

UST Issuance Deep Dive: May 2021

30 April 2021, Bill Sokolis and Tim Davis

Outlook: The next quarterly refunding announcement U.S. Treasury will take place at 0830ET on Wednesday, May 5, 2021.

Coupon and FRN auction sizes for the May-21 to July-21 quarter are widely expected to hold at current record levels outlined in the adjacent table amid some uncertainty over large-scale infrastructure spending and whether the debt ceiling that was suspended until July 31 via the Bipartisan Budget Act of 2019 will be reinstated.

That said, analysts anticipate a gradual reduction in auction sizes in the latter half of the year.

Auction schedule for the last two quarters (\$bln)

	2Y	3Y	5Y	7Y	10Y	20Y	30Y	FRN
Nov-20	56	54	57	56	41	27	27	24
Dec-20	58	56	59	59	38	24	24	24
Jan-21	60	58	61	62	38	24	24	28
Feb-21	60	58	61	62	41	27	27	26
Mar-21	60	58	61	62	38	24	24	26
Apr-21	60	58	61	62	38	24	24	28

MNI expected auction schedule for the next quarter (\$bln)

	2Y	3Y	5Y	7Y	10Y	20Y	30Y	FRN
May-21	60	58	61	62	41	27	27	26
Jun-21	60	58	61	62	38	24	24	26
Jul-21	60	58	61	62	38	24	24	28

Citing estimated deficit declines through 2022, JP Morgan analysts said the "Treasury's current auction calendar leaves it over-financed for the coming years, with the excess borrowing capacity growing in FY23 and beyond. Given the sheer size of gaps that emerge next year and beyond, it would suggest Treasury should begin making cuts to its auction sizes in relatively short order. Absent a reduction to coupon-bearing auction sizes, this would naturally result in significantly negative T-bill issuance, and the T-bill share of marketable debt would fall below the 15-20% share that TBAC recommended late last year."

TD Securities analysts address the debt ceiling and the current Treasury General Account holdings.

"While Treasury will be able to continue paying the bills even when the debt ceiling is reinstated, the cash balance will need to decline to just \$134bn by July 31 — well below the \$600-700bn precautionary cash balance we expect Treasury to maintain going forward. This is a stipulation of the debt ceiling suspension rules, which prevents Treasury from building up their cash reserves ahead of the suspension and effectively rendering the ceiling moot. While this provision was a nuisance in the pre-COVID era, the recent build-up in Treasury's cash balance to a record \$1.8tn has greatly exacerbated the problem. Treasury has already decreased the cash balance from \$1.7tn in February to just \$982bn today, creating a shortfall in frontend assets. Treasury will need to decrease the cash balance by a further \$848bn in the next three months, likely making the crunch even worse."

An estimated \$58B in 3Y notes is expected to be auctioned on Tuesday, May 11, \$41B 10Y notes on Wednesday May 12 and \$27B in 30Y Bonds on Thursday, May 13.

April Treasury Auction Review

April's Treasury coupon auctions were doubled up early in the month due to the proximity between the auction date and settlement (April 15 for the 3Y, 10Y and 30Y Bond), while keeping the smallest WI period. The 3- and 10Y notes were paired up with 13- and 26W Bills on Monday April 12, the 30Y Bond on Tuesday April 13.

3Y and 10Y auctions broadly in line with expectations

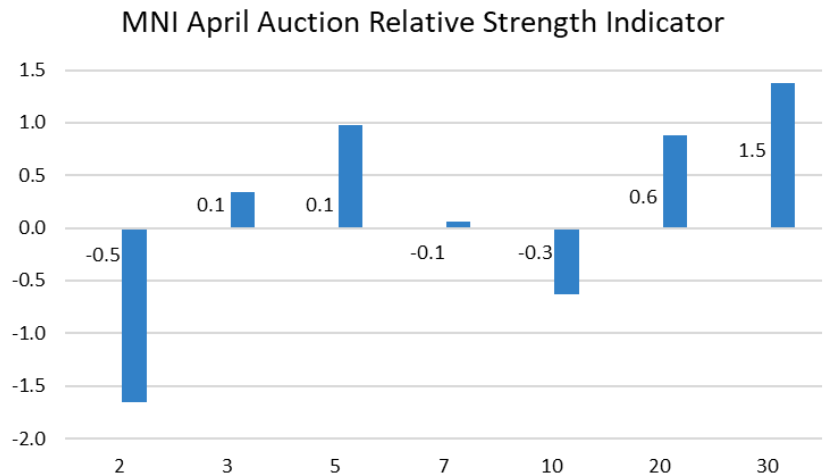
Markets absorbed \$58B 3Y notes and \$38B 10Y note reopen, 3s on the screws while 10s tailed slightly (0.3bp). According to our Auction Relative Strength Indicator, the 3Y auction was marginally stronger than it had been in prior months while the 10Y auction was marginally weaker – neither enough to draw much ensuing market reaction.

