

Federal Open Market Committee

Conference Call

April 11, 1990

PRESENT: Mr. Greenspan, Chairman  
Mr. Corrigan, Vice Chairman  
Mr. Angell  
Mr. Boehne  
Mr. Boykin  
Mr. Hoskins  
Mr. Johnson  
Mr. Kelley  
Mr. Stern

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

Messrs. Guffey, Melzer, and Syron, Presidents of  
the Federal Reserve Banks of Kansas City,  
St. Louis, and Boston, respectively

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

Messrs. Promisel, Slifman, and Stockton,  
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. Ettin, Deputy Director, Division of Research  
and Statistics, 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. Doyle, First Vice President, Federal Reserve  
Bank of Chicago

Transcript of Federal Open Market Committee Conference Call of  
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CHAIRMAN GREENSPAN. I'm afraid that President Guffey is still at large. However, since the purpose of this meeting is to bring you all up to date on the G-7 meeting I can always speak to Roger by phone later. I'll give him the real deal! What I'd like to do is to review for you as best I can what went on in Paris and why. First of all, what was really quite interesting as we went into it was the increasingly anti-intervention views of our Secretary of the Treasury. It became clear when the Secretary was on his way to Los Angeles to meet with Mr. Hashimoto a week or so ago that he was already beginning to abandon support for very strong intervention, essentially on the grounds--as he in fact indicated to the G-7--that he had come into the process with what he called an open mind but had been observing the phenomenon now for quite a while and had concluded in far stronger language than anyone on this Committee has that "It just doesn't work." [That was his statement, with] no qualifications --nothing. in the meeting indicated that \$40 billion had been spent cumulatively to support the yen, basically to no avail; and Secretary Brady used the \$40 billion against the presumed daily turnover of foreign exchange in the world, which is \$650 billion. He actually used a somewhat higher number but it really became sort of irrelevant.

So, as we moved into the meeting on exchange rate intervention, he was very clearly uninterested in being supportive of the Japanese who came in with a request for support. He was unwilling

The way he put it was that

Now, at this point he was already aware from bilateral meetings that we had had with

The remainder of the G-7 were essentially supportive of a position of no intervention of substantial proportions.

But the Japanese were very vigorously suggesting some strong assertive G-7 intervention. When it became clear to them that that was not going to occur, they backed off a bit and took a fallback position of at least getting sympathetic consideration in a communique. Despite the [suggestion]--softly by some and a bit more astringently by others--that the Japanese move either their discount rate or their market interest rates higher, they had argued all through the earlier discussions that that would be unproductive. They

basically threw out on the table the notion that any type of increase that they might embark upon would have to be very large, if they were to stop the weakness of the yen solely from that side. And they claimed that that would have a significant effect on interest rates throughout the world. That point, I might say, was disputed at some length. Very few people around the table were supportive of the Japanese on that position. At no time and in none of the discussions did anyone raise the issue that the United States should lower its interest rates. We had, I think, full support in that group to stay basically where we were. It became clear, after eliminating interest rates as a tool to affect the exchange rate and having put aside concerted intervention--and I put that aside only in the context of very heavy concerted intervention, not what I would call the mild intervention that on occasion occurs--.

In any event, at this point we were discussing the communique. We had earlier had a position that a communique would not be desirable, but the French who were the hosts--having the G-7 in Paris for the first time under [Pierre Berégovoy]--were very strongly desirous of a communique as indeed, of course, were the Japanese. And the rest of us acquiesced in that. The initial language in the communique on the exchange rate issues was sufficiently ambiguous. As put forth first by it suggested that there was a significant disequilibrium in the markets and that the yen was significantly out of line for purposes of reaching adjustment. It was very odd language, which implied that if the yen was that far out of line and causing that much potential problems in international adjustment, then the next question implicit in that was "Why not intervene to bring it back into line?"

But very quickly the United States and everyone else were on the other side of that argument, and we eventually ended up with language on exchange rates in the communique that went as follows: "The ministers and governors discussed developments in global financial markets, especially the decline of the yen against other currencies and its undesirable consequences for the global adjustment process, and agreed to keep these developments under review. They reaffirmed their commitment to economic policy coordination, including cooperation in exchange markets." The words "under review" were meant to signal that no actions at all were planned--that essentially we were concerned about the yen's weakness but had no intention of doing anything materially about it at this particular time.

