REPORT TO THE SECRETARY OF THE TREASURY
FROM THE U.S. GOVERNMENT AND FEDERAL AGENCIES
SECURITIES COMMITTEE OF THE
PUBLIC SECURITIES ASSOCIATION

January 27, 1982

Mr. Secretary:

As you are well aware, after a late 1981 rally of substantial proportions, the fixed income markets have in recent weeks fallen dramatically. The twin facts of an economy in recession and substantial improvement in the current rate of inflation have been overridden in the main by the longer range fears associated with burgeoning Federal deficits and the near term fact of outsized growth in money supply statistics and at least a perceived tightening response by the Federal Reserve. At present, the outlook for the market does not appear propitious, but as it often has in the past, market psychology can change radically and quickly.

The Committee recommendations are offered in the context of expectations that markets will continue to be highly volatile and capricious and that the ways and means of Treasury finance will be a critical component of market trends in months to come. While we do not wish to exude pessimism, we do not see easy times ahead for those who need to borrow money.

In its deliberations, the Committee first considered the pros and cons of recommending a fixed price subscription type offering in this refunding. The conclusion reached by a vote of 18 to 5 was that a fixed price subscription offering was neither advisable nor needed at this time. A large majority of the Committee feel that current debt management techniques are adequate to raise needed funds during at least the next two quarters. It is our feeling that the fixed price subscription offering is an expensive alternative to current auctions and, therefore, should be reserved for times of particular stress in the markets and where very large amounts of funds might be raised in an effort to get a substantial head start on a financing program. The Committee believes that a substantial concession to existing market rates would be required to sell a large ($10 billlion or so) issue

of 5-year notes -- estimates of this cost ranged from 50 to 100 basis points in yield. The Committee also feels, however, that the fixed price subscription offering remains a part of Treasury's funding arsenal to be used at some future time when conditions appear to favor its success or require its use. Perhaps the most important market prerequisite to its use is a steep upward sloping yield curve which enables the investor to acquire substantially improved returns against alternative shorter term investments. It should also be mentioned that recent volatile markets discourage investor lengthening and also present substantial mechanical problems in pricing and offering a fixed price subscription issue.

During the extended discussion surrounding the foregoing topic, it became apparent that a thorough review by this Committee of present debt management procedures and techniques may well be in order. We would suggest a special meeting to be held during the next month or two at which time we would review an agenda of items emanating from the confluence of vastly changed Treasury funding needs, modified Federal Reserve operating techniques, volatile market conditions and altered investor needs and preferences. We will work with your staff in evaluating and planning such a meeting.

Refunding Recommendations

In structuring its refunding recommendations, the Committee has been guided by what it views as a need to take greater advantage of the market focus attendant to refunding periods. As we have stated before, we feel that amounts of new money raised in conjuction with major refundings should be increased substantially. Accordingly, and with the added emphasis of a unanimous vote, the Committee recommends a $10 billion refunding package as follows:

$5.0 billion	3 yr. Notes due 2/15/85
2.5 billion	10 yr. Notes due 2/15/92
2.5 billion	30 yr. Bonds due 2/15/2012

or preferably,

a $2.5 billion reopening of the existing issue of bonds due 11/15/2011. The Committee continues to feel that, where possible, smaller issues should be reopened to create issues of more tradeable size. The refunding securities would be sold at auction in the usual order on February 2, 3 and 4.

A refunding package of $10 billion will produce new cash of $5.7 billion which when viewed in the context of the further needs of the quarter is highly desirable and again, in the opinion of the Committee, an amount that can be

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A refunding package of $10 billion will produce new cash of $5.7 billion which when viewed in the context of the further needs of the quarter is highly desirable and again, in the opinion of the Committee, an amount that can be

accommodated by the market. Appended to this report is a two page schedule detailing our specific recommendations for the balance of the quarter and summary recommendations for the second calendar quarter.

These schedules contemplate a $12 billion cash balance at the end of the first quarter and a cash balance approximating $18 billion at June 30. The Committee feels that a balance in the neighborhood of $20 billion or so would be desirable at mid-year, but with only sketchy detail of second quarter revenues and expeditures, cannot be highly specific in financing recommendations. The Committee's detailed financing plans would raise $43 billion in the current quarter and $14 billion in new cash in the second calendar quarter.

