REPORT TO THE SECRETARY OF THE TREASURY
FROM THE U.S. GOVERNMENT AND FEDERAL
AGENCIES SECURITIES COMMITTEE OF THE
PUBLIC SECURITIES ASSOCIATION
January 26, 1988

Dear Mr. Secretary:

Since the Committee last met, two issues have dominated the U.S. financial markets. The first is the extent of any economic slowdown that might result from the stock market collapse in October; the second is the potential for higher U.S. inflation from the sharp decline in the dollar in late 1987. With regard to both of these questions, the bulk of the evidence so far has been reassuring. Production continued to grow strongly in the fourth quarter, while the inflation numbers have been on the low end of expectations. The uncertainty over these issues has kept the fixed-income markets fairly volatile on a day-to-day basis. Long-term Treasury bonds are about 1/2 of a point lower in yield now than they were then, and three-month bills, about 70 basis points higher. Thus, the principal change in the bond market over the last three months has been a flattening of the yield curve, which has in large part reflected a lessening of the strong demand for liquidity and safety that emerged right after October 19.

The biggest surprise since then has been the apparent imperviousness of the economy as a whole to the shock of the stock market decline. To be sure, the consumption and housing sectors have been generally weak, but that weakness has appeared more as a continuation of earlier trends rather than something that arose suddenly after October 19. And the softness in those sectors has been more than offset by the strength in industrial production, presumably in response to growing export demand. There does seem to have been considerable inventory growth in the fourth quarter, however, and that suggests some slowdown in both domestic production and perhaps imports early this year. The likelihood of that occurring seems even greater against the backdrop of puzzlingly slow money growth in 1987. Moreover, it is still far too early to say with certainty that there will be no economic fallout from the stock market. The uptrend in unemployment insurance claims since October is one sign that bears watching in this regard.

As for inflation, despite the concerns that U.S. manufacturers are close to capacity constraints because of the surge in export orders, the major price indexes are not showing any signs of acceleration. Wage rates have edged up slightly, but not to any worrisome degree. And although some measures of commodity prices have risen, the prospects of a more stable dollar should help to allay any concerns of a serious inflationary pickup.

At the time of the last meeting of the Committee, the markets were focusing intently on the budgetary process in Congress. Whatever disappointment there may have been over the results, the federal deficit has generally faded as a matter of immediate concern. Attention may be redirected in this direction as the President prepares to send his 1989 budget to Congress. But for now, the market is probably at least as focused on the need to extend the long-bond authority as it is on broader fiscal questions. With respect to monetary policy, there seems to be a growing consensus that there is no need for a change in either direction at this time. A renewed bout of dollar weakness could of course reignite fears of a tighter policy. Hence, international developments--including both the outlook for the trade balance and the policy stance of foreign central banks--will continue to be extremely important for the markets.

Indeed, there have recently been at least two very direct links between what happens abroad and the behavior of the Treasury market. Dollars acquired by foreign central banks through intervention have been recycled into the Treasury market, and not just into the bill sector. Increasingly, central banks have been willing to move further out the yield curve. Secondly, the size of foreign add-ons in recent Treasury auctions has been up sharply. As a result, foreign sector activity has reduced the amount of securities that the Treasury would otherwise have to issue in the public market. And that brings us to the recommendations we have for the upcoming refunding auctions.

The Committee approved by a 16 to 2 vote a plan for financing Treasury debt through the end of June. The plan would reduce all coupon offerings except the long bond by at least $250 million from the level of offerings in the fourth quarter of 1987. The long bond which was restricted in size by the 4 1/4% interest rate ceiling in November would be set at $8.75 billion. It would keep bill auctions at current levels through April before raising them. It would meet quarter-end cash balance targets through the use of cash management bills. The Committee considered but rejected recommending the elimination of a note cycle as premature because of the projected size of the ongoing deficit.

For the quarterly financing then the Committee recommends that the following securities be sold at auctions to refund $12.1 billion maturing securities and raise $15.2 billion of new cash:

$9.5 billion 3-year notes due 2/15/91
$9.0 billion 9 3/4-year notes due 11/15/97
$8.75 billion 29 1/4-year bonds due 5/15/17

The committee proposes to reopen existing securities for the two longer offerings. There was unanimity in proposing to reopen the 8 3/4% bonds due 5/15/17, while the proposal to reopen the 8 7/8% notes of 11/15/97 was passed by a 12 to 6 vote. The minority in the latter vote were concerned that the premium currently in the market might deter some potential bidders from entering the auction. The majority felt that auction premiums above par were not a problem and that some investors preferred the higher coupon.

