A meeting of the Federal Open Market Committee was held riday, July 18, 1958, at 1:00 p.m. This was a telephone erence meeting and each individual was in Washington except therwise indicated in parentheses after his name in the follow- 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 (Richmond)
Mr. Shepardson
Mr. Szymczak

Mr. Riefler, Secretary
Mr. Thurston, Assistant Secretary
Mr. Thomas, Economist
Mr. Young, Associate Economist
Mr. Solomon, Assistant General Counsel
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

Mr. Rouse, at whose suggestion this meeting had been called by Chairman, said that about an hour ago he had a telephone call from Treasury to the effect that, based on reports they were receiving, uding reports from the Trading Desk, the price rise in the Govern- securities market which occurred earlier today had been dissipated, market was drifting lower, and a condition was developing which the sury could not, in its opinion, hope to deal with and which Under

Secretary Baird thought was a responsibility of the Federal Reserve System. While the Treasury felt that it had some justification in helping the market for the 2-5/8 per cent bonds of 1965, it did not feel justified in easing the market down in other issues. The Treasury felt that this meant going into the market on a broad basis and that the Federal Reserve had a responsibility.

As to the international situation, Mr. Rouse reported news on the ticker of a demonstration in Moscow against the United States Embassy and a demonstration in Potsdam against the United States Military Mission there.

Mr. Rouse went on to say that since the call from the Treasury the market had not gone down much but that there was pressure. The 2-5/8s were now below 98, and there were some reports from bank dealers that long-term bonds were being offered in fairly sizeable amounts.

In response to a question about the bid side of the market, Mr. Rouse said that one or two dealers were actually buying a few bonds. However, they felt that they were getting fairly well filled up on what they planned to do at this price level.

Mr. Rouse then stated that there was not in his judgment a disorderly market, but that he had the feeling that there was one in the making.

Chairman Martin asked Mr. Rouse whether another meeting at 2:00 p.m. would permit a clearer picture, and the latter indicated doubt. He thought it would be just about the same picture of lower prices and a continuing volume of securities for sale. On the Treasury rights, he said, the bid side of the market was close to one per cent, and the long bonds were working pretty close to a yield basis of 3.5 per cent.

Mr. Rouse then reported that Under Secretary Baird had now called again and said that on the 2-5/8s the Treasury was making available $10 million to ease the market step by step as they went down.

Chairman Martin said that Mr. Baird had expressed great concern about the market and the responsibility of the Federal Reserve System. He had told Mr. Baird that the Federal Open Market Committee was going to hold a meeting but had made no commitment of any sort.

The Chairman then asked the Manager of the Account what, in his opinion, could or should be done. The Manager, he noted, did not feel that it was a disorderly market.

Mr. Rouse replied that there were a few bids, but not in any volume. He saw a threat to the impending Treasury financing and in the present situation, he said, one must think in terms of a national emergency involving international affairs as against a purely domestic situation. Mr. Rouse went on to say that he had not had an opportunity to develop any well thought-out plan. He thought that the Treasury would continue its support of the 2-5/8s. It was a case, he said, of trying to maintain some order in the market, and bids were not available.

Mr. Rouse then stated that he would recommend that the Committee authorize purchases of bonds for the Account today up to a certain dollar amount in order to steady the market wherever soft spots appeared. Then on Monday a decision could be made on whether any action was necessary as to the rights.

Mr. Hayes said that although he had never quite understood what a disorderly market was, he thought the present market was close to it. He did not like the idea of taking too great a risk by failing to make any move, particularly in view of the international situation. Therefore, he would advocate doing what Mr. Rouse proposed.

The Chairman then noted that the proposal had not been defined in terms of dollars. Mr. Rouse indicated that he thought $25 million today would do quite a lot of good, based on experience with the 2-5/8s over the past few days. Looking ahead, he would think that that many dollars through Wednesday might do quite a bit of good. He was not advocating a pegging operation. Rather, he was thinking in terms of maintaining some semblance of order in the market and having some transactions executed.

