Death, Taxes and more Treasuries

by

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They say that the most certain thing in life is death. Well, in America I think you can add Taxes and more Treasuries. It is totally amazing and scary how America has financed itself in the last almost 100 years. The first Treasury auction issue was December 10, 1929 when the Treasury accepted bids from 2.76% to 3.39% in the amount of $224 million. By 1984 the largest Treasury auction was the 2-year note for $10.1 billion. Well, fast forward to 3Q2023 when the latest Treasury auctions (in $ billions) were:

4-week Bill	$95	2-year Note	$28	30-year Bond	$27
8-week Bill	$85	3-year Note	$58		
13-week Bill	$75	5-year Note	$61		
26-week Bill	$68	7-year Note	$62		
52-week Bill	$44	10-year Note	$41		

Such enormous issuance is a function of federal deficits + refundings of maturing debt. I am sorry to say but America does not usually pay its debt… we REFUND it. According to Treasury statistics by SIFMA, in 2022 the Federal government issued $13.8 trillion in Bills, Notes and Bonds. Refundings (retirements) accounted for 92.6% of this total. In 2023 the Federal government issued $18.3 trillion with refundings accounting for 89.0%. This was a 31.9% increase in gross issuance.

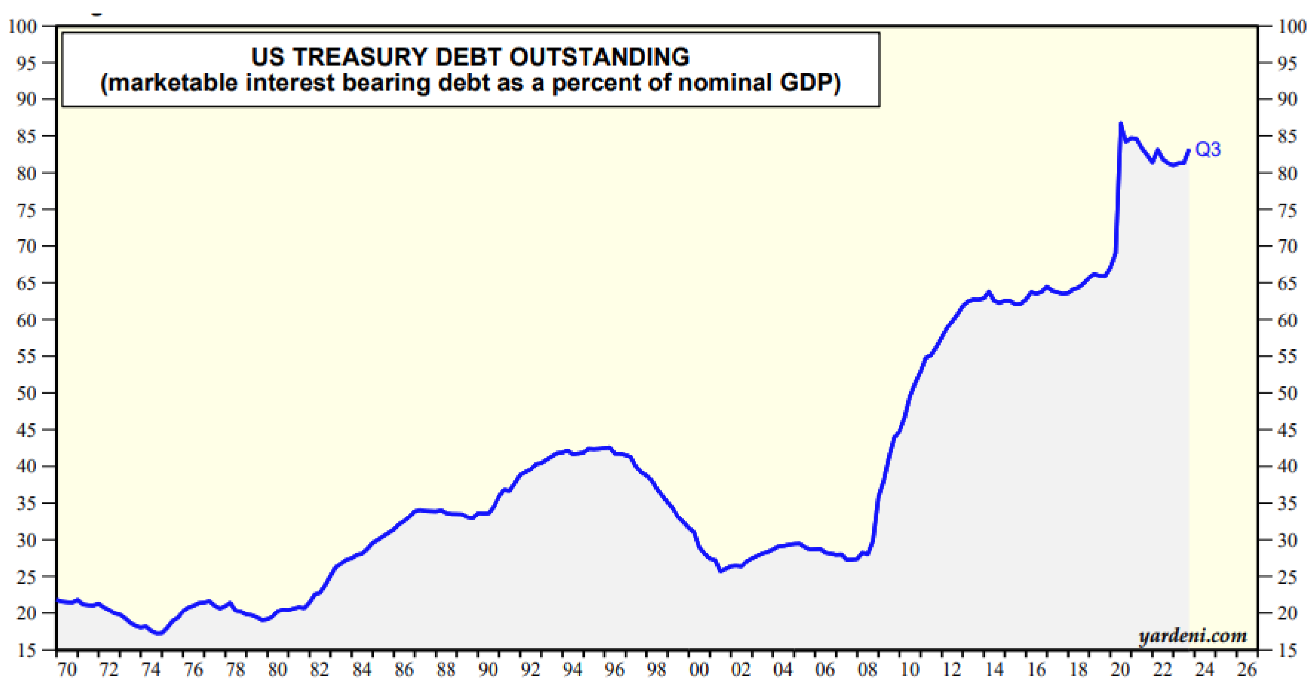
	Bills			Notes			Bonds			TOTAL			Y/Y Change	
	Gross Issues	Gross Retirement	Net	Gross Issues	Gross Retirement	Net	Gross Issues	Gross Retirement	Net	Gross Issues	Gross Retirement	Net Cash Raised	Total Gross Issues	Total Gross Retirement
2014	4,814.9	4,949.0	-134.1	2,024.4	1,448.3	576.1	191.0	0.0	191.0	7,030.3	6,397.3	633.0	-10.5%	-9.3%
2015	4,894.0	4,837.9	56.1	1,930.7	1,474.2	456.5	191.8	20.1	171.6	7,016.4	6,332.2	684.2	-0.2%	-1.0%
2016	6,130.9	5,826.9	304.0	1,981.8	1,733.6	248.1	187.6	43.0	144.6	8,300.3	7,603.6	696.7	18.3%	20.1%
2017	6,562.8	6,424.9	138.0	2,035.5	1,801.7	233.8	188.8	26.5	162.2	8,787.1	8,253.1	534.0	5.9%	8.5%
2018	7,806.0	7,421.9	384.1	2,470.0	1,949.9	520.1	214.6	13.9	200.7	10,490.6	9,385.7	1,104.9	19.4%	13.7%
2019	9,135.5	9,058.6	76.9	2,683.5	1,940.3	743.2	252.0	32.0	219.9	12,070.9	11,030.9	1,040.0	15.1%	17.5%
2020	17,055.5	14,508.2	2,547.4	3,385.8	2,127.5	1,258.3	510.0	34.1	475.8	20,951.3	16,669.8	4,281.5	73.6%	51.1%
2021	14,372.5	15,566.5	-1,194.1	4,418.6	2,372.8	2,045.8	720.5	60.3	660.2	19,511.6	17,999.6	1,511.9	-6.9%	8.0%
2022	12,903.5	12,976.2	-72.7	3,311.0	2,520.7	790.4	515.5	17.6	497.9	16,730.1	15,514.5	1,215.6	-14.3%	-13.8%
YTD 2022	10,468.5	10,572.6	-104.1 #	2,925.2	2,232.1	693.1 #	452.6	10.2	442.4 #	13,846.2	12,814.8	1,031.4		
YTD 2023	15,222.6	13,463.0	1,759.6 #	2,650.3	2,757.3	-106.9 #	391.4	38.4	352.9 #	18,264.3	16,258.7	2,005.6	31.9%	26.9%

