A meeting of the Federal Open Market Committee was held on Tuesday, July 22, 1958, at 11:00 a.m. This was a telephone conference meeting and each individual was in Washington except as otherwise indicated in parentheses in the following list of those participating:

PRESENT: Mr. Martin, Chairman
Mr. Hayes, Vice Chairman (New York)
Mr. Balderston
Mr. Fulton (Cleveland)
Mr. Irons (Dallas)
Mr. Leach (Richmond)
Mr. Mangels (San Francisco)
Mr. Mills
Mr. Robertson
Mr. Shepardson
Mr. Szymczak
Mr. Vardaman

Mr. Treiber, Alternate Member of the Federal Open Market Committee (New York)

Mr. Riefler, Secretary
Mr. Thurston, Assistant Secretary
Mr. Solomon, Assistant General Counsel
Mr. Thomas, Economist
Mr. Young, Associate Economist
Mr. Rouse, Manager, System Open Market Account (New York)
Mr. Molony, Special Assistant to the Board of Governors
Mr. Kenyon, Assistant Secretary, Board of Governors
Mr. Koch, Associate Adviser, Division of Research and Statistics, Board of Governors
Mr. Keir, Acting Chief, Government Finance Section, Division of Research and Statistics, Board of Governors
Messrs. Larkin and Marsh, Assistant Vice Presidents, Federal Reserve Bank of New York (New York)
Mr. Stone, Manager, Securities Department, Federal Reserve Bank of New York (New York)

Reporting on the Government securities market, Mr. Larkin said there was a continuing availability of the rights and when-issued securities. Because of the threat posed by this situation, the System Account continued to buy the when-issued securities in the market this morning. It started buying yesterday afternoon when the atmosphere got worse, and had bought today $78 million of the when-issued certificates. That was all that the Account had done thus far today. The prices paid ranged from par plus 1/64 to par plus 3/64.

The rest of the market, Mr. Larkin said, was not too unsatisfactory. The intermediate area was showing a modest amount of strength, which reflected the efforts of the holders of some of the maturing securities to do their own refunding. As a result the 2-5/8 per cent bonds had improved a little in price and currently were 98-3/8 bid. Long-term bonds were practically unchanged from last night's close, and the bill market was relatively steady.

Mr. Larkin's further report on the market situation is summarized in a memorandum of today's date from Mr. Thomas, of which a copy has been placed in the files of the Committee.

In terms of general approach for the day, Mr. Larkin said that the Account intended to avoid any security operations except that if there were foreign purchase orders for bills, such orders would continue to be filled out of the System Account. As far as the rest of the market was concerned, the Account would continue to buy when-issued securities as it had so far, at not too great a rise in price. It was felt that the rights situation should not become too attractive in relation to bills. There had been a discussion about the question of the September rights, which on a current basis yielded more than Treasury bills, and consideration was being given to buying some of those rights in the market today. At least, the Management of the Account would be reviewing the matter to see if that might possibly help the situation. The intermediate area seemed to be taking care of itself, and the Account did not contemplate doing anything there, while the long end was steady. The tentative approach was to stay out of the market for the time being but, depending on circumstances, to give it a touch if needed to help the over-all atmosphere.

Mr. Mills said the impression he received from the report on market conditions was that the Committee might be sidetracking the main issue. Last Friday, when the System announced that it was intervening in all sectors of the Government securities market, the initial response was satisfactory, but reports this morning in the newspapers and the financial journals raised doubt as to whether the System was living up to the position it took in the announcement. This brought him to the thought that very likely the greatest help that the System could give the Treasury in its offering now open to subscription would be to take a more positive attitude toward the longer end of the market, particularly those longer issues that appeared to be drifting this morning. This would mean that the Desk would invite offers on selected issues and acquire, within limits of prudence, the longer issues as additions to the System Account, with the knowledge that this would be an experiment. However, if the experiment proved successful it would give a tone and depth to the longer end of the market which would rapidly communicate itself as announced System policy to the short end and thus reduce the problem of assisting the Treasury. As he had said, this would be an experiment and, in the event of a higher level of prices in the longer end, the Account might have to recede from its position. However, to him the critical matter was the immediate problem of the Treasury, and as of this hour the greatest support that the System could give would be to take a positive position in the longer end of the market.

Chairman Martin stated that he thought this involved a matter of judgment. The 3-1/2s were below par last Friday, they went to nearly 101 yesterday, and they would be entitled to some reaction without affecting the market at all. The question was how much, and that was a line of judgment that had to be made. He could not say that he fully concurred in the view of Mr. Mills that marking up the longer-term issues would give tone to the market because they were marked up fast on Friday after the System's announcement.

