REPORT TO THE SECRETARY OF THE TREASURY
FROM THE TREASURY BORROWING ADVISORY COMMITTEE OF THE
PUBLIC SECURITIES ASSOCIATION

January 30, 1991

Dear Mr. Secretary:

Both economic and international political developments have impacted U.S. financial markets in the months since our October meeting. A relatively sudden and sharp contraction in economic activity during the fourth quarter prompted the Federal Reserve to adopt a more aggressive strategy of monetary easing. Fed actions over the past quarter have included four separate easing moves, plus a half-point reduction of the discount rate and a cut in bank reserve requirements. These policy moves, combined with growing investor worries about the health of the banking system, caused Treasury bills and other short-maturity Treasury yields to decline steadily over the period. Yet until mid-January, concerns that a Persian Gulf war might disrupt either the production or transportation of petroleum inhibited long-dated note and bond yields from declining in tandem with short-term rates. Those fears diminished substantially, however, when early reports following the initiation of hostilities indicated considerable success on the part of the U.S.-allied forces. On balance since late October, discount yields on 3-month Treasury bills have fallen from 7.13 percent to 6.17 percent, while 3-year note yields have eased from 7.90 percent to 7.30 percent, and 30-year bond yields have declined from 8.75 percent to 8.20 percent.

Developments in the Middle East will likely continue to overshadow other factors affecting world financial markets during the weeks ahead. In particular, the duration and final outcome of the war against Iraq can be expected to remain a strong influence on consumer and business attitudes, while the necessary costs of the allied military effort will tend to push up both the Federal budget deficit and Treasury financing needs. For the longer term, U.S. yields may be affected especially strongly by changes in consumer confidence, which could alter perceptions about the recession's potential depth and the need for further Fed policy easing. It is against this backdrop that the Committee makes its recommendations for the February refunding.

The Committee recommends that the following securities be sold at yield auctions to refund $17.35 billion maturing securities and raise $17.65 billion of new cash:

-- $12.50 billion 3-year notes due 2/15/94;

-- $11.25 billion 10-year notes due 2/15/2001;

-- $11.25 billion 30-year bonds due 2/15/2021.

For the remainder of the current quarter, the Committee recommends:

- -- Sell $12.5 billion 2-year notes, raising $2.5 billion of new cash;
- -- Sell $9.0 billion 5-year notes raising all new cash;
- -- Sell $11.75 billion 52-week bills at two remaining auctions, raising $4.0 billion new cash;
- -- Maintain weekly 3- and 6-month bill auction size at $20 billion for the remainder of the quarter, raising a total of $5.0 billion.

Summary of New Cash for the January/March Quarter 1991

Refunding	$17.65 billion
3- and 6-month bills	5.0
52-week bills	4.0
2-year notes	2.5
5-year notes	9.0
Total to be raised	$38.15
Already raised	25.75
Estimated Foreign Add-ons	1.80
Net Market Borrowing for the Quarter	$65.70 billion

The Committee recommends a cash balance of $21.7 billion on March 31. Finally, at this point the Committee does not see a need for a late March cash management bill.

For the April/June quarter, the Committee suggests that increases be made to monthly year bills, coupon cycles and the refunding auctions. Weekly bills should continue to perform the adjusting or flexing role the Treasury needs to provide for changing circumstances. Given the great uncertainty as to the timing and amount of Treasury funding needs in the April/September period, the Committee recommends a June quarter-end balance of approximately $50 billion. The Committee acknowledges the reserve management problems this balance might pose, but finds the implications of financing $100 billion plus in the July/September period equally undesirable. The Committee also feels there is a possibility that the cash needs for the April/June quarter may exceed current Treasury estimates. In any case, the weekly bill schedule provides significant flexibility for this uncertain environment, while the suggested balance allows for market participants to plan for steady, routine increases in longer dated cycles.

In summary, the Committee recommends the following incremental new cash schedule for the April/June Quarter.

Summary of New Cash for the April/June Quarter 1991

Coupon cycles	$31.0 billion
Refunding	17.2
52-week bills	6.7
3- and 6-month bills	5.1
Foreign Add-ons	2.0
Paydown of April CMBs	(12.0)
Net market borrowing	$50.0 billion

As a final point of comment, the Committee strongly endorses the incrementally larger weighting of 30-year bonds in the recommended February refinancing package. The substantial diminution of long-term paper in prospect following the completion of the REFCORP funding program, plus a commitment to on-going debt extension in a period of heavy financing requirements, is an important point of emphasis for the Committee. The group has a nearly unanimous sentiment on this score. The Committee also believes the market welcomes this stretching out of maturities and recognizes that the Treasury has very few competitors in this sector of the capital markets.

Mr. Secretary, that concludes our report, and we welcome questions and discussion.

Jon S. Corzine
Chairman