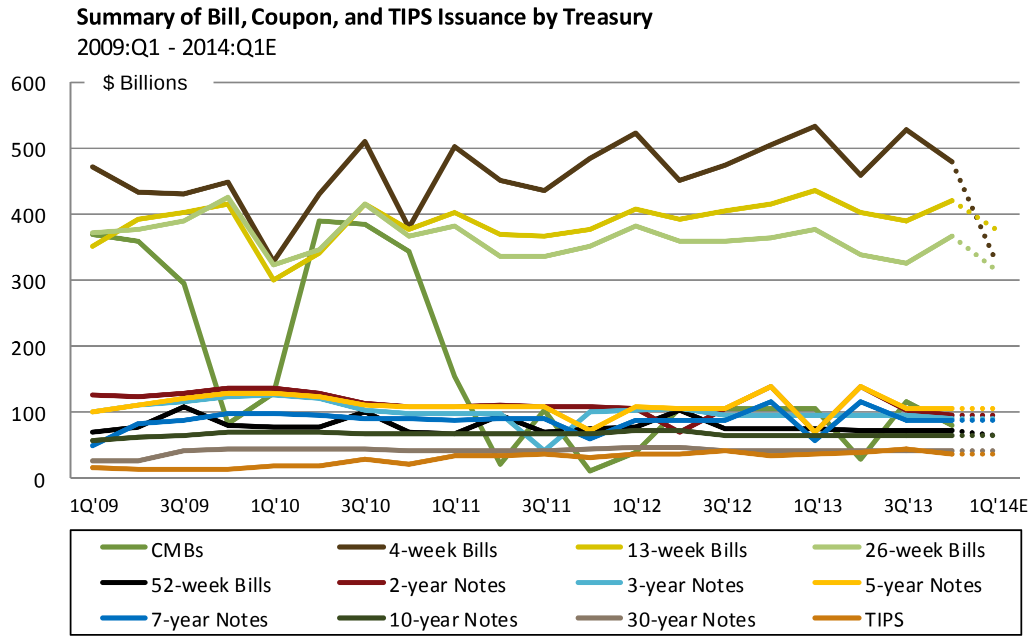
NET ISSUANCE EXPECTED TO INCREASE



Source: U.S. Treasury, 1Q'14 SIFMA Government Forecast Survey

TOTAL ISSUANCE OUTLOOK

The SIFMA Quarterly Issuance Survey[1] forecasts total net Treasury bill, note, and bond issuance to be $205.5 billion in the first quarter of 2014, 22.1 percent lower than the net $263.8 billion issued in the fourth quarter (actuals include cash management balances) and about 13.1 percent less than the $236.5 billion projected for 4Q'13.[2] For 1Q'14, the Treasury issuance is expected to be 22.5 percent below the Treasury's November borrowing estimate of $265.0 billion.[3] The net bill issuance in 1Q'14 is expected to be $24.5 billion, much lower than the $62.0 billion issued during the fourth quarter, while the net issuance of coupons is expected to decrease to $181.0 billion, a 10.3 percent decrease from $201.8 billion issued in the previous quarter.

Excluding cash management bills (CMBs), total net redemption of Treasury bills, notes, and bonds in 4Q'13 stood at $182.3 billion, a sharp increase from $27.3 billion issued in the prior quarter. CMBs issuance stood at $81.0 billion in 4Q'13, a 29.6 percent decrease from 3Q'13's $115 billion, the highest quarterly CMBs issuance since 1Q'11 when $155.0 billion CMBs were issued.

The total 4Q'13 net issuance, including CMBs, stood at $263.8 billion, 85.2 percent increase from the $142.3 billion issued in the previous quarter and in line with the Treasury's November issuance estimate of $266 billion in the fourth quarter of 2013.

During the most recent FOMC meeting in January 2014, the Committee indicated that "in light of the cumulative progress toward maximum employment and the improvement in the outlook for labor market conditions, the Committee decided to make a further measured reduction in the pace of its asset purchases. Beginning in February, the Committee will add to its holdings of agency mortgage-backed securities at a pace of $30 billion per month rather than $35 billion per month, and will add to its holdings of longer-term Treasury securities at a pace of $35 billion per month

---

[1] The survey was conducted beginning on January 20, 2014 and ending on January 28, 2014. 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 4Q'13 Government Forecast Survey results can be found here.

