REPORT TO THE SECRETARY OF THE TREASURY
FROM THE U.S. GOVERNMENT AND FEDERAL
AGENCIES SECURITIES COMMITTEE OF THE
PUBLIC SECURITIES ASSOCIATION
Feburary 1, 1984

Dear Mr. Secretary:

Since our last meeting in late October, interest rates have fluctuated sporadically in a narrow range with very little change on balance. Given the overall short term economic outlook we would expect this to continue during the present quarter.

Treasury coupon auctions are now so large and frequent that the market has little chance to digest and rebound from one auction to the next. As soon as one refunding passes investors will express caution over making new commitments prior to the next semi-quarterly coupon financing.

This has been mitigated to some extent by a substantial reduction of floating supply of Treasury bonds by coupon stripping or its equivalent. Such stripping has created the opportunity for the Treasury to sell more long bonds than otherwise would be possible. On the other hand, it might put some upward pressure on short intermediate notes.

A degree of volatility could be introduced in the short term area by the advent of contemporaneous reserve requirements and the change in the reserve period. This could be especially true if the Federal Reserve were to immediately begin to reemphasize reliance on M1 as its primary monetary policy determinant.

With this background, we recommend that the Treasury continue to emphasize coupon issues to raise new cash and that the 3 and 6 month bills be used as sparingly as possible.

Our specific recommendations for the February 15th refunding are as follows:

| | | | |
|---|---|---|---|
| Sell | \$6.5 | billion notes due | 2/15/87 |
| Reopen | 5.25 | billion 11 3/4% notes due | 11/15/93 |
| Sell | 4.75 | billion bonds due | 2/15/14 |

Our Committee voted unanimously in favor of a total size of the refunding of \$16.5 billion. However, four of our members would have preferred to reduce the 30 year issue to \$4.5 billion and increase the 9 3/4 year note to \$5.5 billion. This package would raise \$12 billion in cash leaving \$17 billion to be raised over the balance of the quarter.

To raise the $17 billion we recommend the following:

| | |
|---|---|
| Feb 29 two year note $8.2 v $5.3 | $2.9 billion |
| Mar 2 five year note | 6.3 |
| Continue weekly bills at $12.8 | 2.3 |
| Raise 1 year bill to $8.5 | 2.0 |
| Foreign add ons plus cash mgmt bills as needed | 3.5 |
| Total | $17.0 |

As you may recall our committee has previously recommended some restraint on the size of the two year note. We still feel that it is large in relation to the one year bill. We are not recommending a reduction in the present size of the two year note but feel that the proposed increase in the size of the 1 year bill is in keeping with the $8.2 billion size of the note.

I am attaching a schedule that sets forth some possibilities for financing the cash needs in the second quarter.

Our group considered the change in the announcement day for money supply figures,and a substantial majority feels that it would be in the Treasury's best interest to eliminate the Thursday auction. We recommend starting with the next quarter end financing. You could consider selling the 4 year note on Monday, the seven year on Tuesday and the 20 year bond on Wednesday.

This concludes our report but we would be happy to elaborate or answer questions at this time.

Respectfully submitted,

H. Jack Runnion, Jr.

H. Jack Runnion, Jr.
Chairman

ISSUE ANALYSIS OF APRIL - JUNE QUARTER NEW MONEY FINANCING REMAINING TO BE DONE

($ Billions)

