WELLS FARGO

Special Commentary — January 30, 2025

Treasury Refunding Preview

Economist(s)

Michael Pugliese
Senior Economist | Wells Fargo Economics
Michael.D.Pugliese@wellsfargo.com | 212-214-5058

Aubrey Woessner
Economic Analyst | Wells Fargo Economics
Aubrey.B.Woessner@wellsfargo.com | 704-410-2911

Summary

- The first Treasury refunding announcement of 2025 will offer a glimpse into how the United States Treasury is thinking through the fiscal outlook and federal government's financing need in the wake of the U.S. election.
- We project a federal budget deficit of $1.9 trillion in fiscal year (FY) 2025, a modest widening from the $1.8 trillion deficit registered in FY 2024.
- We believe the end of the Federal Reserve's balance sheet runoff program, more commonly known as quantitative tightening (QT), is coming into view. We expect QT to run at its current pace through the end of May. Starting in June, we expect the Federal Reserve to keep the size of its balance sheet unchanged through at least the end of the year.
- The looming cessation of Treasury security runoff and eventual return to Treasury security purchases should help keep the government's financing need relatively flat over the next year despite some growth in the federal budget deficit.
- Current coupon auction sizes are raising enough money on a net basis that changes are unlikely to be announced at the February 5 refunding. We look for nominal coupon and floating rate note auction sizes to remain unchanged until the November refunding announcement.
- If coupon auction sizes follow our projected path, we forecast that privately-held net coupon issuance will total $1.9 trillion in calendar year 2025, accounting for 93% of the privately-held net marketable borrowing for the year.
- The debt ceiling is once again a binding constraint. So long as it is in effect, the Treasury General Account (TGA) will grind lower, and Treasury bill paydowns generally will continue unabated. We expect a debt ceiling resolution to be paired with the budget bill(s) that are enacted ahead of the March 14 funding deadline, long before Treasury risks a default.
- Looking through the debt ceiling noise, we project net T-bill issuance of $140 billion in 2025. T-bills as a share of the Treasury market will likely drift lower over the next couple of years even if coupon auction sizes are left unchanged until late this year.

Wells Fargo Net Treasury Issuance Forecast
Billions of $

	2024	2025				2024	2025
	Q4	Q1	Q2	Q3	Q4	CY	CY
Privately-held net marketable borrowing	659	673	398	396	550	2,449	2,017
Budget deficit	711	670	173	346	550	2,033	1,739
Δ in cash balance	-164	-122	200	0	0	-47	78
SOMA coupon redemptions	75	75	50	0	0	485	125
SOMA T-bill redemptions	0	0	0	0	0	22	0
Other	37	50	-25	50	0	-45	75
Gross coupon auctions	1,103	1,087	1,106	1,086	1,128	4,479	4,407
Privately-held maturing coupons	626	636	599	619	675	2,563	2,530
Privately-held net coupon issuance	477	451	507	467	453	1,916	1,877
Privately-held net bill issuance	182	222	-108	-71	97	533	140
End of quarter cash balance	722	600	800	800	800	722	800

Forecast as of: January 30, 2024

Source: U.S. Department of the Treasury, Bloomberg Finance L.P. and Wells Fargo Economics

A Transition Year

We anticipate a relatively quiet Treasury refunding announcement on February 5. We expect growth in the budget deficit to be modest this year, while the looming end of quantitative tightening should reduce Treasury's financing need relative to the past few years. As a result, we believe Treasury is in a position to leave coupon auction sizes unchanged for at least a couple more quarters. Our base case forecast expects the next increase in coupon auction sizes to occur at the November refunding, although the policy uncertainty in Washington, D.C. clouds the outlook for Treasury's financing need in 2026 and beyond.