The 3Y 2.69x bid-to-cover was flat to the previous auction. Dealers drew roughly the same amount as last time at 33.13% vs. 33.99% prior. However, indirects increased their take-up to 51.10% vs. 47.76% prior, displacing directs (15.77% vs.

18.25% prior). The 10Y re-open bid-to-cover was also flat: 2.37x. Indirects drew 59.60% vs. 56.81%, directs 16.22% vs. 17.87%, and dealers with 24.18% vs. 25.42% prior.

30Y auction strongest of the month

Bonds surged after a strong 30Y auction Re-Open (912810SU3): 30Y R/O drew high yield of 2.320%. The stop through of 1.5bp was well above five auction average of only 0.1bp, topping last December's 1.2bp stop. Bid-to-cover 2.47x well above 2.34x five auction average. According to the MNI Auction Relative Strength indicator, the 30Y auction was the strongest of the month.



20Y auction decent followed up by 5y TIPS

No special accommodations were needed for the mid-April 20Y Bond re-open and 5Y TIPS auctions that went off at their normal times.

Bonds had pared gains following the decent \$24B 20Y Bond auction re-open (912810SW9): 2.144% high yield (2.290% last month) vs. 2.150% WI. Primary dealer take-up of 21.09% was the lowest since 20Y Bonds were re-launched in May 2020 (5 month average of 25.18%). Direct take-up surged to 20.18% -- also the highest since the re-launch. Indirect take-up was 58.73% vs. March of 61.4%.

There was no noticeable market reaction to the \$18B 5Y-TIPS (91282CCA7) auction that came in on the screws at -1.631% vs. -1.630% WI.

Mixed results for 2Y and 5y Note auctions

Month-end auctions were doubled up yet again, this time to avoid interfering with the April 28 FOMC policy announcement. The 2- and 5Y notes were paired up with 13- and 26W Bills on Monday April 26, while the 2Y FRN and 7Y Notes were auctioned Tuesday April 27.

The \$60B 2Y note (91282CBX8) auction was weak, tailing with high yield of 0.175% vs. 0.170%, matching last December's 0.5bp tail. Bid-to-cover was the lowest since June 2020 at 2.34x vs. 2.56x 5 month average. Indirect take-up lowest in over a year at 43.56% vs. 50.52% in March; direct bidder take-up over 1Y high at 18.50%, primary dealer take-up of 37.93% well over 5-month average of 32.23%.

The weakness of the auction did raise an eyebrow but saw little market reaction as it was largely dismissed given the condensed month-end supply schedule with the market also preoccupied with anticipation of the FOMC meeting. The following 5Y auction was stronger, by comparison.

The \$61B 5Y note (91282CBW0) auction came in near on-the-screws with high yield of 0.849% vs. 0.850% WI. Bid-to-cover was largely in line with the 5-month average (despite being the lowest since July 2020) at 2.31x vs. 2.34x 5-month average. Primary dealer take-up of 24.96% was well below 5-month average of 26.66%. Indirect take-up was little better than the 5 month average of 57.81% at 57.93% (58.03% in March); direct bidder take-up at 17.51%.

FRN auction saw little reaction while the 7Y auction was strong

There was little market reaction to the early session \$28B 2Y-Note FRN (91282CCA7) auction that drew 0.034% high yield. Tuesday's \$62B 7Y Tsy-note auction (91282CBZ3) drew 1.306% high yld vs. 1.305% WI. 30YY currently 1.2743% highs -- back near last week Wednesday's highs. Trade volumes were rather sedate, however, as participants migrated to the sidelines ahead of Wednesday's FOMC policy announcement.

