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21 August 2026

When intervention implies impotence

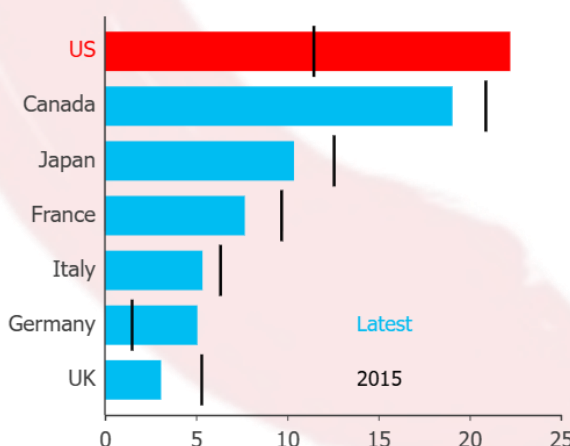
- **Bessent's interventions do nothing to deal with fundamental vulnerabilities**
- **Both JGBs and now USTs require an increasing risk premium**
- **The best ways to position for this are through FX, steepeners, and especially through term premium proxies directly**

Market interventions are like secret service operations: their threat is potentially powerful, but if it gets to the point when you can actually see the agents in action, it almost certainly implies something has gone seriously wrong.

That makes the reversal of the initially favourable reaction in both Treasuries and equities to the announcement of increased long-end Treasury buybacks unsurprising. If it were that easy, you'd just fund the entire deficit with overnight bills. Though from an international perspective it turns out the US has gone quite far down that route already.

The US has doubled its bill share

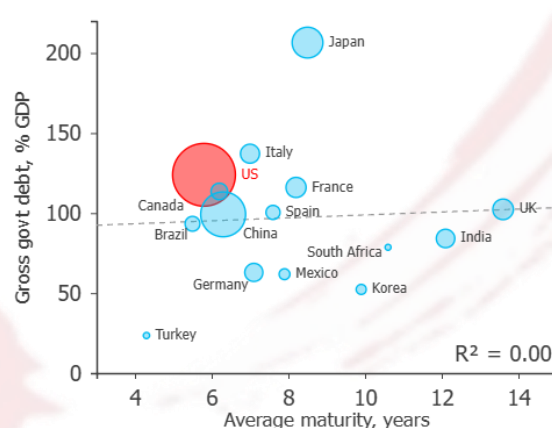
T-bills, % central govt debt securities



National debt agencies, Macrobond, Satori Insights.

Nobody big funds this short

Sovereign debt: maturity vs size, 2025



Bubble area = gross general government debt, USD trn.

World Bank Fiscal Space database, IMF WEO, Macrobond, Satori Insights.

No wonder the market is turning back to debasement trades. This piece explains why efforts to cap long-dated yield rises seem destined to fail, and discusses how best to position for them.

It's tough to bully the bond market

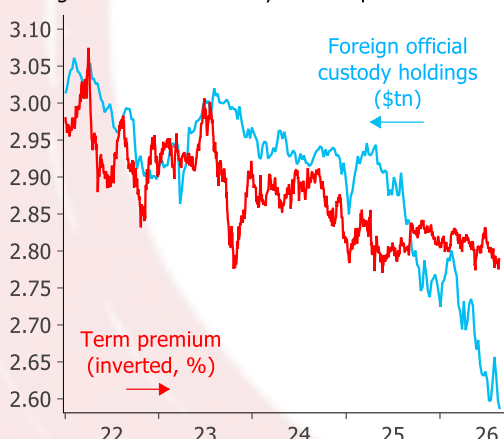
Given that bullies respond only to bigger bullies, it is perhaps appropriate that the Trump administration appears to be meeting its match in the bond and FX markets.

The most effective official interventions are those, like Draghi's, where words speak louder than actions. Failing that, they still have a chance of success when market price action diverges from fundamentals and is feeding on itself, where financing is not a concern, and where the target is to disrupt the dynamic rather than defend a specific level.

Bessent's interventions in the ¥ and now long Treasuries meet none of those criteria. The sell-offs are orderly and have been building for over a year; the interventions are aimed squarely at levels; the buybacks will require funding, most likely with more T-bills. Bessent may be right about long Treasuries not trading in line with their fundamentals¹ – but multiple metrics suggest he may be wrong about the direction.

