

MNI UST Issuance Deep Dive: July 2021

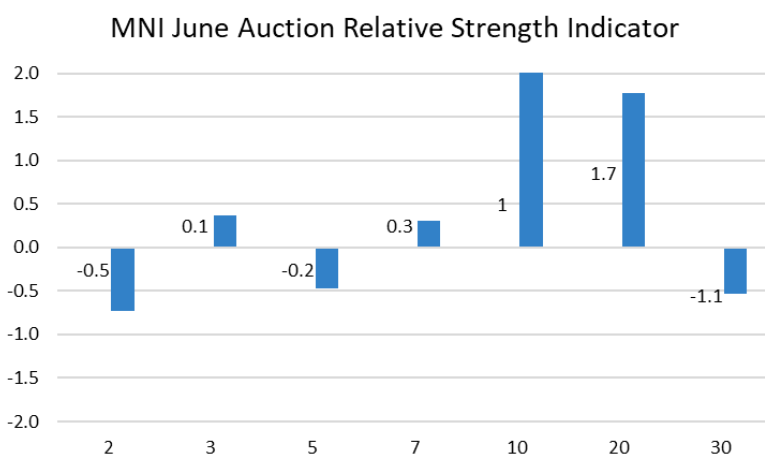
7 July 2021, Bill Sokolis and Tim Davis

Coupon and FRN auction sizes should continue at current record levels through July: \$60B 2Y, \$58B 3Y, \$61B 5Y, \$62B 7Y, \$38B 10Y, \$24B in 20- and 30Y Bonds. Sell-side analysts continue to anticipate a gradual reduction in auction sizes in the latter half of the year. **The next quarterly refunding announcement will take place on Wednesday, August 4, 2021.**

There are expectations that the debt ceiling reinstatement debate will heat up ahead the July 31 suspension expiration.

June auction review: Strong 10- and 20Y auction re-opens outperformed mostly average auctions across the balance of the curve. Short durations (2s, 5s) underperformed in the bull-flattening that kicked off after the June 16 FOMC.

Post-FOMC: Reflation unwinds were a little slow to get underway but inexorable bull curve flattening continued into early July. Bull flattening was largely tied to the FOMC upping dots to pencil in two rate hikes by late 2023. There was some technical buying while shorts were caught wrong-footed, forced to unwind and exacerbating the move. Long end Tsy Bonds clawed higher, 30YY fell to 2.0468% low (mid-Feb level), 10YY around 1.5% after slipping to 1.4702% low -- stable by comparison.



Aside from tight stops getting triggered on the rally in long end, curve steepening unwinds contributed: TD Securities reported that they are taking off a 5s30s steepener as well as 9Y TIPS BE position. TD explained "reflation trades suffered a significant setback after the Fed delivered a hawkish message at the June FOMC — raising the 2023 dots, upgrading the SEP, and sending a message that tapering discussions had begun. This more hawkish message has led to a significant paring of reflation trades, with short covering exacerbating the moves.

TD added the "initial curve steepening was driven by a selloff in the 5y sector as the market pulled forward tapering and hike expectations. However, the flattening has been replaced by short-covering buying, exacerbating the move."

Chronological auction review:

June 8: \$58B 3Y note (91282CCG4) 0.325% vs. 0.326% WI

The 3y auction came and went with little consequence. The auction saw decent enough demand, with 2.47x bid-to-cover in-line with the 5-auction average and the lowest stop in over three months. Direct take-up climbed to 18.28%, indirect surged to 54.17% while dealer take-up slipped to 27.55%, the lowest in over a year.

The next 3Y auction is scheduled for July 12.

June 9: \$38B 10Y-Note R/O (91282CCB5) 1.497% vs. 1.507% WI (strong)

Tsys rallied after a strong 10Y-Note re-open: drawing 1.497% high-yield vs. 1.507% WI at the cut-off.

Bid-to-cover 2.58x highest in over a year and well over 5 month average of 2.43x

Strong direct and indirect take-ups were the highest in over a year: indirect take-up climbed to 65.04% vs. May's 63.38% (61.09% 5M avg); direct bidder take-up surged to 19.23% vs. 17.13% in May and 5M avg of 17.85%. Primary dealer take-up dropped to 15.73% vs. the 5-month average of 21.06%.

The next 10Y auction re-open is scheduled for July 12.

