Treasury Borrowing Advisory Committee

Quarterly Refunding

August 3, 2004
Liquidity and Reduced Financing Needs

We would like the Committee’s view on reducing marketable issuance in the face of declining financing needs and the impact of such reductions on market liquidity.
# Treasury Financing Requirements

($ Billions)

<table>
<thead>
<tr>
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<th>April - June 2004</th>
<th>July - September 2004</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>(Projected)</td>
<td>(Actuals)</td>
</tr>
<tr>
<td><strong>Deficit Funding (Def + / Surplus -)</strong></td>
<td>22</td>
<td>26</td>
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<tr>
<td><strong>Means of Financing</strong></td>
<td></td>
<td></td>
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<tr>
<td>Change in Cash Balance</td>
<td>-24</td>
<td>-23</td>
</tr>
<tr>
<td>Net Non-Marketable Financing</td>
<td>6</td>
<td>4</td>
</tr>
<tr>
<td>Net Marketable Financing</td>
<td>38</td>
<td>31</td>
</tr>
<tr>
<td>Other*</td>
<td>2</td>
<td>14</td>
</tr>
<tr>
<td><strong>Net Marketable Financing</strong></td>
<td>38</td>
<td>31</td>
</tr>
<tr>
<td>Bills</td>
<td></td>
<td>-38</td>
</tr>
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<td>Nominal Notes</td>
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<td>69</td>
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<td>TIPS</td>
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<td>9</td>
</tr>
<tr>
<td>Bonds</td>
<td></td>
<td>-8</td>
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</tbody>
</table>

**Notes:**
- Starting Cash Balance: 21, 21, 45
- Ending Cash Balance: 45, 45, 35

* Includes 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

Assumes current coupon issuance pattern and issuance amount-- Bill issuance at levels required to maintain outstanding FY $ amounts nearly equal to June 30, 2004 total outstanding


Bills as a Percentage of Treasury's Marketable Debt

Bills Maintained at Roughly 25%
(see next 5 charts)

Coupon Auction Sizes Held Constant
Projected Net Marketable Borrowing and *Hypothetical* Auction Sizes

*If Bill Issuance held Constant as a percent of Portfolio*

*For bills, the average auction size equals the amount outstanding at the end of the fiscal year divided by 43 (i.e., 4 1-month auctions, 13 3-month auctions, plus 26 6-month auctions).*
Historical and Hypothetical Distribution of Treasury's Marketable Debt

Assumes hypothetical auction sizes for '04 - '09 projections.
Assumes hypothetical auction sizes for ’04 - ’09 projections.
Percentage of Debt Maturing in Next 12 to 36 Months

Assumes hypothetical auction sizes for '04 - '09 projections.
Assumes hypothetical auction sizes for '04 - '09 projections. Bill issuance is net issuance while coupon issuance is gross issuance.
Distribution of Inflation, Interest Rate, and Deficit

We will present charts to the Committee showing projected levels of interest rates, inflation and deficits and a range of probable outcomes. Does the Committee have a views on whether these are the appropriate variables to focus on? Is there anything presented within these charts that raises concerns? Are there any related indicators that Treasury should consider?
Term Structure Probability Distribution

Range of possible outcomes is based on 10-year historical data

Sources: OMB's forecast
Inflation Probability Distribution

Sources: OMB's forecast

Range of possible outcomes is based on 10-year historical data
Contribution of Various Risk Factors to Uncertainty in Interest Expense

ASSUMPTIONS: (a) Current coupon issuance is kept constant
(b) Under the optimistic fiscal scenario coupon issuance is adjusted slightly to maintain non-zero bill issuance
(c) Budget deficit, interest rate, and inflation are uncorrelated
Contribution of Various Risk Factors to Uncertainty in Interest Expense

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(b) Under the optimistic fiscal scenario coupon issuance is adjusted slightly to maintain non-zero bill issuance
(c) Budget deficit, interest rate, and inflation are uncorrelated
(d) Fiscal, Interest rate, and inflation numbers are kept at 2014 level from 2015 - 2028
Cost and Volatility of Different Issuance Portfolios

ASSUMPTIONS:  
(a) Fiscal, Interest rate, and inflation numbers are kept at 2014 level from 2015 - 2028  
(b) Long-term concentrated issuance: 77% of coupons in 5-year to 20-year, the rest of coupons in less than 5-year  
(c) Short-term concentrated issuance: 62% of coupons in less than 5-year, the rest of coupons in 5-year to 20-year  
(d) Coupons issuance is kept constant for all portfolios; bills pick up the residual financing
Contribution of Various Risk Factors to Uncertainty in Interest Expense

**ASSUMPTIONS:**
(a) Current coupon issuance is kept constant
(b) Under the optimistic fiscal scenario coupon issuance is adjusted slightly to maintain non-zero bill issuance
(c) Budget deficit, interest rate, and inflation are uncorrelated
(d) Outlays numbers, obtained from the OMB, are at 2009 level for 2010 - 2014
(e) Net interest is used for 1962 - 2003
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ASSUMPTIONS:  
(a) Current coupon issuance is kept constant  
(b) Under the optimistic fiscal scenario coupon issuance is adjusted slightly to maintain non-zero bill issuance  
(c) Budget deficit, interest rate, and inflation are uncorrelated  
(d) Fiscal, Interest rate, and inflation numbers are at 2014 level for 2015 - 2028  
(e) Outlays numbers are OMB’s forecast for 2004 - 2009 and are kept at 2009 level for 2010 - 2028  
(f) Net interest is used for 1962 - 2003
Contribution of Various Risk Factors to Uncertainty in Interest Expense

ASSUMPTIONS:  
(a) Current coupon issuance is kept constant  
(b) Under the optimistic fiscal scenario coupon issuance is adjusted slightly to maintain non-zero bill issuance  
(c) Budget deficit, interest rate, and inflation are uncorrelated  
(d) GDP numbers are OMB's forecast for 2004 - 2009, and are assumed to grow at 5% for 2010 - 2014  
(e) Net interest is used for 1962 - 2003
Contribution of Various Risk Factors to Uncertainty in Interest Expense

ASSUMPTIONS:
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Foreign Ownership of Treasury Securities

Treasury is frequently asked about levels of foreign ownership. We believe that broad, diversified ownership helps Treasury achieve its objective of lowest cost borrowing over time. Does the Committee have any views they would like to share with us on this issue?
FOREIGN HOLDINGS AS A PERCENT OF TOTAL PRIVATELY HELD PUBLIC DEBT

Calendar Quarter

Percent


Estimated Foreign Holdings

Foreign and International Institutional Holdings at FRBNY

Privately held debt excludes holdings of the Federal Reserve.
