

# US Rates Watch

## August refunding recap: buybacks delivered

### Refunding in line with expectations

The August refunding announcement was largely in line with our expectations. As discussed in our [August refunding preview \(see report\)](#), we anticipated UST to hold forward guidance for stable coupon auction sizes “for at least the next several quarters” and to double the frequency of 10-20y and 20-30y buybacks. Treasury delivered on these expectations.

We were also looking for a discussion of optimal issuance or supply / demand considerations. TBAC delivered a nugget along these lines. The TBAC report to Treasury noted: “a refresh of the optimal debt structure analysis could be beneficial.” We expect TBAC and UST to offer greater clarity to the market on any potential issuance adjustments related to “evolution in demand patterns” in upcoming refunding meetings.

We hold our issuance forecasts stable (Exhibit 1) and continue to forecast a build in bill share of debt (Exhibit 3). Recall, we expect no further increases in coupon supply through our end FY '27 forecast horizon; we expect all incremental financing to be met via bills.

### Buybacks reduce net long end supply

As we expected, UST doubled the frequency of long-end nominal coupon liquidity support buybacks. As shown in Exhibit 6, this suggests largest max support in the aged 20y bucket, where UST max buyback total is about 19% of on-the-run auction sizes. Treasury also made an adjustment to TIPS liquidity buybacks & increased the max size of cash management buybacks. In 1H '26 UST will also offer direct buyback access to a limited number of additional counterparties based on participation at UST auctions.

Overall, we think these adjustments are a net positive for the Treasury market. The changes indicate Treasury is listening to and willing to incorporate market feedback. It will also address cheapness and consistent strong offer amounts in longer-dated buybacks (Exhibit 7). This step should offer investors and dealers greater confidence buying and making markets in the sector.

### Optimal WAM discussion likely in November

We were also looking for a discussion of optimal issuance or supply / demand considerations and believe a TBAC statement foreshadows this discussion at the next refunding meeting. Specifically, TBAC’s mention of “evolution in demand patterns” suggests recommendations for tilting WAM shorter and concentrating issuance in the front end and belly of curve. For now, we hold our coupon supply forecasts steady over our forecast horizon (end of FY '27) and assume additional financing stems from larger bill share of issuance (Exhibit 5). We continue to believe larger near-term bill issuance will see Treasury WAM angled lowered in coming quarters (Exhibit 4).

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FF = fed funds

FY = Fiscal year

SOFR = Secured Overnight Financing Rate

TBAC = Treasury Borrowing Advisory Committee

TGA = Treasury general account

TIPS = Treasury inflation protected securities

UST = US Treasury

WAM = weighted average maturity

For a list of open trade recommendations and trade recommendations closed over the past 12 months, see our most recent [Global Rates Weekly](#).

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## Q3 bill wave larger than previously expected

Monday's financing estimates suggest about \$135bn more bills in Q3 and \$50bn fewer bills in Q4 vs what we had forecasted. This points to a more acute build in bill supply through the end of September (Exhibit 14), giving us greater conviction in our short October SOFR/FF position. We see Oct SOFR/ FF getting to -8bps, which accounts for a 4bps incremental cheapening in SOFR vs market pricing by end Oct.

We continue to expect a relatively rapid increase in the Treasury cash balance (TGA) by September (Exhibit 16). Treasury's guidance on T-bill auction sizes implies large front-end offerings in coming weeks. This suggests net bill supply of nearly \$370b in August and should see TGA reach \$700b at end-August. Treasury confirmed their end-Sep target TGA balance of \$850b, which would imply a small net bill paydown that month. These dynamics imply greater upward pressure on money market rates in August and September, which should support our view for tighter Oct '25 SOFR/FF.

## Continue to favor short 3y swap spreads

After closing our 3y 20y swap spread steepener Monday, we maintain our 3y swap spread short (see: [US Rates Alpha](#)). With UST holding coupon guidance, funding will be made up through higher bill supply, which can support cheaper funding and narrower front-end spreads. A UST that contemplates TBAC concern for "increased demand in front end and intermediate maturities relative to reduced demand in longer end maturities" could also see risks build for higher front-end and belly issuance, cheapening the 3y point. Upcoming bill supply and TGA build also support the 3Y spread short.

