China May Halt Purchases of U.S. Treasuries

Bloomberg News
10 gennaio 2018, 11:26 CET
Updated on 10 gennaio 2018, 13:18 CET

- Officials have recommended slowing or halting purchases
- China is world's biggest foreign holder of U.S. Treasuries

China added to bond investors' jitters on Wednesday as traders braced for what they feared could be the end of a three-decade bull market.

Officials in Beijing reviewing the nation's foreign-exchange holdings have recommended slowing or halting purchases of U.S. Treasuries, according to people familiar with the matter. Benchmark bonds reversed earlier gains on the news, with the yield on 10-year Treasuries climbing for a fifth day.

China's foreign-exchange reserves of $3.1 trillion are the world's largest, though it wasn't clear whether the recommendations have been adopted. The market for U.S. government bonds is becoming less attractive relative to other assets, and trade tensions with the U.S. may provide a reason to slow or stop buying American debt, the thinking of these officials goes, according to the people, who asked not to be named as they aren't allowed to discuss the matter publicly. China's State Administration of Foreign Exchange didn't immediately reply to a fax seeking comment on the matter.

"With markets already dealing with supply indigestion, headlines regarding potentially lower Chinese demand for Treasuries are renewing bearish dynamics," said Michael Leister, a strategist at Commerzbank AG. "Today's headlines will underscore concerns that the fading global quantitative-easing bid will trigger lasting upside pressure on developed-market yields."

The Chinese officials didn't specify why trade tensions would spur a cutback in Treasuries purchases, though foreign holdings of U.S. securities have sometimes been a geopolitical football in the past. The strategies discussed in the review don't concern daily purchases and sales, said the people. The officials recommended that the nation closely watch factors such as the outlook for supply of U.S. government debt, along with political developments including trade disputes between the world's two biggest economies when deciding whether to cut some Treasury holdings, the people said.

Read here about a 1990s episode regarding Treasuries, with Japan .

The yield on 10-year Treasuries was four basis points higher at 2.59 percent as of 12:16 p.m. in London, reversing a decline to 2.54 percent earlier Wednesday. The rate on comparable bunds was one basis point higher at 0.53 percent.

Bond veteran Bill Gross says a bear market has begun, read about that here. <https://www.bloomberg.com/news/articles/2018-01-09/u-s-10-year-yield-climbs-as-boj-action-spurs-exit-speculation>

Any reduction in Chinese purchases would come just as the U.S. prepares to boost its supply of debt. The Treasury Department said in its most recent quarterly refunding announcement in November that borrowing needs will increase as the Federal Reserve reduces its balance sheet and as fiscal deficits look set to widen.

"It's a complicated chess game as with everything the Chinese do," said Charles Wyplosz, a professor of international economics at the Graduate Institute of International and Development Studies in Geneva. "For years they have been bothered by the fact that they are so heavily invested in one particular class of U.S. bonds, so it's just a question of time before would try to diversify."

Some investors said that the market could take the China news in its stride considering the nation's net purchases of Treasuries have already slowed "significantly."

"If China ceases to be a net purchaser of U.S. Treasuries, this is unlikely to have a significant impact on the overall yield curve unless China divests a large share of its total holdings in a short time period," said Rajiv Biswas, Singapore-based chief Asia-Pacific economist at IHS Markit.

Yields were already climbing this week amid expectations the improving global economy will boost inflation pressures round the world, just as major central banks scale back their asset purchases.

Markets are also braced for a deluge of debt supply this week. The U.S. is scheduled to reopen $20 billion of 10-year debt later today, followed by $12 billion of 30-year bonds on Thursday. Germany sold 4.03 billion euros of 0.5 percent 10-year bonds on Wednesday with syndications in Italy and Portugal to follow.

— With assistance by Steven Yang, Anooja Debnath, Charlotte Ryan, John Follain, and Kevin Hamlin