

## US Rates Watch

## Jan refunding: boring is best

## January refunding: very close to expectations

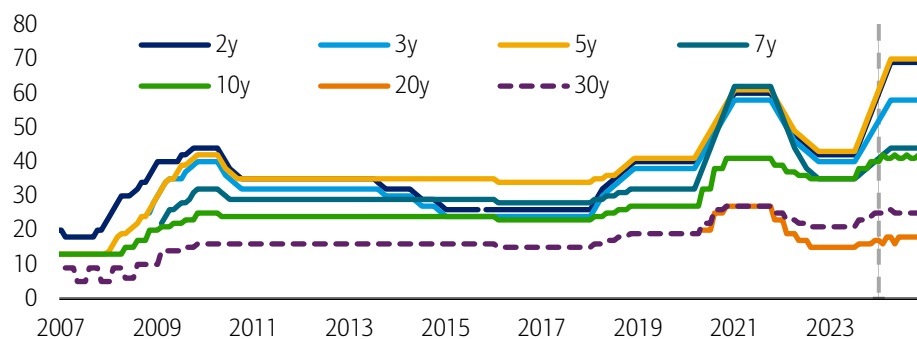
The January refunding announcement was very close to our expectations and contained few surprises (see: [UST refunding preview](#)). Treasury announced coupon increases in-line with our expectations across the nominal curve which matched the increases in November. Treasury also increased the new 5y TIPS and 10y TIPS reopening by \$1bn, as expected. The only deviation from our forecast was at the 30Y TIPS tenor where UST kept the Feb new issue size unchanged (despite TBAC guidance for \$1bn increase). Our updated schedule of Treasury coupon auction sizes for CY '24 is in Exhibit 2.

## Last coupon increase for now

Treasury also signaled that this round of coupon increases will be the last for some time. Treasury stated it “does not anticipate needing to make any further increases in nominal coupon or FRN auction sizes, beyond those being announced today, for at least the next several quarters.” This was also in-line with our expectation. We see room for UST to grow auction sizes once again in 2025 but believe UST will wait for further clarity on QT end timing and deficit figures. Holding coupon auction sizes constant would see bills as a share of marketable debt remain above 20% through 2026 under baseline deficit assumptions (Exhibit 14).

## Exhibit 1: Treasury auction sizes by tenor with projections through YE '24 (\$bn)

Treasury delivered likely last coupon increase of the year



Source: BofA Global Research, Treasury

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## Limited market response despite intense focus

The January refunding reflects a welcomed on-expectations announcement which generated limited price action. This stands in contrast to the past 2 refunding meetings which contained surprises on coupon sizes. Recall, Treasury surprised with larger-than-expected coupon sizes in August ([Aug refunding recap](#)) and smaller-than-expected coupon sizes in November ([Nov refunding recap](#)). Treasury auction size surprises seem unlikely for the balance of 2024 & should be one less concern for the UST market.

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TBAC = Treasury Borrowing Advisory Committee

CY = calendar year

FY = fiscal year

QT = quantitative tightening

RRP = reverse repo facility T

UST = US Treasury

TGA = Treasury General Account

TP = term premium

WAM = weighted average maturity

## Bill supply: heavy in Feb & March, light in April

Treasury also provided detailed guidance on the near-term bill supply outlook. Specifically, Treasury stated it will issue a net \$300-350b in privately held bill supply over in Feb & March but cut bills \$100-150b in April. This is roughly in line with our monthly supply projections (Exhibit 5). Following Treasury's lower financing estimates released earlier this week, we revised our bill supply estimates lower over Q2 to now show a \$400bn cut from April – June. The extent of cuts in April will depend heavily on tax receipts.

Strong bill supply in Q1 should keep money market rates slightly elevated & continue to assist in a further decline in the Fed ON RRP. Recall, we expect that the Fed will aim to slow QT once ON RRP balances reach \$200-250b. Near-term elevated bill supply could see ON RRP reach these levels as early as March. For more detail see: [Fed considerations for slowing QT](#).

## Buybacks: detail coming in May

Treasury indicated they would announce the date of the first regular buyback operation at the May refunding. This was in-line with our expectation, though risks skewed towards an earlier announcement today. Treasury will conduct several small-value buybacks in April for operational readiness. We continue to believe Treasury buybacks will serve as a valuable tool to promote healthier UST market functioning, largely by providing a buyer of last resort for cheap & dislocated USTs.