After further discussion, Mr. Rouse suggested that for today a maximum purchase authority of $50 million be fixed, but added that he would expect that less than $25 million would have to be used.

Mr. Hayes, the first member of the Committee to express his views, pointed out that this was his first experience with a condition of this kind. However, logic called for doing something in view of what the Treasury considered an incipient failure of its financing. He would like to see the Account do some resistant buying.

Mr. Irons said that, as he understood it, there was not at the moment a disorderly market, but it was highly possible that one would develop. There was a danger, in the Treasury's mind, that its forthcoming issue of 1-5/8 per cent certificates would be a failure in large degree, and this danger was considered to arise out of the whole general atmosphere in the market. He questioned whether spot purchases would result in giving the impression of a better market and assure the success of the Treasury issue. What the proposal really meant was buying in the intermediate- and long-term market where there were soft spots with the idea of avoiding a disastrous situation at the time that the Treasury was operating in the market. He would be reluctant to support the proposal, but Mr. Rouse was closer to the market and he would accept his judgment on the matter. If Mr. Rouse felt that a disorderly situation was in the making and could lead to disastrous effects, he would be guided accordingly. However, he doubted whether anything that the System could do short of buying the rights would assure that the Treasury issue would be a success.

Mr. Rouse agreed with Mr. Irons but commented that the intermediate and long-term bonds influenced the whole market atmosphere and that the System might be of some help at the outset. It might be that on Monday or Tuesday the System would get involved with the rights situation.

Mr. Rouse reported that the new 2-5/8s were now being offered to the Account at 97-30/32.

Mr. Leach stated that he was impressed by what Mr. Rouse had said. After verifying that the proposal was for authority to purchase on an "if and when desirable" basis, in the light of existing conditions as seen by the Manager of the Account, he said that he would go along with the proposal.

Mr. Mills said it was his feeling that the plan proposed by Mr. Rouse would merely constitute temporizing with the market in the same manner and with the same potential results as were reflected by the Treasury's support of the 2-5/8 per cent bonds. Therefore, he would not vote for the plan. However, he would be entirely willing to proclaim a disorderly market and to intervene vigorously in all areas of the market and that in the discretion of the Account Manager deserved support. Also, he would make a public announcement of such intervention. It was his view that the reaction to such an announcement would be such as to require very little in the way of purchases of securities, and that the announcement would give the proper tone and support to the Treasury in its impending financing.

Mr. Robertson said that his view was somewhat similar to that of Mr. Mills. He would not support the proposal of Mr. Rouse on the strength of a merely incipient disorderly market. On the other hand, he would not substitute his judgment for that of Mr. Rouse regarding the existence of a disorderly market; if Mr. Rouse should conclude that the market was disorderly, he would go along with the suggestion of Mr. Mills. In such a situation he would support the market, and he would announce that decision in order not to have to get into the market any more than necessary. On the basis of available information, it did not appear to him that there was now a disorderly market.

Mr. Shepardson stated that it seemed to him that the situation had not developed sufficiently to justify taking vigorous action at this time. He was disturbed about what would be accomplished by the small amount of purchases Mr. Rouse had suggested. However, if action were to be taken at all at this time, he would favor Mr. Rouse's suggestion rather than any major move. In other words, he did not particularly favor Mr. Rouse's proposal but he would go along with it in preference to stronger action.

Mr. Fulton said he felt there was enough speculative holding of bonds to keep the market weak for some time, and he doubted whether a small amount of purchases would relieve the situation. However, if Mr. Rouse thought that this was the thing to do, he would go along. He felt that a public announcement might be a rather bad thing in the light of developments abroad. In summary, he would go along with the Rouse proposal as a small probing operation to see whether the market had reached the level it was seeking. If not, the System could hardly, without a massive effort, change the market very much or give it great strength.

Mr. Szymczak said that no one knew, of course, what might happen or what the System might have to do. Therefore, at this writing he would go along with Mr. Rouse, who was close to the market. He would then leave the situation to Mr. Rouse, with the understanding that any significant developments would be reported by him. Over the week end another look could be taken with a view to determining longer-range possibilities.

