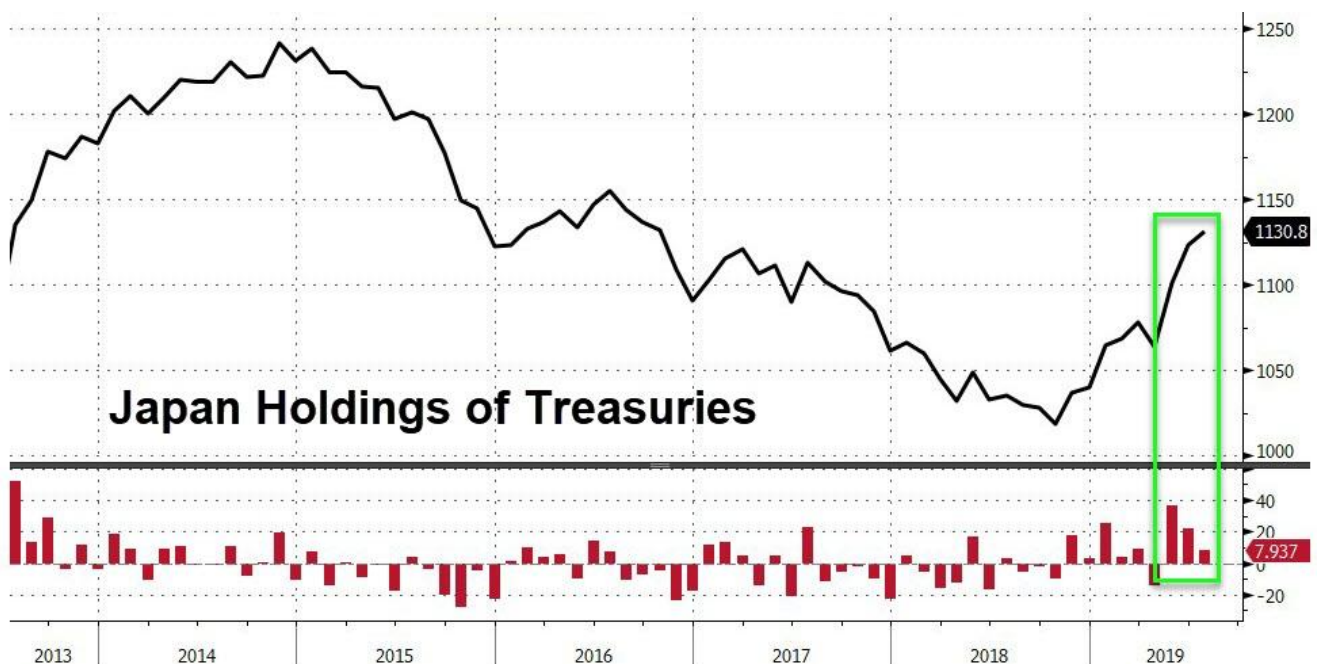
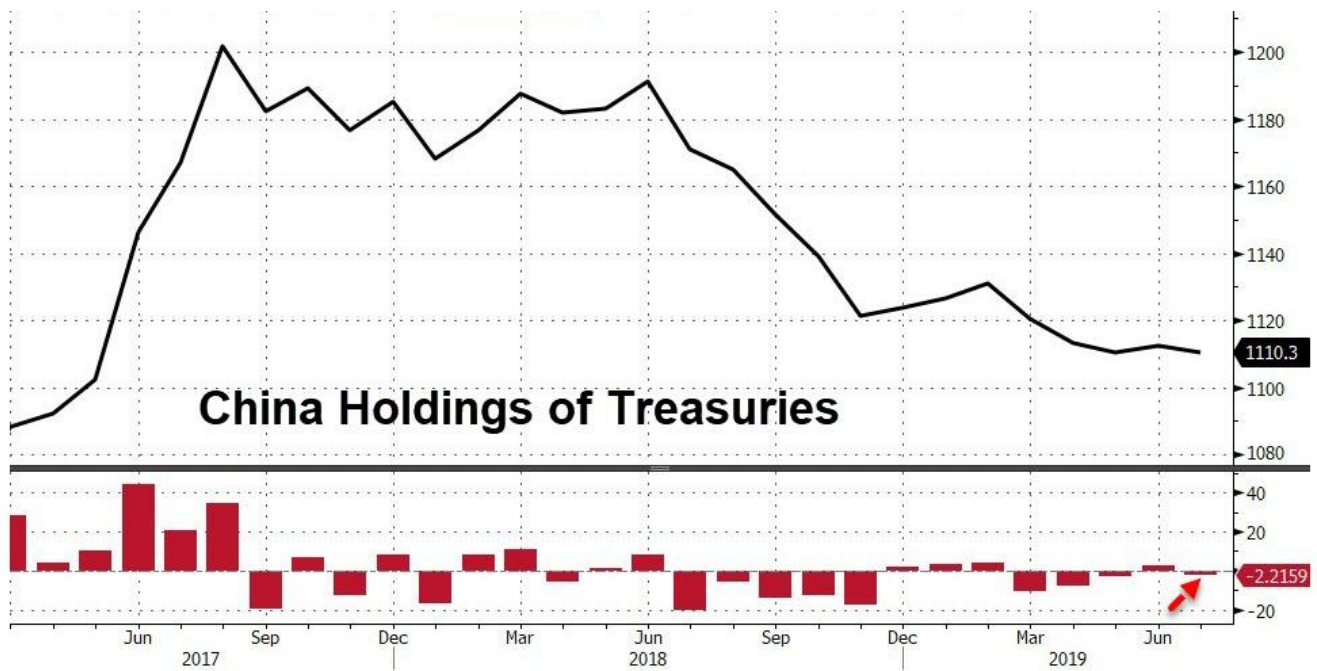


# Japan Increases Lead Over China As Largest Foreign Holder Of U.S. Treasuries

For much of 2019, many were wondering if, or rather when, as a result of the ongoing trade war, China would lose its status as the largest US foreign creditor. The answer was revealed last month, when in June, Japan finally surpassed China as the top foreign US creditor, however, due to a plunge in Chinese TSY holdings, but due to a jump in Japanese holdings of US paper. One month later, the trend continued as Japan extended its gain on China as the largest US creditor.





As a reminder, the last time Japan held the position as America's largest foreign creditor was May 2017. Japan's holdings of U.S. paper have been rising during the past year as the world's pool of negative-yielding debt grows, with the total climbing to above \$14 trillion at the end of July before hitting a record \$17 trillion one month later. That's made Treasuries more attractive to some overseas investors, given that U.S. debt offers some of the highest yields in developed markets.

China's US treasury holdings have come under increased scrutiny in the trade war amid speculation that the Asian nation could sell Treasuries in response, especially after a former Chinese central banker recently suggested that a treasury dump is certainly possible: "The U.S. believes, in a geopolitical point of view, it's being contained by China with China's holding of its sovereign bonds," said Chen Yuan, former deputy governor of the PBOC. "That means the U.S. is not completely without weakness."

And while China has yet to activate the nuclear option, at least we now know which country's retirees are the biggest US Treasury bagholders. Except for America's own of course.

Overall foreign holdings of US Treasuries dropped to \$6.63 trillion compared with \$6.64 trillion in June. Belgium, Saudi Arabia, and Taiwan boosted their holdings in July from a month earlier.

Finally, not everyone was busy adding to US Treasury holdings: in July, the biggest seller was the Cayman Islands (i.e. hedge funds), whose holdings declined by \$82 billion, the most since January...



... even though one month later, in August, US Treasury yields would tumble to the lowest on record.

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