Federal Open Market Committee
Conference Call
March 10, 1995

PRESENT: Mr. Greenspan, Chairman
Mr. McDonough, Vice Chairman
Mr. Blinder
Mr. Hoenig
Mr. Kelley
Mr. LaWare
Mr. Melzer
Ms. Minehan
Mr. Moskow
Ms. Phillips
Ms. Yellen

Messrs. Jordan, McTeer, and Oltman, Alternate Members of the Federal Open Market Committee

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

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

Ms. Browne, Messrs. T. Davis, Dewald, Hunter, Lindsey, Siegman, Slifman, Stockton, and Associate Economists

Mr. Fisher, Manager, System Open Market Account,

Mr. Ettin, Deputy Director, Division of Research and Statistics, Board of Governors
Mr. Wiles, Secretary, Office of the Secretary, Board of Governors
Mr. Simpson, Associate Director, Division of Research and Statistics, Board of Governors

Mr. Stone, First Vice President, Federal Reserve Bank of Philadelphia

Messrs. Beebe, Goodfriend, Lang, Rolnick, and Ms. Tschinkel, Senior Vice Presidents, Federal Reserve Banks of San Francisco, Richmond, Philadelphia, Minneapolis, and Atlanta, respectively

Ms. Kreiger, Vice President, Federal Reserve Bank of New York

Transcript of Federal Open Market Committee Conference Call
March 10, 1995

CHAIRMAN GREENSPAN. The purpose of this conference call is very general. We have a very long intermeeting period and a number of things have been going on lately that I thought we should review. I will start off as usual with Peter Fisher.

MR. FISHER. After another quiet week in the market, I thought I would review events involving the dollar, the bond market, and the peso. Last week, we had the dollar grinding lower both against the mark and the yen, as expectations concerning this Committee's policy course began to unwind progressively. There also were comments by Federal Reserve officials that were perceived in the market as implying an indifference to the level of the dollar. Finally, on Thursday we had a very choppy and sloppy foreign exchange market in the morning in New York. In the afternoon, the dollar broke through the old low of 96.11 against the yen and was in quite a rough downdraft against both the mark and the yen. At that point, we did intervene for the ESF and the Federal Reserve by purchasing $300 million against the mark and $300 million against the yen--$150 million for the System against each of the two currencies. This was an effort to stabilize what was a very sloppy market and to show that the U.S. monetary authorities were not indifferent to the direction of the dollar.

Early Friday morning in Europe, the European central banks entered the market at their own initiative, following comments by the Bundesbank, and bought collectively a little over That took the dollar up against the mark from about 1.44 to 1.45, and we found it at about that level at the opening in New York. We intervened in New York and did $450 million over the day against the mark and $370 million against the yen. Over the course of the entire day, we also purchased against the yen for the Japanese monetary authority. European central banks did just less than in the New York session. As we were operating last Friday, it began to appear that we were inducing selling over the course of the early afternoon, and we began to pull back from the market. We had a rather large volume to conduct for the Bank of Japan so we continued to operate for them in the market throughout the afternoon at their request.

Over the latest weekend, there was a realignment within the ERM, and, in particular, as you are all aware the Spanish peseta was devalued. The dollar began to trade off quite quickly again at the start of this week. Given the turmoil in Europe, we thought it wise to step back and try to let that sort itself out as the pressures on cross rates were quite intense. In the next two days, there was quite a bit of dollar selling on a combination of position adjustments and rehedging of exposure by both European and Japanese accounts. This selling had a heavy overlay of speculative accounts pushing in the direction they saw the hedging to be driving the dollar. On Wednesday, we had one of the most successful concerted interventions in some time--that of the Chairman and President Tietmeyer. Through their statements, they managed to communicate the resolve and concern of the monetary authorities without providing any liquidity to those who may have been looking for opportunities to sell the dollar. This morning, before the employment numbers were released, we had quite widespread rumors that we would be intervening following the release of the numbers, whatever they were. The dollar began to rise in advance of the numbers as people who were either short or wanted to go to neutral in some way or another adjusted their positions. The dollar traded up briefly on the numbers and then experienced a bout of selling on the fact but oscillated throughout the day after that. Dollar/mark and dollar/yen traded fairly stably for the day--the dollar/mark more or less at its high for this week, and the dollar/yen more or less at the mid-range of the week.

