PREFATORY NOTE

These transcripts have been produced from the original raw transcripts in the FOMC Secretariat's files. The Secretariat has lightly edited the originals to facilitate the reader's understanding. Where one or more words were missed or garbled in the transcription, the notation "unintelligible" has been inserted. In some instances, words have been added in brackets to complete a speaker's thought or to correct an obvious transcription error or misstatement.

Errors undoubtedly remain. The raw transcripts were not fully edited for accuracy at the time they were produced because they were intended only as an aid to the Secretariat in preparing the records of the Committee's policy actions. The edited transcripts have not been reviewed by present or past members of the Committee.

Aside from the editing to facilitate the reader's understanding, the only deletions involve a very small amount of confidential information regarding foreign central banks, businesses, and persons that are identified or identifiable. Deleted passages are indicated by gaps in the text. All information deleted in this manner is exempt from disclosure under applicable provisions of the Freedom of Information Act.

Federal Open Market Committee

Conference Call

January 18, 1985

PRESENT: Mr. Volcker, Chairman
Mr. Corrigan, Vice Chairman
Mr. Boehne
Mr. Boykin
Mr. Gramley
Mrs. Horn
Mr. Martin
Mr. Partee
Mr. Rice
Ms. Seger
Mr. Wallich

Messrs. Balles, Black, Forrestal, Keehn, and Timlen, Alternate Members of the Federal Open Market Committee

Messrs. Guffey and Morris, Presidents of the Federal Reserve Banks of Kansas City and Boston, respectively

Mr. Bernard, Assistant Secretary
Mr. Bradfield, General Counsel
Ms. Steele, Deputy Assistant Secretary
Mr. Kichline, Economist
Mr. Truman, Economist (International)

Mr. Kohn, Associate Economist

Mr. Sternlight, Manager for Domestic Operations, System Open Market Account
Mr. Cross, Manager for Foreign Operations, System Open Market Account

Mr. Roberts, Assistant to the Board, Office of Board Members, Board of Governors

Transcript of Federal Open Market Committee Conference Call Held on January 18, 1985

CHAIRMAN VOLCKER. [Unintelligible], but certainly the sense was that we were talking in that kind of time frame and that if there were a pronounced tendency for the dollar to strengthen, it should be combated in a more or less concerted way. This would involve all the G-5 countries in one way or another in principle and might involve some other European countries as well. So having in a sense agreed to that approach, I thought we'd better review it with the Committee before we went any further. We haven't done anything but say we stand now prepared to do something. All this would be in conjunction with the Treasury, as we have been operating, should the dollar strengthen appreciably this afternoon. On Monday the New York market will be closed, so this probably won't be operational for us on Monday unless there are some fringe markets. But on Tuesday or Wednesday, let's say, if the dollar strengthened appreciably, we would be prepared to operate potentially--not necessarily, but potentially--in greater size than we have operated for some time. There is no precise indication of size but I mention that because we've tended to do little dribbles when we have [intervened] recently and this might be a bit more than a little dribble if the need were such.

I don't think there's any need for any operational decision in terms of directives or limits. We have adequate limits of various sorts for the moment. I don't think it's inconceivable that we would run through some of these limits if the dollar were really strong, but we're not in any imminent danger of doing that. That, of course, would be a point for further review. I don't know whether Mr. Cross or Mr. Truman have those limits more closely in mind. They might run through those for us; and Mr. Cross in any event can give us a little summary of what has been happening in the exchange markets recently. Why don't we start with the limits? Do Mr. Truman or Mr. Cross have them more firmly in mind?

MR. TRUMAN. I think we both do. Why doesn't Sam do both, and then we will only listen to one voice.

CHAIRMAN VOLCKER. Go ahead, Sam. We probably don't have New York [on the line].

SPEAKER(?). Who do we have on this call?

MR. BOEHNE. Philadelphia just came on late.

CHAIRMAN VOLCKER. Do we have anybody else?

MR. FORRESTAL. Atlanta's here.

MR. KEEHN. On in Chicago.

MR. BOYKIN. Here in Dallas.

MR. BALLES. San Francisco.

MR. GUFFEY. Kansas City's on.

MR. BERNARD. Boston should be on.

MR. CROSS. Can you hear New York? New York is on.

CHAIRMAN VOLCKER. Where have you been?

MR. CORRIGAN. Where have you been, Sam?

MR. CROSS. We've been on for about the past five minutes but no one could hear me. Can you hear me now?

