Global Rates Notes: 4Q26 Treasury Refunding Recap

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- Treasury's estimates for marketable borrowing came in a touch above our expectations for 4Q26 ($618bn vs. our $571bn projection), while the 1Q27 borrowing projection came in above our forecast ($800bn vs. our $713bn estimate), driven primarily by a higher-than-expected TGA cash balance target of $1tn (versus our $900bn assumption).
- Treasury kept nominal coupon, TIPS, and FRN auction sizes unchanged for another quarter but removed "at least" from its prior guidance that current auction sizes are likely to remain in place for "at least the next several quarters." The TBAC minutes more explicitly highlighted potential coupon auction changes in 2H27, and we now expect an increase in auction sizes from August 2027 onward compared with May previously.
- Treasury also emphasized demand considerations and cost effectiveness as it evaluates potential issuance shifts. Debt managers highlighted growing demand for bills from the private sector and SOMA purchases, signaling comfort with bill absorption for now, though TBAC noted signs of increasing price sensitivity amid sluggish MMF AUM growth. We think this, coupled with cited structural demand trends, will limit auction size increases to the 2-to-10y part of the curve. Our baseline remains for long-end auction sizes to remain unchanged, but risks skew towards modest reductions.
- In that vein, Treasury expects $70bn of liquidity buybacks for this quarter, cementing the upsized $6bn envelope for operations in the 10-to-20y and 20-to-30y buckets, and noted potential further enhancements in the future. We continue to think buybacks offer a flexible tool for managing the maturity composition of outstanding debt while maintaining sufficient benchmark liquidity across the curve. The continuation of the larger buyback envelopes and broader focus on demand sensitivities should continue to provide a supportive backdrop for spreads.
- Lastly, following guidance from the August refunding meeting, Treasury announced the conversion of the 7-year note to a quarterly new issue, similar to the 10-year note cycle. Starting in March, we expect auction sizes of $46bn / $43bn / $43bn throughout the quarter.

Treasury's estimate for 4Q26 privately-held net marketable borrowing was revised down by $10bn from the August projection to $618bn (assuming an end-of-December cash balance of $850bn), primarily due to the higher beginning-of-quarter cash balance ($984bn actual vs. $950bn projected in August),

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partially offset by lower projected net cash flows. This figure came in moderately above our $571bn expectation (which had also assumed an $850bn cash balance).

For 1Q27, Treasury projects borrowing of $800bn, assuming an end-of-March cash balance of $1tn. While this is larger than our initial $713bn projection, the difference is almost entirely accounted for by the higher TGA target—we had assumed $900bn—leaving the underlying borrowing pace just barely below our expectations. Treasury again noted in Wednesday's policy statement that shifts in its TGA path (including the potential for substantial intraquarter deviations from end-of-quarter assumptions) are driven by expected outflows, consistent with Treasury's cash balance policy.

In the refunding statement, Treasury kept nominal coupon, TIPS, and FRN auction sizes unchanged for another quarter but removed "at least" from its prior guidance that current auction sizes are likely to remain in place for "at least the next several quarters." The minutes explicitly highlighted potential coupon auction changes in 2H27, and we now expect auction sizes to begin to increase in August 2027 vs May previously.

At the end of the same paragraph, Treasury emphasized the focus on demand considerations and cost-effectiveness as it considers potential issuance shifts. In the discussion on supply absorption and structural trends in UST demand, Treasury highlighted the growing demand for bills from the private sector and SOMA purchases. And while TBAC also noted signs of growing price sensitivity amid sluggish MMF AUM growth, this points to ongoing comfort with bill absorption. Taken together with the cited structural trends of increased bank demand in the belly of the curve against weaker long-end demand from liability-driven investors, we now expect auction size increases to occur in the 2-to-10y sector (we had previously anticipated 2-to-7y). The slightly later start to auction size increases is balanced by the wider scope (including 10s), which we think supports the later ramp up. And while the minutes noted a "meaningful discussion" about potential changes (presumably downward) to 20y and 30y issuance at a later point, this is a risk rather than our base case for now.

