ZITAPLUS

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BESSENT TARGETS TREASURY MARKET STABILITY

ZITA PLUS

ECONOMIC CALENDAR • TECHNICAL ANALYSIS
FRIDAY CPI PUTS WARSH'S FED DECISION IN FOCUS
SHOULD INVESTORS BUY THE FED HIKE? • AND MORE...

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TIME	CUR.	EVENT	FORECAST	PREVIOUS
MONDAY, SEP 7				
ALL DAY		Canada Labor Day Holiday	-	-
ALL DAY		United States Labor Day Holiday	-	-
TUESDAY, SEP 8				
03:50		GDP (QoQ) (Q2)	0.3%	0.5%
WEDNESDAY, SEP 9				
21:00		10-Year Note Auction	-	4.683%
THURSDAY, SEP 10				
10:00		German CPI (MoM) (Aug)	0.2%	0.2%
16:15		Deposit Facility Rate (Sep)	2.50%	2.25%
16:15		ECB Interest Rate Decision (Sep)	2.65%	2.40%
16:30		PPI (MoM) (Aug)	0.4%	0.0%
16:30		Initial Jobless Claims	205K	206K
16:45		ECB Press Conference	-	-
18:00		Existing Home Sales (Aug)	3.98M	4.06M
20:00		Crude Oil Inventories	-	-4.450M
21:01		30-Year Bond Auction	-	5.216%
FRIDAY, SEP 11				
10:00		GDP (MoM) (Jul)	0.0%	0.3%
16:30		CPI (MoM) (Aug)	0.4%	0.1%
16:30		CPI (YoY) (Aug)	3.4%	3.4%
16:30		Core CPI (MoM) (Aug)	0.2%	0.2%

GMT+4 DUBAI TIME

BESSENT TARGETS TREASURY MARKET STABILITY

Image Source: REUTERS/Jonathan Ernst

U.S. Treasury Secretary Scott Bessent has announced plans to at least double buybacks of Treasury securities originally issued with maturities between 10 and 30 years. The strategy is aimed at easing pressure on the long end of the bond market and improving liquidity as U.S. financing requirements continue to grow.

LARGE DEFICITS KEEP TREASURY SUPPLY HIGH

The underlying challenge remains the size of the U.S. budget deficit. Persistent fiscal shortfalls require the Treasury to issue large volumes of new debt, increasing the amount investors must absorb.

At the same time, some traditional foreign buyers have become less dependable. Japan is no longer increasing its Treasury holdings as aggressively, while China has significantly reduced its exposure from previous peaks. Meanwhile, part of the Treasury demand associated with the UK appears to originate from hedge funds rather than conventional long-term investors.

HEDGE FUNDS ADD FUNDING RISKS

Hedge funds frequently use leveraged strategies that seek to profit from small differences between Treasury bonds and futures prices. These trades can perform well when repo financing is inexpensive and markets remain stable.

However, leverage creates vulnerabilities. Rising repo rates, larger haircuts or tighter funding conditions can force funds to unwind positions quickly, potentially adding stress to both Treasury and repo markets.

By expanding buybacks and adjusting the supply of longer-dated securities, Bessent is effectively attempting to support market liquidity and reduce systemic funding risks.