Budget Deficit Outlook

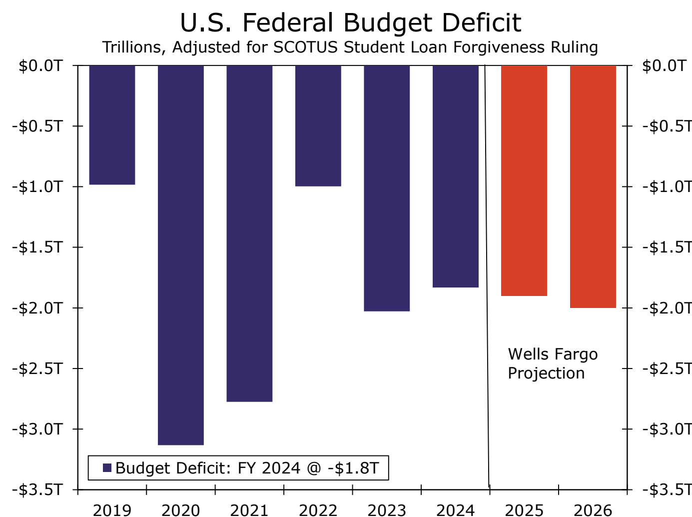
We project a federal budget deficit of $1.9 trillion in fiscal year (FY) 2025 (Figure 1). This would represent a modest widening from the $1.8 trillion deficit registered in FY 2024 and would keep the deficit as a share of GDP within its recent range of 6%-7%—levels that used to be uncommon outside of wartime or recession. Treasury faces the usual cast of characters adding to the structural pressures on the budget deficit (e.g., rising spending for programs like Social Security, Medicare, and Medicaid), but a few tailwinds should help limit the deficit widening in FY 2025.

We project a federal budget deficit of $1.9 trillion in fiscal year (FY) 2025. This would represent a modest widening from the $1.8 trillion deficit registered in FY 2024.

For one, the FOMC cut its target range for the federal funds rate by 100 bps between September and December. Although this has not reduced intermediate and longer-term interest rates, it has brought down yields on shorter-dated Treasury securities, most notably yields on the $6.2 trillion of Treasury bills outstanding. This in turn should help slow the growth in the federal government's interest outlays, at least in the short term (Figure 2). Furthermore, some Biden-era outlays on student loans and deposit insurance look set to return to more normal levels in FY 2025. Solid economic growth as well as strong asset price returns in 2024 bode well for federal revenues come the April tax filing deadline.

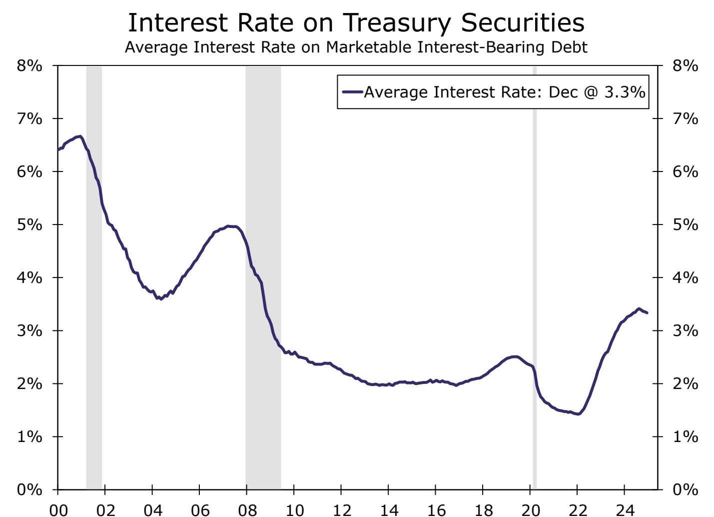
The new Congress and administration will look to make their mark on the U.S. fiscal trajectory, but we believe that the impacts from policy changes largely will not be felt until FY 2026 at the earliest. We do not expect a tax-oriented budget bill to be passed until the second half of the year, and it would not surprise us if passage ultimately slipped until close to the December 31 Tax Cuts and Jobs Act expiration date. Tariffs remain a wild card, but if they are imposed at scale, they would be a revenue-raising policy that would reduce the budget deficit and Treasury's future financing need, all else equal. For example, we believe a 5% universal tariff and a 30% tariff on imports from China would generate roughly $140 billion per year in net new federal revenues.