Foreigners voting with their feet

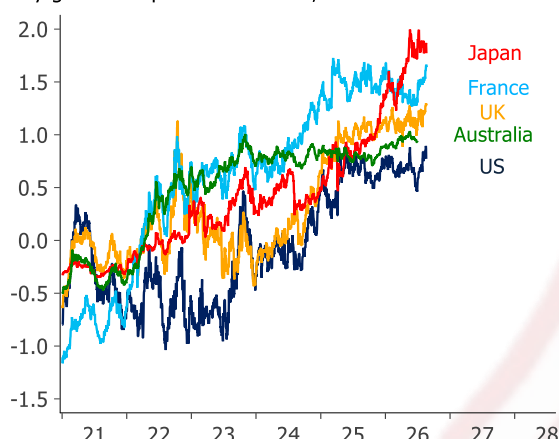
Foreign official UST custody vs term premium



Source: Fed, New York Fed, U.S. Treasury, San Francisco Fed, Macrobond, Satori Insights.

The US' exorbitant privilege

10y govt term premium metrics, %



Source: New York Fed, Daiwa, AOFM, Bloomberg, Satori Insights.

There are three reasons why efforts to cap long bond yields seem destined to fail.

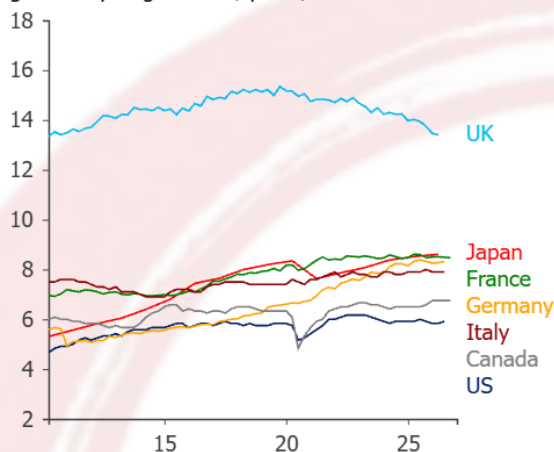
The first is that tweaking supply dynamics does nothing to improve the underlying fundamentals. There may well be a case for reducing long-end net issuance, especially in markets like the UK where average maturities are long already, given an increasing dependence on price-sensitive buyers at the expense of liability matchers like pensions

¹ ["Bessent Says He's Ready to Expand Treasury Buybacks"](#), *Bloomberg*, 20 Aug.

and insurance, now increasingly enjoying surpluses. However, the real and unaddressed problem is not the price of the debt but the quantity of it.

The US funds shortest in the G7

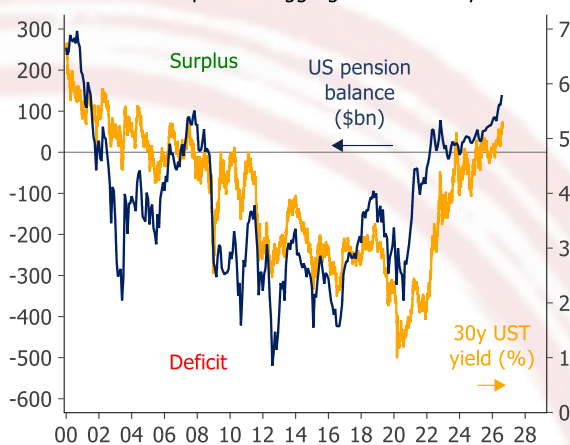
Avg maturity of govt debt, years, incl bills



Source: UK DMO, Japan MoF, national debt agencies, ECB, Macrobond, Satori Insights.

Price-insensitive demand fading

US defined benefit pension aggregate deficit vs yields



Source: Milliman, U.S. Treasury, Macrobond, Satori Insights.