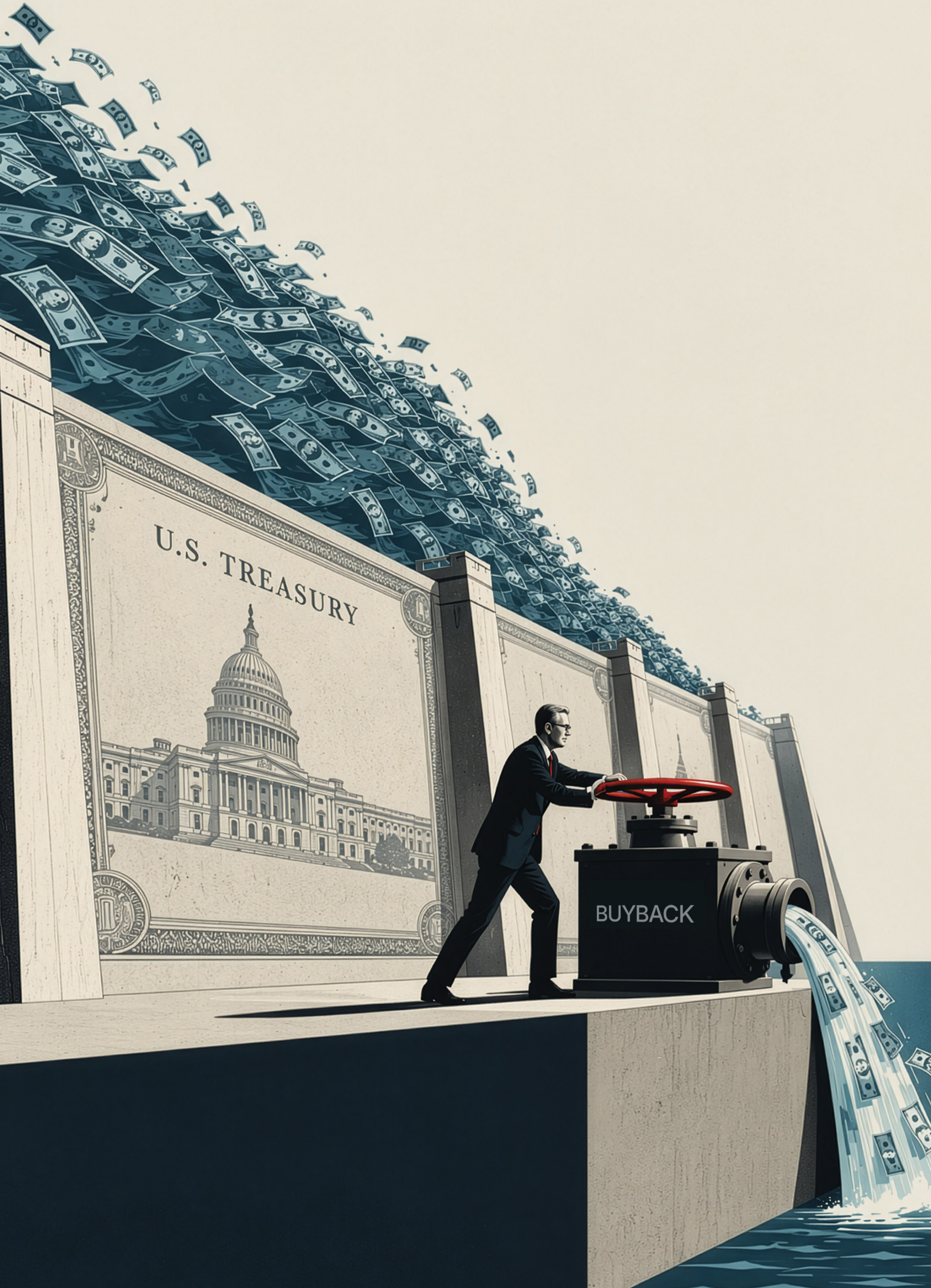
BANKS AND STABLECOINS COULD ADD DEMAND

Two additional developments could support the Treasury’s approach. Easing eSLR requirements may provide large banks with greater balance-sheet capacity to hold government bonds and participate in repo markets.

Stablecoins could provide another source of demand. Issuers generally back their tokens with liquid reserves, including substantial holdings of short-term U.S. government debt. Continued growth in stablecoins could therefore increase structural demand for Treasury bills.

Overall, the U.S. financing system is becoming increasingly dependent on banks, leveraged funds and stablecoin issuers to absorb growing government borrowing.

