
Treasury solicits opinions about ultra-long bonds

By Editorial Staff Thu, Apr 20, 2017

The Trump administration and Treasury Secretary Steve Mnuchin has been asking primary bond dealers if they would like the government to issue bonds with terms of 40, 50 or 100 years.

The U.S. Treasury has asked for feedback from bond dealers about the feasibility and advisability of issuing government debt with terms of 40, 50 or even 100 years, the *Financial Times* reported this week.

The survey of primary dealers, institutions responsible for underwriting the US government's debt, comes ahead of the Treasury's next quarterly refunding announcement in early May.

The Trump administration and Treasury Secretary Steve Mnuchin is considering extending the term of government debt. Smaller countries, including Italy, Austria and Mexico, already have very long-dated bonds.

Mark Grant, chief strategist at Hilltop Securities, said the government would likely see demand from big insurance companies with long-dated liabilities. Some investors believe it would help the US Treasury to reduce borrowing costs for the taxpayer, the *Financial Times* report said.

The Treasury survey of dealers focused on the following areas:

- "What factors should Treasury consider when structuring a security with a maturity greater than 30 years?"
- How, relative to the current 30-year bond offering, would Treasury expect to price ultra-long bonds.

This week, the 30-year Treasury yield fell to a new low for the year of 2.80%, down from 3.21% in mid-March. Very long-dated bonds sometimes trade more cheaply than shorter-dated bonds. A trader at one primary dealer said the lack of premium for investing long-term could dissuade some investors.

But the premium might not matter much. "Treasuries are a way station for many investors at times like this when they don't want to be in other asset classes," said William O'Donnell, a strategist at Citibank. "In many ways valuations don't matter. Bonds are the anti-stock."

The current 50-year swap rate in the US, which is closely linked to Treasuries, is about three basis points below the 30-year swap rate, suggesting that a 50-year bond could cost the government than the current 30-year bond, O'Donnell said, adding, "But much will depend on supply and demand, how much issuance they bring and how often it is auctioned."

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