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Treasury's buyback announcement: the Bessent put takes shape

From Global Fixed Income

- Treasury's surprise announcement of larger buybacks of long-term Treasuries augurs in a more activist approach to debt management that reveals sensitivity to the level of long-term yields and sharp market moves.
- A future shift toward more bills and less coupon supply mirrors the Fed's 2011-12 Operation Twist in its market effect and could ease financial conditions further. The Fed may ultimately need to take this into account when considering its own policy stance.
- We are sensitive to any signs of broader Fed-Treasury coordination, for example upsized Fed bill purchases that absorb new Treasury supply. This would be in keeping with Warsh's call for a new Fed-Treasury Accord, and would reduce the odds of a QT restart

This morning, the Treasury Department announced[1] that it is increasing, "by at least double, the size of liquidity support buyback operations for longer-dated nominal coupon securities." This would take the size of each buyback operation in the 10- to 20-year and 20- to 30-year sectors to at least $4 billion, from $2 billion previously.

As part of the August quarterly refunding package, Treasury announced a buyback schedule with eight operations across these two sectors. With two quarterly operations already complete, buybacks over the rest of the refunding period could total $24 billion or more.

In its announcement, Treasury described the motivation of larger operations as simply "providing greater liquidity support" to the market, in line with how the Treasury has historically described the purposes of the current buyback program. However, this announcement was unscheduled and comes just two weeks after the buyback schedule and sizes were released. It therefore suggests to us that Secretary Bessent has become sensitive to the recent sharp rise in long-term yields, which saw the 30-year yield rise to its highest level since 2007. Thus we believe it signals a broadening of the objective of buybacks from providing liquidity in off-the-run securities to also leaning against market moves in order to contain financing costs. This more activist approach to debt management can also be seen in Treasury's recent intervention alongside the Bank of Japan to strengthen the yen, a move that we viewed as motivated by a desire to limit Japanese official selling of Treasuries to fund even larger interventions.

The market reaction to the announcement was swift – by our own estimate, 20- and 30-year Treasury yields declined as much as eight basis points in the 90 minutes after the announcement. Investors may be extrapolating that larger buybacks will become a regular feature of Treasury debt management even beyond the current quarter; on an annualized basis, larger buyback operations of longer-dated nominal securities could approximate 15 percent of long-end supply. The announcement language that operation sizes may even surpass $4 billion also potentially signals that Treasury will use all tools at its disposal to prevent a destabilizing rise in long-term yields.

As for the mechanics of larger buybacks, we believe that Treasury will fund the operations in the short run via increased bill issuance, and potentially larger auctions at the front end of the coupon curve over time. We also note that Treasury sent a soft signal in their August refunding

1. https://home.treasury.gov/news/press-releases/sb0607

announcement that some securities may see smaller auctions going forward. In the context of today's announcement, it is possible that Treasury could tilt coupon auctions away from the long end in future refundings.

Today's announcement, combined with likely increases in bill issuance and potential changes to the composition of future issuance, will result in less duration supplied to the market. As such, Treasury's actions are theoretically similar in their broad market effects to the Fed's 2011-2012 Maturity Extension Program ("Operation Twist"). Under that program, the Fed funded longer-term Treasury purchases via sales of Treasuries with shorter maturities. As with that program, shifts in Treasury debt supply implied by today's announcement could ease broad financial conditions. We saw a hint of this today not just in the decline in long-term yields, but also the depreciation of the dollar against a range of currencies and the rise in S&P 500 futures after the announcement (of course, dollar depreciation may also reflect a risk premium for Treasury moving away from the "regular and predictable" approach to debt management).

Today's announcement has implications for monetary policy, especially if we are correct in seeing parallels to the Fed's Operation Twist. First, against a backdrop of stable economic growth and elevated inflation, a central bank could over time decide to offset changes to debt management policy that ease financial conditions with tighter monetary policy. We are not suggesting an immediate reaction from the Fed, but we will be closely watching how policymakers describe recent changes in financial conditions. In particular, we note that at the July press conference, Chairman Warsh signaled that tighter financial conditions over the intermeeting period pushed against the need for tighter policy. Presumably an easing in financial conditions would thus be grounds for tighter policy if that easing was seen as out of keeping with the desired monetary policy stance.

Fed balance sheet policy may also adjust to any sustained effort by the Treasury to shorten the average maturity of the debt. Over-supply of bills does not seem to be an issue at present given strong demand from money funds, but over time Treasury's efforts could put upward pressure on short-term rates. At the same time, some Fed officials have already highlighted the benefits of increasing the Fed's own bill holdings in order to reduce the Fed's exposure to interest rate risk and to fund future emergency interventions.[2] This is a topic that the Chair's new task force on the balance sheet is likely to address. Thus we can envision future policy coordination under which Treasury increases bill supply, while the Fed reinvests maturing proceeds from its Treasury and MBS portfolio into bills. Such coordination would be in keeping with Warsh's own calls for a new Fed-Treasury Accord, as we wrote about in February.[3] And as importantly, it would reduce the likelihood that the Fed restarts quantitative tightening – sustained bill purchases that absorb some of the increase in Treasury supply is harder to achieve if maturing proceeds are not recycled into new assets. Thus relative to a counterfactual of a resumption of QT, such a new Fed-Treasury Accord implies an easier stance of balance sheet policy.

While Treasury's announcement had an immediate market impact, its durability is less clear. In our view, these actions address a symptom, rather than the underlying cause: persistent fiscal deficits and a lack of political will to rein them in. Debt management adjustments, support for stablecoins as a new source of bill demand, and regulatory changes that free up bank balance sheet capacity for Treasuries are all changes at the margin, helpful in containing near-term financing costs but no substitute for addressing long-run debt sustainability.

2. Specifically, the Fed could offset future emergency actions such as liquidity facilities or long-term Treasury purchases with run-off of its bill portfolio. This would allow for crisis responses without expanding the size of the balance sheet and adding reserves to the system. See, for example, Governor Waller's July 10, 2025 speech, "Demystifying the Federal Reserve's Balance Sheet."
3. "Is Fed Balance Sheet Policy Back in Play?"

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