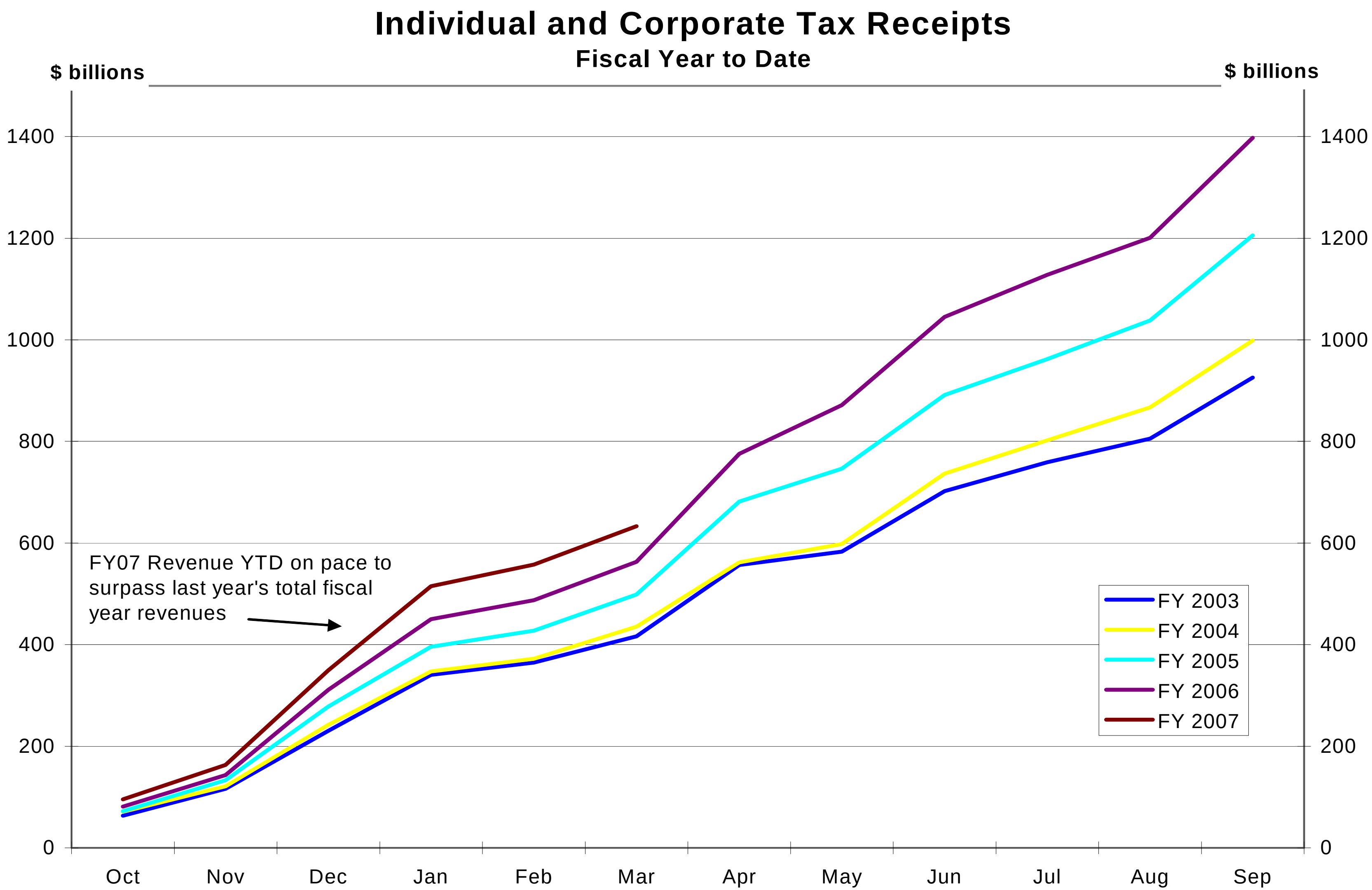
Presentation to the Treasury Borrowing Advisory Committee

U.S. Department of the Treasury
Office of Debt Management
May 1, 2007

Intermediate to longer-term trends to consider

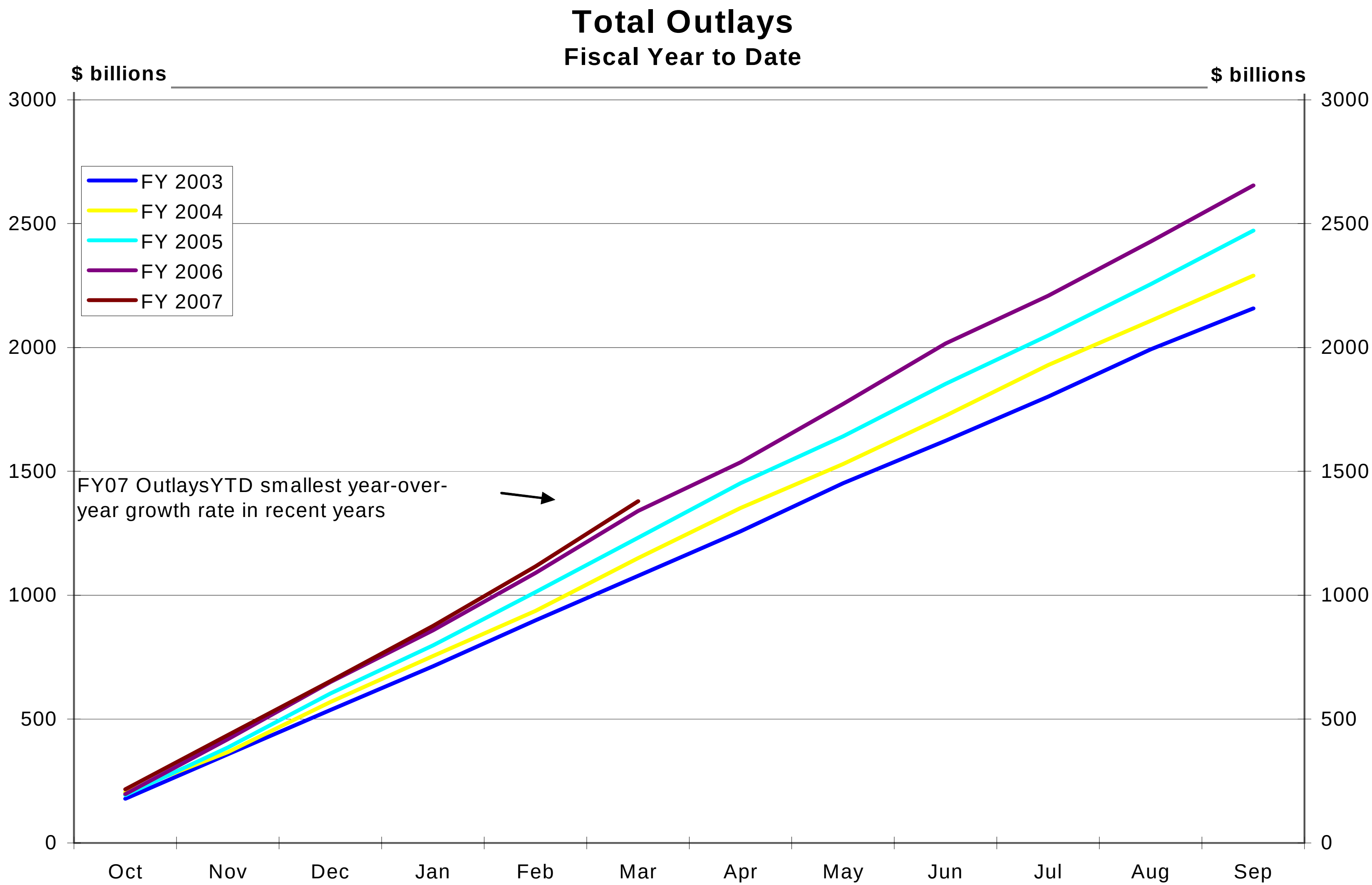
- Market considerations
- Portfolio considerations
- Economic outlook
- Non-marketable borrowing
- Potential legislative changes