June 10: \$24B 30Y-Bond R/O (912810SX7) 2.172% vs. 2.161% WI (weak)

Tsys receded after the weak 30Y-Bond re-open tailed, but finished the session strong.

Bid-to-cover 2.29x was in-line with the 5 month average

Indirect take-up climbed to 65.04% was the highest since January's 65.64% (61.09% 5M avg); direct bidder take-up declined to 17.99% vs. 20.06% in May and 5M avg of 19.52%; primary dealer take-up dropped to 17.98% vs. the 5-month average of 19.31%.

The next 30Y-Bond auction re-open is scheduled for July 13.

June 15 \$24B 20Y-Bond R/O (912810SY5) 2.120% vs. 2.137% WI (strong)

Tsys futures pared losses/bounced after strong \$24B 20Y auction re-open: drawing a high yield of 2.120% (2.286% last month) vs. 2.137% WI. Bid-to-cover 2.40x vs. 2.24x in May. Traders had been cautious going into the 20Y auction in light of past performances and effect on broader markets over the last few months.

The highest since October 2020, indirect take-up climbed to 62.07% vs. 56.72% in May.

Lowest in over a year, primary dealer take-up fell to 17.53% vs. 23.75.51% prior. Direct take-up 20.40% vs. 19.51% prior

Recall that:

Tsys futures trade lower after weak \$27B 20Y auction on May 19: drew a high yield of 2.286% vs. 2.275% WI.

Tsys traded higher after a decent \$24B 20Y auction reopening on April 16 drew a high yield of 2.144% vs. 2.150% WI.

Tsys surged higher in a relief rally after the March 16 auction reopening traded strong: drawing a high yield 2.290% vs. 2.315% WI.

Tsys gapped lower after the \$27B 20Y auction on Feb 17 drew a huge 2.3bp tail: drawing 1.920% high yield vs. 1.897% WI.

June 16 FOMC -- 5s30s yield curve (curves in general) bull flattened

June 17 \$16B 5Y-TIPS R/O (91282CCA7) -1.416% vs. -1.417% WI

June 22 \$60B 2Y Note (91282CCK5) 0.249% vs. 0.244% WI

Tsys held narrow range after the 2Y note auction tailed, finishing near the top end of the session range.

Bid-to-cover 2.54x was slightly better than the 5 month average of 2.52x.

Indirect take-up receded to 50.63% from 57.06% in May (51.85% 5M avg); direct bidder take-up of 18.49% continues to outperform 5M avg of 16.92%; primary dealer take-up dropped to 30.88% vs. the 5-month average of 31.23%.

The next 2Y-Note auction is scheduled for July 26.

June 23 \$26 2Y-Note FRN R/O (91282CBY6) 0.030%

June 23 \$61B 5Y Note (91282CCJ8) 0.904% vs. 0.902% WI

Small tail for 5Y Note Auction, Tsys Hold Lower Range; The \$61B 5Y note (91282CCJ8) auction tails slightly: 0.2bp: high yield of 0.904% vs. 0.902% WI.

Bid-to-cover 2.36x just over 5 month average of 2.35x.

Indirects take-up declines to 57.62% vs. last month's 64.35% (prior high of 66.22% in August 2020); direct bidder take-up surged to 18.09% vs. 14.87% last month and 5M avg of 15.48%; primary dealer take-up: 24.29% just shy of the 5-month average of 24.88%.

The next 5Y auction is tentatively scheduled for July 27.

June 24 \$62B 7YNote (91282CCH2) 1.264% vs. 1.267% WI

Decent 7Y Auction: The \$62B 7Y note (91282CCH2) auction traded through with high yield of 1.264% vs. 1.267% WI. Little reaction from Tsys that held just off session highs.

Bid-to-cover: 2.36x vs. 2.26x 5 month avg,

Indirect take-up of 59.97% well over the 5 month average of 55.19% but well shy of Jan's 64.09%. Primary dealer take-up 18.69% well below 25.23% 5 month avg (compares to February's >1Y high of 39.80%.) Direct take-up climbs to 21.34 vs. 19.53% 5M avg.

The next 7Y auction is tentatively scheduled for July 29.

Links:

[Treasury Presentation to TBAC](#)

[Prior Quarterly Refunding Statement](#)

Definitions

Auction participants

Direct bidders are individuals or organizations that purchase Treasuries during an auction for themselves or their house account. Indirect bidders place competitive bids at Treasury auctions through primary dealers and can include foreign central banks and domestic money managers. Primary Dealers round out auction participants. In general, a high primary dealer take-up indicates a weaker auction as primary dealers have effectively had to backstop the auction.

