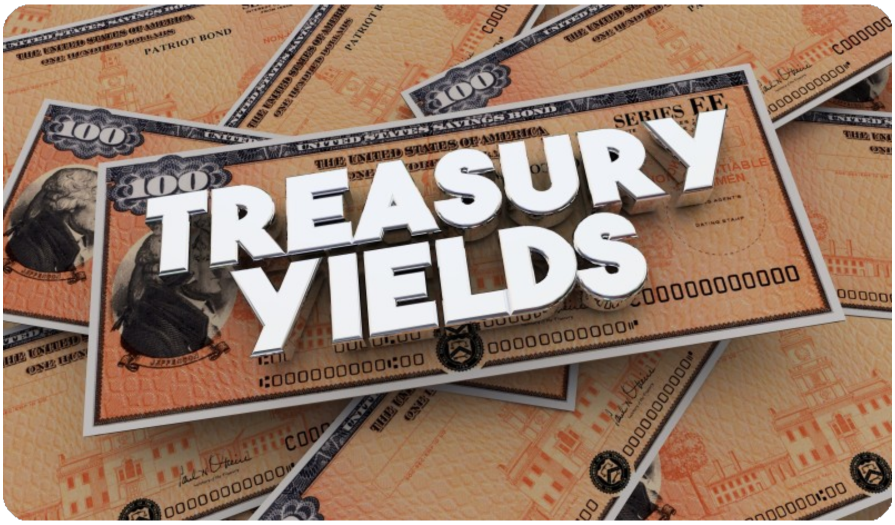
Article | 26 August 2026 RATES SPARK

Rates Spark: Why 4.75% is a natural fit for the 10yr yield

We ve had the opening salvo from the US Treasury, and so far so good. Long-end yields are down and swap spreads tighter. But it s no game changer, as the underlying pressures remain. Friday s Jackson Hole Symposium offers a nice distraction. But post that, as the realisation dawns that we re none the wiser on the Fed, long-end pressure is primed to re-build



We see the US 10yr yield staying in the 4.5% to 5% range for now

Mapping 4.5% to 5% as the key extremity bands for the 10yr yield

We got core personal consumer expenditure inflation for July, running at 3.3% YoY. We also got confirmation of GDP growth running at 1.5%. Simplistically, add the two together and we get 4.8%. Traditionally, a nominal growth number like this would have a reasonable relationship with the level of Treasury yields. And the thinking is that it provides a better guide for longer tenor yields (like the 10yr yield), as shorter ones are bossed more by where the Fed pitches the funds rate. That simple 4.8% level is relevant, as it can be deployed as a plain relative value reference for the 10yr yield. The thinking could be that anything around that yield could be construed as representing fair value, or at least the starting point for a conversation on where fair value might be. Add an approximately 6% fiscal deficit as a percent of GDP, and the fair value level would be to the upside of that. Ballpark, a 5% 10yr yield would not be a crazy level.

The US Treasury decided to "more than double" the size of long-end buybacks with the 10yr yield at 4.7%, which is in the same region, but obviously lower than 4.8%; and 5%. Part of the logic was to support liquidity through the thin August period. But the buybacks commence on 9 September. Hence, there is little doubt that the buybacks are being undertaken predominantly as a curb to the rising long-end yields threat. And in fairness, the Treasury Secretary did make direct reference to this. The complicating factor, however, is we were hardly at unruly levels of long-end yields. Our back-of-the-envelope numbers suggest the 4.7% level is not too deviant from fair valuation levels given current circumstances. We're now down at 4.65%, so the Treasury Secretary, no doubt, is pleased so far. Moreover, the 30yr swap spread is tighter by 6bp, which represents an absolute richening of the 30yr yield versus the 30yr risk-free rate (SOFR).

But this game is far from done. Similar to the recent yen intervention, the underlying forces that prompted it have not been dealt with. In the case of the yen, the Bank of Japan needs to hike rates. The sooner they get to 2% (now 1%) the better from the perspective of the yen. Really, they should be delivering a 50bp hike (at least) from the September meeting. But conventional thinking is they just do 25bp, which means the pressure does not go away. The same applies to long-end Treasury yields. The factors that have placed upward pressure on US long yields have not gone away. We summarise these as issuance pressure (including all types of competing issuance) and a strong productivity-driven corporate sector (incorporating a tech boom). These in particular have pressured real yields higher. Market inflation break-evens are in fact fine (far below contemporaneous inflation prints). In fact, these could rise.

All things considered, if the buyback plan is there to bully long-end yields lower on a structural basis, there is a war to be fought ahead. We've had the first battle, and the Treasury has been victorious. But there'll be more. Consequently, we don't see a break below 4.5% on the 10yr yield as probable any time soon. The pressure remains for a break higher to the 4.75-5% zone. A clear obstacle comes from the prospect of the US Treasury deciding to do bigger buybacks. They already have leeway, as they intend to do "at least" double. But as we've noted before, they could double it again, and again if needed. The good news is this is not protection of an outrageous level. As noted, we're not that deviant from a fair valuation. But it does help to cement an unwritten cap at 5%. That's the wider range for the 10yr yield; 4.5% to 5%. We'll settle in between for now.

Wednesday's events and market views

Jackson Hole will kick off today, and although we don’t expect Fed Chair Warsh to provide much to work with, markets will be closely weighing his words. In terms of data, we have weekly jobless claims from the US as the most notable figure.

For supply, we have the US auction $44bn of a new 7y Note.

Author

Padhraic Garvey, CFA
Regional Head of Research, Americas
padhraic.garvey@ing.com

Michiel Tukker
Senior UK & Eurozone Rates Strategist
michiel.tukker@ing.com

Disclaimer