



Preview: Quarterly Refunding due Wednesday 31st July at 13:30 BST / 08:30 EDT

SUPPLY: The Treasury will announce next quarter issuance on Wednesday 31st July. At the last refunding, the Treasury announced USD 125bln of refunding for May, comprising USD 58bln in 3yr notes, USD 42bln in 10yr notes and USD 25bln in 30yr bonds. It also noted the "Treasury believes these cumulative changes leave it well positioned to address potential changes to the fiscal outlook and to the pace and duration of future SOMA redemptions". Adding that "Based on current projected borrowing needs, Treasury does not anticipate needing to increase nominal coupon or FRN auction sizes for at least the next several quarters." Analysts at Wells Fargo expect coupon auction sizes to remain unchanged for the second consecutive quarter. Providing the Treasury keeps monthly auction sizes unchanged as expected, it is expected to maintain 2-yr supply at USD 69bln, 3yr at 58bln, 5yr at 70bln, 7yr at 44bln, 10yr at 42bln, 20yr at 16bln, 30yr at 25bln and FRNs at 28bln for August.

TIPS: With nominal coupon sizes expected to be unchanged, there is a chance the TIPS issuance will be raised. In the prior refunding, the Treasury said it "believes it would be prudent to continue with incremental increases to TIPS auction sizes in order to maintain a stable share of TIPS as a percentage of total marketable debt outstanding". Wells Fargo expects the 10yr TIPS to be raised by USD 1bln, while BofA expects the 5yr TIPS to be raised by USD 1bln.

BILLS: Oxford Economics note that the Treasury will need to rely more on bill issuance in Q3 vs Q2 when tax payments following the mid-April and mid-June individual and corporate income tax dates allowed the Treasury to pay off close to USD 300bln in outstanding bill debt. OxEco expects the Treasury to raise USD 209bln from bill auctions in Q3. Their estimate implies bills, as a share of outstanding debt, will remain above the Treasury's informal target range of 15-20%, but not by an excessive amount. OxEco is not concerned about the volume of t-bill supply as bills continue to be met with good demand, including from investors shifting funds out of the Fed's reverse repo programme.

GUIDANCE: Bank of America suggests that the recent guidance could change due to recent worsening of CBO deficit projections. The desk expects guidance to change from "Treasury does not anticipate needing to increase nominal coupon or FRN auction sizes for at least the next several quarters", to something like "Treasury may need to consider further increasing nominal coupon auction sizes in coming quarters based on intermediate- to long-term borrowing needs". BofA suggests the Treasury is unlikely to pre-commit now, but knows that the deficit trajectory is unfavourable.

DEBT CEILING: Wells Fargo highlights they will be looking for developments on potential guidance for the debt ceiling reinstatement. The desk notes that the debt ceiling is currently suspended, and absent congressional action, it will be reinstated on 2nd January 2025. The desk notes that in some prior debt ceiling suspension episodes, the Treasury felt obligated to reduce its cash balance to the level that prevailed when the debt ceiling was last suspended. "This practice has led to sharp swings in the TGA amounting to hundreds of billions of dollars as Treasury pays down debt to comply with the constraint and then rapidly re-issues said debt on the other side of the debt ceiling suspension. The TGA was less than \$50 billion when the debt ceiling was last suspended in June 2023, a significant departure from its current standard operating balance of \$750 billion or so"

BUYBACKS: It is also worth noting we will be looking for an update of the Treasury's buybacks. The prior refunding noted the Treasury will seek offers for no more than 20 CUSIPs, due to temporary settlement process limitations. Once these issues are addressed, the 20 CUSIP cap will be removed, and they plan to move towards operation sizes consistent with prior guidance - Treasury said it will provide an update on this transition at this upcoming refunding. It also noted that there were no planned Cash Management buybacks over the May-July quarter, but they may begin later in 2024 depending on fiscal flows and market conditions.

FINANCING ESTIMATES: The Treasury released the financing estimates on Monday, where it expects to borrow USD 740bln in Q3, down from the prior estimate of 847bln, assuming an end of September cash balance of USD 850bln. The drop was widely expected and was driven by the Fed's slower balance sheet run off, while the Q2 cash balance finished higher than expected. For Q4, the Treasury expects to borrow USD 565bln in Q4, assuming year-end cash balance of USD 700bln, where it noted the end-Dec cash balance of USD 700bln is also its assumed cash balance upon the expiration of the debt limit suspension on January 1, 2025.

Copyright © 2024 Newsquawk Voice Limited. All rights reserved.

Registered Office One Love Lane, London, EC2V 7JN, United Kingdom · Registered Number 12020774 · Registered in England and Wales.

newsquawk.com · +44 20 3582 2778 · info@newsquawk.com

Copyright © {{ copyright-year }} Newsquawk Voice Limited. All rights reserved.

Registered Office One Love Lane, London, EC2V 7JN, United Kingdom · Registered Number 12020774 · Registered in England and Wales.

newsquawk.com · +44 20 3582 2778 · info@newsquawk.com