Treasury Borrowing Advisory Committee

Quarterly Refunding

November 4, 2003
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Long-Term Financing

We will show you a few charts that describe projections of our future financing needs given our current issuance calendar. We would like the Committee’s advice on whether Treasury’s financing calendar provides sufficient flexibility given the current fiscal outlook. If the Committee views the current calendar as insufficiently flexible to meet the range of projections shown, what recommendations does the Committee have for changing the calendar and when should these recommendations be implemented?
## Treasury Financing Requirements

($ Billions)

<table>
<thead>
<tr>
<th></th>
<th>July - September 2003</th>
<th>October - December 2003</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>(Projected)</td>
<td>(Actuals)</td>
</tr>
<tr>
<td>Deficit Funding (Def + / Surplus -) *</td>
<td>138</td>
<td>103</td>
</tr>
<tr>
<td>Means of Financing</td>
<td></td>
<td></td>
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<tr>
<td>Change in Cash Balance</td>
<td>-15</td>
<td>-5</td>
</tr>
<tr>
<td>Compensating Balances</td>
<td>28</td>
<td>28</td>
</tr>
<tr>
<td>Net Non-Marketable Financing</td>
<td>16</td>
<td>8</td>
</tr>
<tr>
<td>Net Marketable Financing</td>
<td>104</td>
<td>82</td>
</tr>
<tr>
<td>Other</td>
<td>5</td>
<td>-10</td>
</tr>
<tr>
<td>Net Marketable Financing</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bills</td>
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<tr>
<td>Nominal Notes</td>
<td></td>
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<tr>
<td>IIS</td>
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<tr>
<td>Bonds</td>
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### Notes:
- Starting Cash Balance
  - July - September 2003: 30
  - October - December 2003: 35
- Ending Cash Balance
  - July - September 2003: 45
  - October - December 2003: 35

* Includes budget results, direct loan activity, changes in accrued interest and checks outstanding and minor miscellaneous transactions.

Note: Totals may not add due to rounding
Financing Residuals Given Current Issuance Calendar

Deficits plus Avg. Absolute Error

Deficits minus Avg. Absolute Error

FY04 OMB MSR Deficit Forecast

Bars Indicate Additional Financing Required In Given Year For Different Deficit Outcomes
CBO Baseline Budget Projections With Policy Alternatives

Fiscal Year

Source: CBO, The Budget and Economic Outlook, August 2003
Outlays and Receipts as a Percentage of GDP

Sources: OMB, FY ’04 Budget Historical Tables; OMB, MSR, July ’03; CBO, The Budget and Economic Outlook, August ’03
Projected Average Announced Auction Sizes
(CBO Policy plus Afghan & Iraq Supplemental)

Note: Projected auction sizes are hypothetical. Assumes no changes in auction calendar.
Annual Issuance as a Percentage of GDP and Percentage of Debt Maturing in 12 Months

<table>
<thead>
<tr>
<th>Issuance as a % of GDP (LHS)</th>
<th>Debt Maturing/Total Debt</th>
</tr>
</thead>
<tbody>
<tr>
<td>22%</td>
<td>20%</td>
</tr>
</tbody>
</table>

* Projections assume current coupon auction sizes remain the same and remaining borrowing needs are financed with bills.
** Nominal GDP growth of 5% is assumed for Issuance as a Percentage of GDP measure.
*** Debt Maturing and Issuance include Fed holdings. Issuance is composed of coupon issuance plus bills outstanding at the end of the period.
Long-Term Issuance as a Percentage of Total Annual Issuance

* Long-Term issuance is any issuance with a maturity of 10 years or greater.
** Total Annual Issuance is composed of all coupon issuance over the previous four quarters plus bills outstanding at the end of the period.
*** Projection is calculated using current auction sizes and the OMB's July '03 MSR deficit forecast for FY04 of $475 billion.
Treasury Inflation-Protected Securities

We are currently considering adding an additional TIPS security to our financing calendar. What criteria should we use in determining the appropriate maturity for a new issue?
Total Annual Issuance of TIPS
Nominal Amounts and as a Percentage of Annual Issuance

* Annual Issuance equals total TIPS issuance over the previous four quarters.
** Total Annual Issuance is composed of all coupon issuance over the previous four quarters plus bills outstanding at the end of the period.
*** FY '04 Projections based on current auction sizes and the OMB's July '03 MSR deficit forecast for FY '04 of $475 billion.
Treasury Securities as a Percentage of the Financial Assets Held in Pension Funds

Source: Federal Reserve Board, Flow of Funds; Haver
Treasury Securities
as a Percentage of the Financial Assets Held by Insurance Companies

Source: Federal Reserve Board, Flow of Funds; Haver
Treasury Securities
as a Percentage of the Financial Assets Held in Mutual Funds

Nearly $15 billion held in TIPS Mutual Funds today
Compared with less than $1 billion at the end of 2000

Source: Federal Reserve Board, Flow of Funds; Haver
Market Conditions

RP fails, particularly on the May ‘13 10-year note, persist at an elevated level. We would like the Committee’s feedback on current market conditions and how effective private sector initiatives and regulatory measures have been in handling the fails situation.
Overnight RP and 10-year Treasury Rates

Source: Bloomberg
May 10-year Note Fails

- Not much improvement over past two months
- Spillover into cash market has been recent and small
- No signs that overall liquidity has been impaired
- No improvement forecasted in near term
Financing This Quarter

We would like the Committee’s advice on the following:

• The composition of Treasury notes to refund approximately $24.8 billion of privately held notes and bonds maturing on November 15 (including $3.4 billion of the 8-3/4% 11/15/03-08 that was called on 7/15/03).

• The composition of Treasury marketable financing for the remainder of the October-December quarter, including cash management bills.

• The composition of Treasury marketable financing for the January-March quarter.