The CBO is forecasting a growing deficit from $1.38 trillion in 2022 to $1.41T in 2023 to 1.58T for 2024. This will be financed mainly by new Treasury issuance. Add in the refundings and you get an idea of the Treasury issuance schedule for 2024. The CBO is forecasting an increasing federal deficit that will double in 10 years.

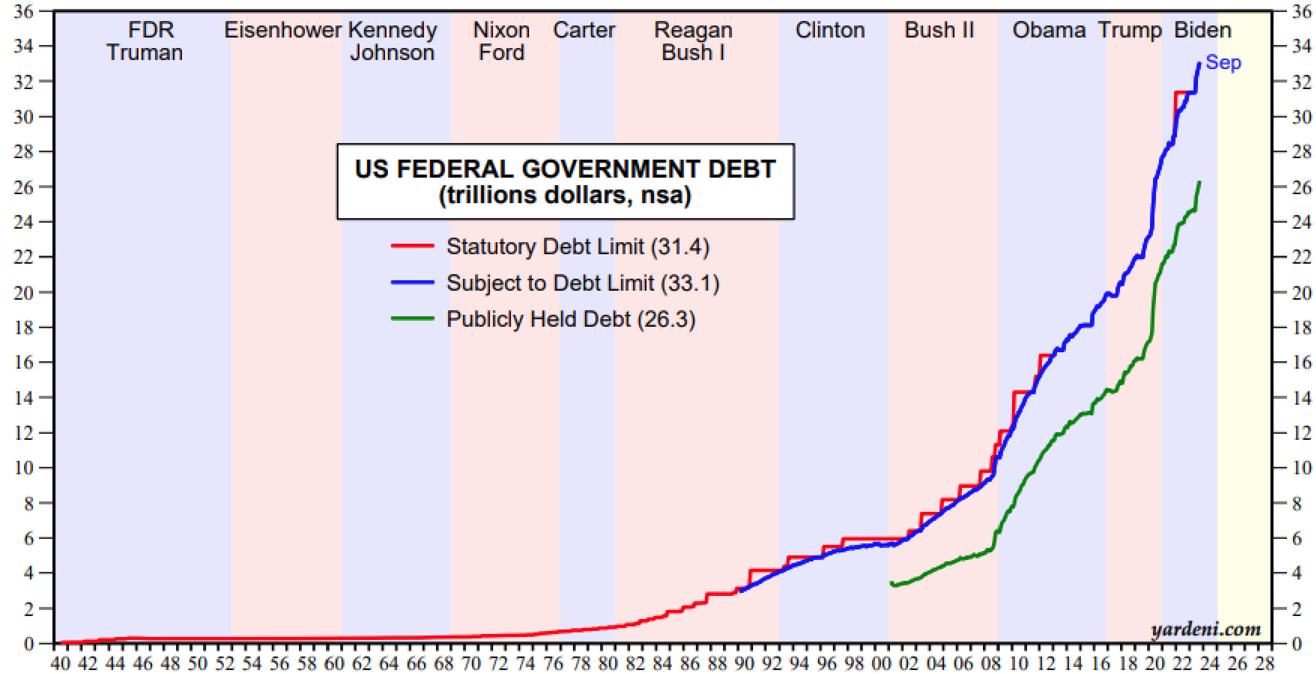
CBO's Baseline Budget Projections, by Category