Future Treasury buyback communications are likely to stress that their liquidity providing buyback operation sizes are a maximum, not minimum. Importantly, Treasury may not buy anything in their liquidity providing buybacks if the market is well functioning.

**Bottom line:** UST refunding announcement was in line with market expectations and generated limited price response despite intense focus. This was a welcome relief after two subsequent announcements that surprised the market. This is the last coupon increase for now, but we see room for UST to continue to grow auction sizes in 2025, when UST will have greater clarity on QT and deficit picture. Buybacks likely to start in May after small value tests in April.

### Exhibit 2: Expected auction sizes through December 24

Auction sizes were largely in line with expectations except for 30y TIPS remaining unchanged

	2y	3y	5y	7y	10y	20y	30y	5y II	10y II	30y II	2y FRN
11/30/2023	54	48	55	39	40	16	24		15		26
12/29/2023	57	50	58	40	37	13	21	20			26
1/31/2024	60	52	61	41	37	13	21		18		28
2/29/2024	63	54	64	42	42	16	25			9	28
3/29/2024	66	56	67	43	39	13	22		16		28
4/30/2024	69	58	70	44	39	13	22	23			30
5/31/2024	69	58	70	44	42	16	25		16		28
6/28/2024	69	58	70	44	39	13	22	21			28
7/31/2024	69	58	70	44	39	13	22		18		30
8/30/2024	69	58	70	44	42	16	25			8	28
9/30/2024	69	58	70	44	39	13	22		16		28
10/31/2024	69	58	70	44	39	13	22	23			30
11/29/2024	69	58	70	44	42	16	25		16		28
12/31/2024	69	58	70	44	39	13	22	21			28

Source: BofA Global Research

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**Exhibit 3: Change in auction sizes from November refunding quarter**

Auction size increases were similar to November refunding across the curve

	2y	3y	5y	7y	10y	20y	30y	5y II	10y II	30y II	2y FRN
2/29/2024	3	2	3	1	2	0	1			-	2
3/29/2024	6	4	6	2	2	0	1		1		2
4/30/2024	9	6	9	3	2	0	1	1			2

Source: BofA Global Research

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**Exhibit 4: Financing estimates by fiscal year (\$bn)**

Bills as a share of marketable debt will be 21.3% by end of FY '24 under our base case for QT taper starting in April '24

	2024		2025		2026	
	QT ends Aug '24	QT ends Jul '25	QT ends Aug '24	QT ends Jul '25	QT ends Aug '24	QT ends Jul '25
1 Baseline deficit	1,750	1,750	1,800	1,800	1,900	1,900
2 Other adjustment	63	63	-	-	-	-
3 Financing need (1 + 2)	1,813	1,813	1,800	1,800	1,900	1,900
4 Change in cash balance	93	93	-	-	100	100
5 Note: cash balance end period assumption	750	750	750	750	850	850
6 <b>Marketable borrowing need (3 + 4)</b>	<b>1,906</b>	<b>1,906</b>	<b>1,800</b>	<b>1,800</b>	<b>2,000</b>	<b>2,000</b>
7 Gross coupon auctioned	4,148	4,148	4,365	4,365	4,365	4,365
8 Total coupon maturing	3,085	3,085	3,035	3,035	3,381	3,381
9 Fed coupon rollover	258	117	578	311	465	465
10 Public coupon maturing (8 - 9)	2,827	2,968	2,456	2,723	2,916	2,916
11 Expected buybacks*	50	50	120	120	120	120
12 <b>Net coupon supply (7 - 10 - 11)</b>	<b>1,271</b>	<b>1,130</b>	<b>1,789</b>	<b>1,522</b>	<b>1,329</b>	<b>1,329</b>
13 Coupon runoff from Fed bal sheet	421	562	-	267	-	-
14 <i>Net coupon supply to public (12 + 13)</i>	1,692	1,692	1,789	1,789	1,329	1,329
15 <b>Net bill supply (6 - 12)</b>	<b>635</b>	<b>776</b>	<b>11</b>	<b>278</b>	<b>671</b>	<b>671</b>
16 Bill runoff from Fed bal sheet	44	68	-	3	-	-
17 <i>Net bill supply to public (15 + 16)</i>	679	844	11	281	671	671
18 <b>Net supply issued (12 + 15)</b>	<b>1,906</b>	<b>1,906</b>	<b>1,800</b>	<b>1,800</b>	<b>2,000</b>	<b>2,000</b>
19 <i>Net supply to public (14 + 17)</i>	2,371	2,536	1,800	2,070	2,000	2,000
20 Starting assumed coupons	20,493	20,493	21,623	21,623	23,412	23,145
21 Starting assumed bills	5,260	5,260	6,036	6,036	6,048	6,315
22 End assumed coupons (12 + 20)	21,764	21,623	23,412	23,145	24,741	24,474
23 End assumed bills (15 + 21)	5,896	6,036	6,048	6,315	6,718	6,985
24 <b>Bills as % of coupons + bills (23 / (22 + 23))</b>	<b>21.3%</b>	<b>21.8%</b>	<b>20.5%</b>	<b>21.4%</b>	<b>21.4%</b>	<b>22.2%</b>