The proposal for the current quarterly financing (excluding cash management bills) would result in approximately a 1/3 proportion of bill financing to the total. A summary of overall first half year financing would produce approximately a 30% proportion of bill financing. We would view these proportions as reaching the outer limits of the Treasury bill component. As we have stated on numerous occasions, we feel that debt management should consistently strive to promote an upward sloping yield curve as well as appeal to relatively permanent holders of its securities.

The detailed financing schedules appended also suggest a continuation of current note and bond cycles and delineate the Committee's views as to the maximum amount that might be raised currently utilizing these established cycles. The Committee specifically considered the alternative of establishing more frequent issuance of 3-, 4-, 5- and 7-year notes versus increasing the size of already established financing patterns. The view is substantially held that frequency of entry should be minimized -- and conversely the amounts of existing established issues maximized. The Committee is comfortable that present debt management techniques and established note and bond cycles are adequate to meet the needs of the Treasury over the next two quarters. As we have previously indicated, however, we believe we should hold a special meeting sometime in the next few months to review Treasury financing recommendations in light of changing market conditions and financing requirements.

As this report concludes, it is realized that we have not been completely responsive to the Committee charge. An attempt to respond to a request for an evaluation of the 35% bidding award limit revealed a host of Committee views, far transcending this narrow question and suggesting the

Committee might well offer a critique and suggestions going to many of the mechanical fundamentals surrounding the total process of issuing Treasury securities. We suggest that this additional subject be added to the agenda of the previously proposed special meeting.

We stand ready to respond to your questions.

Respectively submitted,

David G. Taylor
Chairman

Table 1

Issue Analysis of 1st Quarter New Money Financing Remaining to be Done*
($ Billions)

Weekly Bills:	Outstanding	Projected Size	New Cash Raised	
2/4	$ 9.1	$10.0	$ .9	
2/11	9.1	10.0	.9	
2/18	9.3	10.0	.7	
2/25	9.3	10.0	.7	
3/4	9.3	10.0	.7	
3/11	9.3	10.0	.7	
3/18	9.3	10.0	.7	
3/25	9.2	10.0	.8	
				+$ 6.1
1-Year Bills:				
(2/25 maturity)	$ 5.3	$ 5.5	$ .25	
(3/25 maturity)	4.7	5.5	.75	
				+$ 1.0
2-Year Notes:				
(2/28 maturity)	$ 3.9	$ 5.5	$ 1.6	
(3/31 maturity)	$ 3.4	$ 5.5	2.1	
				+$ 3.7
5-Year Notes:				
(First Half of March)	-0-	$ 3.75	$ 3.75	
				+$ 3.75
4-Year Notes:				
(3/31 maturity)	$ 2.6	$ 4.25	$ 1.6	
				+$ 1.6
Refunding:	$ 4.3	$10.0	$ 5.65	
				+$ 5.65
TOTAL				
	$98.2	$120.0		
				+$21.8

*Excludes cash management bills. Items may not add to total due to rounding. Closing cash balance of $12 Billion.

Table 2

Summary of First Quarter New Money Operations
($ Billions)

That already raised or announced*:

Regular Weekly Treasury Bill	$ 4.6
One Year Treasury Bill (1/28)	.6
2-Year Note (includes $.3 billion foreign add-on)	1.6
7-Year Note (includes $.3 billion foreign add-on)	3.5
20-Year Bond	1.8
	$12.2

*Includes a net unchanged position in cash management bills resulting from the 1/5/82 issuance of $3.0 billion in bills due 6/17/82 and the 1/21/82 redemption of $3.0 billion in 45-day bills originally issued 12/7/81.

That to be raised from:

Regular Weekly Treasury Bills	$ 6.1
One-Year Treasury Bills	1.0
2-, 4-, and 5-Year Notes	9.1
Refunding	5.7
Cash Management Bills	9.0
	$30.9

Total raised in Quarter: $43.1

Summary of Second Quarter New Money Operations
($ Billions)

Regular Weekly Treasury Bills	$ 5.1
One Year Treasury Bills	4.2
2-, 4-, 5-, and 7-Year Notes	12.9
20-Year Bond	2.0
Refunding	3.7
	$27.9
Cash Management Bills ($5.0 billion presently outstanding)	-$14.0
Net Cash Raised in Quarter	$13.9
Net Cash Raised in First Half	$57.0

Assuming an April-May cash deficit $7.5 billion and March 31 balance of $12.0 billion, raising $13.9 billion in April-May leaves a June 30 closing balance of $18.4 billion.

