Daily Dose of Macro & Markets, 15th July 2025: **"Fiscal Crisis?"**

The 'Daily Dose of Macro & Markets' is our new publication designed to speak to the key global macro debates that matter for markets (with 1 - 3 charts and two paragraphs). This product will be published every Tuesday, Wednesday, Thursday and Friday morning (early London time).

Key Quote:

"If there was a real alternative to Treasury, then all of this stuff about the deficit is something that I would pay attention to. But as long as there's no alternative, there's nothing to talk about,"

Source: CNBC,8th July 2025, https://www.cnbc.com/2025/07/08/big-short-trader-eisman-sees-one-reason-not-to-worry-about-deficits.html

Fiscal Crisis?

A fiscal crisis has been one of the key fears of bond market participants in 2025. Rising Japanese government bond yields and the passage of Trump's 'One Big Beautiful Bill (OBBB)' have been at the heart of those fears. Indeed once again, over the past few trading sessions, Japanese 30 and 40 year yields have been picking up. Japanese 40 year yields, for example, are back at 3.50% and are moving towards their record highs in May this year (3.68%). Thirty year yields have been behaving similarly (currently at 3.17% -> chart 2), while Trump's 'OBBB' was signed into law earlier this month.

That bill (on a stand alone basis) adds significantly to the fiscal deficit. The CBO estimates that it'll cost around $2.4 – $3.4 trillion (over 10 years, source: https://www.cbo.gov/publication/61461). Other estimates vary from $2tn up to $5 trillion (depending, primarily, on the assumptions about the bill's impact on growth and debt interest).

However, despite that, US 30 year bond yields haven't made a new record closing high in 2025. On 21st May, as Japanese yields were spiking and the 'OBBB' was passing through the House, US 30 year yields moved higher to close at 5.08% yield. That, though, was still below the closing high of 5.11% on 19th October 2023 (while currently yields are 4.97%).

In other words, the US bond market doesn't seem overly concerned about the passage of this bill, perhaps for 2 or 3 reasons:

1. **Tariff revenue** is picking up. In June (latest month), total collected customs duties were $26.6bn (chart 1). Coming into this year, monthly duties were running at around $6.8bn. As such, the pick-up since then is ~$20 billion per month (an annual run rate of $240 billion and a ten year total of $2.4 trillion).

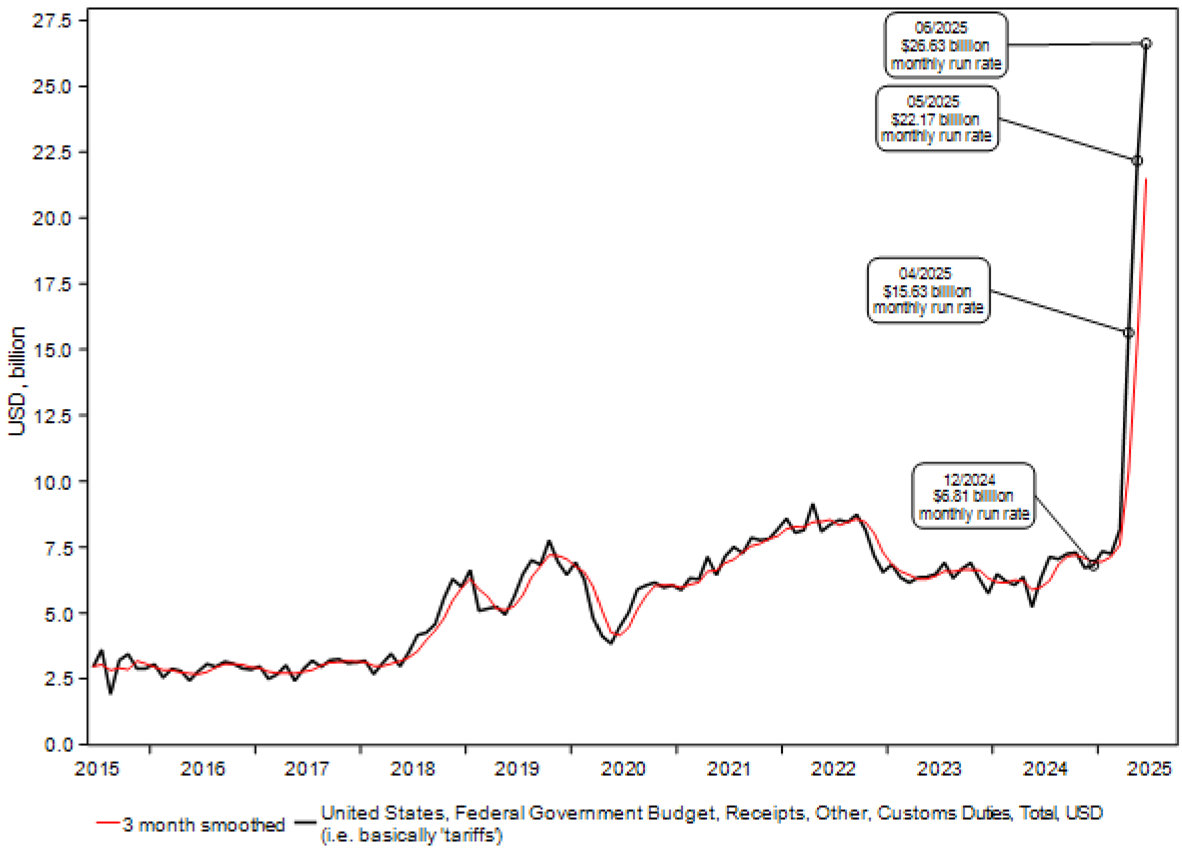
2. **Musk's DOGE department has saved something** (albeit it's difficult to know, with any confidence, what the correct number is). Their website (https://doge.gov/savings) claims its $190 billion. Some of that is one-offs (reversal of loans, grants, cancellation of leases etc). If we assume, though, that 2/3rds of it is annual savings, then $127 billion is the annual 'savings' run rate (i.e. $1.3 trillion over ten years).