SEVERAL. Yes.

MR. CROSS. All right. Let me proceed. [The overall limit] on balances for all currencies as you recall is $6-1/2 billion, and we have available under that overall limit $1-1/2 billion. So we're very comfortable there. This is broken down into [informal limits on] deutschemarks, yen, and other currencies. The other currencies [category] would be relevant if we were to intervene in other than the DM or the yen, namely in sterling. We have available under that limitation $167 million at the present time. So, our authorized balances are not in danger of being breached at this moment.

With respect to the market, let me give you a little rundown: Immediately prior to the time Secretary Regan spoke yesterday, which was very late in the course of our day--our markets were closing--the dollar was cruising around 3.175 marks. The other currencies had moved more or less similarly vis-a-vis the mark. After his statement, there was an initial fallback in the dollar in the South Pacific and other markets that were open; it fell back about 2 pfennigs. But after hitting these lower levels and when the Far East became more active, there were buyers for dollars at these lower levels and that seemed to cover professionals and speculators. We heard the usual--that speculative operators were in there, namely the Russians and South Africans and so forth. As a result of all this, the dollar then rose again somewhat and opened in Europe at about 3.165 marks. During the course of the European day the dollar was fairly quiet. It just barely touched 3.18 marks once or twice but generally speaking was in the 3.17 to 3.175 range during Europe's day. Since I've been sitting here the dollar does seem to be rising and has now gone up above the 3.18 level; it's getting close to 3.185.

The attitude towards Secretary Regan's statement seems to vary considerably among the various market participants. A number of them called attention to the fact that it was cited as a reaffirmation of the Williamsburg agreements, and they tend to think that that makes it likely not to be of major significance--that it might be something to placate the Europeans. But there are a number of people who have read the Regan statement as reflecting the possibility, certainly, of something aimed at communicating more than that. And the market is wary. They read the comments that there may be some surprises and that we might operate on occasions when it would be helpful and not just [to counter] disorderly market pressures as in the past. So, there is a general wariness and uneasiness. And there is some likelihood that the market, either in the course of today or relatively soon, will try to test some of these [intervention] points and get a better understanding of the meaning of the Group of 5 statement. As of now, that's the general picture. I think very few people believe that it reflects any fundamental modification of our

policy. But there are quite a few who think that it may have some significance and they are rather wary because of that. Thank you.

CHAIRMAN VOLCKER. The significance of this phrase that Mr. Cross used about being helpful--I don't remember the exact words, but the Williamsburg Communique said something to the effect that we were all prepared to intervene when it was mutually agreed that it would be helpful. That is a nice diplomatic formulation of saying one will intervene when everybody agrees. And that's the wording that was used to some degree yesterday. I guess the conclusion yesterday was that it was a mutual agreement that it might [not] be helpful if the dollar strengthened appreciably at this point. So, that's where we are. And if it's strengthening enough now it may become operational today.

MR. PARTEE. Paul, was there any view about the pound? Was that looked at separately?

CHAIRMAN VOLCKER. Well, there was some discussion of that and I think it was in this context: that if you could imagine a pound problem really insulated from this and not accompanied by the general strengthening of the dollar, this doesn't apply.

MR. PARTEE. It does not apply?

CHAIRMAN VOLCKER. In that particular circumstance, I think it's fair to say that it was not thought to be likely. One could envisage a situation in which the pound was weaker than the others fairly easily, but there is a general movement that leaves a little haziness around it. But it's not operational so far as we're concerned. Now, the British might want to do something specifically directed at sterling.

MR. PARTEE. Well, I suppose it's conceivable that we might want to do intervention in sterling rather than in marks. We haven't for a long time.

CHAIRMAN VOLCKER. The amount of sterling intervention we have done that has not been part of a swap arrangement or something like that is nil, or close to nil, historically. The general thought here is that, if and when we operate, it would be unlikely to be in sterling alone. It would more likely be in the mark alone than in sterling alone. But it might well be in both or in mark, sterling, and yen.

MR. RICE. Why not in sterling?

CHAIRMAN VOLCKER. I don't know whether you heard it, but the question was rather quietly put by Governor Rice: Why not in sterling alone? I don't exclude it entirely on any particular day. We're a little chary of getting into the business of wanting to support sterling specifically.

MR. RICE. That's where the need is greatest, is it not?

SPEAKER(?). We can't hear those comments.