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

rather than $40 billion per month. The Committee is maintaining its existing policy of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities and of rolling over maturing Treasury securities at auction."[4]

The Fed reaffirmed that the exceptionally low range for the target Fed Funds rate of 0-0.25 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.

TREASURY COUPON ISSUANCE

The median forecast for net issuance of Treasury coupon securities (notes and bonds) is $181.0 billion for the first quarter, 10.3 percent lower than 4Q'13's net issuance of $201.8 billion.[5] Gross coupon issuance is expected to total approximately $540.0 billion, 3.4 percent above the $522.0 billion issued in the prior quarter. The gross issuance of notes and bonds is expected to be flat across all maturities except TIPS, which are predicted to increase by 2.8 percent. Treasury is expected to keep the issuance of the notes and bonds stable at a lower level in 1Q'14 reflecting the Treasury's intention to reduce coupon issuance due to the reduction in near-term funding needs. Survey respondents also expect the Treasury to finish 1Q'14 with $55.0 billion in cash, 22.2 percent higher than $45 billion estimated by Treasury in November for an end-March 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 September 30th 2013, the weighted average maturity of the Treasury portfolio was approximately 66.7 months, up from 66.0 months at the June 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 $24.5 billion in the first quarter, much lower than the net issuance of $62.0 billion in the fourth quarter. The expectations for the net bill issuance in 1Q'14 varied widely among the survey respondents,[6] showing no consensus in the direction or the scale in forecast for net bill issuance. The gross issuance of bills is expected to decrease by 13.0 percent to $1.17 trillion in 1Q'14, from $1.34 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 31.3 percent and 13.9, 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.

As scheduled, the U.S. government sold its first floating rate debt on January 29, 2014. The inaugural 2-year maturity FRN was a success; dealers bid 5.67 times the $15 billion of this variable-rate Treasury issue offered. The FRN sold earlier this week at a yield premium of 0.045 percent above an index of interest rates on three-month Treasury bills, which stood at 0.055 percent.

TIPS

Survey respondents forecast that the Treasury will issue $37.0 billion of Treasury Inflation-Protected Securities (TIPS) in the first quarter of 2014, up 2.8 percent from the $36.0 billion issued in 4Q'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.

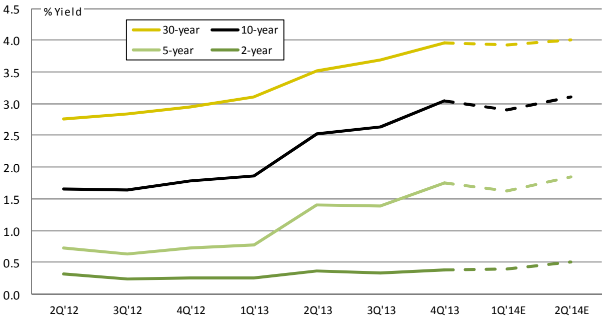
---

[4] Press Release from the FOMC Meeting, January 28-29, 2014.

[5] Net coupon issuance projections for the first quarter issuance ranged from $104 billion to $230 billion.

[6] Net bill issuance projections for the first quarter of 2013 ranged from redemption of $50 billion to redemption of $170 billion.

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



Source: U.S. Treasury, 1Q'14 SIFMA Government Forecast Survey

Treasury Yield Projections and Ranges

	Dec. 31, 2013	Mar. 31, 2014E	Jun. 30, 2014E
2 year Treasury Note	0.38	**0.40** (0.30 - 0.50)	**0.50** (0.30 - 0.65)
5 year Treasury Note	1.75	**1.63** (1.40 - 2.00)	**1.85** (1.30 - 2.25)
10 year Treasury Note	3.04	**2.90** (2.65 - 3.25)	**3.10** (2.50 - 3.50)
30 year Treasury Bond	3.96	**3.93** (3.30 - 4.15)	**4.00** (3.60 - 4.40)
3 Month LIBOR	0.25	**0.25**	**0.30**

