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THE CREDIBILITY OF THE WALL STREET JOURNAL IN REPORTING THE TIMING AND DETAILS OF MONETARY POLICY EVENTS

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I. INTRODUCTION

This paper answers questions raised about our use of the Wall Street Journal in an earlier paper in which we estimated the effect of changes in the federal funds rate target -- the Federal Reserve's policy instrument -- on market interest rates in the 1970s.[1] In that paper we found that changes in the funds rate target caused large movements in short-term interest rates and smaller but significant movements in longer-term rates.

The period covered by the earlier paper began in late 1974 when the Fed's control of the funds rate became so firm on a day to day basis that the public was able to perceive most changes in the funds rate target on the day they were first implemented. These perceived changes in the target were consistently reported on the following business day in the Journal. We used the Journal to compile a record of 76 changes in the target over the period from September 1974 to September 1979. Table 1 reproduces the table from our earlier paper showing the old and new funds rate targets on the day of changes in the target, the midpoints of the old and new target ranges, and the size of the target changes.

Two questions arise concerning the validity of this procedure. First, how close is the match between our series and the actual changes in the

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[1]"The Effect of Changes in the Federal Funds Rate Targets on Market Interest Rates in the 1970s." Federal Reserve Bank of Richmond Working paper 1988-4.

TABLE 1

FEDERAL FUNDS RATE TARGET CHANGES[a]

		Funds Rate Targets					Bill Rates			Bond Rates				
Date	Day	Old Target	Midpt	New Target	Midpt	Change	3mth	6mth	12mth	3yr	5yr	7yr	10yr	20yr
13-Sep-74	Fri	11 1/2 - 12	11.75	11 - 11 1/2	11.25	-0.500	-0.31	-0.14	-0.15	-0.05	-0.04	-0.03	0.00	0.02
23-Sep-74	Mon	11 - 11 1/2	11.25	10 3/4 - 11 1/4	11.00	-0.250	-0.15	-0.08	-0.11	-0.07	-0.11	-0.14	-0.11	-0.07
04-Oct-74	Fri	10 1/2 - 11	10.75	10 1/4 - 10 3/4	10.50	-0.250	-0.57	-0.40	-0.42	-0.14	-0.09	-0.06	-0.02	-0.02
18-Oct-74	Fri	10 - 10 1/2	10.25	9 1/2 - 10	9.75	-0.500	-0.20	-0.32	-0.31	-0.11	-0.10	-0.06	-0.02	-0.03
03-Dec-74	Tue	9 - 9 1/2	9.25	8 3/4 - 9 1/4	9.00	-0.250	0.23	-0.13	-0.14	0.00	0.04	0.01	0.03	0.06
16-Dec-74	Mon	8 1/2 - 9	8.75	8 1/4 - 8 3/4	8.50	-0.250	-0.18	-0.14	-0.12	0.00	0.01	-0.04	-0.04	-0.01
02-Jan-75	Thu	8 1/4 - 8 3/4	8.50	8 - 8 1/2	8.25	-0.250	-0.17	-0.09	-0.06	0.00	-0.02	0.00	0.02	0.01
03-Jan-75	Fri	8 - 8 1/2	8.25	7 3/4 - 8 1/4	8.00	-0.250	-0.15	-0.13	-0.05	-0.01	0.02	0.02	0.01	-0.02
06-Jan-75	Mon	7 3/4 - 8 1/4	8.00	7 1/2 - 8	7.75	-0.250	-0.06	-0.12	-0.13	-0.04	-0.02	-0.03	-0.04	-0.03
07-Jan-75	Tue	7 1/2 - 8	7.75	7 1/4 - 7 3/4	7.50	-0.250	-0.20	-0.21	-0.12	-0.03	0.01	0.01	-0.01	0.00
14-Jan-75	Tue	7 - 7 1/2	7.25	6 3/4 - 7 1/4	7.00	-0.250	-0.20	-0.21	-0.02	-0.03	0.01	0.04	0.03	0.00
31-Jan-75	Fri	6 3/4 - 7 1/4	7.00	6 1/4 - 6 3/4	6.50	-0.500	-0.05	-0.13	-0.10	-0.02	-0.01	-0.01	-0.01	-0.03
13-Feb-75	Thu	6 1/4 - 6 3/4	6.50	6 - 6 1/2	6.25	-0.250	-0.08	-0.02	-0.01	-0.04	0.00	0.03	0.02	0.08
14-Feb-75	Fri	6 - 6 1/2	6.25	5 3/4 - 6 1/4	6.00	-0.250	-0.18	-0.17	-0.17	-0.07	-0.12	-0.11	-0.09	-0.11
21-Feb-75	Fri	5 3/4 - 6 1/4	6.00	5 1/2 - 6	5.75	-0.250	-0.07	0.04	0.06	-0.02	0.03	-0.02	-0.08	-0.06
26-Mar-75	Wed	5 1/2 - 6	5.75	5 1/4 - 5 3/4	5.50	-0.250	-0.02	0.03	0.03	0.05	0.03	-0.18	-0.01	-0.01
08-May-75	Thu	5 - 5 1/2	5.25	4 3/4 - 5 1/4	5.00	-0.250	-0.04	-0.05	-0.05	-0.05	-0.04	0.02	0.02	-0.04
20-Jun-75	Fri	5 - 5 1/2	5.25	5 1/2 - 6	5.75	0.500	0.50	0.46	0.39	0.26	0.18	0.20	0.14	0.05
16-Jul-75	Wed	5 3/4 - 6 1/4	6.00	5 7/8 - 6 3/8	6.13	0.125	0.02	0.04	0.06	0.10	0.07	0.06	0.05	0.03
21-Jul-75	Mon	6	6.00	6 1/8	6.13	0.125	0.16	0.16	0.21	0.04	0.05	0.04	0.01	0.03
22-Jul-75	Tue	6 1/8	6.13	6 - 6 1/2	6.25	0.125	0.15	0.12	0.09	0.04	0.01	0.01	0.03	0.00
03-Oct-75	Fri	6 - 6 1/4	6.13	5 7/8 - 6 1/8	6.00	-0.125	-0.20	-0.21	-0.33	-0.24	-0.22	-0.18	-0.11	-0.07
21-Oct-75	Tue	5 7/8 - 6 1/8	6.00	5 1/2 - 5 3/4	5.63	-0.375	-0.25	-0.17	-0.14	-0.12	-0.05	-0.02	-0.02	-0.07
07-Nov-75	Fri	5 3/8 - 5 5/8	5.50	5 1/4 - 5 1/2	5.38	-0.125	-0.14	-0.15	-0.08	-0.15	-0.10	-0.06	-0.03	-0.01
12-Nov-75	Wed	5 1/4 - 5 1/2	5.38	5 1/8 - 5 3/8	5.25	-0.125	0.06	0.06	0.09	0.07	0.08	0.06	0.05	0.03
06-Jan-76	Tue	5 1/8	5.13	5	5.00	-0.125	-0.08	-0.15	-0.22	-0.05	-0.09	-0.08	-0.10	-0.04
27-Feb-76	Fri	4 3/4	4.75	5	5.00	0.250	0.12	0.27	0.21	0.11	0.09	0.09	0.09	0.08
30-Mar-76	Tue	4 5/8 - 5 1/8	4.88	4 3/4	4.75	-0.125	0.09	0.09	0.05	0.04	0.03	0.00	0.01	0.00
23-Apr-76	Fri	4 3/4	4.75	4 7/8	4.88	0.125	0.15	0.11	0.16	0.17	0.12	0.08	0.07	0.04
05-May-76	Wed	4 7/8	4.88	5	5.00	0.125	-0.01	-0.01	-0.01	0.02	0.03	0.04	0.02	0.01
12-May-76	Wed	5	5.00	5 1/8	5.13	0.125	0.06	0.10	0.11	0.02	0.02	0.03	0.02	0.04
14-May-76	Fri	5 1/8	5.13	5 1/4	5.25	0.125	0.06	0.12	0.10	0.06	0.06	0.04	0.01	-0.02
19-May-76	Wed	5 1/4	5.25	5 3/8	5.38	0.125	0.03	0.05	0.08	0.04	0.01	0.02	0.00	0.01
09-Jul-76	Fri	5 1/2	5.50	5 1/4	5.25	-0.250	-0.08	-0.12	-0.15	-0.10	-0.07	-0.06	-0.04	-0.03
08-Oct-76	Fri	5 1/4	5.25	5	5.00	-0.250	-0.11	-0.14	-0.10	-0.23	-0.15	-0.10	-0.05	-0.05
19-Nov-76	Fri	5	5.00	4 3/4	4.75	-0.250	-0.15	-0.16	-0.20	-0.14	-0.15	-0.14	-0.09	-0.06
14-Dec-76	Tue	4 3/4	4.75	4 5/8	4.63	-0.125	-0.04	-0.02	-0.01	-0.02	-0.03	-0.02	-0.01	-0.01
25-Apr-77	Mon	4 5/8 - 4 3/4	4.69	4 3/4 - 4 7/8	4.81	0.125	0.00	0.03	0.06	0.06	0.02	0.04	0.04	0.02
27-Apr-77	Wed	4 3/4 - 4 7/8	4.81	4 7/8 - 5	4.94	0.125	-0.05	0.02	0.07	0.02	-0.01	0.01	0.00	-0.01
10-May-77	Tue	5 1/8 - 5 1/4	5.19	5 1/4 - 5 3/8	5.31	0.125	0.14	0.10	0.06	0.03	0.02	0.02	0.02	0.01
19-May-77	Thu	5 1/4	5.25	5 3/8	5.38	0.125	0.11	0.18	0.19	0.10	0.11	0.06	0.06	0.04
28-Jul-77	Thu	5 3/8	5.38	5 5/8	5.63	0.250	0.15	0.15	0.13	0.09	0.07	0.08	0.05	0.03
09-Aug-77	Tue	5 3/4	5.75	5 7/8	5.88	0.125	0.22	0.16	0.11	0.06	0.05	0.03	0.04	0.04
12-Aug-77	Fri	5 7/8	5.88	6	6.00	0.125	-0.01	0.00	0.05	0.01	0.02	0.01	0.01	0.00
09-Sep-77	Fri	6	6.00	6 1/8	6.13	0.125	0.20	0.18	0.23	0.16	0.13	0.12	0.08	0.07
22-Sep-77	Thu	6 1/8	6.13	6 1/4	6.25	0.125	0.09	0.13	0.12	0.08	0.03	0.04	0.03	0.03
30-Sep-77	Fri	6 1/4	6.25	6 3/8	6.38	0.125	0.06	0.04	0.06	0.00	0.01	0.01	0.02	0.00
07-Oct-77	Fri	6 3/8	6.38	6 1/2	6.50	0.125	-0.01	0.00	0.03	0.05	0.02	0.04	0.04	0.03
31-Oct-77	Mon	6 1/2	6.50	6 5/8	6.63	0.125	0.18	0.21	0.20	0.10	0.06	0.06	0.06	0.02
09-Jan-78	Mon	6 1/2	6.50	6 3/4	6.75	0.250	0.41	0.38	0.36	0.31	0.26	0.19	0.16	0.15
19-Apr-78	Wed	6 3/4	6.75	7	7.00	0.250	0.18	0.22	0.18	0.14	0.10	0.06	0.05	0.03
27-Apr-78	Thu	7	7.00	7 1/4	7.25	0.250	0.13	0.09	0.19	0.02	0.02	0.01	0.02	0.02
18-May-78	Thu	7 1/4	7.25	7 1/2	7.50	0.250	0.07	0.11	0.12	0.04	0.05	0.05	0.04	0.04
21-Jun-78	Wed	7 1/2	7.50	7 3/4	7.75	0.250	0.10	0.05	0.06	0.10	0.04	0.04	0.03	0.04
20-Jul-78	Thu	7 3/4	7.75	7 7/8	7.88	0.125	0.01	0.05	0.13	0.01	0.03	0.04	0.04	0.03
16-Aug-78	Wed	7 7/8	7.88	8	8.00	0.125	0.26	0.23	0.21	0.19	0.14	0.09	0.09	0.08
18-Aug-78	Fri	8	8.00	8 1/8	8.13	0.125	0.12	0.08	0.07	0.02	0.00	-0.01	-0.02	0.00
28-Aug-78	Mon	8 1/8	8.13	8 1/4	8.25	0.125	0.09	0.09	0.07	0.01	-0.02	0.00	0.01	0.00
08-Sep-78	Fri	8 1/4	8.25	8 3/8	8.38	0.125	0.08	0.07	0.07	0.01	0.01	0.01	0.00	0.00
20-Sep-78	Wed	8 3/8	8.38	8 1/2	8.50	0.125	0.14	0.09	0.06	0.03	0.02	0.06	0.08	0.07
25-Sep-78	Mon	8 1/2	8.50	8 5/8	8.63	0.125	-0.06	0.02	0.00	0.01	0.04	0.04	0.00	0.01
28-Sep-78	Thu	8 5/8	8.63	8 3/4	8.75	0.125	-0.06	-0.04	-0.04	0.00	-0.01	-0.01	0.00	0.00
18-Oct-78	Wed	8 3/4	8.75	8 7/8	8.88	0.125	-0.22	-0.06	-0.02	0.04	0.01	0.03	0.02	0.01
20-Oct-78	Fri	8 7/8	8.88	9	9.00	0.125	0.00	0.07	0.04	0.03	0.02	0.03	0.02	0.02
26-Oct-78	Thu	9	9.00	9 1/8	9.13	0.125	0.23	0.12	0.17	0.03	0.07	0.04	0.07	0.03
31-Oct-78	Tue	9 1/8	9.13	9 1/2	9.50	0.375	0.30	0.32	0.10	0.27	0.23	0.09	0.10	0.02
01-Nov-78	Wed	9 1/2	9.50	9 3/4	9.75	0.250	0.11	0.09	0.04	-0.28	-0.29	-0.32	-0.32	-0.18
28-Nov-78	Tue	9 3/4	9.75	9 7/8	9.88	0.125	0.17	0.04	0.04	0.01	0.00	0.00	0.00	0.00
19-Dec-78	Tue	9 7/8	9.88	10	10.00	0.125	-0.05	0.07	0.09	0.03	0.00	0.01	0.01	0.01
15-Jan-79	Mon	10	10.00	10 1/8	10.13	0.125	0.10	0.00	0.00	0.00	-0.01	0.01	0.01	0.00
27-Apr-79	Fri	10 - 10 1/8	10.06	10 1/8 - 10 3/8	10.25	0.188	0.55	0.29	0.24	0.12	0.05	0.05	0.05	0.03
20-Jul-79	Fri	10 1/4	10.25	10 5/8	10.63	0.375	0.17	0.13	0.07	0.04	0.00	-0.03	-0.06	-0.01
15-Aug-79	Wed	10 5/8	10.63	11	11.00	0.375	0.06	0.07	0.17	0.03	0.04	0.03	0.02	0.01
24-Aug-79	Fri	11	11.00	11 1/4	11.25	0.250	0.12	0.11	0.16	0.10	0.08	0.08	0.09	0.04
04-Sep-79	Tue	11 1/4	11.25	11 3/8	11.38	0.125	0.22	0.26	0.30	0.13	0.06	0.07	0.08	0.06
19-Sep-79	Wed	11 3/8	11.38	11 1/2	11.50	0.125	-0.21	-0.25	-0.16	-0.05	-0.07	-0.04	-0.05	-0.02

[a]Bill and bond rate changes are calculated over the day of the target changes.

federal funds rate target? The concern here is that the Journal might simply have used the Fed as a convenient catch-all explanation for significant changes in market interest rates. Second, even if the Journal accurately reported the changes in the funds rate target on a daily basis, how can we be sure that changes in the funds rate target were not made in response to same-day changes in interest rates, rather than causing them as was repeatedly indicated in the Journal reports?

Broadly speaking, the answer to both these questions depends on the credibility of the Wall Street Journal to accurately report events in the financial markets. There is no question that the Journal has the technical ability to report to the minute the timing of events in the financial markets and had this ability over the time period covered by our paper. That is, if the Fed took an action in the market signaling a change in the funds rate target at 11:30 a.m. and soon after that operation Treasury bill rates changed sharply, then the Journal had the technical ability to report the relative timing of these events and on the basis of this timing was entitled to make the presumption, along with market participants, that the movement in bill rates was caused by the change in the funds rate target.[2] So we view the answers to the two questions above as providing general evidence on whether the Journal accurately reports the timing of market events, especially on an intra-day basis.

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[2]We are not suggesting here that the Journal reporters themselves were necessarily directly watching market prices on a minute-by-minute basis in this period. These reporters, however, could gather information from participants in the markets. Moreover, they had access to Telerate services providing detailed information on the timing of monetary policy events and the movement in market rates following these events.

Evidence on the credibility of the Journal to accurately report the timing and details of monetary policy events and the reaction of market rates to these events is of interest because financial market prices and yields respond quickly to new information. As a result, market studies using daily (or even hourly) data frequently will be confronted with the issue of reverse causation. This is especially true in studies of monetary policy events, because the argument can always be made that policy decisions are reacting to market movements within the time period (i.e. day, half-day or even hour) over which changes in market prices are being measured, rather than causing these movements. The Journal and other major newspapers have the technical ability to provide a historical record of the minute-by-minute timing of events in the financial markets. If these newspapers also have credibility, then their reports can provide invaluable information on causation.[3]

To answer the questions raised about our use of the Journal we constructed a complete record of changes in the federal funds rate target as reported in the weekly "Report of Open Market Operations" put out by the Account Manager (the "Desk") at the Federal Reserve Bank of New York, and we compared these changes to those reported in the Journal. (This exercise was suggested by the referee of our earlier paper.) We found that the match between the actual changes in the funds rate target and the changes announced

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[3]Consider the example of prime rate changes that have frequently occurred on the same day as monetary policy actions altering funds rate expectations. Was the movement in market interest rates on these days caused by the prime rate changes or the monetary policy actions? Studies using daily data would probably not be able to answer this question conclusively, and even studies using hourly data might have difficulty. If, however, the Journal generally reported that the prime rate changes followed the monetary policy actions (and the subsequent rise in market rates), and if the Journal's reporting has credibility, then this would be strong evidence that the cause of the change in market rates on these days was the policy actions rather than the prime rate changes.

in the Journal was very close and the details of the Journal's descriptions of open market operations were extremely accurate. Moreover, we found that in all but 20 cases the Fed's decision to change the funds rate target preceded by at least one day the day the change in the target was reported by the Journal to have occurred. Changes in the target initially decided on prior to the day they were implemented could not possibly have been made on the basis of the movement in market rates that day. Hence, this review provides strong evidence that, as the Journal generally reported, changes in the funds rate target caused same-day changes in market rates rather than responding to them.

II. THE DETERMINATION OF CHANGES IN THE FUNDS RATE TARGET

Appendix A shows a complete record of changes in the funds rate target over the period from September 1974 through September 1979 as reported in the Report of Open Market Operations, and it compares these changes to those reported by the Journal used in our earlier paper. A sample of this record is shown in Table 2. The right hand side of the table shows the Journal reports of changes in the funds rate target on Monday August 28, 1978 and Friday September 8, 1978. The left hand side of the table shows the funds rate target chosen by the Desk for the statement week ending on the date shown. The left hand side of the table also shows the Desk's description of its open market activities on those days for which the Journal reported funds rate target changes.

To deal with the questions posed in the introduction, it is useful to review the process by which funds rate target changes were made in this period. At each monthly meeting the FOMC set a range for the federal funds rate and it instructed the Desk (in the "directive") on how to move the funds rate within this range in the period until the next meeting. These

TABLE 2

COMPARISON OF FUNDS RATE TARGET CHANGES REPORTED IN WALL STREET JOURNAL AND IN REPORT OF OPEN MARKET OPERATIONS

REPORT OF OPEN MARKET OPERATIONS (Report is for statement week ending on date shown. Indented dates describe Desk's activities on that date.)	WALL STREET JOURNAL REPORT **HEADLINE** AND STORY	OLD TARGET NEW TARGET
August 30, 1978 In response to these data the Account Management began on Thursday to tolerate somewhat firmer reserve conditions, and on Friday began to aim for conditions associated with Federal funds trading around 8 1/4 percent, the top of the range specified by the Committee.		
Monday August 28 Federal funds opened at 8 1/4 percent and traded steadily at that rate over the morning. The Desk passed through the approximately $1.0 billion of foreign account orders to the market as customer-related repurchase agreements. The funds rate subsequently firmed and, with funds trading at 8 5/16 and 8 3/8 percent, the Desk entered the market to supply reserves, arranging $1,035 million of three-day repurchase agreements.	**Fed Apparently Tightens Credit Spigot, This Time to Dampen Domestic Growth** According to specialists who watch Fed operations closely, the nation's money manager appeared to boost to at least 8 1/4% from 8 1/8% its target interest rate for federal funds. The indication of a tighter credit policy came when the Federal Reserve allowed federal funds to trade above 8 1/4% before intervening to counteract the trend.	8 1/8 8 1/4
September 6, 1978 Under the Committee's instructions, the Account Management continued to seek reserve conditions consistent with a Federal funds rate around 8 1/4 percent, the upper end of its range.		
September 13, 1978 In accordance with decisions made at the Committee's telephone meeting on Friday [September 8], the Desk began to aim for a Federal funds rate of 8 3/8 percent, with a revised 7 3/4 to 8 1/2 percent range of tolerance.		
Friday September 8 On Friday the Desk began to seek slightly firmer money market conditions associated with Federal funds trading around 8 3/8 percent....The Federal funds rate opened at 8 1/4 percent and the reserve estimates indicated that trading would probably remain at that rate if the Desk limited its operations to making matched sale-purchase transactions with foreign accounts. In order to give effect to the Committee's decision, the Desk entered the market to absorb reserves, arranging $498 million of over-the-weekend matched sale-purchase transactions. The funds rate rose to 8 3/8 percent and later to 8 7/16 percent.	**Fed Appears to Tighten Its Credit Reins Despite Indicators Inflation is Abating** But That belief was shattered when the Federal Reserve gave what many considered to be a clear signal that it had boosted to 8 3/8% from 8 1/4% its target rate on federal funds. The Fed's indication of tighter credit came when it drained reserves from the banking network when federal funds were trading at 8 1/4%.	8 1/4 8 3/8

instructions related desired movements in the funds rate primarily to the projected growth rates of M1 and M2 relative to the two-month tolerance ranges set for them by the FOMC. The FOMC also set an initial target for the federal funds rate over the days following the FOMC meeting. Except at the beginning of the period, this initial target was explicitly noted in the minutes accompanying the directive. The initial funds rate target, the funds rate range, and the tolerance ranges for the monetary aggregates over the period from August 1974 to September 1979 are shown in Table 3.

The FOMC also had periodic conference calls (or, on occasion, wire votes) that provided additional instructions to the Desk in the intermeeting period. These instructions (also shown in Table 3) frequently altered the funds rate target range for the period between FOMC meetings, and they frequently gave the Desk explicit instructions on a new target for the federal funds rate in the days following the call.

Each statement week the Desk set a target for the funds rate. The statement week started on Thursday, but the target for the week was generally set on Friday morning because of the timing of incoming data on the monetary aggregates. In a small number of cases the target was set on Thursday morning in response to "preliminary indications" of strength or weakness in the aggregates. The Desk changed the funds rate target in this period either under explicit instructions from the FOMC following a meeting or conference call or under the Desk's interpretation of the latest FOMC directive.

