

US Rates Watch

August refunding preview: Billwatch

Bracing for bill wave

As discussed in [Lower WAM => backdoor easing](#), we revised our supply estimates from coupon growth starting at the Feb '26 refunding to UST holding coupon supply steady and allowing for higher bill share. This change in view follows President Trump & Secretary Bessent comments noting that Treasury may extend short-term debt given the level of interest rates. As discussed in further detail below, we expect that UST will manage lower WAM through higher bill issuance. We think this administration may tolerate a larger bill share up to 25% (+1 stdev above historic average) and/ or wait for rates to move lower before growing coupon supply. We expect this bill wave will cheapen funding rates & likely warrant Fed intervention in 2H '25 or 1H '26.

Short front-end spreads for expected WAM strategy

We expect WAM reduction will be passively managed through higher bill share and larger long end buybacks vs more active through longer-tenor coupon cuts. This strategy should support cheapening of Oct SOFR/ FF & steepening of the 3Y 20Y spread curve (Exhibit 15). While a more active approach through coupon redistribution is not our base case, any signal on this would also likely support these positions. As shown in Exhibit 2, WAM of UST debt outstanding is already historically high. A UST that manages a higher bill share & larger buybacks will see modest reduction in WAM of 1.1 months through FY '27. At the August refunding we expect three details to support this view: 1/ maintain forward guidance for stable auction sizes in policy statement, 2/ larger buybacks at long end of curve, 3/ TBAC discussion of optimal debt issuance.

Expect forward guidance on stable auction sizes

We expect Treasury to maintain its guidance that coupon auction sizes will remain stable for "at least the next several quarters". Treasury is likely to keep rolling forward this guidance for the foreseeable future & meet any incremental financing need in bills. We recently revised our Treasury supply expectations and do not see any coupon growth until end FY '27 or later. This will see bills as % of the portfolio rise to 25% & will modestly lower UST WAM (Exhibit 1, Exhibit 2). We will retain the expectation for stable coupon auction sizes until Treasury or TBAC provide further guidance.

Buyback adjustment likely

We expect Treasury to double the frequency of long-dated buybacks, especially in the 10-20Y & 20-30Y sectors. Long-dated buybacks have seen the largest offering amounts & is the sector that would likely most benefit (Exhibit 3). Larger long-dated buyback sizes could also be considered; we believe the market could easily absorb an extra \$1b/operation in each tenor without much market impact. We believe buybacks in the 5-10Y sectors should also be considered for increased sizes, but do not expect an adjustment in these tenors at this refunding. Buybacks in the 5-10Y sectors can more easily tolerate larger sizes given their lower duration vs long-end buybacks.

... More detail on page 2...

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Timestamp: 22 July 2025 12:41PM EDT

22 July 2025

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For a list of open trades and trades closed over the last 12 months please see [Global Rates Weekly](#)

UST = US Treasury

WAM = weighted average maturity

TBAC = Treasury Borrowing Advisory Committee

FY: Fiscal year

SOFR: Secured overnight financing rate

FF: Federal funds rate

QE: Quantitative easing

We continue to believe buybacks focused on coupon STRIPS would be helpful for dealers but put low odds of a change at this refunding.

Potential discussion for optimal issuance

TBAC may discuss optimal Treasury issuance with a larger debt supply. In a March '25 Brookings paper published by former TBAC member Colin Teichholtz, he argued that to best optimize UST issuance using a model studied by TBAC with a large debt load “debt managers could incrementally increase issuance in the belly of the curve, while reducing issuance in both front-end and long-end maturities.” If TBAC were to consider supply / demand dynamics across the curve we also suspect they would reflect a preference for funding more in short- vs long-dated issuance; large front-end inflows & potential incremental stablecoin demand could justify higher bill supply in the near term. For our updated stablecoin thoughts see: [GENIUS Act is law: Now what?](#)

Market impact of higher bill supply

We see two clear market implications for higher bill supply: 1/ upward pressure on funding, 2/ looser financial conditions vs scenario where UST grows auction sizes.

Cheaper funding: A Treasury that accepts a WAM shortening and relies more heavily on bill supply will see money market rates cheapen and test demand from front-end investors, especially amidst a large surge in bill supply after debt limit resolution. Specifically, we see Oct SOFR/ FF getting to -8bps which accounts for a 3.5bps incremental cheapening in SOFR vs market pricing by end Oct. For greater detail see: [Funding & debt limit: history lessons](#).

Looser financial conditions: A UST that leans more heavily on bill issuance vs growing coupon supply reduces the duration that the market needs to absorb by about \$1tn in 10y equivalents (Exhibit 4). Versus the alternative of UST coupon growth, higher bills should mean lower rates, wider long-end swap spreads, and easier financial conditions all else equal. We estimate the market impact of this \$1tn reduction in 10y duration supply equates to around 30bps on 10y (Exhibit 5). UST WAM shortening is not QE mechanically, but it has a similar fin condition impact.

