

Treasury Debt Management

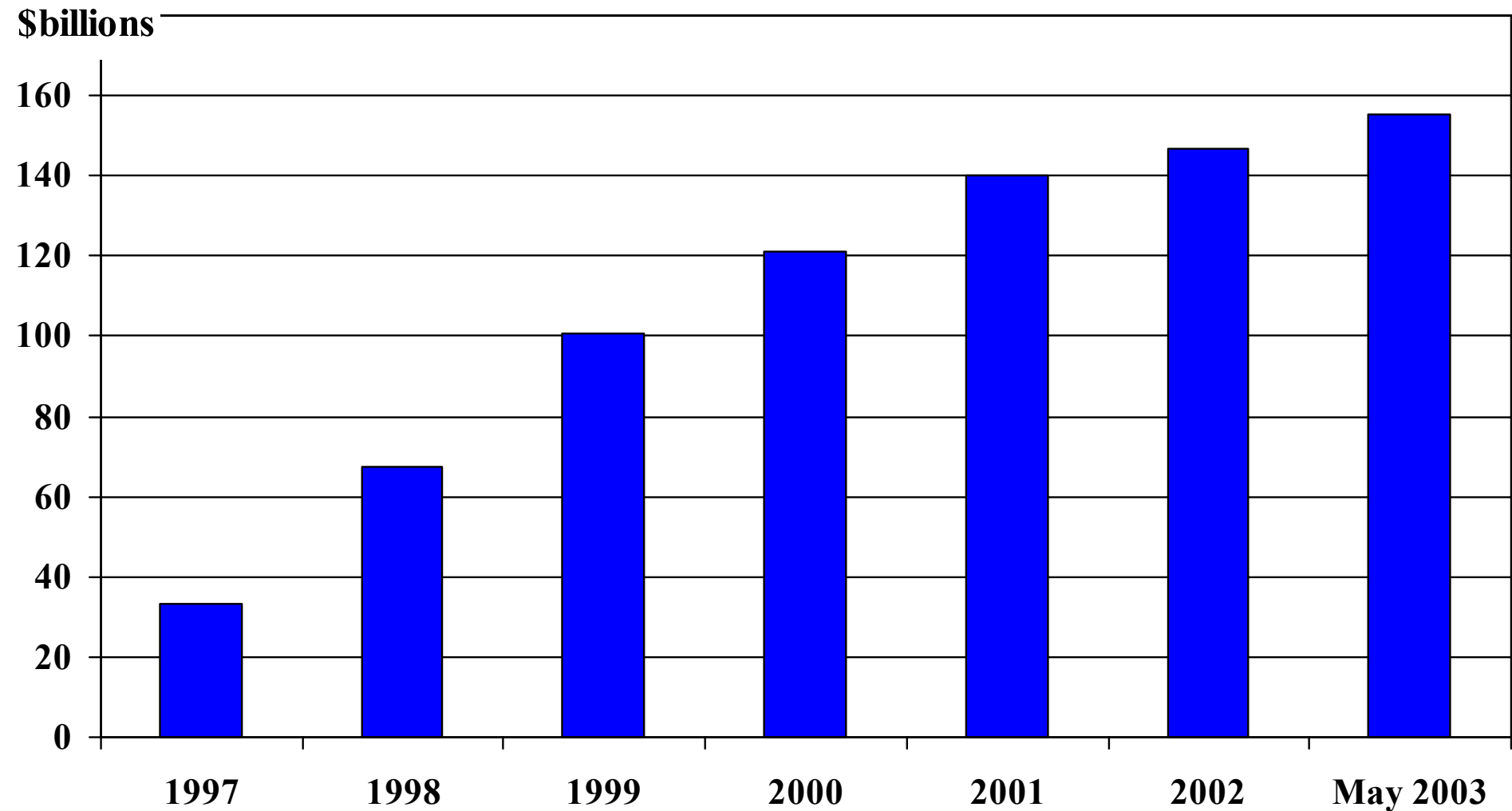


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Deputy Assistant Secretary
U.S. Treasury Department

Summary

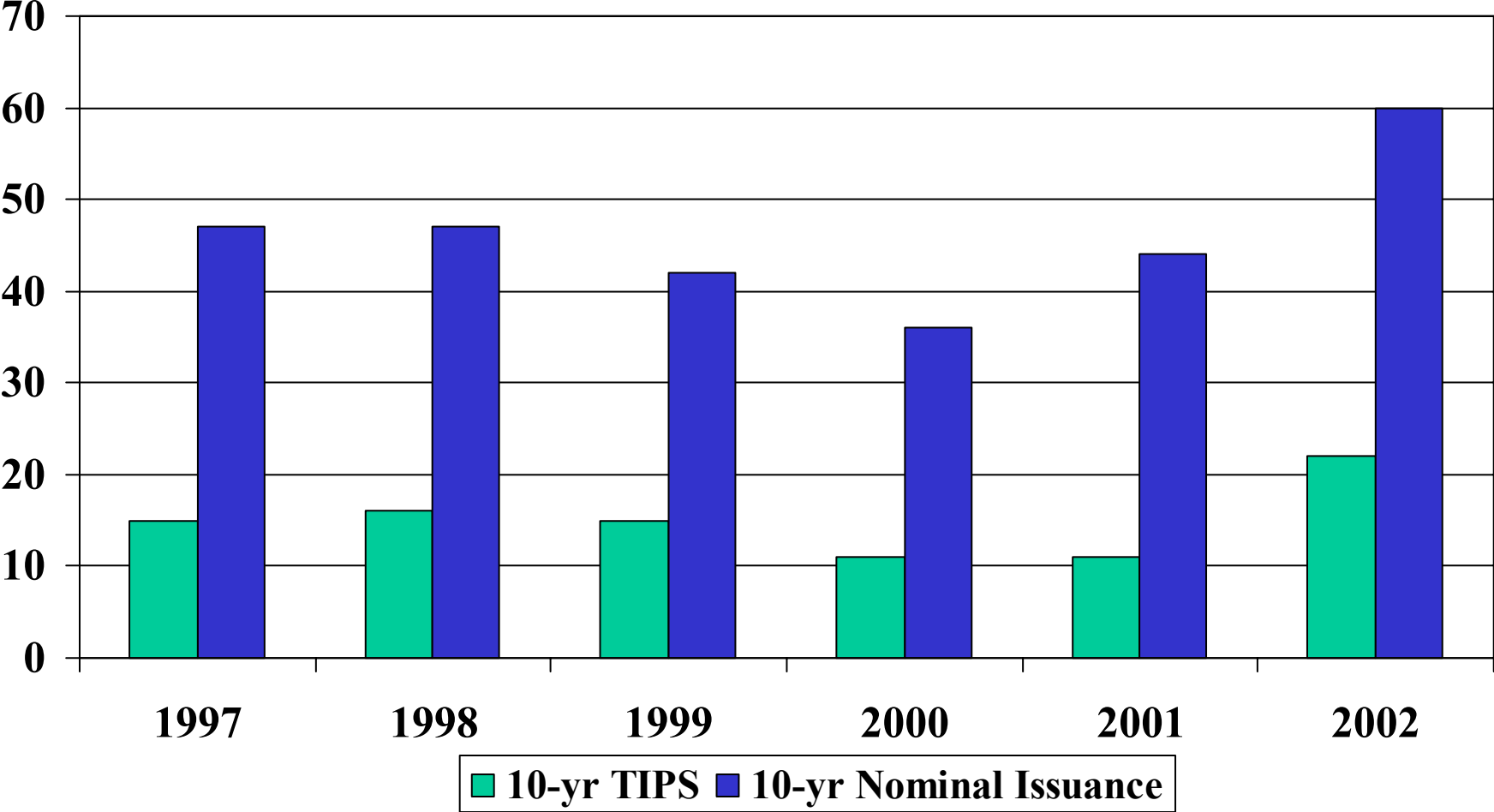
- Treasury is committed because TIPS reduce cost
- Closest thing to a risk free asset for long-term investors.
- Highest credit quality
- Improve portfolio diversification
- Better match to inflation than real estate, commodities, or other real assets
- TIPS market is young but growing fast