	Actual, 2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
							In Billions of Dollars					
Revenues												
Individual income taxes	2,632	2,523	2,467	2,511	2,764	3,018	3,121	3,246	3,377	3,515	3,650	3,803
Payroll taxes	1,484	1,562	1,633	1,703	1,778	1,849	1,920	1,993	2,068	2,147	2,226	2,307
Corporate income taxes	425	475	479	489	495	494	506	514	520	527	527	539
Other[a]	356	251	260	264	273	293	369	386	398	414	435	449
Total	**4,896**	**4,812**	**4,838**	**4,966**	**5,310**	**5,655**	**5,916**	**6,139**	**6,364**	**6,603**	**6,838**	**7,098**
On-budget	3,830	3,678	3,643	3,711	3,999	4,292	4,501	4,671	4,842	5,023	5,200	5,402
Off-budget[b]	1,066	1,133	1,196	1,255	1,311	1,363	1,415	1,468	1,522	1,580	1,637	1,695
Outlays												
Mandatory	4,135	3,840	3,812	3,995	4,193	4,395	4,731	4,756	5,115	5,391	5,665	6,140
Discretionary	1,662	1,741	1,864	1,955	2,005	2,063	2,119	2,159	2,215	2,266	2,319	2,380
Net interest	475	640	739	769	828	903	995	1,071	1,149	1,236	1,333	1,429
Total	**6,272**	**6,221**	**6,415**	**6,719**	**7,026**	**7,361**	**7,845**	**7,986**	**8,479**	**8,894**	**9,317**	**9,948**
On-budget	5,188	5,011	5,091	5,297	5,521	5,771	6,163	6,215	6,602	6,908	7,215	7,737
Off-budget[b]	1,084	1,210	1,324	1,421	1,504	1,590	1,682	1,771	1,877	1,986	2,102	2,211
Total Deficit	**-1,375**	**-1,410**	**-1,576**	**-1,752**	**-1,716**	**-1,706**	**-1,929**	**-1,847**	**-2,115**	**-2,291**	**-2,480**	**-2,851**

