

REPORT TO THE SECRETARY OF THE TREASURY
FROM THE U.S. GOVERNMENT AND FEDERAL
AGENCIES SECURITIES COMMITTEE OF THE
PUBLIC SECURITIES ASSOCIATION
January 30, 1985

Dear Mr. Secretary:

When this Committee last met with you at the end of October, there was a great deal of concern as to the status of the economy. Some analysts were even forecasting the beginning of a recession during fourth calendar quarter.

It now appears that those forecasts were unduly pessimistic. While there was a considerable slowdown in the second half of 1984, the fourth quarter GNP growth came in better than expected at 3.9%. However, this growth is not spread evenly throughout the various sectors of the economy.

Defense and high-tech industries have continued to prosper while agriculture, textile, energy and export businesses are depressed. Auto sales have held up quite well but housing has been slow to respond to lower interest rates. Recently, merchants have had to cut prices to keep goods moving.

News on inflation has been quite good. While the strong dollar has made a significant contribution to the lower level of inflation and facilitated the financing of the public debt, it has adversely affected the competitiveness of domestically produced goods.

With the economy growing at what appears to be a sustainable rate of 4-5% and the easier monetary policy of recent months, interest rates have declined in all maturity ranges over the last three months. Short rates have declined about 1 1/2 percentage points, intermediates about 1 percentage point and long rates 1/2 percentage point.

Investors seem to have lowered their perception as to the degree of future inflation and are more willing to extend maturities. While the market continues to be concerned about the size of the budget and balance of payments deficits, it should be quite receptive to this quarterly financing.

Built into this favorable market psychology is at least some degree of hope that some constructive deficit reduction will take place in the next few months. If market participants are disappointed on this, it could again bring about inflation fears and higher interest rates. Given this favorable investment climate

and the stripping feature we recommend raising \$11 1/2 billion in cash along with refunding the \$8 billion of notes maturing February 15th. We would accomplish this as follows:

Auction \$7.5 billion 3 year notes
6.0 billion 10 year notes
6.0 billion 30 year bonds

For the balance of the quarter we recommend raising \$32.4 billion as follows:

		<u>raises</u>
Leave weekly bills at	\$14.0 billion	\$ 3.7
Increase one year bills to	8.75 billion	.75
Leave two year note at	9.0 billion	1.5
Leave five year note at	6.75 billion	6.75
Refunding	19.5 billion	11.7
Cash Management bills		<u>8.0</u>
		\$32.4

To the extent that foreign add-ons are received, the cash management bills could be reduced. This would leave a cash balance of \$10 billion on March 30.

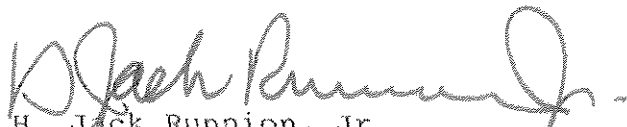
We are also including a tentative schedule for possible financing of the April-June quarter leaving a cash balance of \$15 billion.

Subject to the change of the Under Secretary we have scheduled a meeting on March 5th to consider long range strategies to deal with the sharp increases in the amounts of maturing Treasuries and the appropriate role of the mid-quarter refunding issues in meeting the Treasury's quarterly cash needs. We will also consider the increasing interest payments on these dates. A schedule showing net cash raised after interest payments is attached.

The Committee strongly endorses the Treasury's program for issuing strippable issues. We believe this will increase demand for long term securities and will reduce interest cost on financing the public debt.

Finally, Mr. Secretary our Committee unanimously commends you and your able staff for four years of excellence in managing the Department and the public debt during the most difficult period in memory.

Respectfully submitted,


H. Jack Runnion, Jr.
Chairman

ISSUE ANALYSIS OF APRIL - JUNE QUARTER NEW MONEY FINANCING REMAINING TO BE DONE
(\$ Billions)

