

# US Rates Watch

## X-date: low confidence vs run dry

### Debt limit still in focus

Client feedback suggests an on-going strong interest in the debt limit & X-date timing. Many have asked for clarification on how we expect Treasury to guide markets going into the X-date. We offer updated timing & thoughts below.

### X-date tracking: no change from last week

Our X-date tracking continues to hold with updated information this week. Tax receipts are still well below 2022 but well above pre-COVID years (Exhibit 1). Specifically, individual tax receipts are 24% below 2022 but running 34% above the 3Y pre-COVID average. This is not surprising to us given shortfall in capital gains receipts vs prior year.

We continue to focus on 2 key X-dates: (1) full exhaustion of cash & extraordinary measures, BofA = Aug 1 with risks of slipping to late July (2) US Treasury loss of confidence to meet all outstanding obligations, BofA = second week of June (June 13).

### BofA X-date = coffer runs dry

Our X-date estimate is taken from the date Treasury fully exhausts its cash & extraordinary measures (Exhibit 2). We arrive at this estimate by using our economist's monthly deficit projections & apply them to the historical monthly variations of Treasury's outlays & receipts. This results in an X-date of Aug 1 with risk to late July.

Our estimate does not factor in the inherent risk that any single day of larger-than-expected outflows could cause the Treasury to breach the debt limit earlier. Treasury must be more careful with their public guidance & must factor this uncertainty.

### Treasury X-date = loss of confidence, not run dry

Treasury's definition of the X-date is different from our X-date. Treasury must estimate the date after which they lack the confidence to guarantee all US government payments can be made on time. This uncertainty must be factored into their public communication.

Treasury has been clear about their X-date definition. Josh Frost, Treasury Assistant Secretary for Financial Markets, said in a December '22 speech: "a useful definition for the 'x-date' is the date after which Treasury no longer possess a high degree of confidence that it can continue to meet all of its obligations..."

We judge that Treasury will likely be insufficiently confident in their ability to meet all obligations by the second week of June. Specifically, we think this date will be June 13 or 14, the day before Q2 corporate tax payments.

Our numbers suggest Treasury will reach a local low point in their cash & extraordinary measures on June 13 of \$71b. For context, the 1 st dev variation in daily Treasury withdrawals is \$82b from '21 to today. Our projection of \$71b on June 13 is therefore likely to be judged by Treasury as too close for comfort. ... *see page 2 for more detail...*

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## Treasury X-date update: re-focus market attention

We suspect Treasury will update the market on its X-date projection in coming days. The quarterly Treasury refunding next week will feature the typical debt manager press briefing. Treasury will likely want to provide more public guidance ahead of this briefing.

We suspect Treasury will either continue to hold its X-date guidance of early June or shift it toward the second week of June. Updated Treasury X-date guidance will shift market focus & likely concentrate the hump in the bill curve around early June maturities. Treasury will caveat their guidance with standard disclaimers of uncertainty.

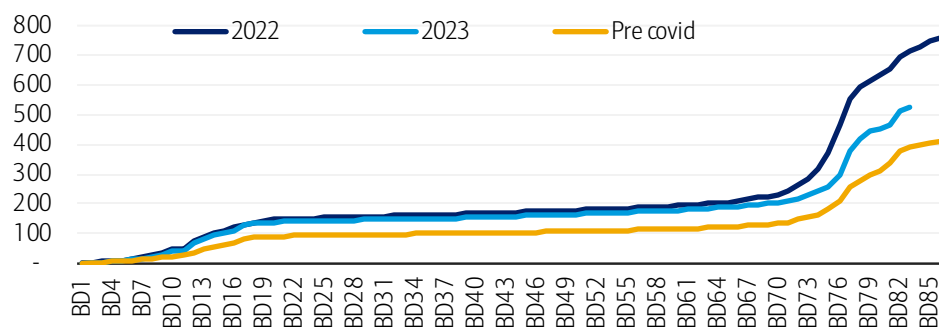
Clients have asked if Treasury Secretary Yellen might expose herself to political criticism by providing too conservative of an X-date estimate. This criticism would rise if limited debt limit political progress & Yellen shifts then the X-date from early June to late July.

We agree Yellen's guidance does carry political risk but it is the lesser of two evils. Yellen can either provide conservative guidance that is extended into the future or over-estimate the time Treasury can meet all obligations & risk an unexpected default. We think Yellen's choice is clear: err on the side of being too conservative.

**Bottom line:** the market should care more about Yellen's more conservative X-date vs any forecaster's projection for when Treasury will fully exhaust all available resources. We see risks Treasury will guide the market to focus on 1H June & potentially the second week of June. This will result in a more concentrated hump in the bill curve & could accelerate market concern around debt limit X-date timing.

### Exhibit 1: Cumulative individual tax receipts in '22, '23 & avg of pre-COVID yrs (\$bn)

'23 is tracking 24% below where we were this time last year but well-above pre-COVID level

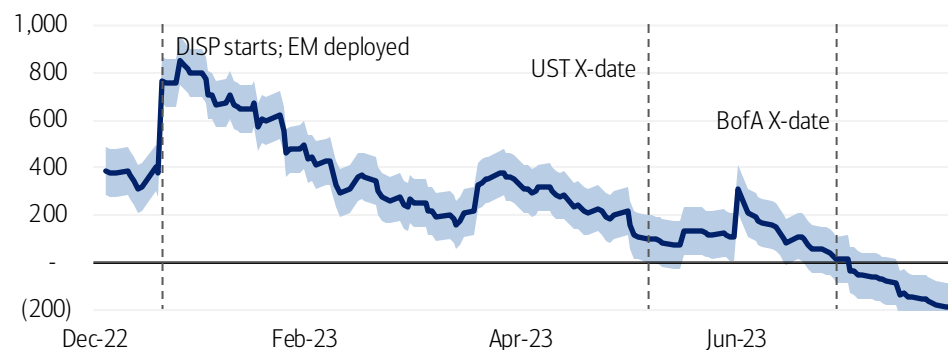


Source: BofA Global Research, Treasury, Haver Analytics

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### Exhibit 2: UST TGA & extraordinary measures projection (\$bn)

UST X-date ~June 5; BofA X-date: August 1



Source: BofA Global Research, Treasury

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