**Treasury Issue Process**

**Treasury Auction Schedule**

|  |  |
| --- | --- |
| **Issue** | **Frequency** |
| 4 wk bills | Weekly |
| 13 wk bills | Weekly |
| 26 wk bills | Weekly |
| 52 wk bills | Monthly |
| 2-year notes | Monthly |
| 3-year notes | Monthly |
| 5-year notes | Monthly |
| 7-year notes | Monthly |
| 10-year notes | Monthly |
| 30-year bonds | 8x/yr |
| 5-year TIPS | 2x/yr |
| 10-year TIPS | 6x/yr |
| 30-year TIPS | 2x/yr |
| 2-year FRN | Monthly |

The Treasury announces in advance:

1. The amount to be auctioned
2. The portion replacing existing debt that’s maturing
3. The portion being used to raise new funds

Additionally, the Treasury will frequently re-open a bid (sell more of an issue at a later date) or do a special cash management auction for Bills maturing in as little as one day.

Treasury receives sealed bids that must be in by a certain date and time.

Noncompetitive bids – up to $5 mill. face – agree to accept the same price paid by the competitive bidders.

Bids accepted up till noon Eastern Time of the auction day at a Federal Reserve Bank

Competitive bids – Any quantity up to 35% of the issue. The bid is submitted on a yield basis.

Bids accepted up till 1 p.m. Eastern Time of the auction day

Noncompetitive bids are subtracted from the total to be auctioned and the competitive bids are arranged in order from lowest to highest yield and matched with the quantity asked for. The Treasury awards securities starting from the top until all are issued – if several bidders bid at the stop-out yield, they get a pro-rata portion of the quantity they requested. This is commonly referred to as a Dutch Auction (bidders bid both price and quantity).

Multiple Price Auction:

Each bidder pays what they bid

Different bidders pay different amounts

This was used for many years until November 1998.

Single Price Auction:

Each bidder pays the stop out yield – including the non-competitive bidders.

Strategy is to bid aggressively since you probably won’t have to pay what you bid. But if everyone follows that strategy, you might pay what you bid.

There is usually not much difference between the bids, as treasuries must be priced to give a yield very close to the yield on other treasuries with the same maturity. Thus the demand curve is very flat.

Primary Government Securities Dealers:

Must bid at all auctions and make an active secondary market

Designated by the Federal Reserve

Have adequate capital and do substantial volume

Federal Reserve uses Primary Dealers for implementation of monetary policy

 Fed Res Bank of NY receives bids and asks from Primary Dealers daily

**Primary Dealers**

Bank of Nova Scotia, New York Agency
BMO Capital Markets Corp.
BNP Paribas Securities Corp.
Barclays Capital Inc.
Cantor Fitzgerald & Co.
Citigroup Global Markets Inc.
Credit Suisse Securities (USA) LLC
Daiwa Capital Markets America Inc.
Deutsche Bank Securities Inc.
Goldman, Sachs & Co.
HSBC Securities (USA) Inc.
Jefferies LLC
J.P. Morgan Securities LLC
Merrill Lynch, Pierce, Fenner & Smith Incorporated
Mizuho Securities USA Inc.
Morgan Stanley & Co. LLC
Nomura Securities International, Inc.
RBC Capital Markets, LLC
RBS Securities Inc.
Societe Generale, New York Branch
TD Securities (USA) LLC
UBS Securities LLC.

Example: Hypothetical Treasury Auction

$20 billion to be issued

Top seven bids plus noncompetitive bids each get all that they asked for – that totals $19.7 billion

E and F get pro-rated portions since they total $3 billion

Each gets 10% of what he bid

Coupon-bearing notes and bonds are issued at par or the next lowest coupon rate (1/8 %).

Single Price Auction: Everyone receives a yield of 7.84%

Multiple Price Auction: Everyone receives the yield that they bid.

**Hypothetical Treasury Auction**

$20 billion of 2-year notes

|  |  |  |
| --- | --- | --- |
| **Bidders** | **Amounts** **($ billion)** | **Bid** **(%)** |
| A | 0.6 | 7.63 |
| B | 1.7 | 7.70 |
| C | 1.2 | 7.71 |
| A | 1.9 | 7.71 |
| D | 3.0 | 7.75 |
| A | 2.5 | 7.79 |
| B | 3.5 | 7.83 |
| E | 2.0 | 7.84 |
| F | 1.0 | 7.84 |
| C | 4.0 | 7.87 |
| C | 4.4 | 7.90 |
| Noncompetitive Bids | 5.3 | ----- |
|  |  |  |
| Total | 31.1 |  |

# Stop-out yield = 7.84%

Tenders at the high yield are allocated 10%

# Bidder E receives $0.2 billion and Bidder F receives $0.1 billion

# Coupon Rate = 7.75% = 7 ¾ %

# Coupon Payments = 7.75/2 = 3.875

Price = 3.875 + 3.875 + 3.875 + 103.875

 (1+.0784/2) (1+.0784/2)2 (1+.0784/2)3 (1+.0784/2)4

Price = 99.8363