TIPS Outstanding



10-year TIPS Issuance Represents More Than a Quarter of Treasury's Total 10-year Note Issuance

\$billions

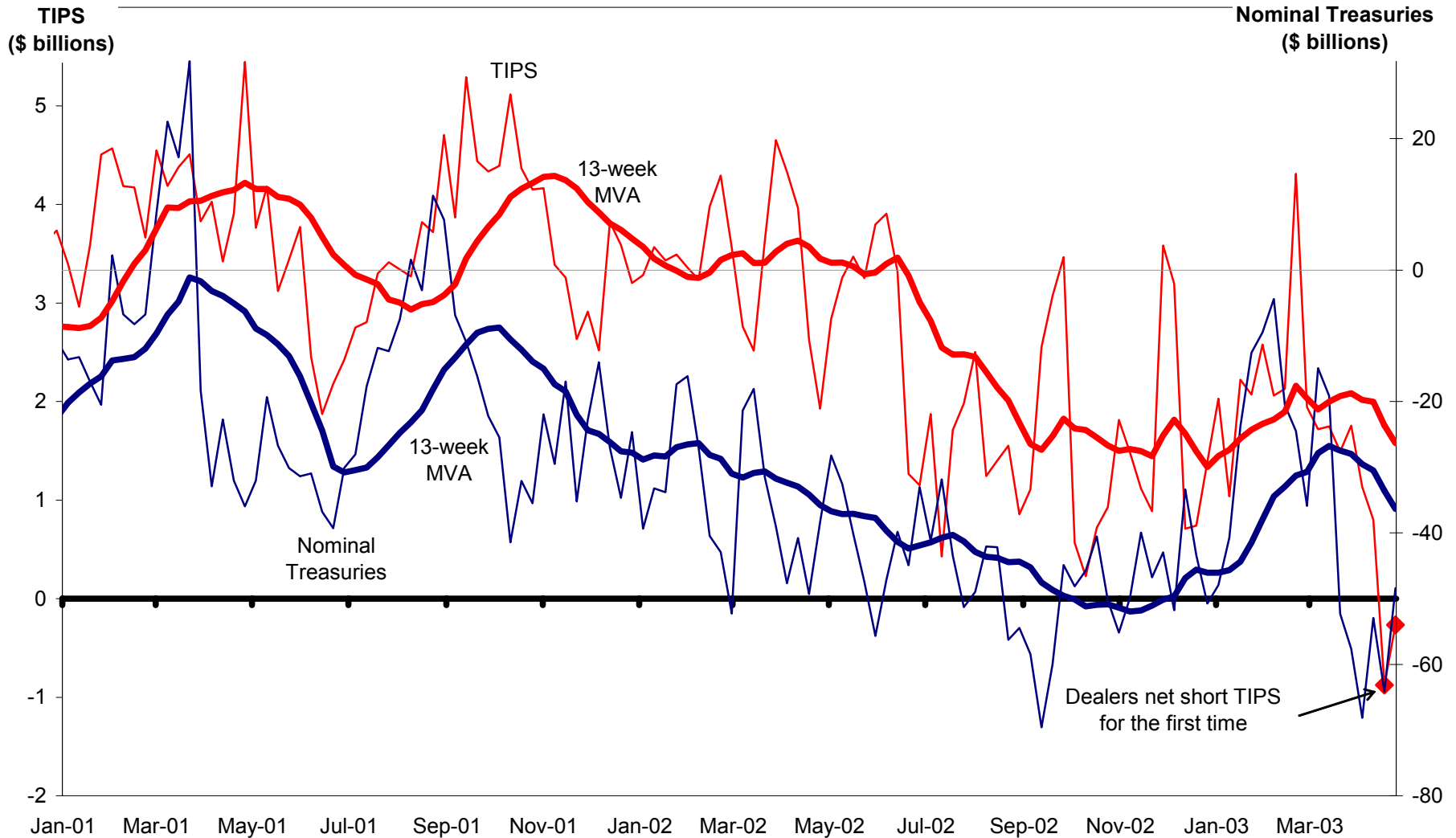


TIPS Liquidity Increasing

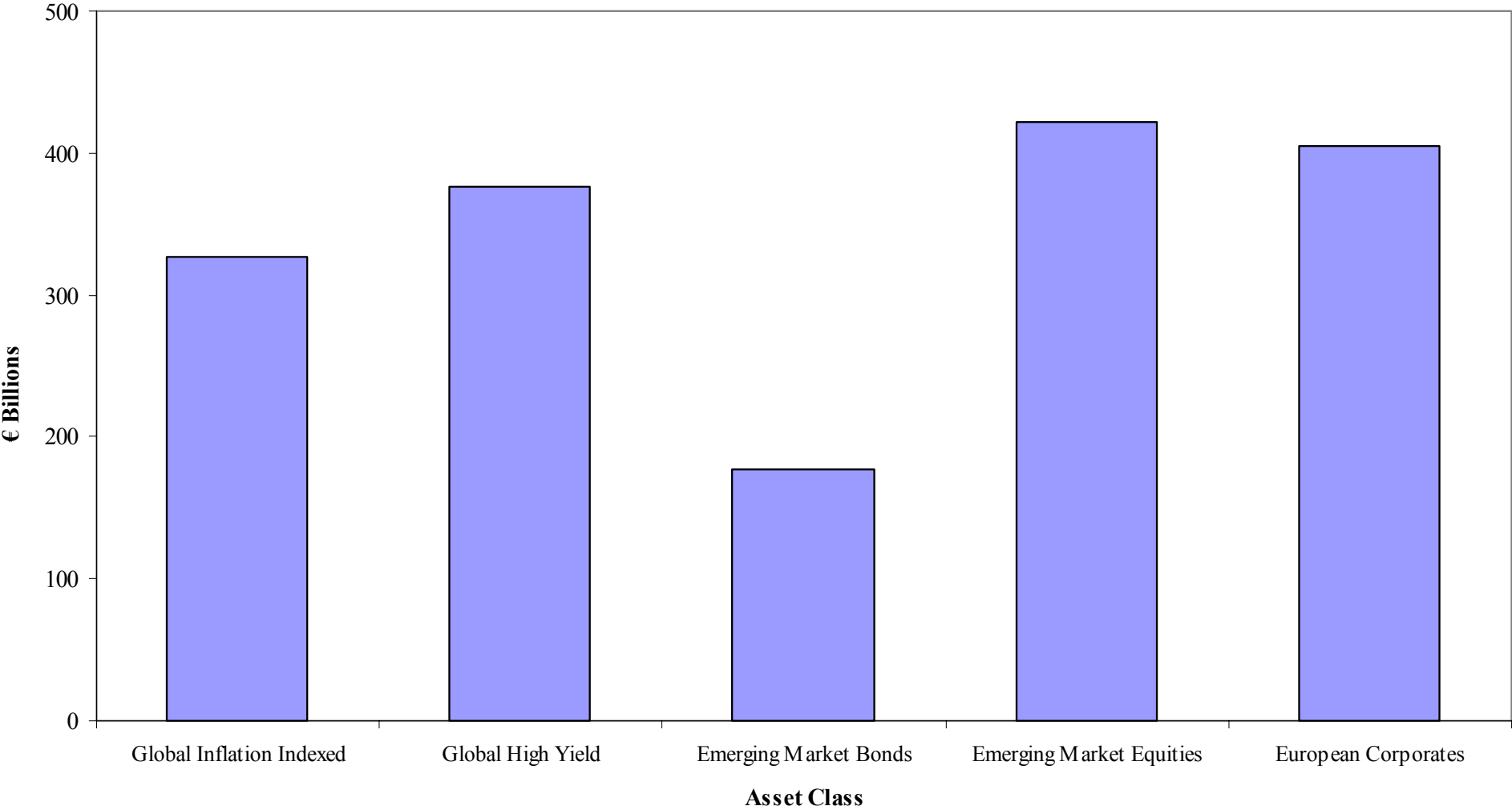
3-Month Moving Average of Daily TIPS Transactions by Primary Dealers



