

Special Commentary — January 30, 2026

Treasury Refunding Preview: Steady Coupon Supply

Summary

- We do not expect any major surprises from the U.S. Treasury at next Wednesday's Treasury refunding announcement. We expect Treasury to continue to signal that coupon auction sizes will remain unchanged for "at least the next several quarters."
- That said, at the last refunding, Treasury cracked open the door to eventual auction size increases. Our baseline expectation is that the "next several quarters" language will be dropped at the May refunding, clearing the way for the start of coupon auction increases a few quarters later in February 2027.
- Our forecast for a roughly flat budget deficit in FY 2026 underpins this status quo position for Treasury. The biggest risk to our deficit forecast is the outlook for tariff revenues. If the Supreme Court strikes down President Trump's authority to implement tariffs via IEEPA, this would threaten roughly \$175 billion of tariff revenue we have baked into our forecast for the year in addition to any retroactive refunds the Supreme Court could order, which we estimate would be \$130 billion or so.
- Thus, there is a risk that we could increase our FY 2026 federal budget deficit forecast by \$300 billion or so if the IEEPA tariffs are struck down by the Supreme Court. If realized, this would translate one-to-one into more net T-bill issuance.
- We project total T-bills outstanding to rise by \$544 billion in 2026, a meaningful sum that accounts for 27% of our projected net Treasury issuance for the year. But, after accounting for an anticipated \$557 billion of Fed buying for the year, privately-held net T-bill supply will be more or less flat.
- We are skeptical that Treasury supply will be the key determinant of the level of Treasury yields in 2026. Other factors, such as the outlook for economic growth and the federal funds rate, will be the dominant influences on 10-year Treasury yields this year, in our view. We continue to look for a roughly unchanged 10-year Treasury yield this year (YE 2026 forecast of 4.25%) amid a terminal fed funds rate of 3.00%-3.25%.

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Wells Fargo Net Treasury Issuance Forecast

	Billions of \$					
	2025		2026		2025	
	Q4	Q1	Q2	Q3	CY	CY
Privately-held net marketable borrowing	601	609	228	538	2,239	2,017
Budget deficit	602	607	203	488	1,667	1,914
Δ in cash balance	-18	-23	0	0	151	-23
SOMA coupon redemptions	10	0	0	0	115	0
SOMA T-bill redemptions	0	0	0	0	0	0
Other	7	25	25	50	306	125
Gross coupon auctions	1,109	1,089	1,109	1,088	4,390	4,395
Privately-held maturing coupons	658	725	705	728	2,511	2,923
SOMA secondary market coupon purchases	0	0	0	0	0	0
Privately-held net coupon issuance	451	364	404	360	1,879	1,472
SOMA secondary market T-bill purchases	38	164	129	133	38	557
Privately-held net bill issuance	112	81	-305	45	360	-12
End of quarter cash balance	873	850	850	850	873	850

Forecast as of: January 30, 2026

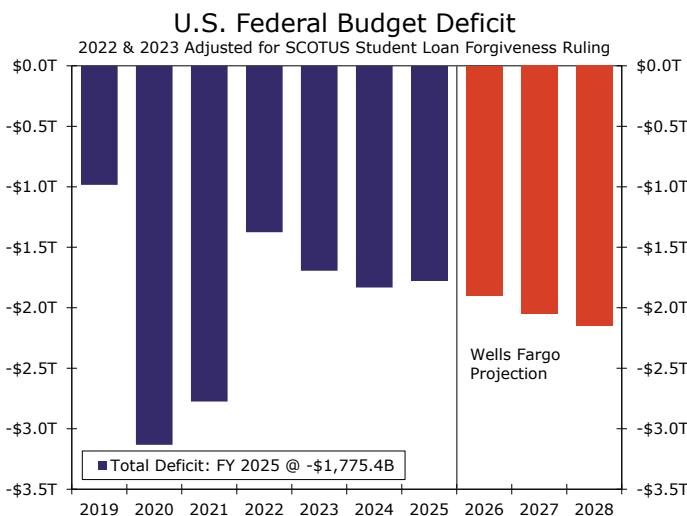
Note: Privately-held net marketable borrowing excludes secondary market purchases of Treasury Securities by the Federal Reserve's System Open Market Account (SOMA). For informative purposes, we include those purchases when calculating privately-held net coupon and T-bill issuance. Projections do not include the effects of future buyback operations.

