# Minutes of the Meeting of the Treasury Borrowing Advisory Committee of the Securities Industry and Financial Markets Association May 5, 2020

May 6, 2020

The Committee convened in a closed session via teleconference at 10:00 a.m. All members were present. Principal Deputy Assistant Secretary for Financial Markets Kipp Kranbuhl, Deputy Assistant Secretary for Federal Finance Brian Smith, Director of the Office of Debt Management Fred Pietrangeli, and Deputy Director of the Office of Debt Management Nick Steele welcomed the Committee, including the newest member to the Committee, Ellen Zentner. Other members of Treasury staff present were Ayeh Bandeh-Ahmadi, Chris Cameron, Dave Chung, Tammy Didier, Christine Graffunder, Tom Katzenbach, Tim Khang, Chris Kubeluis, Peter Phelan, Brett Solimine, Renee Tang, Brandon Taylor, and Paul Wolfteich. Federal Reserve Bank of New York staff members Rania Perry, Kathryn Chen, Oliver Giannotti, Kyle Lee, Julie Remache, and Nate Wuerffel were also present.

Director Pietrangeli provided brief highlights of receipts and outlays noting that over the first half of FY2020, receipts rose by $96 billion (6%) year-over-year, while outlays were up $149 billion (7%) year-over-year. Given the abrupt changes in the fiscal outlook posed by the COVID-19 outbreak, nearly all sources of revenue are expected to be lower over the next two quarters due to the reduction in size and shift in timing of receipts, while outlays are expected to be significantly higher as well. In particular, near-term outlays are driven by expenditures associated with recent legislation enacted in response to the COVID-19 outbreak. Additionally, the timing of these outlays (focused in Q3 FY2020) reflects the high priority the Administration has put on disbursing relief funds out into the economy and providing economic support for the American people as quickly as possible.

Pietrangeli next discussed projections for the deficit and privately-held net marketable borrowing in FY2020. Deficit and borrowing estimates by primary dealers, Treasury's Office of Fiscal Projections (OFP), and the Congressional Budget Office have increased markedly from the last meeting due to the COVID-19 outbreak, though there is still significant uncertainty around the economic effects of the outbreak. One factor increasing the estimate of net privately-held marketable borrowing is the increase in the size of the expected cash balance to $800 billion for the end of June and September. The desire to run a higher cash balance over the next few quarters reflects prudent risk management, given the larger size and greater uncertainty of outflows from the Treasury General Account.

Pietrangeli then noted that Treasury has already increased financing significantly, with nearly $1.5 trillion in net issuance completed so far in Q3 FY2020 through a substantial increase in bill issuance. Despite the large increases in bill issuance, auctions have gone smoothly, investor demand for bills remains strong, and bid-to-cover ratios have been stable. Looking over the remainder of this fiscal year, Pietrangeli indicated that based on current estimates, borrowing needs would likely total $4.5 trillion in FY 2020. Pietrangeli closed by highlighting that foreign demand for Treasury securities as measured by auction awards increased modestly.

Deputy Assistant Secretary Smith then summarized primary dealer expectations for Treasury securities issuance in the coming months. In light of the unprecedented borrowing needs, there was a consensus among the primary dealers that Treasury would increase nominal coupon sizes across maturities and security types to address borrowing needs. Nearly all dealers increased their expectation of the initial auction size of the 20-year note in response to higher financing needs. Several dealers also suggested there was significant capacity for increases in the auction size of the 10-year note. Regarding potential additional products, many dealers pointed out that a floating rate note linked to the Secured Overnight Financing Rate could add incremental financing capacity in future periods. Finally, most primary dealers recommended leaving auction sizes for Treasury Inflation-Protected Securities unchanged, while noting that gradual increases could be considered in the future.

Smith then reviewed responses from the primary dealers regarding actions recently taken by Treasury and the Federal Reserve to address financial market disruptions. The primary dealers universally lauded the actions taken by Treasury and the Federal Reserve, with many highlighting the effectiveness, speed, and range of the measures. Dealers noted that the Commercial Paper Funding Facility and the Money Market Mutual Fund Liquidity Facility stabilized money markets and the corporate credit facilities had been successful even before launch. Furthermore, primary dealers look forward to receiving additional information on other announced facilities, including the Main Street Lending Program and the Municipal Liquidity Facility.