Mr. Balderston said that he, too, would favor the recommendation of Mr. Rouse. He did not think that a massive effort today would be warranted since Mr. Rouse had indicated that there was not a disorderly market. If a small action today would help the market recede from its present level to a lower one in an orderly fashion, the Committee would have helped the Treasury financing at a juncture which was a very serious one for the nation. As to whether further steps should be taken later, he was uncertain at this time, but he would not want to vote against the Rouse proposal because he hoped that a minor action today would prove sufficient.

Chairman Martin said that he would vote for Mr. Rouse's proposal reluctantly. He was uncertain whether it was the answer; in fact, he was somewhat dubious, but nobody could be sure and it seemed necessary to experiment. He would not want to declare this a disorderly market in the absence of something more drastic than had occurred, and he felt that a public announcement at the present time would be a mistake.

Mr. Hayes inquired of Mr. Rouse whether the market would know that it was the System Account that would be making the purchases rather than the Treasury. Mr. Rouse replied in the negative.

Mr. Rouse commented that the state of the market was not good. He shared the Chairman's sense of reluctance, but he had come to his recommendation in the light of the Treasury's position and the international situation, and felt that it was the right one. As to its being a probing operation, he felt that it would be just that. The Committee and the Treasury would have to be talking as the days went by, and if the market got to a sustainable level, something worthwhile would have been accomplished.

Chairman Martin inquired of Mr. Rouse whether it would be the intention to buy on scale down, and the latter replied that it was, not 32d by 32d but on an irregular declining basis.

Chairman Martin then stated that he understood that Messrs. Mills and Robertson wished to vote adversely on the proposal, which was to authorize the Federal Reserve Bank of New York to purchase for the System Open Market Account in the open market this afternoon $50 million or less of Government securities at the discretion of the Manager of the Account on scale in whatever sectors of the market the Manager might deem appropriate in order to steady the market.

In further explanation of his position, Mr. Mills stated that in his opinion the plan proposed by Mr. Rouse, especially with purchases on a declining scale-down basis of prices, would do very little to restore confidence in the market. When it became known publicly--as it certainly would--that the Federal Reserve was buying other than bills for its own account, he feared that if there should be a disorderly market by Monday, the correction of it would have been seriously handicapped by temporizing and fluttering around the edges of the market with minor purchases at this time.

Mr. Robertson said that he agreed completely. In his opinion, adding an additional amount of money, some of which would go to support the 2-5/8s that the Treasury had been supporting, would be the wrong policy to pursue.

Thereupon, with Messrs. Mills and Robertson voting "no" for the reasons they had stated, authority was granted to the Federal Reserve Bank of New York

> to purchase for the System Open Market Account in the open market this afternoon $50 million or less of Government securities at the discretion of the Manager of the System Open Market Account on scale wherever the Manager deemed it appropriate in order to steady the market.

Chairman Martin stated that in the absence of developments which might indicate otherwise, another telephone meeting of the Committee would be held on Monday, July 21, at 11:00 a.m.

Thereupon the meeting adjourned.

Winfield W. Riefler
Secretary

A meeting of the Federal Open Market Committee was held on Friday, July 18, 1958, at 2:30 p.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 (Richmond)
Mr. Shepardson
Mr. Szymczak

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. Keir, Acting Chief, Government Finance Section, Division of Research and Statistics, Board of Governors
Mr. Larkin, Assistant Vice President, Federal Reserve Bank of New York (New York)

Mr. Rouse stated that as the plan approved at the 1:00 p.m. meeting of the Federal Open Market Committee was being put into effect he was called by Mr. Larkin and participated in some conversations which indicated that selling in the Government securities market was increasing and spreading through the list. Bids were disappearing, and about the only bids were those put in by the System. Indications were that volume was getting to be considerable. Several dealers had been heard from to that effect.