Probably No Coupon Auction Increases in 2026

Budget Deficit Outlook

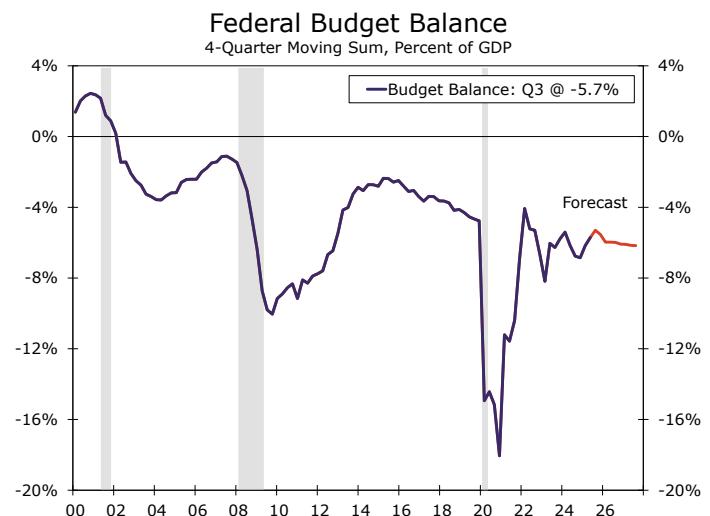
Our forecast for privately-held net marketable borrowing is \$609 billion in Q1, \$228 billion in Q2 and roughly \$2.0 trillion for 2026, down modestly from the \$2.2 trillion of privately-held net marketable borrowing in 2025 ¹. Our expectation for a roughly unchanged budget deficit this year underpins this projection. Our forecast for the federal budget deficit over the next few years is \$1.90 trillion in FY 2026, \$2.05 trillion in FY 2027 and \$2.15 trillion for FY 2028 ([Figure 1](#)). Seemingly, the 2026 forecast would represent a modest widening over the FY 2025 budget deficit of \$1.78 trillion. However, the FY 2025 deficit was reduced by one-time savings stemming from the accounting rules related to student loan policy changes in the One Big Beautiful Bill ². Excluding this one time \$131 billion reduction in outlays, the budget deficit was closer to \$1.9 trillion, meaning that this year's budget deficit should be similar to last year's after adjusting for the student loan quirk. As a percent of GDP, we expect the budget deficit to remain relatively steady around 6% over the next few years ([Figure 2](#)).

Figure 1



Source: Congressional Budget Office and Wells Fargo Economics

Figure 2

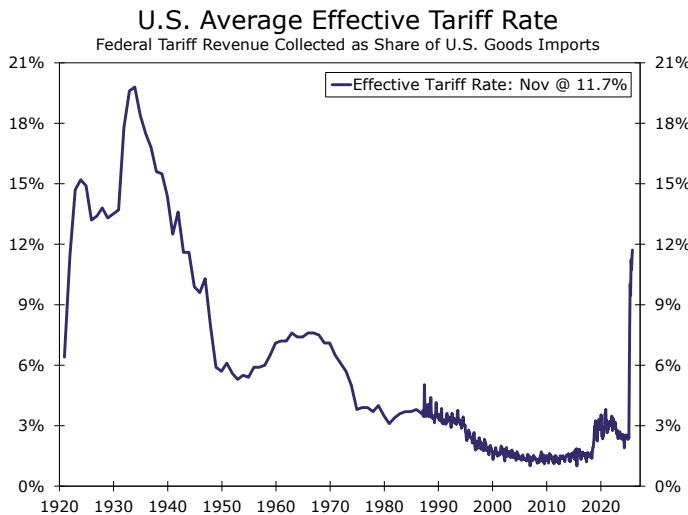


Source: U.S. Department of the Treasury, U.S. Department of Commerce and Wells Fargo Economics

Underpinning our forecast is an average effective tariff rate of roughly 15% in the year ahead ([Figure 3](#)). If the Supreme Court strikes down President Trump's authority to implement tariffs via the International Emergency Economic Powers Act (IEEPA), this would threaten roughly \$175 billion of tariff revenue we have baked into our forecast for the year. Note that this would be in addition to whatever refunds might need to be sent to the companies that already have paid the tariffs, which [we estimate](#) to be currently \$130 billion or so and rising as each month passes. Thus, there is a risk that we could need to increase our FY 2026 federal budget deficit forecast by \$300 billion or so if the IEEPA tariffs are struck down by the Supreme Court.