Net Dealer Positions in Treasuries



SIZE OF GLOBAL INFLATION-INDEXED BOND MARKET VS. OTHER ASSET CLASSES

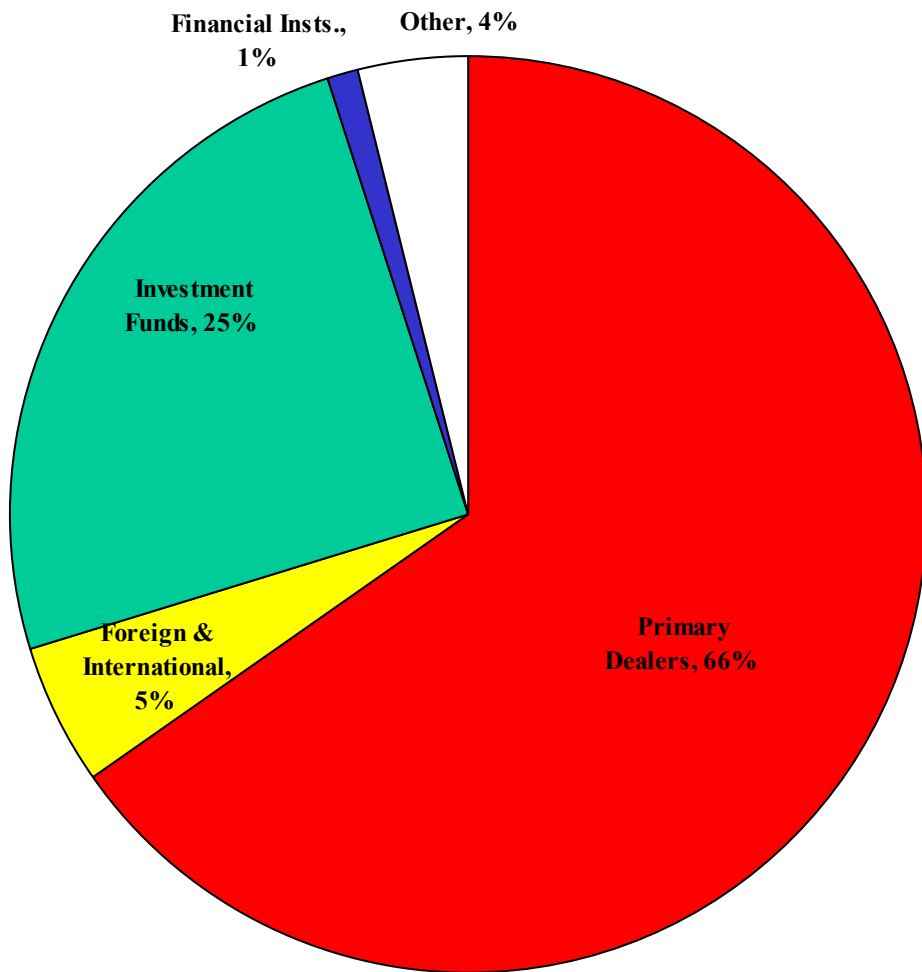


Source: Bridgewater Associates

Distribution of Competitive Auction Awards of 10-Year Treasury Notes

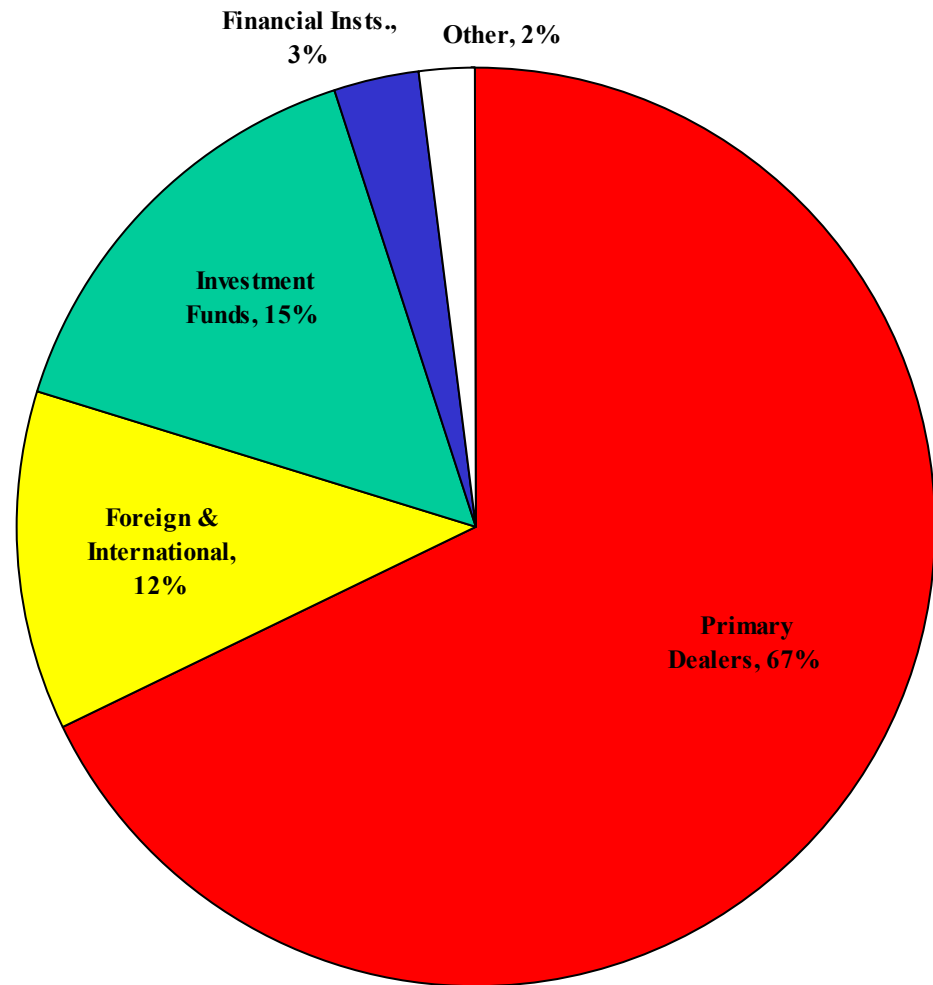
10-Year Inflation-Indexed Notes

July 2002, October 2002 & January 2003



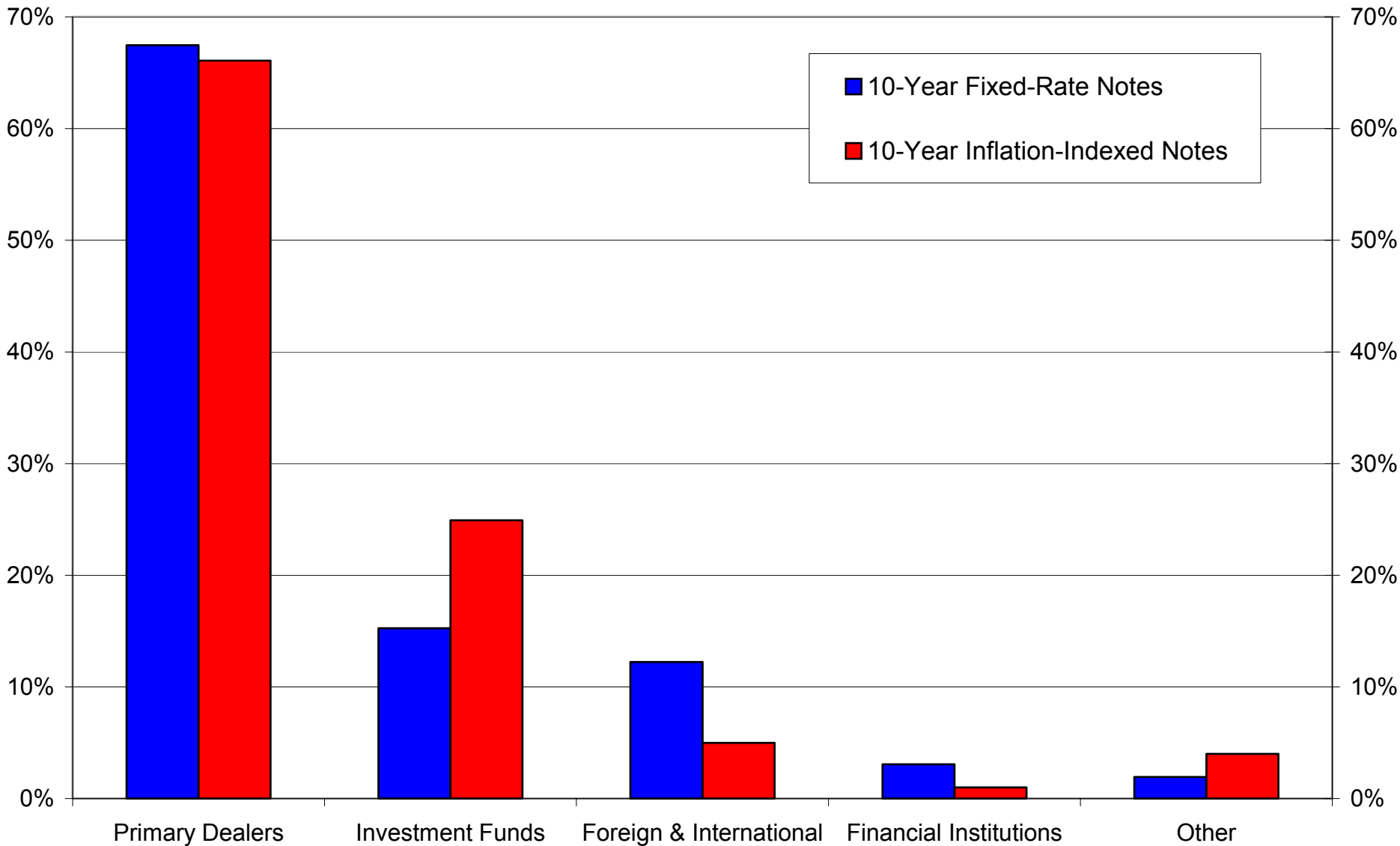
10-Year Fixed-Rate Notes

August 2002, November 2002 & February 2003



Distribution of Competitive Auction Awards of 10-Year Treasury Notes

July 2002 - February 2003



Return Profiles

