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US Fixed Income Research

US Treasury issuance in 2025-26 – what to expect?

- **Markets cheered Trump's decision to pick hedge-fund manager Scott Bessent as the next US Treasury Secretary.**
- **Substantial easing of fiscal policy will require active use of the issuance strategy. There is a compelling argument for continuing the reliance on T-Bills.**
- **Increasing the proportion of T-Bills in the total outstanding debt is not without cost, but it gives the administration the opportunity to mitigate the impact on term premiums despite fiscal expansion.**

Over the weekend, Donald Trump announced his nomination of hedge fund manager Scott Bessent as the next US Treasury Secretary. Bessent, a Wall Street veteran and adviser to Trump, brings a robust understanding of financial markets, which is critical given the administration's economic goals.

One of Bessent's primary responsibilities will be to manage the treasury's maturity structure, especially as the administration plans to increase spending significantly. This includes extending the Tax Cuts and Jobs Act beyond 2025, eliminating taxes on Social Security benefits, and reducing the corporate tax rate from 21% to 15%. The Wharton Budget Model predicts that these policies will increase the deficit by USD153bn in fiscal year (FY) 2025 and USD446bn in FY26, when accounting for the economic impact. A crucial issue for bond markets will be whether these fiscal changes will require a significant change in the issuance strategy.

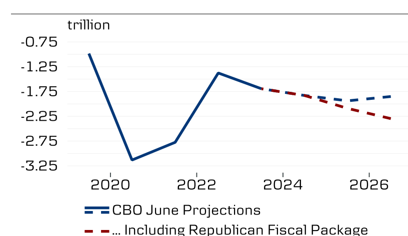
Reliance on T-Bills has been the modus operandi the past years

At the latest Quarterly Refunding Announcement (QRA) in October, the Treasury decided to keep the quarterly coupon unchanged through the last part of 2024, while signalling that this status quo was expected to be maintained for 'at least' the next several quarters with any additional financing needs met by issuance of T-Bills. Such explicit guidance on the issuance strategy was introduced by Treasury Secretary Yellen in 2023 and should be seen as a way of controlling financial conditions by steering markets away from pricing a near-term increase in the supply of duration, very much like forward guidance in the monetary policy toolbox. Since the last debt ceiling conflict was resolved in 2023, the share of T-Bills relative to total marketable debt has risen from 16.5% to 22%, which is above the 15-20% recommendation from the Treasury Borrowing Advisory Committee (TBAC). The question is whether incoming TS Bessent will try to adhere to this advice in terms of the issuance composition – or simply continue Yellen's line.

For how long will current auction sizes be sufficient?

In this section, we explore the implications of a more expansionary fiscal policy on the potential structure of Treasury issuances. Readers can follow the calculations in table 1. Note that all estimates are based on fiscal years (FY), running from October to September (e.g. FY24 = Oct 23 – Sept. 24). As of today, the Treasury offers an annual tranche of notes, bonds, TIPS and FRNs worth around USD4,600bn per fiscal year, which covers both refinancing of existing debt and additional financing needs. The main reason to raise new

Chart 1. Republican fiscal plans will add to the deficit



Source: Macrobond Financial, Wharton Budget Model, Danske Bank

Table 1. Issuance estimates for 2025-26

		Fiscal Years (Oct-Sep)		
		2024	2025	2026
Baseline	+ [1] Deficit Forecast	1833	2088	2301
	Deficit [CBO]	1833	1938	1851
	Republican Package	0	150	450
	+ [2] Δ Cash Balance	229	-35	0
	+ [3] Other Financing Means	-97	25	25
	+ [4] Coupon Maturities	2789	2794	3065
	= [5] Gross Financing needs	**4754**	**4872**	**5391**
	[5]-[4] = [6] Net financing needs	**1965**	**2078**	**2326**
	+ [7] SOMA Redemptions	602	225	0
	= [8] Net Private Borrowing	**2567**	**2300**	**2325**
Scenario 1	**[1] Auction sizes unchanged**			
	Issuance [Coupons]	4567	4694	4665
	New Cash raised from Coupons	1778	1900	1600
	New Cash raised from T-Bills	**789**	**400**	**725**
Scenario 2	**[2] T-Bills share = 17.5%**			
	Issuance [Coupons]	4567	4692	4983
	New Cash raised from Coupons	1778	1898	1918
	New Cash raised from T-Bills	**789**	**403**	**407**

Source: Macrobond Financial, US Treasury, Danske Bank

Note: Past performance is not a reliable indicator of current or future results

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cash is the deficit, but the financing needs are also impacted by Fed redemptions (QT), changes in the Treasury cash balance and other financing means such as costs related to direct student loans.

To assess the future issuance needs, we use the most recent CBO projections from June as our starting point. Back then, the CBO projected the deficit to rise from USD1.83trn in FY24 to USD1.95trn in FY25 before declining to USD1.85trn in FY26, as the projections assumed that the TCJA provisions would expire after FY25. This seems much less likely following the Republican sweep. Adding the Republican fiscal impact on the deficit projections as calculated by the Wharton Budget Model, we project the deficit to rise to USD2.09trn in FY25 and further to USD2.3trn in FY26. The calculations assume a net neutral effect on public finances stemming from the trade policy agenda, although this remains open for debate. To calculate the financing needs, we furthermore assume that (1) Fed QT will continue at the current pace (≈USD25-30bn/month) until the end of Q2 25, (2) that the Treasury cash balance will stabilise close to USD850bn mid-2025 and (3) other financing means will continue to play a marginal role in the financing mix (-USD25bn/year).