Before I go to other aspects of the meeting, let me just continue on about what occurred subsequent to the meeting. We adjourned the meeting late in the day as Messrs. Hashimoto and Mieno had to get back to Japan fairly quickly. They had come out that morning and went back in the early evening. The context of the discussion during all of this was clearly one in which both Hashimoto and Mieno tried to communicate to the rest of us that

Then what appears to have happened is that they went back to Tokyo and proceeded to engage in a variety of actions

They obviously undertook fairly significant intervention against the dollar in favor of the yen in Tokyo. They asked several European central banks to act on their behalf using Bank of Japan funds to intervene against the dollar in favor of the yen in Europe. And I think there were one or two countries, including Switzerland, that did intervene on their own in dollars against the yen. The Swiss incidentally are endeavoring to move into the United Nations, assuming a referendum goes positively, but they also are seeking to obtain a 23rd seat on the [IMF] Board. It's up in the air at this stage.

I think the French went in to be helpful. But the rest of us, as far as I remember, were there strictly only to the extent the Japanese had requested. We intervened in a very small amount

Before I get into other aspects of the G-7, are there any questions or comments, specifically from Sam Cross who was following all of this from various aspects? Sam, are you there?

MR. CROSS. Yes, Mr. Chairman. I might just give a very brief comment on the mark. Actually, the rates have been not much different from the ranges that they were trading in for a couple of weeks or so before the G-7 meeting. If so, they are at about 1.58 yen or a little below and 1.67-1/2 mark. The market did quickly come to the conclusion that the G-7 did not give the Japanese much, but it seems to think that maybe the Japanese did get a little something, having seen this intervention. On two of the past three days there has been intervention and it has been a total of a little over \$700 million for the whole period. [Unintelligible] a fairly substantial number of central banks. The market feels that this is mainly symbolic and has perceived that it is financed almost entirely by the Bank of Japan. Actually, of the \$730 million that has been done since the G-7 meeting, I think about \_\_\_\_\_ has been financed by someone other than the Bank of Japan. That included the amount we did which was a total of \$50 million for our own account and \_\_\_\_\_ for the Bank of Japan. They had very thin markets during this period; it was a pre-holiday kind of period. There is some nervousness in the market about the possibility of intervention. Even though they think [they know] what happened, they still don't dismiss it entirely. Also, the markets have been complicated a little by some continuing rumors and nervousness about the possibility of some U.S. institutions being in trouble. But generally speaking there hasn't been a lot of rate movement. They have been noticing this. They think they understand that it is largely a symbolic move. And since we're in a kind of pre-holiday period, the jury is still out. We may need to wait until sometime after the holidays next week before we get a better idea of whether the pressures are going to reemerge in a very substantial way. There is some continued talk as to whether the

Japanese might raise their discount rate during the holiday weekend. People remember that the last time it was raised was on Christmas Day and they wonder if something like that is in the wind. So the market is generally a bit nervous and probably is going to wait a while until after the holiday period and then reassess and decide where it will go. Thank you, Mr. Chairman.

CHAIRMAN GREENSPAN. One of the interesting aspects of this was that the initial reactions in the markets were really quite mixed, with what clearly appeared to be very lukewarm support for the yen; even though the yen opened stronger in Sydney, as soon as [the markets opened] in Tokyo it began to weaken rather considerably. But the interesting issue is that you cannot see, as best I can judge, the G-7 activities in the [exchange rates] anywhere. When we intervened, we actually intervened on an uptick; but the range has been quite remarkably narrow since then. One could scarcely even sense any of the G-7 in the markets in any material way as far as I can judge. This was really something of a surprise since we went into the whole period with the general expectation of high volatility and significant instability.

The remainder of the meeting was really quite perfunctory in that there was a general conclusion that the European economies were doing rather well. There were the usual positive things said about inflation being a problem but that at the moment it was under control. The most interesting [discussions], however, occurred at the luncheon in which the finance ministers of both indicated that they had in retrospect clearly been too easy at an earlier time and had let the inflation genie out of the bottle. They were, in a sense, trying to suggest to the rest of us to be careful--that it was a miscalculation of policy. They are paying the price and they are most regretful of the outcome. There was a presentation by Michel Camdessus on the outlook for the world at large and the G-7 countries in particular; there were no particularly surprising aspects to it nor were the responses generally surprising. It will be quite interesting to see what happens in the G-7 meeting in May when the Interim Committee meets. As we came out of the G-7 meeting, I was not sure I could think of what we were going to have on the agenda for May-- unless something fairly important happens--with the exception of issues such as quotas and the still very touchy question with respect to the shares of the British and the French in the new allocation of quotas. It may well be that we can have a very short G-7 meeting in May. That's about all there was. There was discussion of German unification but nothing that I suspect is new to this Committee. That's about all I have to say. Are there any questions, comments, or otherwise?

MR. HOSKINS. Mr. Chairman, Lee Hoskins.