REPORT TO THE SECRETARY OF THE TREASURY
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SECURITIES COMMITTEE OF THE
PUBLIC SECURITIES ASSOCIATION

April 28, 1982

Mr. Secretary:

We meet at a super critical time in the history of Treasury debt management. After having been buffeted by two and one-half years of debilitatingly high interest rates and outsized rates of inflation, the economy has been brought to heel. This cost is finally producing the benefit of a substantially slower pace of inflation as evidenced by producer and consumer price indexes as well as in the GNP deflator. Interest rates have fallen but many observers would say that the risk premiums in the rate structure are far too high in relation to current economic developments.

These risk premiums are related to three factors: skepticism as to the permanence of the gains against inflation, expected market pressures as mammoth Federal deficits are funded in future quarters and the past history of violent, unpredictable fluctuations in rates.

Of these factors, it is probably fairest to say that the anticipated size of future Federal deficits now acts as the primary cause of concern to market investors and professionals. Markets over the last few months have gained increasing confidence in the intent of Federal Reserve policy. It is believed that the Fed will "hang-tough" in its battle with inflation. This has resulted in a greater acceptance of a volatile rate environment as the Fed occasionally must move against spurts in the path of money growth. Markets, because they believe they know the boundaries of Federal Reserve policy, appear to be willing to look through these "adjustment periods," hopefully to carry out a smoother pattern of interest rates in the intermediate and longer sectors of the market. Against these improved market attitudes, however, looms the now greater uncertainty of aberrant Federal deficits, how big they will be, how they will be financed, and what impact they will have on inflation and the economy.

This Committee has focused on the initial questions of how these expected deficits may be financed so as to have the least negative impact on the economy and inflation, as well as on the market and interest rates. Just as markets are exhibiting a greater ability to deal with Federal Reserve policy, because the rules are known, Treasury must establish equal credibility by assuring markets that it has a viable financing plan to fund whatever needs maybe required in future quarters.

The Committee has projected a pro forma financing schedule for the current and subsequent three quarters against current estimates of Treasury financing needs. The conclusion is apparent. Past financing patterns are not adequate to produce the needed funds, unless a dangerous reliance is placed on bill financing. This conclusion persists even when traditional offerings are estimated at their maximum size.

This report, therefore, suggests that one or two new cycles (depending on actual needs) be introduced and that financing patterns be changed to provide periods of concentration of borrowings alternating with periods designed to allow issues to be distributed and the market to consolidate. Past principles of regularity and predictability of offerings, the use of the auction techniques, the striving for a positively sloped yield curve and the mix of no more than 25 - 30% in bills are only reinforced in today's environment. Informing the markets of future plans and providing assurances that the job can be done in an orderly way are paramount ingredients as you move into the period ahead.

Goals for the Current Quarter

The Committee feels strongly that the current quarter, with its relatively small requirement for raising new money, be used to anticipate the record cash needs of the third calendar quarter. Accordingy, we recommend a cash balance on June 30 of $18 billion. Reaching this level requires net market borrowing of $15.5 billion during the quarter. Of this amount, $5 billion has already been raised, leaving a balance of $10.5 billion to do.

The May 15 Refunding

Considering the lack of long bond authority, the Committee recommends a two-way offering to replace the $6.4 billion of maturing May 15 securities. We believe the total size of this offering should be $9.5 billion, which would result in raising new cash of $3.1 billion. We recommend that the Treasury sell at auction:

$5.5 billion of a 3-year note maturing on May 15, 1985 and

$4.0 billion of a 10-year note maturing on May 15, 1992.

These issues would be offered on Tuesday, May 4, and Wednesday, May 5, respectively. The greater than normal size of the 10-year issue we believe is justified by the absence of a long bond offering and should be well received by the market. The Committee approved the above refunding recommendation by a unanimous vote.

Financing During the Balance of the Quarter

Appended to this report is a schedule showing our recommendation for the balance of the quarter. It contemplates raising the balance of new money of $7.4 billion by additions to the normal schedule of coupon and 52-week bill offerings.

Financing in the Period Ahead

As we enter the third quarter of 1982, the Treasury will begin to fund what now appear to be three successive quarters of record needs for market borrowing. In an effort to gain perspective and knowledge necessary to formulate our recommendations, we have estimated these borrowing needs for the next three quarters and devised a funding plan for each. These estimates and plans are attached for your information. With the exception of the third calendar quarter, our deficit estimates are "worst case" estimates and do not take into consideration any action that may be forthcoming to pare down the Treasury's borrowing needs.