The second problem is that even if you temporarily succeed in capping yields, the adjustment leaks into the currency – which then in turn feeds back into inflation and future rate expectations.²

Intervening, repeatedly

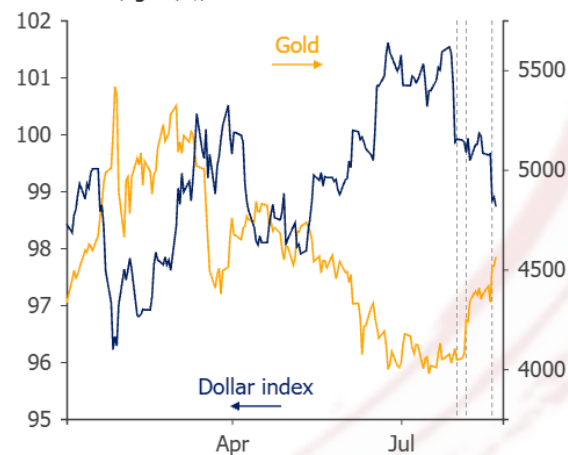
USD/JPY; US 30y yield, %. Dashes = interventions



Source: Bloomberg, Macrobond, Satori Insights.

The adjustment moved, not away

Dollar index; gold, \$/oz. Dashes = interventions



Source: Bloomberg, Macrobond, Satori Insights.

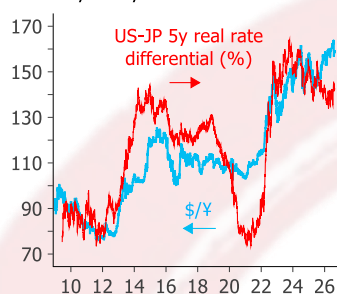
On this front, the drastic decline in the credibility of indebted sovereigns is not just visible in ¥ weakness and in the new-found resurgence in gold. Just as JGBs seem to require an extra yield premium to support a given level of \$/¥, so USTs require an increasing

² We disagree with his calculations for “fair” JGB yields but Robin Brooks has been making this point well. E.g. *The Debasement Trade Takes Off*, 21 Aug.

premium for the US\$ to hold its value against both CNY and now €. Presumably if it were not for massive ongoing foreign buying of US equities, the \$ decline would be larger still.

¥ broken vs \$

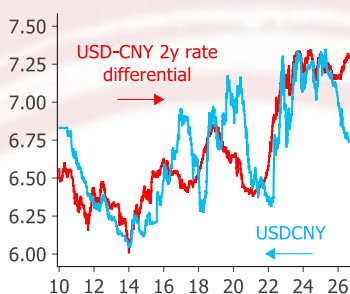
US-JP 5y real yield differential vs FX



Source: Macrobond, Bloomberg, Satori Insights.

\$ broken vs CNY

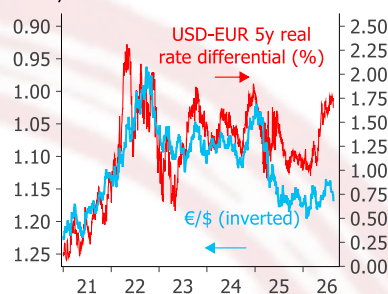
FX vs nominal rate differential



Source: Macrobond, Satori Insights.

\$ now broken vs €

Real yield differential vs FX

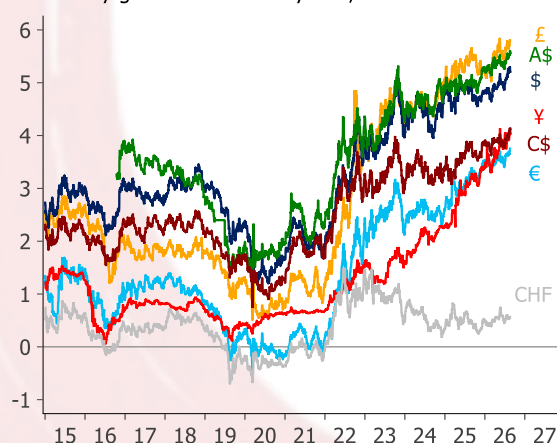


Source: Macrobond, US Treasury, Satori Insights.

