Fixed Income Special

Who's selling US Treasuries and why?

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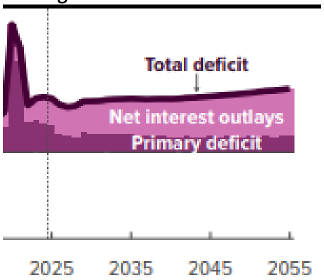
Key points

- The volatility in the United States bond market, the world's largest bond market, has investors searching for answers. We break down the recent price action in bonds and the key catalysts behind the recent sell-off. Unlike in past crises, investors are demanding an uncertainty premium to hold bonds, which is evident in the sharp rise in term premiums and large concessions during recent auctions.
- With $8.53tn or roughly 30% of the Treasuries outstanding with foreigners, it is easy to focus on retaliatory tariff measure from China or other trading partners as catalysts for the recent rise in yields. While foreign private investors might be lightening up on dollar assets, there is little reason to believe that China or other countries (officials holders) will sell Treasuries to retaliate.
- In this piece, we delve into the foreign holders of Treasuries and China holding of dollar assets in order to gain insights into how the demand dynamics have evolved over the past decade. Including Treasuries, China holds more than $1.5tn in US securities. As the US-China trade war escalates dramatically under Trump 2.0, it is logical for the PBoC to further quicken the diversification away from dollar assets. However, given the size of the holdings, the process is still more likely to be gradual and orderly rather than adrupt and disruptive.
- The broader move away from dollar assets to alternatives like gold is picking up steam. UK HMRC export data for February 2025 confirmed another significant gold buying month by China, as its longer de-dollarisation trend remains intact.
- **Bottom line**: The decline in foreign demand for US Treasuries is a paradigm shift in the demand dynamic and recent events could accelarate this trend. Over the longer-run foreign demand has helped compress US Treasury term premia and reduced borrowing costs for US taxpayers. A reversal in this trend should lead to higher term premia and therefore higher net interest outlays, a key contributor to deficits projections for the next decade.

Graph 1. Net interest outlays dominate total deficits over the coming decades

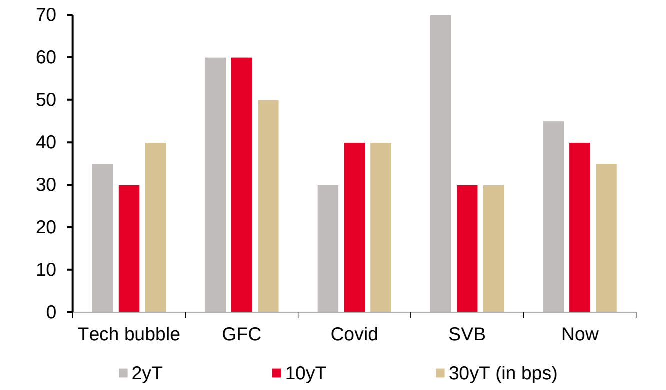


Source: CBO

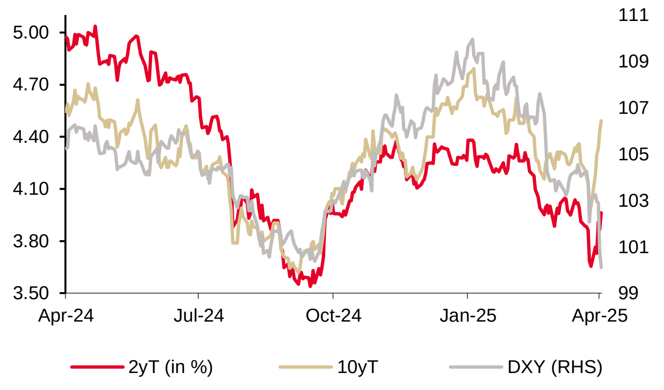
1. It's easy to blame the foreigners

The extreme volatility in Treasuries since Liberation Day (2 April), when US President Donald Trump announced broad-based tariffs on all countries, has investors questioning the magnitude of foreigners selling Treasuries, specifically the Chinese official sector as a means of retaliation for the imposition of targeted outsized tariffs on it. While there were potentially foreign sellers of Treasuries based on the price action in the overnight session, it is hard to attribute the sharp rise in yields to foreign officials selling Treasuries – or specifically China for that matter. Treasuries are actively traded overnight with the Asia trading sessions dominated by foreign official accounts and private investors such as asset managers, banks and insurance companies, hedge funds, sovereign wealth funds, and retail investors. The price action seen in bonds and currencies also suggests a potential liquidation of dollar assets and a migration away from US dollars to safe haven currencies like the JPY and CHF over the past week (**Graph 2b**).

