SOFR–T-Bill Spread: What It Signals

The spread between the 30-day average Secured Overnight Financing Rate (SOFR) and the 1-month Treasury bill (T-bill) yield is a useful gauge of market liquidity and the supply–demand balance for short-term, government-backed funding. Both are considered near risk-free, but differences between them can reveal underlying conditions and stress. [1, 2, 3, 4, 5]

How SOFR and T-bill rates differ

30-day average SOFR. The average of daily overnight SOFR rates, which measure the cost of borrowing cash overnight using Treasury securities as collateral in the repo market. SOFR can fluctuate with the availability of cash in the overnight market.

1-month T-bill yield. The rate the market pays for newly issued, short-term U.S. government debt. T-bills are a direct investment in government debt, whereas SOFR reflects a collateralized funding transaction backed by that debt. [2, 4, 6, 7, 8]

Interpreting the spread

Positive spread (SOFR > 1-month T-bill)

Indicates overnight repo funding is costlier than holding a new 1-month T-bill—often a sign of funding stress or tighter short-term conditions. [9, 10, 11]

Common drivers:

- Liquidity frictions: Shortages of overnight cash (e.g., quarter-/year-end balance sheet constraints).
- Monetary policy: Restrictive policy can push up short-dated funding costs.
- Money-market fund behavior: Shifts from repo into newly issued, higher-yielding T-bills can reduce repo cash supply and lift SOFR. [4, 9, 12, 13, 14]

Negative or narrow spread (SOFR < 1-month T-bill)

Suggests ample cash in short-term funding markets relative to demand, pointing to a lower-stress environment. [15, 16, 17]

Common associations:

- Ample liquidity: Plentiful cash lowers overnight borrowing costs.
- Benign macro backdrop: Often aligns with a “normal” yield curve and stable growth/inflation expectations. [15, 18, 19, 20, 21]

Why the spread is useful

- Liquidity barometer: A near real-time read on tight vs. plentiful funding.
- Risk-appetite signal: Shifts can reflect changes in investor risk tolerance and macro expectations.
- Trading input: Useful for positioning in T-bills, SOFR futures, and related rate products. [3, 10, 15, 22, 23]

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