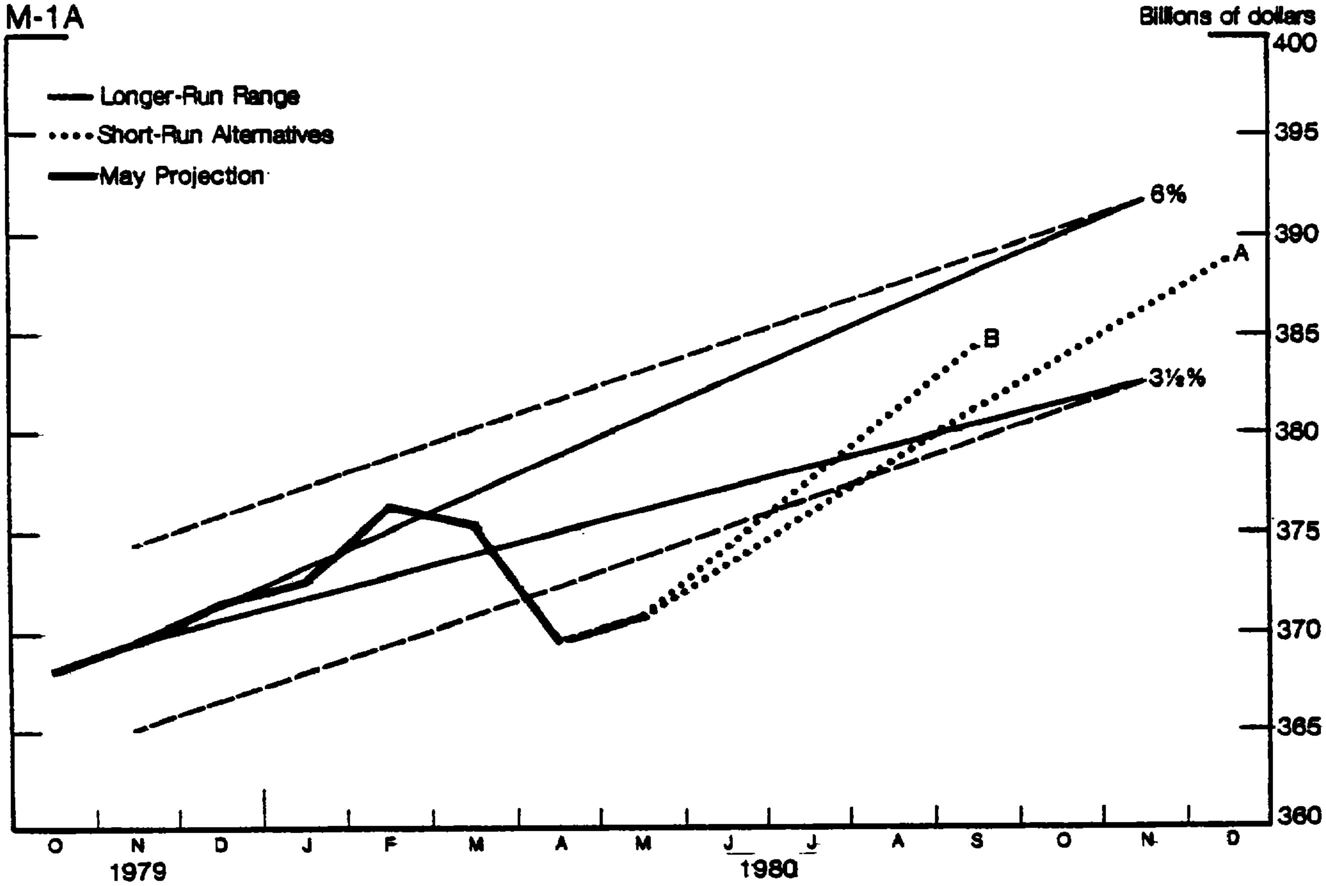
1/ And 5½ percent from QIV '79 to QII '80.

(10) Against this background, the Committee, in framing its approach to operations between now and the next meeting, may wish to consider policies that recognize the high probability of a shortfall in growth of the aggregates over the first half of the year and that aim to get the aggregates back on path over a longer period. Two such alternatives are presented below, and depicted in the charts on the following pages. Alternative A is designed to achieve a level of M-1A in December equal to that implied by the midpoint growth path of the 3½ to 6 percent range for this aggregate over the QIV '79 to QIV '80 period. Alternative B is designed to return M-1A to the midpoint path by September. Growth in M-2 would follow similar patterns. (More detailed specifications, with implied rates of growth over various time periods, are shown in the tables on pages 8 and 9.)