Year to date tax receipts have grown versus last year

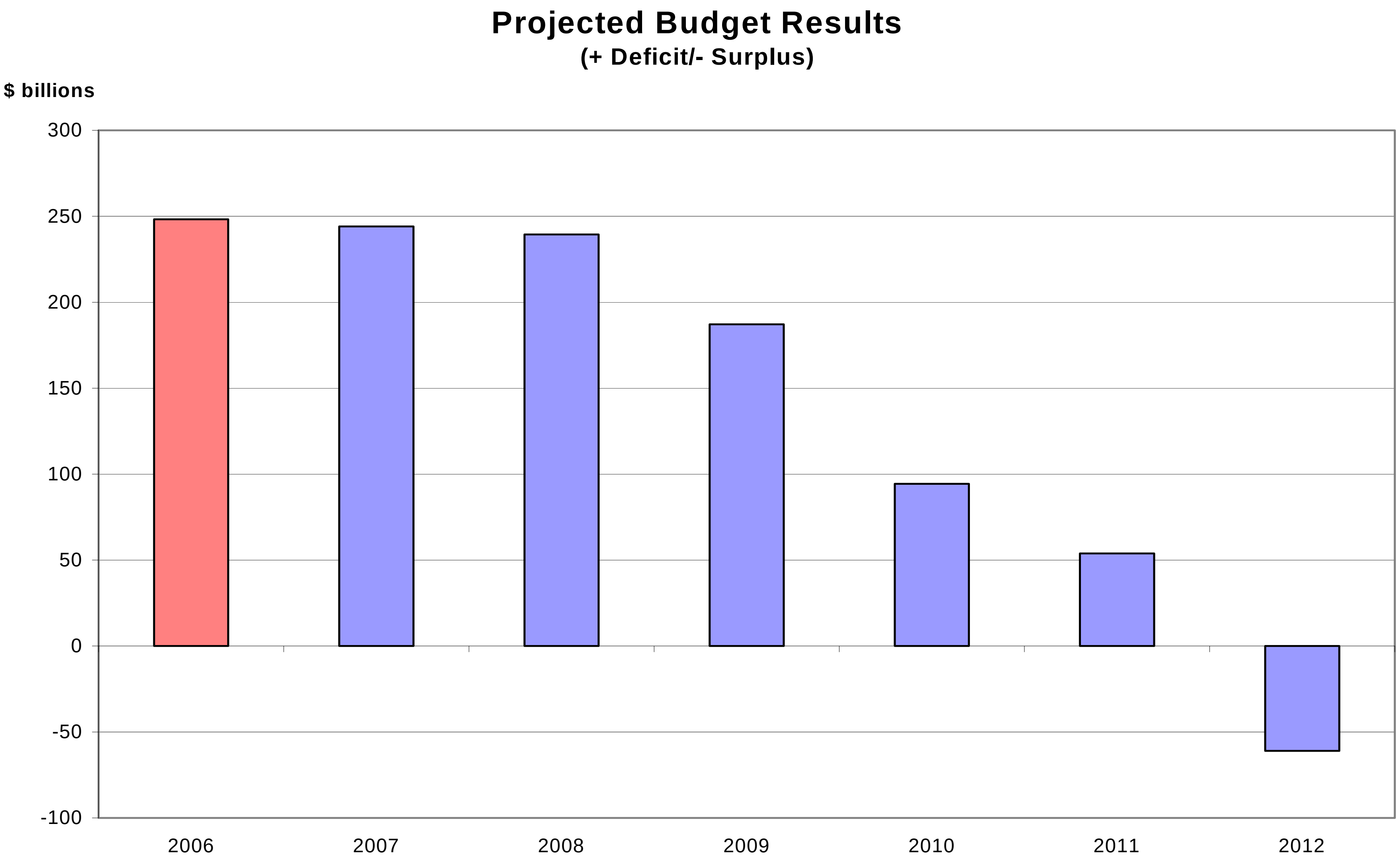


Office of Debt Management

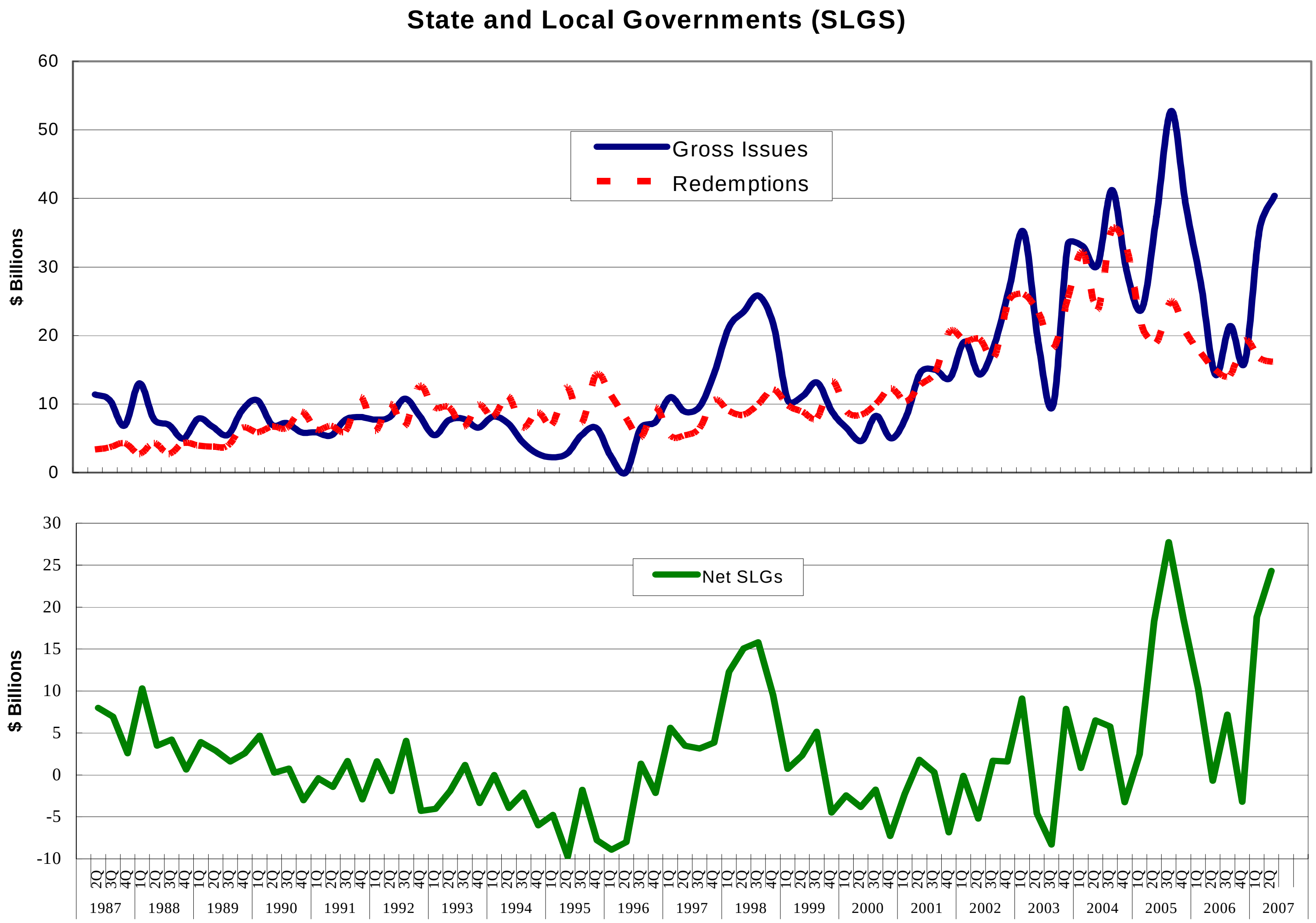
Year to date outlay growth has been rising at a slower pace than in recent years



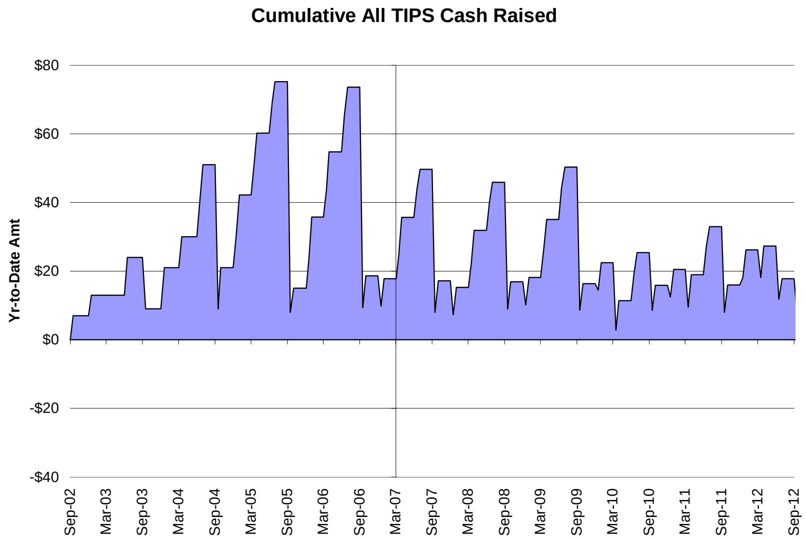
OMB is expecting continued improvement in the budget deficit after FY08

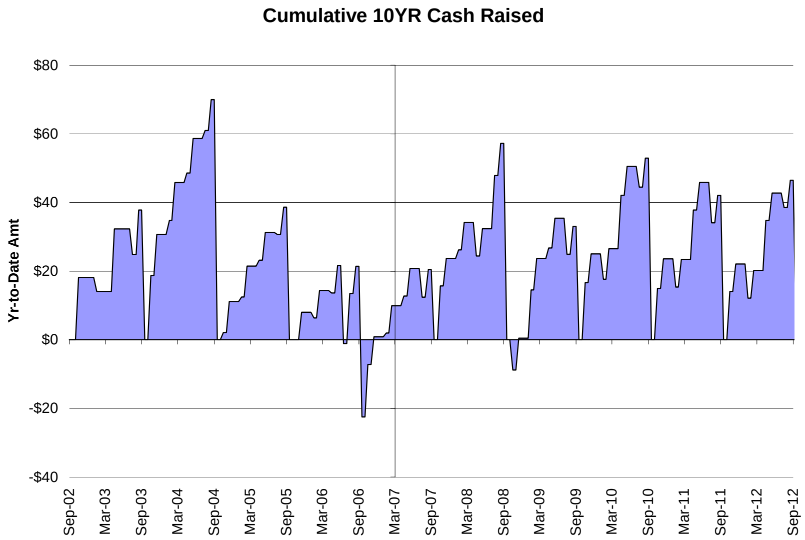


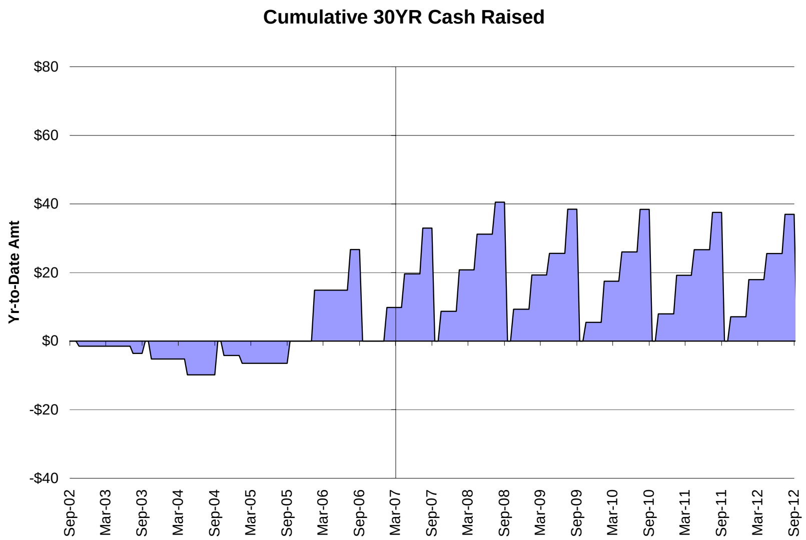
Net SLGS Issuance in FY 2007 may set a record



Given current issuance amounts and maturity patterns, TIPS and longer-term securities are projected to be the sources of financing as financing needs decline.







