

Financing Outlook

August 2014

Current Path of 2-Year and 3-Year Issuance

- ▶ Treasury initiated a series of 2-year and 3-year Treasury security reductions at the May 2014 refunding.
 - ▶ 2-year was reduced by \$1 billion per month from \$32 billion.
 - ▶ 3-year was reduced by \$1 billion per month from \$30 billion.

- ▶ If Treasury cuts once more in August, 2-year and 3-year monthly issuance will reach \$28 billion and \$26 billion, respectively.

- ▶ This will result in a cumulative \$92 billion of reductions through May 2015.

| | | 2-year | | 3-year | |
|------------|--------|---------------------|------|---------------------|------|
| | | Base Case Reduction | | Base Case Reduction | |
| 2014 | Apr-14 | 32 | 32 | 30 | 30 |
| 2014 | May-14 | 32 | 31 | 30 | 29 |
| 2014 | Jun-14 | 32 | 30 | 30 | 28 |
| 2014 | Jul-14 | 32 | 29 | 30 | 27 |
| 2014 | Aug-14 | 32 | 28 | 30 | 26 |
| 2014 | Sep-14 | 32 | 28 | 30 | 26 |
| 2015 | Oct-14 | 32 | 28 | 30 | 26 |
| 2015 | Nov-14 | 32 | 28 | 30 | 26 |
| 2015 | Dec-14 | 32 | 28 | 30 | 26 |
| 2015 | Jan-15 | 32 | 28 | 30 | 26 |
| 2015 | Feb-15 | 32 | 28 | 30 | 26 |
| 2015 | Mar-15 | 32 | 28 | 30 | 26 |
| 2015 | Apr-15 | 32 | 28 | 30 | 26 |
| 2015 | May-15 | 32 | 28 | 30 | 26 |
| Total | | 448 | 402 | 420 | 374 |
| Difference | | | (46) | | (46) |

Overfunding in FY 2014/2015

- ▶ The table below highlights projected borrowing needs, borrowing capacity and over/underfunding.*
- ▶ As a result of the reduction in issuance since the May refunding, Treasury will be overfunded by just ~\$56 billion if the Federal Reserve redeems and \$60 billion if they reinvest over FY 2014 and 2015.
 - ▶ This overfunding could be addressed by reducing bill issuance.
- ▶ The extent to which Treasury is underfunded from 2016 onwards will increase substantially due to the structural nature of deficits.

| | Forecasted Borrowing Needs | Federal Reserve Redeems | | Federal Reserve Reinvests | |
|------|----------------------------|-------------------------|-------------------|---------------------------|-------------------|
| | | Issuance Capacity | Over/Underfunding | Issuance Capacity | Over/Underfunding |
| 2014 | 657 | 680 | 23 | 680 | 23 |
| 2015 | 637 | 670 | 33 | 674 | 37 |
| 2016 | 636 | 427 | (209) | 602 | (34) |
| 2017 | 595 | 282 | (313) | 463 | (132) |
| 2018 | 538 | 334 | (204) | 653 | 115 |
| 2019 | 630 | 200 | (430) | 565 | (65) |
| 2020 | 647 | 153 | (494) | 411 | (236) |
| 2021 | 646 | 176 | (470) | 288 | (358) |
| 2022 | 677 | 296 | (381) | 296 | (381) |
| 2023 | 650 | 223 | (427) | 223 | (427) |
| 2024 | 587 | 179 | (408) | 179 | (408) |

▶ **3** *Over/underfunding assumes that 2-year and 3-year issuance sizes are reduced to and held at \$28 billion and \$26 billion, respectively. Figures also assume bills will be held constant at \$1.454 trillion.