Potential 17-Week Bill Benchmark

Treasury has regularly been issuing the 17-week cash management bill since April 2020 and last refunding stated it would announce a decision on whether to change the 17-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 17-week to benchmark status? What factors should Treasury consider before making a decision on the 17-week?

Treasury Borrowing Advisory Committee

May 3, 2022

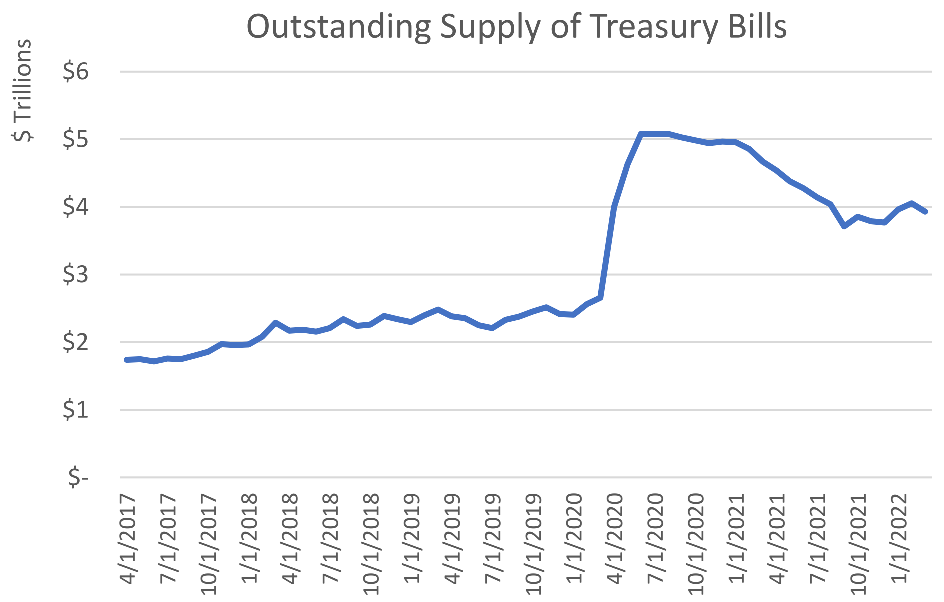
17-Week Benchmark Bill Factors

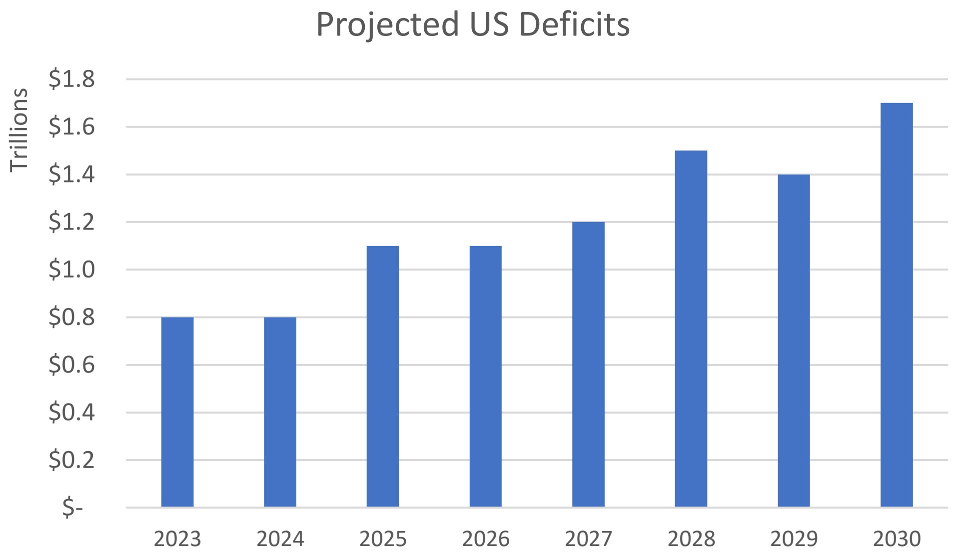
TBAC believes the following factors should be considered by the Treasury in making this determination.

- What is the anticipated trajectory of future Treasury bill issuance, and will that be supportive of another benchmark bill? If funding needs were to decline and Treasury bill issuance decreases, would an additional benchmark bill complicate Treasury's debt management?
- How has the recent demand for the 17-week cash management bill compared to benchmark bills?
- Will future investor demand continue to support the 17-week bill issuance?
- How would the 17-week bill satisfy the Treasury's goal of "regular and predictable" issuance and would this benchmark offering complement the current debt management process?