| WEEKLY BILLS | OUTSTANDING | PROJECTED SIZE | FOREIGN NEW CASH | NEW CASH RAISED | |
|---|---|---|---|---|---|
| 4/5/84 | $ 12.4 | $ 12.8 | ---- | +$ .4 | |
| 4/12 | $ 12.5 | $ 12.8 | ---- | +$ .3 | |
| 4/19 | $ 12.4 | $ 12.8 | ---- | +$ .4 | |
| 4/26 | $ 12.4 | $ 12.8 | ---- | +$ .4 | |
| 5/3 | $ 12.4 | $ 12.8 | ---- | +$ .4 | |
| 5/10 | $ 12.6 | $ 12.8 | ---- | +$ .2 | |
| 5/17 | $ 12.6 | $ 12.8 | ---- | +$ .2 | |
| 5/24 | $ 12.7 | $ 12.8 | ---- | +$ .1 | |
| 5/31 | $ 12.6 | $ 12.8 | ---- | +$ .2 | |
| 6/7 | $ 12.7 | $ 12.8 | ---- | +$ .1 | |
| 6/14 | $ 12.8 | $ 12.8 | ---- | -0- | |
| 6/21 | $ 12.8 | $ 12.8 | ---- | -0- | |
| 6/28 | $ 12.8 | $ 12.8 | ---- | -0- | +$ 2.7 |
| **1-Year Bills:** | | | | | |
| (4/19 maturity) | $ 7.8 | $ 8.5 | ---- | +$ .7 | |
| (5/17 maturity) | $ 7.8 | $ 8.5 | ---- | +$ .7 | |
| (6/14 maturity) | $ 7.8 | $ 8.5 | ---- | +$ .7 | +$ 2.1 |
| **Cash Management Bills:** | | | | | |
| (April Maturity) | $ 3.5 | -0- | ---- | -$ 3.5 | -$ 3.5 |
| **2-Year Notes:** | | | | | |
| (3/31 maturity)* | $ 5.5 | $ 8.25 | +$ .2 | +$ 2.9 | |
| (4/30 maturity) | $ 5.0 | $ 8.25 | +$ .2 | +$ 3.5 | |
| (5/31 maturity) | $ 5.5 | $ 8.25 | +$ .2 | +$ 2.9 | +$ 9.3 |
| **5-Year Notes:** | | | | | |
| (First half of June) | -0- | $ 6.0 | +$ .2 | +$ 6.2 | +$ 6.2 |
| **4-Year Notes:** | | | | | |
| (3/31 maturity)* | $ 2.2 | $ 6.0 | +$ .2 | +$ 4.0 | +$ 4.0 |
| **7-Year Notes:** | | | | | |
| (First half of April | -0- | $ 5.25 | +$ .2 | +$ 5.5 | +$ 5.5 |
| **20-Year Bonds:** | | | | | |
| (First half of April) | -0- | $ 3.75 | ---- | +$ 3.8 | +$ 3.8 |
| **Refunding:** | +$ 9.3 | $ 16.25 | +$ .3 | +$ 7.3 | +$ 7.3 |
| | $219.6 | $253.2 | +$1.5 | | +$ 37.4 |

*Settlement of these securities will be on 4/2/84.

REPORT TO THE SECRETARY OF THE TREASURY
FROM THE U.S. GOVERNMENT AND FEDERAL
AGENCIES SECURITIES COMMITTEE OF THE
PUBLIC SECURITIES ASSOCIATION
May 2, 1984

Dear Mr. Secretary:

Since the last refunding was announced on February 1, interest rates have increased an average of about 1 percentage point for all Treasury securities. The economy proved to be stronger than had been anticipated, the Federal Reserve tightened monetary policy, and investors became increasingly cautious in the face of continuing high deficits coupled with growing private credit demands.

In recent years, and particularly the last two, market psychology has played an increasingly important role in determining interest rate levels and volatility. During the most recent recession and first year of recovery, interest rates could have gone considerably lower had it not been for the fear concerning the magnitude of the federal deficit. This could have happened without necessarily providing further stimulus to the economy.

M1 figures and other money supply related statistics, along with economic data, have been the basis for short term psychologically driven swings in markets. The point is that it is perception and anticipation of future results of the statistics, rather than real economic impact affecting supply and demand for credit, that seems to be driving the markets.

