

SECTION 10  
MAY 23 1989

**T E L E G R A M**

**FEDERAL RESERVE COMMUNICATIONS SYSTEM**

**BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM  
WASHINGTON**

STRICTLY CONFIDENTIAL (FR)  
CLASS I - FOMC

**TO: CORRIGAN - NEW YORK  
GUFFEY - KANSAS CITY  
KEEHN - CHICAGO  
MELZER - ST. LOUIS  
SYRON - BOSTON**

**DATE: May 23, 1989**

**FROM: Normand Bernard**

*NB*

**SUBJECT: Increase in Inter-  
meeting Limit on Changes in  
Holdings of Foreign Currencies.**

Pursuant to the requirements of Section 2.A of the Committee's "Procedural Instructions with Respect to Foreign Currency Operations," the Manager for Foreign Currency Operations requests Committee clearance for an increase from \$1.5 billion to \$3.0 billion in the intermeeting limit on changes in System holdings of foreign currencies. The members of the Foreign Currency Subcommittee (Chairman Greenspan, Vice Chairman Corrigan, and Governor Johnson) have indicated that they concur with Mr. Cross' request. The text of Mr. Cross' memorandum follows.

Please indicate whether the Manager's request is acceptable to you.

Attachment

**FOMC**  
**Carol R. Low**

May 23, 1989

To: FOMC Subject: Foreign Currency Operations  
From: Sam Y. Cross

*SYC*

Since your last meeting on May 16, the dollar has remained under strong upward pressure in the exchange markets. The dollar got another boost from the announcement, on May 17, of a much smaller-than-expected trade deficit for March as well as from some recent commentary in the press and elsewhere that left the impression that the Group of Seven commitment to exchange rate stability may be in some disarray.

The Treasury and the Federal Reserve have continued to intervene, along with the Bank of Japan and many of the European central banks. We and the others felt it important to demonstrate that the mechanisms for concerted action remain in place.

In conducting these operations the Desk has attempted to act more flexibly--sometimes being more forceful than before, sometimes being more discreet--in order to adjust the approach to changing market conditions and retain an element of unpredictability. In so doing, the Desk has sold, since your last meeting, a further \$2,940 million, shared equally between the Treasury and the Federal Reserve. Of this amount, \$1,480 million has been sold against German marks and \$1,460 million has been sold against Japanese yen. As a result, the System's open position in all currencies has increased by

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\$1,470 million since the last FOMC meeting, just \$30 million short of the Committee limit of \$1,500 million.

I recommend that the Committee limit for changes in the open position between FOMC meetings be increased by \$1,500 million to \$3,000 million for the present intermeeting period only. The three members of the Foreign Currency Subcommittee concur in this recommendation.