Mr. Larkin stated that at the conclusion of the last Committee meeting the Trading Room was informed by several leaders in the business that there were almost no bids, particularly on Treasury issues in the critical list, including the 2-5/8 per cent bonds of 1965. One and one-half hours ago the price level on the 2-5/8s was in the neighborhood of 98 or slightly lower. Now it had dropped further and the volume of selling seemed to be picking up. Until recently, the selling seemed to be mostly speculative-type selling. However, with prices falling and dealers withdrawing their bids, there were reports of increasing institutional selling. While the selling was not very substantial, it showed the way the wind was blowing. Dealers were reporting that the market was tending to feed on itself, and holders, including institutional investors, were interested in selling. The 3-1/2s of 1990, Mr. Larkin said, were now slightly below par, almost a point from the high level of this morning and off a quarter from last night's closing level.

Summarizing the situation, Mr. Larkin said that in the aggregate the volume of liquidation of bonds overhanging the market was not huge but was growing. If the present atmosphere were to continue and prices moved downward, he felt that gradually the supply of securities overhanging the market would increase substantially. There was the danger of a snowballing movement, with the market tending to feed on itself, and that obviously would work its way into the Treasury financing. Continuing, he said that rights could now be purchased cheaper than Treasury bills. The volume of securities being sold, the volume of securities overhanging the market, and the willingness of investors--including institutional holders--to sell all seemed to be building up rather significantly. If conditions continued to deteriorate and prices declined further, the over-all interest in liquidating securities could build up substantially.

Mr. Rouse said that in the light of that picture, he had called Chairman Martin and had said that he thought he would now have to call the market disorderly. In the circumstances, the remarks of Messrs. Mills and Robertson at the earlier meeting of the Committee began to have point, and he therefore had suggested this meeting of the Committee so that the situation could be reported. The funds available under the previous authorization, and the basis on which they were to be used, would now appear to be inadequate, and he would like to have the views of Messrs. Mills and Robertson considered by the Committee. Mr. Rouse then suggested the possible text of the announcement, if it should be decided to make one following a decision by the Committee favorable to a proposal such as had been advanced by Messrs. Mills and Robertson.

Mr. Hayes said that he had followed the situation closely since the last meeting of the Committee. The evidence was quite clear before that the Committee was dealing with an incipient disorderly market, and it now appeared to him that the market could be described as disorderly. In view of that situation, and in view of the fact that the approach before was tentative and probing in nature and might not have the desired effect, he felt that the Committee would have to take a more positive approach in order to try to stabilize prices for the time being.

Mr. Irons said that, as he saw it, the Manager of the Account felt that there was actually a disorderly market and that means must be taken by the System to restore stability, rather than a probing operation. He had expressed doubt before whether probing would accomplish the purpose, but thought it desirable to try it first. Now, with a disorderly market, the System could not stand by and let the market move on its own. Therefore, he would be prepared to take aggressive measures, and they might need to be quite aggressive. He saw merit in a public announcement, but it would have to be carefully worded in view of the whole complex of factors, including the international situation.

In reply to a question by Mr. Leach, Mr. Rouse said that about $10 million of securities had been purchased for the System Account under the previous authorization.

Mr. Leach then said he was fairly well convinced that the market was now in a disorderly condition and that it would be necessary to liberalize the earlier authorization. He felt that it would be advisable to make a public announcement, provided it was carefully worded.

Mr. Mills concurred in the view that the System should intervene in the market aggressively, with an appropriately worded public announcement. If a ceiling amount were to be authorized at the present time, he would suggest $200 million, to be appropriated by the Account Manager in his discretion.

Mr. Robertson said he would accept the judgment of the Manager of the Account as to whether the market was disorderly. He would not impose any limitation dollarwise on the authority given, leaving that entirely to the Manager's judgment. He would make a public announcement but say nothing about the speculative elements in the market. Otherwise, he would proceed in accordance with the judgment he expressed at the Committee meeting earlier today.

Mr. Fulton indicated that he would be reluctant to give any comfort to the speculators in the 2-5/8 per cent bonds. Otherwise, he would support the market all along the line.