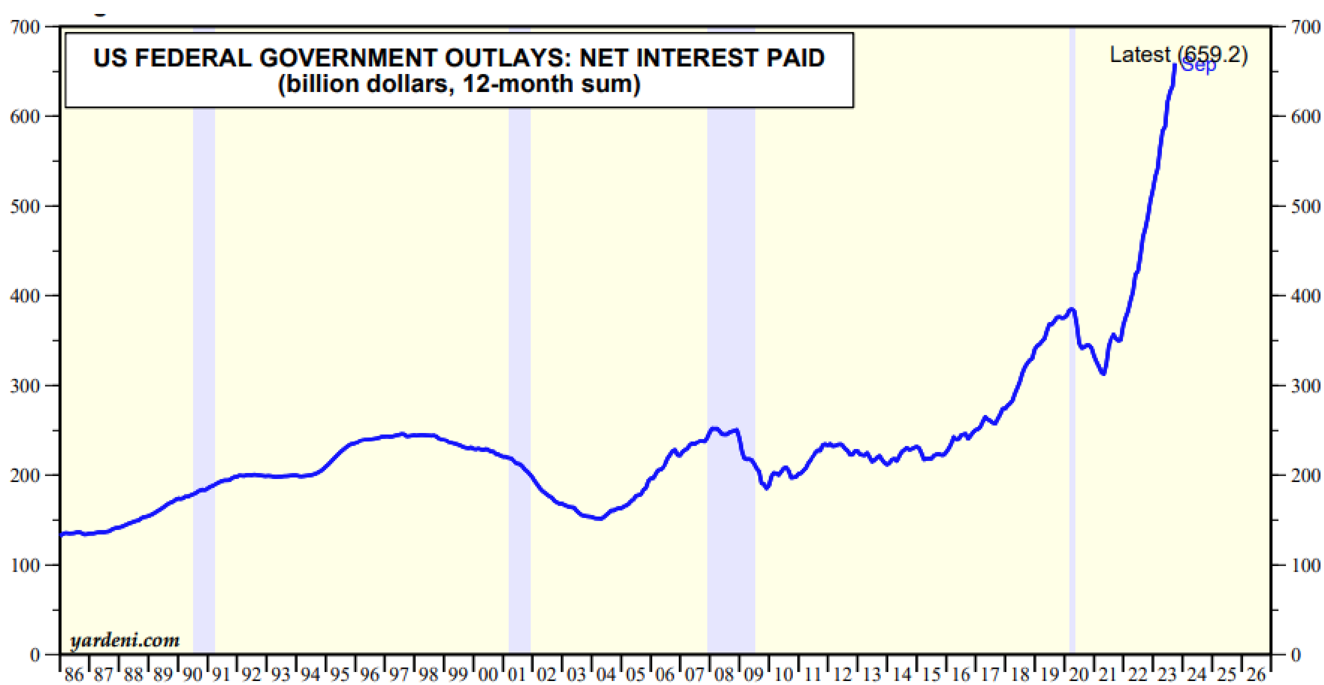
The rapid increase in deficit financing has ballooned the amount of Treasury debt outstanding to record levels and an ever increasing % of nominal GDP.



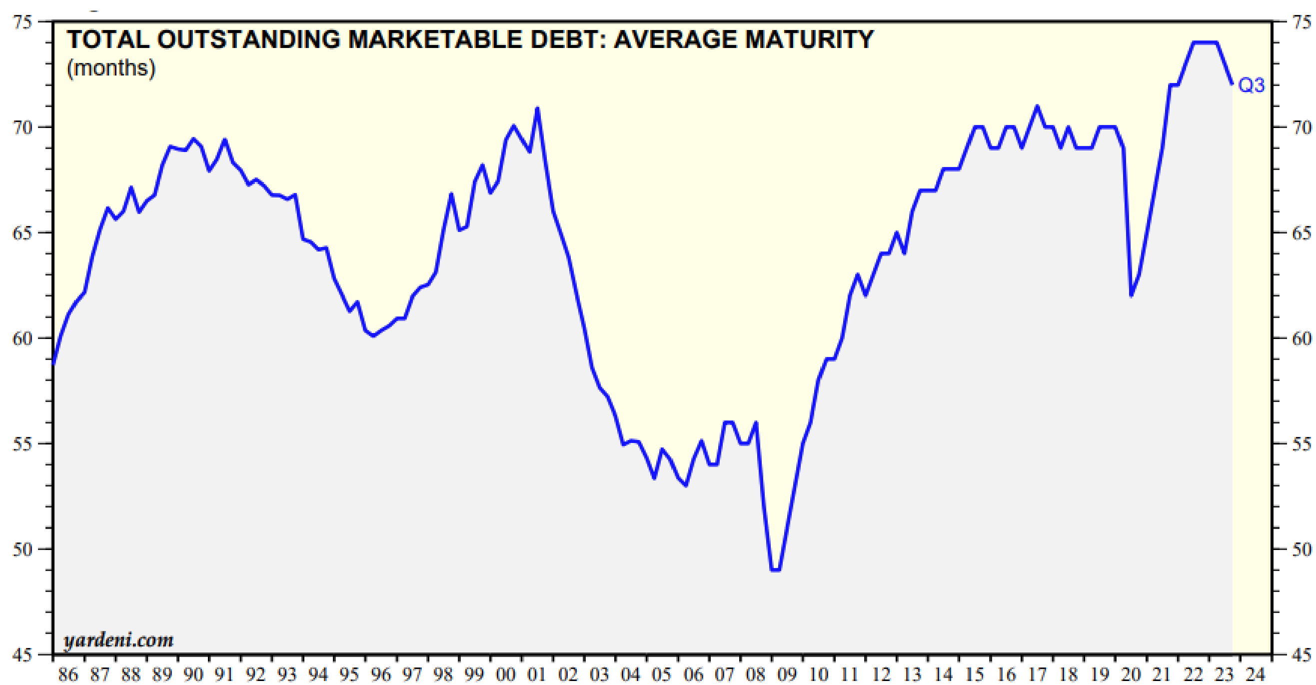
As of 9/30/23, the amount of Treasury debt outstanding = $33,167,334,044,723. This is up from $5,674,178,209,887 as of 9/30/00. Such an incredible debt increase comes with consequences.