This increased importance of psychology in the bond and money markets is largely the result of structural changes in financial markets and institutions. There are many more professional trading operations active today than there were just a few years ago and most emphasize position as opposed to integrated trading and retail distribution. Even many long term investors have adopted a short term trading approach as their investment technique. These market developments have taken place at a time when Federal Reserve control over bank lending has been substantially diminished. With the high level of liquidity in the banking system the Fed can no longer bring about loan declinations and direct credit rationing but can merely affect the cost of the loans and their funding.

If meaningful steps are taken to reduce the federal deficit, the markets could stabilize and lower rates would be quite possible. Otherwise we would anticipate fluctuating markets on a day to day basis leading to gradually higher rates over time.

In this market atmosphere we make the following recommendations: for the May 15 refunding:

1. Auction $6.5 billion 3 year notes due 5/15/87

2. Auction $5.25 billion 10 year notes due 5/15/94

3. Auction $4.5 billion 30 year bonds due 5/15/09-14

The Committee also recommends that foreign add-ons be permitted on these issues even if it means further reductions of bills to stay below the debt limit.

If there is additional leeway to raise another $500 million within the debt limit, 14 of our members would add this amount to the 30 year bond. 6 members would add to the 10 year note.

Attached to this report is a schedule setting forth our recommendations for financing during the balance of the second quarter. This schedule provides for reductions in weekly bills of $7.0 billion, raising the level of the one year bill to $8.3 billion raising $1.0 billion, with the 2 year note also at $8.3 billion raising $2.9 billion including $.2 billion of add ons. It also contemplates reopening the two paid down bill issues for $6.0 billion each.

We have included a preliminary schedule for the third quarter financings. This would raise $46.9 billion. In looking to future financings we feel that we should take into consideration the quarterly interest payments as well as the maturing issues. This is particularly true for November when interest payments will exceed $13 billion. These payments are usually heavier in May and November. If these are not financed along with the refunding they increase other cash financings.

We will be happy to try to answer any questions that you may have.

Respectfully submitted,

H. Jack Runnion, Jr.
Chairman

ISSUE ANALYSIS OF APRIL - JUNE QUARTER NEW MONEY FINANCING TO BE DONE

($ Billions)

| WEEKLY BILLS | OUTSTANDING | PROJECTED SIZE | FOREIGN NEW CASH | NEW CASH RAISED | |
|---|---|---|---|---|---|
| 5/10/84 | $ 12.7 | $ 6.0 | ----- | -$ 6.7 | |
| 5/17 | $ 12.7 | $ 12.4 | ----- | -$ .3 | |
| 5/24 | $ 12.7 | $ 12.4 | ----- | -$ .3 | |
| 5/31 | $ 12.6 | $ 12.6 | ----- | +$ .2 | |
| 6/7 | $ 12.6 | $ 12.6 | ----- | +$ .2 | |
| 6/14 | $ 12.7 | $ 12.8 | ----- | +$ .1 | |
| 6/21 | $ 12.7 | $ 12.8 | ----- | +$ .1 | |
| 6/28 | $ 12.7 | $ 12.8 | ----- | +$ .1 | -$ 7.0 |
| 1-Year Bills: | | | | | |
| (5/17 maturity) | $ 7.8 | $ 8.3 | ----- | +$ .5 | |
| (6/14 maturity | $ 7.8 | $ 8.3 | ----- | +$ .5 | +$ 1.0 |
| Cash Management Bills: | | | | | |
| (Reopen 5/3, and/ or 5/10 issues) | -0- | $ 12.0 | ----- | +$12.0 | +$12.0 |
| 2-Year Notes: | | | | | |
| (5/31 maturity) | $ 5.6 | $ 8.3 | +$ .2 | +$ 2.9 | +$ 2.9 |
| 5-Year Notes: | | | | | |
| (First half of June) | -0- | $ 6.0 | +$ .1 | +$ 6.1 | +$ 6.1 |
| Refunding: | +$ 9.3 | $ 16.3 | +$ .3 | +$ 7.0 | +$ 7.0 |
| | $131.9 | $156.0 | +$ .6 | | +$22.0 |

