

A meeting of the Federal Open Market Committee was held on Tuesday, July 15, 1958, at 9:30 a.m. This was a telephone conference meeting and each individual was in Washington except as otherwise indicated in parentheses after his name 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. Mills  
Mr. Robertson  
Mr. Shepardson  
Mr. Szymczak  
Mr. Vardaman

Mr. Riefler, Secretary  
Mr. Thomas, Economist  
Mr. Young, Associate Economist  
Mr. Rouse, Manager, System Open Market Account  
(New York)  
Mr. Kenyon, Assistant Secretary, Board of  
Governors  
Mr. Keir, Acting Chief, Government Finance  
Section, Division of Research and  
Statistics, Board of Governors

Chairman Martin stated that this meeting had been called pursuant to a suggestion made yesterday by the Treasury. He was not in Washington at the time and had returned only this morning. However, he understood it to be the thought of the Treasury that there might be some announcement of action by the Government in connection with the crisis in the Middle East which would be of such a nature that the Federal Open Market Committee would want to consider what, if

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any, action should be taken with respect to the Government securities market. As yet there had been no announcement, Chairman Martin said, but since the meeting had been set up and there might be some announcement, he thought that there might well be a review of developments in the market.

Chairman Martin then called upon Mr. Rouse for a report, particularly concerning any developments subsequent to those which he reported to Washington yesterday afternoon and which had been related by the Secretary to other members of the Committee.

Mr. Rouse reported an increase in the volume of bank selling in after-hour trading yesterday, but said that the price declines were not as sharp as they had been during the day, when the declines were very large. There was little indication of buying interest. The Committee, he said, was of course familiar with the announcement by the Treasury last week that it was supporting issues, particularly the new 2-5/8 per cent bonds of 1965, by purchases for its own account. Certain dealers had stated that they did not feel that the international situation had affected the market yesterday, but on the other hand some equally competent observers thought that such developments were responsible in some measure for the trend of the market in the afternoon.

Mr. Rouse said that it is difficult to determine what constitutes a disorderly situation in the market. He was concerned

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about the possibility of developments that might come out of the crisis in the Middle East, for they suggested the possibility of a situation involving a total bear market, i.e., characterized by virtual absence of buyers.

Mr. Rouse then commented that an announcement had been made of a special press conference at the White House, but that as yet there was no further information. Shortly thereafter, however, he reported that an announcement had appeared on the ticker regarding the landing of United States troops in Lebanon. He then read the text of the White House statement on that subject.

Mr. Rouse said he feared that a heavy volume of selling might develop as the result of that announcement, which raised the question whether the Account ought to take any action. He then spoke of an indication that the Desk would be authorized by the Treasury to make further purchases of securities for its account. At that point he stated that he was going to talk with Under Secretary of the Treasury Baird and that he would then return to the Open Market meeting.

The suggestion was made by Mr. Vardaman that the members of the Open Market Committee might be asked to come to Washington today and be available for the next few days now that troops had been landed in Lebanon.

Mr. Hayes stated that he would be glad to come but that he did not think it was necessary at this time. It seemed to him that

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the Committee could make any decisions in telephone conference meeting.

Chairman Martin then outlined alternative possibilities. The Committee could do nothing, it could let the market drop and decide to come in at lower levels, or it could decide to buy on a scale down. He said that he would like to have expressions from the members of the Committee.

Mr. Hayes commented that the market had not yet opened and that it was difficult to make a decision until it could be seen what the market was doing. It might be that there would not be much selling; on the other hand, there might be a deluge and, if there was, he felt that the System Account should buy right away.

Chairman Martin asked Mr. Hayes if he or Mr. Rouse had any views as to whether there was a disorderly market, and Mr. Hayes responded that he would rather have Mr. Rouse talk about that.

Chairman Martin said he gathered from Mr. Rouse last night that he did not think the market was as yet disorderly, and Mr. Hayes then said that up to the moment he would say that it was not. However, the market was not yet open today.

Mr. Fulton stated that he would rather wait for an indication of what the market was doing before passing any judgment on the situation. If it developed that there was merely professional probing of the market, he would stand aside, at least for the time being. If,

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on the other hand, heavy selling pressure developed, with offerings by institutional investors, some action might be called for.