1997 - 2003

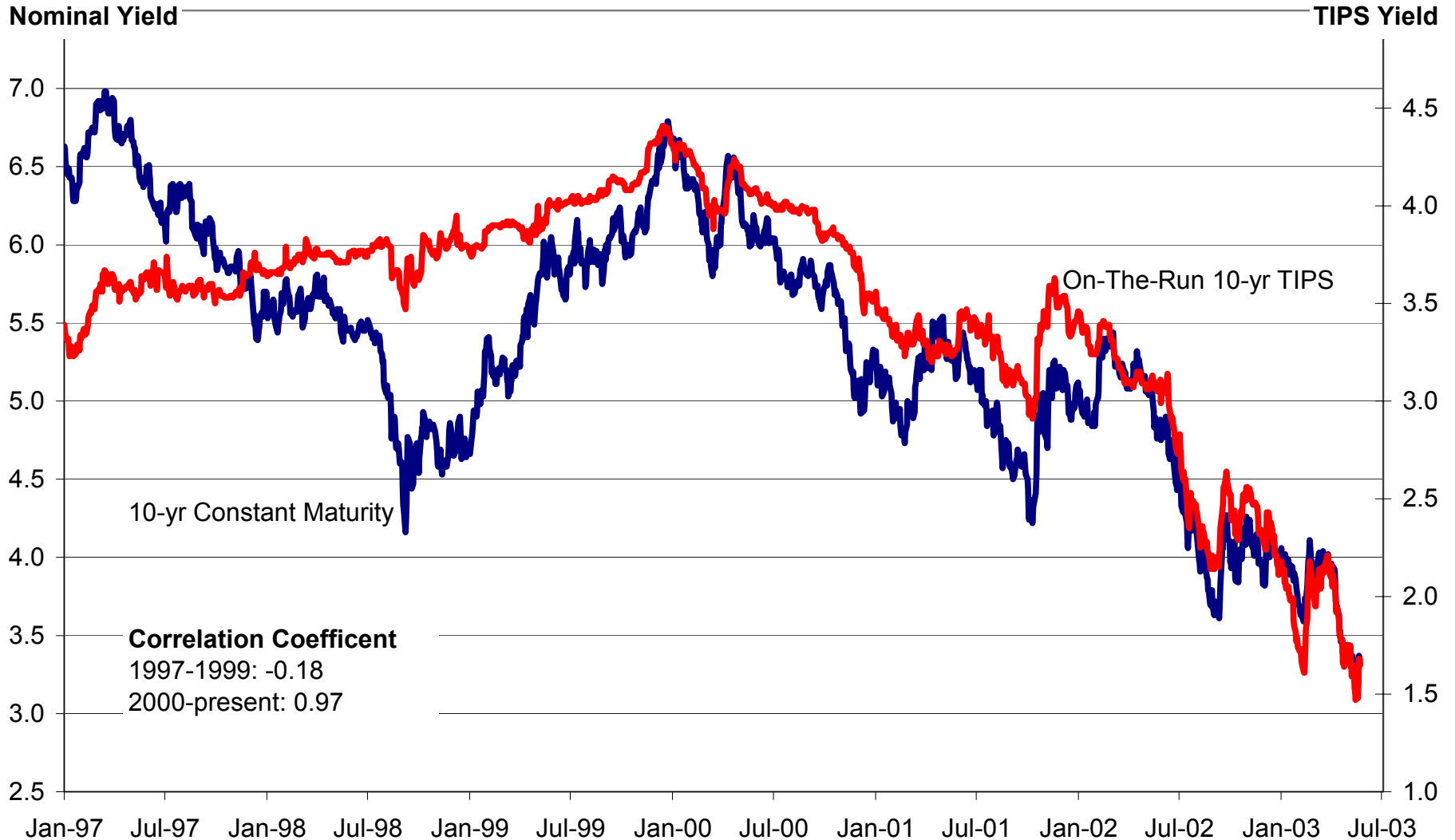
	Lehman Index	10-Year Treasury	10-Year TIPS	S&P 500 Index w/dividends
2003 Returns (Thru May 2003)	4.3%	5.8%	5.7%	10.4%
Annualized Return	8.4%	9.2%	7.9%	4.7%
Monthly Volatility	1.3%	2.0%	1.1%	5.3%
Annual Volatility	5.7%	8.2%	6.2%	22.0%

I/I BOND CORRELATION TO OTHER ASSETS AND INFLATION

Correlation of TIPS (10 Yr Duration) to

1970 to Present	CPI	Equities S&P 500	Nominal Bonds 10 Yr Duration
1 Month	0.18	0.11	0.57
3 Month	0.27	0.02	0.64
1 Year	0.51	-0.18	0.29
3 Year	0.84	-0.47	-0.33
5 Year	0.91	-0.53	-0.35

10-Year TIPS and Nominal Yields



