

Treasury Borrowing Advisory Committee



Quarterly Refunding

November 2, 2004

Committee Charge Question 1

Quarterly Refunding Chart Package

We will show you a revised version of the chart package we released on Monday of the week of the refunding. We would like the Committee's view on the proposed changes and suggestions for further improvements.

Current Financing

Short-term and medium-term borrowing requirements, cash balance estimates, and issuance schedule

- **FY 2005 Q1 and FY 2005 Q2 Outlook**
 - We expect net marketable borrowing of \$100B this quarter and \$147B next quarter
- **FY 2005 to FY 2009 OMB Outlook**
 - Current coupons meet expected borrowing assuming:
 - 5% projected GDP growth rate
 - Revenues rise to historical average
 - Expenditures fall below historical average
 - Net interest is below 2.5% of GDP

TREASURY FINANCING REQUIREMENTS

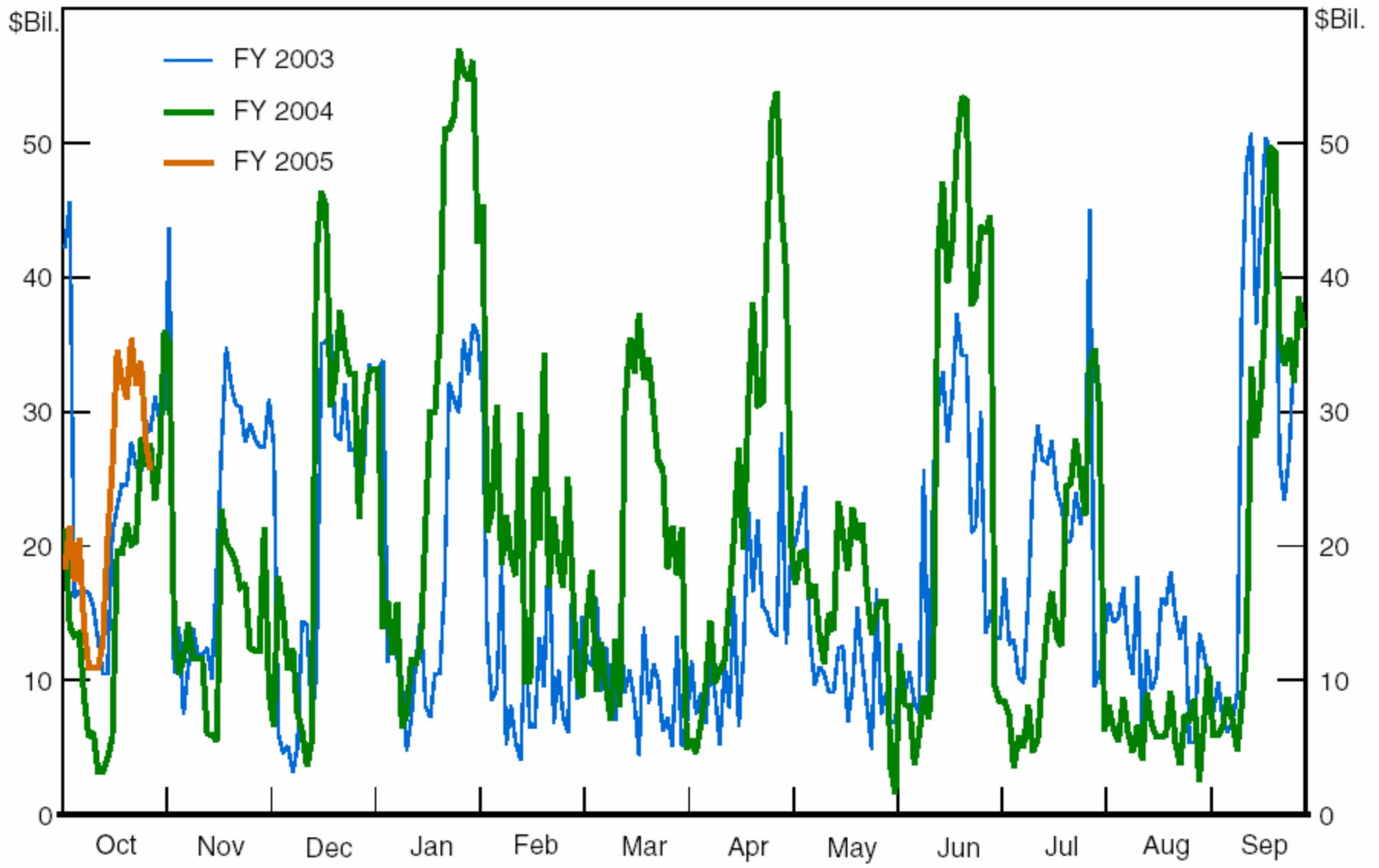
\$ Billions

	July - September 2004		October - December 2004
	(Projected)	(Actuals)	(Projected)
Deficit Funding (Def + / Surplus -)	91	86	127
Means of Financing			
Change in Cash Balance	10	8	11
Net Non-Marketable Financing	-4	-6	5
Net Marketable Financing	89	89	100
Other*	-4	-6	10
Net Marketable Financing	89	89	100
Bills		15	
Nominal Notes		57	
TIPS		21	
Bonds		-4	
<u>Notes:</u>			
Starting Cash Balance	45	45	36
Ending Cash Balance	35	36	25

* Includes direct loan activity, changes in accrued interest and checks outstanding and minor miscellaneous transactions.

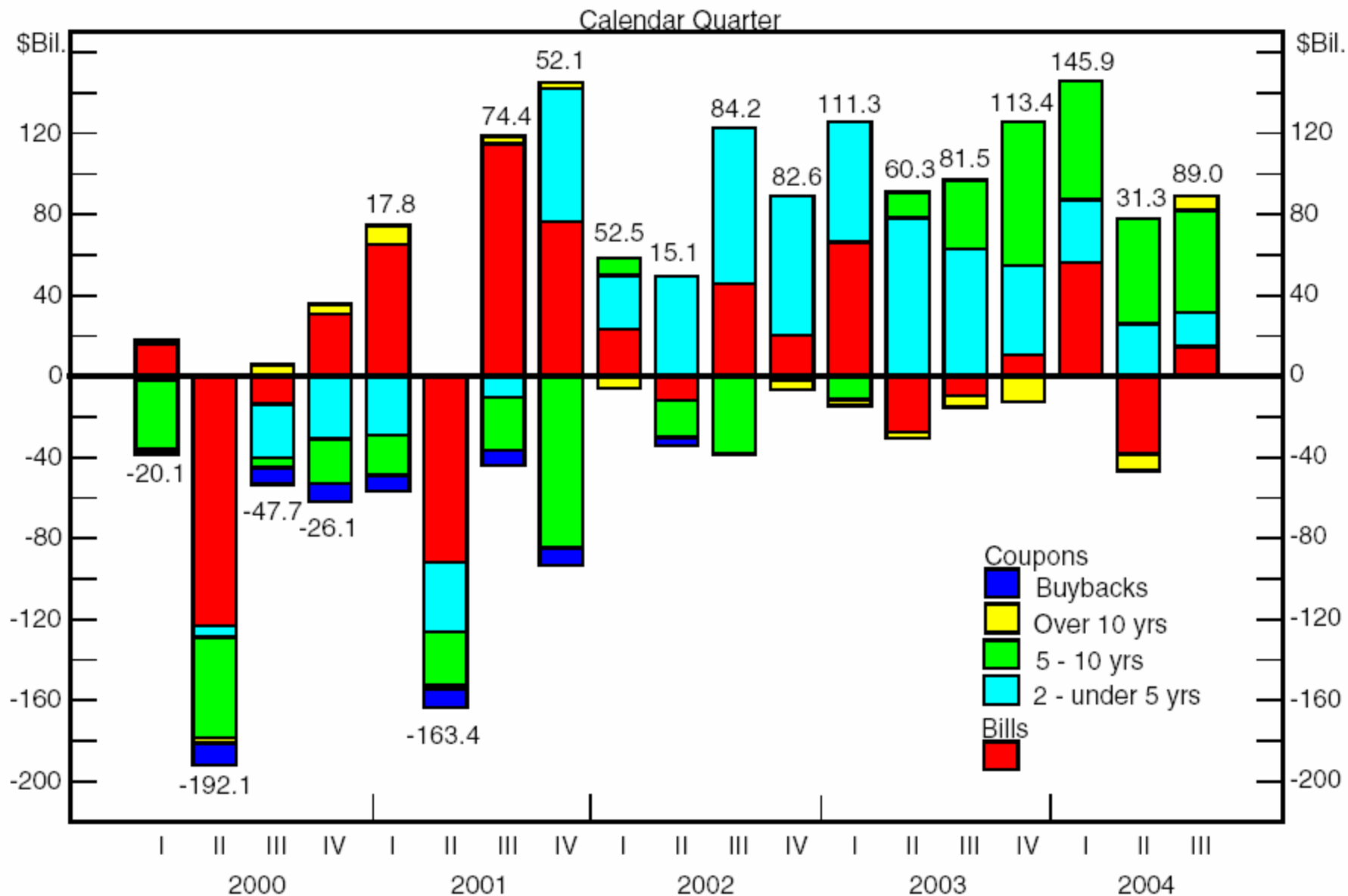
Note: Totals may not add due to rounding

