Fed Funding Treasury

The current interest expense on public debt of the US treasury presents an interesting picture. Given the current term structure, 2 year treasury FRN's are an extremely attractive means of financing. They trade at some 4 basis points over 3 month T bills, which trade at about a basis point.

Assuming that the 3 month T bill trades up to 230, which is where the 2 year 2 year forwards are trading, this means that the existing stock of FRNs would see an increase in interest expense from 0.01% of total debt service, to 0.6%, an almost negligible increment. The math changes if the issuance accelerates. If we cynically assumed that the Fed worked only for the Treasury, a CFO would look at the trade off of financing between 2 yr fixed and the floating rate, in 2 years time. If the 2 yr rate was 230, then what latitude would the Fed have in raising interest rates? It turns out, quite a lot.

Unfortunately, at this point, I have not the resources to conduct a thorough study of the US treasury's funding needs and planned issuance and what a rational CFO would structure the balance sheet. Let's see if I can co-opt the research team to do some work for me…

Just as an aside and an aide memoire…

For the year 2014, UST issuance will roughly look like:

160+m of 2y FRN

168m of 30y

260m of 10y

350m of 7y

420m of 5y

340m of 3y

360m of 2y