A meeting of the Federal Open Market Committee was held on Wednesday, July 23, 1958, at 11:00 a.m. This was a telephone conference meeting and each individual was in Washington except as otherwise indicated in parentheses in the following list of those participating:

PRESENT: Mr. Martin, Chairman
Mr. Hayes, Vice Chairman (New York)
Mr. Balderston
Mr. Fulton (Cleveland)
Mr. Irons (Dallas)
Mr. Leach (Richmond)
Mr. Mangels (San Francisco)
Mr. Mills
Mr. Robertson
Mr. Shepardson
Mr. Szymczak
Mr. Vardaman

Mr. Treiber, Alternate Member of the Federal Open Market Committee (New York)

Mr. Riefler, Secretary
Mr. Thurston, Assistant Secretary
Mr. Solomon, Assistant General Counsel
Mr. Thomas, Economist
Mr. Young, Associate Economist
Mr. Rouse, Manager, System Open Market Account (New York)
Mr. Kenyon, Assistant Secretary, Board of Governors
Mr. Koch, Associate Adviser, Division of Research and Statistics, Board of Governors
Mr. Keir, Acting Chief, Government Finance Section, Division of Research and Statistics, Board of Governors
Messrs. Conkling and Daniels, Assistant Directors, Division of Bank Operations, Board of Governors
Messrs. Larkin and Marsh, Assistant Vice Presidents, Federal Reserve Bank of New York (New York)
Mr. Stone, Manager, Securities Department, Federal Reserve Bank of New York (New York)

Mr. Larkin reported that the Government securities market was generally steady. Yesterday, he said, the intermediate-term issues had quite a run-up in price due to buying resulting from sales of rights. In other words, people were doing their own refunding through the market. That section of the market had now run out of exuberance but it was steady. The long-term issues were showing a tendency to drift, but only slightly, while there was a situation of general availability with respect to the when-issued securities. Today the System Account had already purchased approximately $130 million of the when-issued securities, on top of yesterday's purchases of $542 million, which were made at varying prices. The September rights, Mr. Larkin said, were still fairly attractive on a money basis, although not as attractive as they had been.

Mr. Larkin went on to say that in view of the fact that the longer end of the list was starting to drift downward and this was another critical day, the System Account had purchased a modest amount of bonds with a view to maintaining stability at that end of the market.

Mr. Larkin's further account of various aspects of the market situation is summarized in a memorandum from Mr. Thomas dated today. A copy of that memorandum has been placed in the files of the Federal Open Market Committee.

As to the approach of the Account Management, Mr. Larkin said that the Desk had been purchasing when-issued securities today at 100-3/32, this being in effect a continuation of the approach followed yesterday. As to the September rights, yesterday $73 million were purchased for the System Account on a market go-around, but purchases were not made on a continuing basis. Currently the Desk did not plan additional purchases of September rights, but it did find that yesterday's purchases, including when-issued and September rights, were a helpful influence to the market situation in general. As he had said previously, modest purchases had also been made for the System Account in the longer end of the list, the approach being to pick up intermediate and long-term issues as they started to drift downward. For example, $1 million 3-1/2s of 1990 had been bought today at 100-1/2. At the moment the extent of purchases of that issue was still $1 million, and the market for them was a little higher than it had been. Some of those securities ($14.5 million) were purchased yesterday when the market was drifting downward.

Mr. Larkin stated that there was one other matter to which the Account Management would like to call the attention of the Committee. Looking ahead, with the System approaching $1 billion of purchases for the Account, there was the question of next week's maturing bills, totaling $167 million, which were held in the Account.

The possibility of allowing them to run off had not been allowed for in the New York Bank's reserve projections, as furnished at this meeting, but tentatively they had been earmarked for redemption. In that connection, the Account has an opportunity to purchase from a foreign account $30 million July 31 bills in exchange for a like amount of October 2 bills. It was the thought to accomplish this transaction at market rates, but within the Trading Room. In other words, the System Account would buy $30 million of the July 31 bills which would be run off to help absorb the large volume of reserves to be released on August 1, and sell an equal amount of October 2 bills. The question was whether the Committee would agree, for technically the transaction was a swap operation, and the Management did not feel that it had the necessary authority to proceed in this matter which it considered to be to the advantage of the System.

Chairman Martin asked Mr. Larkin at this point about plans for tomorrow and Friday, to which the latter replied that the Treasury refunding would be over tonight as far as the market was concerned. Then the Account would no longer be purchasing rights and when-issued securities and further System action would depend on the situation in the rest of the market.

Chairman Martin recalled that System action originally had been taken in order to correct a disorderly condition in the market. Subsequently, the System got into supporting the Treasury operation, which, as Mr. Larkin had said, would be completed today as far as the market was concerned; that is, the books would be closed. He said that the Committee should face up to the question of what should be done between now and the Committee meeting scheduled for next Tuesday, at which time there could be another general go-around. He would judge from yesterday's discussion that whatever further was done would be only to steady the market and would be done in the light of correcting disorderly conditions rather than in support of the Treasury.

Mr. Hayes expressed agreement, and there followed some further discussion of market developments.

Chairman Martin then said that he wished to raise the question of reporting System transactions in the weekly Federal Reserve Bank condition statement, to be issued tomorrow; that is, the question of giving notice to the public of the purchases that the System had made. The Board of Governors, he said, had been discussing the possibility of having the statement reflect fully what the System had done.

