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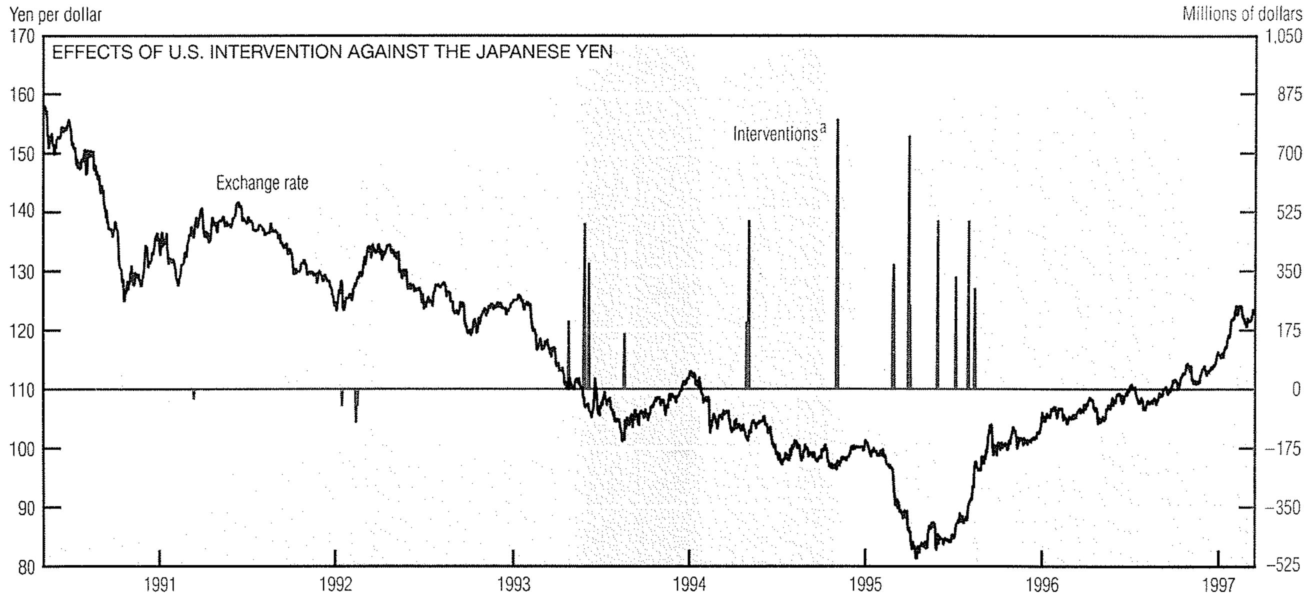
Exchange Rate Policy



Intervention Amounts and Frequencies[b]
(May 1, 1990 to March 19, 1997)

	Absolute value	Sales of yen	Purchases of yen
Count	21	17	4
Mean	331.6	396.1	57.5
Standard deviation	215.5	186.2	29.9
Minimum	30	165	30
Maximum	800	800	100

Successful Interventions
(May 1, 1990 to March 19, 1997)

	Sales of yen	Purchases of yen
Number of interventions	17	4
Successful interventions	12	3
Percent of successful interventions	70.6	75.0
Expected successes[c]	11	3
Standard deviation[c]	2	1
Probability of more successes[c]	0.23	0.18

a. Positive values are official sales of yen; negative values are purchases of yen.
b. "Count" is in number of days; all other figures are in millions of dollars.
c. Based on a binomial distribution in which the probability of an individual success is 65%.
SOURCES: Federal Reserve Bank of Cleveland; Federal Reserve Bank of New York; and Board of Governors of the Federal Reserve System.

The U.S. Treasury and the Federal Reserve seem increasingly hesitant to intervene in foreign exchange markets, and for good reason. Since 1990, U.S. interventions have often seemed ineffectual in stabilizing key dollar exchange rates.

U.S. interventions against the Japanese yen offer an example, but similar results can be seen for actions against the German mark. Since May 1, 1990, the U.S. has sold yen on 17 days and purchased yen on four days. The average amount of these sales was equivalent to approximately $396 million, which is high by previous norms. The average amount of the yen purchases, however, was low—about $58 million.

Of the yen sales, 12 seemed successful in that they were associated with an immediate dollar appreciation or a smaller depreciation. Similarly, of the official intervention purchases, three were successful. A 70% to 75% success rate seems considerable, but it is not large enough to rule out the possibility that the results occurred randomly.

The Federal Reserve routinely neutralizes any effects that U.S. intervention might have on the intended federal funds rate. This closes an important channel through which intervention might affect exchange rates. Some have speculated that U.S. interventions could still influence exchange rates by offering the market new or better information. However, as the results above suggest, monetary authorities may not regularly possess better information than market participants.