

Federal Open Market Committee

Conference Call

October 20, 1987

PRESENT: Mr. Greenspan, Chairman
Mr. Corrigan, Vice Chairman
Mr. Angell
Mr. Boehne
Mr. Boykin
Mr. Heller
Mr. Johnson
Mr. Keehn
Mr. Kelley
Ms. Seger
Mr. Stern

Messrs. Black, Forrestal, Hoskins, and Parry,
Alternate Members of the Federal Open Market
Committee

Messrs. Melzer, and Morris, President of the
Federal Reserve Banks of St. Louis, and
Boston, respectively

Mr. Kohn, Secretary and Staff Adviser
Mr. Bernard, Assistant Secretary
Mr. Bradfield, General Counsel
Mr. Truman, Economist (International)

Mr. Prell, Associate Economist

Mr. Sternlight, Manager for Domestic Operations,
System Open Market Account
Mr. Cross, Manager for Foreign Operations,
System Open Market Account

Mr. Coyne, Assistant to the Board of Governors

Mr. Czerwinski, First Vice President, Federal
Reserve Bank of Kansas City

Transcript of Federal Open Market Committee Conference Call
of October 20, 1987

[Secretary's note: There were telephone conferences each workday from October 19, 1987, through October 30, 1987, but the conference call of October 20 was the only one for which a transcript was prepared. Further, there is no transcript record of the beginning of this call.]

MR. ANGELL. [Should we retain] the \$600 million [borrowing assumption] for the two-week period until the next FOMC meeting, or would we want some leeway here for a somewhat lower possibility, given the day-to-day watch?

CHAIRMAN GREENSPAN. I think we're playing it on a day-to-day basis. And in a crisis environment, I suspect we shouldn't really focus on longer-term policy questions until we get beyond this immediate period of chaos.

MR. ANGELL. But I presume that there's at least an acceptance by the members of the Committee that the \$600 million on borrowings is not necessarily in place in the coming two weeks as well as in the reserve maintenance period now ending.

CHAIRMAN GREENSPAN. Yes. Does anybody disagree with Governor Angell's comment on this?

MR. STERNLIGHT. Mr. Chairman, I'd like to think that there's a particular element of flexibility here because I suspect there may be some greater reluctance by banks to borrow in this kind of--

MR. JOHNSON. I agree with Peter on that. I think that one of the problems we may run into, and we've already seen it, is a strong unwillingness to borrow. And trying to force the borrowing target in that environment could result in an unbelievable funds rate. So, I agree with Peter; he needs the flexibility, at least for a while, to manage that situation. We just don't know what we're up against, at least for a while, in this kind of situation.

MR. HELLER. I agree with what both Governors Angell and Johnson have said and I think we also need to watch the fed funds rate in that environment. As long as we are where we are, I think we are in good shape; given the fact that Treasury bill rates have dropped so much, we really have some room in that arena. So, I'm agreeing with our press statement this morning: That's what we said we would want to do, so let's do it.

CHAIRMAN GREENSPAN. I want to ask Sam Cross if he will explain to us why the dollar is as strong as it is in this environment.

MR. CROSS. That's a very good question and I wish I had a good answer for it. We've been asking ourselves and others that, without any really very convincing response. Certainly, there has been some liquidating of things abroad as people have brought funds back into the United States either for meeting their own liquidity needs or for other purposes. Also, with all the world tending to be under the same, or at least a downward, pressure in fairly substantial

under the same, or at least a downward, pressure in fairly substantial amount, that may be having an influence. Another factor in the past 24 hours is that the climate has looked much better for the cooperative activities among us, the Germans, and the Japanese. That's reflected in the statements that followed Secretary Baker's meeting with Mr. Soltenberg, and the Japanese comments this morning add to that. Also, the statement of the Federal Reserve this morning was favorably noted. I'm not sure that adds up to a very convincing answer.

CHAIRMAN GREENSPAN. In part, I think, the issue obviously is that potentially defaulting investors in dollar securities were drawing funds out of other currencies. That presupposes that the declines in the other markets were not doing the reverse, which I assume is where you come out.

MR. CROSS. Yes. Perhaps reflecting what Peter is talking about, in our bond market there has been some tendency to move into Treasury bonds as kind of an attractive place at this point, given the chaos in so many of the equity markets around the world. But I think there certainly has been liquidation of overseas positions. And we've heard reports, certainly from our colleagues in Canada and from one or two other places, that they have seen investment firms and others liquidating positions, for example in Canadian dollars, and bringing them back.

VICE CHAIRMAN CORRIGAN. Mr. Chairman, Jerry Corrigan here. Can I just make two quick comments? [Unintelligible] you may have covered this before I came in the room, but I would want to say that just because we have not seen hard evidence of any sizable or troubling losses, obviously that doesn't mean that they may not be there. It's quite clear that a lot of people are not entirely sure where they are. It's also worth keeping in mind the margin calls for the funds. The New York Stock Exchange for the big clients may start to [unintelligible]. I'm not sure what was being said before about monetary policy over the near term, but the second point I would make is that certainly, we've got to have maximum flexibility, at least for the days ahead. But I'm not willing to prejudge at all the question of where borrowing should or should not be in a more permanent fashion at this point.

CHAIRMAN GREENSPAN. I sense that that is the consensus as a group.

VICE CHAIRMAN CORRIGAN. I'm not so sure of that.

CHAIRMAN GREENSPAN. I think we stated it that way, and since I got very little response, I assume that was acquiescence.

MR. JOHNSON. I agree with what Jerry said. When you really don't know where you're going to be, you might as well assume the same situation until you reassess at some point. I think that's where we are.

CHAIRMAN GREENSPAN. Any other issues before the group this afternoon? Gentlemen, I think it would be useful to do more of these [conference calls] rather than less during this period to make certain that we're all feeding whatever information and insights we have into

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the system. So, if you don't mind, I'd like to schedule another one of these for tomorrow at some point, hopefully after the close, if that's adequate or appropriate for everybody.

END OF SESSION