Potential 6-Week Benchmark

Treasury has regularly been issuing the 6-week cash management bill since June 2023 and last refunding stated it would announce a decision on whether to change the 6-week to benchmark status at an upcoming refunding. Based on your recommendations for the appropriate level of bills outstanding in the medium to long term, should Treasury change the 6-week to benchmark status? What factors should Treasury consider before making a decision on the 6-week?

Treasury Borrowing Advisory Committee

April 30, 2024

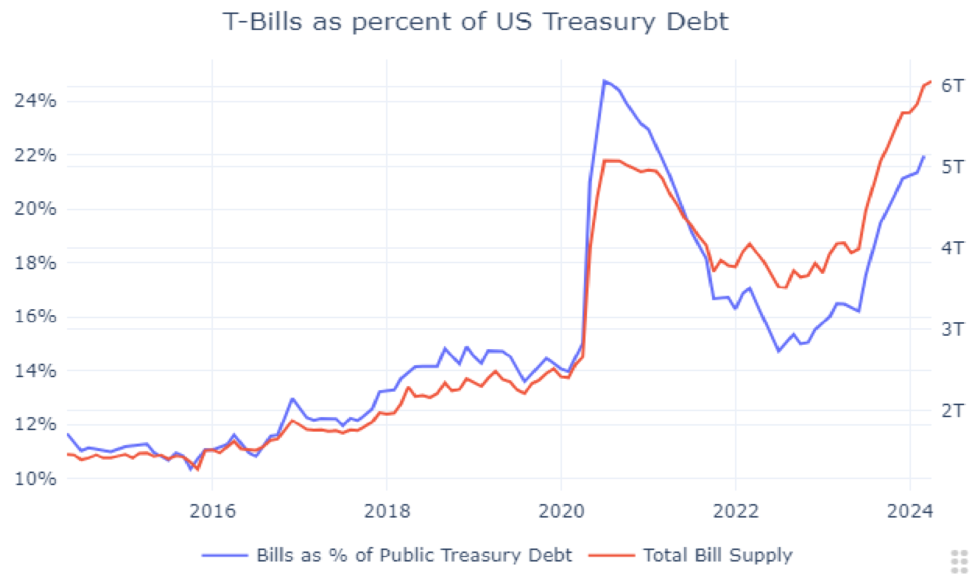
6-Week Benchmark Bill Factors

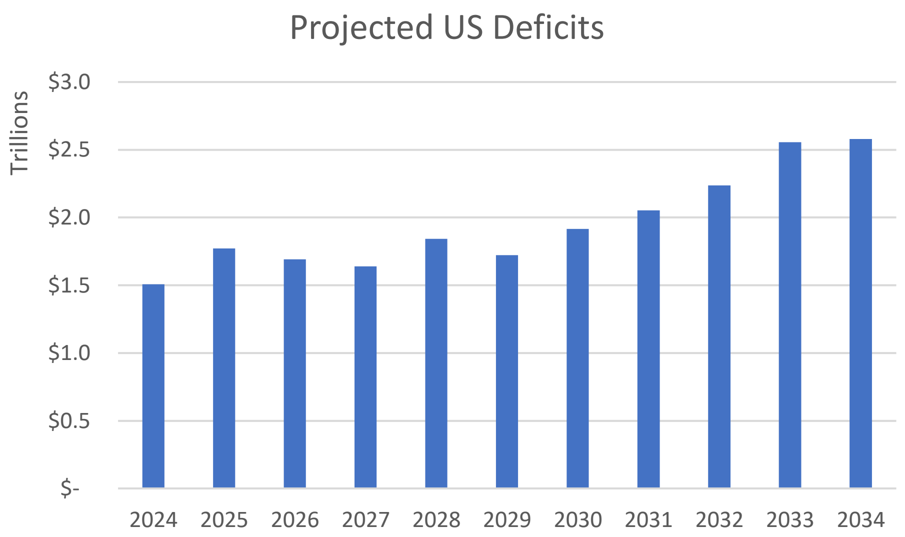
TBAC believes the following factors should be considered by the Treasury in making this determination.

- What is the anticipated trajectory of future Treasury bill issuance, and will that be supportive of another benchmark bill?
- Will the Treasury maintain the flexibility to increase/decrease front end issuance with an additional benchmark bill?
- How has the recent demand for the 6-week cash management bill(CMB) compared to other benchmark bills?
- Will future investor demand continue to support the 6-week bill issuance?
- How would the 6-week bill satisfy the Treasury's goal of "regular and predictable" issuance and would this benchmark offering complement the current debt management process?
- Are their any risks/downsides to an additional benchmark bill?

