

Financing Outlook

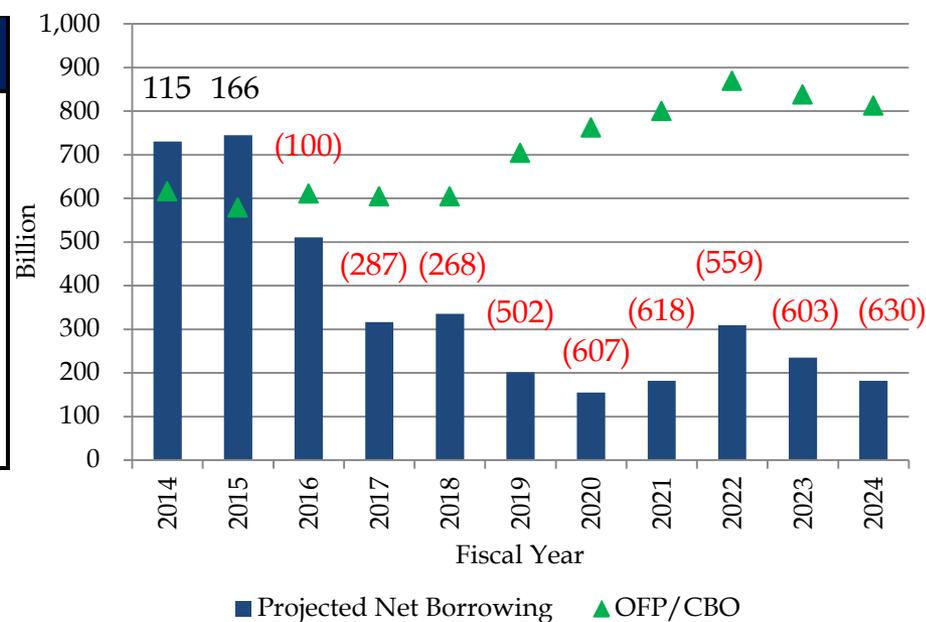
Introduction

- ▶ Current deficit and borrowing projections indicate that Treasury is likely to be overfunded in Fiscal Year (FY) 2014 and 2015.
 - ▶ Treasury Marketable Borrowing announcement states that Treasury will be overfunded by \$115 billion for FY 2014
 - ▶ CBO projections indicate that Treasury will be overfunded by \$166 billion for FY 2015
- ▶ One way to address this overfunding is to reduce coupon issuance in the 2-year and 3-year securities (currently at \$32 billion and \$30 billion, respectively), by \$4 billion each over four months starting in May 2014 (\$1 billion per month). Issuance could then be raised back to current levels over four months starting October 2015.

Financing Outlook

- Based upon Treasury's forecast for 2014 and CBO forecasts from 2015 onwards, Treasury appears to be overfunded in the near-term.

	Forecasted		Over/Underfunding
	Borrowing Needs	Net Cash Raised W/ Current Calendar*	
2014	616	731	115
2015	579	745	166
2016	611	511	(100)
2017	604	317	(287)
2018	604	336	(268)
2019	704	202	(502)
2020	762	155	(607)
2021	800	182	(618)
2022	869	310	(559)
2023	838	235	(603)
2024	812	182	(630)



*Net Cash Raised W/ Current Calendar represents the net cash raised with current calendar/size of coupon issuance held constant and \$1.45 trillion bills outstanding.

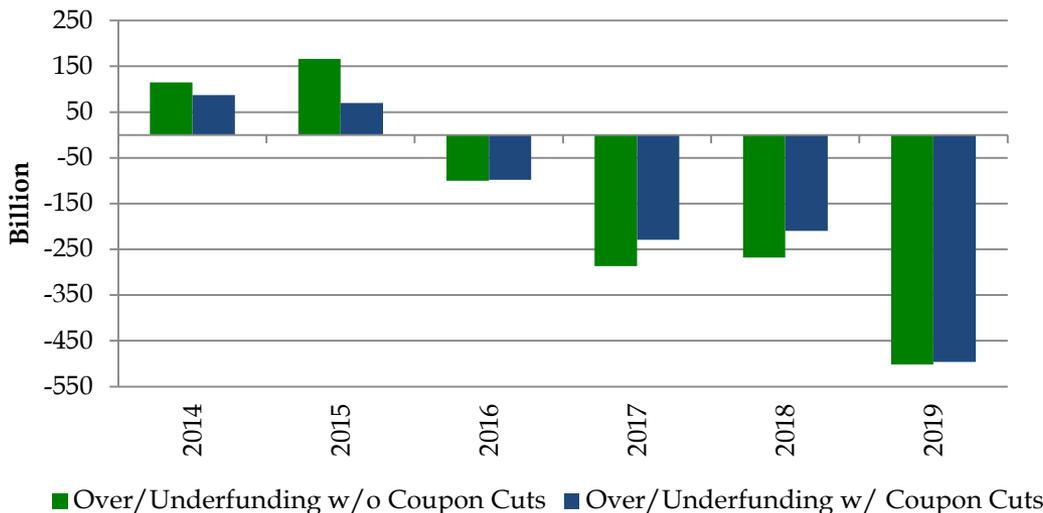
**Data labels represent over/underfunding to target projections; assumes \$1.45 trillion in bills outstanding; assumes Federal Reserve redemptions until June 2021.