In reviewing these needs, it quickly becomes obvious (even though these needs may be reduced to some degree) that new cycles of coupon issues must be introduced and the existing size of traditional offerings increased.

In formulating its recommendations to the Treasury, the Committee has long been guided by the principle that as borrowing needs expand, traditional issues should first be expanded to maximum size and, secondly, be expanded into greater frequency of offering. Only after this process is completed should new maturities or concepts be introduced. The essence of the Committee's recommendation is to phase in a monthly cycle of four-year notes and, as required, a monthly cycle of seven-year notes. We further recommend that all coupon offerings be scheduled so as to provide alternate weeks of financing, thereby providing periods in which issues may be distributed and markets may consolidate. A suggested schedule is attached. The above recommendation was adopted unanimously with the caveat that the 3- or 5-year note might be considered for extension into cycles instead of the 4- or 7-year. The vast majority, however, felt the 4- and 7-year notes were most appropriate, best fitting the alternate weeks strategy and would offer greater debt extension to the Treasury.

In attempting to resolve the dilemma between expanding the size of traditionally offered issues and the introduction of new cycles, the Committee attempted to determine what might be the maximum range of size for each of the currently offered coupon issues. These ranges are submitted below as current guidelines under current market and financing conditions. It should be stressed that the Committee feels that in general, the size of individual issues should and may be expected to increase over time as markets expand.

Maturity of Issue	Aproximate Maximum Size (billion)
2 yrs.	$5.5 - 6.0
3 yrs.	5.0 - 5.5
4 yrs.	4.0 - 4.5
5 yrs.	3.5 - 4.0
7 yrs.	3.0 - 3.5
* 10 yrs.	3.0 - 3.5
20 yrs.	2.0 - 2.5
** long bonds	2.5 - 3.0 or 3.0 - 3.5

* Under normal refunding conditions when long bonds are offered.
** Half of the Committee favored the lower range -- half the higher range.

It should be noted that the Committee's expanded funding plan utilizes these maximum limits and still requires the establishment of the four- and seven-year cycles.

It is recognized that our funding plans contemplate worst case market borrowings. You will also note, however, that these plans also contemplate a use of bill financing that transcends our recommended guidelines of 25 - 30% in new money raised in the bill market. We believe that should cash needs be reduced the bulk of this reduction should be made in the bill sector.

Financing the July - September Cash Needs

In offering its plan for the third calendar quarter, the Committee recommends a September 30 cash balance of $20 billion. A balance of this magnitude is desirable as the last quarter of 1982 will (it apears at this time) require a substantially greater level of market borrowing than the third quarter.

A September 30 cash balance of $20 billion will require approximately $40 billion of net new financing in the third quarter. As presented in the attached funding plan, the Committee recommends pushing traditional offerings to maximum size and

introducing the aforementioned four-year note cycle. If the recommendation is followed, approximately 70% of new money will be raised in coupons and 30% in bills. We would view bills as the appropriate instruments to be adjusted to changes in cash requirements.

The Committee also discussed a variety of innovations in both the structure and offering of Treasury issues. It was concluded that none of these was appropriate for use at this time. The Committee will continue to monitor the inventory of innovation and new ideas with regard to Treasury needs.

The Committee would also like to bring to the Secretary's attention the proliferation of the practice of coupon stripping of Treasury securities. Without passing judgment on the practice, we would submit that it is becoming more prevalent in the market and will probably continue to grow if not curtailed by regulation.

This Committee is honored to be asked to help guide Treasury financing policies during these critical times.

We will be pleased to answer your questions.

Respectively submitted,

David G. Taylor
Chairman

ESTIMATED TREASURY BORROWINGS
(In billions of dollars)

1982	Marketable Borrowing	Balance at End of Period
April - June	15.5	18.0
July - September	40.0	20.0
October - December	60.0	12.0
1983		
January - March	55.0	10.0

Note: These estimates assume the following:

	FY 1982	FY 1983
Budget Deficit	101.5	175.0
Off-Budget Deficit	20.0	16.0

These estimates are based on current legislation.

