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.