Mr. Rouse said he could not recall that in the past the System had made any special statement. It had allowed bills to run off and had made no comment on that. This, of course, could be regarded as a special situation and on that basis a full statement of transactions might be justified, or it could be decided to qualify the statement. Mr. Rouse said that personally he did not think that the exact figures were too important. The market was well aware of what had happened, and he would be inclined not to take any unusual action.

Chairman Martin responded that the difficulty was that the System did take unusual action and had made an announcement that it was stepping into the market. The situation could not be treated as anything except a very unusual one. It seemed to him that, having stepped into the market and having moved from correction of a disorderly condition to support of Treasury financing, the System had an obligation to make clear to the public what it had been doing. The System, he said, would have to live with the matter for some time to come. He would be hopeful that there would not be a repetition, but he felt that the System ought to be as straightforward as possible in a matter of this sort. In the present circumstances the integrity of the weekly statement was at stake.

Mr. Hayes stated that there had been discussion of the matter at the New York Bank. Mr. Rouse was quite right with regard to what the practice had been, but personally he (Mr. Hayes) leaned toward the view expressed by Chairman Martin. This was indeed a special operation and the System owed it to the public to furnish some idea of what the System had been doing.

Chairman Martin noted that a release of information of this kind might have some impact on the market, which was something that should be considered.

Mr. Irons expressed agreement with the Chairman's position, stating that a clear statement would be desirable. He regarded this as a very unusual situation.

Mr. Leach likewise expressed agreement and noted that in any event the System's purchases of bonds would be divulged in the weekly statement in its usual form.

Chairman Martin then stated that, if he understood correctly, all of the members of the Committee seemed quite well agreed that they would like to make as clear a statement as possible. That being the case, work on the details could continue for the balance of the day. Also, the Treasury would be advised of the nature of the proposed statement.

Mr. Fulton agreed that the public should be informed, for this was a very unusual situation.

Mr. Thomas inquired when it was expected that the Treasury would announce the results of the exchange offering, and Mr. Larkin commented that there had been no indication so far as to how the exchange was going. He would guess that, aside from the System's subscription, total subscriptions might be in the neighborhood of $7 to $8 billion.

Mr. Mangels reported on tentative indications in the Twelfth District. He stated that total subscriptions as of yesterday were very small but that most of the subscriptions would come in this afternoon.

Chairman Martin then stated that one of the Committee members in Washington was opposed to the proposed swap of bills previously mentioned by Mr. Larkin unless there were strong reasons.

Mr. Hayes said that he thought the reason given, namely, to add to the bills to be run off July 31, was a highly persuasive one. It would be a very natural operation and a logical one.

Messrs. Mangels, Irons, Leach, and Fulton indicated that they would favor the proposal, following which Mr. Robertson stated that he was opposed to "swaps" in principle, but that the usual rules were off as of the moment. Therefore, he felt that the Account Management would have to use its own judgment. Mr. Balderston stated that he would favor as large a runoff of bills as possible.

Returning to the question of the weekly statement, Chairman Martin said that one possibility which ought to be considered would be just to issue the statement in its usual form and then perhaps to make an announcement in company with the Treasury when the Treasury announced what had happened on the exchange.

Mr. Hayes stated that he would not favor such a procedure. He would lean toward the suggestion of putting enough in the weekly statement to reflect what had been done.

The Chairman stated that he would, also, but that he had thought the matter should be put on the table because of the effect of the issuance of the statement on the market.

Chairman Martin then asked Mr. Rouse for his views about the possible course of the market for the next couple of days after tonight, and the latter stated that in view of what had already been done and what the System was doing today, the longer end of the market should be kept in about the same position until the Open Market meeting next Tuesday. It was not the intent to push the market up, but on the other hand it was not the intent to let it go down if a few modest purchases would keep it steady.

Chairman Martin stated that this was a matter of judgment and that he therefore wanted the matter to be on the table. After a statement by Mr. Hayes that there should be another telephone meeting of the Committee if anything substantial happened in the market, the Chairman said that another telephone meeting would be planned in any event for tomorrow at 11:00 a.m. However, it ought to be recognized and borne in mind that in correcting a disorderly condition the Committee had not yet established a peg.

Mr. Rouse said that no peg had been established and that he would hope to avoid the appearance of one.

Mr. Balderston said he would have no objection if the Account Management touched up the market a bit between now and the meeting next Tuesday. However, any touching up should be on a scale-down basis or the System would have pegged the market at the levels which prevailed this morning.

Other members of the Committee expressed agreement with these comments.

After some further discussion of latest market developments, Mr. Thomas asked how well distributed the System purchases had been from the standpoint of the dealers, and Mr. Rouse stated that the purchases had not been well distributed. Of the purchases yesterday, those from one dealer were particularly heavy. Mr. Thomas commented that this raised the question whether it could be said that one group of dealers was being favored against others and that certain dealers were being encouraged to stir up business, to which Mr. Rouse replied that the mere fact of the purchases might be encouraging them to stir up business on the theory that the economic situation had changed and that credit policy probably would be changed. However, the Desk was not making any distinctions between dealers. It was simply buying securities as offered.

The meeting then adjourned.

Winfield W. Riefler
Secretary