If the Treasury expanded the quarterly 4-year note cycle to a monthly basis, and the 7-year to a twice per quarter basis, we would encourage consideration of an offering sequence of cycle notes and bonds as follows:

QUARTER	WEEK	SECURITY OFFERED	PAYMENT DATE
1st Month	1st	7 & 20-year	Mid-month
	3rd	2 & 4-year	Month-end
2nd Month	1st	3,10,30-year	Mid-month
	3rd	2 & 4-year	Month-end
3rd Month	1st	5&7-year	Mid-month
	3rd	2 & 4-year	Month-end

We believe that there would be some merit in concentrating Treasury coupon offerings into shorter time intervals rather than, for example, the weekly spacing of 2,4, 7 and 20-year securities. A concentration of offerings in mid-quarterly refundings has been well received by speculators and investors. Actually, mid-quarterly refundings tend to generate greater investor focus than is the case for other regular note and bond offerings. The offering cycle shown above would reduce the periods when the Treasury markets notes and bonds. While the payment dates on the fifteenth of the month for 5, 7 and 20-year securities is not ideal to meet the Treasury's early month outlays, more frequent cash management bills (or note anticipation bills) would solve this problem.

TREASURY NEW CASH RAISED
THROUGH MARKETABLE DEBT
(Dollars in Billions)
APRIL - JUNE 1982

Est. Treasury market borrowing requirement - $15.5 billion

		New Cash			
COUPON ISSUES	Amount Maturing	Completed	To Be Done	Total Amount Offered	Total New Cash
2-yr.	12.4	1.2	2.2	16.3	3.9
4-yr.	2.5	--	1.2	4.0	1.5
5-yr.	--	--	3.5	3.5	3.5
7-yr.	--	3.3	--	3.3	3.3
Refunding	6.4	--	3.1	9.5	3.1
		4.5	9.5		15.2
BILLS					
52-week	12.3	1.0	2.4	16.7	4.4
Weekly	124.8	-.6	1.5#	125.7	.9
Cash Management	5.0	-2.0	-3.0		-5.0
Total Bills		-1.6	.9		.3
Grand Total		2.9	10.4		15.5

Assumes no change in rollovers during May and that each of the four June maturities will be increased by about $400 million per week to a weekly level of close to $10 billion.

TREASURY NEW CASH RAISED
THROUGH MARKETABLE DEBT
(Dollars in Billions)
JULY - SEPTEMBER 1982

Est. Treasury market borrowing requirement - $40 billion

CURRENT CYCLES	AMOUNT MATURING	AMOUNT OFFERED	NEW CASH	%
2-yr. (%5.5 bil. ea.)	$13.4	$16.5	$3.1	
4-yr.	2.4	4.0	1.55	
5-yr.		3.5	3.5	
7-yr.		3.5	3.5	
20-yr.		2.0	2.0	
Refunding	4.3	11.0	6.7	
			20.5	
NEW CYCLE				
4-yr. (3.5 bil. ea.)		7.0	7.0	68.7%
			27.5	
BILLS				
52-week (6.0 bil. ea.)	13.3	18.0	4.7	
(6 @ 10.6 bil. ea.) Weekly (7 @ 10.8 bil. ea.)	126.4	134.2	7.8	
			12.5	31.3%
Total Market borrowing			40.0	100.0%

TREASURY NEW CASH RAISED
THROUGH MARKETABLE DEBT
(Dollars in Billions)
OCTOBER-DECEMBER 1982

Est. Treasury market borrowing requirement - $60 billion

CURRENT CYCLES	AMOUNT MATURING	AMOUNT OFFERED	NEW CASH	%
2-yr. (6.0 bil. ea.)	$13.6	$18.0	$4.4	
4-yr.	2.7	4.5	1.8	
5-yr.		4.0	4.0	
7-yr.		3.5	3.5	
20-yr.		2.25	2.25	
Refunding	4.6	12.5	7.9	
			23.9	
NEW CYCLES				
4-yr. (4.0 bil. ea.)		8.0	8.0	
7-yr.		3.5	3.5	
			35.4	59.0%
BILLS				
52-week (6.5 bil. ea.)	20.6	26.0	5.4	
Weekly (11.7 bil. ea.)	133.0	152.2	19.2	
			24.6	41.0%
TOTAL Market borrowing			$60.0	100.0%

TREASURY NEW CASH RAISED
THROUGH MARKETABLE DEBT
(Dollars in Billions)
JANUARY-MARCH 1983

Est. Treasury market borrowing requirement - $55 billion

CURRENT CYCLES	AMOUNT MATURING	AMOUNT OFFERED	NEW CASH	%
2-yr. (6.0 bil. ea.)	$14.4	$18.0	$3.6	
4-yr	2.9	4.5	1.6	
5-yr.		4.0	4.0	
7-yr.		3.5	3.5	
20-yr.		2.25	2.25	
Refunding	5.8	12.5	6.7	
			21.7	
NEW CYCLES				
4-yr. (4.0 bil. ea.)		8.0	8.0	
7-yr.		- 3.5	3.5	
			33.2	60.4%
BILLS				
52-week (6.5 bil. ea.)	15.9	19.5	3.6	
Weekly (12.7 bil. ea.)	147.0	165.2	18.2	
			21.8	39.6%
TOTAL Market borrowing			$55.0	100.0%

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July 28, 1982

Mr. Secretary:

Since our last meeting we have seen interest rates decline in May, only to have the improvement largely reversed in June and then change directions again in the middle of July, resulting in overall declines in some short-term rates of 250 to 300 basis points.