Bessent’s strategy does not address the underlying fiscal deficit. Instead, it appears designed to ensure that the Treasury and repo markets remain liquid and functional while the government continues to finance its expanding debt burden.


U.S. TREASURY
BUYBACK

EURUSD

EUR/USD: BULLS TEST 1.1620

EUR/USD is testing a key short-term technical area. An hourly close above 1.1620 could strengthen upside momentum, bringing 1.1660 into view as the next resistance level.

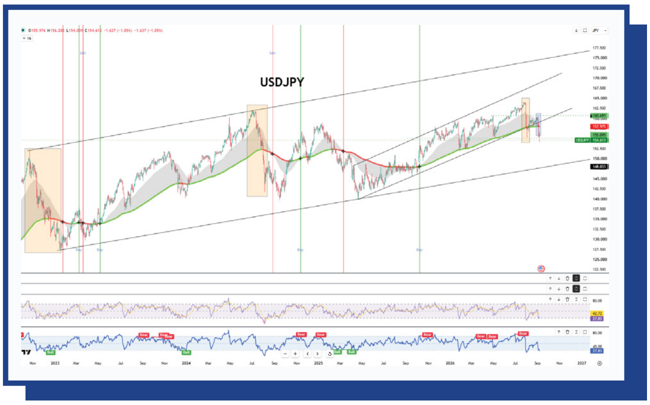
On the downside, 1.1580–1.1585 provides initial support. Holding above this zone would keep the near-term structure constructive.

USDJPY

USD/JPY TESTS 154 AS YEN STRENGTHENS

The yen gained as much as 1.2% against the dollar during the US holiday, pushing USD/JPY toward 154.30. The move came as expectations for a September BoJ rate hike grew, alongside speculation over potential GPIF portfolio adjustments and further unwinding of yen shorts around 155.

Technically, 154 is the key support level. A clear break below could deepen the decline, while 160 to 161 remains the major resistance zone and a potential area for intervention.



XAUUSD

GOLD SEARCHES FOR A FLOOR

Gold remains under pressure as Fed hike expectations, higher Treasury yields and a stronger dollar weigh on the metal. Unless upcoming inflation data strengthens the case for a more dovish Fed, the short term outlook could stay weak.

A break below 4,365 could bring 4,315 to 4,320 into view. On the upside, a sustained close above 4,435 could pave the way toward 4,490 to 4,520.

XAGUSD

SILVER EYES A BREAK ABOVE 67.50

Silver could stay under short term pressure while trading below 67.20 to 67.50. A break below 64.70 could bring 63.15 back into view, with further weakness opening the way toward 61.15 to 61.20.

A move above 67.50 could support a gradual recovery toward 71.20. For now, the broader 63.15 to 67.50 range remains key to the next directional move.

SHOULD INVESTORS BUY THE FED HIKE?

S&P 500 PLAYBOOK: WHEN THE FED HIKES AGAIN

		Before the Hike			After the Fed Hike		
Cycle	First Hike Date	6m	3m	1m	1m	3m	6m
1987	31-Mar	26%	20%	3%	-1%	4%	10%
1994	04-Feb	5%	3%	1%	-1%	-4%	-2%
1997	25-Mar	15%	5%	-3%	-3%	13%	19%
1999	30-Jun	11%	6%	5%	-3%	-7%	7%
2004	30-Jun	3%	1%	2%	-3%	-2%	6%
2015	16-Dec	-1%	4%	1%	-9%	-2%	0%
2022	16-Mar	-3%	-7%	-3%	1%	-16%	-11%
Average		8%	5%	1%	-3%	-2%	4%
Hit Ratio (% Positive)		71%	86%	71%	14%	29%	71%

Source: Refinitiv, Bloomberg, SG Cross Asset Research / Equity Strategy, Asset Allocation

Markets are again weighing whether another Federal Reserve rate hike would represent a major risk for equities or eventually create a buying opportunity. Following Kevin Warsh's recent comments on inflation, traders have raised the probability of another increase at the upcoming FOMC meeting. The shift comes despite Donald Trump continuing to call for lower interest rates, highlighting the tension between political pressure for easier monetary policy and the Fed's concerns about persistent inflation.