The Desk signaled its new funds rate target to the public through its open market operations. The Desk could achieve a higher target in two ways. It could withdraw reserves when funds were trading at a rate below the new target, or it could fail to add reserves when funds were trading at the new higher target. Although the initial funds rate decision for the week was typically made on Friday, the Desk did not always take an action that day to

TABLE 3

Short-run FOMC Ranges and Funds Rate Target, 1974 - 1979

Date of Meeting (or Call)[1]	Period for M1 and M2 Ranges	M1 Range[2]	M2 Range	Funds Rate Range	Initial Funds Rate Target [3]
20-Aug-74	Aug - Sep	4 3/4 - 6 3/4	5 1/2 - 7 1/2	11 1/2 - 12 1/2	---
10-Sep-74	Sep - Oct	3 - 6	5 - 7 1/2	10 1/2 - 12	---
3-Oct				10 1/4 - 12	---
15-Oct-74	Oct - Nov	4 3/4 - 7 1/4	5 3/4 - 8 1/4	9 - 10 1/2	---
31-Oct					9 1/2
19-Nov-74	Nov - Dec	6 1/2 - 9 1/2	8 - 10 1/2	8 1/2 - 10	---
17-Dec-74	Dec - Jan	5 - 7	7 1/2 - 10	7 1/2 - 9	---
10-Jan				7 1/8 - 9	---
21-Jan-75	Jan - Feb	3 1/2 - 6 1/2	7 - 10	6 1/2 - 7 1/4	---
5-Feb				6 1/4 - 7 1/4	---
19-Feb-75	Feb - Mar	5 1/2 - 7 1/2	6 1/2 - 8 1/2	5 1/4 - 6 1/4	---
18-Mar-75	Mar - Apr	5 - 7 1/2	8 - 10	4 3/4 - 5 3/4	---
27-Mar					5 1/2
15-Apr-75	Apr - May	6 1/2 - 9	9 1/2 - 11 3/4	4 3/4 - 5 3/4	---
20-May-75	May - Jun	7 - 9 1/2	9 - 11 1/2	4 1/2 - 5 1/2	---
17-Jun-75	Jun - Jul	6 1/2 - 9 1/2	9 - 12	5 - 6	---
26-Jun				5 - 6 1/4	---
15-Jul-75	Jul - Aug	3 - 5 1/2	8 - 10 1/2	5 1/2 - 6 3/4	---
19-Aug-75	Aug - Sep	4 1/2 - 7	8 1/4 - 10 3/4	5 3/4 - 7	6 1/8 - 6 1/4
5-Sep					6 1/8 - 6 1/4
16-Sep-75	Sep - Oct	5 - 8	7 - 9 1/2	6 - 7	---
2-Oct				5 3/4 - 7	6
21-Oct-75	Oct - Nov	3 - 7	5 1/2 - 8 1/2	5 1/4 - 6 1/4	5 1/2
18-Nov-75	Nov - Dec	6 - 10	7 1/2 - 10 1/2	4 1/2 - 5 1/2	---
16-Dec-75	Dec - Jan	4 - 7	7 - 10	4 1/2 - 5 1/2	5 1/4
12-Jan					4 3/4
20-Jan-76	Jan - Feb	4 - 9	7 - 11 1/2	4 1/4 - 5	4 3/4
18-Feb-76	Feb - Mar	5 - 9	9 - 13	4 1/4 - 5 1/4	4 3/4
16-Mar-76	Mar - Apr	4 - 8	7 - 11	4 1/4 - 5 1/4	---
20-Apr-76	Apr - May	4 1/2 - 8 1/2	8 - 12	4 1/2 - 5 1/4	---
18-May-76	May - Jun	4 - 7 1/2	5 - 9	5 - 5 3/4	---
22-Jun-76	Jun - Jul	3 1/2 - 7 1/2	6 - 10	5 1/4 - 5 3/4	---
20-Jul-76	Jul - Aug	4 - 8	7 1/2 - 11 1/2	4 3/4 - 5 3/4	---
17-Aug-76	Aug - Sep	4 - 8	7 1/2 - 11 1/2	5 - 5 1/2	5 1/4
21 Sep-76	Sep - Oct	4 - 8	8 - 12	4 3/4 - 5 1/2	5 1/4
19-Oct-76	Oct - Nov	5 - 9	9 - 13	4 1/2 - 5 1/4	4 7/8
21-Oct					5
16-Nov-76	Nov - Dec	3 - 7	9 1/2 - 13 1/2	4 1/2 - 5 1/4	4 7/8
21-Dec-76	Dec - Jan	2 1/2 - 6 1/2	9 - 13	4 1/4 - 5	4 5/8
18-Jan-77	Jan - Feb	3 - 7	7 - 11	4 1/4 - 5	4 5/8 - 4 3/4
15-Feb-77	Feb - Mar	3 - 7	6 1/2 - 10 1/2	4 1/4 - 5	4 5/8 - 4 3/4
15-Mar-77	Mar - Apr	4 1/2 - 8 1/2	7 - 11	4 1/4 - 5 1/4	4 5/8 - 4 3/4
19-Apr-77	Apr - May	6 - 10	8 - 12	4 1/2 - 5 1/4	4 3/4

1/ Indented dates are for conference calls.
2/ "ul" is upper limit.
3/ "sa" is slightly above.

Date of Meeting (or Call)[1/]	Period for M1 and M2 Ranges	M1 Range[2/]	M2 Range	Funds Rate Range	Initial Funds Rate Target [3/]
6-May				4 1/2 - 5 1/2	---
17-May-77	May - Jun	0 - 4	3 1/2 - 7 1/2	5 1/4 - 5 3/4	5 3/8
21-Jun-77	Jun - Jul	2 1/2 - 6 1/2	6 - 10	5 1/4 - 5 3/4	5 3/8
19-Jul-77	Jul - Aug	3 1/2 - 7 1/2	6 1/2 - 10 1/2	5 1/4 - 5 3/4	5 3/8
5-Aug				5 1/4 - 6	---
16-Aug-77	Aug - Sep	0 - 5	3 - 8	5 3/4 - 6 1/4	6
20-Sep-77	Sep - Oct	2 - 7	4 - 8	6 - 6 1/2	6 1/4
18-Oct-77	Oct - Nov	3 - 8	5 1/2 - 9 1/2	6 1/4 - 6 3/4	6 1/2
15-Nov-77	Nov - Dec	1 - 7	5 - 9	6 1/4 - 6 3/4	6 1/2
20-Dec-77	Dec - Jan	2 1/2 - 8 1/2	6 - 10	6 1/4 - 6 3/4	6 1/2
9-Jan				6 1/2 - 7	6 3/4
17-Jan-78	Jan - Feb	2 1/2 - 7 1/2	5 - 9	6 1/2 - 7	6 3/4
28-Feb-78	Feb - Mar	1 - 6	4 1/2 - 8 1/2	6 1/2 - 7	6 3/4
21-Mar-78	Mar - Apr	4 - 8	5 1/2 - 9	6 1/2 - 7	6 3/4
18-Apr-78	Apr - May	4 - 8 1/2	5 1/2 - 9 1/2	6 3/4 - 7 1/2	sa 6 3/4
5-May					7 1/4
16-May-78	May - Jun	3 - 8	4 - 9	7 1/4 - 7 3/4	sa 7 1/4 - 7 3/8
16-Jun					7 1/2
20-Jun-78	Jun - Jul	5 - 10	6 - 10	7 1/2 - 8	7 3/4
18-Jul-78	Jul - Aug	4 - 8	6 - 10	7 3/4 - 8	7 3/4 - 8
15-Aug-78	Aug - Sep	4 - 8	6 - 10	7 3/4 - 8 1/4	8
8-Sep				7 3/4 - 8 1/2	8 3/8
19-Sep-78	Sep - Oct	5 - 9	6 1/2 - 10 1/2	8 1/4 - 8 3/4	8 1/2
17-Oct-78	Oct - Nov	6 1/2 ul	5 1/2 - 9 1/2	8 3/4 - 9 1/4	9
31-Oct				9 1/2 - 9 3/4	---
21-Nov-78	Nov - Dec	5 ul	6 - 9 1/2	9 3/4 - 10	9 7/8
8-Dec					9 7/8
19-Dec-78	Dec - Jan	2 - 6	5 - 9	9 3/4 - 10 1/2	10 or sa
29-Dec					10 or sa
12-Jan					10 or sa
6-Feb-79	Feb - Mar	3 - 7	5 - 9	10 or sa	10 or sa
2-Mar					10 or sa
20-Mar-79	Mar - Apr	4 - 8	3 1/2 - 7 1/2	9 3/4 - 10 1/2	10 or sa
17-Apr-79	Apr - May	4 - 8	4 - 8 1/2	9 3/4 - 10 1/2	10 or sa
27-Apr					10 1/4
22-May-79	May - Jun	0 - 5	4 - 8 1/2	9 3/4 - 10 1/2	10 1/4
15-Jun					10 1/4
11-Jul-79	Jul - Aug	2 1/2 - 6 1/2	6 1/2 - 10 1/2	9 3/4 - 10 1/2	10 1/4
19-Jul					10 1/2
27-Jul				9 3/4 - 10 3/4	10 1/2 - 10 3/4
14-Aug-79	Aug - Sep	4 - 8	7 - 11	10 3/4 - 11 1/4	11
30-Aug				10 3/4 - 11 1/2	---
18-Sep-79	Sep - Oct	3 - 8	6 1/2 - 10 1/2	11 1/4 - 11 3/4	11 1/2

1/ Indented dates are for conference calls.

2/ "ul" is upper limit.

3/ "sa" is slightly above.

implement the new target. On occasion, it explicitly noted its intention in the Report of Open Market Operations to wait until later in the statement week to seek the new target. Market participants identified the new target by tracking at what funds rate levels the Desk did or did not supply reserves.

The examples shown in Table 2 illustrate how the process described above led to two target changes on Monday August 28, 1978 and Friday September 8, 1978. In response to incoming data on the monetary aggregates, the Desk raised the funds rate target for the statement week ending August 30 to 8 1/4 percent from a range of 8 to 8 1/8 percent the previous week. The Desk signaled the new target to the market on Monday August 28 by allowing federal funds to trade above 8 1/4 percent before intervening to supply reserves through repurchase agreements. The funds rate target was kept at 8 1/4 percent the statement week ending September 6. The Desk raised the target to 8 3/8 percent the statement week ending September 13 in accordance with decisions made at an FOMC telephone conference on Friday September 8. The market detected the target change that day when the Fed drained reserves through matched sale-purchase agreements when federal funds were trading at 8 1/4 percent. The Appendix shows that as in these two examples the Journal's description of the Desk's activity on days the Journal reported target changes was very accurate throughout the period covered by our paper.

III. A COMPARISON OF ACTUAL AND REPORTED CHANGES IN THE FUNDS RATE TARGET

Table 4 provides a record, based on Appendix A, of the match between the funds rate target changes announced in the Report of Open Market Operations and reported by the Journal. The left hand side of the table shows the record of funds rate target changes we constructed from the Journal. The right hand side shows the corresponding changes in the target

TABLE 4

COMPARISON OF WSJ AND DESK TARGET CHANGES

WSJ					DESK				
Date	Day	New Target	Midpt	Change	Date	Day	Days Before WSJ	New Target	Change
13-Sep-74	Fri	11 - 11 1/2	11.25	-0.500	13-Sep-74	Fri	0	11 1/2	-0.250
23-Sep-74	Mon	10 3/4 - 11 1/4	11.00	-0.250	20-Sep-74	Fri	1	11 - 11 1/4	-0.375
04-Oct-74	Fri	10 1/4 - 10 3/4	10.50	-0.250	04-Oct-74	Fri	0	10 1/2 - 10 3/4	-0.375
18-Oct-74	Fri	9 1/2 - 10	9.75	-0.500	18-Oct-74	Fri	0	9 3/4	-0.500
03-Dec-74	Tue	8 3/4 - 9 1/4	9.00	-0.250	29-Nov-74	Fri	2	9 - 9 1/4	-0.125
16-Dec-74	Mon	8 1/4 - 8 3/4	8.50	-0.250	13-Dec-74	Fri	1	8 3/4	-0.125
02-Jan-75	Thu	8 - 8 1/2	8.25	-0.250	27-Dec-74	Fri	4	8	-0.250
03-Jan-75	Fri	7 3/4 - 8 1/4	8.00	-0.250	03-Jan-75	Fri	0	7 1/2	-0.500
06-Jan-75	Mon	7 1/2 - 8	7.75	-0.250	Same		1		
07-Jan-75	Tue	7 1/4 - 7 3/4	7.50	-0.250	Same		2		
14-Jan-75	Tue	6 3/4 - 7 1/4	7.00	-0.250	10-Jan-75	Fri	2	7 1/4	-0.250
31-Jan-75	Fri	6 1/4 - 6 3/4	6.50	-0.500	31-Jan-75	Fri	0	6 1/2	-0.375
13-Feb-75	Thu	6 - 6 1/2	6.25	-0.250	07-Feb-75	Fri	4	6 1/4	-0.250
14-Feb-75	Fri	5 3/4 - 6 1/4	6.00	-0.250	None				
21-Feb-75	Fri	5 1/2 - 6	5.75	-0.250	21-Feb-75	Fri	0	6	-0.250
26-Mar-75	Wed	5 1/4 - 5 3/4	5.50	-0.250	21-Mar-75	Fri	3	5 1/2	-0.250
08-May-75	Thu	4 3/4 - 5 1/4	5.00	-0.250	08-May-75	Thu	0	5 - 5 1/4	-0.125
20-Jun-75	Fri	5 1/2 - 6	5.75	0.500	20-Jun-75	Fri	0	5 3/4	0.500
16-Jul-75	Wed	5 7/8 - 6 3/8	6.13	0.125	None				
21-Jul-75	Mon	6 1/8	6.13	0.125	18-Jul-75	Fri	1	6 1/8 - 6 1/4	0.188
22-Jul-75	Tue	6 - 6 1/2	6.25	0.125	Same		2		
03-Oct-75	Fri	5 7/8 - 6 1/8	6.00	-0.125	03-Oct-75	Fri	0	6	-0.250
21-Oct-75	Tue	5 1/2 - 5 3/4	5.63	-0.375	10-Oct-75	Fri	7	5 3/4	-0.250
07-Nov-75	Fri	5 1/4 - 5 1/2	5.38	-0.125	07-Nov-75	Fri	0	5 1/4	-0.250
12-Nov-75	Wed	5 1/8 - 5 3/8	5.25	-0.125	Same		3		
06-Jan-76	Tue	5	5.00	-0.125	02-Jan-76	Fri	2	5	-0.125
27-Feb-76	Fri	5	5.00	0.250	27-Feb-76	Fri	0	4 3/4 - 4 7/8	0.063
30-Mar-76	Tue	4 3/4	4.75	-0.125	None				
23-Apr-76	Fri	4 7/8	4.88	0.125	21-Apr-76	Wed	2	4 7/8	0.125
05-May-76	Wed	5	5.00	0.125	30-Apr-76	Fri	3	5	0.125
12-May-76	Wed	5 1/8	5.13	0.125	07-May-76	Fri	3	5 1/8	0.125
14-May-76	Fri	5 1/4	5.25	0.125	14-May-76	Fri	0	5 1/4	0.125
19-May-76	Wed	5 3/8	5.38	0.125	19-May-76	Wed	0	5 3/8	0.125
09-Jul-76	Fri	5 1/4	5.25	-0.250	09-Jul-76	Fri	0	5 1/4	-0.125
08-Oct-76	Fri	5	5.00	-0.250	08-Oct-76	Fri	0	5	-0.188
19-Nov-76	Fri	4 3/4	4.75	-0.250	19-Nov-76	Fri	0	4 7/8	-0.125
14-Dec-76	Tue	4 5/8	4.63	-0.125	10-Dec-76	Fri	2	4 5/8 - 4 3/4	-0.063
25-Apr-77	Mon	4 3/4 - 4 7/8	4.81	0.125	22-Apr-77	Fri	1	4 3/4	+trace
27-Apr-77	Wed	4 7/8 - 5	4.94	0.125	Same		3		
10-May-77	Tue	5 1/4 - 5 3/8	5.31	0.125	05-May-77	Thu	3	5 1/2	0.250
19-May-77	Thu	5 3/8	5.38	0.125	18-May-77	Wed	1	5 3/8	0.125
					27-Jul-77	Wed	1	5 1/2	0.125
28-Jul-77	Thu	5 5/8	5.63	0.250	28-Jul-77	Thu	0	5 5/8	0.125
09-Aug-77	Tue	5 7/8	5.88	0.125	05-Aug-77	Fri	2	5 7/8	0.125
12-Aug-77	Fri	6	6.00	0.125	12-Aug-77	Fri	0	6	0.125
09-Sep-77	Fri	6 1/8	6.13	0.125	09-Sep-77	Fri	0	6 1/8	0.125
22-Sep-77	Thu	6 1/4	6.25	0.125	21-Sep-77	Wed	1	6 1/4	0.125
30-Sep-77	Fri	6 3/8	6.38	0.125	30-Sep-77	Fri	0	6 3/8	0.125
07-Oct-77	Fri	6 1/2	6.50	0.125	07-Oct-77	Fri	0	6 1/2	0.063
31-Oct-77	Mon	6 5/8	6.63	0.125	28-Oct-77	Fri	1	6 1/2 - 6 5/8	0.063
09-Jan-78	Mon	6 3/4	6.75	0.250	09-Jan-78	Mon	0	6 3/4	0.250
19-Apr-78	Wed	7	7.00	0.250	19-Apr-78	Wed	0	7	0.250
					26-Apr-78	Wed	1	7 1/8	0.125
27-Apr-78	Thu	7 1/4	7.25	0.250	27-Apr-78	Thu	0	7 1/4	0.125
18-May-78	Thu	7 1/2	7.50	0.250	17-May-78	Wed	1	7 1/2	0.250
21-Jun-78	Wed	7 3/4	7.75	0.250	21-Jun-78	Wed	0	7 3/4	0.250
20-Jul-78	Thu	7 7/8	7.88	0.125	19-Jul-78	Wed	1	7 3/4 - 8	0.125
16-Aug-78	Wed	8	8.00	0.125	16-Aug-78	Wed	0	8	0.125
18-Aug-78	Fri	8 1/8	8.13	0.125	18-Aug-78	Fri	0	8 1/8	0.125
28-Aug-78	Mon	8 1/4	8.25	0.125	25-Aug-78	Fri	1	8 1/4	0.125
08-Sep-78	Fri	8 3/8	8.38	0.125	08-Sep-78	Fri	0	8 3/8	0.125
20-Sep-78	Wed	8 1/2	8.50	0.125	20-Sep-78	Wed	0	8 1/2	0.125
25-Sep-78	Mon	8 5/8	8.63	0.125	22-Sep-78	Fri	1	8 5/8	0.125
28-Sep-78	Thu	8 3/4	8.75	0.125	28-Sep-78	Thu	0	8 3/4	0.125
18-Oct-78	Wed	8 7/8	8.88	0.125	18-Oct-78	Wed	0	9	0.250
20-Oct-78	Fri	9	9.00	0.125	Same		2		
26-Oct-78	Thu	9 1/8	9.13	0.125	None				
31-Oct-78	Tue	9 1/2	9.50	0.375	31-Oct-78	Tue	0	9 1/2 - 9 3/4	0.625
01-Nov-78	Wed	9 3/4	9.75	0.250	Same		1		
28-Nov-78	Tue	9 7/8	9.88	0.125	21-Nov-78	Tue	5	9 7/8	0.188
19-Dec-78	Tue	10	10.00	0.125	19-Dec-78	Tue	0	10	0.125
15-Jan-79	Mon	10 1/8	10.13	0.125	None				
27-Apr-79	Fri	10 1/8 - 10 3/8	10.25	0.188	27-Apr-79	Fri	0	10 1/4	0.250
20-Jul-79	Fri	10 5/8	10.63	0.375	20-Jul-79	Fri	0	10 1/2	0.250
15-Aug-79	Wed	11	11.00	0.375	15-Aug-79	Wed	0	11	0.375
24-Aug-79	Fri	11 1/4	11.25	0.250	24-Aug-79	Fri	0	11 1/4	0.250
04-Sep-79	Tue	11 3/8	11.38	0.125	31-Aug-78	Fri	2	11 3/8	0.125
19-Sep-79	Wed	11 1/2	11.50	0.125	19-Sep-79	Wed	0	11 1/2	0.125

from the Report of Open Market Operations. Seventy-one of the 76 target changes in the series we constructed from the Journal can be clearly linked to actual changes announced in the Report of Open Market Operations. The five changes reported in the Journal that can not be clearly linked to actual changes in the target occurred on February 14, 1975, July 16, 1975, March 30, 1976, October 26, 1978 and January 15, 1979. Note that Appendix A shows that even in these cases the Journal accurately reported the Desk's operations; the public simply misunderstood the funds rate target these operations were signaling.

One of the columns on the right hand side of Table 4 shows the number of market days between the day the Desk decided to change the funds rate target and the day the Journal announced the target change. The table shows that 37 target changes were reported in the Journal to have occurred on the same day they were decided on by the Desk. Most of the other changes were reported by the Journal to have occurred one, two, or three days after they were decided on by the Desk, although in four instances the lag was longer.

Note that a lag between the day the Desk decided to change the target and the day the Journal reported a target change to have occurred does not necessarily mean that the public failed to pick up a clear Desk signal earlier. As indicated above, although the Desk typically made the decision to change the target on Friday, occasionally it did not take an action in the market to carry out that decision until later in the week. Also, there were times -- especially on settlement days and at the end of 1974 -- when temporary developments in the reserve market obfuscated the current funds rate target of the Desk.

A final explanatory comment on Table 3 is that there were six occasions when one target change by the Desk was perceived by market participants to have occurred in two or more steps. For instance, the Desk made the decision to raise the target by 1/4 of a percentage point on Wednesday, October 18 1978, and the Journal reported a 1/8 percentage point increase in the target that day and another 1/8 percentage point increase in the target on Friday, October 20, 1978. Also, there were two occasions when the total of two target changes made by the Desk on consecutive days was perceived by the market on the second day (July 28, 1977 and April 27, 1978).

The Journal missed a number of target changes early in the period, as we acknowledged in our earlier paper. In the last three years of the period, however, there was a very close correspondence between the Journal target changes and those announced in the Report of Open Market Operations. Early in the period the Fed was controlling the funds rate less closely on a day-to-day basis, making it harder for the public to identify the exact timing of a target change. An indication of this difference in the Fed's behavior early in the period is the larger range for the funds rate specified by the FOMC in 1975-76 compared to 1977-79. (See Table 3.)

IV. THE REVERSE CAUSATION ARGUMENT

The previous section shows that the Journal did a good job of reporting actual changes in funds rate target in the period from September 1974 to September 1979 and a very accurate job of describing the Desk actions that signaled changes in the target. This section addresses the question of whether these target changes caused same-day movements in interest rates or were a response to them.

As discussed in Section II, the Desk changed the funds rate target in the 1974-79 period either under explicit instructions from the FOMC or under the Desk's interpretation of the latest FOMC directive. Using Appendix A it is possible to construct a complete record of the reason for each change in the funds rate target and a record of the lags between the day of the initial decision to change the target and the day the target change was reported to have occurred by the Journal. (This record is shown in Appendix B.)

This exercise shows that 37 of the target changes in our Journal series followed directly from FOMC decisions at a regular meeting or conference call. In 32 of these cases the Desk changed the target one or more days after the FOMC's decision. The Desk changed the target on the same day as the FOMC meeting or conference call in only 5 cases, and on each of these days it took an action in the market that day that was perceived by market participants as signaling the new target.

The other 34 target changes were made by the Desk in its regular weekly program -- usually on Friday morning, but occasionally on Thursday morning -- under the instructions given to it at the latest FOMC meeting. (As discussed above, 5 of the 76 target changes in our Journal series did not correspond to actual changes as documented in the Report of Open Market Operations.) Of these, in 15 cases the Desk took an action in the market the same day that was perceived by market participants as signaling a new target. In the other 19 cases the market perception of a new target lagged the Desk's decision to change the target -- generally by one, two, or three market days. As indicated above, a lag between the day the Desk decided to change the target and the day the Journal reported a target change to have occurred does not necessarily mean that the public failed to pick up a clear Desk signal earlier, because while the Desk typically made the decision to change the target on Friday it at times did not take an action in the market to carry out that decision until later in the statement week.

To sum up, in 51 cases the decision to change the funds rate target -- either by the FOMC or by the Desk under the instructions of the most recent FOMC directive -- preceded by at least one day the market's perception of the target change as reported in the Journal. Clearly, changes in the target initially decided on prior to the day they were implemented and perceived by the public could not possibly have been made on the basis of the movement in market rates that day. Hence, in these cases it is reasonable to conclude that the change in the funds rate target caused the change in market rates, as was generally reported by the Journal.

In 20 cases the initial decision to change the funds rate target occurred on the morning of the day for which the Journal reported that the target had been changed. Since we used daily data based on closing market yields, it is possible to make the reverse causation argument that these 20 target changes were made in response to changes in market rates from the previous day's close to the current day's opening. There is no evidence from the Report of Open Market Operations, however, that overnight changes in market rates were a factor influencing the Desk's weekly funds rate targets. Moreover, it is relevant that most of the funds rate target changes were decided by the Desk on Friday mornings when the Desk typically reset the target after reviewing the latest projections for the monetary aggregates. The reverse causation argument does not explain why the Desk would respond to overnight movements in market rates observed on Friday mornings but not on other mornings. In any case, we reestimated the regressions of the change in market rates on the change in the funds rate target without these 20 observations, and the results, shown in Table 5, were similar to the results for the whole sample, reproduced in Table 6.

