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US Rates Weekly

FOMC premiums and Treasury refunding preview

Flagship

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With thanks to
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CITI'S TAKE

We remain received into next week's FOMC meeting despite the rise in risk premium. In our view, neither the 'hawkish nine' nor Chair Warsh has a compelling reason to drive the Committee toward a hike. We also discuss opportunities across both linear and non-linear expressions into the meeting. At the long end, however, a Fed on pause may not be enough to prevent 30y yields from moving toward the 5.2% to 5.3% area, where we expect ALM demand to emerge. We also preview the August Treasury refunding, which should be generally uneventful, although 30y spreads have historically traded poorly into the August auction cycle.

Vol — Given the renewed Middle East conflict, near-term tail risks on front-end rates are likely to be asymmetric and we see scope for the currently balanced upper-left vol skews to re-steepen (payers higher/receivers lower). We recommend monetizing rec skew and vol by owning costless 3m2y receiver ladder as a "safe" way to position for a Fed on hold. We also highlight short 3m1y 1x2 payer spread as a tactical hawkish hedge.

XCCY — The XCCY basis could experience widening pressure if the Fed hikes next week. While this is not our base case, the market's introduction of front-end risk premium could slow down carry trades. Still, we remain paid 1y1y SOFR/TONAR on our thesis that the Fed will 'unlock' liquidity by reducing the demand for bank reserves over time. We also discuss next year's debt ceiling, which should support our position.

Inflation — We initiated a short position in 2y breakevens and hedge it with longs in gasoline futures.

Please see [FX Basis Quarterly - Could next week's FOMC jeopardize the basis?] for our full FX Basis Quarterly.

Trades — Our latest recommendations and open trades can be found at the end of the publication.

Please join us for a 15-minute call on Monday July, 27th, at 10am NY time/3pm London time when we will summarize key views from our global rates strategists for the week ahead: Global Rates & FX Weekly Call

*The next US Rates Weekly will be published August 07, 2026

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See Appendix A-1 for Analyst Certification, Important Disclosures and Research Analyst Affiliation