



BOARD OF GOVERNORS
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FEDERAL RESERVE SYSTEM
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CLASS II - FOMC

TO: Federal Open Market Committee

DATE: September 16, 1986

FROM: Normand Bernard *N.B.*

The attached note from Mr. Sternlight provides additional background information for the Committee's further discussion of transactions in Treasury coupon issues. This matter is listed under item 4 in the agenda for the meeting on September 23, 1986.

Attachment

September 16, 1986

TO Federal Open Market Committee SUBJECT: Further Note on System
Purchases of Treasury Coupon
FROM Peter D. Sternlight Manager Issues
for Domestic Operations
System Open Market Account

This note follows up last month's Committee discussion about the composition of the System portfolio and Desk purchases of coupon issues. A first attached table reproduces certain information provided earlier on the System's holdings of Treasury bills, Treasury coupons, and Federal agency issues. In addition this table provides a weighted average maturity measure of the System's holdings of Treasury issues and, for comparison, a similar maturity measure for all marketable Treasury debt outstanding. Further, the table gives what may be a more meaningful measure of the relative liquidity of holdings--namely, bills and coupon issues due within a year as a proportion of the total System portfolio. This latter measure, which also shows a rise in liquidity in the last several years, has had smaller swings over the past 25 years than measures such as the proportion of bills in the portfolio or the weighted average maturity of Treasury holdings. A second attached table shows the number and dollar volume of System coupon purchase operations in the market in the five years 1981-85.

As a focus for further Committee discussion, three possible approaches to future operations in coupon issues might be considered:

First: The Desk could discontinue regular or routine purchases of coupon issues, although retaining the option of using that market in special circumstances.

Second: The Desk could continue essentially the same practice as in recent years--fairly regularly meeting part of the long-term needs for additional holdings of securities in the coupon market. Typically, this has entailed two or three coupon buying operations in a year, totaling about \$3 to \$4 billion. (See Table II.)

Third: The Desk could scale back somewhat its use of the coupon market, in both size and frequency, as compared with the last several years. It could also emphasize further the recent practice of tilting rollovers in the large mid-quarter financings toward the shorter issues offered by the Treasury.

The preference of the Account Management is for a combination of the second and third options noted above--continuing about the same scale of contact with the coupon market as in recent years, but with a further leaning toward the shorter issues in the quarterly refundings. As noted previously, the recent scale of operations has kept us in touch with the coupon market without impairing the liquidity of our holdings--and in fact liquidity has increased as measured by various standards. The further leaning toward short-term issues in the quarterly refundings would be additional assurance against unintended lengthening of the portfolio

via the rollover process. This type of approach to our roll-overs, which would not affect the amounts of each issue being offered to the public, has been mentioned informally to Treasury debt management officials and it seems to cause them no concern.

Att.

COMPOSITION OF SYSTEM PORTFOLIO
(holdings in billions of dollars)

Year End	TREASURY BILLS			TREASURY COUPONS			AGENCIES			Bills + Coupons due in 1-year As % of Total Portfolio	Weighted Average (in months) Total System Holdings	Matur- Outstanding Date
	Total System Portfolio	Change from Previous Year	As % of System Holdings	Total System Portfolio	Change from Previous Year	As % of System Holdings	Total System Portfolio	Change from Previous Year	As % of System Portfolio			
1960	27.0		10.7%	24.1		89.3%				55%	19	58
1961	28.7	1.7	11.1%	25.5	1.4	88.9%				61%	21	58
1962	30.5	1.8	8.0%	28.0	2.5	92.0%				57%	20	59
1963	33.6	3.1	12.3%	29.4	1.4	87.7%				67%	17	64
1964	35.5	2.9	16.6%	30.5	1.0	83.4%				57%	18	60
1965	40.5	4.0	22.5%	31.4	0.9	77.5%				61%	16	64
1966	43.7	3.2	27.0%	31.9	0.5	73.0%				80%	15	59
1967	49.0	5.3	32.6%	33.0	1.2	67.4%				64%	17	55
1968	52.9	4.0	35.4%	34.2	1.2	64.6%				54%	26	59
1969	57.2	4.2	39.0%	34.9	0.7	61.0%				63%	24	48
1970	62.1	5.0	41.8%	36.2	1.3	58.2%				58%	24	44
1971	69.5	7.3	43.4%	38.8	2.7	55.9%	0.5	0.5	0.7%	51%	26	42
1972	71.1	1.6	41.7%	40.1	1.3	56.4%	1.3	0.8	1.8%	53%	23	39
1973	80.4	9.3	45.9%	41.6	1.4	51.7%	1.9	0.6	2.4%	57%	23	38
1974	86.2	5.8	44.3%	43.3	1.7	50.2%	4.7	2.8	5.5%	54%	25	36
1975	93.3	7.1	40.4%	49.5	6.2	53.1%	6.1	1.4	6.5%	50%	31	32
1976	100.1	6.8	38.5%	54.7	5.2	54.7%	6.8	0.7	6.8%	49%	34	31
1977	110.3	10.2	38.9%	59.4	4.7	53.8%	8.0	1.2	7.3%	52%	38	35
1978	119.0	8.7	36.8%	67.3	8.0	56.6%	7.9	-0.1	6.6%	45%	48	39
1979	129.3	10.3	38.7%	71.0	3.7	54.9%	8.2	0.3	6.4%	52%	49	48
1980	131.3	2.0	35.8%	75.6	4.6	57.6%	8.7	0.5	6.7%	45%	55	45
1981	139.8	8.5	37.4%	78.4	2.8	56.1%	9.1	0.4	6.5%	47%	53	48
1982	147.9	8.1	39.1%	81.2	2.8	54.9%	8.9	-0.2	6.0%	51%	49	47
1983	164.3	16.4	43.2%	84.7	3.6	51.6%	8.6	-0.3	5.3%	55%	50	49
1984	171.5	7.2	43.7%	88.2	3.4	51.4%	8.4	-0.3	4.9%	53%	52	54
1985	190.1	18.6	47.1%	92.4	4.2	48.6%	8.2	-0.2	4.3%	58%	49	59
1986*	194.7	4.7	48.4%	92.4	0.0	47.4%	8.1	-0.1	4.2%	59%	47	61

Note: System holdings are on a commitment basis and therefore exclude both matched transactions and repurchase agreements. Changes are computed in millions before rounding to billions.

* June 30

Table II

SYSTEM PURCHASES OF TREASURY COUPON ISSUES 1981 - 1985

	Number of Occasions of Market Purchases	Total Amount Purchased	Purchases from Foreign Accounts Included in Total Purchased
		(in billions of dollars)	
1981	3	\$2.8b.	\$0.3b.
1982	3	2.8	0.1
1983	3	3.7	0
1984	2	3.7	0.8
1985	2	4.3	1.4