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WEALTH MANAGEMENT

U.S. TREASURY SURPRISES MARKETS BY EXPANDING LONG-END BOND BUYBACK

Macro View by Investment Strategy & Research Group

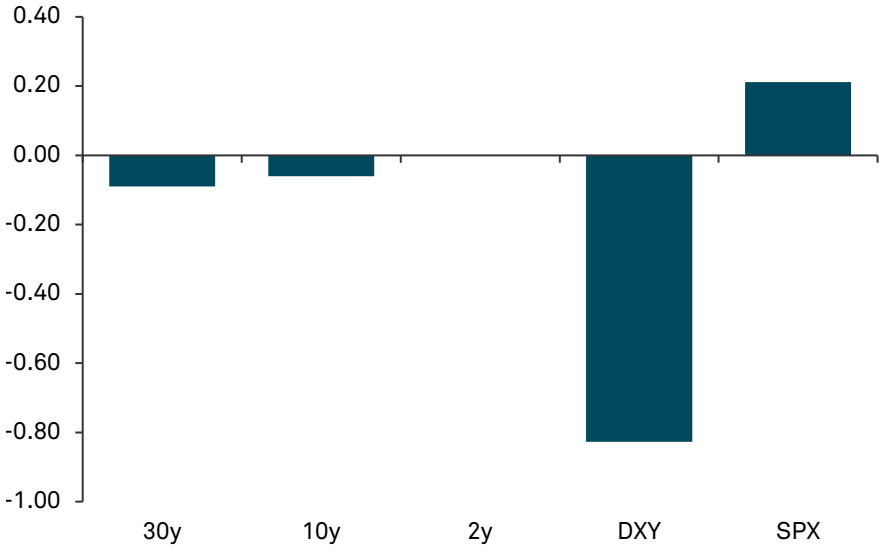
As of August 19, 2026

SUMMARY

- **What happened:** Treasury said it would raise the maximum size of certain buyback operations from $2 billion to at least $4 billion each.
- **What bonds are targeted:** Mainly longer-dated Treasuries, especially the 10–20 year and 20–30 year sectors.
- **Why it matters:** It was seen as an attempt to improve liquidity and ease pressure on long-term Treasury yields, which had recently surged. This was an unexpected mid-cycle adjustment and not part of the normal quarterly refunding process, so markets treated it as more significant.

1. **Off-cycle announcement by the Treasury on bond buyback provides markets with relief**
   - Two weeks ago, on August 5, the Treasury published their tentative schedule of Treasury buyback operations. Related to liquidity support, tentative plans included $14bn of buybacks across 7 operations from September 9 through November 4.
   - But on Wednesday, August 19, the Treasury issued a surprise announcement that it plans to at least double the size of the buyback operations between September and November.
   - The initial market interpretation was one of relief as the nature and timing of the surprise announcement signaled to markets that the Treasury considers the current level of yields on the long end to be too high.

As a Response, the 10s30s Bull Flattened, Dollar Fell, and Equities Rose
1-day value change for 30y, 10y, and 2y. Percent change for DXY and SPX.

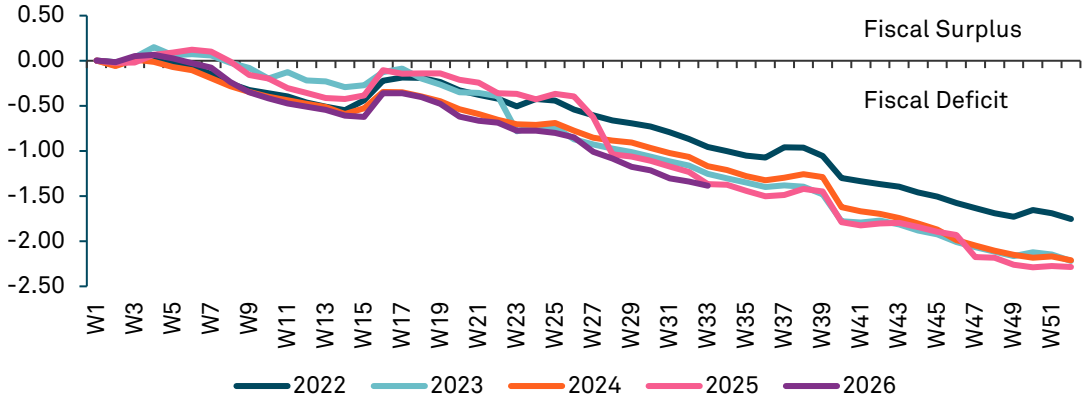


Source: BNY Investment Strategy & Research Group, Macrobond

2. **However, relief is likely to be short-lived as macro data remain resilient and fiscal path remains unchanged**
   - Treasury's buyback is fundamentally different from the Federal Reserve (Fed)'s balance sheet expansion.
   - The Fed's asset purchase is done through newly created reserves, which alter the money supply in the economy and tend to have a more meaningful impact on financial conditions.
   - No announcements have been made on how the Treasury buyback will be funded, but issuance of bills is likely to be the funding source, consistent with recent issuance patterns.

Crucially, the Fiscal Path for the U.S. Remains Unchanged

Cumulative U.S. daily new fiscal flows



Source: BNY Investment Strategy & Research Group, Macrobond

3. **Announced dollar amount implies minimal fall in yields, but market reaction implies buyback of over $100bn**
   - We revisited the Fed's large scale asset purchase and maturity extension programs that ran from 2008 through 2014 to understand the impact of increased demand at the long end had on changes in yields.
   - During this time, the Fed increased its asset purchase by roughly $4.5tn. Of that, the increase in 10y equivalents were roughly $2.5tn.
   - It is estimated that the cumulative impact of the Fed's asset purchases resulted in a reduction in the 10y term premium of about 100 basis points (bps).
   - Extrapolating this data, the announced $14bn increase implies less than a 1bp fall in yields.
   - Market reaction was consistent with a buyback of over $100bn – with no change in banks' reserves.

Conclusion

Several weeks ago, U.S. Secretary of the Treasury Scott Bessent joined Japan's coordinated yen intervention, selling euros rather than dollars to buy yen and steering Tokyo toward the Fed's FIMA repo facility, to spare Japan from liquidating its $1 trillion-plus in Treasury holdings. That sale would likely have pushed yields higher and undercut the same goal the buybacks now serve. Paired with the yen intervention, the surprise buyback announcements likely reveal the intent of U.S. Secretary of the Treasury Scott Bessent to keep yields in check.

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