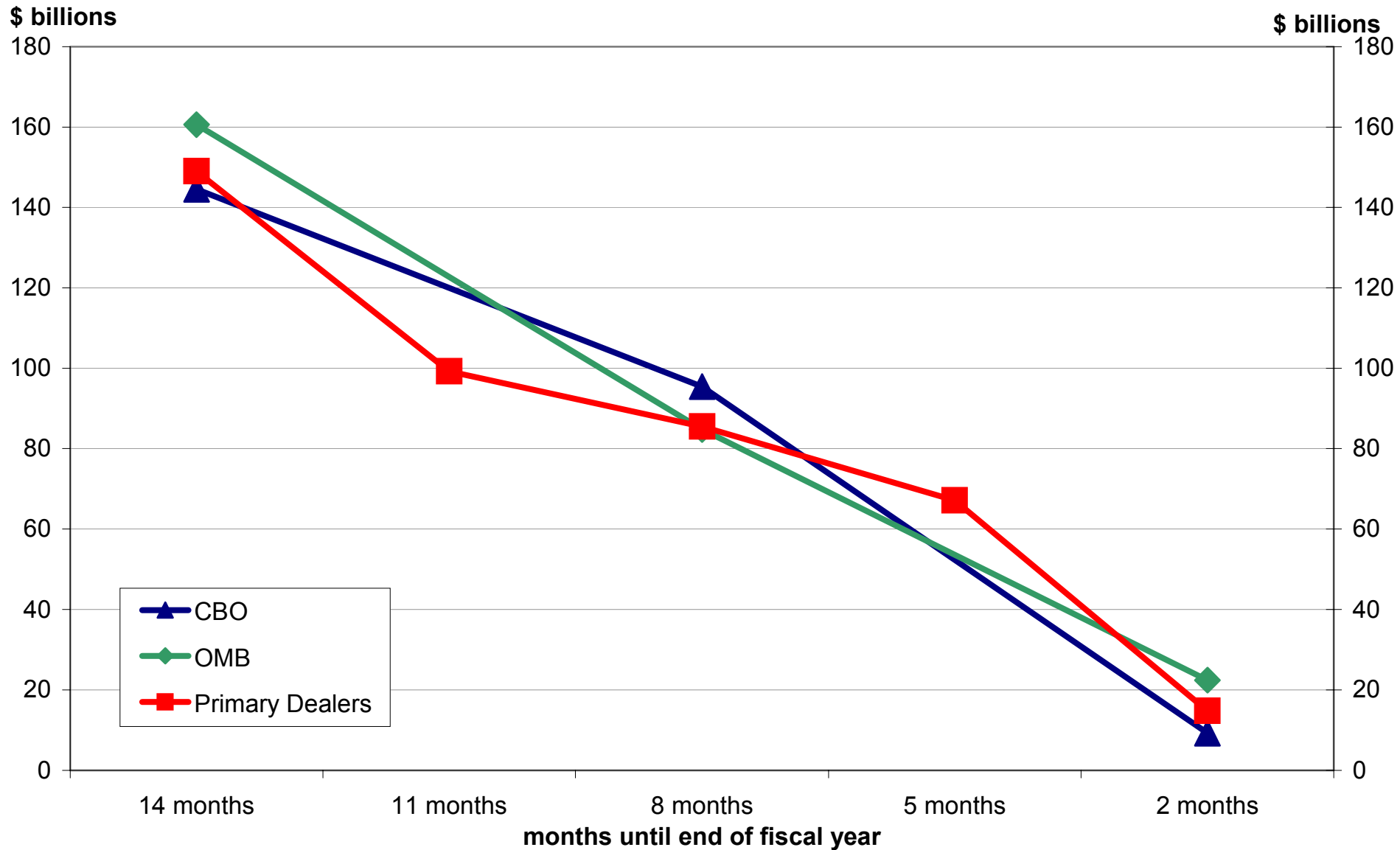
TIPS Characteristics

- Fixed real coupon, paid semi-annually on inflation adjusted principal
- • Deflation-protected principal at maturity
- Principal adjusted for inflation daily, but paid at maturity
- Inflation accretion is referenced to the CPI-U NSA, set with a 3-month lag
- First issue January 1997; 10 issues ranging from 2007 to 2032
- \$155 billion market capitalization; total Treasury market capitalization \$3.3 trillion
- Four 10-year TIPS auctions per year, increased issuance
- Average daily trading volume over \$3.5 billion