Mr. Rouse said he thought Mr. Mills was probably correct in terms of the effect of operations such as he proposed. However, there was the problem of the price reaction to the announcement on Friday. Thereafter, and continuing through yesterday, there was a continuous and orderly market without System participation. Going on from here on any substantial basis would raise the very serious question of how to face the situation afterward, and that was a problem he had not resolved in his own mind. Mr. Mills was probably right in saying that the biggest help to the Treasury would be across-the-board action in bonds, but he (Mr. Rouse) would be reluctant to undertake such a program because of the situation that could develop after the books on the Treasury offering were closed.

Mr. Hayes stated that after listening to the comments of Messrs. Mills, Martin, and Rouse, he leaned to the view that the System was in the middle of this and that the big problem was the Treasury financing, which could be a very serious failure. Within reason, he would lean toward experimenting a little along the lines Mr. Mills suggested. Time, he noted, was of the essence. If something could be done along those lines--and here he was not referring to pushing prices up rapidly--that would appeal to him.

Chairman Martin again stated that it was a matter of judgment. The Account Manager must make up his mind and do what he thought would be helpful. Referring, however, to the current price level of the long-term bonds, for example, the 3-1/2s, the Chairman observed that it would be hard to get down from that area if the Account got loaded up with bonds. The best thing for the Treasury, he said, might be to pick up attrition with a bill offering, rather than to make a market that might not hold. However, the Manager must decide.

Chairman Martin also stated that he had told Under Secretary of the Treasury Baird that he would inform Mr. Rouse of the view Mr. Baird had expressed this morning that the System was not doing enough in the when-issued securities.

The Chairman then said that he did not think it should be assumed that the market could be remade in a period of two or three days, and Mr. Robertson said he agreed completely. Mr. Irons also expressed agreement, stating that he questioned tampering with the market for a day or two. To do so, he felt, would only compound the problem. Messrs. Robertson, Balderston, and Shepardson indicated that they concurred in Mr. Irons' comment.

Mr. Hayes then said that the attrition might be extremely large. The question was the extent to which it was the System's responsibility to keep the attrition within reasonable limits.

Mr. Irons inquired whether the System would have a moral obligation to maintain a price level if it were to go into the long market now as suggested by Mr. Mills. Mr. Rouse stated that he saw no moral obligation. By going in on a large scale the System might be accused of rigging the market for the Treasury. That was on the assumption that, following the System's withdrawal, the bond market might drop off somewhat. Mr. Rouse said that he would have no quarrel with going in if the market began to fall, that is, buying to steady the situation. However, before going in in a wholesale way he would like to have an expression from the Committee.

Chairman Martin said that personally he thought it would be a mistake to go in wholesale, for the System could then legitimately be accused of rigging the market. The System went in to correct a disorderly condition, and he did not think there was justification in pushing the market up to create confidence. Marking up the market was a different matter from a steadying operation.

Mr. Hayes said it seemed to him that in a way the Committee was not facing up to the real problem. The System went into the market because of a disorderly condition, there being an absence of bids for the intermediate and long-term bonds. At the same time there was the Treasury refunding. The disorderly tendencies could be corrected if the market stayed the way it was today, but there might be extremely high attrition and that was another problem the Committee must face.

Chairman Martin commented that the System is always faced with that problem and should not be panicked into picking up attrition in advance. On the other hand, if the market did not take the issue, the System must consider financing the Treasury by buying what was left over. That would be a problem confronting the System for a period of several months unless conditions should change. It would be difficult to find a middle ground, and the problem must be faced up to by the System.

Mr. Rouse then stated that he was planning to go ahead as indicated and that he would do some touching up in the longer end of the market if that seemed advisable.

Chairman Martin noted that the refunding might turn out a lot better than some people expected, and Mr. Rouse reported finding encouragement in the roll-over decision made by a large public utility.

Mr. Robertson then commented that if touching up, as used by Mr. Rouse, meant steadying the market, that was fine. If it meant marking up prices, he was against it.

Mr. Rouse replied that he thought his position was clear. His intention was to make purchases in the longer-term market in a modest way if it began to drift down but he would not push prices up.

Members of the Committee indicated that action along those lines would be agreeable to them.

In a concluding comment, Mr. Larkin stated that System purchases of when-issued securities today were now well over $100 million.

The meeting then adjourned.

Winfield W. Riefler
Secretary