Treasury's Issuance of Bills Is Expected to Grow with Deficits

- After the onset of the pandemic and the resulting passage of the CARES act, Treasury bill supply surged $2.5 trillion to $5.1 trillion in just 3 months.
- Treasury bills as a percentage of total marketable debt increased to 25%, declined to 15% as Treasury termed out debt and surged again in 2023 post debt ceiling resolution.
- Bill supply is expected to decline in the second quarter due to seasonal tax receipts and may decline further if the Fed begins tapering its quantitative tightening program.
- With projected deficits expected to average over $1.75 trillion for the next 10 years and even with the current supply of bills representing nearly 22% of marketable debt, Treasury bill issuance could be expected to grow by as little as $1 trillion to be at the lower end of the TBAC recommended range of 15-20% or as much as $3 trillion to be at the top end of the range.
- Without the 6-week CMB, total benchmark bills would need to increase by over 8% likely requiring auction sizes for the 4-week and 8-week to grow considerably. Conversely, if funding needs declined, Treasury would have the flexibility to reduce the relatively high current auction sizes even with an additional benchmark bill.

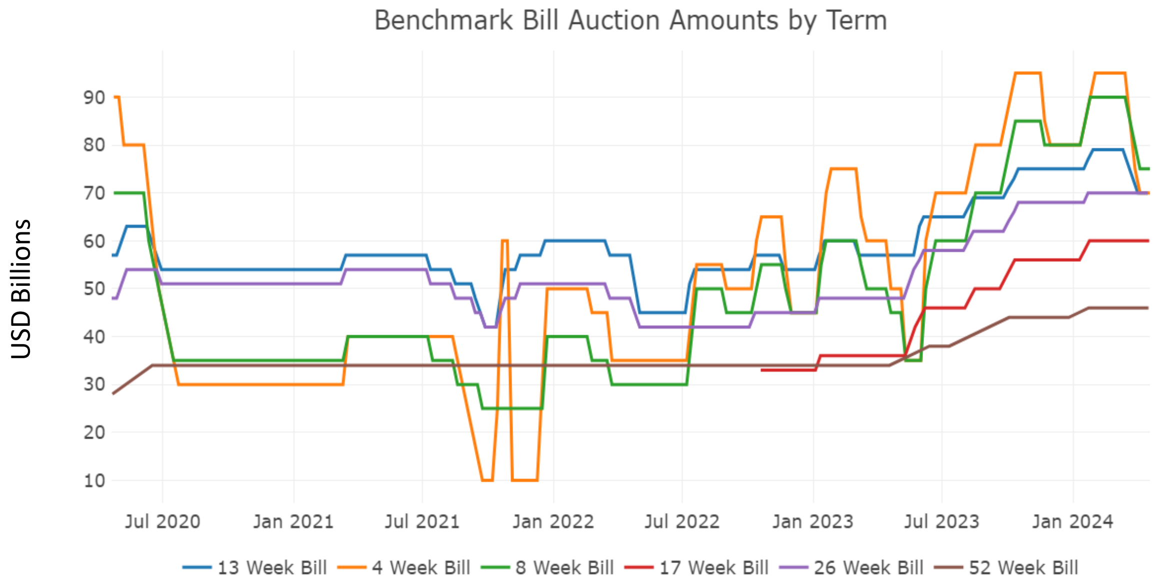


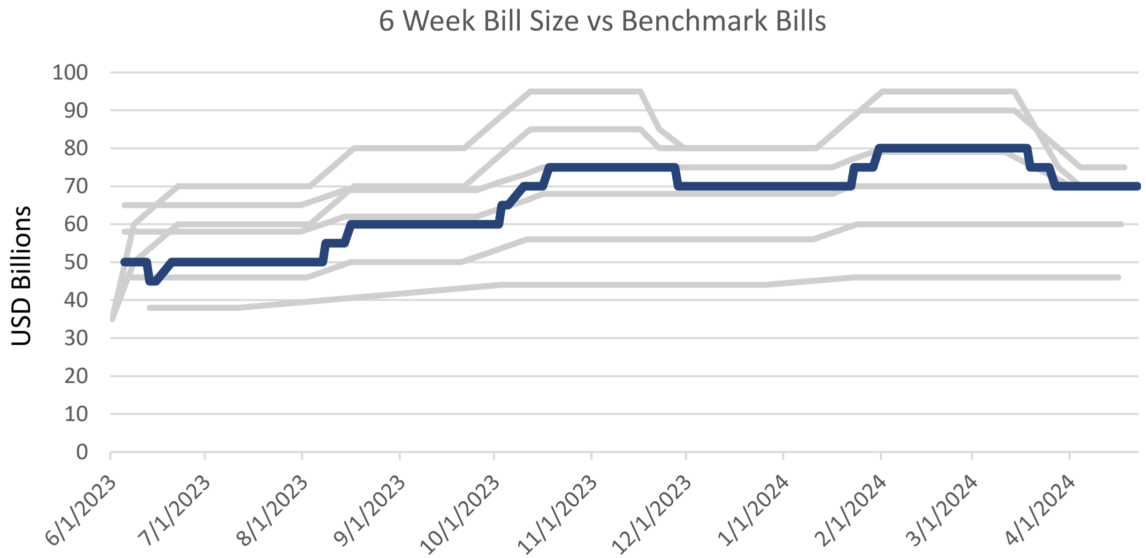


Sources: Bloomberg, Treasury, CBO (Deficit Projections)

6-Week Treasury Bill Size Has Been Consistent with Other Benchmark Bills

- Treasury began regular weekly issuance of its 6-week bill coming out of the resolution of the debt limit impasse in June 2023 both to rebuild the cash balance that was depleted in the impasse and to finance the ongoing deficit. (See Treasury announcement: https://www.treasurydirect.gov/instit/annceresult/press/preanre/2023/SPL_20230607_1.pdf)
- The 6-week CMB has had a stable and predictable issuance pattern over the past year. Weekly issuance sizes of the 6-week CMB have remained between $45 and $80 billion over this period.
- CMBs have historically been utilized by the Treasury for targeted, short-term cash management needs such as around tax receipt dates and debt ceiling management. CMBs may be used more sparsely going forward with the Treasury's new additional option of buybacks for cash management purposes.
- CMBs as percent of bill issuance has declined in recent years. The 6-week bill remains the only regular CMB issue.