Figure 1



Source: Congressional Budget Office and Wells Fargo Economics

Figure 2



Source: U.S. Department of the Treasury and Wells Fargo Economics

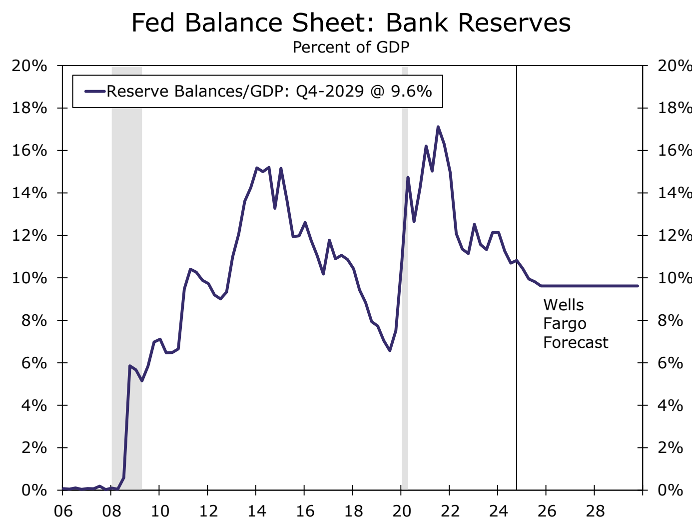
Quantitative Tightening Outlook

The end of the Federal Reserve's quantitative tightening (QT) program is slowly coming into view, and this should help keep growth in Treasury's financing need in check over the next year or so. Last June, the Federal Reserve reduced the cap on monthly balance sheet runoff for Treasury securities from $60 billion per month to $25 billion per month. The Federal Reserve reinvests the proceeds of maturities in excess of $25 billion, eliminating the need for Treasury to raise that money from investors.

We look for QT to continue at its current pace through the end of May. Starting in June, we expect the Federal Reserve to keep the size of its balance sheet unchanged through at least the end of the year.

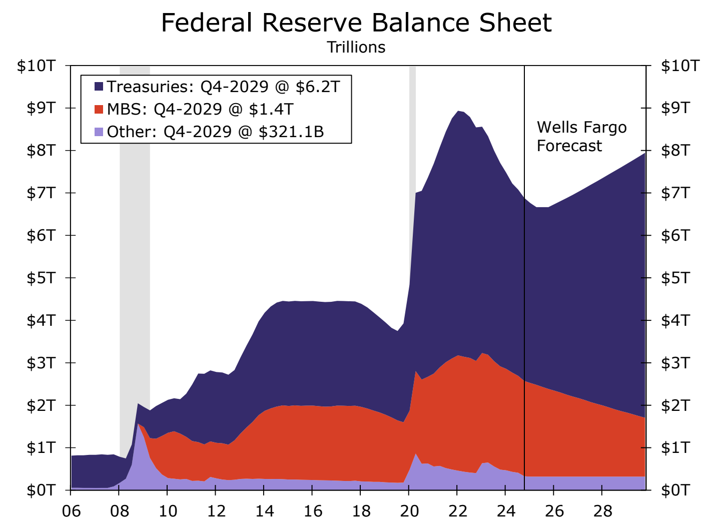
We look for QT to continue at its current pace through the end of May. Starting in June, we expect the Federal Reserve to keep the size of its balance sheet unchanged through at least the end of the year. If realized, bank reserves should remain comfortably in the "ample" territory targeted by the Federal Reserve (Figure 3). Note that even if aggregate balance sheet runoff ceases, the composition of the central bank's balance sheet can continue to evolve. We look for MBS runoff to continue indefinitely as the Federal Reserve strives to reduce its mortgage holdings and slowly return to holding primarily Treasury securities. In order to keep the total balance sheet unchanged amid ongoing MBS runoff, we look for the Federal Reserve to start buying Treasury securities such that they replace MBS principal payments one-for-one (Figure 4). The looming cessation of Treasury security runoff and eventual return to Treasury security purchases should help keep the government's financing need relatively flat over the next year despite some growth in the federal budget deficit.

