

# US Macroeconomics

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## Supply Is Not Pushing 10-year Notes Higher

Since July, the yield on the 10-year Treasury note has increased from 3.84% to 4.92%. During this time, 10-year breakeven inflation increased from 2.23% to 2.46% while yearend 2024 fed funds rate expectations increased from 4.44% to 4.78%. These are the two components in our model used to estimate fair value on 10-year notes. What accounts for the additional increase in yield?

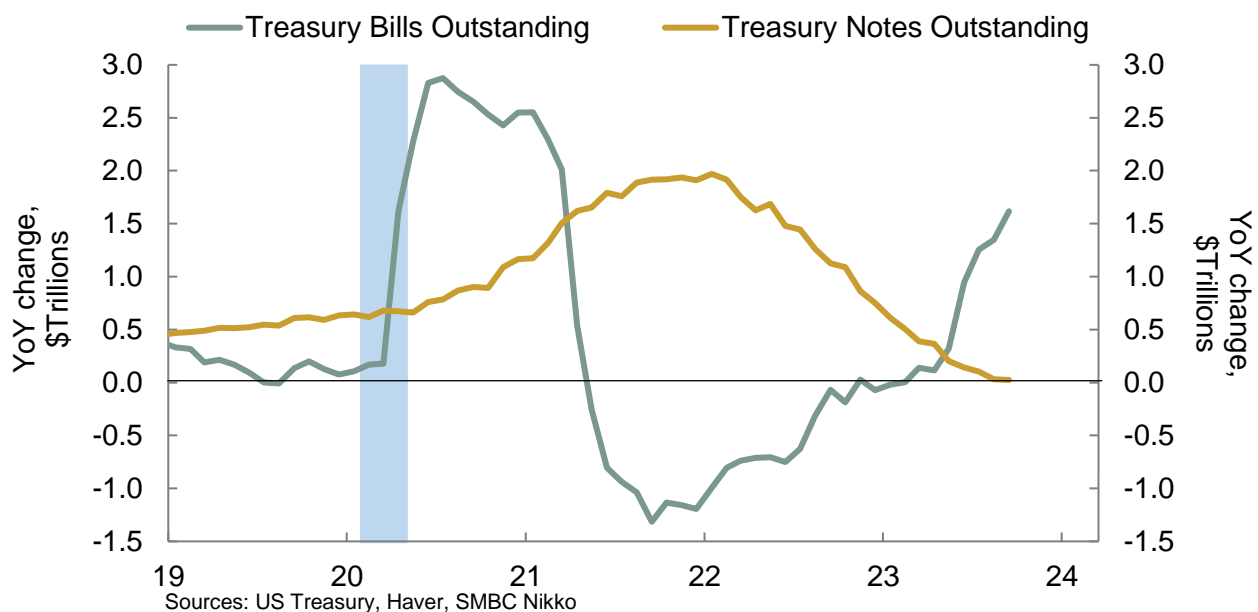
**As our earlier work has shown, a sizeable portion of the rise in yields has been due to foreign-related selling of Treasuries**, especially by Asian based private and public accounts. For example, the yield on the dollar/yen exchange rate has tracked the movements in 10-year Treasury notes nearly one-for-one over the past year or so. This is important because it suggests that rising US government borrowing needs are not an important factor pushing up long-term yields.

**Marketable Treasury debt rose \$2.06 trillion last month relative to its year-earlier period, marking the end to the 2023 fiscal year. Of that increase, nearly 80% (\$1.62 trillion) was in Treasury bills** — securities with maturities of 1-year or less. Treasury notes, which capture borrowing from 2- to 10-years, increased a paltry \$26 billion in the last year. (See chart below.) As an aside, to the extent the Treasury wants to raise its General Account Balance further, it will likely come in additional bill supply.

However, the issuance of 20- and 30-year Treasury bonds increased \$373 billion. But this would not explain higher 10-year notes either because the spread between 10-year notes and both 20- and 30-year bonds is little changed now compared to one year ago. If, anything, the spread between 10-year notes and bonds should be wider, reflecting extra marginal supply.

What about TIPS? **The supply of Treasury inflation indexed securities rose \$95 billion. But higher supply would be captured in breakeven inflation**, which has increased only over the past couple of weeks likely due to the prospect of geopolitical events leading to inflationary government spending.

The substantial surge in 10-year yields, which is being captured by a higher term premium, is meaningfully tightening financial conditions. In turn, this is doing some of the Fed's work for it, potentially allowing policymakers to keep the funds rate where it is without any more hikes on the horizon.



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