For the remainder of the quarter the Committee recommends:

-- Sell $8 3/4 billion 2-year notes at two remaining auctions paying down $2.2 billion.

-- Sell $7 1/4 billion 5-year notes raising all new cash.

-- Sell $6 3/4 billion 4-year notes raising $750 million.

-- Sell $9.25 billion 52-week bills at two remaining auctions paying down $800 million.

-- Sell $12.8 billion at each remaining 3- and 6-month Treasury bill auction paying down $5.9 billion.

-- Sell about $5.3 billion in cash management bills to meet quarter-end cash balance targets.

Summary of New Cash Needed for Quarter

Refunding	$15.2 billion
3- and 6-month bills	-5.9
52-week bills	-0.8
2-year notes	-2.2
4-year notes	.8
5-year notes	7.3
Cash management bills	5.3
Total	$19.7 billion
Already raised	$ 3.7 billion
Estimated Foreign Add-ons for remainder of quarter	3.3
Net Market Borrowing	$26.7 billion

The Committee recommends cash balances for March 31 and June 30 of $10 billion and $20 billion respectively.

The Committee considered the question of shortening when issued periods for mid-quarter refundings. They concluded by a vote of 16 to 2 that it would be appropriate to shorten these periods by one week. This could be accomplished by moving the announcement of the auction dates and the actual auctions later by one week. Presumably this change would also require the Committee to meet one week later than is presently scheduled each quarter. This was not deemed to be a problem and the Committee recommends that this new procedure be announced immediately and instituted starting with the May financing.

The reduced supply of Treasury bills that has developed over the last year was addressed by the Committee. It was recognized that a relative scarcity of bills has developed in the market and the lack of availability is causing some problems for traditional bill buyers such as the Federal Reserve and foreign central banks. As a result, these and other investors have begun to lengthen their holdings of Treasury securities. After some discussion, it was concluded that this development on balance has been advantageous to the Treasury. It has kept the yield curve steep and reduced the cost of Treasury bills which still constitute 19% of the private holdings of marketable debt. But we feel that the drop in outstanding bills has achieved its purpose and further reductions should be avoided in the future.

Mr. Secretary this concludes our report and we welcome questions and discussion.

Donald B. Riefler
Chairman

REPORT TO THE SECRETARY OF THE TREASURY
FROM THE U.S. GOVERNMENT AND FEDERAL
AGENCIES SECURITIES COMMITTEE OF THE
PUBLIC SECURITIES ASSOCIATION
MAY 4, 1988

Dear Mr. Secretary:

At the time of our last meeting, the economic news was generally reassuring, although there were concerns about an overhang of inventories. Immediate inflation worries were muted, although latent concerns remained as a result of the dollar's weakness in 1986-7. The period since that meeting divides itself fairly naturally in two as far as the government bond market is concerned. For about five weeks, a rebound in the dollar along with a sharp drop in the closely watched CRB index allowed the rally that had begun in mid-December to continue. It was further aided by the slight easing in Federal Reserve policy that, as we now know, was being implemented right around the time of our meeting on January 26. From then until March 3, yields on long-term Treasury bonds fell by almost 3/8 of a point. The rates on both three-month bills and federal funds declined by about 20 basis points, as the yield curve flattened.

The extraordinary rise in employment reported the next morning was the first of a series of statistics that sharply altered market perceptions. Fears of economic softness were gradually replaced by projections of strong economic growth. With the latter came worries about accelerating inflation as a result of capacity constraints and tight labor markets, worries that were exacerbated by an actual pickup in inflation indicators during March. Added to this mixture was disappointment over the February trade figures and a reversal of the Fed's easing move. All together, these various factors produced a nearly 70-basis-point backup in Treasury bond yields to slightly over 9%, their highest level since mid-December. This was accompanied by a steepening in the yield curve, as 3-month bills only rose by about 20 basis points.

It now appears that the prospects for real growth of better than 3% in the next few quarters are quite good, particular in light of the recent survey of capital spending plans. However, the outlook will depend critically on whether the pickup in consumer spending in the first quarter continues for the rest of the year. This in turn presents a dilemma: can the trade deficit be pared significantly in such an environment, given the recent strength in imports? Moreover, the likelihood of continued solid real growth does nothing to reduce concerns over inflation, nor do the latest developments in the oil market.