	Alt. A Back to Path by Dec.	Alt. B Back to Path by Sept.
Growth rates from April to Sept.		
M-1A	7.6	9.5
M-1B	8.0	9.8
M-2	8.0	9.8
Growth targets for May-June		
M-1A	7.0	8.4
M-1B	7.6	9.1
M-2	7.8	8.7
Intermeeting federal funds rate range, percent	10 to 14	9 to 14

Chart 1

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



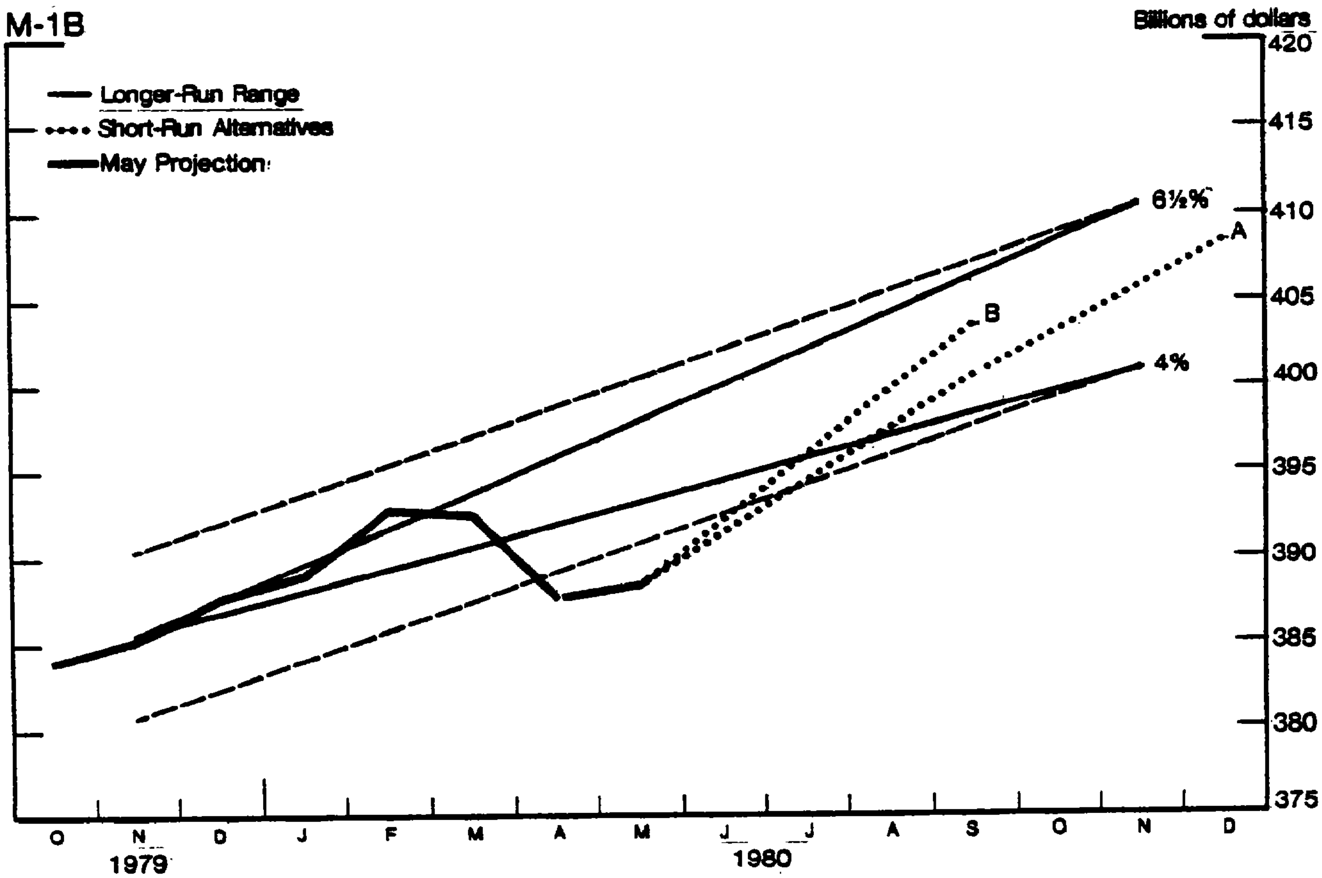


