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

January 25, 1983

Mr. Secretary:

Your Committee has met to review and make recommendations concerning Treasury finance during the first quarter of 1983.

It is our view that the financial environment is unusually uncertain. The confluence of the many factors now influencing investors' minds will produce results that are highly difficult to judge at this time. Markets are befuddled -- seeking answers to two nagging questions: First, now that the economy appears to be coming off the bottom, will the Federal Reserve alter its more accommodative monetary policy? And, secondly, can the Government do something to contain the outsized budget deficits that periodically rise to dominate investors thinking?

The answers to these questions, of course, will not become apparent in the short term. Thus, the chances are high that Treasury financing during the first quarter will be conducted in an environment that is less propitious than that of the last two quarters of 1982. There is reason to believe that offerings may be less well received and that the magnitude of the Treasury's needs may periodically impede market access by other borrowers. The Committee has no magic panacea to guide Treasury through this period. Borrowing needs are a reality and must of course be financed.

In examining the financing schedule for this quarter and after reviewing a pro-forma financing schedule for the second quarter, we conclude that past financing practices and scheduled issues are sufficient to meet your needs. We discussed the possibility of expanding either the four or five year note offerings into monthly cycles. We concluded that this action was not needed at this time but believe it may well be needed as we progress into the third calendar quarter. The Committee believes that the size of individual issues should be increased as much as possible before the frequency of offerings is increased. We noted that several quarters ago we included what we then believed were the outside limits for the size of various issues and in all cases these limits have been exceeded by a substantial percentage. We also would note the beneficial effects of the two week breathing spell created by the quarter-end bunching of new issues into a "mini-refunding" week.

As we examined the pro-forma financing schedules for the first half of 1983, however, we were disturbed by the relatively high proportion of money raised in the bill market. We attempted to ease the situation somewhat by increasing amounts of longer bills and would urge Treasury whenever possible to reduce bill offerings if financing needs fall short of projections. The Committee also discussed a potential reduction in investor demand for bills due to lower interest rates and the advent of the new money market accounts at financial institutions.

The Committee continues to feel that debt extension and the fostering of an upward sloping yield curve should be primary tenets of Treasury debt management policy.

Cash Balances

The Committee by a vote of 20 to 3 endorses the planned cash balance levels of $10.0 billion on March 31 and $20.0 on June 30, 1983. Those dissenting would have opted for somewhat higher balances.

The Refunding

The primary recommendation of the Committee is a $15.0 billion package of new issues to refund the $5.8 billion of February 15 maturities. A refunding of this size would raise $9.2 billion in new cash. It consists of the following issues and amounts:

$6.5 billion	3 year notes to mature	2/15/86
$5.0 billion	10 year notes to mature	2/15/93
$3.5 billion	29 3/4 year bonds to mature (a reopening of an existing issue)	11/15/12

The Committee is aware that a refunding of this size exceeds that contemplated in the charge to the Committee. We felt it important, however, to share the group's strongly held feeling that a refunding of this size was both appropriate when the financing task ahead is analyzed and feasible in the light of market conditions. The amount of cash raised in the quarter end mini-refunding further testifies to the feasibility of a refunding of this size.

Should Treasury opt for a smaller refunding, the Committee's preference by a vote of 15 - 8 would be to reduce the long bond by $250 million and the three year note by $500 million. The minority would reduce the ten year note by $500 million, leaving the three year note issue size at $6.5 billion.

In regard to the long bond offering, the Committee voted 17 to 6 to reopen the 11/15/12 issue feeling it desirable to reopen issues rather than add further clutter to the already long list of Treasury issues. The Committee recommends the usual schedule of offering dates and that all issues be sold at auction. The Committee believes that the reopened long bond should be sold under the yield auction technique finding the present method of dollar price bidding highly cumbersome.

Financing in the Balance of the Quarter

Appended to this report are schedules containing the Committee financing recommendations for the balance of the quarter. The recommendations follow past patterns of Treasury financing and utilize cash management bills as the balance wheel if needs over- or under-shoot projections. A similar schedule is attached for the second quarter.

General comments on these financing projections have been offered earlier in this report.

Special Meeting

It has been a long standing practice of this Committee to hold a special meeting at some time during the year to discuss longer range and more basic issues relating to Treasury finance. We did not readily identify an agenda of issues that would call for a special meeting in our deliberations yesterday. Accordingly, we are not at this time recommending that a special meeting be scheduled. If, however, Treasury has agenda items that it is felt would be appropriate for our discussion, we stand ready to to ~~converse~~ at any time.