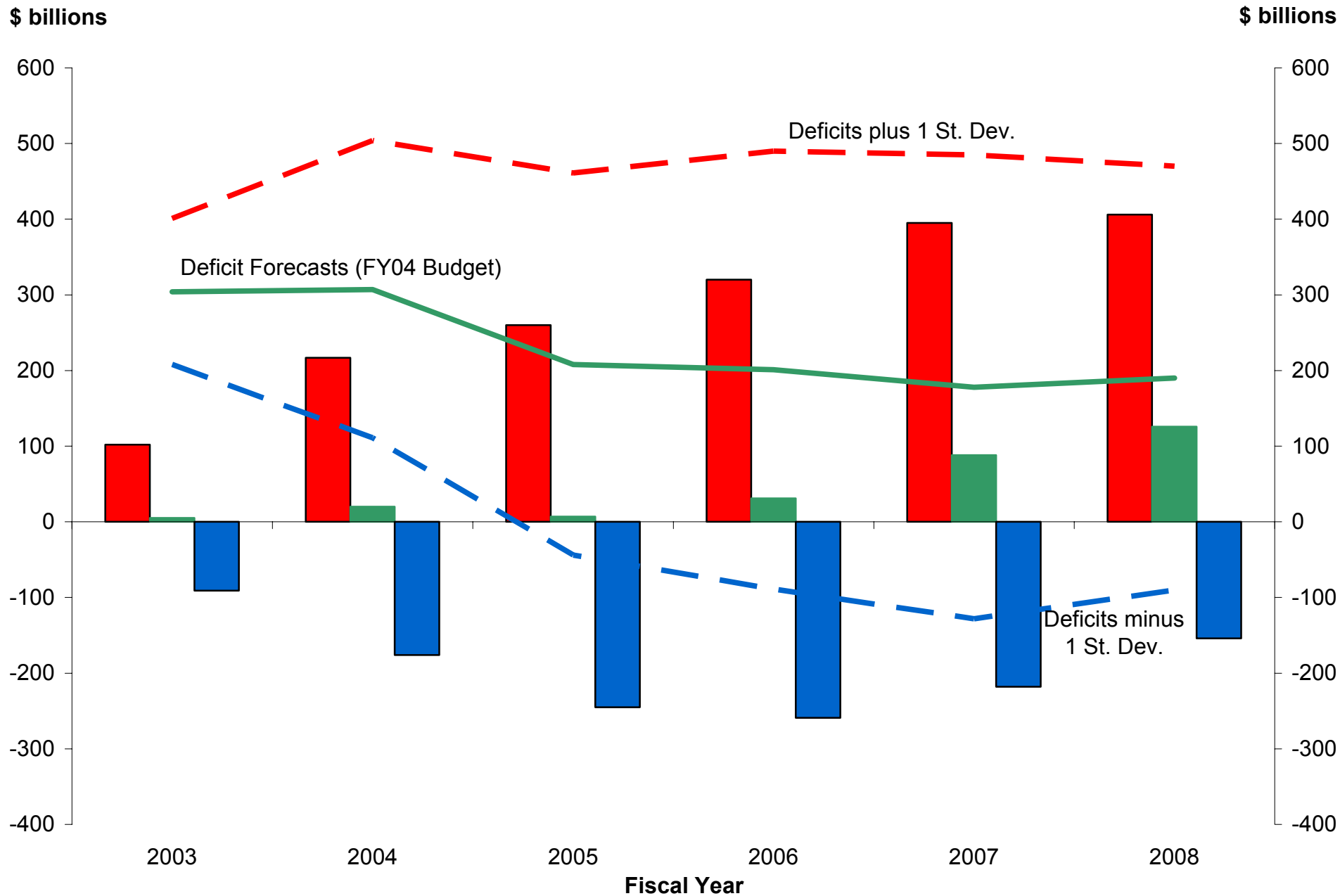
Structure

- Principal value is adjusted for inflation by multiplying the value at issuance by an index ratio which changes daily. Inflation adjustment is paid at maturity.
- Coupon payments are a fixed percentage, determined at auction, of the inflation-adjusted value of the principal.
- The index ratio for a particular valuation date is the index number for that date divided by the index number for the issue date.
- Index Ratio_{Date} = $\frac{\text{Index number for value date}}{\text{Index number for dated date}}$

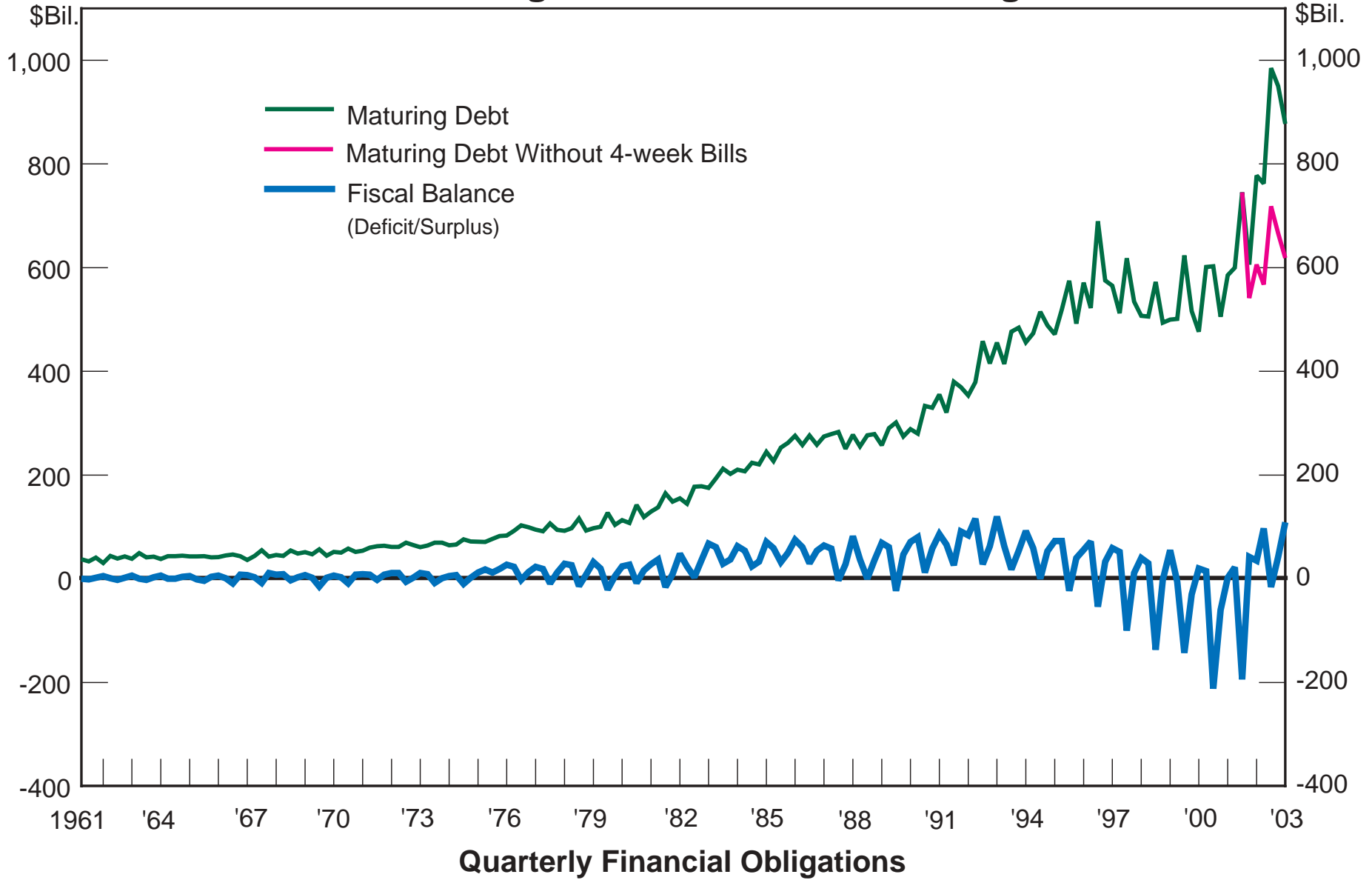
Average Absolute Federal Budget Forecast Errors 1997 - 2002