The rate declines in May were related to a degree of optimism regarding the possibility of a favorable budget resolution, pessimism regarding the general economy and a market perception of ease by the Federal Reserve. Also, growth in the money supply seemed to be subsiding.

In June, however, the optimism regarding the budget turned to pessimism, the market began to reflect estimates of high growth in money supply for early July, and to many observers it appeared that the economy might have begun a recovery phase. These factors resulted in a reversal of markets and sharp increases in rates.

In July, with the increase in money supply less than anticipated and M1 within its target range, market sentiment again changed resulting in another significant decline in rates. This change was to some degree bolstered by a so-called flight to quality and by a more negative reassessment of the business outlook.

This then is the situation in which we find ourselves as we approach the very substantial financing that we now face and will continue to face for the foreseeable future.

Before making our specific recommendations on the quarterly financing, I will cover another item in your charge because it has an effect on this financing.

We recommend that you treat all foreign subscriptions for coupon issues as add-ons to the announced size to be bid for. We believe this would reduce uncertainty as to the amount to be bid on in the auction. We also think this would permit a somewhat higher level of coupons to be sold than under the present system.

If this change is adopted, it should be clearly communicated to the media and marketplace so as to remove any possible critisism for subterfuge.

We believe that the present procedures for Treasury bills should be retained as is, in order to maintain control of the size of the issues.

In addition, we feel that the Treasury should maintain and, when appropriate, use the right to allocate foreign subscriptions.

This brings us to our specific recommendation for the August financing and for raising cash in the current quarter. To refund the August 15 maturitites and raise additional cash, we recommend the sale at auction of $6 billion of 3-year notes due August 15, 1985, and a re-opening of the 13-3/4% note due May 15, 1992, for an additional $5 billion. A slight majority of our Committee favored reopening this issue over creating a new 10-year maturity.

While it would appear that this would raise $6.7 billion in cash, the foreign add-ons would add about $700 million more if rolled over, resulting in a total of $7.4 billion of new cash.

We recommmend that the auction for the 3-year issue be held on Tuesday and the 9 3/4-year on Wednesday.

In order to raise an additional $33.2 billion and end the quarter with a $20 billion cash balance, we recommend the following:

1. Beginning with August 19th sell each week $10.7 billion bills raising new cash of $8.9 billion;

2. Sell $6.5 billion 1-year bills settling August 12 and September 9 raising $3.7 billion;

3. Increase 2-year notes to a size of $6.5 billion for $3.9 billion in cash;

4. During the first half of September sell $5 billion in 5-year notes -- $5 billion in cash;

5. Sell $5 billion in 4-year notes with a September 30 maturity raising $2.6 billion in cash;

6. The recommended August 15 refunding would raise $6.7 billion in cash;

7. The add-ons of foreign subscriptions would raise $2.4 billion in cash (after considering recent foreign sales of holdings of about $500 million) and considering rollover of the balance held.

These cash additions add up as follows:

Weekly Bills	$8.9 billion
1-year Bills	3.7
2-year Notes	3.9
5-year Notes	5.0
4-year Notes	2.6
Refunding	6.7
Add-ons	2.4
	$33.2 billion

The Committee feels that the Treasury should hold new cash raised from bills to as close to 1/3 of total cash as possible. Our preference is to first enlarge present cycle notes, then to introduce new cycles (another 4-year first) and to increase bills as a last choice.

Quarter end cash balances of $20 billion on September 30 and $15 billion on December 31 seem appropriate to us, but we suggest that you might want to build up the December balance if circumstances permit.

We also discussed two related matters. First, the Committee suggests that the Treasury reconsider its removal of the ban on presale trading of coupon issues. We feel that presale trading of such issues increases credit risks in the marketplace and reduces the number of bidders in the auction possibly increasing interest costs.