Future financing and portfolio considerations

- Market participants suggest that current auction sizes of benchmark coupon securities are at or near minimum sizes to ensure liquidity
- Outstanding bills have been essentially flat
- Treasury continues to see strong receipts
- The deficit has been cut in half ahead of schedule, and the OMB forecasts a balanced budget by 2012

- Should additional financing become necessary:
  - Increased bill issuance could raise an additional $100 billion
  - Increased coupon issuance could raise and additional +$100 billion

How low can they go?

Minimum Announced Coupon Auction Amounts Based on Current Patterns		
Security	**Announced Amount**	**Anouncement Dates**
2-year Note	$10 billion	May 2000 - January 2001
3-Year Note	$16 billion	January 2007
5-Year Note	$13 billion	December 2006 - April 2007
10-Year Note	$13 billion	August 2005 - January 2007
-Reopening	$8 billion	June 2005 - March 2007
30-Year Bond	$9 billion	January 2007
5-Year TIPS	$8 billion	April 2007
-Reopening	$7 billion	October 2006
10-Year TIPS	$9 billion	July 2005 - January 2007
-Reopening	$6 billion	April 2007
20-Year TIPS	$8 billion	January 2007
-Reopening	$7 billion	July 2006

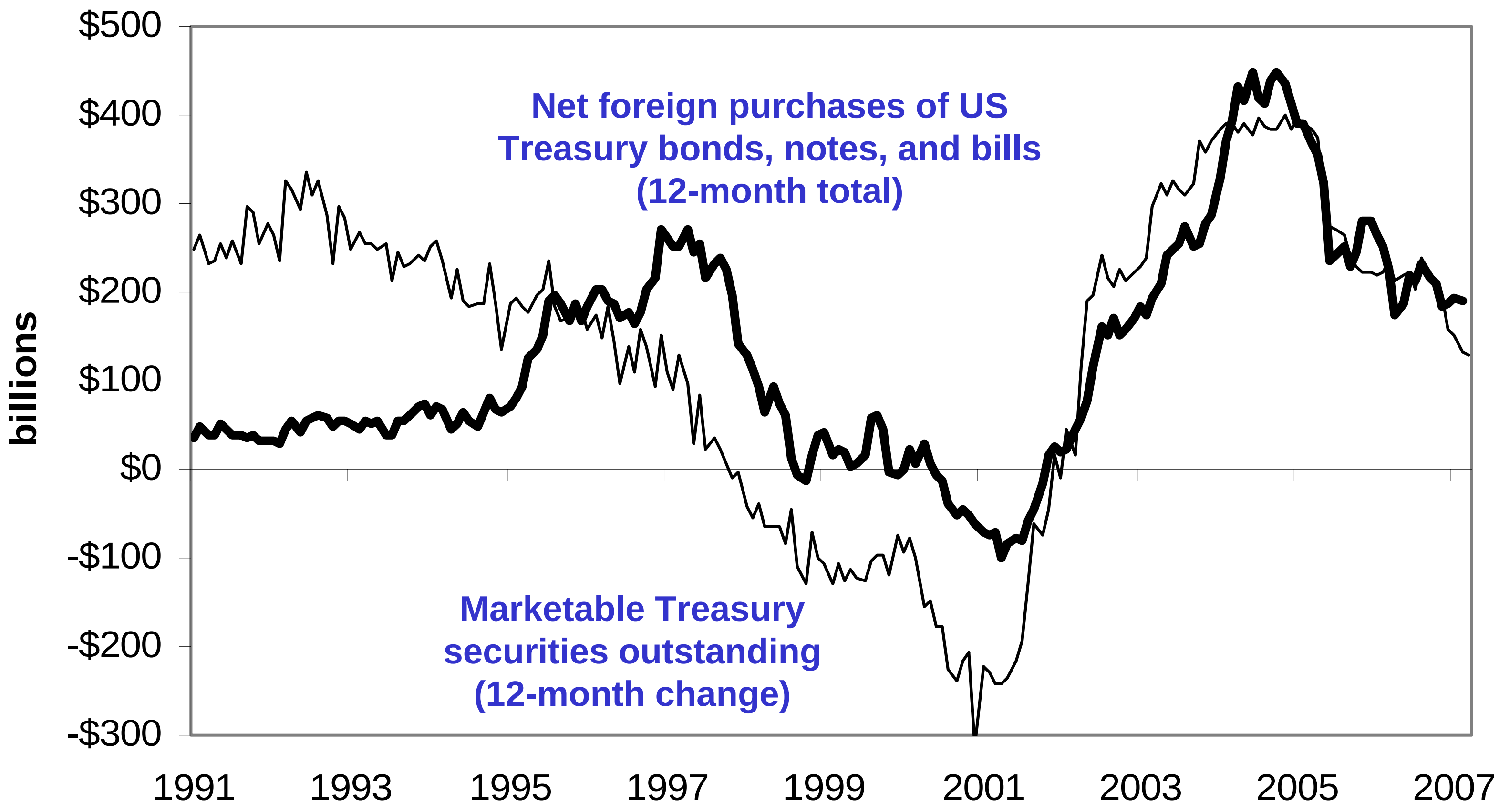
- In light of intermediate and longer-term fiscal trends as well as recent economic and market conditions, what advice would the Committee give in terms of Treasury's debt issuance?

