Authorized for public release by the FOMC Secretariat on 3/13/2023 BOARD OF GOVERNORS OF THE

FEDERAL RESERVE SYSTEM

Office Correspondence	Date September 18, 1989	
To Board Members (Individually addressed)	Subject:	
From Normand Bernard (2		

STRICTLY CONFIDENTIAL (FR)
CLASS I - FOMC

CARDED

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

TELEGRAM

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

FROM: Normand Bernard

SUBJECT: Proposed Increase in Warehousing Facility.

DATE: September 18, 1989

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 SUBJECT: Expansion of Warehousing

FROM: Alan Greenspan 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

Authorized for public release by the FOMC Secretariat on 3/13/2023

September 18, 1989

TO: Chairman Greenspan SUBJECT: Proposed Increase in

FROM: Sam Y. Cross and Edwin M. Truman Warehousing Facility

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

Since the August FOMC meeting, the U.S. monetary authorities have continued to intervene in the exchange market in response to further upward pressures on the dollar, although the scale of our dollar sales during this period (about \$1.9 billion) has been well below that during the late spring and early summer. Even so, the cumulative effect has been to deplete the liquid dollar resources of the U.S. Treasury Exchange Stabilization Fund (ESF) including the exhaustion of the existing warehousing facility of \$5 billion with the System. The ESF's liquid holdings of dollars, after adjustment for swap operations with Bolivia and Mexico, are about \$500 million. In the circumstances, Treasury has a need to restore its dollar liquidity, and has requested an expansion of the warehousing facility with the Federal Reserve to \$10 billion.

Warehousing enables the Treasury to utilize its foreign currency reserves to mobilize dollars in a way that is analogous to what is permitted for other ESF assets -- e.g., the ESF's holdings of gold traditionally have been used (and are being used to the limit) to obtain dollars from the Federal Reserve, and the ESF's holdings of SDR can be used (and are being used to the limit) in the same way. Such operations are limited to assisting in the financing of the Treasury's international, as opposed to its domestic, operations.

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.