Minutes of the Meeting of the Treasury Borrowing Advisory Committee November 2, 2021

November 3, 2021

The Committee convened in a closed session via teleconference at 9:00 a.m. All members were present. Under Secretary for Domestic Finance Nellie Liang, Fiscal Assistant Secretary David Lebryk, 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. Other members of Treasury staff present were Grace Brang, Chris Cameron, Dave Chung, David Copenhaver, Tammy Didier, Joshua Frost, Christine Graffunder, Tom Katzenbach, Chris Kubeluis, Kyle Lee, Jeffrey Rapp, James Smyth, Brett Solimine, Renee Tang, Brandon Taylor, and Tom Vannoy. Federal Reserve Bank of New York staff members Shafat Alam, Ellen Correia Golay, Luis Gonzalez, Susan McLaughlin, Monica Scheid, and Nathaniel Wuerffel were also present.

The Chair began the meeting discussing changes to Committee membership, introducing two new members Gilbert Holmes and Yan Huo. She also thanked outgoing members Michael Lillard and Christine Hurtsellers for their service to the Committee.

Director Pietrangeli then provided brief highlights of changes in receipts and outlays for FY 2021. Receipts increased by $626 billion (18%) compared to the prior fiscal year, largely reflecting the rebounding economy. Non-withheld and SECA taxes increased by $225 billion (33%), corporate taxes by $156 billion (59%), and withheld and FICA taxes by $257 billion (11%). Outlays increased by $266 billion (4%), driven primarily by higher Economic Impact Payments and other expenditures related to the fiscal response to the pandemic. Pietrangeli noted that Treasury's Office of Fiscal Projections estimates privately-held net marketable borrowing of $1.015 trillion and $476 billion respectively over the next two quarters, based on current law and assuming a cash balance of $650 billion at the end of December and $650 billion at the end of March. Pietrangeli noted that the December and March cash balances assume enactment of a debt limit suspension or increase.

Pietrangeli then turned to deficit and privately-held net marketable borrowing projections for the next few fiscal years, including estimates from the primary dealers, the Congressional

Budget Office (CBO), and the Office of Management and Budget (OMB), noting that the various projections differ in their assumptions for future legislation and Treasury's cash balance. Primary dealers broadly expected lower deficits the next three fiscal years when compared to the previous two fiscal years. Most primary dealers noted expectations for additional legislation to be passed, but for the associated outlays to be spread over several years and largely offset by higher revenues. Pietrangeli noted that based on the outlooks from the CBO, OMB, and the primary dealers, current auction sizes provide Treasury with financing capacity that exceeds likely borrowing needs in the near to intermediate term.

Next, Deputy Director Steele summarized primary dealers' outlooks for Treasury auction sizes. Consistent with the forecasts that Treasury would be over-financed at current coupon auction sizes, nearly all primary dealers expected reductions across nominal coupon and floating rate note (FRN) auction sizes starting this November. Nominal coupon auction size cuts were expected to occur across the curve with proportionately greater reductions in the 7-year note and 20-year bond. Steele noted that most dealers were evenly split between cuts of $3 billion or $4 billion to the 20-year bond new and reopening auctions for the upcoming quarter. Most primary dealers also expected that cuts would continue for more than one quarter. As for Treasury Inflation Protected Securities (TIPS), most dealers expected Treasury to pause its increases in TIPS auction sizes, though some thought Treasury could consider further increases next calendar year, given robust investor demand. However, primary dealers encouraged Treasury to approach any further size increases cautiously.

Debt Manager Taylor then reviewed primary dealers' views on changes to the structure of the dealer-to-customer segment of the Treasury market in recent years. Primary dealers stated that the most notable changes were the continued evolution and growth in electronic trading, growth in passive index investing, and increased presence of levered funds in off-the-run securities. They noted that electronic dealer-to-customer execution continues to predominantly occur on request-for-quote platforms, but the trend is toward increased use of algorithmic execution. Finally, many primary dealers noted that intermediation capacity has not kept pace with the growth of the Treasury market, pointing to balance sheet constraints and greater participation by non-dealer liquidity providers.

Debt Manager Katzenbach then summarized primary dealers' responses to a question regarding whether Treasury should consider making the regular 17-week cash management bill a benchmark tenor. Most primary dealers expressed a favorable opinion, noting robust investor demand, but there was some disagreement among respondents as to whether Treasury's current benchmark bill tenors would be sufficient to support projected bill supply needs over the medium-term. Primary dealers provided estimates of existing benchmark bill auction sizes that would not cause significant yield deviations from fair value, with the median response implying that current benchmarks could accommodate $3.8 trillion in privately-held bills. Katzenbach noted that these estimates suggest that issuing bills via existing benchmark tenors alone could limit Treasury's flexibility in meeting projected bill supply needs.

