

Treasury Borrowing Advisory Committee



Quarterly Refunding

November 4, 2003

TBAC Quarterly Meeting

November 2003

I. Long-Term Financing

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Long-Term Financing

We will show you a few charts that describe projections of our future financing needs given our current issuance calendar. We would like the Committee's advice on whether Treasury's financing calendar provides sufficient flexibility given the current fiscal outlook. If the Committee views the current calendar as insufficiently flexible to meet the range of projections shown, what recommendations does the Committee have for changing the calendar and when should these recommendations be implemented?

Treasury Financing Requirements

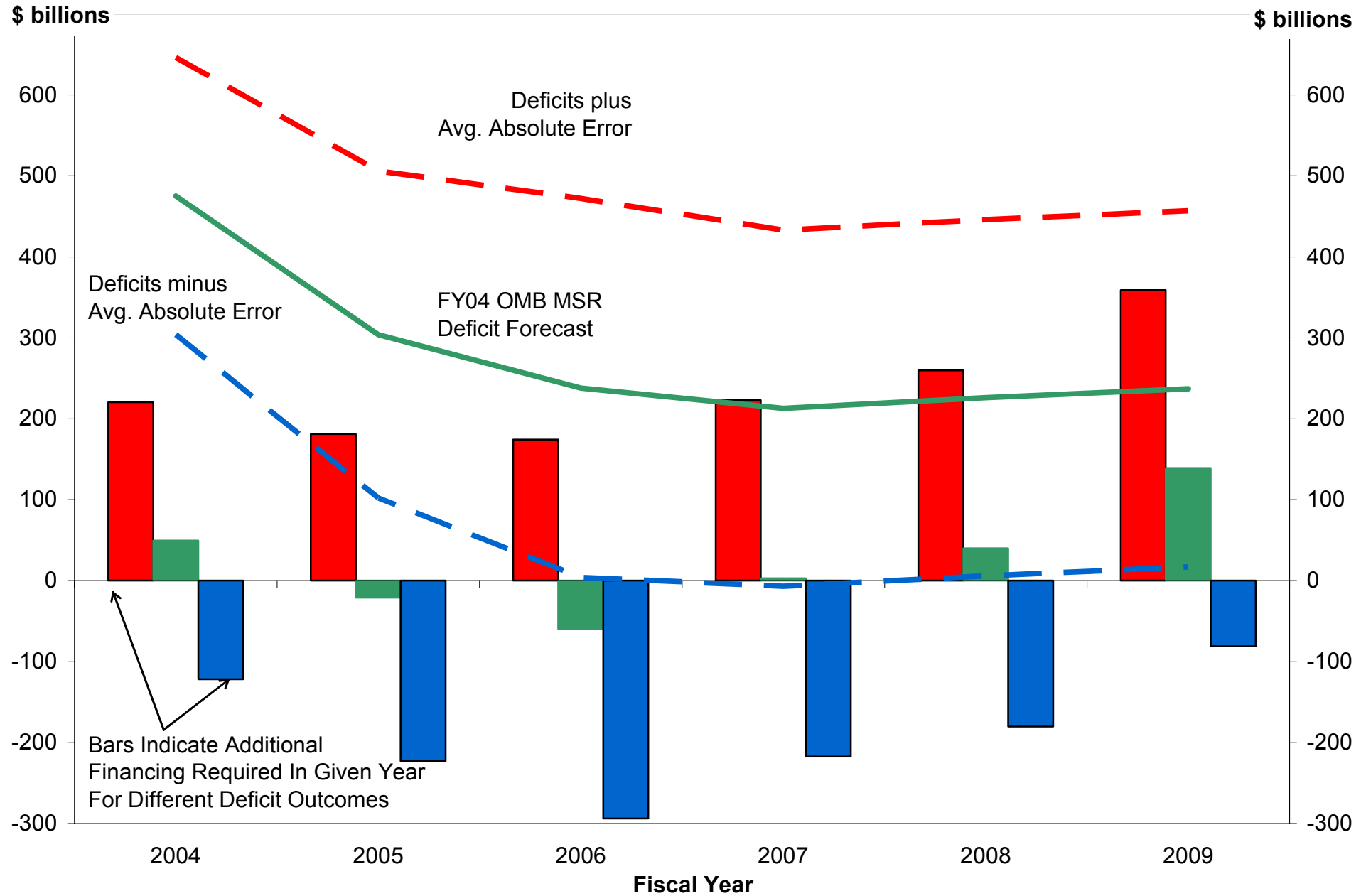
(\$ Billions)

	July - September 2003		October - December 2003
	(Projected)	(Actuals)	(Projected)
<u>Deficit Funding (Def + / Surplus -) *</u>	138	103	140
<u>Means of Financing</u>			
Change in Cash Balance	-15	-5	0
Compensating Balances	28	28	7
Net Non-Marketable Financing	16	8	5
Net Marketable Financing	104	82	117
Other	5	-10	10
<u>Net Marketable Financing</u>	104	82	117
Bills		-10	
Nominal Notes		86	
IIS		11	
Bonds		-6	
<u>Notes:</u>			
Starting Cash Balance	30	30	35
Ending Cash Balance	45	35	35