TREASURY DAILY OPERATING CASH BALANCE

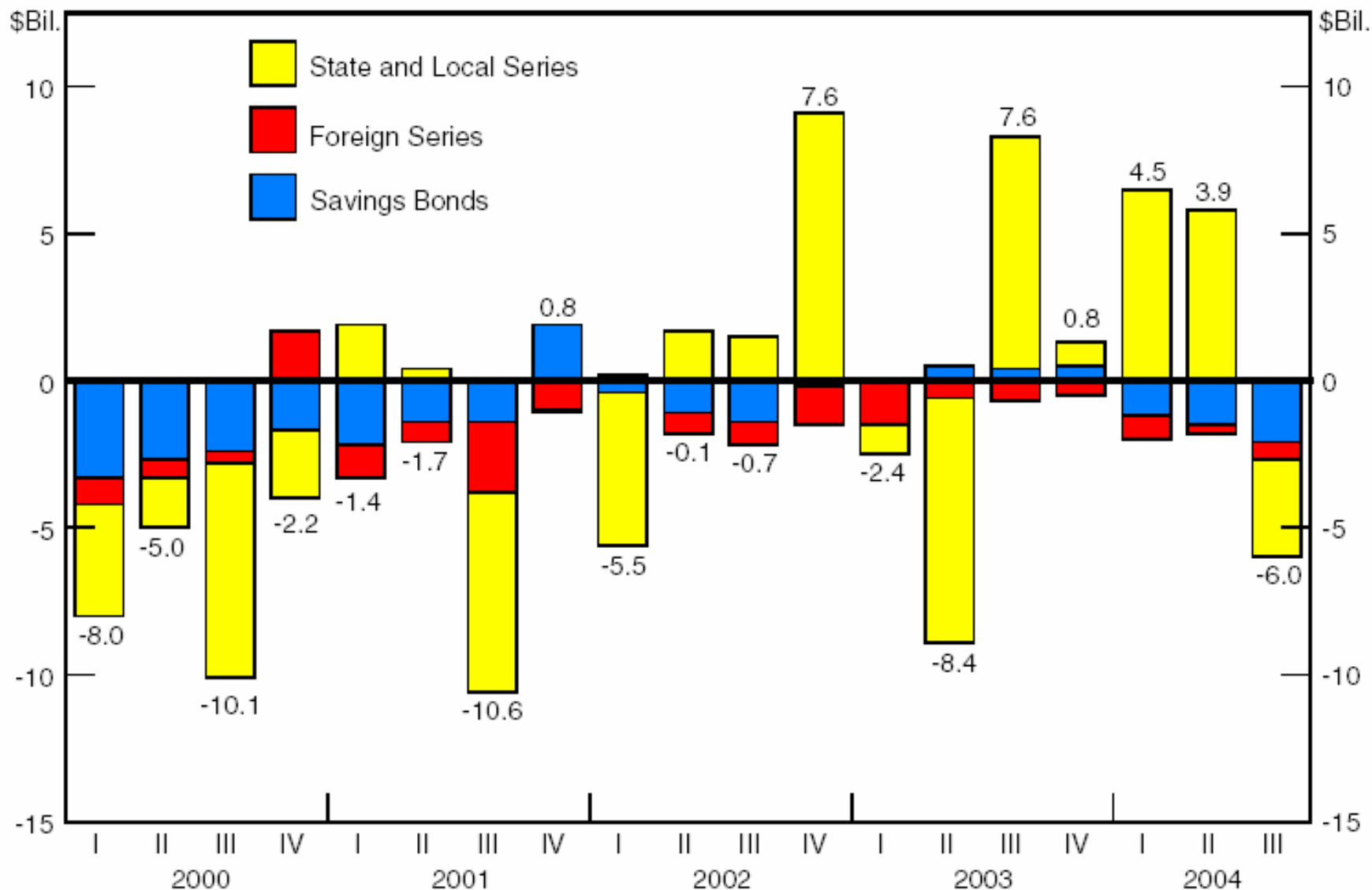


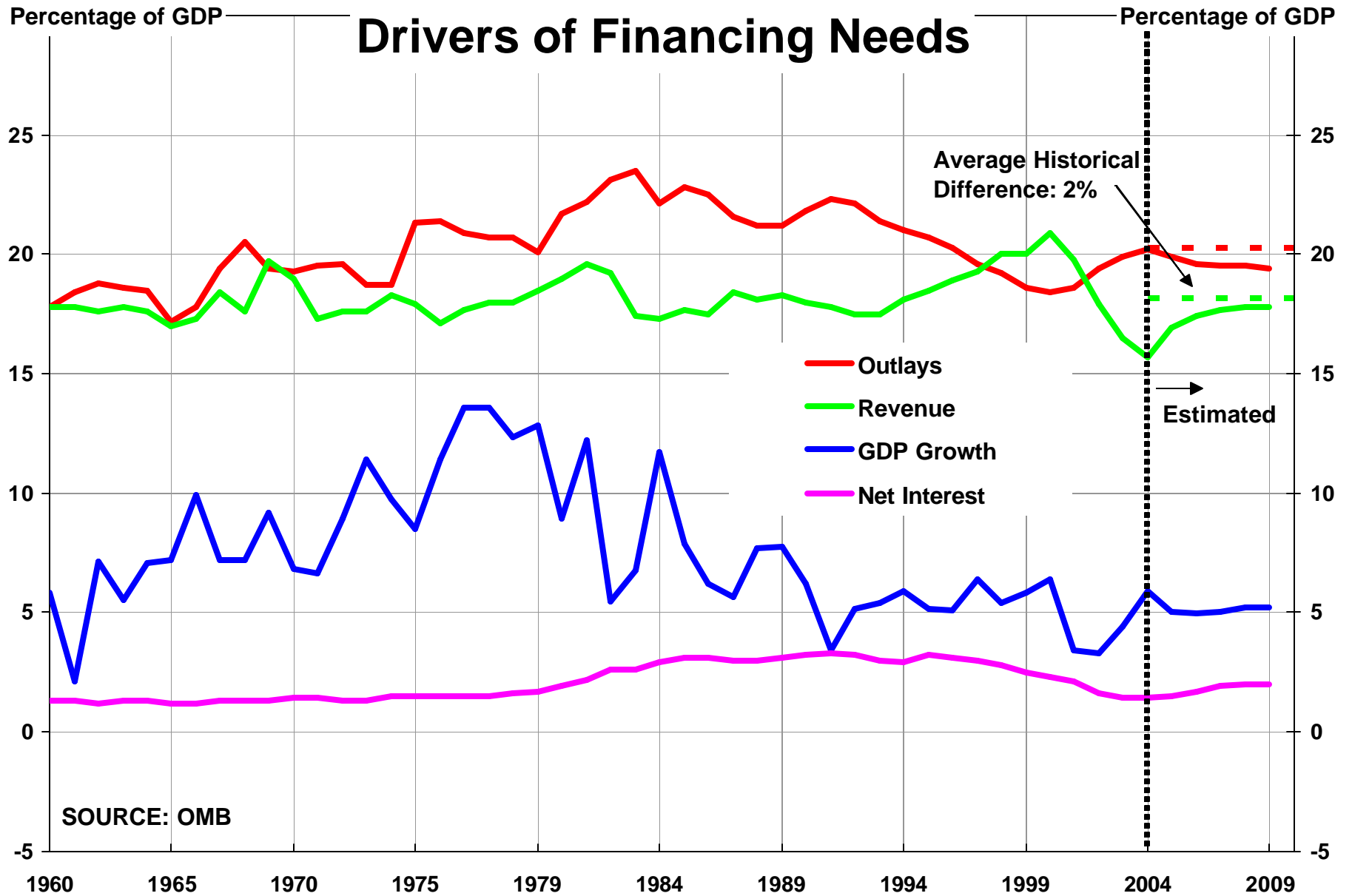
Source: Daily Treasury Statement, data through October 27, 2004.

