Mizuho Brief: USTs

Economics & Strategy | Asia ex-Japan

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Examining Bessent's "Treasury Twist"

"Control, control. You must learn control!" – **Master Yoda**

In a Nutshell:

- The **US Treasury doubling of long-end (10Y-30Y) buybacks** to a minimum $4bn **smacks of "Treasury Twist"**, *to contain long-end yields* amid fiscal woes as US debt hits $40tn.
- **Markets have tentatively bought in** with *bull flattening* (30Y UST yields down ~10bp, 10Y yields down ~7bp).
- Reasonably so as the buyback program through 4th November *could reduce net long-end issuance by roughly 20%,*.
- But the **tactical bond market tailwinds risk running into structural fiscal impediments** as **persistent fiscal deficits** will **hobble efforts to durably suppress long-end yields**.
- Worse, "**Treasury Twist" to actively control yields may backfire *if bond vigilantes pushback***.
- Consequently, *"Sell America" dynamics may be re-ignited* and/or *monetary policy credibility may be compromised.* **Ultimately presenting as USD debasement risks**.
- Nonetheless, **the intervening path of least resistance** is for UST bull flattening and controlled USD softening (benefitting Gold, CHF, AUD, JPY) amid *"live" threats of dialled-up bond* buybacks ahead of mid-terms, and *Fed rate hike expectations tempered* by softer US data.

A Treasury Twist?

- The **US Treasury has announced that it will *at least double longer-dated*** (10Y-30Y) ***UST buyback*** – ***raising the ($2bn) current ceiling to at least $4bn***.
- A closer look reveals that *more emphatic/extreme iterations,* could render **a $4bn floor for "liquidity support", where there was a $2bn ceiling earlier**.
- Markets ostensibly perceive a **US Treasury** that is **actively engineering a "Treasury Twist"** (aimed at suppressing long-end yields), ***not* merely smoothing price discovery**.

40 (Trillion), 4 (billion) & 4th (Nov)

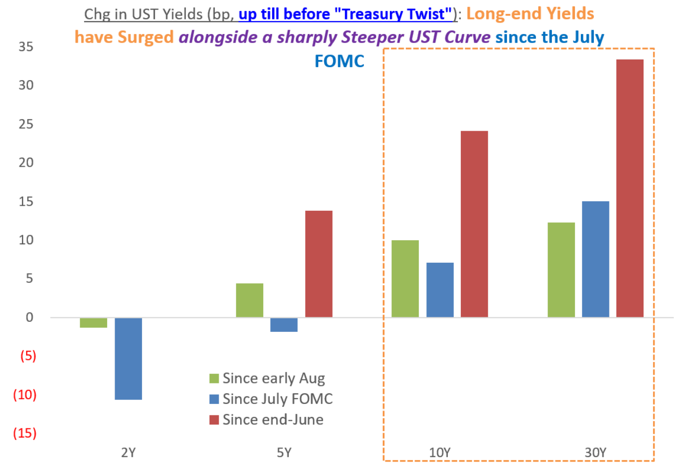
- **Further information about future buybacks** will be released **at the next Quarterly Refunding update on 4th Nov**.
- Until which time this ***at least*** (***doubled***) **ramp-up to $4bn** applies.
- *Coincidentally,* this **interim** announcement of enhanced "liquidity support" for off-the-run long-end USTs **follows headlines about US debt crossing $40trln**.

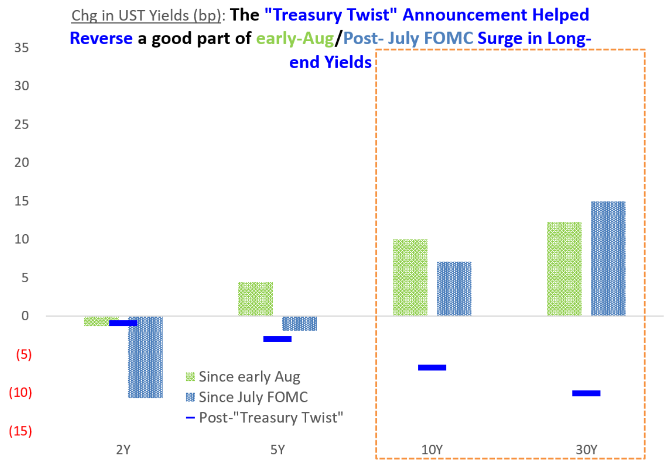
There are No (Innocent) Coincidences

- ***But*** skeptical the bond market has **every reason not to believe in inadvertent coincidences** *given* the *timing* and *offending bond market dynamics.*
- Notably, **an ad-hoc, after-thought amendment *a mere two weeks after the last Quarterly Refunding update on 5th Aug* smacks of desperate knee-jerk**.

