THE BOND BUYER

U.S. keeps quarterly bond sale at high, warns on debt limit

By

Bond Buyer Staff

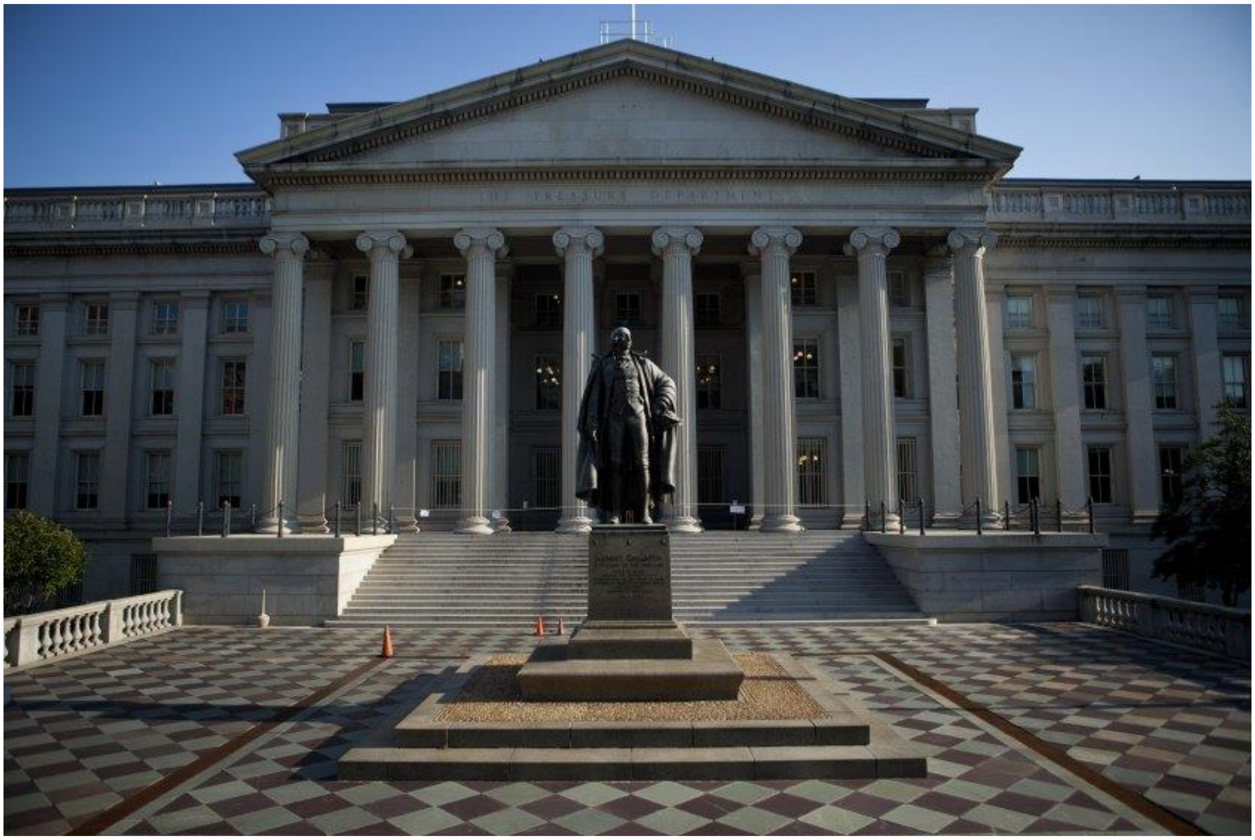
Published

May 05, 2021, 9:57 a.m. EDT

The U.S. Treasury kept its quarterly auction of long-term debt, planned for next week, at a record size to help fund the government's continuing wave of stimulus spending.

It's the first time in more than a year that the so-called quarterly refunding total hasn't risen, suggesting that financing needs have peaked. The department, in a statement Wednesday, offered no major changes in its debt-issuance strategy, and said it will sell $126 billion of long-term securities at auctions next week.

The Treasury highlighted that it may face challenges if Congress fails to suspend or increase the federal debt limit when the current suspension runs out at the end of July. On previous occasions, the Treasury has used various measures to keep making payments on federal debt while lawmakers and the White House wrangled over raising the ceiling. But this year could bring added strains, the department said.