We are ready for your questions, Mr. Secretary.

Respectfully submitted,

David G. Taylor
Chairman

Summary of January - March Quarter New Money Financing

Already Raised or Announced

Regular Weekly Bills (includes 1/27 Bill)	+ 2.93
Regular One-Year Bills	+ 2.21
2-Year Notes	+ 2.62
7-Year Notes	+ 4.50
20-Year Bonds	+ 3.00
less: Cash Management Bills	- 9.00
	+ 6.26

To be Raised

Regular Weekly Bills	+ 8.74
One-Year Bills	+ 6.45
2-4 & 5-Year Notes	+13.54
Refunding	+ 8.50
	+37.23
Cash Management Bills	+12.50
Foreign Add Ons	+ 2.50
Total for Quarter	+52.23

Summary of April - June Quarter New Money Financing

Regular Weekly Bills	+ 4.48
One-Year Bills	+ 8.87
2-4-5 & 7-Year Notes	+22.44
20-Year Bonds	+ 3.00
Refunding	+ 9.28
	+45.07
Foreign Add Ons	+ 3.00
less: Cash Management Bills	-16.00
Total for Quarter	+35.07

Projected Treasury Financing Schedule First Quarter 1983*
(in billions of dollars)

Issue Date		Security	Maturing (privately held)	New Offering	Net
Issued or Announced					
January	4	7-year note	-	4.50	4.50
	4	20-year bond	-	3.00	3.00
	6	3-and 6-month bills	10.97	11.60	.63
	13	3-and 6-month bills	10.98	11.60	.62
	20	3-and 6-month bills	11.16	12.00	.84
	20	50-day cash mgt. bills	5.00	-	-5.00
	27	1-year bill	5.29	7.50	2.21
	27	3-and 6-month bills	11.16	12.00	.84
	27	73-day cash mgt. bills	4.00	-	-4.00
	31	2-year note	4.63	7.25	2.62
To Be Done					
February	3	3-and 6-month bills	11.19	12.00	.81
	10	3-and 6-month bills	11.16	12.00	.84
	15	Quarterly financing	5.80	14.25	8.50
	17	3-and 6-month bills	11.17	12.00	.83
	24	1-year bill	5.27	8.50	3.23
	24	3-and 6-month bills	11.15	12.00	.85
	28	2-year note	4.92	7.50	2.85
March	2	5-year note	-	5.50	5.50
	3	3-and 6-month bills	11.31	12.40	1.09
	10	3-and 6-month bills	11.43	12.40	.97
	17	3-and 6-month bills	11.44	12.40	.96
	24	1-year bill	5.28	8.50	3.22
	24	3-and 6-month bills	11.49	12.40	.91
	31	4-year note	2.86	5.50	2.64
	31	2-year note	4.68	7.50	2.82
	31	3-and 6-month bills	10.92	12.40	1.48
		New cash mgt. bills		12.80	12.50
		Foreign Add-Ons			2.50
		Total Net New Cash			49.73 53.23

* Assuming refunding of $14.25 billion and end of quarter balance $10.0 billion.

Maturing amounts for coupon issues are net of holding of foreign official investors. Projections assume add-ons of new issues to these investors will approximate of maturing securities.

Projected Treasury Financing Schedule Second Quarter 1983
(in billions of dollars)