- Especially **in the context of a *sharp surge in long-end UST yields*** [Figure 1], led by the *30Y yield at post-GFC record above 5.3%* ***exacerbated*** by;
    i. *adverse headlines on debt-fiscal dynamics*, with the surge in **US debt to $40trln** compounded by **consequent fiscal "doom loop"* fears** and;
    ii. *Fed credibility doubts* in the wake of the post-FOMC

* This "doom loop" is a reference to an inextricable debt spiral once a critical threshold is crossed, whereby interest (on debt) exceeding growth rates destroys the ability to "grow out of debt" amid crippling "crowding out".





Initial Deference (to Buyback)

- The **immediate, *initial* response** appears to be **riding on the tailcoats of the Treasury buyback**, *sending 30Y yields down >10bp* (to sub-5.2%), with 10Y softening 7-8bp (to ~4.6%)
- This is **probably due to** the **effective removal of buyback ceiling** entailed in "*at least $4bn*" framing of an ***upwardly mobile*** *ceiling.*
- Which arguably is a **"live" threat to bond bears/vigilantes ahead of the November mid-terms**. Or *at least until clarity on further buybacks in the 4th Nov Quarterly Funding update.*

The Treasury Buyback Math

- Furthermore, the **buyback math** (Table below) suggests *at least ~19-20% reduction in net long-end issuance,* which ought to be **decent enough** (even if not overwhelmingly impressive).
- **Such that long-end yields are reasonably anchored**, if not soften, amid the **engineered interim shortage of long-end yields**.
- And more emphatically so, if further *reinforced by threats of "Treasury activism".*

Table of Issuances & Buyback for Sep & October for the US Treasury

US$ bn	10Y Issuance	20Y Issuance	30Y Issuance	10-20Y Buyback^	20-30Y Buyback^	Net Impact ($ Reduction^)	Net Impact (% Reduction^)
September	39	13	22	>8	>4	>12	>16%
October**	39	13	22	>8	>8	>16	>21-22%
Total through 4th Nov	**78**	**26**	**44**	**>16**	**>12**	**>28**	**>19-20%**

^Buyback assumes that the "at least" $4bn ceiling will be exploited, with scope for more as needed (if long-end yields are unruly).
** October buyback to match issuances run\s through to 4th November as markets will anticipate this.

(Trouble with) Getting High on Your Own Supply

- But there is **a fundamental problem** with the idea of getting "*high (UST prices corresponding to lower prices) on your own supply (distortion)*".
- Point being, the **US Treasury cannot indefinitely reduce its issuances** given the underlying, ***chronic fiscal gap*** **that remains** ***fundamentally unaddressed***.
- What's more, previous experience warns that the **ability to persistently skew issuances to front-end/T-bills** (to artificially suppress long-end yields durably) may be **challenged**.

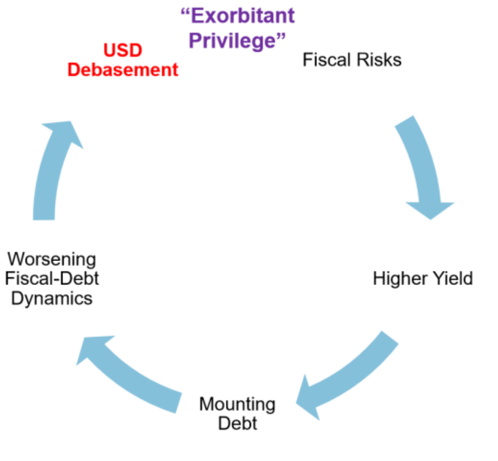
Price-Setting Ambitions

- To be fair, the **US Treasury has suggested** the expanded buyback operation is to merely smooth operations with "*greater liquidity support*", **not dictate/set yields**.
- But ***given*** **Bessent's observed** ***aversion to sharp increase in long-end yields***, arguably *heightened by political sensitivities,* a **more aggressive form of "Operation Treasury Twist" cannot be ruled out**.
- And ***if markets perceive*** US Treasury's ***ambitions to set the price of (longer-term) money***, ***unwelcome monetary policy blowback*** and ***revived "Sell America" dynamics*** **emerge as prominent threats**.