## ISSUE ANALYSIS OF JULY - SEPTEMBER QUARTER NEW MONEY FINANCING REMAINING TO BE DONE

($ Billions)

| WEEKLY BILLS | OUTSTANDING | PROJECTED SIZE | FOREIGN NEW CASH | NEW CASH RAISED | |
|---|---|---|---|---|---|
| 7/5/84 | $ 12.5 | $ 13.2 | ——— | +$ .7 | |
| 7/12 | $ 12.5 | $ 13.2 | ——— | +$ .7 | |
| 7/19 | $ 12.4 | $ 13.2 | ——— | +$ .8 | |
| 7/26 | $ 12.2 | $ 13.2 | ——— | +$ 1.0 | |
| 8/2 | $ 12.4 | $ 13.2 | ——— | +$ .8 | |
| 8/9 | $ 12.5 | $ 13.2 | ——— | +$ .7 | |
| 8/16 | $ 12.6 | $ 13.2 | ——— | +$ .6 | |
| 8/23 | $ 12.8 | $ 13.2 | ——— | +$ .4 | |
| 8/30 | $ 12.9 | $ 13.2 | ——— | +$ .3 | |
| 9/6 | $ 12.6 | $ 13.2 | ——— | +$ .6 | |
| 9/13 | $ 12.7 | $ 13.2 | ——— | +$ .5 | |
| 9/20 | $ 12.7 | $ 13.2 | ——— | +$ .5 | |
| 9/27 | $ 12.7 | $ 13.2 | ——— | +$ .5 | +$ 8.1 |
| 1-Year Bills: | | | | | |
| (7/12 maturity) | $ 7.8 | $ 8.5 | ——— | +$ .7 | |
| (8/9 maturity) | $ 7.8 | $ 8.5 | ——— | +$ .7 | |
| (9/6 maturity) | $ 7.8 | $ 8.5 | ——— | +$ .7 | +$ 2.1 |
| -Year Notes: | | | | | |
| (6/30 maturity)* | $ 5.4 | $ 8.5 | +$ .2 | +$ 3.3 | |
| (7/31 maturity) | $ 6.0 | $ 8.5 | +$ .2 | +$ 2.7 | |
| (8/31 maturity) | $ 6.9 | $ 8.5 | +$ .2 | +$ 1.8 | +$ 7.8 |
| 5-Year Notes: | | | | | |
| (First half of Sept.) | -0- | $ 6.3 | +$ .2 | +$ 6.5 | +$ 6.5 |
| 4-Year Notes: | | | | | |
| (6/30 maturity)* | $ 3.2 | $ 6.3 | +$ .2 | +$ 3.2 | +$ 3.2 |
| 7-Year Notes: | | | | | |
| (First half of July) | -0- | $ 5.5 | +$ .2 | +$ 5.7 | +$ 5.7 |
| 20-Year Bonds: | | | | | |
| (First half of July) | -0- | $ 4.0 | ——— | +$ 4.0 | +$ 4.0 |
| efunding: | $ 7.3 | $ 16.5 | +$ .3 | +$ 9.5 | +$ 9.5 |
| | $215.7 | $261.1 | +$1.5 | | +$46.9 |

* Settlement of these securities will be on 7/2/84.

REPORT TO THE SECRETARY OF THE TREASURY
FROM THE U.S GOVERNMENT AND FEDERAL
AGENCIES SECURITIES COMMITTEE OF THE
PUBLIC SECURITIES ASSOCIATION
August 1, 1984

Dear Mr. Secretary:

Since the May refunding rates have ranged widely, with short-term rates having moved higher on balance and longer term rates having moved lower, flattening the yield curve. Several conflicting forces are influencing investor attitudes.

Factors putting upward pressure on rates are as follows:

1. Stronger than anticipated economic recovery and expansion with the accompanying strong loan demand across the board.

2. Stimulative fiscal policies and deficit financing.

3. Federal Reserve monetary restraint.

Factors putting downward pressure on interest rates are:

1. Good inflation performance continuing for a long time and the market and investors somewhat belated recognition of the likelihood of its persisting for sometime to come.