In that vein, Treasury expects $70bn of liquidity buybacks for this quarter, cementing the upsized $6bn envelope for operations in the 10-to-20y and 20-to-30y buckets, and noted potential further enhancements in the future. We continue to think buybacks offer a more flexible tool for managing the maturity composition of debt outstanding while maintaining sufficient benchmark liquidity across the curve. The continuation of the larger buyback envelopes and broader focus on demand sensitivities should continue to provide a supportive backdrop for spreads.

In the charges, TBAC discussed the implications for Treasuries from the AI buildout. In line with our finding that revised policy- and growth expectations have been the main driver of higher yields this year, they note that there have been no supply-imbalances or absorption constraints for USTs.

Lastly, following guidance at the August refunding meeting, Treasury formally announced the conversion of the 7y note to a quarterly new issue, similar to 10y-30y. Starting in March 2027, we expect auction sizes of $46bn / $43bn / $43bn across the quarter, with the reduced number of CUSIPs and corresponding increased liquidity per issue likely to prove beneficial for investors from an inventory and netting perspective.

Exhibit 1: We now expect auction size increases to begin in August 2027, with the later start balanced against the wider scope (2y through 10y)
Monthly auction size projections

	Monthly Auction Sizes ($bn)														
	Nominals								TIPS				FRNs		Total
	2y	3y	5y	7y	10y	20y	30y	Total	5y	10y	30y	Total	2y	Total	
Oct-26	69	58	70	44	39	13	22	**315**	26	0	0	**26**	30	**30**	**371**
Nov-26	69	58	70	44	42	16	25	**324**	0	19	0	**19**	28	**28**	**371**
Dec-26	69	58	70	44	39	13	22	**315**	24	0	0	**24**	28	**28**	**367**
Jan-27	69	58	70	44	39	13	22	**315**	0	21	0	**21**	30	**30**	**366**
Feb-27	69	58	70	44	42	16	25	**324**	0	0	9	**9**	28	**28**	**361**
Mar-27	69	58	70	46	39	13	22	**317**	0	19	0	**19**	28	**28**	**364**
Apr-27	69	58	70	43	39	13	22	**314**	27	0	0	**27**	30	**30**	**371**
May-27	69	58	70	43	42	16	25	**323**	0	19	0	**19**	28	**28**	**370**
Jun-27	69	58	70	46	39	13	22	**317**	25	0	0	**25**	28	**28**	**370**
Jul-27	69	58	70	43	39	13	22	**314**	0	21	0	**21**	30	**30**	**365**
Aug-27	71	60	72	43	44	16	25	**331**	0	0	8	**8**	28	**28**	**367**
Sep-27	73	62	74	49	41	13	22	**334**	0	19	0	**19**	28	**28**	**381**
Oct-27	75	64	76	46	41	13	22	**337**	28	0	0	**28**	31	**31**	**396**
Nov-27	77	66	78	46	46	16	25	**354**	0	19	0	**19**	29	**29**	**402**
Dec-27	79	68	80	52	43	13	22	**357**	26	0	0	**26**	29	**29**	**412**
Jan-28	81	70	82	49	43	13	22	**360**	0	21	0	**21**	32	**32**	**413**
Feb-28	83	72	84	49	48	16	25	**377**	0	0	9	**9**	30	**30**	**416**
Mar-28	85	74	86	55	45	13	22	**380**	0	19	0	**19**	30	**30**	**429**
Apr-28	87	76	88	52	45	13	22	**383**	28	0	0	**28**	33	**33**	**444**
May-28	87	76	88	52	48	16	25	**392**	0	19	0	**19**	31	**31**	**442**
Jun-28	87	76	88	55	45	13	22	**386**	26	0	0	**26**	31	**31**	**443**
Jul-28	87	76	88	52	45	13	22	**383**	0	21	0	**21**	33	**33**	**437**
Aug-28	87	76	88	52	48	16	25	**392**	0	0	8	**8**	31	**31**	**431**
Sep-28	87	76	88	55	45	13	22	**386**	0	19	0	**19**	31	**31**	**436**
Oct-28	87	76	88	52	45	13	22	**383**	28	0	0	**28**	33	**33**	**444**
Nov-28	87	76	88	52	48	16	25	**392**	0	19	0	**19**	31	**31**	**442**
Dec-28	87	76	88	55	45	13	22	**386**	26	0	0	**26**	31	**31**	**443**

Source: Goldman Sachs Global Investment Research

Global Interest Rates Strategy

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