

MONETARY POLICY RESEARCH

February 1, 2024

The Treasury Shift from Bills and QT Taper Timing**KEY TAKEAWAYS**

Predictably, given the TGA balance is now near target of \$750B, Treasury expects to reduce bills in the issuance mix beginning late March/early April when: (i) RRP will likely have exhausted (reducing money fund demand for bills); and (ii) tax receipts start flowing (reducing Treasury need for cash).

Over time, we expect Treasury to reduce bills as a proportion of net marketable debt outstanding from the current 22% towards the lower end of the usual range of 15-20%. This will provide Treasury with the ability to use bills as a 'shock absorber' to raise cash during recessions as it has in the past.

Once RRP exhausts, QT will begin to impact bank reserves more directly. Reserves currently stand at \$3.5T so \$700B more than our estimate of \$2.8T for the lowest comfortable level. At a monthly rate of \$95B, this provides QT with runway of 7-8 months.

This runway begins once RRP exhausts in April and so puts the timing of QT termination late this year with taper likely to begin 3-6 months before that. Meanwhile, the standing repo facility (and, possibly, a de-stigmatized discount window) allows the system to address the fact that reserves are not distributed evenly through the banking system but rather disproportionately held by SIFIs.

Ratings

Howard Mason
Monetary Policy
212.537.8814
hmason@renmac.com

The Treasury Shift from Bills and QT Taper Timing

We do not expect any change to the rate of decline in reverse repo (RRP) balances even as Treasury shifts its funding mix to coupons from bills beginning in late March/early April (Ex 1).

Ex 1: Treasury Net Borrowing and Funding - \$B

| | Borrowing | Coupons | Bills |
|------|-----------|---------|-------|
| 22Q1 | 668 | 509 | 159 |
| 22Q2 | (24) | 381 | (405) |
| 22Q3 | 337 | 216 | 121 |
| 22Q4 | 234 | 181 | 53 |
| 23Q1 | 436 | 65 | 371 |
| 23Q2 | 477 | 79 | 398 |
| 23Q3 | 852 | 58 | 794 |
| 23Q4 | 605 | 190 | 415 |
| 24Q1 | 760 | 318 | 442 |
| 24Q2 | 202 | 519 | (317) |

Source: [SIFMA](#) for Actuals and [TBAC](#) for 24Q1 and 24Q2 estimates

The shift was expected since, with its general account at the Fed near a target balance of \$750B, Treasury will look to reduce the share of bills in its outstandings from the current 22% towards to a more usual range of 15-20%. This will allow the headroom for Treasury bills to act as ‘[shock absorbers](#)’ to fund financing needs during recessions and will reflect a likely decline in demand for bills from money funds once RRP is drained.

The normalization of funding mix is usual after periods of disproportionate bill supply that typically occurs during and coming out of recession: 84% in the 3-months after the CARES Act was passed in March 2020, 78% in the 2008 recession, and 117% in the 2001 recession. This time around the tilt was driven not by recession but by a desire to rebuild the balance at the Treasury General Account (TGA) at the Fed to its target of \$750B from a low of <\$50B just before the debt ceiling was suspended in June 2022.

Consistent with normalizing the funding mix, in its [Quarterly Refunding Announcement](#) (QRA) today, Treasury anticipates ‘modestly reducing short-dated bill auction sizes ... these reductions will likely lead to a

\$100-150B reduction to privately-held supply during the month of April' versus a net increase of \$300-350B over the next two months.

This timing of the reductions for early March/late April coincides with tax-filing season, so that Treasury has less need to supply bills, and with the likely exhaustion of the RRP balance (assuming it continues to decline from the current level of \$640B at the rate of \$225B/month over the last 7 months), so that money funds will have less demand.

Meantime, bills pay more than RRP (20bps more for 1-month paper) and we expect Treasury to increase net supply if there is excessive relative richening. Further, through the private repo market, coupon securities can increase the supply of synthetic bills in the form of repo loans.

Given we expect RRP to continue to drain, we do not expect quantitative tightening (QT) to end until late, if at all, this year. RRP has, of course, been important in buffering reserves from the impact of QT: indeed, reserves have increased over the period by \$300B to the current level of \$3.5T even as the Fed's securities portfolio has declined by \$1.4T to the current balance of \$7.1T. The reason is that RRP balances have fallen over the same period by \$1.6T.

However, there are more than ample reserves so that QT can continue for some time even after RRP is exhausted. Specifically, reserves stand at \$3.5T so \$700B more than our estimate of \$2.8T for the lowest comfortable level of reserves (LCLoR). This provides QT, at a monthly rate of \$75B/month, with a runway of 7-8 months beginning once RRP exhausts in April.

Yes, reserves are not evenly distributed through the banking system with the SIFIs banks holding most of the more-than-ample amount and other banks holding nearer pre-pandemic levels. However, it is the SIFIs – particularly JPM – that drive the repo market so that a repeat of the dysfunction in September 2019 is unlikely while reserves are above LCLoR in aggregate.