Issue Date		Security	Maturing (privately held)	New Offering	Net
April	5	7-year note	-	4.50	4.50
	5	20-year bond	-	3.00	3.00
	7	3-and 6-month bills	11.45	12.40	.95
	14	3-and 6-month bills	11.43	12.40	.97
	21	3-and 6-month bills	11.63	12.40	.77
	21	1-year bill	5.27	8.50	3.23
	21	Cash mgt. bills (1st Qtr.)	4.00	-	-4.00
	28	3-and 6-month bills	11.63	12.40	.77
	28	Cash mgt. bills (12/6/82)	3.00	-	-3.00
	28	Cash mgt. bills (1st Qtr.)	4.00	-	-4.00
May	2	2-year note	4.25	7.50	3.25
	5	3-and 6-month bills	11.63	12.00	.37
	12	3-and 6-month bills	11.63	12.00	.37
	16	Quarterly financing	5.22	14.50	9.28
	19	1-year bill	5.58	8.50	2.92
	26	3-and 6-month bills	11.83	12.00	.17
	31	3-and 6-month bills	11.82	12.00	.18
	31	2-year note	4.24	7.50	3.26
June	2	3-and 6-month bills	12.01	12.00	-.01
	2	5-year note	-	5.25	5.25
	9	3-and 6-month bills	12.02	12.00	-.02
	16	1-year bill	5.78	8.50	2.72
	16	3-and 6-month bills	12.02	12.00	-.02
	16	Cash mgt. bills (1st Qtr.)	5.00	-	-5.00
	23	3-and 6-month bills	12.01	12.00	-.01
	30	4-year note	2.70	5.50	2.80
	30	2-year note	4.12	7.50	3.38
	30	3-and 6-months bills	12.01	12.00	-.01
		Foregin Add-ons		3.00	3.00
		Total Net New Cash			35.07

NOTE: End of Quarter Balance Assumptions $20.0 billion.

Maturing amounts for coupon issues include foreign holding.
Additional cash management bills needed in April and June.

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

April 27, 1983

Mr. Secretary:

The performance of the Treasury securities market and, indeed the performance of the capital and money markets generally, during the last two quarters has been remarkable. Back-to-back quarters of Treasury new money needs exceeding $55 billion have been financed, the huge year-end bulge in state and local needs was met and a substantial corporate calendar was accommodated--all within a relatively stable interest rate environment.

This performance in the first quarter of 1983 is even more remarkable when viewed in the light of continued lack of progress in reducing the size of projected Federal deficit levels and substantial nervousness over money supply growth and a general belief that the Federal Reserve has moved to a somewhat less accommodative monetary policy.

As we move into the second quarter of 1983, market psychology is brightened by signs of a calming in money supply growth rates and an economy on track with a forecast of gradual and hopefully sustainable growth. The reality of a parade of favorable price statistics is finally beginning to catch the attention of investors and, were it not for this deficit overhang and resultant financing needs, there would be building pressures to squeeze some of the inflation premium out of the interest rate structure.

The financing environment for the current quarter may be quite propitious. Private demands for credit remain moderate and investors' demands for fixed income securities are high--further stimulated by the upward slope of the yield curve. While many seers believe that these conditions may continue for a number of months, your Committee believes that you should act boldly at this time to take advantage of the present situation. Thus, our recommendations for this refunding and the balance of the quarter contemplate no retreat from the aggressive financing patterns of the last three quarters.

Cash Balances

The Committee by a vote of 16-7 recommends a June 30 closing cash balance of $20 billion or somewhat higher. Our financing package for the quarter would actually produce a closing balance of $21.5 billion. The dissenting members all would opt for a target June 30 cash balance of $24-$25 billion thus moving forward more of the third quarter's anticipated financing needs.

The Committee concurs in a $20 billion target for the September 30 cash balance.

The Current Refunding

The discussion surrounding our refunding recommendations was an unusually spirited one. You may be assured that the recommendations you are about to receive have been discussed and examined from all possible angles. The vote approving this recommendation was 18 to 5. To refund $5.2 billion in maturing May 15 notes, we recommend the Treasury auction $15.5 billion of the following securities:

$6.5 billion	3 year notes to mature 5/15/86
$5.0 billion	10 year notes to mature 5/15/93
$4.0 billion	29-1/2 year bonds to mature 5/15/2012 (a reopening of an existing issue)
$15.5 billion	

These issues would be auctioned in the customary sequence on May 3, 4 and 5. The refunding would produce $10.3 billion in new cash. The Committee is not concerned about the resultant size of the issues created by adding $6.5 billion to the existing 5/15/86 maturities or the reopening of the long bond.

Committee members voting for this proposal (18) are confident as to its market reception and the distribution of issue sizes within the $15.5 billion recommendation. Those dissenting had a variety of reservations primarily relating to the size of issues within the $15.5 billion package. The most common alternative would involve the reduction of the three year issue by $500 million, adding that amount to the ten year. A small minority of those dissenting would transfer $500 million from the long bond to the ten year note. There were no members who felt that the overall amount of the refunding package should be smaller.

