REPORT TO THE SECRETARY OF THE TREASURY FROM THE TREASURY BORROWING ADVISORY COMMITTEE OF THE PUBLIC SECURITIES ASSOCIATION

August 5, 1992

Dear Mr. Secretary:

Since our last meeting, the outlook for recovery which looked so promising early in the year, and even in late April appeared more sustainable than 1991, has turned decidedly uncertain. June's shocking employment report, which raised fears of flat GDP and possibly renewed recession, prompted the aggressive 50 basis point cuts in the discount and federal funds rates. Importantly, improved productivity, inflation, and corporate and personal balance sheets all point to a steady unwinding of 1980s excesses and ultimately a healthier economy. However, while over the last 18 months the economy has experienced several surges in consumer demand associated with cuts in interest rates, none has been sustained. Today, the general perception is that modest GDP growth will be achieved over time as consumer confidence becomes more positive and less volatile.

Reflecting the changes in monetary policy and strong investor demand, Treasury's yields have declined sharply since the last refunding. Bills are lower by 50 to 80 basis points, 2- to 10-year maturities by nearly 100 basis points, and the bond by over 60 basis points. For all but the bond, yields have reached new lows for 1992. Importantly, the yield curve has continued to flatten in recent weeks even after the aggressive easing of monetary policy.

Within this framework, the Committee recommends that the following securities be sold at auction to refund $20.8 billion of maturing securities, and to raise $15.2 billion of new cash for delivery on August 15.

-- $15 billion 3-year notes due August 15, 1995;

-- $11 billion 10-year notes due August 15, 2002;

-- $10 billion 30-year bonds due August 15, 2022.

The Committee voted 20 to 0 in favor of the size, composition, and issuance of the three new issues.

For the remainder of the current quarter, the Committee recommends that the Treasury sell at auction:

-- Two 2-year notes of $15 billion, raising $6.1 billion of new cash;

-- Two 5-year notes of $10.5 billion, raising $21.0 billion of new cash;

-- Hold the weekly 3- and 6-month bill action sizes at $23.2 billion through quarter end, raising $200 million new cash;

Summary of New Cash for Quarter

Refunding	$15.2 billion
3- and 6 month bills	.2
52-week bill	3.3
2-year notes	6.1
5-year notes	21.0
Less 4-year note maturity	-7.4
Total	$38.4 billion
Already raised	33.7
Estimated Foreign Add-ons	2.9
Net Market Borrowing	$75.0 billion

In view of the heavy anticipated needs in the subsequent quarter, the Committee supports the resulting cash balance which should approximate $35 billion on September 30. A slightly higher balance, approaching $40 billion, would be viewed positively, given the following quarter's anticipated record net market borrowing. Further, the Committee notes the possible need for a short-term cash management bill in late August and in that event would recommend the auction of an intra-quarter bill totalling approximately $8 billion to mature September 17.

For the October/December quarter, the Committee agrees with the targeted $30 billion end-of-quarter balance. To fund the anticipated record net marketable borrowing of $115 billion, the Committee recommends increases in the weekly bills, year bills, coupon cycles, and refunding issues. However, because of uncertainties concerning some spending assumptions, which may be clearer later, the existence of several private forecasts centered somewhat lower, and a judgement that a significant portion of this borrowing should be shifted into the April/June quarter when traditionally net market borrowing is comparatively light, the Committee additionally recommends the use of approximately $38 billion long-dated cash management bills to mature in April and June, 1993. Specifically, the Committee recommends gradually increasing 3- and 6-month bills to $25.3 billion raising $18.5 billion, 1-year bills to $15.250 billion raising $6.3 billion, 2-year notes to $15.750 billion raising $7.2 billion, 5-year notes to $11.250 billion raising $22.0 billion, the 7-year note to $10.0 billion raising $3.8 billion, the refunding to $37.5 billion raising $14.4 billion. Assuming foreign add-ons of $4.8 billion, the total would be net new money of $77 billion which, plus $38 billion cash management bills, would achieve the forecasted $115 billion. As the use of the recommended cash management bills will likely fall over the six weeks from early November to mid-December, this approach has the added advantage of offering substantial flexibility should borrowing needs turn out to be smaller than currently estimated, while still increasing regular offerings by material amounts which likely will be required in subsequent quarters anyway.

Mr. Secretary, that concludes our report, and we welcome questions and discussion.

Morgan B. Stark

Morgan B. Stark
Chairman