Rates Spark: Refunding decision(s) potentially pivotal

We'll see Wednesday whether Scott Bessent chooses to make a statement through material actions or words as his new department unveils the latest re-funding decision(s). The baseline view is for no surprises. If there are surprises, it's more likely to be negative for Treasuries than positive. For that reason, the smart money is for him not to rock the boat

US Re-funding announcement a key driver for quarter ahead

There's been a change of Treasury Secretary since we had the last re-funding announcement in October 2024. New Treasury Secretary Scott Bessent could use the re-funding announcement due 8:30am (EST) Wednesday as an opportunity to impact guidance, if not the volumes themselves. The financing plans released on Monday contained nothing startling that could necessitate a change in the expected re-funding numbers, with the dominant view seeing a broad repeat of the sizes seen in the previous quarter.

Typically short-term deviations in funding needs would be balanced through the bills program. Currently bills financing is running at 22% of Treasuries, which is on the high side. In the past decade, it's been preferred to have bills running in the area of 15%. It spiked to 25% during pandemic financing, was subsequently pared back to 15%, but has since re-risen to 22%. At the same time, former Treasury Secretary Yellen managed any increases in re-funding to be biased more towards shorter maturities and away from longer ones.

Treasury Secretary Bessent had intimated a degree of frustration with the former Treasury Secretary's morphing of issues away from the longer end – deemed to be done to support the pre-election economy. We'll find out soon whether he is prepared to do anything about that, whether through the actual issuance plans or forward guidance (or maybe through the end thereof, as he also criticised this).

The key number of look for over the wires is $125bn for the upcoming 3yr, 10yr and 30yr auctions. Get that and we're on a similar track versus expectations. And the big numbers beyond that are $954bn in Coupons and $139bn in TIPS and FRNs.

Adjusting to negotiating tactics

The tariff threat remains and we think it’s only a matter of time before Trump targets the EU for tariffs. The question is whether markets have already priced in tariffs or whether we have to brace for another move lower in rates once Trump’s plans with the EU become clearer.

One could argue that the stock market still prices in little risk from tariffs imposed on the EU, with the euro Stoxx index actually outperforming the US S&P index over the past few weeks. Further expected European Central Bank easing helps the case for stocks, but if trade wars were really the key concern for investors, we would have expected more headwinds to risk assets. From this perspective markets do not seem too distressed about the potential impact.

Perhaps we can justify market positioning by the fact that this week’s saga highlights the unpredictable nature of Trump’s policies and that even direct tariff threats should not be taken at face value. There is room to negotiate and the outcome may be a much watered down version compared to the initial bargain.

Wednesday’s events and market view

Recovering from the initial tariffs scare, markets may have room to refocus on the actual data – at the forefront is the US jobs market where we will get the ADP payrolls estimate on Wednesday ahead of Friday’s official payrolls data. The ISM non-manufacturing index is expected to come in marginally softer at 54, but may also hold clues for the state of the jobs market in the employment subcomponent. Eurozone data releases of note are the final PMIs.

Central bank speakers will feature more prominently from the Fed with Barkin, Goolsbee and Bowman slated to appear on Wednesday. The ECB’s chief economist Lane is speaking at a fireside chat.

In the primary markets for government bonds the UK is auctioning 28Y green Gilts for £2bn. The US Treasury will make its quarterly refunding announcement.

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