Further, banks with uncomfortably low reserves can tap the Fed's standing repo facility established in July 2021 or the discount window particularly if regulators are successful in reducing any stigma attached to it through mandatory access requirements.

ANALYST(S) CERTIFICATION(S): I, Howard Mason, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

AFFILIATE DISCLOSURES: RenMac is the trade name and registered trademark under which research and services of Renaissance Macro Holdings and its subsidiaries Renaissance Macro Securities, LLC and Renaissance Macro Research, LLC are marketed. This report has been prepared by Renaissance Macro Securities, LLC. Renaissance Macro Securities, LLC is regulated by FINRA and the United States Securities and Exchange Commission. Disclosures in this section and in the Disclaimer section referencing RenMac include all subsidiaries unless otherwise specified.

IMPORTANT DISCLOSURES: The analysts responsible for preparing this research report received compensation based on various factors, none of which is revenue generated by investment banking activities. RenMac is not engaged in any investment banking activities at this time. Analysts regularly conduct site and company visits to review the operations of the company and discuss financial and strategic plans with management, but RenMac's policies prohibit them from accepting payment or reimbursement for their travel expenses. RenMac produces many types of research including, but not limited to, fundamental research, quantitative research, Washington Policy, Economics and Technical Research. Recommendation in one type of research product may differ from recommendations contained in other types of research products whether as a result of differing time horizons, methodologies, or otherwise.

Companies Mentioned:

Price target and Valuation Methodology: Each Analyst has a single price target in all of the stocks that they cover. The price target represents that Analyst's expectation of where the stock will trade in the next twelve months.

Guide to RenMac's Fundamental Research Rating System: Our fundamental coverage Analysts use a relative ranking system to rate stocks as Buy, Sell or Hold (see definitions below) relative to other companies covered by the Analyst or are deemed to be in the same industry (the Analysts Coverage Universe). In addition to the stock ratings each Analyst provides an Industry Ratings which provides the outlook for the industry coverage as Positive, Neutral or Negative (see definitions below). Investors should carefully read the entire research report including the definitions of all ratings and not infer its content from ratings alone.

Stock Ratings:

Overweight – The stock is expected to outperform the un-weighted expected total return of the industry coverage universe over the next 12 months.

Equal Weight – The stock is expected to perform in line with the un-weighted expected total return of the industry coverage universe over the next 12 months.

Underweight – The stock is expected to underperform the un-weighted expected total return of the industry coverage universe over the next 12 months.

Ratings Suspended - The ratings and price target have been suspended temporarily due to market events that make coverage impracticable or to comply with applicable regulations and /or firm policy.

Distribution of Ratings:

As of February 1, 2024, RenMac has 8 companies under coverage.

62% have been assigned an Overweight Rating. 38% have been assigned an Equalweight Rating. 0% have been assigned an Underweight Rating. None of the companies under coverage are Investment Banking clients.

Industry Rating:

Positive – Industry coverage universe has improving fundamentals and valuations.

Neutral – Industry coverage universe has neutral fundamentals and valuations.

Negative – Industry coverage universe has deteriorating fundamentals and valuations.

DISCLAIMER: This document has been prepared by Renaissance Macro Securities LLC, a subsidiary of Renaissance Macro Holdings, LLC. This document is for distribution only as may be permitted by law. It is published solely for information purposes; it is not an advertisement nor is it a solicitation or an offer to buy or sell any financial instruments or to participate in any particular trading strategy. No representation or warranty, either expressed or implied, is provided in relation to the accuracy, completeness or reliability of the information contained in this document. The information is not intended to be a complete statement or summary of the markets, economy or other developments referred to in the document. Any opinions expressed in this document may change without notice. Any statements contained in this report attributed to a third party represent RenMac’s interpretation of the data, information and/or opinions provided by that third party either publicly or through a subscription service, and such use and interpretation have not been reviewed by the third party. Nothing in this document constitutes a representation that any investment strategy or recommendation is suitable or appropriate to an investor’s individual circumstances or otherwise constitutes a personal recommendation. Investments involve risks, and investors should exercise prudence and their own judgment in making their investment decisions. The value of any investment may decline due to factors affecting the securities markets generally or particular industries. Past performance is not indicative of future results. Neither RenMac nor any of its directors, employees or agents accept any liability for any loss (including investment loss) or damage arising out of the use of all or any of the information. Any information stated in this document is for information purposes only and does not represent valuations for individual securities or other financial instruments. Different assumptions by RenMac or any other source may yield substantially different results. The analysis contained in this document is based on numerous assumptions and are not all inclusive. Copyright © RenMac 2024. All rights reserved. All material presented in this document, unless specifically indicated otherwise, is under copyright to RenMac. None of the material, nor its content, nor any copy of it, may be altered in any way, or transmitted to or distributed to any other party, without the prior express written permission of RenMac.