Financing Over the Balance of the Quarter

Appended to this report is a schedule offering our recommendations for financing during the balance of the second quarter. As you will note, this schedule recommends adherence to your normal pattern of offerings and in amounts the same as in the first quarter of this year. With a $15.5 billion refunding and utilizing your current cash flow projections, this schedule of offerings produces a $21.5 billion cash balance at June 30. As we indicated earlier, this is an acceptable level to the Committee. Should conditions make it possible to modestly reduce your offerings during the quarter, the Committee recommends reductions in regular weekly bills.

Financing Beyond This Quarter

You will also find appended to this report pro-forma financing schedules for the last two quarters of 1983. They, of course, are very tentative but are instructive. From them, the principal conclusion that can be reached is that it does not appear that there will be a need during 1983 for the introduction of new cycle notes. It seems likely that existing patterns with somewhat increased individual issue sizes will be sufficient to meet Treasury's needs. It is also encouraging to note that the Treasury bill component of your financing remains in the recommended 25-30% range thus continuing to augment the important principles of debt extension and the fostering of an upward sloping yield curve.

Noncompetitive Awards in Bill Auctions

In recognition of the greatly increased size of Treasury bill offerings, the Committee unanimously recommends increasing noncompetitive awards to the $1 million level from $500,000 currently.

Mr. Secretary, we commend you and your Treasury financing team for aggressively tackling the task of financing unprecedented needs for Federal borrowing. Thus far, in the view of many, these needs have been filled with surprising ease. This Committee stands ready at any time to be of service and we are ready for your questions.

Respectfully submitted,

David G. Taylor
Chairman

ISSUE ANALYSIS OF APRIL-JUNE QUARTER NEW MONEY FINANCING REMAINING TO BE DONE

($ BILLIONS)

WEEKLY BILLS	OUTSTANDING	PROJECTED SIZE	FOREIGN NEW CASH	NEW CASH RAISED	
5/5/83	$11.6	$ 12.4	---	+$ .8	
5/12	$11.7	$ 12.4	---	+$ .7	
5/19	$11.8	$ 12.4	---	+$ .6	
5/26	$11.9	$ 12.4	---	+$ .5	
6/2	$12.0	$ 12.4	---	+$ .4	
6/9	$12.0	$ 12.4	---	+$ .4	
6/16	$12.0	$ 12.4	---	+$ .4	
6/23	$12.0	$ 12.4	---	+$ .4	
6/30	$12.0	$ 12.4	---	+$ .4	+$ 4.6
1-Year Bills:					
(5/19 maturity)	$ 5.6	$ 7.8	---	+$ 2.2	
(6/16 maturity)	$ 5.8	$ 7.8	---	+$ 2.0	+$ 4.2
2-Year Notes:					
(5/31 maturity)	$ 4.2	$ 7.8	+$ .5	+$ 4.1	
(6/30 maturity)	$ 4.1	$ 7.8	+$ .5	+$ 4.2	+$ 8.3
5-Year Notes:					
(1st half of June)	-0-	$ 5.5	+$ .3	+$ 5.8	+$ 5.8
4-Year Notes:					
(6/30 maturity)	$ 2.7	$ 5.5	+$ .5	+$ 3.3	+$ 3.3
30-Year (Flower) Bond:	$ 1.0	-0-	---	-$ 1.0	-$1.0
Refunding:	$ 5.2	$ 15.5	+$ .3	+$ 9.6	+$10.6
Total	$135.6	$168.3	+$2.1		+$35.8
			Already done............		6.2
					+$42.0

Opening Cash Balance	$ 15.5
	+42.0
	57.5
Deficit + Net of Foreign+State+Local	-36.0
Closing Cash Balance	$ 21.5

ISSUE ANALYSIS OF JULY-SEPTEMBER QUARTER NEW MONEY FINANCING REMAINING TO BE DONE

($ Billions)

