

# QUARTERLY REFUNDING STATEMENT OF DEPUTY ASSISTANT SECRETARY FOR CAPITAL MARKETS CLAY BERRY

August 1, 2018

**WASHINGTON** — The U.S. Department of the Treasury is offering \$78 billion of Treasury securities to refund approximately \$38.2 billion of privately-held Treasury notes maturing on August 15, 2018. This issuance will raise new cash of approximately \$39.8 billion. The securities are:

- A 3-year note in the amount of \$34 billion, maturing August 15, 2021;
- A 10-year note in the amount of \$26 billion, maturing August 15, 2028; and
- A 30-year bond in the amount of \$18 billion, maturing August 15, 2048.

The 3-year note will be auctioned on a yield basis at 1:00 p.m. ET on Tuesday, August 7, 2018. The 10-year note will be auctioned on a yield basis at 1:00 p.m. ET on Wednesday, August 8, 2018. The 30-year bond will be auctioned on a yield basis at 1:00 p.m. ET on Thursday, August 9, 2018. All of these auctions will settle on Wednesday, August 15, 2018.

The balance of Treasury financing requirements over the quarter will be met with the weekly bill auctions, cash management bills, the monthly note and bond auctions, the August 5-year Treasury Inflation-Protected Securities (TIPS) reopening auction, the September 10-year TIPS reopening auction, the October 30-year TIPS reopening auction, and the regular monthly 2-year Floating Rate Note (FRN) auctions.

## NEW 2-MONTH BILL

Per guidance at the May 2018 Quarterly Refunding, Treasury is announcing today its intention to begin auctioning a new benchmark 2-month (8-week) bill starting in October 2018. Unlike Treasury's traditional bill settlement day of Thursday, the new 2-month bill will settle on

Tuesday. The first auction for the 2-month bill will be announced on October 15, 2018. Additional implementation details for the new 2-month bill appear below.

## **PROJECTED FINANCING NEEDS: INCREASE IN COUPON SIZES**

In January and May 2018, Treasury announced modest increases to nominal coupon and 2-year FRN auction sizes. These adjustments in auction sizes were necessary to respond to increased borrowing needs resulting from the Federal Reserve's reinvestment policy for its System Open Market Account (SOMA) portfolio, as well as the fiscal outlook.

## **COUPON AND FRN FINANCING**

Based on our current forecast, Treasury is announcing additional modest increases to nominal coupon auction sizes and FRNs over the upcoming quarter. Over the next three months, Treasury anticipates increasing the sizes of the 2-, 3-, and 5-year note auctions by \$1 billion per month. As a result, the size of 2-, 3-, and 5-year note auctions will increase by \$3 billion, respectively, by the end of October. In addition, Treasury will increase the auction size of the next 2-year FRN auction by \$1 billion in August. Finally, Treasury will increase auction sizes by \$1 billion to each of the next 7- and 10-year notes and the 30-year bond auctions in August, and hold the auction sizes steady at that level through October. All changes are applicable to subsequent new issues and reopenings. In total, these adjustments will result in an additional \$30 billion of new issuance for the upcoming quarter, which is slightly higher than the \$27 billion increase in May through July.

## **BILL FINANCING**

Treasury uses changes in the supply of Treasury bills to address short-term fluctuations in funding needs. Short-term changes in funding needs are most often driven by seasonal factors related to the timing of federal receipts and outlays. After recently peaking in late-March,

aggregate bill supply has declined modestly during the months since. Over the next few months, and consistent with historical patterns, bill supply is anticipated to gradually increase as seasonal funding needs increase. This increased bill supply will include the launch of the new benchmark 2-month bill in October.

Based on our current fiscal forecast, the amount of bills outstanding is expected to gradually approach levels by September that are comparable to levels last seen in March. This expected increase in bill supply reflects Treasury's current internal forecast; any unexpected changes in financing needs could result in a deviation from our projected change in bill supply.

## **WAM**

Treasury anticipates these financing changes will continue to stabilize the weighted-average maturity (WAM) of the debt outstanding at or around current levels, barring large, unexpected changes to borrowing needs.

Treasury will assess the need to make further adjustments to auction sizes at the next Quarterly Refunding in November based on projections of the fiscal outlook at that time.

## **CONTINUING OUTREACH ON A POTENTIAL SECOND 5-YEAR TIPS**

Auction sizes for TIPS will remain unchanged over the next quarter. TIPS continue to be an important product in Treasury's debt issuance portfolio, and Treasury is fully committed to the TIPS program.

Treasury continues to evaluate adjustments to the TIPS calendar, including potentially introducing a second new 5-year TIPS CUSIP in the second half of the year. Since the current TIPS calendar features only one TIPS auction per month, adding an additional 5-year CUSIP would require a change to the existing calendar, either removing another auction or having more than one auction per month.

In addition to gathering feedback from the Treasury Borrowing Advisory Committee and the primary dealers, Treasury continues to meet with a variety of TIPS market participants to discuss operational considerations of adding an additional 5-year TIPS to the auction calendar. Any modifications to the TIPS calendar or TIPS auction sizes will likely be announced at the November Quarterly Refunding.

## **IMPLEMENTATION DETAILS OF THE NEW 2-MONTH BILL**

Per guidance at the May 2018 Quarterly Refunding, Treasury is announcing today its intention to begin auctioning a new benchmark 2-month (8-week) bill starting in October 2018. Unlike Treasury's traditional bill settlement day of Thursday, the new 2-month bill will settle on Tuesday.

In order to enhance the liquidity of the new 2-month bill, Treasury is also announcing changes to the 1-month bill auction cycle beginning in November 2018. After a period of transition, the 1-month bill will be a reopening of the 2-month bill, and will also settle on Tuesdays.

Treasury plans to implement the new 2-month bill along with the change in the 1-month bill auction cycle over a transition period from October to December.

## **TRANSITION PERIOD FOR 2-MONTH AND 1-MONTH BILLS**

From October 15 through December 3, the 2-month bill will be announced on Mondays, auctioned on Tuesdays, and settled on Thursdays. During this eight week period, the bill will have a slightly shorter maturity and will mature on Tuesdays. Investors with bills maturing on Thursdays will have the opportunity to re-invest the maturing proceeds directly into the new 2-month bill.

Similarly, from November 8 to December 3, the 1-month bill will be announced on Mondays as a reopening of the new 2-month bill, auctioned on Tuesdays, and settled on Thursdays. During this four week period, the bill will have a slightly shorter maturity and will mature on Tuesdays.

## STEADY-STATE AUCTION CYCLE FOR 1-MONTH AND 2-MONTH BILLS

After December 4, the 1-month and 2-month bills will be announced on Tuesdays, auctioned on Thursdays, settled on Tuesdays, and mature on Tuesdays. Each 1-month bill will continue to be a reopening of an existing 2-month bill.

No changes are contemplated for the 3-month, the 6-month, and the 1-year bill calendars; these instruments will continue to follow their existing auction schedules and settle on Thursdays.

[The transitional bill auctions schedule.](#) 

Please send comments and suggestions on these subjects or others related to [debt management](#). The next Quarterly Refunding announcement will take place on October 31, 2018.

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