Chart 2

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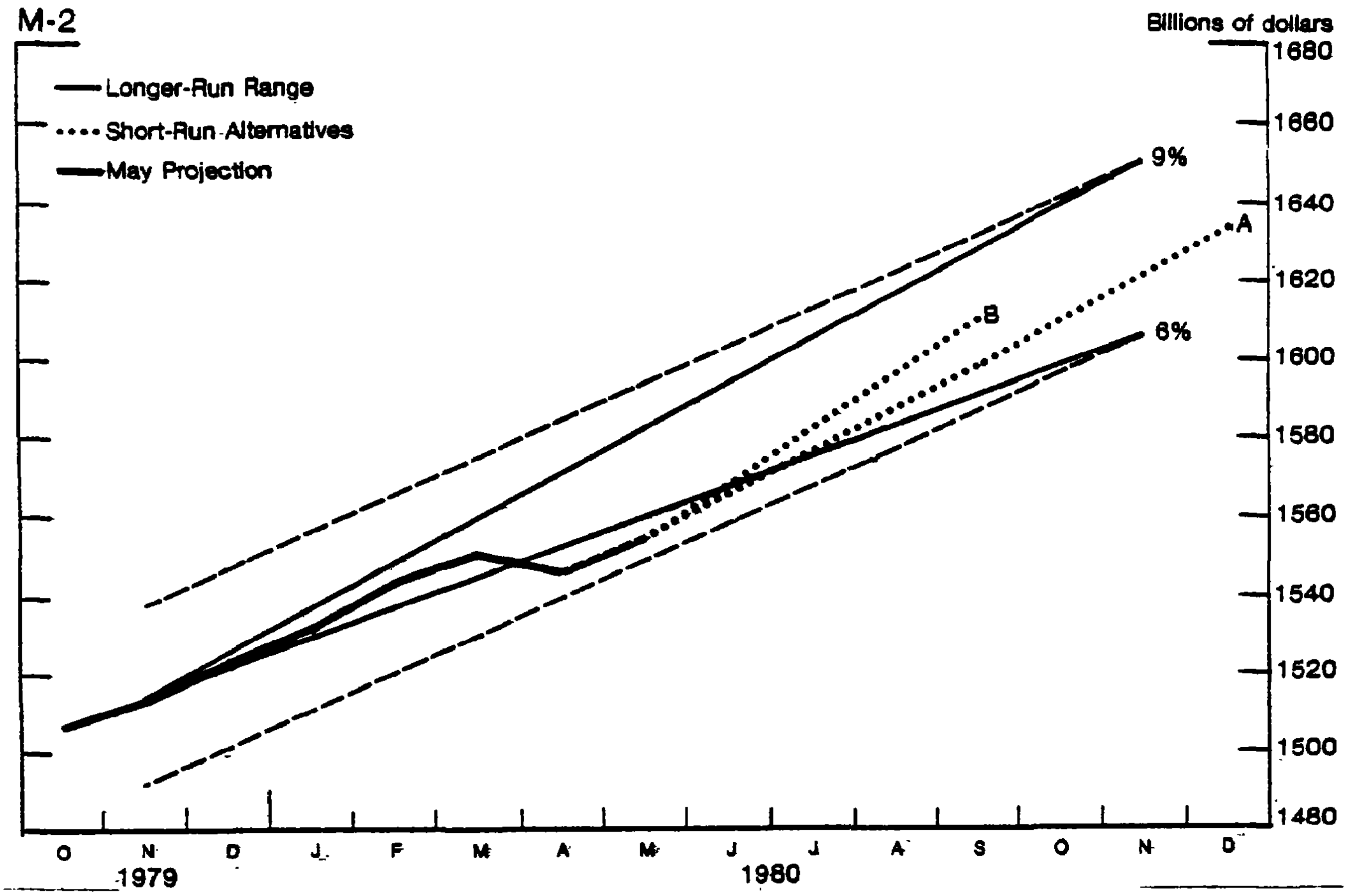
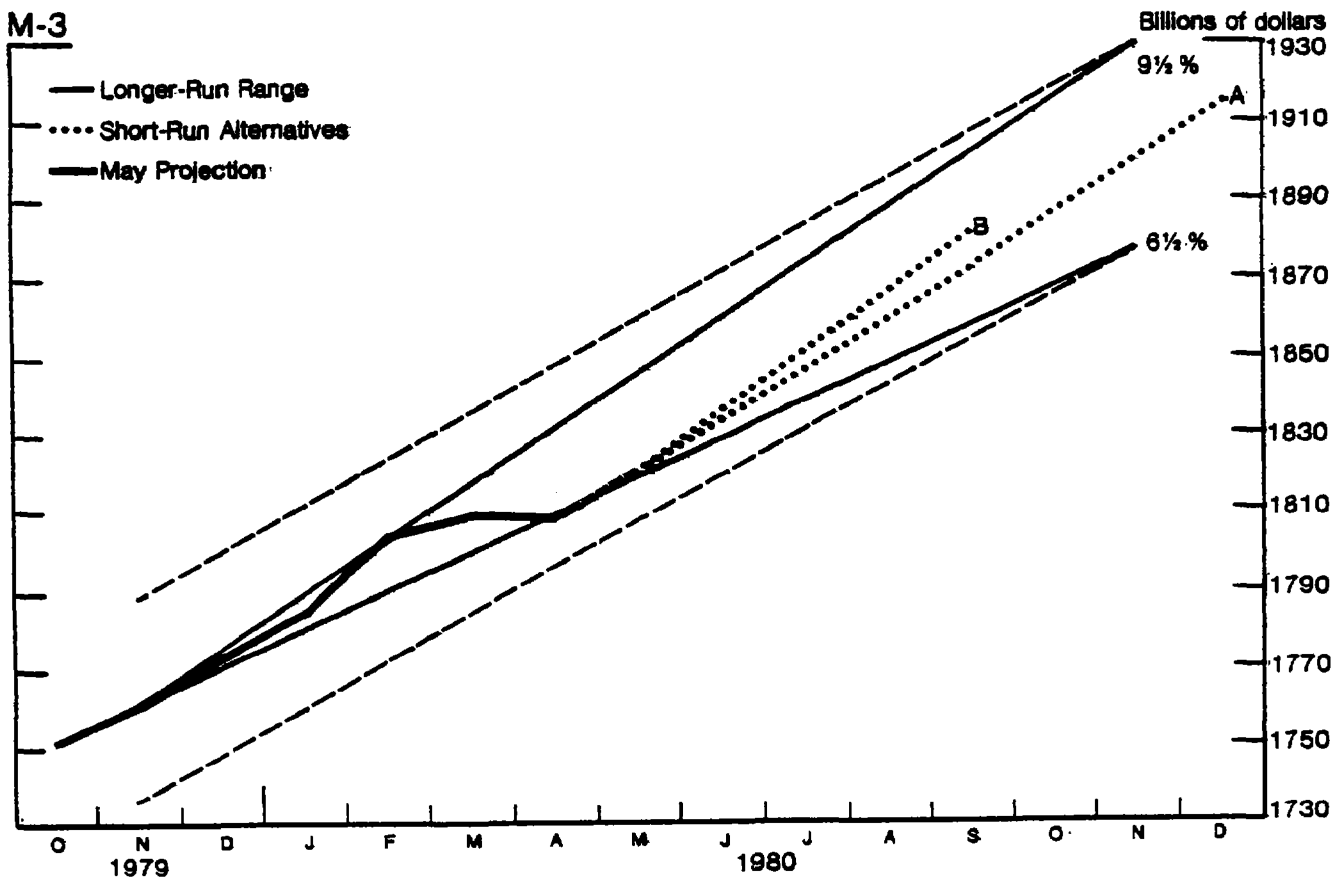
Actual and Targeted M-2 and M-3