Risks around base case given market expectations

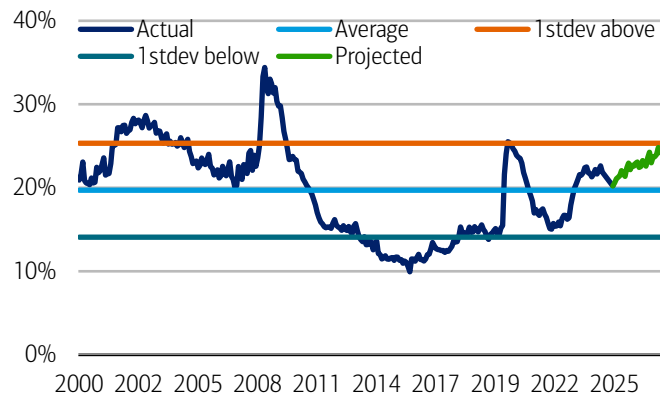
We believe market expectations are high for Treasury to maintain coupon forward guidance & to roll out long end buyback adjustments. If Treasury does not announce these changes, we expect to see a cheapening of long-dated USTs vs OIS. We also expect the market is looking for some signal of UST WAM shortening; we think discussion of optimal Treasury issuance would satisfy this expectation. We continue to recommend client position for these signals by being short 3Y asset swap spreads & in 3Y 20Y asset swap spread steepeners; we recognize disappointment risks around the August refunding are high.

Bottom line: After recently shifting our supply expectations for stable coupons and higher bill share we expect forward guidance to remain unchanged at the August refunding. We also expect that UST will increase frequency or max size of long end buybacks and look for any TBAC discussion on optimal debt issuance strategies. Our views suggest a steeper spread curve and cheaper funding rates. Market expectations are likely high and present risks to our trades.



Exhibit 1: 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

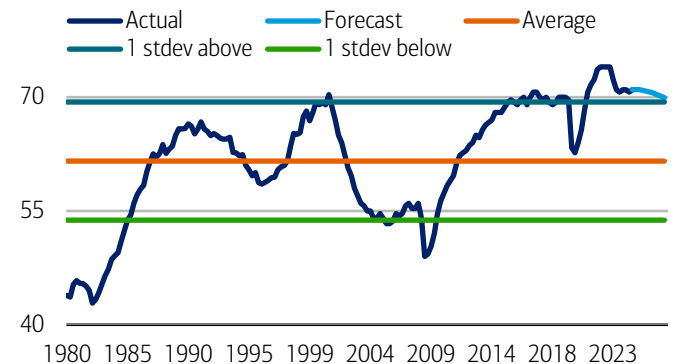


Source: BofA Global Research, US Treasury

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Exhibit 2: Actual and expected weighted average maturity (WAM) through FY '27 (months)

WAM expected to continue to decline as Treasury relies more on T-bills, unless Treasury adjusts issuance allocation

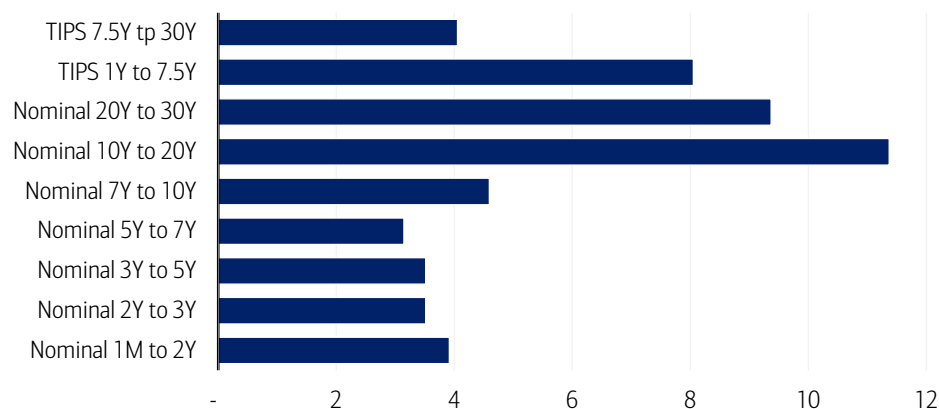


Source: BofA Global Research, US Treasury

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Exhibit 3: UST buyback offer / max accept ratio

The largest offers vs max size have been in UST long end



Source: Treasury, BofA Global Research. Note: Data includes all UST buyback operations since re-start of buyback operations in April 2024

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Exhibit 4: Change in gross coupon supply projection for FY 26 – 27 (\$bn)

From our prior coupon supply estimate, we now expect coupon supply in 10y equivalents to be about \$1tn lower from FY 26 – FY 27