V. SUMMARY

The major purpose of this paper was to evaluate the reverse causation argument that funds rate targets changes in the 1974-79 period were responding to changes in market rates rather than causing them. To evaluate

TABLE 5

THE EFFECT OF FUNDS RATE TARGET CHANGES ON MARKET INTEREST RATES: Excludes 20 target changes for which decision to change target and market perception of target change were on same day[a]

$$\Delta R_t = b1 + b2\Delta RFF_t + u_t$$

ΔR_t	b1	b2	R^2	SER	D.W.
3-month bill rate	.005 (0.28)	.556 (7.13)*	.49	.13	1.64
6-month bill rate	.009 (0.63)	.517 (8.21)*	.56	.10	1.45
12-month bill rate	.015 (1.03)	.500 (7.79)*	.53	.11	1.60
3-year bond rate	.010 (0.95)	.219 (4.62)*	.28	.08	1.15
5-year bond rate	.003 (0.27)	.147 (3.30)*	.17	.07	1.22
7-year bond rate	-.002 (0.17)	.149 (3.41)*	.18	.07	1.21
10-year bond rate	.001 (0.16)	.087 (2.23)**	.08	.07	1.23
20-year bond rate	.003 (0.48)	.065 (2.45)**	.10	.04	1.33

[a]Includes 55 changes in the federal funds rate target from September 1974 through September 1979. Bill and bond rate changes are calculated over the day of the target changes. t-statistics are in parentheses. A * denotes significant at the 1 percent level using a two-tailed test and ** denotes significant at 5 percent level.

Note: The observations dropped are 3-Jan-75, 31-Jan-75, 8-May-75, 7-Nov-75, 27-Feb-76, 14-May-76, 9-Jul-76, 8-Oct-76, 28-Jul-77, 9-Sep-77, 30-Sep-77, 7-Oct-77, 9-Jan-78, 27-Apr-78, 8-Sep-78, 28-Sep-78, 31-Oct-78, 19-Dec-78, 27-Apr-79, and 24-Aug-79.

TABLE 6

THE EFFECT OF FUNDS RATE TARGET CHANGES ON MARKET INTEREST RATES[a]

$$\Delta R_t = b1 + b2\Delta RFF_t + u_t$$

ΔR_t	b1	b2	R^2	SER	D.W.
3-month bill rate	.016 (1.04)	.554 (8.10)*	.47	.13	1.89
6-month bill rate	.017 (1.44)	.541 (10.25)*	.59	.10	1.82
12-month bill rate	.024 (2.02)**	.500 (9.61)*	.56	.10	1.94
3-year bond rate	.018 (2.16)**	.289 (7.87)*	.46	.07	1.59
5-year bond rate	.012 (1.66)	.208 (6.43)*	.36	.06	1.59
7-year bond rate	.009 (1.47)	.185 (6.78)*	.39	.05	1.89
10-year bond rate	.012 (2.34)**	.131 (5.85)*	.32	.04	1.94
20-year bond rate	.007 (1.73)	.098 (5.46)*	.29	.03	2.04

[a]Includes 75 changes in the federal funds rate target from September 1974 through September 1979. Bill and bond rate changes are calculated over the day of the target changes. t-statistics are in parentheses. A * denotes significant at the 1 percent level using a two-tailed test and ** denotes significant at 5 percent level.

this argument we used the Report of Open Market Operations to construct a detailed record of the actual changes in the funds rate target and the circumstance leading to each of these changes. This record showed that in about two-thirds of the cases the decision to change the funds rate target preceded by at least one day the day on which the change was reported by the Journal to have occurred. Clearly, changes in the target initially decided on prior to the day they were implemented and perceived by the public could not possibly have been made on the basis of the movement in market rates that day, thereby ruling out the possibility of reverse causation. The possibility of reverse causation could not be eliminated for 20 of the target changes, but the Report of Open Market Operations provided no indication that these funds rate target changes were a response to overnight changes in market rates. Moreover, removing these 20 cases from our regressions did not substantially change the results.

The exercise we went through in this paper provides strong evidence in support of the Wall Street Journal's credibility in reporting the timing and details of monetary policy events. The Journal's reports of the details of open market operations signaling funds rate target changes were extremely accurate. Its record of the changes in the funds rate target was generally accurate overall, and it was almost perfect in the latter three years of our sample period. Finally, the Journal's reports that changes in market rates followed same-day changes in the funds rate target (rather than the reverse), and henced were caused by them, is strongly supported by our review of the Report of Open Market Operations which showed that two-thirds of the target changes were decided on prior to the day they were implemented.

The accuracy with which the Journal reported funds rate target changes in the period covered by this paper supports the general presumption that the Journal can be used as a credible source of information on the timing and details of major policy events. This conclusion strongly suggests that the Journal can be reliably used in other financial market studies, especially those that need to sort out the timing of events that occur within one day or even within one hour. (For example, see footnote 3.) Our finding on the credibility of the Journal is consistent with rational behavior by the Journal. One would not expect the Journal to jeopardize its credibility and ultimately its financial survival by routinely providing inaccurate reports on the timing and details of monetary policy events that are widely visible on a minute-by-minute basis to thousands of market participants on their Telerate machines.

APPENDIX A

COMPARISON OF FUNDS RATE TARGET CHANGES REPORTED IN WALL STREET JOURNAL AND IN REPORT OF OPEN MARKET OPERATIONS

REPORT OF OPEN MARKET OPERATIONS (Report is for statement week ending on date shown. Indented dates describe Desk's activities on that date.)	WALL STREET JOURNAL REPORT HEADLINE AND STORY	OLD TARGET NEW TARGET
September 4, 1974 Against this background, the Desk aimed for slightly less restrictive reserve availability anticipating a Federal funds rate around 11 3/4 percent, but desiring to avoid an excessively buoyant market reaction based on an exaggerated interpretation of the extent of the System's move.		
September 11, 1974 Mindful of these considerations, the Account Management planned to seek reserve conditions supportive of moderate monetary growth, anticipating that the Federal funds rate would stay in the area of 11 3/4%.		
September 18, 1974 In light of the Committee's decisions at its meeting the preceding Tuesday [September 10] and the soft atmosphere that had emerged in the securities markets, the Desk planned to foster a somewhat lesser degree of restraint than had been sought in previous weeks. It was expected that the federal funds rate would average around 11 1/2 percent or a shade lower. At the same time the Desk preferred to avoid overt actions that might convey a stronger System move toward easing than intended.		
Friday September 13 Federal funds opened at 11 1/2 - 11 9/16 percent and the money market showed a tendency to firm over the morning while a soft atmosphere was evidence in the securities markets....When funds began to trade at 11 5/8 and 11 3/4%, the Desk entered the market to offer over-the-weekend repurchase agreements.	**Fed, Apparently Easing Curb on Credit, Adds to Reserves in the Banking System** Friday's maneuver, dealers said, indicated the Fed may have lowered its target range on federal funds to the 11% to 11 1/2% vicinity....Over the past three weeks or so, the Fed had used a rate of about 12% on federal funds as a trigger to inject reserves and about an 11 1/2% rate as a trigger to absorb funds. The hint of possible new relaxation came Friday afternoon when the Fed moved to inject reserves into the banking network, which already had appeared to be relatively comfortable for funds. Specifically, the Federal Reserve injection came when the rate on so-called federal funds pierced the 11 1/2% level and hit 11 5/8%.	11 1/2 - 12 11 - 11 1/2
September 25, 1974 Against this background, the Desk planned to be somewhat more accommodative in its approach to reserve provision, expecting that the Federal funds rate would work into the lower part of an 11 to 11 1/4 percent range as the statement week progressed. In implementing this objective the Desk sought to avoid fueling market expectations of a more substantial than intended relaxation of System policy.		

Monday September 23 The money market became firmer than desired and when Federal funds were trading at 11 1/4 percent, the Desk responded by offering repurchase agreements to dealers for three days....The money market initially failed to respond to the reserve injection and the Desk offered a second round or RPs for overnight.

Fed Tacitly Confirms Further Easing Of Credit in Its Money-Market Dealings 11 - 11 1/2

The Federal Reserve System tacitly confirmed it eased credit another notch through its operations yesterday in the short-term money market. 10 3/4 - 11 1/4

The nation's money managers injected funds into the banking system twice yesterday when the federal funds rate hovered around 11 1/4%....The central bank yesterday injected reserves first when federal funds were at 11 5/16%, and again when they traded at 11 3/16%, dealers said. That prompted specialists to speculate that the maximum level at which funds would be added was dropped to 11 1/4% and that funds would be absorbed when the rate falls to 10 3/4%. Only last week the range was 11 1/2% and 11%.

October 2, 1974 Against this background, the Desk planned to continue seeking slightly more accommodative conditions of reserve availability, expecting that the Federal funds rate would decline, on average, to a shade under 11 percent.

October 9, 1974 On October 4, the FOMC concurred by wire with the Chairman's [recommendation of October 3] that a reduction in the Federal funds rate to 10 1/2 to 10 3/4 percent was consistent with its intent and a majority voted to lower the bottom of the range for this rate to 10 1/4 percent. Against this background, the Desk continued with its moves toward a less restrictive approach to reserve provision, expecting the Federal funds rate to average between 10 1/2 and 10 3/4 percent and to tend toward the bottom of this range as the week progressed.

Friday October 4 At the same time, Federal funds opened and continued to trade at 11 percent. The Desk accordingly entered the market and arranged $714 million of four-day repurchase agreements....Reserve estimates were little changed but when the funds rate seem lodged at 10 13/16 percent, the Desk entered the market and made $993 million of over-the-weekend repurchase agree ments.

Fed's Apparent: Credit Easing May Spur More Prime Rate Cuts, Perhaps to 11 1/2% 10 1/2 - 11

10 1/4 - 10 3/4

In recent days it was assumed the Federal Reserve preferred to see funds trade in the 10 1/2% to 11% range, with the money manager draining reserves when funds went below to 10 1/2% and adding them when they traded above 11%. Friday's actions, the analysts said, appeared to indicate that the Federal Reserve has lowered the current target range to 10 1/4% to 10 3/4%, or perhaps even to 10% to 10 1/2%.

According to money specialists, the Federal Reserve move Friday to inject funds into the banking system when the rate on so-called federal funds pressed slightly above to 10 3/4%.

<u>October 16, 1974</u> Against this background, the Desk planned to aim for a continuation of the trend toward slightly less restraint on reserve availability, anticipating an average Federal funds rate of around 10 1/4 to 10 1/2 percent, but probably closer to 10 1/4 percent.

<u>October 23, 1974</u> In view of these data and the Committee's decisions at its meeting the previous Tuesday [October 15], the Desk planned to provide reserves consistent with some further diminution of money market pressures, anticipating a Federal funds rate around 9 3/4%.

<u>Friday October 18</u> Federal funds traded at close to 10 percent on Thursday, a bit below rates prevailing previously. The trading range edged lower on Friday and while most funds traded around 9 3/4%, lower rates were reported during the afternoon. In these circumstances, the Desk took no overt action to affect reserves but used opportunities to absorb reserves through transactions with foreign accounts.

Fed Apparently Eases Credit Rein Again; More Banks Reduce Prime Interest Rates

The Federal Reserve System has apparently eased its credit stance another notch....As recently as a week ago, the central bank absorbed funds when the rate dipped to 10% and injected funds at the 10 1/2% level. The Fed's open-market movements will be closely watched this week to determine the new intervention points, which many specialists believe will be 9 1/2% to absorb reserves and 10% to inject them.

The rate on Federal funds, or reserves banks lend each other, fell to 9 1/2% from 10% without any move by the central bank to offset the decline.

10 - 10 1/2

9 1/2 - 10
confirmed in following day's <u>Journal</u>

<u>October 30, 1974</u> The Account Management continued seeking reserve availability consistent with a Federal funds rate around 9 3/4 percent, bearing in mind indications of the weak economic situation and the uncertain duration of the recent strengthening of the monetary aggregates.

<u>November 6, 1974</u> While this might have led the Manager to begin shading the funds rate slightly toward the high side of the 9 3/4 percent objective, to the extent consistent with even keel considerations, the Chairman recommended that in view of recent economic and financial developments the funds rate target be reduced to 9 1/2 percent for the time being and most FOMC members concurred, by November 1. In view of this and also of the ongoing Treasury financing, the Desk moved to seek reserve conditions that would foster the desired reduction in the Federal funds rate.

<u>November 13, 1974</u> In these circumstances, the Account Management retained recent reserve and money market objectives, expecting a Federal funds rate of 9 1/2 percent.

November 20, 1974 Against this background, the Account Management continued aiming for reserve supplies consistent with the Federal funds rate staying roughly in the area of 9 1/2 percent.

November 27, 1974 Upon further consideration of the monetary data and in view of the Committee meeting, the Desk sought after the weekend to achieve reserve conditions that were a shade more accommodative and would foster a Federal funds rate of around 9 1/4%.

December 4, 1974 Against this background, the Desk planned to aim for slightly more accommodative reserve conditions, consistent with Federal funds trading in a 9 to 9 1/4 percent range.

Tuesday December 3 This abundance [of reserves] now began to show through in the money market, although the Federal funds rate of 9 to 9 1/8 percent still did not reflect the very large availability of reserves indicated in the daily reports. If the funds rate had declined to around 8 1/2 percent at an early enough hour, the Desk was prepared to absorb reserves through overt action, but instead, some firming appeared to be developing. The Desk had on hand nearly $400 million of short-term investment orders from foreign accounts and invested $200 million by arranging repurchase agreements with dealers, anticipating that this would bring reserve excesses to light. The move also underscored the System's willingness to tolerate a funds rate close to 9 percent....The Federal funds rate started to fall in the early afternoon and a fair-sized volume was traded at 8 - 8 3/16 percent before the close.

Short-Term Rates Drop In Money Market On Signs That Fed Eased Credit Again 9 - 9 1/2

For the past few weeks the Federal Reserve has fostered a funds rate of around 9% to 9 1/2%. Because of the Fed's absence from the open market, some dealers said the Fed may have lowered the target range to possibly 8 3/4% to 9 1/4%. 8 3/4 - 9 1/4

Specifically, the dealers said the Fed had allowed the rate of federal funds to drop well below 9% without intervening in the open market.

December 11, 1974 Upon consideration of the data and taking account of the reduction in the discount rate announced late on Friday, December 6, the Account Management began seeking reserve conditions supportive of Federal funds trading in an 8 3/4 to 9 percent range -- after initially anticipating a rate closer to 9 percent.

December 18, 1974 Guided by these considerations, the Account Management planned to provide for a continued gradual expansion of reserve availability, anticipating a Federal funds rate around 8 3/4 percent or slightly lower.

Monday December 16 Projections received after the weekend still indicated a need for additional reserves and Federal funds were well bid at 8 3/4 percent -- the firm side of the desired range. The Desk purchased another $67 million of Treasury bills from foreign accounts and made $1.7 billion of three-day repurchase agreements in two go-arounds of the market.

Fed Gives Tacit Confirmation It Lowered Key Interest-Rate Target Another Notch

8 1/2 - 9 from the December 12 Journal

The Federal Reserve System, the nation's money manager, gave tacit confirmation yesterday that it had lowered a key interest-rate target by another notch....Specialists said that yesterday's maneuver clearly indicates the Fed prefers to the funds rate move no higher than 8 3/4%, with a possible range of 8 1/4% to 8 3/4%. Some said the range even could be lower.

8 1/4 - 8 3/4

In yesterday's developments, the Federal Reserve moved to inject the banking network with funds when the rate on so-called federal funds threatened to pierce the 8 3/4% level.

December 25, 1974 In view of these data, the Account Management planned a more accommodative provision of reserves, anticipating that the Federal funds rate would move down to around 8 1/4 percent after the weekend.

January 1, 1975 In light of this weakness, the Account Management planned to be more accommodative in its provision of reserves to the degree that ordinarily would be associated with a Federal funds rate of around 8 percent or a bit under, rather than the 8 1/4 percent for which the Desk had unsuccessfully aimed in preceding days. Realistically, however, the Account Management expected year-end factors to continue to so dominate the money market until late in the week that it might not be possible to bring the funds rate down despite massive reserve injections.

January 8, 1974 The Desk planned to be more accommodative in providing non borrowed reserves, anticipating a decline in the Federal funds rate to around 7 1/2 percent, in response to the weakness in the monetary aggregates.

Thursday January 2 At the start of the week, the money market was firmer than desired with Federal funds opening at 8 1/2 percent and tending to move higher. Accordingly, the Desk entered the market early and arranged $1,118 million of repurchase agreements to mature January 6. While this should have left little or only a modest residual need for reserves, funds continued to trade around 8 9/16 percent. The Desk offered a second round of agreements, this time for overnight.

Fed Apparently Loosens Credit A Notch By Injecting Funds as Key Rate Climbs

8 1/4 - 8 3/4

The Federal Reserve System, the nation's money manager, appears to have lowered by a notch its target on a key short-term interest rate....Until recently, it had been assumed the Fed wanted to keep the funds rate at 8 1/4% to 8 3/4%. Now some analysts say, it appears the target might be 8% to 8 1/2%, or possibly lower.

8 - 8 1/2

Specifically, the Fed moved aggressively to supply funds to the banking network yesterday when the federal funds rate rose to more than 8 1/2%.

Friday January 3 While estimates [on Friday] suggested more than ample supplies for the week, the funds rate was just below 8 1/2 percent -- stubbornly remaining considerably higher than desired....In light of these considerations, the Desk entered the market to buy Treasury bills outright for cash...The funds market still failed to respond and with funds trading around 8 7/16 percent, the Desk arranged $478 million of over-the-weekend repurchase agreements.

Prime Rates May Tumble in Wake of Cut in Fed's Discount Fee to 7 1/4 at 6 Banks

8 - 8 1/2

Before the Fed maneuverings Friday, most analysts believed the board preferred to see funds trade in the 8% to 8 1/2% range. Now they say the range could be 7 3/4% to 8 1/4%, or possibly lower.

7 3/4 - 8 1/4

On Friday, for instance, the Fed came into the money market twice to buy government securities....On both occasions, the rate on federal funds was hovering at less than 8 1/2%.

Monday January 6 Some Federal funds traded at 7 3/4 and 7 7/8 percent just before the close on Friday and rates of around 7 7/8 percent and slightly higher were reported over most of Monday morning when incoming estimates pointed to a sizable overabundance of reserves....When the funds rate showed little change, the Desk arranged repurchase agreements for its customers in the market, hoping that this would show the System's acceptance of the lower rates that had emerged and bring the accumulated reserve excess to light. The funds rate began a more pronounced decline during the afternoon and the market closed at 7 3/8 - 7 1/2 percent.

Fed Moves Push Some Fees Down in Money Market

7 3/4 - 8 1/4
the new target set the previous day

As recently as last week, most analysts believed the Fed wanted federal funds to trade in the 8 1/4% to 8 3/4% area. Now, they believe, the target range may be as low as 7 1/2% to 8%.

7 1/2 - 8

Of possibly more importance, the Fed yesterday allowed the interest rate banks charge one another on federal funds to fall significantly without intervention....Federal funds traded at slightly below 7 3/4% early yesterday afternoon before falling even further to about 7 1/2%.

Tuesday January 7 The easing trend continued in the money market. When funds began to trade at 7 1/4 percent and appeared to be heading lower, the Desk made $925 million of two-day matched sale-purchase transactions in the market.

Fed Step Shows Much-Eased Credit Grip, Which Causes Broad Interest Rate Cuts

7 1/2 - 8
the new target set the previous day

As recently as last week, analysts generally believed the Federal Reserve preferred to see the funds rate trade in an 8 1/4% to 8 3/4% range. Now they say the range more likely is 7 1/4% to 7 3/4%, or perhaps even 7% to 7 1/2%.

7 1/4 - 7 3/4

The confirmation by the nation's money manager of lower target rates on federal funds came early yesterday afternoon, when the Fed let the rate on funds slip below 7 1/4% before moving to keep it from falling much further.

January 15, 1975 The Desk anticipated a decline in the Federal funds rate to around 7 1/4 percent for the week. (The Committee on January 10 reduced the lower constraint on the funds rate from 7 1/2 to 7 1/8 percent.)

Tuesday January 14 The easing trend continued on Tuesday and funds opened at 7 1/4 percent but were trading at 7 percent by mid-day. [No action was taken to withdraw reserves and the funds rate continued to edge lower.]

Fed Apparently Lowers Target 1/4 Point on a Key Money Market Interest Rate

7 - 7 1/2

Most money analysts believe the Federal Reserve has lowered 1/4 percentage point its target on federal funds, uncommitted reserves banks lend one another. They say it appears the Fed prefers to see such funds trade in the 6 3/4% to 7 1/4% range, down from 7% to 7 1/2% last week.

6 3/4 - 7 1/4

January 22, 1975 The Desk anticipated that the Federal funds rate would decline to around 7 1/8 percent, the lower limit agreed upon by the Committee, by wire, on January 10.

January 29, 1975 In these circumstances, the Desk anticipated that the Federal funds rate would decline to a range of 6 3/4 to 7 percent.

February 5, 1975 The Desk anticipated a decline in the Federal funds rate to around 6 1/2 percent, the low end of the Committee's range.

Friday January 31 The additional weakness in the monetary aggregates, confirmed on Friday, led the Account Management to seek further downward movement in the Federal funds rate to around 6 1/2 percent. The funds rate was around 6 3/4 percent and projections again suggested a modest reserve need. Accordingly, the Desk entered the market to offer three-day repurchase agreements -- thus taking market action at a lower funds rate than had recently prevailed.

Fed Apparently is Lowering Its Target For Key Short-term Interest Rate Again

The Federal Reserve System, the nation's money manager, apparently has again lowered significantly its target on a key short-term interest rate....Most analysts now believe the Fed's target range on federal funds is 6 1/4% to 6 3/4%, possibly even lower. Previously, it was thought to be 6 3/4% to 7 1/2% [sic].

6 3/4 - 7 1/4
We treat the 7 1/2% as a typo and use 6 3/4% to 7 1/4%, which was the new target on January 14.

Specifically, the Fed moved actively Friday to supply funds to the banking network when the rate on federal funds hovered at 6 3/4%.

6 1/4 - 6 3/4

February 12, 1975 The Desk anticipated a decline in the Federal funds rate to 6 1/4 percent, the lower limit agreed upon by the Committee after receiving wires sent on February 5.

February 19, 1975 In these circumstances, the Account Management provided reserves consistent with federal funds trading around the 6 1/4 percent lower limit of its range.

Thursday February 13 Federal funds initially traded at around 6 5/16 percent. The Desk arranged $243 million of repurchase agreements for customers in the market. When the funds rate moved up to 6 3/8 percent, the Desk added reserves through $801 million of overnight repurchase agreements.

Fed Is Seen To Have Cut Key Rate Target

6 1/4 - 6 3/4

According to specialists, it appeared the Fed lowered to a range to 6% to 6 1/2%, or even possibly lower, its target rates on federal funds. It had been using a range of about 6 1/4% to 6 3/4% since late last month.

6 - 6 1/2

The specialists said that the Federal Reserve yesterday moved to inject funds into the banking network when federal funds were trading at 6 3/8%.

<u>Friday February 14</u> On Friday, the money market opened with the Federal funds rate at around 6 5/16 percent. The Desk sought to avoid a potential reserve scarcity and arranged $1,581 million of four-day repurchase agreements, which extended through Washington's Birthday holiday.

Fed Apparently Cuts Target on Key Rate; Several Banks Reduce Prime to 8 3/4% — 6 - 6 1/2

The maneuver was interpreted to mean the central bank may have lowered its interest-rate range on those reserves banks lend each other to between 5 3/4% and 6 1/4%. The central bank uses the rate on federal funds as a guide in adding or absorbing reserves from the banking system. The range apparently had been lowered to between 6% and 6 1/2% only the day before, dealers said. — 5 3/4 - 6 1/4

The Federal Reserve supplied funds to the banking system Friday when the interest rate on federal funds was 6 5/16%.

<u>February 26, 1975</u> Against this background, and in view of the conclusions reached at the FOMC meeting [February 19], the Desk sought reserve availability consistent with a decline in the Federal funds rate to around 6 percent.

<u>Friday February 21</u> On Friday, conditions in the money market remained firm with Federal funds trading primarily at 6 3/16 percent. The Desk arranged $2189 million of three-day repurchase agreements of which $558 million were offset by matched sale-purchase contracts with foreign accounts. The Federal funds rate remained above 6 percent and, late in the day, the Desk purchased $316 million of coupon issues in the market for regular delivery. Subsequently the funds rate eased to around 6 percent.