Alternative Levels and Growth Rates for Key Monetary Aggregates

	M-1A		M-1B	
	Alt. A	Alt. B	Alt. A	Alt. B
1980--April	369.6	369.6	387.7	387.7
May	370.8	371.0	388.5	388.7
June	373.9	374.8	392.6	393.6
Growth Rates				
Monthly				
1980--May	3.9	4.5	2.5	3.1
June	10.0	12.3	12.7	15.1
Dec. '79 - June '80	1.3	1.8	2.5	3.0
Quarterly Average				
1980--QI	5½	5½	6	6
QII	-3½	-3¼	-1¾	-1½
QIII	8	10	8¾	10½
QIV	7¾	6½	7¾	6½
1979 QIV to 1980 QII	0.9	1.1	2.1	2.3
1979 QIV to 1980 QIV	4½	4¾	5¼	5½

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

	M-2		M-3	
	Alt. A	Alt. B	Alt. A	Alt. B
1980--April	1547.5	1547.5	1808.8	1808.8
May	1555.9	1556.4	1820.8	1821.4
June	1567.7	1569.9	1836.2	1838.3
Growth Rates				
Monthly				
1980--May	6.5	6.9	8.0	8.4
June	9.1	10.4	10.1	11.1
Dec. '79-June '80	5.7	6.0	7.1	7.3
Quarterly Average				
1980--QI	7½	7½	8½	8½
QII	3½	3¾	5	5¼
QIII	8¼	10	8½	9¾
QIV	8½	6¾	8¾	7¼
1979 QIV to 1980 QII	5.5	5.6	6.7	6.8
1979 QIV to 1980 QIV	7	7	7¾	7¾

NOTE: The following annual rates of growth in bank credit for the year and for the quarters are expected under alternative B: year 1980, 7¼; QI, 9½; QII, 5; QIII, 6½; QIV, 6½. Only minor variations in growth rates would be expected under the other alternatives. For the December to June period, bank credit growth under alternative B would be 8¾ percent.

(11) Alternative A calls for growth in M-1A at about a 7½ percent annual rate between April and September, and continuation of that growth rate over the remainder of the year. For purposes of monetary targeting between now and the July 9 FOMC meeting, however, the Committee may wish to target a somewhat slower money growth of 7 percent for the two months of May and June, given the relatively moderate growth that is apparently in train for May. As noted in paragraph 9, such a growth rate is not likely to involve any appreciable change in the funds rate from its recent trading range of 10½ to 11½ percent. The federal funds rate range suggested for alternative A is 10 to 14 percent. The suggested lower limit is a bit lower than that currently in place to provide for some operational flexibility. The proposed upper limit has been lowered to 14 percent on the thought that the Committee might wish to limit fluctuations on the upside, given the recent shortfall in money growth and the apparent weakness in the economy.

(12) Looking beyond the current quarter, some upward pressure on interest rates might develop. The recent weakness in M-1A has left it well short of what might have been expected on the basis of historical relationships among money, income, and interest rates. Thus, although nominal GNP is projected to rise at only a 5½ percent annual rate in the second half of the year, our econometric models would suggest that, at current interest rates, money would tend to grow much more rapidly than that, and probably somewhat in excess of the 7½ percent alternative A path, as the public attempts to restore recently depleted cash balances. This would generate upward rate pressures at a time when income velocity of M-1A

would be declining, a reversal of the normal situation.[1/] If, however, the recent evident weakness in M-1A should prove largely to represent a lasting shift in the public's liquidity preferences, then upward rate pressures might be minimal, or indeed there could be some further downward drift in rates.

(13) The specifications for alternative A call for a considerable pick-up in growth of M-2 for the May-June period, to about a 7¾ percent annual rate. The implied rate of growth for the nontransactions component of this aggregate period--at around an 8 percent rate--is considerably higher than has occurred recently. A return to MMMF growth after the decline associated with the March 14 actions appears already to have begun, and with market rates far below their recent peaks, growth of small time and savings deposits, especially the 2½ year variable ceiling certificates, is expected to pick up.

(14) With the federal funds rate essentially unchanged in the near term, as contemplated under alternative A, other market interest rates probably would hold near current levels or edge upward a bit, especially if and as monetary growth strengthened perceptibly. A limited back-up in market rates, however, is unlikely to halt the downtrend of bank loan and mortgage rates, rates that are still high relative to competitive instruments. Business credit demands in the period ahead may still fall relatively heavily on the corporate bond markets, as firms continue efforts to restructure their balance sheets at what appear to be relatively attractive long-term yields. But even so loan growth at banks could pick up, particularly if recent loan weakness makes banks a bit more sanguine about their ability to remain within loan restraint guidelines.

1/ Of course, at this point it seems likely that the opposite, and also unusual, pattern will prevail in the second quarter--a sharp rise in velocity and a substantial decline of interest rates.

(15) To achieve the growth in aggregates for the May-June period specified under alternative A, total reserves would have to expand at about a 4 percent annual rate from April to June. Nonborrowed reserves would expand at about a 27 percent annual rate, assuming a frictional level of adjustment borrowing from Reserve Banks on the order of $100 to $200 million (and continued special borrowing of about $750 million).

(16) Alternative B contemplates a more rapid growth in the monetary aggregates than alternative A over the short run--for example, an 8½ percent annual rate of growth in M-1A over the May-June period--in the process of reaching the Committee's longer-run path by September (rather than by December as in alternative A). Such an approach involves a greater likelihood that interest rates, particularly short-term rates, will decline further over the weeks ahead. The proposed federal funds rate range for this alternative is 9 to 14 percent.