WEEKLY BILLS	OUTSTANDING	PROJECTED SIZE	FOREIGN NEW CASH	NEW CASH RAISED	
7/7/83	$12.0	$12.8	---	+$ .8	
7/14	$12.0	$12.8	---	+$ .8	
7/21	$12.2	$12.8	---	+$ .6	
7/28	$12.2	$12.8	---	+$ .6	
8/4	$12.2	$12.8	---	+$ .6	
8/11	$12.2	$12.8	---	+$ .6	
8/18	$12.4	$13.2	---	+$ .8	
8/25	$12.4	$13.2	---	+$ .8	
9/1	$12.4	$13.2	---	+$ .8	
9/8	$12.4	$13.2	---	+$ .8	
9/15	$12.4	$13.2	---	+$ .8	
9/22	$12.4	$13.2	---	+$ .8	
9/29	$12.4	$13.2	---	+$ .8	+$ 9.6
1-Year Bills:					
(7/14 maturity)	$ 6.0	$ 8.0	---	+$ 2.0	
(8/11 maturity)	$ 6.3	$ 8.0	---	+$ 1.7	
(9/8 maturity)	$ 7.1	$ 8.0	---	+$ .9	+$ 4.6
2-Year Notes:					
(7/31 maturity)	$ 4.5	$ 8.0	+$ .5	+$ 4.0	
(8/31 maturity)	$ 4.8	$ 8.0	+$ .5	+$ 3.7	
(9/30 maturity)	$ 4.8	$ 8.0	+$ .5	+$ 3.7	+$ 11.4
5-Year Notes:					
(First half of Sept.)	-0-	$ 6.0	+$ .3	+$ 6.3	+$ 6.3
4-Year Notes:					
(9/30 maturity)	$ 2.5	$ 6.0	+$ .5	+$ 4.0	+$ 4.0
7-Year Notes:					
(First half of July)	-0-	$ 5.3	+$ .3	+$ 5.6	+$ 5.6
20- Year Bonds:					
(First half of July)	-0-	$ 3.5	---	+$ 3.5	+$ 3.5
Refunding:	$ 6.6	$15.0	+$ .3	+$ 8.7	+$ 8.7
	$202.2	$253.0	+$ 2.9		+$ 53.7

ISSUE ANALYSIS OF OCTOBER- DECEMBER QUARTER NEW MONEY FINANCING REMAINING TO BE DONE

($ BILLIONS)

WEEKLY BILLS	OUTSTANDING	PROJECTED SIZE	FOREIGN NEW CASH	NEW CASH RAISED	
10/6/83	$12.6	$13.6	---	+$ 1.0	
10/13	$12.6	$13.6	---	+$ 1.0	
10/20	$12.6	$13.6	---	+$ 1.0	
10/27	$12.6	$13.6	---	+$ 1.0	
11/3	$12.6	$13.6	---	+$ 1.0	
11/10	$12.6	$13.6	---	+$ 1.0	
11/17	$12.8	$13.6	---	+$ .8	
11/25	$12.8	$13.6	---	+$ .8	
12/1	$12.8	$13.6	---	+$ .8	
12/8	$12.8	$13.6	---	+$ .8	
12/15	$12.8	$13.6	---	+$ .8	
12/22	$12.8	$13.6	---	+$ .8	
12/29	$12.8	$13.6	---	+$ .8	+$ 11.6
1-Year Bills:					
(10/6 maturity)	$ 7.0	$ 8.0	---	+$ 1.0	
(11/3 maturity)	$ 7.0	$ 8.0	---	+$ 1.0	
(12/1 maturity)	$ 7.0	$ 8.0	---	+$ 1.0	
(12/29 maturity)	$ 7.1	$ 8.0	---	+$ .9	+$ 3.9
2-Year Notes:					
(10/31 maturity)	$ 4.8	$ 8.0	+$ .5	+$ 3.7	
(11/30 maturity)	$ 4.8	$ 8.0	+$ .5	+$ 3.7	
(12/31 maturity)	$ 4.8	$ 8.0	+$ .5	+$ 3.7	+$ 11.1
5-Year Notes:					
(First half of Dec.)	-0-	$ 6.0	+$ .3	+$ 6.3	+$ 6.3
4-Year Notes:					
(12/31 maturity)	$ 2.4	$ 6.0	+$ .5	+$ 4.1	+$ 4.1
7-Year Notes:					
(First half of Oct.)	-0-	$ 5.3	+$ .3	+$ 5.6	+$ 5.6
20-Year Bonds:					
(First half of Oct.)	-0-	$ 3.5	---	+$ 3.5	+$ 3.5
Refunding:	$ 6.1	$15.0	+$ .3	+$ 9.2	+$ 9.2
	$216.2	$268.6	+$ 2.9		+$ 55.3

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

July 27, 1983

Mr. Secretary:

Record levels of Treasury financing have been absorbed by the markets during the last two quarters of 1982 and the first quarter of 1983 with little difficulty. In the quarter just past total net market borrowing of $41.5 billion was accomplished with few signs of strain until the mini-financing conducted in late June. It is probably fair to say that the distribution of those issues was difficult and did add to the upward rate pressures already existent at that time.