STOCKS MAY STRUGGLE INITIALLY

Historically, the immediate response to renewed monetary tightening has generally been negative for equities. The S&P 500 has mostly weakened during the first one to three months following a rate hike as markets adjust to higher borrowing costs and tighter financial conditions. However, performance has typically improved over longer periods. In many previous tightening cycles, equities recovered within six months as investors adapted to the higher-rate environment. This has led some strategists to suggest investors could eventually "buy the hike."

VALUATIONS HAVE ALREADY ADJUSTED

Societe Generale strategist Manish Kabra argues that the S&P 500 has already undergone a meaningful valuation adjustment. Rising corporate earnings expectations have contributed to this process, allowing valuation multiples to decline without requiring a major fall in stock prices. Strong earnings could therefore provide some protection if monetary policy tightens further.

YIELD CURVE REMAINS A KEY RISK

Higher interest rates are not automatically favorable for stocks. One important risk is a deeper yield-curve inversion, where short-term Treasury yields move above longer-term yields. Historically, significant inversions have often preceded periods of weaker economic activity and major equity drawdowns, although an inverted curve does not necessarily guarantee a recession.

SHORT-TERM VOLATILITY COULD CREATE OPPORTUNITIES

Another Fed hike could increase market volatility in the short term without necessarily triggering a prolonged bear market. If corporate earnings remain resilient and additional tightening helps bring inflation under control, equities could recover as investors adjust to the new interest-rate environment. The more concerning scenario would be persistent inflation combined with repeated Fed hikes and a deeper yield-curve inversion, which could increase pressure on economic growth and equity valuations.

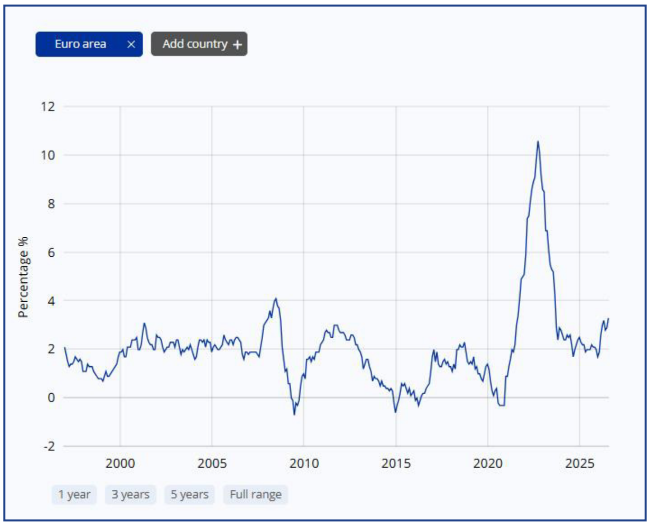
INFLATION MAKES RATES INTERESTING AGAIN

For much of the past few years, the central-bank story has revolved around one question: when will rates come down? That conversation is starting to change. Inflation is building again in Europe, and the global policy cycle may be shifting back toward more rate hikes than cuts. Euro-area headline inflation accelerated to 3.3% in August, its highest annual rate since September 2022. Inflation has now stood at least one percentage point above the ECB's 2% target in three of the past four months, strengthening the case for further tightening.