2. The termination of the withholding tax has already helped to improve market sentiment and gradual increases in foreign participation should begin to have some real impact.

In this election year, changes in opinion as to the probable outcome are likely to add to the volatility and uncertainty of the market. Considering these conflicting factors, there is a reasonable chance that interest rates could work somewhat lower over the next few months, but are not likely to move substantially in either direction.

Now, in reply to the charge, we recommend the following securities be sold at yield auction to refund the August 15 maturities and raise approximately $10 billion in new cash:

| | |
|---|---|
| $6.5 billion 3-year note due | 8/15/87 |
| $5.25 billion 10-year note due | 8/15/94 |
| $5.25 billion 30-year bond due | 8/15/2014 |

(add-ons approximately $.3 billion)

For the balance of the quarter we recommend raising $3.8 billion through the sale of $12.8 billion of weekly bills at each of the next seven sales and $.4 billion by selling $8.5 billion 2-year notes with approximately $.4 billion of add-ons. The 5-year note would produce another $6.3 billion.

Summary

| | |
|---|---|
| Refunding | $10.1 billion |
| Weekly bills | 3.8 |
| One-year bill | .4 |
| Two-year note | 2.0 |
| Five-year note | 6.3 |
| Total | $22.6 billion |

This would result in a quarter end cash balance of $22.1 billion including $.7 billion in add ons.

I am attaching a schedule of tentative recommendations for the October-December quarter. This would involve returning to $13.2 billion of the weekly bills, continuing other auctions at present levels and raising $8.1 billion in the November refunding.

Regarding the questions on call features, there are three basic factors that affect the yield differential cost of call features. They are as follows:

1. Loss of futures settlement
2. Loss of stripability
3. Call option

In the judgment of the Committee, these would raise interest cost in the following amounts:

20-Year Bond

| Callable in | 10 years | 5 years |
|---|---|---|
| 1. | 1/8% (at least) | 1/8% (at least) |
| 2. | 1/4% (at least) | 1/4% (at least) |
| 3. | 1/8% (approx.) | 1/4% (at least) |
| Totals | 1/2% (at least) | 5/8% (at least) |

The above estimates are based on the present levels of interest rates and yield curve.

If the issue were callable at a premium, the premium would not affect numbers 1 and 2 above. The cost would only be reduced modestly.

On a zero coupon bond, a principal amount of $35 billion would raise $1 billion for a 30-year maturity, $11 billion in principal would raise $1 billion in a 20-year issue and $3.5 billion would raise $1 billion on a 10-year. Our Committee feels that $1 billion could be raised from a 30-year; $2 billion from a 20-year or about $3 billion from a 10-year issue.

We believe that a minimum purchase price of $1,000 would be appropriate, although this would cause reconciliation problems between the maturity value offered and the subscriptions tendered.

We think that if a zero coupon issue is offered, no schedule should be announced; rather a one-time offering should be made to test the market. After the initial offering, issues in the first quarter of the year would be appropriate because of IRA accounts.

Our Committee was divided on its recommendation for sale technique: 7 members favored a regular auction; 7 favored a Dutch auction; and 4 were for a subscription offering.

At the present time, based on current markets, a zero coupon could sell about 40 basis points below the par bond yield curve on the 30- and 20-year issues. On the 10-year issue, the advantage would be about 20 basis points. On the spot yield curve, the 30-year would show no advantage, the 20-year a 46 basis point advantage and the 10-year a 25 basis point advantage. However, we feel that the 30-year is distorted by the 25-year call. Without this, the advantage would equal the 20-year.

However, we feel that at least part of this advantage is illusory, because it would be offset by a higher yield on regular issues, due to the competition from the zeroes. In other words, there is a certain degree of robbing Peter to pay Paul involved in selling zero coupons.