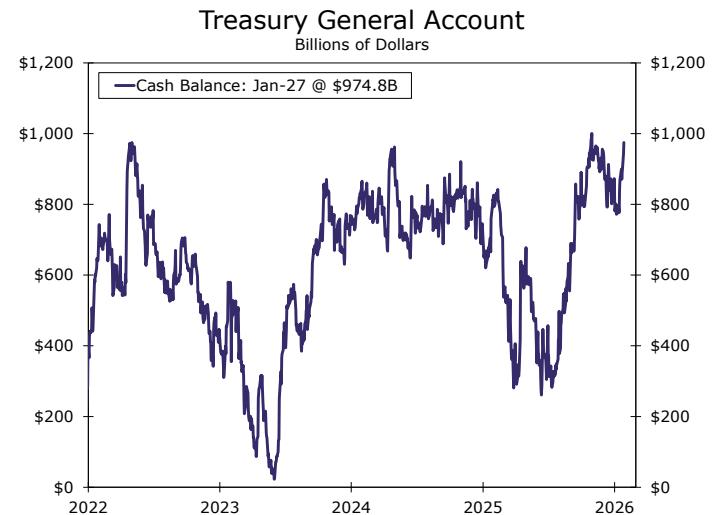
That said, there is uncertainty about how the refund process would play out, and we suspect the Trump administration would try to reimpose many of the tariffs using other legal authorities, which raises the prospect that at least some of the potentially lost revenue may eventually be recouped. It is also important to note that a ruling against the IEEPA tariffs would still leave in place many other tariffs the Trump administration put into place, such as the sectoral tariffs on specific goods such as copper, steel, cars and trucks.

Figure 3



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

Figure 4



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

Treasury General Account Outlook

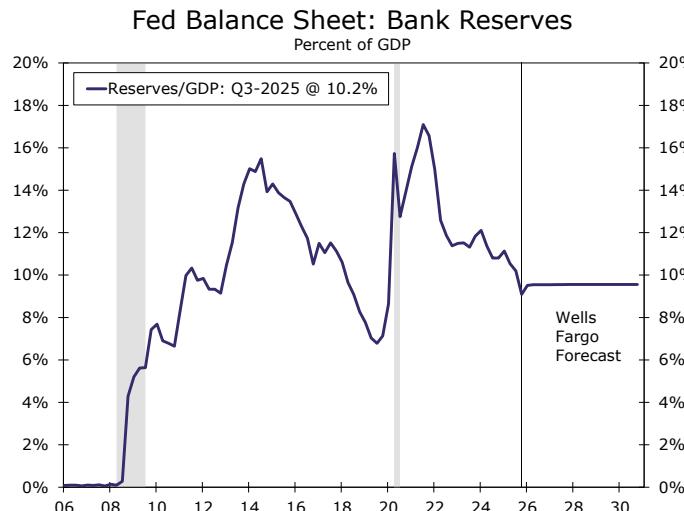
Treasury maintained its standard end of quarter cash balance target of \$850 billion at the last refunding, and we have no reason to believe that it will change at the upcoming refunding. Over the past couple months, Treasury General Account (TGA) has fluctuated between \$800 and \$900 billion on a daily basis (Figure 4). Accordingly, our forecast maintains an \$850 billion end of quarter cash balance target for the next few quarters. Given rising maturities, budget deficits and T-bill auction sizes in the years ahead, we suspect Treasury will bump up its equilibrium TGA target to \$900 billion at some point. We have tentatively penciled in this change in for the start of 2027, although we acknowledge it could come sooner depending on how the outlook evolves, especially the fiscal outlook and the IEEPA tariffs decision from the Supreme Court.

Federal Reserve Balance Sheet Outlook

The Federal Reserve is once again expanding its Treasury security holdings. These purchases are driven by two different factors. First, the Fed is still letting ~\$15 billion per month of mortgage-backed securities passively runoff its balance sheet, and policymakers have elected to plow these proceeds back into Treasury bills. In addition to this, the FOMC voted in December to purchase approximately \$40 billion per month of additional Treasury bills to ensure that bank reserves remain ample and short-term interest rate control is maintained. These purchases, which are separate from the buying done to replace MBS paydowns, are commonly called reserve management purchases (RMPs) to signal that their primary purpose is to manage the level of bank reserves in the financial system.

