

## From bills to bonds and bonds to bills?

By Taylor Schleich, Warren Lovely, Ethan Currie & Vy Le

Earlier this month, the U.S. Treasury published its Quarterly Refunding Announcement (QRA) to little fanfare. As has been the case for the past couple years, the Treasury plans to keep auction sizes unchanged for “at least the next several quarters”. A by-product of holding coupon issuance steady is that Treasury bill supply needs to pick up the slack.

### The U.S. funding strategy:

Relying more on T-bills isn't a new strategy for the U.S. Treasury. In and around the time that markets hiccuped in response to rising coupon issuance (announced in the August 2023 QRA), *then*-Treasury Secretary Yellen pushed marginal supply into the T-bill market. *Current* Treasury Secretary Bessent criticized this approach later, in 2024:

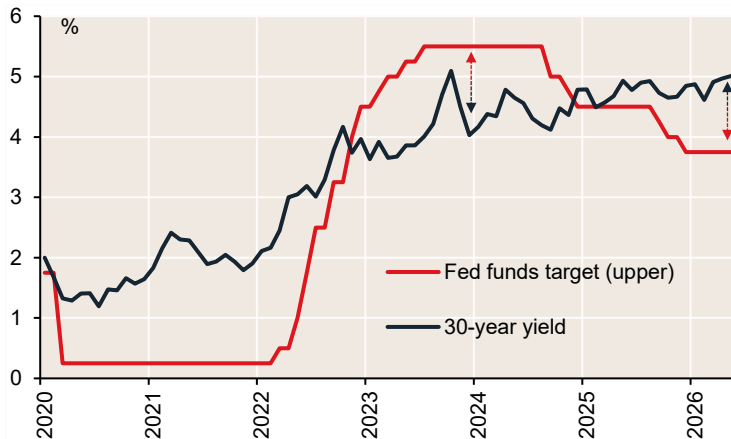
*“Yellen is financing at the front end of the curve, and as a result, every hundred days, we add \$150 billion to the deficit... from the old cheaper debt rolling off and the new 5% debt appearing... We've got to do something because at a point there will be a problem.”*

Despite his criticism, little has changed since Bessent took over. To be fair, the funding math is more favourable today. It is now cheaper to issue at the short end than in longs, where the Treasury just sold its first 5% 30-year coupon since 2007. There has also been no shortage of T-bill buyers and structurally, front-end demand may well support a permanently enlarged bill program.

Still, a short-term heavy issuance program is not without risk, and the government is exposed to refinancing shocks if the Fed were to tighten monetary policy... which today is a distinct and growing possibility. Bills also tend to be used as a fiscal shock absorber, and debt managers prefer to have room to ramp up short-term supply when unexpected cash needs arise. Say, for example, when funding a war.

### Chart 1: Bills are now cheaper to issue than bonds

Fed funds target (upper) and 30-year U.S. Treasury yield



Source: NBC, Bloomberg | Note: Data are month-end levels

In the past, the Treasury Borrowing Advisory Committee (TBAC) has recommended that T-bills constitute 15-20% of the overall marketable debt stock, as this was seen as striking the right balance between limiting refinancing risk and keeping borrowing costs low. They've since softened that stance, explaining they're comfortable running above that range for

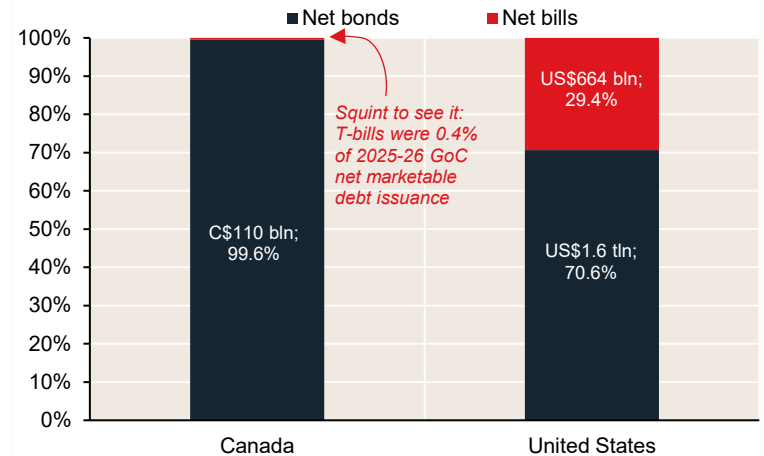
“some time”. Since late 2023, the T-bill share has hovered a bit above the 20% threshold and is poised to rise further. This is why, after the “next several quarters”, some of that issuance is expected to be termed out, which necessitates larger coupon auction sizes at some point.