Source: BofA Global Research, US Treasury, Federal Reserve. \*Expected buybacks at a \$10bn pace per month based on recent Treasury guidance to start in May '24; green shaded area shows expectations assuming our QT base case of QT taper starting in April and QT end in August '24.

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**Exhibit 5: Bill and coupon issuance estimates by month (\$bn)**

Large bill supply in Q1 will be met with large bill paydowns in Q2

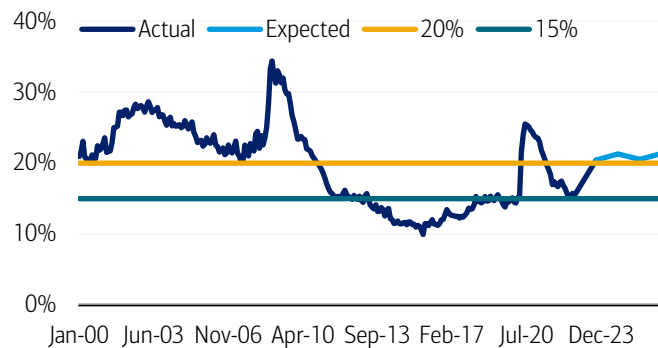
	Financing Need	TGA EOP	TGA Change	Other sources*	Marketable Borrowing	Buybacks	Net Coupon	Net Bills	Fed Coupon Maturities	Fed Bill Maturities	Net Coupons to the Public	Net Bills to the Public
	1	2	3		4 = 1 + 2 - 3	5	6	7	8	9	10 = 6 + 8	11 = 7 + 9
Jan-23	71	568	121		192	0	-49	241	55	5	6	246
Feb-23	314	415	-153		161	0	42	119	60	0	102	119
Mar-23	322	178	-237		85	0	74	11	56	4	130	15
Apr-23	-305	316	138		-167	0	-41	-126	60	0	19	-126
May-23	361	49	-267		94	0	43	51	60	0	103	51
Jun-23	197	402	353		550	0	77	473	48	12	125	485
Jul-23	148	502	100		248	0	-56	304	50	10	-6	314
Aug-23	294	542	40		334	0	30	304	60	0	90	304
Sep-23	169	657	115		284	0	98	186	39	21	137	207
Oct-23	54	832	175		229	0	33	196	52	8	85	204
Nov-23	336	759	-73		263	0	49	214	60	0	109	214
Dec-23	123	769	10		133	0	127	6	46	14	173	20
Jan-24	37	843	74		111	0	7	104	53	7	60	111
Feb-24	243	750	-93	-43	193	0	80	113	60	0	140	113
Mar-24	285	750	0	-43	328	0	157	171	45	15	201	187
Apr-24	-295	960	210	-25	-60	0	81	-141	45	0	126	-141
May-24	184	800	-160	-25	49	10	133	-84	30	0	163	-84
Jun-24	41	750	-50	-25	16	10	187	-171	15	0	202	-171
Jul-24	303	750	0		303	10	83	220	15	0	98	220
Aug-24	293	750	0		293	10	140	153	0	0	140	153
Sep-24	51	750	0		51	10	196	-145	0	0	196	-145
Oct-24	88	700	-50		38	10	100	-62	0	0	100	-62
Nov-24	299	650	-50		249	10	143	106	0	0	143	106
Dec-24	119	550	-100		19	10	202	-183	0	0	202	-183

Source: BofA Global Research, US Treasury, Federal Reserve. Gray indicates realized values; \*Implied based on UST financing estimate of other sources less SOMA redemptions.