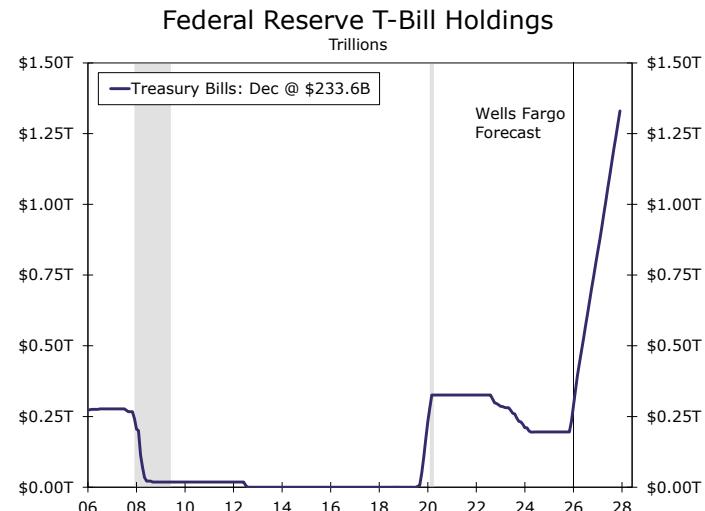
The guidance from the Fed made clear that the \$40 billion per month of T-bill buying would downshift sometime after April. We have penciled in a monthly run-rate of roughly \$25 billion per month starting in May. We calculate that this is approximately what it would take in net balance sheet expansion to keep the Fed's major liabilities, such as bank reserves and currency in circulation, unchanged as a share of GDP over the medium term (Figure 5). In practice, monthly purchases likely will fluctuate some from month to month as money market conditions evolve, but our expectation is that they will average roughly \$25 billion per month over time. The combined buying from these two programs will cause the Fed's T-bill holdings to rise significantly in the months ahead and will reduce the Treasury's financing need over the medium term (Figure 6).

Figure 5



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

Figure 6



Source: Federal Reserve Board and Wells Fargo Economics

Coupon and Bill Supply Outlook

At the previous refunding, we made the case that gross coupon auction sizes would remain unchanged until early 2027. We remain of that view ([table](#)). Over the past three months, there have been no major changes to the outlook that would lead us to believe coupon auction size increases are coming earlier. Given this, we think Treasury will leave unchanged its guidance that "Treasury anticipates maintaining nominal coupon and floating rate note auction sizes for at least the next several quarters."

That said, the time is coming soon when we think this language will be removed from the policy statement. At the last refunding, Treasury cracked open the door to eventual auction size increases with the following: "Looking ahead, Treasury has begun to preliminarily consider future increases to nominal coupon and FRN auction sizes." Our baseline expectation is that the "next several quarters" language will be dropped at the May refunding, clearing the way for the start of coupon auction increases a few quarters later in February 2027. But, we think there is a chance that Treasury may remove this language as soon as next week.

Wells Fargo Gross Coupon Issuance Forecast
Billions of \$

	2025			2026											
	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2y	69	69	69	69	69	69	69	69	69	69	69	69	69	69	69
3y	58	58	58	58	58	58	58	58	58	58	58	58	58	58	58
5y	70	70	70	70	70	70	70	70	70	70	70	70	70	70	70
7y	44	44	44	44	44	44	44	44	44	44	44	44	44	44	44
10y	39	42	39	39	42	39	39	42	39	39	42	39	39	42	39
20y	13	16	13	13	16	13	13	16	13	13	16	13	13	16	13
30y	22	25	22	22	25	22	22	25	22	22	25	22	22	25	22
2y FRN	30	28	28	30	28	28	30	28	28	30	28	28	30	28	28
5y TIPS	26	0	24	0	0	0	26	0	24	0	0	0	26	0	24
10y TIPS	0	19	0	21	0	19	0	19	0	21	0	19	0	19	0
30y TIPS	0	0	0	0	9	0	0	0	0	0	8	0	0	0	0
Gross Issuance	371	371	367	366	361	362	371	371	367	366	360	362	371	371	367