TREASURY QUARTERLY NET MARKET BORROWING



TREASURY QUARTERLY NET BORROWING FROM NONMARKETABLE ISSUES



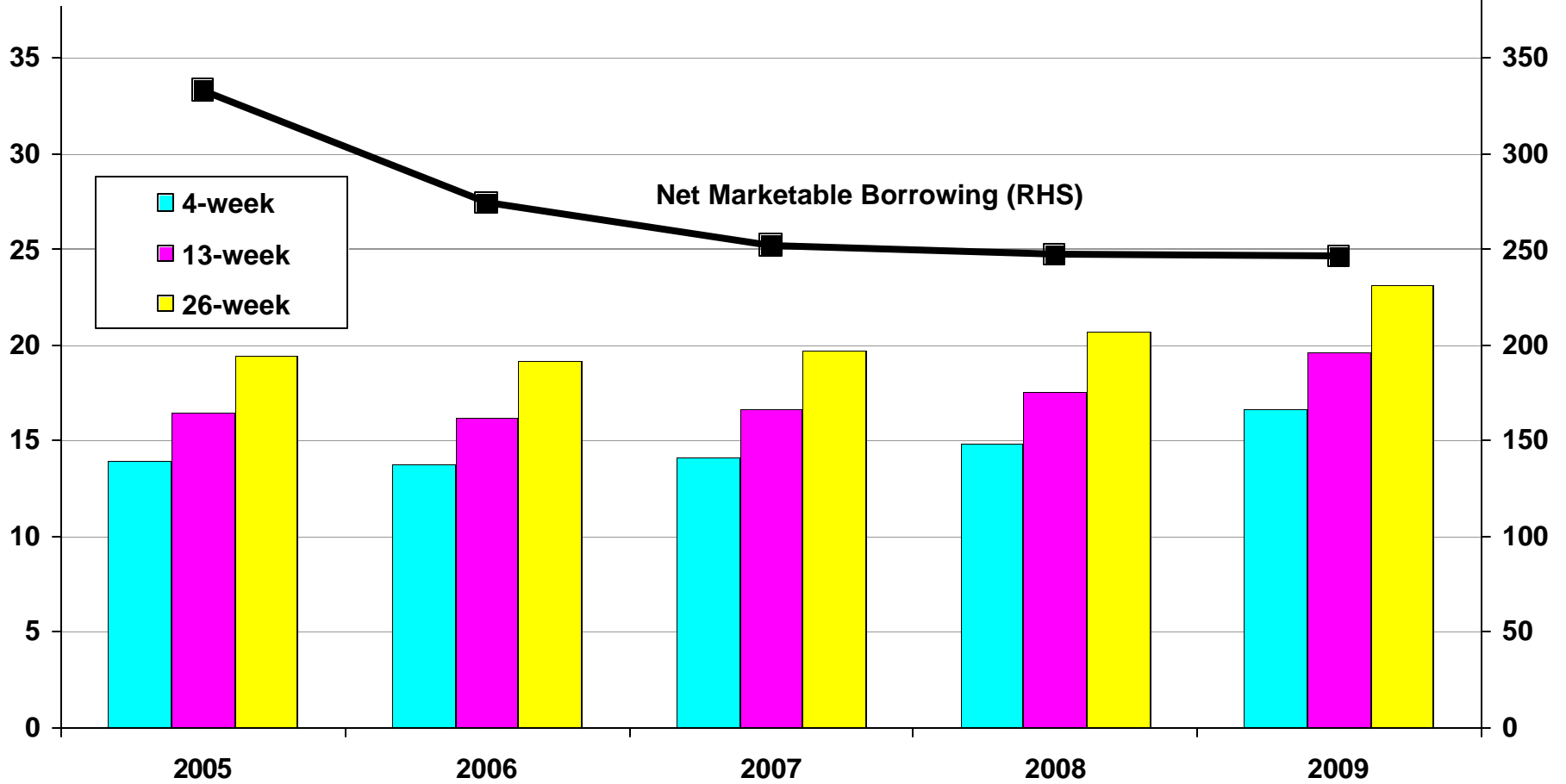


Projected Net Marketable Borrowing and *Hypothetical* Bill Auction Sizes

If Coupon Auction Sizes Held Constant

Average Announced
Auction Size
\$ Billions

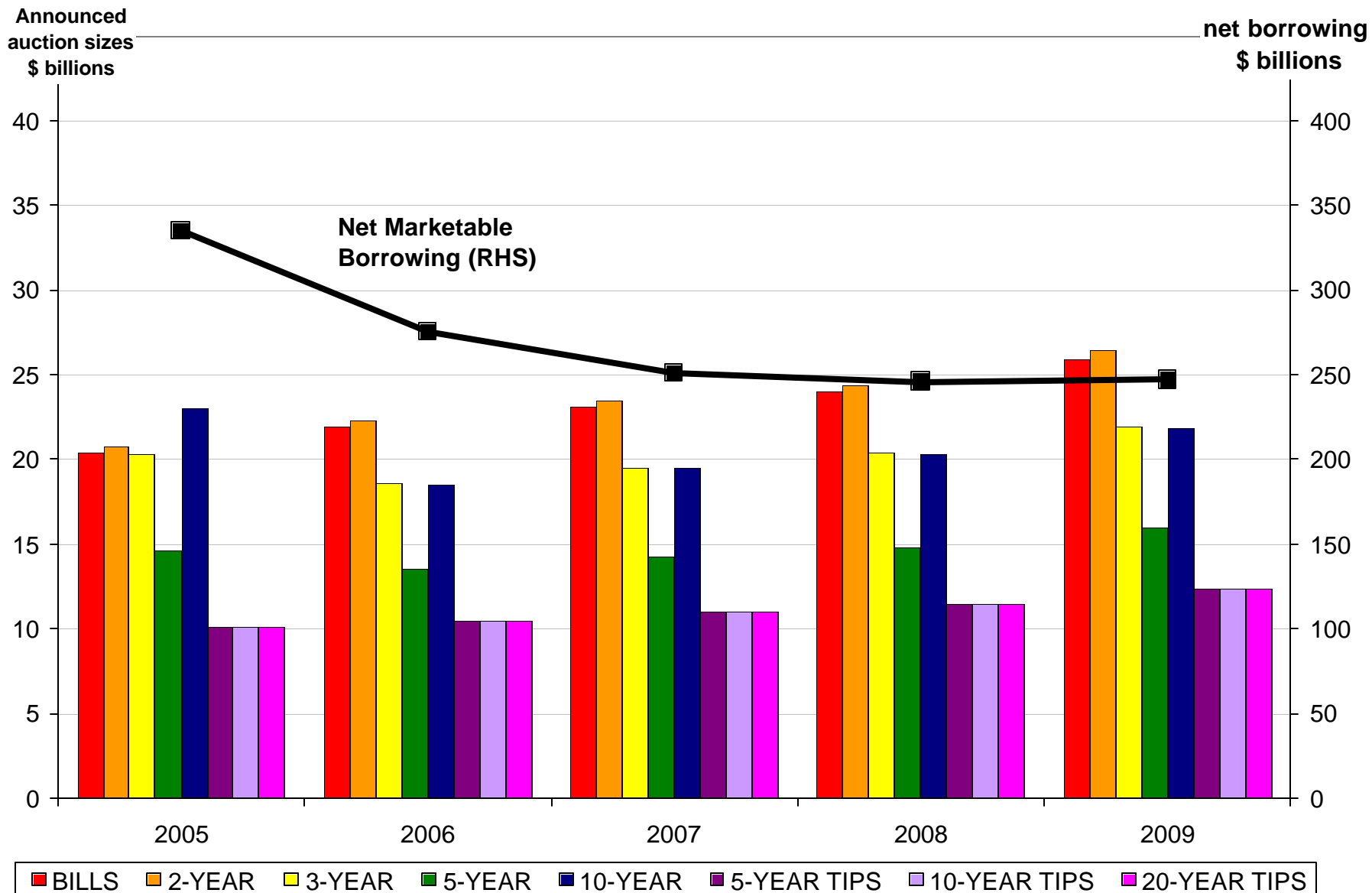
Net Borrowing
\$ Billions



Assumes OMB's FY 2005 MSR deficit projections and coupon auction sizes remain at most recently announced amounts. Bill issuance sizes are shown in fixed shares to meet residual financing needs.

Projected Net Marketable Borrowing and *Hypothetical* Auction Sizes

If Bill Issuance held Constant as a percent of Portfolio



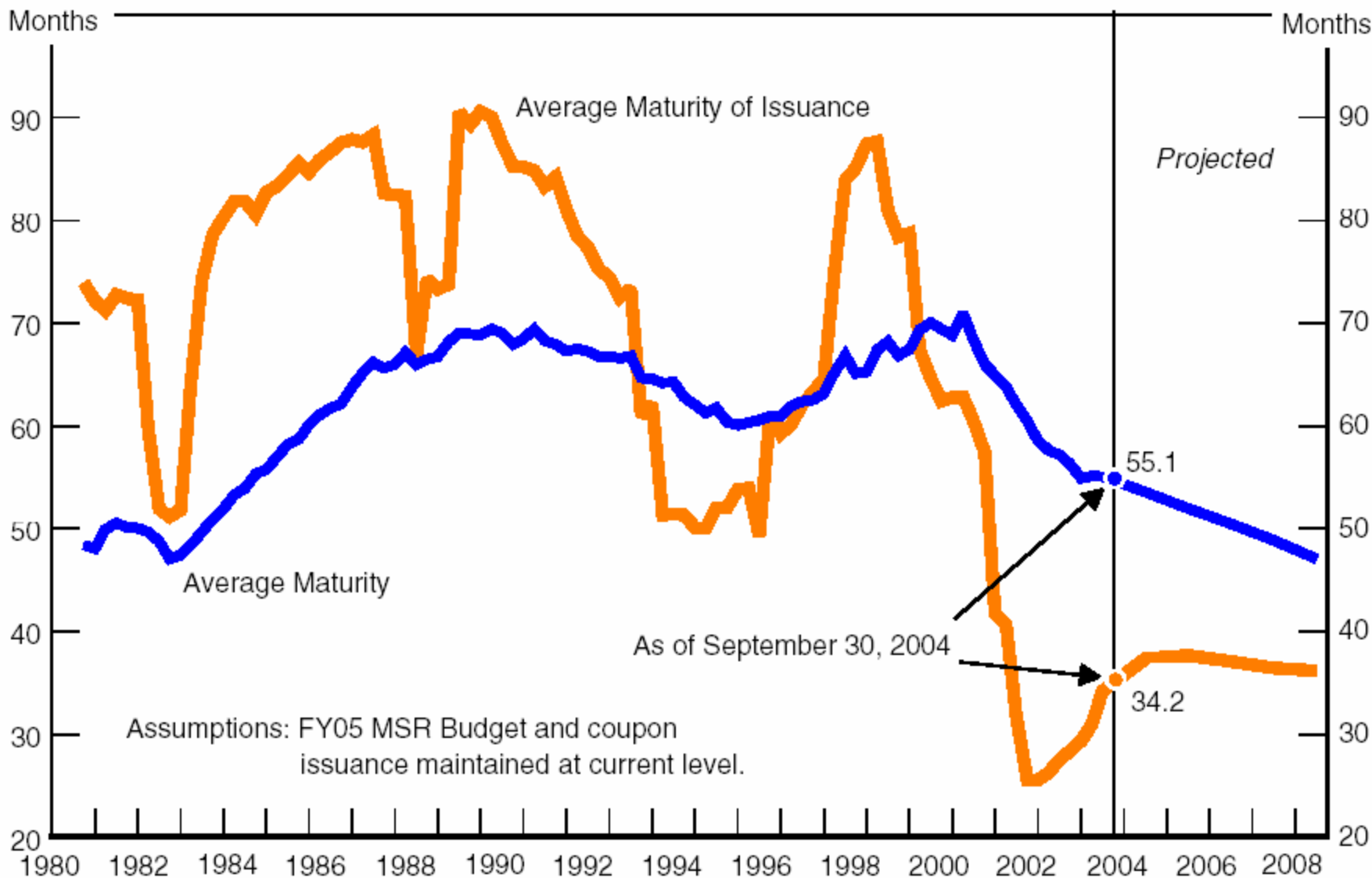
* *For bills, the average auction size equals the amount outstanding at the end of the fiscal year divided by 43 (i.e., 4 1-month auctions, 13 3-month auctions, plus 26 6-month auctions).