## Expect stable TIPS for forecast horizon

After a \$6bn increase across TIPS new-issue auction sizes since May '24 (when nominal sizes stabilized), we expect that UST will hold TIPS auction sizes stable throughout our forecast horizon (Exhibit 8). TIPS % of gross debt outstanding ex-bills has stabilized (Exhibit 9) and we don't expect further increase without shifts in nominal coupon sizes. This is also consistent with TBAC guidance for stable TIPS new-issue sizes at the November refunding meeting.

**Bottom line:** August refunding was broadly in line with our expectations. UST delivered on larger increases in long-end buybacks, which reduces net supply at the long end of the curve. UST will see \$506bn build in bill supply in Q3 and a sharp TGA rebuild by end-September, which supports our Oct SOFR/ FF short. A potential upcoming discussion on optimal debt issuance given "evolution in demand patterns" supports our 3y swap spread short.

### Exhibit 1: Actual and expected auction sizes through October 26

Expect coupon sizes unchanged through our forecast window

	2y	3y	5y	7y	10y	20y	30y	5y II	10y II	30y II	2y FRN
May-25	69	58	70	44	42	16	25		18		28
Jun-25	69	58	70	44	39	13	22	23			28
Jul-25	69	58	70	44	39	13	22		21		30
Aug-25	69	58	70	44	42	16	25			8	28
Sep-25	69	58	70	44	39	13	22		19		28
Oct-25	69	58	70	44	39	13	22	26			30
Nov-25	69	58	70	44	42	16	25		19		28
Dec-25	69	58	70	44	39	13	22	24			28
Jan-26	69	58	70	44	39	13	22		21		30
Feb-26	69	58	70	44	42	16	25			9	28
Mar-26	69	58	70	44	39	13	22		19		28
Apr-26	69	58	70	44	39	13	22	26			30
May-26	69	58	70	44	42	16	25		19		28
Jun-26	69	58	70	44	39	13	22	24			28
Jul-26	69	58	70	44	39	13	22		21		30
Aug-26	69	58	70	44	42	16	25			8	28
Sep-26	69	58	70	44	39	13	22		19		28
Oct-26	69	58	70	44	39	13	22	26			30

Source: BofA Global Research

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**Exhibit 2: Change in auction sizes from May refunding quarter**

Treasury left auction sizes unchanged for nominal coupons at the Aug refunding

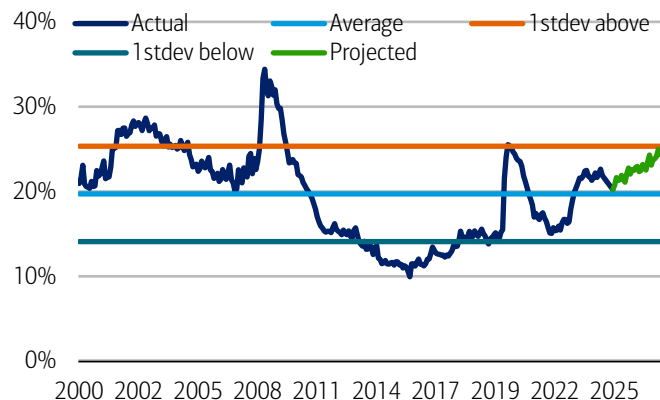
	2y	3y	5y	7y	10y	20y	30y	5y II	10y II	30y II	2y FRN
8/29/2025	0	0	0	0	0	0	0			0	0
9/30/2025	0	0	0	0	0	0	0		1		0
10/31/2025	0	0	0	0	0	0	0	1			0

Source: BofA Global Research

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**Exhibit 3: Bills as a % of marketable debt**

Given our expectations for deficit and QT ending in Mar '25, bills as a share of marketable debt should increase through FY '27

