CHART OF THE WEEK

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THE FED'S QT: ARE YESTERDAY'S SELLERS TODAY'S BUYERS?

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United States: change in Treasury holdings

Source: Fed, BEA, SEC, CFTC, BNP Paribas estimates

Since June 2022, the US Federal Reserve (Fed) has scaled back its balance sheet, by limiting the reinvestment of maturing debt in its securities portfolio. The scale of the effects of this quantitative tightening (QT2) will depend in particular on the nature of buyers of newly issued securities.

According to the Fed's financial accounts it is mainly households[1] and money market funds which have increased their holdings[2] of Treasuries since the beginning of QT2. The weightings of other sectors are little changed, with the exception of banks (which expanded their portfolios during QE4 between Q3 2019 and Q1 2022) and non-residents, whose weightings have been reduced. According to BEA data, for the latter this reduction has come solely from the official sector (central banks, governments, sovereign wealth funds, etc.), with foreign private investors (insurers, pension funds, banks, hedge funds) having increased their exposure. Two complementary data series, one from the Securities and Exchange Commission (SEC) on overall exposure to Treasuries (holdings, borrowings and derivative positions) of the biggest hedge funds active in the USA, and the other from the Commodity Futures Trading Commission (CFTC) on leveraged funds' positions in Treasury derivative markets (futures and options markets), help refine this analysis[3]. As the vast majority of hedge funds are domiciled abroad (mainly in the Cayman Islands), more than three-quarters of the Treasuries they hold are domiciled there too. It would seem, however, that since the beginning of QT2, the weight of non-resident hedge funds amongst the Treasury's creditors has fallen, unlike the weightings of other foreign private investors.

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1 In the Flow of Funds, the "households" sector (table L.101) includes individuals and non-profits but also resident hedge funds and private equity funds. In order to reconcile this more closely with the European definition, we have deducted securities held directly by resident hedge funds (table B.101f) and included those held by individual entrepreneurs (nonfinancial noncorporate businesses, table L.104).
2 Our analysis is based on the change, between the end of Q2 2022 and the end of Q4 2023, in the relative weight of each of the institutional sectors as creditors of the US Treasury. As the outstanding value of Treasuries (at market value) increased between these two dates, the fall in the weighting of any given sector does not necessarily reflect net sales. In reality, since the beginning of QT2, cumulative net purchases of Treasuries (excluding valuation effects) have been positive across all sectors with the sole exceptions of the Fed itself and the banks.
3 The CFTC's scope is a little broader than that of the SEC, which skews the results to some extent. Our calculations nevertheless give results that are very close to those obtained by Banegas, Monin and Petrasek (2021), The Fed - Sizing hedge funds' Treasury market activities and holdings (federalreserve.gov)

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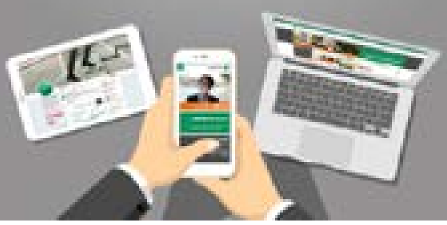

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