

Quarterly Refunding Statement of Deputy Assistant Secretary for Federal Finance Brian Smith

November 3, 2021

WASHINGTON — The U.S. Department of the Treasury is offering \$120 billion of Treasury securities to refund approximately \$75.9 billion of privately-held Treasury notes and bonds maturing on November 15, 2021. This issuance will raise new cash of approximately \$44.1 billion. The securities are:

- A 3-year note in the amount of \$56 billion, maturing November 15, 2024;
- A 10-year note in the amount of \$39 billion, maturing November 15, 2031; and
- A 30-year bond in the amount of \$25 billion, maturing November 15, 2051.

The 3-year note will be auctioned on a yield basis at 1:00 p.m. ET on Monday, November 8, 2021. The 10-year note will be auctioned on a yield basis at 1:00 p.m. ET on Tuesday, November 9, 2021. The 30-year bond will be auctioned on a yield basis at 1:00 p.m. ET on Wednesday, November 10, 2021. All of these auctions will settle on Monday, November 15, 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

Based on the latest fiscal outlook, current auction sizes are projected to provide excess borrowing capacity over the intermediate term. Accordingly, Treasury intends to reduce auction sizes across all nominal coupon securities, starting with modest reductions over the upcoming November 2021 to January 2022 quarter. This approach reflects Treasury's desire to preserve flexibility to adjust future financing plans in light of the remaining uncertainty in the fiscal outlook. Any additional issuance-size changes will be announced quarterly in subsequent refunding statements.

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.

NOMINAL COUPON AND FRN FINANCING

Over the next three months, Treasury anticipates incrementally reducing 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 decrease by \$6 billion by the end of January. Treasury also anticipates reducing the size of the 7-year note auction by \$3 billion per month over the next three months. The size of the 7-year note auction will decrease by \$9 billion by the end of January.

Treasury anticipates decreases of \$2 billion to both the new and reopened 10-year note auction sizes and to the new and reopened 30-year bond auction sizes starting in November. Treasury also anticipates decreases of \$4 billion to both the new and reopened 20-year bond auction sizes starting in November.

In addition, Treasury will decrease the November and December FRN reopening auction sizes by \$2 billion (resulting in a \$24 billion auction size for each). Treasury anticipates decreasing the size of the next new-issue 2-year FRN auction in January by \$2 billion to \$26 billion.

The slightly larger reductions in auctions sizes for the 7-year and 20-year coupon securities reflects Treasury's desire to better balance structural supply and demand at those tenors. These tenors were increased significantly more than others in response to the increased borrowing needs driven by the COVID-19 pandemic. Reduction of supply at these tenors has also been a focus of feedback from a variety of market participants.

The table below presents the anticipated auction sizes (in \$ billion) for the upcoming November 2021 through January 2022 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-21	60	58	61	62	41	27	27	26
Sep-21	60	58	61	62	38	24	24	26
Oct-21	60	58	61	62	38	24	24	28
Nov-21	58	56	59	59	39	23	25	24
Dec-21	56	54	57	56	36	20	22	24
Jan-22	54	52	55	53	36	20	22	26

The changes in nominal coupon and FRN auction sizes announced today will result in a \$84 billion reduction of issuance to private investors during the November 2021 – January 2022 quarter compared to the August – October 2021 quarter.

TIPS FINANCING

Since January 2021, Treasury has increased TIPS new issue and reopening auction sizes in all tenors by \$1 billion each month in order to stabilize the share of TIPS as a percent of total marketable debt outstanding. Treasury intends to maintain the 10-year TIPS reopening auction size of \$14 billion for November, the same size as the September reopening. Consistent with the \$1 billion increase in the October new issue 5-year TIPS, the December 5-year TIPS reopening will be \$17 billion. This will result in \$17 billion greater total gross issuance of TIPS in CY 2021 compared to CY 2020.

In January 2022, Treasury will maintain the 10-year TIPS new issue auction size of \$16 billion, the same size as the July 2021 new issue. At current auction sizes, total gross issuance of TIPS would increase by \$5 billion in CY 2022 compared to CY 2021. Treasury will continue to closely monitor TIPS market conditions and assess supply and demand dynamics when considering how best to meet future financing needs. Any future TIPS auction size changes will be announced quarterly in subsequent quarterly refunding statements.

SOFR-INDEXED FRN

Because current issuance sizes and patterns are very likely to provide excess borrowing capacity, Treasury has decided that an FRN linked to the Secured Overnight Financing Rate (SOFR) is not necessary to meet its borrowing needs at this time. Treasury will provide ample notice to market participants if such a product is reconsidered in the future.

DEBT LIMIT

The debt limit was increased by \$480 billion on October 14, 2021. Since October 22, 2021, Treasury has been using extraordinary measures to finance the government on a temporary basis. Secretary Yellen stated in a letter to Congress on October 18, 2021 that the \$480 billion increase in the debt limit provided “a high degree of confidence that Treasury will continue to be able to finance the operations of the federal government through December 3, 2021.” The letter also stated that “it is imperative that Congress act to increase or suspend the debt limit in a way that provides longer-term certainty that the government will satisfy all its obligations.”

CASH BALANCE AND BILL ISSUANCE

Following the \$480 billion debt limit increase signed into law on October 14, 2021, Treasury was able temporarily to increase its cash balance to a level closer to, albeit below, its stated cash

balance policy, primarily through increases in regular benchmark bill auction sizes, as well as several large ad hoc CMBs. However, Treasury anticipates that the supply of bills will generally decline from current levels until Congress acts again to increase or suspend the debt limit.

Treasury will continue to supplement its regular benchmark bill financing with weekly issuance of the 17-week CMB for Tuesday settlement, at least through the end of January. Maintaining the 17-week CMB will provide the requisite flexibility to address potential changes in borrowing needs resulting from uncertainty associated with the fiscal outlook.

TREASURY YIELD CURVE MODEL

Effective sometime in early December 2021, Treasury will implement an improvement to its official yield curve model, which is the basis of the official Treasury yield curve used to estimate Treasury's borrowing costs. Treasury believes that the new method is more robust, reflecting the best current financial techniques for modeling yield curves. Details about the new model and how outputs from the new model compare historically to the existing model can be found in the [Yield Curve Methodology Change Information Sheet](#). Additional details regarding the implementation date will be released at a later date.

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 2, 2022.

###