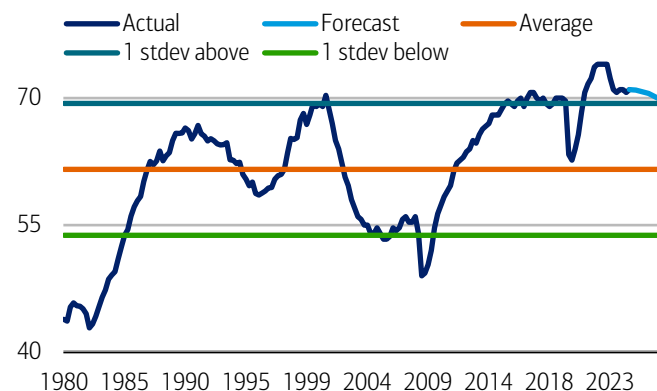


Source: BofA Global Research, US Treasury

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**Exhibit 4: Actual and expected weighted average maturity (WAM) through FY '27 (months)**

WAM will decline slowly if UST relies more on T-bill issuance for new financing needs

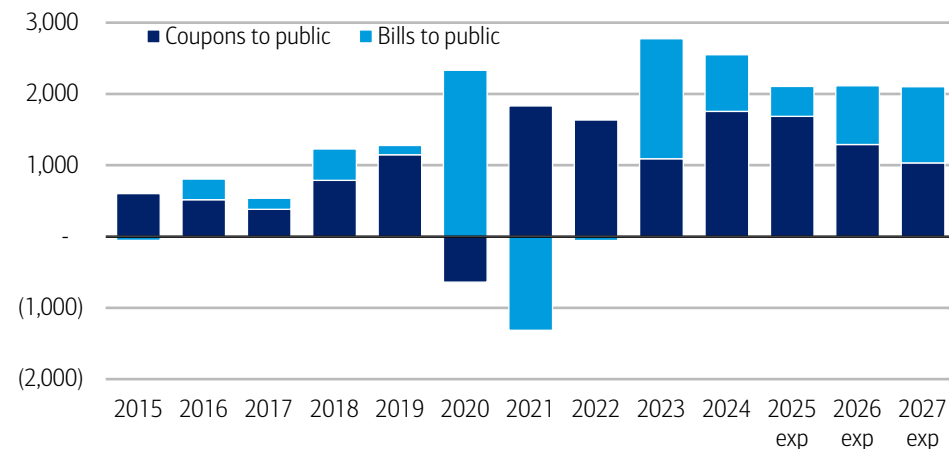


Source: BofA Global Research, US Treasury

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**Exhibit 5: Net coupon & bill supply to public ex Fed (\$bn)**

Expect higher bill share through FY '25



Source: BofA Global Research, Bloomberg

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**Exhibit 6: Buyback share of gross issuance (\$bn, %)**

Buyback share highest at long end of curve

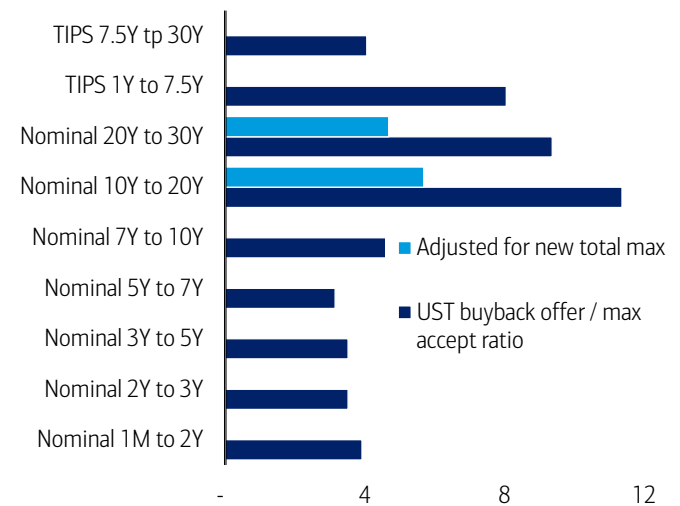
	Buyback	New issuance*	Buyback % of new issuance
1m - 2y	4	207	2%
2y - 3y	4	174	2%
3y - 5y	4	210	2%
5y - 7y	4	132	3%
7y - 10y	4	120	3%
10y - 20y	8	42	19%
Nominal 20y - 30y	8	69	12%
1y - 10y	1.5	45	3%
TIPS 10y - 30y	0.5	8	6%

Source: BofA Global Research, US Treasury. \*UST excludes new issue from buyback, 10y – 20y bucket reflects new issuance at 20y point on curve.