17 HIKES, FOUR CUTS

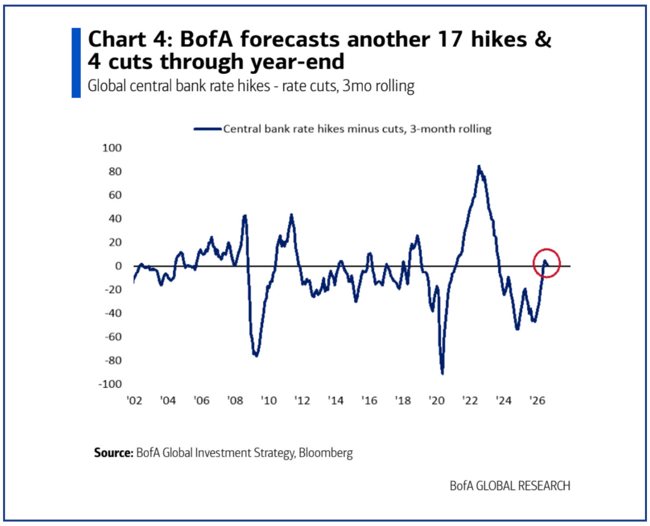
Europe may only be part of a wider shift. Bank of America expects global central banks to deliver another 17 rate hikes and just four cuts through year-end. That would mark a significant change after years in which expectations for eventual monetary easing dominated the policy conversation. Instead, persistent inflation could force traders to reconsider how quickly interest rates can fall and how high they may need to stay.

THE ECB'S INFLATION PROBLEM IS STILL THERE



There was some relief in the underlying data, but headline inflation remains high enough to keep the ECB concerned. After raising rates in June, policymakers may need to tighten further if price pressures persist. The challenge is that much of the inflation comes from energy prices, supply constraints and other cost pressures, which higher interest rates cannot directly address. Further hikes could slow spending and investment without fully solving the inflation problem, leaving Europe exposed to a difficult mix of persistent inflation and weaker growth. If both continue, the risk of a stagflation-style environment could increase.