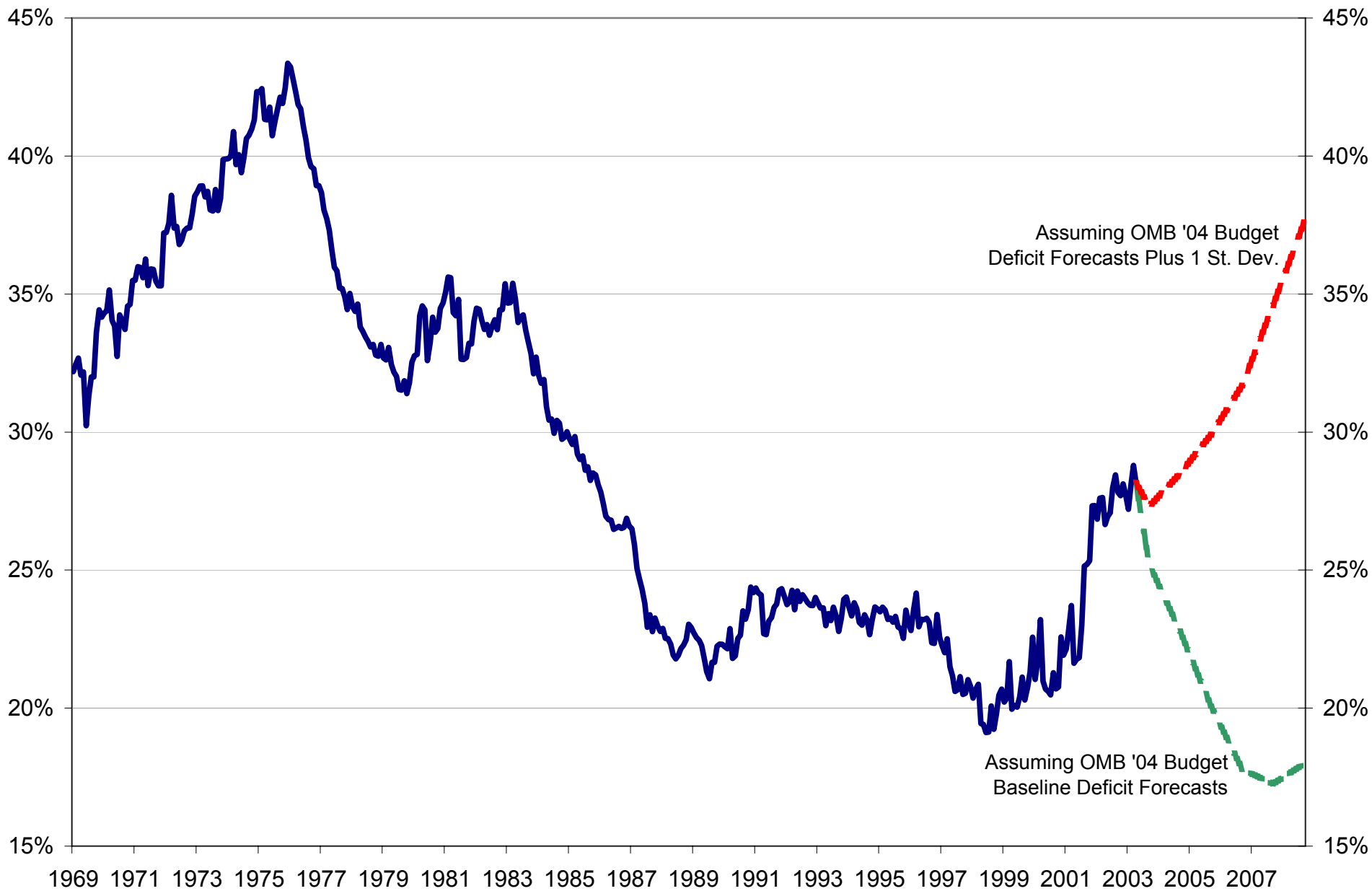
FINANCING RESIDUALS GIVEN CURRENT ISSUANCE



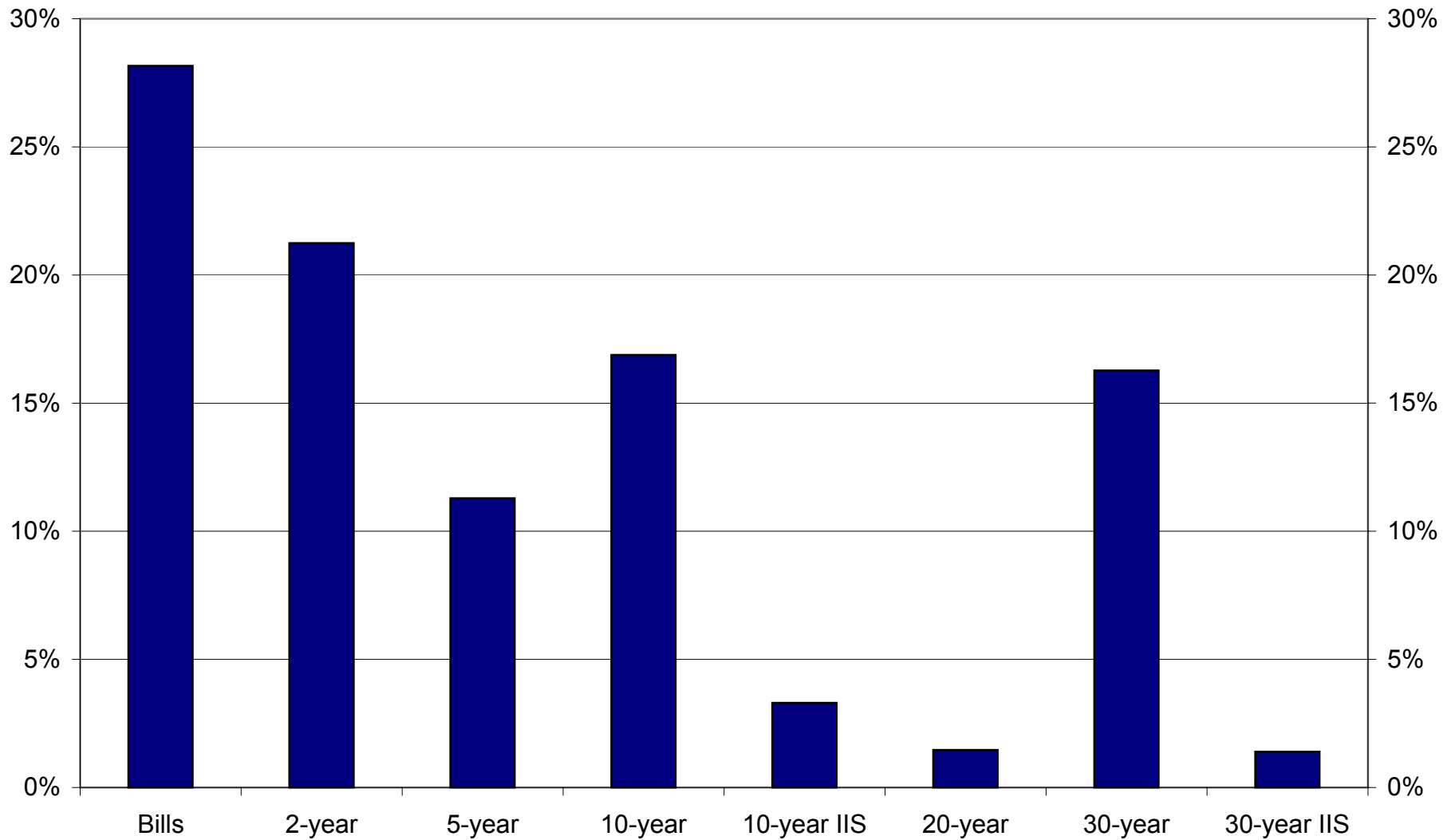
Refinancing dominates new financing



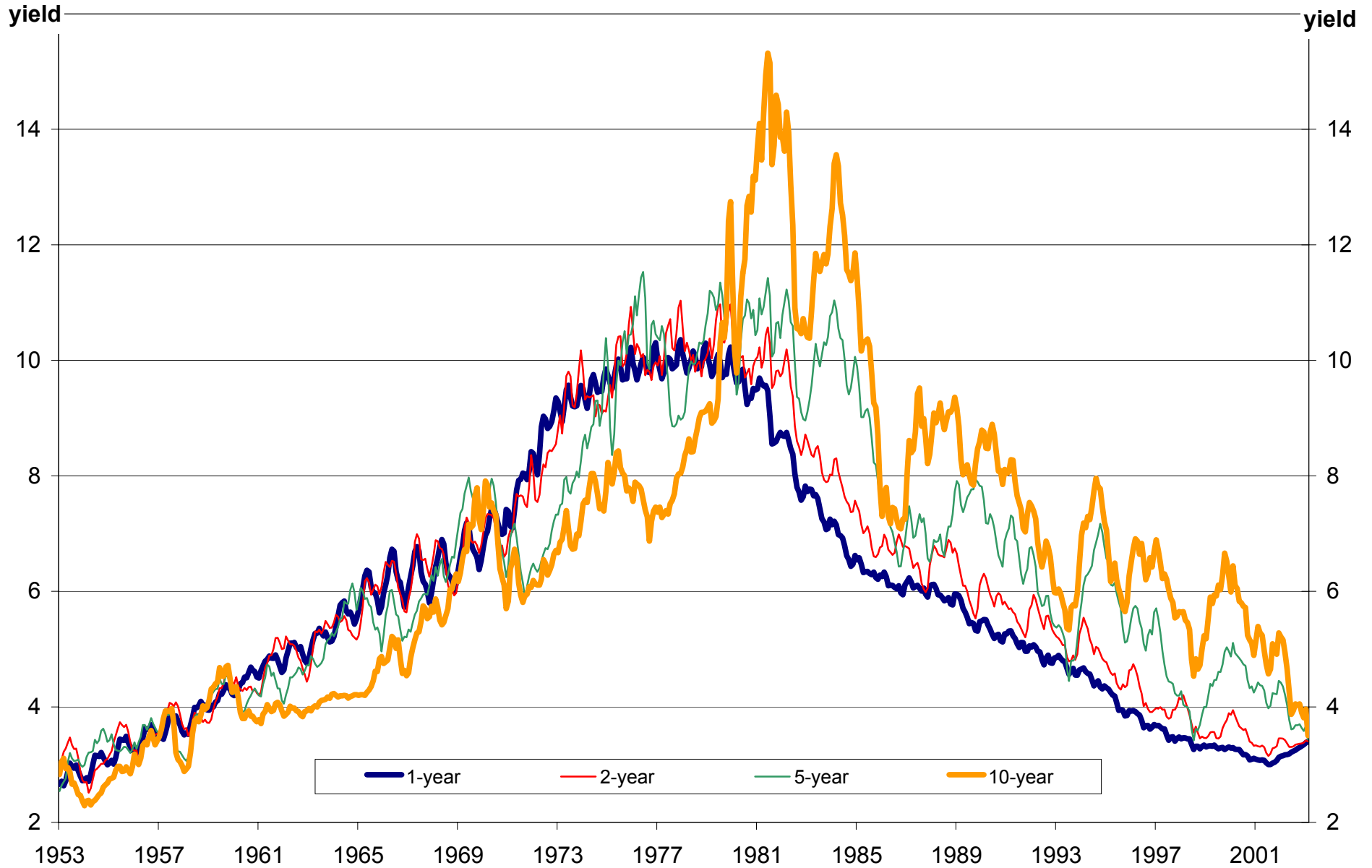
BILLS AS A PERCENTAGE OF TREASURY'S MARKETABLE DEBT¹



Distribution of Treasury's Marketable Debt Outstanding By Security As of April 30, 2003



Realized 10-Year Borrowing Cost for Treasury Securities



1/ The interest cost for borrowing a fixed amount with a given security over a 10-year period was calculated using Treasury constant maturity yields.

Includes Forward Rates as of May 21, 2003