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**Exhibit 6: Bills as a % of marketable debt**

Given our expectations for deficit and QT taper starting in Apr '24, bills as a share of marketable debt should increase through FY '26

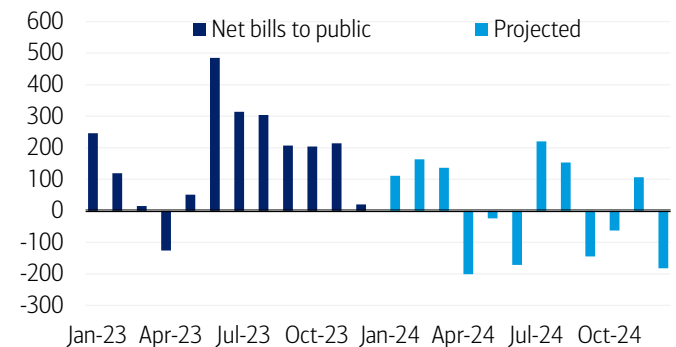


Source: BofA Global Research, US Treasury

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**Exhibit 7: Monthly net bill issuance and projections (\$bn)**

We forecast \$411b in bill issuance in Q1 '24, -\$396bn in Q2 '24

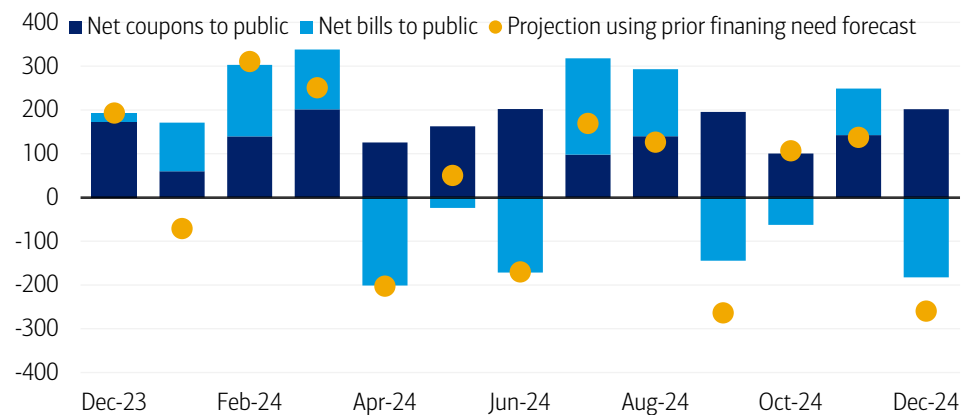


Source: BofA Global Research, US Treasury

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**Exhibit 8: Monthly change in coups, bills, marketable debt to public (\$bn)**

Expect negative bill supply in Q2 after strong issuance in Q1

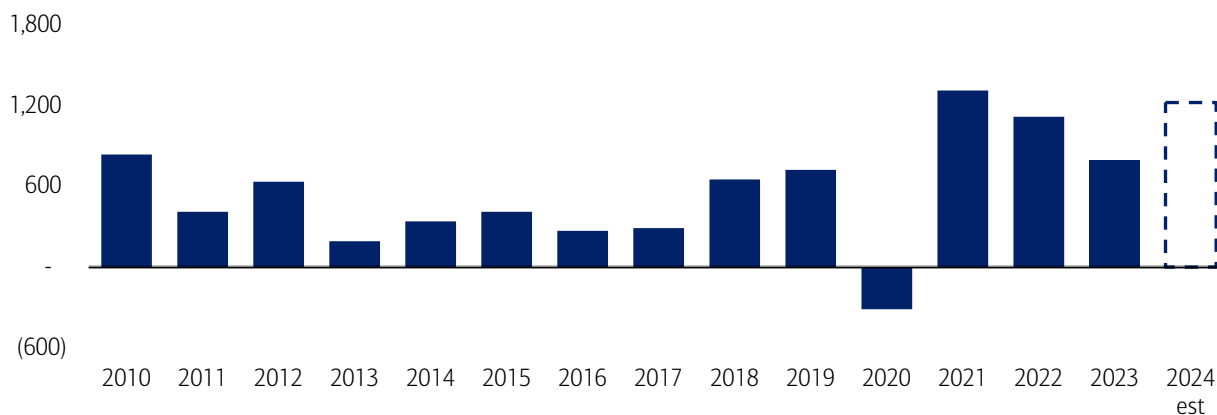


Source: BofA Global Research, US Treasury

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**Exhibit 9: Net coupon supply ex Fed purchases and including Fed QT impact by FY (\$bn, 10y equivalent)**