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**Exhibit 7: UST buyback offer / max accept ratio**

Larger back end buybacks brings ratio closer to levels across rest of curve

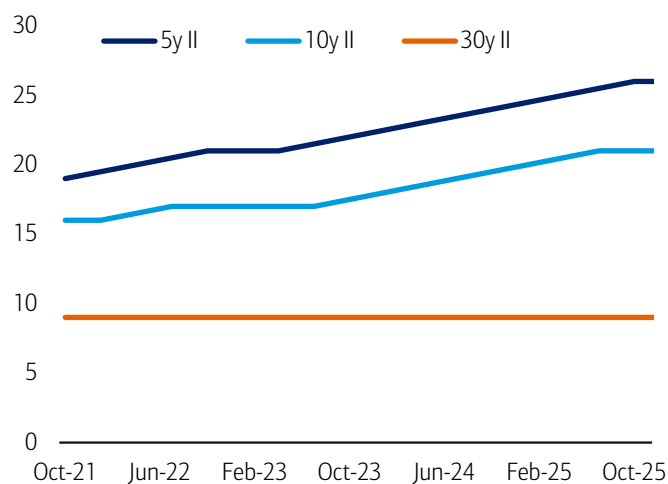


Source: BofA Global Research, US Treasury

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**Exhibit 8: TIPS new issue auction sizes (\$bn)**

Auction sizes have grown a total of \$12bn across 5y &amp; 10y TIPS, data through August '25 refunding quarter

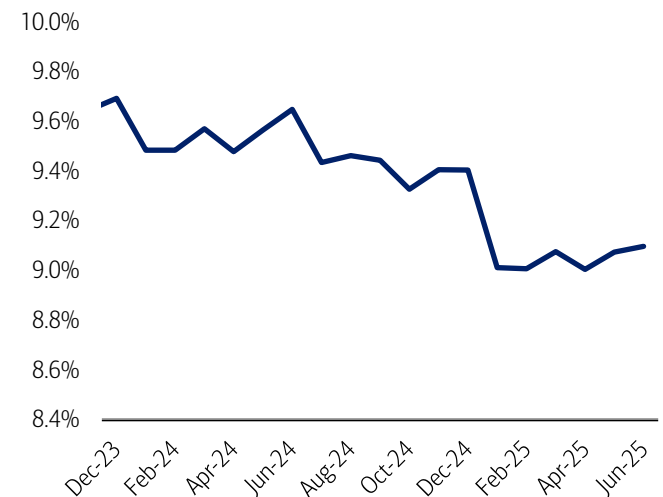


Source: BofA Global Research, US Treasury

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**Exhibit 9: TIPS % of marketable debt outstanding ex bills**

TIPS auction growth has stabilized % of marketable debt ex bills



Source: BofA Global Research, US Treasury

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**Exhibit 10: BofA and UST financing need forecasts (\$bn)**

We use Treasury's financing need and TGA forecasts as an input into our own

		Financing Need	Marketable Borrowing	All Other Sources	Total 4 = 2 + 3	Change in Cash Balance 5 = 4 - 1	End of Quarter Cash Balance	SOMA Redemptions
		1	2	3	3	5 = 4 - 1	6	7
Jul-Sept '25	BofA Forecast	525	918	101	1019	393	850	-15
	US Treasury Forecast (Jul 28 '25)	525	1007	-90	918	393	850	-15
Oct-Dec '25	BofA Forecast	494	494	-119	494	0	850	-15
	US Treasury Forecast (Jul 28 '25)	494	590	-96	494	0	850	-15

Source: BofA Global Research, Treasury.

