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CREDIT MARKETS

Treasury Studies Return of One-, Three-Year Debt

By **MIN ZENG***April 30, 2008; Page C5*

As the federal government rolls out its economic-stimulus plan, the Treasury market is eyeing the return of one-year bills and three-year notes to help offset the government's deteriorating fiscal outlook.

Changes to the maturities of debt sold by the government could be announced as early as Wednesday, when the Treasury presents its quarterly refunding program.

But given how low yields currently are on low-risk government debt, these two maturities might be a hard sell.

Yields on Treasuries with maturities of 10 years or less are below the current 4% inflation rate, and returns on government bonds are set to be negative in April for the first time this year.

Tuesday, the benchmark 10-year note rose 3/32 point, or 93.75 cents for every \$1,000 invested. The yield fell to 3.823% from 3.835% Monday, as yields decline when bond prices rise.

"It doesn't matter to me what they [the government] bring back," said Mark MacQueen, a portfolio manager at Sage Advisory Services Ltd. in Austin, Texas, with \$5.8 billion in assets. "In general, Treasuries are expensive. New maturities really don't create additional attraction."

Instead, Mr. MacQueen is getting into high-quality corporate bonds, asset-backed securities -- particularly debt backed by AAA-rated credit-card and automobile loans -- as well as mortgage-backed securities.


The Treasury Department last sold the so-called year bills in March 2001, when the U.S. enjoyed a budget surplus. It halted the sale of three-year notes last May as the budget shortfall was shrinking.

However, the fiscal outlook has worsened this year as slowing growth has led to falling corporate and individual income-tax revenues. The government's multibillion-dollar economic-stimulus package, which rolled out this week, will only worsen the fiscal shortfall.

The White House has forecast a federal deficit of at least \$410 billion for fiscal 2008, increasing the government's need for money. Last week, the Treasury sold a record \$30 billion in new two-year notes and \$19 billion in five-year notes, the biggest offering of that maturity since it began to be sold on a monthly basis in mid-2003.

Louis Crandall, chief economist at Wrightson ICAP LLC, a research firm in Jersey City, N.J., that focuses on government debt, said the Treasury likely will bring the year bill back first, and he suggested that the three-year

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notes may be an option later in the year if projected financing needs continue to grow.

A year bill could be introduced as early as mid-June or July, leaving time for three or four monthly auctions before the end of current fiscal year, Mr. Crandall said. The minimum offer size probably would be \$15 billion, giving the Treasury the opportunity to raise \$45 billion to \$60 billion before the end of the quarter, he added.

Sean Simko, who oversees \$8.5 billion of fixed-income assets at SEI Investments Co. in Oaks, Pa., said such an issue is going to be a "tough sell" now compared with three or six months ago, as investors are lured away into higher-yielding assets amid waning risk aversion.

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