Graph 2a. Recent intraday ranges in Treasuries are in line with prior crises



Graph 2b. The dollar declined sharply as Treasury yields rose

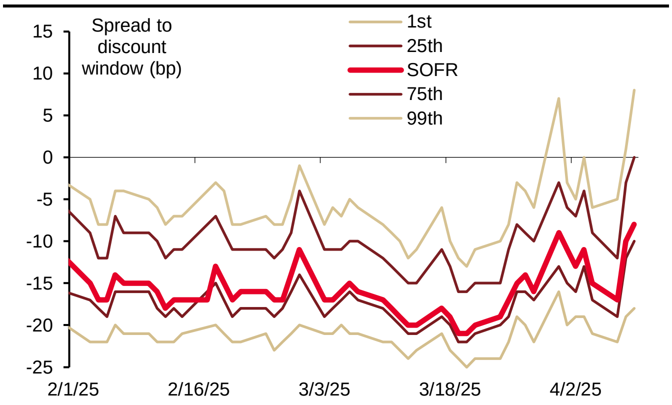


Source: SG Cross Asset Research/Rates, Bloomberg

So what's going on in Treasuries?

As is the case in most periods of market turmoil, there are a confluence of factors driving the price action in bonds. On Friday (11 April) alone, the 10yT yield traded between 4.37% and 4.58%, and the 30yT yield between 4.81% and 4.99%, according to intraday data from Bloomberg. These intraday ranges are comparable to what we saw in past crises (**Graph 2a**) and somewhat troubling as, unlike past crises which are market-driven or black swan events, this volatility is in response to a paradigm shift in US trade policy, exacerbated by the fact that the tariff rates are constantly changing. While the initial reaction on 3 April to the sharp selloff in equities was a flight to quality, with the 10yT yield declining to 3.86%, the safe haven bid quickly evaporated as investors began to worry about Chinese retaliation and the related demand dynamics for Treasuries in the context of rising debt and deficits potentially leading to a higher term premium for Treasury debt.

Graph 3. Volume weighted percentiles show pressure on funding markets as banks shore up cash in anticipation of tightening credit conditions



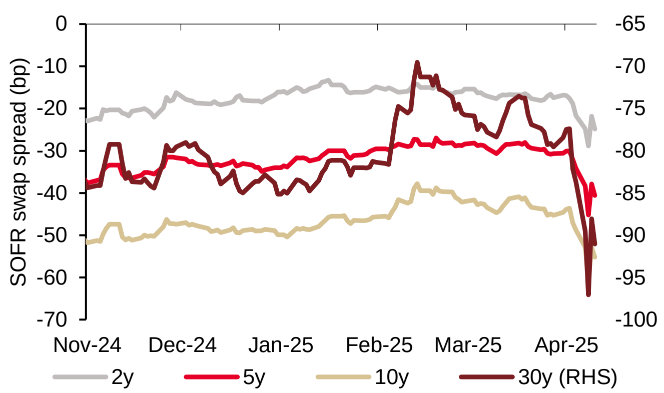
Source: SG Cross Asset Research/Rates

There are potentially several types of market participants buying and selling Treasuries in this environment. **First**, in a period of high volatility across assets, the most likely sellers were risk parity funds who tend to lessen exposure to both equities and bonds in order to reduce volatility in their portfolio. These are levered strategies and large moves in volatility leading to sizeable unwinds. **Second**, swap spread across the curve narrowed significantly owing to dislocations in the UST and SOFR IRS curves. SOFR swap spreads reached their tightest ever levels this week as USTs were sold off (**Graph 11**). The violent move in spreads can be attributed to the unwinding of long positions (put on in anticipation of regulatory easing this year) amidst lower liquidity and dealer deleveraging, variable annuity hedgers increasing receiving demand at the long-end of the swaps curve as equities decline, and the sharp rise in Treasury yields and term premia. **Third**, broader deleveraging, balance-sheet constraints and liquidity hoarding likely contributed to some of the pressure in repo markets and the dramatic cheapening of the 20yT in the 10s20s30s fly and the commensurate tightening of the 20y swap spread. In this context, the focus quickly shifted to comments from major bank CEOs about deregulation and potential changes to banking regulations freeing up "*hundreds of billions of dollars*" to lend to customers, alongside changes to the supplementary leverage ratio (SLR) that could help banks to provide liquidity and intermediate risks in the financial sector.