Auction performance:

Auction performance is deemed average when the auction high yield meets or closely approximates the When-Issue (WI) rate going into the auction. Weak auctions have a high yield greater than the WI rate, strong auctions a high yield lower than the WI rate.

NY Fed explains "secondary market transactions in outstanding Treasury securities typically settle on the business day after the trade date, when sellers deliver securities to buyers and receive payment. When-issued transactions, by contrast, settle on the issue date of the new security (which can be as much as a week or more after a trade is negotiated) because the security is not available for delivery at any earlier date."

US Issuance Profile

2021 Issuance: Nominal (ex SOMA reinvestments)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
Conventional	2-Year Note	60	60	60	60	60	60	-	-	-	-	-	360
	3-Year Note	58	58	58	58	58	58	-	-	-	-	-	348
	5-Year Note	61	61	61	61	61	61	-	-	-	-	-	366
	10-Year Note	38	41	38	38	41	38	-	-	-	-	-	234
	20-Year Bond	24	27	24	24	27	24	-	-	-	-	-	150
	30-Year Bond	24	27	24	24	27	24	-	-	-	-	-	150
	Total coupon	265	274	265	265	274	265	-	-	-	-	-	-
Linker	5-Year TIPS	-	-	-	18	-	16	-	-	-	-	-	34
	10-Year TIPS	15	-	13	-	13	-	-	-	-	-	-	41
	30-Year TIPS	-	9	-	-	-	-	-	-	-	-	-	9
	Total linker	15	9	13	18	13	16	-	-	-	-	-	84
Floating Rate Notes	28	26	26	28	26	26	-	-	-	-	-	-	160
Total	308	309	304	311	313	307	-	-	-	-	-	-	1852

2020 Issuance: Nominal (ex SOMA reinvestments)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total	
Conventional	2-Year Note	40	40	40	42	44	46	48	50	52	54	56	58	570
	3-Year Note	38	38	38	40	42	44	46	48	50	52	54	56	546
	5-Year Note	41	41	41	43	45	47	49	51	53	55	57	59	582
	10-Year Note	24	27	24	25	32	29	29	38	35	35	41	38	377
	20-Year Bond	-	-	-	-	20	17	17	25	22	22	27	24	174
	30-Year Bond	16	19	16	17	22	19	19	26	23	23	27	24	251
	Total coupon	159	165	159	167	205	202	208	238	235	241	262	259	2500
Linker	5-Year TIPS	-	-	-	17	-	15	0	-	17	-	15	64	
	10-Year TIPS	14	-	12	-	12	-	14	-	12	-	12	76	
	30-Year TIPS	-	8	-	-	-	-	-	7	-	-	-	15	
	Total linker	14	8	12	17	12	15	14	7	12	17	12	15	155
Floating Rate Notes	20	18	18	22	20	20	24	22	22	26	24	24	260	
Total	193	191	189	206	237	237	246	267	269	284	298	298	2915	

2019 Issuance: Nominal (ex SOMA reinvestments)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total	
Conventional	2-Year Note	40	40	-	-	40	40	40	40	40	40	40	400	
	3-Year Note	38	38	38	38	38	38	38	38	38	-	38	418	
	5-Year Note	41	41	-	41	-	41	41	41	41	41	41	410	
	10-Year Note	24	27	24	24	27	24	24	27	24	24	65	338	
	20-Year Bond	-	-	-	-	-	-	-	-	-	-	-	-	
	30-Year Bond	16	19	16	16	19	16	16	19	16	16	19	16	204
	Total coupon	159	165	78	119	124	159	159	165	159	159	165	159	1770
Linker	5-Year TIPS	-	-	-	17	-	15	-	-	17	-	15	64	
	10-Year TIPS	13	-	11	-	11	-	14	-	12	-	12	73	
	30-Year TIPS	-	8	-	-	-	-	-	7	-	-	-	15	
	Total linker	13	8	11	17	11	15	14	7	12	17	12	15	152
Floating Rate Notes	20	18	18	20	18	18	20	18	18	20	18	18	224	
Total	192	191	107	156	153	192	193	190	189	196	195	192	2146	

UST January to September 2021 Calendar



Supply (\$ bln)

