Boring Is Beautiful to U.S.

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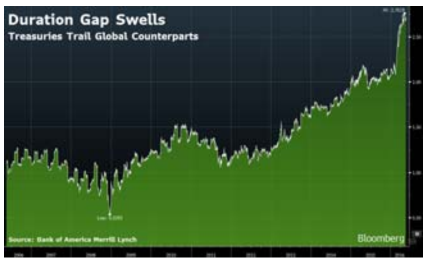
- Nation trails peers in duration amid ultra-long issuance trend
- For U.S. policy makers, it’s about regular, predictable sales

The U.S. Treasuries market is a world-beater when it comes to sheer size, depth and liquidity. Yet in one area it’s falling behind.

To lock in historically low interest rates, Belgium, Canada, France, Mexico, Spain, Switzerland and the U.K. have all sold debt maturing in 40 to 100 years since 2014, even if infrequently. Not the U.S., which in the interest of keeping sales regular has stuck to securities of three decades or less. That policy has made the globe’s biggest debtor a laggard in a key bond-market metric related to the average maturity of its securities. By this measure, the gap between the U.S. and its peers has never been wider.

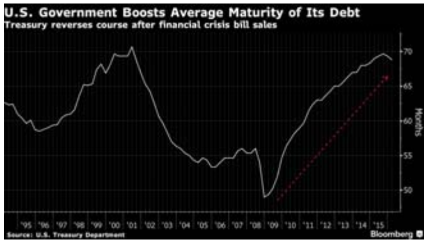


With the Federal Reserve signaling plans to raise rates and U.S. deficits projected to grow, the Treasury’s policy means it’s missing out on a golden opportunity. The caretakers of the $13.4 trillion Treasuries market see it differently. For them, rolling out a longer maturity only sporadically would undermine the predictable approach to issuance that they’ve pursued since the 1970s, which they say ensures the reliability and ease of trading in the world’s benchmark debt market and saves taxpayers money.

‘Liquid Markets’

“The Treasury likes to see large, liquid markets, and something like a 50-year bond is not going to be particularly liquid,” said James Moore, head of investment solutions in Newport Beach, California, at Pacific Investment Management Co., which oversees about $1.5 trillion. “The Treasury is thinking about and balancing a multiplicity of objectives when they consider issuance, and liquidity and depth are some of them.”

The U.S. hasn’t exactly stood still. The average lifespan of the government’s debt is now about 69 months, up from 49 in December 2008, when it was ramping up short-term bill issuance as part of emergency spending during the financial crisis, Treasury data show.



Yet by a gauge known as modified duration, a measure of debt's price sensitivity to interest-rate changes that rises with maturity, it's still trailing global peers. Typically, bonds with longer duration gain more when rates fall, and suffer steeper losses when rates rise.

Gap Widens

For Treasuries, the figure is 6.2, compared with 8.9 for an index that tracks the sovereign securities of more than 20 other nations, Bank of America Merrill Lynch data show. This month, the gap between the two reached the widest since at least 2006. One of the starkest contrasts is with the U.K., which issues long-dated bonds for pensions and insurers. Its debt has a duration above 10, Bank of America data show.

It's not just governments issuing ultra-long debt. Microsoft Corp. and Verizon Communications Inc. sold some in 2015 with 40-year maturities. The University of California issued 100-year obligations last year.

With $9 trillion of global bonds carrying negative yields, issuers have seen no shortage of demand for the deals. When Spain, which sought aid for its banks during the euro area's debt crisis, offered a 3.45 percent coupon on its 50-year bond this month, it received more than 10.5 billion euros ($11.8 billion) in bids for the 3 billion euros issued, even as it faces elections for the second time in six months. The rate wasn't much higher than the 2.62 percent yield on 30-year bonds the U.S. sold this month. U.S. long bonds yielded 2.63 percent in New York Monday.

Given the appetite for longer maturities and the prospect that the Fed will raise rates again in coming months, some analysts of U.S. debt management say it's time to jump in.

'Missed Opportunity'

"We do observe other countries doing this," said Campbell Harvey, a finance professor at Duke University's Fuqua School of Business in Durham, North Carolina, who's testified to Congress on the nation's borrowing policy. "If rates go up, it is a historic missed opportunity by the U.S."

Senator Mark Warner, the ranking member of the securities, insurance, and investment subcommittee of the Banking Committee, agrees longer-term issuance is worth a shot.

"This is an academic discussion until we try it,'' the Virginia Democrat said in an interview. "Longer-term debt doesn't alleviate our balance-sheet burden, but it does remove some of the risk from interest-rate spikes."

'Some Limitations'

Treasury Counselor Antonio Weiss, responding to a question from Warner at an April 14 hearing, said the government has moved to extend maturities.

"There are some limitations to how quickly that can be done," Weiss said. "They stem from the regular and predictable need for issuance, but also the fact that our deficit has come down so dramatically," reducing issuance needs.

A Treasury spokesman, Rob Runyan, declined to comment beyond Weiss's remarks.

The U.S.'s international counterparts don't provide much of a model for a regular and predictable issuer.

France has issued 50-year bonds three times since 2005, and the 50-year security Belgium sold in April was its first of that maturity. Spain's sale was its second foray into the ultra-long market, while Japan and China sell roughly once and twice a year, respectively.

In contrast, even the least-frequently auctioned U.S. debt -- Treasury Inflation-Protected Securities -- are offered at least three times a year. And the government is slow to add products. After the creation of TIPS in 1997, its next addition wasn't until 2014, when it introduced floating-rate notes.

"Treasuries are different," Weiss said in his testimony last month. "We don't introduce new instruments and then withdraw them."

Dealers' Concern

There also may be pushback from Wall Street dealers worried about potentially getting stuck with unsold bonds at a time when regulation is making it costlier to keep securities on their books.

"Maturities greater than 30 years would only appeal to a small proportion of the user base that needs long duration," said Jason Sable, a trader in New York at Mizuho Securities USA Inc., one of the 23 primary dealers that trade with the Fed. It could be "onerous on dealers who have the debt just sit on their balance sheets once these accounts are satiated."

Committee's Concern

The Treasury's Borrowing Advisory Committee, which includes some dealers, voiced concern over that risk in 2011, when the department last asked the group to consider ultra-long bonds. The topic has been discussed several times at quarterly gatherings since.

The primary buyers of very long-dated debt -- pensions and insurers -- tend to prefer higher-yielding corporate bonds. Microsoft's 40-year bond last year was priced to yield 1.8 percentage points above 30-year Treasuries. And other investors may deem ultra-long debt too perilous because of the steep losses they'd incur should yields rise.

"It's unclear whether there would be strong and persistent demand for a 50-year bond," said Amar Reganti, a fixed-income strategist in the asset-allocation group at GMO LLC in Boston and a former deputy director of the Treasury's Office of Debt Management. "And if there wasn't, it would challenge the Treasury's regular and predictable issuance framework."

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