Fed Issues Floating Rate Notes. An Aside on the 30Y UST.

For the first time in 17 years, the US treasury will issue a new security, a Floating Rate Note. This will become a program of quarterly auctions. Why are they doing this?

1. How does one get longer term funding at low interest rates? How does one attract investors to longer maturity assets with little or no duration?
2. How will the US government keep debt service manageable over time despite longer dated liabilities?

    - The answer to 1 above is to issue Floating Rate Notes.
    - The answer to 2 above is to maintain short term interest rates at close to zero for longer. Given that the first issues will be 2 year maturities and coupons will be benchmarked to the 13 week T bill rate, I expect that the US Fed will not be raising interest rates till 2016 at the earliest.

http://www.bloomberg.com/news/2014-01-23/u-s-treasury-to-offer-15-billion-in-first-floating-rate-notes.html

On a side note, I expect the long bond (that's the 30 year US treasury) to outperform. While I don't like duration in general I don't think the 10 year will fare as badly as the consensus believes. The 30 year, however, is under-issued, and demand from insurance companies and other real money investors with long term liabilities will keep it well supported. I expect the USD curve will form a hump at the 10 year. I'd be a buyer of the 30 year UST.

On another side note:Time to buy some GLD US. Time to buy some equity volatility. Some cracks are beginning to show.