



Economics Group

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Q4 Net Treasury Issuance Outlook

In the wake of the short-term suspension of the debt ceiling the expected acceleration in Q4 Treasury issuance is now not likely to materialize. Total net issuance is likely to total \$293 billion in Q4.

Rolling Out Our 2019 Net Issuance Forecast

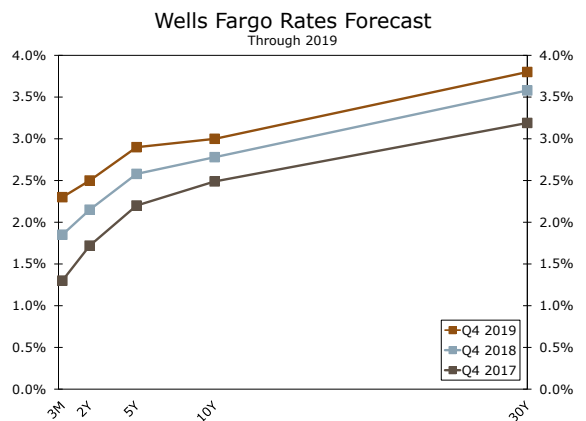
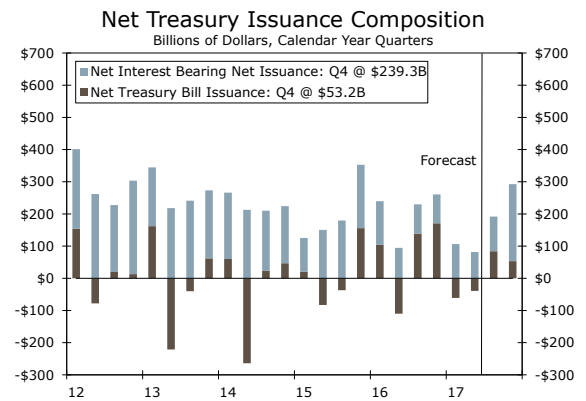
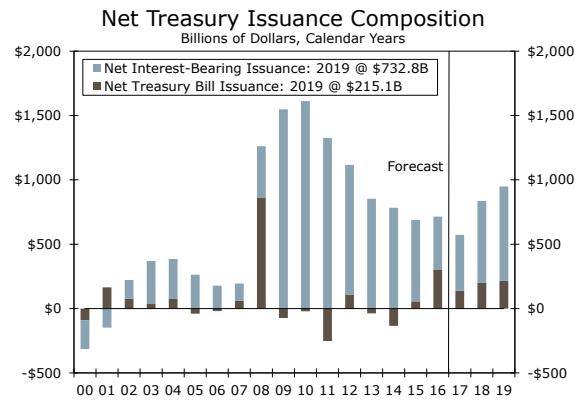
This year has been marked by three quarters of T-bill pay downs and soft net new Treasury supply entering the market as the debt ceiling was re-established in March. We think that net Treasury issuance for calendar year 2017 will end up around \$573 billion. For 2018, we expect the budget deficit to increase to roughly \$814 billion for calendar year 2018 (or to \$750 billion for fiscal year 2018), which would result in total net Treasury issuance in calendar year 2018 of \$836 billion, assuming that Congress lifts the debt ceiling sometime in Q1 of next year. While still assuming growth in the share of outstanding T-bills for next year, we expect a total of \$199 billion in T-bill issuance versus \$637 billion in interest bearing issuance for 2018. Looking further ahead to calendar year 2019, we expect a budget deficit of \$927 billion (\$900 billion for fiscal year 2019), which would result in net Treasury issuance of \$948 billion for calendar year 2019.

A Fourth Quarter Roller-Coaster for Bill Issuance

Switching gears to the more near-term Treasury issuance outlook, we estimate that the federal budget deficit will rise \$288 billion from October through the end of December. The net Treasury issuance calculation for Q4 is complicated by the terms of the debt ceiling suspension through December 8th which indicates that the cash balance at the Treasury must fall back to around \$70 billion by December 8th when the debt ceiling becomes reestablished. That said, on the other side of the December 8th deadline, the Treasury has the ability to use extraordinary measures to stay under the borrowing limit. These measures will free up room for more net issuance in the final weeks of the calendar year. We expect that the cash balance (and T-bill issuance) will continue to rise over the next few weeks before the Treasury will need to begin drawing down its cash balance to around \$70 billion. On net, we expect a total of \$53 billion in T-bill issuance through the end of December, with \$239 billion in interest bearing Treasury securities for the quarter.

Comments on the Curve

There are two major implications of our net issuance outlook for the shape of the yield curve through the end of the year that we and our colleagues on the Rates Strategy Team see. First, we expect volatility to increase, especially at the front end of the curve as T-bill issuance picks up then begins to slow in advance of December 8th then subsequently picks up again with the use of extraordinary measures. Second, we fully recognize that in a period of balance sheet normalization by the FOMC, and the fact that net Treasury issuance is beginning to pick up, there will be increasing upward pressure on longer-term yields.



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