Issuance of Treasury Bills to Remain Robust

- 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% during this period but has since declined as the Treasury has rebalanced its debt. Bills now represent 17% of the Treasury's marketable debt which currently falls in the middle of the recommended target range of 15%-20%.
- Bill supply is expected to decline further in the second quarter before rebounding in the second half of the year and finishing above $4 trillion by year end.
- With projected deficits expected to average over $1 trillion for the next 8 years, Treasury bills would need to increase by over $1 trillion to remain within the 15-20% of marketable debt. This $1 trillion allocated across all bills including the 17-week CMB would represent a roughly 25% increase in outstanding bill supply.
- Without the 17-week CMB, benchmark bills would need to increase by over 40% likely requiring auction sizes for the 13 and 26-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.

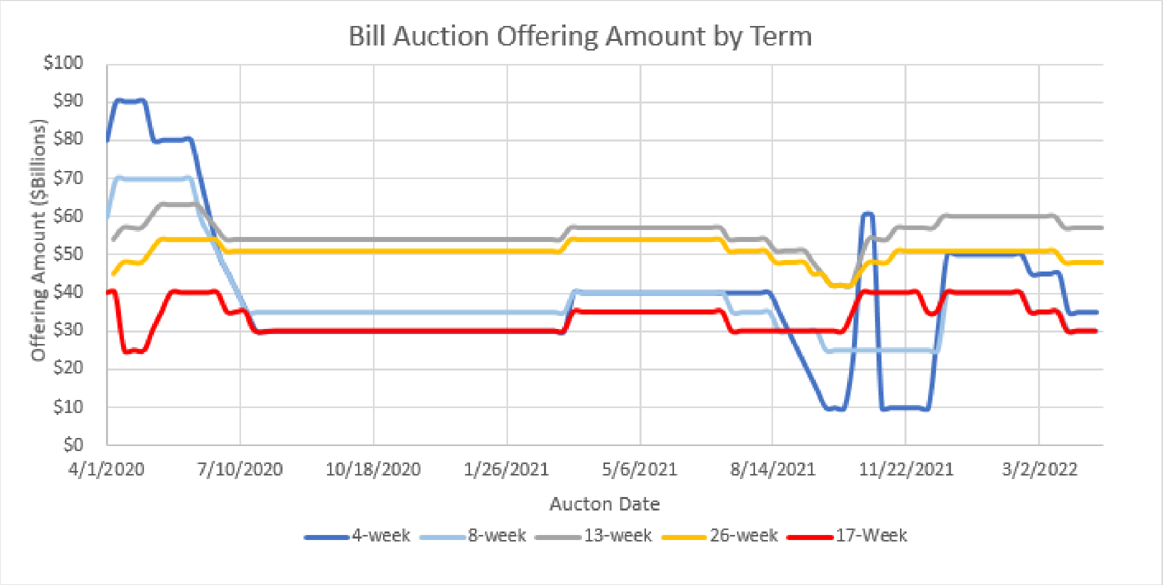


