

Federal Open Market Committee

Conference Call

October 18, 1989

PRESENT: Mr. Greenspan, Chairman
Mr. Corrigan, Vice Chairman
Mr. Angell
Mr. Guffey
Mr. Johnson
Mr. Keehn
Mr. LaWare
Mr. Melzer
Mr. Syron

Messrs. Boehne, Boykin, Hoskins, and Stern,
Alternate Members of the Federal Open Market
Committee

Messrs. Forrestal, and Parry, Presidents of the
Federal Reserve Banks of Atlanta, and San
Francisco, respectively

Mr. Kohn, Secretary and Economist
Mr. Bernard, Assistant Secretary
Mr. Gillum, Deputy Assistant Secretary
Mr. Mattingly, General Counsel
Mr. Prell, Economist
Mr. Truman, Economist

Messrs. Lindsey, Promisel, Siegman, and Simpson,
Associate Economists

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, Board of
Governors
Mr. Keleher, Assistant to Governor Johnson,
Office of Board Members, Board of Governors
Ms. Low, Open Market Secretariat Assistant,
Division of Monetary Affairs, Board of
Governors

Mr. Monhollon, First Vice President, Federal
Reserve Bank of Richmond

Mr. J. Davis, Senior Vice President, Federal
Reserve Bank of Cleveland

Transcript of Federal Open Market Committee Conference Call of
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CHAIRMAN GREENSPAN. [Bob Parry, would you bring us] up to date on the events of the last 13 hours?

MR. PARRY [from Los Angeles]. Sure. At the present time we're still on night hours; [the earthquake] has knocked out power throughout the city. We will be open for business in critical areas today. We've told employees in some areas--personnel, research, auditing, etc. that it is not [necessary] for them to come in. But in other areas, we've asked some to come in where possible. The problem in particular is that getting from the East Bay to the City is very difficult because the bridge is down and it means that people either have to come by one of the more remote bridges or by a ferry that was set up on a temporary basis.

CHAIRMAN GREENSPAN. Is the San Mateo Bridge still down?

MR. PARRY. No, the San Mateo Bridge is up so that [unintelligible] are functioning well. At the present time we haven't had any problems with staff. All essential employees have been contacted and asked to come in when possible. We also wired all Districts that we are open for the day; you should have received that wire. Getting to some of the services, everything seems to be okay in securities. Bank of America has a problem and will be moving their securities operation, at least part of it, to our facility. [Unintelligible] of California we haven't been able to [unintelligible], and apparently there are many small banks that aren't going to open today. There are a lot who could have their businesses open and we're just not aware yet of the problems of smaller institutions. In the currency area we're receiving and shipping, but we're not going to be doing any processing. Our decision at this point is not to do any processing until we get on regular power. We just fear that we wouldn't [unintelligible]. There are no ACH tapes in or out; electronic ACH is fine. Very little in checks came in last night, but we do expect a heavy volume tonight. The real [problem] in everything is transportation. As an example, there are very limited flights at the present time. In San Francisco there are some commercial cargo flights but at the present time [the airport] is not open to passenger flights. The other airports are either under limited or no use at the present time, but are expected to come up shortly. The wire as we speak is--if it isn't up now it will be up momentarily. As far as the [unintelligible] of LA, as it turns out we recovered the data bases in LA and we were ready to take over [from there], but it wasn't necessary because we think all the processing can be handled out of San Francisco at this point. Basically, it's a little early to be too optimistic but as far as our assessment of the situation at the present time, things seem to be going as smoothly as they possibly could. That's it, Mr. Chairman.

CHAIRMAN GREENSPAN. Any questions for Bob? Bob, are you planning to drive up to San Francisco today?

MR. PARRY. Well, I'm either going to drive or there's a possibility that I can get a flight from Burbank to Oakland and then find a way to get over to the city. We'll get there probably by noon one way or the other.

CHAIRMAN GREENSPAN. Are the roads open?

MR. PARRY. Not all. As a matter of fact, one of the critical roads leading from the Oakland Airport is the one that collapsed and killed 200 and some people.

