

Interest Rates Focus

31 July 2025

US Treasury Quarterly Refunding – guidance on auction sizes unchanged

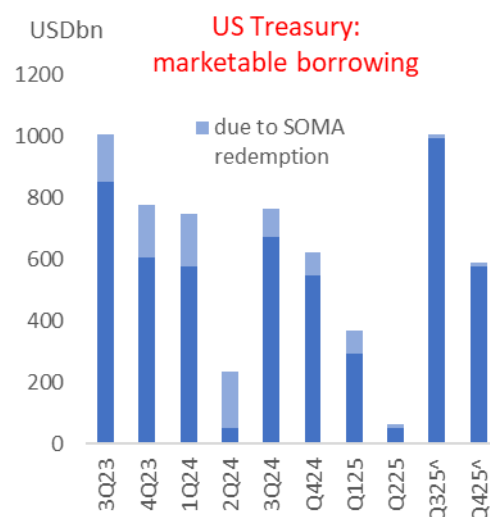
- Auction sizes.** US Treasury has kept the exact wordings in its guidance on auction sizes: “Treasury anticipates maintaining nominal coupon and FRN auction sizes for at least the next several quarters”. While expectation, including ours, had been for the auction sizes to be kept unchanged for two more three-month periods, the guidance represents a commitment for a slightly longer period. US Treasury “believes its current auction sizes leave it well positioned to address potential changes to the fiscal outlook and to the pace and duration of future SOMA redemptions”. TBAC recommendation is also for maintaining auction sizes for the Aug-Oct and Nov-Jan periods, in line with our expectation. Meanwhile, there have been some enhancement to the buyback program – including doubling the frequency of long-end nominal coupon liquidity support buybacks and increasing the size of cash management buybacks. Overall, the Quarterly Refunding outcome was in line with expectations, which lends some support to long-end bonds.
- Financing estimates.** US Treasury expects to borrow USD1.007trn through marketable securities during Q325, higher than April’s estimate of USD554bn. Materially higher borrowings had been expected primarily to make up for the shortfall of borrowing in Q2 which was then constrained by the debt ceiling. Excluding the impact of lower cash position to start with, “the current quarter borrowing estimate is \$60bn higher than announced in April”. US Treasury continues to expect its cash target of USD850bn to be achieved by the end of Q3, while we had seen that as unnecessary. Nevertheless, we expect bills supply to be readily absorbed (more on this below).
- TGA rebuild and USD liquidity.** US Treasury has started rebuilding its cash positions earlier this month after the debt ceiling was raised. TGA balance was last at USD418bn as of 29 July, representing an addition of USD135.5bn from the low level in the month. There are USD432bn more to go to reach the target of USD850bn; net bills settlement is at USD32bn on 31 July and at USD75bn on 5 August. The expected increases in TGA balance can be matched by decreases in a few items on the liability side of the Fed’s balance sheet – mainly bank reserves and reverse repos. Bank reserves stood at USD3.36trn and reverse repos (all tenors) at USD567bn as of 23 July. We see room for reverse repos (all tenors) to fall by more

Frances Cheung, CFA

FX and Rates Strategy

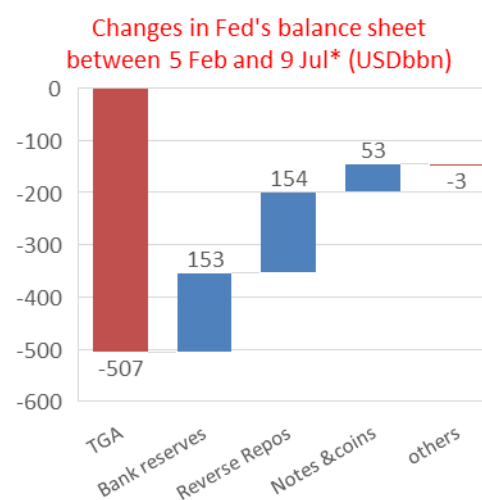
FrancesCheung@ocbc.com

Global Markets Research and Strategy



Source: US Treasury, OCBC Research

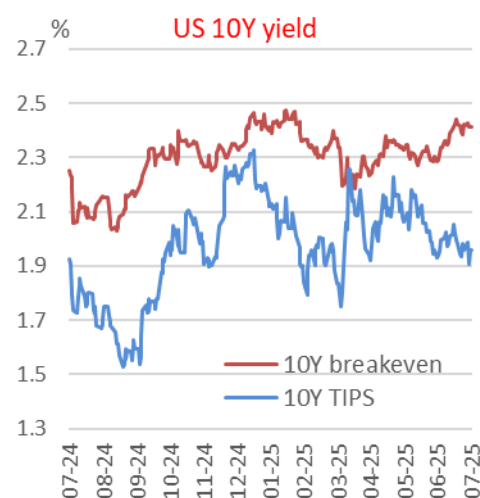
^US Treasury estimates



Source: Bloomberg, OCBC Research

than USD120bn, which will likely leave Bank reserves at above USD3.0trn level when US Treasury replenishes cash to target. Chance for persistent USD liquidity squeeze is seen as low, although transient tightening in USD liquidity cannot be ruled out.

- US yield.** Near-term range for the 10Y UST yield has stayed at 4.34-4.52%, while our year-end expectation is 4.10%. Given impact of tariff on inflation is generally seen as one-off, 10Y breakeven at above 2.4% level appears on the high side. And while the SLR outcome was not the most favourable one for USTs, it nevertheless points to higher capacity to hold bonds. These, together with a subdued growth outlook and a neutral supply outlook for the next 2 quarters, are supportive factors for USTs. Further ahead, US fiscal position remains a medium-term concern, especially for foreign investors. While we expect additional bills supply to replenish TGA balance to be readily absorbed, any plan beyond this to further increase bills' share in refunding may not be well received.



Source: Bloomberg, OCBC Research

Macro Research

Selena Ling
Head of Research & Strategy
lingssselena@ocbc.com

Herbert Wong
Hong Kong & Taiwan Economist
herberthtwong@ocbc.com

Jonathan Ng
ASEAN Economist
jonathannq4@ocbc.com

Tommy Xie Dongming
Head of Asia Macro Research
xied@ocbc.com

Lavanya Venkateswaran
Senior ASEAN Economist
lavanyavenkateswaran@ocbc.com

Ong Shu Yi
ESG Analyst
shuyionq1@ocbc.com

Keung Ching (Cindy)
Hong Kong & Macau Economist
cindyckeung@ocbc.com

Ahmad A Enver
ASEAN Economist
ahmad.enver@ocbc.com

FX/Rates Strategy

Frances Cheung, CFA
Head of FX & Rates Strategy
francescheung@ocbc.com

Christopher Wong
FX Strategist
christopherwong@ocbc.com

Credit Research

Andrew Wong
Head of Credit Research
wongvkam@ocbc.com

Ezien Hoo, CFA
Credit Research Analyst
ezienhoo@ocbc.com

Wong Hong Wei, CFA
Credit Research Analyst
wonghongwei@ocbc.com

Chin Meng Tee, CFA
Credit Research Analyst
mengteechin@ocbc.com

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