(17) A decline of the funds rate into the 9 to 10½ percent range would probably lead to a 3-month bill rate in the 7½ to 8 percent range. Bond yields could drop further, although such a decline would be limited if growth in the monetary aggregates began to pick up substantially. Inflows to thrift institutions would probably strengthen as they benefit from full ceiling rate differentials on both the 6-month money market certificate and the higher-yielding 2½ year certificate. This would tend to make thrifts more eager to lend and encourage further declines in rates on new mortgage loans. In foreign exchange markets, the dollar would probably weaken, as short rates fell further relative to foreign interest rates.

(18) To attain the aggregates of alternative B over the May-June period, total reserves would have to increase at a 5 percent annual rate. With borrowing at frictional levels, as in alternative A, nonborrowed reserves would increase at a 28 percent rate. For both alternatives A and B, it should be pointed out that if growth of money stock deposits and related required reserves over the weeks immediately ahead runs below target, attainment of the nonborrowed reserve path in the short-run would involve adding to banks' excess reserves (since there are practically no borrowings to be paid off). This would generate downward pressure on interest rates, of course, and possibly very substantial downward pressures, particularly on the funds rate, if banks are not very willing to hold excess reserves at relatively high interest rate levels. Thus, the lower limits of the funds rate ranges could rather promptly become the operative guides for open market operations.

Directive language

(19) Given below are suggested operational paragraphs for the directive consistent with either of the short-run policy alternatives discussed earlier. The proposed directive contains only qualitative language for the objectives for monetary aggregates over the months ahead. The specific numerical guidelines decided on by the Committee for the aggregates seem likely to involve relatively rapid growth to compensate to some degree for the recent large shortfalls. It was felt that such numerical specifications might be omitted from the directive and included only in the policy record, where they would be fully explained and less subject to misunderstanding.

In the short run, the Committee seeks expansion of reserve aggregates consistent with growth ~~over-the-first-half-of-1980-at-an annual-rate-of-4½-percent-for-M-1A-and-5-percent-for-M-1B,-or-somewhat-less~~ OF M-1A, M-1B, AND M-2 OVER A PERIOD OF MONTHS AT RATES THAT WOULD PROMOTE ACHIEVEMENT OF THE COMMITTEE'S LONGER-RUN OBJECTIVES FOR MONETARY GROWTH, provided that in the period before the next regular meeting the weekly average federal funds rate remains within a range of ~~13-to-19~~ _____ TO _____ percent. ~~The-Committee-believes that,-to-be-consistent-with-this-short-run-policy,-M-2-should-grow at-an-annual-rate-of-about-6¼-percent-over-the-first-half-and-that bank-credit-should-grow-in-the-months-ahead-at-a-pace-compatible with-growth-over-the-year-as-a-whole-within-the-range-agreed-upon.~~

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

Comparison of Actual Level of Reserves to Their Paths
(Millions of dollars, not seasonally adjusted)

	April 30 to May 21 (Inclusive)1/
Total Reserves	
Original path	45,131
Adjustments	+100 2/
Adjusted path	45,231
Actual	44,377
Deviation of actual from adjusted path	-854
Excess Reserves	
Original path	250
Adjustments	0
Adjusted path	250
Actual	224
Deviation of actual from adjusted path	-26
Required Reserves	
Original path	44,881
Implied adjustments	+100
Implied required reserves path	44,981
Actual	44,153
Deviation of actual from implied path	-828
Nonborrowed Reserves	
Original path	43,756
Adjustments	-51 3/
Adjusted path	43,705
Actual	43,705
Deviation of actual from adjusted path	0
Member Bank Borrowings	
Original path	1,375
Adjustments	+151
Adjusted path	1,526
Actual	672
Deviation of actual from adjusted path	-854

1/ Week of May 21 is estimated and assumes the following: excess reserves of \$385 million, zero borrowing and nonborrowed reserves of \$44,287 million.

2/ Reflects upward adjustment in the total reserves path in view of lower than expected growth of nonmember M-1A deposits and higher than expected growth of non-M2 deposits absorbing reserves.

3/ Net adjustment, reflecting the \$100 million upward adjustment to the total reserve path for multiplier changes, a \$251 million downward adjustment in nonborrowed reserves to reflect stronger than expected demand for borrowing in the first week of the period, and a \$100 million upward adjustment in light of the weakness in actual total reserves.