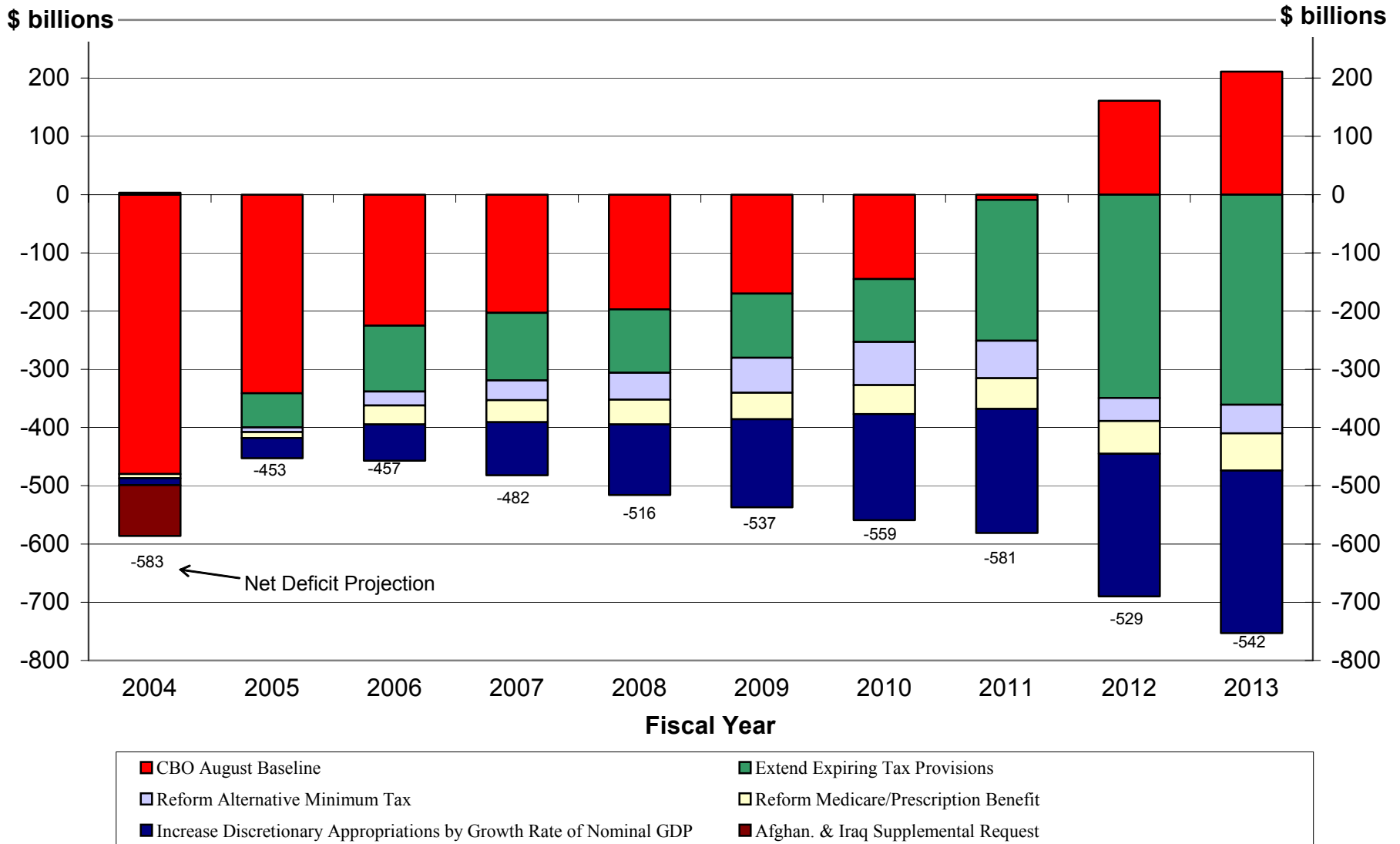
* Includes budget results, direct loan activity, changes in accrued interest and checks outstanding and minor miscellaneous transactions.