The third problem is that it is not just fiscal dynamics pushing long yields higher; it seems increasingly to be the weight and price-insensitivity of hyperscaler issuance. This helps to explain both why the move has been global³ and why it has been dominated by real yields and not inflation breakevens.⁴

More than just a fiscal dynamic

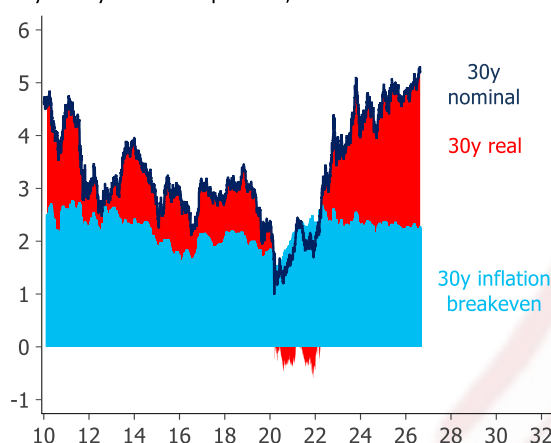
Global 30y government bond yields, %



Source: Macrobond, Bloomberg, Satori Insights.

Concern not inflation but real rates

30y UST yield decomposition, %



Source: Macrobond, Satori Insights.

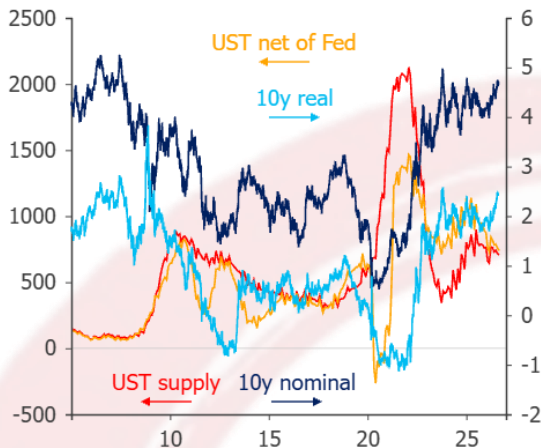
Despite the intuition, it is normally next to impossible to demonstrate a positive link between increased supply and higher nominal or real yields: governments routinely increase borrowing as yields fall into recessions, and corporate supply tends to be choked off when yields become too high.

³ ["Why bond markets are unnerving rich-world politicians"](#), *The Economist*, 19 Aug.

⁴ [The relentless rise in real yields](#), 7 Aug.

When supply spiked, yields didn't

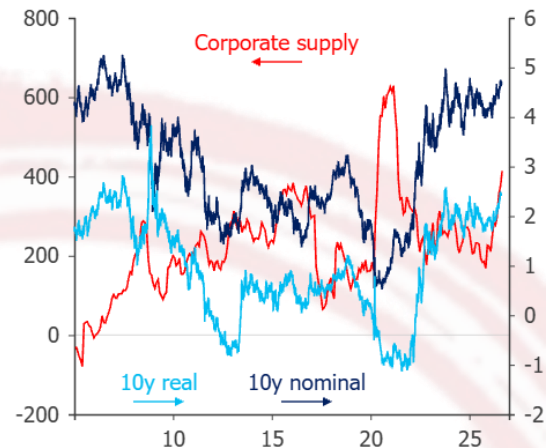
Net duration supply, \$bn 10y equivs; yields, %



Source: Treasury auctions, New York Fed, Macrobond, Satori Insights.

Corporates borrow when yields fall

Net duration supply, \$bn 10y equivs; yields, %

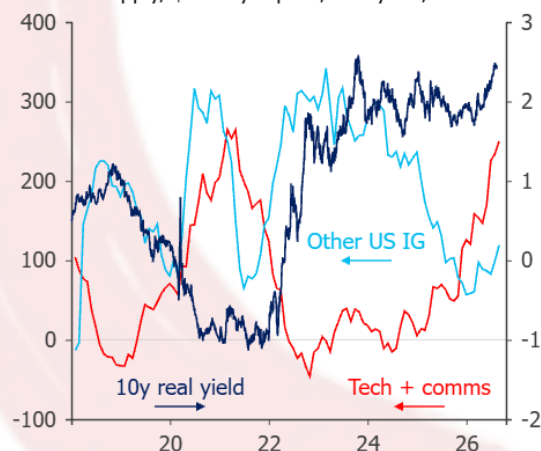


Source: US IG incl financials + high yield, 12m. Bloomberg, Macrobond, Satori Insights.

