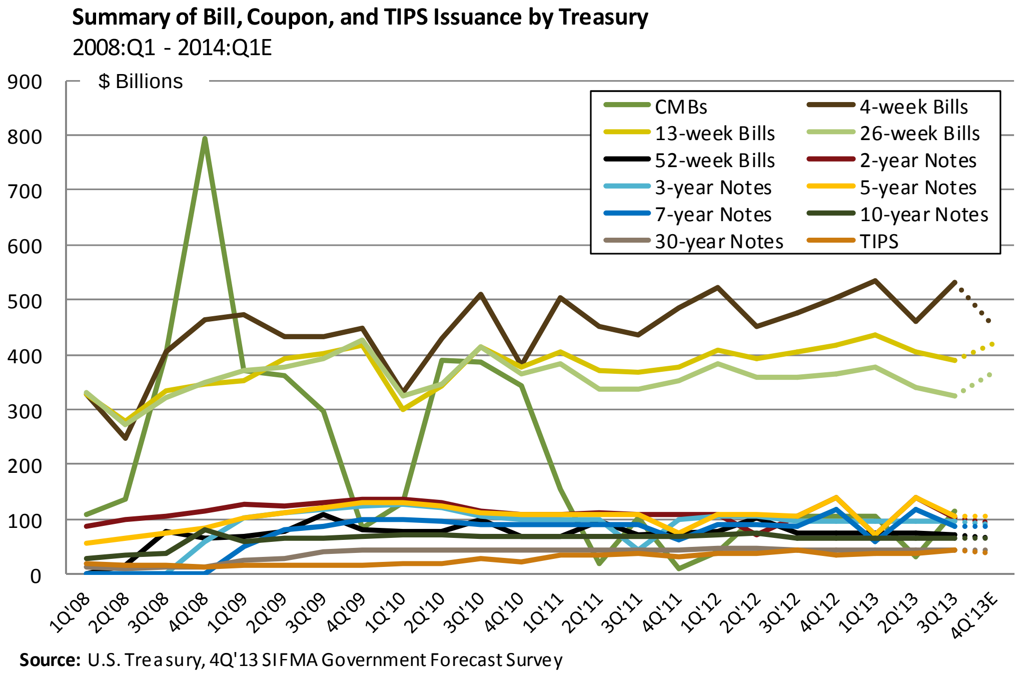
NET ISSUANCE EXPECTED TO INCREASE



TOTAL ISSUANCE OUTLOOK

The SIFMA Quarterly Issuance Survey[1] forecasts total net Treasury bill, note, and bond issuance to be $263.5 billion in the fourth quarter of 2013, much higher than the net $27.3 billion issued in the third quarter (actuals include cash management balances) and about 44.6 percent more than the $163.5 billion projected for 3Q'13.[2] For 4Q'13, the Treasury issuance is expected to be in line with the Treasury's July borrowing estimate of $235.0 billion.[3] The net issuance of bills is expected to reach $37.5 billion in 4Q'13, much different than the $155.0 billion redeemed during the third quarter, while the net issuance of coupons is expected to increase to $199.0 billion, a 9.2 percent increase from $182.2 billion issued in the previous quarter.

Excluding cash management bills (CMBs), total net redemption of Treasury bills, notes, and bonds stood at $27.3 billion, a sharp increase from redemption of $40.7 billion in the prior quarter. CMBs issuance stood at $115.0 billion in 3Q'13, a sharp increase from 2Q'13's $30.0 billion and the highest quarterly CMBs issuance since 1Q'11 when $155.0 billion CMBs were issued.

The total 3Q'13 net issuance, including CMBs, stood at $142.3 billion, a very different outcome than the $10.7 billion redeemed in the previous quarter and 31.9 percent less than the Treasury's July issuance estimate of $209.0 billion in the third quarter of 2013.

