Opinion | 21 August 2026

THINK Ahead: Bessent versus the bond market

Bessent s bond market battle has thrust the thorny issue of the US deficit back into the spotlight this week. And in a week when Fed Chair Kevin Warsh takes to the podium in Jackson Hole, **James Smith** argues the very substantial borrowing on both sides of the Atlantic presents an awkward dilemma for the major central banks

US Treasury Secretary Bessent has unveiled a new buyback programme for long-end Treasuries in an attempt to lower their yields

Bessent versus the bond market

Say what you like about Scott Bessent – and plenty of traders have this week – but you can't say America's Treasury Secretary isn't inventive.

This week's surprise decision to expand an obscure Treasury buyback programme is just the latest in a series of attempts to cool the long end of the US bond market. Encouraging foreign central banks (*cough* the Bank of Japan) to make greater use of the Fed's FIMA repo facility, helping them avoid selling Treasuries during FX intervention, fits the same pattern. So too does the Treasury's growing reliance on short-dated bills to fund America's gargantuan deficits. My colleague Padhraic has a good explainer on this week's drama.

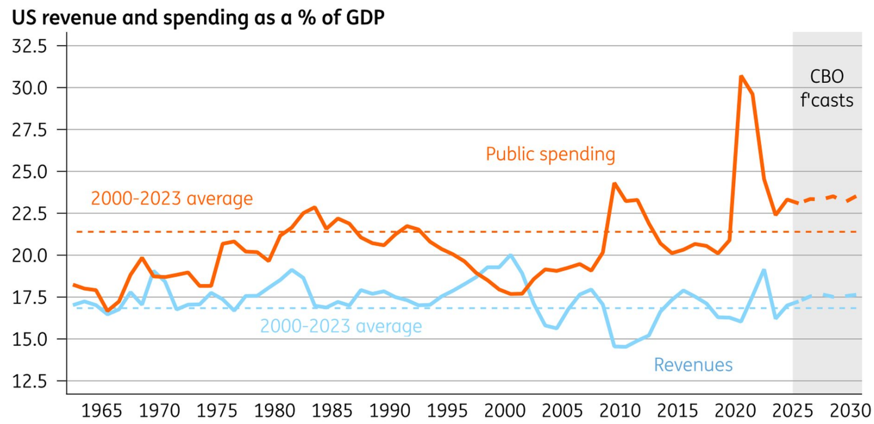
The logic is clear enough. Most Americans finance their homes through 30-year fixed-rate mortgages, making Treasury yields far more important than the Fed funds rate for households and businesses alike. Lower long-term yields mean cheaper borrowing costs across the economy.

All of that may be true – yet that doesn't mean any of it is truly in Bessent's control.

Take the fiscal deficit, which currently sits around 6%. Bessent said this week that he wants greater attention on fiscal consolidation. Yet there is little he can do on his own. Beyond measures to reduce waste, curb tax fraud or trim spending at the margins, meaningful deficit reduction requires Congress. And with Washington likely to become even more divided after November's mid-terms, it's hard to see difficult choices being made.

That's especially true when you remember where America's deficit problem is coming from. James Knightley had a nice note on this last year. It's not low tax revenue. And it's not elevated discretionary spending on defence, education and the like. Both are around long-term averages as a share of GDP.

The US deficit has risen due to higher mandatory spending



Source: Macrobond, ING

Instead, the pressure comes from mandatory spending programmes like social security, which are being pushed higher by demographic trends, and from debt interest costs. The two are linked. Persistent primary deficits push up debt, debt which will add to those interest costs. And because the Treasury has shifted towards issuing more bills, changes in Fed policy are feeding through to overall debt interest costs more quickly.

That brings us neatly to Jackson Hole next week and Kevin Warsh's first major speech as Fed Chair. Few expect him to say much. His aversion to forward guidance is well known. But it's a stance that could make Bessent's challenge even harder.

Remember forward guidance came about as a way of talking down long-term borrowing costs after the financial crisis. It hasn't always worked out that way, to put it mildly. But by offering less commentary on where rates are headed, let alone less clarity on what the Fed is looking for in the economic data, it risks injecting yet more volatility into an already febrile bond market.

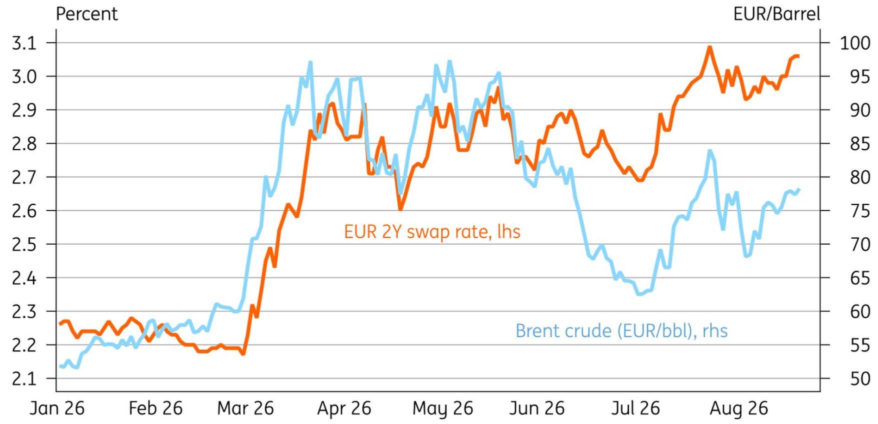
Fortunately for now, the economic backdrop is moving in Bessent's favour. Core PCE inflation next week should be reasonably benign. August inflation data, published in September, is also seasonally one of the softest readings of the year. James Knightley expects that combination to leave rates unchanged through next summer – alleviating at least one source of upward pressure on Treasury yields.