As for the markets themselves, they have demonstrated an impressive ability to absorb unsettling news with a minimum of disruptions (e.g., the Texas bank problems and the spate of stories on the extent of the FSLIC's difficulties). This is in part due to the excellent technical conditions, at least in the Treasury market. Renewed purchases by foreign central banks as well as the Fed's purchases of coupon securities to meet seasonal reserve needs have both helped. So has the continued light issuance by the Treasury. And there may be some signs of support at the long end from the growing realization that Congress may not extend bond authorization any time soon. This, then, is the environment in which we have developed our recommendations for the upcoming refunding auctions.

The Committee considered several recommendations to address the rather pleasant position the Treasury finds itself in of a projected cash surplus for the second quarter (the first quarterly surplus in 7 years). These included: decreasing the new issue size of Treasury bills below $12.8 billion; eliminating a note cycle; a major cutback in the size of the long bond; a modest reduction in all coupon offerings; an increase in the projected cash balance for June 30. It unanimously chose a combination of the last two options, i.e., new coupon offerings should continue to be reduced in size and the cash balance target for June 30 should be raised.

Specifically, the Committee voted unanimously for a $25.5 billion financing to refund $16.5 billion of securities maturing May 15 and to raise $9 billion of new cash. The Committee voted 11 - 7 for a new bond rather than a reopening of the 8 7/8% bonds due 8/15/17. In view of that decision, we voted unanimously that the size of the new bond should be $8.75 billion rather than $8.5 billion. By a 13 - 5 vote the Committee recommends an $8.25 billion 3-year note and an $8.5 billion 10-year note rather than the other way around.

In regard to the reopening question, it was argued that the Treasury would save in interest costs with a new issue. Those who voted in favor of a reopening were concerned about the possibility that the relatively small size of the new issue could result in a poor secondary market from a trading standpoint if the Treasury's authority to issue long bonds should lapse. The vote in favor of a smaller size for the two shorter issues reflected the belief that the actual size of those offerings would be larger as a result of foreign add-ons, especially on the 3-year note.

For the remainder of the quarter the Committee recommends:

- -- Sell $8.0 billion 2-year notes at 2 remaining auctions paying down $4.4 billion.
- -- Sell $6.75 billion 5-year notes raising all new cash.
- -- Sell $6 billion 4-year notes paying down $0.1 billion.
- -- Sell $8.5 billion 52-week bills paying down $1.3 billion.
- -- Sell $12.8 billion at each of the remaining 3- and 6-month Treasury bill auctions paying down $4.4 billion.

Summary of New Cash Needed

Refunding	$ 9.0 billion
3- and 6- month bills	(4.4)
52-week bill	(1.3)
2-year notes	(4.4)
4-year notes	(0.1)
5-year note	6.8
Total	$ 5.6 billion
Already done	(4.0)
Estimated Foreign Add-ons	1.9
Net market borrowing	$ 3.5 billion

The Committee unanimously voted for a $35 billion cash balance on June 30 and a $30 billion cash balance on September 30. The June target accounts for the difference between the Treasury's projected $1.5 billion decrease in market borrowing and the Committee projected $3.5 billion net market borrowing.

The Committee recommended that the Treasury offer a full sized long bond at this time. This recommendation was based on the belief that good debt management practices should not be predicated on an assumption that Congress would fail to increase the bond authority before the August refunding. It was the Committee's view that should the Congress fail to raise the bond authority, the orderly and predictable process of Treasury financings would be disrupted. The attendant distortion in the pattern of borrowing and resulting uncertainty would likely increase the cost of financing to the Treasury. In addition, the public commentary that likely would be generated could have an adverse effect on the perceived attractiveness of investment in the U.S. and hence the terms on which funds can be obtained including by the Treasury.

As mentioned earlier, the Committee rejected the proposition that the Treasury should eliminate a note cycle at this time. As you know this Committee, in our last special meeting, proposed that the 5-year note should be repositioned in the financing calendar and the 4-year note cycle eliminated when and if the Treasury's cash needs diminish sufficiently. It is the judgement of the Committee that this point has not yet been reached. The Treasury's improved cash position is importantly related to foreign central bank investment which may not continue and a large cash deficit is projected for the second half of calendar year 1988.

Mr. Secretary this concludes our report. The Committee is prepared to respond to any of your questions.