The second is a recommendation that the Treasury be alert to the possibility for the use of a fixed price subscription. This would require a positive yield curve and more stable market conditions than those that presently exist.

This concludes the Committee report. We would now be happy to answer any questions that you might have for us.

Respectively submitted,

H. J. Runnion, Jr.
Vice Chairman

REPORT TO THE SECRETARY OF THE TREASURY
FROM THE U.S. GOVERNMENT AND FEDERAL AGENCIES
SECURITIES COMMITTEE OF THE
PUBLIC SECURITIES ASSOCIATION

October 27, 1982

Mr. Secretary:

Contrary to the dire predictions preceding the event, the Treasury successfully raised $60.6 billion during third quarter, 1982. Debt issuance was aided by strong markets and a growing quality preference on the part of many investors.

A concensus among market seers and observers would indicate that Treasury finances during the fourth quarter will again be blessed by similar events -- although the intensity and degree of the downward movement in rates may be less pronounced than in the third quarter. Markets may well be more vulnerable to anticipated financing both from public and private issuers, investors will be tempted by a growing array of alternatives for their funds, and markets will be disrupted periodically by unsettling financial and economic events. Nevertheless, this Committee believes that the Treasury's financing needs for the quarter can be met through the utilization of normal financing techniques without adverse impact on the market or competitive borrowers.

Cash Balances

The Committee recommends cash balance goals of $15 billion for December 31, 1982 and $10 billion for March 31, 1983. These levels were approved by a vote of 17 to 6. These dissenting would favor a higher level, probably $20 billion, at December 31 to better anticipate first quarter 1983 borrowings. All agree the $10 billion level at March 31 is satisfactory.

The Refunding

The Committee by a vote of 20 to 3 recommends that Treasury offer a $13.5 billion refunding package that would raise approximately $9.0 billion in new cash. The three members not approving this recommendation would offer a smaller package of $13.0 billion.

The Committee recommends that the following securities be auctioned to refund the $4.6 billion of notes maturing on November 15, 1982:

$6.0 billion	3 year notes to mature	11/15/85
4.0 billion	10 year notes to mature	11/15/92
3.5 billion	30 year bonds to mature	11/15/2012*

*(callable in 2007)

As might be expected, a principal point of discussion was the amount of the long term bond. The $3.5 billion represented the view of 19 Committee members. Four members would be more comfortable with an amount of $3.0 billion long bonds. The minority viewpoint included concerns about displacing other demands for long term financing and placing too heavy a financing burden on the longer sector of the market. The majority argued that because of the lack of bond authority and the proliferation of stripped long bond coupon trusts, the market had a pent-up demand for long Treasury bonds and was in an excellent technical position. In addition, investors are becoming more prone to debt extension as interest rates fall and the yield curve steepens.

The Committee was unanimous in approving a $6.0 billion/ $4.0 billion split between the 3-year and 10-year notes for the balance of the refunding.

Should the Treasury opt to issue only $3.0 billion of long term bonds, the $500 million could be added to the 10 year note offering, making it $4.5 billion.

Refunding Auction Data

The Committee recommends that, if mechanically practical the following sequence of offerings be utilized:

Issue	Auction Date
3-year	Wednesday, November 3
10-year	Thursday, November 4
30-year	Tuesday, November 9

Observing this schedule would avoid auctioning a large amount of long term bonds on a Friday in an already shortened week. If there are mechnical impediments to this auction schedule, we would recommend that the long bond be auctioned after the normal bill auction on Monday, November 8.

Financing in the Remainder of the Fourth Quarter

Appended to this report is a schedule showing the Committee's recommendations for financing in the balance of the fourth quarter. This plan was approved by a vote of 22 to 1. The lone dissent felt that we should be more specific in recommending the use of cash management bills to transfer some of the fourth quarter's funding burden to the normally light financing needs of the second calendar quarter in 1983. As you will note, our financing schedule does not specify any cash management bill usage - rather the Committee felt it best to reserve the use of these bills to act as a balance wheel against unanticipated increases in cash needs or adverse market conditions that might involve reducing the size of some coupon offerings.

The recommendation for the balance of the quarter contemplates a 30% - 70% split between bills and coupon issues, a division we feel important in achieving debt extension and promoting an upward sloping yield curve. You may also note that the schedule contemplates a $6.0 billion offering of 5 year notes while holding the 4 year offering to $5.0 billion. This is due to the fact that the 4 year note will be part of the late quarter second refunding week in which three issues will be sold.

