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

February 3, 1993

Dear Mr. Secretary:

Since the Committee's last meeting with the Treasury three months ago in November, data for the economy have steadily taken on a more positive cast. The track, though slow, now seems unmistakably improved, and few still question the sustainability of the recovery. Equally, however, few yet foresee a significant prospect that growth over the next year or two will be strong enough to narrow materially the gap between actual and potential output. Gains in employment in particular have been meager so far, in part because impressive improvements in productivity have been able to meet the rising demand for output. While the improved productivity augurs well for future non-inflationary growth, the present slow growth in employment tempers current optimism.

From the levels which prevailed at the time of the last meeting, yields on Treasury securities have declined, by approximately 10 to 15 basis points on maturities under one year and up to 50 basis points on maturities of ten years and beyond. The yield curve, as a consequence, has flattened, with the spread between 2- and 30-year securities, for example, narrowing by nearly 25 basis points to approximately 300 basis points.

It is within this context that the Committee recommends that $37 billion of the following securities be auctioned to refund the $25.5 billion of the securities maturing on February 15, 1993, which are privately held, and to raise additional cash of $11.5 billion:

-- $15.5 billion 3-year notes due February 15, 1996;

-- $11.25 billion 10-year notes due February 15, 2003; and,

-- $10.25 billion 30-year bonds due February 15, 2023.

The Committee, in its deliberations on the total size of the refunding, considered two possible amounts, $36 billion and the $37 billion recommended. Seven members favored the former, 11 the latter. The principal argument in support of the smaller size is that the modest reduction of $1 billion from the size of the previous refunding in November would be consistent with the modest reductions in other recently auctioned coupon issues. A majority of Committee members thought, however, that projections of borrowing needs for the foreseeable future were sufficiently large to warrant keeping the total size of the refunding at the level of $37 billion. With respect to the composition of the refunding, the Committee favored the amounts recommended by a vote of 15 to 3.

The Committee discussed the possible merits of again reopening the 6 3/8 percent notes due August 15, 2002, but decided by a vote of 16 to 2 to recommend the issuance of a new 10-year security. Most Committee members felt that there were few signs of an unusual shortage in the outstanding issue, and that in any event a new 10-year security seemed likely to command a modestly lower yield when auctioned.

For the remainder of the quarter, with the aim of achieving a cash balance of $20 billion on March 31, the Committee recommends the Treasury auction:

- Two 5-year notes of $11.25 billion each, to raise $22.5 billion of new cash;
- Two 2-year notes of $15.5 billion each, to raise $5.8 billion of new cash;
- One 1-year bill of $15 billion, to raise $1.2 billion of new cash;
- Weekly 3- and 6-month bills increased from the present level of $23.2 billion to $24 billion, to raise $2.3 billion of new cash; and,
- A cash management bill in early March to mature April 22, to raise up to $20 billion of new cash.

The Committee was unanimous in this recommendation for the remainder of the quarter, except for a sentiment expressed by some members for reducing modestly the size of the 5-year notes. These members felt that the comparatively large size of the monthly offerings has caused some congestion in this maturity area, possibly resulting in some distortion of the yield curve.

The net new cash raised in the quarter by the recommendation as given would be as follows:

Refunding	$11.5 billion
5-year notes	22.5
2-year notes	5.8
1-year bill	1.2
3- and 6-month bills	2.3
Cash management bill	20.0
Subtotal	$63.3 billion
Less: 4-year note maturity	(8.3)
Plus: Already issued or announced	9.0
Estimated foreign add-ons	3.0
Total Net Market Borrowing	$67.0 billion

For the next calendar quarter, the Committee concurs with the target cash balance of $35 billion on June 30, though it would encourage erring on the higher side in view of the large borrowing requirement in prospect for the following quarter. Given that prospect, the Committee recommends holding the issuance of coupon securities essentially level during the April through June period and absorbing the temporary reduction in borrowing needs in the issuance of Treasury bills. Specifically, the Committee recommends that the monthly 2-year note be held at $15.5 billion, the monthly 5-year note at $11.25 billion, the quarterly 7-year note at $9.75 billion, and the quarterly refunding at $37 billion. With respect to bills, the Committee recommends keeping the monthly 1-year bill at $15 billion, while reducing the weekly 3- and 6-month bills to an average of approximately $23.4 billion. Incorporating the paydown of the April cash management bill, the payoff in May of the issue called, and the maturity of the 4-year note in June, this recommendation would raise approximately $28 billion of new cash in the quarter. The Committee notes, incidentally, that within the quarter there may be a need for short-dated cash management bills in both April and June.

Finally, in the category of other topics, the Committee notes that with the advent of a new Administration there has been considerable speculation in the media and among market participants about possible changes in the composition of Treasury financings. Both the absolute and relative sizes of the longer term maturities issued each quarter, especially the 30-year bond, have received particular attention.

The Committee commends the Treasury's intent to study the composition of its borrowing. The Committee believes, however, that the study should be comprehensive and extend beyond the issue of composition alone to cover the full range of policy issues involved in debt management.

Mr. Secretary, that concludes our report. We welcome any questions or comments.

Respectfully submitted,

Stephen C. Francis
Acting Chairman