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Headline: Is China the Source of Higher US Long Rates?

Article Link: https://apolloacademy.com/is-china-the-source-of-higher-us-long-rates/

Author(s)	Torsten Sløk
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Tweet: Torsten Sløk suggests that slowing growth in China might be the dominant cause of the recent weakness in Treasuries. @apolloglobal

Summary: Maybe China is behind the rise in US long rates. Growth in China is slowing for cyclical and structural reasons, and Chinese exports to the US are lower. As a result, China has fewer dollars to recycle into Treasuries. In fact, China has been selling $300 billion in Treasuries since 2021, and the pace of Chinese selling has been faster in recent months. If slowing growth in China is a source of higher US rates—together with the US sovereign downgrade, Fed QT, Japan YCC exit, and rising US Treasury issuance—then a bad US employment report on Friday may not result in dramatically lower rates. The bottom line is that the cost of capital will likely stay permanently higher for reasons that have little to do with the business cycle, and it was the period with essentially zero interest rates from 2008 to 2020 that was unusual.

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Primary Topic: Financial Markets

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