Fed Seems to Cut Federal Funds Interest Target — 5 3/4 - 6 1/4

Actions taken by the Federal Reserve on Friday, analysts said, indicate the Fed probably prefers to see funds trading in the 5 1/2% to 6% range for now, down from the presumed previous range of 5 3/4% to 6 1/4%. — 5 1/2 - 6

Specialists reported the Fed moved twice to inject reserves into the banking network Friday, in each case when funds rates were hovering around 6 1/8%.

<u>March 5, 1975</u> Against this background and the decisions reached at the previous FOMC meeting, the Desk planned to seek reserve availability consistent with a Federal funds rate of 6 percent or slightly lower.

<u>March 12, 1975</u> Against this background, the Desk planned to seek reserve availability consistent with a Federal funds rate around the 5 3/4 percent midpoint of its allowable range of variation.

<u>March 19, 1975</u> Against this background, the Desk continued to aim for reserve availability consistent with Federal funds trading around 5 3/4 percent.

<u>March 26, 1975</u> Against this background and in light of decisions reached at the last FOMC meeting, the Account Management planned to seek reserve availability consistent with Federal funds trading around 5 1/2 percent.

Wednesday March 26 The money market initially failed to reflect a shortage of reserves with funds opening at 4 5/8 percent. The Desk purchased $168 million of Treasury bills from foreign accounts for cash. When the funds rate firmed sharply, the Desk entered the market and arranged $911 million of over night repurchase contracts....The money market continued to tighten over the rest of the day.

April 2, 1975 This [money growth] would have ordinarily required the Desk to seek reserve conditions consistent with the funds rate rising to 5 3/4 percent. However, the Committee agreed with the Chairman's recommendation of March 27 that 5 1/2 percent be regarded as an upper limit on the funds rate for the time being and the Desk acted accordingly.

April 9, 1975 The Account Management continued seeking reserve conditions consistent with Federal funds trading around 5 1/2 percent, in accordance with the FOMC's interim instructions.

April 16, 1975 The Account Management continued to seek reserve availability consistent with a Federal funds rate of about 5 1/2 percent over the past statement week in accordance with the Committee's March 27 agreement with the Chairman's recommendation, and the decisions at its meeting on April 15.

April 23, 1975 In view of this uncertainty and the decisions reached at the latest FOMC meeting, the Account Management continued to seek conditions of reserve availability consistent with a Federal funds rate of 5 1/2 percent, although the Desk was inclined to resolve doubts slightly below rather than above 5 1/2 percent.

April 30, 1975 In light of these data, the decisions made at the last FOMC meeting, and the proximity of a major Treasury financing, the Account Management sought reserve availability consistent with Federal funds trading at slightly lower rates than had recently prevailed and a little below 5 1/2 percent.

May 7, 1975 Against this background, the Account Management sought reserve availability consistent with a Federal funds rate of around 5 1/4 percent -- the midpoint of the FOMC's desired range -- compared with a 5 1/2 percent objective earlier.

Fed Apparently Lowers a Key Target, Paving Way for More Prime Rate Cuts 5 1/2 - 6

Specialists took yesterday's injection of reserves as indicating that the Fed prefers to see funds trade in the 5 1/4% to 5 3/4% range, or perhaps even lower. In recent weeks it had been generally assumed the Fed wanted the rates to be in the 5 1/2% to 6% vicinity. 5 1/4 - 5 3/4

The Fed's implied confirmation came yesterday when it moved to inject funds into the banking network as the federal funds rate pressed above 5 3/4%.

May 14, 1975 Accordingly, the Account Management moved to seek a somewhat greater measure of reserve availability than had prevailed earlier, anticipating a decline in the Federal funds rate to the 5 to 5 1/4 percent area.

Thursday May 8 Preliminary indications with regard to monetary aggregates suggested a further weakening that would call for reserve availability consistent with the Federal funds rate tending below the 5 1/4 percent midpoint of the FOMC's range. Federal funds opened and traded at 5 3/8 percent, so the Desk entered the market and negotiated $2,278 million of 4- and 7-day repurchase agreements, most of which were for the one week period.

Fed Apparently Lowers Target for Rate on Federal Funds 1/4 Percentage Point 5 - 5 1/2

According to many specialists, it appears the Fed has lowered at least 1/4 percentage point the rate it prefers to see on federal funds....For much of the period since [late March], the Fed's operations appeared designed to keep the rate in a 5% to 5 1/2% range. 4 3/4 - 5 1/4

Specifically, the Fed acquired Treasury bills yesterday through repurchase agreements when the rate on federal funds was hovering around 5 3/8%. This led some market participants to conclude the Fed may have gone to a target range of 4 3/4% to 5 1/4%, or possibly even lower.

May 21, 1975 Against this background, the Account Management continued to provide reserves consistent with Federal funds trading in the area of 5 to 5 1/4 percent.

May 28, 1975 In view of these estimates and the Committee's decisions at its meeting, the Desk continued to provide reserves consistent with Federal funds trading in a 5 to 5 1/4 percent area but noted a slight preference for trading to center toward the upper part of that range.

June 4, 1975 In view of these estimates, the Account Management planned to aim at providing reserves consistent with Federal funds trading moving closer to the upper end of the 5 to 5 1/4 percent range sought in recent weeks.

June 11, 1975 Given these estimates, the Account Management planned to aim for reserve availability consistent with Federal funds remaining near 5 1/4 percent or perhaps a shade higher.

June 18, 1975 This suggested the desirability of moving forthwith to the 5 1/2 percent upper end of the allowable range for the Federal funds rate specified at the May FOMC meeting. However, in view of the proximity of Tuesday's [FOMC] meeting, the Account Management planned a slightly more cautious approach in seeking a rise in the Federal funds rate and aimed for reserve availability consistent with funds trading at somewhat above 5 1/4 percent.

June 25, 1975 In light of this [rapid growth in the aggregates] and the Committee's decisions [June 17], the Account Management sought conditions of reserve availability consistent with the Federal funds rate moving to the top of a 5 1/2 to 5 3/4 percent range within the statement week.

Friday June 20 On Friday, after reviewing the strong growth in the aggregates, it was decided that the Desk should seek to create conditions which would stimulate a move of the funds rate within the desired range. Since most of the projected reserve deficiency was expected to develop after the weekend, it appeared that overt action might be needed to achieve desired results quickly....Instead of firming, the funds rate tended to edge down to 5 7/16 percent and the Desk entered the market to arrange $585 million of over-the-weekend matched transactions. This action led market participants to reassess System policy, since many expected to see the Desk provide reserves during the week and since in previous days the Desk had been seen to provide reserves when Federal funds were in the area of 5 to 5 1/2 percent. In the funds market that after noon, the rate generally moved up to 5 5/8 percent, although a few trades were made at rates as high as 6 1/2 percent.

Prime Rate's Downturn Is Seen Imperiled By Fed's Move to Tighten Its Credit Reins 5 - 5 1/2

5 1/2 - 6

The Fed indicated that it raised its target interest rate on federal funds an estimated 0.5 percentage point....As recently as the middle of last week, the average target was presumed to be 5 1/4%.

The Fed's move became public when it moved to drain reserves from the banking network when the rate on federal funds was hovering just below 5 1/2%.

July 2, 1975 As noted in the June 26 wire from the Committee's Secretariat, the Desk planned to aim for reserve conditions in the current statement week consistent with a Federal funds rate around 6 percent, recognizing that special factors at least partly related to the June 30 statement publishing date might result in higher rates.

July 9, 1975 In light of this, the Account Management continued to aim for a degree of reserve availability consistent with Federal funds trading around 6 percent.

July 16, 1975 In view of the imminence of the upcoming FOMC meeting and the desirability of avoiding frequent overt course corrections that could confuse the market, the Account Management continued to seek reserve availability consistent with Federal funds trading in the neighborhood of 6 percent.

Wednesday July 16 By settlement day, projections suggested a reserve need and the money market opened with a firming trend quite evident. Since the effective rate on Federal *funds had* averaged close to 5 7/8 percent for the week so far, the Account Management was willing to tolerate rates slightly above 6 percent. After the rate had moved over 6 1/4 percent, the Desk offered overnight repurchase agreements in the market.

Fed May Have Tightened Credit Reins; Specialists Cite Its Federal Funds Moves 5 3/4 - 6 1/4

Until recently, it appeared the Fed was trying to keep the funds rate in the 5 3/4% to 6 1/4% range. The latest action, analysts said, could indicate a boost of 1/8 percentage point in the target. 5 7/8 - 6 3/8

The early view is based on the fact the Fed on Tuesday drained reserves from the banking network when the rate *on so-called federal funds* fell to 5 7/8%. And yesterday the Fed waited until the rate on funds hit 6 3/8% before entering the market to supply reserves.

July 23, 1975 Considering these data and the Committee's recent decisions [July 15], the Account Management sought reserve availability consistent with some firming in the money market, anticipating a Federal funds rate in the area of 6 1/8 to 6 1/4 percent.

Monday July 21 The money market remained slightly easier than desired, with funds still trading at 6 1/16 percent. The Desk absorbed reserves by selling $281 *million of* Treasury *bills in a go-around of* the market, which included sales for foreign accounts....Late in the day, the money market firmed a bit and funds traded up to 6 1/8 percent.

Fed Signals Tightening of Credit Reins Through Sizable Sales of Treasury Bills 6

6 1/8

The Federal Reserve System, the nation's money manager, gave implicit confirmation yesterday that it had tightened its credit reins a notch in the open money market....According to some market analysts, the sales [of Treasury bills] indicated that the Fed had boosted its target rate on federal funds at least 1/8 point....Previously, the average target was thought to have been 6%.

The Federal Reserve's sales came when federal funds were trading at 6 1/16%, a level that just a week ago would have prompted by [sic] orders from the Fed.

Tuesday July 22 On Tuesday, reserve availability was expected to be roughly satisfactory, but the money market was again somewhat more comfortable than desired. The Desk sold $94 million of bills to foreign accounts and arranged $380 million of overnight matched sale-purchase transactions with these accounts, hoping that these actions might lead to some rise in the Federal funds rate, which was steady at 6 1/16 percent. When this firmness did not emerge after a reasonable time, the Desk arranged $520 million of overnight matched sale-purchase transactions with the market. Afterwards funds traded as high as 6 3/8 percent.

	Near-Term Rates Continue to Rise; Fed Moves Again	6 1/8 the new target set previous day
	Several specialists said the move indicated that the Fed probably has decided to keep federal funds in a 6% to 6 1/2% range, possibly seeking an average rate of 6 1/8% [sic] or slightly higher.	6 - 6 1/2 confirmed in the following day's Journal
	According to dealers, the temporary sell order came when federal funds were trading at 6 1/16%.	

July 30, 1975 Against this background, the Account Management planned to continue aiming for reserve conditions consistent with Federal funds remaining in the 6 1/8 to 6 1/4 percent area, but it recognized that firmness as the week began could bring the average closer to the higher rate.

August 6, 1975 Against this background, the Account Management continued to aim for reserve conditions consistent with Federal funds remaining around 6 1/8 to 6 1/4 percent.

August 13, 1975 Against this background, the Account Management continued aiming for reserve conditions consistent with Federal funds trading around 6 1/8 to 6 1/4 percent.

August 20, 1975 In view of these data and the imminence of the August FOMC meeting, the Account Management continued to seek reserve conditions consistent with Federal funds trading around 6 1/8 to 6 1/4 percent, but tolerating trading at the lower end of this range.

August 27, 1975 Against this background the Account Management continued seeking reserve availability consistent with Federal funds trading in the 6 1/8 to 6 1/4 percent area.

September 3, 1975 Given this outlook, the Account Management continued to aim for reserve availability consistent with Federal funds trading in the area of 6 1/8 to 6 1/4 percent, expecting the rate to tend toward the lower end of that range.

September 10, 1975 That day [September 5], the Chairman recommended by wire, and on September 8 the Committee concurred, that the Desk be instructed to retain its recent approach to reserve provision until the next meeting. Accordingly, the Desk continued to aim for a Federal funds rate in the 6 1/8 to 6 1/4 percent area, leaning toward the lower figure.

September 17, 1975 In accordance with the Committee's decision by wire on September 8, the Account Management continued to aim for reserve availability consistent with Federal funds trading in a 6 1/8 to 6 1/4 percent range, leaning toward the lower end.

September 24, 1975 In view of the decision made at that [FOMC] meeting, the Account Management aimed for reserve availability consistent with the Federal funds rate moving up to a 6 1/4 to 6 1/2 percent range.

October 1, 1975 Against this background, the Account Management sought reserve availability consistent with Federal funds trading in the area of 6 1/4 percent, a shade below the previous week's goal.

October 8, 1975 In view of this [weakening in the aggregates] and the unsettled conditions in the municipal securities market, the Chairman recommended [on [October 2], and a majority of the Committee concurred, to instruct the Account Management to seek downward movement in the Federal funds rate toward 6 percent over the next few days. The lower limit of the funds rate constraint was reduced to 5 3/4 percent to provide flexibility in the event of additional confirmation of weakness in the aggregates. Accordingly, the Account Management sought a more accommodative reserve availability, anticipating a funds rate averaging around 6 1/8 percent during the week, but moving to 6 percent by the latter part of the week.

Friday October 3 On Friday, following receipt of more complete information on the weak aggregates, and the Committee's agreement with the Chairman's recommendation noted above, the Desk began aiming for more comfortable money market conditions. As a result of Thursday's operations, projections indicated more than ample reserve availability while Federal funds were trading at 6 3/16 and 6 1/4 percent. This level was comfortable with recent experience, but was a bit higher than was now desired....When the funds rate remained at 6 3/16 percent in the early afternoon, the Desk arranged $253 million of 3-day repur chase agreements and the funds rate declined to 6 percent by late afternoon.	**Fed Pumps Reserves Into Bank Network, Setting Off a Rally in Short-Term Market** The cash infusion triggered a sharp rally in the short-term money market on hopes the central bank's action signaled an easier monetary policy. The market upturn was touched off as the central bank entered into repurchase agreements when the interest rate on federal funds was 6 3/16%.	6 - 6 1/4 from the October 1, Journal 5 7/8 - 6 1/8 confirmed in the Journal two days later

October 15, 1975 In view of this confirmation of earlier signs of weakness and the Committee's agreement on October 3 with the Chairman's recommendations, the Account Management planned to aim for a more accommodative availability of reserves anticipating a funds rate close to 5 3/4 percent -- the revised lower bound of the acceptable range.

October 22, 1975 Considering this outlook, the Account Management continued to aim for reserve availability consistent with Federal funds trading around 5 3/4 percent, the lower bound of the Committee's range, adopted October 3.

Tuesday October 21 The money market was firmer on Tuesday morning, with funds trading at 5 13/16 percent, and projections continued to indicate a large need for the current and future weeks. The Desk entered the market early to arrange $2,701 million of 2-day repurchase agreements, partially offsetting them with $1081 million of overnight matched sale-purchase transactions with foreign accounts. That afternoon the Desk purchased $284 million of Federal agency issues in the market for Thursday delivery. The Desk's actions were viewed constructively in the markets, causing dealers to price their offerings relatively high compared with recent experience. The Federal funds rate edged lower in the afternoon, to around 5 1/2 percent.

Fed Appears to Ease Credit Rein Further; Short-Term Interest Rates Drop Sharply

5 7/8 - 6 1/8

5 1/2 - 5 3/4

According to market specialists, the actions were taken when federal funds were trading between 5 1/2% and about 5 3/4%. Specialists generally interpreted the action to mean the Fed had lowered its target rates on funds to that range, and possibly even lower....Previously, it was generally thought the Federal Reserve was aiming for a 5 7/8% to 6 1/8% range.

The Fed's apparently easier policy was signaled when it moved to inject reserves into the banking system with federal funds trading at relatively low interest rates.

October 29, 1975 In light of these data and the Committee's recent decisions, the Account Management planned to provide reserves consistent with Federal funds trading in the 5 1/2 to 5 3/4 percent area.

November 5, 1975 In light of these data, and the discussions at the Committee's last meeting, the Account Management planned a more accommodative approach to reserve provision, anticipating a Federal funds rate in the area of 5 1/2 percent.

November 12, 1975 In view of these data, especially with the sluggish performance of M1, the Account Management adopted a somewhat more accommodative approach to the provision of reserves, anticipating a Federal funds rate around 5 1/4 percent, the lower bound of the Committee's specified range.

<u>Friday November 7</u> With the receipt of the weaker aggregates projections on Friday, the Desk noted its intention to seek more comfortable money market conditions. Projections indicated that reserve supplies were still considerably more than adequate, though Federal funds were trading about as desired at 5 1/4 percent. The Desk [in these circumstances] absorbed reserves through transactions with foreign accounts....The money market eased markedly in the afternoon and some funds traded as low as 4 7/8 percent.	**Fed Failure to Prop Federal Funds Rate Seen Signaling Still Easier Credit Stance** Until Friday, it was generally thought the Fed wanted to see funds trade in the 5 3/8% to 5 5/8% range. Now, analysts believe, the range could be 5 1/4% to 5 1/2% and perhaps lower. Specialists said the Fed allowed the rate on federal funds to drop below 5% Friday without taking action to prop the key rate.	5 3/8 - 5 5/8 5 1/4 - 5 1/2
<u>Wednesday November 12</u> Funds traded initially at 5 1/4 and 5 3/8 percent but just before noon the rate moved to 5 1/2 percent. The Desk arranged $2884 million of overnight repurchase agreements in the market. The funds rate fluctuated somewhat after that, but when it returned to 5 1/2 percent, the Desk reentered the market and made an additional $555 million of overnight repurchase agreements.	**Fed Buys Treasury Bills in Two Stages, Underlining Move Toward Easier Credit** Specialists said the actions indicated the Fed wanted funds to trade below 5 1/2%, perhaps in the 5 1/8% to 5 3/8% range. Until late last week, it appeared the Fed was aiming at 5 3/8% to 5 5/8% trading range. The Federal Reserve's injections came in the form of temporary purchase of Treasury bills, once in the morning and then later again in the afternoon. In both instances, the maneuvers came with so-called federal funds trading at 5 1/2%.	5 1/4 - 5 1/2 the new target established the previous Friday 5 1/8 - 5 3/8

<u>November 19, 1975</u> In light of these data, the proximity of the next FOMC meeting, and the continuing uncertainties in the financial markets relating to New York's fiscal problems, the Account Management continued to seek reserve availability consistent with Federal funds trading around 5 1/4 percent.

<u>November 26, 1975</u> In line with the discussion and decisions at the recent Committee meeting, the Account Management continued to provide reserves consistent with trading in Federal funds remaining around 5 1/4 percent.

<u>December 3, 1975</u> In view of this sustained strength [in the aggregates], the Account Management planned to maintain reserve availability consistent with the Federal funds rate remaining around 5 1/4 percent, rather than edging it down to 5 percent as had been contemplated at the last FOMC meeting when a less buoyant growth outlook for the monetary aggregates had been anticipated.

December 10, 1975 Considering these expectations for the aggregates, the Account Management planned to seek reserve availability consistent with the Federal funds rate remaining around 5 1/4 percent.

December 17, 1975 While this outlook would have tended to suggest a more accommodative reserve climate than prevalent in recent weeks, the Account Management noted the sustained strength in the aggregates in the portion of the period for which the actual data were available and the proximity of the December FOMC meeting; therefore the Desk continued to provide reserves consistent with the Federal funds rate remaining around 5 1/4 percent.

December 24, 1975 Accordingly, the Desk planned to continue, for the time being, to provide reserves consistent with the Federal funds rate remaining in the area of 5 1/4 percent.

December 31, 1975 It was anticipated that the Federal funds rate would fluctuate in the area of 5 1/8 percent, compared to reserve conditions consistent with a 5 1/4 percent rate which had been the objective since early November.

January 7, 1976 Against this background the Desk planned to aim for a slightly more accommodative posture, anticipating a Federal funds rate in the area of 5 percent, down from the 5 1/8 percent objective prevailing through Friday [of the current statement week].

Tuesday January 6 The money market opened a bit easier than in recent days with Federal funds moving down to 5 1/16 percent during midmorning. The Desk planned to observe conditions in the money market and anticipated further easing. Conditions firmed, however, and when Federal funds traded at 5 1/8 percent through the noon hour, the Desk arranged $690 million of overnight repurchase agreements, partially offset by $420 million of overnight matched sale-purchase transactions with foreign accounts.

Fed Signals an Ease in Short-Term Rates, Sending Treasury Bill Prices Up Sharply 5 1/8

5

The specialists said the Fed's actions yesterday indicated the money manager had lowered its target rate on federal funds, uncommitted reserves that banks lend one another. They guessed the Fed currently is aiming for an average rate of 5%, possibly lower, on federal funds, down from a presumed average target of 5 1/8% only last month.

The signs of further credit ease came when the Federal Reserve moved to add reserves to the banking system when federal funds were trading at just 5 1/8%.

January 14, 1976 Against this background, the Account Management planned a more accommodative posture, anticipating Federal funds trading in the area of 4 7/8 percent. A majority of the Committee concurred with the Chairman's recommendations on January 12 that the Desk be instructed to aim at reserve availability consistent with a funds rate of about 4 3/4 percent (the level of trading on immediately preceding days) until the FOMC meeting on January 20.

January 21, 1976 In light of this, and in accordance with the Committee's concurrence with the Chairman's recommendation of January 12, the Desk planned to aim for reserve availability consistent with a Federal funds rate around 4 3/4 percent.

January 28, 1976 Against this background, the Desk planned to continue to aim for reserve availability consistent with Federal funds remaining around 4 3/4 percent.

February 4, 1976 In view of these mixed indications, and taking account of the weight which the Committee attached to M2, as well as M1 in its instructions, the Desk again planned to aim for reserve availability consistent with Federal funds continuing to trade around 4 3/4 percent.

February 11, 1976 Against this background, the Account Management planned to continue aiming for reserve availability consistent with Federal funds remaining around 4 3/4 percent.

February 18, 1976 Against this background, the Desk planned to continue reserve provision consistent with the Federal funds rate remaining near 4 3/4 percent.

February 25, 1976 In view of these expectations and considering the Committee's decisions, the Account Management planned to provide reserves consistent with the Federal funds rate remaining around 4 3/4 percent.

March 3, 1976 Considering this outlook and mindful of the Committee's discussion at the February meeting, the Account Management planned to provide for reserve availability consistent with Federal funds close to or a shade above the 4 3/4 percent area, in a range of 4 3/4 to 4 7/8 percent.

<u>Friday February 27</u> Funds initially traded at 4 13/16 percent, with the possibility of edging up to 4 7/8 percent. These rates were in line with the revised objective. Accordingly, no reserve action was taken by the Desk. Foreign repurchase orders were placed in the market at a time when funds were trading at 4 13/16 and 4 7/8 percent. Some market observers interpreted this move as an indication of a shift in the System's funds rate objective, and this interpretation gained adherents as the funds rate edged higher during the afternoon -- to 4 15/16 percent by 1:45 p.m. and 5 percent or a bit higher after 2 p.m. -- hours that were deemed too late to accommodate Desk operations readily.	**Fed Tightens Credit, May Move Further, Which Could Lead to Boost in Prime Rate** The Federal Reserve System, which Friday pulled in its credit reins a bit, may draw in the reins even further over the next few weeks....Since early this year, the Fed has tried to keep at 4 3/4% or so the key rate, which acts as a type of base for most other short-term interest rates. The Fed's tighter credit stance became apparent Friday when the reserve system allowed the rate on so-called federal funds to pierce 5% without intervening to hold it down.	4 3/4 5 confirmed in the <u>Journal</u> two days later
<u>March 10, 1976</u> In light of these developments, the Account Management planned reserve provision consistent with the Federal funds rate returning to the 4 3/4 percent area sought at the time of the February FOMC meeting. However, since the rise in the funds rate during the previous week had gone beyond the Desk's intentions and expectations, the Desk preferred to avoid unduly aggressive actions to push the funds rate back down as this could lead to particularly unsettled market conditions and undesirable confusion around a Treasury financing.		
<u>March 17, 1976</u> Given this information, the Account Management continued to seek reserve availability consistent with Federal funds rate trading around 4 3/4 percent.		
<u>March 24, 1976</u> In view of this information, the Account Management planned to continue aiming for reserve availability consistent with the Federal funds rate remaining around 4 3/4 percent.		
<u>March 31, 1976</u> In light of these data, the Account Management planned to seek reserve availability consistent with Federal funds remaining in the 4 3/4 percent area.		