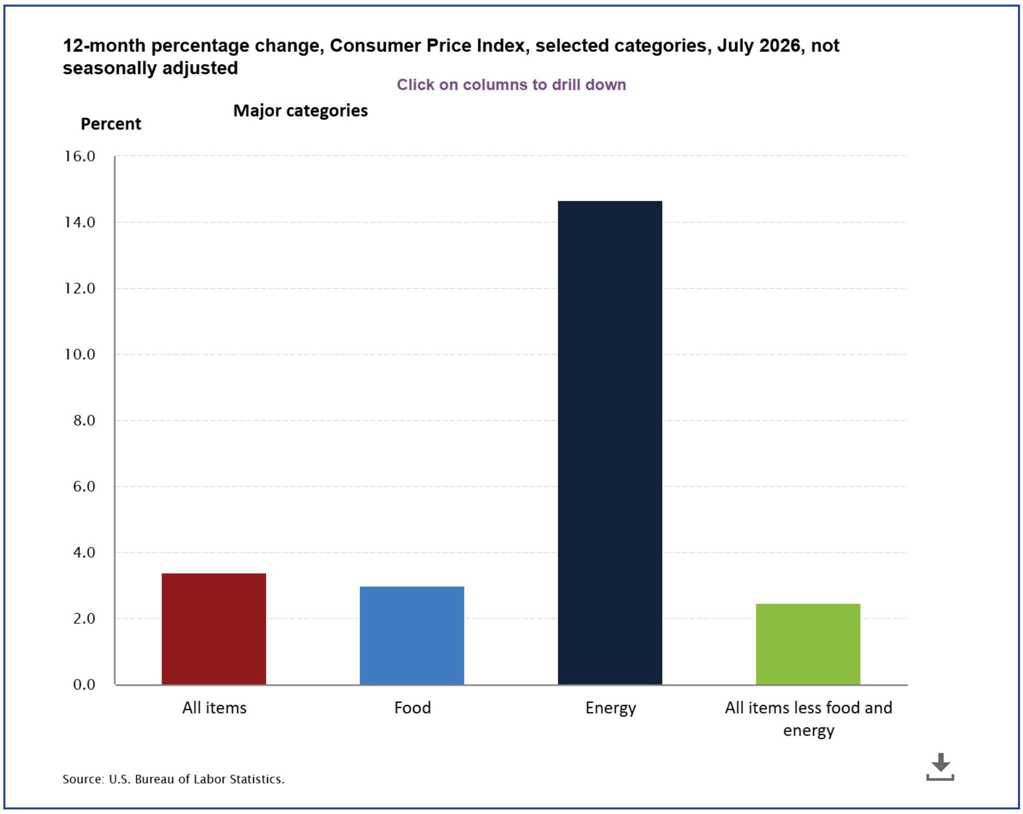
HIGHER FOR LONGER GETS A SECOND LIFE



The consequences extend well beyond central banks. Governments generally benefit from cheaper financing, particularly as debt and interest costs rise. Central banks, however, risk damaging their inflation-fighting credibility if they keep policy too loose while prices accelerate.

If inflation proves stubborn, bond yields could stay high and equity valuations could face additional pressure. More tightening would also increase the risk of weakening economies that are already struggling to generate stronger growth. Central banks spent years trying to bring inflation back under control without causing a major downturn. The next challenge may be even harder: raising rates again after economies have already absorbed years of expensive borrowing.

FRIDAY CPI PUTS WARSH'S FED DECISION IN FOCUS



Federal Reserve Chair Kevin Warsh's position ahead of the September policy meeting could depend heavily on Friday's U.S. inflation report. Recent employment data has reduced expectations for another interest rate hike, but persistent price pressures continue to limit the Fed's ability to turn less hawkish.

CORE CPI BECOMES THE KEY THRESHOLD

Markets expect core CPI to rise around 0.3% month-on-month. A result in line with or below this forecast could strengthen the case for keeping rates unchanged in September.

However, a 0.4% increase or higher could quickly revive expectations for further tightening, particularly following Warsh's recent warnings that inflation has not slowed sufficiently.

Investors will also look beyond the headline figures. Continued strength in service inflation, rents and wage-related price pressures could reinforce concerns that underlying inflation remains too persistent for the Fed to comfortably pause.