Note: Totals may not add due to rounding

Financing Residuals Given Current Issuance Calendar

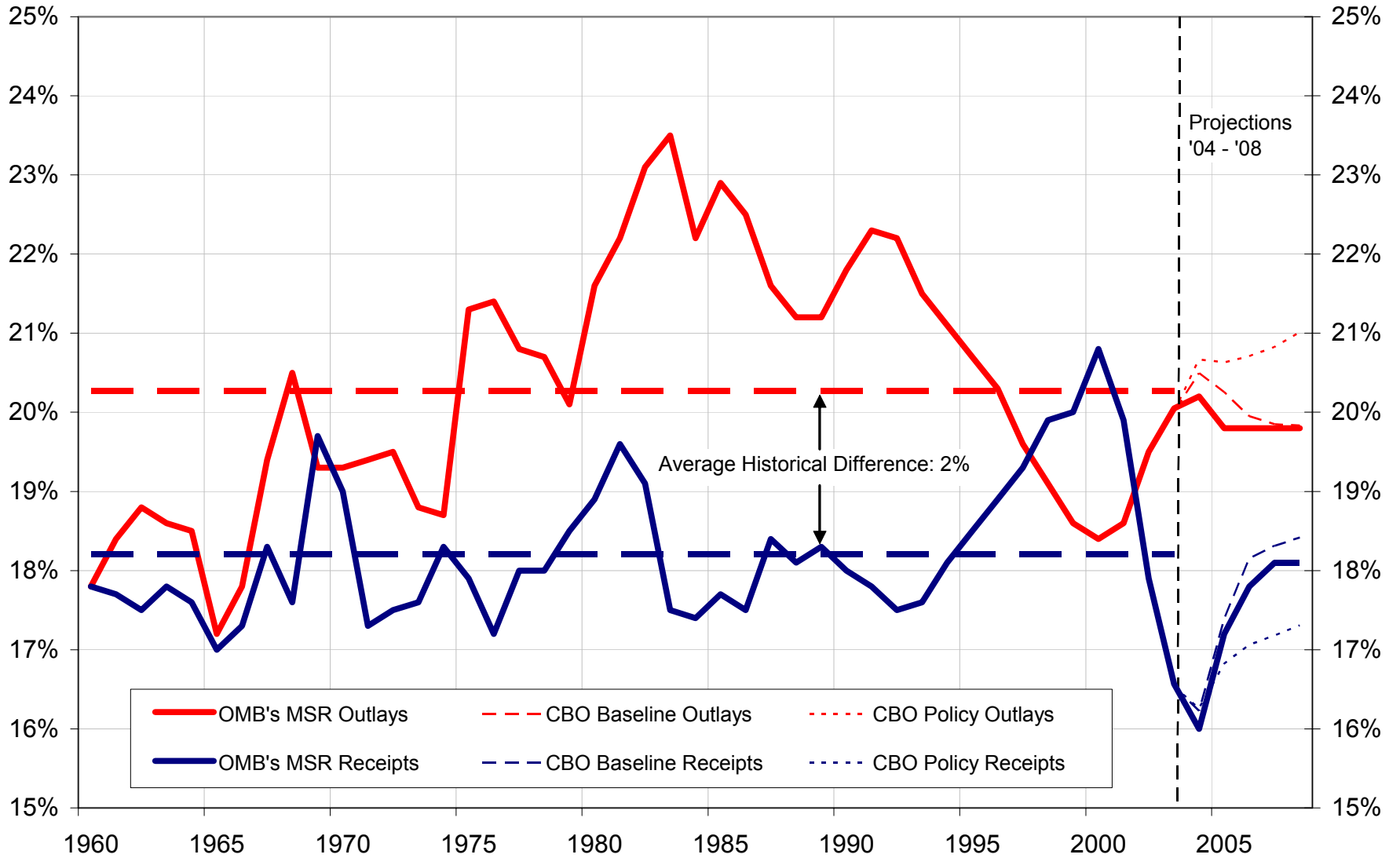


CBO Baseline Budget Projections With Policy Alternatives



Source: CBO, The Budget and Economic Outlook, August 2003

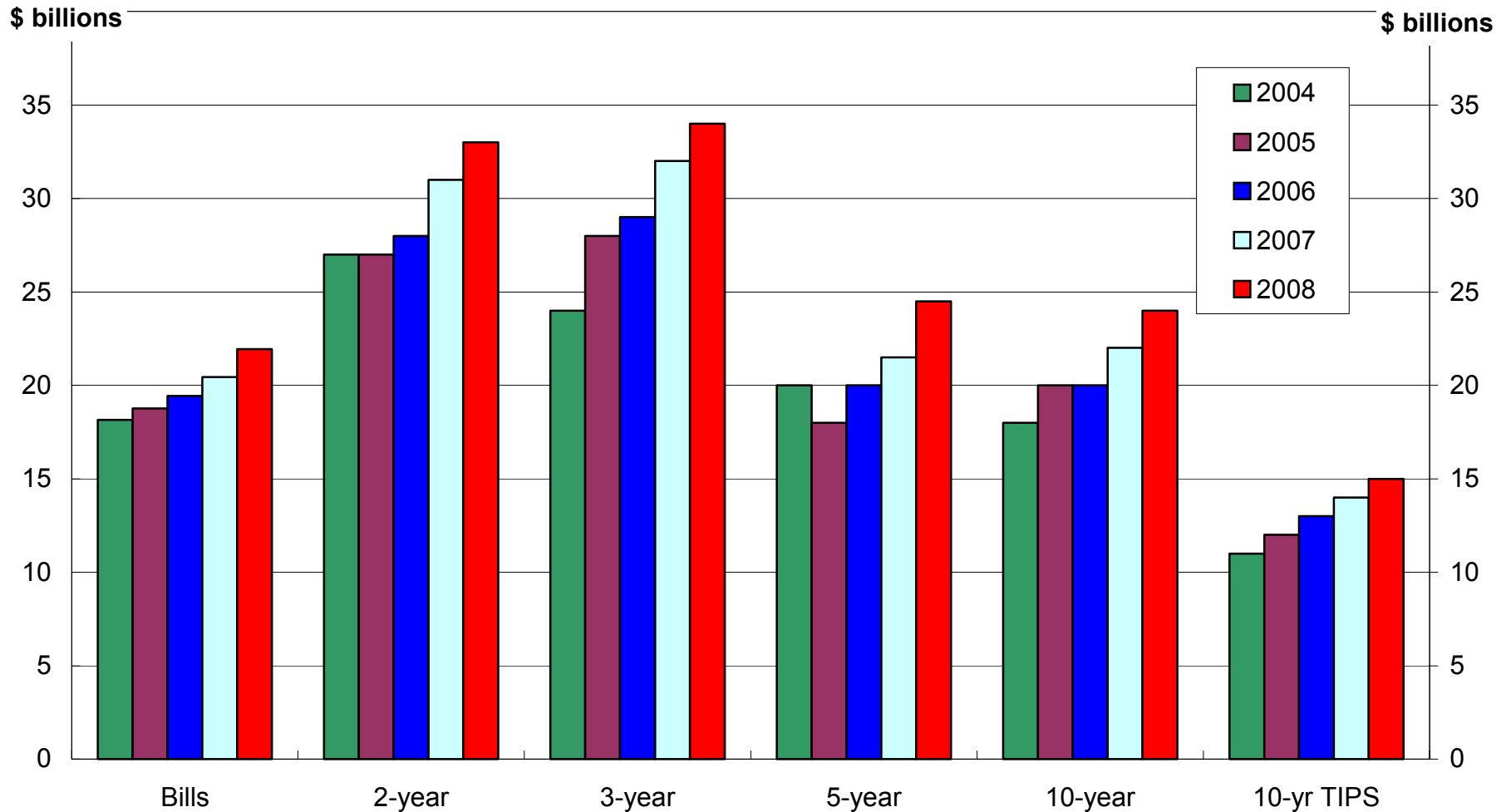
Outlays and Receipts as a Percentage of GDP



