

US Rates Strategy

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Increasing buyback firepower

We think the Treasury could increase its buyback capacity without necessarily increasing bill issuance by drawing on some of its surplus cash. Term buybacks totaling \$100bn could be added to its existing cash management buyback operations.

- While the Treasury cash balance is nearly \$1trn, only the portion above its 5d expected outflows is available for buybacks or [investing](#) in the repo market.
- **Without changing bill issuance or reducing its precautionary cash target, we estimate it could shift \$100bn from its Fed account to purchases of term debt.** This would replace any tri-party repo investments.
- Diverting this cash from repo to buybacks will likely have little effect on general collateral rates. But it may be more pronounced in the bilateral repo where financing and liquidity could improve for the vintage coupons the Treasury is redeeming.
- Treasury's surplus cash is lumpy and highest around tax collection dates. **As a result, term buybacks might be concentrated around the same time as the Treasury's regular cash management buyback operations.**
- The Treasury's cash management buybacks total \$150bn/yr and include bills and vintage coupons out to 2y. Individual operations are between \$12.5bn and \$15bn (par). Demand for buybacks is strong in this part of the curve.
- **Rather than replacing these maturities with longer ones, the Treasury might consider increasing the size of these operations (by \$25bn/quarter) and adding longer maturities to the buybacks.**
- **Buybacks – of whatever maturity – are sensitive to debt ceiling dynamics.** Investors may need to wait for the Treasury's cash balance to recover before they can sell their off-the-run holdings back to the Treasury.

Extra cash

Earlier this week, there was some discussion that the Treasury could use the cash in its account at the Fed to buy back term debt.¹ Since the Treasury has nearly \$1trn in this account, tapping it could significantly increase its buyback firepower. And because this cash has already been raised from debt

¹ See, "Bessent could tap near \$1trn Treasury General Account to fund bond buybacks, sources said", S. Liesman, CNBC, August 24, 2026.

markets and tax receipts, the Treasury would not need to issue more debt. In effect, the Treasury might be able to pull long-term interest rates lower *without increasing bill supply*.

Instead, the Treasury would reduce the size of its cash surplus above its expected 5d outflows $E(1w)$.² **We do not think the Treasury would consider a smaller operating buffer – one that targets, a 3d cushion, for example.**³ While 3d would match the longest period the Treasury was unable to access financing markets since 2000, it wouldn't give the Treasury much added padding. After all, every Tuesday and Thursday, the Treasury has between \$250-\$300bn in gross bill settlements.

The Treasury has already been eyeing this cash. It is considering ways to boost the returns on this “idle” cash that earns nothing while it sits at the Fed. Dealers were asked at the May and August quarterly refundings to consider the implications of investing the surplus in the tri-party repo market. Likewise, the Fed has been considering the implications for reserve management of a change in where and how the Treasury maintains its precautionary cash balance.⁴ We are skeptical that the Treasury would earn much from investing surplus cash in the repo market.⁵ **Instead, our sense is that tri-party repo rates would continue to trade below IORB.** The extra \$100bn of Treasury cash invested in a market where \$1.2trn/day trades, *might* nudge tri-party rates lower. However, the effect is small and muted provided bank reserves remain ample. That said, using the \$100bn to purchase vintage term coupons while reducing their float could lower their funding costs and improve their secondary market liquidity.

How much surplus cash does the Treasury hold? We calculate $E(1w)$ from the start of the year and subtract this amount from the Treasury's daily cash holdings (Figure 1). The Treasury has had extra cash on roughly 2/3 of period. The average amount on those days is about \$165bn, but there is significant variation in the daily total; the standard deviation across surplus days is about \$96bn. **Depending on how aggressively the Treasury wishes to use its surplus cash we think it might comfortably buy back an additional \$100bn annually in term debt.**

This cash is lumpy. As shown in Figure 1, there are bouts during which the Treasury has no surplus or the surplus is less than \$100bn. Because balances are highest around tax dates, the Treasury might concentrate its term buybacks around these dates – perhaps \$25bn/quarter. The operations could be scaled up if tax receipts are stronger-than-expected.