Debt Portfolio

Maturity, issuance and outstanding profile

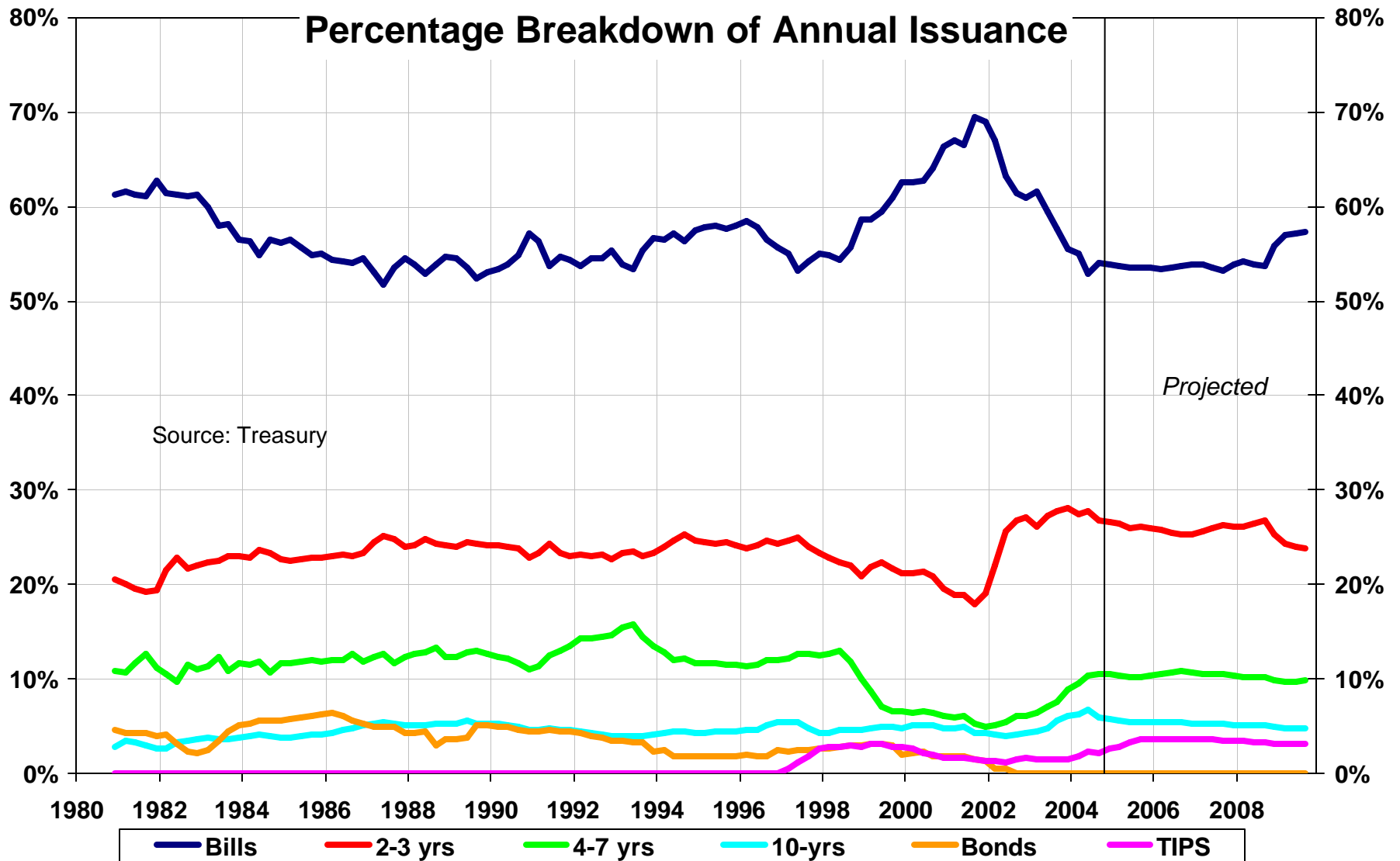
- **Average maturity of issuance stabilizes, averaging 2.8 years**
- **Maturity of outstanding drops from 4.6 years to 4 years over the next 5 years**
- **Composition of nominal issuance is within historical ranges**
- **Current issuance patterns would lead to a growing proportion of 5-year notes and TIPS in the portfolio**
- **The percent of debt maturing over the next 3 years is projected to remain stable over the next 4 years, at roughly 60%**

DEBT MATURITY MEASURES ^{1/}



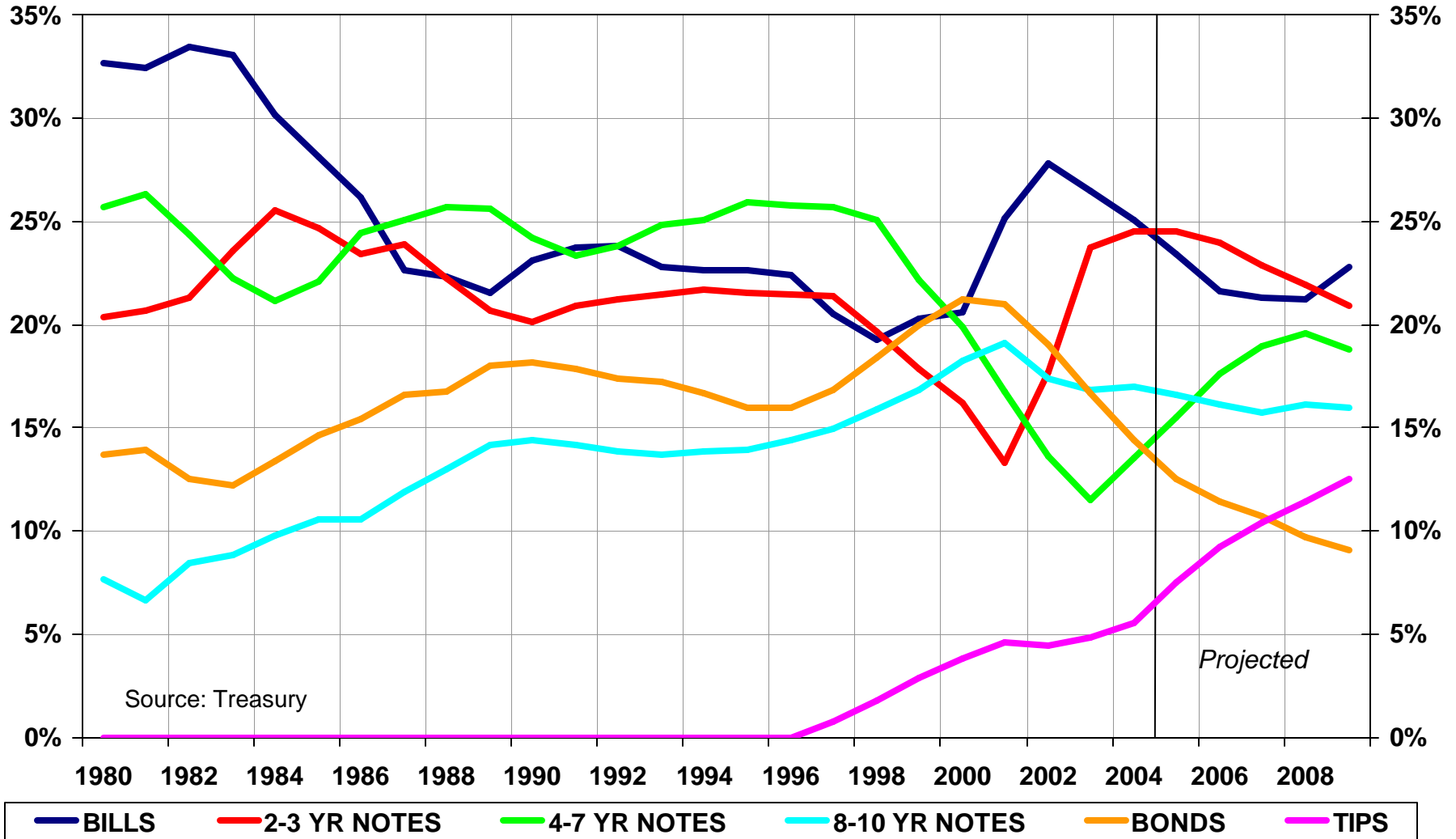
Assumptions: FY05 MSR Budget and coupon issuance maintained at current level.

^{1/} The average maturity of issuance is the ultimate average maturity achieved if nominal issuance in any given quarter is held constant going forward and the balance of financing needs are met with changes in bill issuance. (4 quarter moving average).