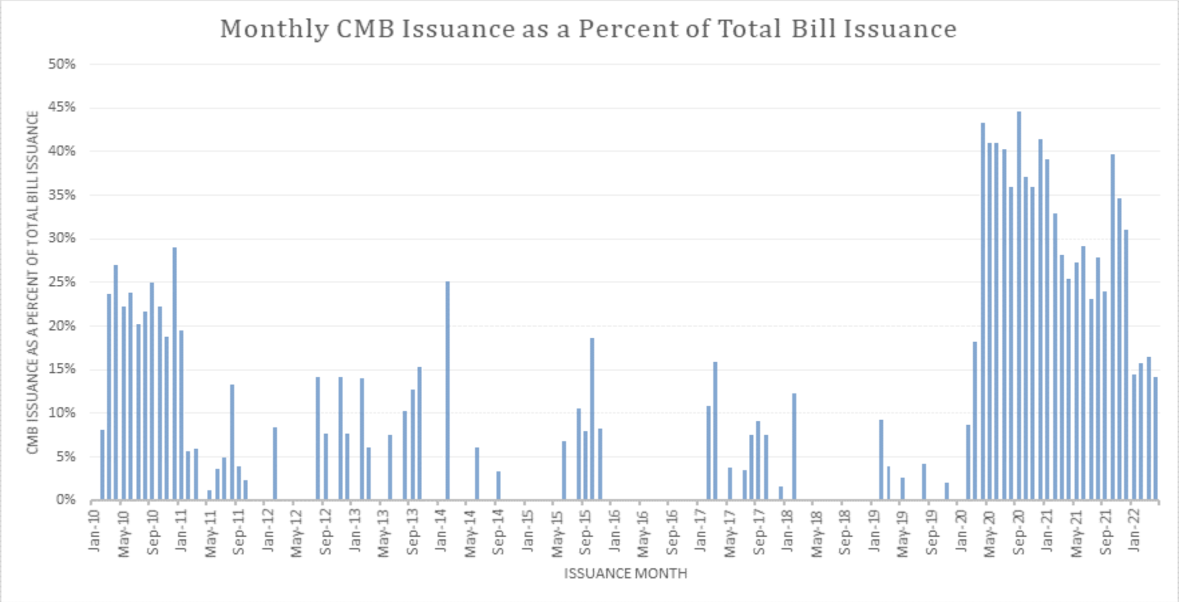


Sources: Bloomberg, CRFB (Deficit Projection)

17-Week Treasury Bills have been Consistently Issued over the Past 2 Years

- In April 2020 the Treasury began regular issuance of its 17-week bill (or approximately 4-month bill) to accommodate the funding needed to support the federal government's response to the pandemic. The 17-week cash management bill (CMB) has had a stable and predictable issuance pattern over the past 2 years. Weekly issuance sizes of the 17-week CMB have remained between $30 and $40 billion since the spring of 2020.
- 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.
- In the months following the passage of the CARES Act, Treasury heavily utilized cash management bills to help fund the fiscal stimulus plan. CMBs surged to over 40% of monthly bill issuance during this period.
- CMBs as percent of bill issuance has declined to roughly 15% as Treasury has adjusted longer dated debt. The 17-week bill remains the only regular CMB issue.