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**Exhibit 11: Financing estimates by fiscal year (\$bn)**

If UST keeps coupon auction sizes unchanged, bills as a share of marketable debt will be 24.6% by end of FY '27

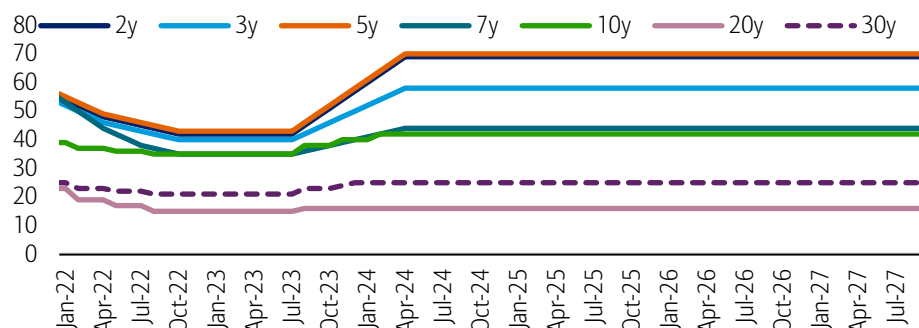
	2025	2026	2027
1 Baseline deficit	1,925	2,000	2,050
2 Other adjustment	82	(20)	-
3 Financing need (1 + 2)	2,007	1,980	2,050
4 Change in cash balance	(36)	20	25
5 Note: cash balance end period assumption	850	870	895
6 <b>Marketable borrowing need (3 + 4)</b>	<b>1,971</b>	<b>2,000</b>	<b>2,075</b>
7 Gross coupon auctioned	4,384	4,395	4,395
8 Total coupon maturing	3,072	3,402	3,560
9 Fed coupon rollover	400	477	392
10 Public coupon maturing (8 - 9)	2,672	2,926	3,168
11 Expected buybacks*	191	300	300
12 <b>Net coupon supply (7 - 10 - 11)</b>	<b>1,521</b>	<b>1,169</b>	<b>927</b>
13 Coupon runoff from Fed bal sheet	180	15	-
14 Net coupon supply to public (12 + 13)	1,701	1,184	927
15 <b>Net bill supply (6 - 12)</b>	<b>450</b>	<b>831</b>	<b>1,148</b>
16 Bill runoff from Fed bal sheet	-	-	-
17 Net bill supply to public (15 + 16)	450	831	1,148
18 <b>Net supply issued (12 + 15)</b>	<b>1,971</b>	<b>2,000</b>	<b>2,075</b>
19 Net supply to public (14 + 17)	2,151	2,015	2,075
20 Starting assumed coupons	21,706	23,227	24,396
21 Starting assumed bills	6,004	6,454	7,285
22 End assumed coupons (12 + 20)	23,227	24,396	25,324
23 End assumed bills (15 + 21)	6,454	7,285	8,433
26 <b>Bills as % of coupons + bills (23 / (22 + 23))</b>	<b>21.7%</b>	<b>23.0%</b>	<b>25.0%</b>

Source: BofA Global Research, US Treasury, Federal Reserve. We assume QT ends in Dec '25

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**Exhibit 12: Treasury auction sizes by tenor with projections through FYE '27 (\$bn)**

We forecast Treasury will keep coupon auction sizes unchanged through FYE '27



Source: BofA Global Research, US Treasury

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**Exhibit 13: August bill issuance forecasts (\$mn)**

Given Tsys updated bill auction size guidance, we estimate the TGA could be much higher than prior forecast

Bill tenor (week)	Total	5-Aug	7-Aug	12-Aug	14-Aug	19-Aug	21-Aug	26-Aug	28-Aug
4		95,000		100,000		100,000		100,000	
6			80,000		80,000		80,000		80,000
8		85,000		85,000		85,000		85,000	
13			82,000		82,000		82,000		82,000
17		65,000		65,000		65,000		65,000	
26			73,000		73,000		73,000		73,000
52									50,000
Gross Aug bill supply	1,985,000	245,000	235,000	250,000	235,000	250,000	235,000	250,000	285,000
Aug maturing	1,613,560								
Net Aug bill supply	371,440								

