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Investments - Flash

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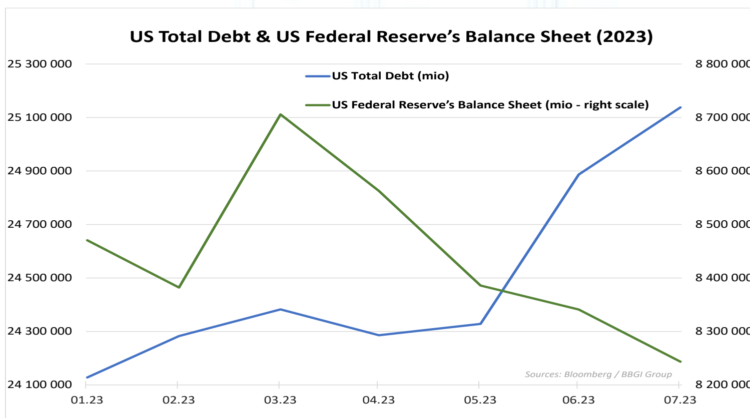
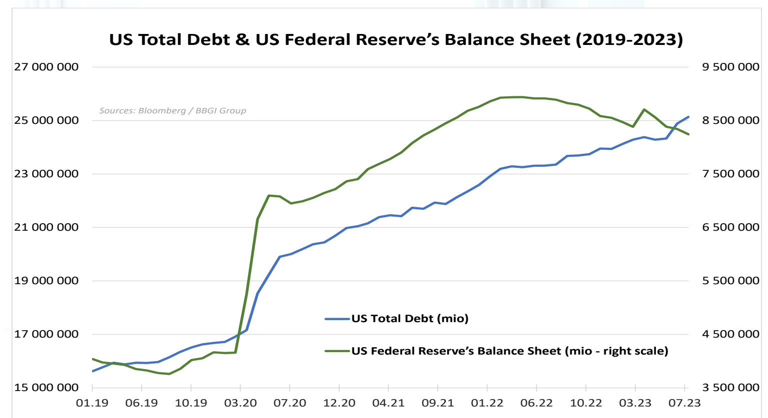
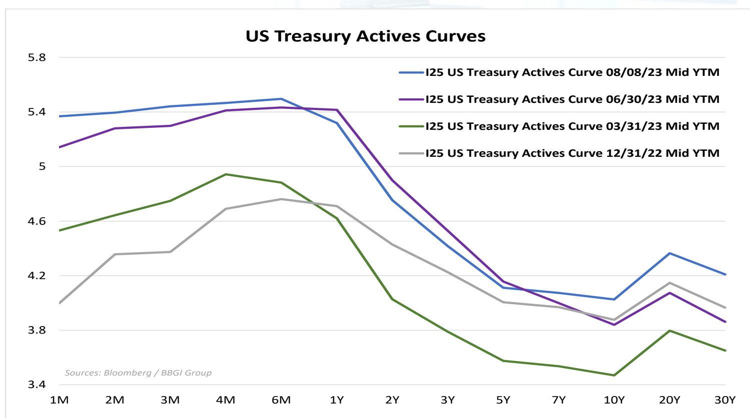
US TREASURY PULLS RATES UP WITH RECORD ISSUANCE

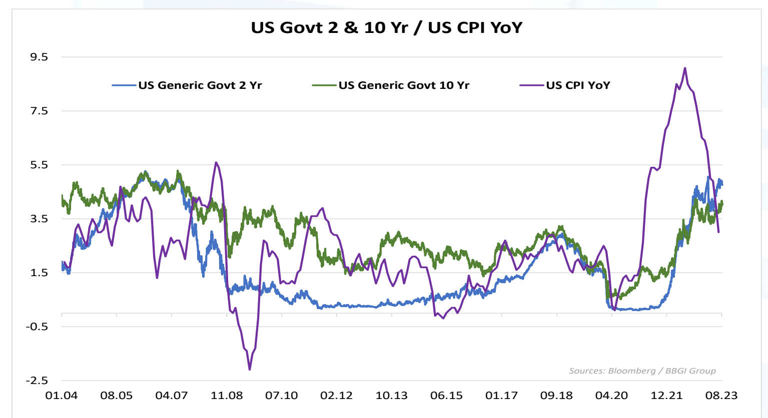
Yet falling inflation suggests lower yields

Fitch's downgrading of the US Treasury's long-term credit rating from AAA to AA+ is unlikely to have a major impact on the US government's ability to borrow on the markets. But this decision comes at the wrong time, when financing needs are at their peak. Since the debt ceiling was raised in June, the US Treasury has been issuing bonds on a historic scale. This increase in supply may temporarily support the recent rise in interest rates, as it already represents $1.2 trillion in two months. This process shows no signs of stopping, with the Treasury Department having already announced its short-term projections of 1.01 trillion, almost 300 billion more than estimated in May 2023. The US Treasury needs to replenish its liquidity reserves and unwind the exceptional operations that kept it going until the June agreement. Meanwhile, budget deficits continue, and the Treasury will probably need another 850 billion in Q4. Since the end of March, the FED has relaunched its balance sheet reduction program and withdrawn 500 billion of liquidity, which will not be used to finance growing government debt. With more supply and less demand, the scenario is clearly not optimal for easing interest rates. Corporate default rates are already higher than last year, while households are also feeling the full brunt of higher financing costs. Against a positive backdrop of inflation declining to just 3%/year in June, capital markets seem more influenced by supply trends and the Fed's pessimistic rhetoric. A further decline in inflation seems likely, however, and should motivate a change in monetary policy, allowing yield curves to ease. Current yields therefore seem particularly attractive in this context.









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