Office of Debt Management

Financing Near Term Outlook

- Estimated net marketable borrowing for FY 2006 is $188 billion, a decline of $100 billion from the estimate last quarter.

- **Estimated Net Marketable Borrowing**
  - $30 billion July-September
  - $104 billion October-December

- FY 2006 Q4 net marketable borrowing is $59 billion less than estimated in May. All major categories of receipts continue to exceed forecasts, while outlays have fallen below forecasts.
April-June pay down was larger than projected, leading to large a reduction in bills outstanding.

Net non-marketable issuance continues to taper off from prior year record.

September 15 issuance raises nearly all new cash.

October 15 outflows include a maturing off-cycle 10-year note.

November 15 outflows are large.

<table>
<thead>
<tr>
<th>Date</th>
<th>Maturing Treasury Coupon Securities (Excluding SOMA holdings)</th>
<th>Coupon Payments</th>
<th>Total Outflows</th>
</tr>
</thead>
<tbody>
<tr>
<td>August 15, 2006</td>
<td>22</td>
<td>26</td>
<td>48</td>
</tr>
<tr>
<td>August 31, 2006</td>
<td>24</td>
<td>2</td>
<td>26</td>
</tr>
<tr>
<td>September 15, 2006</td>
<td>0</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>September 30, 2006</td>
<td>24</td>
<td>3</td>
<td>26</td>
</tr>
<tr>
<td>October 15, 2006</td>
<td>17</td>
<td>3</td>
<td>20</td>
</tr>
<tr>
<td>October 31, 2006</td>
<td>22</td>
<td>3</td>
<td>25</td>
</tr>
<tr>
<td>November 15, 2006</td>
<td>54</td>
<td>22</td>
<td>76</td>
</tr>
<tr>
<td>November 30, 2006</td>
<td>23</td>
<td>3</td>
<td>25</td>
</tr>
</tbody>
</table>
June cash balances rose earlier than usual due to early corporate payments.

Early July balances ran higher than historical balances due to the change in the 5-year calendar.

The net marketable pay down for Q2 was the largest since Q2 2001.

Net Bill issuance fell dramatically.

Net 2-year note issuance fell to levels not seen since Q2 2001.
Net nonmarketable issuance for Q2 was below expectations.

Given recent OMB MSR estimates, revenues as a share of GDP are expected to remain mostly below the historical average, while the difference between outlays and revenues as a share of GDP declines sharply.
Despite improvements in the fiscal outlook, we still forecast a sharp one-year increase in marketable borrowing in FY 2007.
Debt Portfolio

- Average maturity of total outstanding debt remains stable around 55-56 months over the next 5 years

- Average maturity of issuance stabilizes between 54-55 months

- The percent of debt maturing with 3 years or less to maturity declines to around 57 percent

**Assumptions used in the next 5 charts:**

- Future residual financing needs are spread proportionally across auctioned securities to maintain constant maturity of issuance, based on hypothetical initial auction sizes

- OMB 2007 MSR estimates, with internal Treasury estimate for current fiscal year
Average maturity stabilizes and slowly ascends with assumption of stable 30-year bond issuance.

The end of FY 2006 average maturity of issuance (a 4-quarter moving average) is expected to reach 56-months.

The share of 8-10 year notes is projected to approach bill levels, as bills’ share of the portfolio declines to historic lows.
Debt with a residual maturity of 3 years or less trends toward the lower end of historical ranges.

Bill issuance declined sharply due to seasonal tax inflows. TIPS and 5-year notes continue to gain as a percentage of issuance.

Note: Data through June 30, 2006.
The bulk of net marketable borrowing through FY 2011 will be met by 5- and 10-year note issuance.
Further positive receipts surprises would help to smooth auction sizes over the next two years.

If the forecast errors reverse, however, the current issuance pattern requires heavy reliance on bills in the 2nd quarter of FY 2007. Given the reduction in bill supply recently, however, we believe the bill sector can accommodate negative FY 2007 fiscal shocks.
Deficit estimates are significantly lower since May.

Current coupon pattern and issuance amounts will provide approximately $205 billion of new financing in FY 06 and $200 billion in FY07.

FY 06 Deficit Estimates

<table>
<thead>
<tr>
<th>Primary Dealers*</th>
<th>CBO</th>
<th>OMB</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current:</td>
<td>291</td>
<td>300</td>
</tr>
<tr>
<td>Range based on average absolute forecast error</td>
<td>273-309</td>
<td>289-311</td>
</tr>
<tr>
<td>Estimates as of:</td>
<td>July 06</td>
<td>May 06</td>
</tr>
</tbody>
</table>

Note: Ranges based on errors from 1997-2005.
* Primary Dealers reflect average estimate.
The deficit as a percentage of GDP falls below the 40-year average of 2.3 percent in each fiscal year, except 2007.

Debt held by the public trends below the 40-year average of 36 percent starting in FY 2009.
Foreign holdings of Treasuries have stabilized
Foreign holdings of U.S. Treasury debt as a percentage of total privately held are stable despite a small decline in official holdings at the FRBNY.
No current quarter exceptions to Treasury’s 2 minute (+/- 30 seconds) target auction release times