MINUTES OF THE MEETING OF THE TREASURY BORROWING ADVISORY COMMITTEE OF THE PUBLIC SECURITIES ASSOCIATION NOVEMBER 1 AND 2, 1994

November 1

The Committee convened at 11:35 a.m. at the Treasury Department for the portion of the meeting that was open to the public. Members present were Chairman Francis, Vice Chairman Kelly, Messrs. Ahearn, Capra, Corzine, and deRegt, Ms. Kenworthy, and Messrs. Lakefield, Lodge, Pike, Roberts, Rosenberg, Stark, Thieke, and Wardlaw. 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 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 October 31, 1994.

The public meeting ended at 12:10 p.m.

The Committee reconvened in closed session at the Madison Hotel at 2:10 p.m. The members listed above, Ms. Bradbury, and Ms. Ouseley were present. Ms. Bradbury gave the Committee its Charge, which is also attached. The Committee first discussed the size of the November midquarter refunding within the context of the Treasury's estimate of a $59.6 billion net market borrowing requirement during the October-December 1994 quarter. A draft proforma that had been prepared by a member of the Committee (attached) was used during the discussion.

The Committee discussed recommending that the November refunding consist of $17 billion of 3-year notes, $12-1/2 billion of 10-year notes, and $15 billion of 37-day cash management bills. The members voted unanimously for this recommendation, which would raise $0.7 billion in regular midquarter refunding issues and temporarily raise $15 billion until after the December 15 tax date. The Committee also believed that another CMB might be necessary in early December and agreed by consensus that, if needed, the bill should mature after the January 15 tax date. The Committee consensus was that the current issue sizes would raise the remaining cash needed in the fourth calendar quarter.

The Committee reviewed the Treasury's draft of Treasury auction calendars for November through January. They agreed by consensus to recommend: (1) that the CMB to be issued in the refunding be auctioned on November 10, ahead of the 52-week bill auction; (2) that the November 2-year be auctioned on Monday, November 21, ahead of the regular weekly bill auction, and that the 5-year note be auctioned on Tuesday, November 22 at 1:00 p.m.; and (3) that the December 2- and 5-year note auctions be announced on December 14 and auctioned on December 21 and 22, respectively.

The consensus was that the questions in the Charge pertaining to a longer term look at Treasury borrowing requirements needed to be addressed before a specific financing plan could be recommended for the January-March quarter. The Committee agreed to recommend cash balances of $30 billion on December 31 and $20 billion on March 31.

The Committee did not recommend a specific financing plan for the January-March quarter.

Longer perspective on Treasury borrowing

The Committee decided by consensus to link the two questions in the Charge pertaining to the appropriate mix of Treasury bill and coupon issues in 1995 and beyond and pertaining to the frequency of 3-year note issuance. The Committee consensus was that issuance of cash management bills, rather than an increase the frequency of 3-year notes, is the appropriate approach to smoothing levels of the Treasury cash balance at midmonth.

Ms. Bradbury indicated to the Committee that, even with the decreasing deficit, if all coupon issues were held constant in FY 1995, the amount raised in the bill sector would need to grow somewhat. Looking ahead into FY 1996, Ms. Bradbury indicated that coupon issues would need to grow and/or new securities would be needed to avoid an inordinate increase in bill issue sizes. This outcome would result in part from the lower amount of cash that would be raised in 5-year notes beginning in January 1996, when monthly 5-year notes begin to mature.

The Committee set out three potential financing paths in order to focus the discussion: (A) reduce the sizes of coupon issues in FY 1995 to reflect the reduction in the size of the deficit and increase bill issues commensurately; (B) hold coupon issue sizes at the current level in FY 1995 and raise the rest in bills; and (C) raise coupon and bill issue sizes in FY 1995 by moderate amounts with an eye toward avoiding an inordinate increase in the proportion of new cash raised in bills. There were 11 votes for recommending path (C), 3 for path (B) and none for path (A).

The meeting adjourned at 4:10 p.m.

November 2

The Committee reconvened at 9:00 a.m. at the Treasury in closed session. The 14 members who attended the November 1 meeting were present. The Chairman presented the Committee report (copy attached) to Deputy Secretary Frank N. Newman and Deputy Assistant Secretary Bradbury.

A question-and-answer period followed the reading of the Committee report. Some Committee members expressed reservations about increasing the frequency of 3-year notes to six times per year from the current four times, as a way to smooth Treasury cash balances. In the past, Treasury bills have been used for that purpose. In reply to a question, several members expressed views on whether issuance of inflation-indexed bonds would be an efficient debt management technique for the Treasury.

The meeting adjourned at 9:30 a.m.

Jill K. Ouseley
Jill K. Ouseley, Director
Office of Market Finance
Domestic Finance
November 2, 1994

Attachments

Certified by: Stephen C. Francis
Stephen C. Francis, Chairman
Treasury Borrowing Advisory Committee
of the Public Securities Association
November 2, 1994