<u>WEEKLY BILLS</u>	<u>OUTSTANDING</u>	<u>PROJECTED SIZE</u>	<u>FOREIGN NEW CASH</u>	<u>NEW CASH RAISED</u>	
4/4/85	\$ 13.1	\$ 14.0	-----	+\$.9	
4/11	\$ 13.2	14.0	-----	+\$.8	
4/18	\$ 13.7	14.0	-----	+\$.3	
4/25	\$ 13.7	14.0	-----	+\$.3	
5/2	\$ 13.7	14.0	-----	+\$.3	
5/9	\$ 13.9	14.0	-----	+\$.1	
5/16	\$ 13.9	14.0	-----	+\$.1	
5/23	\$.8	14.0	-----	+\$.2	
5/30	\$.8	14.0	-----	+\$.2	
6/6	\$.8	14.0	-----	+\$.2	
6/13	\$.9	14.0	-----	+\$.1	
6/20	\$ 14.0	14.0	-----	+\$ -0-	
6/27	\$ 13.8	14.0	-----	+\$.2	+\$3.7
<u>1-Year Bills:</u>					
4/18	\$ 8.3	\$ 8.75	-----	+\$.45	
5/16	\$ 8.1	\$ 8.75	-----	+\$.65	
6/13	\$ 8.4	\$ 8.75	-----	+\$.35	+\$1.45
<u>Cash Management Bills:</u>					
<u>April and/or June</u>					
maturities	\$ 8.0	-----	-----	-\$ 8.0	-\$8.0
<u>-Year Notes:</u>					
3/31*	\$ 8.6	\$ 9.0	\$.3	+\$.7	
4/30	\$ 8.2	\$ 9.0	\$.3	+\$ 1.1	
5/31	\$ 8.1	\$ 9.0	\$.3	+\$ 1.2	+\$3.0
<u>5-Year Notes:</u>					
(First half of June)	-0-	\$ 6.75	-----	+\$ 6.75	+\$6.75
<u>4-Year Notes:</u>					
3/31*	\$ 3.4	\$ 6.75	\$.3	+\$ 3.7	+\$3.7
<u>7-Year Notes:</u>					
(First half of April)	-0-	\$ 5.75	-----	+\$ 5.75	+\$5.75
<u>20-Year Bonds:</u>					
(First half of April)	-0-	\$ 4.25	-----	+\$ 4.25	+\$4.25
<u>Refunding:</u>	<u>\$ 10.8</u>	<u>\$20.0</u>	<u>+\$.3</u> <u>+\$1.5</u>	<u>+\$ 9.5</u>	<u>+\$ 9.5</u> <u>+\$30.1</u>

*Settlement of these securities will be on 4/1/85.

Opening cash balance 4/1/85 \$10.0 billion
 Closing cash balance 6/28/85 \$14.8 billion
 Change in cash balance +\$ 4.8 billion

Treasury bills represent 27.3% of recommended permanent net new cash raised.

INTEREST PAYMENT ESTIMATES AND TREASURY NET BORROWING

DATE	INTEREST	BORROWING		NET CASH RAISED
2/15	-11.2	+10.2	=	- 1.0
3/31	- 4.5	+15.4	=	+10.9
5/15	-15.8	+ 9.5	=	- 6.3
6/30	- 4.5	+16.5	=	+12.0
8/15	-11.0	+ 8.3	=	- 2.7
9/30	- 4.8	+16.6	=	+11.8

REPORT TO THE SECRETARY OF THE TREASURY
FROM THE U.S. GOVERNMENT AND FEDERAL
AGENCIES SECURITIES COMMITTEE OF
THE PUBLIC SECURITIES ASSOCIATION
April 30, 1985

Dear Mr. Secretary:

Since the Committee last met in Washington on January 30th, interest rates increased by 50 to 75 basis points; then more recently declined to about the same levels that existed at the last mid-quarter financing.

While the value of the dollar has come down some from its high, its overall strength still keeps demand from resulting in growth in production in many industries.

The securities markets continue to be volatile and tentative. As we reported in our report for the special Committee meeting on March 5, given normal circumstances, the market for a while can continue to absorb the heavy government securities offerings.

However, it must be remembered that as note cycles mature, cash raised on each sale is then on top of the roll over of the maturing notes. Also the size of the maturities and interest payments are growing at increasing rates.

Market participants are concerned about a number of potentially unsettling matters. First they feel that is essential that a meaningful reduction in the budget deficit be enacted by the end of September. If this is accomplished the market could improve substantially; if not, market rates could rise to considerably higher levels.

A sharp decline in the foreign exchange value of the dollar could also bring about higher interest rates. Foreign demand for dollar investments has been helpful in financing the public debt but a change in sentiment could again raise fears of crowding out in the domestic financial markets.

Uncertainty about the economy and Federal Reserve monetary policy also contribute to the instability of the bond and money markets.

Any factor that would cause short term interest rates to rise substantially could exacerbate the problems of the thrift industry and Latin American countries.

In summary the fragility of the worldwide financial structure and the magnitude of the United States' deficit financing leave little room for error in legislative and policy actions.

Nevertheless we feel the market will (and indeed must) accept larger cash raising financings at this and future mid-quarter refundings. We recommend the following for the May 15 financing:

Sell: \$8.0 billion	3 year Notes
6.5 billion	10 year Notes
<u>6.5</u> billion	30 year Bond
\$21.0 billion	

(reopen the 10 year and 30 year)

This would raise \$.4 billion more than the upper limit of the charge. If the new cash raised is to be kept under \$10 billion, most of our members (11) felt that the three year note should be reduced to \$7.5 billion, five would reduce 10 year to \$6 billion and three were for reducing the 30 year bond by \$.5 billion.

For the rest of the quarter the balance of cash needs could be raised by:

- Selling \$8.5 billion 1 year bills at each of the remaining two auctions. This would raise \$.5 billion;
- Sell \$9.0 billion 2 year notes raising \$.9 billion;
- Sell \$7.0 billion of 5 year notes which would be all new cash.