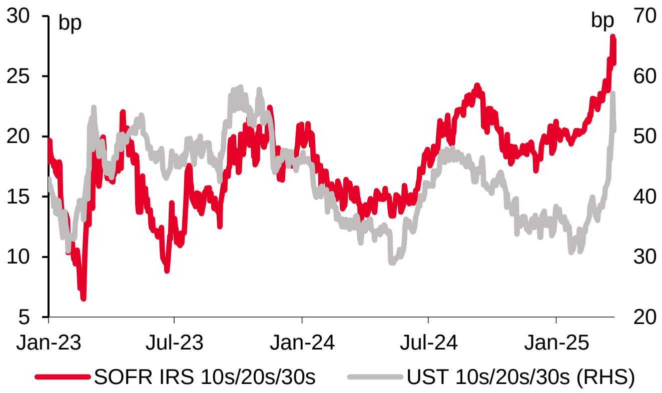
The Fed is ready to intervene if needed

The markets also responded positively to Boston Fed President Susan Collins when she remarked on Friday that the Fed is ready to help stabilise the market if needed. During the COVID-19 crisis in March 2020, the Fed was quick to cut rates and provide extraordinary amounts of liquidity to support market functioning (see here). But this time around, with inflation still above target and tariffs contributing to inflationary pressures, the Fed might have to think carefully before deploying these tools. Collins reassured the markets by saying that the Fed has "*various tools*" in case of emergencies, but she also acknowledged that "*the core interest rates tool*" is" probably *not the best way to address challenges of liquidity or market functioning*".

Graph 4. SOFR swap spreads reach record tight levels



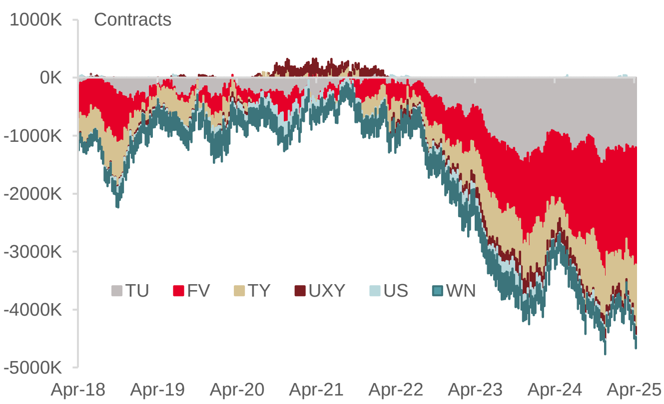
Graph 5. 20y cheapens on the UST and SOFR IRS curves



Source: SG Cross Asset Research/Rates, Bloomberg

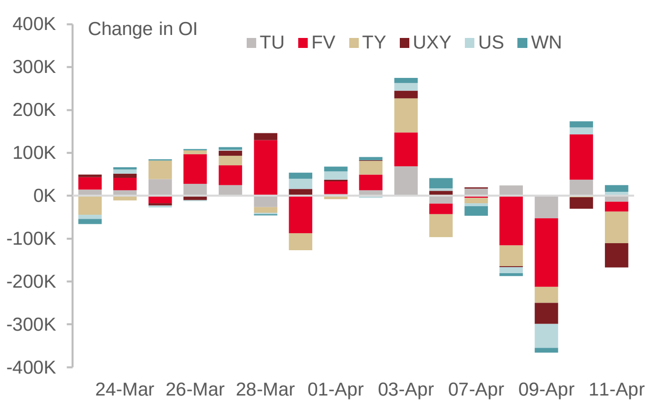
Fourth, the spotlight was back on the large Treasury futures basis positions held mostly by speculative investors who are long the basis – long cash, short Treasury futures – and which is a lucrative carry strategy. While often considered market-neutral, these trades are typically executed with significant leverage, making them highly sensitive to shifts in repo rates and futures' margin requirements.

