Macro Roundup Artcile

Headline: Foreign Official and Foreign Private Investors in Treasuries Have Different Goals

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Author(s)	Torsten Sløk
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Summary: For decades, the biggest foreign holders of US Treasuries were central banks and sovereign wealth funds around the world. Foreign official institutions were buying Treasuries because many countries, in particular emerging markets, were intervening to limit the appreciation of their domestic currencies because a domestic currency that is too strong hurts exports. In other words, the foreign official sector was not buying Treasuries for yield reasons but for FX reasons to support the US dollar and thereby domestic exports. With the Fed raising rates and the dollar going up, that has now changed. Foreign central banks no longer need to buy US Treasuries and US dollars to depreciate their currencies. And foreign private buyers find US yield levels attractive despite high hedging costs. The bottom line is that with the Fed raising rates and the dollar going up, yield-insensitive central banks have been selling Treasuries to limit the weakening of their domestic currencies. Related: Preferred Habitats and Timing in the World's Safe Asset and Resilience Redux in the US Treasury Market and Setser On Foreign Demand For Treasuries

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