Treasury Borrowing Advisory Committee Presentation to the Treasury

Trends in International Investment

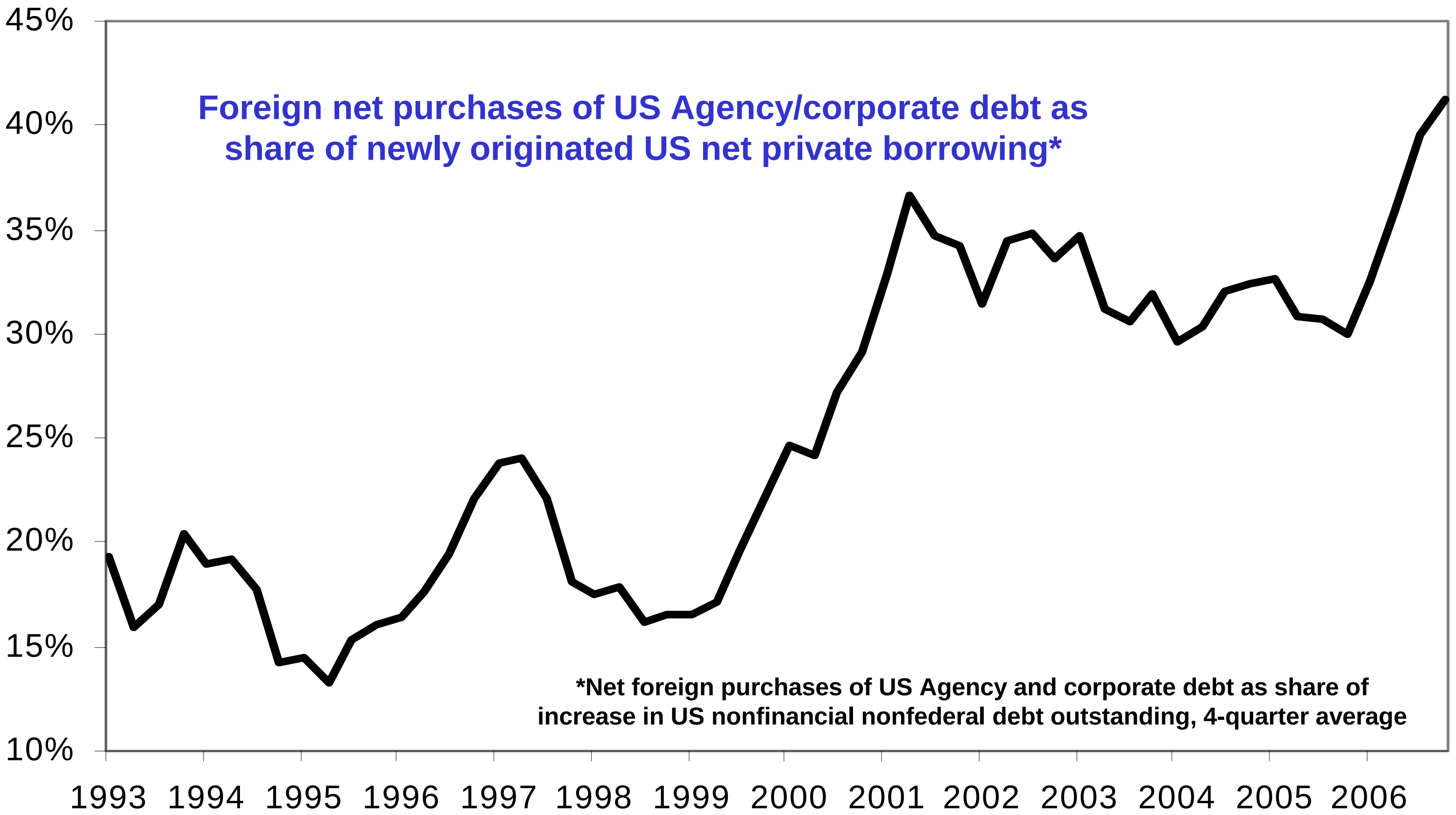
May 1, 2007

Foreign Purchases Roughly Cover New Treasury Supply



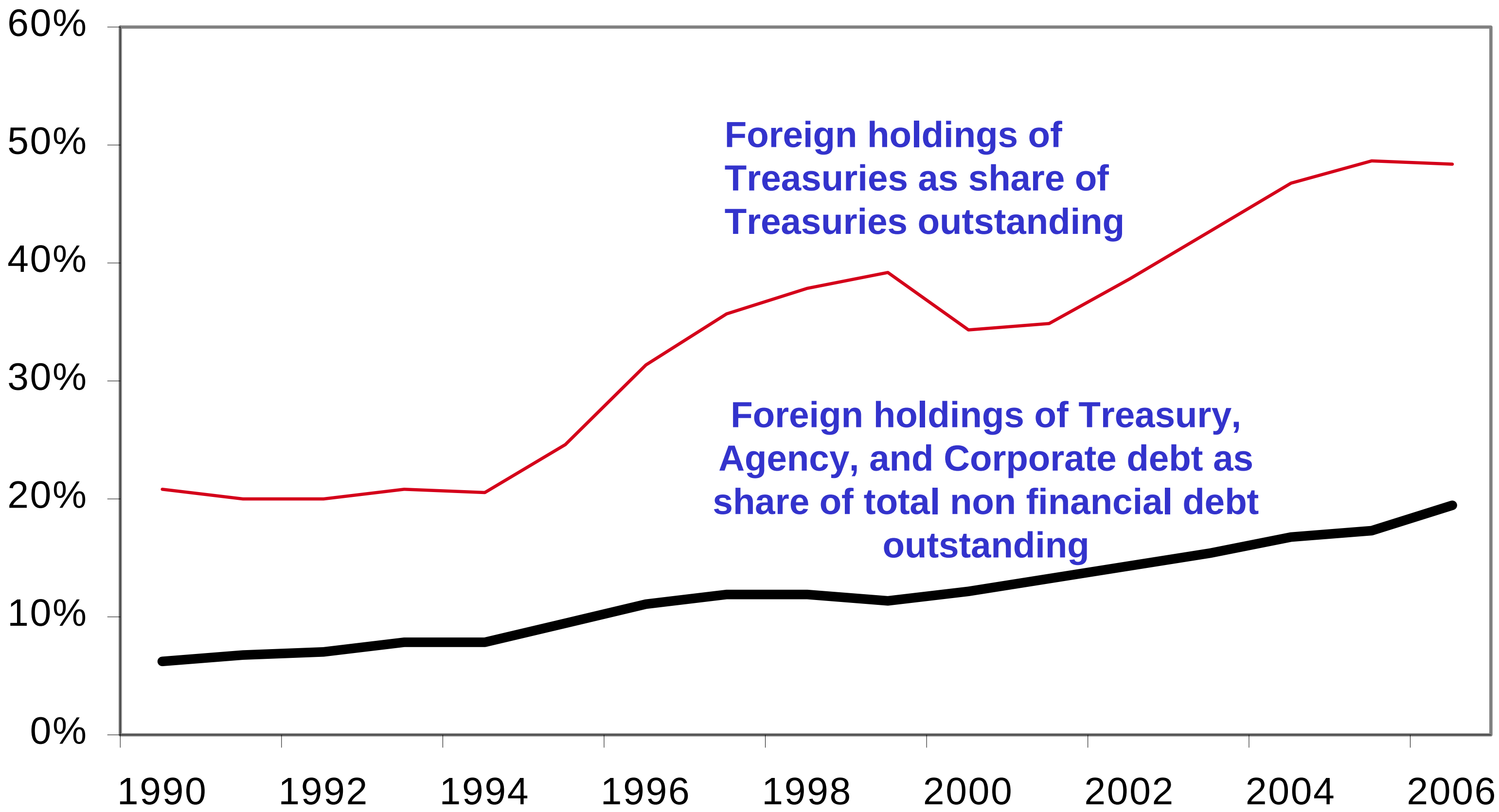
Source: US Treasury

Foreign Purchases: Rising Share of New Supply of Private Debt



Sources: US Treasury, Federal Reserve

Foreign Holdings of US Debt Outstanding Small but Growing



Sources: US Treasury, Federal Reserve

Foreign Inflows Into US Equity Markets Still Relatively Small

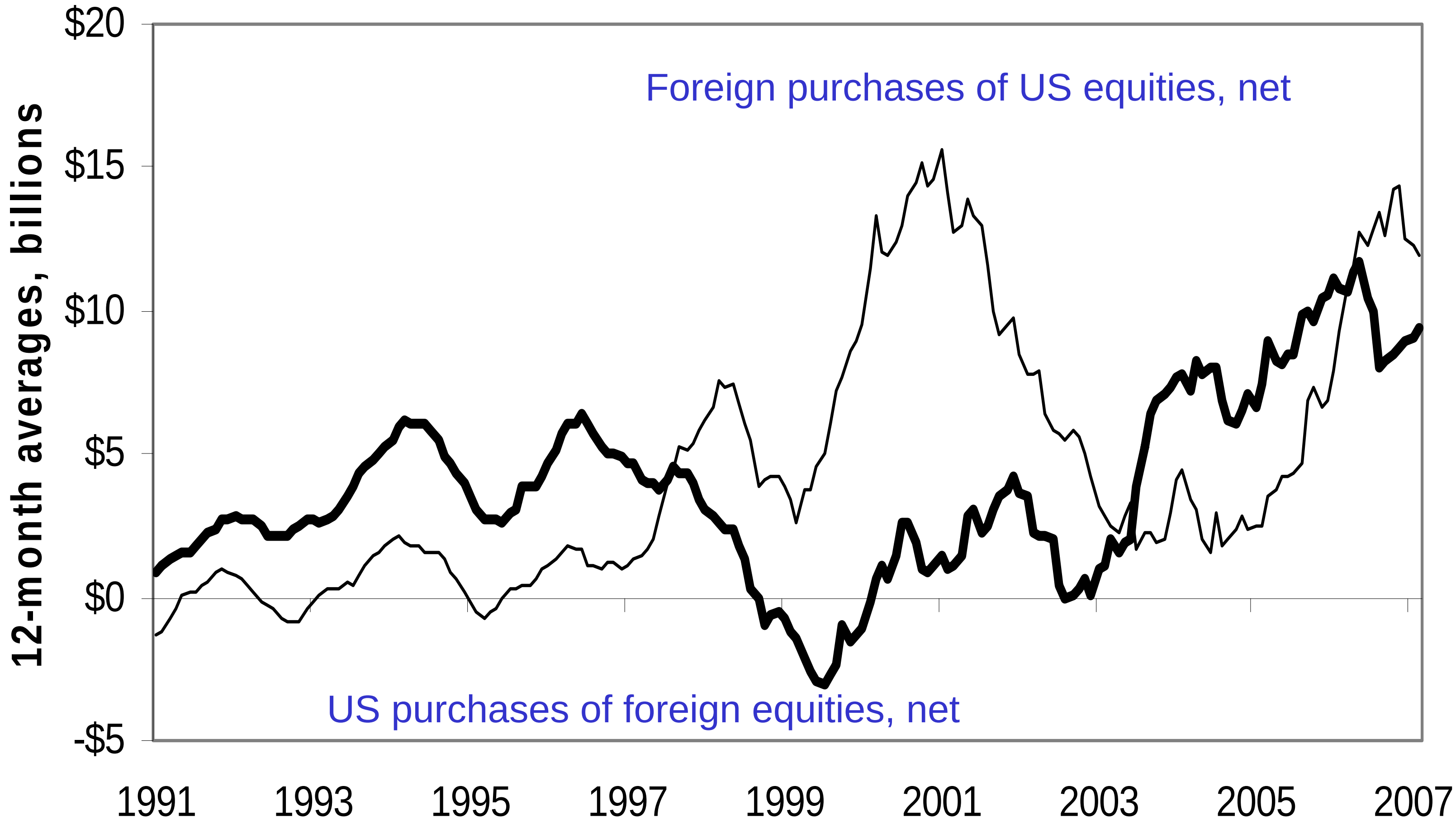
Net Foreign Purchases of US Long Term Securities, by Type

$ billions

	Total	By Instrument			
		Treasury	Agency	Corporate	Equity
2004	916	352	226	310	28
2005	1012	338	219	372	82
2006	1138	198	290	501	150