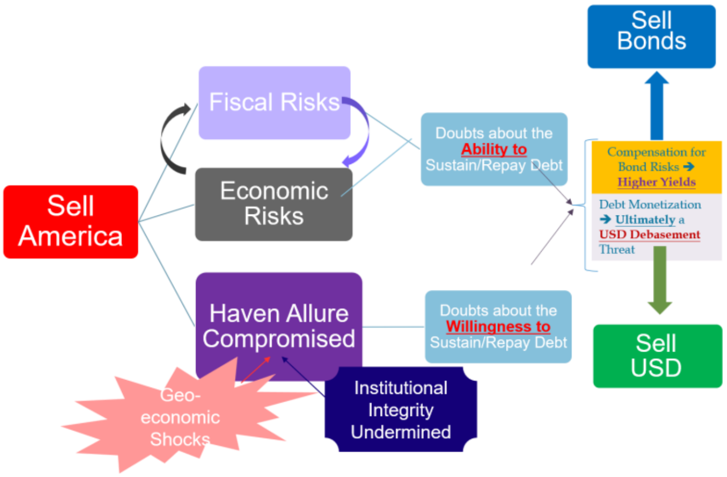
May Backfire or Compromise Fed …

- Specifically, ***"Sell America"*** forces **may prevail if bond vigilantes overwhelm appetite for "Treasury Twist"**, **backfiring** *as attendant surge in long-end yields.*
- Whereas ***if "Treasury Twist"*** *is* ***significantly expanded*** to, and ***sustained*** beyond, a 30-50bn/mth clip – *matching past episodes of UST buying under QE* – **monetary policy independence comes under threat**.
- *Most conspicuously from* **pressures** – *express or unspoken* – **on the Fed to cut rates** to alleviate sharp front-end rate squeeze (from heavily-skewed issuances).

Where the Buck Stops with (Overly-)Aggressive "Treasury Twist"



Treasury Activism & Consequent "Sell America" Risks



… & Ultimately Cost the USD

- Regardless, the **pursuit of a more aggressive form of "Treasury Twist" to control long-end yields will ultimately** ***not only come at a steep cost*** for US Treasury **but will probably backfire**.
- Obviously, the potential for *accentuated interim yield volatility* and *upheavals from potentially violent yield curve twists,* which threaten to have *wider adverse spill-over into asset markets*.
- And ***ultimately***, **distill down to acute USD debasement risks** as the USD's "exorbitant privilege" **erodes faith in its legitimacy as the reserve currency**.

Intervening Benefit (of Doubt) & Modest USD Hedge

- Intervening Risks Checked: But in the *intervening period* to **November's mid-terms** and **further details on "future buyback sizes"** *USTs* have been *spared the most acute iteration of "Treasury Twist" risks.*
- UST Yields/Curve: This underpins *measured bull flattening* in the UST curve as **markets follow the path of least resistance** on ***reduced net issuances*** and **amid softening US data** that have ***tempered Fed hike expectations***.
- FX – Measured USD Hedge: This is expected to be *alongside controlled USD softening* that ought to be *most accretive for* the likes of Gold, CHF, AUD and *possibly JPY at the margin (amid softer UST yields and USD).*

Appendix

1. Announcement on US Treasury Department Website

PRESS RELEASES

Treasury Announces Increased Sizes of Nominal Long-End Liquidity Support Buybacks Beginning September 9

August 19, 2026

WASHINGTON, D.C. —The U.S. Department of the Treasury is increasing, by at least double, the size of liquidity support buyback operations for longer-dated nominal coupon securities (the 10-year to 20-year sector and the 20-year to 30-year sector). The current maximum size of $2 billion per operation will be at least $4 billion per operation.

This change is effective September 9, 2026 and will be in effect for the remainder of this refunding quarter (through November 4, 2026). Treasury will provide more information about future buyback sizes at the next Quarterly Refunding, scheduled for November 4, 2026.

This increase in buyback operation sizes reflects Treasury's desire to provide greater liquidity support in longer-dated nominal sectors where there is consistent strong sponsorship from market participants, as evidenced by the significant volume of high-quality offers Treasury routinely receives in longer-dated buyback operations.

An updated tentative Treasury buyback schedule will be released at a later date.

