



Economics

US Economic Perspectives

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Removing Powell won't move the needle on Treasury debt costs

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- Last week we argued that removing Chair Powell could be counterproductive across several dimensions (see "[Is there a fire behind all the smoke?](#)"). Among the reasons we cited was the potential for higher long-end rates to counteract any net interest cost savings from a lower policy rate (which, we argued, would not be assured).
- Building on our analysis from a recent note (see "[Fed independence and the curve](#)"), which extrapolated intraday yield moves on July 16, we provide a stylized analysis of how debt service costs could evolve if Powell was removed. Taking market moves at face value, we find that the cost savings from lower front-end yields would be largely offset by higher long-term yields. Specifically, the Treasury would only save \$12-15bn through 2027 if the President fired Powell, even if Treasury delayed coupon increases to skew more issuance towards bills.
- The cost savings could be more meaningful if the Fed aggressively cut rates, but this conclusion is not assured if the market responds by lifting long rates. The upshot is that producing more substantial cost savings for the Treasury would require containing the rise in long-end yields as the Fed cuts rates.

Introduction

Last week we argued that removing Chair Powell could be counterproductive across several dimensions (see "[Is there a fire behind all the smoke?](#)"). Among the reasons we cited was the potential for higher long-end rates, reflecting risks to Fed independence and (relatedly) inflation, to counteract any net interest cost savings from a lower policy rate (which, we argued, would not itself be assured).

In this note we present a stylized example of our argument. We build on a recent note (see "[Fed independence and the curve](#)") which extrapolated movements in the yield curve during a short window around last week's news reports that President Trump could soon fire Chair Powell. We extend that analysis to assess how these extrapolated yield curve moves – if sustained – would impact the Treasury's debt service costs over the next couple years. Our primary question is the degree to which higher long-end yields could in fact offset the debt service benefits of a lower policy rate path and front-end yields.

Calibrating the yield curve moves

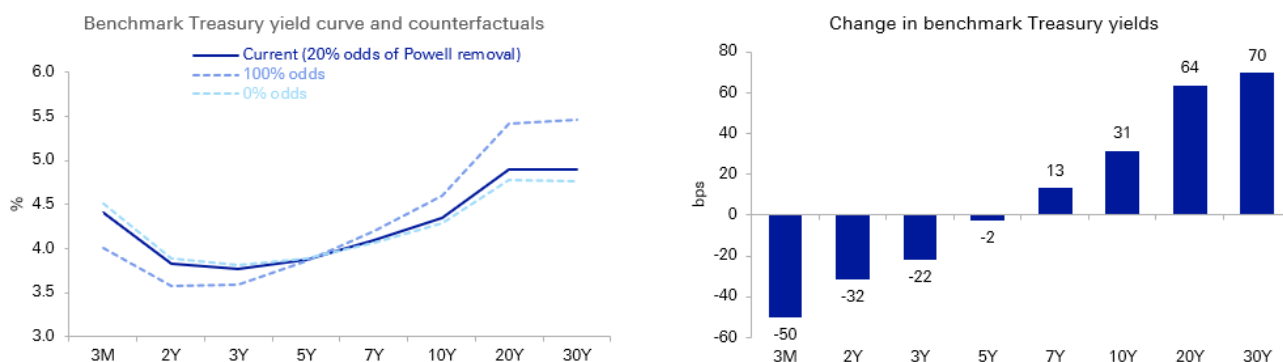
Following our analysis from last week, we build the implied yield curve moves if President Trump were to fire Chair Powell. Based on the Polymarket contract, the



perceived odds that this would happen this year rose from 24% to 38% over a one-hour period last Wednesday. Alongside this shift in probabilities, the nominal UST curve twist-steepened and measures of term premia increased.

The chart below extrapolates from the intraday elasticities to show the estimated changes in yields, spreads, and term premia of moving Polymarket probabilities of Powell's dismissal from 0 to 100%. In the nominal yield space, which is most relevant for debt financing costs, 2y yields would decline 32bps, 5y yields would be nearly unchanged (down 2bps), but long-end yields would rise significantly – 10y and 30y yields by 31 and 70bps, respectively. It is this twist steepening that presents countervailing pressure for debt service costs – lower front-end yields would reduce costs but higher long-end yields would push costs higher.