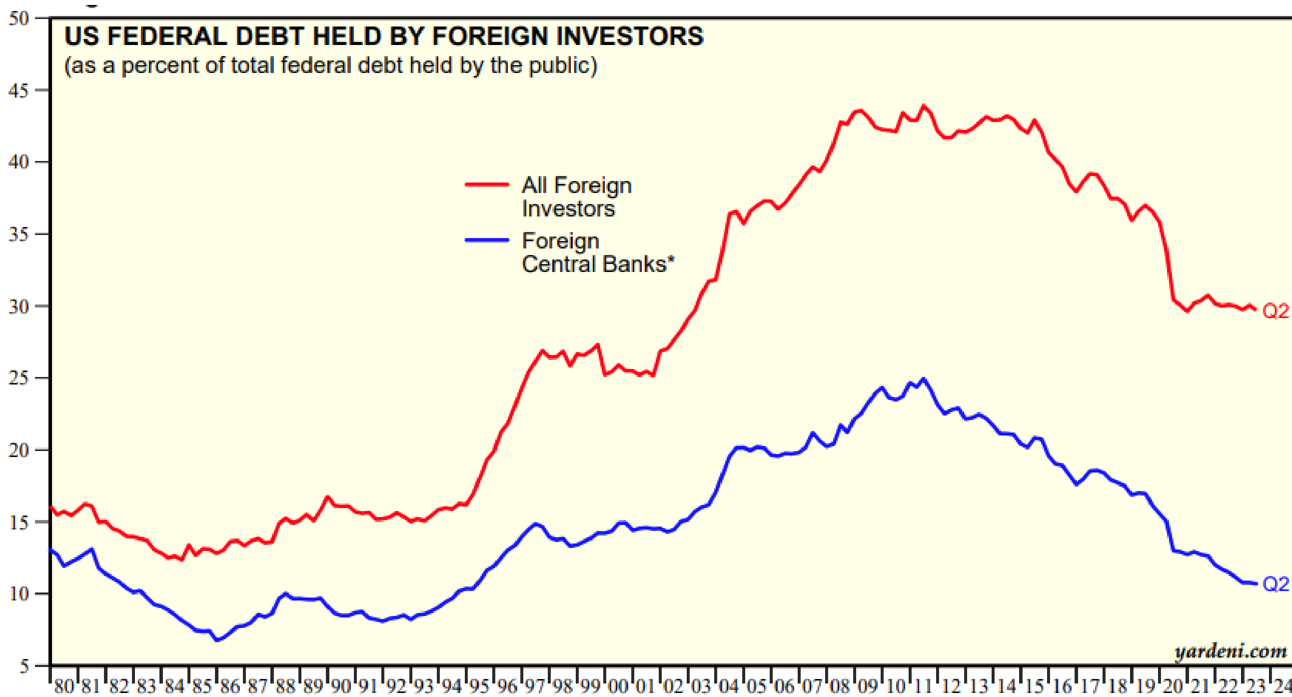
Interest expense is certainly one of these consequences and has doubled in just three years.



Why didn't the federal government dramatically increase the average maturity of its debt when interest rates were the lowest in modern history in recent years? This would have locked in very low interest expense for many years and decades to come. This was a serious financial blunder by the US Treasury. Why didn't we issue 50 to 100- year bonds like corporations did? Why didn't we reduce or replace TIPS issuance with very long bonds? Why don't we create shelf registration of STRIPS so pensions and LDI strategies can buy whatever maturities they need without Wall Street's intervention and cost? The search for intelligent life at the Treasury plagues our country.



There is a growing fear or concern over the supply and demand for Treasuries. Who will buy and increase their purchases as Treasury issuance swells? There is a current trend of less purchases by foreign central banks and even our Fed. Foreign investors own about 30% of the Treasury debt while the Fed owns about 20%. This leaves the Public as the major single buyer of US Treasuries. But the Public are more prone to buy Treasuries if interest rates rise rather then fall. This suggests that rates will need to rise as the supply of Treasuries continue to rise unless foreign investors and the Fed change their purchasing posture. This is not likely short term.