2. Schedule of Buy backs from 9th September (through 4th November)

Tentative Schedule of Treasury Buyback Operations

August 2026 Quarterly Refunding

For Publication August 5, 2026

Shorter-dated tenors not affected by enhanced buyback

Enlarged Ceiling (at Least Doubled) Not Yet in effect

Announcement Date[1]	Operation Date[2]	Operation Time (ET)	Settlement Date	Operation Type	Security Type & Maturity Range	Maturity Date Range	Minimum Purchase Amount	Maximum Purchase Amount
8/5/2026	8/6/2026*	1:40 pm -2:00 pm	8/7/2026	Liquidity Support	Nominal Coupons 1Mo to 2Y	09/07/2026 - 08/06/2028	$0	$4 billion
8/10/2026	8/11/2026*	1:40 pm -2:00 pm	8/12/2026	Liquidity Support	Nominal Coupons 10Y to 20Y	08/12/2036 - 08/11/2046	$0	$2 billion
8/17/2026	8/18/2026	1:40 pm -2:00 pm	8/19/2026	Liquidity Support	Nominal Coupons 20Y to 30Y	08/19/2046 - 08/18/2056	$0	$2 billion
8/19/2026	8/20/2026	1:40 pm - 2:00 pm	8/21/2026	Liquidity Support	Nominal Coupons 3Y to 5Y	08/21/2029 - 08/20/2031	$0	$4 billion
8/24/2026	8/25/2026	1:40 pm - 2:00 pm	8/26/2026	Liquidity Support	Nominal Coupons 5Y to 7Y	08/26/2031 - 08/25/2033	$0	$4 billion
9/2/2026	9/3/2026	1:40 pm - 2:00 pm	9/4/2026	Cash Management	Nominal Coupons 1Mo to 2Y	10/04/2026 - 09/03/2028	$0	$12.5 billion
9/8/2026	9/9/2026	1:40 pm - 2:00 pm	9/10/2026	Cash Management	Nominal Coupons 1Mo to 2Y	10/10/2026 - 09/09/2028	$0	$12.5 billion
9/9/2026	9/10/2026	1:40 pm -2:00 pm	9/11/2026	Liquidity Support	Nominal Coupons 10Y to 20Y	09/11/2036 - 09/10/2046	$0	$2 billion
9/14/2026	9/15/2026	1:40 pm -2:00 pm	9/16/2026	Liquidity Support	TIPS 10Y to 30Y	09/16/2036 - 09/15/2056	$0	$500 million
9/16/2026	9/17/2026	1:40 pm -2:00 pm	9/18/2026	Liquidity Support	Nominal Coupons 7Y to 10Y	09/18/2033 - 09/17/2036	$0	$4 billion
9/23/2026	9/24/2026	1:40 pm -2:00 pm	9/25/2026	Liquidity Support	Nominal Coupons 20Y to 30Y	09/25/2046 - 09/24/2056	$0	$2 billion
9/28/2026	9/29/2026	1:40 pm -2:00 pm	9/30/2026	Liquidity Support	TIPS 1Y to 10Y	09/30/2027 - 09/29/2036	$0	$750 million
9/30/2026	10/1/2026	1:40 pm -2:00 pm	10/2/2026	Liquidity Support	Nominal Coupons 10Y to 20Y	10/02/2036 - 10/01/2046	$0	$2 billion
10/5/2026	10/6/2026	1:40 pm -2:00 pm	10/7/2026	Liquidity Support	Nominal Coupons 2Y to 3Y	10/07/2028 - 10/06/2029	$0	$4 billion
10/7/2026	10/8/2026	1:40 pm -2:00 pm	10/9/2026	Liquidity Support	Nominal Coupons 20Y to 30Y	10/09/2046 - 10/08/2056	$0	$2 billion
10/14/2026	10/15/2026	1:40 pm -2:00 pm	10/16/2026	Liquidity Support	Nominal Coupons 10Y to 20Y	10/16/2036 - 10/15/2046	$0	$2 billion
10/20/2026	10/21/2026	1:40 pm -2:00 pm	10/22/2026	Liquidity Support	TIPS 1Y to 10Y	10/22/2027 - 10/21/2036	$0	$750 million
10/26/2026	10/27/2026	1:40 pm -2:00 pm	10/28/2026	Liquidity Support	Nominal Coupons 20Y to 30Y	10/28/2046 - 10/27/2056	$0	$2 billion
11/3/2026	11/4/2026	1:40 pm -2:00 pm	11/5/2026	Liquidity Support	Nominal Coupons 10Y to 20Y	11/05/2036 - 11/04/2046	$0	$2 billion
11/4/2026	11/5/2026	1:40 pm -2:00 pm	11/6/2026	Liquidity Support	Nominal Coupons 1Mo to 2Y	12/06/2026 - 11/05/2028	$0	$4 billion

[1] A preliminary list of eligible CUSIPs will be disclosed at 11:00 am ET on the Announcement Date.

[2] The final list of eligible CUSIPs will be disclosed at 11:00 am ET on the Operation Date.

*Operation is scheduled within the May 2026 refunding quarter.

A total of 7 buyback dates between 9th Sep to 4th Nov for longer-dated (10-30Y) Nominal Coupon Treasuries ==> $14bn to at least $28bn

3. Issuances -Actual (May-Jul) & Anticipated (Aug to Oct) in US$bn

The table below presents, in billions of dollars, the actual auction sizes for the May to July 2026 quarter and the anticipated auction sizes for the August to October 2026 quarter:

	2-Year	3-Year	5-Year	7-Year	10-Year	20-Year	30-Year	FRN
May-26	69	58	70	44	42	16	25	28
Jun-26	69	58	70	44	39	13	22	28
Jul-26	69	58	70	44	39	13	22	30
Aug-26	**69**	**58**	**70**	**44**	**42**	**16**	**25**	**28**
Sep-26	**69**	**58**	**70**	**44**	**39**	**13**	**22**	**28**
Oct-26	**69**	**58**	**70**	**44**	**39**	**13**	**22**	**30**

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