MINUTES OF THE MEETING OF THE TREASURY BORROWING ADVISORY COMMITTEE OF THE PUBLIC SECURITIES ASSOCIATION MAY 3 AND 4, 1994

May 3

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 Mr. Thieke. The Federal Register announcement of the meeting and a list of Committee members are attached.

Deputy Assistant Secretary for Federal Finance Darcy Bradbury welcomed the Committee and the public to the meeting. Assistant Secretary for Economic Policy Alicia Munnell gave a summary of the current state of the U.S. economy. Jill K. Ouseley, Director, Office of Market Finance, presented an informational briefing updating Treasury borrowing estimates and statistical information on recent Treasury borrowing and market interest rates. The borrowing estimates and other information in chart form had been released to the public on May 2, 1994.

The public meeting ended at 12:15 p.m.

May refunding

The Committee reconvened in closed session at the Madison Hotel at 2:15 p.m. Deputy Assistant Secretary Bradbury gave the Committee its Charge, which is also attached. The Committee discussed the size of the May midquarter refunding within the context of the Treasury's estimate of $8 billion of net market borrowing during the April-June 1994 quarter. The Committee discussed recommending that the May refunding consist of $17 billion of 3-year notes and $12 billion of 10-year notes, the same sizes as the 3- and 10-year notes offered in the February 1994 refunding.

Treasury borrowing requirements for the rest of the April-June quarter were then discussed. The consensus was that the Treasury should maintain the 1-year bills and 2- and 5-year notes at the levels of the most recent offerings -- $16.5 billion, $17 billion, and $11 billion, respectively -- and increase the regular weekly bills. A short-term cash management bill was recommended to bridge the Treasury's temporary cash need prior to the June tax payment date.

The Committee considered recommending an alternative financing strategy that would entail Treasury borrowing in somewhat longer maturities than those above. Several Committee members commented that the Treasury has relied relatively heavily recently on borrowing in the 2- to 5-year maturities. Transferring $1 billion of the refunding package from the 3-year note to the 10-year note would be well received by the market and contribute to debt extension. The Committee voted by 15 to 3 for the refunding package discussed earlier in the meeting, consisting of $17 billion of 3-year notes and $12 billion of 10-year notes.

The Committee turned to Treasury borrowing in the July-September quarter and expressed the view that the Treasury could borrow the needed $58.5 billion by maintaining coupon issues at their most recent sizes and increasing issues of Treasury bills. The consensus was that the deficit will not be as large as implied by the latest Treasury borrowing estimates. The Committee consensus was that the Treasury should issue a 29 3/4-year bond, to mature on May 15, 2024 in the August refunding. A 29 3/4-year issue, with interest payments in May and November, would increase the trading liquidity of the STRIPS market. Cash balances of $40 billion were recommended unanimously for June 30 and September 30.

Single-price auction

The Committee agreed, by consensus, that the purposes of the single-price auction experiment are being met. Anecdotal evidence indicates that the securities are more widely distributed in the single-price auction and the Treasury's costs do not appear to be any higher than under the multiple-price auction format. Members observed, however, that the single-price auction has not been tested in a rising yield environment. While no vote was taken, Committee members favored extending the time period for the experiment and including Treasury securities of other maturities. Consideration of this matter was deferred until the August meeting.

Committee members suggested that the Treasury include the following in its analysis of the auction results: the performance of the 2- and 5-year notes in when-issued trading during the hour before the auction and until the market closes on the day of the auction; concentration/dispersion of auction awards among bidders; coverage ratios; dispersion of yields that are bid in the auction; and noncompetitive participation in the auction.

The meeting adjourned at 4:04 p.m.

May 4

The Committee reconvened at 9:06 a.m. at the Treasury in closed session. All members were present, except Mr. Thieke. The Chairman presented the Committee report (copy attached) to Under Secretary for Domestic Finance Frank N. Newman and Deputy Assistant Secretary Bradbury.

Members of the Committee were asked to discuss extending the single-price auction experiment for one more year and including another Treasury security, such as the 1-year bill, 3-year note, or 10-year note, in the experiment. Committee members advised that it would be useful to obtain more data in today's higher yield market environment and to expand the experiment to auctions of other maturities. From a statistical viewpoint, the drawback of experimenting with the auctions of longer term securities, especially the 30-year bond, is that there are not many observations.

In response to a question, the Committee expanded upon the thoughts expressed in the Chairman's report on the balance between short-term and longer term borrowing. Members noted that the current focus on shorter term Treasury borrowing exposes the Treasury to changes in short-term interest rates. Also, with bank loans expanding, bank demand may diminish for Treasury securities in the shorter intermediate maturities.

The meeting adjourned at 9:30 a.m.

Jill K. Ouseley
Jill K. Ouseley, Director
Office of Market Finance
Domestic Finance
May 4, 1994

Attachments

Certified by: Stephen C. Francis
Stephen C. Francis, Chairman
Treasury Borrowing Advisory Committee
of the Public Securities Association
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