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Economics Group

Interest Rate Weekly

John E. Silvia, Chief Economist
john.silvia@wellsfargo.com • (704) 410-3275
Michael A. Brown, Economist
michael.a.brown@wellsfargo.com • (704) 410-3278

Updated 2016 Net Treasury Issuance Projections

Following the release of the Treasury's Quarterly Refunding Statement, we have updated our projections of net Treasury issuance for calendar year 2016, which point to smaller net issuance for the year.

Larger Deficits but Lower Net Issuance

In December, we wrote that we expected net Treasury issuance to pull back in 2016 and provided a rough estimate of how much the Treasury would increase Treasury bill issuance. Now that we have a sense of the Treasury's borrowing plans for Q1 2016, we can provide an updated perspective on net issuance for the year.* We expect a lower level of total net issuance, an increase in T-bill issuance and lower net-interest-bearing Treasury issuance; however, the changes are not expected to dramatically affect the share of total interest-bearing Treasuries outstanding.

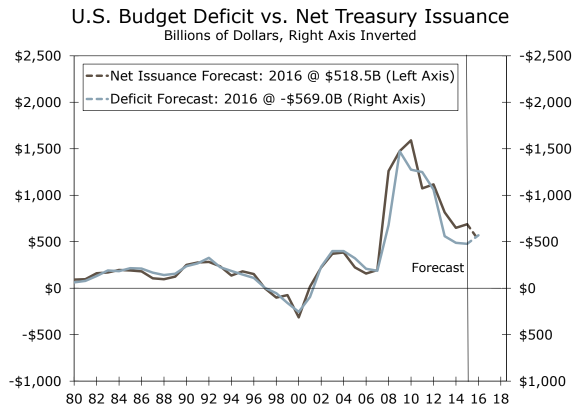
Updated Congressional Budget Office projections show that the federal budget deficit in the current fiscal year is set to rise relative to the size of the economy for the first time since 2009. We estimate that the federal budget deficit for fiscal year 2016 will be approximately $575 billion, rising to $590 billion in fiscal year 2017. The Treasury's Quarterly Refunding Statement indicated that the Treasury is expected to increase total net Treasury issuance by $250 billion in Q1. After taking into account the Quarterly Refunding Statement data along with our budget deficit assumptions for both fiscal years, we forecast that total net Treasury issuance will fall 25 percent in calendar year 2016 to $518 billion from the $688 billion issued last calendar year.

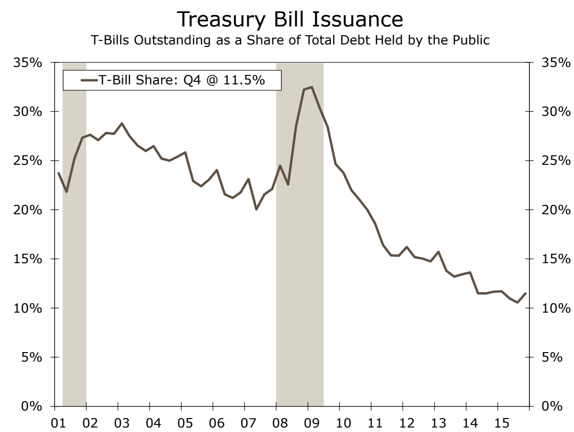
Bill Issuance to Jump in 2016

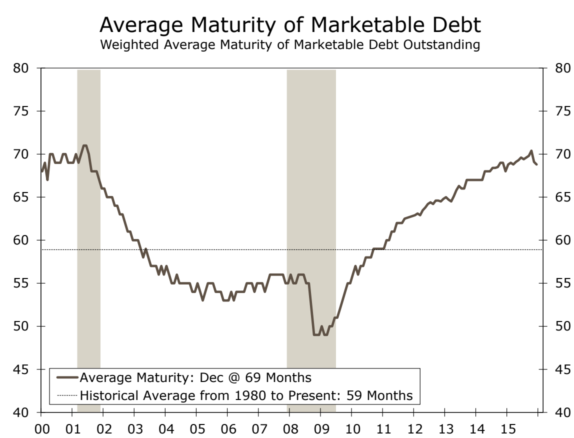
The decline in total net Treasury issuance also coincides with the Treasury's intent to increase net T-bill issuance. In our analysis, we expect that the share of outstanding T-bills will increase to 12.5 percent of total outstanding Treasury debt from last calendar year's 11.5 percent share. After incorporating the Treasury's implied increase in bill issuance for Q1 of this year of $160 billion, we now estimate that total net T-bill issuance will increase to $202 billion in calendar year 2016 from last year's $56 billion.

Interest Bearing Supply Still Expected to Increase

While net issuance of T-bills is expected to increase, net issuance of interest-bearing Treasury securities is expected to decline 50 percent to $317 billion from last calendar year's $632 billion according to our estimates. In Q1 2016, the Treasury expects net interest-bearing issuance to total $90 billion. It is important to note, however, that while the supply of interest-bearing Treasuries is still increasing, the rate of increase is slowing. Furthermore, the amount of interest-bearing Treasuries will still be larger than the amount of net new T-bills issued. Even with the estimated sizable jump in T-bill issuance this year, we still expect the average maturity of Treasuries outstanding to remain stable around 69 months, above the long-run average of 59 months since the share of total interest-bearing Treasuries is expected to remain around 88 percent.