But hyperscaler issuance is different. While other corporates' long issuance has fallen as expected as real yields have risen, hyperscalers' desire for duration borrowing has only grown – and seems now to be driving real yields higher. The correlation between tech issuance and real yield changes always used to be close to zero, in line with the rest of the corporate market. But over the past two years it has become positive.

AI borrows through the real yield

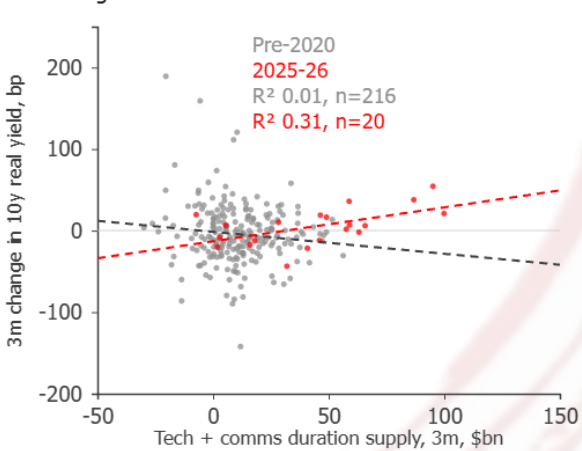
Duration supply, \$bn 10y equivs; real yield, %



Source: 12m net issuance x duration / 10. Bloomberg, Macrobond, Satori Insights.

A rotation, on twenty months

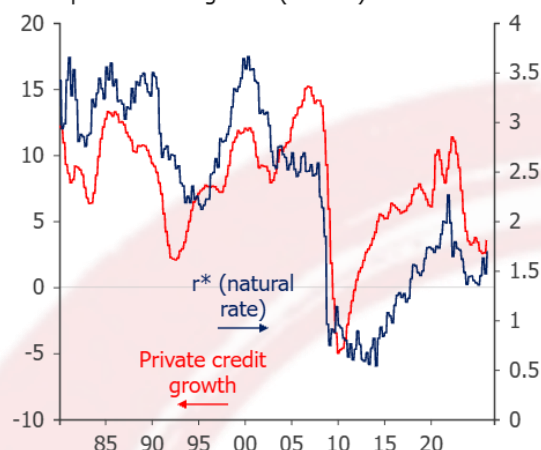
3m change vs 3m tech + comms issuance



Source: net issuance x duration / 10. Bloomberg, Macrobond, Satori Insights.

In some respects this is only to be expected. While relationships with instantaneous real yields are often tough to demonstrate, their slower-moving cousin the natural rate does seem to be directly driven by the private sector's desire to borrow.⁵ Yet even now, it is not so much the quantity of hyperscaler borrowing – which is still dwarfed by long Treasury issuance – as its price-insensitivity which is having an impact.

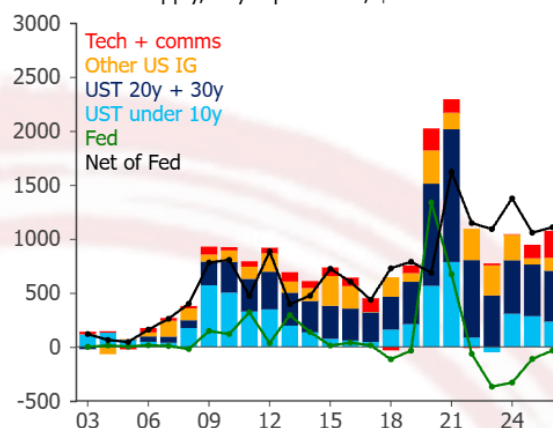
⁵ [*What Are Bond Markets Telling Us?*](#), P. Krugman, 19 Aug.

Credit growth and r^* BIS US private credit growth (% GDP) vs r^* 

Source: Bloomberg, Macrobond, Satori Insights.

Two thirds is long bonds and AI

Net duration supply, 10y equivalents, \$bn

UST under 10y includes bills, which add almost no net duration. Final bar = 12m to 2026-08-31.
Source: US Treasury auctions, New York Fed, Bloomberg, Macrobond, Satori Insights.

As such, while some semblance of fiscal rectitude would undoubtedly help, the rise in long real yields seems likely to continue until the hyperscalers' seemingly limitless desire for duration borrowing is sated.