I will turn to the interest rate market here in the United States. If I look back to the Chairman's Humphrey-Hawkins testimony, I think the market has pretty much gotten back to where it was at that time in the sense of having about a 50 percent probability of a 50 basis point rise in the fed funds target by the end of May. With the dollar weakness, the exchange rates were beginning to back up a bit at the start of this week. However, and this is fairly interesting, over the last two weeks the dealer community has been quite surprised by the strength of customer demand. There has been a great deal of investor buying interest, particularly at the short end. It appears that a great deal of the asset management community had underbought, if you will, and this money now seems to be coming in and continually surprising the dealer community who had been positioning themselves on the short side. Waiting for this rally to correct itself is how the dealers would think of it. This morning, the dealers positioned themselves short again, to a great extent on the risk of a bigger employment number than the market was looking for. The dealers were once again surprised by customer demand immediately on release of the employment data, and we had some back and forth in the market. The market then got its bearings and found something it could understand in the Beckner article, which quoted an unnamed Federal Reserve official as looking at the weaker components of today's numbers. As the morning progressed, the bond market took some comfort from the stability of the dollar, which seemed to encourage more customer buying.

I will cover only very briefly developments in the peso market this week. We started the week with a combination of extraordinary anxiety about the political melodrama in Mexico, about the banks in trouble, and fears that the economic plan would both disappoint the market and include nonconvertibility. The rumor that the plan would include nonconvertibility swept the market yesterday and brought the peso down to its low of 7.85. The package announced last night in Mexico City was clearly better than the market had feared and it did not include capital controls. The peso has improved today, encouraged by of intervention by the Bank of Mexico. They have done over the week and the peso is trading at about 6.30 now. Today, as many of you may be aware, the Mexicans have requested--and we are now operating on their request--to repay $1 billion on the drawings made on the two swap lines, the Fed and the Treasury swap lines. That repayment includes $500 million on their drawing from the System. The Mexicans will draw $3 billion on the medium-term facility that the Treasury established in the ESF. That leaves $2 billion outstanding on the combined short-term facility with the Fed and Treasury and $3 billion on the new medium-term facility. That is the extent of my remarks. I would be happy to answer any questions on any of the subjects.

CHAIRMAN GREENSPAN. Any questions for Peter?

MS. MINEHAN. What do we know about the reaction in Mexico to President Ortiz's speech and the program?

MR. FISHER. I think, as I said, that it was viewed as better than they were fearing. There was some anxiety that the program would include a much bigger rise in the minimum wage and less in the way of fiscal discipline and tax increases. On one front, it was better than the markets expected or better than they feared. It was thought to be more credible than what they were anxious about, but clearly there still is a very gnawing anxiety about the condition of Mexican banks. Even though the peso has come off its rather extraordinary lows of yesterday, the spreads are really very wide. I don't think we should be under any illusions that we have established a new trend for the peso.

MS. MINEHAN. I was not so much referring to the markets but to the situation in Mexico itself. There were reports in the Wall Street Journal this morning that there had been--I don't know if this could possibly be accurate--some sort of businessmen's rally against the program. Today, public radio was broadcasting something from Monterey that sounded quite chaotic.

MR. FISHER. The reaction to the program is not one of euphoria among the populace of Mexico. I believe that there have been quite chaotic events over the last several weeks in Mexico; I have usually heard protests coming from outside the Bank of Mexico on the phone when I have called my counterpart there over the last ten days. I am not aware of any particularly extraordinary popular outcry in Mexico today. I am just not aware of it, Cathy.

MS. MINEHAN. Thanks.

CHAIRMAN GREENSPAN. Anybody else? Mike Prell.