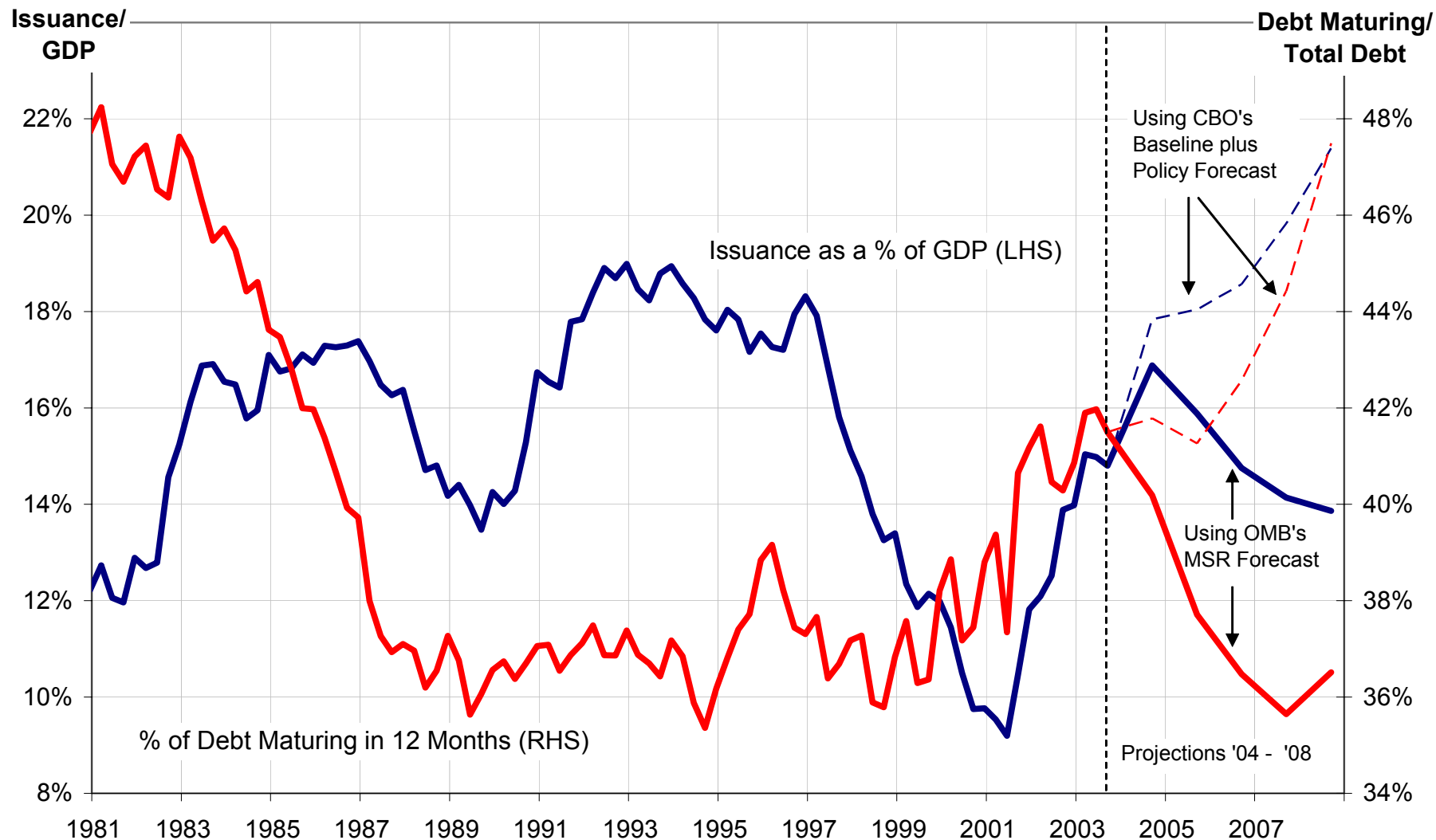
Sources: OMB, FY '04 Budget Historical Tables; OMB, MSR, July '03; CBO, The Budget and Economic Outlook, August '03

Projected Average Announced Auction Sizes (CBO Policy plus Afghan & Iraq Supplemental)

Note: Projected auction sizes are hypothetical. Assumes no changes in auction calendar.



