

MACRO STRATEGY | Economic Monthly

Mo' Money, Mo' Problems

August 2025

Key Takeaways

- The Treasury is expected to issue more bills instead of coupon issuance going forward, and that may put more pressure on the Fed in its goal to align its portfolio composition with overall Treasury issuance
- The Federal government collected a record amount of customs duties in July, but tariff revenue still makes up only a tiny portion of government receipts
- Given strong Q2 GDP growth, we revised our 2025 forecast from 0.7% to 1.3%

With the debt ceiling no longer an issue, the Treasury is set to increase issuance to raise the cash balance in the general account. Treasury intends to use more bills instead of coupon financing. This shift in strategy may pressure the Federal Reserve to adjust its portfolio, which currently holds a much lower proportion of bills than the overall Treasury market. July saw a record \$27.7 billion in tariff revenue, yet tariffs remain a minor part of federal government receipts.

Global Economic & Market Strategy Authors



SHAN AHMED

Associate

shan.ahmed@metlife.com



TANI FUKUI

Senior Director

tani.fukui@metlife.com



DREW T. MATUS

Chief Market Strategist

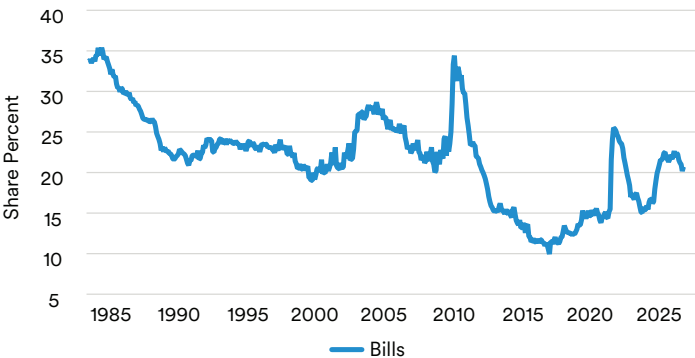
drew.t.matus@metlife.com

More Bills

The Treasury General Account (TGA) ended Q2 with a cash balance of \$457 billion. With the debt ceiling resolved by Congress, the Treasury aims to boost the TGA balance to their target level of \$850 billion by the end of September. Thus, the Treasury is estimating \$1.007 trillion of borrowing in Q3 of which \$393 billion will go towards restoring the cash balance. The remainder will go towards the deficit.

Going forward, the Treasury intends to rely more on bills instead of coupon issuance for financing. Auction sizes for short-dated bills, which increased in July, are anticipated to increase again in October. Meanwhile coupon issuance is expected to stay stable for the near future.

Figure 1 | Bills’ Share of Outstanding Treasury Securities



Source: U.S. Department of Treasury, MIM. As of 8/13/2025.

As a result, the share of bills, which currently make up about 20% of the marketable Treasury debt outstanding, will likely rise 1-2 percentage points over the next 12-24 months.

Feedback from primary dealers indicated that Treasury could issue \$600 billion of bills in Q3 without meaningful cheapening. However, if using short-term bills is going to be a longer-term strategy for the Treasury, then we can expect yield curve flattening from higher front-end rates as the deficit gets bigger and the share of bills increases. Curve flattening is a medium-term concern: the CBO projects relatively smaller deficits for FY 2026 and FY 2027 with a subsequent ramp up.

More Pressure on the Fed

Finally, the shift to shorter-term financing also puts pressure on the Federal Reserve to buy more Treasury bills. One of the Fed’s stated goals is to match its own portfolio holdings with the overall composition of Treasuries outstanding. Currently, the \$4.2 trillion of Treasury holdings in the SOMA portfolio contains just \$195 billion bills, a 5% share. An increase in bill usage by Treasury pushes the Fed portfolio further away from this objective.

Figure 2 | Summary of Marketable Treasury Debt Outstanding

		Bills	Other	Total
Total Outstanding	Billions USD	\$5,780	\$22,920	\$28,700
	Share	20.2%	79.8%	100%
SOMA Portfolio	Billions USD	\$195	\$3,993	\$4,188
	Share	4.7%	95.3%	100%
Ideal Portfolio	Billions USD	\$1,082	\$4,276	\$5,358
	Share	20.2%	79.8%	100%
Difference	Billions USD	\$887	\$283	\$1,170

Source: U.S. Treasury Department, Federal Reserve, MIM. As of 8/1/2025.