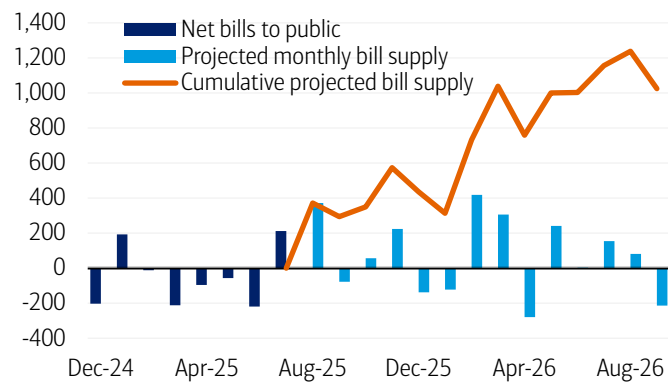
Source: BofA Global Research

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**Exhibit 14: Projected monthly bill supply and cumulative projected bill supply (\$bn)**

We forecast nearly \$500bn in bill supply between now and Dec '25

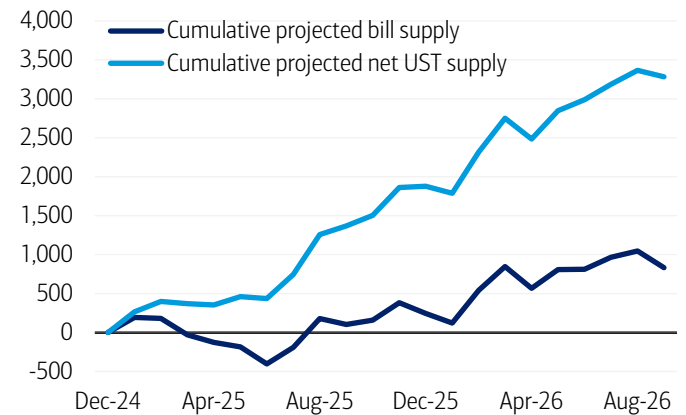


Source: BofA Global Research, US Treasury

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**Exhibit 15: Projected cumulative net bill & total UST supply YTD (\$bn)**

Cumulative UST issuance is forecasted to rise to nearly \$2tn by year-end



Source: BofA Global Research, US Treasury

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**Exhibit 16: Bill and coupon issuance estimates by month**

We expect \$506b in bills in Q3, \$142b in Q4 as the TGA rebuild ramps up

	Financing Need	TGA EOP	TGA Change	Other sources*	Marketable Borrowing	Buybacks	Net Coupon	Net Bills	Fed Coupon Maturities	Fed Bill Maturities	Net Coupons to the Public	Net Bills to the Public	Net Supply to the Public
	1	2	3	3	3 = 1 + 2	4	5	6	7	8	9 = 5 + 7	10 = 6 + 8	11 = 9 + 10
Jul-25	223	540	83	-30	306	10	94	212	5	0	99	212	311
Aug-25	344	700	160	-30	507	11	136	371	5	0	141	371	512
Sep-25	-42	850	147	-30	105	11	183	-78	5	0	188	-78	110
Oct-25	130	850	0	-32	130	14	74	57	5	0	79	57	135
Nov-25	353	850	0	-32	353	10	130	224	5	0	135	224	358
Dec-25	10	850	0	-32	10	40	148	-138	5	0	153	-138	15
Jan-26	-92	852	2		-90	11	32	-122	0	0	32	-122	-90
Feb-26	525	854	2		527	7	109	419	0	0	109	419	527
Mar-26	435	856	2		437	43	131	306	0	0	131	306	437
Apr-26	-271	859	2		-269	60	11	-280	0	0	11	-280	-269
May-26	362	861	2		364	7	123	241	0	0	123	241	364
Jun-26	140	863	2		142	43	140	3	0	0	140	3	142
Jul-26	195	865	2		197	13	43	154	0	0	43	154	197
Aug-26	177	867	2		179	10	98	82	0	0	98	82	179
Sep-26	-85	870	3		-82	43	131	-213	0	0	131	-213	-82