Graph 6. Speculators' positioning in Treasury futures remains elevated



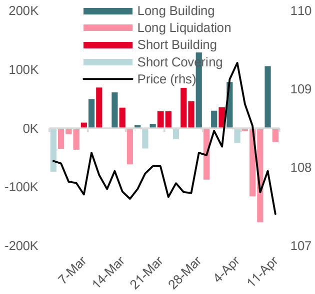
Source: SG Cross Asset Research/Rates, CFTC, Bloomberg

Graph 7. Sharp unwinds in Treasury futures contracts in recent days



Source: SG Cross Asset Research/Rates, Bloomberg

Graph 8. Market positioning in the FV contract shows long unwinds over the past few sessions



Source: SG Cross Asset Research/Rates, Bloomberg

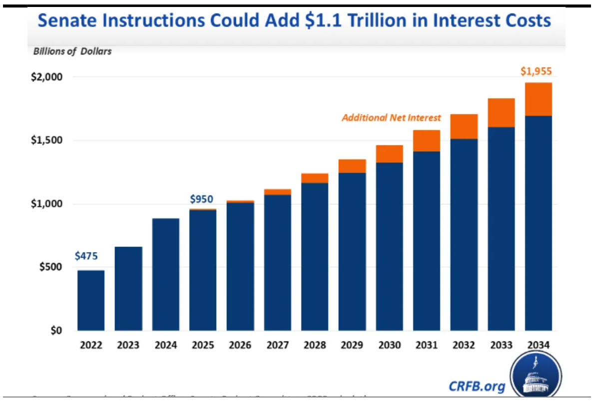
Back in March 2020 the sharp widening of the basis forced large-scale unwinds of levered trade, contributing to gap moves in Treasuries requiring the Fed to intervene. Despite the volatility in recent days however, the markets continue to "*function well*" – so it is hard to attribute the recent sell-off to the unwinding of basis trades. But the risk remains as the short futures positions of speculators are elevated (**Graph 6**), especially in FV contracts. Recent data shows a sharp decline in open interest which suggests large unwinds of futures positions (**Graph 7**).

In March 2020, a sharp widening in the basis forced large-scale unwinds of the leveraged trades, draining liquidity and contributing to broader market dysfunction. At the time, offshore leveraged funds liquidated over $220bn in Treasuries over four months, accompanied by a marked drawdown in net short futures positions across the curve. Swift interventions by the Fed helped prevent further deterioration. A 2023 Fed paper (here) highlighted the systemic risks associated with basis trades, cautioning that they remain susceptible to stress during broader market corrections, such as those observed in recent days. In a recent paper entitled Treasury market dysfunction and the role of the central bank, the authors explored ways for the Fed to step in and support an estimated $1 trillion in Treasury futures basis trades in the event of a crisis.

2. Twin deficits

While the Trump administration and the Department of Government Efficiency (DOGE) are keen to cut spending and lower deficits, it is unclear that they will be able to achieve that objective. An extension of the Tax Cuts and Jobs Act (TCJA) will increase deficits by $4.5tn. While high tariffs could offset spending, it will need to be high enough and stick around for an extended period to be counted as a reliable source of revenues over the longer term. Revenues raised by way of tariffs could come at the expense of lower tax receipts if consumer behaviours change due to tariffs or if it leads to lower growth and higher unemployment.

