

**REPORT TO THE SECRETARY OF THE TREASURY
FROM THE
TREASURY ADVISORY COMMITTEE
OF THE
BOND MARKET ASSOCIATION**

August 3, 1999

Dear Mr. Secretary:

Since the Committee's last meeting on May 4, 1999, economic activity in the U.S. has continued to expand at a relatively brisk pace. Indeed, even though the Commerce Department recently reported that GDP growth moderated in the second quarter, much of the downshift was attributable to a reduced pace of inventory growth and a surprising decline in government spending. There are few signs of slowing in the underlying pace of growth in the economy. Strength in consumer demand and ongoing momentum in business capital spending continue to drive the economy, with some offset from the trade sector.

Shortly after our last meeting, the Federal Reserve announced a shift to a tightening policy bias, and subsequently the Fed hiked the target federal funds rate by 25 bp to 5%. Treasury market yields have moved sharply higher since early May, reflecting the current economic environment and the outlook for monetary policy, as the markets anticipate additional tightening moves by the Fed over the next few months.

In this environment, credit market spreads have widened significantly, and secondary market liquidity conditions have deteriorated as corporate and agency debt issuance have increased dramatically, driven by extraordinary merger activity, and at least in part, by a desire to complete funding activities in advance of any potential disruptions surrounding the millennium change.

Within this context, the Committee considered the composition of a financing to refund approximately \$29.0 billion of privately held notes maturing on August 15, and to raise approximately \$8.0 billion. The Committee unanimously recommends a total financing size of \$37.0 billion consisting of the following offerings:

- \$15.0 billion 5-year notes due August 15, 2004
- \$12.0 billion 10-year notes due August 15, 2009
- \$10.0 billion 30-year bonds due August 15, 2029

The Committee **did not** feel that reopenings of current 5-year, 10-year, or 30-year securities were warranted by current market conditions, given current original issue discount (OID) restrictions.

In regard to the composition of Treasury market financing for the remainder of the current quarter, the Committee recommends that the Treasury meet its borrowing requirement in the following manner:

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