CHAIRMAN GREENSPAN. Yes, Lee.

MR. HOSKINS. Do you have any observations to make as to why the Secretary of the Treasury changed his views with respect to intervention?

CHAIRMAN GREENSPAN. It's hard to say. I did notice the change when I was talking to him prior to his going off to Los Angeles. I raised the issue with him of the relationship between the

portfolio adjustments going on in the Tokyo stock market and the weakness in the yen, emphasizing that it was weak stock prices leading to a weak yen, not the other way around and not even interactive. He was in considerable agreement with that and went further to indicate that he thought that the [Nikkei] would fall to 20,000 and that intervention at this stage probably was futile. It would merely [involve] a huge amount of intervention and we all, as he put it, would look foolish. I think that view is what he carried out to Los Angeles and it clearly stayed; it was still there in Paris. There was as well, I suspect, some concern about the extent of our commitments and enhanced potential losses if we're wrong, with their budget implications. That's about the best I can do. He clearly was not of the opinion that anything we could do would be very helpful, and he was not even very sympathetic to being involved in token support for the Japanese position.

VICE CHAIRMAN CORRIGAN. Because they are not exactly [unintelligible] to the idea of the Federal Reserve lowering interest rates.

CHAIRMAN GREENSPAN. Well, you know, they never raised the issue.

VICE CHAIRMAN CORRIGAN. I wouldn't expect them to raise the issue at that forum.

CHAIRMAN GREENSPAN. But I assumed they would. Obviously, I would assume that they would. But they never pressed us.

VICE CHAIRMAN CORRIGAN. In that environment I'm sure they wouldn't.

CHAIRMAN GREENSPAN. Any other questions or comments? Peter Sternlight, do you have anything you want to add to this discussion?

MR. STERNLIGHT. I don't think I have anything that significant to report on the domestic side. Conditions have been pretty steady. We're continuing to aim for reserve availability that would give us a funds rate around 8-1/4 percent. That's about what we have. And we're in a period of adding reserves for seasonal reasons in rather substantial amounts. Since the last meeting we've added a little over \$5 billion to our outright holdings. The rate changes in the market are quite modest: bills and short coupons are down 5 or 10 basis points; those on the longer end are up a few basis points. So, it has slightly changed the shape of the curve, but it's essentially flat. Maybe the most noteworthy thing was the auction yesterday. There was another auction of 40-year Refcorp bonds and they got a pretty mediocre reception. I wouldn't say it was as poor or as shocking a response as the one three months ago, but it was still pretty unwelcomed. It was a combination of the 40-year maturity and the Refcorp name having negative implications, partly in the context of some of these revised estimates that are coming out on what the full extent might be of the Refcorp problem. That's about all I have, Mr. Chairman.

CHAIRMAN GREENSPAN. Okay. Anything further?

VICE CHAIRMAN CORRIGAN. Alan, is Mike Prell there?

MR. PRELL. Yes.

CHAIRMAN GREENSPAN. Yes.

VICE CHAIRMAN CORRIGAN. Mike, what are you thinking about in terms of the first quarter now?

MR. PRELL. Well, the employment report on balance didn't change the picture materially. It was a mixed report with a lower unemployment rate, rather weak payroll employment, and no increase in hours. But the flow of data we've received on spending would edge us up a bit; if we wrote down a number today for real GNP growth in the first quarter, I think it would be more in the neighborhood of 2-1/2 percent.

VICE CHAIRMAN CORRIGAN. Thank you.

MR. SYRON. Mr. Chairman, this is Dick Syron. May I ask a question? Sam commented before, [and perhaps he can] expand on it, about concerns in the market about the weakness of U.S. financial institutions.

MR. CROSS. Yes, I don't want to make too much of this, but during the course of yesterday and this morning there were rumors moving around in the market that some U.S. bank is having problems, and one or two of the big banks were mentioned. It did seem to tend to make the dollar somewhat lower at the time when the pressures had previously been moving up a little. But I wouldn't exaggerate this. This market is filled with rumors all the time. Essentially the dollar, as the Chairman said, has been trading pretty much within a very narrow range, given the circumstances, and more or less irrespective of what has been happening in terms of these various pieces of intervention that have taken place, which may have affected it modestly. There are various reports that people sift through after a G-7 meeting and they try to read the tea leaves and come to an interpretation about what it means for the future. So, basically the market has been very stable. But there were some rumors yesterday and this morning.

CHAIRMAN GREENSPAN. Okay. If there is nothing else, then let's adjourn this session. We will see you all--when's the next meeting?

MR. BERNARD. May 15th.

CHAIRMAN GREENSPAN. May 15th, if not before.

END OF SESSION