The recommended financing schedule contemplates only the use of existing financing patterns without the introduction of any new cycle notes.

Introduction of New Cycles

The Committee discussed the potential need to expand the use of monthly cycle note financing. It was noted that the Treasury had been successful in expanding the size of traditional offerings, obviating the need to expand either the four or seven year offerings into monthly cycles. The Committee applauds this strategy as consistent with sound debt management policy. It must be noted, however, that at some time the introduction of new cycles may be desirable. In the current quarter it must be noted that $14 billion in open market borrowing is avoided by a reduction in Treasury's cash balance. Should needs become so great and market conditions less propitious, the Committee would recommend expansion of cycle notes rather than reverting to the bill market.

The Question of a Subscription Offering

The Committee, as part of its usual agenda, discussed the possibility of recommending a subscription offering in the current refunding. The arguments for and against are well known. It was concluded that this technique of debt management may at some future time present the Treasury with an opportunity to raise a very large sum of new money. At present, however, we believe that existing debt management techniques are serving Treasury adequately. We will continue to value the subscription option in light of external market conditions and Treasury financing needs.

Repurchase Agreements

As a concluding topic, the Committee believes it neccessary to comment on the recent developments in the market for repurchase agreements.

We believe repurchase agreements, in their role as the principal financing vehicle for dealer and investor positions in Treasury securities, act to underpin a viable market in Treasury debt. R/P's also provide those seeking to employ funds for short periods of time with an attractive alternative and thus augment the viability of the money market. We feel it entirely appropriate that Treasury work with other interested parties toward establishing the purchaser's rights to securities held in a repurchase agreement transaction. The Public Securities Association would be pleased to furnish any information on this problem that Treasury officials may desire.

The Committee is honored to advise the Treasury during these turbulent and interesting times.

We are ready for your questions.

Respectfully submitted,

David G. Taylor
Chairman

SUMMARY OF OCTOBER - DECEMBER QUARTER NEW MONEY OPERATIONS

($ Billions)

That already raised or announced:

Regular Weekly Treasury Bills (includes 10/28 bill)	+$ 4.0
One-Year Treasury Bills (includes 10/7 and 11/4 bills)	+$ 3.7
2-Year Note (includes $575 million foreign add-on)	+$ 3.0
	+$ 11.0

That to be raised from:

Regular Weekly Treasury Bills	+$ 7.3
One-Year Treasury Bills	+$ 3.5
2-, 4-, and 5-Year Notes*	+$ 15.5
Refunding*	+$ 9.2
	35.2

Total to be raised in Quarter	+$ 46.5

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* Includes anticipated foreign add-ons totalling approximately $2.1 billion.

ISSUE ANALYSIS OF OCTOBER-DECEMBER QUARTER NEW MONEY FINANCING REMAINING TO BE DONE

($ Billions)

Weekly Bills	Outstanding	Projected Size	Foreign New Cash	New Cash Raised	
11/4	$ 10.3	$ 11.2	—	+$ .9	
11/12	$ 10.3	$ 11.2	—	+$ .9	
11/18	$ 10.5	$ 11.2	—	+$ .7	
11/26	$ 10.5	$ 11.2	—	+$ .7	
12/2	$ 10.5	$ 11.2	—	+$ .7	
12/9	$ 10.6	$ 11.2	—	+$ .7	
12/16	$ 10.6	$ 11.2	—	+$ .6	
12/23	$ 10.1	$ 11.2	—	+$ 1.1	
12/30	$ 10.1	$ 11.2	—	+$ 1.1	+$ 7.[illegible]
1-Year Bills:					
(12/2 maturity)	$ 5.2	$ 7.0	—	+$ 1.8	
(12/30 maturity)	$ 5.3	$ 7.0	—	+$ 1.7	+$ 3.5
2-Year Notes:					
(11/30 maturity)	$ 4.6	$ 7.0	+$ .5	+$ 2.9	
(12/31 maturity)	$ 4.1	$ 7.0	+$ .5	+$ 3.4	+$ 6.[illegible]
5-Year Notes:					
(First half of Dec.)	-0-	$ 6.0	+$ .3	+$ 6.3	+$ 6.[illegible]
4-Year Notes:					
(12/31 maturity)	$ 2.7	$ 5.0	+$ .5	+$ 2.8	+$ 2.8
Refunding:	$ 4.6	$ 13.5	+$ .3	+$ 9.2	+$ 9.[illegible]
TOTAL	$ 120.0	$ 153.4	+$2.1		+$35.5