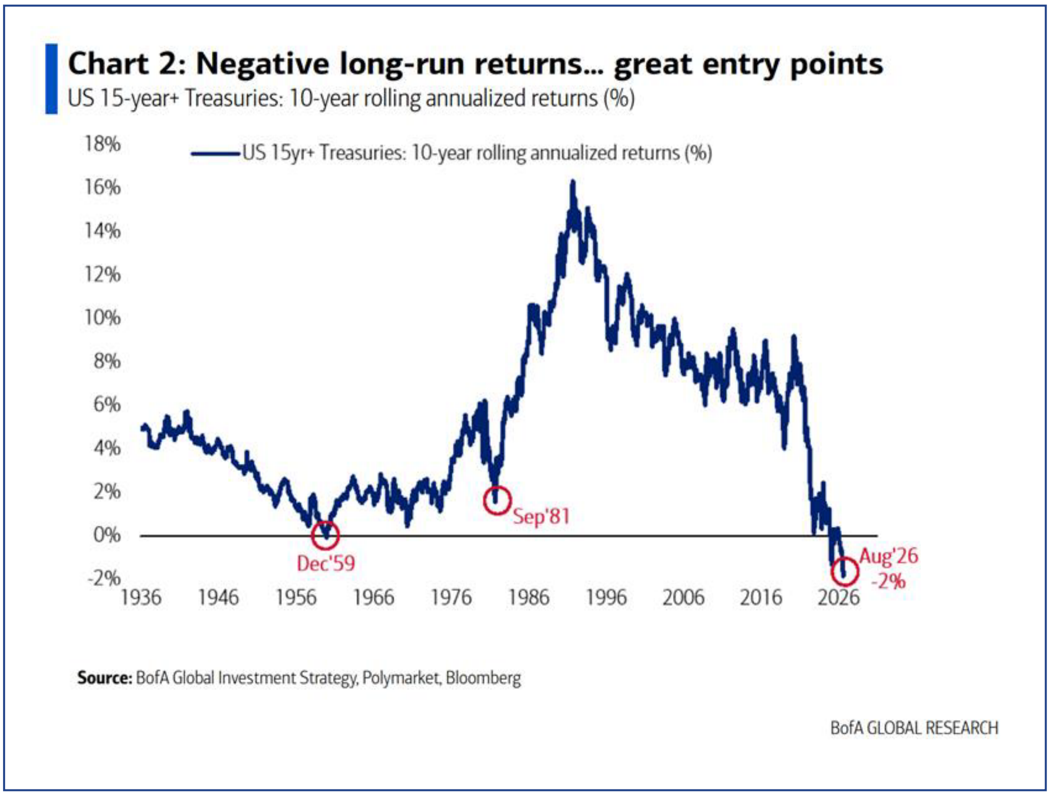
MARKETS BRACE FOR FRIDAY'S RELEASE

A softer inflation report would provide policymakers with more flexibility to leave rates unchanged while assessing incoming economic data. Such an outcome could also put downward pressure on Treasury yields and the U.S. dollar, while providing some relief to equities and other risk assets.

A stronger report, however, could have the opposite effect. Renewed expectations for a September hike would likely push yields higher and strengthen the dollar as markets price in tighter monetary policy.

Friday's CPI release is therefore more than another economic data point. With employment indicators showing some signs of weakness while inflation remains elevated, the report could become the key threshold shaping Warsh's position and the Fed's September interest rate decision.

ARE US TREASURIES BECOMING UNINVESTABLE?



For decades, US Treasuries have been considered among the safest assets in the world. But large budget deficits, a growing debt burden, and higher long-term yields are starting to challenge that perception. Some major investors have also reduced their exposure to US government debt, raising new questions about its long-term appeal.

WHO WILL KEEP BUYING AMERICA'S DEBT?

The issue is not simply the size of the debt. The US Treasury needs to issue huge amounts of new debt every year, and that requires consistently strong demand from buyers. With demand from foreign central banks weakening, buyers may demand higher yields, pushing up the government's borrowing costs. As the chart highlights, the 10-year real returns of long-term US Treasuries have entered one of their weakest periods historically. Similar stretches of negative performance have eventually created attractive entry points for long-term investors. This time, however, the backdrop is different, particularly when it comes to debt and inflation.

CHEAP BONDS OR A NEW RISK PREMIUM?

Higher yields alone may not solve the problem. Inflation, geopolitical risks, defense spending, demographic pressures, and high government expenditure could keep pressure on Treasuries for longer. That means the traditional "yields are high, bonds are cheap" argument may no longer be enough on its own. US Treasuries are still at the center of the global financial system, but they are no longer viewed as quite as risk-free as they once were. The key question is this: do today's high yields represent an attractive buying opportunity, or are they pricing in a new era of heavier US debt and higher borrowing costs?

Market Roundup

TRUMP PUTS THE BRAKES ON AUTO RULES

The Trump administration is preparing to roll back U.S. fuel-economy standards, potentially cutting the 2031 fleet-average target from 50.4 mpg to 34.5 mpg. The shift would give automakers more freedom to build around consumer demand rather than stricter efficiency targets. That could be particularly favorable for manufacturers of larger, less fuel-efficient vehicles, easing regulatory pressure while potentially slowing efficiency improvements across new U.S. car fleets.

Image Source: Kevin Dietsch / Getty

HONDA AND NISSAN TEAM UP

Honda and Nissan may have abandoned merger talks in 2025, but their partnership is getting deeper. The automakers will jointly develop a central vehicle software platform and operating system, planned for rollout from April 2029. The goal is to standardize vehicle software and electronic control units, cut development costs, increase scale, and pool more data for R&D. Instead of combining the companies, Honda and Nissan are now focusing on sharing the technology underneath their cars.