3. Finally, there are **major question marks** about the impact of tariffs, government savings and the Trump deregulation (and growth) agenda on the economic growth rate of the US economy. If we assume the positives and negatives largely offset each other, then the DOGE cost savings and extra tariffs revenue more than offset the cost of the OBBB. If correct, then the deficit should be largely unchanged in FY 2026, or even potentially fall (as a % of GDP) - especially if the tariffs monthly run rate keeps rising (which it is likely to do), and if the growth impact isn't significant (or growth even accelerates).

With that backdrop, therefore, perhaps the naysayers are correct (and the fiscal worriers are overly vexed). And perhaps Steve Eisman (of 'Big Short' fame, former Neuberger Berman PM) was right and the message of the bond market should be heeded – see quote above.

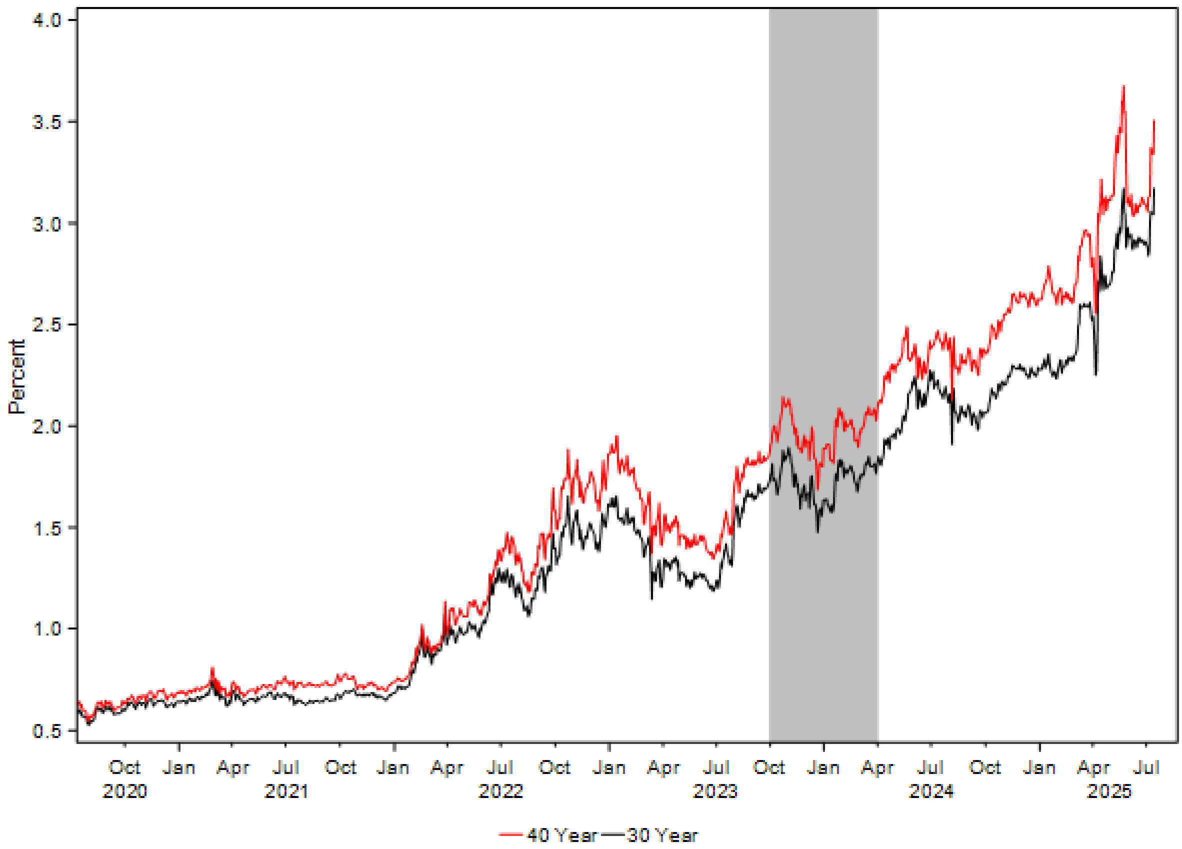
For a fuller analysis of the question: 'Is the US Tightening Fiscal Policy?', see our 'Longview on Friday' publication from 13th June 2025 (available to subscribers).

Chart of the Day 1: US customs duties (i.e. 'tariffs', $bn monthly data)



Source: Longview Economics, Macrobond

Chart of the Day 2: Japanese 30 & 40 year government bond yields (%)



Source: Longview Economics, Macrobond