TABLE 1
SELECTED INTEREST RATES
(Percent)

STRICTLY CONFIDENTIAL (FR)
CLASS II - FOMC
MAY 16, 1980

	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		Municipal Bond Buyer	Home Mortgages		
		Market		Auction										Primary Conv.	Secondary Market	
		3-mo	1-yr	6-mo	3-mo	3-mo		3-yr	10-yr	30-yr	New Issue	Recently Offered			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	17.61	20.00	14.29	13.33	12.73	14.22	14.12	9.44	16.35	15.93	14.17
Low	10.85	8.52	8.75	8.78	9.81	9.41	15.25	9.45	10.15	10.17	11.35	11.42	7.11	12.85	12.70	11.03
1979--Apr.	10.01	9.46	9.28	9.50	10.06	9.85	11.75	9.43	9.18	9.09	9.70	9.74	6.29	10.50	10.59	9.78
May	10.24	9.61	9.27	9.53	10.16	9.95	11.75	9.42	9.25	9.19	9.83	9.84	6.25	10.69	10.84	9.89
June	10.29	9.06	8.81	9.06	9.95	9.76	11.65	8.95	8.91	8.92	9.50	9.50	6.13	11.04	10.77	9.75
July	10.47	9.24	8.87	9.19	10.11	9.87	11.54	8.94	8.95	8.93	9.58	9.53	6.13	11.09	10.66	9.77
Aug.	10.94	9.52	9.16	9.45	10.71	10.43	11.91	9.14	9.03	8.98	9.48	9.49	6.20	11.09	10.67	9.90
Sept.	11.43	10.26	9.89	10.13	11.89	11.63	12.90	9.69	9.33	9.17	9.93	9.87	6.52	11.30	11.09	10.31
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	11.64	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	12.90p	12.91	8.63	16.33	14.61	12.64
1980--Mar. 5	16.17	14.62	13.69	14.79	15.97	15.34	16.84	14.03	12.87	12.32	13.98	13.94	8.94	14.00	15.26	13.58
12	16.45	15.51	13.98	14.96	17.60	17.01	17.68	14.07	12.73	12.38	13.95	13.72	9.08	15.40	--	13.57
19	16.24	14.80	13.83	14.95	18.04	17.10	18.46	13.78	12.47	12.11	13.85	13.80	9.20	15.70	15.73	13.84
26	17.78	15.61	14.39	15.70	17.63	16.81	19.00	14.29	12.93	12.48	14.22	14.12	9.44	16.03	--	14.17
Apr. 2	19.39	14.80	14.01	14.80	17.97	17.22	19.50	13.84	12.73	12.36	13.98	13.93	9.44	16.35	15.93	13.78
9	19.04	14.54	13.39	14.23	17.88	17.61	20.00	13.11	12.23	11.95	13.28	13.30	9.07	16.35	--	13.40
16	18.35	13.89	12.50	13.55	17.13	16.88	20.00	12.31	11.59	11.43	12.87	12.69	7.89	16.35	15.18	12.96
23	17.56	12.78	11.18	11.89	15.56	15.33	19.57	11.36	10.96	10.98	12.42	12.64	8.11	16.25	--	12.23
30	15.12	11.17	10.34	10.79	13.59	13.03	19.50	10.87	10.79	10.99	12.10	12.05	7.96	15.90	14.03	11.98
May 7	12.96	9.67	9.32	9.50	11.30	11.07	18.39	9.85	10.15	10.39	11.38	11.55	7.11	14.68	--	11.03
14	10.85	8.52	8.75	8.78	9.81	9.41	17.50	9.45	10.21	10.35	11.43p	11.65p	7.44	n.a.	13.16	11.26
21																
28																
Daily--May 8	10.57	8.75	8.82	--	9.89	9.23	17.50	9.50	10.18	10.34	--	--	--	--	--	--
15	11.20p	8.61	8.73	--	9.46	9.07	17.50	9.46p	10.30p	10.43p	--	--	--	--	--	--

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 auctions 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. Column 15 gives FNMA auction data for Monday preceding the end of the statement week. Column 16 is a 1-day quote for Monday preceding 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. 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.