Mr. Shepardson inquired of Mr. Rouse whether he would contemplate support at a fixed level or on a scale following the market down, and Mr. Rouse replied that for the time being he would have to use the word "pegging." He added that, as Mr. Mills and Mr. Robertson had suggested earlier, the announcement itself might help a great deal and tend to minimize the volume of operations that may be necessary.

Mr. Shepardson said that he would hate to see the market pegged at this level. No matter what had to be done, however, he would now favor going ahead with the announcement.

Commenting on Mr. Shepardson's point, Mr. Rouse said that the longer-term bond market had declined so substantially that the risks were minimized compared with anything that had prevailed for many months.

Mr. Shepardson then repeated that he would go along with the recommendation. However, he would hate to see a pegging at the present level. He felt that further adjustment downward was needed.

Mr. Rouse responded that he did not have in mind pegging in a rigid sense; that is, at 32ds.

Mr. Szymczak said that if the System was going to peg, it would have to peg where the weakness was greatest and where there was reasonable assurance that the securities could be held at those prices. Then the System could follow a pattern of rates. What that would take he did not know, but he was in favor of an announcement and aggressive action as soon as possible.

Mr. Balderston said that he favored Mr. Rouse's proposal. It would be his preference, however, to see some scaling down because he believed that the present level of prices was higher than could be maintained permanently. As to the announcement, he would confine it to a bare statement of the fact that the Federal Reserve was operating in the market and not confining its purchases to the short end. He would leave the interpretation of the action to others.

Chairman Martin stated that he would support the recommendation of the Account Manager and felt that the Committee should give him (the Manager) maximum discretion to handle the situation in the way he thought best.

The Chairman then read the text of an announcement that had been drafted by Mr. Thurston, and certain minor changes were suggested.

With reference to the comment made by Mr. Fulton in regard to the 2-5/8s, Mr. Hayes said that he would question letting them drift when they were the weakest point on the market. He felt that the Manager should be allowed to operate in them as well as other issues.

Chairman Martin replied that the Committee would be giving the Manager maximum discretion. He could take the comments of Mr. Fulton and others as guides, but he would have to make up his own mind.

Mr. Fulton stated that he had not intended to enter a caveat. He would be content with a show of reluctance toward the 2-5/8s.

Mr. Robertson said that the System would be in effect pegging at the existing level. If, however, the action were repealed and the Committee then entered into this another time, it would use a different level--hopefully a lower one--to do its pegging on.

Chairman Martin commented that he thought this was understood by all of the Committee members. However, it would not be easy to move out of this operation. The authorization would be in effect through next Wednesday at the minimum.

Mr. Robertson stated that he agreed completely, and Mr. Hayes said that he and Mr. Rouse both agreed with the principle Mr. Robertson had expressed. The Chairman commented that he also would hope for a lower level at a later date, but that the Committee must realize the possibility of serious difficulties ahead.

Question was raised whether a dollar limitation should be put on the proposed authorization, and the comments were to the effect that no need for a limitation was seen.

> Thereupon, by unanimous vote, authority was granted to the Federal Reserve Bank of New York to purchase for the System Open Market Account in the open market, without limitation, Government securities in addition to short-term Government securities.
>
> The Manager of the System Open Market Account was authorized to give instructions for the immediate implementation of this authorization.

The following announcement was approved by unanimous vote and the Federal Reserve Bank of New York was authorized to release the announcement to the ticker immediately:

In view of the conditions in the U. S. Government securities market, the Federal Open Market Committee has instructed the Manager of the Open Market Account to purchase Government securities in addition to short-term Government securities.

Mr. Rouse said he understood that this authorization would include the purchase of rights, and there was no disagreement. Mr. Rouse considered mention of this point in the public announcement unnecessary, for if the System bought a few rights the word would get around quickly.

Chairman Martin said that he would inform the Secretary of the Treasury of the action taken by the Committee.

Thereupon the meeting adjourned.

Secretary's note: Upon being informed of the actions taken by the Committee today, Mr. Vardaman said that he concurred in each of them.

Winfield W. Riefler
Secretary