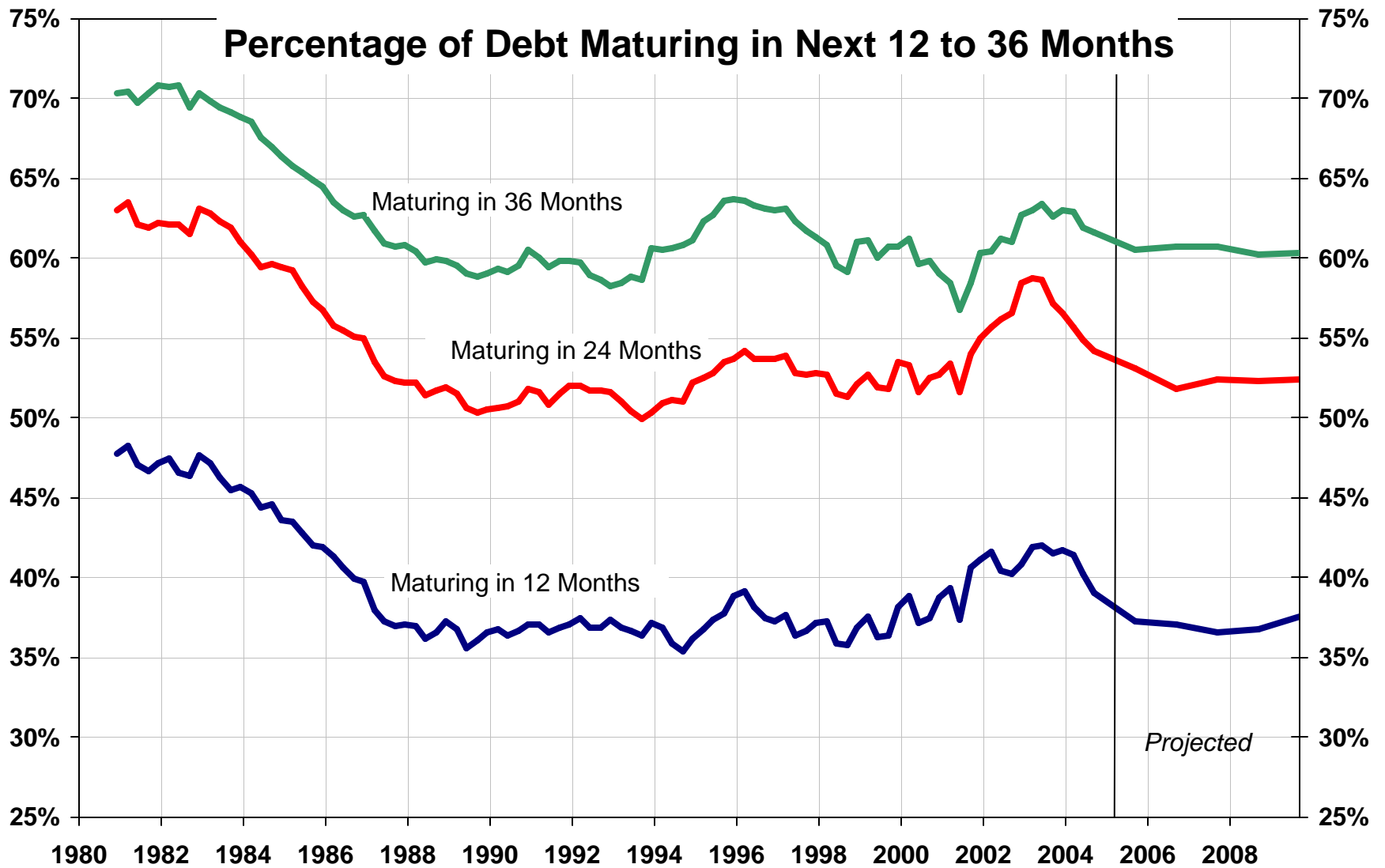


Projections based on OMB's FY 2005 MSR and assume coupon auction sizes remain at most recently announced amounts. Residual amounts financed with bills.

Distribution of Marketable Debt Outstanding by Security

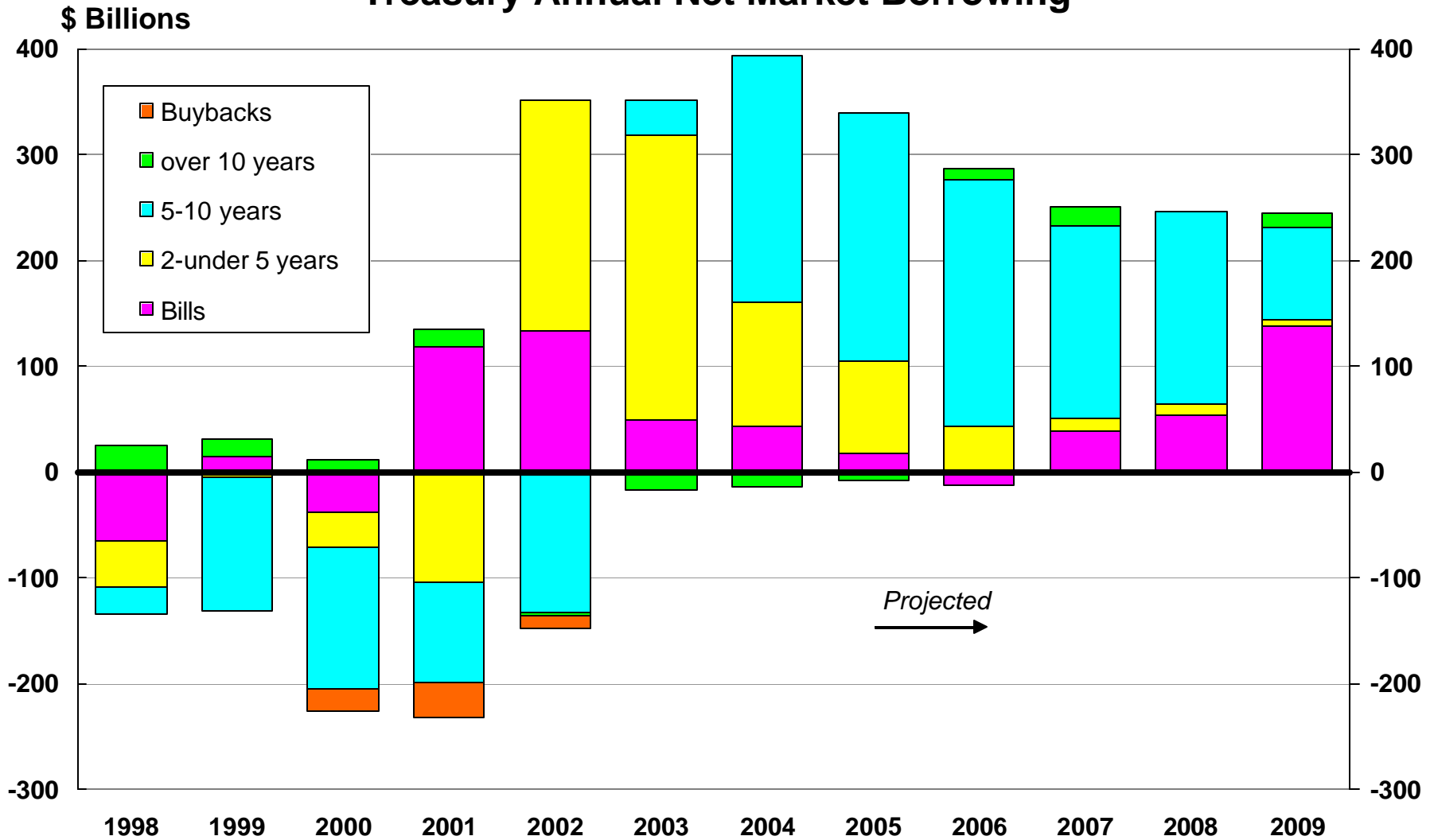


Projections based on OMB's FY 2005 MSR and assume coupon auction sizes remain at most recently announced amounts. Residual amounts financed with bills.



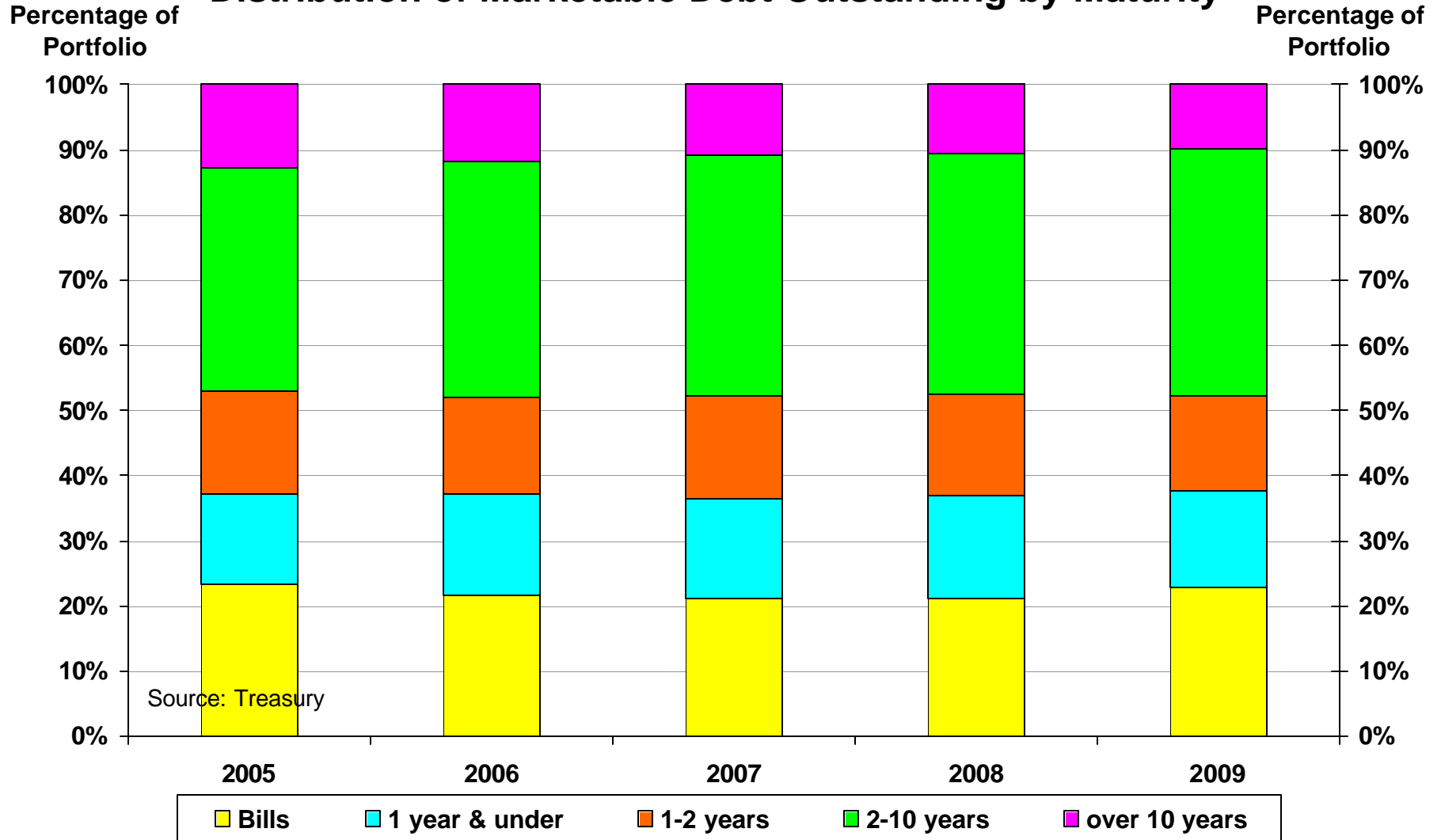
Projections based on OMB's FY 2005 MSR and assume coupon auction sizes remain at most recently announced amounts. Residual amounts financed with bills.