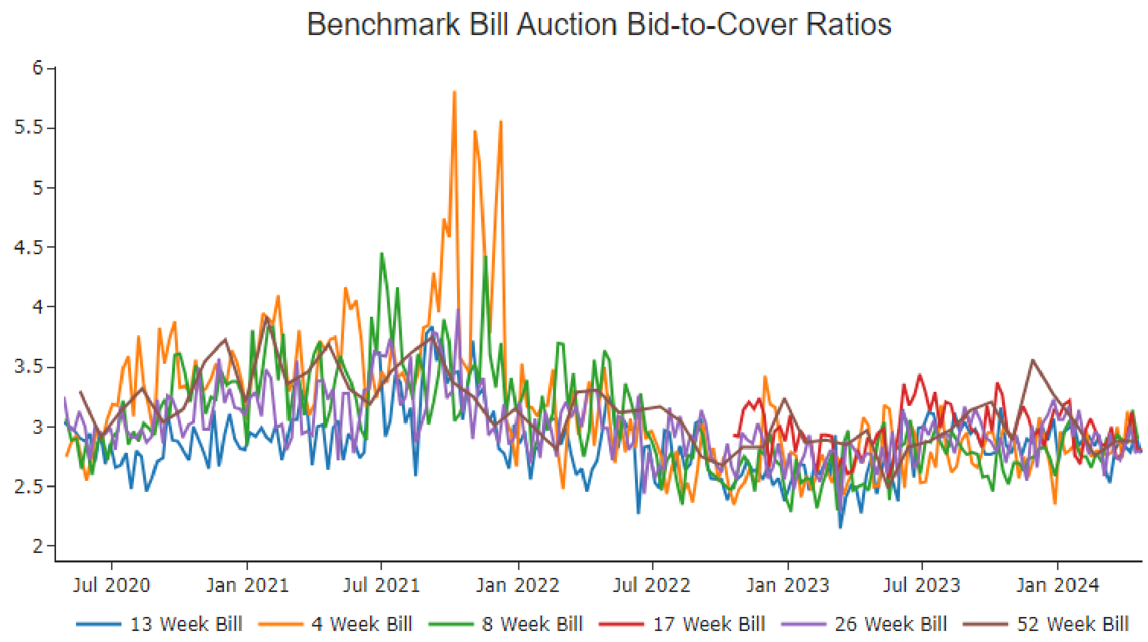


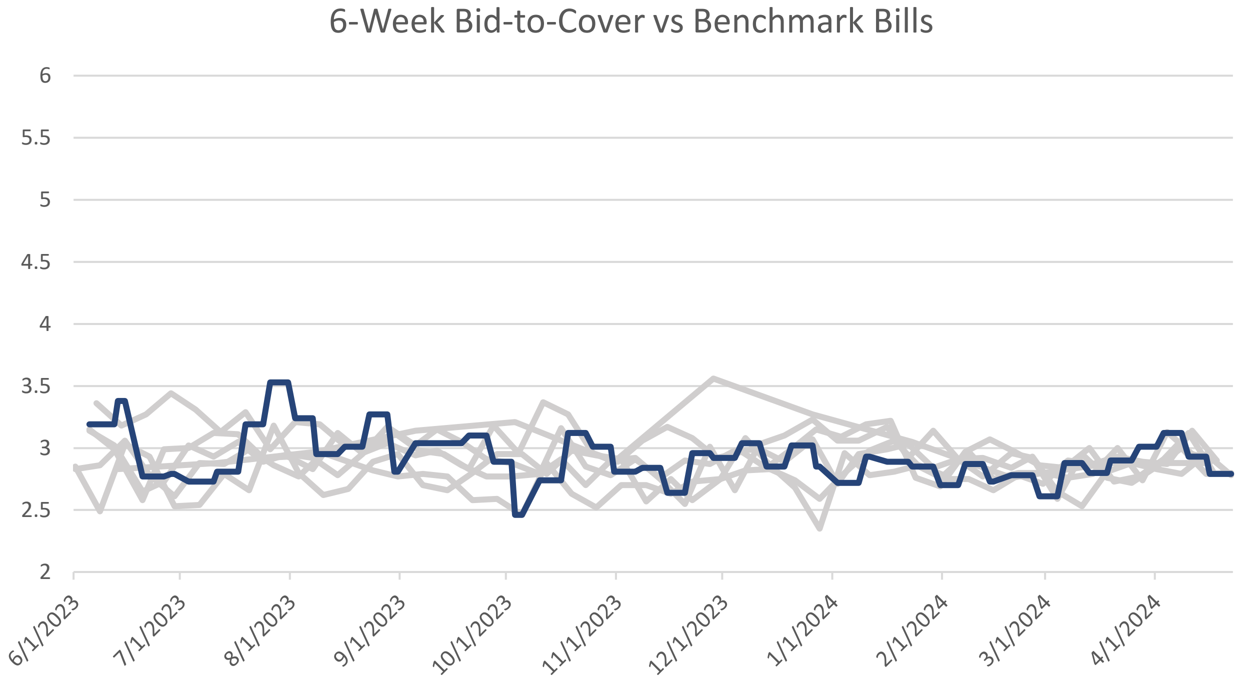


Source: Bloomberg, Treasury

Investor Demand for 6-Week Treasury Bills Remains Strong

- Treasury bill demand remains strong as the Treasury has increased its reliance on bills.
- Bid-to-cover ratios, a proxy of investor demand, for the 6-week bill have been in line with the other benchmark bills.
- The bid-to-cover ratio for the 6-week bill has averaged just under 3, at 2.9 times, since its regular issuance began last June. This level matches the average for the benchmark bills over the same period and is greater than the average bid-to-cover for the surrounding 4-week and 8-week bills.
- Benchmark bills bid-to-cover ratios have averaged 3.01 over the past 4 years.