Summary of Cash Raised

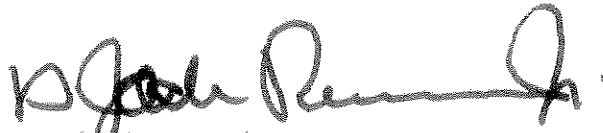
Refunding	\$10.4 billion
1 year bills	.5
2 year notes	.9
5 year notes	<u>7.0</u>
	\$18.8
Already raised	<u>16.2</u>
	\$35.0

Foreign add-ons would raise between \$.5 billion and \$1 billion. This would leave a cash balance of at least \$20 billion at quarter end. In view of the heavy cash needs for the 3rd and the 4th calendar quarters we feel that a cash balance of \$20 billion is appropriate for both this and next quarter end.

The stripping feature has obviously been quite successful. We commend the Treasury for all the hard work that went into the development of the program. Since the first quarter of the year is the period of strongest demand for stripped coupons for IRA accounts you should expect some moderation of demand in subsequent quarters. However, there are other uses for stripped coupons and the feature will continue to contribute to demand for longer dated securities.

Mr. Secretary this concludes our report and we will be happy to respond to your questions.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "H. Jack Runnion, Jr.", written in a cursive style.

H. Jack Runnion, Jr.
Chairman

REPORT TO THE SECRETARY OF THE TREASURY
FROM THE U.S. GOVERNMENT AND FEDERAL
AGENCIES SECURITIES COMMITTEE OF THE
PUBLIC SECURITIES ASSOCIATION
July 31, 1985

Dear Mr. Secretary:

Since our Committee last met in Washington on April 30th, Federal funds have remained at about the same level, but other market rates have declined by an average of about 75 basis points.

This decline in rates is partially due to expectations that a meaningful reduction in the federal deficit would be accomplished. However, time is running out and market psychology is changing. The breakdown of negotiations has been a major reason for the more recent decline in bond prices.

Given the present level of inflation, real interest rates are still high and there is room for modest declines even if the economy were to gain momentum. However, for this to happen it is essential that the deficit be reduced.

The weakness of the dollar should eventually help domestic production but could cause a decline in foreign investment in Treasury securities. Hopefully the decline in the dollar will be gradual because a sharp drop could cause serious problems both domestically and internationally.

Many traditional investors are nervous about the market and may be on the sidelines for a while. Fixed income fund managers have been taking profits and shortening maturities. Bank portfolio managers do not seem to have much interest at the present time.

While levels of inflation are quite low, the market perceives that the huge federal deficit will inevitably lead to significantly higher rates of price increases. If expenditures are not reduced, the goods and services must be paid for either through taxes or inflation.

The continued financing of the large deficits and the effect of compound interest will lead to higher levels of both interest rates and inflation.

While these statements might be debated in academic circles they are nevertheless the perceptions of the market place and as such are primary determinants of interest rates.

To refund the August 15 maturities and raise \$9.7 billion in cash we recommend the following:

Sell \$9.0 billion 3 year notes
6.5 billion 10 year notes
Reopen 6.5 billion 11 1/4% bonds due 2/15/85

For the rest of the quarter we recommend:

Sell \$8.75 billion 1 year bills at two auctions raising \$.5 billion.

Sell \$14.4 billion weekly bills at each remaining auction raising \$2.8 billion.

Sell \$9.25 billion 2 year notes at each auction raising \$1.7 billion.

Sell \$7.25 five year note (all cash).

Sell \$7.00 billion four year notes raising \$3.4 billion.

Summary of Cash Raised

Refunding	\$9.7 billion
1 Year bills	.5
Weekly bills	2.8
2 year notes	1.7
5 year notes	7.2
4 year notes	3.4
Foreign add-ons	.5
Non-marketable	3.5
	<u>\$29.3 billion</u>
already raised	20.5
	<u>49.8</u>
reduced cash balance	1.2
	<u>\$51.0 billion</u>
Cash balance	\$22.8 billion

For December 31 we recommend a cash balance of \$18-20 billion which could involve a \$25 billion November refunding raising \$15.5 billion in cash.

The Treasury's STRIPS program has been very successful in broadening the market for long bonds. The generic CUSIPs feature will help to further the marketability and liquidity of STRIPS.

At higher levels of interest rates there is more demand for STRIPS by dedicated portfolios and defeasance for pension plans. This demand has subsided to a significant degree because some demand has been filled and locking in reinvestment rates loses some appeal as rates get lower.

Prior to April 15th there was strong demand for STRIPS by individuals for IRAs. We would expect that their demand will continue to be seasonal.

More recently the Japanese have been the largest buyer of STRIPS but they buy only the corpus and this leaves large amounts of coupons in the market.

Mr. Secretary this concludes our report and we will be happy to respond to your questions.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "H. Jack Runnion, Jr.", written in dark ink.

H. Jack Runnion, Jr.
Chairman