Annual Issuance as a Percentage of GDP and Percentage of Debt Maturing in 12 Months

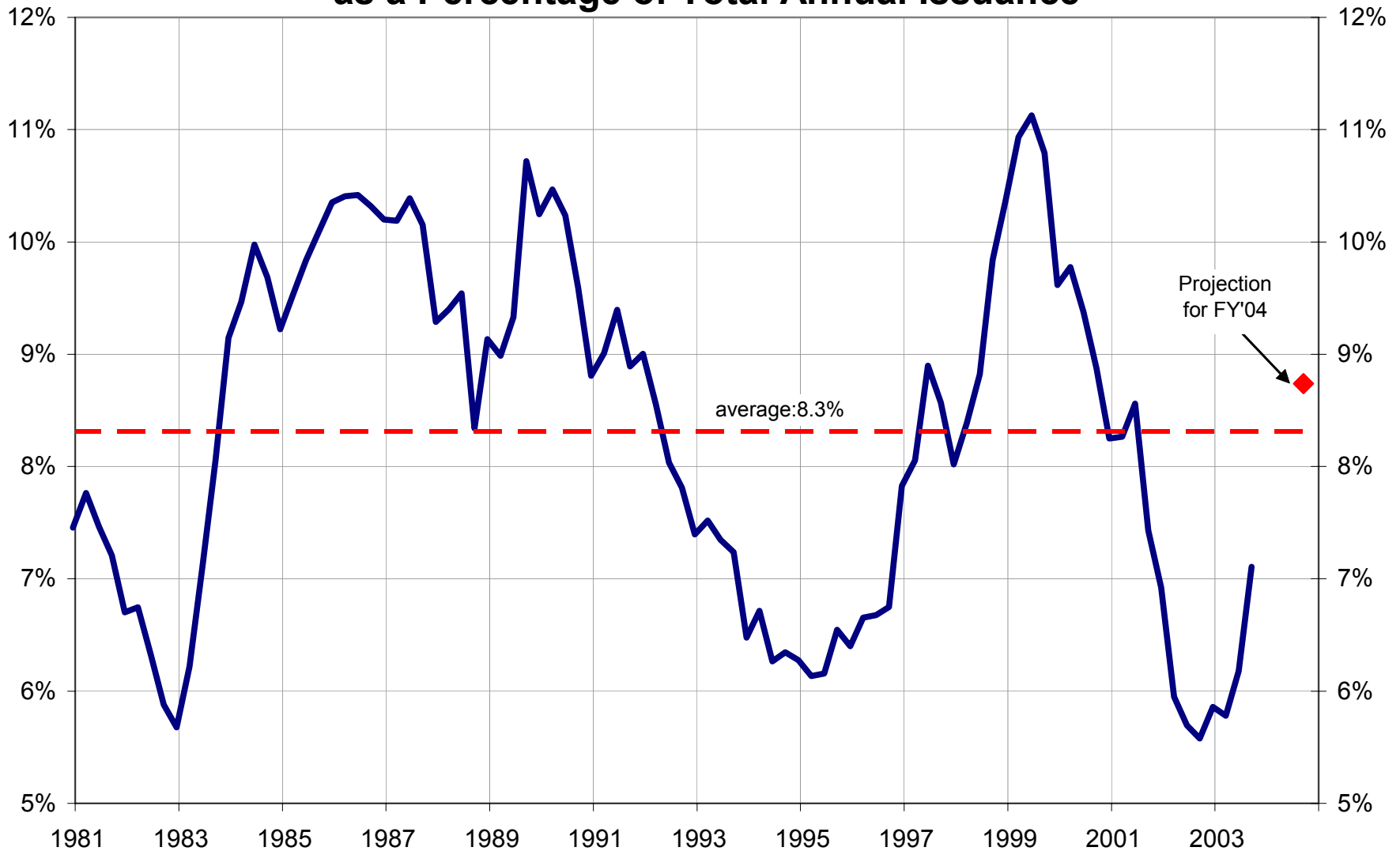


* Projections assume current coupon auction sizes remain the same and remaining borrowing needs are financed with bills.

** Nominal GDP growth of 5% is assumed for Issuance as a Percentage of GDP measure.

*** Debt Maturing and Issuance include Fed holdings. Issuance is composed of coupon issuance plus bills outstanding at the end of the period.

Long-Term Issuance as a Percentage of Total Annual Issuance



* Long-Term issuance is any issuance with a maturity of 10 years or greater.

