Interest Rates Focus

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US Treasury Refunding – no major surprise

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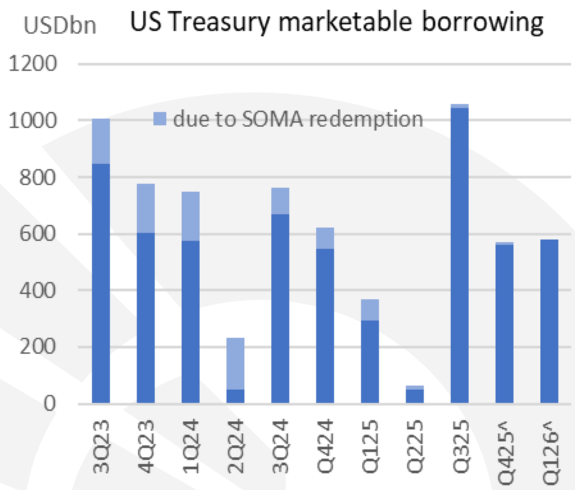
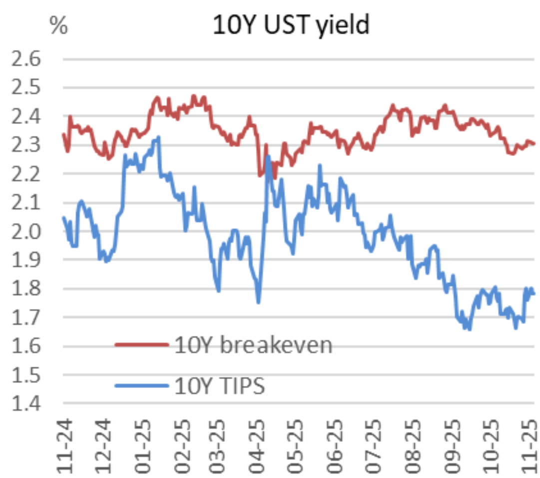
- **Auction sizes.** US Treasury has kept the auction sizes for the Nov-Jan quarter unchanged and has kept the guidance of "maintaining nominal coupon and FRN auction sizes for at least the next several quarters" in their policy statement. These are in line with our expectations. US Treasury added that "looking ahead, Treasury has begun to preliminarily consider future increase" to auction sizes. The timeline for potential increases in auction sizes does not appear to deviate much from consensus. TBAC (Treasury Borrowing Advisory Committee) opined that "current projections could warrant increase in coupon issuance in FY2027".

- **Market reaction.** The UST yield curve bearish steepened on 5 November. While the upticks in long-end yields might be partly due to the additional phrase regarding increases in auction sizes, other factors were at play on the day, including firmer US data. Long end swap spreads edged lower but remained higher than the earlier ranges. This reflected that the timeline for increases in coupon issuance sizes did not come as a major surprise. What is clouding the fiscal outlook is the uncertainty on tariffs. Tariff-related revenue is one of the important inputs into fiscal deficit projections, without which wider deficit estimates would likely result. Near-term range for 10Y UST yield is seen at 4.05-4.25%, which is consistent with 10Y breakeven in the range of 2.30-2.40% and 10Y real yield in the range of 1.75-1.85%.





Source: US Treasury, Bloomberg, OCBC Research
^US Treasury estimates

- **Quarterly refunding**. During the Oct-Dec quarter, Treasury expects to borrow USD569bn via privately-held marketable debt, which is USD21bn lower than previous estimates, due to higher beginning-of-quarter cash balance although it is partially offset by lower projected cash flows. Excluding the cash position impact, borrowing estimate is USD20bn higher than previously estimated. For Jan-Mar 2026 quarter, borrowing estimate is USD578bn. Cash balance target remains at USD850bn. Implied net bills issuances amount to USD167bn for Q425 and USD271bn for Q126.

- **Impact of end to QT**. The previous two rounds of slowdown in QT pace via US Treasury securities has already been having an impact on US Treasury refunding. Marketable borrowing needs due to SOMA redemption was reduced to USD91bn per quarter in Q3-2024, to USD75bn per quarter for Q4-2024 and Q1-2025, and then to USD15bn per quarter for Q2-2025 and Q3-2025. Currently, balance sheet run-off via US Treasury securities is USD5bn per month. Hence, full roll-over of holdings of US Treasury securities means a removal of this final USD5bn/month – or USD60bn in a year - from treasury refunding. Monthly redemption cap for agency securities (essentially MBS) run-off is at USD35bn, but the actual monthly redemption amount has been mostly in the range of USD15-17bn over recent months. Hence, the QT decision will likely lead to purchases of T-bills at USD180-200bn in a year, alleviating some treasury refunding needs facing the market.

- **Optimal debt issuance**. TBAC has updated results from their optimal debt issuance model. US Treasury choose an issuance mix of securities to fund the government that minimizes expected costs and volatility. The latest conclusion from the optimal debt issuance model is that "current issuance mix is near the efficient frontier of debt service costs vs volatility". Bills' share of outstanding marketable debt was at 22.0% as of end October 2025. Weighted average maturity of outstanding marketable debt was 70.4 months as of end October 2025.

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