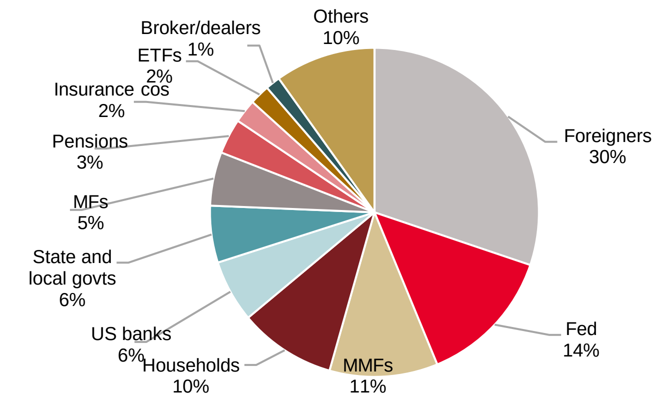
Graph 9. Net interest outlays on federal debt to dominate deficits with rising debt issuance and higher interest rates



Source: SG Cross Asset Research/Rates

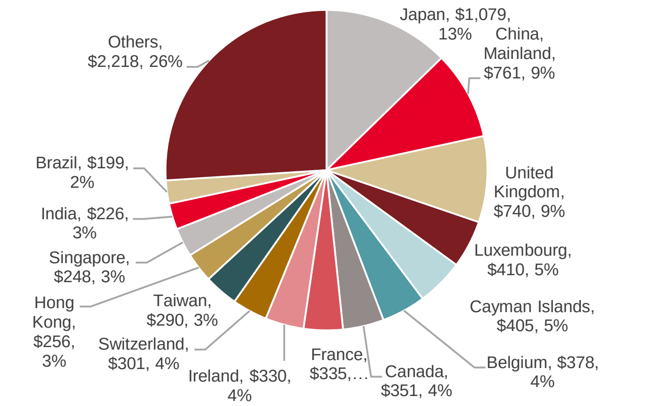
From the Committee for a Responsible Federal Budget (CRFB) on April 10, 2025 (see here): *The House of Representatives just voted to adopt the Senate-amended Fiscal Year (FY) 2025 concurrent budget resolution, making it a concurrent resolution that unlocks fast-track reconciliation instructions. The budget's reconciliation instructions would allow for legislation to add $5.8 trillion to deficits through FY 2034 – including a permanent extension of the expiring 2017 tax cuts using the "current policy" gimmick – while requiring only $4 billion in gross deficit reduction. A package this size would double the growth in debt-to-GDP, and push annual deficits to $3.4 trillion by 2034.*

Graph 8. Foreigners hold 30% of the US Treasury debt



Source: SG Cross Asset Research/Rates

Graph 9. Japan and China hold 22% and potentially more via custody holdings in the UK and Belgium



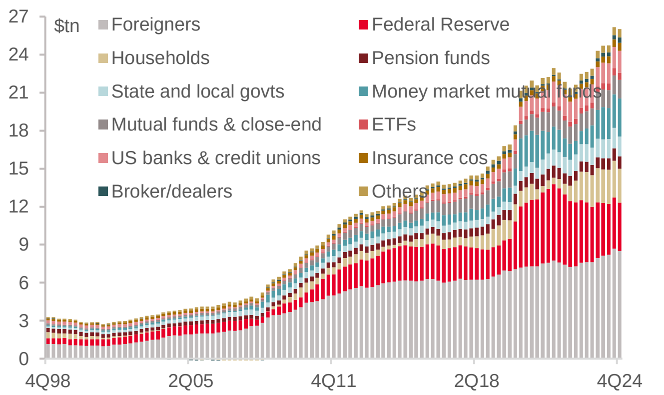
Foreigners own 30% of US Treasuries while the rest …

Amid our preoccupation with large trade deficits and the belief that alongside a sense of US exceptionalism comes an insatiable appetite for dollar assets, it is easy to lose sight of the fact that the US continues to heavily rely on foreigners to finance its deficits. Roughly 30% of the $28.9tn in Treasury debt held by the public is with foreigners, while the remainder is held by the Fed and domestic investors (**Graph 8**). Japan and China are the largest holders of Treasuries, accounting for 22% of foreign holdings – with potentially more via custody holdings in the UK and Belgium.

… is held by the Fed or price-sensitive domestic investors

Foreign holdings of Treasuries have steadily increased with the dramatic increase in Treasury debt outstanding (**Graph 10**). But foreign holdings as a percentage of marketable Treasury debt have steadily declined since the Great Financial Crisis or GFC (**Graph 11**). As a result, the US Treasury has increasingly relied on domestic investors to take down the supply. Among domestic investors, MMFs' AUMs have increased significantly since COVID and surpassed $7tn recently as investors migrate from risky assets to cash due to the volatile market conditions. The household sector, a residual category that includes hedge funds and endowments, now hold 10% of the debt outstanding, mostly by way of Treasury futures basis trades (see **Graph 6**). Other types of domestic investors' (banks, pensions, insurance companies, primary dealers) Treasury holdings have remained relatively stable.