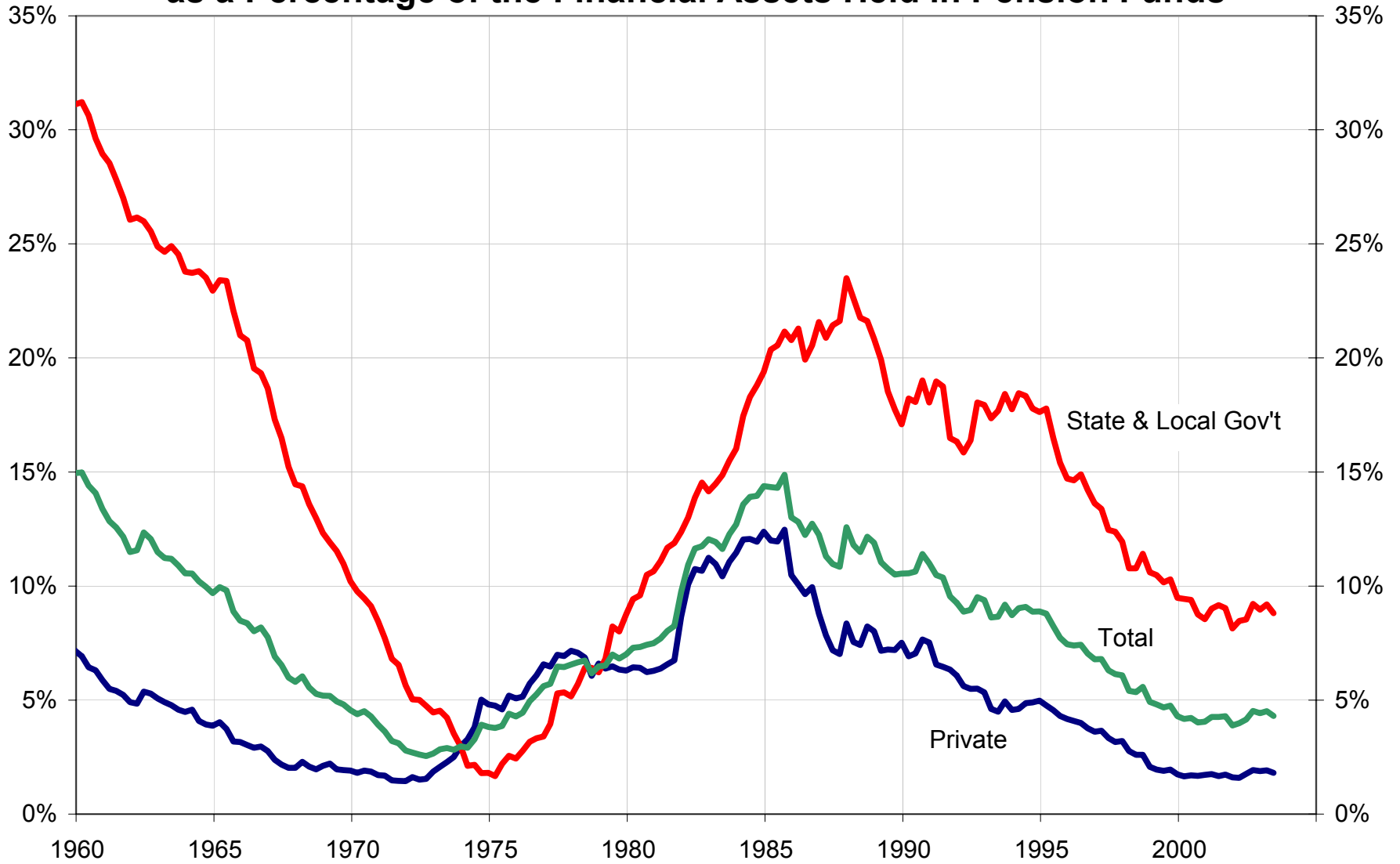
** Total Annual Issuance is composed of all coupon issuance over the previous four quarters plus bills outstanding at the end of the period.

*** Projection is calculated using current auction sizes and the OMB's July '03 MSR deficit forecast for FY04 of \$475 billion.