Next, Deputy Director Steele reviewed primary dealer survey expectations for the pace and composition of the Federal Reserve’s purchases of Treasury securities in the near term. Steele noted that dealers widely expected a gradual tapering of purchases on a glide path to a stable Quantitative Easing style program as long as the COVID-19 outbreak persists. However, most dealers noted the potential for a return to a very high level of purchases in response to another significant market disruption. Dealers were divided on whether the Federal Reserve would eventually concentrate purchases in longer-maturity Treasury securities to ease financial conditions or would again mimic the amount of Treasury securities outstanding, with some dealers including bills, to be more market neutral. Nearly every dealer noted that the uncertainty of their forecast for the COVID-19 outbreak also applied to their projections on the ultimate path of future Federal Reserve purchases.

The Committee then reviewed a presentation on the evolution of liquidity conditions in financial markets during the COVID-19 outbreak. The presenting member described a “perfect storm” with respect to market functioning as COVID-19 spread around the world. The broad policy response by the Federal Reserve and the Administration was effective in improving liquidity and addressing increased risks for the economy. The presenting member highlighted how liquidity pressures were exacerbated by the large demand for cash and cash-like instruments and reviewed potential sources of Treasury demand in the context of dealer balance sheet constraints.

The presenting member concluded that the current challenge for Treasury is to increase issuance to finance the policy response while avoiding a decline in market functioning. The Committee noted that, while interest rates have reached historic lows, there are inherent risks based on the expected Treasury supply in the coming months.

The Committee then turned to its financing recommendation for the upcoming quarters and recommended that Treasury continue to term out the historic increase in bill issuance through gradual increases in issuance of nominal coupon securities across maturities and security types. They discussed the desired pace of the increase in coupon auction sizes and relative capacity at different maturities. Some Committee members favored increasing issuance of long-term securities in light of the large increase in financing needs, the importance of managing rollovers, and the historically low level of interest rates. Other Committee members noted recent liquidity conditions in 30-year bonds as a potential challenge for growing issuance in that sector quickly. The Committee also discussed different perspectives on the appropriate share of the debt whose rate resets frequently based on short-term interest.

The Committee adjourned at 12:45 p.m.

The Committee reconvened at 2:00 p.m.  The Chair summarized key elements of the Committee report for Secretary Mnuchin, and followed with a brief discussion of recent market developments.

The Committee adjourned briefly at 2:45 p.m. before reconvening at 3 p.m. to discuss auction size recommendations.  After a short discussion, the Committee agreed on auction size recommendations based on the considerations outlined earlier in the day.  The Committee adjourned at 3:45 p.m.

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Brian Smith

Deputy Assistant Secretary for Federal Finance

United States Department of the Treasury

May 5, 2020

Certified by:

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Elizabeth Hammack, Chair

Treasury Borrowing Advisory Committee

Of The Securities Industry and Financial Markets Association

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## TREASURY BORROWING ADVISORY COMMITTEE QUARTERLY MEETING

# COMMITTEE CHARGE – MAY 5, 2020

## Fiscal Outlook

Taking into consideration Treasury's short, intermediate, and long-term financing requirements, as well as the variability in financing needs from quarter to quarter, what changes to Treasury's coupon auctions do you recommend at this time, if any?  Please also provide feedback on market expectations for Treasury issuance, the effects of current SOMA reinvestment policy, the evolution of Treasury holdings by investor class, as well as auction calendar construction.

## Recent Evolution of Liquidity Conditions Across Financial Markets

Recent events have suddenly and dramatically affected financial markets.  Please comment on the evolution of liquidity conditions, both in Treasury market and broader financial markets. What are the primary factors currently driving interest rates, the shape of the yield curve, and relative demand for different maturities?  Are these factors structural or temporary? How has the policy response affected liquidity conditions to date, and what other policy measures should be considered?

## Financing this Quarter

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

- The composition of Treasury notes and bonds to refund approximately $57.0 billion of privately-held notes maturing on May 15, 2020.
- The composition of Treasury marketable financing for the remainder of the April-June 2020 quarter, including cash management bills.
- The composition of Treasury marketable financing for the July-September 2020 quarter, including cash management bills.