Quarterly Refunding Statement of Deputy Assistant Secretary For Capital Markets Clay Berry

May 2, 2018

WASHINGTON — The U.S. Department of the Treasury is offering $73.0 billion of Treasury securities to refund approximately $39.1 billion of privately-held Treasury notes maturing on May 15, 2018. Net privately-held marketable borrowing excludes rollovers (auction "add-ons") of Treasury securities held in the Federal Reserve's System Open Market Account (SOMA), but includes financing required due to net SOMA redemptions. This issuance will raise new cash from private investors in the amount of approximately $33.9 billion. The securities are:

- A 3-year note in the amount of $31 billion, maturing May 15, 2021;

- A 10-year note in the amount of $25 billion, maturing May 15, 2028; and

- A 30-year bond in the amount of $17 billion, maturing May 15, 2048.

The 3-year note will be auctioned on a yield basis at 1:00 p.m. ET on Tuesday, May 8, 2018. The 10-year note will be auctioned on a yield basis at 1:00 p.m. ET on Wednesday, May 9, 2018. The 30-year bond will be auctioned on a yield basis at 1:00 p.m. ET on Thursday, May 10, 2018. All of these auctions will settle on Tuesday, May 15, 2018.

The balance of Treasury financing requirements will be met with the weekly bill auctions, cash management bills, the monthly note and bond auctions, the May 10-year Treasury Inflation-Protected Securities (TIPS) reopening auction, the June 30-year TIPS reopening auction, the July 10-year TIPS auction, and the regular monthly 2-year Floating Rate Note (FRN) auctions.

PROJECTED FINANCING NEEDS: INCREASE IN COUPON SIZES

In January 2018, Treasury announced modest increases to nominal coupon and 2-year FRN auction sizes beginning in February 2018, with the balance of financing addressed through changes in auction sizes of regular bills and/or cash management bills. These adjustments in auction sizes were necessary in order to respond to increased borrowing needs resulting from the Federal Reserve's reinvestment policy for its System Open Market Account (SOMA) portfolio as well as the fiscal outlook.

Based on our current forecast, Treasury is announcing additional modest increases to nominal coupon and FRN auction sizes over the upcoming quarter. Over the next three months, Treasury anticipates increasing the sizes of the 2- and 3-year note auctions by $1 billion per month. As a result, the size of 2- and 3-year note auctions will each increase by $3 billion by the end of July. In addition, Treasury will increase the auction size of the next 2-year FRN auction by $1 billion in May. Finally, Treasury will increase auction sizes by $1 billion for each of the next 5-, 7-, and 10-year notes and the 30-year bond auctions in May. All changes are applicable to subsequent new issues and reopenings. In total, these adjustments will result in an additional $27 billion of new issuance for the upcoming quarter. These nominal coupon and FRN auction size increases are smaller than the total increases of $42 billion announced in January 2018 for the months of February through April 2018.

In addition, aggregate bill supply, which peaked in late March in response to elevated borrowing needs, including seasonal factors and Treasury's efforts to rebuild cash balances consistent with our stated cash balance policy, is expected to decrease modestly over the remainder of the fiscal year, barring any substantial, unexpected changes in financing needs.

Auction sizes for TIPS will remain unchanged over the next quarter. TIPS continue to be an important product in Treasury's debt issuance portfolio, and Treasury is fully committed to the TIPS program.

As stated at the February 2018 Quarterly Refunding, and consistent with guidance first introduced at the November 2017 Quarterly Refunding, Treasury anticipates these financing changes will continue to stabilize the weighted average maturity (WAM) of debt outstanding at or around current levels, absent any large, unexpected changes in borrowing needs.

Treasury will assess the need to make further adjustments to auction sizes at the next Quarterly Refunding in August 2018 based on projections of the fiscal outlook at that time.

INTRODUCTION OF A 2-MONTH BILL

Treasury intends to introduce a new 2-month bill later this calendar year.

Treasury has had extensive discussions about the benefits of a 2-month bill offering with a variety of market participants, including the Treasury Borrowing Advisory Committee (TBAC). Our analysis suggests that this new product will meet the needs of many investors, while also enhancing Treasury cash management, reducing operational risks, and helping us in our mission to fund the government at the least cost over time.

In the coming months, Treasury will further study operational details related to offering the 2-month bill for settlement on a date different from the traditional Thursday settlement date for Treasury bills, such as Tuesday. Treasury will explore alternative ways to enhance liquidity of the 2-month bill, if it is offered on a different settlement date, such as moving the settlement date of an existing bill tenor so that it aligns with the settlement date of the 2-month bill.

More details regarding the operational aspects of this decision, including the timing of the first auction, will be provided at a later Quarterly Refunding.

OUTREACH ON POTENTIAL NEW 5-YEAR TIPS

As stated above, Treasury remains committed to the TIPS product and continues to seek ways to improve the TIPS program. Treasury is evaluating whether to add a second new 5-year TIPS security to the annual TIPS calendar. Currently, Treasury auctions one new 5-year TIPS security each year (an original issue in April, followed by reopenings in August and December).

As part of our analysis in advance of any decision to introduce a new 5-year TIPS security, we will be contacting Treasury market participants to discuss costs, benefits, and operational considerations of adding a second 5-year TIPS security to the auction calendar. We will provide an update on our outreach efforts at a future Quarterly Refunding.

TEST BUYBACK OPERATION

Since 2014, Treasury has conducted periodic testing of existing IT infrastructure to ensure that buyback functionality remains operational. In May 2018, Treasury intends to conduct another small-value buyback operation to continue testing the buyback infrastructure. Details of such an operation will be announced at a later date.

These small-value buyback operations should not be viewed by market participants as a precursor or signal of any pending policy changes regarding Treasury's use of buybacks.

Please send comments and suggestions on these subjects or others related to debt management to debt.management@treasury.gov. The next Quarterly Refunding announcement will take place on August 1, 2018.

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