Tuesday March 30 The money market was firm at the opening, with funds trading at 4 7/8 percent, reflecting the banks' strong demand for reserves in preparation for the quarterly statement publishing date on the following day. In these circumstances the Desk planned to provide temporary reserves only if the funds rate threatened to move above 4 7/8 percent. When this occurred during the noon hour, the Desk arranged $2,042 million of overnight repurchase agree-ments, partially offset by $689 million of matched sale-purchase transactions with foreign accounts.	**Federal Reserve System Clearly Indicates Preference for 4 3/4% Federal Funds Rate** The Federal Reserve System gave a clear signal yesterday that it would prefer to keep the rate on so-called federal funds in the 4 3/4% vicinity....Until recently, there has been much debate concerning the Federal Reserve's target rate on federal funds. Late last month, for example, Fed operations indicated the target was boosted to about 5% *from* around 4 3/4%. *Later Fed* activities suggested the action wasn't quite as drastic, with it possibly having gone to a permissible range of 4 5/8% to 5 1/8% in the funds rate rather than the 4 3/4% average rate concept. Yesterday, however, the Fed left little doubt that the current target is about 4 3/4%. The Federal Reserve moved to push reserves into the banking system shortly after noon as the rate on funds showed signs of piercing 4 7/8%.	4 5/8 - 5 1/8 4 3/4
April 7, 1976 With estimated growth [in the aggregates] not significantly different from these midpoints, the Account Management planned to aim for nonborrowed reserve availability consistent with Federal funds remaining around 4 3/4 percent.		
April 14, 1976 In light of these data, the Account Manager planned to continue aiming for nonborrowed reserve availability consistent with the Federal funds rate remaining around 4 3/4 percent.		
April 21, 1976 After taking account of the considerable strength in the Board staff's estimates, but also the more moderate outlook in the New York estimates, and the closeness of the FOMC meeting, the Account Management initially sought nonborrowed reserve availability consistent with the Federal funds rate remain ing around 4 3/4 percent. On the last day, considering the discussion at the April 20 FOMC meeting, the Account Management began aiming for a bit less accommodative availability of reserves, anticipating a Federal funds rate in the area of 4 7/8 percent.		

April 28, 1976 In light of these data, and taking account of the uncertainties regarding the unexpected strengthening of M2, the credit market's on-going adjustment to the 4 7/8 percent Federal funds rate objective after the last FOMC meeting [April 20], and the upcoming Treasury refinancing announcement, the Account Management planned to continue aiming for conditions of reserve availability consistent with Federal funds trading in the area of 4 7/8 percent.

Friday April 23 On Friday, projections again indicated a fairly sizable reserve need, while the money market was about as desired, with Federal funds trading steadily at 4 7/8 percent early in the day. The Desk initially limited its actions to the purchase of $64 million of Treasury bills outright from foreign accounts and the unobtrusive purchase of $41 million of Treasury bills in the market in conjunction with the execution of foreign purchase orders. In the afternoon, with funds more firmly bid at 4 7/8 and threatening to go higher, the System offered 6-day repurchase agreements.

Fed Delays in Adding Bank Funds Split Opinion on Whether Credit is Tightened — 4 3/4

Money analysts again are engaged in a high-stakes game of Clue, trying to decide whether the Federal Reserve System has tightened its credit reins. This time the players are about evenly divided between those that say there hasn't been any change in monetary policy and those that hold there has been a slight tightening.

4 7/8 confirmed in the following day's Journal

On Friday, the rate on federal funds was solidly at 4 7/8%. Still, the Federal Reserve waited until well past noon before supplying reserves. In recent weeks anything even slightly above 4 3/4% triggered a quick response from the Fed.

May 5, 1976 In light of the strong monetary growth in April, but also recognizing the uncertainty about the growth in May and the ongoing Treasury financing, the Account Management planned to aim cautiously for a bit less accommodative availability of reserves, anticipating a Federal funds rate in the area of 5 percent.

Wednesday May 5 On the settlement day, estimates suggested a further need to absorb reserves....With Federal funds trading at 4 15/16 percent, the Desk initially intended to drain reserves again by selling Treasury bills outright to foreign accounts and making matched sale-purchase transactions with such accounts. However, the money market became progressively firmer with funds trading in early afternoon at 5 1/8 percent. The System responded to this evident pressure by arranging $1066 million of overnight repurchase agreements.	**Fed Said to Have Tightened Credit Reins, Set Rate Target of 5% on Federal Funds** Money market analysts said the Fed apparently has adopted a 5% interest rate target on so-called federal funds, uncommitted reserves banks lend one another. If true, that would represent a 1/8-percentage-point boost from the 4 7/8% target established only late last month. The Fed allowed federal funds to trade at 4 7/8% to 5% throughout the morning and early afternoon. At about 1:15 p.m. EDT, however, when funds hit 5 1/16%, the Fed moved to add reserves into the banking network by acquiring Treasury bills from dealers who agreed to buy them back at a later date.	4 7/8 5 confirmed in the following day's Journal
May 12, 1976 Considering this outlook, the Account Management planned to aim for conditions of reserve availability consistent with raising the Federal funds rate to 5 1/8 percent by the end of the statement week, provided that this rate increase could be achieved without undue disruption of the Treasury financing that was in progress.		
Wednesday May 12 On the settlement day, estimates indicted a moderate remaining reserve need while the money market had firmed from the previous day, with Federal funds opening at 5 1/16 percent and quickly moving to the 5 1/8 percent level sought by the week's end. At the same time, the credit markets, continuing to digest the recent Treasury offerings, remained quite sensitive to signs of increased System firmness. Initially, the Desk took no action to affect reserves, arranging foreign investment orders in the market while awaiting developments in the money market. The funds rate traded steadily at 5 1/8 percent until the noon hour when it moved up to 5 3/16 percent. Shortly there after it jumped up to a 5 1/4 to 5 1/2 percent range, and the Desk supplied reserves, arranging $1399 million of overnight repurchase agreements.	**Short-Term Interest Rates Move Higher on Fears Fed May Be Tightening Credit** The possibility that the Federal Reserve System again may be tightening credit sent short-term interest rates racing upward yesterday. The fear of a tighter credit policy came as the rate on so-called federal funds pressed upward to 5 1/4% before the Federal Reserve intervened to inject funds into the banking network. In recent days the Fed had quickly supplied reserves whenever the funds rate pierced through 5 1/16%.	5 the new target established the previous Wednesday 5 1/8 confirmed in the following day's Journal
May 19, 1976 Considering that the market had made good progress in distributing issues from the recent Treasury refunding but remained sensitive to the System's reserve posture, the Account Management initially sought reserve availability consistent with Federal funds trading around 5 1/4 percent, but proceeded cautiously, avoiding overt action to encourage the higher rate. In view of the discussions at the Committee meeting on Tuesday [May 18], the Desk aimed on the last day for conditions of reserve availability consistent with Federal funds rate trading at about 5 3/8 percent.		

Friday May 14 Projections on the first two days indicated a moderate reserve need for the week then beginning, but the Desk took no overt action to meet this need, thereby allowing the Federal funds rate to climb gradually from 5 1/8 to around 5 1/4 percent. [On Thursday funds traded at 5 1/8 percent.] On Friday, the Desk purchased $73 million of Treasury bills outright from foreign accounts, and considered arranging temporary foreign investment orders with the System. However, the funds rate reached 5 1/4 percent during the noon hour and the foreign orders were placed in the market.

Wednesday May 19 On the last day, the Desk noted its intention to seek a Federal funds rate of about 5 3/8 percent. The money market opened as desired, with funds trading at 5 3/8 and 5 5/16 percent. However, when conditions firmed and funds traded at 5 7/16 percent in the afternoon, the Desk arranged $1,914 million of overnight repurchase agreements, partially offset by $620 million of matched sale-purchase transactions with foreign accounts.

May 26, 1976 Against this background, the Account Management planned to provide for a shade less accommodative reserve availability, with Federal funds trading at rates around 5 3/8 to 5 1/2 percent.

June 2, 1976 In light of this information, which on balance displayed continued strength relative to the Committee's objectives, the Account Management planned to aim for reserve availability consistent with Federal funds trading around 5 1/2 percent -- the average level actually attained in the previous statement week.

June 9, 1976 Against this background, the Account Management planned to continue aiming for reserve availability consistent with Federal funds remaining around 5 1/2 percent.

June 16, 1976 Against this background, the Account Management planned to continue aiming for reserve conditions consistent with Federal funds remaining in the area of 5 1/2 percent.

Pause in Fed's Credit Tightening Is Seen After Apparent Rise in Key Rate to 5 1/4 5 1/8

5 1/4

That, at least, is the opinion of many analysts who watched the Fed boost its interest-rate target on federal funds from 4 3/4% late last month to 5 1/8% in the middle of last week and cap it with an apparent further increase to 5 1/4% Friday.

The indication of a 5 1/4% funds target came Friday when the Federal Reserve allowed funds to trade at rates of 5 3/16% and more without intervening to stem the upward move. Analysts said past experience indicated the Fed probably would have injected reserves with rates that high if [the] target rate were less than 5 1/4%.

Fed Hints at Further Credit Tightening, Putting Upward Pressure on Prime Rate 5 1/4

Since late last month the Fed boosted its target interest rate on so-called federal funds by 3/4 percentage point. Yesterday, it indicated a further boost of 1/8 point to a target of 5 3/8%. 5 3/8

The hint of a tighter Fed policy came yesterday when the Fed waited until the rate on federal funds hit 5 7/16% before entering the market to supply reserves to the banking system.

June 23, 1976 Against this background, the Account Management continued to aim for reserve availability consistent with Federal funds trading around 5 1/2 percent.

June 30, 1976 Against this background, and in light of the decisions at the Committee meeting, the Desk planned to continue aiming for reserve availability consistent with the funds rate remaining around 5 1/2 percent.

July 7, 1976 Taking account of these estimates, while also recognizing their week-to-week volatility and the Committee's preference for relative stability in money market conditions unless the aggregates were deviating significantly from expectations, the Account Management planned a slightly more accommodative approach to reserve availability, seeking money market conditions consistent with a Federal funds rate moving to around 5 3/8 percent. In order to avoid creating market expectations of a major System move toward ease, the Desk refrained from overly aggressive actions in seeking this objective.

July 14, 1976 In light of the pronounced weakness in M1 and the more moderate weakness in M2, the Account Management planned to continue moving toward a slightly more accommodative availability of reserves, anticipating a Federal funds rate around 5 1/4 percent by the latter part of the week.

Friday July 9 On Friday, the Desk noted its intention to seek a Federal funds rate of around 5 1/4 percent by the end of the statement week. Reserve availability was projected to be more than adequate and the money market was in the process of easing toward the new objective. Federal funds opened at 5 3/8 percent before moving to 5 5/16 percent. Given these developments, the Desk absorbed reserves by arranging $517 million of three-day matched sale purchase transactions with foreign accounts and sold $153 million of Treasury bills outright to these accounts. In the afternoon, the money market softened further and, with funds trading at 5 3/16 percent, the Desk arranged an additional $800 million of three-day matched transactions in the market.

July 21, 1976 Given this background, and considering the proximity of the July FOMC meeting, the Account Management continued to aim for reserve availability consistent with a Federal funds rate of around 5 1/4 percent.

Fed May Be Willing to Ease Reins More on Credit in Weeks Ahead, Analysts Say 5 1/2

On Friday, the Federal Reserve gave tacit confirmation that it had lowered to about 5 1/4% from 5 1/2% its target rate on federal funds, which are uncommitted reserves banks lend one another. 5 1/4

The confirmation came as the Federal Reserve waited until the funds rate fell to 5 3/16% early Friday afternoon. Within 10 minutes of hitting the 5 3/16% level, however, the Fed sold government securities to dealers and agreed to buy them back later.

July 28, 1976 Against this background, the Account Management planned to continue aiming for reserve availability consistent with Federal funds trading around 5 1/4 percent.

August 4, 1976 Against this background, the Account Management planned to maintain reserve availability consistent with Federal funds trading around 5 1/4 percent.

August 11, 1976 Against this background the Account Management continued to aim for reserve availability consistent with a Federal funds rate around 5 1/4 percent.

August 18, 1976 In view of this and the proximity of the August Committee meeting, the Account Management sought to maintain reserve availability associated with Federal funds trading around 5 1/4 percent.

August 25. 1976 In light of these estimates, and the Committee's discussion at its meeting, the Desk planned to continue seeking reserve conditions consistent with the Federal funds rate remaining around 5 1/4 percent.

September 1, 1976 In accordance with the directive adopted at the August FOMC meeting, the Account Management continued to aim for reserve availability consistent with the Federal funds rate remaining around 5 1/4 percent.

September 8, 1976 Against this background, the Account Management planned to continue aiming for reserve availability consistent with Federal funds remaining around 5 1/4 percent.

September 15, 1976 During the week, the Account Management continued to seek Federal funds trading around 5 1/4 percent, reflecting the Committee's instruction to maintain stable money market conditions provided there was no significant change in the outlook for monetary growth.

September 22, 1976 During the week, the Account Management continued to aim for stable money market conditions, expecting the Federal funds rate to remain around 5 1/4 percent.

September 29, 1976 Against this background, the Account Management planned to continue aiming for reserve availability consistent with the Federal funds rate remaining around 5 1/4 percent.

October 6, 1976 Considering these downward revisions [in the projections of the aggregates], but also noting the uncertainty of projections so early in the period and the recent volatility of the weekly changes in the aggregates, the Account Management planned to provide reserves on a slightly more accommodative basis, anticipating Federal funds trading largely in a 5 1/8 to 5 1/4 percent range. In seeking this objective, the Desk noted its intention to avoid aggressive actions which the market might misinterpret as a more significant move than intended.

October 13, 1976 Against this background, and also taking into account the considerable buoyancy in the market, the Account Management planned to continue moving gradually in an accommodating direction; the Desk initially sought reserve availability consistent with Federal funds trading at 5 1/8 percent or a little below, and then at around 5 percent when it became apparent that the market had already adjusted to funds trading at that level.

Friday October 8 On Friday, the Desk began anticipating Federal funds trading at 5 1/8 percent or a little below. Projections still indicated a substantial overabundance of reserves, and the Federal funds rate, after opening at 5 1/16 percent, slipped to 5 percent -- somewhat more comfortable that desired. The Desk moved to absorb reserves in the market through $1565 million of matched sale-purchase transactions extending four days over the long holiday weekend. The money market remained comfortable into the noon hour and when the Federal funds rate declined further to 4 7/8 percent, suggesting that reserves were more plentiful than estimated, the Desk reentered the market to arrange $1,095 million of additional four-day matched transactions.

Short-Term Interest Rates Press Lower Amid Belief Fed Has Eased Credit Reins 5 1/4

Some money market specialists said the Fed's actions Friday indicated that the central bank has lowered its target rate on federal funds, the uncommitted reserves banks lend one another. They guessed the Fed currently is aiming for an average rate of 5%, down from a previous target presumed to be 5 1/4%. 5

The signal of credit accommodation was detected by some market specialists when the Federal Reserve allowed federal funds to trade at 5% at one point during the day, and 4 7/8% later on, before moving to drain reserves from the banking network. Previously, the Fed would have moved sooner and more swiftly to boost rates toward 5 1/4%, observers said.

October 20, 1976 Considering this outlook, the Account Management continued to aim for reserve availability consistent with Federal funds trading around 5 percent.

October 27, 1976 In response to this changed outlook, the Chairman recommended, and a majority of the Committee concurred on October 22, that the Account Management be instructed to continue aiming for a Federal funds rate of around 5 percent, rather than moving down to 4 7/8 percent as had been planned at the October Committee meeting.

November 3, 1976 [Chairman Burns] advised the Manager that any significant current increase in the funds rate from the prevailing level of about 5 percent would be inconsistent with the Committee's intent. Also, the Chairman was inclined to agree with the view that, in light of the Treasury's mid-November refunding, any substantial change in money market conditions would be undesirable for a while, absent other overriding considerations. Committee members agreed or at least did not disagree with the thrust of the Chairman's interpretation and, accordingly, the Account Management continued aiming for reserve conditions consistent with Federal funds remaining around 5 percent.

November 10, 1977 In view of the considerations -- including the Treasury's refunding operation -- noted a week earlier in the communications with the Chairman, with which other FOMC members did not disagree, the Account Management planned to continue aiming for a while longer for reserve conditions consistent with Federal funds remaining around 5 percent.

November 17, 1976 In view of the points considered earlier in the intermeeting period, including the Committee's initial preference for a slight easing and the Treasury refunding operation which was in the distribution phase, and the proximity of the next FOMC meeting, the Account Management continued to aim for conditions for reserve availability consistent with the Federal funds rate remaining around 5 percent.

November 24, 1976 Against this background, the Account Management proceeded along a course based on the understanding reached at the latest Committee meeting [November 16] and aimed for reserve availability consistent with Federal funds trading during the week at around 4 7/8 percent.

Friday November 19 The money market opened with Federal funds trading at 4 15/16 percent, a shade above the new objective of 4 7/8 percent. The funds rate remained at its opening level throughout the morning, and shortly before the noon hour the Desk supplied reserves through $2000 million of over-the-weekend repurchase agreements....Subsequently, the money market eased with funds trading at 4 13/16 percent during most of the afternoon.

Fed Eases Reins On Credit, Cuts Discount Rate 5

Less than 1 1/2 hours [after midmorning], the Fed gave the money market a policy-easing signal, indicating a lowering to 4 3/4% from 5% of its interest rate target on federal funds, reserves banks lend one another. 4 3/4

Until Friday, the Federal Reserve has been aiming at maintaining a 5% rate on federal funds, which had been in effect since early last month. At about noon EST, however, the Fed moved to inject reserves into the banking system while federal funds were trading at a rate below 5%.

December 1, 1976 In view of these developments, the Account Management continued to implement the decisions reached at the last Committee meeting, aiming for conditions of reserve availability consistent with Federal funds trading around 4 3/4 percent as compared with 4 7/8 percent in the preceding weeks.

December 8, 1976 Against this background, the Account Management continued aiming for reserve availability associated with a 4 3/4 percent Federal funds rate, pending clarification of the outlook for the aggregates.

December 15, 1976 In light of these forecasts, and giving primary consideration to the Board staff estimates, the Account Management adopted a slightly more accommodative posture in providing reserves, anticipating a Federal funds rate of 4 5/8 to 4 3/4 percent.

Tuesday December 14 Federal funds opened at 4 11/16 percent and, as the morning progressed, firmed to 4 3/4 percent. The Desk entered the market in the early afternoon to provide reserves through $2,750 million of two-day repurchase agreements, partially offset by $1,242 million of overnight matched sale-purchase transactions with foreign accounts. Subsequently, funds moved down to trade at 4 5/8 percent.

Easing of Credit Reins Another Notch Receives the Fed's Implicit Confirmation 4 3/4

The Federal Reserve System, the nation's money manager, gave an implicit confirmation that it has eased its credit reins another notch. Analysts said the Fed's actions in the open market yesterday indicated it is shooting for an interest rate of 4 5/8% or lower on federal funds, uncommitted reserves banks lend one another. 4 5/8

Late last month, the Federal Reserve lowered its target rate on federal funds to 4 3/4% from 5%. On Dec. 3, a number of specialists said there were signs that the Fed had further trimmed the target to 4 5/8%, but the Fed itself gave few clues in the marketplace to back that view. Yesterday, the Fed confirmed the view by injecting reserves into the banking network when federal funds were trading at only 4 3/4%, indicating it would prefer a rate lower than 4 5/8% [sic].

December 22, 1976 In light of these estimates, and also keeping in mind the uncertainty associated with the December aggregates and the close proximity of the next Committee meeting, the Account Management aimed for a slightly more accommodative posture toward reserve availability, anticipating that Federal funds would trade around 4 5/8 percent.

December 29, 1976 Given this outlook, the Desk continued aiming for reserve availability consistent with Federal funds remaining around 4 5/8 percent.

January 5, 1977 Against this background, the Desk continued aiming for reserve availability consistent with Federal funds remaining in the area of 4 5/8 percent.

<u>January 12, 1977</u> Against this background, the Account Management continued aiming for reserve conditions consistent with the Federal funds rate remaining around 4 5/8 percent.

<u>January 19, 1977</u> MISSING

<u>January 26, 1977</u> Against this background, the Account Management continued to aim for reserve conditions consistent with Federal funds trading around 4 5/8 to 4 3/4 percent, taking care that the slight upward move from 4 5/8 percent not disrupt excessively the still very tender conditions in the securities markets prior to the major Treasury financing operation.

<u>February 2, 1977</u> In view of these projections and the somewhat weak and unsettled atmosphere in the securities markets in the midst of a major Treasury financing period, the Account Management continued to aim for reserve conditions consistent with Federal funds remaining around 4 5/8 to 4 3/4 percent.

<u>February 9. 1977</u> Against this background, the Desk continued aiming for reserve availability consistent with Federal funds trading in the area of 4 5/8 to 4 3/4 percent.

<u>February 16, 1977</u> Given this outlook, the Account Management continued to aim for reserve availability consistent with Federal funds trading around 4 5/8 to 4 3/4 percent.

<u>February 23, 1977</u> Giving primary weight to the Board staff's estimates, the Account Management continued aiming for reserve availability consistent with Federal funds trading in the 4 5/8 to 4 3/4 percent area.

<u>March 2, 1977</u> Against this background, the Account Management continued to seek reserve availability consistent with the Federal funds rate remaining in the area of 4 5/8 to 4 3/4 percent.

<u>March 9, 1977</u> In these circumstances, the Account Management planned to continue aiming for reserve availability broadly consistent with Federal funds trading in the 4 5/8 to 4 3/4 percent area, though leaning more toward the 4 5/8 percent side of that range.

<u>March 16, 1977</u> Given this background and in view of the proximity of the March FOMC meeting, the Account Management continued to seek reserve availability broadly consistent with Federal funds trading in the area of 4 5/8 to 4 3/4 percent, but leaning more toward the 4 5/8 percent side of the range.

March 23, 1977 Accordingly, the Account Management planned to seek reserve availability consistent with the Federal funds rate remaining in the area of 4 5/8 to 4 3/4 percent.

March 30, 1977 Against this background, the Desk continued to seek reserve availability consistent with a Federal funds rate in the 4 5/8 to 4 3/4 percent range established at the March FOMC meeting.

April 6, 1977 Accordingly the Account Management continued to aim for reserve availability consistent with Federal funds trading in the 4 5/8 to 4 3/4 percent area.

April 13, 1977 Given that the strengthening [in the aggregates] was largely in the projected data, and placing primary weight on the Board staff's estimates, which were not so strong as those of the New York staff, the Account Management continued to seek reserve availability associated with Federal funds trading in the *area of 4 5/8 to 4 3/4 percent.*

April 20, 1977 Giving major weight to the Board staff estimates, and considering the proximity of the April FOMC meeting when prospects could be appraised in light of the cancellation of the tax rebate plans, the Desk sought reserve availability consistent with Federal funds trading around 4 3/4 percent -- the higher end of the recent 4 5/8 to 4 3/4 percent band.

April 27, 1977 Giving particular weight to the strength of M1 in April and considering the uncertainties involved in estimating the degree of flattening out in May, the Desk planned a slightly less generous approach to reserve availability as the week progressed, anticipating a Federal funds rate around 4 3/4 percent or a shade higher.

Monday April 25 A sizable reserve need was still indicated on Monday, and Federal funds traded about as desired at 4 13/16 percent. The Desk provided reserves by arranging $1353 million of three-day repurchase agreements, part of which was offset by $1777 million of overnight match sale-purchase transactions with foreign accounts. Scarcity of collateral again limited the volume of operations. During the afternoon, the funds rate firmed to 4 7/8 percent. Partly in view of the recent difficulties in attracting collateral, the Desk responded by preannouncing its intention to negotiate two-day repurchase contracts the next morning.	**Federal Reserve Moves Toward Tighter Credit, Some Analysts Believe** The Federal Reserve System may be in the process of pulling in its credit reins a notch, according to some money analysts...[An economist] estimates the Fed currently *is seeking to hold the rate on so-called federal funds to* 4 3/4% to 4 7/8%, up modestly from 4 5/8% to 4 3/4% earlier.... But others state the Fed hasn't changed policy.	4 5/8 - 4 3/4 4 3/4 to 4 7/8 confirmed in the *Journal* two days later (this is a borderline case; see next target change)

Wednesday April 27 Money market conditions tended toward the firm side with early trading at 4 7/8 percent. The Desk entered the market to negotiate about $1.2 billion of temporary foreign investment orders. Dealer offerings were limited so the Desk arranged $665 million of these as matched sale-purchase transactions with the System. The funds rate dipped briefly but, in the after noon, traded in volume as high as 5 1/2 percent. The Desk added reserves through the outright purchase of $400 million of Treasury bills from foreign accounts.

