A meeting of the Federal Open Market Committee was held on Monday, July 21, 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. Szymczak
Mr. Shepardson
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. Keir, Acting Chief Government Finance Section, Division of Research and Statistics, 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 moving up in price this morning, continuing the movement that developed late last Friday after the announcement appeared on the ticker that the Federal Open Market Committee had authorized the Manager of the System Open Market Account to purchase, in the open market, Government securities other than short-term securities. The movement on Friday, he said, was difficult to measure in terms of 32ds, but roughly the price advance in the last quarter hour of trading amounted to 1/4 or 3/8 of a point. This morning the gains ranged up to an additional 14/32ds. For example, the 3-1/2 per cent bonds of 1990, which on Friday were purchased for the System Account below par, were up this morning to 100-7/8.

Mr. Larkin said that offers were remarkably small, both in numbers and volume; so far this morning there had been only a few offers of bonds. Hence no action had been taken today by the System Account with respect to intermediate or long-term issues. On Friday between 3:00 and 3:30, roughly $32 million of notes and bonds in five different issues were purchased for the System Account. Nothing had been done on the rights.

Mr. Larkin continued by saying that the consensus of the market now is that the average rate at the Treasury bill auction today would be below one per cent, although some people in the market thought that the rate might go up to one per cent or a little higher. There was conjecture in the market as to what the System might do in Treasury bills; that is, whether it would sell bills or let them run off, particularly the latter. As to the rights, the situation had not improved. They were available in the market; although not in huge amounts, offers were appearing. It was more a matter of the level than one of magnitude. Together with the general atmosphere, the situation was not one which would encourage the exchange of maturing securities.

Mr. Larkin then went on to report other aspects of the market situation this morning, including the picture on bank reserves and reserve projections. His report is summarized in a memorandum by Mr. Thomas dated today. In accordance with the customary practice, Mr. Thomas' memorandum has been sent by wire to all of the Federal Reserve Banks and a copy has been placed in the files of the Federal Open Market Committee.

In concluding his report, Mr. Larkin said that the Treasury bond market was taking care of itself. There were some signs of a two-way market developing as prices went up, but that remained to be seen. The System Account did not intend to follow prices up, but rather to stay out of the market.

Mr. Larkin then referred to the question of whether anything should be done with respect to the rights and when-issued securities. All things considered, the Account Management had decided to purchase the when-issued securities rather than the rights on the theory that this would contribute more help and would defer the release of reserves until the first of August, when perhaps the problem could be dealt with better than tomorrow or Wednesday.

Mr. Larkin noted that the System Account held nearly $200 million of Treasury bills which would mature this Thursday and said that the Management was considering the possibility of running off some or all of them. However, a final decision would not be made until it could be seen what happened as far as market conditions were concerned. At present, it was the intent to run the bills off, but this was subject to change depending on market developments and the need for Federal Reserve operations in the market.

Mr. Leach inquired whether the Treasury bought any securities Friday and whether it had any orders in now, to which Mr. Larkin replied that the Treasury was out of the market today and that it did not buy anything during the last hour on Friday. He added that the authority had been virtually used up.

After Mr. Robertson expressed agreement with the thought that the System should not be buying at the higher prices reported by Mr. Larkin, the latter commented that prices had been marked up rather sharply and that it remained to be seen whether they would hold. He went on to say that the Desk had a couple of foreign orders for Treasury bills, which at present it intended to supply from the System Account.

Mr. Irons commented that he thought the System had done all that it could from the standpoint of correcting a disorderly market. He favored the idea of running off the Treasury bills. He then asked whether the System would gain much in the long run by making purchases of rights or when-issued securities.

Mr. Larkin said he would like to think that some operations in that sector of the market would be helpful and might encourage holders of the maturing securities to exchange if they had been on the fence. Otherwise, as a leading dealer said Friday, the Treasury refunding could turn out to be the worst failure in the history of Treasury financing. Unless the rights improved in price, it might turn out to be just that.

Mr. Irons stated that this would be a precedent suggesting that whenever a Treasury issue looked doubtful the Federal Reserve should step in. He warned that the Committee should realize what it might be building up for itself in the future.

Mr. Larkin responded that this was a most unusual situation, particularly in view of the international situation. He said that the Account Management did not have in mind the establishment of a precedent. It was something that the Management abhorred as much as anyone. There was full agreement, he said, that this should not be regarded as establishing a precedent.

Mr. Robertson said that he concurred in the views expressed by Mr. Irons, and Mr. Larkin said that the points Mr. Irons had raised were recognized and accepted. Mr. Larkin also said he had been informed that prices were holding where they were at the start of the telephone meeting. (It was now 11:30.)

Mr. Thomas was then asked by Mr. Larkin if Chairman Martin had any comments to make on the approach outlined. Mr. Thomas replied in the negative.

The meeting then adjourned.

Winfield W. Riefler
Secretary