

QUARTERLY REFUNDING STATEMENT OF DEPUTY ASSISTANT SECRETARY FOR FEDERAL FINANCE BRIAN SMITH

August 5, 2020

WASHINGTON — The U.S. Department of the Treasury is offering \$112 billion of Treasury securities to refund approximately \$49.5 billion of privately-held Treasury notes and bonds maturing on August 15, 2020. This issuance will raise new cash of approximately \$62.5 billion. The securities are:

- A 3-year note in the amount of \$48 billion, maturing August 15, 2023;
- A 10-year note in the amount of \$38 billion, maturing August 15, 2030; and
- A 30-year bond in the amount of \$26 billion, maturing August 15, 2050.

The 3-year note will be auctioned on a yield basis at 1:00 p.m. EDT on Tuesday, August 11, 2020. The 10-year note will be auctioned on a yield basis at 1:00 p.m. EDT on Wednesday, August 12, 2020. The 30-year bond will be auctioned on a yield basis at 1:00 p.m. EDT on Thursday, August 13, 2020. All of these auctions will settle on Monday, August 17, 2020.

The balance of Treasury financing requirements over the quarter will be met with the weekly bill auctions, cash management bills (CMBs), and the monthly note, bond, Treasury Inflation-Protected Securities (TIPS) auctions, and 2-year Floating Rate Note (FRN) auctions.

PROJECTED FINANCING NEEDS AND ISSUANCE PLANS

Treasury continues to face unprecedented borrowing needs as a result of the federal government's response to the COVID-19 outbreak. As a result, Treasury has substantially increased both bill issuance and coupon auction sizes, raising an unprecedented \$1.462 trillion on net (\$1.052 trillion in bills) since May 1.

In the coming quarters, Treasury anticipates borrowing needs to moderate somewhat, but remain elevated on a historical basis, in part due to an assumption regarding additional legislation. Over the July-September quarter, Treasury anticipates borrowing to be \$947 billion (compared to the \$2.753 trillion of realized borrowing in the April-June quarter). The July-

September borrowing need will ultimately depend on the final provisions of the additional legislation.

Treasury will continue to shift financing from bills to longer-dated tenors over the coming quarters, using long-term issuance as a prudent means of managing its maturity profile and limiting potential future issuance volatility.

Treasury intends to increase auction sizes across all nominal coupon tenors over the August-October quarter, with larger increases in longer tenors (7-year, 10-year, 20-year, and 30-year). Treasury also intends to modestly increase auction sizes for FRNs while leaving auction sizes for TIPS unchanged.

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 CMBs.

CASH BALANCE

For prudent risk management, Treasury holds a substantial cash balance to allow it to cover anticipated outflows in case of a temporary interruption to market access. This policy was implemented in 2015 and its objective has not changed. Treasury's recent record-high cash balances are driven by several factors, including the unprecedented size and ongoing uncertainty regarding the timing of COVID-19 related outlays. Treasury also seeks to change auctions sizes gradually to minimize any potential market disruption.

While Treasury expects its cash balance to decline over the quarter, the extent of the decline will depend on several uncertain factors, including the pace of outflows under current law and the potential for additional legislation. Informed by its risk management objectives, Treasury has taken a precautionary approach to projecting outflows. Accordingly, Treasury's cash balance may remain elevated by historical standards until the uncertainty regarding potential outflows diminishes.

NOMINAL COUPON AND FRN FINANCING

Over the next three months, Treasury anticipates increasing the sizes of the 2-, 3-, and 5-year note auctions by \$2 billion per month. As a result, the size of the 2-, 3-, and 5-year note auctions will each increase by \$6 billion by the end of October. Treasury also anticipates increasing the size of the 7-year note auction by \$3 billion per month over the next three months. As a result, the size of the 7-year note auction will increase by \$9 billion by the end of October.

Treasury is also announcing increases of \$6 billion to both the new and reopened 10-year note auction sizes, and increases of \$4 billion to both the new and reopened 30-year bond auction sizes starting in August.

Treasury was pleased with the results of the 20-year nominal bond auction in May and the subsequent reopenings in June and July. As expected, demand for this tenor is strong and market participants have provided significant positive feedback on the security. Accordingly, Treasury is also announcing increases of \$5 billion to both the new and reopened 20-year bond auction sizes starting in August.

In addition, following the \$2 billion increase in the July new-issue FRN auction size, Treasury will increase the August and September FRN reopening sizes by \$2 billion (resulting in a \$22 billion auction size for each). Treasury anticipates increasing the size of the next new-issue 2-year FRN auction in October by \$2 billion to \$26 billion.

The table below presents the anticipated auction sizes (in \$ billion) for the upcoming quarter:

	<u>2-year</u>	<u>3-year</u>	<u>5-year</u>	<u>7-year</u>	<u>10-year</u>	<u>20-year</u>	<u>30-year</u>	<u>FRN</u>
Jul-20	48	46	49	44	29	17	19	24
Aug-20	50	48	51	47	38	25	26	22
Sep-20	52	50	53	50	35	22	23	22
Oct-20	54	52	55	53	35	22	23	26

The changes in coupon and FRN auction sizes announced today will result in an additional \$132 billion of nominal coupon issuance to private investors during the August-October quarter compared to the May-July quarter.

BILL FINANCING

Over the upcoming quarter, Treasury will continue to supplement its regular benchmark bill financing with a regular cadence of CMBs. Treasury anticipates that weekly issuance of 6- and 17-week CMBs for Thursday settlement and maturity, as well as 15- and 22-week CMBs for Tuesday settlement and maturity will continue at least through the end of October. Depending on the course of borrowing needs over the upcoming quarter, Treasury may also continue to issue 39-week CMBs (as a reopening of the 52-week bill). It is anticipated that these CMBs will be announced as part of the regular Tuesday and Thursday bill announcement cycle.

TIPS FINANCING

Over the next refunding quarter, Treasury expects to maintain TIPS issuance sizes at \$7 billion for the August 30-year TIPS reopening, \$12 billion for the September 10-year TIPS reopening, and \$17 billion for the October 5-year TIPS. Treasury will continue to closely monitor TIPS market conditions and assess supply and demand dynamics when considering how best to meet future financing needs.

As always, Treasury will continue to evaluate the fiscal outlook and assess the need to make adjustments to auction sizes at the next quarterly refunding announcement.

UPDATE ON POTENTIAL FOR A SOFR-INDEXED FRN

Treasury continues to explore the possibility of issuing a floating-rate note indexed to the Secured Overnight Financing Rate (SOFR). Treasury issued a Request for Information (RFI) in May 2020 in an effort to further our understanding of potential demand for such a security and how it might fit into Treasury's goal of financing the government at the least cost over time. Treasury appreciates the comments submitted in response to the RFI and continues to evaluate them. No decision has been made regarding potential issuance, but Treasury will provide ample notice to market participants if it chooses to move forward with such a product.

TEST BUYBACK OPERATION

Treasury regularly conducts periodic testing of existing IT infrastructure to ensure that buyback functionality remains operational. Sometime in the next three months, Treasury intends to conduct another small-value buyback operation to continue testing the buyback infrastructure. Details of this operation will be announced at a later date.

These small-value buyback operations should not be viewed by market participants as a precursor or signal of any pending policy changes regarding Treasury's use of buybacks.

Please send comments or suggestions on these subjects or others related to debt management to debt.management@treasury.gov.

The next quarterly refunding announcement will take place on Wednesday, November 4, 2020.

###

