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China capital controls

China cedes status as largest US creditor to Japan

Tokyo top US Treasuries holder as Beijing depletes forex reserves to support renminbi



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DECEMBER 16, 2016 by: **Tom Mitchell**, **Joe Rennison** and **Eric Platt**

China has ceded its status as America's largest creditor nation to Japan after spending a large portion of its foreign exchange reserves to defend the [renminbi](#) (<https://www.ft.com/rmb>).

Beijing's ownership of US Treasuries fell by \$41.3bn to \$1.12tn in October, according to data from the US Treasury released on Thursday — the sixth straight

month of decline. Japan's holdings fell by \$4.5bn to \$1.13tn for the same period.

Thomas Simons, a money market economist with Jefferies who characterised the Chinese selling as “stunning”, noted that data suggested Beijing's holdings fell by an even larger \$67.1bn if Belgian sales were included in the numbers. “This is significant because it is widely speculated that China executes trades with Treasuries held in custody in Belgium,” he said.

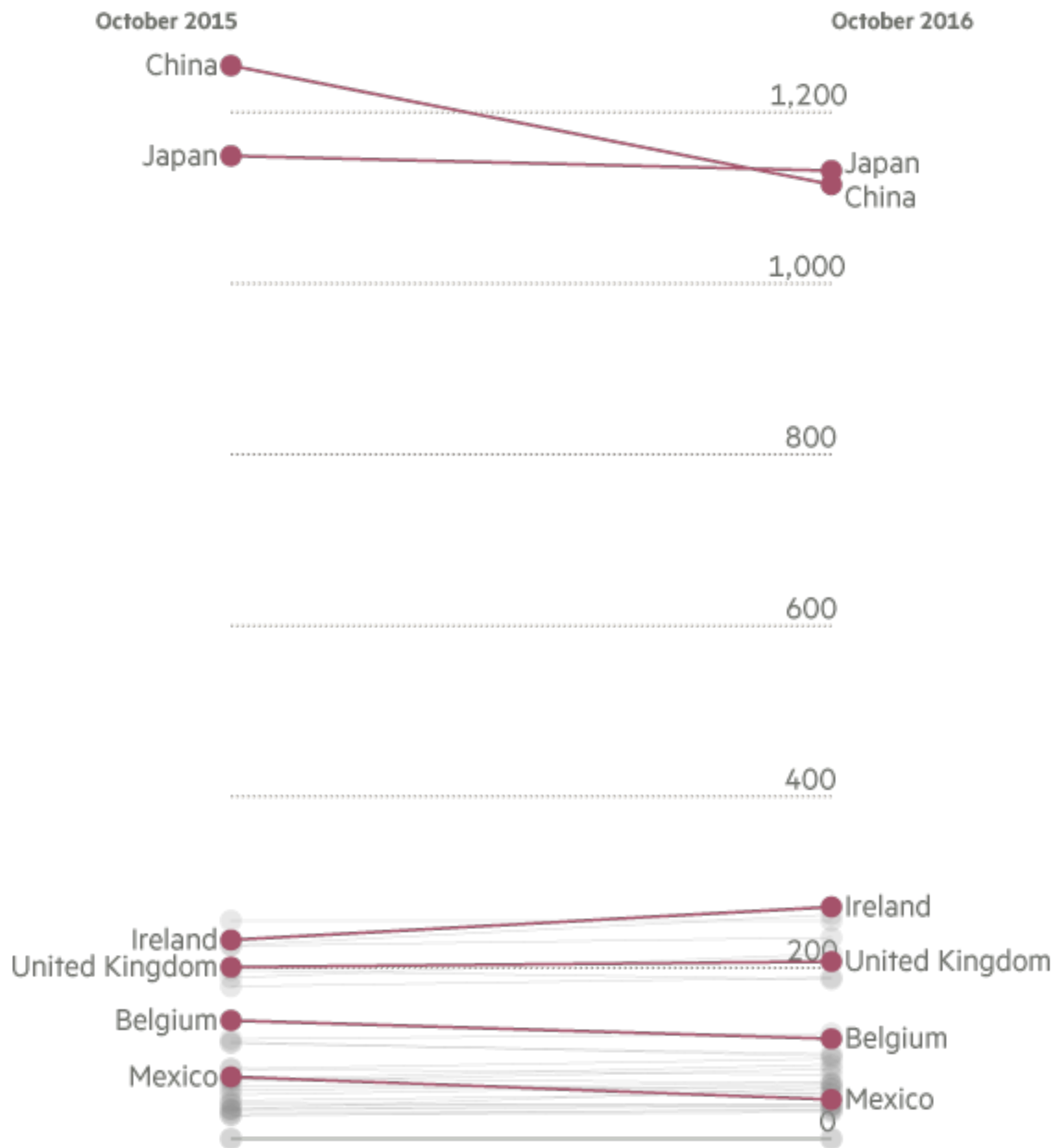
[China's foreign exchange \(http://next.ft.com/content/f5243188-bc55-11e6-8b45-b8b81dd5do80\)](http://next.ft.com/content/f5243188-bc55-11e6-8b45-b8b81dd5do80) holdings, much of which are invested in US Treasuries, have fallen about a quarter since early 2014 to just over \$3tn. The decline has been driven partly by central bank selling of dollars to support the renminbi, which has fallen more than 15 per cent against the US currency over the same period.

