

UNITED STATES ECONOMICS UPDATE

15th Oct. 2013

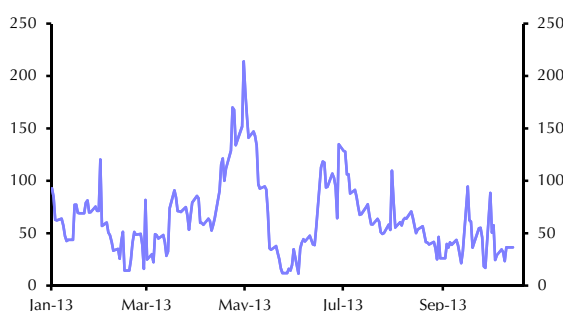


Delving into the Treasury's spending schedule

- Despite the more promising tone of the recent discussions on Capitol Hill, there remains a risk that the debt ceiling will not be raised before Thursday. But a detailed look at the Treasury's spending schedule shows that it should be able to meet all its obligations for another two weeks, not least because it still has \$36bn of cash in reserve. Under those circumstances, it would not be a disaster if a deal isn't agreed to raise the debt ceiling until a few days after Thursday 17th October.
- As the flows of money in and out of the Treasury follow set monthly patterns, we can get a good idea of when the Treasury will be caught short by looking at its accounts from this time last year. (See Table 1 on page 2.) **This adds further support to our view that Thursday will not be D-Day (default day).**
- Admittedly, as Thursday is the day that the Treasury will no longer be able to borrow to fund spending, it will have to start paying all its bills using the revenues it receives and its current cash reserves of \$36.5bn. As the Treasury spends more than it earns, this rainy day fund won't cover the shortfall for long. Indeed, it has already been run down from more than \$200bn at the end of April. (See Chart 1.)
- In the 2013 financial year, the Treasury earned roughly \$10.8bn a day and spent about \$13.3bn a day. The current cash reserves of \$36.5bn would therefore cover the daily shortfall of \$2.5bn for 14 working days, or up to 6th November. **But because tax revenues fluctuate and spending obligations are not spread out evenly (see Chart 2), the Treasury is likely to exhaust its reserves before then.**
- Some analysts have suggested that the crucial day will be either 17th or 24th October, when \$120bn and \$93bn of Treasury debt is due to mature. (See Table 1 on page 2.) But the investors holding those bonds will be repaid using funds raised in new debt auctions held a few days before, which are due to settle on 17th and 24th. Investors will probably demand a higher yield, but there is likely to be plenty of buyers.
- Revenues and cash reserves will probably be enough to cover the \$12bn of social security payments that need to be made on 23rd October and the \$3bn of Federal salaries due on 25th October. **But they may not cover the \$6bn of debt interest payments due on 31st October and almost certainly won't cover the \$57bn of social security, Medicare, military and income support payments due on 1st November.** And there's no chance whatsoever of meeting the \$30bn of debt payments due on 15th November. It's unlikely that the Treasury will hoard its daily revenues to meet these big bills. The chances are that it will pay its obligations as the money comes in.
- Of course, it is possible that the Treasury will struggle to pay its bills earlier or later. The shutdown of the government means that daily revenues and spending are even less predictable than usual. Even so, it's very likely that the Treasury will be able to operate as normal on Thursday and for some days after. **So even if a deal isn't done to raise the debt ceiling, we don't expect the sky to fall in on Thursday.**
- **Things could be different if the US did actually miss a debt payment at a later date. But even then, we suspect that any rise in Treasury yields would be fairly small and short-lived.** (See *Global Markets Update* "What impact would a US default have on Treasuries?" 14th October.)

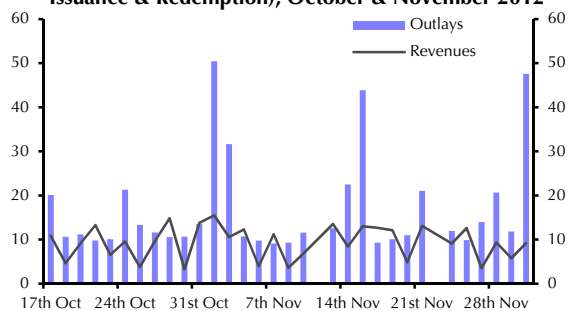
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Chart 1: Treasury's Operating Cash Balance (\$bn)



Source –Bloomberg

Chart 2: Treasury Daily Revenues & Outlays (Excluding Debt Issuance & Redemption), October & November 2012



Sources –Treasury, Capital Economics

TABLE 1: TREASURY SCHEDULE FOR 2013

Date	Payments	Payment Size	Maturing Debt	Auction Settlement	Auctions
17 th Oct			\$120bn	4, 13, 26, 52-Week Bills	
18 th Oct					
21 st Oct					13, 26-Week Bill
22 nd Oct					4-Week Bill
23 rd Oct	Social security	\$12bn			
24 th Oct			\$93bn	4, 13, 26-Week Bills	30-Year TIPS
25 th Oct	Federal salaries	\$3bn			
28 th Oct					13, 26-Week Bills, 2-Year Bond
29 th Oct					4-Week Bill, 5-Year Bond
30 th Oct					7-Year Bond
31 st Oct	Coupon payments	\$6bn	\$115bn	4, 13, 26-Week Bills, 2, 5, 7-Year Bonds, 30-Year TIPS	
1 st Nov	Social sec. (\$23bn), Medicare (\$18bn), Military (\$12bn), Income benefits (\$4bn)	\$57bn			
4 th Nov					13, 26-Week Bill
5 th Nov					4-Week Bill
6 th Nov					
7 th Nov			\$54bn	4, 13, 26-Week Bills	
8 th Nov	Federal salaries	\$3bn			
11 th Nov					
12 th Nov					13, 26-Week Bills, 3-Year Bond
13 th Nov	Social security	\$12bn			4, 52-Week Bills, 10-Year Bond
14 th Nov			\$80bn	4, 13, 26, 52-Week Bills	30-Year Bond
15 th Nov	Military Pay (\$3bn), Coupon payments (\$30bn)	\$33bn	\$64bn	3, 10, 30-Year Bond	
18 th Nov					13, 26-Week Bills
19 th Nov					4-Week Bill
20 th Nov	Social security	\$12bn			
21 st Nov			\$55bn	4, 13, 26-Week Bills	10-Year TIPS
22 nd Nov	Federal salaries	\$3bn			
25 th Nov					13, 26-Week Bills, 2-Year Bond
26 th Nov					4-Week Bill, 5-Year Bond
27 th Nov	Social security	\$12bn			7-Year Bond
28 th Nov					
29 th Nov	Social security (\$23bn) Medicare (\$18bn), Military (\$12bn), Income benefits (\$4bn), Coupon payments (\$6bn)	\$63bn	\$55bn	10-Year TIPS	
30 th Nov			\$64bn	4, 13, 26-Week Bills	

Source – Congressional Budget Office, Treasury, Capital Economics