

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

November 4, 2020

WASHINGTON — The U.S. Department of the Treasury is offering \$122 billion of Treasury securities to refund approximately \$60.9 billion of privately-held Treasury notes maturing on November 15, 2020. This issuance will raise new cash of approximately \$61.1 billion. The securities are:

- A 3-year note in the amount of \$54 billion, maturing November 15, 2023;
- A 10-year note in the amount of \$41 billion, maturing November 15, 2030; and
- A 30-year bond in the amount of \$27 billion, maturing November 15, 2050.

The 3-year note will be auctioned on a yield basis at 1:00 p.m. ET on Monday, November 9, 2020. The 10-year note will be auctioned on a yield basis at 1:00 p.m. ET on Tuesday, November 10, 2020. The 30-year bond will be auctioned on a yield basis at 1:00 p.m. ET on Thursday, November 12, 2020. All of these auctions will settle on Monday, November 16, 2020.

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

PROJECTED FINANCING NEEDS AND ISSUANCE PLANS

Treasury continues to face uncertain and potentially sizable borrowing needs as a result of the federal government's ongoing response to COVID-19 and its effects on economic activity and government receipts. Over the second half of FY 2020 (since April 1), Treasury substantially increased both bill and coupon auction sizes, raising an unprecedented \$3.2 trillion (\$2.4 trillion in bills alone). Treasury borrowing needs in the coming quarters will continue to be driven by these factors, including potential additional legislation. Accordingly, Treasury will continue to maintain a flexible and prudent approach to both financing plans and the cash balance.

Over the October-December quarter, Treasury anticipates borrowing to be \$617 billion (compared to the \$454 billion of realized borrowing in the July-September quarter). The October-December borrowing need reflects an assumption that legislation authorizing an

additional \$1 trillion of spending will be enacted. Depending on the size, timing, and details of such legislation, borrowing needs in the October-December quarter may vary.

Consistent with our prior guidance, Treasury continues to shift financing from bills to longer-dated tenors, using long-term issuance as a prudent means of managing the debt maturity profile and limiting potential future issuance volatility. As such, Treasury intends to increase auction sizes of nominal coupons, FRNs, and TIPS this quarter.

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

Consistent with its guidance in the August refunding statement, Treasury continues to take a precautionary, risk-management driven approach by maintaining large cash balances in light of the unprecedented size and ongoing uncertainty regarding COVID-19 related outlays. Treasury also seeks to change auction sizes gradually to minimize any potential market disruption. While Treasury expects its cash balance to decline over the upcoming 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.

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 2-, 3-, and 5-year note auctions will each increase by \$6 billion by the end of January 2021. Treasury also anticipates increasing the size of 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 January 2021.

Treasury is also announcing increases of \$3 billion to both the new and reopened 10-year note auction sizes, and increases of \$1 billion to both the new and reopened 30-year bond auction sizes starting in November.

The demand for the 20-year nominal bond introduced in May continues to be robust and the product has enjoyed broad support from market participants. Accordingly, Treasury is also announcing increases of \$2 billion to both the new and reopened 20-year bond auction sizes starting in November.

In addition, following the \$2 billion increase in the October new-issue FRN auction size, Treasury will increase the November and December FRN reopening sizes by \$2 billion (resulting in a \$24

billion auction size for each). Treasury anticipates increasing the size of the next new-issue 2-year FRN auction in January by \$2 billion to \$28 billion.

The table below presents the anticipated auction sizes (in \$ billion) for the upcoming November 2020 through January 2021 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>
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
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

The changes in nominal coupon and FRN auction sizes announced today will result in an additional \$105 billion of issuance to private investors during the November-January quarter compared to the August-October quarter.

TIPS FINANCING

Over CY 2021, Treasury anticipates gradually increasing TIPS auction sizes in order to: 1) continue to shift financing from bills to longer-dated tenors, and 2) address the decline in share of TIPS outstanding as a percentage of total marketable debt outstanding. In making the decision to increase TIPS issuance, Treasury considered its financing needs as well as input on the supply and demand dynamics in the TIPS market from a variety of buy-side and sell-side market participants.

Treasury anticipates gradually increasing TIPS issuance across all tenors in CY 2021. This change will begin with a \$1 billion increase in the January 10-year new issue, and will be announced quarterly in subsequent refunding statements. While flexibility will be maintained to adjust TIPS issuance plans at each quarterly refunding announcement, we expect total gross issuance of TIPS to increase by \$10 billion to \$20 billion in CY 2021.

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 January. These CMBs will be announced as part of the regular Tuesday and Thursday bill announcement cycle. These CMBs provide substantial financing flexibility considering the uncertainty of borrowing needs Treasury faces.

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

No decision has been made by Treasury regarding potential issuance of an FRN linked to the Secured Overnight Financing Rate. However, Treasury continues to actively explore the possibility of issuing such a product and will provide ample notice to market participants if it chooses to move forward.

SMALL-VALUE CONTINGENCY AUCTION OPERATION TEST

Treasury believes that it is prudent to regularly test its contingency auction infrastructure. Treasury's contingency auction system has been used routinely over the last several years to conduct both mock auctions and live small-value test auctions. Sometime over the next three months, Treasury intends to conduct a small-value test auction using its contingency auction system. Details about this test will be announced at a later date.

This small-value test auction should not be viewed by market participants as a precursor or signal of any pending policy changes regarding Treasury's existing auction processes.

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, February 3, 2021.

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