Donald B. Riefler
Chairman

REPORT TO THE SECRETARY OF THE TREASURY
FROM THE U.S. GOVERNMENT AND FEDERAL
AGENCIES SECURITIES COMMITTEE OF THE
PUBLIC SECURITIES ASSOCIATION
August 3, 1988

Dear Mr. Secretary:

Since the time of our last meeting, four factors have played a dominant role in the U.S. Treasury market: (1) the strong economy and attendant fears of inflation; (2) the aggressive series of tightening moves by the Federal Reserve; (3) the strong rebound in the dollar; and (4) the relatively light supply of new Treasury debt along with the prospect of no new issuance of bonds at the upcoming refunding. Clearly, these factors are interrelated. Thus the tightening actions by the Fed have been in direct response to the continuing evidence of economic growth in excess of what is generally perceived to be sustainable without producing an acceleration in inflation. (By contrast, both the central bank and, to a large degree, the fixed-income markets have been willing to view the sharp run-up in commodity prices as more of a one-time supply shock that need not significantly impact the trend rate of inflation.) In turn, the decisiveness of the Fed's policy response, particularly in an election year, appears to have helped trigger the change in sentiment toward the dollar in the foreign exchange markets. And while the pattern of light Treasury issuance is less directly related to the other three factors, the generally constructive outlook for the deficit reflects to a significant degree the economy's strong growth.

As one or another of these various forces has temporarily appeared more important to the markets over the course of the last three months, yields on long-term Treasury bonds have ranged from a high of about 9 3/8% in late May to a low of around 8 7/8% in late June. However, the net result has been a pronounced flattening of the Treasury yield curve since the time of our last meeting. While yields on thirty-year bonds have actually declined, yields on two-year notes are up by about 60 basis points and those on three-month bills, by over 75 basis points. Put slightly differently, the yield curve itself does not seem to reflect any significant worsening of inflation expectations.

Looking ahead, the economy still appears to have a good deal of momentum left. Continued strong growth is likely in both exports and capital equipment spending (although the recent pace of growth in those two sectors is clearly not sustainable indefinitely). The housing sector, by contrast, is likely to provide little if any stimulus. The swing sector will clearly be consumption. If the strong pickup in employment so far this year translates into at least a modest rebound in consumption, then there should be no cause for any significant inventory correction and production growth could be maintained at about the same rate as in the first half. Presumably, the Fed is prepared to tighten further if growth does not slow soon to around 2 1/2%. Further tightening from here, however, would have to be done with an eye toward the capital markets, since last year's events in the stock market are still fresh in investors memories. As for the elections, their impact on the financial markets has been hard to detect up until now, but attention is likely to become more focused in the coming weeks.

It is against this background that we have developed our recommendations for the refunding.

The Committee recommends that the following securities be sold at auction to refund $14.8 billion maturing securities and raise $9.2 billion of new cash:

-- $12 billion 3-year notes due 8/15/91.

-- $12 billion 9 3/4-year notes due 5/15/98.

The Committee voted 12 to 7 in favor or a $24 billion refunding instead of a $22 billion refunding. The majority felt that the additional size was warranted because of the Treasury's inability to include in the refunding the usual 30-year bond offering because of the 4 1/4% interest rate ceiling on Treasury bonds. While the amount is more than the market is expecting, the offerings will be well received because there is currently an excellent demand for Treasury securities.

The Committee voted 12 to 7 in favor of $12 billion each of 3-year and 9 3/4-year notes rather than $10 billion and $14 billion respectively because of $14 billion auction of 10-year notes might be viewed as too large an increase from previous auctions of 10-year notes for the market to absorb easily--particularly if unfavorable news should occur before the auction.

The Committee voted 17 to 2 for reopening the 9% notes due 5/15/98 rather than offering a new issue. It was judged that this would neither save nor cost the Treasury anything in interest costs in the immediate auction. The outstanding 9% notes are currently in short supply and it will help the liquidity of the market to have one larger issue in the 10-year maturity area rather than 2 smaller ones.

We judge that about $6 billion of 30-day cash management bills will have to be auctioned for payment August 15 and about $15 billion 20-day cash management bills early in September to smooth out the Treasury's cash flows for the quarter. We recommend that the first cash management bill be auctioned on

Thursday, August 11 in order to allow the 3- and 10-year notes to be auctioned at their customary times.

For the remainder of the quarter we recommend:

-- Sell $10 billion 2-year notes at 2 remaining auctions paying down $.95 billion.