But then there's energy prices. Oil is on the rise again, while in Europe natural gas prices are approaching year-to-date highs as hot weather and low storage levels raise concerns ahead of winter.

This is not so much of an issue for US borrowing costs, where this year's hawkish pivot owed more to the turnaround in the jobs data through the Spring, than it did gasoline prices. But it more easily explains why markets are so convinced the ECB will raise rates in September – and why European bond yields remain incredibly sensitive to energy prices.

Even then, we remain less persuaded that a broader hiking cycle will follow. Today's ECB negotiated wage data, showing growth of just 2.4% year-on-year, is a reminder that Europe's labour market is not displaying the sort of wage pressure typically needed to turn an energy shock into a prolonged inflation problem.

Energy prices have been a key driver or European market rates



Source: Macrobond, ING

Yet higher yields on both sides of the Atlantic bring us back to the same issue: fiscal sustainability. Europe faces many of the same structural spending pressures as the US, and the same political constraints on tackling them. France and the UK will be in the spotlight again for this very reason this Autumn.

Still, the focus on ballooning deficits that emerged this week will come and go. It always does. Debt sustainability is a challenge, but not necessarily one that abruptly ends in crisis.

What it does create is an increasingly awkward dilemma for central banks. They have become major players in government bond markets and periods of stress put them under pressure to intervene. Britain's 2022 mini-budget debacle showed how politics and bond markets can collide – and where the central bank is forced to step in and buy bonds. As Carsten mused this week, the ECB may one day find itself in a similar position with its Transmission Protection Instrument.

Then there's the broader risk of fiscal dominance. As debt interest consumes an ever-increasing share of government budgets, will central banks one day hesitate before raising interest rates out of concern for the consequences for fiscal policy?

Today, despite all the political pressure, I think the answer is no. But perhaps that's not the point.

Ask instead whether these persistently large deficits, and the higher bond yields that come with them, are already delivering some of the tightening that would otherwise have to come through higher policy rates. The answer is almost certainly yes.

James Smith

THINK Ahead in developed markets

United States (James Knightley)

- **Fed Chair Kevin Warsh Speech** (Fri): The highlight will be the Federal Reserve's annual symposium in Jackson Hole. Kevin Warsh's speech will be in focus given the criticism he faced following his July FOMC press conference, with markets looking for more clarity on the Fed's reaction function. Regarding the September FOMC meeting, the recent poor jobs, cooler inflation and weaker retail sales/ confidence numbers have taken some of the pressure off, with market pricing suggesting the Fed has time to consider its decision.
- **Core PCE Price Index** (Wed): In terms of the data, the Fed's favoured inflation measure, the core PCE deflator, is expected to rise 0.2%MoM/3.3%YoY. This remains well above the 2% target, but the trajectory is looking better, and we continue to believe that the Fed will maintain a stable policy rates well into 2027.

Canada (James Knightley)

- **2Q GDP** (Fri): We look for a strong rebound in 2Q GDP growth of 3.4% annualised after three down quarters out of the previous four. Tariff battles with the US have weighed heavily on the economy, given the US is the destination for three-quarters of Canada's exports. We look for an improvement in the net trade position and a stronger performance from consumer spending and a big rebound in investment following the 4.3% drop in the first quarter.

Key events in developed markets

Country	Time	Data/event	ING	Prev.
		Tuesday 25 August		
US	1400	Jun Case-Shiller Home Price (MoM%/YoY%)	0.1/1.8	0.2/1.6
	1500	Aug Consumer Confidence	90	90.8
	1500	Jul New Home Sales (000)	615	628
Germany	0700	Q2 GDP Final (QoQ%/YoY%)	0.2/0.9	0.2/0.9
	0900	Aug Ifo Business Climate	86.5	86.6
	0900	Aug Ifo Current Conditions	86.2	86.5
	0900	Aug Ifo Expectations	86.6	86.7
		Wednesday 26 August		
US	1330	Jul Personal Income (MoM%)	0.2	0.2
	1330	Jul Personal Consumption Real (MoM%)	0.0	0.4
	1330	Jul Core PCE Price Index (MoM%/YoY%)	0.2/3.3	0.1/3.3
	1330	Jul Durable Goods Orders (MoM%)	-3.5	0.3
	1330	Q2 GDP 2nd Estimate (QoQ%)	1.5	1.5
	1330	Q2 GDP Deflator Prelim (QoQ%)	6.2	6.2
		Thursday 27 August		
US	1330	Initial Jobless Claims (000s)	210	204
Eurozone	0900	Jul M3 Money Supply (YoY%)	-	3.3
Germany	0700	Sep GfK Consumer Sentiment	-29.8	-29.6
		Friday 28 August		
US	1400	Fed Chair Kevin Warsh speech at Jackson Hole	-	-
	1500	Aug Michigan Sentiment Final	50	51
Eurozone	1000	Aug Economic Sentiment	-	96.9
	1000	Aug Consumer Confidence Final	-	-15.9
France	0745	Q2 GDP Final (QoQ%/YoY%)	-/-	0.2/0.7
	0745	Aug CPI Prelim (MoM%/YoY%)	-/-	0.6/2.1
Italy	1000	Aug Consumer Confidence	94	94.2
Spain	0800	Aug CPI Flash (MoM%/YoY%)	-/-	0.3/3.6
	0800	Jul Retail Sales (MoM%/YoY%)	-/-	0.3/0.5
Canada	1330	Q2 GDP (QoQ% annualised)	3.4	-0.1
	1330	Jun GDP (MoM%)	0.1	0.3
Sweden	0700	Q2 GDP Final (QoQ%/YoY%)	-/-	1.4/2.8

Source: Refinitiv, ING

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