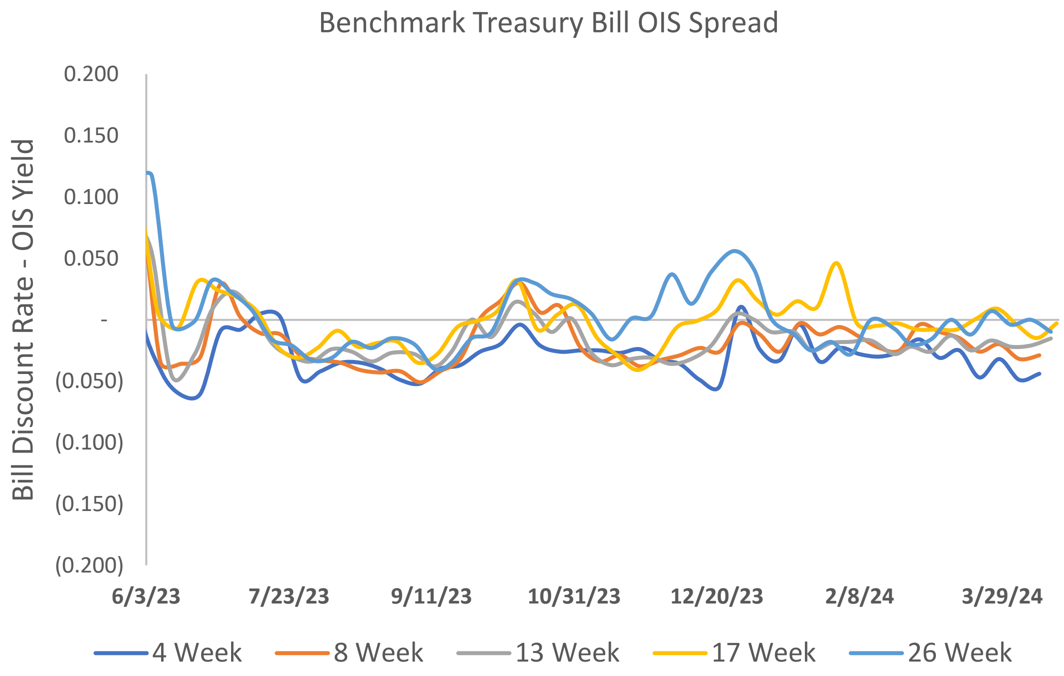


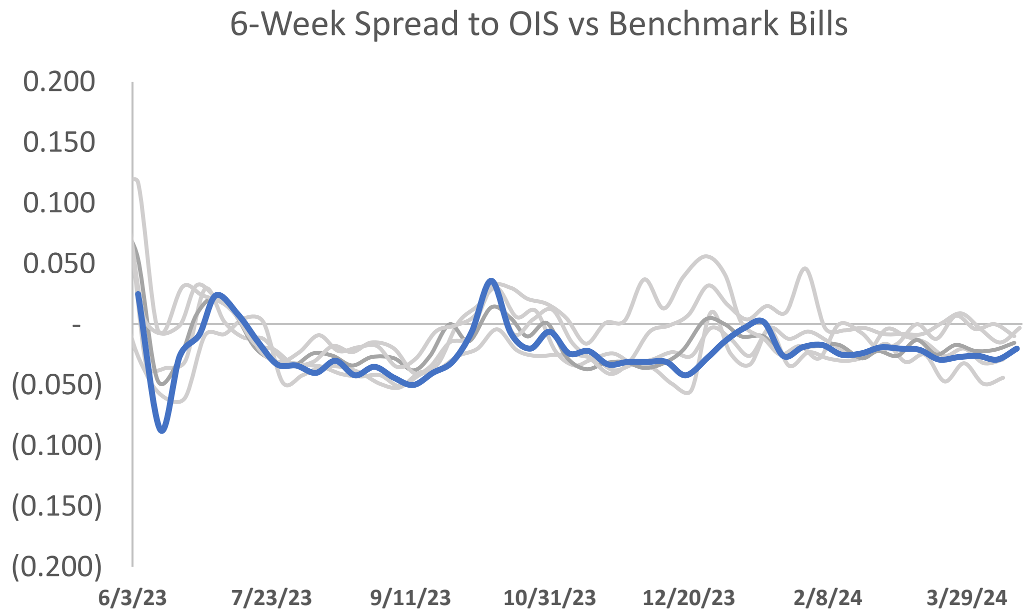


Sources: Bloomberg, Treasury Direct

Investor Demand for 6-Week Treasury Bills Remains Strong (cont.)

- Clearing levels for the 6-week bill have also remained well supported when compared to benchmarks.
- The 6-week bill auctions have cleared in a tight range vs OIS with the average spread over the past 10 months at less than 1 basis point, in line with the other benchmark bills.
- The shorter 4- to 8-week bills have experienced a slightly better spread to OIS reflecting the higher demand for short-term liquidity.