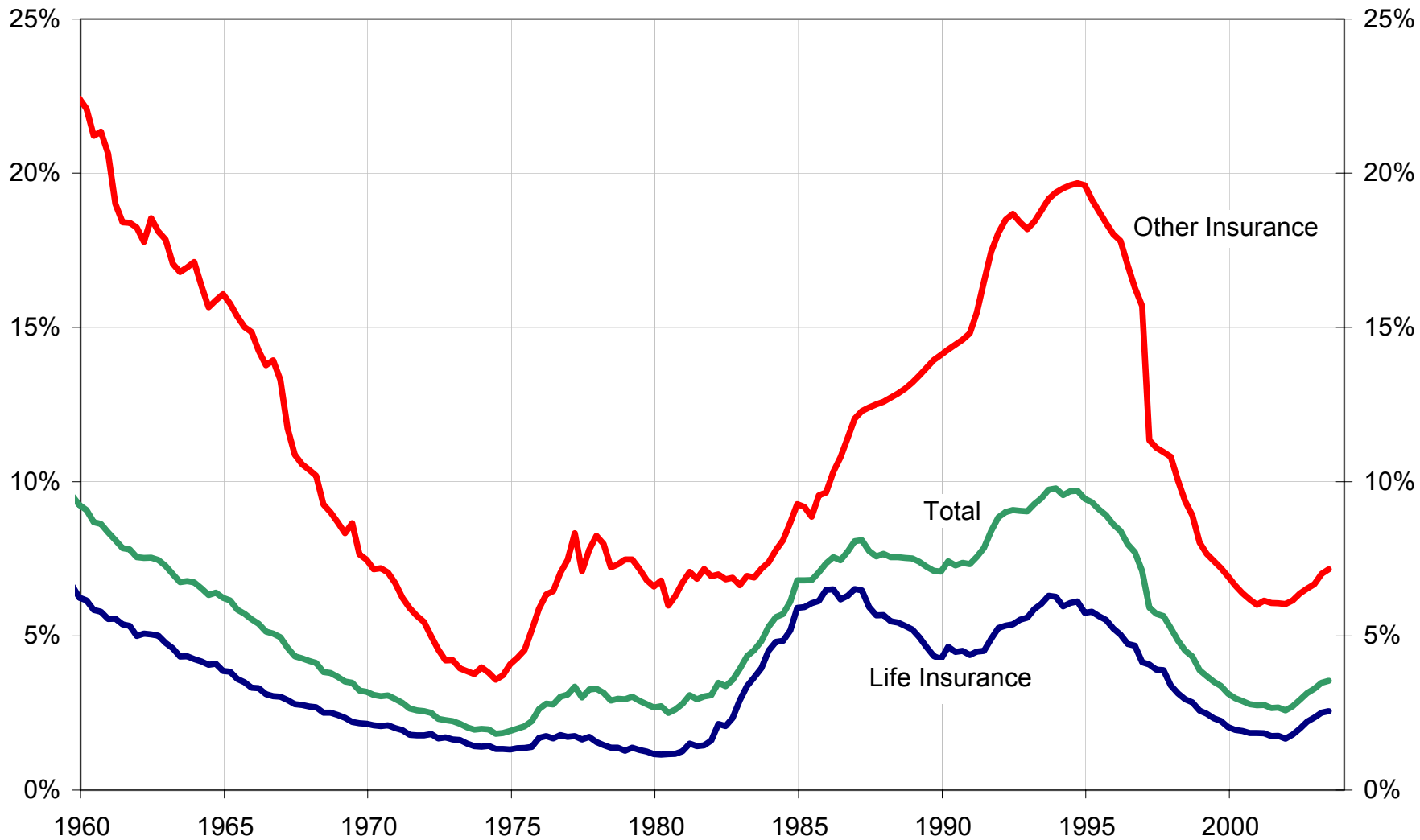
Treasury Inflation-Protected Securities

We are currently considering adding an additional TIPS security to our financing calendar. What criteria should we use in determining the appropriate maturity for a new issue?

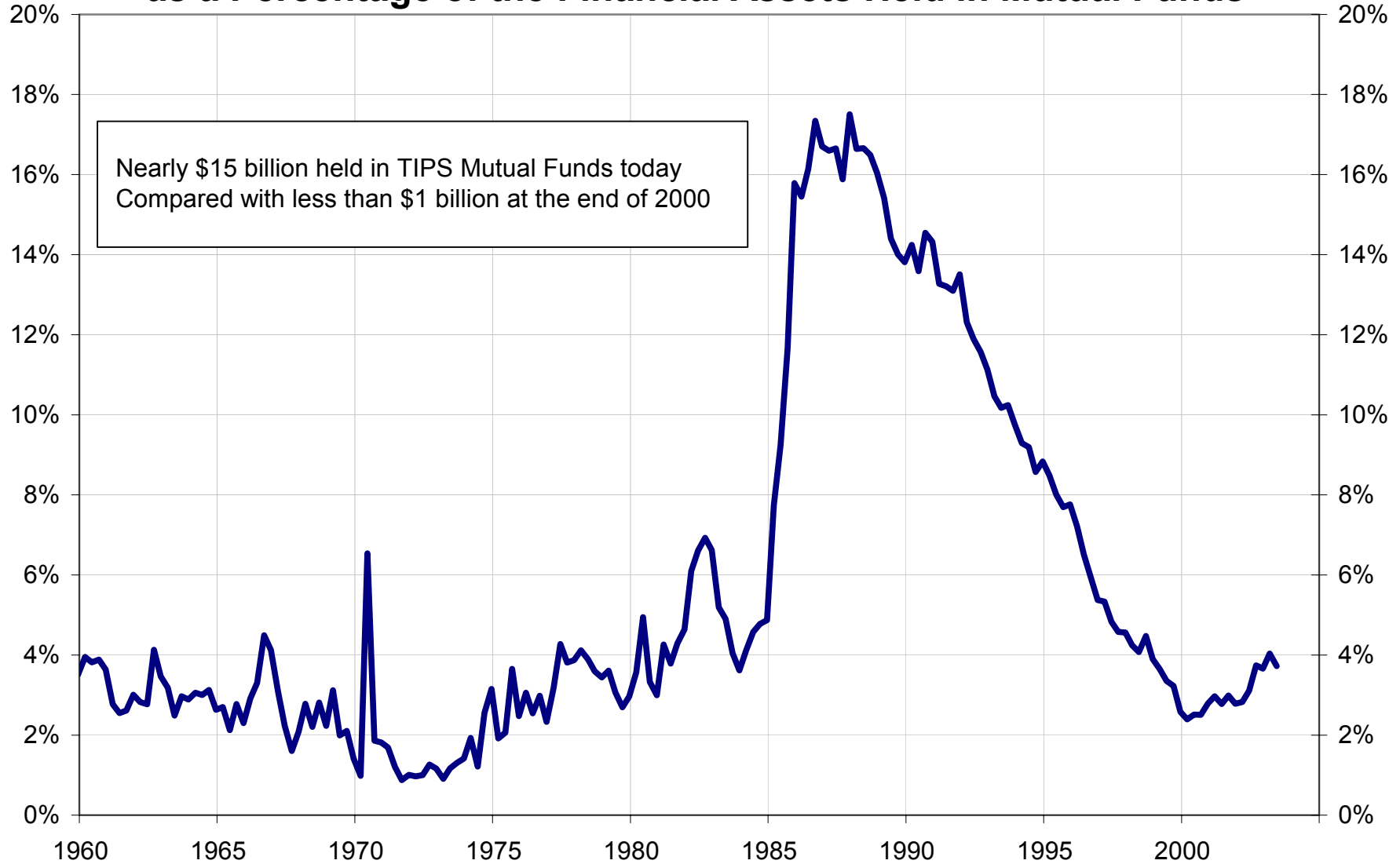
Treasury Securities as a Percentage of the Financial Assets Held in Pension Funds



