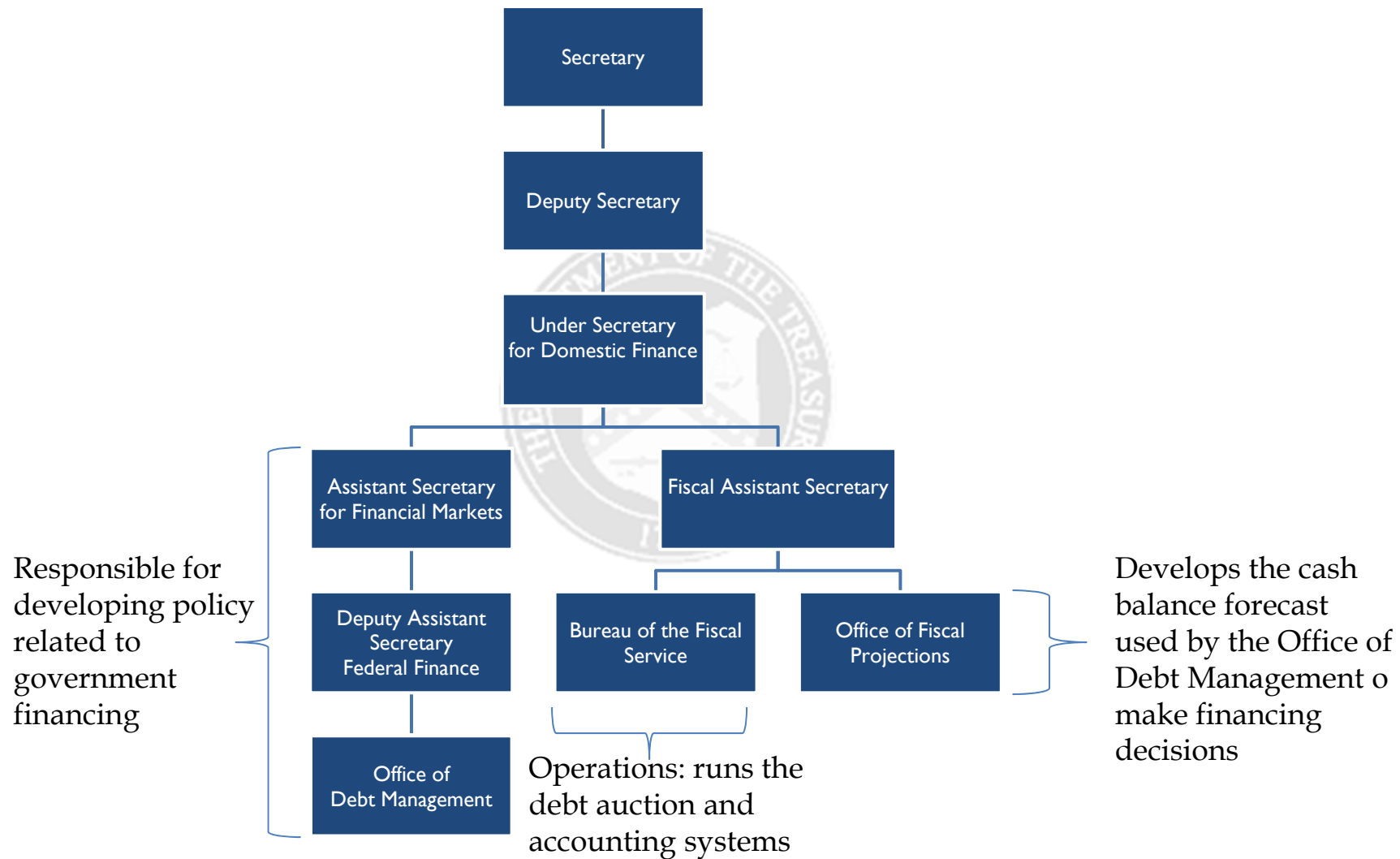


Office of Debt Management



Overview of Treasury's
Office of Debt Management

Debt Management at the Treasury



Treasury and the Federal Reserve System

Treasury's debt management policy is independent from the Federal Reserve System's monetary policy decisions.

Treasury's Mission

- ▶ Treasury's mission is to maintain a strong economy and create economic and job opportunities by promoting the conditions that enable economic growth and stability at home and abroad, strengthen national security by combatting threats and protecting the integrity of the financial system, and manage the U.S. Government's finances and resources effectively.

