

# CHART OF THE WEEK

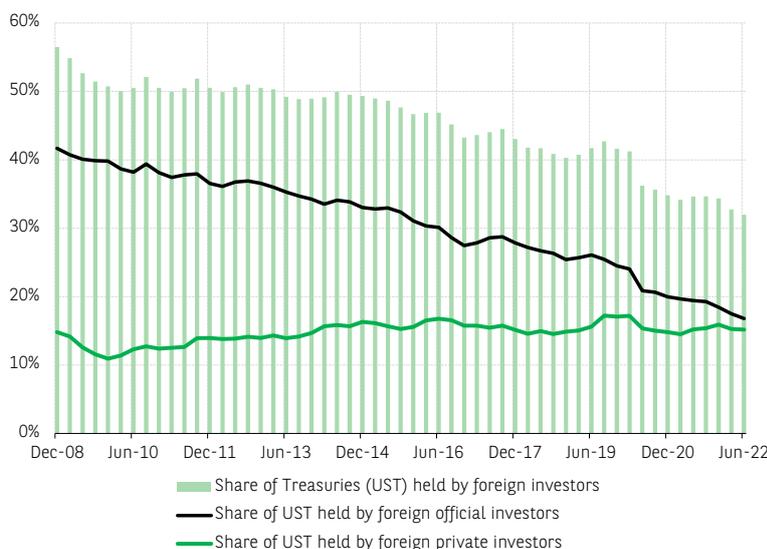


19 October 2022

## FOREIGN INVESTORS IN US TREASURIES: OFFICIAL AND PRIVATE SECTORS NOW NECK AND NECK

Céline Choulet

US: the decline in the weight of foreign official investors among holders of Treasuries



Source: BEA (IIP tables), Federal Reserve (FoF), BNP Paribas

Liquidity in the US Treasuries market has deteriorated significantly since the start of the year. Against the backdrop of monetary tightening and fears of recession, the strengthening of the dollar and the high volatility in yields are discouraging investors, whether US or foreign, while the Fed has started to reduce its portfolio. Given the size of the debt to be financed (23,000 billion US dollars of marketable debt at the end of June 2022), the prudential constraints limiting the intermediation capacities of primary dealers are an aggravating factor.

For many years now the attractiveness of US Treasuries for foreign investors has been in decline. The weighting of their holdings in marketable US federal debt stood at 32% at the end of June 2022 compared with 57% at the end of 2008. This decline is exclusively due to official investors: with a view to diversifying their foreign exchange reserves (or even supporting their currencies), central banks and foreign governments have to some extent turned away from Treasuries, and more generally from the dollar. Therefore, while the official sector was the US Treasury's primary foreign counterparty at the end of 2008 (74%), in June 2022 it held only 53% of the federal debt held abroad. In terms of the total stock of Treasuries, the respective numbers were 42% and 17%. Reflecting the growing role of private investors (such as insurance companies, pension funds and hedge funds), the overall exposure of foreign investors to the American economy (in the form of securities, loans and deposits) has gradually shifted to riskier assets (at the end of June 2022 it consisted of 36% of equities and fund shares compared to 15% at the end of 2008). This growing role could lead to greater interest rate volatility as private investors generally have a shorter investment horizon than official investors.

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