Potential Coupon Cuts

- ▶ Current monthly 2- and 3-year issuance is \$32 billion and \$30 billion, respectively.
- ▶ One potential path of coupon cuts would be:
 - ▶ **Cutting 2-year by \$1 billion per month from \$32 billion to \$28 billion starting in May 2014 and raising again starting October 2015.**
 - ▶ Issuance size decreases from \$32 billion to \$28 billion from April 2014 to August 2014.
 - ▶ Issuance size held constant at \$28 billion from August 2014 to September 2015.
 - ▶ Issuance size increases from \$28 billion to \$32 billion from September 2015 to January 2016.
 - ▶ **Cutting 3-year by \$1 billion per month from \$30 billion to \$26 billion starting May 2014 and raising again starting October 2015**
 - ▶ Issuance size decreases from \$30 billion to \$26 billion from April 2014 to August 2014.
 - ▶ Issuance size held constant at \$26 billion from August 2014 to September 2015.
 - ▶ Issuance size increases from \$26 billion to \$30 billion from September 2015 to January 2016.
- ▶ This will result in outright reductions of \$128 billion in coupon issuance in 2014 and 2015.
- ▶ The remaining overfunding of \$157 billion in 2014 and 2015 would therefore be met through a reduction in bills issuance.

Potential Coupon Cuts

	Forecasted Borrowing Needs	Over/Underfunding W/ Coupon Cut	Over/Underfunding W/O Coupon Cut
2014	616	87	115
2015	579	70	166
2016	611	(98)	(100)
2017	604	(229)	(287)
2018	604	(210)	(268)
2019	704	(496)	(502)
2020	762	(607)	(607)
2021	800	(618)	(618)
2022	869	(559)	(559)
2023	838	(603)	(603)
2024	812	(630)	(630)

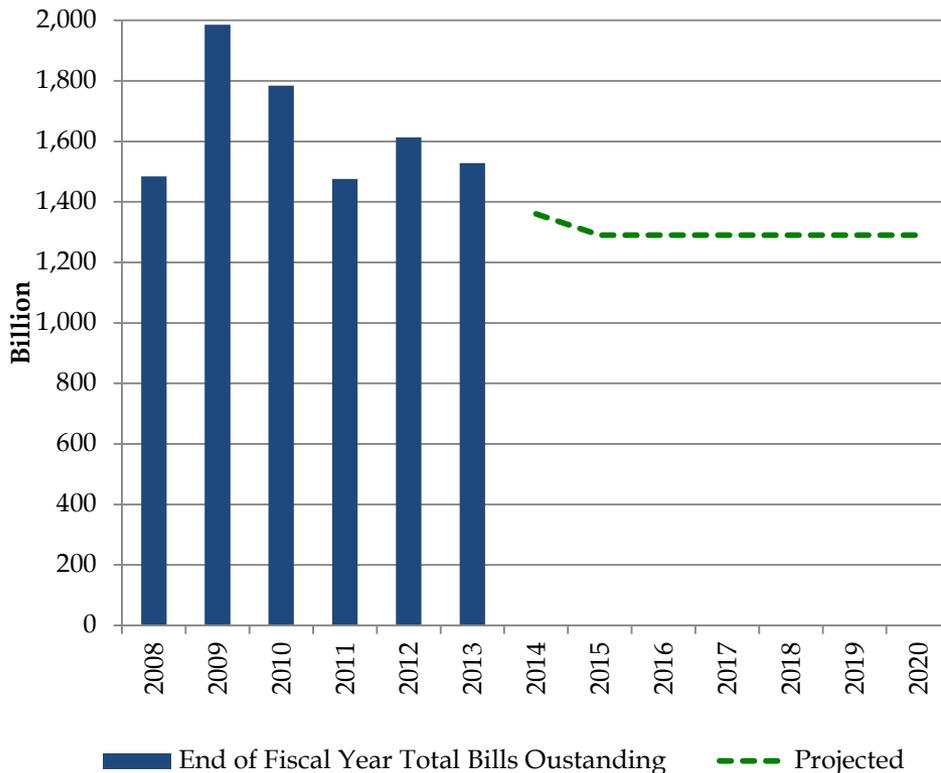


		2-Year	3-Year	
Cutting	2014	Apr-14	32	30
	2014	May-14	31	29
	2014	Jun-14	30	28
	2014	Jul-14	29	27
	2014	Aug-14	28	26
Hold / Static	2014	Sep-14	28	26
	2015	Oct-14	28	26
	2015	Nov-14	28	26
	2015	Dec-14	28	26
	2015	Jan-15	28	26
	2015	Feb-15	28	26
	2015	Mar-15	28	26
	2015	Apr-15	28	26
	2015	May-15	28	26
	2015	Jun-15	28	26
Raising	2015	Jul-15	28	26
	2015	Aug-15	28	26
	2015	Sep-15	28	26
	2016	Oct-15	29	27
	2016	Nov-15	30	28
	2016	Dec-15	31	29
	2016	Jan-16	32	30
	2016	Feb-16	32	30

