

US Treasury schedules record \$123 bln bond auction week

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NEW YORK, Oct 22 (Reuters) – The U.S. government on Thursday announced a record volume of \$123 billion worth of bond auctions next week, but there was little reaction in financial markets even though the amount of supply came at the high end of analysts' expectations.

The figure beats the previous record of \$115 billion set in July and includes two-, five- and seven-year notes in tandem with an offering of previously issued five-year Treasury Inflation Protected Securities.

Analysts had expected next week's total coupon supply to come in at \$121 billion to \$122 billion.

"I thought it was on the heavy side but the supply for the most part has been getting taken down just because there is a lot of cash out there looking for a safe home," said Mary Ann Hurley, vice president of fixed-income trading at D.A. Davidson & Co. in Seattle.

"I think there should be some concession before the auction. No matter how you slice it even if it came in as expected it still would be a lot of supply to take down in four days."

Upside surprises came in a slightly larger-than-expected seven-year note sale of \$31 billion and a chunkier TIPS offering of \$7 billion.

The government will also sell \$44 billion of two-year notes, and \$41 billion worth of five-year notes.

U.S. Treasury debt prices took the announcement in stride, remaining steady at lower levels on the day US10YT=RR.

Investors have kept a close eye on U.S. debt auctions this year in light of the government's burgeoning budget deficit. During a brief period in May some questioned the longevity of the United States' prized AAA rating.

The U.S. budget deficit hit a record \$1.4 trillion in the fiscal year that ended on Sept. 30 as the deep recession and a series of bank rescues cut a gaping hole in public finances.

In terms of the economy, the budgetary shortfall amounted to a massive 10 percent of total U.S. economic output, the most for any budget shortfall since World War Two, and the White House has forecast deficits of more than \$1 trillion through fiscal 2011.

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