BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date November 16, 1961

To FOMC FILES

From Mr. Kenyon

Subject:

CONFIDENTIAL (F.R.)

The following is a brief summary of a meeting held in the Board Room this morning at which Messrs. Mills, Robertson, Shepardson, King, and Mitchell were present, along with Messrs. Sherman, Kenyon, Thomas, and Yager of the staff of the Board of Governors.

Mr. Thomas reported on the weakness this morning in the Government bond market attributed in part to an article in the New York Herald Tribune alleging the existence of speculative positions in the recent Treasury refunding operation. After referring to the decline in price of the new 3-7/8 per cent bonds of 1974, Mr. Thomas reported that Mr. Rouse, Manager of the System Open Market Account, did not regard the market as disorderly but felt that some operations in longer-term securities might give support to the market or change its tone somewhat. According to Mr. Rouse, the Treasury had no funds that it could put into the market. Mr. Rouse had raised the question whether it was felt that he had authority, under the special authorization covering operations in longer-term securities, to move in a situation of this kind. The reserve picture and outlook did not call for putting any money into the market. Free reserves were at $487 million yesterday, with average free reserves for the statement week ended yesterday of about $515 million indicated and the prospect of an average of $650 million for the current statement week. However, the New York City banks were in a rather tight position yesterday and the free reserves estimated for the current statement week reflected high float figures.

After some further discussion of market developments, a conference telephone call was arranged so that those present could hear from Mr. Rouse.

In reviewing the situation, Mr. Rouse said that the weakness in the bond market did not appear to be feeding upon itself and that the bill market had steadied. With the steadiness that now also appeared to be developing in the 3-7/8's, he thought that perhaps the situation would improve. Also, the release of information that free reserves had averaged as high as $515 million during the statement week ended yesterday would be reassuring to the market. He felt, however, that an interpretation of the special authorization to permit some purchases of longer-term securities, if that seemed desirable, might be of help.

After further discussion, Mr. Mills stated to Mr. Rouse that, with one exception, those present felt that Mr. Rouse should use his discretion: if the situation appeared to him to call for moving into the long-term area of the market, that would be agreeable to all those present except Mr. Robertson.

Mr. Rouse indicated that the view of Mr. Hayes was similar to that of the majority view stated by Mr. Mills.

Mr. Mills also advised Mr. Rouse that Mr. Robertson saw no occasion for moving out into the long-term area in advance of a clear indication of necessity, which he did not see at this point. The remainder of those present, however, felt that if a troublesome situation appeared to be developing, it should be met in its early stages, and that Mr. Rouse would be the best judge of what action to take.

Mr. Rouse said that this gave him the help he needed.

Note: Later in the morning, during the regular eleven o'clock telephone call, Mr. Wayne expressed general concurrence with the majority view stated in this memorandum.

cc: Mr. Rouse.

KAK:zg