CHAIRMAN GREENSPAN. Yes. I was referring to roads coming up from the south.

MR. PARRY. I don't think there's much of a problem. [Routes] 101 and 5 are not; it's just [route] 880, which is a big road that comes up from [unintelligible] actually. But I think anyone could find a way to get to San Francisco from LA or from the north.

CHAIRMAN GREENSPAN. I assume that it is going to be weeks or months before everything gets back to normal.

MR. PARRY. I think that's true, although the damage on the Bay Bridge is really quite small; it was only one small section at the top deck. And they anticipate that they might be able to get traffic back on the bridge in a couple of days.

CHAIRMAN GREENSPAN. Well, that'll make a huge difference.

MR. ANGELL. And how about BART?

MR. PARRY. The last word I had was that BART was running everywhere except under the Bay, but they expect that will be up and that will be most helpful.

CHAIRMAN GREENSPAN. That will make a big difference.

MR. PARRY. Yes.

CHAIRMAN GREENSPAN. Any further questions for Bob?

MR. STERNLIGHT. This is not a question--Peter Sternlight here. The market has lots of questions about how certain transactions stand with the California institutions and we're trying to pass along as best we can what we hear about the situation. But there is a lot of uncertainty. Even though we know the Reserve Bank is operating, there are questions that market participants in other areas have about counterparties in the Twelfth District or California.

MR. PARRY. Well, I'm not aware of problems at this point. I think we would have received indications of problems by this time, but we'll recheck. If you hear any, Peter, let us know.

MR. STERNLIGHT. It's just that we're hearing questions on this.

MR. PARRY. Okay. Well, we'll [unintelligible].

CHAIRMAN GREENSPAN. If there are no further questions for Bob, Sam Cross, could you bring us up [to date on developments] overnight?

MR. CROSS. Well, Mr. Chairman, the exchange market continues to be nervous and jumpy and continues to be influenced by what's happening or expected to happen to the general economy. The markets are thin and many customers are standing on the sidelines. [The direction of any] quick movement that we see seems to be determined more by the traders and the other big players than the customers. Yesterday at this time I mentioned that right after the trade figures [were released] the dollar declined by about 1 percent, partly in anticipation of what they were expecting the stock markets to do. In the late morning and early afternoon and after the recovery of the Dow from those early declines, the dollar also recovered and made up those earlier losses. So, by the end of the day we were back to the levels prevailing before the trade deficit was announced. The recovery was led by the dollar/yen; throughout yesterday's [trading session] there continued to be buying pressures from the Japanese in the yen. Overnight--in Tokyo's afternoon--the dollar did ease back somewhat. There was some profit-taking and also the question of the earthquake, which raised a lot of uncertainty and questions about what was going to happen to the stock market this morning, and also raised questions that Peter mentioned about the payments system and the ability to settle. So, the dollar has eased back again in light of that and is now trading at about 140-1/2 and 1.84-1/2. The announcement of Mr. Honecker's resignation has had no effect so far, and the housing starts [data] seem to have had no effect. Thank you.

CHAIRMAN GREENSPAN. Peter Sternlight, would you bring us up to date?

MR. STERNLIGHT. Yes, Mr. Chairman. I would say nervousness certainly continues in the domestic stock market. There was a moderate buy [unintelligible] on balance yesterday, although at one point at mid-morning there was a pretty sharp sell-off [and] the Dow was off about 60 points for a few minutes. It came back and ended up the day about 18-1/2 points or about 1/2 percent lower; that would be true of the broader S&P 500 as well. Just as we're speaking now I see the opening on stocks for this morning is a further modest decline--about 16 or 17 points on the Dow. Returning to yesterday, Treasury bonds ended up modestly lower on the day. They had been up at first; they were knocked back by the bad trade number; they recovered from that, and then went off moderately in the afternoon--largely, we thought because of some supply prospects. The TVA refunding issue was enlarged by \$1 billion and the market senses the approaching big Revcorp issue that I think will be announced formally today. Bonds are up a little this morning on the housing starts decline. The high-grade corporates came off a little yesterday also on the TVA and other supply prospects. The junk market was mixed, with some of the better quality names slightly higher and some of the weaker ones, or ones with some particular news affecting them, coming off a little more on the day. Treasury bills were not much changed yesterday; they are down a few basis points this morning. Fed funds yesterday were around 8-5/8 to 8-11/16 percent. The effective rate was 8.70 percent; that gave us an 8.85 percent average so far this reserve period, which has just one more day to go. We're starting out with funds trading at 8-3/4 percent this morning.