Figure 1: Extrapolated reshaping of the yield curve of Powell's removal, based on intraday rate moves on July 16



Source: Bloomberg, Polymarket, Deutsche Bank; Notes: Right chart shows changes in yields if Powell removal odds were to move from 0 to 100%, linearly scaled following the approach here (<http://research.db.com/research/TinyUrl/SLTYB>)

Given that a key driver of Treasury's debt service cost is refinancing outstanding T-bills at levels close to the Fed's policy rate, we also calibrate the change in the fed funds rate brought about by Powell's removal. For this we apply the same intraday event-study approach described above to SOFR futures rates. This calibration implies that SOFR would decline by around 50bp – for simplicity we assume this is the amount by which the fed funds rate would be lowered under Powell's removal over the next few years.

Impact on debt service cost

Would these moves save the Treasury money?

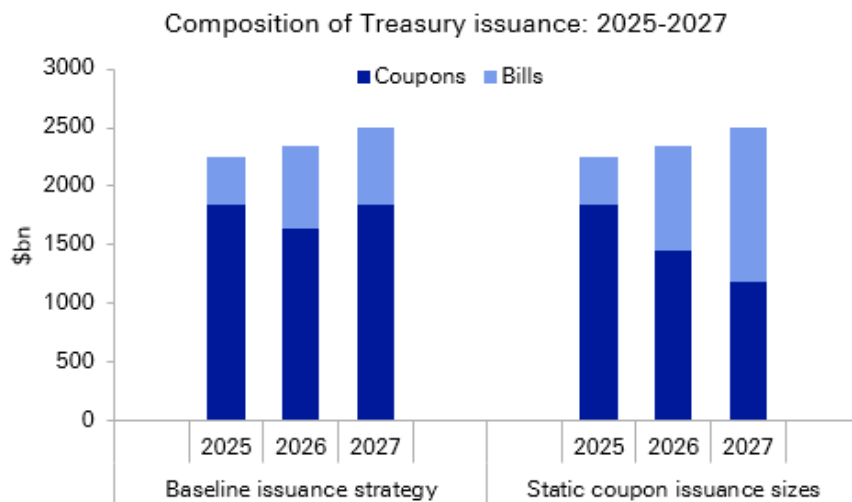
To answer this question, we combine the implied yield curve changes above with our forecast for Treasury issuance over the next two and a half years. Cost savings are estimated relative to a baseline that assumes a static (i.e., constant over time) yield curve in both the current and counterfactual scenarios.

To contextualize the impact on Treasury debt service costs: issuing 2yr notes at their current sizes of \$69bn per month at 25bps lower yields would reduce annual interest expense by roughly \$2.6bn, while issuing \$23bn of 30yr bonds per month at 56bps higher yield would increase interest expense by about \$1.9bn. We calculate the impact on interest expense across all benchmark maturities, including bills.



Taking our analysis one step further, we consider sub-scenarios for the timing of Treasury's coupon issuance increases. One is close to our baseline, where Treasury begins increasing coupon sizes by mid-2026. The other is one in which Treasury delays these increases indefinitely, allowing bills to grow as a share of overall debt issuance through 2027.

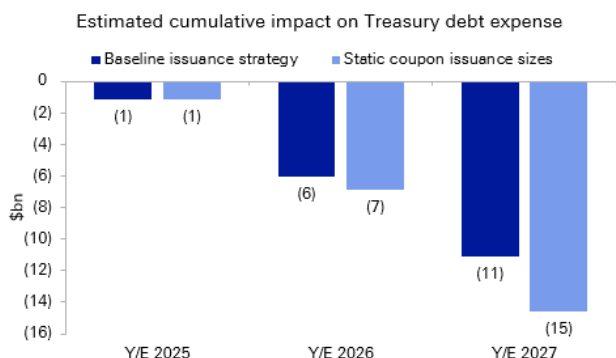
Figure 2: Issuance scenarios for calculating debt interest cost saving



