

POLITICS

Markets Eye Debt Ceiling With Unease

Treasury officials have said Congress must raise borrowing limit by end of September



President Donald Trump returned to the White House on Wednesday after a trip that included stops in Arizona and Nevada.

PHOTO: CAROLYN KASTER/ASSOCIATED PRESS

By Ben Eisen and Kristina Peterson

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Early signs of concern about the federal debt ceiling are creeping into the financial markets, as President Donald Trump pressured lawmakers over how to proceed on the issue.

While stocks remain sturdy, the yields on Treasury bills that mature shortly after the debt-limit deadline have been on the rise. A Treasury bill due Oct. 12 has a higher yield than one that matures Nov. 24, according to Tradeweb. That is unusual for fixed-income securities, which typically yield more for longer maturities.

That kink suggests investors are worried Washington may fail, and yields are rising to compensate for the risk investors due their money in October won't be paid on time. The yields have been on the rise this summer, but the differential has picked up in recent days, and sooner than during debt-ceiling standoffs in 2011, 2013 and 2015.

Mr. Trump in Thursday tweets blamed the congressional Republican leadership for what he called the “mess” awaiting lawmakers this fall as they seek to raise the nation's borrowing limit

and, separately, keep the government running when funding runs out at the end of September.

Lawmakers would have to deal with both issues in relatively short order, as the House and Senate have only 12 days during which they are both in session following the August recess. Mr. Trump said in a tweet that he had urged Congress to get at least the debt ceiling done before the monthlong break.

Forecasters in The Wall Street Journal's monthly survey of economists this month saw, on average, a 22% chance of the government shutting down at the end of next month and a 17% chance that the U.S. Treasury would, at least temporarily, skip making payments on obligations to manage funding challenges.

Some bond investors are shrugging off the noise from Washington. Longer-term Treasury bond prices have been steady, with the yield on the 10-year note holding to its tightest 90-day range since 1972, according to WSJ Market Data Group.

Marques Mercier, a senior portfolio manager for Invesco, said he doesn't expect a default on government debt. Even so, he is light on Treasury bills that mature around October.

"Because of the DNA of this administration, and Congress's inability to pass some of the policies anticipated this year, that may increase the uncertainty of a resolution passing swiftly," Mr. Mercier said.

Hit the Ceiling

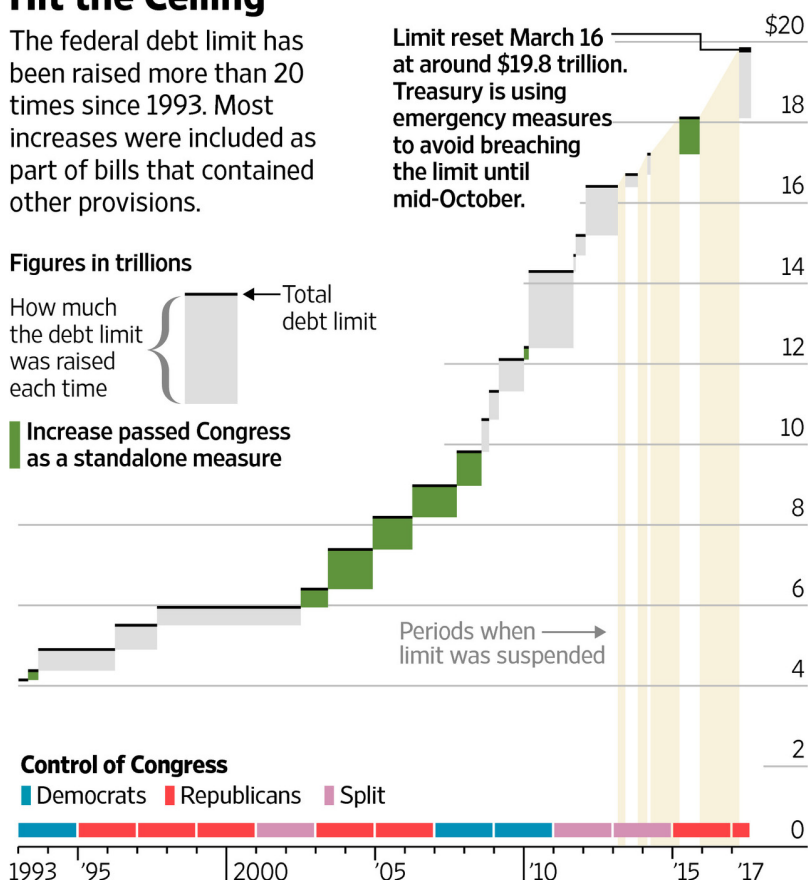
The federal debt limit has been raised more than 20 times since 1993. Most increases were included as part of bills that contained other provisions.

Figures in trillions

How much the debt limit was raised each time

Total debt limit

Increase passed Congress as a standalone measure



Sources: White House Office of Management and Budget (debt limit); Treasury Dept. (debt subject to limit); Congressional Research Service; U.S. House and Senate (bills, control)

THE WALL STREET JOURNAL.

Mr. Trump laid out his sentiment on the issue early Thursday.

“I requested that Mitch M & Paul R tie the Debt Ceiling legislation into the popular V.A. Bill (which just passed) for easy approval,” the president tweeted, referring to Senate Majority Leader Mitch McConnell (R., Ky.) and House Speaker Paul Ryan (R., Wis.). “They didn’t do it so now we have a big deal with Dems holding them up (as usual) on Debt Ceiling approval. Could have been so easy-now a mess!”