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“In light of the substantial COVID-related uncertainty about receipts and outlays in the coming months, it is very difficult to predict how long extraordinary measures might last,” the Treasury statement said. “Treasury is evaluating a range of potential scenarios, including some in which extraordinary measures could be exhausted much more quickly than in prior debt limit episodes.”

Big decisions on debt issuance loom later this year, with the government’s borrowing needs set to shrink rapidly as COVID-19 stimulus spending ebbs and the economic recovery sets in. Treasury Secretary Janet Yellen and her team will need to decide whether to continue her predecessor’s moves to lengthen the average maturity of Treasuries to take advantage of historically low longer-term rates.

The Treasury Borrowing Advisory Committee, a group of major dealers and investors, said that over a longer horizon, the government should indeed lengthen the average maturity of debt to above its historical range, an accompanying statement showed Wednesday.

Ten-year Treasury yields climbed to their highs of the session after the documents were released, before giving up much of the move. They were at

1.60% as of 9:16 a.m. in New York, little changed on the day. The move also came as the Treasury kept silent on any intention to trim back 20-year bond sales, as some analysts had been on watch for.

Next week’s quarterly-refunding auctions break down as follows: $58 billion of three-year notes on May 11, unchanged from February; $41 billion of 10-year notes on May 12, the same as last quarter; $27 billion of 30-year bonds on May 13, unchanged versus February.

The refunding will raise $78.3 billion in new cash.

While President Joe Biden is calling for $4 trillion in further spending, those plans are spread over several years, with tax hikes lined up to help pay for them. A still-large cash pile and the prior ramping up in auctions means the Treasury doesn’t need to further boost its debt issuance even after the enactment of the $1.9 trillion March pandemic-relief bill.

The majority of Wall Street bond dealers had predicted the Treasury would make no changes to nominal coupon-bearing debt auctions. Several forecast a reduction beginning as early as August. Sales of notes and bonds ranging from seven to 30 years have doubled in size thanks to COVID-19 spending, HSBC Holdings Plc estimates show.

“Even if Congress passes a large-scale infrastructure package which is funded over a five to 10-year horizon, Treasury’s current auction schedule leaves it more than adequately financed in coming years,” Jay Barry, a strategist at JPMorgan Chase & Co. wrote in a note last week. “Treasury should begin making cuts to its auction sizes in relatively short order.”

If coupon-bearing auction sizes aren’t trimmed in coming quarters, it would likely result in the Treasury needing to cut bill sales to a degree that pushes their share of total below the 15% to 20% range the TBAC has previously advised, Barry said. T-bills made up around 22% of marketable Treasuries at the end of March.

The Treasury said Wednesday it “anticipates no changes to nominal coupon and floating-rate note auction sizes over the upcoming May to July 2021 quarter. Treasury plans to address any seasonal or unexpected variations in borrowing needs over the next quarter through changes in regular bill auction sizes and/or cash management bills.”

The Treasury has this year been slowly reducing its use of bill sales, after relying on them heavily at the start of the pandemic to fund relief spending and build up a record stockpile of cash to offer extra flexibility amid the crisis.

Between now and the end of July, the Treasury estimated a reduction in bills outstanding of about $150 billion — approximately one-third of the decline in bill supply that has already occurred since the February 2021 refunding. The department said Wednesday it doesn’t plan any changes to its six-week and 17-week cash management bill sales, at least through the end of July.

There was no new guidance on issuance of 20-year bonds, a security the Treasury resurrected last year. But the department said the Financial Industry Regulatory Authority, which currently publishes aggregate statistics on Treasury securities volumes, detailed last week that it will modify that report in May to provide greater detail on the 20-year securities sector going forward.

Continuing a move it started in January, the Treasury said it will increase sales of Treasury Inflation-Protected Securities over coming months, keeping at the same cadence of lifting sales by $1 billion per auction relative to the most recent, comparable sales.

On Monday, the Treasury more than quadrupled its borrowing estimate for the quarter through June and expects to need some $1.3 trillion over the second half of the fiscal year to help pay for a raft of fresh pandemic-relief spending.

In time, that wave will break. HSBC analysts project the federal budget deficit could slide to about 5% of gross domestic product in 2023, from over 15% of GDP in the 2021 fiscal year, which goes through September.

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