

Pre-Refunding Announcement Gains in U.S. Treasurys*

Chen Wang[†]

Kevin Zhao[‡]

June 29, 2024

Abstract

Each quarter, the Treasury Department unveils its refunding plan, detailing the following quarter's treasury issuances in terms of size and maturity composition. We document substantial positive returns on long-term Treasurys on the day before these Treasury Refunding Announcements (TRAs), a pattern persisting since the 1990s and intensifying over the last two decades amidst growing Federal deficits. These pre-TRA gains are distinct from known end-of-month pricing patterns and account for a sizable fraction of annual yield and term premium changes. Implementing a trading strategy focused solely on these four days per year yields a Sharpe ratio of over 4. We provide evidence of uncertainty reduction and associated information production around TRAs as a potential mechanism. Finally, we discuss implications for some documented bond market patterns and the pre-FOMC drift in the equities market.

*The views stated herein are those of the authors alone and are not necessarily the views of the Office of Financial Research or the U.S. Department of the Treasury. We thank Francisco Ilabaca for helpful comments. All errors are our own. First version: March 18, 2024.

[†]University of Notre Dame. E-mail: chen.wang@nd.edu

[‡]Office of Financial Research. E-mail: kevin.zhao@ofr.treasury.gov