	Coupon growth	Coupon steady	Difference
2y	2,001	1,656	(345)
3y	1,680	1,392	(288)
5y	2,025	1,680	(345)
7y	1,200	1,056	(144)
10y	1,082	960	(122)
20y	387	336	(51)
30y	654	552	(102)
5y II	210	200	(10)
10y II	257	236	(21)
30y II	40	34	(6)
2y FRN	790	688	(102)
10y equivalent	7,057	6,054	(1,003)

Source: BofA Global Research

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Exhibit 5: Estimated market impact of lower duration supply

Lower coupon issuance equates to about 30bps lower in 10y using historical QE rules of thumb

	26	27	Total
\$bn	418	1,118	1,536
10y equiv, \$bn	284	719	1,003
Duration unadj impact (bps)	9	24	33
Duration adj impact (bps)	9	22	31

Source: BofA Global Research, Note: Gagnon, Raskin, Remache, Sack paper from 2011 found that every unadjusted 1% GDP and 10y equivalent 1% GDP of QE is equal to 7 and 10 bps, respectively on 10y yields. While there are many academic papers on this subject, we like the Gagnon paper estimate because it controls for the level of GDP and therefore may be more applicable in the current setting.

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Exhibit 6: 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 7: Expected change in auction sizes from May refunding quarter

We expect Treasury hold nominal auction sizes steady & continue to increase TIPS auction sizes: boost 10y reopening by \$1bn and continue to increase 10y new issue TIPS by \$1bn

	2y	3y	5y	7y	10y	20y	30y	5y II	10y II	30y II	2y FRN
Aug-25	0	0	0	0	0	0	0			0	0
Sep-25	0	0	0	0	0	0	0		1		0
Oct-25	0	0	0	0	0	0	0	1			0

Source: BofA Global Research

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Exhibit 8: BofA expectations for UST quarterly refunding forecast (\$bn)

We expect Treasury will announce a higher marketable borrowing need in Q3 '25 due to higher deficit/financing need

	Financing Need	Marketable Borrowing	All Other Sources	Total	Change in Cash Balance	End of Quarter Cash Balance	SOMA Redemptions
	1	2	3	4 = 2 + 3	5 = 4 - 1	6	7
Jul-Sept '25 BofA Forecast	480	873	56	929	393	850	-15
US Treasury Forecast (Apr 28 '25)	480	554	-75	480	0	850	-15
Oct-Dec '25 BofA Forecast	613	638	0	638	25	875	-15

Source: BofA Global Research, Treasury.

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Exhibit 9: 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

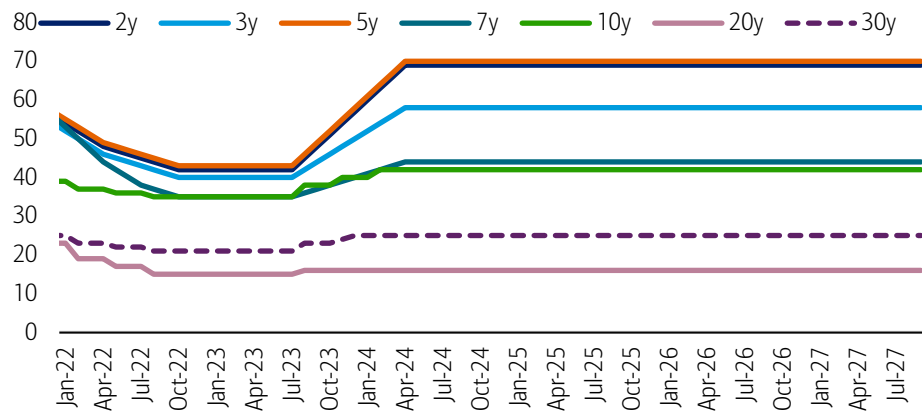
		2025	2026	2027
1	Baseline deficit	1,925	2,000	2,050
2	Other adjustment	37	-	-
3	Financing need (1 + 2)	1,962	2,000	2,050
4	Change in cash balance	(36)	100	50
5	Note: cash balance end period assumption	850	950	1,000
6	Marketable borrowing need (3 + 4)	1,926	2,100	2,100
7	Gross coupon auctioned	4,384	4,395	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*	207	195	195
12	Net coupon supply (7 - 10 - 11)	1,505	1,275	1,033
13	Coupon runoff from Fed bal sheet	180	15	-
14	Net coupon supply to public (12 + 13)	1,685	1,290	1,033
15	Net bill supply (6 - 12)	421	825	1,067
16	Bill runoff from Fed bal sheet	-	-	-
17	Net bill supply to public (15 + 16)	421	825	1,067
18	Net supply issued (12 + 15)	1,926	2,100	2,100
19	Net supply to public (14 + 17)	2,106	2,115	2,100
20	Starting assumed coupons	21,706	23,211	24,486
21	Starting assumed bills	6,004	6,425	7,250
22	End assumed coupons (12 + 20)	23,211	24,486	25,519
23	End assumed bills (15 + 21)	6,425	7,250	8,317
26	Bills as % of coupons + bills (23 / (22 + 23))	21.7%	22.8%	24.6%