Federal Reserve System Responsibilities

- ▶ The Federal Reserve System is the central bank of the United States and conducts monetary policy
- ▶ The Federal Open Market Committee sets monetary policy by choosing a federal funds rate target and authorizes open market operations to achieve that target
- ▶ The Board of Governors oversees the operation of Federal Reserve System and is responsible for the discount rate and reserve requirements

Federal Reserve Banks Act as Treasury's Fiscal Agent

- ▶ Receives tenders in Treasury auctions and buybacks
- ▶ Maintains marketable Treasury securities in book-entry form
- ▶ Maintains the Treasury's checking account (i.e. the "Treasury General Account")
- ▶ Maintains the relationship with the primary dealers
- ▶ Conducts Treasury's foreign exchange transactions

Treasury Financing

Objective

- ▶ Fund the government at the least cost to the taxpayer over time

Strategies

- ▶ Offer high quality products through regular and predictable issuance
- ▶ Promote a robust, broad, and diverse investor base
- ▶ Support market liquidity and market functioning
- ▶ Keep a prudent cash balance
- ▶ Maintain manageable rollovers and changes in interest expense

Constraints

- ▶ Uncertainty - legislative commitments, macro-economic forecast errors, technical modeling factors all create uncertainty in deficit forecasts
- ▶ Size - Treasury is too large an issuer to behave opportunistically in debt markets

Policy Outcomes

- ▶ Treasury is a regular and predictable market participant, not a market timer
- ▶ Treasury doesn't react to current rate levels or short-term fluctuations in demand
- ▶ Treasury requires flexibility to respond to uncertainty - to rapidly raise cash or pay down debt - shorter maturities provide more flexibility
- ▶ Treasury seeks continuous improvement in the auction process
- ▶ Treasury strives for transparency and regularly consults with market participants

Least *Expected* Cost Over Time and Regular and Predictable

Least Cost

- ▶ Interest expense is important, as the Fiscal Year 2020 Mid-Session Review forecasts that the U.S. government will reach primary surplus in 2025.
- ▶ For a given amount of debt issuance, the expected relative cost – over time – of issuing at different points on the curve matter.

Regular and Predictable

- ▶ “Regular and predictable” issuance argues against being opportunistic.
- ▶ Issuance experience, complemented by surveys of the primary dealers, informs Treasury’s view on the speed of any adjustment to auction sizes.
 - ▶ Greater liquidity reduces Treasury’s funding costs over the long-run.
 - ▶ However, limiting the speed of adjustment of issuance implies slowly adjusting to shifts in expected cost.

Borrowing Needs & Debt Management Tools

Determinants of Treasury Borrowing Needs

- ▶ Volume of Maturing Issues (“Rollover”)
- ▶ Budget Deficit/Surplus
- ▶ Changes in Cash Balance

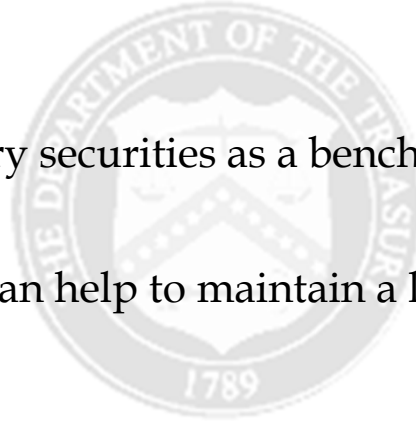
Debt Management Policy Tools

- ▶ Auction Sizes
- ▶ Auction Frequency
- ▶ Security Offering Schedule
- ▶ Buybacks
- ▶ Auction Regulations
- ▶ Market Monitoring, Consulting, and Surveillance



Market Functioning

- ▶ A liquid, efficient market for Treasury securities is central to the financial system.
- ▶ Historically, a liquid market garners a liquidity premium for a security, which leads to greater cost savings.
- ▶ The private sector uses Treasury securities as a benchmark for issuance.
- ▶ A minimum level of issuance can help to maintain a liquid market at all points on the curve.



Classes of Treasury Securities

Marketable

- ▶ Can be traded in the secondary market
- ▶ Sold at auction, rates set via competitive bidding
- ▶ e.g., Bills, Notes, Bonds, TIPS, and FRNs
 - ▶ Zero coupon bonds are created by market participants and are not issued directly by Treasury

Non-Marketable

- ▶ Can not be traded and can be sold only to Treasury
- ▶ Sold to investors by subscription, rates set administratively
- ▶ e.g., Savings Bonds, State and Local Government Series

Updated data on the distribution of Treasury securities outstanding can be found at:

- ▶ <https://www.treasurydirect.gov/govt/reports/pd/mspd/mspd.htm>

Types of Marketable Treasury Securities

Bills – Maturities less than 1-year, sold at competitive auction at a discount to par. Returns par at maturity.