Treasury Annual Net Market Borrowing



Projections are based on FY 2005 OMB's MSR and assume coupon auction sizes remain at most recently announced amounts. Residual amounts amounts financed with bills.

Distribution of Marketable Debt Outstanding by Maturity



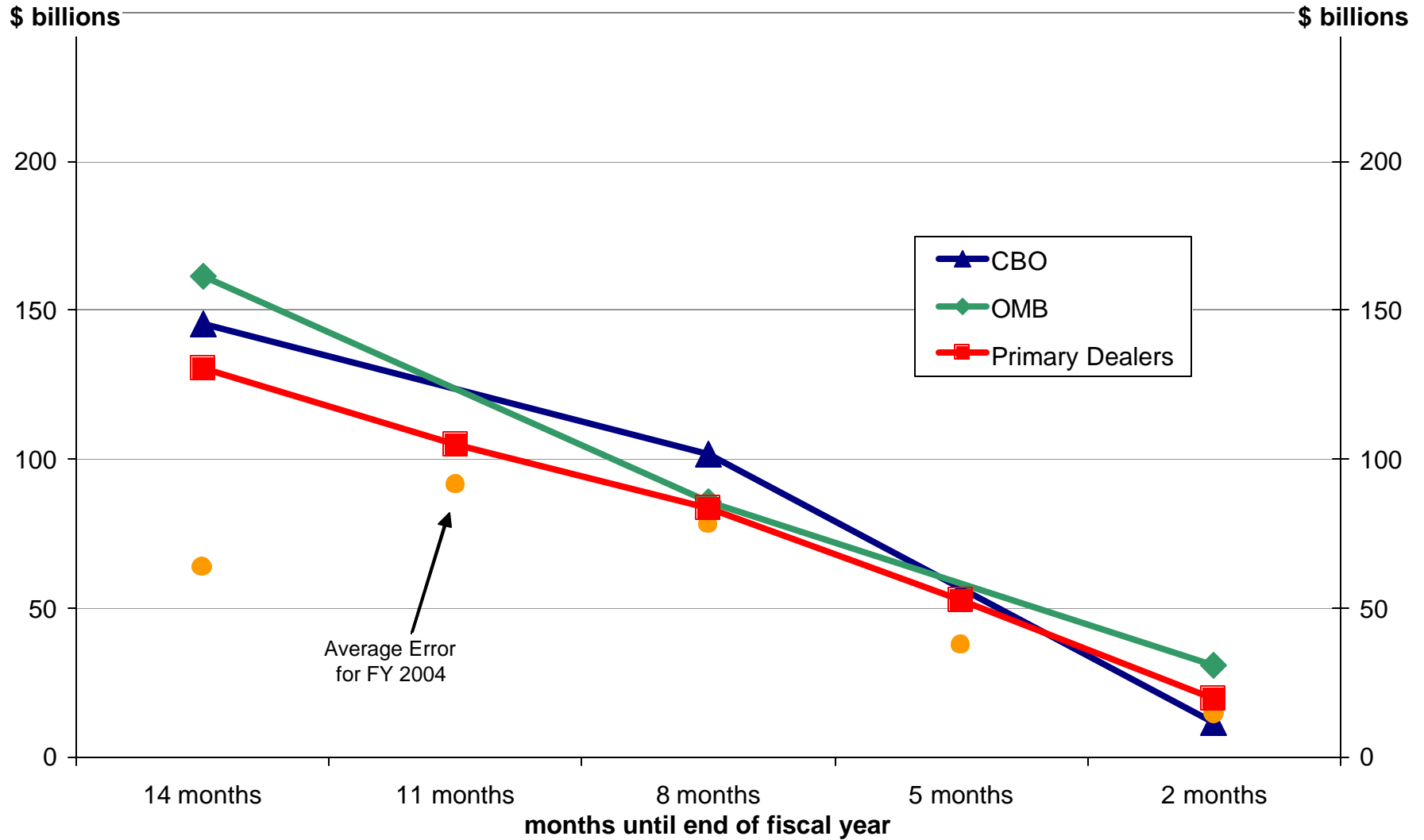
Projections based on OMB's FY 2005 MSR and assume coupon auction sizes remain at most recently announced amounts. Residual amounts financed with bills.

Uncertainty

Stress to issuance and borrowing costs

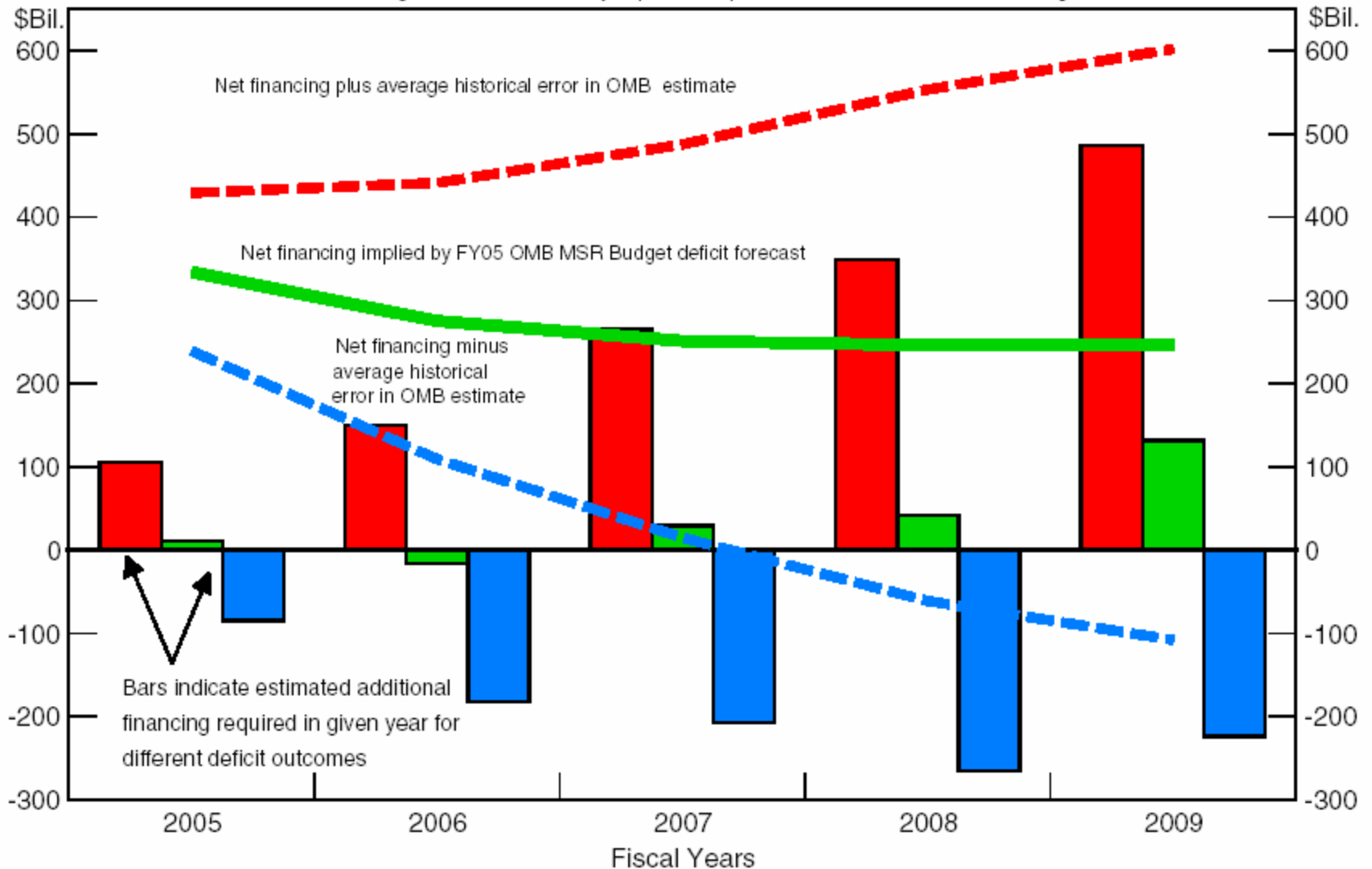
- **Deficit forecast errors for FY 2004 were comparable to previous forecast errors**
- **Current issuance pattern equally well positioned for higher or lower deficits**

Average Absolute Federal Budget Forecast Errors 1997 - 2004



FINANCING RESIDUALS GIVEN CURRENT ISSUANCE CALENDAR

Assumes current coupon issuance pattern and issuance amount — Weekly bill issuance at levels required to maintain outstanding FY\$ amounts nearly equal to September 30, 2004 total outstanding



Bars indicate estimated additional financing required in given year for different deficit outcomes

