

MINUTES OF THE MEETING OF THE
TREASURY BORROWING ADVISORY COMMITTEE
OF THE PUBLIC SECURITIES ASSOCIATION
April 29 and 30, 1997

April 29

The Committee convened at 11:30 a.m. at the Treasury Department for the portion of the meeting that was open to the public. All members were present, except Messrs. Horowitz, Kessenich, McKnew, Mortara, and Roberts. The Federal Register announcement of the meeting and a list of Committee members are attached.

Deputy Assistant Secretary for Federal Finance Roger Anderson welcomed the Committee and the public to the meeting. John Auten, Director, Office of Financial Analysis, summarized the current state of the U.S. economy. Paul Malvey, Associate Director, Office of Market Finance, presented the chart show, which had been released to the public on April 28, updating Treasury borrowing estimates and providing statistical information on recent Treasury borrowing and market interest rates.

The public meeting ended at 12:05 a.m.

May refunding

The Committee reconvened in closed session at the Madison Hotel at 2:15 p.m. The members were present who had attended the public briefing. Deputy Assistant Secretary Anderson gave the Committee its Charge, which is also attached.

The Committee began by considering the attached proforma financing plan for the April-June quarter that had been prepared in advance by one of the members, using the market borrowing estimates that were released by the Treasury on April 28. The committee voted to recommend that the Treasury issue \$17.00 billion 3-year notes and \$12.0 billion 10-year notes. This recommendation represents a \$0.75 billion reduction in the 3-year note size from the February refunding and a maintaining of the 10-year note size relative to the February refunding, although it is an increase from what is contained in the attached proforma. In the Committee's view, a slightly larger 10-year note may help maintain needed liquidity in this sector. Also, the reduction in the size of the 3-year note offering combined with a \$2.0 billion reduction in the May 8 weekly bills, which was announced while the Committee was in closed session, would more than offset the

impact of maintaining the 10-year note auction at its previous level.

The Committee also voted against recommending that Treasury reopen the February 10-year note, given that there are no signs of market dislocations and the fact that at the current price of about 96 3/8 such a prospect would not be concordant with OID rules.

As noted previously, most recently at the February Committee meeting, given the appearance of a downward trend in deficits, it is the consensus of the Committee that the Treasury should maintain flexibility in the size of coupon issues, with modest downward adjustments when appropriate. In line with this, the Committee recommended that the Treasury cut back on coupon financing for the remainder of this quarter and through the July-September quarter, given the much larger-than-expected inflows of tax receipts, the recent very low offering volumes at weekly bill auctions, and the general expectation that the deficit for the year will be much lower than forecasted only a month ago.

The Committee voted unanimously that the current sizes of the 2- and 5-year note auctions be cut by \$1/2 billion each, starting in May and continuing through the next quarter.

Inflation-indexed securities and auction cycles.

Instead of proceeding directly to its recommendation for the July-September quarter, the Committee decided to address the issue of how best to proceed with the development of the inflation-indexed securities (IIS) program. To open the discussion, the Chairman outlined the cash raising potential of several approaches. (See attached.)

The subsequent discussion focused on two basic approaches to further developing the program. One would be to continue the quarterly cycle for 10-year IIS, with issuance in the first month of each quarter. Then introduce another IIS maturity cycle, most likely next year, at either 5-years or 30-years. The other approach placed emphasis on using the current quarterly IIS cycle to introduce new maturities in an orderly manner. This view suggested that it is more important now to gradually build up a range of maturities on the current quarterly IIS cycle before approaching a decision regarding the integration of IIS with conventional securities in regular, predictable cycles. According to this view, there would be more flexibility going

forward while monitoring progress in the development of the IIS program.

Independently of the alternative implementation choices mentioned above, discussion also focused on what maturity would be introduced next, either shorter (e.g., a 5-year) or longer (e.g., a 30-year). In this context, a number of members raised the issue of "Boskin Effect," or the risk that the CPI will be substantially altered in the future. If it were to occur, particularly over a short horizon, then the Treasury would be more exposed by committing to a 30-year IIS rather than a 5-year IIS. Members also noted that the 5-year maturity is a deeper, more liquid market for both conventional and synthetic securities.

At the conclusion of discussion, one member voted in favor of issuing another 10-year IIS in mid July, while 16 members voted in favor of issuing another maturity. In deciding what maturity to recommend, 10 members voted for recommending a 5-year IIS, and 7 members voted for a 30-year IIS.

On the closely related topic of how best to proceed with planning cycles in the face of a downward trend in deficits, the issue of the "off-cycle" (July and October) 10-year conventional note auctions was discussed. They had been introduced in addition to the regular mid-quarter 10-year auction cycle in the Spring of 1996 when projected deficits for 1996 and 1997 were much higher. July and October are also months that IIS are scheduled to be offered. Put to a vote, only four members recommended continuing the July and October 10-year auctions, while 13 voted to eliminate them now and partially compensate by doing larger traditional 10-year mid quarter auctions.

Marketable financing for the July-September quarter

For the July-September quarter, given the Treasury's forecasted funding needs, the Committee recommended keeping the 2-year and 5-year notes at the same lower levels as in May and June. For July's IIS auction, the Committee recommended issuing \$8-10 billion of 5-year notes. And for the August refunding, the Committee recommended keeping the 3-year notes at \$17 billion and the 30-year bonds at the \$10 billion level that had been offered in February. However, if the Treasury decides to eliminate the off-cycle July/October 10-year note auctions, the Committee recommends issuing \$13 billion of 10-year notes.

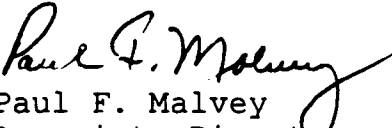
The meeting adjourned at 4:05 p.m.

April 30


The Committee reconvened at 8:30 a.m. at the Treasury in closed session. All members were present, except Messrs. Horowitz, Kessenich, McKnew, Mortara, Napoli and Roberts.

The Chairman presented the Committee report (copy attached) to Under Secretary Hawke and Deputy Assistant Secretary Anderson. A brief discussion ensued concerning the uncertainty risk to Treasury regarding the methodology for determining the CPI. It was noted that the uncertainty referred to in yesterday's discussion had to do with the magnitude of a yield premium bidders may incorporate in the bidding process for IIS to account for the risk that the CPI will be adjusted downward sometime in the future.

The meeting adjourned at 8:55 a.m.


Paul F. Malvey
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Office of Market Finance
Domestic Finance
April 30, 1997

Attachments

Certified by: 
Richard Kelly, Chairman
Treasury Borrowing Advisory Committee
of the Public Securities Association
April 30, 1997