Figure 3



Source: Federal Reserve Board, U.S. Department of Commerce and Wells Fargo Economics

Figure 4



Source: Federal Reserve System and Wells Fargo Economics

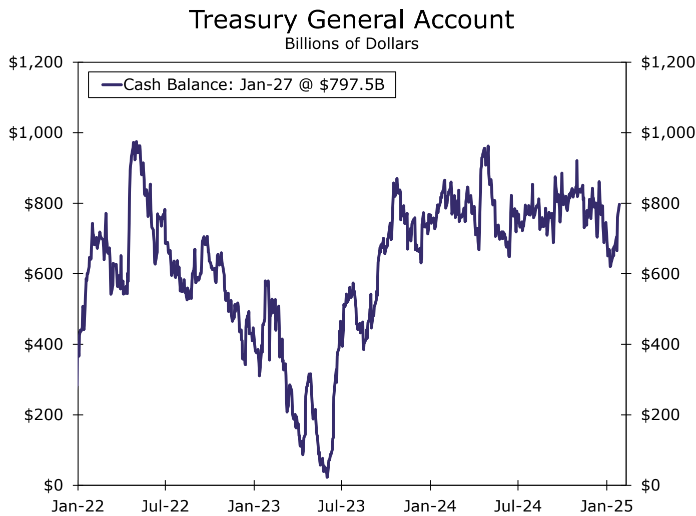
Treasury General Account and the Debt Ceiling Outlook

The debt ceiling will be the key determinant of the Treasury General Account (TGA) over the next several months. We wrote about our debt ceiling expectations in a recent special report, and we would encourage our interested readers to check out that publication. In short, we expect the debt ceiling to be suspended as part of an FY 2025 budget agreement around the March 14 government funding deadline. Accordingly, our issuance forecast assumes that the debt ceiling is no longer a binding constraint after mid-March. As a result, we project a TGA balance of $600 billion at the end of Q1 followed by a rebound to its steady-state value of $800 billion in subsequent quarters.

We expect the debt ceiling to be suspended as part of an FY 2025 budget agreement around the March 14 government funding deadline.

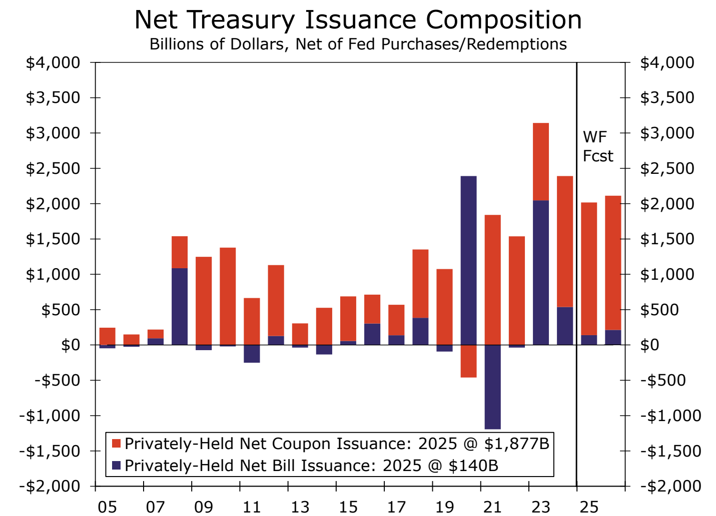
If we are wrong, and the debt ceiling is not lifted until the summer, TGA balances through the spring will be lower, and T-bill paydowns will be larger, than we currently project. For example, if the debt ceiling is still in place at the end of March, we would expect a TGA balance closer to $400 billion, with net T-bill issuance for the quarter roughly flat. Further declines in the TGA and T-bills outstanding would be in store for the second quarter. Figure 5 illustrates how a prolonged debt ceiling showdown could result in an exceptionally low TGA balance come June, similar to what occurred in the 2023 debt ceiling episode.

Figure 5



Source: U.S. Department of the Treasury and Wells Fargo Economics

Figure 6



Source: U.S. Department of the Treasury and Wells Fargo Economics

Coupon Supply Outlook

Changes to coupon auction sizes are unlikely to be announced at the February 5 refunding.

On balance, current coupon auction sizes are raising enough money on a net basis that changes are unlikely to be announced at the February 5 refunding. At the previous refunding, Treasury's policy announcement stated that "Treasury does not anticipate needing to increase nominal coupon or floating rate note auction sizes for at least the next several quarters." We agree with that assessment and look for nominal coupon and floating rate note auction sizes to remain unchanged until the November refunding announcement. Our estimates for the federal budget deficit, QT and other financing needs suggest a net privately-held marketable borrowing need of roughly $2 trillion for 2025. If coupon auction sizes follow our projected path, we forecast that privately-held net coupon issuance will total $1.9 trillion in calendar year 2025, accounting for 93% of the net privately-held marketable borrowing for the year (Figure 6).

