

A meeting of the Federal Open Market Committee was held on Wednesday, July 30, 1958, at 10:45 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. 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. Coombs 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. Marsh reported that this morning there had been a little further gain in prices of the longer-term Government securities, a

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movement which carried over from yesterday. This could be regarded as a technical rally, since the yields on Government securities had gotten somewhat out of line with those on corporate obligations. To put it another way, the market had overdone it a little bit. The technical situation in the market had helped to bring about a little firmer tone, with some short covering. The market appeared to feel quite strongly that this was a technical rally and did not expect it to hold for any length of time. It was known in the market that there were certain holders--speculative holders in particular--who would like to sell if they had a chance.

Mr. Marsh said that yesterday there were practically no buyers in the market until late afternoon, when a few buyers appeared. There was no optimism at present about a lot of buyers appearing, and the people in the market just could not envisage institutional investors becoming heavy buyers.

Mr. Marsh went on to say that some of the medium-term issues were a couple of thirty-seconds higher. Yesterday there was some selling in that area by banks that wanted to swap, and today there was a technical reaction. Among other issues, the 2-5/8s of 1965 and the 3-1/2s of 1990 were up a little bit. The Treasury's new 1-5/8 per cent certificates were quoted to yield about 1.69 per cent and the new 1-1/2 per cent tax anticipation certificates were quoted below par, but not enough to create the losses that some

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thought there would be in those securities. Subscriptions appeared to be largely from the city banks and to be very light from country banks. However, while the total of subscriptions countrywise was still not known, there was no doubt about the issue being covered. The only doubt was how much the subscriptions would exceed \$3.5 billion. From indications yesterday, it appeared that the allotment could go as high as 75 per cent, which might be quite a shock to the market and could cause a reaction throughout the list.

Mr. Marsh reported that the money market was easy. Net free reserves yesterday amounted to \$625 million, and the estimate of average free reserves for the week ending today was about \$550 million. For the following statement week the estimate was \$1,037 million.

The Management of the System Account, Mr. Marsh said, was going to give serious consideration to selling some Treasury bills today. The bill market showed a firm tone and dealers had very light bill positions. Already there had been one bid for bills, and it might be a good opportunity to sell. It had not been decided whether the sale of bills would be made on a go-around of the market. That might be something of a shock to the market, but some bills probably could be sold without much disturbance. In further comments, Mr. Marsh said that the Desk had not seen any demand for certificates and that the market was rather expecting the System to mop up excess

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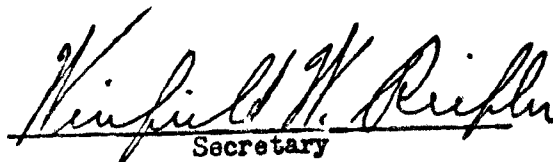
reserves. The market had been waiting to see what was going to come out of the Treasury's cash offering and would make up its mind after that. Mr. Marsh did not think that the Treasury could be at all sure of the results until tomorrow.

Comments indicated that the members of the Committee were favorable to the proposed sale of bills. However, Mr. Mills inquired whether the Desk had considered that the sale of bills might possibly be disturbing when related to an article in this morning's New York Times which proclaimed a return on the part of the System to the "bills only" policy and withdrawal of the System from any other operations in the market.

Mr. Marsh replied that there seemed to have been no mention of the article around the market, and he did not believe that there was apt to be any reaction. The market, he said, was fully aware that the System was not in the market and probably would not be, and the selling of bills from the Account probably had been discounted to a large extent by the market.

Following comments by Messrs. Irons, Fulton, and Mangels regarding subscriptions in their respective districts to the new tax anticipation certificates, it was stated that there would be another telephone meeting of the Committee tomorrow at 11:00 a.m.

The meeting then adjourned.


Secretary