In particular Mr. Ryan will be in the hot seat because House Republicans in recent years have often balked at raising the debt limit. He must work to prevent a partial government shutdown or even the threat of a debt crisis that could spook global markets.

In an interview with CNBC Thursday afternoon, Mr. Ryan said he didn’t see Mr. Trump’s tweet as an attack, and that Congress would raise the debt ceiling before it defaults on its debts.

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“I know we will get this done,” he said. “I’m really not that worried about this; we have plenty of options ahead of us.”

A spokesman for Mr. McConnell declined to comment.

Asked about tensions between the president and congressional leadership on Thursday, White House press secretary Sarah Huckabee Sanders said, “The relationships are fine. Certainly there are going to be some policy differences, but there are also a lot of shared goals.” Ms. Sanders also reiterated the president’s disappointment that the Senate failed to pass a health-care bill in July.

Ms. Sanders said the administration is “committed to making sure” that the debt ceiling is raised. But she affirmed the president’s threat this week to shut down the government if needed to secure funding for his long-promised Southwest border wall—a move that could complicate the passage of a debt-ceiling increase if GOP leaders pair it with spending bills.

“He’ll continue to fight for that funding,” she said.

Few House Republicans have publicly backed Mr. Trump's call to shutter the government over the border wall.

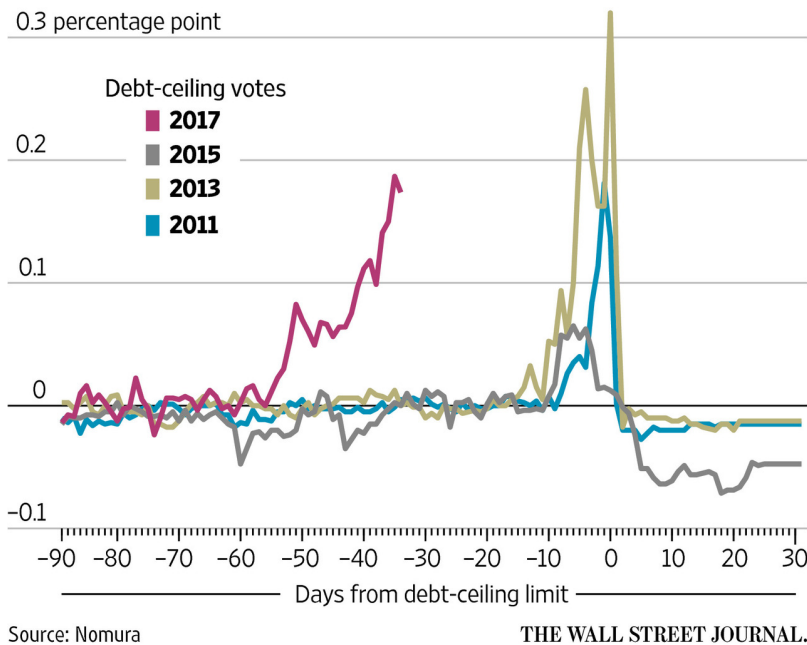
But conservatives still smarting from the collapse of the GOP health-care bill in the Senate are making clear they don't want to accept any legislation that keeps the government's lights on or increases the debt ceiling without winning any concessions.

"This is where we see if our leadership will be able to deliver," said Rep. Mark Walker (R., N.C.), chairman of the Republican Study Committee, a group of more than 150 conservative House Republicans.

Higher Anxiety

Traders are pricing in the danger of a U.S. Treasury default earlier than they did ahead of debt-ceiling votes in previous years.

Yield premium on debt-ceiling-month T-bill vs. surrounding months' bills



Most lawmakers expect Congress to pass a short-term spending measure keeping the government funded for a couple more months while they hammer out a longer-term budget deal. The fight over the border wall could end up coming to a head in December, GOP lawmakers and aides said.

Mr. Ryan is already encountering more internal resistance over the need to raise the borrowing limit, which Treasury officials have said must be done by the end of September—at about the same time when government funding expires.

House Republicans in recent years have often refused to approve government spending or lift the debt limit, forcing GOP leaders to rely on Democratic votes. "I can't see a number of our right-wing conference members voting under any circumstance to raise the debt ceiling," said Rep. Dennis Ross (R., Fla.). "I don't see how we get it done without Democrats."

At the same time, Democrats have found almost no common ground with Mr. Trump, and many say Republicans would shoulder the blame if the government is shuttered.

“With a Republican House, Senate and administration, Republicans have absolutely no excuses for threatening America’s families with a destructive and pointless government shutdown,” House Minority Leader Nancy Pelosi (D., Calif.) said this week.

Treasury Secretary Steven Mnuchin has called for a “clean” debt-limit bill—which would lift it without any other conditions—but his presentation on fiscal matters before the Republican Study Committee earlier this year wasn’t well received, according to lawmakers.

“Frankly, it just fell flat,” said Mr. Walker, who is pressing for cuts to mandatory spending, the chunk of the federal budget that funds the big safety-net programs, to accompany an increase in the debt limit.

“When you [Republicans] have the House and you have the Senate and you campaign on fiscal responsibility, you’ve got to get something,” said Adam Brandon, president of FreedomWorks, a conservative grassroots organization.

—Gunjan Banerji, Sam Goldfarb and Natalie Andrews contributed to this article.

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