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

	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. I	-3,750	48	426	134	93	700	-170	-229	--	--	-399	-882 7/	680
II	465	42	640	--	--	682	110	258	2	--	371	-1,795 8/	2,542
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 9/	-3,801
1980--Qtr. I	-2,945	292	355	107	81	836	--	--	--	--	--	-2,114	362
1979--Nov.	2,297	--	--	--	--	--	--	--	--	--	--	2,297	2,078
Dec.	2,086	90	398	81	51	620	--	--	--	--	--	2,701	-3,380
1980--Jan.	-2,512	--	--	--	--	--	--	--	--	--	--	-2,512	166
Feb.	-1,803	--	--	--	--	--	--	--	--	--	--	-1,803	900
Mar.	1,370	292	355	107	81	836	--	--	--	--	--	2,201	-705
Apr.	2,321	109	373	62	64	607	217	398	29	24	668	3,594	-1,012
1980--Mar. 5	--	--	--	--	--	--	--	--	--	--	--	--	1,141
12	194	--	--	--	--	--	--	--	--	--	--	190	-3,258
19	959	42	255	107	81	486	--	--	--	--	--	1,445	-14
26	106	250	100	--	--	350	--	--	--	--	--	456	5,566
Apr. 2	110	--	--	--	--	--	--	--	--	--	--	110	-4,138
9	540	--	--	--	--	--	217	398	29	24	668	1,208	-1,782
16	645	109	373	62	64	607	--	--	--	--	--	1,249	3,202
23	1,244	--	--	--	--	--	--	--	--	--	--	1,244	1,601
30	-108	--	--	--	--	--	--	--	--	--	--	-108	-927
May 7	--	--	--	--	--	--	--	--	--	--	--	--	-548
14	406	155	267	44	155	621	--	--	--	--	--	1,027	3,150
21 p		--	138	89	61	288							
28													
LEVEL--May 14 (in billions)	49.8	17.7	30.1	12.1	13.3	73.1	2.1	4.8	1.3	0.7	8.9	131.8	-0.5

1/ Change from end-of-period to end-of-period.
2/ Outright transactions in market and with foreign accounts, and redemption (-) 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 net purchases of securities, also reflects changes in System holdings of bankers' acceptances, direct Treasury borrowings from the System and redemptions (-) of agency and Treasury coupon issues.
6/ Includes changes in both RPs (+) and matched sale-purchase transactions (-).
7/ The Treasury sold $2,600 million of special certificates to the Federal Reserve on March 31, 1979 and redeemed the last of them on April 4, 1979.
8/ $640 million of 2-year notes were exchanged for a like amount of cash management bills on April 3, 1979. On April 9, 1979, the bills were exchanged for new 2-year notes.
9/ 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.

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

STRICTLY CONFIDENTIAL (FR)
CLASS II - FOMC
MAY 16, 1980

	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
1979--High	8,091	902	283	404	726	2,960	207
Low	138	-2,569	0	53	-122	628	93
1980--High	*8,838	*1,937	80	157	600p	3,439p	177p
Low	1,972	-1,482	0	32	-228p	732p	61p
1979--Apr.	4,326	-365	57	191	177	918	134
May	3,987	166	31	186	141	1,765	174
June	6,930	-277	70	277	221	1,418	192
July	3,161	-658	66	280	211	1,171	182
Aug.	996	-179	32	299	222	1,085	179
Sept.	2,392	-1,608	142	52	191	1,340	174
Oct.	2,289	-1,576	75	152	264	2,023	155
Nov.	4,427	-514	17	106	244	1,911	140
Dec.	5,760	-1,901	34	164	398p	1,473p	81p
1980--Jan.	4,380	-944	42	117	350p	1,240p	74p
Feb.	2,937	-212	3	87	199p	1,654p	95p
Mar.	2,964	-659	37	59	258p	2,824p	151p
Apr.	*7,838	*167	48	89	278p	2,756p	157p
1980--Mar. 5	2,697	-290	63	32	510p	2,508p	114p
12	3,744	-983	50	35	139p	3,439p	139p
19	1,972	-1,131	31	122	223p	3,001p	155p
26	2,510	-392	5	45	132p	2,660p	177p
Apr. 2	4,833	38	75	38	398p	2,262p	165p
9	7,731	233	0	39	199p	2,386p	159p
16	8,838	-99	0	112	239p	2,276p	140p
23	*7,440	*89	125	167	423p	2,555p	159p
30	*7,920	*554	25p	37p	216p	2,664p	172p
May 7	*4,742	*910	0	71	301p	1,329p	155p
14	*3,936	*1,937	300p	140p	-9p	1,021p	47p
21							
28							

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 dealer holdings available for sale over the near-term. Underwriting syndicate positions consist of issues still 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.

* Strictly confidential.
** Monthly averages for excess reserves and borrowings are weighted averages of statement week figures.