Cash management buybacks

But the Treasury already uses its strong tax receipts to conduct periodic cash management buyback operations. **These operations are meant to smooth out the Treasury's cash flows while flattening out seasonal swings in bill issuance.** Before these operations began in 2024, April tax collections caused the Treasury's cash balance to spike. While this is still true, the Treasury no longer needs to shrink bill issuance as aggressively in May and June to bring its cash back to its $E(1w)$ target. Instead, it uses \$150bn of its cash to retire bills and coupons out to 2y. Individual operations are between \$12.5bn and \$15bn (par). This helps to stabilize bill issuance while reducing the seasonal effects on short-term interest rates caused by money fund reallocations from scarce bills to overnight repo.

² $E(1w)$ is the Treasury's expected cash outflow; in our analysis we assume the expected outflow equals the realized outflow.

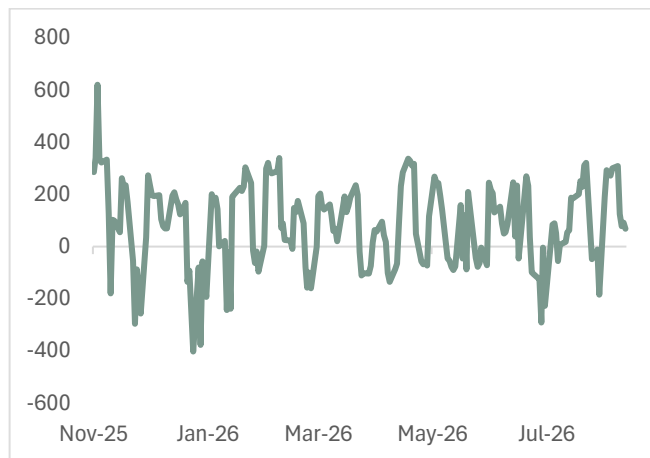
³ See, “Remarks by PDO Assistant Secretary McMaster”, US Treasury, September 29, 2025.

⁴ See, “Options for reducing the size of the Fed's balance sheet”, L. Logan and S. Schulhofer-Wohl, Federal Reserve Bank of Dallas, April 2, 2026

⁵ In the May refunding, TBAC estimates that the Treasury might only earn an extra \$60-100mn annually.

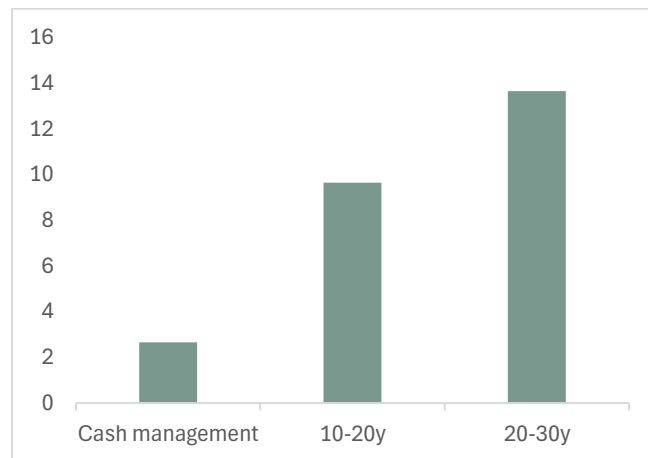
The demand to sell the short maturity debt to the Treasury is strong but not as strong as it is for longer maturity coupons (Figure 2). As a result, the Treasury might not want to replace the maturities of its quarterly cash management operations with term debt. **Instead, it might add an extra \$25bn/quarter in term debt buybacks to its existing cash management purchases.**

Figure 1: Daily cash less E(1w) (\$bn)



Source: US Treasury, SMBC Nikko

Figure 2: Par offer to max ratios by sector



Note: Average over the last 10 operations. Source: US Treasury, SMBC Nikko

Debt ceiling

In this analysis we have ignored the effect of the debt ceiling. The debt ceiling becomes binding when borrowing capacity created from the Treasury's extraordinary accounting measures runs down. This forces the Treasury to operate with a thinner cash balance and means it would have to suspend its buybacks. If the Treasury scales up its buybacks but is later forced to suspend them, investors wishing to reduce their inventories of off-the-run paper might instead have to wait until Congress approves a limit increase (or temporary suspension) for the Treasury's purchases to resume.

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