Source: BofA Global Research, US Treasury, Federal Reserve

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**Exhibit 17: Forecasted SOMA reinvestments at UST auctions by tenor (\$bn)**

Fed UST reinvestments picked up recently as the Fed reduced the redemption cap to \$5b in April

	2y FRN	3y	10y	30y	2y	5y	7y	20y	5y II	10y II	30y II
Oct-24	0.5	0.8	0.5	0.3	1.2	1.2	0.7	0.2	0.4	0.0	0.0
Nov-24	0.0	14.1	10.2	6.1	4.7	4.8	3.0	1.1	0.0	0.0	0.0
Dec-24	0.2	0.4	0.3	0.2	0.6	0.6	0.4	0.1	0.2	0.0	0.0
Jan-25	1.7	12.7	8.5	4.8	3.8	3.9	2.4	0.7	0.0	1.1	0.0
Feb-25	2.8	15.9	11.5	6.9	7.0	7.1	4.4	1.6	0.0	0.0	0.9
Mar-25	0.7	1.0	0.7	0.4	1.8	1.8	1.1	0.3	0.0	0.5	0.0
Apr-25	2.0	9.6	6.5	3.6	4.7	4.8	3.0	0.9	1.7	0.0	0.0
May-25	0.0	20.5	14.8	8.8	9.4	9.6	6.0	2.2	0.0	0.0	0.0
Jun-25	2.5	1.0	0.7	0.4	6.1	6.2	3.9	1.1	2.0	0.0	0.0
Jul-25	2.0	6.8	4.5	2.6	4.7	4.8	3.0	0.9	0.0	1.4	0.0
Aug-25	0.0	19.7	14.3	8.5	8.3	8.4	5.3	1.9	0.0	0.0	0.0
Sep-25	1.4	0.0	0.0	0.0	3.4	3.4	2.1	0.6	0.0	0.9	0.0
Oct-25	1.7	1.0	0.7	0.4	4.0	4.0	2.5	0.7	1.5	0.0	0.0
Nov-25	0.0	9.0	6.5	3.9	7.9	8.0	5.0	1.8	0.0	0.0	0.0
Dec-25	2.1	0.0	0.0	0.0	5.1	5.2	3.3	1.0	1.8	0.0	0.0
Jan-26	2.1	16.3	11.0	6.2	4.9	4.9	3.1	0.9	0.0	0.0	0.0
Feb-26	0.0	16.4	11.9	7.1	8.3	8.4	5.3	1.9	0.0	0.0	0.0
Mar-26	2.6	0.0	0.0	0.0	6.3	6.4	4.0	1.2	0.0	1.7	0.0
Apr-26	3.8	10.0	6.7	3.8	8.7	8.8	5.5	1.6	3.3	0.0	0.0
May-26	0.0	13.8	10.0	5.9	10.2	10.3	6.5	2.4	0.0	0.0	0.0
Jun-26	3.5	0.0	0.0	0.0	8.6	8.7	5.5	1.6	3.0	0.0	0.0
Jul-26	3.1	5.7	3.8	2.2	7.2	7.3	4.6	1.4	0.0	2.2	0.0
Aug-26	3.2	14.7	10.6	6.3	7.8	7.9	5.0	1.8	0.0	0.0	0.9
Sep-26	3.5	0.0	0.0	0.0	8.6	8.8	5.5	1.6	0.0	2.4	0.0

Source: BofA Global Research, Federal Reserve. Note we assume UST QT ends in Dec '25

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**Exhibit 18: QRA trade recommendations**

Open trades

Open Trades	Entry Date	Entry	Target	Stop	Latest Level	Trade rationale	Risk
US <a href="#">Short 3y swap spread</a>	30-Jun-25	-31bp	-40bp	-20bp	-30bp	Reg disappointment, WAM shortening, flight to safety, higher UST supply	Demand from banks and carry traders picks up and richens USTs vs swaps
<a href="#">Short Oct SOFR/FF</a>	27-Jun-25	-4bp	-8bp	-1bp	-4bp	Tighter funding post debt limit & TGA rebuild	Slow TGA rebuild or later DL resolution

Source: BofA Global Research

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