By later in the year, the outlook for QT and fiscal policy should be more clear than it is today, and the debt ceiling should be resolved, opening the door to a gradual increase in auction sizes that stretches into 2026 (Table). One very small exception is the auction for the 5-year Treasury Inflation-Protected Security (TIPS), which we expect to rise by $1 billion in April as Treasury seeks to keep TIPS stable as a share of the overall Treasury market.

Wells Fargo Gross Coupon Issuance Forecast
Billions of $

	2025											
	Jan	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**
2y	69	69	69	69	69	69	69	69	69	69	70	71
3y	58	58	58	58	58	58	58	58	58	58	59	60
5y	70	70	70	70	70	70	70	70	70	70	71	72
7y	44	44	44	44	44	44	44	44	44	44	45	46
10y	39	42	39	39	42	39	39	42	39	39	44	41
20y	13	16	13	13	16	13	13	16	13	13	17	14
30y	22	25	22	22	25	22	22	25	22	22	26	23
2y FRN	30	28	28	30	28	28	30	28	28	30	29	29
5y TIPS	0	0	0	25	0	23	0	0	0	25	0	23
10y TIPS	20	0	18	0	18	0	20	0	18	0	18	0
30y TIPS	0	9	0	0	0	0	0	8	0	0	0	0
Gross Issuance	365	361	361	370	370	366	365	360	361	370	379	379

Forecast as of: January 30, 2025

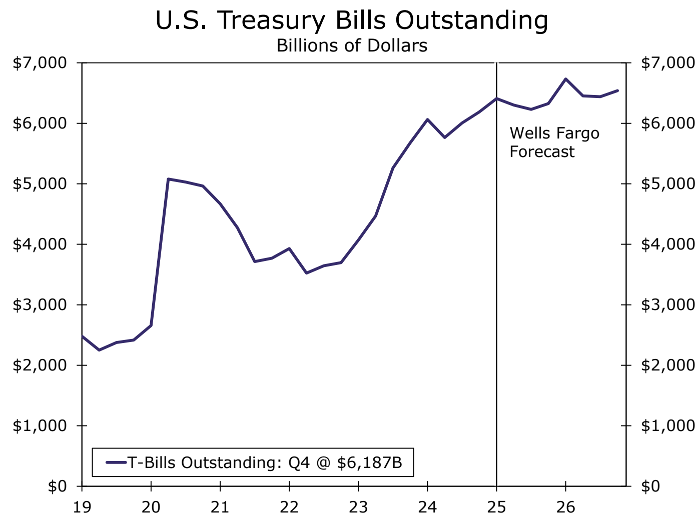
Source: U.S. Department of the Treasury, Bloomberg Finance L.P. and Wells Fargo Economics

Bill Supply Outlook

If net coupon supply meets 93% of the financing need this year, that leaves T-bills to soak up the remaining 7% or so. We look for net T-bill supply of $140 billion for calendar year 2025. In the near term, the binding debt ceiling should lead to a steady dose of weekly T-bill paydowns until the debt ceiling has been increased. The longer the debt ceiling is binding, the larger the paydowns. The upshot is that, once the debt ceiling has been dealt with, the TGA will need to be rebuilt, leading to a jump in bill issuance to restore the TGA back to normal levels (Figure 7). That said, these are ultimately questions of timing. The debt ceiling antics should not impact the level of T-bill outstanding at year-end. Looking through the debt ceiling noise, T-bills as a share of the Treasury market likely will drift lower over the next couple of years even if coupon auction sizes are left unchanged until late this year (Figure 8).