Under the heading of additional comments, we would like to say that selling callable bonds and zero coupons are in basic conflict, because one relies on lower rates in the future and the other relies on higher rates in the future.

In this report, we have attempted to point out the cost and advantages of offering callable bonds or zero coupons. However, it is quite difficult to recommend how to do something that we feel is basically inadvisable.

As far as a callable feature is concerned, we have serious doubts whether the present value of the call feature justifies the increased interest cost. Regarding the zero coupon, we feel that the Treasury is already receiving the bulk of the advantage through the demand resulting from stripping and that, if zeroes are to be offered at all, the Treasury should wait for a lower level of absolute interest rates.

These are very complex issues and it is difficult to capture the dimensions of our discussions in a written report. We therefore stand ready to discuss them further. I call on my colleagues to assist me in elaborating on the issues, and to answer your questions.

Respectfully submitted,

H. Jack Runnion, Jr.
Chairman

4. ISSUE ANALYSIS OF JULY - SEPTEMBER QUARTER NEW MONEY FINANCING REMAINING TO BE DONE

($ Billions)

| WEEKLY BILLS | OUTSTANDING | PROJECTED SIZE | FOREIGN NEW CASH | NEW CASH* RAISED | |
|---|---|---|---|---|---|
| 8/09/84 | $ 12.5 | $ 13.2 | —— | +$ .7 | |
| 8/16 | $ 11.5 | $ 12.8 | —— | +$ 1.4 | |
| 8/23 | $ 12.8 | $ 12.8 | —— | +$ | |
| 8/30 | $ 12.8 | $ 12.8 | —— | +$ | |
| 9/6 | $ 12.7 | $ 12.8 | —— | +$ .1 | |
| 9/13 | $ 12.7 | $ 12.8 | —— | +$ .1 | |
| 9/20 | $ 12.7 | $ 12.8 | —— | +$ .1 | |
| 9/27 | $ 11.3 | $ 12.8 | —— | +$ 1.5 | +$ 3.8 |
| 1-Year Bills: | | | | | |
| (9/6 maturity) | $ 7.8 | $ 8.25 | —— | +$ .4 | +$ .4 |
| 2-Year Notes: | | | | | |
| (8/31 maturity) | $ 6.9 | $ 8.5 | +$ .4 | +$ 2.0 | +$ 2.0 |
| 5-Year Notes: | | | | | |
| (First half of Sept.) | -0- | $ 6.25 | —— | +$ 6.3 | +$ 6.3 |
| Refunding: | $ 7.2 | $ 17.0 | +$ .3 | +$10.1 | +$10.1 |
| | $120.9 | $145.6 | +$ .7 | | +$22.6 |

## ISSUE ANALYSIS OF OCTOBER - DECEMBER QUARTER NEW MONEY FINANCING REMAINING TO BE DONE

($ Billions)