Our forecasts suggest elevated supply in 2024

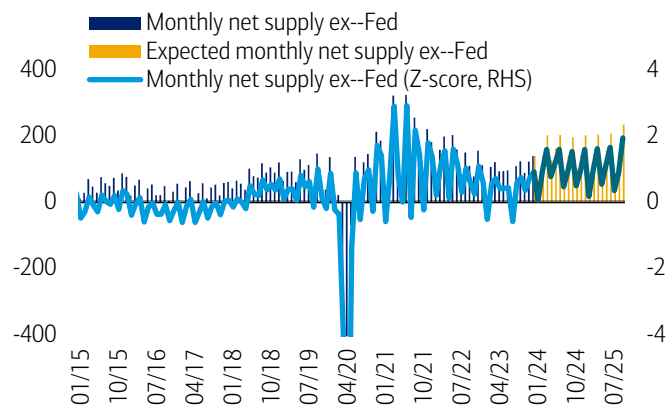


Source: BofA Global Research, US Treasury, Federal Reserve

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**Exhibit 10: Z-score of coupon supply ex-Fed**

Coupon supply ex-Fed expected to be historically elevated

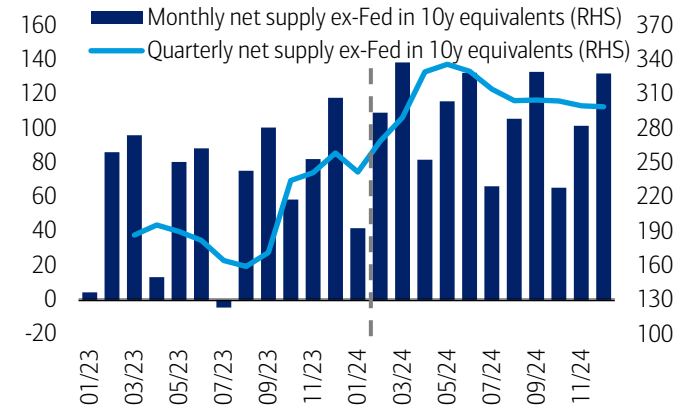


Source: BofA Global Research, US Treasury, Federal Reserve, Note: >1y maturities only Z-score calculated over last 20y

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**Exhibit 11: 10-year equivalent net supply ex Fed (\$bn)**

Supply picks up meaningfully in next quarter



Source: BofA Global Research, US Treasury, Federal Reserve, Note: >1y maturities only

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**Exhibit 12: SOMA reinvestments at UST auctions by tenor based on QT forecast(\$bn)**

Fed reinvestments will be limited until end of QT

	2y FRN	3y	10y	30y	2y	5y	7y	20y	5y II	10y II	30y II
Jan-24	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Feb-24	1.1	4.2	3.0	1.7	2.3	2.3	1.6	0.5	0.0	0.7	0.0
Mar-24	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Apr-24	0.0	5.4	3.7	2.1	2.2	2.2	1.4	0.4	0.0	0.5	0.0
May-24	3.5	15.3	10.3	5.8	8.0	8.1	5.1	1.5	2.7	0.0	0.0
Jun-24	0.0	3.5	2.5	1.5	4.2	4.3	2.7	1.0	0.0	1.0	0.0
Jul-24	0.0	12.2	8.2	4.6	5.6	5.7	3.6	1.1	1.7	0.0	0.0
Aug-24	3.2	18.9	12.7	7.2	7.3	7.4	4.7	1.4	0.0	1.9	0.0
Sep-24	0.0	2.9	2.1	1.3	8.1	8.2	5.2	1.9	0.0	0.0	0.9

Source: BofA Global Research, Federal Reserve

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**Exhibit 13: UST anticipated buyback purchase allocations**

Max amounts per month and quarter based on UST guidance at the August 2023 refunding meeting

	Maturity (year)	Max amount/ quarter	Approx/ month
Cash management & Liquidity	0-2	34	11.3
	2-3	4	1.3
	3-5	4	1.3
	5-7	4	1.3
	7-10	4	1.3
	10-20	4	1.3
Liquidity: nominal coupons	20-30	4	1.3
	0-7.5	1	0.3
Liquidity: TIPS	7.5-30	1	0.3

Source: BofA Global Research, US Treasury

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**Exhibit 14: Bills as % of marketable debt under BofA and median dealer assumption**

Bills as % assume our QT base case

FY	BofA deficit forecast	BofA bills as % of marketable debt	Median dealer deficit forecast (Jan)	Dealer deficit forecast; bills as % of marketable debt
24	1750	21.3%	1780	21.4%
25	1800	20.5%	1820	20.7%
26	1900	21.4%	1800	21.2%

Source: BofA Global Research, US Treasury

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