MR. PRELL. Mr. Chairman, I think there has been a general sense in the anecdotal reports that supports the statistical evidence that we are indeed getting some moderation in the growth of economic activity in the early part of this year. The employment report this morning could scarcely be regarded as a weak report, but averaging through the two months, one can sense some moderation and something a little short of the kind of increases in employment that we had anticipated. This is perhaps putting too fine a point on it but, for example, we had noted in the Greenbook that we expected average increases in payrolls of about 270,000 per month in the first quarter. The first two months averaged 247,000, still a strong number but a little to the soft side. Similarly, the unemployment rate on average has been a bit higher than we had anticipated. Overall, I think we would view the labor market indicators as suggesting that growth will be somewhat below the 3.2 percent in real GDP that we predicted in the Greenbook for the first quarter.

On the expenditure side, too, we can see some signs of softening, particularly on the final demand side--in housing and consumer expenditure. However, counterbalancing that to some degree is the fact that BEA revised downward the level of inventory investment in the fourth quarter by a considerable amount, in fact putting it below the pace we had anticipated in the Greenbook. Looking at what still seems to be a fairly robust picture in the manufacturing sector, particularly output of durable goods, it seems reasonable at this point to anticipate that we will not get the kind of near-term drag on GDP growth from inventory investment that we projected in the Greenbook. On balance, again, we view the available information as suggesting somewhat weaker growth than we had in the last Greenbook, probably something less than 3 percent if we were going to put down a number at this point. But certainly there is no evidence yet that the economy has slipped below the rate of its potential growth or that any slack has begun to open up in the economy.

On the wage and price front, the latest hourly earnings figure was favorable, indicating an essentially flat trend in that series. The pickup in the CPI in January was in line with our expectations. I think we would have to say that basically the jury is still out on whether we were correct in our assessment that there is a deterioration in the inflation trend at hand. There just are no clear signals as to whether things are stronger or weaker on the inflation side than we anticipated. Looking ahead, there are three background financial factors that tend to point in the direction of buoying activity as we move out in the coming months. The dollar is lower than we anticipated it would be at this point. The level of stock prices is higher than we would have expected. Bond yields have come down materially and mortgage rates with them. So, as we look ahead, while on the international side there is obvious turmoil in Mexico and some other uncertainties that may be more to the negative side, when we weigh all these things, I don't think we see a basis for changing in any significant way our expectations for the year as a whole. Thank you.

CHAIRMAN GREENSPAN. Questions for Mike? If not, Ted.

MR. TRUMAN. Let me just add one point because it relates to what Peter was saying and what President Minehan was asking, at least in part. One consequence of the package that the Mexican authorities have announced and presumably will put in place is that they will have substantially less growth, meaning more likely negative growth. I understand that the finance minister talked about a current account deficit on the order of only $2 billion versus something like the $14 billion that they were talking about at the time of our last Greenbook. Those two things together slightly offset, at least in the short run, the weaker dollar and some of these financial factors that Mike was referring to. That tougher package of fiscal measures is essentially double the size of the contingency measures that had been built into the program with the IMF. This has been necessitated by the fact that the situation has deteriorated enough in the past five or six weeks so that they had to take more "cod liver oil" than they originally had planned.

MS. MINEHAN. Ted, could you comment a little on Argentina? Or Peter?

MR. TRUMAN. Peter may have his own view. My view of the situation is that it still remains very--

CHAIRMAN GREENSPAN. Dicey.

MR. TRUMAN. Dicey--just took a word out of the Chairman's mouth. Given the somewhat improved situation, at least broadly speaking and precariously speaking in the Mexican financial markets, I would be interested to see how things have developed in Argentina today because those two countries have been to some extent playing off each other's difficulties in the last few days. Also, the fiscal measures that the government announced on Monday are likely to slow Argentine growth, too, which was already going to be very modest this year. I would not bet a lot of money that they will be able to hold things through the election or beyond, but they seem to be quite determined. The major problem there, as I see it, is that the banking situation

CHAIRMAN GREENSPAN. Are their short-term rates still astronomical?