| WEEKLY BILLS | OUTSTANDING | PROJECTED SIZE | FOREIGN NEW CASH | NEW CASH RAISED | |
|---|---|---|---|---|---|
| 10/4 | $ 12.5 | $ 13.2 | —— | +$ .7 | |
| 10/11 | $ 12.5 | $ 13.2 | —— | +$ .7 | |
| 10/18 | $ 12.7 | $ 13.2 | —— | +$ .5 | |
| 10/25 | $ 11.6 | $ 13.2 | —— | +$1.6 | |
| 11/1 | $ 12.6 | $ 13.2 | —— | +$ .6 | |
| 11/8 | $ 12.7 | $ 13.2 | —— | +$ .5 | |
| 11/15 | $ 11.7 | $ 13.2 | —— | +$1.5 | |
| 11/23 | $ 13.0 | $ 13.2 | —— | +$ .2 | |
| 11/29 | $ 12.9 | $ 13.2 | —— | +$ .3 | |
| 12/6 | $ 13.1 | $ 13.2 | —— | +$ .1 | |
| 12/13 | $ 13.1 | $ 13.2 | —— | +$ .1 | |
| 12/20 | $ 13.0 | $ 13.2 | —— | +$ .2 | |
| 12/27 | $ 11.9 | $ 13.2 | —— | +$1.3 | +$ 8.3 |
| **1-Year Bills:** | | | | | |
| 10/4 | $ 7.8 | $ 8.5 | —— | +$ .7 | |
| 11/1 | $ 7.8 | $ 8.5 | —— | +$ .7 | |
| 11/29 | $ 8.0 | $ 8.5 | —— | +$ .5 | |
| 12/27 | $ 8.3 | $ 8.5 | —— | +$ .2 | +$ 2.1 |
| **Cash Management Bills:** | | | | | |
| January and possibly April maturities | —— | $ 6.0 | —— | +$6.0 | +$ 6.0 |
| **2-Year Notes:** | | | | | |
| 9/30* | $ 7.1 | $ 8.75 | $.25 | +$1.9 | |
| 10/31 | $ 7.4 | $ 8.75 | $.25 | +$1.6 | |
| 11/30 | $ 7.1 | $ 8.75 | $.25 | +$1.9 | |
| 12/31 | $ 7.4 | $ 8.75 | $.25 | +$1.6 | +$ 7.0 |
| **5-Year Notes:** | | | | | |
| (First half of Dec.) | -0- | $ 6.5 | —— | +$6.5 | +$ 6.5 |
| **4-Year Notes:** | | | | | |
| 9/30* | $ 3.0 | $ 6.25 | $.25 | +$3.5 | |
| 12/31 | $ 3.3 | $ 6.25 | $.25 | +$3.2 | +$ 6.7 |
| **7-Year Notes:** | | | | | |
| (First half of Oct.) | -0- | $ 5.75 | —— | +$5.8 | +$ 5.8 |
| **20-Year Bonds:** | | | | | |
| (First half of Oct.) | -0- | $ 4.25 | —— | +$4.3 | +$ 4.3 |
| **Refunding:** | $ 9.7 | $ 17.5 | +$ .3 | +$8.1 | +$ 8.1 |
| | $240.2 | $293.2 | +$1.8 | | +$54.8 |

*Settlement of these securities will be on 10/1/84.

4. ISSUE ANALYSIS OF JULY - SEPTEMBER QUARTER NEW MONEY FINANCING REMAINING TO BE DONE

($ Billions)

| WEEKLY BILLS | OUTSTANDING | PROJECTED SIZE | FOREIGN NEW CASH | NEW CASH RAISED | |
|---|---|---|---|---|---|
| 8/09/84 | $ 12.5 | $ 13.2 | ——— | +$ .7 | |
| 8/16 | $ 11.5 | $ 12.8 | ——— | +$ 1.4 | |
| 8/23 | $ 12.8 | $ 12.8 | ——— | +$ | |
| 8/30 | $ 12.8 | $ 12.8 | ——— | +$ | |
| 9/6 | $ 12.7 | $ 12.8 | ——— | +$ .1 | |
| 9/13 | $ 12.7 | $ 12.8 | ——— | +$ .1 | |
| 9/20 | $ 12.7 | $ 12.8 | ——— | +$ .1 | |
| 9/27 | $ 11.3 | $ 12.8 | ——— | +$ 1.5 | +$ 3.8 |
| 1-Year Bills: | | | | | |
| (9/6 maturity) | $ 7.8 | $ 8.25 | ——— | +$ .4 | +$ .4 |
| 2-Year Notes: | | | | | |
| (8/31 maturity) | $ 6.9 | $ 8.5 | +$ .4 | +$ 2.0 | +$ 2.0 |
| 5-Year Notes: | | | | | |
| (First half of Sept.) | -0- | $ 6.25 | ——— | +$ 6.3 | +$ 6.3 |
| Refunding: | $ 7.2 | $ 17.0 | +$ .3 | +$10.1 | +$10.1 |
| | $120.9 | $145.6 | +$ .7 | | +$22.6 |

REPORT TO THE SECRETARY OF THE TREASURY
FROM THE U.S GOVERNMENT AND FEDERAL
AGENCIES SECURITIES COMMITTEE OF THE
PUBLIC SECURITIES ASSOCIATION
October 31, 1984

Dear Mr. Secretary:

Since this Committee was last here on August 1st, interest rates have declined across the board. Led by a two percentage point decline in the Fed funds rate, other yields have decreased by 75 to 175 basis points.