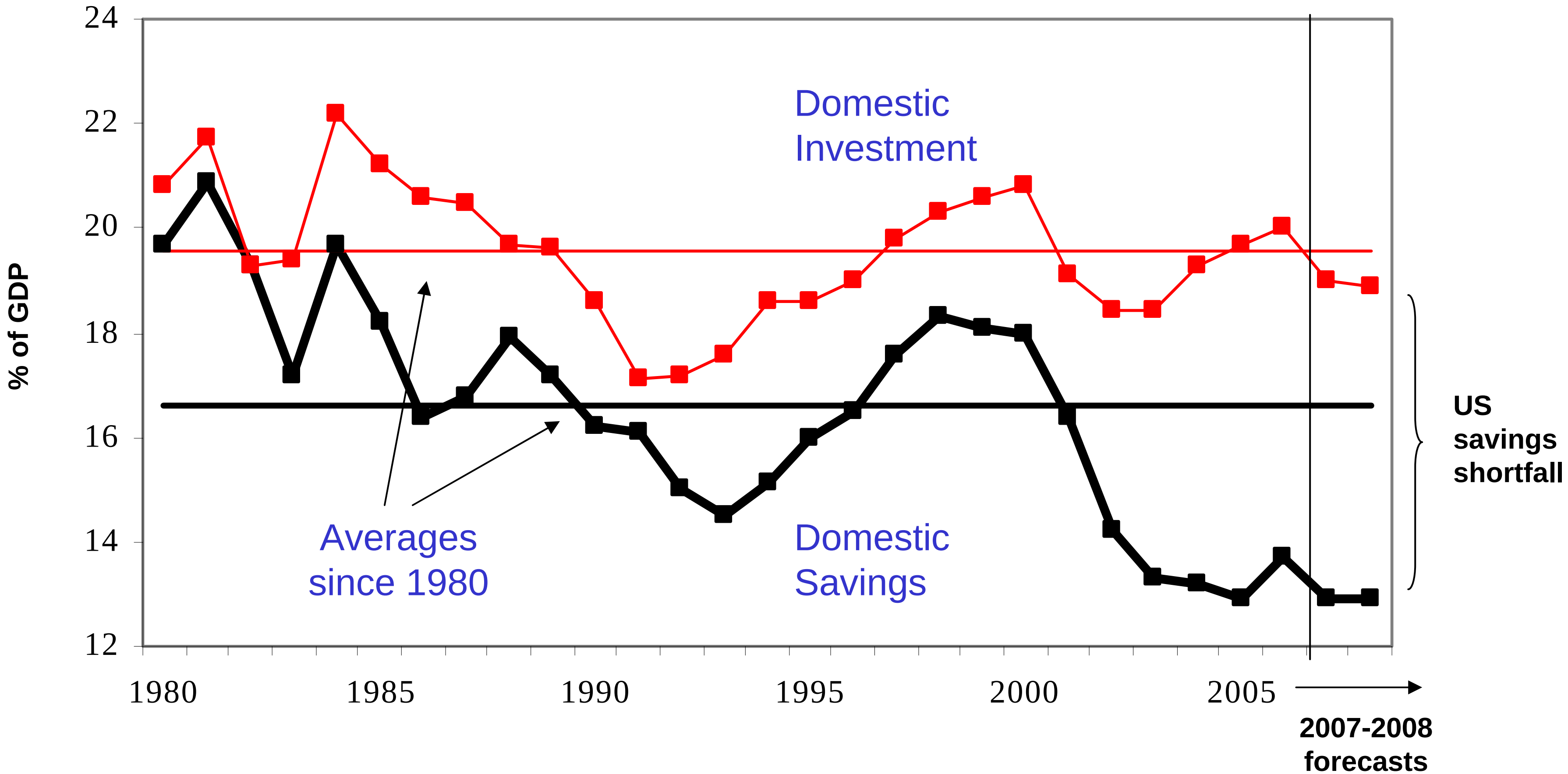
Source: US Treasury

US Equity Outflows Trending Higher



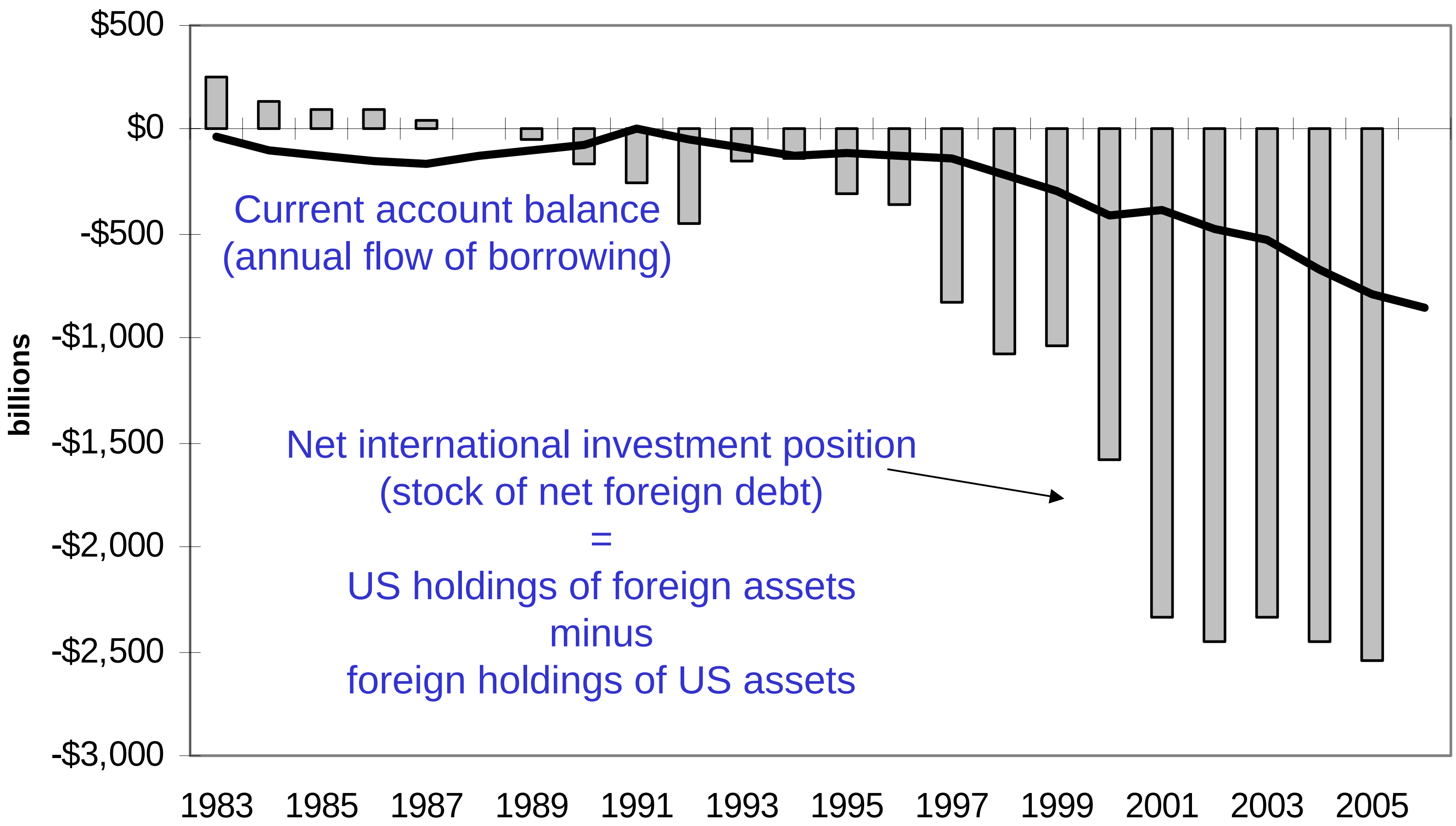
Source: US Treasury

US Enjoys Healthy Investment Despite Low Savings



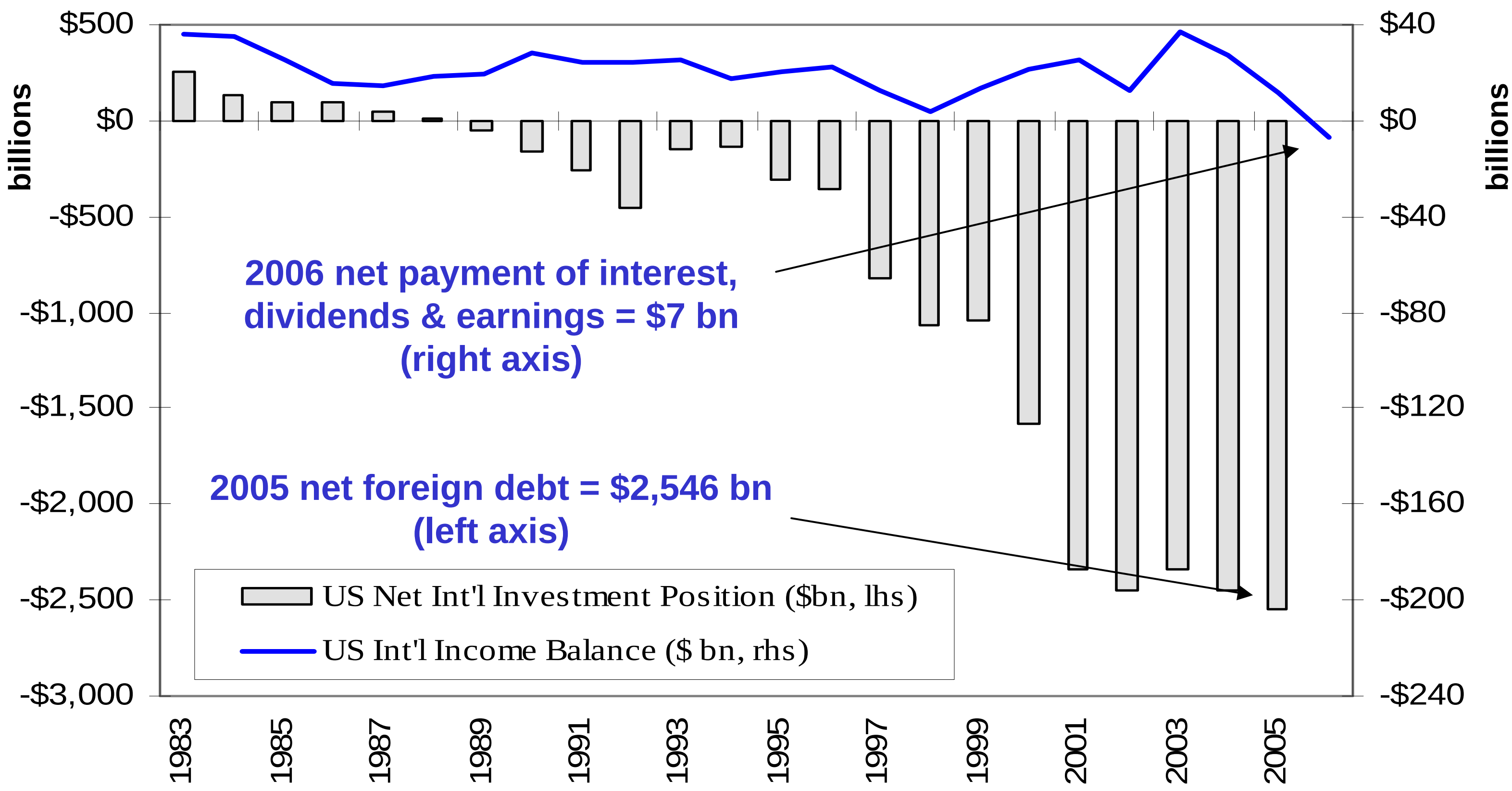
Source: International Monetary Fund, Bank of America calculations