US FEDERAL DEBT HELD BY FOREIGN INVESTORS
(as a percent of total federal debt held by the public)
All Foreign Investors
Foreign Central Banks*
Q2
Q2
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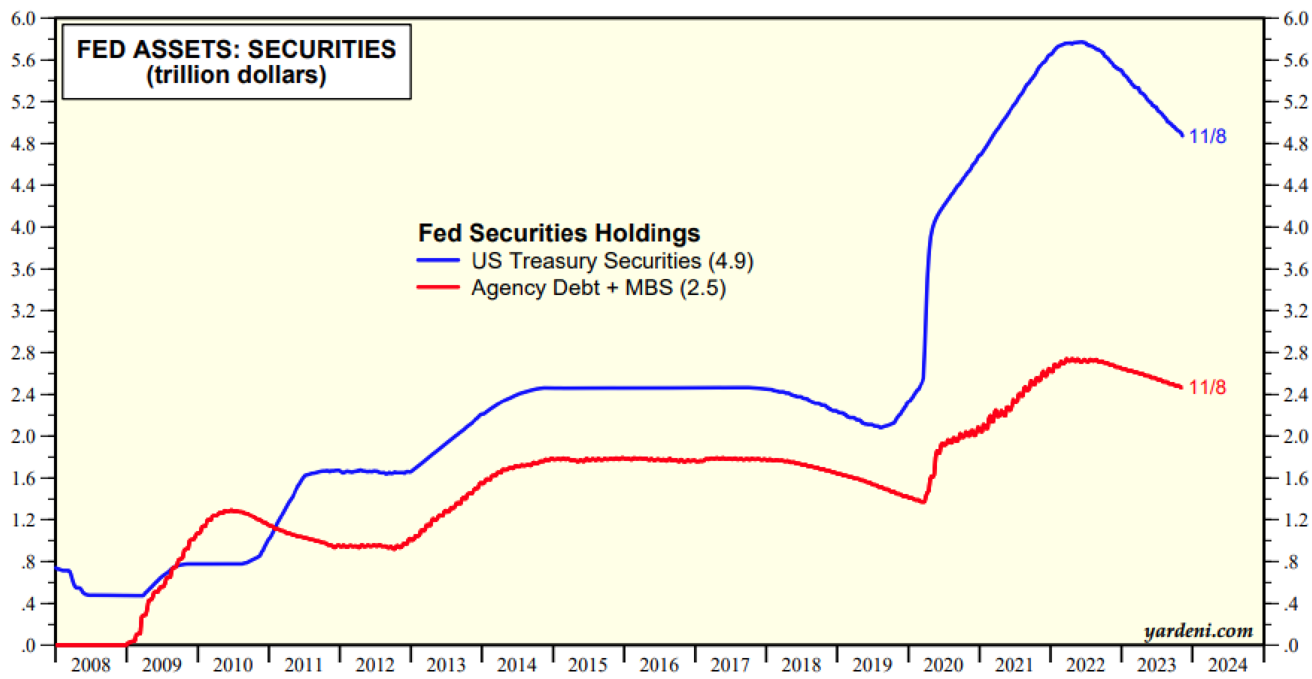
50
45
40
35
30
25
20
15
10
5
'80 '81 '82 '83 '84 '85 '86 '87 '88 '89 '90 '91 '92 '93 '94 '95 '96 '97 '98 '99 '00 '01 '02 '03 '04 '05 '06 '07 '08 '09 '10 '11 '12 '13 '14 '15 '16 '17 '18 '19 '20 '21 '22 '23 '24


FED ASSETS: SECURITIES
(trillion dollars)
Fed Securities Holdings
US Treasury Securities (4.9)
Agency Debt + MBS (2.5)
11/8
11/8
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6.0
5.6
5.2
4.8
4.4
4.0
3.6
3.2
2.8
2.4
2.0
1.6
1.2
.8
.4
.0
2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019 2020 2021 2022 2023 2024

We then have excessive government spending as an issue which is financed mainly by the issuance of Treasuries. With an election year coming up there should be no increase in taxes to fund this government overspending. Then we have two wars (Israel and Ukraine) we are funding. Wars and excessive government spending are inflationary causes. America is no longer self-sufficient on oil so we need to buy oil from other countries… most are adversaries. We do not control our destiny here and our country is very dependent on oil for the many byproducts it produces. In the end, this is not a pretty picture of Supply and Demand for Treasuries.

"Common sense is not common"