During the most recent FOMC meeting in September 2013, the Fed indicated that economic activity continued to increase at a moderate rate in the third quarter. Labor market conditions showed further improvement in recent months, but the unemployment rate remained elevated at 7.2 percent in September 2013. Household spending and business fixed investment remained subdued, and the housing sector activity slowed, possibly reflecting the rise in mortgage rates since the spring.[4] The Fed reaffirmed that the exceptionally low range for the target Fed Funds rate of 0-0.25

[1] The survey was conducted beginning on October 18, 2013 and ending on October 29, 2013. Survey results are medians and the dates and numbering of quarters are based on calendar year rather than fiscal year, unless otherwise noted. A description of the participants is provided on page 6. Previous survey reports may be found at http://www.sifma.org (Research Reports).

[2] SIFMA's 3Q'13 Government Forecast Survey results can be found here.

[3] Treasury's July's borrowing estimates can be found here.

[4] Minutes from the Federal Open Market Committee, September 17-18, 2013.

percent will remain appropriate, at least as long as the unemployment rate remains above 6.5 percent. Medium term inflation is projected to be no more than a half percentage point above the long-run goal of 2 percent and longer-term inflation expectations continue to be well anchored.

During the FOMC meeting, Chairman Bernanke also noted that the Committee decided to continue accommodative policy by purchasing additional MBS at a pace of $40 billion per month and longer-term Treasury securities at a pace of $45 billion per month, as well as maintaining its existing reinvestment policies.

TREASURY COUPON ISSUANCE

The median forecast for net issuance of Treasury coupon securities (notes and bonds) is $199.0 billion for the fourth quarter, 9.2 percent higher than 3Q'13's net issuance of $182.2 billion.[5] Gross coupon issuance is expected to total approximately $519.0 billion, 1.3 percent below the $526.0 billion issued in the prior quarter. The gross issuance of notes and bonds is expected to be flat across all maturities, except the 2-year and 3-year notes, which are predicted to decrease by 8.8 percent and 5.3 percent, respectively. The forecasted decrease in issuance of those maturities reflects the Treasury's intention to reduce coupon issuance due to the reduction in near-term funding needs.[6] Survey respondents also expect the Treasury to finish 4 with $80.0 billion in cash, exactly the same as estimated by Treasury in July for an end-December cash balance. As the Treasury transitions from bill to coupon financing, the percentage of nominal coupons in the Treasury's portfolio has been gradually increasing. As of June 28, 2013, the weighted average maturity of the portfolio was approximately 66.0 months, up from 64.3 months at the May TBAC meeting and well above the three decade average of 58.1 months.

T-BILL ISSUANCE

Survey participants expect to see net bill issuance of $37.5 billion in the fourth quarter, much higher than the net redemption of $155.0 billion in the third quarter. The expectations for the net bill issuance in 4Q'13 varied widely among the survey respondents,[7] showing no consensus in the direction or the scale in forecast for net bill issuance. The gross issuance of bills is expected to increase slightly to $1.32 trillion in 4Q'13, from $1.30 billion in the prior quarter. The largest changes are expected in the issuance of 4-week and 26-week bills, which are forecasted to decrease by 14.6 percent and increase by 13.2, respectively. As the Treasury continues to extend the average maturity of its portfolio, the percentage of bills in the portfolio keeps falling. The bid-to-cover ratios for bills remain high relative to historical levels, showing that there is high demand for short-term debt.

During the recent Treasury Borrowing Advisory Committee meeting in September, the Treasury presented the finalized term sheet for the Floating Rate Notes (FRNs). The inaugural 2-year maturity FRN issuance is scheduled for the end of January 2014. The Committee felt that starting the program with FRNs of two year maturity was appropriate and could be expanded to other maturities as the market developed.[8]

TIPS

Survey respondents forecast that the Treasury will issue $36.0 billion of Treasury Inflation-Protected Securities (TIPS) in the fourth quarter of 2013, down 18.2 percent from the $44 billion issued in 3Q'13. The Treasury has taken a number of steps over the past two years to improve liquidity in the TIPS market and indicated that it remains pleased with the demand for inflation protection.