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

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Exhibit 10: Treasury auction sizes by tenor with projections through FYE '27 (\$bn)

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

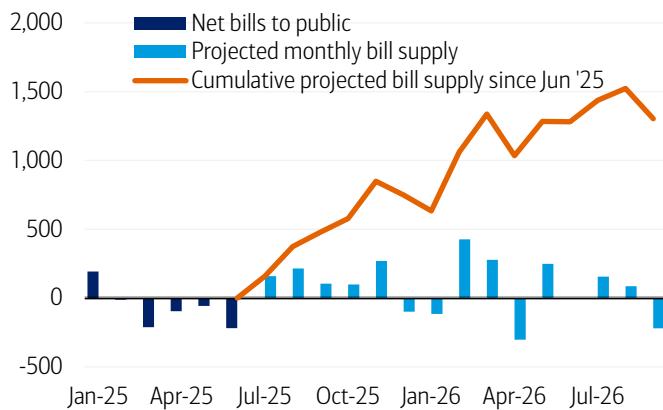


Source: BofA Global Research, US Treasury

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Exhibit 11: Projected monthly bill supply and cumulative projected bill supply (\$bn)

We forecast nearly \$1tn in bill supply between now and Dec '25

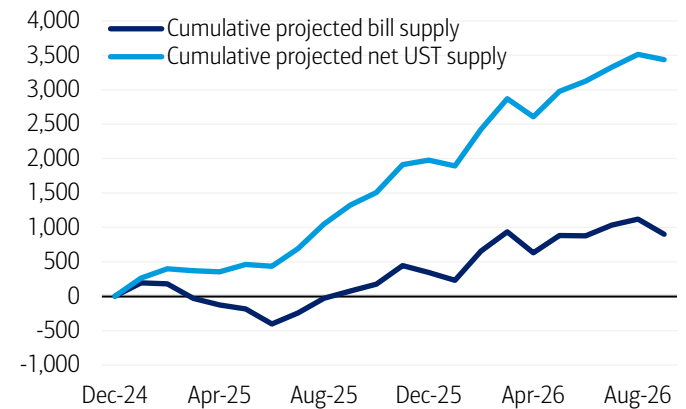


Source: BofA Global Research, US Treasury

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Exhibit 12: Projected cumulative net bill & total UST supply YTD (\$bn)

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



Source: BofA Global Research, US Treasury

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Exhibit 13: Bill and coupon issuance estimates by month

We expect \$271b in bills in Q3, \$27b in Q4 as we head into another debt limit episode on Jan 1 2025

	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 = 1 + 2	4	5	6	7	8	9 = 5 + 7	10 = 6 + 8	11 = 9 + 10
Jul-25	209	500	43	0	252	9	93	159	5	0	98	159	257
Aug-25	329	525	25	0	354	9	138	215	5	0	143	215	359
Sep-25	-57	850	325	0	268	31	163	105	5	0	168	105	273
Oct-25	170	858	8	0	178	9	79	99	5	0	84	99	183
Nov-25	393	867	8	0	401	9	131	270	5	0	136	270	406
Dec-25	50	875	8	0	58	31	157	-99	5	0	162	-99	63
Jan-26	-92	883	8		-84	11	32	-116	0	0	32	-116	-84
Feb-26	525	892	8		533	9	107	427	0	0	107	427	533
Mar-26	435	900	8		443	9	166	277	0	0	166	277	443
Apr-26	-271	908	8		-263	31	40	-302	0	0	40	-302	-263
May-26	362	917	8		370	9	121	249	0	0	121	249	370
Jun-26	140	925	8		148	31	152	-3	0	0	152	-3	148
Jul-26	195	933	8		203	9	47	156	0	0	47	156	203
Aug-26	177	942	8		185	9	99	86	0	0	99	86	185
Sep-26	-85	950	8		-77	31	143	-220	0	0	143	-220	-77

Source: BofA Global Research, US Treasury, Federal Reserve

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Exhibit 14: 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 15: QRA trade recommendations

Open trades

Open Trades	Entry Date	Entry	Target	Stop	Latest Level	Trade rationale	Risk
3y 20y spread curve steepener	2-Jul-25	-51	-30	-65	-49	UST WAM shift towards shorter tenors	UST continues to grow back-end auctions
Short 3y swap spread	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
Short Oct SOFR/FF	27-Jun-25	-4bp	-8bp	-1bp	-5bp	Tighter funding post debt limit & TGA rebuild	Slow TGA rebuild or later DL resolution

Source: BofA Global Research

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