US Treasury Auctions: How Do They Really Work?

To help finance our country’s near $20 trillion in national debt the US Treasury Department holds regular auctions in which it sells government securities to registered dealers, investment funds and institutions, foreign accounts (including foreign central banks), and yes, even individual investors like you and I. These T-bills, notes and bonds are collectively referred to as “treasuries” and the process for auctioning them begins with a public announcement by the Treasury, typically several days before the auction.

Here is a link to the Tentative Auction Schedule published by the US Treasury:


Auction Announcement: The announcement will include the dollar amount being auctioned, the auction date, issue date, maturity date and other terms and conditions of the offering. Bids are accepted immediately after the announcement, and are submitted through TreasuryDirect.gov and processed by the Treasury Automated Auction Processing System (TAAPS). All bids are confidential and can be submitted in two ways: Non-competitive and competitive.

Non-Competitive Bids: Generally submitted by smaller individual investors. All non-competitive bidders are guaranteed to receive securities. The amount of securities that may be sold to a single non-competitive bidder is limited to $5 million per auction. The amount of non-competitive bids are subtracted from the total bids and the remainder is the amount of treasuries that will be sold to competitive bidders.

Competitive Bids: Generally submitted by large financial institutions either for their own accounts or on behalf of customers. All primary government security dealers are required to make bids at each auction. Competitive bidders each submit the lowest discount rate they will accept on a set dollar amount of bills (in three decimal places). Competitive bidders are restricted to receiving no more than 35% of the total amount of securities available to the public.

The competitive bids are filled in order starting with the lowest acceptable rate and set the price of the securities for the non-competitive bidders. Almost immediately after the auction the total amount of bids received and accepted are made available to the public. In addition, the high, low, and median accepted rates as well as other details about the auction are released to the public and used by investors as an indication of economic strength and the direction of interest rates.

What securities are offered and when?
Treasury bills are the most popular of government securities. They have maturities of one year or less and are typically auctioned weekly, on Monday’s and Tuesday’s. Treasury notes on the other hand, have longer maturities, ranging from two to ten years and are auctioned monthly. Treasury bonds, which have maturities greater than 10 years are auctioned on a monthly basis as well. The US Treasury also offers Treasury Inflation-Protected Securities better known as “TIPS” with maturities of 10 to 30 years. These are only auctioned certain months throughout the year.

Sources:

http://www.cnbc.com/id/100405096

https://www.newyorkfed.org/aboutthefed/fedpoint/fed41.html