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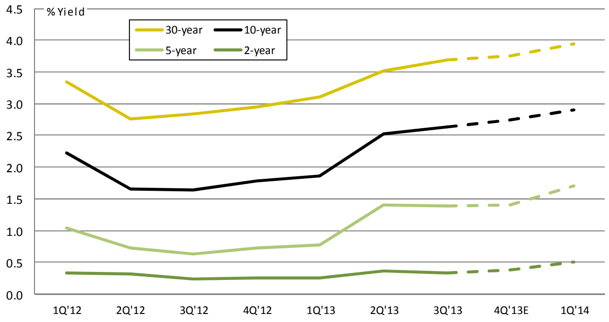
[5] Net coupon issuance projections for the fourth quarter ranged from a redemption of $37 billion to an issuance of $77 billion.

[6] Minutes of the Meeting of the TBAC of SIFMA, July 31, 2013.

[7] Net bill issuance projections for the first quarter of 2013 ranged from redemption of $21 billion to redemption of $62 billion.

[8] Report to the Secretary of the Treasury, July 30, 2013.

Projected 2-Year, 5-Year, and 10-Year Treasury Yield Movement
Mar. 2012 - Mar. 2014E



Source: U.S. Treasury, 4Q'13 SIFMA Government Forecast Survey

Treasury Yield Projections and Ranges

	Sept 30, 2013	Dec. 31, 2013	Mar. 31, 2014
2 year Treasury Note	0.33	**0.38** (0.30 - 0.55)	**0.50** (0.30 - 0.75)
5 year Treasury Note	1.39	**1.40** (1.30 - 1.80)	**1.70** (1.30 - 2.15)
10 year Treasury Note	2.64	**2.75** (2.50 - 3.00)	**2.90** (2.50 - 3.50)
30 year Treasury Bond	3.69	**3.75** (3.60 - 3.90)	**3.95** (3.60 - 4.40)
3 Month LIBOR	0.25	**0.25**	**0.25**

Source: 4Q'13 SIFMA Government Forecast Survey

U.S. TREASURY YIELD OUTLOOK

In 3Q'13, the Treasury yields decreased across medium- and short-term maturities: two-year rates decreased slightly to 0.33 percent at the end of September from 0.36 percent in June 2013 and 5-year yields decreased to 1.39 percent in 3Q'13 from 1.41 percent in the end of June. The Treasury yields increased in the third quarter across long-term maturities: 10-year yields rose to 2.64 from 2.52 percent in 2Q'13 and 30-year yields increased to 3.69 percent in September 2013 from 3.52 percent in June 2013. Survey respondents forecast benchmark yields to increase across all maturities in the fourth quarter and through the first quarter of 2014. The 2-year Treasury yields are expected to increase slightly to 0.38 percent by December 2013 and then increase further to 0.50 percent by March 2014; similarly 5-year yields are projected to increase to finish 4Q'13 at 1.40 percent and then further to 1.70 in 1Q'14. For long-term maturities, survey responders expect a gradual increase of yields as well. The 10-year rates are forecasted to increase to 2.75 percent and 2.90 percent at the end of December and March, respectively, while 30-year yields are expected to finish 4Q'13 at 3.75 percent and 1Q'14 at 3.95 percent (forecast summarized in the table on the left side).

UPSIDE AND DOWNSIDE RISKS TO RATES

The survey asked participants about risks to their forecasts or events that could cause interest rates to move higher or lower than forecasted (summarized in the table below). The main risks to rates for both the upside and the downside have remained relatively the same over the last few quarters. This time, however, the timing of tapering of Fed's quantitative easing was a concern for the rates' forecast.

The main risks to the forecast identified on the upside (higher-than-expected yields) were: early tapering of QE, stronger than expected U.S. economic growth, earlier than expected tightening of the monetary policy, and significant improvement in the labor market.

In contrast, the main risks noted on the downside (lower-than-expected yields) were: the delay of tapering, substantial slowdown in economic growth, and fiscal uncertainty.