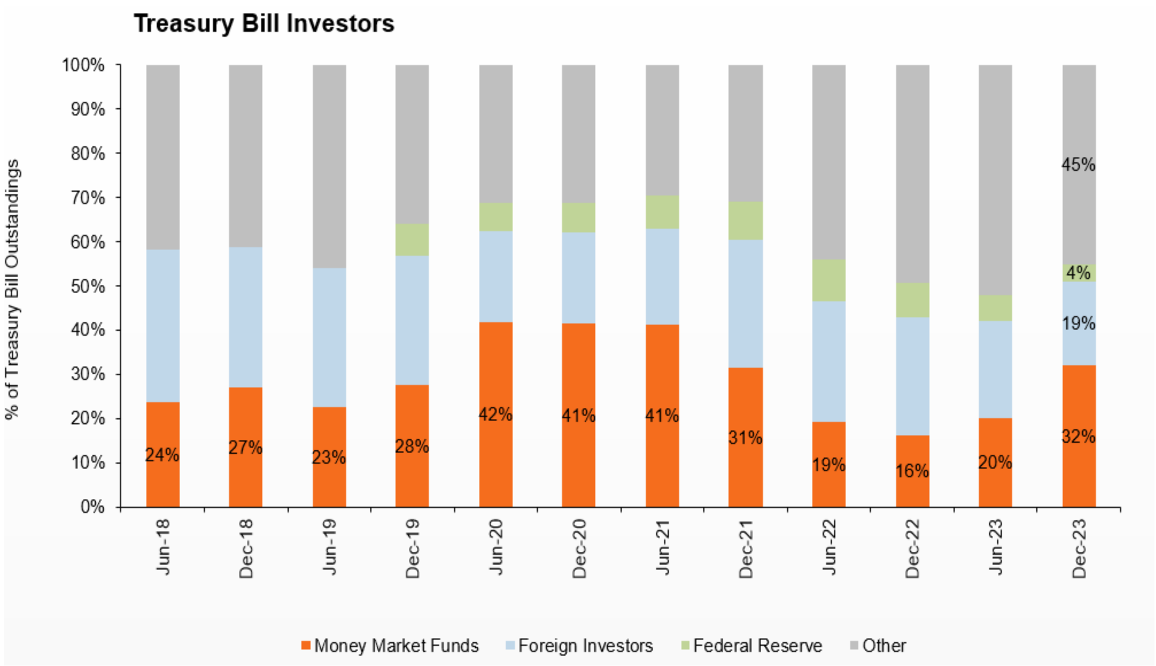


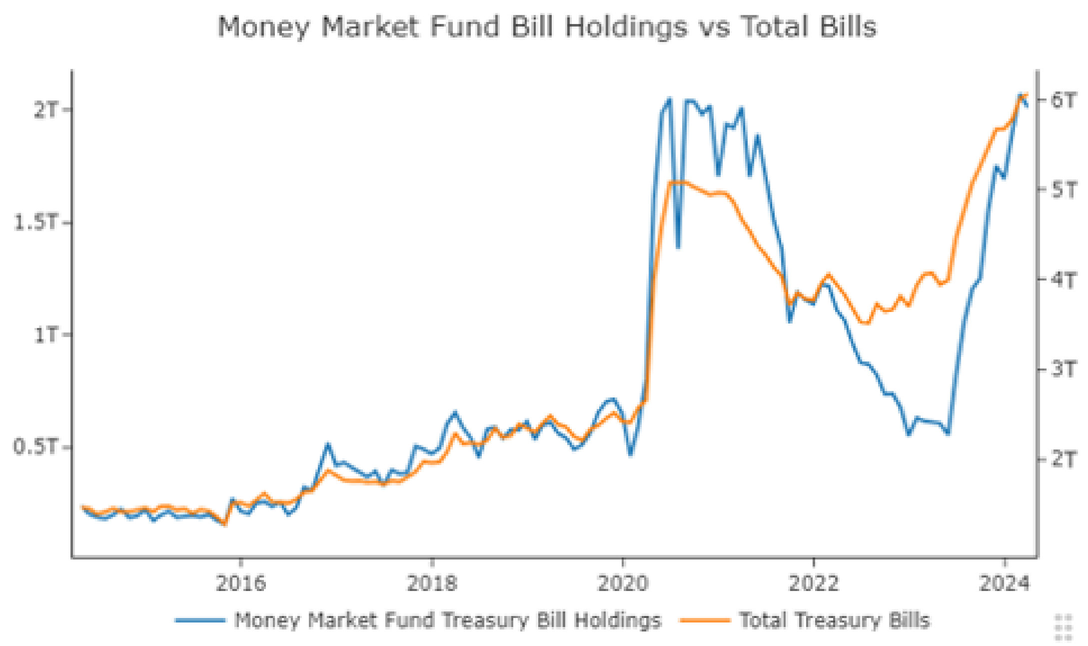


Sources: Bloomberg, Treasury Direct

Money Market Funds Have Been a Large Buyer of Increased Bill Issuance

- As Treasury has ramped up its issuance of bills in the past 12 months, it has been money market funds that have been the largest marginal buyer.
- Money market funds currently account for 32% of all Treasury bill investors on an expanding base of supply.
- The “other” bucket of Treasury investors has grown since 2021 as the Fed has increased short-term rates and new entrants such as stablecoin providers have joined more traditional institutional investors.
- Retail Investors have also been a meaningful direct buyer of Treasury bills as short-term rates have increased.



