China could sell US Treasury bonds as tension between the two grows: Global Times

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SHANGHI, 4 Sep (Reuters) - China could gradually reduce its position on U.S. Treasury bonds and notes in light of the growing tension between Beijing and Washington, the state-backed Global Times noted, citing experts.

With Chinese-American relations deteriorating over a number of issues including coronavirus, trade, and technology, global financial markets are increasingly concerned about whether China will sell U.S. government debt to counter Washington's growing pressure.

"China would gradually reduce its U.S. debt holdings to about $800 billion under normal circumstances," Xi Junyang, a professor at Shanghai's University of Finance and Economics, said Thursday, not to mention a deadline.

"But, of course, China could sell all its U.S. bonds in one extreme case, like a military conflict."

China, the second-largest holder of Treasury bonds outside the United States, had $1,074 trillion in June, less than the previous month's $1,083 trillion, according to the latest official data. China has consistently declined its U.S. bond holdings this year, but some market observers suspect it has not necessarily sold U.S. Treasury bonds, as it may have used other custodians to buy U.S. papers.

Going down to $800 billion from the current level could mean a reduction in your holdings by more than 25%. Analysts say a large-scale Chinese sale, often called a "nuclear option," could trigger disruptions in global financial markets.

Another reason the state newspaper cited was America's potential default risk, as the debt of the world's largest economy has risen sharply to about the same size of its gross domestic product, a level not seen since the end of World War II and well above the internationally recognized security line of 60%.

China is highly exposed to the US dollar and dollar assets. Its official foreign exchange reserves were $3.154 trillion at the end of July. (Report Winni Zhou and Andrew Galbraith Edited in Spanish by Javier López de Lleida)

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