

November Treasury Refunding Estimate Preview

US Tsy announces quarterly refunding Wednesday, Nov 4 0830ET

Sell-Side Analyst Previews:

BNP Paribas expects the US Treasury to keep auction sizes constant at end-October levels (\$335B), except for a small rise in 20y supply. "Ahead of a November's general election, fiscal uncertainty remains high. We expect a democratic sweep would increase monthly issuance by appr 10% to \$375bn, whilst a divided Government should see a reduction towards \$300bn/month in 2021."

TD Securities expects a gradual easing. "Expectations of an increase in future deficits should lead Treasury to continue raising auction sizes at the November refunding. However, we expect a slowing in the pace of increases as Phase 4 stimulus has been delayed. We look for Treasury to increase 2s, 3s, and 5s by \$1bn/month, 7s by \$2bn/month, and 10s, 20s, and 30s (including reopenings) by \$3bn."

As to TIPS, TD expects the Tsy to increase issuance. "Starting with increasing the January 10y TIPS issue by \$1bn. With Fed purchases leaving net TIPS issuance deeply negative in 2020 and 2021, we expect gradual auction size increases to be focused in the 5-10y sector."

NatWest see good chance of further coupon increases next week and expect an "increase TIPS issuance for the first time since the changes announced at the February 2019 refunding." For November, NatWest expects 2s, 3, and 5s to increase by \$2B to \$54B, \$52B and \$57B respectively, 7Y to climb \$3B to \$6B, 10Y up \$4B to \$42B, 20- and 30Y bonds up \$2B to \$27B and \$28B respectively.

Societe Generale expects coupon sizes to hold steady next month. "The Treasury is set to announce \$52bn in 3y, \$38bn in 10y and \$26bn in 30y to be auctioned next month, with overall financing needs for October-December at \$390bn and January-March at \$600bn."

On TIPS, in order "to avoid distortions in inflation expectations" Soc Gen sees current auction sizes as "appropriate relative to demand". Going forward, however, the "Treasury should consider modest increases to TIPS issuance across the curve so as not to have an impact on inflation breakevens, especially if demand for TIPS rises in the new inflation-targeting regime."

UBS sees the pace of auction size increases as unsustainable and expect them to slow "by about 50%" in the latest period. UBS estimates "2s, 3s, 5s and FRNs would rise by \$1bn per month, 7s by \$2bn per month, 10s by \$3bn per quarter, new 20s by \$3bn per quarter, reopened 20s by \$2bn per quarter, and 30s by \$2bn per quarter."

UBS estimates TIPS issuance will rise by \$1B "in the coming quarter, which our rates strategists think should cheapen real yields and allow real yields and breakevens to return to a more normal relationship."

Wells Fargo: Expects a much smaller increase in auction sizes at the upcoming refunding compared to the increases announced in August. Wells estimates the "2Y, 3Y, 5Y and 7Y auctions to increase by \$1 billion per month. As a result, the size of these auctions would each increase by \$3 billion by the end of January. The 10Y new and reopened auctions to increase by \$3 billion per month, and \$2 billion each for new and reopened 20Y and 30Y bonds. The 2Y floating rate note (FRN) auction to increase by \$2 billion per month, with no changes to the Treasury Inflation-Protected Securities (TIPS) issuance schedule at this announcement."