The 7Y bid-to-cover of 2.31x was well over the 2.25x 5 month average and highest since December 2020. Indirect take-up near the 5 month average of 57.02%, at 57.07%. Primary dealer take-up 22.33% well below the 25.26% 5 month avg (compares to February's high of 39.80%.) Direct take-up picks up to 20.60 vs. 17.99% last month after surging to 22.13% in February.

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	-	-	-	-	-	-	-	240
	3-Year Note	58	58	58	58	-	-	-	-	-	-	-	232
	5-Year Note	61	61	61	61	-	-	-	-	-	-	-	244
	10-Year Note	38	41	38	38	-	-	-	-	-	-	-	155
	20-Year Bond	24	27	24	24	-	-	-	-	-	-	-	99
	30-Year Bond	24	27	24	24	-	-	-	-	-	-	-	99
Total coupon	265	274	265	265	-	-	-	-	-	-	-	-	1069
Linker	5-Year TIPS	-	-	-	18	-	-	-	-	-	-	-	18
	10-Year TIPS	15	-	13	-	-	-	-	-	-	-	-	28
	30-Year TIPS	-	9	-	-	-	-	-	-	-	-	-	9
Total linker	15	9	13	18	-	-	-	-	-	-	-	-	55
Floating Rate Notes	28	26	26	28	-	-	-	-	-	-	-	-	108
Total	308	309	304	311	-	-	-	-	-	-	-	-	1232

