Minutes of the Meeting of the Treasury Borrowing Advisory Committee May 2, 2023

May 3, 2023

The Committee convened in a closed session at the Department of the Treasury at 9:15 a.m. All members were present. Under Secretary for Domestic Finance Nellie Liang, Fiscal Assistant Secretary Dave Lebryk, Assistant Secretary for Financial Markets Josh Frost, Deputy Assistant Secretary for Federal Finance Brian Smith, and Director of the Office of Debt Management Fred Pietrangeli welcomed the Committee. Other members of Treasury staff present were Sally Au-Yeung, Chris Cameron, Dave Chung, Gabriella Csepe, Tom Katzenbach, Chris Kubeluis, Kyle Lee, Jeff Rapp, Renee Tang, and Thomas Teles. Federal Reserve Bank of New York staff members Johnny Elliot, Susan McLaughlin, and Anna Nordstrom were also present.

Assistant Secretary Frost opened the meeting by thanking Beth Hammack for her service, including as Chair of the Committee since 2018, and then provided a brief update on debt management priorities. Under Secretary Liang also briefly outlined recent developments related to broader Treasury priorities.

Director Pietrangeli provided brief highlights of changes in receipts and outlays through Q2 FY2023. Receipts totaled $2.048 trillion, a decline of $74 billion (-3%) compared to the same period last year, as modestly higher tax receipts were offset by elevated tax refunds and lower Federal Reserve remittances. Outlays totaled $3.149 trillion, an increase of $359 billion (13%) compared to the same period last year, reflecting modest increases in expenditures across several key categories.

Pietrangeli then turned to deficit and privately-held net marketable borrowing projections. Primary dealer estimates were higher compared to last quarter. Specifically, the median cumulative privately-held net marketable borrowing estimate through FY2025 shifted higher by approximately $600 billion relative to last quarter. Dealers noted a low level of confidence in their estimates, with risk skewed to the upside due to uncertainty around the economic outlook, the path of monetary policy, and the pace of SOMA redemptions. Pietrangeli highlighted that the estimates (from OMB, CBO, and the primary dealers) for privately-held net marketable borrowing needs indicate a sizable financing gap, if bill supply and coupon auction sizes were to remain unchanged at current levels. Over the next three fiscal years, the cumulative financing gap could total between $2 and $3.5 trillion under current forecasts.

Pietrangeli then discussed primary dealers' expectations for Treasury issuance. Dealers broadly expected Treasury to keep nominal coupon auction sizes unchanged this quarter. Looking ahead, most dealers thought Treasury would need to consider gradual increases to nominal coupon auction sizes in future quarters, with some expecting increases beginning in August. Dealers did not expect any changes in TIPS auction sizes this quarter but expected marginal increases in FY2024.

Debt Manager Katzenbach then reviewed primary dealers' estimates of the market's capacity to absorb additional Treasury bill issuance once the debt limit is suspended or increased. Dealers broadly agreed that there is ample scope to expeditiously increase the supply of bills. Respondents cited record-high money market mutual fund assets under management and the more than $2 trillion in the Federal Reserve's Overnight Reverse Repo Facility as evidence of significant demand for short-dated, high quality liquid assets. Dealers noted that the bill market could accommodate increases across benchmark tenors, but that the largest increases should occur in the shorter maturity bills. The median estimate for how much Treasury could increase bill issuance over three months without causing significant price deviations from fair value was $600 billion, though some estimates exceeded $1 trillion. Katzenbach noted that dealers encouraged Treasury to be responsive to potential market-based indicators of stress in the bill market when replenishing its cash balance.

Debt Manager Lee then reviewed primary dealers' views on the size of a potential buyback program. In general, dealers thought it would be important that any buyback program start conservatively to allow time for market participants to adapt to regular operations and for Treasury to assess the impact. Many dealers also thought it would be important for Treasury to retain some flexibility with buybacks based on market conditions and prices. They stated this would not be at odds with being regular and predictable, if Treasury regularly and clearly communicated its intentions.

For liquidity support, dealers were split on whether $5 to $10 billion per month would meaningfully improve liquidity. Some dealers thought the signal of Treasury's willingness to conduct buybacks for liquidity support would improve investor confidence and liquidity, while others thought Treasury would need to also indicate a large capacity to conduct buybacks to assure investors. For cash management, dealers noted some difficulties sourcing short coupons given supply and demand imbalances in the front-end under current market conditions, while others noted investor preferences for bills over short coupons would enable Treasury to conduct larger buybacks in short coupons.