### Canada leans the other way:

In Canada, the opposite dynamic is at play. Borrowing needs have been lower than anticipated recently and Ottawa has been *reducing* the relative size of its bill stock, which has allowed for greater stability in the bond program. To illustrate, 99% of last fiscal year's debt stock expansion was driven by bonds. But there's a limit to this too. There may not be a legislated “floor” for the size of the T-bill market, but the latest borrowing plan would see the bill share of the GoC debt stock nearing all-time lows by the end of the 2026-27 fiscal year.

### Chart 2: GoC issuance was nearly 100% bonds in 2025-26

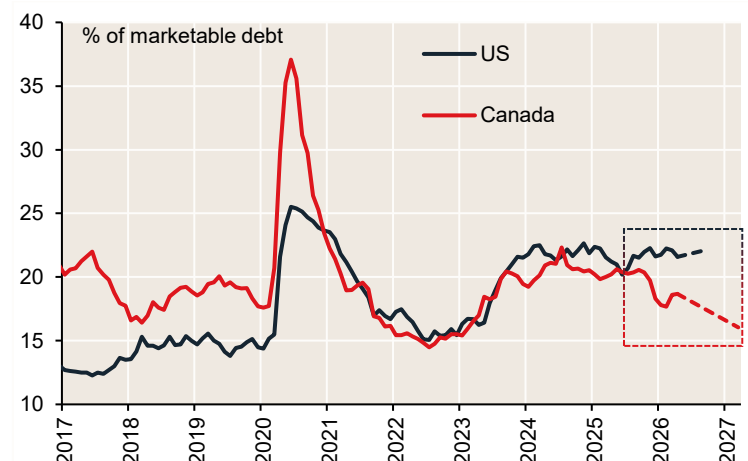
Bill and bond share of net marketable debt issuance: Apr-25 to Mar-26



Source: NBC, StatCan, U.S. Treasury

### Chart 3: Bill share high/rising in U.S., low/falling in Canada

Treasury bill share of GoC and UST marketable debt stock



Source: NBC, GoC, BoC, US Treasury, TBAC | Note: US projections based on TBAC to end of US fiscal year. Canada projections based on 2026-27 Debt Management Strategy update.



The only time T-bills represented a smaller share outstanding GoCs? That came in the aftermath of the pandemic and in the early days of the Russia-Ukraine war, where federal revenues were flowing in significantly faster than expected, reducing cash needs.

Today, Ottawa finds itself staring at another positive revenue shock, the magnitude of which hinges on the persistence of elevated oil prices. As we discussed following the Government of Canada's *Spring Economic Update* ([link](#)), there is significant fiscal upside to Ottawa's budgeting assumptions. If revenues progress as we expect and the ensuing fiscal windfall is *not* deployed via new spending/revenue measures (a big if), there could be less borrowing to conduct.

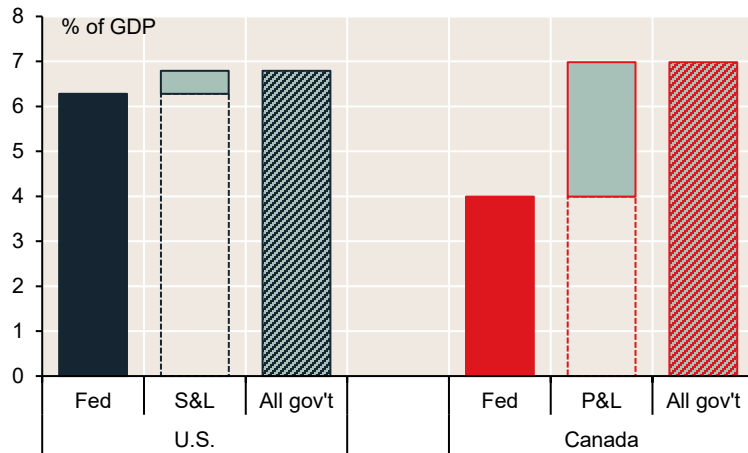
Taken together, the risks to Canada and U.S. long-term debt supply are skewed in different directions. Beyond the "next several quarters", we may see U.S. Treasury coupon issuance pick up while Government of Canada bond issuance could be on a lower plane relative to current plans. These dynamics should continue to support longer-end cross-market yield differentials.

### The bigger issuance picture:

While the balance of issuance risks favour Canada's federal government, we'd emphasize that the amount of borrowing being conducted by Canadian governments *generally* is not insignificant. Ottawa is not the only game in town, and a more decentralized government model means provinces also have plenty of borrowing to do too. As we outlined last year ([link](#)), net government debt issuance (across all levels) was as large in Canada as in the U.S. as a share GDP. Nearly a year later, that finding still holds (in fact, Canada's government debt stock has increased a bit more).

