

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date September 18, 1989

To Board Members (Individually addressed)

Subject: _____

From Normand Bernard *N.B.*

STRICTLY CONFIDENTIAL (FR)
CLASS I - FOMC

CARDER

Attached is a copy of a telegram being sent today to the President-members of the FOMC. If you vote to approve the proposal, please indicate as soon as possible by initialing below and returning this memorandum to my office.

Attachment

FOMC
Carol R. Lee

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: September 18, 1989

FROM: Normand Bernard *N.B.*

SUBJECT: Proposed Increase
in Warehousing Facility.

Attached is a memorandum from Chairman Greenspan requesting Committee approval of a Treasury proposal to increase the System's warehousing facility from \$5 billion to \$10 billion. Also attached is a memorandum from Messrs. Cross and Truman that provides some background information on the use of the warehousing facility.

Please indicate whether you vote to approve the proposed increase.

Attachment

September 18, 1989

TO: Federal Open Market Committee
FROM: Alan Greenspan 

SUBJECT: Expansion of Warehousing
Facility

STRICTLY CONFIDENTIAL (F.R.)
Class I - FOMC

As described in the attached memorandum by Sam Cross and Ted Truman, the Treasury Department has requested an increase in the System's facility for warehousing eligible foreign currencies by the Treasury and the Exchange Stabilization Fund (ESF) from the present \$5 billion to \$10 billion to enable the ESF to continue to participate in foreign currency operations consistent with U.S. policy to resist upward pressure on the dollar that could be counterproductive to the international adjustment process.

I believe the recommended increase in the System's warehousing facility for the Treasury and ESF is appropriate and desirable. It is fully consistent with the Committee's policy of close and continuous cooperation with the Treasury on U.S. foreign currency operations. I request the Committee's approval of this proposal.

Attachment

STRICTLY CONFIDENTIAL (F.R.)
Class I - FOMC

Historically, the FOMC first authorized warehousing in November, 1963, to enable the System to purchase (and simultaneously

sell forward) Italian lire from the ESF at a time when the Treasury's spot purchase of lire were threatening to exhaust the ESF's liquid holdings of dollars. Such warehousing operations were used on a number of occasions in the 1960s. In the late 1970s and early 1980s the facility was reinstituted, first, in connection with the sterling balances arrangements and, later, was used extensively to facilitate the Treasury borrowings of foreign currencies in private markets overseas.

Warehousing involves the simultaneous spot purchase of foreign currency by the System offset by a forward sale of the same amount at the same exchange rate; thus, no additional exchange rate exposure is involved for the Federal Reserve. Effects on reserves are offset routinely in Open Market operations, and the warehousing operations in 1989 have caused no special problems for the domestic desk.

As noted above, the existing warehousing facility of \$5 billion, which has been in place in that amount since December 1978, has now been fully utilized. Treasury has requested that the facility be increased from \$5 billion to \$10 billion. We recommend that the Committee approve the Treasury's request as provided for in Sections 1.A and 1.B of the Committee's Authorization for Foreign Currency Operations and contemplated in Section 3.B of the Committee's Foreign Currency Directive ("to facilitate operations of the Exchange Stabilization Fund"). This action requires a vote of the FOMC and would be recorded in the Committee's next Record of Policy Actions.