Source: 1Q'14 SIFMA Government Forecast Survey

U.S. TREASURY YIELD OUTLOOK

In 4Q'13, the Treasury yields increased across all maturities: two-year rates increased to 0.38 percent at the end of December from 0.33 percent in September 2013, the 5-year yields increased to 1.75 percent in 4Q'13 from 1.39 percent in the end of September, the 10-year yields continued to rise to 3.04 from 2.64 percent in 3Q'13, and 30-year yields increased to 3.96 percent in December 2013 from 2.69 percent in September 2013. Survey respondents forecast benchmark yields to increase across all maturities in the first quarter and through the second quarter of 2014. The 2-year Treasury yields are expected to increase slightly to 0.40 percent by March 2014 and then increase further to 0.50 percent by June 2014; similarly 5-year yields are projected to increase to finish 1Q'14 at 1.63 percent and then further to 1.85 in 2Q'14. For long-term maturities, survey responders expect a gradual increase of yields as well. The 10-year rates are forecasted to increase to 2.90 percent and 3.10 percent at the end of March and June, respectively, while 30-year yields are expected to finish 1Q'14 at 3.93 percent and 2Q'14 at 4.00 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) remained consistent from the previous quarter: 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 flight to quality out of the risky assets.

Summary of Risks to Rate Forecast

	Risks to Upside	Risks to Downside
#1	Earlier than expected Fed tightening	Substantial slowdown in growth
#2	Higher inflation, accelerated Fed taper	Flight to quality out of risky assets, slower payroll growth
#3	Stronger than expected growth and inflation	More dovish Fed than expected
#4	Above expectation pace of taper, more aggressive taper discussion, rebound in inflation, strong jobs data (>250k)	EM risk intensification, below expectation inflation prints, weak jobs data (<150k)
#5	Earlier than expected Fed tapering and stronger than expected economic data	Weak economic data
#6	Less than expected pension fund reallocation	Flight to quality on the back of market turmoil in EM
#7	More aggressive tapering of QE, reversal of EM, weakening China growth, better domestic growth	Fed pauses tapering, risk asset selloff continues, employment disappointment repeats
#8	Inflation picks up	Dovish shift in the reaction function
#9	no response	no response
#10	no response	no response

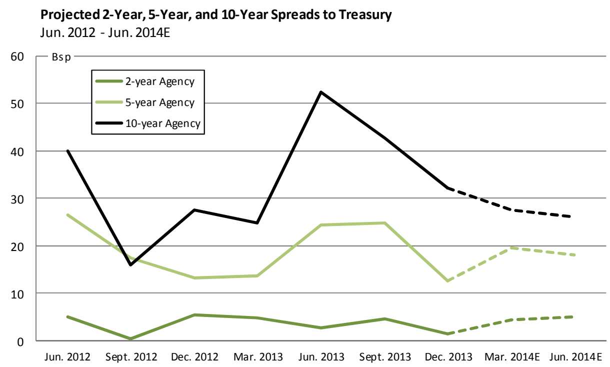
Source: 1Q'14 SIFMA Government Forecast Survey

AGENCIES' COUPON ISSUANCE

In 4Q'13 the total issuance by the four largest Federal agencies stood at $87.0 billion, down 9.8 percent from $96.5 billion in 3Q'13.[7] Survey participants forecast total gross coupon issuance by the four largest Federal agencies to increase to $135.0 billion in the first quarter of 2014. The projections reflect a 55.1 percent increase from 4Q'13, with much of the forecasted increase coming from Fannie Mae and the Federal Home Loan Banks, which are expected to issue $26.5 billion and $69.0 billion in coupons in 1Q'14, a large increase from their 4Q'13 issuance of $4.5 billion and $34.8 billion, respectively. Freddie Mac's and Federal Farm Credit Banks' issuance are forecasted to decrease by 21.4 percent and 10.9 percent, respectively. Survey respondents indicated that 51.0 percent of 1Q'14's issuance volume is expected to come from the Federal Home Loan Banks (FHLBs), about 20.0 percent from Fannie Mae, 17.0 percent from Freddie Mac, and about 12 percent from the Farm Credit System Banks.