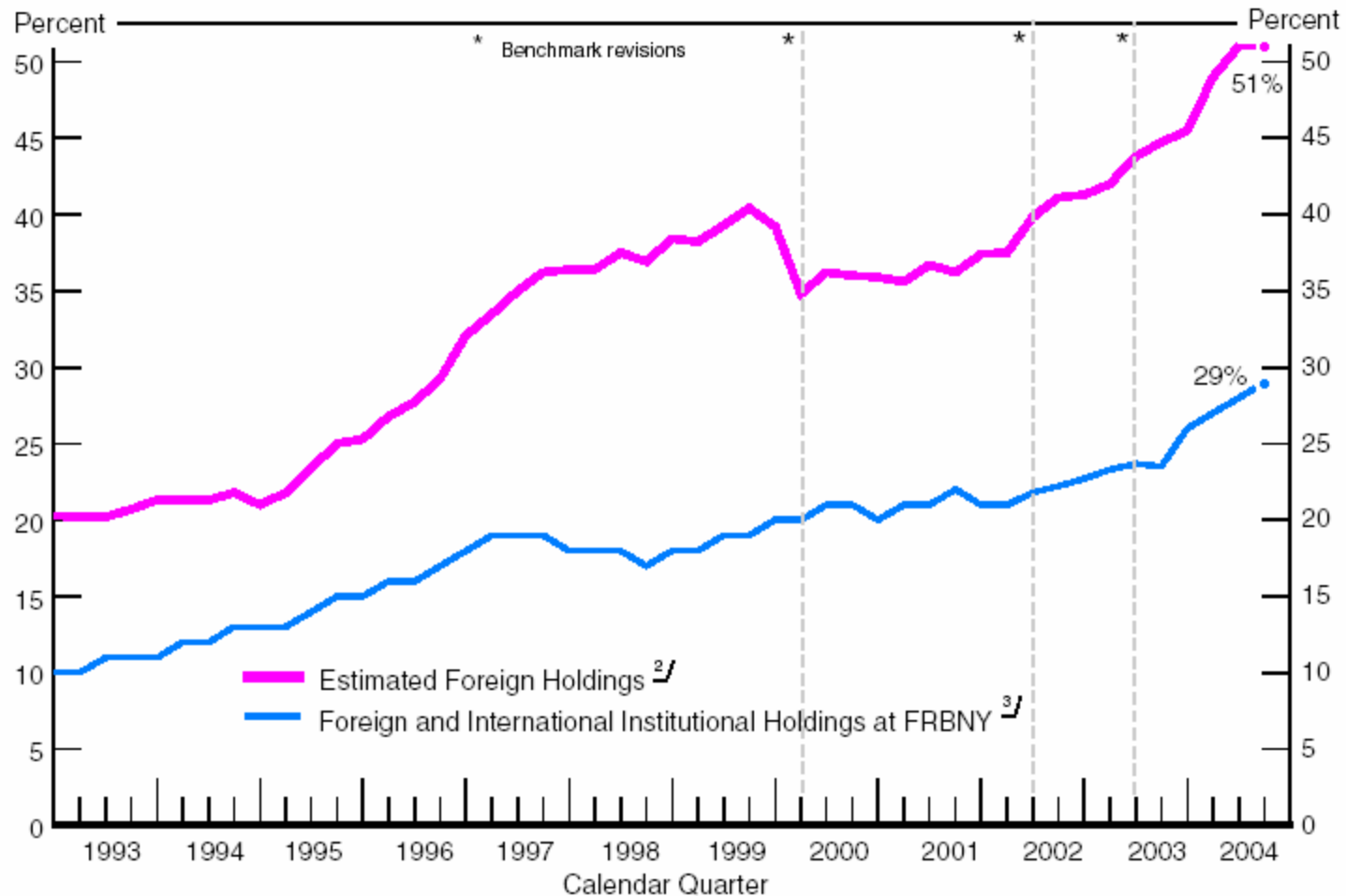
Note: Average historical errors were estimated with a linear least-squares regression using OMB's budget forecasts since the 1989 Budget and the MSR since 1998.

Capital Markets

Treasury's share of global and domestic markets and Treasury's liquidity

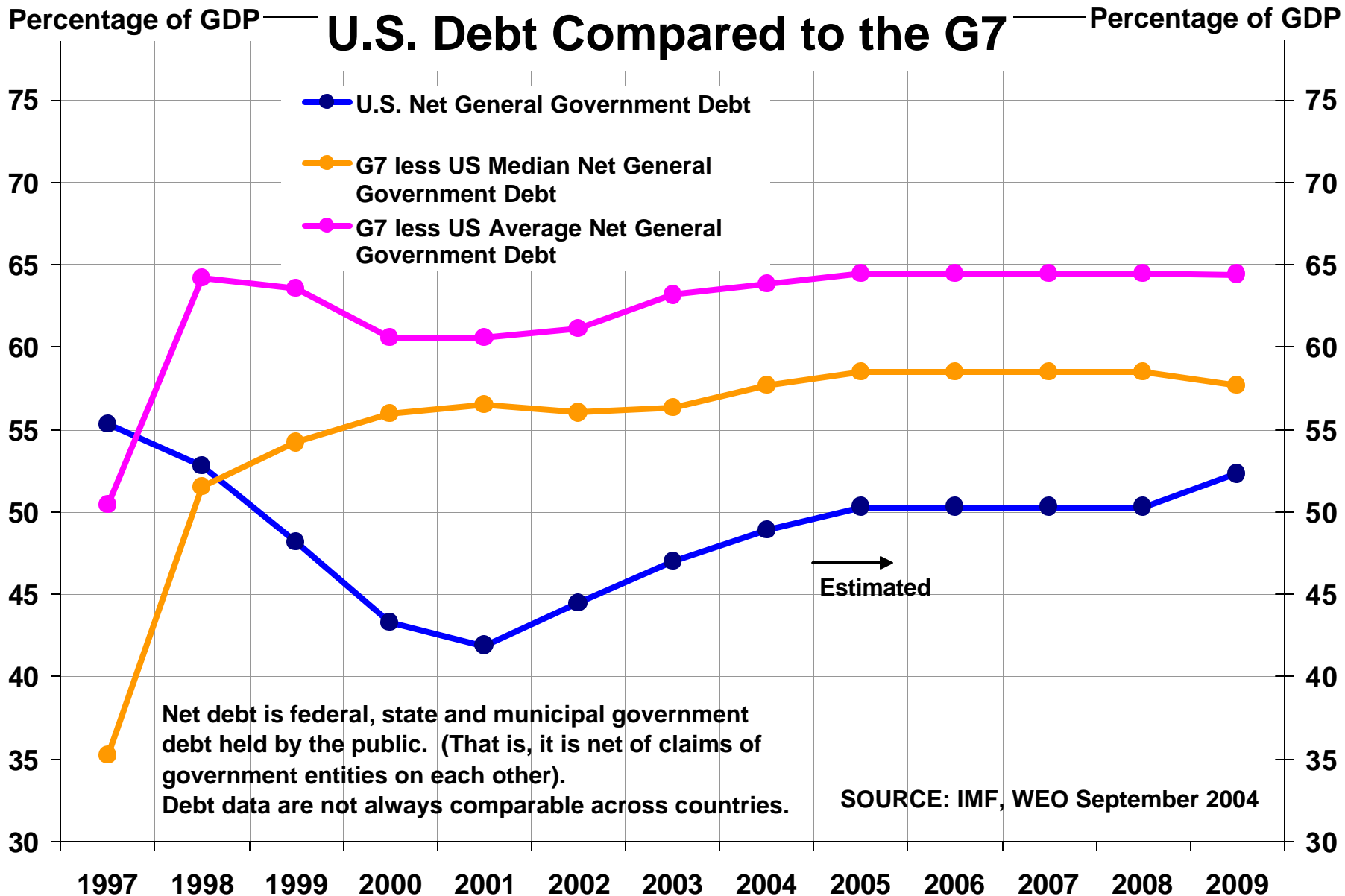
- **Foreign holdings of Treasury debt are at historical highs**
- **Treasuries represent a small proportion of the domestic debt stock**
- **Debt outstanding as a percent of GDP compares favorably to that of many other large economies**

FOREIGN HOLDINGS AS A PERCENT OF TOTAL PRIVATELY HELD PUBLIC DEBT^{1/}

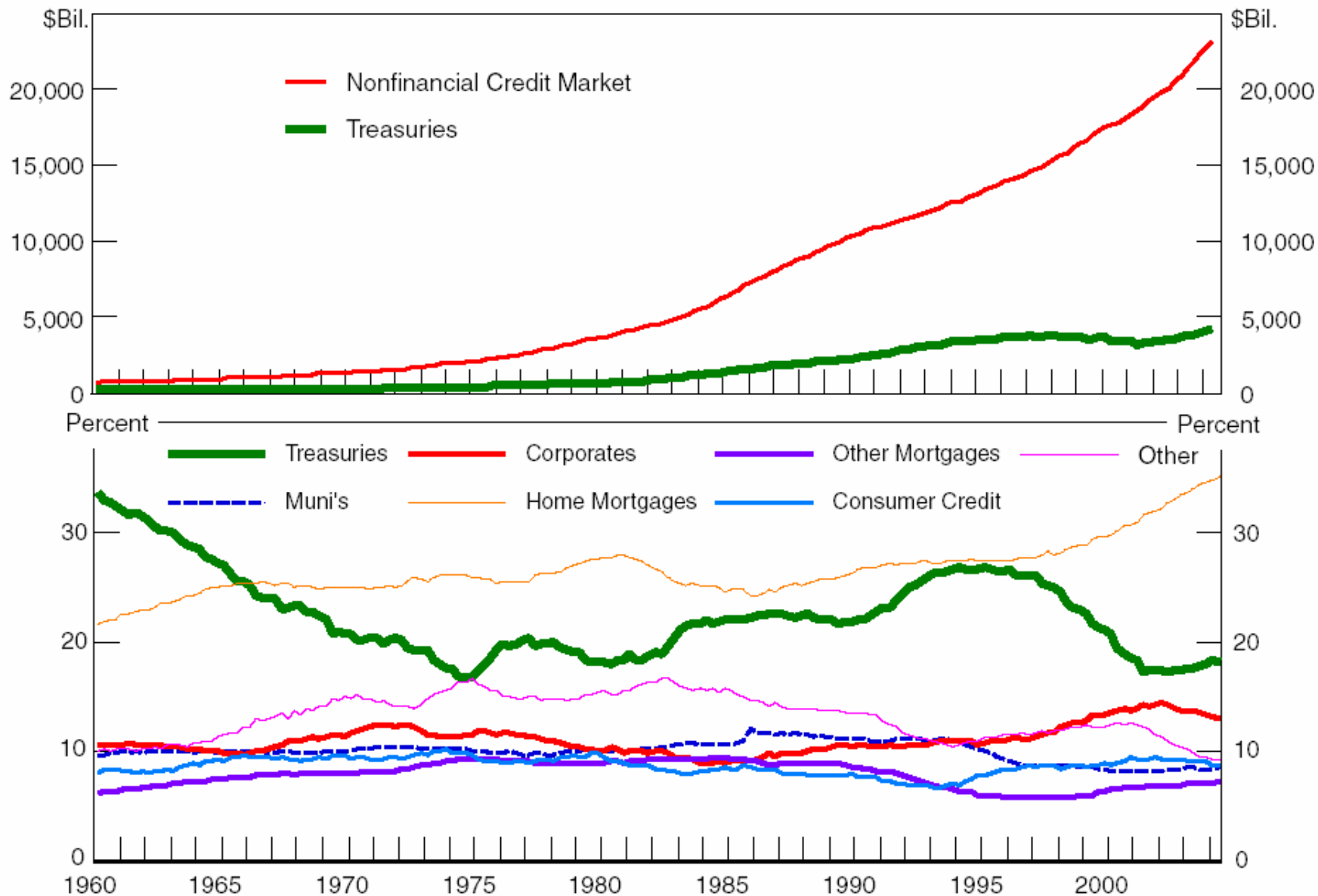


^{1/} Privately held debt excludes holdings of the Federal Reserve.
^{2/} Data through August 31, 2004. See <http://www.treas.gov/tic/index.html>.
^{3/} Source: Federal Reserve Bank of New York statistical release H4.1.

