

U.S. DEPARTMENT OF THE TREASURY

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

February 3, 2021

WASHINGTON — The U.S. Department of the Treasury is offering \$126 billion of Treasury securities to refund approximately \$62.9 billion of privately-held Treasury notes and bonds maturing on February 15, 2021. This issuance will raise new cash of approximately \$63.1 billion. The securities are:

- A 3-year note in the amount of \$58 billion, maturing February 15, 2024;
- A 10-year note in the amount of \$41 billion, maturing February 15, 2031; and
- A 30-year bond in the amount of \$27 billion, maturing February 15, 2051.

The 3-year note will be auctioned on a yield basis at 1:00 p.m. ET on Tuesday, February 9, 2021. The 10-year note will be auctioned on a yield basis at 1:00 p.m. ET on Wednesday, February 10, 2021. The 30-year bond will be auctioned on a yield basis at 1:00 p.m. ET on Thursday, February 11, 2021. All of these auctions will settle on Tuesday, February 16, 2021.

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 sizable borrowing needs due to expenditures associated with the government's response to COVID-19 as well as the impact of the pandemic on economic activity and government receipts. Since April 2020, Treasury has substantially increased issuance sizes for nominal coupon and FRN securities and begun a gradual increase in TIPS issuance. Treasury believes that these changes have created sufficient capacity to address near-term projected borrowing needs. 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 November 2020 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 path and 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

Based on our current forecast, Treasury is announcing no changes to nominal coupon auction sizes over the upcoming quarter. Consistent with the \$2 billion increase in the January 2021 new-issue FRN auction size that was previously announced in November 2020, Treasury intends to increase the corresponding February and March FRN reopening sizes by \$2 billion, resulting in a \$26 billion auction size for each. Treasury anticipates no further changes to 2-year FRN auction sizes for the remainder of the quarter.

The table below presents the anticipated auction sizes (in \$ billion) for the upcoming February 2021 through April 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>
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
<i>Feb-21</i>	<i>60</i>	<i>58</i>	<i>61</i>	<i>62</i>	<i>41</i>	<i>27</i>	<i>27</i>	<i>26</i>
<i>Mar-21</i>	<i>60</i>	<i>58</i>	<i>61</i>	<i>62</i>	<i>38</i>	<i>24</i>	<i>24</i>	<i>26</i>
<i>Apr-21</i>	<i>60</i>	<i>58</i>	<i>61</i>	<i>62</i>	<i>38</i>	<i>24</i>	<i>24</i>	<i>28</i>

These anticipated nominal coupon and FRN auction sizes would result in an additional \$31 billion of issuance to private investors during the February-April quarter compared to the November-January quarter.

TIPS FINANCING

Consistent with its guidance in the November 2020 refunding statement, Treasury anticipates continuing to gradually increase TIPS issuance across all tenors in CY 2021. This gradual increase began with a \$1 billion increase in the January 10-year new issue and will continue with \$1 billion increases in the February 30-year new issue, the March 10-year reopening, and the April 5-year new issue, compared to their respective issuance sizes last year. Additional issuance size changes will be announced quarterly in subsequent refunding statements. While flexibility will be maintained to adjust TIPS issuance at each refunding quarter, we continue to expect total gross issuance of TIPS to increase by \$10 billion to \$20 billion in CY 2021.

BILL FINANCING

The substantial increases in nominal coupon and FRN issuance sizes over recent quarters will allow Treasury to gradually reduce bills as a percent of Treasury debt outstanding in a manner consistent with recommendations made by the Treasury Borrowing Advisory Committee at the November 2020 meeting.

Accordingly, Treasury plans to modify its regular cadence of CMBs. Treasury anticipates that weekly issuance of the 15- and 22-week CMBs will cease after settlement on February 16, whereas weekly issuance of the 6- and 17-week CMBs will continue at least through the end of April. When this modification occurs, the 6-week CMB will remain as part of the Thursday settlement and maturity cycle, whereas the 17-week CMB will transition to the Tuesday settlement and maturity cycle. The remaining CMBs will continue to be announced as part of the regular Tuesday and Thursday bill announcement cycle.

[Tentative transitional CMB auction schedule](#)  .

Treasury may also increase the auction size of one or more of its remaining bill offerings to moderate the pace of decline in the aggregate supply of bills outstanding in anticipation of the existing 15- and 22-week CMBs maturing without reissuance.

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. 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 BUYBACK OPERATION

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

These small-scale 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, May 5, 2021.

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