Mr. Leach suggested another meeting of the Committee in about an hour, or sooner if the Manager of the Account should want to have one called.

Mr. Rouse then returned to the meeting with advice that the Treasury had authorized the Desk to activate orders for the Treasury up to \$85 million. The authorization was to buy on an "if necessary" basis, he said. The Treasury was apprehensive of wholesale liquidation today and felt that the System should be concerned. Pressure was anticipated particularly on the 2-5/8s and the 3-3/4s of 1985. In these circumstances, the Treasury had authorized the execution of orders to try to avoid a sheer drop in prices without any market activity, which would tend to "scare people to death."

Mr. Rouse then expressed the view that the Committee should wait and make any decision about coming to Washington in the light of what developed in the market.

Chairman Martin agreed and said that another meeting of the Committee in about an hour would be planned. He asked Mr. Rouse to keep in touch with him and said that the Committee would rely on Mr. Rouse to inform it if he believed at any time that a disorderly market had developed.

The meeting then recessed and reconvened at 11:00 a.m., with the same attendance except that Mr. Thurston, Assistant Secretary

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of the Committee, and Mr. Molony, Special Assistant to the Board of Governors, also were present.

Mr. Rouse reported that the market was giving quite a remarkable performance. The market was calm and was not losing its head. There had been some selling of Government securities and of corporate bonds, but the United States Steel offer of \$300 million bonds, scheduled for tomorrow, was going ahead, as was the Boeing issue scheduled for this week. There had been some price decline in the 3-1/2 per cent bonds of 1990 and the 3-1/4s of 1985, along with some rather strong offerings of the 2-5/8s of 1965, and the prices were off from last night's close. The Desk had only bought a little over \$15 million for the account of the Treasury, the bulk being 3-1/2s which apparently were held in some speculative account. While there was very little outside buying, one bank bought a small lot and one dealer reported getting some small orders. By and large, the market was giving a good demonstration.

As things stood, Mr. Rouse said, he could not say that there was a disorderly market.

Asked whether it would be advisable to have another meeting around 2:00 p.m., Mr. Rouse suggested standing by at 2:30 to see whether another meeting was called for after he had brought Chairman Martin up to date on developments. If a meeting should be called

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at 2:30, there would still be time to act, if necessary, before the close of the market.

Agreement was expressed with the procedure suggested by Mr. Rouse.

With respect to the earlier suggestion that the members of the Committee come to Washington, Mr. Hayes stated that in his opinion this was clearly not necessary at this time.

Mr. Rouse then stated that it had been estimated that the average of free reserves for the statement week ending Wednesday should be about \$510 million but that there were some doubtful factors. He would favor buying up to \$75 million of Treasury bills in order to be sure that free reserves would average \$500 million for the statement week.

Messrs. Mills, Irons, and Robertson indicated that they questioned such action. The latter stated that he thought free reserves had been maintained at too high a level during the statement week which ended last Wednesday. (These comments were not audible in New York.) When the Chairman indicated that some members had reservations, Mr. Hayes inquired as to the nature of these reservations but no detailed explanation was heard in New York.

Mr. Rouse said that he wanted to assure having average free reserves of at least \$500 million for the statement week with the Treasury refunding approaching and in the light of the general

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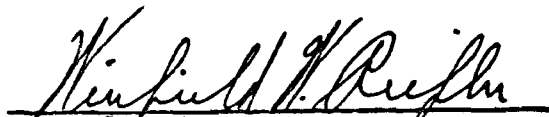
situation. He felt that going below \$500 million might give credence to the rumors of a change in the objective of System policy which circulated several weeks ago.

Mr. Robertson then stated that he thought the proposed purchase of bills would be unwise, but that the action would be within the scope of the authority that had been given to the Management of the Account. (Mr. Robertson's comment was not heard in New York.)

Following some further discussion, Chairman Martin stated to Mr. Rouse that all of the members of the Committee agreed that the proposed purchase of bills was within the scope of the present authority. While there was some disagreement as to the advisability of the action, the Manager of the Account should follow his own judgment.

The meeting then adjourned.

Secretary's Note: In the light of subsequent market developments, no further meeting of the Committee was called during the day.

  
Secretary