Minutes of the Meeting of the Treasury Borrowing Advisory Committee of the Securities Industry and Financial Markets Association August 1st

August 2, 2017

The Committee convened in a closed session at the Hay Adams Hotel at 11:15 a.m. All members, with the exception of Michelle Neal, were present. Counselor to the Secretary Craig Phillips, Fiscal Assistant Secretary David Lebryk, Acting Assistant Secretary for Financial Markets Monique Rollins, Director of the Office of Debt Management Fred Pietrangeli, and Deputy Director of the Office of Debt Management John Dolan welcomed the Committee. Other members of Treasury staff present were Dave Chung, Ken Phelan, Jared Roscoe, Rozlyn Engel, Tom Katzenbach, Chris Cameron, Mike Puglia, Renee Tang, Brandon Taylor, and Elisha Whipkey. Federal Reserve Bank of New York staff members Lorie Logan, Nathaniel Wuerffel, and Nick Steele were also present.

Director Pietrangeli began with a discussion of key takeaways from this quarter. The first was that Treasury has forecasted $501 billion in net marketable borrowing during FY 2018 Q1. This estimate reflects an assumption that the debt limit will be increased. As such, a substantial portion of this marketable borrowing reflects Treasury's plan to restore the cash balance to a prudent level by the end of FY 2018 Q1.

Pietrangeli also noted that the Federal Reserve has provided additional clarity regarding plans for reducing the size of its balance sheet. This development has allowed for more precise estimates of how much Treasury would need to increase issuance to other investors, so as to replace the Fed's SOMA Treasury holdings that are allowed to mature. Nevertheless, Pietrangeli also referenced the considerable uncertainty that remains with regard to the magnitude of net borrowing needs over the coming years, specifically referencing the wide range of estimates for budget deficits. Pietrangeli also highlighted that bid-to-cover metrics for Treasury auctions have remained stable in the most recent quarter.

Next, the Committee turned to a presentation detailing expectations for Fed balance sheet normalization, Treasury borrowing needs, and corresponding market implications. The presenting member noted that the Fed is expected to allow capped redemptions of their balance sheet from CY 2017 Q4 until CY 2021 Q1, assuming a normalized level of $650 billion in excess reserves. However, the presenting member also noted the many assumptions that are required to formulate this expectation. For example, the Fed's balance sheet normalization process could span anywhere between 2.5 to 6 years, requiring between $510 billion and $1 trillion in additional Treasury issuance to other investors. Once the normalized size of the balance sheet is reached, the presenting member assumed that the Fed would resume Treasury reinvestments and begin to purchase an additional $100 to $200 billion in Treasuries annually. This normalization process was estimated to increase 10-year term premium by up to 40 basis points.

The presenting member noted that variability in deficit forecasts could have a greater effect on Treasury's funding needs than the additional issuance to other investors required to replace Fed redemptions. However, due to the caps in monthly redemptions, the Fed will continue to reinvest a large amount of Treasury maturities over the next few years and, based on current auction sizes, Treasury has the capacity to increase issuance across maturities, including bills.

The Committee adjourned at 12:30 p.m. for lunch.

The Committee reconvened at 1:30 p.m. and continued the discussion by considering a number of possible issuance scenarios in order to fund the SOMA redemptions. In one scenario, issuance could be weighted toward the front-end, or alternatively, it could be spread across the maturity spectrum. Members discussed the various tradeoffs in each of these scenarios, including costs, flexibility, and the effect of various issuance strategies on the weighted average maturity (WAM) of debt outstanding.

The Committee was generally of the view that the borrowing needs would likely be best addressed by increasing issuance in bills and a broader set of coupons, but concluded that it was premature to make specific recommendations regarding sequencing or tenors at this time. Instead, the Committee generally agreed that Treasury consider making a decision about a strategy as early as the November refunding, but no later than the first calendar quarter of 2018.

The discussion on potential issuance choices and the potential for sizable bill issuance prompted a discussion on WAM. The Committee generally agreed that WAM should remain about the same or increase moving forward. Some members referenced a presentation given at the May 2017 TBAC meeting which suggested that the marginal benefits of extending WAM past the intermediate sector were very low. Other members cautioned about using WAM as a metric for cost and risk. The Committee agreed to discuss the topic of WAM, issuance models, and additional portfolio metrics at some future point.

Finally, a Committee member presented the findings of a model on the potential effects of balance sheet normalization on other risk assets.

The Committee adjourned at 2:45 p.m.

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Fred Pietrangeli
Director of the Office of Debt Management
United States Department of the Treasury
August 1, 2017

Certified by:

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Jason Cummins, Chairman
Treasury Borrowing Advisory Committee
Of The Securities Industry and Financial Markets Association
August 1, 2017

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Stuart Spodek, Vice Chairman

Treasury Borrowing Advisory Committee

Of The Securities Industry and Financial Markets Association

August 1, 2017

Treasury Borrowing Advisory Committee Quarterly Meeting

Committee Charge – August 1, 2017

Fiscal Outlook

Taking into consideration Treasury's short, intermediate, and long-term financing requirements, as well as uncertainties about the economy and revenue outlook for the next few quarters, what changes to Treasury's coupon auctions do you recommend at this time, if any?

Normalization of the Federal Reserve SOMA Portfolio

What factors should Treasury consider as it thinks about the additional funding needed to meet future redemptions from the Fed's SOMA Treasury portfolio? For example, when should Treasury begin increasing auction sizes and in what tenors? How should Treasury plan for any unforeseen shocks to borrowing needs over the period when the Fed is normalizing the SOMA portfolio? Are there any disruptive secondary-market impacts related to unwinding the SOMA portfolio that Treasury needs to consider? (E.g., market dislocations as the stock of lendable securities in SOMA declines?) If so, what might Treasury consider to address such concerns?

Financing this Quarter

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

- The composition of Treasury notes and bonds to refund approximately $47.3 billion of privately-held notes maturing on August 15, 2017.

- The composition of Treasury marketable financing for the remainder of the July-September 2017 quarter, including cash management bills.
- The composition of Treasury marketable financing for the October-December 2017 quarter, including cash management bills.

TBAC Recommended Financing Table Q3 2017 and TBAC Recommended Financing Table Q4 2017