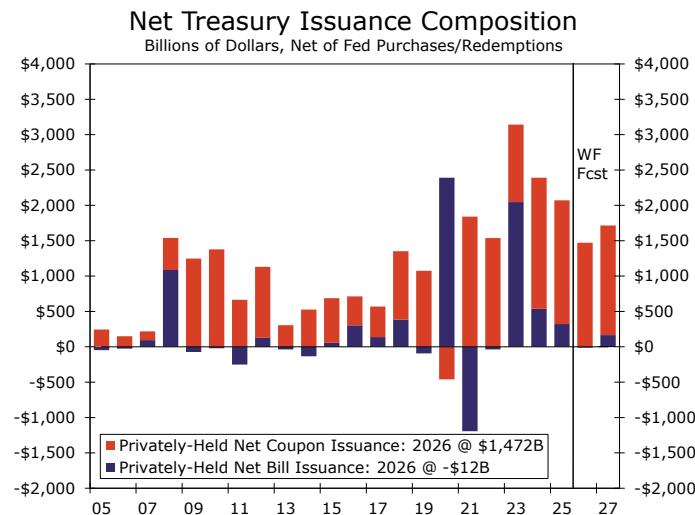
Forecast as of: January 30, 2026

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

The significant T-bill buying by the Federal Reserve will soak up most, if not all, of the net new T-bill supply this year. We project total T-bills outstanding to rise by \$544 billion in 2026, a meaningful sum that accounts for 27% of our projected net Treasury issuance for the year. But, after accounting for an anticipated \$557 billion of Fed buying, there will not be much net new T-bill supply that financial market participants will need to absorb. This year's privately-held net Treasury supply will be concentrated entirely in coupon issuance ([Figure 7](#)). By the end of this year, we look for the T-bill share of the Treasury market to rise modestly to 22%, or 23% when excluding the Treasury securities held by the Federal Reserve.

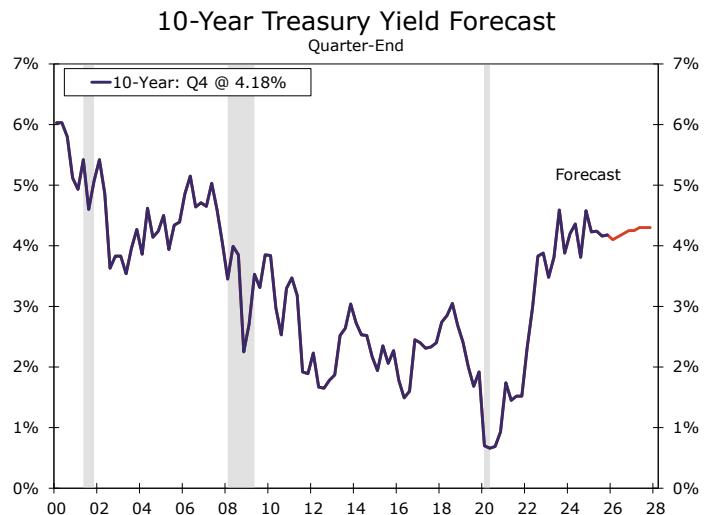
We are skeptical that Treasury supply will be the key determinant of the level of Treasury yields in 2026. Other factors, such as the outlook for economic growth, inflation, trend productivity growth, the composition of the FOMC and the path for the federal funds rate will be the dominant influences on 10-year Treasury yields this year, in our view. The U.S. Treasury seems content to leave coupon auction sizes unchanged for the foreseeable future while letting the T-bill share of the Treasury market steadily climb higher, offset by T-bill purchases by the central bank. We continue to look for a roughly unchanged 10-year Treasury yield this year (YE 2026 forecast of 4.25%) amid a terminal fed funds rate of 3.00%-3.25% (Figure 8).

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

Endnotes

1 – To calculate privately-held net marketable borrowing, we follow the methodology offered by Treasury, which is the following: Privately-held marketable borrowing excludes rollovers (auction “add-ons”) of Treasury securities held in the Federal Reserve System Open Market Account (SOMA) but includes financing required due to SOMA redemptions. Secondary market purchases of Treasury securities by SOMA do not directly change net privately-held marketable borrowing but, all else equal, when the securities mature and assuming the Federal Reserve System does not redeem any maturing securities, would increase the amount of cash raised for a given privately-held auction size by increasing the SOMA “add-on” amount.

In the table on the front page, we elect to subtract secondary market purchases of Treasury securities by SOMA in the “privately-held net coupon issuance” and “privately-held net bill issuance” lines to better illustrate the actual amount of net new supply that investors will need to absorb. For further reading on this topic, we would suggest reviewing footnote one and the appendix at [this link](#). (Return)

2 – In September 2025, the Administration recorded a reduction in outlays of \$131 billion resulting from modifications to the federal student loan program that were authorized in the 2025 reconciliation act. As required by the Federal Credit Reform Act of 1990, that reduction was recorded as a single number representing the change in all expected future cash flows from outstanding loans—such as larger payments from borrowers—discounted to the year in which the modification occurred. For further reading, see <https://www.cbo.gov/system/files/2025-10/60306-MBR.pdf> (Return)

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