Date	Issue	CUSIP	Amount	High Yield	When Issued Yield	Trade through (Tail)	Bid-to-cover	Primary Dealer	Indirect	Direct
Jan-11	3-Year Note	91282CBE0	58	0%	0.230%	(0.4)	2.52	33.2%	52.2%	14.6%
Jan-12	10-Year Note	91282CAV3	38	1%	1.172%	0.8	2.47	20.0%	62.2%	17.8%
Jan-13	30-Year Bond	912810SS8	24	2%	1.832%	0.7	2.47	14.2%	68.6%	17.2%
Jan-20	20-Year Bond	912810ST6	24	2%	1.645%	(1.2)	2.28	25.7%	59.7%	14.5%
Jan-21	10-Year TIPS	91282CBF7	15	-1%			2.68	17.7%	62.8%	19.5%
Jan-25	2-Year Note	91282CBG5	60	0%	0.127%	0.2	2.67	27.7%	56.6%	15.6%
Jan-26	5-Year Note	91282CBH3	61	0%	0.425%	0.1	2.34	25.4%	60.5%	14.1%
Jan-27	2-Year FRN	91282CBK6	28	0%			2.82	46.8%	52.1%	1.1%
Jan-28	7-Year Note	91282CBJ9	62	1%	0.757%	0.3	2.30	19.6%	64.1%	16.3%
Feb-09	3-Year Note	91282CBM2	58	0%	0.196%	0.0	2.39	31.2%	52.7%	16.0%
Feb-10	10-Year Note	91282CBL4	41	1%	1.156%	0.1	2.37	20.5%	60.6%	18.9%
Feb-11	30-Year Bond	912810SU3	27	2%	1.924%	(0.9)	2.18	22.2%	60.5%	17.3%
Feb-17	20-Year Bond	912810SW9	27	2%	1.897%	(2.3)	2.15	29.1%	54.9%	16.0%
Feb-18	30-Year TIPS	912810SV1	9	-0.040%			2.31	17.2%	68.1%	14.6%
Feb-23	2-Year Note	91282CBN0	60	0.119%	0.118%	(0.1)	2.44	30.7%	57.3%	12.0%
Feb-24	5-Year Note	91282CBQ3	61	0.621%	0.615%	(0.6)	2.24	28.6%	57.1%	14.4%
Feb-24	2-Year FRN	91282CBK6	26				2.88	39.3%	59.7%	1.1%
Feb-25	7-Year Note	91282CBP5	62	1.195%	1.155%	(4.0)	2.04	39.8%	38.1%	22.1%
Mar-09	3-Year Note	91282CBR1	58	0.355%	0.357%	0.2	2.69	34.0%	47.8%	18.2%
Mar-10	10-Year Note	91282CBL4	38	1.523%	1.520%	(0.3)	2.38	25.4%	56.8%	17.8%
Mar-11	30-Year Bond	912810SU3	24	2.295%	2.296%	0.1	2.28	19.2%	60.6%	20.2%
Mar-16	20-Year Bond	912810SW9	24	2.290%	2.315%	2.5	2.51	21.6%	61.4%	17.0%
Mar-18	10-Year TIPS	91282CBF7	13	-0.580%			2.42	10.8%	74.0%	15.2%
Mar-23	2-Year Note	91282CBU4	60	0.152%	0.152%	0.0	2.54	31.7%	50.7%	17.6%
Mar-24	5-Year Note	91282CBT7	61	0.850%	0.847%	(0.3)	2.36	25.3%	58.1%	16.6%
Mar-24	2-Year FRN	91282CBK6	26				3.25	32.1%	66.0%	1.9%
Mar-25	7-Year Note	91282CBS9	62	1.300%	1.277%	(2.3)	2.23	24.7%	57.3%	18.0%
Apr-12	3-Year Note	91282CBV2	58	0.376%	0.377%	0.1	2.32	33.1%	51.1%	15.8%
Apr-12	10-Year Note	91282CBL4	38	1.680%	1.677%	(0.3)	2.36	24.2%	59.6%	16.2%
Apr-13	30-Year Bond	912810SU3	24	2.320%	2.335%	1.5	2.47	17.1%	61.0%	21.9%
Apr-21	20-Year Bond	912810SW9	24		2.150%	0.6	2.42	21.1%	58.7%	20.2%
Apr-22	5-Year TIPS	91282CCA7	18	-1.631%			2.50	13.1%	69.0%	17.9%
Apr-26	2-Year Note	91282CBX8	60	0.175%	0.170%	(0.5)	2.34	37.9%	43.6%	18.5%