Summary of Risks to Rate Forecast

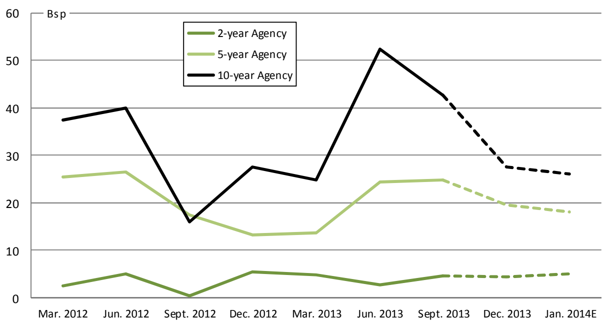
	Risks to Upside	Risks to Downside
#1	Faster fiscal resolution, larger than expected imporvement in the economic data	More substantial slowdown in growth
#2	Strong reboung in the economy	Further delay of tapering, Chinese tightening and low global growth, US fiscal conflict
#3	Early taper talk	Slower economic growth
#4	Tepid payroll gain, budget impasse	Resurgence of tapering fear
#5	"Grand bargain", rapid improvement in economic data, taper talk resurgence	Mishandling of the debt ceiling, further detorieration in economic data
#6	Larger fiscal deal, early 2014 taper	Fiscal uncertainty, Fed taper pushed deeper into 2H'14
#7	Labor market stronger than expected	More dovish Fed under Chair Yellen
#8	Compromise from budget conference committee, drag from sequester in 2014 watered down	Fiscal uncertainty weighing on growth more than expected
#9	Rapid imporovement in the economy, initiation of the FOMC tapering in December	FOMC pushing tapering off indefinitely, effects of government shutdown/fiscal negotiations much grimmer than expected
#10	no response	no response
#11	no response	no response

Source: 4Q'13 SIFMA Government Forecast Survey

AGENCIES' COUPON ISSUANCE

In 3Q'13 the total issuance by the four largest Federal agencies stood at $96.5 billion, down 12.9 percent from $110.7 billion in 2Q'13.[9] Survey participants forecast total gross coupon issuance by the four largest Federal agencies to increase to $149.5 billion in the fourth quarter of 2013. The projections reflect a 54.9 percent increase from 3Q'13, with much of the forecasted increase coming from Fannie Mae and the Federal Home Loan Banks, which are expected to issue $32.0 billion and $71.0 billion in coupons in 4Q'13, a large increase from their 3Q'13 issuance of $18.0 billion and $44.3 billion, respectively. Freddie Mac's and Federal Farm Credit Banks' issuance are forecasted to increase by 78.2 percent and 60.2 percent, respectively. Survey respondents indicated that 47.5 percent of 4Q'13's issuance volume is expected to come from the Federal Home Loan Banks (FHLBs), about 21 percent from Fannie Mae, 19 percent from Freddie Mac, and about 12 percent from the Farm Credit System Banks.

Projected 2-Year, 5-Year, and 10-Year Spreads to Treasury
Mar. 2012 - Mar. 2014E



Source: U.S. Treasury, 4Q'13 SIFMA Government Forecast Survey

Distribution of Duration Weightings

	Strong Over	Over	Neutral	Under	Strong Under
0-3 years	0%	38%	13%	50%	0%
3-7 years	0%	0%	25%	75%	0%
7-10 years	0%	13%	13%	38%	38%
10-30 years	0%	13%	13%	63%	13%

Source: 4Q'13 SIFMA Government Forecast Survey

SPREADS OUTLOOK

Respondents expect agency-to-Treasury yield spreads to decrease in 4Q'13 to 4.5 basis points (bps) for short-term securities but increase to 19.5 bps and 32.027.5 bps for intermediate and long-term securities, respectively. In the first quarter of 2014, short-term spreads are expected to widen to 5.0 bps, while the intermediate- and long-term spreads are forecasted to narrow to 18.0 bps and 26.0 bps, respectively. The swap spreads for all maturities are predicted to increase gradually through March 2014, with the largest increases to 2-year swaps (summarized in the forecast table at the end).