Source: US Treasury, Deutsche Bank

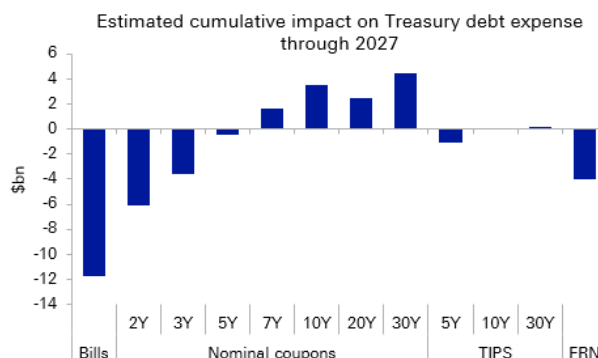
The debt expense savings for these two scenarios are presented below. Overall, we estimate very limited savings over the next several years from firing Chair Powell based on the extrapolated yield curve moves from last week. In both scenarios, the cost savings from lower front-end yields only marginally exceeds the lift to costs that comes from higher back-end yields. An issuance strategy of delayed coupon increases, which skews more issuance to the front-end where there are cost savings, would only marginally increase the savings. Indeed, cumulative savings through 2027 only amounts to \$12bn under the baseline issuance strategy, and this rises by only \$3bn when coupon issuance is delayed.

Figure 3: A marginal debt interest saving even if Treasury delays coupon size increases for next two years



Source: Deutsche Bank

Figure 4: Savings from issuing bills and short-dated coupons partially offset by rise in interest expense on long-dated debt



Source: Deutsche Bank

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Importantly, this analysis does not take account of the effects of reduced Fed interest payments associated with the lower policy rate path and associated reductions in the IORB and ONRRP rates. While the lower administered rates would ultimately reduce Treasury's deficits and funding costs by raising Fed remittances, these savings would not be realized in the window we consider because the Fed's deferred asset of over \$200bn needs to be fully paid down before remittances resume and the associated reduction in Treasury financing needs is realized. Nevertheless, at current reserves and ONRRP take-up levels, including in our calculation the saving associated with lower administered rates would increase Treasury's savings by only around \$15bn per year.

What if the Fed cut more aggressively?

The preceding analysis assumed that the Fed cut rates by an additional 50bps, in line with movements in market pricing around last week's news reports. But the President has called for significantly steeper cuts, regularly citing a policy rate around 1%, more than 300bps lower than today's setting. Would cuts of that magnitude change the conclusion of our analysis?

Possibly, but the answer depends on how the overall yield curve responds to such a regime shift in Fed behavior. While more dramatic cuts could amplify the twist steepening dynamics observed last week, leaving cost savings de minimis (or even resulting in increased costs), it is also possible that the curve would begin to bull rather than twist steepen as more policy rate cuts become priced (i.e., that yields come down across the curve as front-end yields plunge). The market's response would depend on a number of factors that are highly uncertain – e.g., how long could the Fed maintain a dovish stance and how much higher should the inflation risk premium be if the Fed is going to pin front-end rates at low levels.

There is no structured way to calibrate this response ex ante. Nevertheless, a stylized example sheds some light on the potential extent of savings. If we start with the twist steepening outlined earlier, and adjust the entire yield curve lower by 50bps, the cumulative debt service cost savings through 2027 would rise to about \$78bn. These more favorable assumptions produce cost savings that are more substantial than our earlier analysis but do not meaningfully change the debt landscape in the US.

Conclusion

Last week's news reports that the President may fire Powell provided a useful test case for whether removing the Chair would in fact deliver one of the administration's goals – lower government financing costs. We have argued in the past the case is not clear, as the market is likely to price in greater risk premia around Fed independence and inflation, lifting long-end yields and mitigating cost savings at the front-end of the curve. The high-frequency yield curve moves last week proved this out.

Our analysis finds that, quantitatively, this offset is important. Taking market moves at face value, the Treasury would only save \$12-15bn through 2027 if the President fired Powell, even if the Treasury delayed coupon issuance and skewed more towards bills. It is possible the cost savings could be more meaningful if the Fed aggressively cut rates, but as our analysis here shows, this conclusion is not self-evident if the market responds by lifting long rates.

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The upshot is that producing meaningful cost savings for the Treasury would require containing the rise in long-end yields as the Fed cuts rates. That outcome could result organically, for example if inflation moderates and allows rate cuts to occur for fundamental reasons, or artificially, for example through some form of yield curve control as occurred during the 1940s and early 1950s. In this context, it is notable that at least one candidate to replace Powell – Kevin Warsh – has argued for a new Fed-Treasury accord, though he, like Fed Governor Waller, have both called for a smaller Fed balance sheet.

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Appendix 1

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