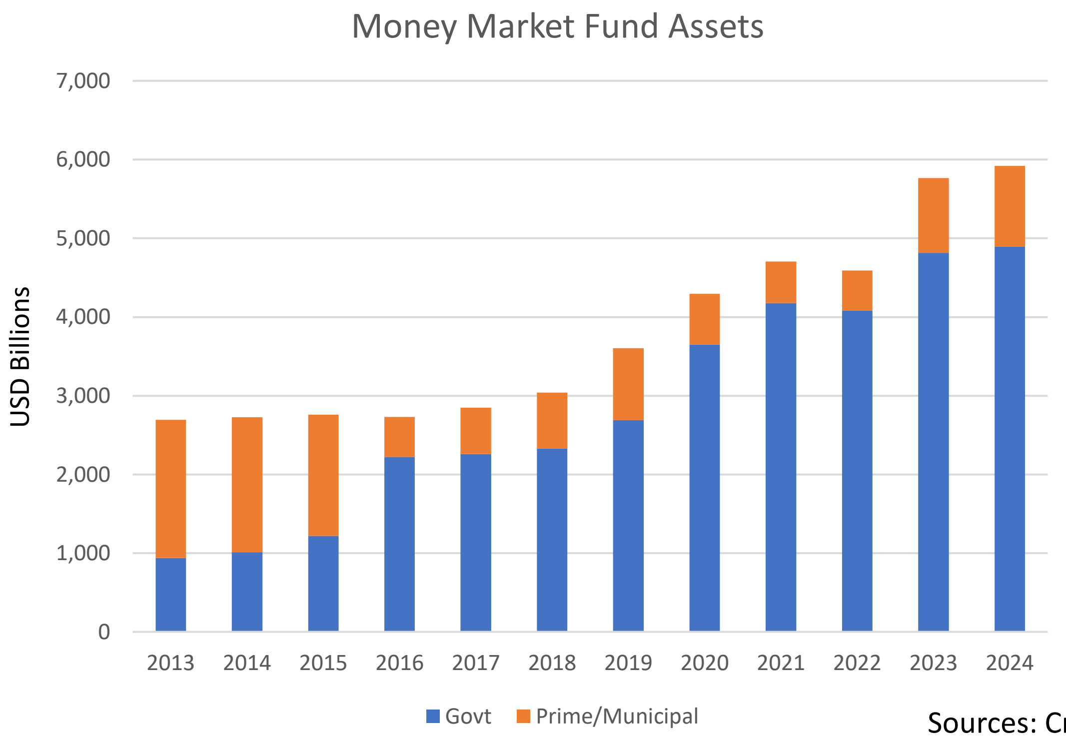


Money Market Fund Assets Through 12/31/23

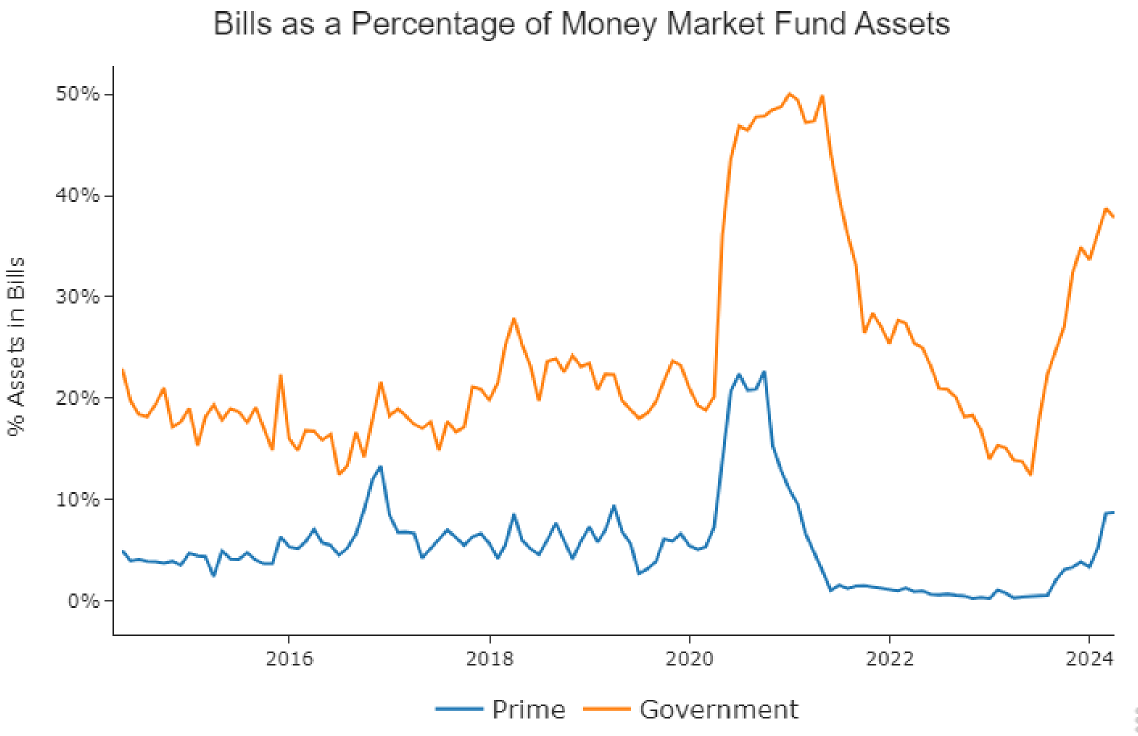
Sources: JP Morgan, Investment Company Institute (ICI), Treasury, Bloomberg

Composition of Money Market Funds Has Shifted in Recent Years

- Demand from money market funds has steadily risen over the past 10 years as the growth in assets and the changing regulatory landscape have encouraged more Treasury exposure.
- $1 trillion of prime money market fund assets migrated to government money market funds during the last round of money market reform in 2015 and 2016.
- New liquidity rules, effective this month, require all taxable money market funds to maintain at least 25% daily and 50% weekly liquidity. Treasury bills are deemed both daily and weekly liquid by the SEC.
- Money market fund bill positions have increased to 35% of assets since the debt ceiling resolution.