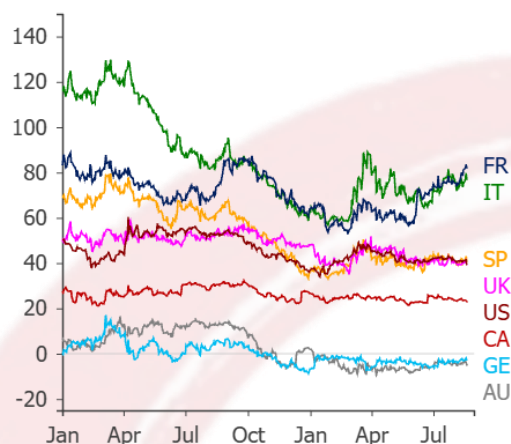
Premium trading by proxy

For investors, the trouble becomes how to trade this. The obvious positions – short US\$, short long-dated yields, curve steepeners and especially long gold – are all things we have long favoured⁶ but are also quite obviously directional and prone to setbacks. A purer hedge against festering fiscal problems would be a long position in term premia – but of course these are hard to trade directly. Worse, their most obvious proxy through asset swaps might still be working in the Euro area, but the US in particular has seen Treasuries outperforming swaps in response to regulatory reform even as the fiscal position has worsened.

⁶ [The long-bond problem](#), Sep25. [Trading a decaying hegemon](#), Aug25.

Government credit is deteriorating

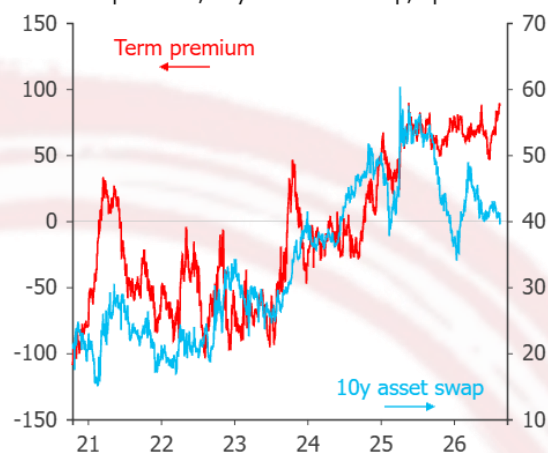
10y govt asset swap spreads, bp



Source: Bloomberg, Macrobond, Satori Insights.

Asset swaps stopped following

ACM term premium; 10y UST asset swap, bp



Source: positive asset swap = UST yield above swaps. Bloomberg, Macrobond, Satori Insights.

There is, though, a surprisingly good and stable alternative. A 5s10s duration-weighted steepener, hedged with a short 2-year UST position sized to 20% of the 10y DV01⁷, has proved an excellent term premium proxy for more than three decades.

A butterfly that is term premium

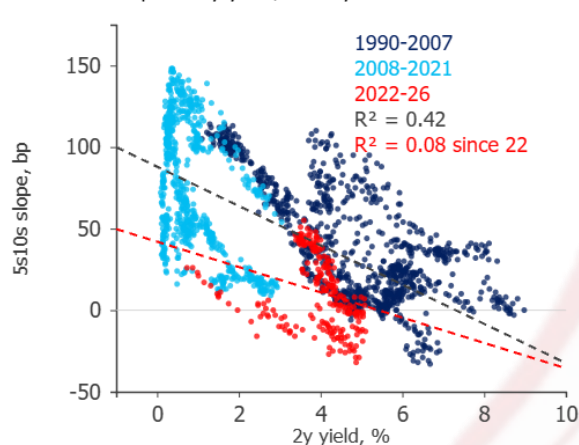
ACM term premium, %; 5s10s+20% short 2s, bp



Source: New York Fed, Macrobond, Satori Insights.