Notes – Maturities from 1-year to 10-years, sold at competitive auction, semi-annual coupon payments.

Bonds – Maturities > 10-years, sold at competitive auction, semi-annual coupon payments.

Treasury Inflation-Protected Securities (TIPS) – Maturities of 5-, 10- and 30-years. Sold at competitive auction. Semi-annual coupon payments. TIPS have a “Real Rate Coupon.” Principal is indexed to NSA-CPI.

Floating Rate Notes (FRN) – 2-year maturity. Sold at competitive auction; quarterly interest payments with weekly reset. Indexed to the 13-week T-bill auction result.

Treasury Issuance Calendar

Nominal Securities

- ▶ 4-week bills
- ▶ 8-week bills
- ▶ 13-week bills
- ▶ 26-week bills
- ▶ 52-week bills

- ▶ 2-year notes
- ▶ 3-year notes
- ▶ 5-year notes
- ▶ 7-year notes
- ▶ 10-year notes
- ▶ 30-year bonds

Frequency

Weekly
Weekly
Weekly
Weekly
Every 4 weeks

Monthly
Monthly
Monthly
Monthly
Quarterly, with 2 re-openings
Quarterly, with 2 re-openings



Treasury Inflation-Protected Securities (TIPS)

- ▶ 5-year TIPS
 - ▶ 10-year TIPS
 - ▶ 30-year TIPS
- Semi-annual, with 1 re-opening
Semi-annual, with 2 re-openings
Annual, with 1 re-opening

Floating Rate Notes (FRNs)

- ▶ 2-year FRN
- Quarterly, with 2 re-openings

Uses of Treasury Securities

Treasury securities provide market participants with the opportunity to address numerous financial objectives

- ▶ Investment
- ▶ Portfolio hedging/immunization
- ▶ Monetary policy execution
- ▶ Collateral and defeasance
- ▶ Synthetic structures
- ▶ Liquidity
- ▶ Price discovery
- ▶ Regulatory needs
- ▶ Reserve and FX Management



Who Holds Treasury Securities?

- ▶ The safety and liquidity of the Treasury market make it very attractive to global investors.
- ▶ Treasury maintains detailed statistics on the global distribution of Treasury holdings through the Treasury International Capital (TIC) System.
- ▶ The most up to date TIC data can be found at
 - ▶ <http://www.treasury.gov/resource-center/data-chart-center/tic/Pages/index.aspx>

Who Buys Treasury Securities at Auction?

- ▶ The primary dealers are a critical part of the primary market for Treasury securities and are required by the Federal Reserve Bank of New York (FRBNY) to participate in every Treasury auction.
 - ▶ Updated analysis and statistics on the primary dealers can be found at: <http://www.newyorkfed.org/markets/primarydealers.html>
- ▶ The FRBNY does not bid competitively in Treasury auctions for its System Open Market Account (SOMA). SOMA can “roll” its maturing Treasury securities at the auction; any such awards to SOMA from rolling maturing securities are treated as an auction “add on.” SOMA may also acquire Treasury securities in the secondary market.
- ▶ Foreign ownership of Treasury securities is generally much greater than foreign auction participation because of significant secondary market purchases.
- ▶ The most recent Treasury auction allotment data can be found at:
 - ▶ <https://home.treasury.gov/data/investor-class-auction-allotments>

Quarterly Refunding and the Treasury Borrowing Advisory Committee

- ▶ The Treasury Borrowing Advisory Committee (TBAC) of the Securities Industry and Financial Markets Association includes representatives from firms that actively trade Treasury securities and firms that make large investments in Treasury securities.
- ▶ At quarterly refunding meetings, the TBAC responds to questions and discussion charts presented by Treasury and representatives present their own analysis.
- ▶ Changes in debt management policy are usually announced through quarterly refunding statements, issued at the end of the meeting.
 - ▶ Shortly after the meeting, all documents related to the quarterly refunding process are posted online at:
 - ▶ <http://www.treasury.gov/resource-center/data-chart-center/quarterly-refunding/Pages/default.aspx>