The lower interest rates reflect a significant slowdown in the economy and probably a degree of ease by the Open Market Committee. The continued low rate of inflation and removal of foreign withholding taxes have also contributed to lower interest rates.

Economic observers are split in their opinions as to the significance of the economic slowdown. Most believe that this is just a brief lull in a strong economic expansion and that growth will resume shortly. A few believe that if a recession has not already begun it is imminent. In either case, a further downward adjustment in interest rates would be beneficial.

For the time being, the strong dollar is helping to alleviate the burden of financing the heavy Federal deficit. However, it is causing serious problems for many manufacturers and exporters.

At the present time, the markets seem to be receptive to this quarter's heavy financing. Stripping has reestablished bona fide buyers for long-term securities. Many of the zeros are going to dedicated portfolios and other permanent uses and will not be coming back into the market. Fed book entry for coupons will enhance this distribution technique.

Since any action to reduce the deficit would not affect fiscal 1985, we feel that the Treasury should continue to finance fully throughout the full spectrum of maturities.

For the mid-quarter refunding, we recommend the following auctions:

| | | |
|---|---|---|
| $6.5 | billion 3 year notes due | 11/15/87 |
| $5.75 | billion 10 year notes due | 11/15/94 |
| $5.75 | billion 30 year bonds due | 11/15/14 |

These sales including .3 billion of foreign add-ons, would total $18.3 billion raising $9.1 billion of new cash. Our Committee feels that with the heavy November coupon payments and holiday congestion at the quarter end, the mid-quarter financing should be increased relative to the quarter end.

To raise the remaining $24.9 billion for the quarter we recommend the following:

| | | addons | new cash |
|---|---|---|---|
| | | ($billion) | |
| Increase 11/8 bill sale to | 13.6 | | .4 |
| Increase 7 weekly bill issues to | 13.8 | | 8.4 |
| Increase 1 year bills to | 9.0 | | 1.7 |
| Increase 2 year notes to | 9.0 | .6 | 4.2 |
| 5 year note to | 6.5 | .2 | 6.7 |
| Increase 4 year note to | 6.5 | .3 | 3.5 |
| | | | 24.9 |

We also recommend the sale of $1 billion of a targeted issue. This would leave a cash balance of $15 billion on December 31 without the targeted issue or $16 billion with it. The Committee recommends a cash balance of $10 billion for March 31.

We recommend (17-2) that the three year note be sold along with the bills on Monday November 5; the 10 year on Wednesday November 7 and the ~~20~~ 30 year on Thursday, November 8.

To work around the December holidays, we recommend that the 7 year and ~~20~~ 30 year auctions be delayed until early January.

Since a sizable portion of the original targeted issue remains to be permanently placed, we feel it is premature to judge its specific success. However, the publicity surrounding the issue had a definite overall beneficial effect on foreign purchases of Treasury securities.

Given favorable market conditions, we recommend selling another targeted issue in conjunction with the 5 year note. Consideration should also be given to targeting $1 billion of the seven year note.

Coupon book entry has the potential of significantly broadening the market for stripped issues and our Committee strongly endorses the Treasury's plan. If operating procedures are to be completed in the reasonably near future, it might be advisable to announce that the issues offered in the refunding will be eligible for coupon book entry when the procedures are completed.

This completes my report. My associates and I would now welcome any questions that you may have.

Respectfully submitted,

H. Jack Runnion, Jr.
Chairman