Almost All Money Specialists Now Agree That Fed Has Tightened Its Credit Reins

There was near unanimity among money specialists yesterday that the Federal Reserve System had tightened its credit reins a notch. There had been some speculation earlier in the week of a stiffer Fed policy, but many analysts at the time said they needed more evidence....Until recently, the Fed aimed to keep the rate on federal funds in a range of about 4 5/8% to 4 3/4%. Based on the Fed's recent maneuvers, the target now looks like 4 7/8% to 5%, said David M. Jones, an economist with Aburey G. Lanston & Co.

That evidence, many said, came yesterday as the Federal Reserve allowed the rate on so-called federal funds to rise to almost 5% before taking any offsetting action. When the action did come, specialists said, it was in a roundabout fashion.

4 3/4 to 4 7/8
We treat part of the target change as occurring two days earlier

4 7/8 to 5
confirmed in the following day's Journal

May 4, 1977 Accordingly, the Account Manager reaffirmed its more restrictive approach to reserve availability, and sought a funds rate at or a bit above 5 percent. The money market grew even firmer at the week's end and the Desk did not aggressively resist this as incoming data made it appear likely that it would be seeking a Funds rate of 5 1/4 percent in the following period.

May 11, 1977 Giving primary weight to the Board staff estimates and to the excessive strength in April, the Account Management began on Thursday to seek reserve conditions consistent with federal funds trading around 5 1/4 percent. On Friday [May 6], the Committee voted approval of the Chairman's recommendation to raise the upper limit for Federal funds trading to 5 1/2 percent. It was understood that the Desk could use the additional leeway only if new data becoming available before the May FOMC meeting suggested that the aggregates were strengthening significantly further on balance.

Tuesday May 10 The money market opened about as desired with early Federal funds trading at 5 1/4 percent. When the funds rate subsequently began easing to 5 1/8 percent, the Desk absorbed reserves by arranging $858 million of overnight matched sale-purchase transactions in the market and $1211 million of such transactions with foreign accounts. Following the Desk's actions, the money market firmed slightly with Federal funds trading primarily at 5 3/16 and 5 1/4 percent.

Fed Hints Tighter Credit Reins in Move To Drain Federal Funds as Rate Drops

The Federal Reserve System, the nation' money manager, gave a strong hint that it is tightening its credit reins another notch.... Until yesterday's action, most analysts believed the Federal Reserve was aiming for a funds rate of 5 1/8% to 5 1/4%. Now, some analysts think the target range may be 5 1/4% to 5 3/8%.

The hint came when the Fed moved to drain reserves from the banking system as the rate on so-called federal funds fell to 5 3/16%.

5 1/8 - 5 1/4

5 1/4 - 5 3/8

May 18, 1977 Since the estimates indicated no significant additional strengthening, the Account Management continued to seek reserve availability consistent with Federal funds trading at about 5 1/4 percent. On the final day, in light of the discussion at the meeting the day before [May 17], the Account Management indicated it would aim to achieve a Federal funds rate around 5 3/8 percent within the next few days.

May 25, 1977 In light of these estimates and of the discussion at the FOMC meeting [May 17], the Account Management sought reserve availability consistent with Federal funds trading around 5 3/8 percent.

Thursday May 19 The money market opened on the comfortable side with early Federal funds trading primarily at 5 5/16 percent and with some trading at 5 3/8 percent, the new preferred level in light of the discussion at the Tuesday FOMC meeting. With funds trading continuing to alternate between 5 5/16 and 5 3/8 percent past the noon hour, the Desk absorbed reserves by arranging $1682 million of matched sale-purchase transactions with foreign accounts. By early or mid-afternoon, funds were bid firmly at 5 3/8 percent, and after participants noted that the Desk had not intervened to resist the 5 3/8 percent funds trading, the money market firmed more sharply to around 5 1/2 percent and then to a 5 5/8 or 6 percent range at the close.

Fed Gives Hint Its Credit Reins Might Tighten

The Federal Reserve System, the nation's money market, hinted it might again be tightening its credit reins. But analysts were at odds over the issue.

5 1/4
From May 13
Journal

Specifically, the Fed allowed the rate to rise to 5 3/8% during the early afternoon and to 5 1/2% later on in the day. In the recent past, the Fed had intervened any time the rate topped 5 1/4%.

5 3/8
confirmed in the
May 27 Journal

June 1, 1977 Given this outlook, the Account Management continued to aim for reserve availability associated with Federal funds trading around 5 3/8 percent.

June 8, 1977 Against this background, the Account Management continued aiming for reserve availability consistent with Federal funds trading at 5 3/8 percent.

June 15, 1977 In these circumstances, the Account Management continued to aim for reserve availability consistent with Federal funds trading around 5 3/8 percent.

June 22, 1977 In view of these estimates, the Account Management continued to aim for reserve availability consistent with Federal funds trading around 5 3/8 percent.

June 29, 1977 In view of these data and the discussion at the FOMC meeting, the Account Management continued aiming for reserve availability consistent with Federal funds trading around 5 3/8 percent.

<u>July 6, 1977</u> In view of these data and given the Committee's preference for maintaining prevailing money market conditions unless the projections of the aggregates were approaching or moving beyond the limits of the specified ranges, the Account Management continued aiming for reserve availability consistent with Federal funds trading around 5 3/8 percent.

<u>July 13, 1977</u> Giving primary weight to the Board staff's estimates, and about equal weight to M1 and M2, the Account Management continued to aim for reserve availability consistent with Federal funds remaining around 5 3/8 percent.

<u>July 20, 1977</u> Giving primary weight to the Board staff's estimates and about equal weight to M1 and M2, and also considering the money market directive adopted by the Committee in June and the proximity of the July meeting, the Account Management held its objective for the Federal funds rate around 5 3/8 percent.

<u>July 27, 1977</u> Accordingly, the Account Management initially continued to aim for reserve availability consistent with Federal funds trading around 5 3/8 percent, while awaiting data that would become available as the week progressed. When additional data on Wednesday suggested that both M1 and M2 would probably be well up in or above the top of their ranges, the Account Manager allowed market pressures to raise the Federal funds rate to around 5 1/2 percent.

<u>August 3, 1977</u> In view of the Treasury financing operations scheduled to begin during the week, the Account Management responded to the preliminary indications of excessive strength on Thursday, and initially aimed for more restrictive reserve conditions consistent with a Federal funds rate of around 5 5/8 percent. The Account Management confirmed this objective on Friday, but recognized that market conditions would cause the rate, over the course of the week, to trade above that level. Indeed by Monday, after further consideration of the degree of strength in the monetary data and the fact that the firmness had already developed in the money market ahead of the Treasury auctions, the Account Management began to aim for reserve conditions consistent with a funds rate around 5 3/4 percent, the upper end of the Committee's specified range.

Thursday July 28 When the rate on Federal funds moved up by midday Thursday to 5 11/16 percent, to the firm side of the 5 5/8 percent objective established that day, the Desk arranged $1,291 million of over-the-weekend repurchase agreements. Market conditions continued on the firm side thereafter, and the Desk responded with a round of overnight repurchase agreements totaling $1,086 million. These operations more than offset the $1,201 million of over night matched sale-purchase transactions conducted with foreign accounts. The funds rate subsequently firmed further with some trading in the 5 13/16 to 5 7/8 percent range in the latter part of the day.

Sharp Rise in Money Supply Spurs Fed To Tighten Credit; Interest Rates Spurt 5 3/8

Even before the figures were made public, the Fed began to draw in its credit reins, boosting by 1/4 percentage point or so its target rate on so-called federal funds. 5 5/8

In the open market, the Fed allowed the rate on federal funds to rise to almost 5 3/4% before taking action to temper the rise. Previously, the Fed sought to maintain a funds rate of about 5 3/8%.

August 10, 1977 In view of continued strength in the aggregates, a majority of the Committee members on Friday [August 5] concurred with the Chairman's recommendation [on August 4] that the upper bound on the range of acceptable Federal funds rate variation be raised to 6 percent. The increased leeway in the funds trading range, however, was to be used in a gradual fashion and only if incoming data confirmed monetary aggregates growth rates well beyond the Committee's objectives. In keeping with this provision and mindful of the market conditions characteristic of a period immediately following a Treasury refinancing, the Account Management initially aimed for market conditions consistent with the existing funds rate objective of 5 3/4 percent. By the week's end with data on the aggregates similar to those available the week before, the Account Management sought a slight firming in the funds rate to around 5 7/8 percent.

Tuesday August 9 The Federal funds market opened with a small amount of trading at a 5 5/8 percent rate, which was below the objective, particularly in view of the Desk's intention to achieve slightly firmer conditions in the money market as the week progressed. Hence, the Desk entered the market early and arranged $4,654 million of two-day matched sale-purchase transactions. The funds rate subsequently firmed only as far as 5 11/16 percent, and the Desk responded early in the afternoon with a round of overnight matched transactions totaling $1,069 million.

Fed Hints It Might Be Tightening Credit; Federal-Fund Target Rate Put at 5 7/8% 5 3/4

5 7/8 confirmed in the Journal two days later

Many analysts viewed the action as a signal that the Fed is boosting to 5 7/8% or perhaps 6% from 5 3/4% its target rate on federal funds, the uncommitted reserves banks lend one another.

Specifically, the Fed drained reserves yesterday at about 10:45 a.m. EDT, selling securities to dealers and simultaneously agreeing to buy them back tomorrow. The maneuver took place when funds were trading at 5 5/8% bid, 5 11/16 offered. The Fed came back at about 12:25 p.m. and again sold securities to dealers, this time agreeing to buy them back today. Funds were trading at 5 11/16% at the time.

August 17, 1977 In view of the continued strength [in the aggregates] and the concurrence of a majority of the Committee, a week earlier [August 5], in accepting the Chairman's recommendation to raise the Federal funds rate objective gradually to 6 percent if the rapid monetary growth persisted, the Account Management began aiming for conditions of reserve availability consistent with Federal funds trading around 6 percent.

Friday August 12 On Friday, the Desk began to seek Federal funds trading around 6 percent. Reserve projections...indicated an overabundance for the week. The money market opened with funds trading at 5 7/8 and 5 15/16 percent, to the easy side of the desired range. Shortly before noon the Desk absorbed reserves overtly, executing $1,109 million of over-the-weekend matched sale purchase transactions in the market.

Pressures Mounting to Raise Prime Rate As Fed's Activities Tighten Credit Reins

The tightening was underscored Friday when the Fed pushed to 6% the rate on so-called federal funds, uncommitted reserve banks lend one another.

The Federal Reserve signaled Friday it was seeking a 6% interest rate on federal funds when it drained reserves from the banking network with funds trading at 5 15/16%.

5 7/8
The new target set the previous Tuesday

6

August 24, 1977 Against this background, the Account Management continued to aim for conditions of reserve availability consistent with Federal funds trading around 6 percent.

August 31, 1977 Against this background, the Account Management continued to aim for reserve availability consistent with Federal funds trading around 6 percent.

September 7, 1977 Since a weighted average of these estimates [of the aggregates] was still appreciably below the top of the Committee's ranges, the Account Management continued to seek levels of reserve availability consistent with Federal funds trading around 6 percent.

<u>September 14, 1977</u> Giving primary weight to the Board staff's estimates, but also taking account of the divergence in the outlook for September (stemming in part from seasonal uncertainties around the Labor Day week) and mindful that the substantial change in the Board staff's outlook was based on one week's new information, the Account Management adopted a slightly less accommodative stance toward reserve provision. The Desk planned to aim for conditions of reserve availability consistent with Federal funds trading in a range of 6 to 6 1/8 percent, intending to work up toward the higher end of the range by the end of the period provided that later information on the aggregates supported the estimates of stronger money supply growth in September.

<u>Friday September 9</u> On Friday, the Desk noted its intention to seek Federal funds trading in a 6 to 6 1/8 percent range, with the intention that the objective would be moved up toward the higher end of the range if further data supported projections of strength in the aggregates. The projections indicated a fair-sized overabundance of reserves for the week and funds traded comfortably at 6 percent, at the easy end of the newly desired range. The Desk entered the market to drain reserves through the arrangement of $1,594 million of over-the-weekend matched sale-purchase transactions. The money market subsequently firmed with funds first trading at 6 1/16 percent and then closing the day at 6 1/8 percent.

Fed's Market Moves to Be Watched to See If Credit-Tightening Steps will Continue

Market actions of the Federal Reserve System will be watched closely this week to assess whether recent credit-tightening moves will continue.

Last Friday, the central bank drained reserves from the banking system when so-called federal funds--reserves banks lend one another--hit 6%, a new high point for such maneuvers, analysts said.

6

6 1/8 confirmed in the following day's <u>Journal</u>

<u>September 21, 1977</u> In light of this, the Account Management aimed for reserve availability consistent with the Federal funds trading around 6 1/8 percent, the upper end of the range indicated the week before. On the final day, in light of the discussions at the Committee meeting [September 20], the Account Management began seeking slightly firmer conditions associated with the funds rate moving up gradually to 6 1/4 percent.

<u>September 28, 1977</u> In light of these data, and bearing in mind that the period was only a few days old, and that gradual firming had commenced the previous Wednesday, the Account Management sought reserve conditions consistent with Federal funds trading around 6 1/4 percent, the midpoint of the newly specified 6 to 6 1/2 percent range.

Thursday September 22 On Thursday morning, the Desk followed through on its intentions, announced on Wednesday afternoon, and completed $1,730 million of seven-day repurchase agreements. Funds traded at 6 3/16 percent and 6 1/8 percent through the morning. Conditions firmed in the early afternoon, and when funds traded at 6 5/16 percent, the Desk executed $609 million of four-day repurchase agreements.

Fed Acts Again to Slow Growth of Money Supply 6 1/8

Based on Fed market operations yesterday, analysts said it appears the authorities' target rate on federal funds, a key determinant of short-term interest rates, is 6 1/4%, up from the 6 1/8% set in mid-September. 6 1/4

In yesterday's trading, the Fed allowed the funds rate to go as high as 6 5/16% before intervening to pump funds into the market.

October 5, 1977 Against this background, the Account Management initially sought somewhat more restrictive conditions of reserve availability associated with Federal funds trading at 6 3/8 percent. Money market conditions tended to be firmer than that, however, in part reflecting pressures associated with the September 30 statement publishing date. The Desk was mindful that further upward adjustment in the funds rate to 6 1/2 percent would be called for by the end of the calendar week unless the monetary aggregates weakened. Given the approach of the five-year Treasury note auction on October 5, the Account Management accordingly indicated on Monday that it would accept some of the tightness, and aim for funds trading in a 6 3/8 to 6 1/2 percent range.

Friday September 30 Federal funds opened trading at 6 3/8 percent and quickly eased to 6 5/16 percent. The money market did firm by mid-morning, however, and with funds trading at 6 7/16 percent shortly before noon, the Desk arranged $1,025 million of over-the-weekend repurchase agreements. Conditions remained quite firm throughout the afternoon as funds traded primarily in a 6 1/2 to 7 1/2 percent range with a few trades at higher rates.

Even Tighter Credit Seen as Fed Appears to Boost Federal Funds Rate Target to 6 3/8% 6 1/4

6 3/8

The concern over possible tighter credit reins was heightened Friday when the Federal Reserve indicated it had raised to at least 6 3/8% from 6 1/4% its target interest rate on federal funds.

The Fed's determination was evident Friday when it let federal funds trade at an interest rate of 6 3/8%, 6 7/16% and finally 6 1/2% before taking any offsetting action.

October 12, 1977 In these circumstances, the Account Management sought reserve conditions consistent with Federal funds trading at 6 1/2 percent, the upper limit of the Committee's range.

Friday October 7 Funds opened trading at 6 3/8 percent, well under the objective. Consequently the Desk arranged $999 million of four-day matched sale-purchase transactions in the market. Funds continued to trade at that rate through early afternoon, however, and the Desk responded with a second round of matched transactions totaling $365 million to span the holiday weekend. Funds subsequently firmed, trading through the rest of the day at 6 7/16 and 6 1/2 percent.

Money Supply May Post Another Spurt; Fed Expected to Tighten Credit Further 6 3/8

Just last Friday the Fed gave an implicit signal that it had boosted to 6 1/2% from 6 3/8% its target interest rate for federal funds. 6 1/2

The Fed gave tacit confirmation of the boost to 6 1/2% from 6 3/8% in its funds target by moving to drain reserves from the banking system Friday on two occasions when funds were trading at the 6 3/8% level.

October 19, 1977 Against this background the Account Management continued to pursue reserve conditions consistent with Federal funds trading at the 6 1/2 percent upper limit of the Committee's range.

October 26, 1977 Given the money market directive, the greater strength in the aggregates was not sufficiently pronounced to call for a change in reserve conditions and the Account Management continued to aim for conditions consistent with Federal funds trading at about 6 1/2 percent, the middle of the new range of variation.

November 2, 1977 Given this situation and the money market directive, the *Account Management planned to aim for slightly less accommodative availability* of reserves with Federal funds trading around 6 1/2 to 6 5/8 percent.

Monday October 31 Federal funds were quoted in a 6 7/16 to 6 1/2 percent range, but no significant amount of early trading was taking place. In view of the need to absorb reserves and the desirability of indicating a preference for slightly firmer money market conditions before the remaining two refunding auctions, the Desk entered the market *early (about 10:40 a.m.) to arrange* $2,955 million of three-day matched sale-purchase transactions. Funds opened and traded through the morning at 6 1/2 percent. With market participants still not giving any indication that they had perceived a shift in the Federal Reserve's stance, the Desk made an additional entry into the market, this time selling $368 million of Treasury bills for the System Account, along with about $300 million of bill sales for foreign accounts. This action generated a strong reaction in the securities markets and conditions tightened in the Federal funds market as well, to a 6 5/8 to 7 percent trading range late in the day.

The Fed Clamps a Tight Vise on Credit and New Treasury Note Prices Plunge 6 1/2

Specifically, the Fed *raised* to at least 6 5/8% from 6 1/2% its target interest rate on federal funds.... 6 5/8

It did so by draining large amounts of reserves from the banking network, first through temporary sales of government securities and then through outright sales of U.S. Treasury bills....Both of yesterday's maneuvers came when funds were already trading at 6 1/2%.

November 9, 1977 Given these data showing some moderation in monetary growth and the money market directive, the Account Management planned to aim for conditions of reserve availability associated with Federal funds trading around 6 1/2 percent, compared to the 6 1/2 to 6 5/8 percent objective in effect the previous week. In light of the recent fluctuations in market sentiment, the Desk planned to avoid an aggressive effort to lower the funds rate if it were just slightly above the objective, in order to avoid engendering market confusion and misinterpretation.

November 16, 1977 Accordingly, the Account Management continued to seek reserve availability consistent with Federal funds trading around 6 1/2 percent.

November 23, 1977 Consequently, the Account Management continued seeking conditions of reserve availability consistent with Federal funds trading around 6 1/2 percent.

November 30, 1977 The Account Management accordingly continued to aim for reserve availability consistent with Federal funds trading around 6 1/2 percent.

December 7, 1977 Given these data, the Account Management continued to seek reserve conditions consistent with Federal funds trading around 6 1/2 percent.

December 14, 1977 Against this background, the Account Management continued to aim for reserve conditions consistent with Federal funds trading around 6 1/2 percent.

December 21, 1977 Given this background, the Account Management continued to seek reserve availability consistent with Federal funds trading around 6 1/2 percent.

December 28, 1977 Given this outlook, the Account Management planned to continue aiming for reserve conditions consistent with Federal funds trading around 6 1/2 percent.

January 4, 1978 Accordingly, the Account Management planned to continue aiming for reserve conditions consistent with Federal funds trading around 6 1/2 percent, recognizing that year-end statement date pressures might make it more difficult than usual to achieve the desired conditions.

January 11, 1978 The Account Management initially planned to continue seeking reserve conditions associated with Federal funds trading around 6 1/2 percent, although in view of the concern over the unsettled state of the foreign exchange markets where the dollar recently had been under severe downward pressure, the Desk indicated it would be more tolerant of Federal funds trading on the high side of that funds range [sic]. Later on Friday, the Federal Reserve took further steps to stem the speculation against the dollar, announcing a 1/2 percentage point increase in the discount rate to 6 1/2 percent, and after the weekend [January 9] the FOMC approved the Chairman's recommendation to raise the range of acceptable variation for Federal funds to 6 1/2 to 7 percent, and to instruct the Account Manager to seek a rise in the funds rate to around 6 3/4 percent over the next few days. In response, the Account Management on Monday began to foster reserve conditions consistent with the desired rise in the funds rate over the rest of the week.

Monday January 9 On Monday, the Desk noted its intention to seek Federal funds trading moving up to around 6 3/4 percent over the following few days....The money market opened with Federal funds trading at 6 5/8 percent, up from the funds rate levels prevailing before the weekend, probably reflecting at least in part the increase in the discount rate announced on Friday. When the funds rate subsequently eased around 10:30 a.m. to 6 9/16 percent, the Desk responded by absorbing reserves, arranging $1,880 million of three-day matched sale-purchase transactions. The shift in policy stance implied by the move contributed to subsequent money market firmness with funds trading mostly at 6 11/16 and 6 3/4 percent through the remainder of the day.

January 18, 1978 In light of these estimates and the Committee's instructions of January 6, the Account Management continued to seek reserve availability consistent with Federal funds trading around the 6 3/4 percent level achieved late in the previous week, while remaining attentive to developments in both the international and domestic financial markets.

January 25, 1978 Given this outlook the Account Management continued to pursue reserve conditions consistent with Federal funds trading around 6 3/4 percent.

February 1, 1978 In these circumstances the Account Management continued to pursue reserve conditions consistent with Federal funds trading around 6 3/4 percent.

February 8, 1978 Accordingly, the Account Management continued to pursue reserve conditions consistent with Federal funds trading around 6 3/4 percent.

February 15, 1978 The Account Management continued to pursue reserve conditions consistent with Federal funds trading around 6 3/4 percent over the past week.

February 22, 1978 The Account Management continued to pursue reserve conditions consistent with Federal funds trading around 6 3/4 percent.

March 1, 1978 Given this background, the Account Management continued to seek reserve conditions consistent with Federal funds trading around 6 3/4 percent.

March 8, 1978 Accordingly, the Account Management continued to pursue reserve conditions consistent with Federal funds trading around 6 3/4 percent.

Federal Reserve Moves to Tighten Credit in Escalating Effort to Bolster U.S. Dollar 6 1/2

6 3/4

In its action yesterday, the Fed indicated it had boosted to at least 6 3/4% from 6 1/2% its target interest rate on federal funds, a key money measure.

Yesterday's credit tightening became evident when the Fed moved to drain reserves from the banking network at a time when federal funds were trading at 6 9/16%.

March 15, 1978 On the Chairman's recommendation the Committee decided to modify the directive to call for maintaining the Federal funds rate [at] about 6 3/4 percent for the time being in view of indications that recent weakness in the aggregates may have reflected the unusually adverse winter weather and effects of the coal strike, and also in view of the precarious position of the dollar in foreign exchange markets. Accordingly, the Account Management left the funds rate objective unchanged.

March 22, 1978 Since the Board staff estimates were little changed from those discussed at the Committee's March 10 telephone meeting, the Account Management continued aiming for reserve conditions consistent with Federal funds trading around 6 3/4 percent.

March 29, 1978 Giving about equal weight to M1 and M2, with primary emphasis on the Board staff estimates, while considering that the new estimates represented only one week's additional data since the last meeting with the increased strength reflected primarily in the projected rather than in the actual portion of the forecast period, the Account Management continued to aim for reserve conditions consistent with Federal funds trading around 6 3/4 percent.

April 5, 1978 Giving primary emphasis to the Board staff estimates and about equal weight to M1 and M2, the Account Management continued to seek reserve conditions consistent with Federal funds trading around 6 3/4 percent.

April 12, 1978 In these circumstances, the Account Management continued to pursue reserve conditions consistent with Federal funds remaining around 6 3/4 percent.

April 19, 1978 Against this background the Account Management continued through Tuesday to seek conditions of reserve availability consistent with Federal funds trading around 6 3/4 percent. On the last day, in light of the decisions reached at the Committee meeting on the previous day [April 18], the Account Management began to seek a slightly more restrictive approach to reserve provision over the next few days. The Desk expected the funds rate to work its way up to around 7 percent over the ensuing week. It anticipated that the timing of the move could be rather delicate both because market participants did not expect a firming move at that time and because of a two-year note auction that afternoon and the announcement of a Treasury refunding operation a week later.