US Current Account Deficit Implies Growing Foreign Debt



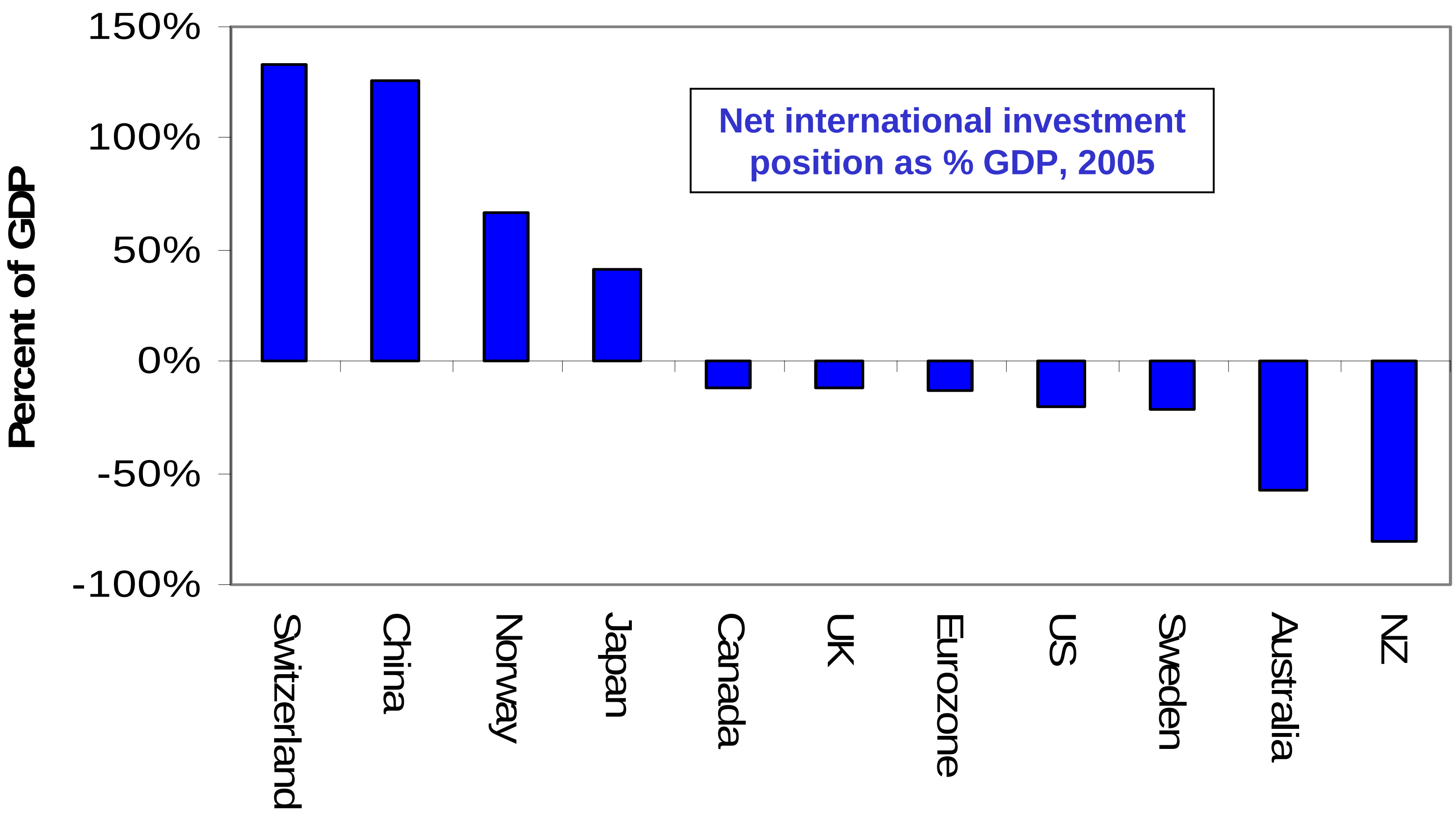
Source: US Commerce Department

US Registers Small Deficit on International Investment Income



Source: US Commerce Department

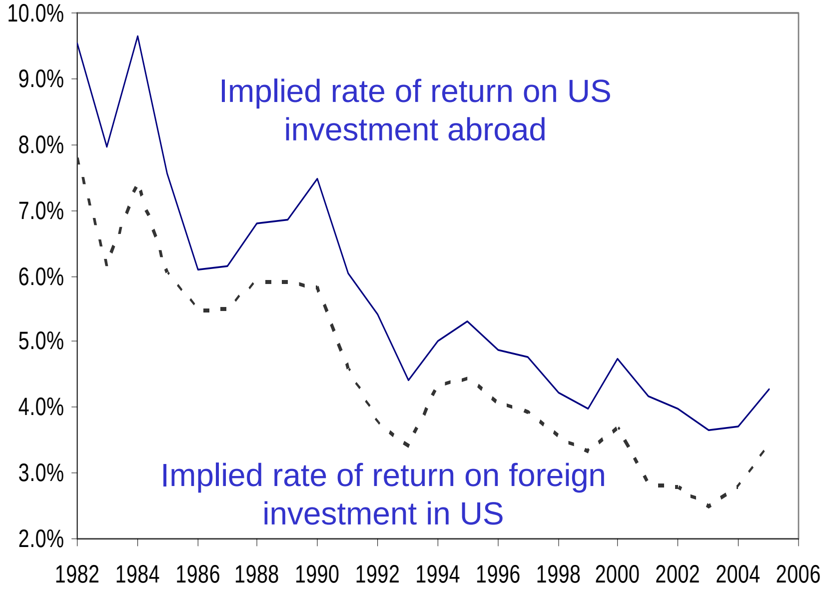
US Foreign Debt Within Range for Major Economies



Sources: Organization for Economic Cooperation and Development, People's Bank of China/State Administration for Foreign Exchange, China National Bureau of Statistics