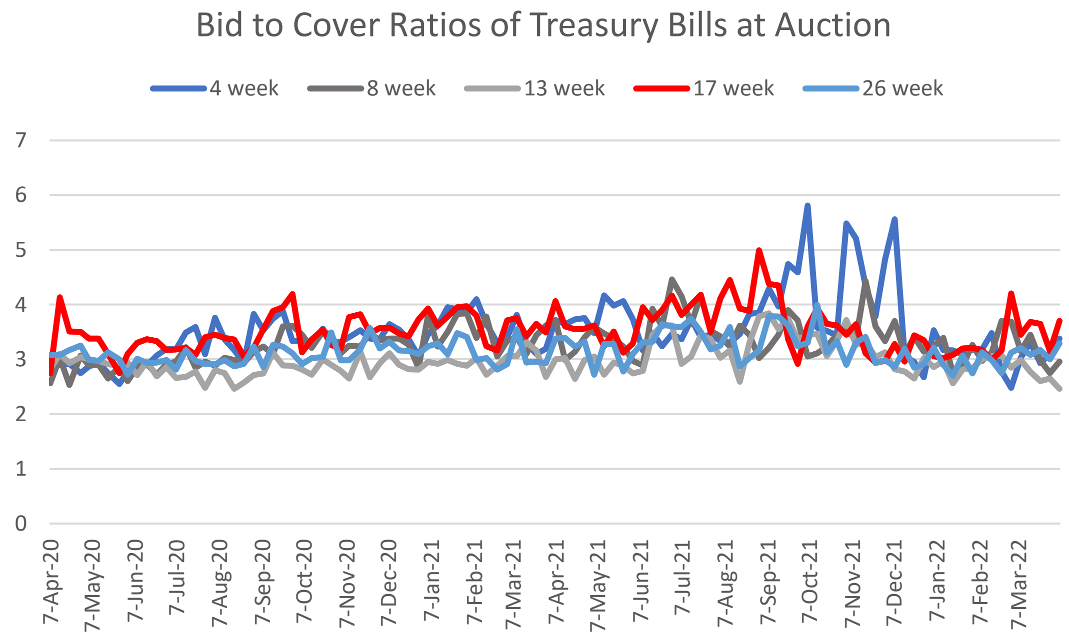


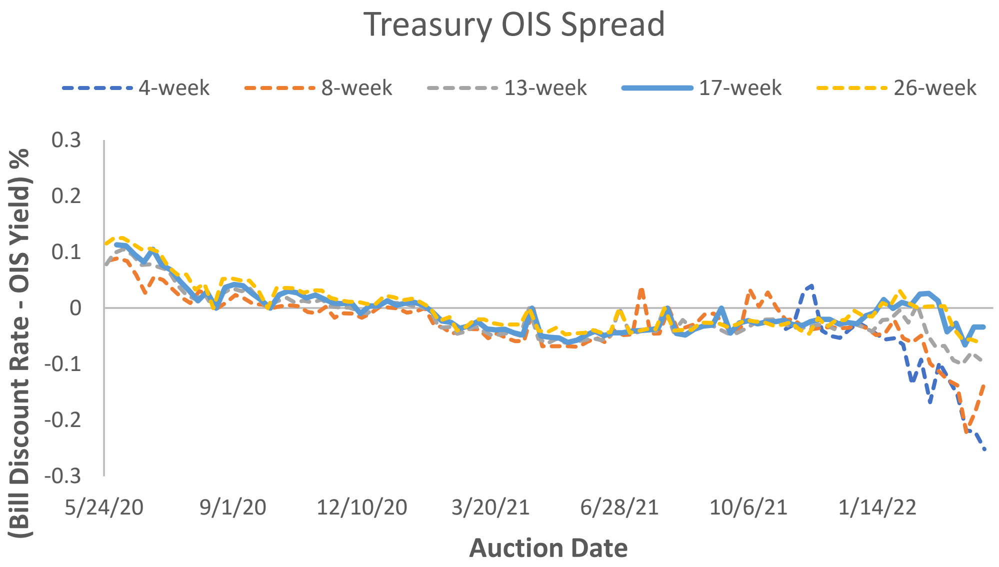


Source: Treasury Direct

Investor Demand for 17-Week Treasury Bills Remains Strong

- Over the past two years, during a period of unprecedented bill issuance, demand for the 17-week Treasury bill has remained strong even as bills as a percentage of total marketable debt rose to over 25% in 2020.
- Bid-to-cover ratios, a proxy of investor demand, for the 17-week bill have been in line with the Treasury's benchmark bills. If fact, the 17-week bill has had a higher bid-to-cover ratio on average since April 2020 (at 3.5 times) than any of the Treasury's benchmark bills.
- Additionally, the spread to OIS for the 17-week Treasury bill has been consistent with benchmark bills, improving throughout the year as demand for bills has increased. The recent move lower highlights the desire for investors to remain short ahead of further Fed rate hikes with the 4-week and 8-week spreads improving the most.