Graph 10. Treasury marketable debt holdings by major investor groups



Source: SG Cross Asset Research/Rates, US Treasury, Bloomberg

Graph 11. Foreign holdings % of marketable outstanding Treasuries

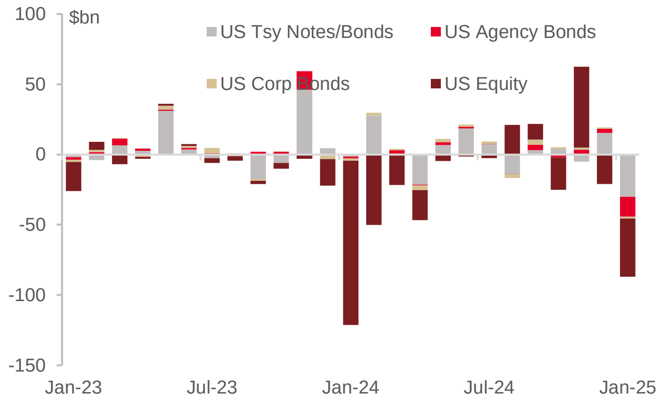
Source: SG Cross Asset Research/Rates, US Treasury, Bloomberg

Recent TIC data (**Graph 12**) showed foreign investors sold Treasuries for the third straight month in January when net holdings declined by $13.3bn. Meanwhile, foreign official investors sold $24.1bn worth of Treasury notes and bonds in January, following significant sales in December 2024, marking the largest two-month selling period since April 2020. Also in January, as Trump assumed office, Canada led the selling with record net sales of $30.1bn, cutting its holdings to the lowest level since April of last year. Canadian investors also sold a large tranche of other assets in January (**Graph 13**). China's Treasury holdings peaked in 2013 and have been declining steadily since. With rising JGB yields, Japanese investors are more domestically focused. Their Treasury holdings have declined by roughly $300bn since late-2021. And with President Trump once again raising the pressure on all US trading partners, this may not bode well for their willingness to hold Treasuries.

Graph 12. Foreigners have been selling US Treasury debt in recent months

	Jan-25	2025	2024	2023
Japan	4.0	4.0	-47.0	15.9
China, Mainland	-3.2	-3.2	-101.8	-68.2
United Kingdom	36.8	36.8	34.8	141.1
Luxembourg	-2.2	-2.2	28.2	13.9
Cayman Islands	2.5	2.5	77.1	72.1
Belgium	-6.5	-6.5	-7.8	-38.4
Canada	-30.1	-30.1	41.5	62.7
France	-8.4	-8.4	87.3	87.7
Ireland	-1.6	-1.6	-8.6	9.6
Switzerland	1.0	1.0	25.5	-2.6
Others	-5.6	-5.6	343.5	304.9
Grand Total	**-13.3**	**-13.3**	**472.8**	**598.6**

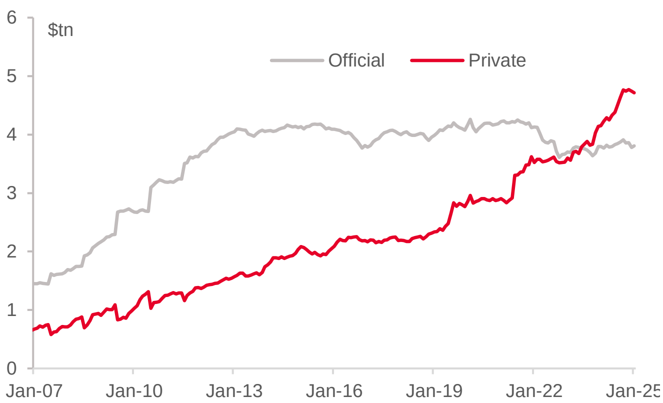
Graph 13. Canada sold a record amount of US Treasuries in January of this year