MR. RICE. I said sterling is where the need seems to be greatest at the present time.

CHAIRMAN VOLCKER. Well, I think in one sense that is true. But it raises the question of sterling weakness rather than dollar strength; we have intervened in the mark or the yen on the basis of those being the other two leading world currencies and we're dealing with the general relationship of European currencies to the dollar. When one is dealing in sterling I don't think it has that implication, and I'm not sure we want to foster an implication that we are particularly concerned with a sterling support operation as opposed to a more general problem.

MR. PARTEE. So that's the context in which Sam says that $167 million leeway in sterling seems sufficient.

CHAIRMAN VOLCKER. You have to understand about all these figures that we're in this with the Treasury, so any buying that we do for our own account is multiplied by two in terms of what we do in the market.

MR. PARTEE. That's the understanding: that we and they will share?

CHAIRMAN VOLCKER. Yes. If the market pressures got strong enough--. Let me put it this way: I hope that we don't do an operation doomed to be ineffectual by its niggardly nature, which is what we've been doing recently. So, while I don't particularly expect it, I don't consider it inconceivable that we might end up with an amount of currencies that would involve raising the question of changing some of these informal limits.

MR. MARTIN. But the phrase "concentrated intervention," Mr. Chairman, implies that the Japanese and the Germans would be intervening along with us, right?

CHAIRMAN VOLCKER. "Concerted" not "concentrated."

MR. MARTIN. Okay.

CHAIRMAN VOLCKER. But we all will be intervening in our own markets, so the amount and timing of any intervention wouldn't be simultaneous necessarily. It could be simultaneous when the [hours of operation of the] markets overlap, but there was a clear understanding that if the development of the strength in the dollar was pronounced in Europe, they would intervene. We wouldn't do anything if it's in the European market; we both might be intervening if both markets were open. Let's take today, for example: the European markets are now closed and ours is open. We would be intervening alone today simply because we are the market in which the dollar's strength developed. But it's against this clear background that they would pick it up if it continued strong on Monday in Europe. They wouldn't do anything in Europe if the dollar weakened. And as I said, there's no specific time limit on this operation, but nobody is talking about a commitment here for months. Basically, we're talking in the context of the next week; and then we'll see what happens.

MR. FORRESTAL. Mr. Chairman, this is Bob Forrestal. I'd like to ask this question: What do you sense, from your talks, is the specific strategy or the objective over the next two or three weeks or

whatever it might be--to hold the dollar at a prearranged level or actually to bring the dollar down, say, below 3.17 deutschemarks?

CHAIRMAN VOLCKER. Neither. I think everybody would be relatively content, or more than relatively content, if the net result with intervention or without intervention was that the dollar ended up somewhat lower than it has been. But we were quite clear that we did not want to make this operation an overt "drive-the-dollar-down operation"--that it was U.S. policy to get the dollar down and that we were going to drive it down by pushing on a declining dollar operationally. People certainly would be happy about not seeing the dollar go up, and they will intervene as it goes up, but there is no fixed target. If the strength is great enough, it will go up; and I'm sure there is a hope that [unintelligible]. First of all, there is a hope that maybe with the announcement and with normal market developments it won't go up at all and that maybe there won't be any intervention. If there is, I'm sure there is some hope that the display of the announcement and the intervention will result in the dollar not going up. But there's nothing magic about a particular number.

MR. PARTEE. Well, I'm no great supporter of intervention as you know, but I do think the situation has become extreme enough that it is called for. I think it's a good move.

CHAIRMAN VOLCKER. In the absence of other comments, I will assume that there is no pronounced objection. I don't think we have to--though we may well want to--put in the record that we had this consultation. It's perfectly natural, considering the decisions that were taken [by the G-5]. But I don't think we're going to make any decisions, because I think it is all in accordance with our operating directive and so forth.

While I have you all, if anybody has any comments or burning questions about the domestic scene or operations you can make a comment or raise a question. Operationally, of course, with all the fluctuations and misses and near misses that we have had, we're operating basically the same as we did when we came out of the Open Market Committee meeting, however many weeks ago that was. You know what the money supply figures are; they're stronger than anticipated by and large. But at least so far as M1 is concerned I think at this point it is clearly stronger but not extremely stronger; M2 and M3 are strong. As for the economy, some of the economic news is on the firmer side and you all know that. I don't know what other comments I ought to make. Hearing none from you, I will call the proceeding to an end. Thank you all.

END OF SESSION