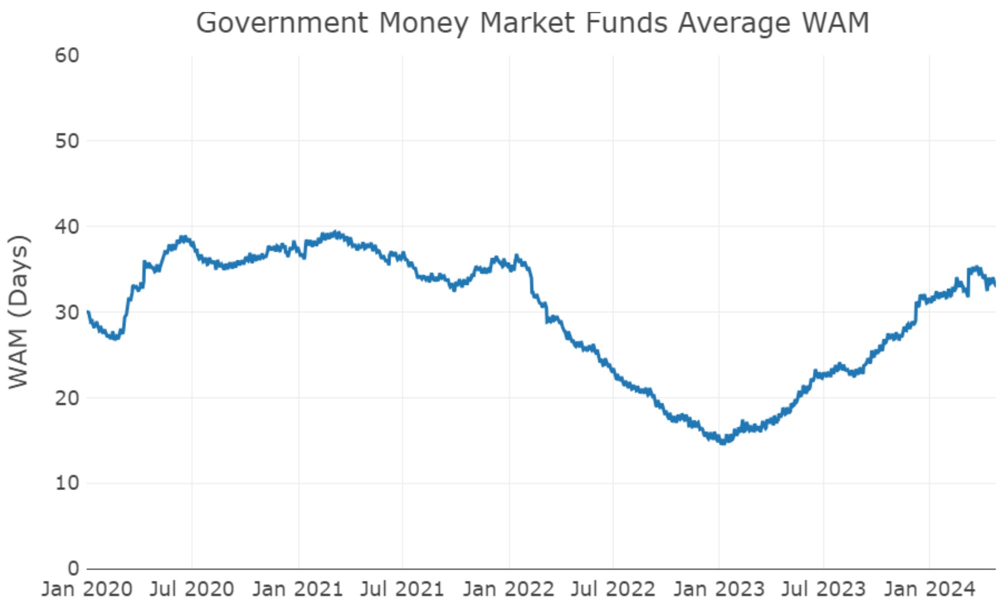


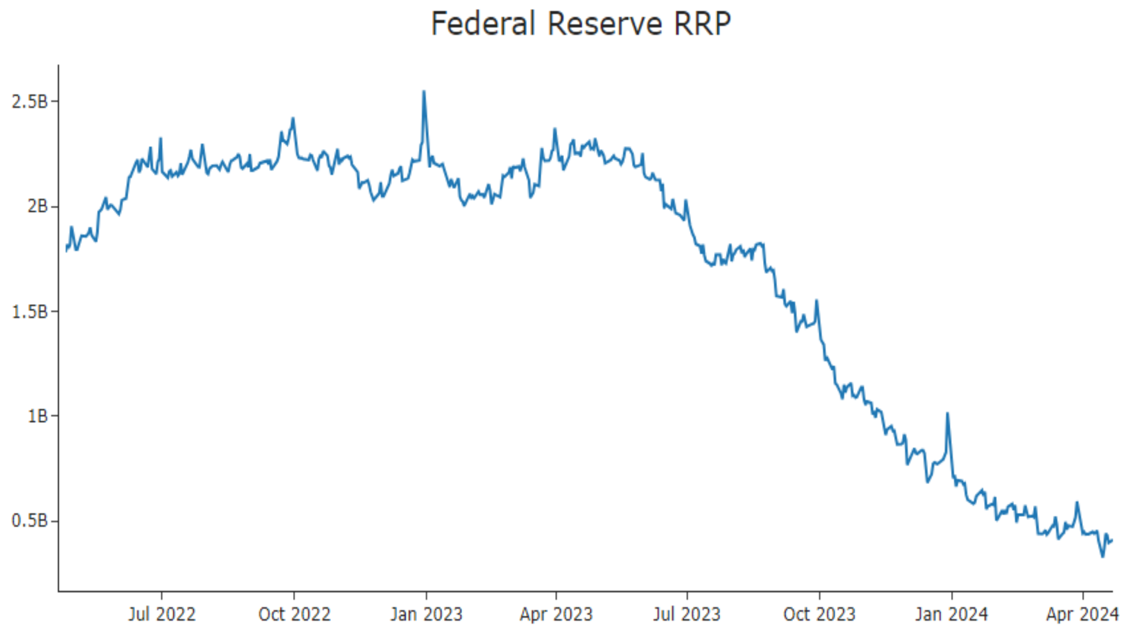
Sources: Crane Data



Is Demand from Money Market Funds Peaking?

- Money market funds are required by regulations to maintain a weighted average maturity(WAM) of 60 days or less. Since January of 2023, Government Money Market Funds have extended their WAM by roughly 20 days reflecting the potential pivot from the Fed to an easing policy and rate cuts.
- Although money market funds have a limited ability to extend further, the short tenor of a 6-week bill provides a liquid option for these investors without meaningfully lengthening their maturity profile.
- The Fed Reverse Repo Facility, primarily used by money market funds, has been in decline for the past year as investors shifted into the growing Treasury bill supply. Utilization at the Fed has recently dropped below $500 billion.
- The lower Fed RRP balance could be a sign of less excess demand from money market funds moving forward.





Sources: Crane Data, Bloomberg

The 6-Week Bill Rounds Out an Expanding Weekly Auction Schedule

- The current 6-week bill is positioned well within the Treasury's weekly auction schedule. Treasury has been auctioning the 6-week bill on Tuesdays with settlement and maturity of these bills on Thursdays. These consistent Tuesday/Thursday settlements align with maturities which offers investors multiple options for maturing bills.
- Some Treasury bill investors, specifically Treasury Only money market funds, prefer shorter duration securities to manage their portfolios. The alignment of the 6-week auction, with different settlement and maturity than the 4-week and 8-week bill provides optionality for these investors. The 6-week bill can therefore be an attractive complement to the current benchmark 4-week, 8-week, 13-week, 17-week, 26-week and 52-week bills.