In recent weeks, markets have in general been under pressure related to fears associated with a much stronger recovery than anticipated and M1 growth that continues outside of target ranges. The Federal Reserve's resetting of boundaries for M1 produced an initial market rally that was quickly reversed as second quarter GNP statistics became known and additional dimensioning of the degree of the recovery's strength took place.

While private demands for credit remain weak, markets now seem to be more concerned about an eventual clash between private and public financing needs. This, more than worries about renewed inflation, may be responsible for the substantial weakness demonstrated in the longer sector of the market in recent weeks. In short, Mr. Secretary, we are now moving into a period where the fact of outsized public borrowing needs will be brought up against the reality of strong recovery and at least some evident snugging in monetary policy. The environment will be less propitious, the financing task even more challenging.

Fortunately, and with foresight, Treasury financing policies during recent quarters have been conducted with an eye to maximizing the extension of the public debt, minimizing the use of bills and aggressively expanding the size of issues. While this Committee recommends continuance of these policies, we also believe that in the period ahead a more "gentle touch" may at times be desirable. The job must be done, however, and we believe that policies followed over the last few quarters are appropriate to the future.

It is with the foregoing thoughts in mind that the Committee presents its recommendations.

Cash Balances

Cash balance targets of $20 billion on September 30 and $15 billion on December 31 were unanimously voted by the Committee. Net market borrowing of $8 billion in the current quarter and $5 billion in the fourth quarter will be eliminated by these reductions in cash balances. Considering the financing burden in the next three quarters, however, the Committee views the recommended levels as minimum levels to be exceeded if events permit.

The Current Refunding

The Committee, after much debate, recommends a $16 billion refunding package which will raise $9.4 billion in new money. There were 15 votes in favor of this amount with 6 members opting for a $15.5 billion refunding. There was discussion of a $16.5 billion package but it was rejected as it was thought that this was not the time to surprise the market by exceeding general expectations. Those opting for the $15.5 billion level were mindful of the late June signs of less market demand and felt a nod in the direction of less new issue supply might improve conditions at least in the short term. A review of the financing needs ahead and general expectations that the environment is unlikely to improve in the near future won the day for $16 billion in the current refunding.

The Committee recommends the following refunding package:

$6.5 billion	3 year notes to mature	8/15/86
$5.5 billion	10 year notes to mature	8/15/93
$4.0 billion	30 year bonds to mature (with the usual 25 year call feature)	8/15/2013
$16.0 billion		

The above version of a $16 billion refunding was also approved by 15 votes. Six members would prefer $7.0 billion of 3 year notes and $5.0 billion of 10 year notes. The discussion here centered on the market's preference for 3 year versus 10 year notes and the need where possible to foster an upward slope to the intermediate and longer term portions of the yield curve.

The Committee recommends the three issues be sold at auction on Tuesday, Wednesday and Thursday of next week.

The Committee also recommends that the one year bill auction be pushed off to the week following the refunding and sold on Tuesday, August 9.

Financing Over the Balance of the Quarter

Appended to this report is a schedule offering our recommendations for financing during the balance of the third quarter.

The schedule contains no surprises and contemplates issue sizes approximating those already tested in previous periods. If followed, the pro forma schedule will result in a bill component of less than 20% of net new financing which is well within our recommended guidelines of 25-30%.

One important conclusion reached by the Committee in discussing future financing was to recommend a cap of $8.0 billion on the size of new offerings of 2 year notes feeling that amounts above this size were likely to exert an outsized effect on market rates.

Financing in the Fourth Quarter

Also appended to this report is a pro forma financing schedule for the fourth quarter that would produce net market borowing of almost $60 billion. It contemplates the use of $8 billion in cash management bills. If needs exceed $60 billion, additional cash management bills could be sold. $12 billion were issued in the fourth quarter of 1982.

The most important conclusion to be gained from examining the fourth quarter financing schedule is that it does not appear that there will be a need to institute an additional note cycle. The Committee feels it important to look ahead at this possibility as the market should be notified in advance of the initiative to institute a new cycle.

When Issued Trading

The Committee is highly concerned about potential problems associated with when issued trading in Treasury securities and the potential attempts to regulate this activity or centrally monitor such trades.