As to the Fed's operations, initially yesterday we were well positioned to stay out of the market: Reserves looked to be just about on path after allowing for high borrowing earlier this reserve

and funds, as I mentioned, were 8-5/8 to 8-11/16 percent. Just as we were shaping up our final plans for the day, the stock market was experiencing that selling spasm that I mentioned and we were also hearing a couple of things on the reserve front suggesting a little less availability. Moreover, the market was pretty much looking for us to come in again with something on the day, so we finally decided on discretion over valor and did pass through \$1-1/2 billion of customer repurchase agreements. The market remains somewhat mixed in its expectations about policy. I'd say most are looking for us to come out of this period with funds centering around 8-3/4 percent, but I think there are certainly more than a few who would look for 8-1/2 percent. Others are not yet convinced that we have deviated more than temporarily from 9 percent. But if the funds rate were to return to the 9 percent area, I think there would be some sense of disappointment in the market. I do not have that feeling about centering on 8-3/4 percent, if that's what emerges. As to what we might face today, I don't really know. I think there will be more than usual uncertainty because of the earthquake situation. We probably won't have our usual confidence, even our low confidence, in the numbers. That's all I have, Mr. Chairman.

CHAIRMAN GREENSPAN. Okay. Any questions for either Mr. Cross or Mr. Sternlight?

MR. JOHNSON. I'd like to ask Peter a question. You mentioned that funds opened around 8-3/4 percent. I thought we had regarded our market participation in the last couple of days as somewhat liberal, coming in with customer RPs when funds were really close to 8-1/2 percent. Why do you think that funds have opened up firm? Does it have something to do with the earthquake or what is it?

MR. STERNLIGHT. I don't know at this point. Yesterday when we put in funds, we did that reserve injection when funds were 8-5/8 percent. Funds tended slightly firmer over the course of the day. It may be that there really is [a shortfall]. We thought we were just about on path, but we were hearing--there are always these marginal reserve factors--that the foreign central bank pool was going to be a little bigger than we had thought initially and there's so much that can vary just on the size of the Treasury balance. So, we may have had a reserve shortfall; we may be getting another revision in the path. That was one estimate that we were hearing just about the time our conference call was over yesterday. So we may actually have a bit of a reserve need; I just don't know. But we may not have a good reading on it because of the uncertainty coming out of San Francisco.

MR. JOHNSON. Okay, thank you.

CHAIRMAN GREENSPAN. Any further questions? Si Keehn, is there anything you can add to our body of knowledge this morning?

MR. KEEHN. Not really, Mr. Chairman. Activity in the Chicago markets yesterday was much smaller than on Monday and Tuesday. Operations here yesterday were seen as fairly routine and at this point there are no particular glitches in the system that I'm aware of. But having said that, there certainly is a sense of wariness that continues.

CHAIRMAN GREENSPAN. Jerry Corrigan, are you there?

VICE CHAIRMAN CORRIGAN. I have nothing to add, Alan.

CHAIRMAN GREENSPAN. Okay. I still would think it appropriate to have the Desk ease with the period starting tomorrow if nothing untoward occurs. I think we ought to play it loose today, in any event, and see what occurs. I don't think we need to schedule a meeting for tomorrow morning, but should the markets behave in an unstable way, we ought to be prepared to have another meeting. But if nothing much occurs it probably will not be necessary. Are there any further comments? Does anybody out there want to add to the pot? If not, we may or may not be on [the phone] tomorrow.

END OF SESSION