Next, the Committee turned to a presentation on potential paths for TIPS issuance in CY 2022. The presenting member noted that over time the TIPS program has saved money for the taxpayer relative to nominal issuance. Investment fund demand for TIPS has also grown steadily over the years, particularly in the short end. In addition, some factors, including the Federal Open Market Committee's (FOMC) change in monetary policy strategy that tolerates periods of above-target inflation, are expected to continue to support investor demand for inflation protection. Given these factors, the presenting member recommended that Treasury should consider gradually increasing the TIPS share of total outstanding marketable debt to the pre-COVID range of 8 to 9 percent, with a focus on increases in the 5- and 10-year tenors. The Committee discussed the differences between the presenting member's recommended steady increases versus primary dealers' expectations for TIPS auctions sizes to be unchanged. They agreed that Treasury should gradually increase the TIPS share over time but should carefully monitor how TIPS demand and liquidity evolve.

The Committee then reviewed a presentation on the supply of bills in the context of the Committee's previously recommended range of 15 to 20 percent of total outstanding debt, given expectations for future coupon size reductions. The presenting member noted that the recommended range was a target for the intermediate term, and that the bill share could move below the range in the short run to help maintain stable and predictable coupon issuance. The presenting member argued that, in such a scenario, excess investor cash likely could be invested in the FOMC's overnight reverse repurchase agreement (ON RRP) facility. The presenting member further concluded that in the longer run there was also flexibility for the bill share to rise modestly above 20 percent given growing money market fund demand, excess cash sitting in the ON RRP facility, and limited supply of other bill substitutes. The presenting member emphasized that Treasury should maintain flexibility when considering the Committee's recommended 15 to 20 percent range, though there is likely relatively more leeway at the top of the recommended range than the bottom.

The Committee then turned to financing for the upcoming quarters and recommended that Treasury begin across the curve reductions of nominal fixed rate coupon and FRN auction sizes starting in November. The Committee recommended that cuts should continue over several quarters, which would maintain the bill share of total outstanding debt in between the 15 to 20 percent recommended range. The Committee also reiterated their recommendation for modestly larger reductions in the 7-year note of $3 billion per month and the 20-year bond of $4 billion to both the new issue and reopening auctions this quarter. As for TIPS, the Committee recommended incrementally increasing the 5- and 10-year TIPS auction sizes over the next two quarters, keeping the 30-year TIPS auction size unchanged, and continuing to monitor demand and liquidity conditions.

The Committee adjourned at 1:00 p.m.

The Committee reconvened at 5:00 p.m. The Chair summarized key elements of the Committee report for Deputy Secretary Adeyemo and followed with a brief discussion of recent market developments.

The Committee adjourned at 5:45 p.m.

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Brian Smith

Deputy Assistant Secretary for Federal Finance

United States Department of the Treasury

November 2, 2021

Certified by:

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Elizabeth Hammack, Chair

Treasury Borrowing Advisory Committee

November 2, 2021

TREASURY BORROWING ADVISORY COMMITTEE QUARTERLY MEETING

COMMITTEE CHARGE – NOVEMBER 2, 2021

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, if any, do you recommend to Treasury issuance? Please also provide perspectives regarding market expectations for Treasury issuance, the effects of SOMA investments, the evolution of Treasury holdings by different types of investors, as well as auction calendar construction.

TIPS Supply

Since January 2021, Treasury has gradually increased TIPS issuance in order to stabilize the percent of TIPS to total marketable debt outstanding and, at the August quarterly refunding, announced expectations for total gross issuance of TIPS to increase by $15 to $20 billion in CY2021. Please discuss what Treasury should consider for TIPS issuance in CY2022, in the context of the committee's views on the appropriate level of TIPS supply in the medium and long-term.

T-Bills Supply

In November 2020, the Committee recommended that Treasury, over the medium to longer term, strive to maintain T-bills in a range of 15 to 20 percent of outstanding debt. How should Treasury consider this recommended range within the context of future adjustments to coupon auction sizes and the evolving fiscal outlook, including in the short-term? What other metrics could complement Treasury's understanding of the appropriate size of the bill market?

Financing this Quarter

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

- The composition of Treasury notes and bonds to refund approximately $75.9 billion of privately-held notes and bonds maturing on November 15, 2021.

- The composition of Treasury marketable financing for the remainder of the October-December 2021 quarter.
- The composition of Treasury marketable financing for the January-March 2022 quarter.