US Rates Alpha

Short July SOFR/FF: debt limit => bills

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Early debt limit resolution risk rising

We see increased risk of an earlier-than-expected debt limit resolution following recent DC developments. The US Senate passed a key procedural vote for the One Big Beautiful Bill Act (OBBBA) on Saturday night & is aiming to advance their legislation back to the House this week. We suspect heavy pressure on the House to finalize OBBBA in time for the target July 4 passage date. We see increasing chances the bill becomes law by the end of this week. This is earlier than our previously expected end July / early Aug timing.

Debt limit increase in OBBBA => higher TGA & more bills

The OBBBA includes a $5tn debt limit increase. This will likely take effect as soon as the bill becomes law & should see a rapid amount of bill supply settle upon passage. This poses upside risks to our July bill supply estimates. History says that Treasury typically rebuilds TGA back to their target roughly 51 business days post debt limit passage (Exhibit 1). Recent years have taken somewhat longer. History also says Treasury rebuilds their gap to TGA target by roughly 50% within 20 biz days (Exhibit 2, July has 19 biz days after between July 4 & end month). A typical 20D TGA rebuild + bill supply to cover July financing needs implies total bill supply over July of $391b. Total UST supply would likely total $484b. We see risks skewed to a slower TGA build & less supply.

July SOFR/FF short: bill supply => higher SOFR

We go short July SOFR/FF at 1bps. We target -2bps with a stop of +2.5bps. Justification: higher July UST supply will put upward pressure on SOFR vs FF, likely beyond prior market expectations. Risk to the trade is a delayed debt limit resolution & longer period before UST supply reaches the market. We continue to hold our short October SOFR/FF trade and believe that tighter July SOFR/FF should support the move (see: Funding & debt limit: history lessons).

SOFR = secured overnight financing rate

FF = fed funds

UST = US Treasury

TGA = Treasury General Account

OBBBA = One Big Beautiful Bill Act

For a list of open trades & closed trades over the past 12 months see our most recent Global Rates Weekly (PID: 12845370)

BofA - Global Rates Weekly

Exhibit 1: Number of business days to close TGA cap after debt limit resolution
On average, it takes Treasury 51 biz days to close TGA gap after debt limit resolution

	2013	2015	2017	2018	2019	2021	2023	Average
5%	1	1	1	5	7	4	5	3
10%	1	3	1	5	17	4	6	5
20%	11	3	1	19	22	6	8	10
30%	11	8	3	19	30	11	8	13
40%	11	13	5	21	31	54	11	21
50%	43	19	10	24	31	54	13	28
60%	43	19	20	24	31	60	15	30
70%	43	20	20	25	31	61	18	31
80%	43	31	20	26	32	66	23	34
90%	54	40	20	47	40	68	31	43
100%	54	43	20	51	41	75	74	51

Source: Bloomberg, BofA Global Research

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Exhibit 2: Average amount of TGA rebuild for a given number of business days
Typically Treasury closes the TGA gap by roughly 50% after 20 biz days

Biz Days	2015	2017	2018	2019	2021	2023	Average
5	30%	50%	16%	-4%	17%	6%	19%
10	34%	54%	3%	-6%	26%	37%	25%
15	48%	46%	-4%	2%	26%	60%	30%
20	76%	112%	31%	0%	15%	61%	49%
30	54%	101%	75%	38%	2%	87%	60%
50	95%	60%	85%	81%	13%	74%	68%
100	93%	100%	83%	109%	105%	144%	106%

Source: Bloomberg, BofA Global Research

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