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	

UST November 2020 to July 2021 Calendar



Supply (\$ bln)										
Date	Issue	CUSIP	Amount	High Yield	When Issued Yield	Trade through (Tail)	Bid-to-cover	Primary Dealer	Indirect	Direct
Nov-09	3-Year Note	91282CAW1	54	0.250%	0.252%	0.2	2.40	46.7%	38.8%	14.2%
Nov-10	10-Year Note	91282CAV3	41	0.960%	0.962%	0.2	2.32	32.0%	54.8%	13.1%
Nov-12	30-Year Bond	91281OSS8	27	1.680%	1.672%	(0.8)	2.29	21.5%	61.9%	16.5%
Nov-18	20-Year Bond	91281OST6	27	1.422%	1.413%	(0.9)	2.27	23.5%	61.2%	15.3%
Nov-19	10-Year TIPS	91282ZZ6	12	-0.867%			2.71	14.1%	69.3%	16.5%
Nov-23	2-Year Note	91282CAX9	56	0.165%	0.167%	0.2	2.71	38.2%	45.9%	15.7%
Nov-23	5-Year Note	91282CAZ4	57	0.397%	0.390%	(0.7)	2.38	29.2%	56.4%	14.3%
Nov-24	7-Year Note	91282CAY7	56	0.653%	0.657%	0.4	2.37	19.5%	65.4%	15.1%
Nov-24	2-Year FRN	91282CAS0	24				2.90	47.0%	47.5%	5.4%
Dec-08	3-Year Note	91282CBA8	56	0.211%	0.208%	(0.3)	2.28	34.8%	49.2%	15.9%
Dec-09	10-Year Note	91282CAV3	38	0.951%	0.947%	(0.4)	2.33	23.0%	62.3%	14.7%
Dec-10	30-Year Bond	91281OSS8	24	1.665%	1.677%	1.2	2.48	17.4%	65.9%	16.8%
Dec-21	20-Year Bond	91281OST6	24	1.470%	1.478%	0.8	2.39	26.0%	56.3%	17.7%
Dec-22	5-Year TIPS	91282CAQ4	15	-1.575%			2.86	27.1%	64.1%	8.7%
Dec-23	2-Year FRN	91282CAS0	24				2.83	49.1%	48.9%	2.0%
Dec-28	2-Year Note	91282CBD2	58	0.137%	0.132%	(0.5)	2.45	33.2%	49.1%	17.5%
Dec-28	5-Year Note	91282CBC4	59	0.394%	0.391%	(0.3)	2.39	24.9%	57.1%	18.0%
Dec-29	7-Year Note	91282CBB6	59	0.662%	0.660%	(0.2)	2.31	22.7%	60.3%	17.0%
Jan-11	3-Year Note	91282CBE0	58	0%	0.230%	(0.4)	2.52	33.2%	52.1%	14.5%
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	91281OSS8	24	2%	1.832%	0.7	2.47	14.2%	68.6%	17.2%
Jan-20	20-Year Bond	91281OST6	24	2%	1.645%	(1.2)	2.28	25.7%	59.7%	14.5%
Jan-21	10-Year TIPS	91282CBF7	15	-1%			2.68	17.6%	62.6%	19.5%
Jan-25	2-Year Note	91282CBG5	60	0%	0.127%	0.2	2.67	27.6%	56.4%	15.6%
Jan-26	5-Year Note	91282CBH3	61	0%	0.425%	0.1	2.34	25.3%	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	31.1%	52.6%	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	91281OSU3	27	2%	1.924%	(0.9)	2.18	22.2%	60.4%	17.3%
Feb-17	20-Year Bond	91281OSW9	27	2%	1.897%	(2.3)	2.15	29.1%	54.9%	16.0%
Feb-18	30-Year TIPS	91281OSV1	9	-0.040%			2.31	17.2%	68.0%	14.6%
Feb-23	2-Year Note	91282CBN0	60	0.119%	0.118%	(0.1)	2.44	30.5%	57.0%	11.9%
Feb-24	5-Year Note	91282CBQ3	61	0.621%	0.615%	(0.6)	2.24	28.6%	57.0%	14.4%
Feb-24	2-Year FRN	91282CBK6	26				2.88	39.2%	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	33.9%	47.7%	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	91281OSU3	24	2.295%	2.296%	0.1	2.28	19.2%	60.5%	20.2%
Mar-16	20-Year Bond	91281OSW9	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	10.7%	73.9%	15.2%
Mar-23	2-Year Note	91282CBL4	60	0.152%	0.152%	0.0	2.54	31.6%	50.5%	17.5%
Mar-24	5-Year Note	91282CBT7	61	0.850%	0.847%	(0.3)	2.36	25.3%	58.0%	16.6%
Mar-24	2-Year FRN	91282CBK6	26				3.25	32.0%	66.0%	1.9%
Mar-25	7-Year Note	91282CBS9	62	1.300%	1.277%	(2.3)	2.23	24.7%	57.2%	18.0%
Apr-12	3-Year Note	91282CBV2	58	0.376%	0.377%	0.1	2.32	33.0%	50.9%	15.7%
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	91281OSU3	24	2.320%	2.335%	1.5	2.47	17.1%	60.9%	21.9%
Apr-21	20-Year Bond	91281OSW9	24		2.150%	0.6	2.42	21.1%	58.7%	20.2%
Apr-22	5-Year TIPS	91282CCA7	18	-1.631%			2.50	13.0%	68.6%	17.9%
Apr-26	2-Year Note	91282CBX8	60	0.175%	0.170%	(0.5)	2.34	37.7%	43.4%	18.4%
Apr-26	5-Year Note	91282CBW0	61	0.849%	0.850%	0.1	2.31	24.5%	57.8%	17.5%
Apr-27	2-Year FRN	91282CBY6	28	0.000%			2.91	36.7%	59.6%	3.6%
Apr-27	7-Year Note	91282CBZ3	62		1.305%	(0.1)	2.31	22.3%	57.1%	20.6%
May-11	3Y-Note	May-05	TBA							
May-12	10Y Note	May-05	TBA							
May-13	30Y Bond	May-05	TBA							
May-19	20Y-Bond	May-13	TBA							
May-20	10Y TIPS R/O	May-13	TBA							
May-25	2Y-Note	May-20	TBA							
May-26	2Y-Note FRN R/O	May-20	TBA							
May-26	5Y-Note	May-20	TBA							
May-27	7Y-Note	May-20	TBA							
Jun-08	3Y-Note	Jun-03	TBA							
Jun-09	10Y-Note R/O	Jun-03	TBA							
Jun-10	30Y-Bond R/O	Jun-03	TBA							
Jun-15	20Y-Bond R/O	Jun-10	TBA							
Jun-17	5Y-TIPS R/O	Jun-10	TBA							
Jun-22	2Y-Note	Jun-17	TBA							
Jun-23	2Y-Note FRN R/O	Jun-17	TBA							
Jun-23	5Y-Note	Jun-17	TBA							
Jun-24	7Y-Note	Jun-17	TBA							
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							