Treasury buybacks and the question behind rising long-term yields

The U.S. Treasury made an interesting move this week.

It announced that it would buy back up to **$6 billion of Treasury debt maturing in 10 to 20 years**, triple the previous $2 billion maximum for long-dated buybacks. The goal was mainly to improve liquidity in older Treasury securities.

Normally, more buying should support bond prices and push yields lower.

But the market did the opposite.

Long-term Treasury yields continued rising. The **20-year yield climbed to a three-week high**, while the **30-year Treasury yield reached its highest level since 2007**.

That raises an interesting question:

> If the Treasury just tripled its long-term bond buyback, why did long-term yields keep rising?

What is actually happening?

A Treasury buyback is basically the government purchasing some of its own existing bonds from investors.

The main purpose is not the same as Federal Reserve quantitative easing.

The Treasury is mainly trying to improve **market liquidity**.

Liquidity simply means how easily investors can buy or sell a bond without causing a large change in its price.

Some older Treasury bonds trade less frequently than newly issued bonds. By buying some of those older securities back, Treasury can make that part of the market function more smoothly.

Treasury had previously indicated that long-term buybacks would increase to at least **$4 billion per operation**. It then surprised the market by announcing a purchase of as much as **$6 billion**.

That sounds like a lot of money.

But the U.S. Treasury market is roughly **$32 trillion**.

So even a $6 billion purchase is relatively small compared with the size of the overall market.

Why this matters

At first glance, the market reaction seems strange.

Basic supply and demand says that if the Treasury enters the market and buys more bonds:

More demand
→ bond prices rise
→ bond yields fall

But that only works if everything else stays the same.

Right now, many other forces are pushing in the opposite direction.

Investors are worried about **persistent inflation, higher energy prices, large federal deficits, and the amount of debt the government may need to issue in the future**.

Oil prices have also moved sharply higher, adding another inflation concern. At the same time, the U.S. economy has remained relatively resilient, making investors question how quickly interest rates can come down.

A simple analogy is a swimming pool.

Imagine the Treasury is using a bucket to remove water from the pool.

That helps.

But if several hoses are adding water faster than the bucket can remove it, the water level can still rise.

The buyback creates some demand for Treasury bonds.

But if the rest of the market is demanding higher yields because of inflation and government borrowing concerns, that pressure can be much stronger than the buyback.

The question investors are really asking

The bigger question is not:

"Is the Treasury buying $6 billion of bonds?"

It is:

> What return will investors require to lend money to the U.S. government for the next 20 or 30 years?

That matters because a 30-year Treasury locks investors into fixed payments for a very long time.

If inflation stays higher, those future payments lose purchasing power.

Investors may therefore demand a higher yield as compensation.

There is also the issue of government borrowing.

Large deficits mean the Treasury may need to issue more bonds in the future.

More bond supply requires more buyers.

If investors are not willing to buy all of that debt at current prices, prices have to fall until the yield becomes attractive enough.

That is one reason a relatively small buyback cannot completely change the direction of the market.

CFA Level I connection

This connects directly to a basic CFA Level I Fixed Income concept:

Bond prices and yields move in opposite directions.

Suppose a bond pays $5 per year.

If the bond costs $100, the investor receives roughly a 5% return from that payment.

But imagine inflation risk rises and investors now demand a higher return.

The $5 payment has not changed.

So investors may no longer be willing to pay $100 for the bond.

The bond's price needs to fall.

As the price falls, the yield rises.

That is what makes this week's Treasury story interesting.

Treasury buying bonds creates some upward pressure on prices.

But the rest of the market can still push prices lower if investors require a higher return.

So:

Treasury buys bonds
→ creates additional demand
→ should support prices

But at the same time:

Inflation concerns + large deficits + future Treasury supply
→ investors demand higher returns
→ bond prices face pressure
→ yields rise

Both forces can happen at the same time.

Simple model

Treasury triples long-term buyback
→ extra demand supports bonds
→ but inflation and fiscal concerns remain
→ investors demand more return for holding long-term debt
→ selling pressure outweighs the buyback
→ bond prices fall
→ yields rise
→ **a buyback can influence the market without controlling it**

Today's takeaway

The main lesson from this story is that a government action should not be analyzed by itself.

A bigger Treasury buyback sounds positive for bonds because it creates additional demand.

But markets are much larger than one buyer.

The Treasury can purchase several billion dollars of bonds while investors across the world are simultaneously deciding that they need a higher return to hold U.S. debt for 20 or 30 years.

There is also an important distinction in the numbers. The **30-year Treasury yield reached its highest level since 2007**. The 20-year yield also rose sharply, but the current 20-year Treasury was only reintroduced in 2020, so it would not be accurate to describe it as reaching a level last seen in 2007.

The bigger lesson is simple:

One buyer can influence the price. The entire market decides the price.

Sources

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