

Flash note
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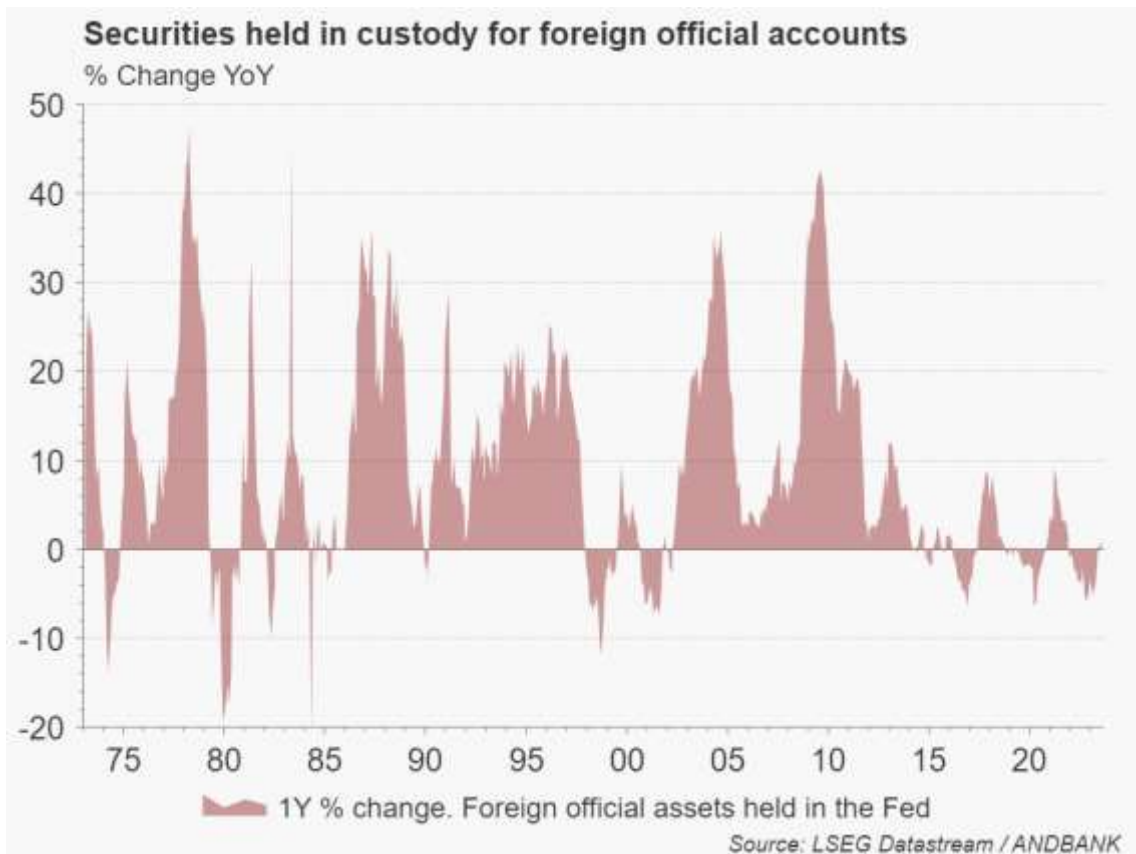
My Preferred Charts: Japan, China share of US Treasuries falls to record low. Why does this matters?

Japan and China's share of US Treasury holdings declined to the lowest on record. Combined, they held \$1.94T in Treasuries as of June, making up about a 25% of all US debt held abroad (compared with a high of 25.4% in 2007), and under 8% of the total US debt outstanding. Japan's holdings represent 4.4% of the total, while China's holdings amount to 3.4% of the total. The Fed owns 20% of total US debt.

This matters because there is increasing supply of U.S. debt while the rest of the marginal buyers are all shrinking, pressing yields sharply upward. You already know the rest of the effects. This trend also highlights something that I have been warning about for a year and a half. The evolution of the 10YUST yield (and probably the price of stocks) does not depend so much on inflation but rather on the UST holdings of central banks, which in turn depends on the world prices of energy and imported raw materials. The higher the external energy and food bill, the more these central banks must sell their reserve assets (mostly UST) held at the Fed. Therefore, the essence, the reason, and the drivers that cause shifts in the equity market has to do more with the price of crude oil than other price. That is why we have been monitoring month after month the energy market.

Having observed permanent tension in the energy field we have been forced to take permanent precautionary measures in our portfolios during most of 2023.

The chart below shows the changes in the Foreign holdings of US debt (held in the FED), which in turn explains the jump in the UST yields (starting in 1Q22). The good news is that it seems as if central banks have stopped selling UST. If this is maintained (for which it is necessary to see a relaxation in the price of energy), then the equity market will do well. If, on the other hand, energy price rises above \$90-\$100 per barrel (and Saudi Arabia and Russia are doing everything possible to do so), then foreign central banks will continue selling UST, boosting yields, which will end up putting pressure on to equity.



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