Market View
Economics and Strategy

NATIONAL BANK OF CANADA
FINANCIAL MARKETS

January 31, 2024 - (Vol. VIII, No. 11)

# Go fund me

By Warren Lovely & Taylor Schleich

Bond vigilantes and fiscal hawks may not be holding sway the way they did last year, but sovereign cash requirements—and the precise debt management strategy employed to source needed funding—garner our attention all the same. Filling in the gaps from Monday's notionally encouraging quarterly refunding announcement, the U.S. Treasury today presented the more detailed issuance plans for the coming three-month period (i.e., February through April).

For those made anxious by the yawning U.S. budget deficit, the good news is that the proverbial 'end of the line'—in terms of marginal bond issuance—may be in sight. At least that's based on the prevailing economic narrative. So, while Treasury auction sizes are stepping up this coming quarter, these should move sideways later this spring.

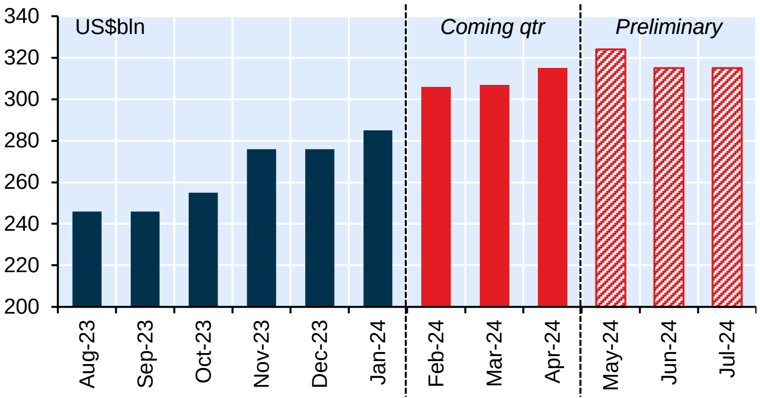
For the February-April quarter, the U.S. Treasury expects to issue US$928 billion of gross notes/bonds. That's $91 billion or roughly 10% more than what was digested from November-January. Adding TIPS and FRNs, gross issuance will eclipse US$1 trillion in the next three months. That's no small tally, surpassing US$3,100 for each and every American, although per Monday's messaging, it could've been worse.

It follows that the large(r) U.S. deficit requires proportionately greater issuance south of the border than what we get in Canada. Treasury bond supply is roughly twice what we're seeing from Canada's sovereign, once the relative size of the two nations is controlled for.

Beyond noted differences in fiscal sustainability and net requirements, there's another important point of departure between the U.S. and Canadian federal governments: where marginal bonds are being placed on the curve. As per today's funding details, the Treasury is leaning into 2s, 3s and 5s, the weighted average term of new supply sliding lower. Ottawa's marginal tweaks to its strategy stand in contrast, the average term of GoC supply lengthening.

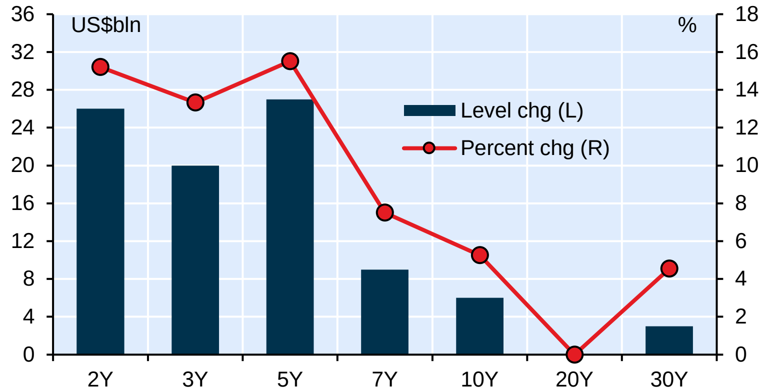
Setting aside the none-too-trivial issue of which central bank will blink first on rate cuts, U.S. funding relief and a marginal terming-in lends technical support to long Treasuries vs. Canadas. Not surprisingly then, after moving to historically expensive levels in the fall, 30Y GoCs have pared some earlier gains. The short Canada trade might have legs in the near-term, but we remain structurally bullish on Canada given differences in long-term fiscal sustainability. In the medium-term, the 2024 election doesn't give us confidence that U.S. deficits will be tackled anytime soon. It's not often you'll see a President raise taxes/cut spending when settling into the White House. Another risk: The more pessimistic U.S. forecast outlined by our Economics and Strategy colleagues imply marginal fiscal damage and extra cash requirements relative to Treasury's outlook. Obviously, this growth slowdown has been elusive to date which means, at least for now, markets can celebrate this better-than-feared fiscal development.

**Chart 1: Issuance to step up once more before stabilizing**
*Monthly nominal UST issuance: Past 6M, next 6M confirmed/recommended*



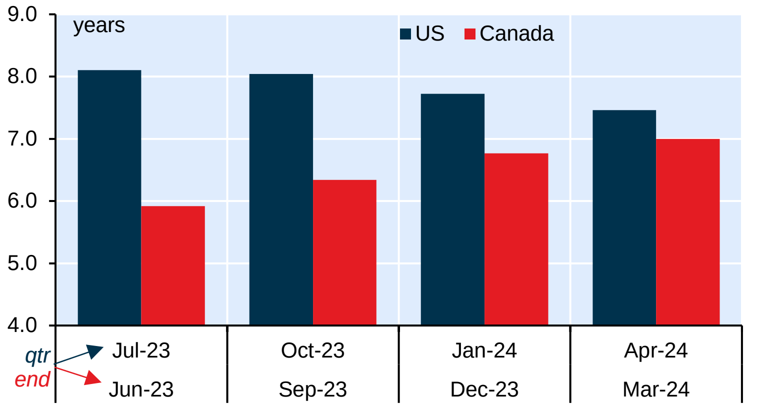

*Source: NBF, U.S. Treasury | Note: Preliminary refers to TBAC recommendations*

**Chart 2: New supply disproportionally steered to shorter end**
*Quarterly change in gross nominal Treasury issuance*




*Source: NBF, U.S. Treasury*

**Chart 3: WAT moving down in the US, up in Canada**
*Weighted average term of gross nominal issuance by quarter: Canada & U.S.*




*Source: NBF, U.S. Treasury, BoC | Note: X-axis refers to qtr-end for each fiscal authority*

**Chart 4: Canada's long-end giving up autumn gains**
*Canada-US 30-year differential since 2023*


*Source: NBF, Bloomberg*

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