-- Sell $7.75 billion 5-year notes raising all new cash.

-- Sell $7 billion 4-year notes raising $.450 billion.

-- Sell $9.5 billion 52-week bills at two remaining auctions raising $.200 billion.

-- Sell $13.6 billion at each of the remaining 3- and 6-month bill auctions in August raising $.700 billion.

-- Sell $14 billion at each of the remaining 3- and 6-month bill auctions in September raising $3.350 billion.

Summary of New Cash for the Quarter

Refunding	$9.2 billion
3- and 6-month bills	4.0
52-week bills	.2
2-year notes	(1.0)
5-year notes	7.8
4-year notes	.4
Total	$20.6 billion
Already raised	2.7
Estimates Foreign Add-ons	2.0
Net Market borrowing	$25.3 billion

The Committee's recommendation taken literally replaces the funds that would normally come from the long bond through a combination of increased 3- and 10-year notes and Treasury bills. This meets two goals: (1) it offers immediately large coupon offerings, particularly the 10-year note as close a substitute as possible for the bond; (2) by increasing Treasury bills it gives the Treasury the leeway to pay down should the long bond authority become available in future quarterly financings. We considered but rejected the idea of a longer term cash management bill since there did not seem to be an obvious opportunity to pay it down this year. Adjustments in the regular weekly bill cycle therefore seemed preferable.

For the October - December quarter the Committee recommends modest additions ($.250 billion each from the previous size of offerings) for the 7-year and 5-year notes and the one year bills; maintain the 2-year notes at $10 billion and the regular weekly bills at $14 billion. Since the size of the refunding depends on whether or not the offering of a long bond is possible in November we have penciled in a $25 billion refunding. This could be raised or lowered depending on the bond authority with adjustments made in other issues and/or the year-end cash balance.

The Committee recommends cash balances of $30 billion on September 30 and $25 billion on December 31. The higher cash balance in September is needed because of projected heavy cash drains early in October. The need for a higher ending balance in December is mitigated by projected tax receipts in the middle of January 1989.

Mr. Secretary this concludes our report and we welcome questions and discussion.

Donald B. Riefler
Chairman

REPORT TO THE SECRETARY OF THE TREASURY
FROM THE U.S. GOVERNMENT AND FEDERAL
AGENCIES SECURITIES COMMITTEE OF THE
PUBLIC SECURITIES ASSOCIATION
November 2, 1988

Dear Mr. Secretary:

At the time of our last meeting, we cited four factors that had been playing a particularly important role in the U.S. Treasury market: (1) the strong economy and the attendant fears of inflation; (2) the aggressive series of tightening moves by the Federal Reserve; (3) the strong rebound in the dollar; and (4) the relatively light supply of new Treasury issues along with the prospect of no bond at the quarterly refunding. The situation with regard to each of these factors has changed significantly in the interim.

Most of the economic indicators over the past few months have been signaling a more moderate rate of real growth than had prevailed in the first half of the year. These signs of at least some deceleration have in turn reduced the level of concern over inflation, as has the sharp drop in oil prices. Moreover, the actual inflation numbers (especially for the CPI) have come in slightly lower than had been anticipated just a few months earlier. The Federal Reserve, which raised the discount rate to 6 1/2% just one week after we last met, has since maintained an essentially unchanged policy. And there is now a fairly widespread expectation in the market that no further change in the Fed's stance is likely before year end. To the extent that the anticipation of rising short-term interest rates in the U.S. was a key source of the dollar's strength last summer, it should not be surprising that the dollar has lost a good portion of its earlier gains in the new environment. As for the Treasury's new issuance, the normal seasonal pick-up in borrowing will now presumably include supply at the long-end for the first time since May.

These extensive differences in the fundamental outlook over the last three months help to explain the unusual changes in the shape of the yield curve that have occurred since then. Thus, coupon yields have declined -- the two-year note, which yielded 8.32% on August 2, is currently yielding 8.25% and the long-bond has declined from 9.08% to 8.75%, while rates on three-month bills have risen by roughly the same amount as the federal funds rate, from 6.90% to 7.38%. In short, the flattening of the yield curve which has characterized the Treasury market for most of 1988 has not yet shown signs of reversing itself.