Where the 20% weight comes from

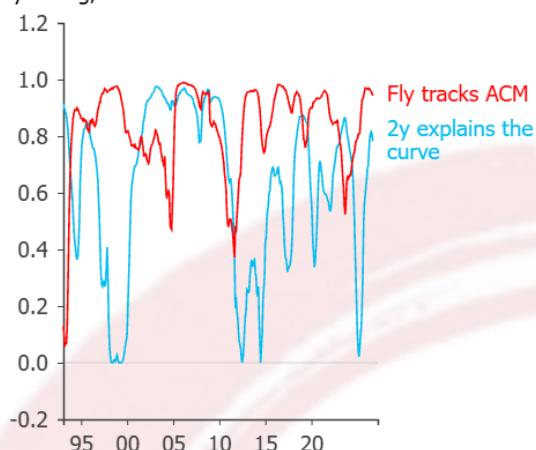
US 5s10s slope vs 2y yield, weekly



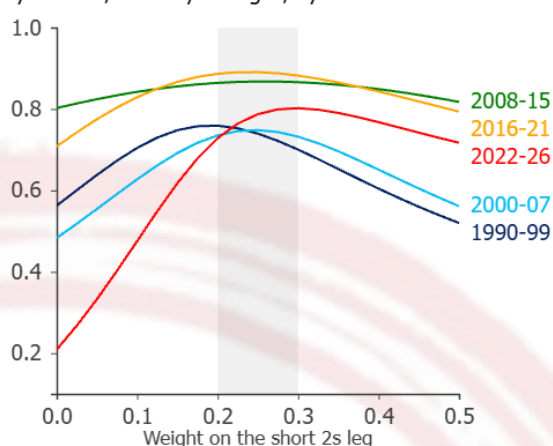
Source: Macrobond, Satori Insights.

This may seem surprising, given that the 2s5s10s relationship itself has not been particularly stable. But in a sense that very instability has been the term premium exerting itself: either 2s and 5s10s have moved together, or in the periods when they haven't, it's been because of changes in term premium which have been well proxied by the butterfly. The optimal weight for the short 2s leg has always been between 19 and 30%.

⁷ In notional terms for a \$100m short in 10y this equates to around \$178m long in 5s and \$79m short in 2s – see table below.

Proxy holds when the fit doesn't3y rolling, R^2 and correlation**The weight has barely moved**

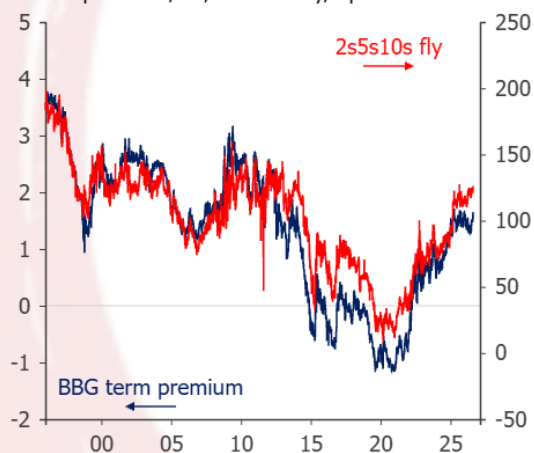
Fly vs ACM, monthly changes, by era



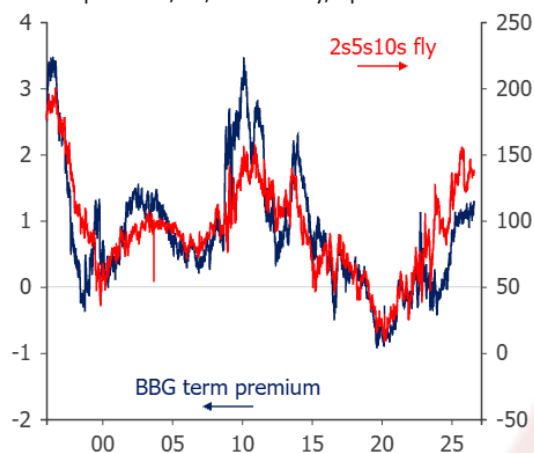
That same counterbalancing effect means the same relationship also holds in other markets – albeit with varying weights and not quite as much stability.