We believe strong consideration should be given to shortening the time between the announcement of issues and their settlement dates. We believe that two or three days notice of an intended offering prior to its auction is sufficient and that final settlement might well be moved up a full week after an issue is auctioned.

Were this done, the potential for abuses would be sharply reduced and the benefits accruing to Treasury from pre-auction, when issued trading would be preserved.

The Committee's Rate Forecast

Your Committee was asked in a meeting by a prominent Treasury official for its views on the outlook for interest rates. There being no response, we have subsequently caucused and offer the following: Projections at 12/31/83.

Short term rates (as defined out to one year):

Lower	6 members
Higher	12 members
Unchanged	3 members

Long Term rates (as defined 20-30 years):

Lower	5 members
Higher	14 members
Unchanged	2 members

With that bit of whimsy, I close this report.

We are ready for your questions.

Respectfully submitted,

David G. Taylor
Chairman

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

Oct. '83

Mr. Secretary,

As a preamble to this report, your Committee can offer little to augment or interpret the facts of the current financing environment. Factors have combined to smooth the way for continued successful Treasury sorties into the market.

Lower than expected net new borrowing needs have of course been a factor as have projections showing that lower than anticipated financing needs have continued into the current quarter.

The calming of money supply growth rates and the apparent modest shading of monetary policy toward a bit more reserve availability have been very helpful in shaping investor attitudes at least in the short term.

Still there lingers the fear among many that the strong economy will eventually produce private credit demands that will collide with public needs for funds. Some observers would say the current respite may eventually make its collision more dramatic.

There is, however, a strongly held point of view that with money under control, inflation confined to reasonable levels and prospects that the robust pace of the recovery may be reduced--stability and even some modest decline in rate levels may be forthcoming in future months.

In considering financing strategy under the dual benefits of stable market conditions and lower than expected cash needs, the Committee feels that there is opportunity to further address the structure of the debt by continuing to lengthen maturities and at the same time, continue to foster an upward sloping yield curve which will further augment the attractiveness of longer maturity Treasury securities.

Thus, in our recommendations, you will note the thread of continued aggressive use of coupon issues and the reduction of bill offerings where possible. In fact, the Committee believes that as the amount of net market borrowings is reduced (in concert with declining deficits), that net additions to the debt be sought through coupon offerings leaving the bill component of the debt relatively stable.

Treasury Cash Balances

Because of the manner in which settlement dates fall on the December and March quarter-end financings, the Committee believes that cash balance goals at December 31 and March 31 should be set at $10 billion. This provides adequate working cash on those dates and balances are substantially augmented immediately after both quarter ends.

The Current Refunding

The Committee after a thorough discussion and a vote of 18-3 with one abstention recommends the following package to refund $5.9 billion in maturing November 15, 1983 securities:

$6.25 billion	3 year notes to mature	11/15/86
$5.5 billion	reopened 11 7/8% notes of	8/15/93
$4.25 billion	reopened 12% bonds of	8/15/2013
$16.0 billion		

It is deemed desirable to reopen the latter two issues and current price premiums are not judged to be onerous to investors' interest in the issues.

We recommend that these issues be sold on a yield auction basis in the usual order during the week of October 30.

Financing Over the Balance of the Quarter

Appended to that report is a schedule offering our recommendations for financing during the balance of the fourth quarter. The financing schedule contemplates no net new financing in regularly offered bills, the modest use of cash management bills and the bulk of your financing needs met through the use of coupon issues. This recommendation is consistent with the financing strategy set forth earlier in this report.

Financing in the First Quarter of 1984

Also appended to this report is a suggested financing schedule for the first quarter of 1984. This plan would raise $55 billion in new money, approximately 25% in bills and 75% in coupon offerings.

The financing plan would limit 2-year note offerings to our suggested cap of $8.0 billion and not require the introduction of a new cycle note.

Offerings of 20 Year Bonds

From time to time the Committee has revisited the question of the advisability of the utilization of 20 year bonds as a financing vehicle. This questioning arises as the 20 year bond generally sells at a high level against the yield curve and does not enjoy a relatively high level of aftermarket trading activity.

In past discussions, the Committee has concluded that in spite of these drawbacks, the heavy needs of the Treasury mandate the use of all appropriate and available slots. Furthermore, there is a demand for 20 year bonds and those that purchase these generally appear to hold them for investment rather than for trading purposes.