Wednesday April 19 On the settlement day the Desk noted its intention to seek a little more restrictive approach to reserve provision....Federal funds opened trading at 6 3/4 percent, moved briefly to 6 3/16 percent, and then settled back to the opening rate during the noon hour. In order to provide an indication of its firmer stance before the two-year note auction that afternoon, the Desk arranged $444 million of overnight matched sale-purchase transactions in the market. Following this, the market firmed rapidly; funds traded in limited volume as high as 7 1/4 percent before easing to trade mainly at 6 3/4 percent at the close.	**Fed's Intervention in the Money Markets Fosters Confusion Among Some Analysts** Intervention yesterday by the Federal Reserve System in the money markets prompted some analysts initially to conclude the Fed was signaling an attempt to tighten credit. But on closer analysis, some money market experts say the Fed's intentions remain unclear. Yesterday, the Fed came into the market with matched sales, or reverse repurchase agreements, to absorb bank reserves with the federal funds rate trading at 6 3/4%.	6 3/4 from the following day's <u>Journal</u> 7 confirmed in the following day's <u>Journal</u>
April 26, 1978 Giving primary emphasis to the Board staff estimates and about equal weight to M1 and M2, the Account Management planned -- in light of Committee decisions -- to seek conditions of reserve availability consistent with Federal funds trading around 7 percent over the next few days. On Wednesday, preliminary information on the monetary aggregates confirmed the strength seen the preceding Friday. Accordingly, the Account Management began to conduct operations with a view toward encouraging the funds rate to move up to 7 1/8 percent in advance of the Treasury's quarterly financing announcement that evening.		
May 3, 1978 The Account Management responded on Thursday to further indications of strengthening in the monetary aggregates over the April-May period by moving toward reserve conditions associated with Federal funds trading around 7 1/4 percent, as compared with the 7 1/8 percent objective indicated the day before. The Desk avoided aggressive action to push the Federal funds rate to the higher level, but the rate quickly moved there on its own, and was well established by the time the aggregates projections were reassessed on Friday morning.		
Thursday April 27 On Thursday the Desk noted its intention to seek Federal funds trading close to 7 1/4 percent. Reserve projections, as expected, indicated a very large need for the week, but given a desire for firmer money market conditions, the Desk limited the amount of proposals it accepted for the repurchase agreements that had been announced to the market the previous afternoon....Federal funds opened trading at 7 1/8 percent and firmed gradually through the day until the funds rate reached 7 5/16 percent at mid-afternoon; at that point, the Desk responded by negotiating $219 million of additional four-day repurchase agreements in the market.	**Federal Reserve Again Tightens Credit; Basic Money Supply Rose in Latest Week** In the latest action, the Fed boosted to 7 1/4% from 7% its target interest rate on federal funds, which are uncommitted reserves banks lend one another. As recently as April 18, the target was 6 3/4%. The Fed signaled the tightening by allowing the interest rate on federal funds to rise to 7 5/16% yesterday's before finally taking offsetting action at 1:30 p.m. EST.	7 7 1/4

May 10, 1978 In line with the vote of a majority of the Committee in a telephone conference on Friday morning, the Account Management continued to seek Federal funds trading at 7 1/4 percent, but took care that funds did not trade below 7 1/4 percent while allowing some variation above that level.

May 17, 1978 In line with the Committee's decision at its May 5 telephone meeting, the Account Management continued through Tuesday to seek reserve conditions consistent with Federal funds trading in the neighborhood of 7 1/4 percent or slightly above, while displaying a greater willingness to allow trading above the 7 1/4 percent rate rather than below that level. Following the decisions reached at the regular Committee meeting on Tuesday, May 16, the Account Management began on the final day to aim for conditions of reserve availability associated with a gradual rise in the Federal funds rate to 7 1/2 percent over the ensuing week to ten days, unless additional information on the aggregates suggested otherwise.

May 24, 1978 In line with decisions reached at the Committee meeting on Tuesday, May 16, the Account Management sought conditions of reserve availability associated with a gradual firming in the funds rate to 7 1/2 percent by about the start of the ensuing statement week. In order to avoid confusion about monetary policy intentions in advance of several Treasury auctions, the Desk note that it would not strongly resist a rise in the Federal funds rate to 7 1/2 percent, if that occurred earlier in the period, merely to promote a more gradual rise in that rate.

Thursday May 18 Federal funds traded comfortably at 7 1/4 percent in the morning. In order to encourage a gradual firming in the money market the Desk entered the market to absorb reserve overtly by arranging $2,119 million of four-day matched sale-purchase transactions. Following this operation the funds market firmed up with most trades taking place at 7 3/8 percent.

Fed, Signaling a Tougher Credit Policy, Drains Reserves From Banking Network 7 1/4

In recent weeks, it's believed the Fed has been trying to foster a 7 1/4% funds rate. But yesterday's reserve draining indicates the Fed wants the rate higher. 7 1/2 confirmed two days later in the Journal

The signal of a tougher policy stance came yesterday when the Fed moved to drain reserves from the banking network at a time when so-called federal funds were trading at 7 1/4%.

May 31, 1978 In light of decisions reached at the last Committee meeting, the Account Management continued to seek reserve conditions associated with Federal funds trading around 7 1/2 percent.

June 7, 1978 In these circumstances the Account Management continued to seek conditions of reserve availability consistent with Federal funds trading around 7 1/2 percent.

June 14, 1978 Consequently, the Account Management continued to seek conditions of reserve availability consistent with Federal funds trading around 7 1/2 percent.

June 21, 1978 In accordance with the Committee's wire vote on Friday, the Account Management continued through Tuesday to aim for reserve conditions associated with Federal funds trading around 7 1/2 percent. Following the Committee meeting on Tuesday [June 20] the Desk began to seek conditions of reserve availability consistent with a slight firming of the Federal funds rate to 7 3/4 percent over the next few days.

Wednesday June 21 On Wednesday, in light of decisions made at the previous day's Committee meeting, the Desk noted its intention to aim for a firming in the Federal funds rate to 7 3/4 percent over the next few days....With Federal funds trading at 7 5/8 percent early in the morning the Desk passed through approximately $1.3 billion of the foreign accounts to the market as customer-related overnight repurchase agreements. The market continued to firm as funds rose to 7 3/4 percent, and to 7 7/8 percent while the Desk was completing its customer-related operation. Once funds moved above 7 3/4 percent, the Desk entered the market to arrange overnight repurchase agreements on behalf of the System, executing $3,375 million. The market subsequently eased slightly but later a tightening resumed and, with Federal funds trading at 7 7/8 to 8 percent, a second round or repurchase agreements added $502 million of reserves.

Fed Boosts Federal Funds Target Rate; Move May Presage Other Key Increases 7 1/2

In yesterday's action, the Fed indicated it boosted to 7 3/4% from 7 1/2% its target interest rate on federal funds. 7 3/4

The indication of the Fed's tightening came yesterday morning when the Federal Reserve allowed the rate on funds to pierce 7 7/8% before taking any offsetting action.

June 28, 1978 The Account Management sought reserve conditions associated with Federal funds trading around 7 3/4 percent, the level reached in the previous two days.

July 5, 1978 The Account Management continued to seek conditions of reserve availability associated with Federal funds trading around 7 3/4 percent. The Desk recognized that this objective might be difficult to achieve given the banks' cautious approach to reserve management around the quarter-end statement date and a shortage of collateral which might restrict the Desk's efforts to inject reserves.

<u>July 12, 1978</u> Against this background, the Account Management continued to aim for conditions of reserve availability consistent with a Federal funds rate around 7 3/4 percent.

<u>July 19, 1978</u> Through Tuesday the Desk continued to foster reserve conditions associated with a Federal funds rate of around 7 3/4 percent. In response to decisions made at the Committee meeting on Tuesday the Account Management indicated on Wednesday that it would seek money market conditions similar to those of recent days, when funds had been mainly in a 7 3/4 to 8 percent range; the Desk planned to be more tolerant of funds trading at rates above 7 3/4 percent than it had been earlier but would resist trading at rates of 8 percent or above.

<u>July 26, 1978</u> Against this background, and in accordance with the decisions reached at the recent meeting [July 18], the Account Management aimed for conditions of reserve availability associated with Federal funds trading around the middle of the Committee's 7 3/4 to 8 percent range, while resisting trading at either end of that range.

<u>Thursday July 20</u> Federal funds traded about as desired at 7 7/8 percent early in the day following the very tight conditions experienced the day before. The Desk completed the repurchase agreements which had been announced the previous afternoon, arranging $1,181 million of regular four-day and $890 million of nonwithdrawable seven-day agreements. The funds rate edged a shade higher over the morning, trading primarily at 7 15/16 percent. When the funds rate reached 8 percent around noon the Desk negotiated an additional $1,407 million of four-day repurchase agreements as well as $405 million of overnight repurchase contracts. Federal funds continued to trade at 8 percent (or a shade higher) and the Desk arranged an additional $575 million of overnight repurchase agreements in mid-afternoon.

Federal Reserve Tightens Credit a Notch, But Extent of Move Remains Unclear

The Federal Reserve System has tightened its credit reins another notch....There is still some debate, though, on the extent of the tightening move. Many analysts said evidence is growing that the Federal Open Market Committee, the Fed's policy-making body, decided at its latest meeting last Tuesday to increase its target rate for federal funds to 8% from 7 3/4%. But a few analysts disagreed, saying the Fed appears to have moved its target up to only 7 7/8% to allow itself more flexibility.

7 3/4

7 7/8
confirmed two days later in the <u>Journal</u>

<u>August 2, 1978</u> Given this outlook, the Account Management continued to seek conditions of reserve availability associated with a Federal funds rate at the middle of the Committee's 7 3/4 to 8 percent range, resisting trading at either end of the range.

<u>August 9, 1978</u> Given this outlook, the Account Management continued to seek reserve conditions consistent with Federal funds trading around the middle of the Committee's 7 3/4 to 8 percent range, offering resistance at either boundary.

August 16, 1978 Through Tuesday the Account Management continued to foster reserve conditions associated with Federal funds trading around the middle of the 7 3/4 to 8 percent range, opposing trading at either extreme. In response to decisions made at the Committee meeting on Tuesday [August 15], the Desk began on Wednesday to seek reserve conditions consistent with Federal funds attaining a rate of around 8 percent within the next few days, though planning not to resist trading at that rate if it occurred somewhat sooner.

Wednesday August 16 On settlement day the Desk noted its intention to seek a rise in the Federal funds rate to 8 percent over the next few days, while not resisting that rate if it developed earlier....The money market opened with Federal funds trading at 8 percent, but then eased to 7 15/16 percent. When funds were again trading at 8 percent in the early afternoon the Desk passed through about $1.4 billion of foreign account orders to the market as customer-related overnight repurchase agreements.

The Fed Apparently is Reining in Credit in Wake of Dollar's Continued Decline 7 7/8

Analysts said the Fed's actions yesterday indicated the nation's money manager was boosting to at least 8% from 7 7/8% its target interest rate on federal funds, reserves banks lend each other. 8

The hint of the tightening came when the Fed allowed the rate on federal funds to pierce 8% without taking any overt action to inject more reserves into the banking network.

August 23, 1978 After giving equal weight to M1 and M2, and placing primary emphasis on the Board staff's projections, the outlook for monetary growth appeared sufficiently strong to call for a slightly firmer stance than that associated with the 8 percent midpoint of the Committee's federal funds range. While the Account Management might ordinarily have waited for additional evidence confirming the strength, given the short interval since the meeting, it was deemed preferable to seek a slightly firmer stance promptly in light of the continuing precarious position of the dollar in the foreign exchange markets. Accordingly, the Account Management began to foster conditions consistent with Federal funds trading in a 8 to 8 1/8 percent range.

Friday August 18 On Friday the Desk noted its intention to seek Federal funds trading in a range of 8 to 8 1/8 percent....Federal funds opened at 8 percent but then softened to 7 15/16 percent in the middle of the morning, possibly because banks were planning to borrow from the System rather than purchase funds in the market. In order to indicate clear resistance to funds trading below 8 percent, the Desk entered the market around 11 a.m. and arranged $852 million of over-the-weekend matched sale-purchase transactions. The Desk also absorbed reserves that day by arranging $1,119 million of three-day matched transactions with foreign accounts. Following these operations the funds rate gradually firmed, moving up through the noon hour to 8 1/8 percent....When funds began trading at 8 1/4 percent in the early afternoon, the Desk sought to indicate resistance to funds trading above the current objective and arranged $482 million of repurchase agreements over the weekend.	**Fed Raises Discount Rate to 7 3/4%, Signals 8 1/8% Fee on Federal Funds** Separately, the Federal Reserve signaled that it has settled at least temporarily on an 8 1/8% target interest rate on federal funds, reserves that banks lend each other. In its open market operations, the Fed indicated where it wants the rate on federal funds by draining reserves from the banking network when the rate on funds dipped below 8%. Later, when the funds rate rose to 8 1/4%, the Fed injected reserves.	8 the new target established the previous Wednesday 8 1/8
August 30, 1978 In response to these data the Account Management began on Thursday to tolerate somewhat firmer reserve conditions, and on Friday began to aim for conditions associated with Federal funds trading around 8 1/4 percent, the top of the range specified by the Committee.		
Monday August 28 Federal funds opened at 8 1/4 percent and traded steadily at that rate over the morning. The Desk passed through the approximately $1.0 billion of foreign account orders to the market as customer-related repurchase agreements. The funds rate subsequently firmed and, with funds trading at 8 5/16 and 8 3/8 percent, the Desk entered the market to supply reserves, arranging $1,035 million of three-day repurchase agreements.	**Fed Apparently Tightens Credit Spigot, This Time to Dampen Domestic Growth** According to specialists who watch Fed operations closely, the nation's money manager appeared to boost to at least 8 1/4% from 8 1/8% its target interest rate for federal funds. The indication of a tighter credit policy came when the Federal Reserve allowed federal funds to trade above 8 1/4% before intervening to counteract the trend.	8 1/8 8 1/4
September 6, 1978 Under the Committee's instructions, the Account Management continued to seek reserve conditions consistent with a Federal funds rate around 8 1/4 percent, the upper end of its range.		
September 13, 1978 In accordance with decisions made at the Committee's telephone meeting on Friday [September 8], the Desk began to aim for a Federal funds rate of 8 3/8 percent, with a revised 7 3/4 to 8 1/2 percent range of tolerance.		

Friday September 8 On Friday the Desk began to seek slightly firmer money market conditions associated with Federal funds trading around 8 3/8 percent....The Federal funds rate opened at 8 1/4 percent and the reserve estimates indicated that trading would probably remain at that rate if the Desk limited its operations to making matched sale-purchase transactions with foreign accounts. In order to give effect to the Committee's decision, the Desk entered the market to absorb reserves, arranging $498 million of over-the-weekend matched sale-purchase transactions. The funds rate rose to 8 3/8 percent and later to 8 7/16 percent.

Fed Appears to Tighten Its Credit Reins Despite Indicators Inflation is Abating 8 1/4

8 3/8

But That belief was shattered when the Federal Reserve gave what many considered to be a clear signal that it had boosted to 8 3/8% from 8 1/4% its target rate on federal funds.

The Fed's indication of tighter credit came when it drained reserves from the banking network when federal funds were trading at 8 1/4%.

September 20, 1978 Since the outlook for monetary growth had not strengthened significantly further from that available at the Committee's recent telephone meeting, the Account Management continued to aim for reserve conditions associated with a Federal funds rate around 8 3/8 percent through Tuesday. In response to decisions made at the Committee meeting on Tuesday [September 19], the Desk began on Wednesday to seek Federal funds trading around 8 1/2 percent.

Wednesday September 20 On Wednesday the Desk began to seek the 8 1/2 percent Federal funds rate desired by the Committee....Early in the day Federal funds were trading at 8 5/16 and 8 3/8 percent. To implement the Committee's decision, and given the imminence of the Treasury's auction of two-year notes that afternoon, the Desk entered the market around 11:30 a.m. and arranged $588 million of overnight matched transactions. The funds rate immediately rose to 8 1/2 percent. The rate later moved up to 8 9/16 percent, but then settled back to around 8 7/16 percent.

The Fed Acts to Tighten Credit Further by Raising Federal Funds Target Rate

Specifically, the Fed yesterday indicated it has raised to at least 8 1/2% from 8 3/8% its target rate on so-called federal funds. 8 3/8

The Fed itself left little doubt that it was tightening. With federal funds trading at the former 8 3/8% target, the Fed drained reserves from the banking system. 8 1/2

September 27, 1978 Placing primary emphasis on the Board staff's estimates, the Account Management began on Friday to seek reserve conditions associated with Federal funds trading around 8 5/8 percent, compared to the 8 1/2 percent rate sought over the days immediately following the September 19 Committee meeting.

Monday September 25 The money market was a bit firmer than before the weekend; after opening at 8 9/16 percent Federal funds rose to the 8 5/8 percent objective and traded at that rate until late in the morning. When the funds rate firmed further to 8 11/16 percent, the Desk responded by offering three-day repurchase agreements, arranging $2059 million. Shortly after 1:00 p.m., the funds rate moved up to 8 3/4 percent, prompting the Desk to offer overnight repurchase agreements, executing $449 million.

Fed Signals Raise in Federal Funds Target to 8 5/8% 8 1/2

In operations yesterday, the Fed gave an implicit signal it had raised to 8 5/8% from 8 1/2% its target rate on federal funds. 8 5/8

The hint of yesterday's tightening came when the Federal Reserve allowed funds to trade at 8 5/8% for a significant period before injecting reserves into the banking network.

October 4, 1978 Consequently, the Account Manager began to aim for reserve conditions associated with a Federal funds rate of 8 3/4 percent, slightly higher than the previous 8 5/8 percent objective, but in line with market expectations about that objective.

Thursday September 28 The money market opened somewhat firmer than desired with Federal funds trading at 8 13/16 percent....Federal funds traded primarily at 8 13/16 percent in the morning. Around noon the Desk responded by offering over-the-weekend repurchase agreements, which amounted to $1,001 million. In the afternoon the funds rate rose to 8 7/8 percent, prompting the Desk to arrange an additional $481 million of three-day repurchase contracts.

Fed Target on Funds Seems Lifted to 8 3/4% 8 5/8

The Federal Reserve System, stepping up its inflation battle, appears to have boosted to 8 3/4% its interest rate target on federal funds....Just last Monday, the Fed boosted to 8 5/8% from 8 1/2% the funds rate target. 8 3/4

The indication of an 8 3/4% target rate on federal funds came as the Fed allowed funds to hover at that level and slightly above. The Fed did move to inject reserves into the banking network with funds trading at 8 13/16%. But dealers termed the action more of a token move, one which signaled an 8 3/4% target rate.

October 11, 1978 Placing primary emphasis on the Board staff's projections and giving about equal weight to M1 and M2, the Account Management continued to seek Federal funds trading around 8 3/4 percent.

October 18, 1978 Accordingly, the Account Management continued through Tuesday to aim for reserve conditions consistent with Federal funds trading around 8 3/4 percent. On Wednesday, following the decisions reached at the Committee meeting the day before (October 17), the Desk began to seek a slightly lesser degree of reserve availability, consistent with Federal funds trading around 9 percent.

Wednesday October 18 Following decisions reached at the Committee meeting [October 17], the Desk on Wednesday began to pursue a slightly lesser degree of reserve availability consistent with a Federal funds rate of around 9 percent....Federal funds opened at 8 7/8 percent and traded mostly at that rate and at 8 15/16 percent through the morning. However, when funds slipped to both 8 13/16 and 8 7/8 percent and appeared likely to soften further, the Desk responded with $754 million of overnight matched transactions in the market. Later the rate dipped to 8 3/4 percent, and the Desk executed a second round of overnight matched transactions amounting to $977 million.

Rate on Federal Funds Appears Raised to At Least 8 7/8% in Fed Credit Move 8 3/4

Analysts said yesterday's action indicated the Fed boosted to at least 8 7/8% from 8 3/4% its target rate on federal funds. 8 7/8

The credit tightening move by the Fed was signaled when the nation's money manager moved to drain reserves from the banking system while federal funds were trading at about 8 7/8%.

October 25, 1978 Placing primary emphasis on M2, given the behavior of M1, and *attaching greater weight to the Board staff's projections*, the Account Management continued to seek reserve availability consistent with Federal funds trading around 9 percent.

Friday October 20 The reserve need was slow to make itself felt; funds traded mostly at 9 percent or a shade higher until late in the afternoon. Shortly before noon, the Desk passed through to the market about $1.1 billion of customer-related over-the-weekend repurchase agreements, arranging the $655 million balance as matched sale-purchase transactions with the System.

Increase in Banks' Prime Interest Rate to 10 1/4% is Seen as Early as This Week 8 7/8

9

On Friday, for example, the Fed raised to at least 9% from 8 7/8% its target interest rate on federal funds, uncommitted reserves banks lend one another.

On Friday, the Fed allowed the rate on federal funds to rise above 9% without directly intervening to stem the upward movement immediately.

November 1, 1978 On the final day of the week, the Account Management began aiming for a Federal funds in the area of 9 1/2 to 9 3/4 percent, in light of *Committee decisions consistent* with the broad program to defend the dollar announced that morning. Earlier in the week the funds rate objective had been 9 percent although the Desk had avoided aggressive action to push the rate down from higher levels prevailing in the previous week in view of the fragile condition of the dollar in the foreign exchange markets, the continued appraisal of the Administration's anti-inflation program and indications that new policies with regard to the dollar were being formulated. Similarly, the Desk avoided taking strong action to push the funds rate down into the new range on the final day. [The Committee actually approved the modification in the directive on October 31.]

Thursday October 26 The dollar remained under pressure in the foreign exchange markets. Federal funds, which had been trading at rates well above 9 percent in the preceding week, opened at 9 3/16 percent and edged off to 9 1/8 percent before resuming trading at 9 3/16 percent late in the morning. At noon, the Desk passed through about $1.2 billion of the foreign investment orders to the market as customer-related overnight repurchase agreements; it arranged the remainder, $347 million, as matched sale-purchase transactions with the System Account.	**Interest Rates on Big Bank CDs Climb Sharply** In its operations yesterday, the Federal Reserve indicated it was seeking a target interest rate of at least 9 1/8% on federal funds in carrying out monetary policy. Yesterday the Fed allowed funds to trade at 9 1/8% or so, without taking any overt steps to drive the rate down.	9 the new target set the previous Friday 9 1/8
Tuesday October 31 Federal funds opened at 9 1/4 percent and gradually firmed, moving up to 9 3/8 percent late in the morning. Shortly before noon the Desk passed through to the market $1.3 billion of the overnight foreign investment orders as customer-related repurchase agreements; it arranged the remainder $329 million, as matched sale-purchase transactions with the System Account. the funds rate for the most part continued to firm over the rest of the day with a sizable volume of trading at 9 1/2 percent.	**Chase Manhattan Boosts to 10% Its Prime Rate** Yesterday's move indicated the Fed had raised to 9 3/8% or 9 1/2% from 9 1/8% its target interest rate on federal funds, uncommitted reserves banks lend each other. In yesterday's maneuvering, the Fed allowed federal funds to trade at 9 1/2% during the lunch-hour period here without taking any overt action to temper the upward drive.	9 1/8 9 1/2 confirmed in the following day's Journal
Wednesday November 1 On Wednesday the Desk indicated its Federal funds rate objective of 9 1/2 to 9 3/4 percent....The market was firm at the opening with the funds rate initially at 10 percent. Around 10:30 a.m., the Desk entered the market and arranged $3,168 million of overnight repurchase agreements. The funds rate remained at 10 percent for a while and then eased before rebounding late in the day.	**Prime Rate Seen at 11% or More Before Year-End** On Tuesday, the nation's central bank indicated the target had been boosted to about 9 1/2% from 9 1/8%. Yesterday, funds traded at 10% for most of the day, and the Fed at one point injected reserves into the system, indicating it didn't want the rate to go higher. Thus, it appeared the current target is somewhere between 9 1/2% and 10%.	9 1/2 9 3/4 confirmed in the November 16 Journal

November 8, 1978 In accordance with the Committee's discussions and decisions reached during the previous week, the Account Management continued to seek reserve availability consistent with a Federal funds rate in the area of 9 1/2 to 9 3/4 percent, while taking account of the markets' perceptions of the overall dollar defense program. In view of the fragile condition of the dollar in the foreign exchange markets, the Desk avoided aggressive actions to push the funds rate down to its objective from the somewhat higher levels that had prevailed recently.

November 15, 1978 The Account Management continued to aim for Federal funds in a range of 9 1/2 to 9 3/4 percent, while remaining mindful of the fragile state of the dollar in foreign exchange markets.