Apr-26	5-Year Note	91282CBW0	61	0.849%	0.850%	0.1	2.31	24.6%	57.9%	17.5%
Apr-27	2-Year FRN	91282CBY6	28	0.000%			2.91	36.7%	59.7%	3.6%
Apr-27	7-Year Note	91282CBZ3	62		1.305%	(0.1)	2.31	22.3%	57.1%	20.6%
May-11	3-Year Note	91282CCC3	58		0.330%	0.1	2.42	32.3%	49.6%	18.1%
May-12	10-Year Note	91282CCB5	41		1.682%	(0.2)	2.45	19.5%	63.4%	17.1%
May-13	30-Year Bond	912810SX7	27		2.377%	(1.8)	2.22	20.1%	59.9%	20.1%
May-19	20-Year Bond	912810SY5	27		2.275%	(1.1)	2.24	23.8%	56.7%	19.5%
May-20	10-Year TIPS	91282CBF7	13		-0.819%	(1.4)	2.50	15.5%	68.6%	15.9%
May-25	2-Year Note	91282CCD1	60		0.160%	0.8	2.74	24.9%	57.1%	18.0%
May-26	5-Year Note	91282CCF6	61		0.795%	0.7	2.49	20.8%	64.4%	14.9%
May-26	2-Year FRN	91282CBY6	26				3.03	39.5%	59.2%	1.3%
May-27	7-Year Note	91282CCE9	62		1.292%	0.7	2.41	19.7%	59.6%	20.7%
Jun-08	3-Year Note	91282CCG4	58		0.326%	0.1	2.47	27.6%	54.2%	18.3%
Jun-09	10-Year Note	91282CCB5	38		1.507%	1.0	2.58	15.7%	65.0%	19.2%
Jun-10	30-Year Bond	912810SX7	24		2.161%	(1.1)	2.29	18.0%	64.0%	18.0%
Jun-15	20-Year Bond	912810SY5	24		2.137%	1.7	2.40	17.5%	62.1%	20.4%
Jun-17	5-Year TIPS	91282CCA7	16		-1.417%	(0.1)	2.67	4.7%	87.3%	7.9%
Jun-22	2-Year Note	91282CCK5	60		0.244%	(0.5)	2.54	30.9%	50.6%	18.5%
Jun-23	5-Year Note	91282CCJ8	61		0.902%	(0.2)	2.36	24.3%	57.6%	18.1%
Jun-23	2-Year FRN	91282CBY6	26				3.23	31.8%	66.3%	1.9%
Jun-24	7-Year Note	91282CCH2	62		1.267%	0.3	2.36	18.7%	60.0%	21.3%
Jul-12	3Y-Note	Jul-08	TBA							
Jul-12	10Y-Note R/O	Jul-08	TBA							
Jul-13	30Y-Bond R/O	Jul-08	TBA							
Jul-21	20Y-Bond R/O	Jul-15	TBA							
Jul-22	10Y-TIPS	Jul-15	TBA							
Jul-26	2Y-Note	Jul-22	TBA							
Jul-27	5Y-Note	Jul-22	TBA							
Jul-28	2Y Note FRN	Jul-22	TBA							
Jul-29	7Y-Note	Jul-27	TBA							
Aug-10	3Y-Note	Aug-04	TBA							
Aug-11	10Y-Note	Aug-04	TBA							
Aug-12	30Y-Bond	Aug-04	TBA							
Aug-18	20Y-Bond	Jul-12	TBA							
Aug-19	30Y-TIPS R/O	Aug-12	TBA							
Aug-24	2Y-Note	Aug-19	TBA							
Aug-25	5Y-Note	Aug-19	TBA							
Aug-25	2Y Note FRN R/O	Aug-19	TBA							
Aug-26	7Y-Note	Aug-24	TBA							
Sep-07	3Y-Note	Sep-02	TBA							
Sep-08	10Y-Note R/O	Sep-02	TBA							
Sep-09	30Y-Bond R/O	Sep-07	TBA							
Sep-21	20Y-Bond R/O	Sep-16	TBA							
Sep-22	2Y-Note FRN	Sep-16	TBA							
Sep-23	10Y-TIPS R/O	Sep-16	TBA							
Sep-27	2Y-Note	Sep-23	TBA							
Sep-27	5Y-Note	Sep-23	TBA							
Sep-28	7Y-Note	Sep-23	TBA							