Lower US Returns Justified by Lower Risk

US investment abroad generates higher average rates of return…



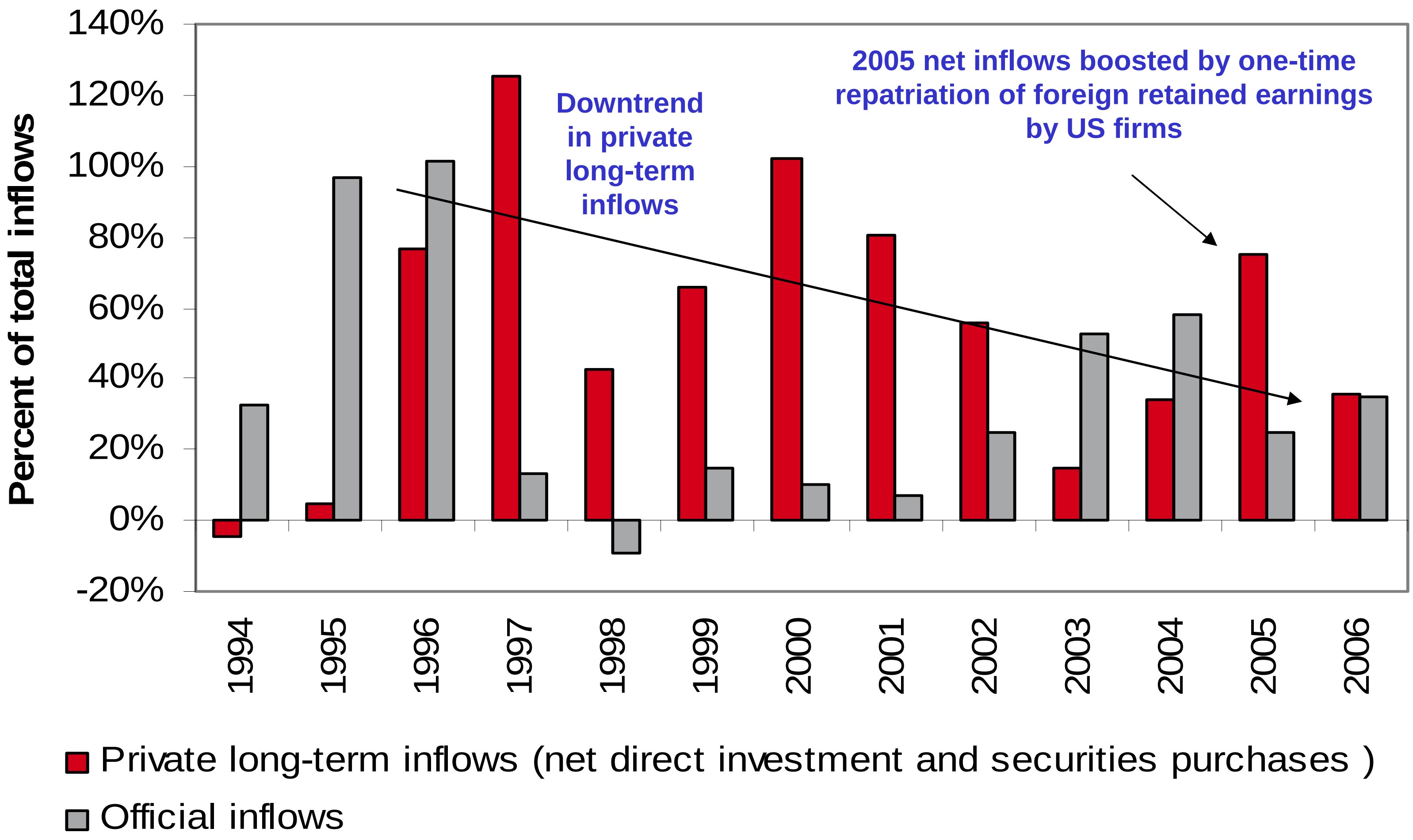
…but weighted average risk of investment abroad much higher than in US

Location of US Direct Investment	Standard & Poor's Average Country Rating	Share of US Direct Investment (Percent)
Canada	AAA	11
Europe	AA +	54
Asia and Pacific	A -	16
Middle East	A -	1
Africa	BBB -	1
Latin America/Other Americas	BBB -	17
Total (Weighted Average)	BBB +	100

1995-'05 avg corporate bond spread: BBB vs AAA = 80 bps

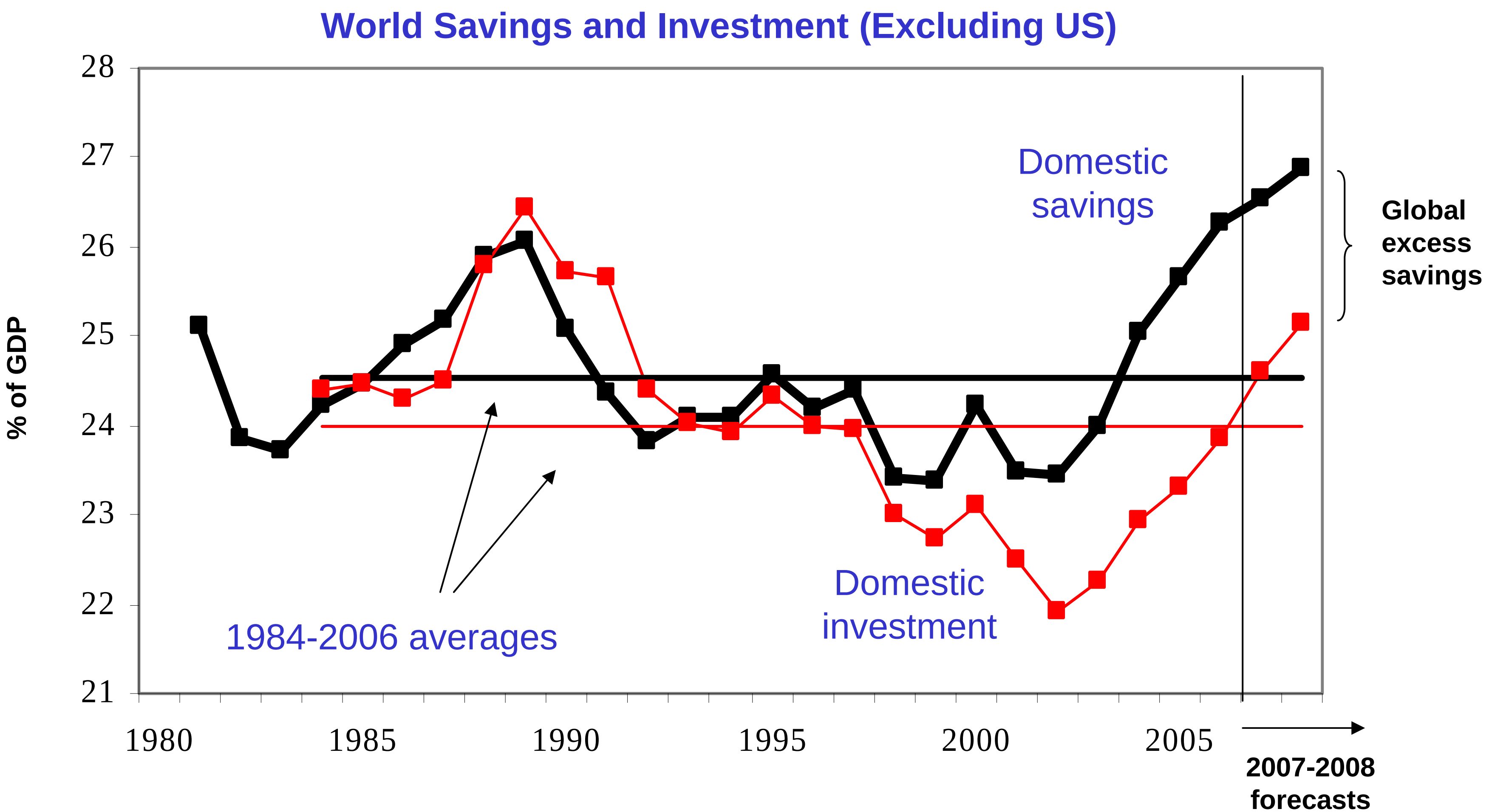
Sources: Commerce Department, Congressional Budget Office, Bank of America calculations

Private Long-Term Inflows a Declining Share of Total Inflows



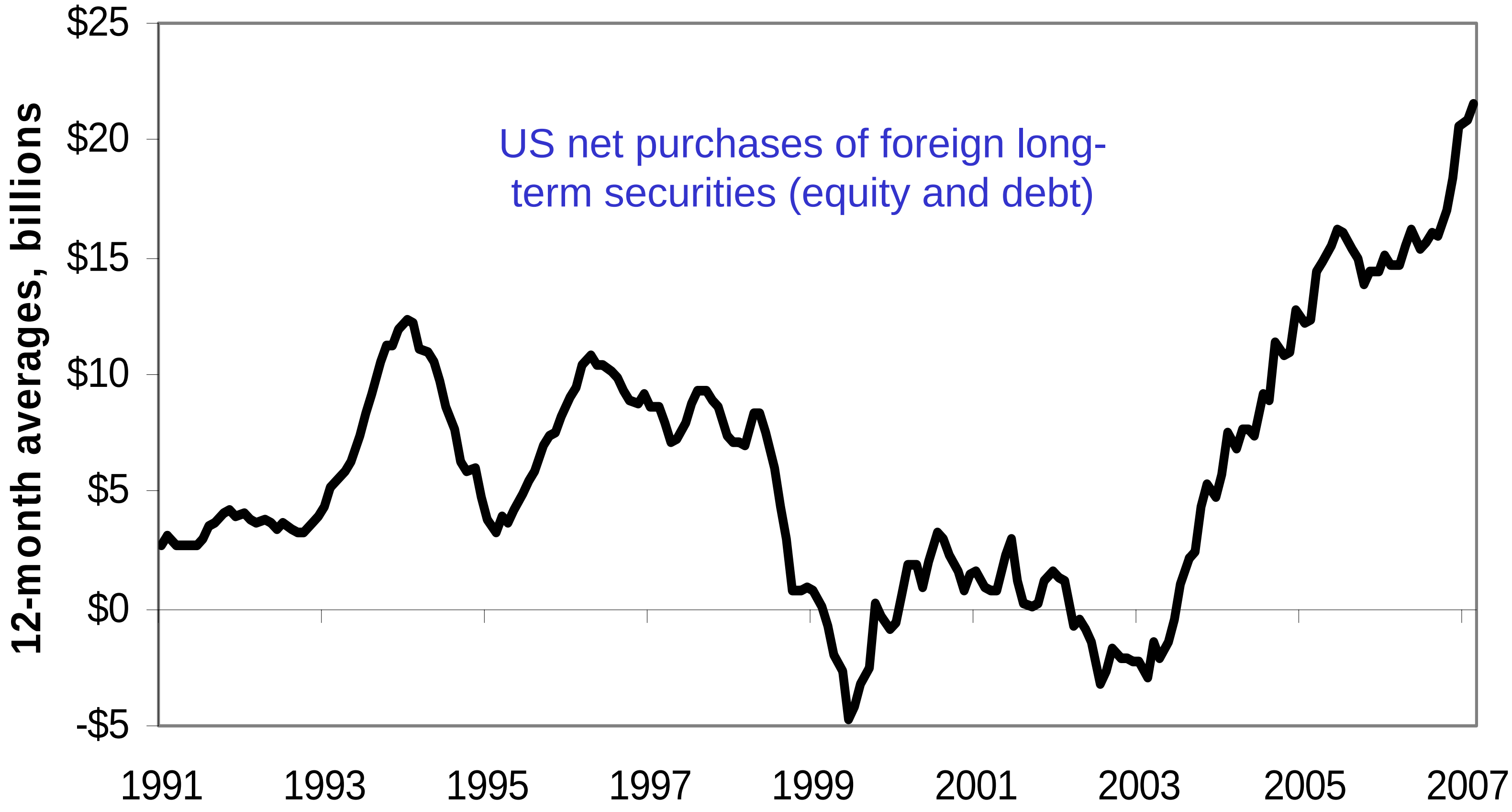
Source: Commerce Department

Global Investment Gains to Pull Savings Flows Away from US?