<u>November 22, 1978</u> The Account Management continued to seek Federal funds trading within a range of 9 1/2 to 9 3/4 percent through Monday, while keeping a watchful eye on the state of the dollar in foreign exchange markets....Late Tuesday morning, following decisions reached at that day's Committee meeting [November 21], the Account Management began to pursue reserve availability associated with Federal funds trading in the middle of the newly adopted 9 3/4 to 10 percent range.

<u>November 29, 1978</u> The Account Management continued to pursue reserve availability associated with Federal funds trading at 9 7/8 percent, the middle of the 9 3/4 to 10 percent range specified by the Committee.

<u>Tuesday November 28</u> The money market opened slightly on the firm side of the desired range with early trading in Federal funds at 9 15/16 percent. At about 11:45 a.m., funds were trading either at 10 percent, or at 9 15/16 percent and were imminently expected to go to 10 percent. The Desk arranged $1663 million in overnight repurchase agreements in the market on behalf of the System.

Fed Move Indicates It Lifted Target Rate on Federal Funds to 9 7/8% from 9 3/4%

The Federal Reserve System gave implicit confirmation that it has boosted to 9 7/8% from 9 3/4% its target interest rate on federal funds, reserves banks lend each other.

The signal came yesterday when the Fed allowed funds to trade at about 10% before acting to temper the rise by injecting reserves into the banking network.

9 3/4

9 7/8

<u>December 6, 1978</u> Giving primary attention to M2 and placing more weight on Board staff projections, the Account Management continued to seek reserve availability consistent with Federal funds trading at around 9 7/8 percent, the midpoint of the Committee's 9 3/4 to 10 percent range.

<u>December 13, 1978</u> On December 8 the Committee approved the Chairman's recommendation to maintain prevailing money market conditions unless growth of the monetary aggregates appeared to weaken significantly further, and the Account Management continued to aim for a Federal funds rate of about 9 7/8 percent.

<u>December 20, 1978</u> As the Committee directed at its meeting on Tuesday [December 19], the Account Management began to adopt a firmer stance toward the end of the week consistent with Federal funds trading around 10 percent, being a bit more accommodative of trading slightly above that rate than below it. the Desk acted to signal its firmer posture promptly, in advance of the auctions of two-year Treasury notes on Tuesday and four-year notes on Wednesday. [Beginning here, the policy statement for the week comes from page 1 of the Report rather than from the beginning of the section entitled "Federal Reserve Open Market Operations," where it is no longer available.]

__Tuesday December 19__ However, money market conditions were initially on the firm side of recent experience with Federal funds trading at 9 15/16 percent and occasionally at 10 percent. Conditions became more comfortable during the noon hour. In the meantime, the Desk learned that the Committee had voted to adopt a firmer stance. The Desk acted to provide some indication of the change before the Treasury's two-year note auction to be held that day at 1:30 p.m. Accord ingly, with funds trading at 9 7/8 percent around 12:30 p.m., the Desk arranged $823 million of overnight matched sale-purchase transactions in the market.	**Fed Move to Drain Bank System Reserves Seen a Signal of More Credit Tightening** The Federal Reserve System took action in the money market yesterday that prompted some analysts to conclude that the Fed is tightening credit another notch. Nevertheless, the money markets reacted quickly when the Fed moved yesterday when federal funds were trading at 9 7/8% to drain reserves from the banking system.	9 7/8 the new target set November 28 10 confirmed in the January 5 __Journal__
__December 27, 1978__ While the monetary growth outlook was weaker, this was not so pronounced as to raise a question about the current policy stance, and the Account Management continued to aim for reserve conditions consistent with Federal funds trading at around 10 percent, though preferring to see variation slightly above that rate than below it.		
__January 3, 1979__ In a wire vote on Friday, December 29, the Committee concurred with the Chairman's suggestion that the Desk continue to aim for a funds rate of around 10 percent or slightly above, and the Account Management maintained that objective throughout the week.		
__January 10, 1979__ While the monetary outlook was on the weak side relative to the Committee's ranges, the Account Management, guided by the Committee's decision December 29, continued to aim for reserve conditions consistent with a Federal funds rate of around 10 percent of slightly above.		
__January 17, 1979__ In accordance with the discussion at the telephone conference of Committee members on Friday, January 12, the Account Management continued to aim for reserve availability consistent with Federal funds trading around 10 percent or slightly above.		
__Monday January 15__ Trading in Federal funds fluctuated between 10 and 10 1/16 percent throughout the morning and early afternoon. Subsequently, the money market firmed and, with funds trading at 10 1/8 percent, the Desk passed through about $500 million of foreign temporary investment orders to the market, while arranging the remainder, $1,315 million, with the System as matched sale-purchase transactions. The money market firmed further after this action, and funds closed in a 10 to 10 3/16 percent range.	**Fed Apparently Tightens Credit Reins, Boosting to 10 1/8% Target Rate on Funds** The Federal Reserve System apparently tightened its credit reins another notch, boosting to 10 1/8% from 10% its target interest rate on federal funds. Yesterday the Fed gave additional evidence of a new tightening move. That evidence came when the Fed allowed the rate on federal funds to rise to 10 1/8% without taking an overt action to stem the increase.	10 10 1/8

January 24, 1979 Accordingly, the Desk continued to aim for reserve availability consistent with Federal funds trading around 10 percent or slightly higher.

January 31, 1979 The Account Management continued to aim for money market conditions consistent with a Federal funds rate of 10 percent or a little higher.

February 7, 1979 In accordance with instructions issued by the Committee at its meeting on Tuesday, February 6, the Account Management continued to pursue a Federal funds rate objective of 10 percent of slightly above over the final part of the week.

February 14, 1979 Giving primary weight to Board staff estimates and about equal weight to M1 and M2, the Account Management continued to aim for reserve conditions consistent with Federal funds trading around 10 percent or slightly higher.

February 21, 1979 The Account Management continued to aim for reserve availability consistent with Federal funds trading at 10 percent or slightly above.

February 28, 1979 The Account Management continued to aim for reserve conditions consistent with Federal funds trading around 10 percent or slightly higher.

March 7, 1979 Pursuant to the Committee's instructions at its Friday telephone meeting, the Desk continued to seek a Federal funds rate around 10 percent or a little higher.

March 14, 1979 The Account Management continued to aim for reserve conditions consistent with Federal funds trading around 10 percent or a little higher.

March 21, 1979 Throughout the week the Account Management continued to aim for reserve conditions associated with Federal funds trading around 10 percent or slightly higher, and this stance was reaffirmed on Wednesday in response to decisions reached at the FOMC meeting on Tuesday, March 20.

March 28, 1979 Accordingly, the Account Management continued to aim for reserve conditions consistent with Federal funds trading at 10 to 10 1/8 percent.

April 4, 1979 Giving principal weight to the Board staff's estimates and recognizing the uncertainties in the next week or two which could arise from a sharp decline in the Treasury's balance resulting form the debt ceiling problem, the Desk continued to aim for reserve conditions consistent with Federal funds trading at 10 percent or slightly higher.

April 11, 1979 Placing primary emphasis on the Board staff's estimates and giving about equal weight to M1 and M2, the Account Management felt that the aggregates had not weakened enough to call for a reduction in the Federal funds objective. The Chairman expressed a similar view in a wire to FOMC members on April 6 and other members concurred. Accordingly, the Account Management continued to aim for reserve conditions consistent with a Federal funds rate around 10 percent or slightly higher.

April 18, 1979 The Account Management continued to aim for reserve conditions consistent with a Federal funds rate of 10 percent of slightly higher, and this stance was reaffirmed at the FOMC meeting on Tuesday, April 17.

April 25, 1979 Giving primary weight to the Board staff estimates, the Account Management continued to aim for reserve conditions consistent with a Federal funds rate of 10 percent or slightly higher.

May 2, 1979 In light of the strength in the aggregates, and following further confirmation by Committee members at a telephone consultation on Friday [April 27], the Account Management began aiming that day for a Federal funds rate of around 10 1/4 percent, up from the previous objective of 10 percent of slightly higher.

Friday April 27 On Friday, the Desk raised its Federal funds rate objective to 10 1/4 percent, given the stronger outlook for the monetary aggregates and following consultation among Committee members....Federal funds began trading at 10 1/8 percent before easing to 10 1/16 percent during the morning. In order to communicate the new objective promptly in advance of the May Treasury refunding, the Desk arranged a modest amount, $550 million, of three-day matched sale-purchase transactions in the market while funds traded at 10 1/16 percent....The money market firmed following the Desk's overt action, and funds traded generally at 10 1/4 or 10 3/16 percent over the balance of the day.	**Big Upward Push on Interest Rates is Expected as Fed Tightens Credit**	10 - 10 1/8
	Analysts surveying the situation said the Fed probably boosted to a range of 10 1/8% to 10 3/8% its target interest rate on federal funds. Previously it maintained a 10% to 10 1/8% range.	10 1/8 - 10 3/8 confirmed in the following day's Journal
	The signal of a tighter credit policy came when the Federal Reserve moved to drain reserves from the banking system when federal funds were trading at 10 /16% [sic]. Previously, the Fed had acted to drain reserves only when the funds rate declined to about 9 15/16%.	

May 9, 1979 Accordingly, the Account Management continued aiming for reserve conditions associated with Federal funds trading around 10 1/4 percent.

May 16, 1979 Accordingly, the Account Management continued to aim for reserve conditions characterized by a Federal funds rate around 10 1/4 percent.

May 23, 1979 Although the estimates remained above the Committee's ranges, the Account Management noted the reduced strength in the outlook, and felt that it would be consistent with the approach taken in recent weeks to continue aiming for reserve availability associated with Federal funds trading around 10 1/4 percent in the few days before the meeting.

May 30, 1979 Accordingly, the Account Management continued to aim for reserve availability associated with Federal funds trading around 10 1/4 percent.

June 6, 1979 Accordingly, the Account Management continued to aim for reserve availability associated with Federal funds trading around 10 1/4 percent.

June 13, 1979 These growth rates appeared to be within acceptable limits under the Committee's instructions, given the tentative nature of the preliminary data, and the Account Management continued to aim for reserve availability associated with Federal funds trading around 10 1/4 percent.

June 20, 1979 The Chairman recommended by a wire that prevailing conditions be retained in view of the many indications of weakening economic activity and the difficulties in interpreting the behavior of the aggregates. A majority of the Committee members concurred, and accordingly, the Account Management continued aiming for reserve availability associated with federal funds trading around 10 1/4 percent.

June 27, 1979 Pursuant to the Committee's June 15 decision to retain prevailing conditions in the funds market, the Account Management continued to seek reserve conditions consistent with a 10 1/4 percent Federal funds rate.

July 4, 1979 Pursuant to the Committee's June 15 decision, left unchanged by the telephone discussion of June 27, in favor of retaining prevailing conditions in the funds market, the Account Management continued to seek reserve conditions consistent with a 10 1/4 percent Federal funds rate, though it was noted that the objective might be difficult to meet in the latest week due to pressures associated with the quarter-end statement.

July 11, 1979 In keeping with the Committee's earlier decisions in favor of retaining prevailing conditions in the funds market, which were reaffirmed at the Wednesday Committee meeting, the Account Management continued to seek reserve conditions consistent with Federal funds trading around 10 1/4 percent.

July 18, 1979 In the context of a money market directive and giving preponderant weight to the Board staff projections, which showed growth reasonably within the ranges, the Account Management continued to pursue conditions of reserve availability consistent with Federal funds trading around 10 1/4 percent, a stance which was reaffirmed by the Committee discussion on Tuesday.

July 25, 1979 In light of the Committee's telephone discussion on Thursday night [July 19], at which the Board staff estimates were reviewed, and sentiment predominantly favored following the directive from the July 11 meeting by letting the funds rate rise, the Account Management began on Friday to aim for reserve conditions associated with Federal funds trading around 10 1/2 percent -- the top of the Committee's permissible range. In further reflection of the Committee discussion on Thursday, the Desk was willing to tolerate funds trading slightly above that objective, for a time, in view of the unsettled state of the foreign exchange market.

Friday July 20 On Friday, the Account Management noted its intention to seek a Federal funds rate objective of around 10 1/2 percent, with some tolerance of slightly higher rates in the initial days of implementation of this stance....Funds opened trading at 10 7/16 percent and gradually firmed following the announcement that the Federal Reserve discount rate had been raised to 10 percent. The funds rate moved up to 10 5/8 percent before easing back a bit to 10 9/16 percent. The Desk was prepared to take no market action as long as funds traded at 10 9/16 percent. However, when trading resumed at 10 5/8 percent, the Desk offered to pass through about $2 billion of the foreign temporary investment orders to the market as over-the-weekend customer-related repurchase agreements....Conditions subsequently firmed slightly further and, with funds trading at 10 11/16 percent in the early afternoon, the Desk entered the market to supply reserves on behalf of the System.

August 1, 1979 Giving primary emphasis to the Board staff's estimates, the monetary outlook seemed sufficiently strong for the Account Management to seek additional guidance from the Committee. In response, the Chairman and Vice Chairman recommended, and a majority of the Committee concurred, that the Federal funds rate range should be raised to 10 1/2 to 10 3/4 percent. In these circumstances, the Account Management began aiming for reserve conditions consistent with Federal funds trading around 10 5/8 percent.

Tighter Credit Policy of Fed Facing Test on Foreign Exchange Markets

Although the Fed didn't give any clear indication of the new funds rate goal, money specialists guessed it could be as high as 10 3/4%, up from the old target of 10 1/4%.

The Fed waited until early afternoon Friday, when the federal funds rate hit almost 10 3/4%, to inject reserves into the banking network. That could leave the new target at anywhere from 10 1/2% to 10 3/4%.

10 1/4

10 5/8
confirmed in the
August 7 Journal

August 8, 1979 Giving primary weight to the Board staff's projections, and also taking into consideration the reasonably steady to firm performance of the dollar in the foreign exchange markets over the week, the Account Management continued to aim for reserve conditions associated with Federal funds trading around 10 5/8 percent.

August 15, 1979 The Account Management on Friday began seeking a funds rate objective of 10 5/8 percent or a shade higher. (That objective was similar to the conditions that had prevailed over the previous few days.) ...Following *Tuesday's meeting [August 14], the Account Management on Wednesday began to seek reserve* conditions consistent with Federal funds trading around 11 percent -- although it sought to avoid an over-aggressive approach that might risk having the market conclude the objective was higher that 11 percent.

Wednesday August 15 On Wednesday, the Desk noted its new 11 percent funds rate objective. It also indicated that it would not approach that objective in an overly aggressive manner that might lead the market to conclude that it was aiming higher than 11 percent....The market opened with funds trading at 10 3/4 percent, and the Desk acted early to signal a somewhat firmer stance by arranging $930 million of overnight matched sale-purchase transactions in the market around 10:30 a.m. The funds rate moved quickly to 10 15/16 percent. It traded mostly at that rate over the rest of the morning and then moved to 11 percent in the early afternoon.

Fed Acts to Tighten Credit; Banks Go on to Boost Prime Rate to 12% 10 5/8

Just how high the Fed wants interest rates wasn't immediately clear. But money analysts said the Fed initially will aim for an interest rate target of about 11% on federal funds, or reserve banks lend one another. The target had been about 10 5/8%. 11

The Federal Reserve signaled its tighter credit policy by draining reserves from the banking network at a time when federal funds were trading at 10 3/4%. That indicated it wanted the rate even higher.

August 22, 1979 Giving primary weight to the Board staff's projections and about equal weight to M1 and M2, the Account Management continued to aim for reserve conditions consistent with Federal funds trading around 11 percent.

August 29, 1979 Giving primary weight to the Board staff estimates, and about equal weight to M1 and M2, the Account Management aimed for somewhat more restrictive conditions of reserve availability, consistent with the Federal funds rate approaching the 11 1/4 percent upper bound of the range set by the Committee as the week progressed. In adopting this firmer posture, however, the Manager sought to avoid an aggressive push up to the 11 1/4 percent level that might generate expectations of still higher rates in the immediate future.

Friday August 24 On Friday the Desk began to seek a firmer policy stance consistent with the Federal funds rate approaching the Committee's 11 1/4 percent upper limit as the week progressed, while avoiding an aggressive move to that level that might create expectations of still higher rates to come....The money market opened with Federal funds trading at 11 1/16 percent, but the rate moved up as the morning progressed, reaching 11 1/4 percent around 11:15 a.m. In response, the Desk entered the market with the intention of arranging all, or nearly all, of the approximately $1.7 billion billion of temporary foreign investment orders as over-the-weekend customer-related repurchase agreements. While this operation was in progress, however, the funds rate firmed further to 11 5/16 percent. Consequently, the Desk quickly completed the operation for foreign accounts while reentering the market to arrange over the week-end repurchase agreements on behalf of the System.

September 5, 1979 In response to the continued strengthening in the monetary outlook and considering that the Federal funds rate objective had already been raised to the top of the 10 3/4 to 11 1/4 percent range set at the Committee's August meeting, Chairman Volcker recommended, and a majority of the Committee agreed [August 30], that additional leeway up to 11 1/2 percent be provided in the Federal funds range. It was understood that not all of the leeway would be used immediately and that the Manager would make additional adjustments, if need be, in response to subsequent data on the aggregates and the performance of the dollar on foreign exchange markets. Against this background, the Account Management aimed for slightly more restrictive reserve availability consistent with Federal funds trading in the neighborhood of 11 3/8 percent. In carrying out the firming move, the Desk sought to avoid aggressive moves that would lead to the market to conclude that the new objective was higher than intended.

Tuesday September 4 Federal funds began trading at 11 5/16 percent but then moved up to 11 3/8 percent later in the morning. The Desk entered the market at noon to pass through about $950 million of the overnight foreign orders as customer-related repurchase agreements. The remaining $649 million was executed as matched sale-purchase transactions with the System Account. Conditions subsequently became firmer and, with funds trading at 11 1/2 percent, the Desk reentered the market to arrange $1,781 million of overnight repurchase agreements on behalf of the System.

Rise in Prime Rate to Record 12 1/4% Seen Following Move by Fed to Tighten Credit 11

11 1/4

The Federal Reserve Board under its new chairman, Paul A. Volcker, underscored its resolve to battle inflation Friday when it boosted to about 11 1/4% from 11% its target interest rate on federal funds.

The Fed signaled its latest credit tightening Friday by allowing the federal funds rate to drift above 11 1/4% before taking any offsetting action. Previously, it would have taken counteraction when the rate pressed beyond 11%.

Fed Apparently Tightens Credit; Some Rates Soar 11 1/4

The Federal Reserve System apparently tightened its credit spigot by boosting to 11 3/8% from 11 1/4% its target interest rate on federal funds. 11 3/8

The indication of a tougher credit policy came when the Fed allowed funds to trade at 11 3/8% without taking overt action to temper the rate rise. Indeed, the Fed waited until funds hit 11 1/2% before injecting reserves.

September 12, 1979 Against this background, the Desk continued to aim for reserve conditions associated with Federal funds trading around 11 3/8 percent.

September 19, 1979 Against this background, the Account Management continued through Tuesday to seek conditions of reserve availability associated with Federal funds trading around 11 3/8 percent. On Wednesday, in accordance with the decisions made at the FOMC meeting on Tuesday [September 18], the Account Management adopted a slightly firmer stance and began aiming for conditions of reserve availability consistent with Federal funds trading around 11 1/2 percent.

Wednesday September 19 On Wednesday, the Account Management raised its Federal funds rate objective to around 11 1/2 percent, implementing the decisions made at Tuesday's FOMC meeting....Participants apparently searched for the Desk's objective in the wake of the previous day's meeting and the increase in the *discount rate to a record high 11 percent. Funds initially traded at 11* 11/16 percent in small volume but the rate worked its way down to 11 1/2 percent over the morning. Conditions continued to ease during the noon hour and, when funds were trading at 11 3/8 percent, the Desk entered the market to arrange $2,918 million of overnight matched sale-purchase transactions.

September 26, 1979 Against this background the Desk continued to pursue reserve conditions consistent with Federal funds trading around 11 1/2 percent, although given the dollar's situation it took particular care to avoid funds trading on the low side of that rate.

October 3, 1979 The Account Management continued to aim for Federal funds trading at 11 1/2 percent, but with a view toward permitting greater variation above that level than below in light of the precarious position of the dollar in exchange market trading.

Fed Indicates It Wants Credit to Get Tighter 11 3/8

Yesterday's action indicated a Fed increase to 11 1/2% from 11 3/8% in the target interest rate on federal funds, reserves that banks lend each other. 11 1/2

To accomplish this, the Fed drained reserves from the banking network while funds were trading at 11 3/8%.

Many market specialists had expected the Fed to boost the target rate to as high as 11 3/4% in its efforts to quell the nation's inflationary pressures.

APPENDIX B: LAGS BETWEEN INITIAL DECISION TO CHANGE FUNDS RATE TARGET AND DATE TARGET CHANGE REPORTED IN WALL STREET JOURNAL

A. TARGET CHANGES FOLLOWING DIRECTLY FROM FOMC DISCUSSIONS (37)

(The date is the date the Journal reported the target change occurred. The number in parentheses is the number of market days between the FOMC's decision to change the target and the date Journal reported the target change occurred.)

Friday September 13, 1974 (3)
Friday October 4, 1974 (1)
Friday, October 18, 1974 (3)
Tuesday January 14, 1975 (2)
Friday February 21, 1975 (2)
Friday June 20, 1975 (3)
Monday July 21, 1975 (4)
Tuesday July 22, 1975 (5)
Friday October 3, 1975 (1)
Friday April 23, 1976 (3)
Wednesday May 19, 1976 (1)
Friday November 19, 1976 (3)
Tuesday May 10, 1977 (2)
Thursday May 19, 1977 (2)
Tuesday August 9, 1977 (2)
Friday August 12, 1977 (5)
Thursday September 22, 1977 (2)
Monday January 9, 1978 (0)
Wednesday April 19, 1978 (1)
Thursday May 18, 1978 (2)
Wednesday June 21, 1978 (1)
Thursday July 20, 1978 (2)
Wednesday August 16, 1978 (1)
Friday August 18, 1978 (3)
Friday September 8, 1978 (0)
Wednesday September 20, 1978 (1)
Wednesday October 18, 1978 (1)
Friday October 20, 1978 (3)
Tuesday October 31, 1978 (0)
Wednesday November 1, 1978 (1)
Tuesday November 28, 1978 (5)
Tuesday December 19, 1978 (0)
Friday April 27, 1979 (0)
Friday July 20, 1979 (1)
Wednesday August 15, 1979 (1)
Tuesday September 4, 1979 (3)
Wednesday September 19, 1979 (1)

B. TARGET CHANGES INITIATED BY DESK UNDER DIRECTIVE (34)

(The date is the date the _Journal_ reported the target change occurred. The number in parentheses is the number of days between the Desk's decision to change the target and the date _Journal_ reported the target change occurred. Unless otherwise noted, the Desk's funds rate decision was made on Friday.)

Monday September 23, 1974 (1)
Tuesday December 3, 1974 (2)
Monday December 16, 1974 (1)
Thursday January 2, 1975 (3)
Friday January 3, 1975 (0)
Monday January 6, 1975 (1)
Tuesday January 7, 1975 (2)
Friday January 31, 1975 (0)
Thursday February 13, 1975 (4)
Wednesday March 26, 1975 (3)
Thursday May 8, 1975 (0)
Tuesday October 21, 1975 (7)
Friday November 7, 1975 (0)
Wednesday November 12, 1975 (3)
Tuesday January 6, 1976 (2)
Friday February 27, 1976 (0)
Wednesday May 5, 1976 (3)
Wednesday May 12, 1976 (3)
Friday May 14, 1976 (0)
Friday July 9, 1976 (0)
Friday October 8, 1976 (0)
Tuesday December 14, 1976 (2)
Monday April 25, 1977 (1)
Wednesday April 27, 1977 (3)
Thursday July 28, 1977 (0)
Friday September 9, 1977 (0)
Friday September 30, 1977 (0)
Friday October 7, 1977 (0)
Monday October 31, 1977 (1)
Thursday April 27, 1978 (0)
Monday August 28, 1978 (1)
Monday September 25, 1978 (1)
Thursday September 28, 1978 (0)
Friday August 24, 1979 (0)

C. TARGET CHANGES REPORTED BY _JOURNAL_ NOT CLEARLY LINKED TO ACTUAL CHANGES

Monday January 15, 1979
Friday February 14, 1975
Wednesday July 16, 1975
Tuesday March 30, 1976
Thursday October 26, 1978