- From a debt management standpoint, having a 6-week benchmark can help further diversify the distribution of bill maturities, thereby creating more tools to manage the Treasury's changing funding needs.

Bills	Monday	Tuesday	Wednesday	Thursday	Friday
4-Week		**Settle/Maturity**		**Auction**	
6-Week		**Auction**		**Settle/Maturity**	
8-Week		**Settle/Maturity**		**Auction**	
13-Week	**Auction**			**Settle/Maturity**	
17-Week		**Settle/Maturity**	**Auction**		
26-Week	**Auction**			**Settle/Maturity**	
52-Week*		**Auction**		**Settle/Maturity**	

* 52-Week Bill issued once every four weeks

Source: Treasury Direct

Potential Risk/Downside to Adding a 6-Week Benchmark Bill

- An increased reliance on short-term bills will result in larger maturities, rollover risk and therefore a larger Treasury General Account to manage that risk.
- As the Treasury looks to expand its offerings of shorter dated debt, it may consider longer dated options in the front end of the market to lessen the rollover risk.
  - 5-month bills could be an option, but the longer maturities may be more constraining to WAM sensitive investors like MMFs.
  - A one-year Treasury floater, akin to the two-year FRN, could help manage rollover risk and satisfy any WAM constraints for investors.

Sources: Treasury, Bloomberg

Recommendation

Based on the projected growth in total Treasury bill issuance, the current demand from investors for Treasury bills and the compatibility of the 6-week bill issuance schedule for both investors and the Treasury, it is recommended that the Treasury move the 6-week bill to a benchmark status. Even if investor demand wanes in future years or Treasury relies less on bill issuance, the current auction sizes are healthy enough to adjust lower. By moving the 6-week from a cash management bill to a benchmark bill, the Treasury would reinforce their goal of "regular and predictable" issuance by signaling to the market that the Treasury expects to continue to offer these bills as part of its regular debt management process.