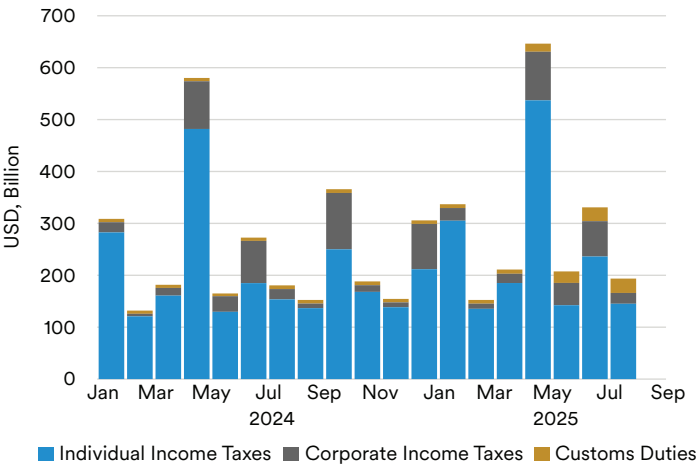
Using the same assumption of ideal portfolio size that we used in our previous pieces on QT implies the Fed would need to buy almost \$900 billion of bills to grow its holdings to match the current share of 20.2%. They would need to buy over \$1.3 trillion if Treasury raises its bill issuance to 25% of outstanding debt.

More Tariff Revenue

The latest monthly data from the U.S. Treasury shows that tariff revenue in July reached a new high of \$27.7 billion, an almost four-fold increase from the \$7.1 billion of customs duties collected in July 2024.

We expect tariff revenue to increase in the coming months, but it seems implausible that tariffs will be a significant source of revenue for the Federal Government. Out of the \$193 billion dollars of receipts taken in by the government in July from income taxes and tariffs, the record high tariff intake makes up a relatively small 14% share. The bulk of the revenue, 75% in July, comes from individual income taxes.

Figure 3 | Tariff Revenue Continues to Grow



Source: U.S. Department of Treasury, MIM. As of 8/13/2025.

U.S. Outlook

We have revised our growth forecast upward from 0.7% to 1.3% for 2025 to bring it in line with strong second quarter GDP growth. At the same time, Q2 GDP received a massive boost from falling imports. Therefore, we still expect some economic weakness in the U.S., although risks of a strong recession are fading.

Figure 4 | MIM Forecast

U.S.	2024	2025
Policy Rate	4.25-4.50*	3.75-4.00
GDP (Ann. Avg. % Chg.)	2.8*	1.3
CPI (Dec. Y/Y %)	2.7*	2.8
10-year Treasury (YE %)	4.57*	4.25
Unemployment (YE %)	4.1*	4.5

*Actuals.
Source: BEA, BLS, Treasury, Federal Reserve, MIM. As of June 2025.

Our biggest concern remains with investment. Volatile polices and valuations are causing some firms to slow investment and hiring decisions, as well as deal-making. Despite the announcement of a handful of trade deals, tariff related volatility and uncertainty are prevalent and have the potential to cut into profit margins. The August 1 deadline has passed, but trade deal negotiations are far from complete. Margin pressure is likely to particularly affect smaller businesses, who have less pricing power, lack the deep pockets to accumulate inventory, and are less likely to be diversified against shocks.

Chair Powell, in the last press conference, reiterated that the FOMC has room to wait before acting on policy rates. However, there is growing dissent among FOMC members, and the recent jobs data indicated the labor market may be much weaker than previously thought.

We maintain our view that the Fed will start cutting in September, and the market is now in line with that view.

Risks to The Outlook

The recent downward revisions in payrolls growth presents strong downside risks to growth and upside risks to our unemployment forecast. If unemployment spikes and the labor market shows even more weakness, the Fed may also have to cut more than twice. Before the August 1 employment release, most of the pressure on the Fed’s dual mandate was coming from an upside inflation risk from tariffs. Now, there is strong pressure on both sides of the Fed’s mandate that the FOMC will have to balance.

If the labor market stays stable and an off-base case growth scenario does begin to prevail, however, we would expect it to go hand in hand with greater inflation as producers would be better able to pass on price increases to consumers.

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