

MINUTES OF THE MEETING OF THE
TREASURY BORROWING ADVISORY COMMITTEE
OF THE PUBLIC SECURITIES ASSOCIATION
FEBRUARY 1 AND 2, 1994

February 1

The Committee convened at 11:40 a.m. at the Treasury Department for the portion of the meeting that was open to the public. All members were present, except Mr. deRegt, Mr. McKnew, and Mr. Napoli. 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. Deputy Assistant Secretary for Economic Policy Brad DeLong gave a summary of the current state of the U.S. economy. I gave an informational briefing updating Treasury borrowing estimates and statistical information on recent Treasury borrowing and market interest rates. The borrowing estimates and other information in chart form had been released to the public on January 31, 1994.

At 2:10 p.m. the Committee reconvened in closed session at the Madison Hotel. Deputy Assistant Secretary Bradbury gave the Committee its Charge, which is also attached. The Committee discussed the size of the February midquarter refunding operation and voted unanimously to recommend a \$40 billion total refunding consisting of \$17 billion of 3-year notes, \$12 billion of 10-year notes, and \$11 billion of long bonds, to raise \$16 billion of new cash.

A recommendation that the Treasury reopen 6-1/4% bond of August 15, 2023 was proposed, as was a proposal to recommend a new 29-3/4 year bond, maturing on November 15, 2023. Points made in favor of reopening were that the 6-1/4% bond is trading expensively in the cash and collateral markets, additional supply would increase the trading liquidity of the long-term market, particularly in the 6-1/4% bond, and the market expects a reopening. Members argued that the Treasury benefits over time from a new issuance policy that contributes to the liquidity of the market.

Points in favor of a new 29-3/4 year bond were that a new issue would become the longest on-the-run issue and probably would be sold at a premium to the outstanding 6-1/4% bond. Also, a new issue with interest payments in May and November would enhance the liquidity of the STRIPS market, which in turn could reduce the Treasury's cost of financing by increasing demand for long-term bonds. Some members expressed the view that smaller, more numerous issues would result in less trading liquidity, therefore, raising the yield on the outstanding issues and offsetting any advantage from issuing a new security.

The Committee vote was: 10 in favor of a reopening; 4 in favor of a new 29 3/4 year bond; and 2 abstentions.

The Committee consensus was that the Treasury can fill its borrowing need in the rest of the January-March quarter by maintaining the sizes of the regular marketable securities at their most recent levels and by issuing \$9 billion of cash management bills in early March to mature on April 21.

The consensus was also that maintaining issues at their current sizes, except for a reduction in the sizes of regular weekly bills beginning in the middle of June, would raise the \$15 to \$20 billion that the Treasury needs in the April-June quarter.

Furthermore, the consensus was that the Treasury should err on the high side of the \$30 billion cash balance it estimated for June 30.

Floating rate note

The Committee held a special meeting in June 1993 to discuss implementation of the Treasury's decision to shorten the maturity mix of new issues of marketable securities. While the Committee did not foresee a need for any new financing instruments in the near term, it proposed that the Treasury study the potential for adding a floating-rate instrument to the regular cycles at some unspecified point in time.

In response to the questions that the Treasury raised in the Charge for the February 1994 refunding, the Committee reaffirmed the general view that the Treasury should pursue the floating-rate note concept. No vote was taken. The Committee suggested that the Treasury solicit information from people who have special expertise in the floating-rate note market. Meetings with investor groups active in the floating-rate note market were also suggested.

Daylight overdrafts

The Treasury also solicited the Committee's views on market changes that might be expected from changes in the daylight overdraft regulations. The views are expressed in the Committee Report. No votes were taken on this subject.

The meeting adjourned at 4:00 p.m.

February 2

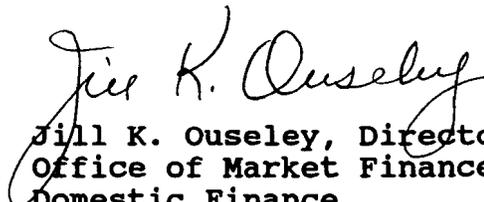
The Committee reconvened at 9:04 a.m. at the Treasury in closed session. All members were present, except Messrs. deRegt, Kessnich, Lodge, McKnew, and Napoli. The Chairman presented the Committee report to Under Secretary for Domestic Finance Frank N. Newman, and Deputy Assistant Secretary Bradbury.

Members of the Committee were asked to discuss the recommendation to reopen the 6-1/4% Treasury bond of August 15, 2023, as opposed to issuing a new security. The majority believed a reopening would enhance of the trading liquidity of the 6-1/4% bond and would be consistent with the Treasury's reopening of securities in past refundings. Liquidity enhancement and predictability of Treasury issuance would lower the Treasury's cost of long-term borrowing over time.

The minority believed that a new issue of 29-3/4 year bonds, which would mature in November 2023, would be cost-effective. The November corpus and May and November interest payments would make the bond attractive for stripping. It would also be likely to command an on-the-run premium. The combination of these factors would reduce the Government's long-term borrowing costs.

Committee members stated that the Treasury should continue to explore the possibility of issuing floating-rate notes at some time in the future. However, so that the Treasury's research will not cause undue market speculation, they strongly suggested -- by consensus -- that the Treasury make a public statement that no decision has been on whether the Treasury will issue floaters and that no time deadlines have been set.

The meeting adjourned at 9:40 a.m.


Jill K. Ouseley, Director
Office of Market Finance
Domestic Finance
February 2, 1994

Attachments

Certified by:


Stephen C. Francis, Chairman
Treasury Borrowing Advisory Committee
of the Public Securities Association