In our discussion at this meeting, there was a discernable movement in sentiment toward taking a less positive view of 20 year bond financing. A suggestion that would be met with favor by many Committee members would be to begin phasing out 20 year financing in favor of more 30 year financing where demand is more consistent and pricing more favorable. The additional point was raised that this would move greater weight to the important mid-quarter refunding.

We believe that this matter might receive more study on the part of Treasury staff and could be an item that the Committee could contemplate further at a future or special meeting.

When Issued Trading

The Committee commends the Treasury for its announced intention to shorten the when issued trading period in connection with its security offerings. We understand the operational problems that this may present initially and individual members are available for consultation if needed.

Changes in Securities Accounting for Banks

The Committee believes that recently promulgated changes by the Office of the Comptroller of the Currency concerning a change from settlement date to trade date accounting for securities and treating commitments on a gross rather than a net basis may have a detrimental effect on the viability of the Treasury market.

These changes, it would appear, would result in a substantially greater use of capital by bank dealers and may well reduce bank secondary market activity.

We urge that appropriate officials in Treasury review these changes in relation to their potential effect on the market for Treasury securities.

Respectfully submitted,

David G. Taylor
Chairman

TREASURY MARKET BORROWING
OCTOBER-DECEMBER 1983
(In Billions of Dollars)

A. Completed or Announced through October 24, 1983

Bills	Amount Offered	Foreign Add-Ons	Amount Maturing	New Cash
Weekly Bills	48.1	-	49.9	-1.8
52-Week Bills	15.5	-	14.0	+1.5
Cash Management	-	-	-	-
Subtotal	63.6	-	63.9	-.3
Coupons				
2-Year Note	8.0	.3	4.8	3.5
7-Year Note	5.0	-	-	5.0
20-Year Bond	3.5	-	-	3.5
Subtotal	16.5	.3	4.8	12.0
TOTAL	80.1	.3	68.7	11.7

TREASURY MARKET BORROWING
OCTOBER-DECEMBER 1983
(In billions of dollars)

B. To Be Announced After October 24, 1983

WEEKLY BILLS	AMOUNT OFFERED	FOREIGN ADD-ONS	AMOUNT MATURING	NEW CASH
11/3	12.0		12.5	-.5
11/10	12.0		12.45	-.45
11/17	12.0		12.45	-.45
11/25	12.0		12.45	-.45
12/1	12.4		12.45	-.05
12/8	12.4		12.45	-.05
12/15	12.4		12.45	-.05
12/22	12.4		12.45	-.05
12/29	12.4		12.25	+.15
52-WEEK BILLS				
12/1	8.0		7.0	1.0
12/29	8.0		7.1	.9
CASH MANAGEMENT				
December	5.2		-	5.2
Subtotal	129.6		126.0	5.2
COUPONS				
2-Year Note	8.0	.35	4.8	3.55
5-Year Note	6.0	-	-	6.0
Nov. 15 Refunding	16.0	.4	5.9	10.50
Subtotal	29.75	.75	10.8	20.05
TOTAL	159.35	.75	136.8	25.25

NOTE: Assumes $10.0 billion cash balance on December 30. Also $5.0 billion of cash management bills may be needed in early December, which will be repaid before month end.

ESTIMATED TREASURY MARKET BORROWING
JANUARY-MARCH 1984

(In billions of dollars)

ISSUE	AMOUNT OFFERED	FOREIGN ADD-ONS	AMOUNT MATURING	NEW CASH	PERCENT
BILLS					
Weekly Bills*	166.8		159.8	7.0	
52-Week Bills**	24.0		23.1	0.9	
Cash Management	10.0		4.0	6.0	
Subtotal	207.0		186.9	13.9	25.0
COUPONS					
2-Year Note#	24.0	.9	15.8	9.1	
4-Year Note	6.25	.3	2.4	4.15	
5-Year Note	6.0	-	-	6.0	
7-Year Note	5.3	-	-	5.3	
20-Year Bond	3.8	-	-	3.8	
Feb 15 Refunding	17.0	.3	4.5	12.8	
Subtotal	62.85	1.5	22.7	41.15	75.0
GRAND TOTAL	269.85	1.5	209.6	55.05	100.0

NOTE: Assumes a balance of 10.0 on March 30.

*Assumes offerings of $12.8 in January and thereafter.

**Assumes offerings of 8.0 in January, February and March.

Assumes offerings of $8.0 in December, January and February.