Office of Debt Management

Treasury Debt Management Strategy

Overview

- Treasury may borrow on the credit of the United States Government amounts necessary for expenditures authorized by law and may issue securities for the amounts borrowed.
- Treasury debt issuance principles have been "least cost over time" and "regular and predictable."
- Since 2009, Treasury has issued more longer-term debt consistent with these principles. WAM has extended from 48 months to nearly 69 months.
- The principles are not changing; however, as has been discussed by TBAC, WAM is one of several measures to quantify the achievement of the debt issuance objectives.

Debt Management Principles and Objectives

- Principles can be explained by:
  - Fund at the least cost to the taxpayer
  - Maintain a predictable issuance to support liquidity

- Additional possible objectives might include:
  - Support market functioning
  - Avoid sharp swings in interest expense
  - Maintain a manageable pattern of debt maturity

Least *Expected* Cost Over Time and Regular and Predictable

Least Cost

- Interest expense is important, as the President's 2016 Budget forecasts that the U.S. government will reach primary surplus in 2022.
- For a given amount of debt issuance, the expected relative cost—over time—of issuing at different points on the curve matter.
- Further analysis of expected cost of issuance across a range of maturities is warranted.

Regular and Predictable

- Being "regular and predictable" argues against being opportunistic.
- Issuance experience, complemented by surveys of the primary dealers, informs Treasury's view on the speed of any adjustment.
  - Greater liquidity reduces Treasury's funding costs over the long run.
  - However, limiting the speed of adjustment of issuance implies slowly adjusting to shifts in expected cost.

Market Functioning

- A liquid, efficient market for Treasury securities is central to the financial system.
- Historically, a liquid market garners a liquidity premium for a security, which leads to greater cost savings.
- The private sector uses Treasury securities as a benchmark for issuance.
- A minimum level of issuance can help to maintain a liquid market at all points on the curve.

Survey Results Help Inform Market Functioning Considerations of Issuance Decisions

"All else equal, what is the maximum change in monthly coupon auction size (+/- X $billions) that can be implemented over a single quarter without causing "significant yield deviations?"

"All else equal, what is your definition, in basis points, of a "significant yield deviation?"

	Maximum change (+/-) per quarter in auction size
Maturity	Mean ($ billion)
2-year	5
3-year	5
5-year	3
7-year	3
10-year	4
30-year	2

	Estimate of a significant yield deviation
Maturity	Mean (basis points)
2-year	4.1
3-year	4.4
5-year	5.2
7-year	5.2
10-year	6.4
30-year	7.4

* Survey conducted on 03/19/2015. http://www.treasury.gov/resource-center/data-chart-center/quarterly-refunding/Pages/dealer-agenda-survey.aspx

Survey Results (cont.)

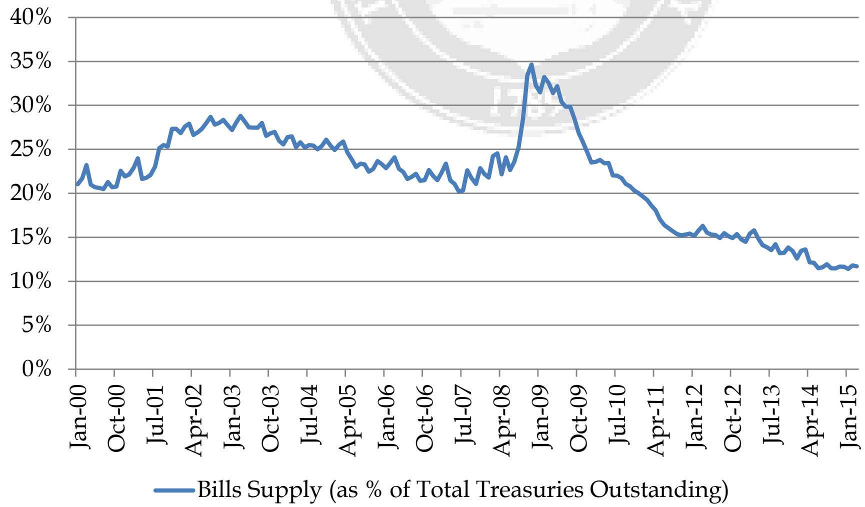
"All else equal, what is the minimum auction size needed to maintain benchmark liquidity? Specifically, what is the smallest auction size (weekly for bills, monthly for coupons) necessary to support "on-the-run" issue liquidity in the secondary market?"

	Minimum auction size needed to maintain benchmark liquidity	
Maturity	Mean ($ billion)	Current ($ billion)
2-year	20	26
3-year	20	24
5-year	26	35
7-year	22	29
10-year	18	21
30-year	11	13

* Survey conducted on 03/19/2015. http://www.treasury.gov/resource-center/data-chart-center/quarterly-refunding/Pages/dealer-agenda-survey.aspx

Treasury bills

- Market functioning is an especially important consideration for the Treasury bill market. Bills are an important safe and liquid asset for the financial system.
  - Treasury bills as a proportion of total debt outstanding have fallen to multi-decade lows.
  - Demand for bills is likely to grow significantly in the year ahead.
- Increasing bill issuance could improve market functioning and lower interest cost for the taxpayer.



Notes and Bonds

- The overall strategy of issuing longer-term debt is not changing.
- With historically low rates, longer-term debt could save interest expense over time.
- Longer-term debt could also be seen as insuring against higher interest rates in the future.
- A cost-benefit analysis should inform issuance and the benefits of the strategy can be communicated in the context of objectives instead of simply by WAM.