MR. TRUMAN. Very short-term rates, yes.

VICE CHAIRMAN MCDONOUGH. Mr. Chairman, I might contribute something that has happened fairly recently. Domingo Cavallo, the economics minister of Argentina and Roque Fernandez, the president of their central bank, called me. They were doing something of a round robin. They had already talked to Eddie George, with John Claude Trichet, and with Helmut Schieber in the absence of Hans Teitmeyer. They have asked the International Monetary Fund for a $2 billion standby. A Fund mission is leaving Washington this afternoon and will be in Buenos Aires in the morning with the possibility that, if things look good, Deputy Managing Director Stanley Fischer will follow them in a day or two. In addition to the support of the IMF, in order to shore up the banking system--

--they are going to try to put together a fund of approximately $4 billion to serve as a lender of last resort. That would amount to about 10 percent of the total deposits in the banking system, which have fallen $3 or $4 billion since the Mexican crisis to $40 billion. We all know the Argentine peso and the dollar are equivalent, so they talk in dollar terms. The source of this $4 billion is to include $1 billion that is available to the central bank in the form of reserves that it has over and above those needed to back currency in circulation and the reserve deposits of the banking system with the central bank. Through a sale of 3-year bonds, they will also seek to raise $1-1/2 billion from cash-rich multinational and Argentine corporations resident in Argentina. They will ask a number of foreign banks, to be led by Deutsche Bank and Citibank--at least those are the banks that were asked to be the lead banks--to put together a coterie of approximately 20 banks for loans totaling $1-1/2 to $2 billion; the loans would also be for a 3-year period with amortization beginning at the end of one year. They believe this fund is necessary for the support of the banking system. There is every reason to believe that President Menem, the minister of finance, and the central bank governor are as resolute as they have been in insisting that they have to maintain the convertibility of the peso with the dollar. They do not have a "phase two" or an alternate plan. They are insisting that they are going to make this work regardless of the difficulties and that's what they are seeking to do.

MR. TRUMAN. President McDonough, I assume that the IMF mission has not been announced, as well as this other funding?

VICE CHAIRMAN MCDONOUGH. The IMF mission has been announced, Ted, in the last hour or two.

MS. MINEHAN. It came over the screen this afternoon, Ted.

MR. TRUMAN. I've been elsewhere!

VICE CHAIRMAN MCDONOUGH. You've been busy doing other things. However, there have been very well-founded rumors about the request for the money from the Argentine resident companies. There was a Bloomberg story yesterday suggesting the Club loan.

MS. MINEHAN. Yes. You know, I've been hearing from up here. Obviously, they have a big Argentine operation. They are very nervous particularly about the interbank credit market, to the extent there is one in Argentina, given market conditions down there. They also passed on some concerns they had not only about Argentine banks but U.S. banks that might be involved in that interbank market down there.

CHAIRMAN GREENSPAN. Anything else on this subject? If not, Don Kohn.

MR. KOHN. Mr. Chairman, with respect to the various money supply numbers, we expected some slowing from the pace in January, and we are getting it for M1 and M2. In fact, the money supply numbers are slowing even more than we had expected. We had small minuses in February, and we are projecting an approximately flat M2 for March and another minus for M1. I think part of this story is that with the rally in bond markets, funds are beginning to shift out along the yield curve. We are seeing this within the monetary aggregates in the very severe weakness in liquid deposits and a lot of strength in retail time deposits. Between the aggregates and other financial measures, we are beginning to see some flows back into bond mutual funds in the last few weeks--some pluses there for the first time in a long time. Also, we are seeing very substantial increases in noncompetitive tenders at Treasury note auctions. This portfolio readjustment is contributing to some weakness in the monetary aggregates.