Treasury Securities as a Percentage of the Financial Assets Held by Insurance Companies



Treasury Securities as a Percentage of the Financial Assets Held in Mutual Funds



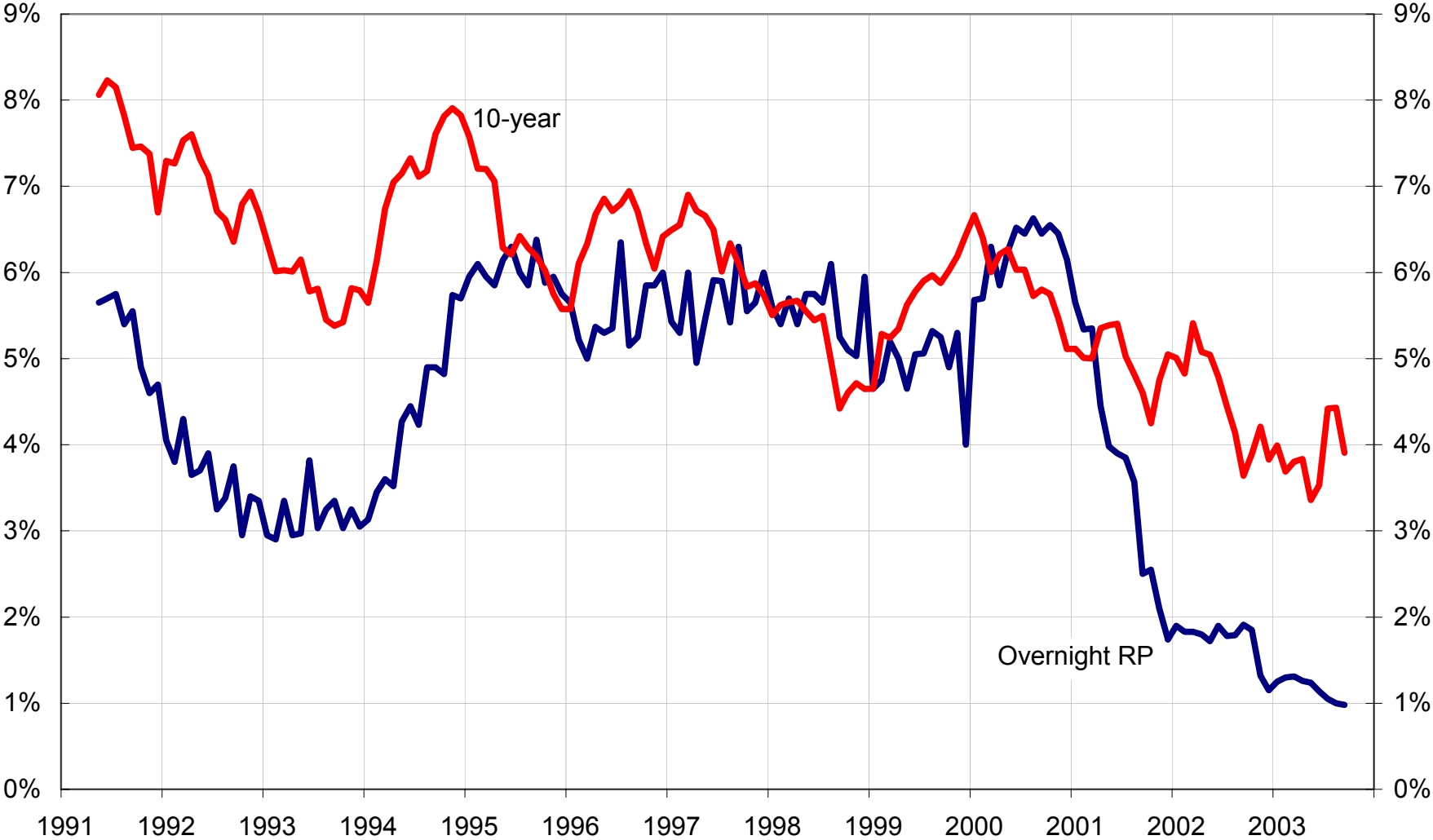
Nearly \$15 billion held in TIPS Mutual Funds today
Compared with less than \$1 billion at the end of 2000

Source: Federal Reserve Board, Flow of Funds; Haver

Market Conditions

RP fails, particularly on the May '13 10-year note, persist at an elevated level. We would like the Committee's feedback on current market conditions and how effective private sector initiatives and regulatory measures have been in handling the fails situation.

Overnight RP and 10-year Treasury Rates



Source: Bloomberg

May 10-year Note Fails

- Not much improvement over past two months
- Spillover into cash market has been recent and small
- No signs that overall liquidity has been impaired
- No improvement forecasted in near term

Financing This Quarter

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

- The composition of Treasury notes to refund approximately \$24.8 billion of privately held notes and bonds maturing on November 15 (including \$3.4 billion of the 8-3/4% 11/15/03-08 that was called on 7/15/03).
- The composition of Treasury marketable financing for the remainder of the October-December quarter, including cash management bills.
- The composition of Treasury marketable financing for the January-March quarter.