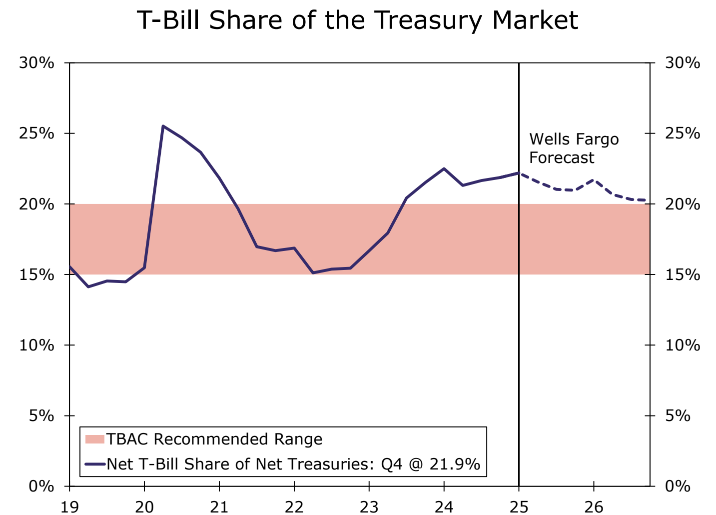
We look for net bill supply of $140 billion for calendar year 2025.

Figure 7



Source: U.S. Department of the Treasury and Wells Fargo Economics

Figure 8



Source: U.S. Department of the Treasury and Wells Fargo Economics

Subscription Information

To subscribe please visit: www.wellsfargo.com/economicsemail

Via The Bloomberg Professional Services at WFRE

Economics Group

Jay H. Bryson, Ph.D.	Chief Economist	704-410-3274	Jay.Bryson@wellsfargo.com
Sam Bullard	Senior Economist	704-410-3280	Sam.Bullard@wellsfargo.com
Nick Bennenbroek	International Economist	212-214-5636	Nicholas.Bennenbroek@wellsfargo.com
Tim Quinlan	Senior Economist	704-410-3283	Tim.Quinlan@wellsfargo.com
Sarah House	Senior Economist	704-410-3282	Sarah.House@wellsfargo.com
Azhar Iqbal	Econometrician	212-214-2029	Azhar.Iqbal@wellsfargo.com
Charlie Dougherty	Senior Economist	212-214-8984	Charles.Dougherty@wellsfargo.com
Michael Pugliese	Senior Economist	212-214-5058	Michael.D.Pugliese@wellsfargo.com
Brendan McKenna	International Economist	212-214-5637	Brendan.Mckenna@wellsfargo.com
Jackie Benson	Economist	704-410-4468	Jackie.Benson@wellsfargo.com
Shannon Grein	Economist	704-410-0369	Shannon.Grein@wellsfargo.com
Nicole Cervi	Economist	704-410-3059	Nicole.Cervi@wellsfargo.com
Jeremiah Kohl	Economic Analyst	212-214-1164	Jeremiah.J.Kohl@wellsfargo.com
Aubrey Woessner	Economic Analyst	704-410-2911	Aubrey.B.Woessner@wellsfargo.com
Delaney Conner	Economic Analyst	704-374-2150	Delaney.Conner@wellsfargo.com
Anna Stein	Economic Analyst	212-214-1063	Anna.H.Stein@wellsfargo.com
Ali Hajibeigi	Economic Analyst	212-214-8253	Ali.Hajibeigi@wellsfargo.com
Coren Miller	Administrative Assistant	704-410-6010	Coren.Miller@wellsfargo.com

Required Disclosures

This report is produced by the Economics Group of Wells Fargo Bank, N.A. (“WFBNA”). This report is not a product of Wells Fargo Global Research and the information contained in this report is not financial research. WFBNA distributes this report directly and through affiliates including, but not limited to, Wells Fargo Securities, LLC, Wells Fargo & Company, Wells Fargo Clearing Services, LLC, Wells Fargo Securities International Limited, Wells Fargo Securities Europe S.A., and Wells Fargo Securities Canada, Ltd. Wells Fargo Securities, LLC is registered with the Commodity Futures Trading Commission as a futures commission merchant and is a member in good standing of the National Futures Association. WFBNA is registered with the Commodity Futures Trading Commission as a swap dealer and is a member in good standing of the National Futures Association. Wells Fargo Securities, LLC and WFBNA are generally engaged in the trading of futures and derivative products, any of which may be discussed within this report. All reports published by the Economics Group are disseminated and available to all clients simultaneously through electronic publication to our public website. Clients may also receive our reports via third party vendors. We are not responsible for the redistribution of our reports by third-party aggregators. Any external website links included in this report are not maintained, controlled or operated by WFBNA. WFBNA does not provide the products and services on these websites and the views expressed on these websites do not necessarily represent those of WFBNA.