For M3, we are seeing some slowing in growth but less than we expected. There is considerable strength in managed liabilities and that is showing up in M3. Since the fourth quarter of last year, M3 has grown at a rate of 4 percent, placing this aggregate at the upper end of its range. The strength of M3 is not reflecting overall strength in bank credit. We are now estimating bank credit growth of only a little over 4 percent in February. This primarily reflects a resumption of the runoff of Treasury securities. Banks are funding loans by letting Treasury securities run off and to some extent other securities as well. Perhaps it also reflects the effect of mark-to-market losses of off-balance-sheet items in the other securities category. Loan growth is still generally robust at banks; business loans are up at a rate of 22 percent in February; real estate loans are up 9 percent; consumer loan growth has slowed substantially. We are now estimating only a 2-1/2 percent rate of growth, but we think that a lot of this slowdown may be related to a change in IRS procedures. They are not cooperating with the banks as they make loans against tax refunds. Many banks had programs to make loans against people's tax refunds, and the banks aren't doing it anymore. We are looking at this more carefully right now, but we think a good deal of the slowdown in consumer loans at banks in February could be related to the change in IRS procedures rather than any underlying slowdown in demands for credit, once we zero out this particular effect.

The data on overall credit flows in February outside the banks are still sketchy, but our estimate is that they will remain robust for nonfederal borrowers with growth on the order of 5 to 6 percent. We did have a pickup in corporate bond issuance in February as rates came down, even while borrowing at banks and the commercial paper market remained strong. To put a number on Mike's point about long-term interest rates, the 30-year bond yield is down about 20 or even a few more basis points since the last FOMC meeting. Intermediate-term rates are down 30 to 40 basis points, or probably 35 to 45 basis points through today--I don't have all of today's rate declines in there. It is pretty clear, as Peter implicitly pointed out, that people have revised down their expected path of short-term rates for the next year or two. Eurodollar futures are off 50 to 75 basis points through 1995 and 1996. That concludes my report, Mr. Chairman.

CHAIRMAN GREENSPAN. Any questions for Don? If not, the last issue that I would like to raise is that through all this chaos in the exchange market, there is a concern on the part of people over at Treasury that leads them to anticipate the need to intervene again at some point. I thought I would turn this over to Ted to bring you up to date on general preliminary intentions to which we would like to get the Committee's reaction.

MR. TRUMAN. Don't shoot the messenger! The Treasury obviously is very uncomfortable about the fact that although the dollar is off its recent lows, it is still near record low levels against both the yen and the D-mark. They have been receiving considerable pressure from their colleagues in Europe and Japan to be seen doing something about it in the exchange markets. They, I think, also have chosen to take personally the comments of numerous financial reporters who have been saying that Treasury officials have been sitting on their hands. One idea that I know they have been kicking around would be to organize with the other countries a several-day--I'll use the word "campaign" but that may be a little too pejorative--campaign of intervention operations designed to show a more sustained commitment to trying to strengthen the dollar than has been engineered to date. As Peter explained, in the operations last week we were at some pains to operate on our own and have the Europeans operate on their own, and then operate again on our own. So, there was a deliberate attempt to be seen not as uncoordinated but as operating independently, which we viewed as appropriate given that we thought that some but not all of the problem was a dollar problem. I think it still is the case that some but not all of the problem is a dollar problem. It is clear--Peter mentioned this in passing--that the European situation definitely has not stabilized. The franc is weak again today against the DM and the pound is as well. It is difficult to judge to what extent the dollar is suffering from the backwash of those European uncertainties. On the other side--and I think Bill McDonough can probably speak to this--some of the Europeans are quite anxious for us to be seen in the exchange markets. That is the range of thinking that the Treasury no doubt is going to mull over the weekend. I think that's all I have.

CHAIRMAN GREENSPAN.

I haven't come to a conclusion myself as to how we ought to behave next week if Treasury decides that they want to do something. It will depend on what the markets are doing generally. But it would be useful for me to get a sense of whether there are any strong feelings among Committee members one way or the other. I am not necessarily referring to a multifaceted type of operation that Ted was talking about, but whether or not a modest showing of the flag would be appropriate at some point. I am not enthusiastic about this; the more important question is how strenuously we should be resisting.

MS. MINEHAN. Do we have any idea of the short positions out in the market? Do we think that the market conditions are such that intervention would be helpful?