Lee then presented Treasury's current thinking on a potential regular buyback program. Lee noted that Treasury believes a buyback program should focus on liquidity support and cash management objectives. He also noted that buyback operations should be regular and predictable across tenors, not be used to fundamentally change the overall maturity profile of total debt outstanding, and not be used to mitigate episodes of acute market stress. The presentation noted that Treasury agrees with the Committee's suggestions on initial buyback sizes and notes it would be important for Treasury to be flexible with buyback amounts based on market conditions and prices. Lee mentioned that Treasury also believes buybacks should be treated like any other cash outlay for debt management purposes and, given the size of buybacks being considered, should not meaningfully impact the overall maturity profile of total debt outstanding. Lee ended by explaining that there are several outstanding issues that Treasury is still considering.

The Committee then discussed the presentation and generally agreed with the approach that Treasury is currently considering. They noted it was important that Treasury continue to study the design of a potential regular buyback program, including the outstanding issues that Treasury highlighted.

The Committee then discussed whether to change the auction schedule for 2-, 3-, 5-, and 7-year notes, from monthly new issues to a schedule of one new issue and two reopening auctions per quarter. The presenting member noted that initial analysis indicated that fewer and larger issues could lead to improvements in Treasury market liquidity. However, Treasury should consider a staggered approach to ensure that at least one tenor matures each month. In addition, the presenting member recommended maintaining the monthly new issue cadence for the 2-year, which market participants find valuable. Committee members discussed different potential auction, repo, and secondary market trading dynamics of monthly versus quarterly issues and concluded that further study was warranted.

The Committee then discussed considerations for TIPS issuance going forward. The presenting member began by outlining the benefits of the TIPS program, both for Treasury and for investors. While TIPS demand has shown some cyclical weakness, structural demand remains strong, in particular for 5- and 10-year TIPS. The presenting member noted that, without TIPS auction size increases, the TIPS share of total debt outstanding would likely decline in the coming years. Other measures were also important to consider, such as the supply of TIPS relative to the size of the economy and domestic assets. Committee members agreed that Treasury should consider increasing TIPS auction sizes in a regular and predictable manner, but also emphasized the importance of monitoring market conditions.

Finally, the Committee discussed its financing recommendation for the upcoming quarters. Based on updated borrowing estimates, the Committee agreed that Treasury should consider increases to coupon issuance and debated the timing and pace of those increases. The Committee agreed with maintaining nominal coupon auction sizes this quarter but recommended that Treasury begin gradual increases in August. They also recommend that increases occur across tenors, with smaller increases in the 7- and 20-year tenors. The Committee noted the importance of monitoring developments with regard to Treasury's borrowing needs and the market's capacity to absorb additional bill issuance over the upcoming quarter to inform the appropriate pace of future increases. Finally, consistent with the earlier presentation, the Committee recommended that Treasury begin increasing TIPS issuance gradually, focusing on the 5- and 10-year tenors.

The Committee adjourned at 3:00 p.m.

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Brian Smith

Deputy Assistant Secretary for Federal Finance

United States Department of the Treasury

May 2, 2023

Certified by:

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Beth Hammack, Chair

Treasury Borrowing Advisory Committee

May 2, 2023

TREASURY BORROWING ADVISORY COMMITTEE QUARTERLY MEETING

COMMITTEE CHARGE – MAY 2, 2023

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 changes in SOMA holdings, the evolution of Treasury holdings by different types of investors, as well as auction calendar construction.

TIPS Issuance

Please discuss what Treasury should consider for TIPS issuance for the rest of CY2023 and beyond, in the context of the committee's views on the appropriate level of TIPS supply in the medium and long-term. How have investor portfolio allocations to TIPS changed recently and how do you expect demand to evolve going forward? In addition to the share of TIPS as a percentage of total debt outstanding, are there any other measures Treasury should use to help inform the appropriate level or range of TIPS outstanding?

Potential Auction Schedule

At the February refunding, Treasury provided a summary of primary dealers' views on potential changes to the auctions schedule to reduce the number of CUSIPS for Treasury securities issued each year.

Please discuss the Committee's views on the potential benefits and risks of changing the monthly new issue schedule for the 2-, 3-, 5-, and/or 7-year nominal coupon benchmarks to one new issue and two benchmarks per quarter? Would these changes meaningfully improve Treasury market liquidity?

Financing this Quarter

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

- The composition of Treasury notes and bonds to refund approximately $75.2 billion of privately-held notes maturing on May 15, 2023.
- The composition of Treasury marketable financing for the remainder of the April-June 2023 quarter.
- The composition of Treasury marketable financing for the July-September 2023 quarter.