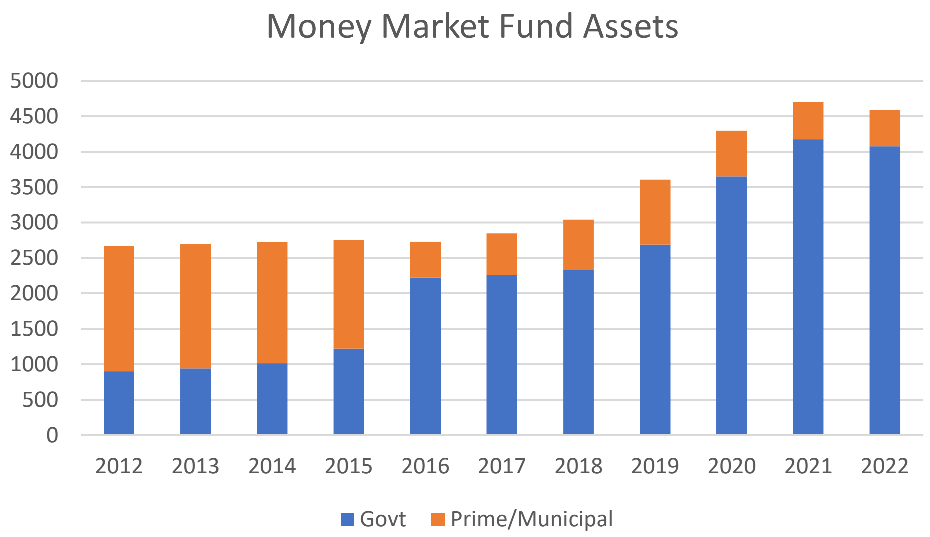


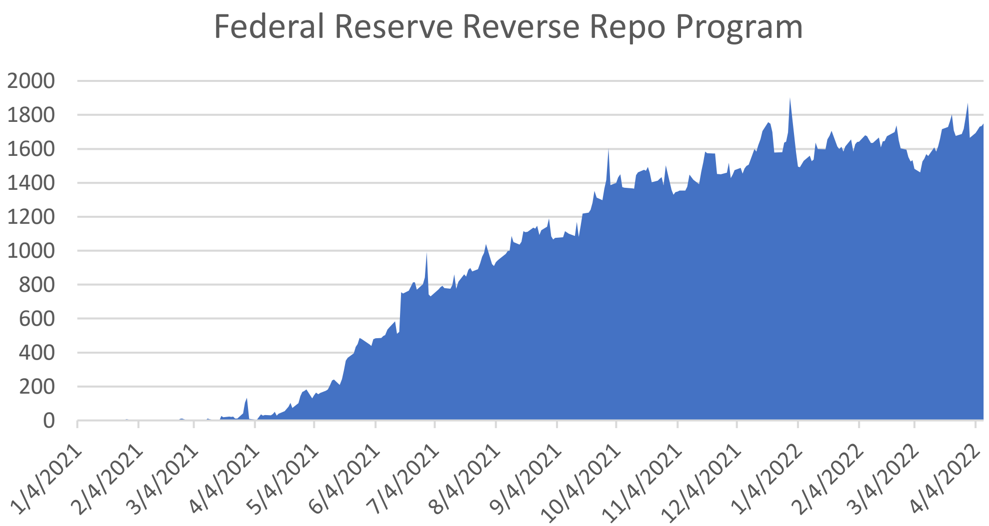


Sources: Bloomberg, Treasury Direct

Future Demand For Treasury Bills Expected to Remain Elevated

- Money Market Funds(MMFs), who on Feb 28th 2022 accounted for approximately 30% of Treasury bill holders, have seen significant inflows in recent years with assets up 50% since the end of 2018. As the Federal Reserve raises short term rates, MMFs are likely to see continued inflows with yields that may be attractive to investors versus other short term investment options.
- Not only have overall MMF assets increased but the composition of assets continues to trend overwhelming into government MMFs since the last round of money market reforms were implemented in 2016. As of March 31, 2022, 89% of money market assets were in government MMFs up from only 34% at the end of 2012.
- In the past year, government MMFs have increased their utilization of the Federal Reserve's Overnight Reverse Repurchase Agreement Facility (RRP) as other eligible options outside of this program are in high demand and therefore lower yielding. A decrease in Treasury bill supply of over $1 trillion between January 2021 to September 2021 was one of the catalysts for this shift.
- MMFs and government sponsored enterprises (GSEs) have accounted for more than 95% of the RRP's participation which has totaled over $1.7 trillion as of April 4, 2022. These assets invested in the RRP represent potential demand for Treasury bills.





Money Market Fund Assets Through 3/30/22

Sources: Investment Company Institute (ICI), Bloomberg

The 17-Week Bill Fits within an Attractive Profile for Investors and the Treasury

- The current 17-week bill fits well within the weekly schedule. Treasury has been auctioning the 17-week bill on Wednesdays with settlement and maturity of these bills on Tuesdays. These consistent Tuesday/Thursday settlements align with maturities which offers investors multiple options for maturing bills.
- Many Treasury bill investors prefer shorter duration securities to manage their portfolios. MMFs, for example, are required to limit their weighted average maturity(WAM) of their portfolios to no more than 60 days and therefore can only marginally invest in longer dated issues. Additionally, investors tend to manage to a shorter WAM in a rising rate environment to more quickly capture the effects of rate hikes. The 17-week bill can therefore be an attractive complement to the current benchmark 4-week, 8-week, 13-week, 26-week and 52-week bills.
- From a debt management standpoint, having a 17-week benchmark could diversify the distribution of bill maturities, thereby creating more tools to manage rollover risk.

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

* 52-Week Bill issued once every four weeks

Source: Treasury Direct

TBAC Recommendation

Based on the projected growth in total Treasury bill issuance, the strong expected future demand from investors for Treasury bills and the compatibility of the 17-week bill issuance patterns and maturities for both investors and the Treasury, the TBAC recommends that the Treasury move the 17-week bill to a benchmark status. By moving the 17-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.