

Flash commentary

UBS Select Treasury and Select Government Money Market Funds

Current environment

The raising/suspension of the debt ceiling in the US is once again a main area of focus for front-end markets. Below, we recap the current state of affairs as well as potential avenues for a resolution.

Factors to consider

- US Treasury Secretary Yellen sent a letter to Congress outlining that the 18th of October is the best current estimate of when the US Treasury will exhaust extraordinary measures (i.e. the "x-date").
- The Congressional Budget Office (CBO) released a note recently with a somewhat longer window, estimating that the Treasury will run out of cash sometime in late October/early November.
- Senate Republicans remain unified in not voting for any debt ceiling increase, forcing the Democrats to pass it with their simple majority via the reconciliation method. However, raising it via reconciliation is a more time-consuming process given various procedural hurdles that need to be addressed. Furthermore, the reconciliation method would force Democrats to raise the debt ceiling by a hard dollar amount, and not merely "suspend" it until some point in the future. This is less appealing, politically, to Democrats, especially heading into next year's mid-term elections.
- Another option that is getting more attention from Senate Democratic leaders is the elimination of the filibuster for purposes of passing a debt ceiling extension. This exemption from the filibuster rules would only apply to debt ceiling votes and not to other pieces of legislation currently under consideration in the Senate. While this isn't currently the preferred choice, this may get more traction in the coming days/weeks ahead if there isn't resolution through other avenues.
- Our belief is still that the debt ceiling will be addressed, but clearly the situation could become bumpy between now and then.
- Across our Liquidity complex, and specifically in the Select Treasury and Select Government money market funds, we have been tactically managing our funds around these dates. Currently, we have no Treasury exposure maturing after October 14 and before November 12. A list of full holdings, as of October 4, is available on www.ubs.com/usmoneymarketfunds.
- If October 18 is the "x-date" as Secretary Yellen is projecting, and there is a technical/selective default in the day or two after, we expect swift resolution by Congress given the likely risk-off to the broader financial markets. See next page for further commentary about selective default.
- The Treasury Bill yield curve is currently (10/5/2021) pricing in a premium mostly on the mid-October to early-November dates.

Exhibit 1 – Treasury Bill Yield Curve



Source: UBS. As of October 5, 2021.

Selective default

Under a selective default scenario, the key announcement from the Treasury would likely occur the evening before a maturity date comes due. At that time, the Treasury would instruct Fedwire, the settlement funds transfer system, that they are unable to make payment for the following day and will extend the originally stated principal maturity date. At that point the maturity of the security “extends” by one day, and assuming Treasury continues to announce a daily extension, this continues until Treasury makes payment. This maturity extension is important because the security remains transferable in Fedwire and thus can continue to be traded over-the-counter and used as collateral. If the Treasury elects not to extend the maturity, then it falls out of Fedwire with the original stated maturity date and is no longer transferable.

As for the length of a potential selective default situation, we, as well as the broader industry, believe that the first instance of this occurring would be so disruptive to financial markets that it would cause swift action by Congress. Therefore, it should be relatively short-lived.

Current conclusion

Attempts at a resolution for the debt ceiling will dominate Congressional action over the next two weeks. The debate and rhetoric will be harsh and partisan over that period, but Congressional leaders will have to get more serious and figure out a plan forward by mid-October. We believe there will be a solution, but first the politics of the issue will need to play out over the next two weeks.

This and other information about the Fund is available at www.ubs.com/usmoneymarketfunds.

For further information about UBS Money Market Funds or Liquidity Management strategies, please visit www.ubs.com/globalliquidity, or contact your UBS-AM Regional Sales Director or the National Sales Desk at 888-793 8637.

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