CHAIRMAN GREENSPAN. I would think that were we to go ahead, and I believe the Treasury would certainly agree with this, that a necessary condition would be a presumption that there are some shorts out there. Peter, I would suspect that that is not the case at this point. Is that correct?

MR. FISHER. I don't think we have a market that is predominantly short in dollars at this point. There are some positions that are short, but it is still not the dominant position of the market.

MR. HOENIG. Mr. Chairman, this is Tom Hoenig. I have a question. I know that you can't describe the circumstances in detail, but it seems to me that things have quieted and the market is not short. So, what kind of circumstances might we be talking about to undertake this intervention?

CHAIRMAN GREENSPAN. I would suspect that some weakness is needed to create a short position, but I am not certain that the Treasury thinks in those terms. They are aware of the fact that unless there is a short position, there is a danger that the market response could be negative and that would not look very good. But it is very tough to envisage an appropriate vehicle until we actually see the market circumstances. In other words, I find hypothetical interventions very difficult to outline. Ted, have you got any better feel for that?

MR. TRUMAN. No, I don't think they have a well developed game plan at this point.

VICE CHAIRMAN MCDONOUGH. This is Bill McDonough again. The Treasury, as you've suggested, has been getting some very ardent entreaties from the European countries. There is a view over there that the dollar weakness adversely affects the European crosses, and there is a little truth to that. There's also, I think, a greater amount of truth that the problems within the European crosses create weakness for the dollar.

CHAIRMAN GREENSPAN. I'm sorry, you can't have it both ways. Which is it?

VICE CHAIRMAN MCDONOUGH. I'll go for the European crosses adversely affecting the dollar. I think it is highly likely that early next week there will be a request coming from the European side that will place us in the position of having to respond as to whether we are still members of that community of Treasury officials and central bankers working together. We've been hearing that argument. I've been playing bad cop and saying, "no, that doesn't make sense" and "no, we won't play" in the last few days while you, Mr. Chairman, have been up on the Hill testifying. But I think we're going to hear an increasing amount of that early next week.

CHAIRMAN GREENSPAN. If they are getting really concerned, it strikes me that that would weigh in the direction of acquiescing in something modest unless we think the potential effects would really be adverse.

VICE CHAIRMAN MCDONOUGH. I would share that view. I think that we would have to be very careful that a modest showing of the flag would indicate that we cared but not lead to our standing in there getting our brains beaten out. That could really be counterproductive and rather dangerous.

CHAIRMAN GREENSPAN. The Japanese have proved that you can expend very hefty sums with nothing to show for it.

MR. MELZER. Alan, this is Tom Melzer. I would be afraid that if we were participating in something on a major, sustained basis and the conditions weren't right, it might create a perception that this was being done to try to avoid a possible monetary policy response. I don't mean to suggest that I think any policy actions are appropriate right now, but such an operation might reinforce that view. If that were the case, it would be very negative to the psychology involved.

CHAIRMAN GREENSPAN. Tom, it could actually work in the opposite direction as well. That's because in the last few months when we have moved, we have usually subsequently moved the rate up as well. I am not sure how that will play, but I grant you it could play either way.

MR. MELZER. I'm not sure either. I'm just saying it is risky business.

MS. MINEHAN. I would tend to accept some modest intervention if the Treasury felt they had to do something. But I must say that the information I am getting, not from the biggest players but from some banks that are active on the foreign exchange side, is that they are covering long positions in other currencies. A couple of the banks here feel that there is a floor to this dollar decline, that we have seen it, and that we are bouncing back up from it.

CHAIRMAN GREENSPAN. Foreign exchange forecasting is notorious for how good it is!

MS. MINEHAN. Yes, right!

MR. LAWARE. What does a modest entry into the market do for us? Does it provide some startling signal to the world that we are concerned? We did that on Thursday of last week, and it didn't do a blessed thing.

MR. KELLEY. It shows our view that a strong currency is in our national interest.

MR. LAWARE. But it didn't do a thing.