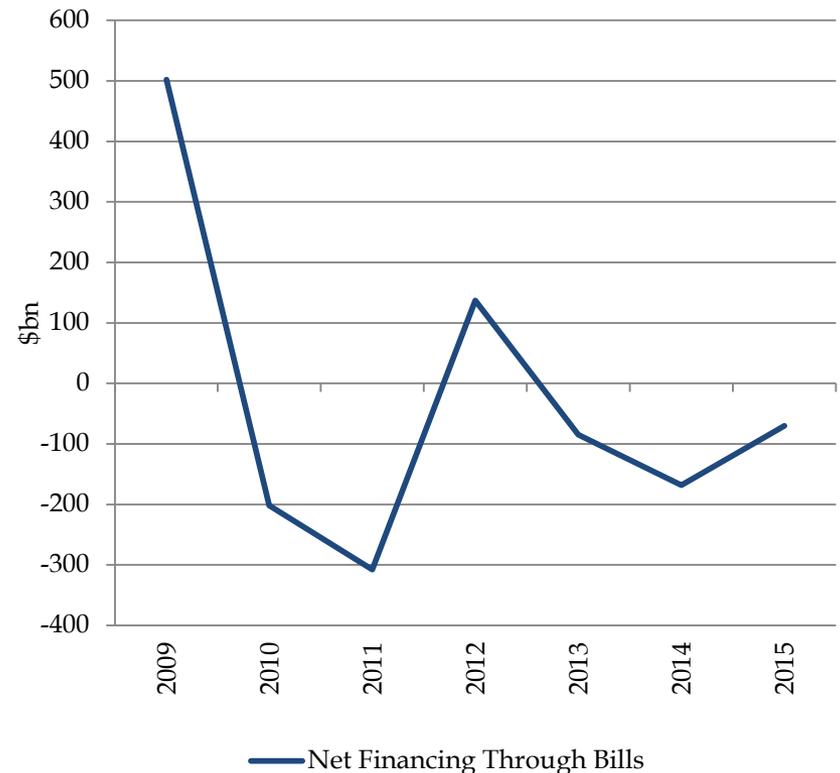
Change in Total Bills Outstanding

The remaining overfunding of \$157 billion would therefore be met through a reduction in bills issuance bringing outstanding bills to \$1.36 trillion and \$1.29 trillion in 2014 and 2015 respectively.

End of FY Total Bills Outstanding



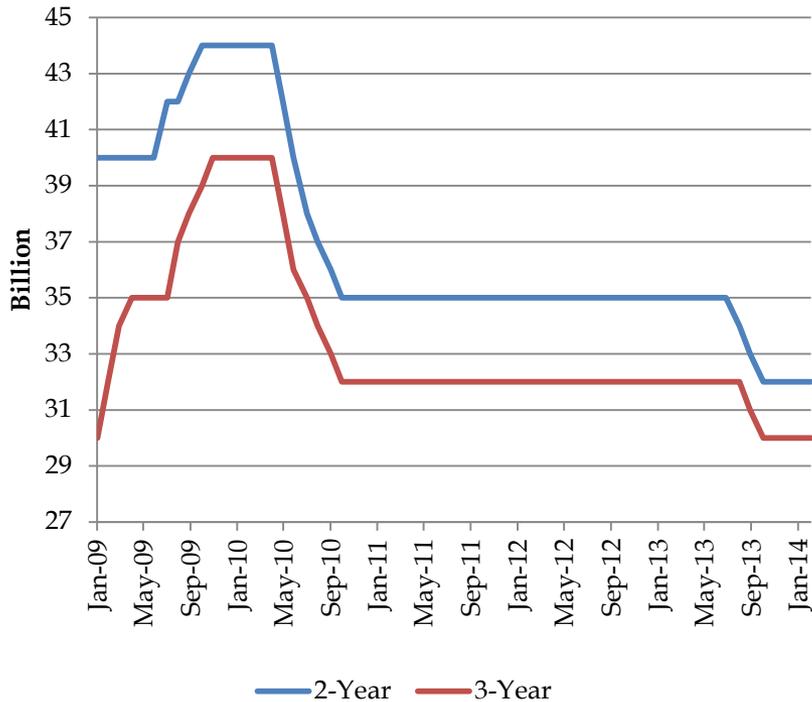
Net Financing Through Bills



Other Considerations

- ▶ The path of coupon cuts fits within the scope of past reductions.
- ▶ It is also consistent with Treasury's commitment to extending the Weighted Average Maturity (WAM) of outstanding US marketable debt.

Path of FY 2010/2011 2- and 3-year Coupon Issuance



Weighted Average Maturity of Marketable Debt Outstanding