The fall in Treasuries holdings is part of a larger campaign by Beijing to stem capital outflows. China has also recently introduced curbs on Chinese companies' overseas acquisitions and dividend remittances by foreign investors.

The holdings data predate the US presidential election result and subsequent sell-off in Treasury markets as investors braced for faster US growth under president-elect Donald Trump. His surprise victory has sent the US dollar soaring, adding to the challenges faced by emerging market economies.

China cuts ownership of US government bonds

Holdings of Treasuries by foreign countries (\$bn)



Sources: Federal Reserve; US Treasury. Graphic: Eric Platt/FT

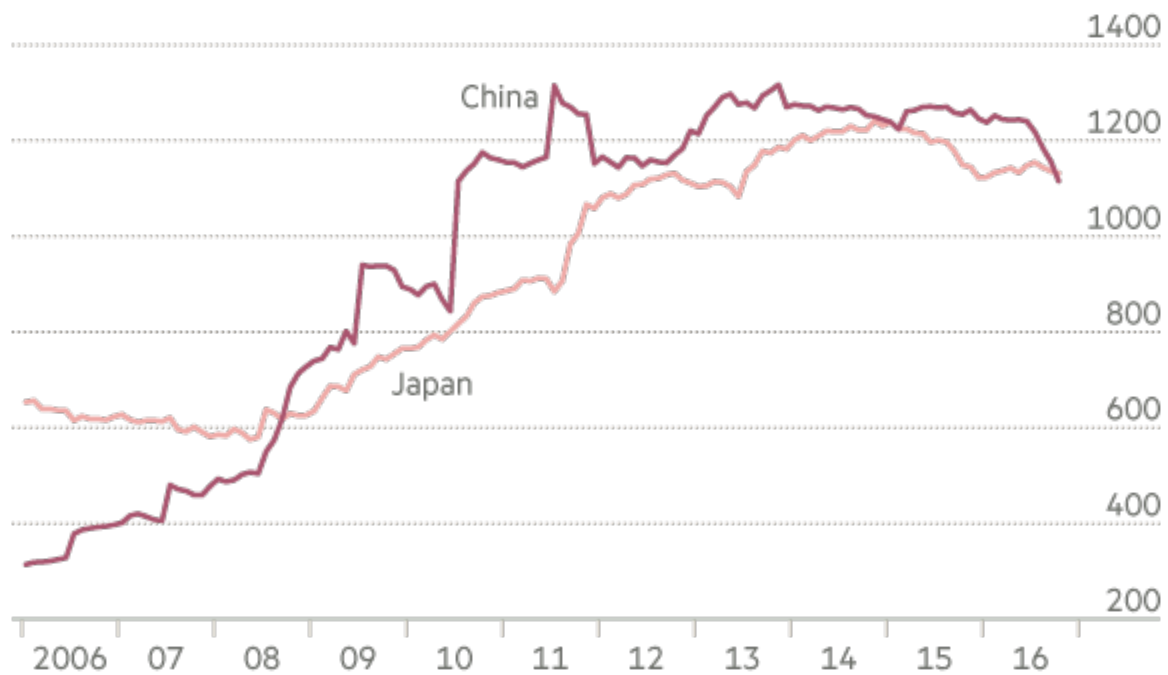
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The data also do not capture overseas trading activity by Chinese state-owned financial institutions. But the reversal — China overtook Japan as the biggest holder of US Treasuries in 2008 — is likely to continue as [pressure mounts](http://next.ft.com/content/078ad2fa-c28c-11e6-9bca-2b93a6856354) (<http://next.ft.com/content/078ad2fa-c28c-11e6-9bca-2b93a6856354>) on the renminbi after this week's interest rate rise by the US Federal Reserve.

“This pattern is unlikely to be reversed in the near future, especially with US and Chinese economic fortunes and monetary policy stances continuing to diverge,” said Eswar Prasad, economics professor at Cornell University and former IMF director for China. “The days of China providing abundant and cheap financing for US budget and current account deficits through the purchases of Treasury securities may have come to an end.”

China cuts ownership of Treasuries

US Treasuries owned by foreign holders (\$bn)



Source: Bloomberg

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China and Japan account for 37 per cent of the total \$6tn of holdings tracked by the Treasury and Federal Reserve.

Total major foreign holdings of Treasuries fell by \$116bn to \$6tn in October, which accompanied a steep sell-off in US sovereign bonds at the time. Yields on the benchmark 10-year Treasury climbed 23 basis points in October and hit a high of 1.877 per cent.