CHAIRMAN GREENSPAN. No, I think it did. I think it was one of the first times--

MR. LAWARE. For a few hours.

CHAIRMAN GREENSPAN. The issue was not whether we succeeded or not. The basic purpose was to indicate that we are not indifferent to our currency. I did not expect us to get anything out of that except to demonstrate that we care.

MR. LAWARE. But you can put the other interpretation on it--that you are indifferent to your currency if you don't do enough to affect the trend.

CHAIRMAN GREENSPAN. If you keep doing it, sure. I agree with that.

MS. MINEHAN. I think actually the best course we can take is to send you back up to Capitol Hill, Alan.

CHAIRMAN GREENSPAN. Thanks a lot, Cathy. Remind me to send you a grenade! [Laughter]

MR. BLINDER. Alan, this is Alan Blinder, can you hear me?

CHAIRMAN GREENSPAN. Sure.

MR. BLINDER. I would like to join in on the skepticism about modest intervention. I don't think we want to repeat what happened a week ago. It did not do any good. The markets tended to laugh, and the intervention might have been more harmful than good. I agree with Cathy that your words did more good than the modest intervention. I am generally skeptical about what intervention can accomplish. But if, in the days ahead, you feel or Treasury feels that the time is propitious in the market for us to intervene in a much, much bigger way, I would be inclined to do so--provided we had a strong statement of support and money from Hans Tietmeyer. That would be essential to the success of such an operation.

CHAIRMAN GREENSPAN. Anybody else?

MR. HOENIG. I think we need fairly clear reasons for going in. Coming in just to show the flag can create questions and uncertainty. In my view, things have settled down and I would wait for an event before I tried to show the flag. I would do so only if that would make the Europeans feel more comfortable. I'm not sure it would do us a lot of good.

CHAIRMAN GREENSPAN. By an event, you mean weakness in the market?

MR. HOENIG. Yes, something noticeable.

MR. KELLEY. This is Mike Kelley. I feel pretty much the same way. I am concerned that whenever we intervene in a half-hearted way and get overwhelmed by the market, as occurred at the tail end of last week, it just adds to the market's feeling that sovereign entities--central banks and finance ministries--have become impotent and that the markets can do whatever they want with impunity. That makes it much more difficult to try to affect the market later on. I regret the fact that the intervention came off looking that way last week. If we intervene again soon, I think we might add further to that impression of weakness and impotence.

VICE CHAIRMAN MCDONOUGH. I would like to put in a minority position here. There isn't any amount of money that the central banks are likely to come up with that is going to beat a market that wants to take us on. They have more money than we do. There is an advantage in the kind of operation that we did Thursday and Friday of last week in that it indicated an interest in our currency on the part of U.S. monetary authorities, and then we went away. That's why I think the people most actively involved in this are not very enthusiastic about doing anything next week. I think the Chairman is preparing us for the notion that we may get a very strong request from the Treasury, which I suspect would be based at least in large part on a very strong request from our allies. The problem of trying to look as if we are wading in there like the invasion of Normandy is that we may not be successful. And so if we come in with what would be a lot of money--$3, $4, $5 billion a day and intervene at that level for two or three days--it would be nice if we were successful. But if we were not successful with such a major effort, then we really would have a mess on our hands. I think the risk/reward ratio gets very unattractive.

CHAIRMAN GREENSPAN. What that really amounts to is that if we go in on a modest scale on the grounds that we expect to fail on occasion, we never get shot up. That's because everyone says we did not try as hard as we could. Whereas if we tried as hard as we could and failed, then we would really be in trouble.

VICE CHAIRMAN MCDONOUGH. Yes.

MR. KELLEY. It seems to me that if that is what the policy is going to be, someone ought to articulate that policy. We came off looking as if we tried to stop the dollar's decline and failed. If all that gets said is that a strong dollar is in our national interest and that is the total substance of what officials say publicly, then we may wind up with the worst of both worlds--looking like we were trying but failing miserably, when that really was not what we were trying to do in the first place.