France fits closely too

BBG term premium, %; 2s5s10s fly, bp

**And to the UK, less tightly**

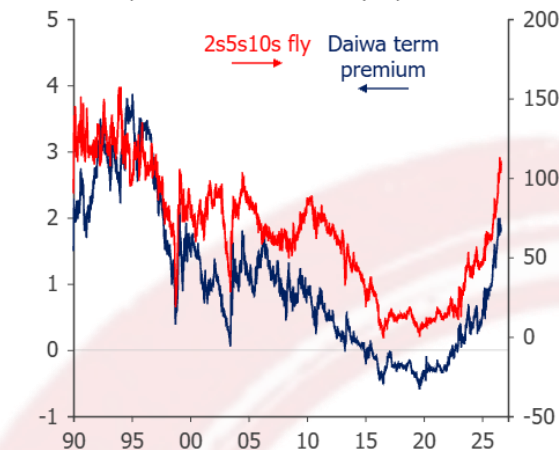
BBG term premium, %; 2s5s10s fly, bp



The optimal 2y DV01 weight in France is around 33%; in the UK, 25% - though both have shown signs of rising recently. In Japan, it is more like 60%, as the front end has been so stable for so long.

The fly travels to Japan

Daiwa term premium, %; 2s5s10s fly, bp



Source: Daiwa, Bloomberg, Macrobond, Satori Insights.

Fly fishing in four markets

Notional per 100 sold of the 10y leg

DV01-neutral 5s10s, 2s leg at each market's own weight

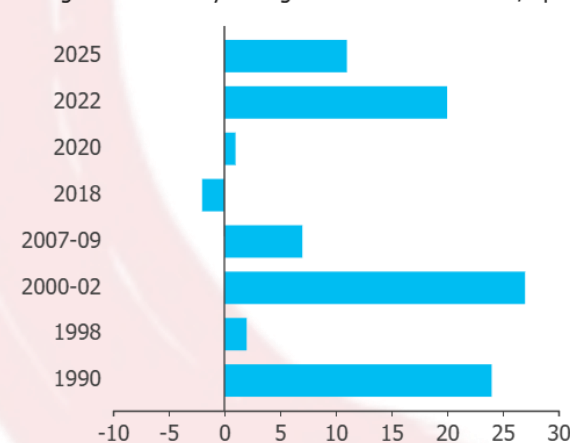
	2s weight	Buy 5y	Sell 10y	Sell 2y
US	19%	+178	-100	-79
UK	25%	+175	-100	-102
France	33%	+179	-100	-139
Japan	64%	+183	-100	-283

Weight = 2y DV01 as a share of the 10y leg's, fitted to each market's own term-premium metric.
Source: New York Fed, Daiwa, Bloomberg, Macrobond, Satori Insights.

In practice, rather than fixating on achieving an optimum weight for market neutrality we would expect investors to tweak these weights to suit their own requirements. After all, if you're expressing a long term premium view you're probably comfortable with at least some degree of short duration and/or curve steepening. It's just that you don't want to get clobbered by the next short-sighted and short-lived intervention, or by an eventual fall in the equity market. Fortunately there are ways to achieve this.

Equity breaks don't break it

Change in 2s5s10s fly during 15% SPX drawdowns*, bp

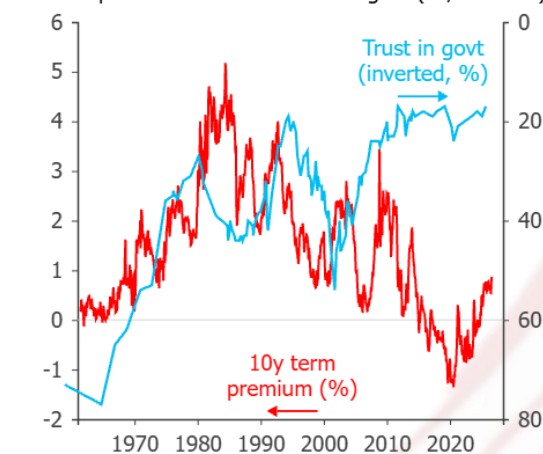


*Peak-to-trough, since 1990.

Source: Macrobond, Satori Insights.

Term premium ought to be much higher

US term premium vs trust in federal govt (%; inverted)



Source: NY Fed (Adrian-Crump-Moench model), Pew Research Center, Satori Insights.

In sum, all the things which would provide genuine and lasting relief to the long end involve things the administration doesn't want: a smaller deficit, a lower stock market, or less AI capex. Efforts to engineer their way out of difficulty rather than addressing the underlying issues merely serve to highlight them. Governments seem increasingly impotent in the face of the world's problems; investors need not be.