The above-mentioned factors account for the net private borrowing. On top of this comes maturities of existing coupon debt, which is set to rise from USD2.79trn in FY24 to USD2.795trn in FY25 and USD3.07trn in FY26. Summarising the projections, we anticipate that gross issuance (combining new cash requirements, debt maturities and Fed redemptions) will decrease from USD5.36trn in FY24 to USD5.01trn in FY25, then increase to USD5.39trn in FY26.

Table 2. Issuance estimates for 2025-26

		Fiscal Years (Oct-Sep) 2024	2025	2026
Baseline	+ (1) Deficit Forecast	1833	2088	2301
	Deficit (CBO)	1833	1938	1851
	Republican Package	0	150	450
	+ (2) Δ Cash Balance	229	-35	0
	+ (3) Other Financing Means	-97	25	25
	+ (4) Coupon Maturities	2789	2794	3065
	= (5) Gross Financing needs	**4754**	**4872**	**5391**
	(5)-(4) = (6) Net financing needs	**1965**	**2078**	**2326**
	+ (7) SOMA Redemptions	602	225	0
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Scenario 2	**(2) T-Bills share = 17.5%**			
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Source: Macrobond Financial, US Treasury, Danske Bank
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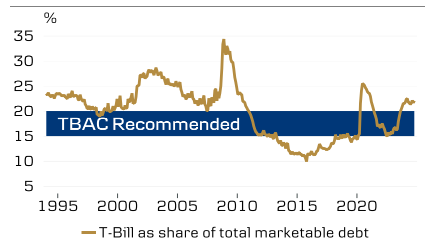
Current auction sizes will cover 2025 – but not 2026

Under current auction sizes (**scenario 1**), the Treasury will need to raise approximately USD400bn in new cash in FY25, which represents about 17.5% of net issuance, and approximately USD725bn in FY26, accounting for 31% of net issuance, through T-Bills. Alternatively, as proposed in **scenario 2**, the Treasury could align with the TBAC recommendation that T-Bills should constitute 17.5% of net issuance (the midpoint of the recommended 15-20% range). This would require increasing the size of coupon auctions by approximately USD300bn per year starting in FY26. The takeaway from these simple estimates indicates that the current auction sizes are sufficient to meet the financing needs for FY25. However, they will become inadequate in FY26 due to two main factors: (1) the increase in the deficit as a result of the Republican fiscal agenda, and (2) the significant number of maturing coupons that will need to be refunded. This could motivate a change in guidance at one of the forthcoming QRA announcements in January or April.

Chart 2. The share of T-Bills has risen markedly the past years

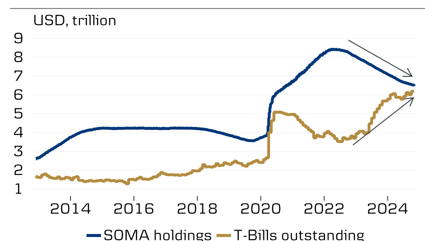


Source: Macrobond Financial, TBAC, Danske Bank
Past performance is not a reliable indicator of current or future results.

Why not just exploit the benefits of keeping the T-Bills share elevated?

Based on the previous section, an increase in coupon auction sizes seems required somewhere in the second half of calendar year 2025 to curb the T-Bills' share from rising above current levels. However, since there is no legislative requirement to maintain the T Bills' share within the 15-20% range, it is uncertain whether the Trump administration will pursue this strategy, especially if it could potentially compromise the economic benefits sought through its expansionary fiscal policies. Maintaining a higher proportion of T-Bills offers advantages like those of quantitative easing: it limits the duration supply that markets must absorb as fiscal policy becomes more expansionary, and it mitigates adverse effects on market liquidity compared to coupon issuance. Since mid-2023, the increased share of T-Bills has very likely offset a substantial part of the market impacts stemming from QT. However, a continuation of the reliance on T-Bills is not a free lunch and could exaggerate several risks related to US public finances. This includes the rollover risk, which is

Chart 3. The issuance mix since 23' has partly neutralized impact from QT



Source: Macrobond Financial, Danske Bank
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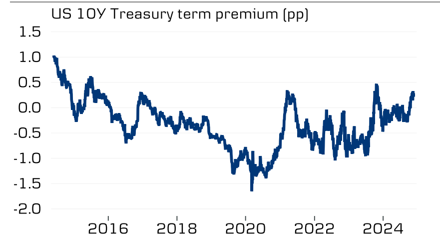
especially evident in periods with a binding debt ceiling, as well as less cost transparency on fiscal policy due to the frequent fluctuations in short-end rates across the business cycle.

Additionally, an excessive supply of T-Bills could also provide headwinds for other short end funding channels such as the market for commercial paper. However, for the Trump administration, the short-term benefits of maintaining less restrictive financial conditions amidst an expansionary fiscal policy will be most likely overshadow these risks – just as has been the case under President Biden. In sum, the Trump administration's fiscal agenda will probably necessitate continuing the issuance strategy initiated under Yellen to neutralise market impacts, suggesting that incoming Treasury Secretary Scott Bessent is unlikely to announce an imminent increase in coupon auction sizes. For bond markets, this will help curb the recent rise in term premiums. The big question then becomes when markets will start to react negatively to the politicization of the issuance strategy, which as described earlier already started under the Biden Administration. We will leave that for a later edition to discuss.

Chart 4. The Trump admin will seek to curb another rise in term premiums



Source: Macrobond Financial, Danske Bank
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