PORTFOLIO ALLOCATION RECOMMENDATIONS

The survey asked for model portfolio allocation recommendations, compared to the current portfolio weighting, across the maturity spectrum of the U.S. Treasury yield curve. The results showed that there was no clear consensus as responses varied but were concentrated around "underweight" for all maturities. The recommendations for 4Q'13 for short-term maturities were split between over- and underweight, for 3-7 year maturities the votes were concentrated heavily on under-weighing, while for the 7-10 and 10-30-year portfolios, the consensus was to underweight and strongly underweight (summary of the can be found in the table on the left side).

[9] Includes Fannie Mae, Freddie Mac, the Federal Home Loan Banks (FHLBs), and the Federal Farm Credit Banks Funding Corporation.

SIFMA'S GOVERNMENT SECURITIES ISSUANCE AND RATES FORECASTS

SIFMA's Government Securities Issuance and Rates Forecast

Forecast numbers appear in bold

Issuance Projections (in $Billions)

U.S. Treasury Borrowing[1]	3Q'13	**4Q'13E**
Net Coupon Issuance	182.2	**199.0**
Gross Coupon Issuance	*526.0*	***519.0***
Gross Coupon Redemptions	*343.8*	***320.0***
Net Bill Issuance	(155.0)	**37.5**
Gross Bill Issuance	*1,317.0*	***1,321.0***
Gross Bill Redemptions	*1,472.0*	***1,275.5***
Quarter end cash balance (expected)		**80.0**
U.S. Treasury Quarterly Gross New Issuance		
4 week Bill	529.8	**452.5**
13 week Bill	390.0	**419.0**
26 week Bill	325.0	**368.0**
52 week Bill	72.0	**66.0**
2 year Treasury Note	102.0	**93.0**
3 year Treasury Note	95.0	**90.0**
5 year Treasury Note	105.0	**105.0**
7 year Treasury Note	87.0	**87.0**
10 year Treasury Note	66.0	**66.0**
30 year Treasury Bond	42.0	**42.0**
Treasury Inflation-Indexed Securities	44.0	**36.0**
Federal Agency: Projected Total Gross Coupon Debt Issuance[2]		
Fannie Mae	18.0	**32.0**
Freddie Mac	20.8	**29.0**
Federal Home Loan Bank System - Office of Finance	44.3	**71.0**
Federal Farm Credit Banks Funding Corporation	13.5	**17.5**

	FY estimates
Federal Budget Deficit Estimate - FY2012	**670.0**
Federal Budget Deficit Estimate - FY2013	**597.5**

Rates & Spreads Outlook	9/30/13	**12/31/13E**	**3/31/14E**
Interest Rates (End of Quarter in %Yield)			
2 year Treasury Note	0.33	**0.38**	**0.50**
5 year Treasury Note	1.39	**1.40**	**1.70**
10 year Treasury Note	2.64	**2.75**	**2.90**
30 year Treasury Bond	3.69	**3.75**	**3.95**
3 Month LIBOR	0.25	**0.25**	**0.25**
Spreads to Treasury (End of Quarter in Basis Points)			
2 year Agency Benchmark/Reference Notes[3]	4.6	**4.5**	**5.0**
5 year Agency Benchmark/Reference Notes[3]	24.8	**19.5**	**18.0**
10 year Agency Benchmark/Reference Notes[3]	42.6	**27.5**	**26.0**
2 Year SWAP Spreads	13.5	**15.0**	**16.0**
5 Year SWAP Spreads	14.7	**15.0**	**17.0**
10 Year SWAP Spreads	13.2	**15.0**	**16.5**

[1] *Excluding Federal Reserve's purchase*

[2] *Including all callable coupon issuance and excluding all discount notes*

[3] *Agency spreads to Treasury yield are in basis points.*

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The Securities Industry and Financial Markets Association's Quarterly Government Securities Issuance and Rates Forecast reflects the responses to a survey of members of the Association's Primary Dealers Committee and Government Securities Research and Strategist Committee. The Committee is composed of trading strategists and research analysts at Association member firms who specialize in the U.S. government and agency securities markets. The survey is intended to provide market participants with the current consensus expectations and median forecasts of many of the Primary Dealers and other firms active in the U.S. government and agency securities markets.

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