Looking ahead, economic growth is likely to continue to be moderate (after allowance is made for the distorting effects of the drought on the published GNP figures). Export growth, which had fueled the economy in the first half of the year, has begun to taper off. At the same time, there is no evidence that private domestic demand is about to pick up the slack. Consumers are constrained by heavy debt loads, housing appears stagnant, and the latest surveys suggest that the greatest strength in investment spending may be behind us. Neither the federal nor the state and local sectors is likely to be a source of stimulus in 1989. As a result, the economy should drop back to something closer to 2% growth over the course of 1989. It is far from clear, however, whether that will be slow enough to prevent some further upward movement in the inflation rate since the economy is operating so close to full capacity. Much will depend on what happens to oil prices, and they are likely to be quite volatile.

The larger unknowns revolve around next week's elections and what will follow from them in terms of fiscal policy. The assumption that Gramm Rudman budget targets will be met is critical for the dollar and, hence, for monetary policy. And it is against a backdrop of those uncertainties that we have developed our recommendations for the refunding.

By a vote of 16 to 2 the Committee recommends that the composition of the quarterly coupon financing be:

-- $9 billion 3-year notes due 11/15/91;

-- $9 1/2 billion 10-year notes due 11/15/98; and

-- $10 billion 30-year bonds due 11/15/2018,

rather than $9 1/2 billion of each of the three issues. The large majority felt that the Treasury would be well advised to meet market demands by offering successively larger amounts of the longer term issues. The yield curve flattening reflects strong demand and the absence of any bond offering since May. The reopening of the 9 1/8% bond was considered but rejected by an 11 to 7 vote since the current premium of about 4 points was considered to be too large for some investors.

Since it seems highly likely that the Technical Corrections Act (Act) will not have final Presidential approval by this afternoon when the Treasury's financing plans will be announced, the Committee considered two possible courses of action. Both plans would announce the sale of the 3-year and 10-year notes at auctions to be held on Tuesday and Wednesday next week and the intention to sell the $10 billion 30-year bonds when and if the Act becomes law. Both plans would schedule the sale of $15 billion cash management bills due 12/22/88 on Thursday, November 10 as a temporary substitute for the long bond and as a bridging technique to cover a projected cash shortfall on November 15. The plans would then diverge: plan "A" would identify the announcement date, the auction date and the payment date for the bond as November 30, December 7 and December 15 respectively; plan "B" would not predetermine those specific dates and instead allow the Treasury the latitude to determine those particulars when and if the Act is signed by the President. Plan "A" was endorsed by the Committee by a 9 to 8 vote with one abstention. The majority felt that the market would be helped by greater certainty as to the Treasury's plans, while the minority thought that the Treasury should not commit itself and thus allow the offering to take place more quickly should circumstances allow. It was noted that the question of bond authority should be resolved by the middle of November.

The Committee then considered the alternatives if the Act did not become law. It was unanimously judged that the $10 billion lost through inability to issue the bond should be replaced by modest increases ($2 billion or so) in the size of a variety of the regular Treasury coupon offerings that are scheduled between now and February. Temporary adjustments in bills may be required for cash balance purposes. This program was considered to be better than creating a special new coupon issue or relying more heavily on permanent bill financing.

Assuming the bond financing does take place the Committee recommends for the rest of the quarter:

-- Sell $9.25 billion 2-year notes paying down $1.6 billion.

-- Sell $7.5 billion 5-year notes raising all new cash.

-- Sell $9 billion one year bills at each of 2 remaining auctions paying down $.7 billion.

-- Sell $14.4 billion at each of the remaining 3- and 6-month bill auctions raising $5.5 billion new cash.

Summary of new cash needed for the quarter

Refunding	$11.8
3- and 6-month bills	5.5
52-week bills	(.7)
2-year notes	(1.6)
5-year notes	7.5
Total	$22.5
Already raised	8.7
Net Market borrowing	$31.2 billion

The Committee recommends a cash balance on 12/31 of $23 billion.

For the January - March quarter the Committee suggests that the weekly bill auctions be raised to $14.6 billion on January 5 and then to $14.8 billion on February 16. One-year bills and two-year notes would climb by $250 million at each successive auction reaching $10.25 each by March. The two four-year notes would be set at $7.25 billion and $7.50 billion -- the five-year notes at $7.75 billion -- the seven-year notes at $7.00 billion and the February refunding at the $30 billion level. This would fund an estimated cash deficit of $45 billion and allow for a cash balance of $10 billion on March 31, 1989.

Mr. Secretary this concludes our report and we welcome questions and discussion.

Donald B. Riefler
Donald B. Riefler
Chairman