SPREADS OUTLOOK

Respondents expect agency-to-Treasury yield spreads to increase in 1Q'14 to 4.5 basis points (bps) for short-term securities and to 19.5 bps for intermediate and but decrease to 27.5 bps for long-term securities, respectively. In the second quarter of 2014, short-term spreads are expected to widen further 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 June 2014, with the largest increases to 10-year swaps (summarized in the forecast table at the end).



Source: U.S. Treasury, 1Q'14 SIFMA Government Forecast Survey

Distribution of Duration Weightings

	Strong Over	Over	Neutral	Under	Strong Under
0-3 years	0%	17%	50%	33%	0%
3-7 years	0%	14%	14%	43%	29%
7-10 years	0%	43%	0%	29%	29%
10-30 years	0%	14%	14%	43%	29%

Source: 1Q'14 SIFMA Government Forecast Survey

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 "neutral" and "underweight" for all maturities. The recommendations for 1Q'143 for short-term maturities were concentrated around neutral, for 3-7 year maturities the votes were concentrated heavily on underweighing, for the 7-10-year portfolios there was a group favoring a overweigh and a group favoring under- and strong under weight, while 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).

[7] 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]	4Q'13	1Q'14
Net Coupon Issuance	201.8	**181.0**
Gross Coupon Issuance	*522.0*	***540.0***
Gross Coupon Redemptions	*320.2*	***359.0***
Net Bill Issuance	62.0	**24.5**
Gross Bill Issuance	*1,341.0*	***1,167.0***
Gross Bill Redemptions	*1,360.0*	***1,142.5***
Quarter end cash balance (expected)		**55.0**
U.S. Treasury Quarterly Gross New Issuance		
4 week Bill	480.0	**330.0**
13 week Bill	422.0	**377.5**
26 week Bill	367.0	**316.0**
52 week Bill	72.0	**64.5**
2 year Treasury Note	96.0	**96.0**
3 year Treasury Note	90.0	**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	36.0	**37.0**
Federal Agency: Projected Total Gross Coupon Debt Issuance[2]		
Fannie Mae	4.5	**26.5**
Freddie Mac	29.3	**23.0**
Federal Home Loan Bank System - Office of Finance	34.8	**69.0**
Federal Farm Credit Banks Funding Corporation	18.5	**16.5**

	FY estimates
Federal Budget Deficit Estimate - FY2013	**580.0**
Federal Budget Deficit Estimate - FY2014	**520.0**

Rates & Spreads Outlook

	12/31/13	3/31/14E	6/30/14E
Interest Rates (End of Quarter in %Yield)			
2 year Treasury Note	0.38	**0.40**	**0.50**
5 year Treasury Note	1.75	**1.63**	**1.85**
10 year Treasury Note	3.04	**2.90**	**3.10**
30 year Treasury Bond	3.96	**3.93**	**4.00**
3 Month LIBOR	0.25	**0.25**	**0.30**
Spreads to Treasury (End of Quarter in Basis Points)			
2 year Agency Benchmark/Reference Notes[3]	1.4	**5.0**	**4.0**
5 year Agency Benchmark/Reference Notes[3]	12.6	**15.0**	**17.0**
10 year Agency Benchmark/Reference Notes[3]	32.1	**25.0**	**31.0**
2 Year SWAP Spreads	10.1	**13.0**	**15.0**
5 Year SWAP Spreads	4.0	**10.5**	**12.5**
10 Year SWAP Spreads	4.4	**10.0**	**15.0**

[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.*

SURVEY PARTICIPANTS

Primary Dealers Committee
Richard C. Volpe (Chair)
RBS Securities Inc.

Government Securities Research and Strategist Committee

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.

CAPITAL MARKETS

Robert Toomey
Managing Director and Associate General Counsel, Rates Division

SIFMA RESEARCH

Justyna Podziemska
Senior Associate, Research