### Chart 4: Including sub-sovereigns, Canada issued more

Net issuance of debt securities by country & level of government: Latest 4Q



Source: NBC, StatCan, FRB | Note: 4Q sum to 2025:Q4; scaled to nominal GDP

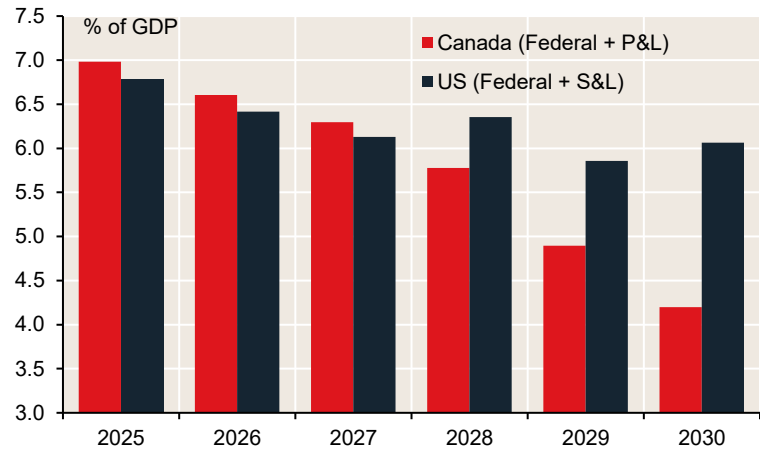
If recent government issuance dynamics are similar between Canada and the U.S., just where is this fiscal advantage that is often touted? First, it's on net debt where Canada's balance sheet really stands out. After netting off Canadian governments' significant pool of financial assets, indebtedness ratios improve dramatically. We often caution that net debt is not the be-all and end-all measure but financial assets should count for something. And here we'd note that ~1%-pt of GDP of current and future year GoC issuance is pure financial asset accumulation in the form of Canada Mortgage Bond purchases. So, Canada will have something to

show for its debt issuance, relative to a deficit-financed current spending alternative.

Second, even on gross debt supply, Canada's advantage will become clearer in time. Based on current budget plans, federal and provincial deficits are set to moderate from here. And with oil prices significantly above federal/provincial planning assumptions, budgetary consolidation may come faster and more forcefully than many appreciate. Even without this potential windfall, the pace of net Canadian government issuance is expected to moderate (though hefty capital spending plans mean that debt accumulation will remain non-trivial) through the remainder of the decade. In the U.S., there's very little supply relief in the pipeline as significant federal deficits extend as far as the eye can see.

### Chart 5: Canada's fiscal advantage clearer in late-2020s

Projected net issuance of government\* debt securities by country

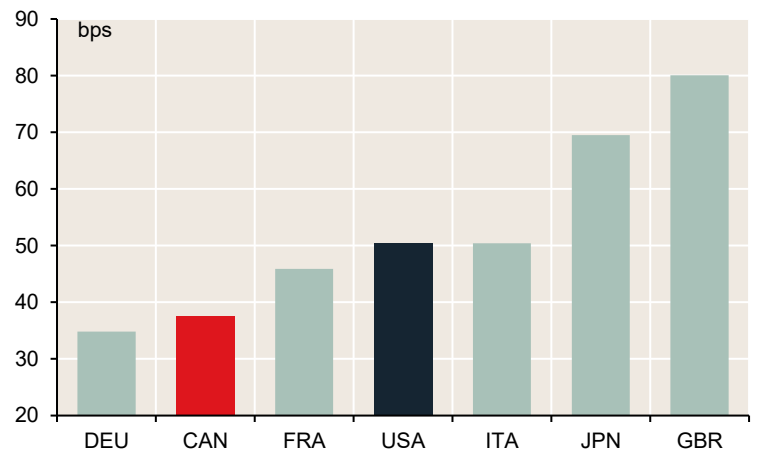


Source: NBC, StatCan, FRB, provincial budgets | Note: Government refers to federal, provincial, state and local levels.

All that to say, we expect Canada's long end continue its recent outperformance relative to U.S. Treasuries and other developed economy bond markets. At the same time, current Canadian government supply dynamics, in isolation, do not support material outright yield compression.

### Chart 6: Long Canadas have held up (relatively) well

Change in 30-year bond yield for G7 economies since 27-Feb-2026



Source: NBC, Bloomberg.



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