CHAIRMAN GREENSPAN. That's the dilemma that we have with this whole operation. Are there any other comments?

MS. PHILLIPS. I join Governor Kelley. I hate seeing us go in modestly and not be successful. I don't think that helps us. It seems to me that if we go in modestly and there is a chance that we are going to back it up with monetary policy, then we are at least going in with a chance of some success. I don't see us doing that, at least in the next week or so.

CHAIRMAN GREENSPAN. I think we need to find a situation in which the market is short, and it is hard to envisage that occurring in the next few days. Anyway, let's see what type of issues come up. Mike Kelley will be in Basle over the weekend.

MR. KELLEY. Unless somebody else would like to go in my place!

MR. TRUMAN. We have already booked you in; you can't get out of it!

CHAIRMAN GREENSPAN. I haven't heard an overwhelming number of volunteers to help you out. In any event, I think it would be useful, Mike, to get a sense of what type of nervousness exists over there.

MR. KELLEY. I'll try to do that. Bill and Peter and Ted are going to be there as well, and I'm sure we'll all be trying to get a sense of that.

CHAIRMAN GREENSPAN. Yes.

MS. MINEHAN. May I ask one last question? If we did a modest program, would there be a reason to do it because we need to accede to the heartfelt wishes of our trading partners in Europe? Even if it failed, it might keep the door open at some time when we need them. Is that another reason to do this?

CHAIRMAN GREENSPAN. That is part of the reason; in fact, that is most of it. If we were making these decisions wholly on our own in this type of market, I can assure you that you would not get a recommendation from me to do anything. But that is not the state of the world in which we are dealing.

MS. MINEHAN. Yes.

VICE CHAIRMAN MCDONOUGH. Alan, I've got another matter that I think we should share with the Committee when you are finished with this topic.

CHAIRMAN GREENSPAN. Does anyone have anything else they want to say on this before Bill holds forth? Go ahead, Bill.

VICE CHAIRMAN MCDONOUGH. While we've been having this meeting, Bankers Trust Company put out a press release in which they reported that they filed a Form 10K this afternoon estimating that they would be reporting an after-tax loss of approximately $125 million for the first quarter of 1995. The estimated loss does not take into account a possible charge in connection with the corporation's expense reduction program. Charlie Sanford is quoted as saying, "The firm's strong capital reserve position and the high quality and very liquid nature of our balance sheet together with the expense reduction program now underway will sustain Bankers Trust through this difficult period." This is not a direct FOMC matter, but I think the markets probably will be somewhat concerned about a major money center bank reporting a loss. To the best of our knowledge, that is not true of any other money center banks located in this city.

CHAIRMAN GREENSPAN. This loss excludes any structural adjustment?

VICE CHAIRMAN MCDONOUGH. That's correct. The $125 million is their estimate of their operating loss for the quarter. It is meant to convey the notion that they may very well take a charge related to their expense reduction program, but they don't estimate the amount of that.

CHAIRMAN GREENSPAN. Anything else for this meeting?

MR. MCTEER. Mr. Chairman, Bob McTeer.

CHAIRMAN GREENSPAN. Yes, Bob.

MR. MCTEER. Are you planning to tell us about your testimony this morning and what is happening on Capitol Hill regarding the Mexican package?

CHAIRMAN GREENSPAN. I had not, but let me just take a minute to do that. The basic purpose of the meeting, I thought, was essentially to beat on the Treasury for not being terribly forthcoming about what is going on with the Exchange Stabilization Fund and for not being perceptive about what was going on in Mexico in 1994. It turned out to be a remarkably cordial and very nonconfrontational meeting. Chairman D'Amato was in fact remarkably friendly and the generally advertised intent to pillory the Treasury people did not emerge. It actually was an interesting meeting in terms of discussing what was basically involved with this whole process. I think what has occurred is setting into place an ongoing oversight by the Banking Committee that may be of use.

That is all I have, unless anybody has further questions. Okay, if no one has anything else on the agenda, I trust you will all have a nice weekend and I will see you on March 28.

END OF SESSION