333.-6-2
Final Minutes
4/22/24

MINUTES OF THE MEETING OF THE OPEN MARKET INVESTMENT COMMITTEE FOR THE FEDERAL RESERVE SYSTEM, HELD AT THE FEDERAL RESERVE BOARD IN WASHINGTON, APRIL 22, 1924.

PRESENT:

Governors Norris and McDougal
Deputy Governor Bullen, representing Governor Harding
Deputy Governor Case, representing Governor Strong
Mr. D. C. Wills, Chairman, Federal Reserve Bank of Cleveland, representing Governor Fancher
Mr. Matteson, Secretary of the Committee

There were also present:

Honorable D. R. Crissinger, Governor of the Federal Reserve Board
Dr. A. C. Miller of the Federal Reserve Board
Honorable G. D. Winston, Under Secretary of the Treasury
Mr. Walter W. Stewart, Director, Bureau of Research and Statistics, Federal Reserve Board
Mr. W. R. Burgess, Assistant Federal Reserve Agent, Federal Reserve Bank of New York

The meeting was called to order at 11 a. m. and in the absence of Governor Strong, Chairman, Mr. Case was, on motion, made Chairman of the meeting.

The report of the Secretary reviewing the activities of the Committee since the last meeting, with accompanying statements, was thereupon submitted, (copy herewith).

Limit of Purchases for Special Investment Account

The Chairman stated that in accordance with authorization at the meeting on February 25 purchases for the special investment account had almost reached the $200,000,000 mark and asked the views of the Committee and others present with regard to further purchases. A general discussion followed. Whereupon on motion duly made and seconded, it was

VOTED that additional purchases for the special investment account of the Federal Reserve system be authorized up to an amount not exceeding in the aggregate $250,000,000.

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Mr. Winston stated that the Treasury Department, while interposing no objection to the above plan, felt that it would assist the Treasury in its program of financing if the Committee should place a definite limit on the amount to be acquired for the System Special Account. After some discussion it was agreed that this question should be placed on the calendar for the next meeting.

Policy Regarding Price Limits

The question of the price limits on purchases of Government securities was discussed and it was the consensus of opinion that, due to the rapid changes in the Government security market, purchases could be made to better advantage if the Committee was allowed more discretion as to prices. Whereupon, on motion duly made and seconded, it was

VOTED that up to the $250,000,000 limit the Committee be authorized to make purchases at its discretion at current market prices.

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Change in Bill Rates

The Chairman read a memorandum (copy attached) from Mr. E. R. Kenzel of the New York bank, pointing out that authorized buying rates for bills were out of line with current market quotations and suggesting a modification in buying rates. After discussion, it was, on motion

VOTED that the Committee authorize a reduction in the minimum buying rates of the Federal Reserve Banks from 4 1/8 per cent. to 4 per cent. for long bills, and from 4 per cent. to 3 7/8 per cent. and 3 3/4 per cent. on short bills, the short rates not to be put into effect immediately but in the discretion of the Federal Reserve Banks.

Policy Regarding Requests for Special Investments

The Chairman read a telegram from the Federal Reserve Bank of Dallas stating that in view of large maturities they were in need of additional earning assets. This was carefully considered and it was the sense of the meeting that under existing conditions there was no special action which the Committee could take at this time, as the situation in the Dallas district was no different than that existing in many of the other districts.

A report on Foreign Accounts, with accompanying statement submitted by the New York bank, was presented to the Committee.

Effect of Treasury Operations On Money Market

Mr. Winston brought up for discussion the problems raised by Treasury operations on March 15, 1924, and their effect on the money market. Various means were discussed for avoiding disturbance to the money market as a result of Treasury operations at times when discounts at reserve banks are small and the suggestion was advanced that Federal reserve banks might at such times temporarily sell short Governments to member banks to an amount that would equalize their excess reserves during the few days pending the collection of tax checks. No definite decision, however, was reached. In connection with temporary accommodations to the Treasury Mr. Winston stated that, in line with a suggestion made by the New York bank, the Treasury favored placing the rate on special certificates issued to cover the Treasury overdrafts at one point under the rate on Treasury certificates or notes concurrently issued.

On motion the meeting adjourned at 4:00 p. m.

(Signed) W. B. MATTESON

Secretary

MEMORANDUM BY E. R. KENZEL,
DEPUTY GOVERNOR, FEDERAL RESERVE BANK OF NEW YORK
RE OPEN MARKET RATES FOR BILLS PURCHASED

The minimum rate of 4 1/8% established for purchase by Federal reserve banks of 90-day bills has been in effect for about one year. It was advanced from 4% in April, 1923. At that time and since, until within about one month, it was also the prevailing rate for prime unindorsed bills available to investors in the market.

While these rates seem high as compared with a 4 1/2% rediscount rate for promissory notes, the rate was sustained in the market by reason of the substantial volume of short Treasury paper available at or slightly under 4 1/8%. Figuring the tax exemption on short Treasury paper, the yield on them was equal to or higher than the market rate for bills. Under these circumstances the Federal reserve banks naturally acquired a substantial proportion of the total volume of bills current from time to time.

With the changed money conditions since March 15, 1924, the floating supply of Treasury paper has been materially reduced, with the result that the demand by banks and other investors for bills caused the rate for 90-day unindorsed bills to recede to 3 7/8%. The rate has since recovered to 4% and it seems improbable that it will advance further in the near future; the contrary may be the fact.

Since January 1, 1924, the bill holdings of Federal reserve banks have declined from $347,000,000 to $176,000,000 on April 16. Of the latter amount $33,000,000 was held by New York under sales contract. During the past month the market has been entirely out of the Federal Reserve Bank of New York as to sales contracts on two occasions.

The volume of bills outstanding at the present time is probably a little less than it was at the first of the year, when cotton shipping was heavy, but is not importantly reduced. The discount market now holds about $67,000,000 of unsold bills, an increase of $6,000,000 over a week ago; their sales during last week were $25,000,000 as compared with $40,000,000 the week previous.

The distribution during the past several weeks has been principally through out-of-town banks, savings banks and foreign banks, the latter have been the most important buyers in the past few days, and there are inquiries for substantially additional amounts for account of foreign clients to be filled during the balance of this month. While this represents a fairly satisfactory condition in the market, there nevertheless is a lack of temporary employment of idle funds by the large city banks in the bill market because of the certain loss that would result from their resale to Federal reserve banks of bills bought at 3 7/8 and 4% at the present minimum rates maintained by Federal reserve banks. A spread of 1/8 to 1/4% has always had the effect of deterring the local employment of idle funds in the bill market.

In view of this condition and the prospective further ease in money, I would recommend a reduction in the minimum rates of Federal reserve banks at this time to 4% for three months' bills and a corresponding reduction of from 1/8 to 1/4% for short bills, the short rates, however, not to be put into effect immediately but in the discretion of the Federal reserve banks as conditions might arise in which the lower short rate would best serve their operations in the market, either as a stimulant to distribution or for the purpose of acquiring reasonable volume of short paper.

The sales contract rate, I believe, might well be left at 4% at the present time but with liberty, without formal action, to reduce it to rates current for the purchase of short paper in the discretion of the banks.

April 18, 1924.