G20 PROMOTES AI COOPERATION

The U.S. urged G20 members to support common AI principles focused on research, commercialization, and trusted adoption, without requiring identical regulations.

Image Source: REUTERS/Jonathan Drake

Market Roundup

AI GROWTH EXPECTATIONS RISE

Elon Musk said AI and robotics could expand the global economy by 20-30%, while Mark Zuckerberg highlighted AI's potential to reduce business costs and support entrepreneurship.

JAPAN DEEPENS EUROPEAN TECH TIES

Japan and the Visegrad Group agreed to strengthen cooperation on critical technologies, economic security and Ukraine's reconstruction.

BBVA EYES RISK TRANSFER IN TÜRKİYE

BBVA is reportedly exploring a deal covering around TRY 100 billion ($2.1 billion) of Garanti BBVA SME loans, potentially freeing capital for further lending.

YOUTUBE EXPANDS E-COMMERCE

YouTube and Amazon partnered to allow creators to tag Amazon products directly in their content and earn commissions. YouTube says shopping tags generate about twice as much engagement as standard affiliate links.

The Week Ahead

Markets will monitor tanker traffic through the Persian Gulf following renewed strikes between Iran and the US, which have added further pressure to regional energy supplies. In the US, consumer and producer inflation figures will provide the final major data before the Fed's September decision. The ECB will also announce its rate decision, while China, Japan and the UK release key economic data. Taiwan's trade figures may offer further clues on global AI infrastructure demand.

AMERICAS

The US week will be shortened by Monday's Labor Day holiday, with attention turning to August inflation ahead of the Fed's September 16 meeting. Headline CPI is expected to rise 0.4%, accelerating from 0.1% in July, while core CPI is forecast at 0.2%. Headline and core PPI are both expected to increase 0.3%.

Fed Chair Warsh's Jackson Hole remarks suggested further tightening could be considered unless disinflation becomes more consistent. Markets will also follow preliminary Michigan consumer sentiment, existing home sales, inflation expectations, the NFIB index, wholesale inventories and the federal budget statement.

The Treasury will begin larger buybacks of longer-maturity securities as part of efforts to ease pressure on yields. Earnings are due from Oracle, GameStop, Sunbelt Rentals Holdings and Adobe. Mexico and Brazil will release inflation figures.

EUROPE

The ECB is widely expected to raise rates by 25 basis points, taking the deposit rate to 2.5%, following its June hike. Investors will focus on forward guidance, although markets currently expect no additional tightening.

The Eurozone will publish final Q2 GDP and employment estimates. German industrial production is forecast to rise 0.3%, alongside final inflation and trade data.

In the UK, July GDP is expected to stagnate, while industrial production is forecast to increase 0.1% after June's 0.2% decline. Trade figures and the Lloyds House Price Index are also due.

Sweden will release monthly GDP, while Italy and Türkiye report industrial production and Russia publishes inflation data. Türkiye, Russia and Poland will announce rate decisions, with no changes expected in Russia or Poland. Sweden's Sunday election will also be closely watched amid a tight race between the right-wing governing bloc and center-left opposition.

ASIA-PACIFIC

China will release August trade and inflation figures, with the trade surplus expected to widen and CPI forecast to accelerate to 0.9% from 0.5%.

Japan's calendar includes revised Q2 GDP, wages, current account data and August PPI, with producer inflation expected to reach 7.4%. FX reserves, bank lending, machine tool orders and business survey data are also scheduled.

Australia will publish consumer and business confidence, inflation expectations and final building approvals. Taiwan releases trade figures, Thailand reports inflation, and South Korea publishes revised Q2 GDP. South Korea, the Philippines and Malaysia will also release unemployment data.

ZITA PLUS

zitaplus.com
support@zitaplus.com
+44 7442 667878

Craigmuir Chambers, Road Town, Tortola,
VG 1110, British Virgin Islands