Source: U.S. Department of the Treasury and Wells Fargo Securities, LLC

* U.S. Department of the Treasury. (2016). Quarterly Refunding Statement.

Wells Fargo U.S. Interest Rate Forecast

	Actual				Forecast							
	2015				2016				2017			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Quarter End Interest Rates												
Federal Funds Target Rate	0.25	0.25	0.25	0.50	0.50	0.75	1.00	1.25	1.50	1.75	2.00	2.25
3 Month LIBOR	0.27	0.28	0.33	0.61	0.70	0.95	1.20	1.45	1.70	1.95	2.20	2.45
Prime Rate	3.25	3.25	3.25	3.50	3.50	3.75	4.00	4.25	4.50	4.75	5.00	5.25
Conventional Mortgage Rate	3.77	3.98	3.89	3.96	3.96	4.01	4.06	4.16	4.29	4.36	4.41	4.55
3 Month Bill	0.03	0.01	0.00	0.16	0.39	0.67	0.90	1.18	1.33	1.59	1.88	2.15
6 Month Bill	0.14	0.11	0.08	0.49	0.50	0.69	0.95	1.20	1.41	1.64	1.97	2.21
1 Year Bill	0.26	0.28	0.33	0.65	0.52	0.84	1.02	1.33	1.52	1.79	2.03	2.27
2 Year Note	0.56	0.64	0.64	1.06	0.91	1.13	1.36	1.59	1.82	1.98	2.09	2.29
5 Year Note	1.37	1.63	1.37	1.76	1.55	1.66	1.74	1.85	1.95	2.06	2.16	2.33
10 Year Note	1.94	2.35	2.06	2.27	2.01	2.06	2.12	2.23	2.39	2.48	2.55	2.67
30 Year Bond	2.54	3.11	2.87	3.01	2.75	2.77	2.80	2.84	2.87	2.92	2.97	3.14

Forecast as of: February 10, 2016

Wells Fargo U.S. Economic Forecast and FOMC Central Tendency Projections

	2016	2017
Change in Real Gross Domestic Product		
Wells Fargo	2.0	2.3
FOMC	2.3 to 2.5	2.0 to 2.3
Unemployment Rate		
Wells Fargo	4.6	4.4
FOMC	4.6 to 4.8	4.6 to 4.8
PCE Inflation		
Wells Fargo	1.6	1.9
FOMC	1.2 to 1.7	1.8 to 2.0

Forecast as of: February 10, 2016

NOTE: Projections of change in real gross domestic product (GDP) and in inflation are from the fourth quarter of the previous year to the fourth quarter of the year indicated. PCE inflation is the percentage rate of change in the price index for personal consumption expenditures (PCE). Projections for the unemployment rate are for the average civilian unemployment rate in the fourth quarter of the year indicated.

Fed Data as of: December 16, 2015

Source: IHS Global Insight, Bloomberg LP, Federal Reserve Board and Wells Fargo Securities, LLC

Wells Fargo Securities, LLC Economics Group

Diane Schumaker-Krieg	Global Head of Research, Economics & Strategy	(704) 410-1801 (212) 214-5070	diane.schumaker@wellsfargo.com
John E. Silvia, Ph.D.	Chief Economist	(704) 410-3275	john.silvia@wellsfargo.com
Mark Vitner	Senior Economist	(704) 410-3277	mark.vitner@wellsfargo.com
Jay H. Bryson, Ph.D.	Global Economist	(704) 410-3274	jay.bryson@wellsfargo.com
Sam Bullard	Senior Economist	(704) 410-3280	sam.bullard@wellsfargo.com
Nick Bennenbroek	Currency Strategist	(212) 214-5636	nicholas.bennenbroek@wellsfargo.com
Eugenio J. Alemán, Ph.D.	Senior Economist	(704) 410-3273	eugenio.j.aleman@wellsfargo.com
Anika R. Khan	Senior Economist	(704) 410-3271	anika.khan@wellsfargo.com
Azhar Iqbal	Econometrician	(704) 410-3270	azhar.iqbal@wellsfargo.com
Tim Quinlan	Economist	(704) 410-3283	tim.quinlan@wellsfargo.com
Eric Viloria, CFA	Currency Strategist	(212) 214-5637	eric.viloria@wellsfargo.com
Sarah House	Economist	(704) 410-3282	sarah.house@wellsfargo.com
Michael A. Brown	Economist	(704) 410-3278	michael.a.brown@wellsfargo.com
Erik Nelson	Economic Analyst	(704) 410-3267	erik.f.nelson@wellsfargo.com
Alex Moehring	Economic Analyst	(704) 410-3247	alex.v.moehring@wellsfargo.com
Misa Batcheller	Economic Analyst	(704) 410-3060	misa.n.batcheller@wellsfargo.com
Michael Pugliese	Economic Analyst	(704) 410-3156	michael.d.pugliese@wellsfargo.com
Julianne Causey	Economic Analyst	(704) 410-3281	julianne.causey@wellsfargo.com
Donna LaFleur	Executive Assistant	(704) 410-3279	donna.lafleur@wellsfargo.com

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