US Hit with Greater Trouble Auctioning its Debt

By David Haggith - Feb, 2024

It was one ugly bond auction, while the Fed added pressure with its determination not to lower rates anytime soon in the face of stubborn inflation.

Today, the huge upsurge in Treasury issuances to fund Bidenomics during a time when the Fed is no longer the buyer of first resort struggled to find enough buyers in what became, by at least one measure, the worst 20YR Treasury auction on recent record. *Bloomberg* had written that it expected the auction to show plenty of positives. It didn't. The yield rose well above the last auction of these 20YR pieces of paper (or clicks on a computer).

The tail of the auction gave it its worse score. A "tail" means that the last buyers to buy the last bonds left for sale in the auction paid a *lower price* (got a higher yield) than those who bought first. A bad (or long) tail suggests low demand because it means the auction had to keep pushing prices lower (yields higher) in order to find enough buyers to sell off the full allotment of bonds, which must all sell. In the present case, that means the auction had to price down (offer higher yields) more than any on record since 20YR bond auctions were re-introduced in 2020.

The number of non-dealers (direct buyers) soaking up the bonds also dropped. That meant dealers had to hold onto the most bonds, themselves, since May 2021. Their terms as dealers require them, in aggregate, to buy up the whole auction, but they choose the price they bid. With a strong demand, they're obviously willing to bid to pay higher prices (get lower yields) for the bonds they intend to resell in order to be certain they can sell them all for a profit. This auction indicated they are not so sure they will sell so easily.

Overall this was a *very ugly* auction … and while it is unclear why demand was so *terrible* perhaps one can attribute it to nerves from today's FOMC Minutes….

Fed's inflation fight hits the auction

So, let's look at what the Fed's minutes, which also just came out today, said from its last rate-setting FOMC meeting, which caused all yields to spike today, putting the 10YR back up at 4.325%.

Fed officials stated clearly at their last meeting that their concern leaned much more toward making sure they did not loosen things too quickly than with any interest in starting to cut rates:

Federal Reserve officials indicated at their last meeting that they were in *no hurry to cut interest rates* and expressed both optimism and caution on inflation, according to minutes from the session released Wednesday….

The discussion came as policymakers not only decided to leave their key overnight borrowing rate unchanged but also *altered the post-meeting statement to indicate that no cuts would be coming until* the rate-setting Federal Open Market Committee held "greater confidence" that inflation was receding.

"*Most* participants noted the risks of moving too quickly to ease the stance of policy…. Participants generally noted that they did not expect it would be appropriate to reduce the target range for the federal funds rate until they had gained greater confidence that inflation was moving *sustainably* toward 2 percent…. Participants *highlighted* the uncertainty associated with how long a restrictive monetary policy stance would need to be maintained."

Zero Hedge added a noteworthy comment on the meeting. First they carried one more quote from the minutes of note:

*"***Several participants mentioned the risk that financial conditions were or could become *less restrictive than appropriate*, which could add undue momentum to aggregate demand and cause progress on inflation to stall.***"*

Then *ZH* noted,

As a reminder, all the 'ugly' data - hot NFP, hot CPI, hot PPI - came *after* the Minutes.

In other words, all the reluctance toward any form of pivot expressed in the minutes came even before the Fed got hot payroll data, the latest intensifying CPI report for inflation and the PPI report that matched. All of that has likely strengthened their stance on staying tight for longer since the meeting, and we can see that in other words from two Fed officials today.

ZH also noted,

Upside risks [i.e., for more inflation] included easier financial conditions and stronger growth. Others cited were "**possible disruptions to supply chains from geopolitical developments, a potential rebound in core goods prices as the effects of supply-side improvements dissipate**, or the possibility that wage growth remains elevated…."

Staff placed some weight on chance that further progress on lowering inflation could take longer than expected.

The message from Fed heads now that the latest inflation and job data mentioned above came in sounded even more crisp:

Fed’s Bowman Says That Time for Rate Cut Is ‘*Certainly Not Now*’

Federal Reserve Governor Michelle Bowman argued on Wednesday that the current economic environment doesn’t warrant the central bank cutting interest rates.

“Certainly not now,” Bowman said Wednesday while answering a question about rate cuts at an event in Washington.

The Fed’s Barkin, cuing perhaps off the more recent data, said today that **inflation data show *persistent* price pressures**. I’d say what that *really* means is that the Fed’s success has stalled if you look at graphs of data in the last few months. They’d probably rather not acknowledge that news so plainly. Bowman’s “certainly not now” added some strong resolve, though.

So, yields on US Treasuries may be starting to climb up due to the number of Treasuries the government now has to manage to sell to keep funding *Biden’s fascist economics**, requiring lower prices to attract enough buyers to buy such large issuances of bonds. We’ll see how it goes as future auctions come up; but it’s something to watch for because **a rise in Treasury yields prices up yields on much riskier corporate bonds correspondingly, placing that vast hoard of commercial real-estate bonds that have to refinance this year at greater risk.**

An important aspect of fascist economies was economic dirigism … meaning *an economy where the government often subsidizes favourable companies and exerts strong directive influence over investment*, as opposed to having a merely regulatory role.

In general, *fascist economies were based on private property and private initiative, but these were contingent upon service to the state*. (Such as Biden subsidizing major corporations via enormous grants to build chip factories for their own profit because the government needs to be sure it 1) has access to chips that cannot be interrupted by the sanctions of war or 2) knows the chip design cannot be altered by foreign makers that may have hostile intentions.)