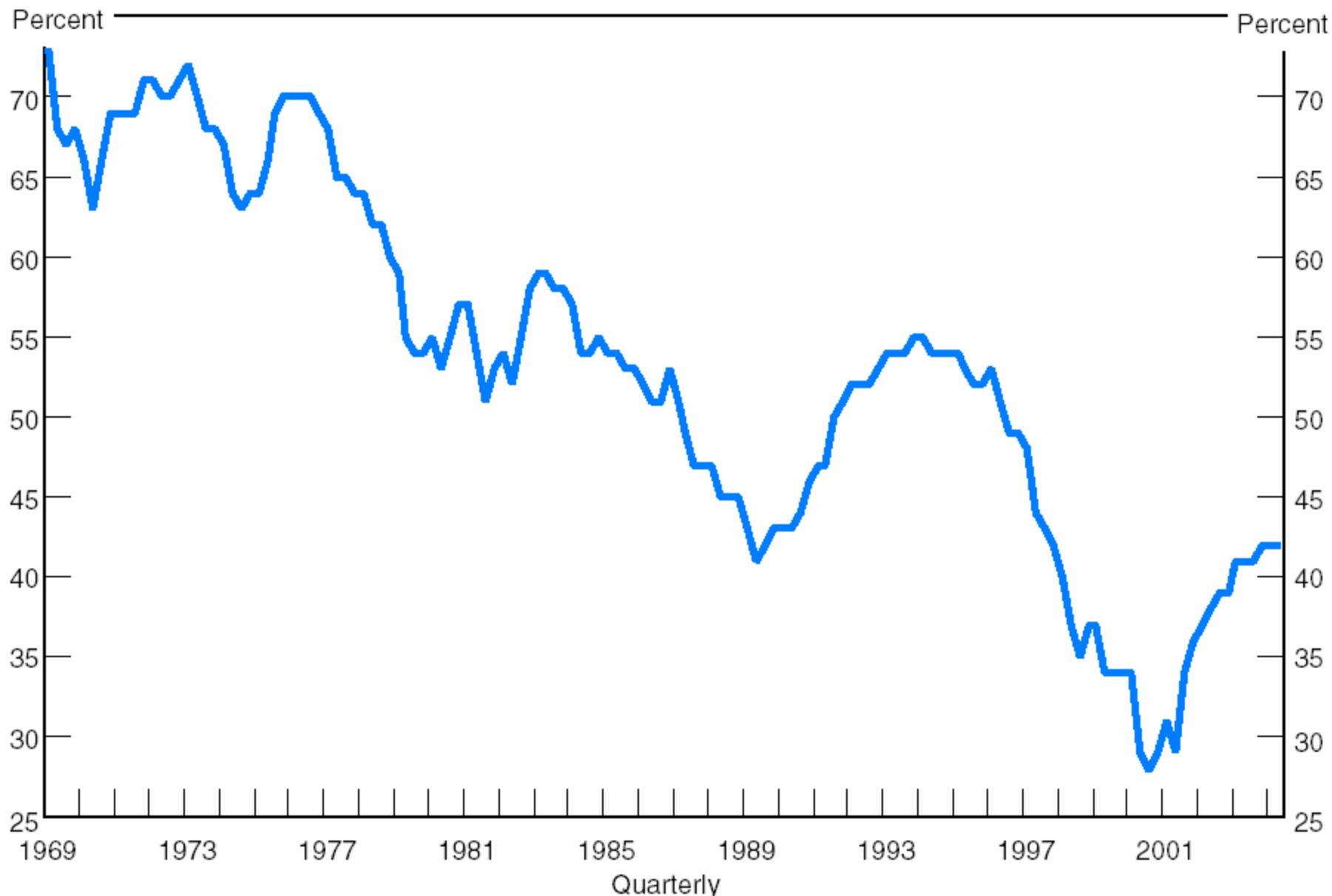
U.S. Debt Compared to the G7



DOMESTIC NONFINANCIAL CREDIT MARKET AND TREASURY DEBT



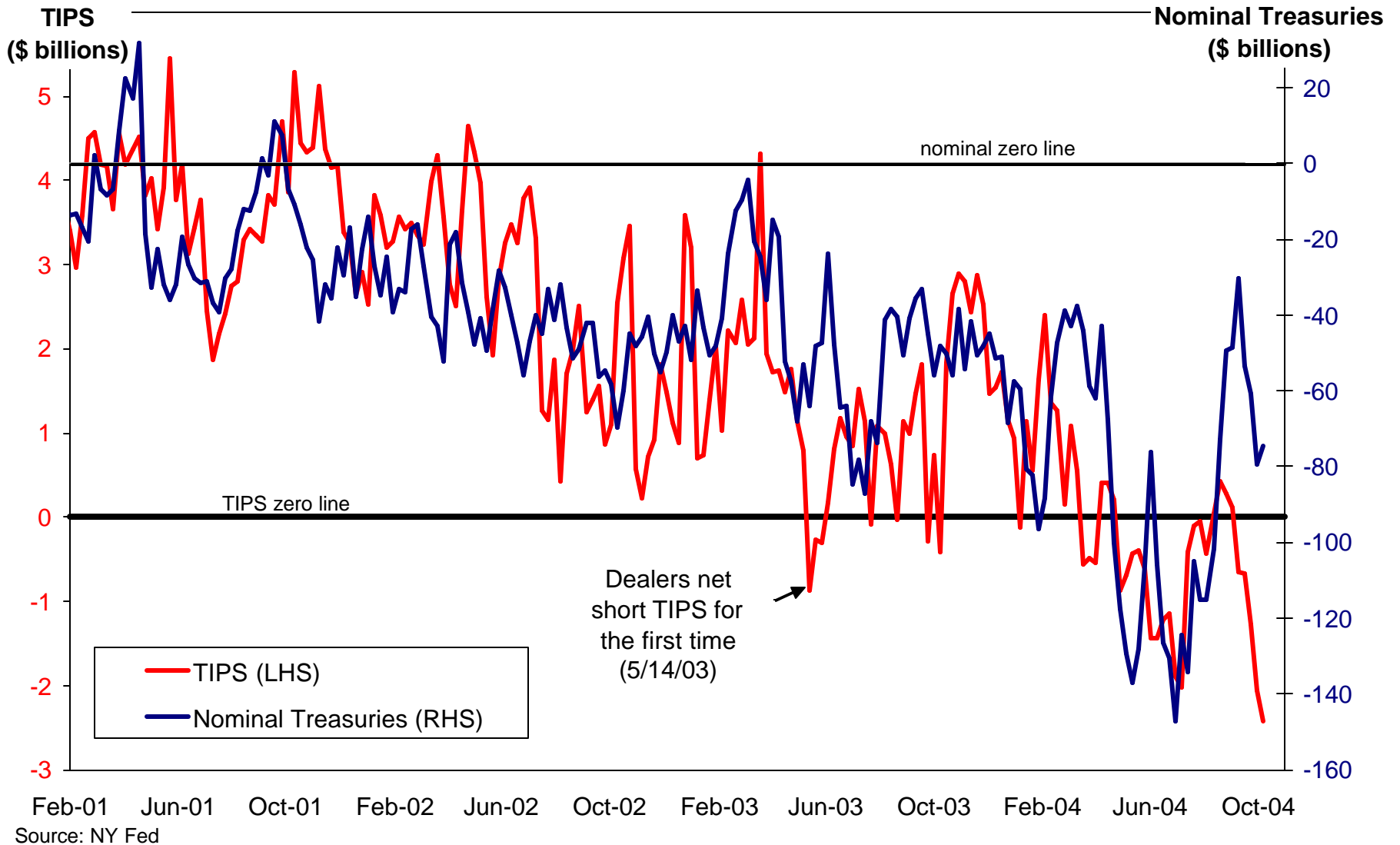
TREASURY BILLS AS A PERCENTAGE OF THE MONEY MARKET ^{1/}



^{1/} Money market = Treasury bills, nonfinancial commercial paper, and financial open market paper.

Source: U.S. Federal Reserve Board of Governors Flow of Funds statistical release Z.1.

Net Dealer Positions in Treasuries



Committee Charge Question 2

Financing this Quarter

We would like the Committee's advice on the following:

- ***The composition of Treasury notes to refund approximately \$48 billion of privately held notes and bonds maturing on November 15 (this includes \$3.1 billion of the 10 3/8% 11/15/04-09 that was called on 7/15/04).***
- ***The composition of Treasury marketable financing for the remainder of the October-December quarter, including cash management bills if necessary.***
- ***The composition of Treasury marketable financing for the January-March quarter.***