

MINUTES OF THE MEETING OF THE  
TREASURY BORROWING ADVISORY COMMITTEE  
OF THE PUBLIC SECURITIES ASSOCIATION  
NOVEMBER 2 AND 3, 1993

November 2

The Committee convened at 9:00 a.m. at the Treasury Department for the portion of the meeting that was open to the public. All members were present, except Mr. Corzine, Mr. Menne, Mr. Pike, and Ms. Recktenwald. The Federal Register announcement of the meeting and a list of Committee members are attached.

Deputy Assistant Secretary for Federal Finance, Darcy Bradbury, welcomed the Committee and the public to the meeting. Assistant Secretary for Economic Policy, Alicia Munnell, gave a brief summary of the current state of the U.S. economy. I gave an informational background briefing updating Treasury borrowing estimates and statistical information on recent Treasury borrowing and market interest rates. The borrowing estimates and background information in chart form had been released to the public on November 1, 1993.

At 10:00 a.m. the Committee met in closed session. Deputy Assistant Secretary Bradbury gave the Committee its "charge", which was to make recommendations on the November Treasury refunding and related matters. See the attached Charge. The Committee also discussed the open-meeting format for informational presentations to the Committee before the Committee meets in closed session to develop its financing recommendations. The partially open meeting format was agreed upon in negotiations between the Treasury and Congress on amendments to the Government Securities Act, which had not been enacted as of the date of the meeting. The Committee also discussed the practical aspects of producing the final report of its recommendations on the third business day after each meeting, instead of after one week, which has been the practice. The meeting adjourned at 10:35 a.m.

The Committee reconvened at 1:35 p.m. in closed session at the Madison Hotel. The meeting began with a discussion of the likely overall Treasury financing need in the rest of the October-December quarter. Specifically, several members believed that the Treasury estimate of \$85.2 billion of market borrowing for the quarter is too high. The Committee voted unanimously to recommend that the following issues be sold in the November refunding:

\$17.5 billion of 3-year notes, maturing 11-15-96 and

\$12.0 billion of 9 3/4-year notes, a reopening of the  
5 3/4% notes maturing 8-15-03.

The Committee took the following into consideration in its recommendation to increase the size of the 10-year area note in the November refunding by \$1.0 billion to \$12.0 billion, compared with the increase of \$.25 billion in the August refunding, and specifically to reopen the 5 3/4 percent notes of August 15, 2003:

- The 10-year note is in demand as an important hedging vehicle for corporate underwriters, mortgage-backed securities market participants, and swap market participants.
- The 5 3/4 percent notes are in tight supply in the collateral market, as evidenced in special repurchase agreement rates that are well below general collateral rates.
- The 10-year is the "new long bond" for many accounts, since the Treasury has cut back on issuing new 30-year bonds. A reopening would enhance its trading liquidity.
- Market conditions in the 10-year maturity area, evidenced by 10-year yields, are favorable for the Treasury as issuer.
- The elimination of new issues of 7-year notes and the reduction in the frequency of 30-year bond issues to semiannually from quarterly have reduced the tradeable supply of securities in the longer maturity area.

The Committee consensus was that, if the Treasury were to decide to cut back the recommended size of the refunding, it would be preferable to pare the 3-year note.

The Committee then turned to the Treasury's remaining need for cash on November 15 and the financing schedule for the rest of the fourth calendar quarter. The Committee voted unanimously to recommend Treasury cash balances of \$35 billion on December 31 and \$20 billion on March 31.

The consensus was that the large seasonal swings expected in the Treasury cash balance later this year and early next year call for more frequent issues of cash management bills, with few changes in the size of regular weekly bills. With this in mind, the Committee agreed in principle to the proposed financing schedule that is attached to the Chairman's report. The

Committee also recommended by consensus that the Treasury issue about \$14 billion of cash management bills for settlement with the midquarter refunding issues on November 15 and maturing on December 23.

The Committee consensus was that the Treasury estimate of its January-March borrowing requirement, whose midpoint is \$62.5 billion, can be accomplished comfortably by increasing the size of the new coupon securities, issuing 30-year bonds, decreasing the size of weekly Treasury bills, and leaving 52-week bills unchanged from the levels recommended for the fourth calendar quarter.

Regarding the calendar, the Committee consensus was that the fact that November 11 is a holiday necessitates auctioning the cash management bills recommended to settle on November 15 on the same day as the auction of one of the regular quarterly refunding issues. The Committee consensus preference was that the 3-year note be auctioned on November 9, with the CMB auction earlier the same day. The recommended calendars are attached to the Chairman's report.

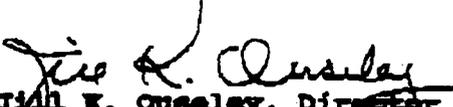
The discussion then turned to the subject of the 6 1/4 percent Treasury bond of August 15, 2023. Committee members expressed the view that evidence of a shortage of the 6 1/4 percent bond for trading in the cash market and in the collateral market raises a potential for a conflict between the reopening policy that the Treasury announced in the Joint Report on the Government Securities Market in January 1992 and the strategy, announced in May 1993, to shorten the maturity mix of new marketable securities offerings.

The meeting adjourned at 3:20 p.m.

November 3

The Committee reconvened at 9:00 a.m. at the Treasury in closed session. All members were present, except Mr. Corsine, Mr. Manna, Mr. Pike, and Ms. Recktenwald. The Chairman presented the Committee report to Under Secretary for Domestic Finance, Frank N. Newman and Deputy Assistant Secretary Bradbury. There was a question-and-answer period related to the recommendations.

The meeting adjourned at 9:30 a.m.

  
Jill K. Ousley, Director  
Office of Market Finance  
Domestic Finance  
November 8, 1993

Attachments

Certified by:

  
Morgan B. Stark, Chairman  
Treasury Borrowing Advisory Committee  
of the Public Securities Association