This publication has been prepared for informational purposes only and is not intended as a recommendation, offer or solicitation with respect to the purchase or sale of any security or other financial product, nor does it constitute professional advice. The information in this report has been obtained or derived from sources believed by WFBNA to be reliable, but has not been independently verified by WFBNA, may not be current, and WFBNA has no obligation to provide any updates or changes. All price references and market forecasts are as of the date of the report or such earlier date as may be indicated for a particular price or forecast. The views and opinions expressed in this report are those of its named author(s) or, where no author is indicated, the Economics Group; such views and opinions are not necessarily those of WFBNA and may differ from the views and opinions of other departments or divisions of WFBNA and its affiliates. WFBNA is not providing any financial, economic, legal, accounting, or tax advice or recommendations in this report. Neither WFBNA nor any of its affiliates makes any representation or warranty, express or implied, as to the accuracy or completeness of the statements or any information contained in this report, and any liability therefore (including in respect of direct, indirect or consequential loss or damage) is expressly disclaimed. WFBNA is a separate legal entity and distinct from affiliated banks, and is a wholly-owned subsidiary of Wells Fargo & Company.

You are permitted to store, display, analyze, modify, reformat, copy, duplicate and reproduce this report and the information contained within it for your own use and for no other purpose. Without the prior written consent of WFBNA, no part of this report may be copied, duplicated or reproduced in any form by any other means. In addition, this report and its contents may not be redistributed or transmitted to any other party in whole or in part, directly or indirectly, including by means of any AI Technologies (defined below) through which this report or any portion thereof may be accessible by any third-party. “AI Technologies” means any deep learning, machine learning, and other artificial intelligence technologies, including without limitation any and all (a) proprietary algorithms, software, or systems that make use of or employ neural networks, statistical learning algorithms (such as linear and logistic regression, support vector machines, random forests or k-means clustering) or reinforcement learning, or curated data sets accessible by any of the foregoing or (b) proprietary embodied artificial intelligence and related hardware or equipment. In addition, certain text, images, graphics, screenshots and audio or video clips included in this report are protected by copyright law and owned by WFBNA, its affiliates or one or more third parties (collectively, “Protected Content”). Protected Content is made available to clients by Wells Fargo under license or otherwise in accordance with applicable law. Any use or publication of Protected Content included in this report for purposes other than fair use requires permission from WFBNA or, in the case of content attributed to any third party, the third-party copyright owner. You may not alter, obscure, or remove any copyright, trademark or any other notices attached to or contained within this report. All rights not expressly granted herein are reserved by WFBNA or the third-party providers from whom WFBNA has obtained the applicable information. © 2025 Wells Fargo Bank, N.A.

Important Information for Non-U.S. Recipients
For recipients in the United Kingdom, this report is distributed by Wells Fargo Securities International Limited ("WFSIL"). WFSIL is a U.K. incorporated investment firm authorized and regulated by the Financial Conduct Authority (“FCA”). For the purposes of Section 21 of the UK Financial Services and Markets Act 2000 (the “Act”), the content of this report has been approved by WFSIL, an authorized person under the Act. WFSIL does not deal with retail clients as defined in the Directive 2014/65/EU (“MiFID2”). The FCA rules made under the Act for the protection of retail clients will therefore not apply, nor will the Financial Services Compensation Scheme be available. For recipients in the EFTA, this report is distributed by WFSIL. For recipients in the EU, it is distributed by Wells Fargo Securities Europe S.A. (“WFSE”). WFSE is a French incorporated investment firm authorized and regulated by the Autorité de contrôle prudentiel et de résolution and the Autorité des marchés financiers. WFSE does not deal with retail clients as defined in MiFID2. This report is not intended for, and should not be relied upon by, retail clients.

SECURITIES: NOT FDIC-INSURED - MAY LOSE VALUE - NO BANK GUARANTEE