US Treasury bonds

US Treasury to sell more short-term debt in continuation of Biden-era policy

Treasury secretary Scott Bessent previously criticised issuance of short-term bills as means of keeping long-term interest rates stable

Despite disavowing the practice before he took office, Scott Bessent has adopted the debt management strategy of his predecessor Janet Yellen © via Reuters

Kate Duguid in New York

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The US Treasury will issue more short-term debt to help fund its widening budget deficit, a continuation of a Biden-era policy that Treasury secretary Scott Bessent had previously disavowed.

The Treasury department said on Wednesday that it would keep the size of its auctions of longer-dated bonds steady over the next "several quarters". This suggests a vast increase in issuance of shorter-term debt — Treasury bills that mature in anything between a week and a year — to meet the $1tn the department needs this quarter to keep the government running.

Despite disavowing it before he took office, Bessent has adopted the debt management strategy of his predecessor Janet Yellen. Skewing its debt issuance to more shorter-dated bonds allows the government to step up its borrowing without sending yields on longer-dated bonds higher. The yields — which move inversely to prices — of longer-dated bonds determine interest rates across the economy, from the government's borrowing costs to mortgage rates.

The department said on Monday it would raise $1tn in the three months to September, up sharply from the $554bn it estimated for the April to June quarter. The increase is primarily due to technical needs because of the debt limit. Over the past two decades, increasing auction sizes have reflected the US government's expansion of borrowing to fund tax cuts and spending programmes.

The current debt strategy is somewhat risky because of the quick turnover of short-term debt. Each time that such debt matures — at least once a year — it must be replaced by new debt issued at current interest rates. If rates were to rise, the Treasury department's debt burden would grow.

When Yellen began relying more on short-term debt to plug the government's financing needs, Stephen Miran — now head of President Donald Trump's Council of Economic Advisers — and economist Nouriel Roubini wrote an academic paper on the practice, calling it "activist Treasury issuance", which they said was tantamount to "stealth quantitative easing".

They argued that, by relying on shorter-term debt, the government was artificially depressing longer-term rates and that the Treasury department was thereby enacting monetary policy, which is traditionally the role of the Federal Reserve.

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