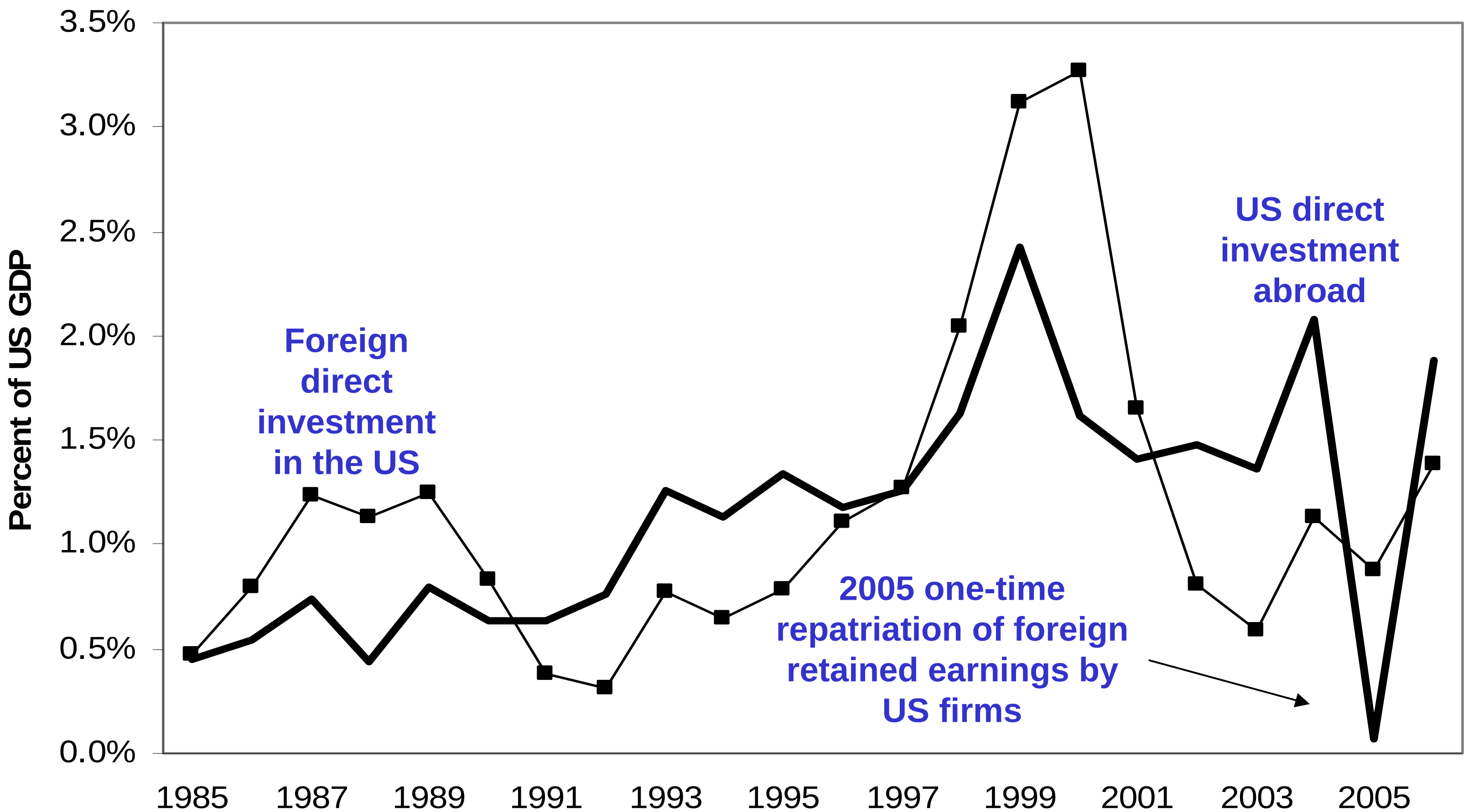
Source: International Monetary Fund, Bank of America calculations

US Investors Increasingly Moving into Foreign Securities



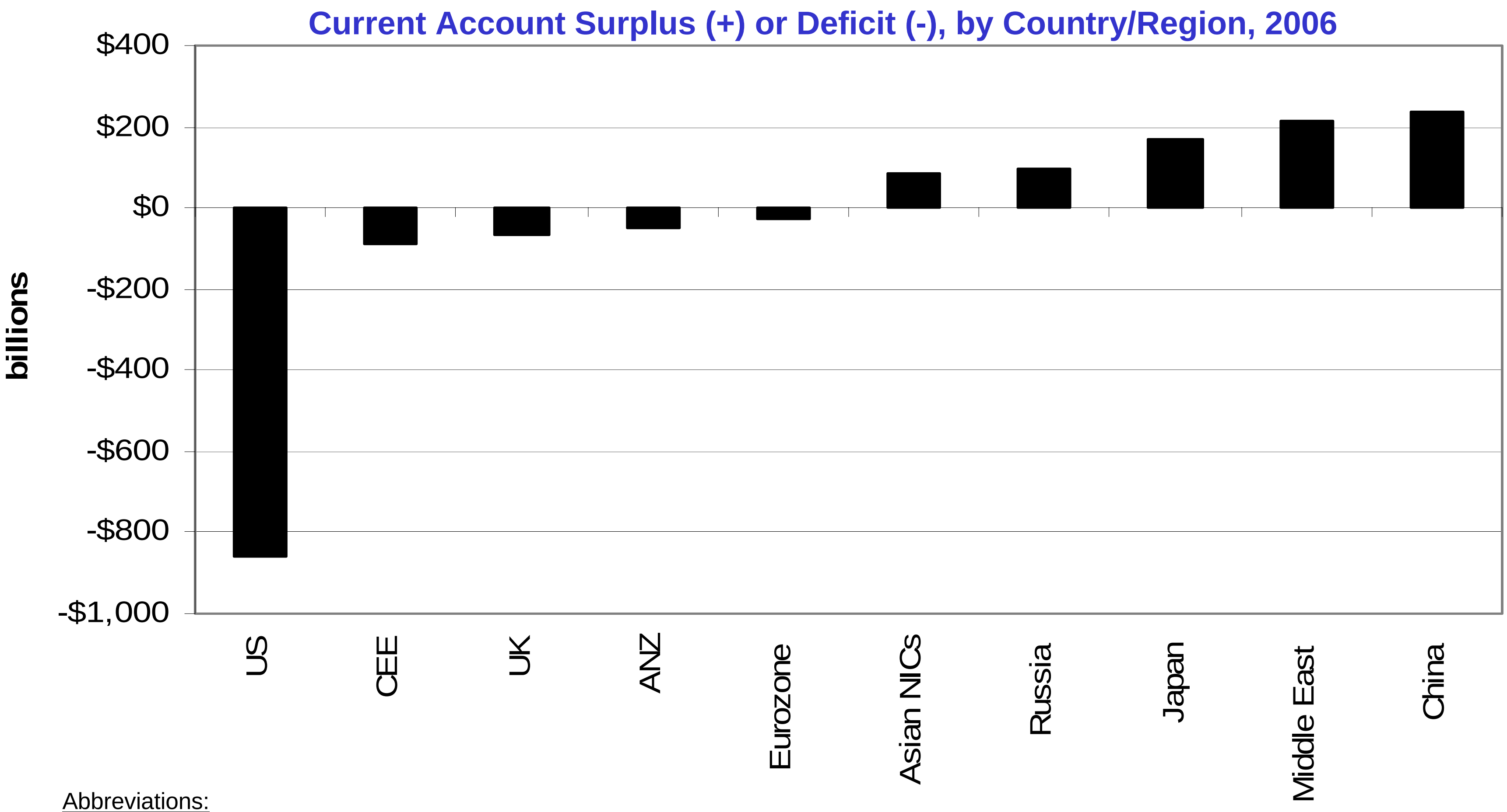
Source: US Treasury

US Direct Investment Outflows Trending Higher, Above Inflows



Source: US Commerce Department

Geographic Concentration of Suppliers to Capital to US



Abbreviations:
CEE=Central/Eastern Europe, ANZ=Australia/New Zealand, NICs=Newly Industrialized Countries (Hong Kong, Singapore, S. Korea, Taiwan)

Source: International Monetary Fund

Conclusions

- Foreign capital inflows provide rising share of US debt financing and allow stable US investment, despite low savings, at lower interest rates

- US net foreign investment position and associated flows still modest relative to GDP, but will grow significantly in coming years

- Share of private inflows has fallen recently, while rising overseas returns and investment may pull savings flows away from the US, posing risks to the US dollar and US asset markets

- Source of foreign inflows increasingly concentrated in China and Oil Exporters, raising risk of disruption due to protectionist legislation