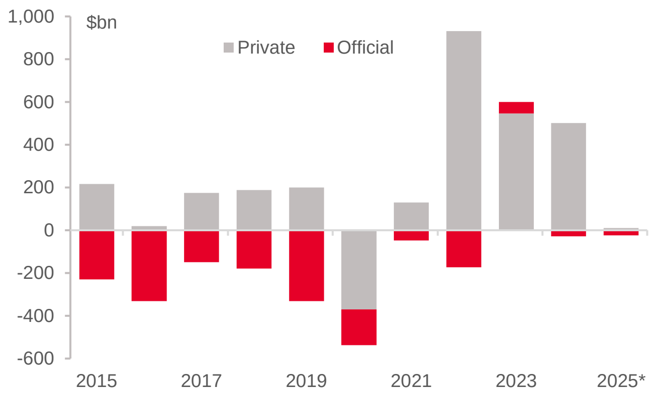
Source: SG Cross Asset Research/Rates

Foreign official holdings of Treasuries remained mostly stable from 2013 to 2020 but this has gradually declined since then, as large foreign official holders of Treasuries such as China have gradually shifted their FX reserves away from dollars to gold. With higher bond yields, foreign private investor holdings are now higher than that of the official sector (**Graphs 14 & 15**).

Graph 14. Foreign private investor Treasury holdings surpass that of the official sector as de-dollarisation takes hold



Graph 15. Post-COVID Treasury buying is almost entirely by private investors as China shifts its FX reserves to gold

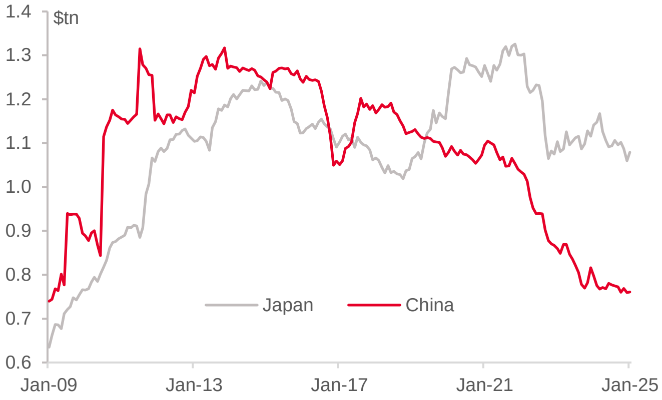


Source: SG Cross Asset Research/Rates, Bloomberg

3. The China story

With the latest tariffs, and geopolitical tensions flaring, concerns about foreigners selling US Treasuries are once again front and centre – particularly in regards to China, the second-largest foreign holder of US government debt. China and Japan, the top two foreign holders, have been reducing their Treasury exposures (**Graph 16**). China has been the largest net seller of Treasuries for the past two years, bringing its holdings down in December 2024 to their lowest level since February 2009. This sustained drop, particularly against the largely steady level of China's total FX reserves during the same time, reflects a broader strategic pivot by Chinese authorities towards reserve diversification (**Graph 17**).

Graph 16. China's holdings of US Treasuries dropped in December 2024 to their lowest level since 2009

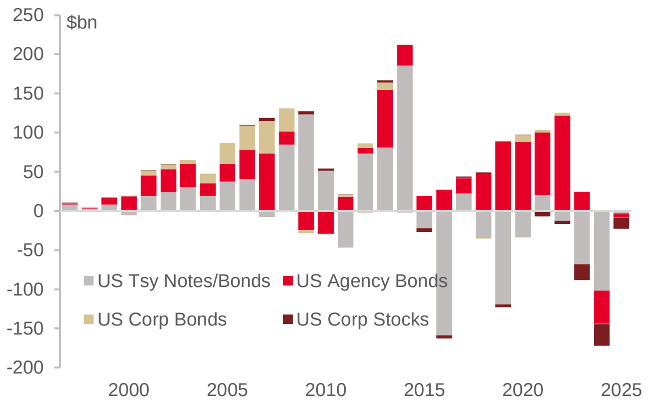


Graph 17. China's FX reserves continue to diversify away from US Treasuries

Source: SG Cross Asset Research/Rates, US Treasury, Bloomberg

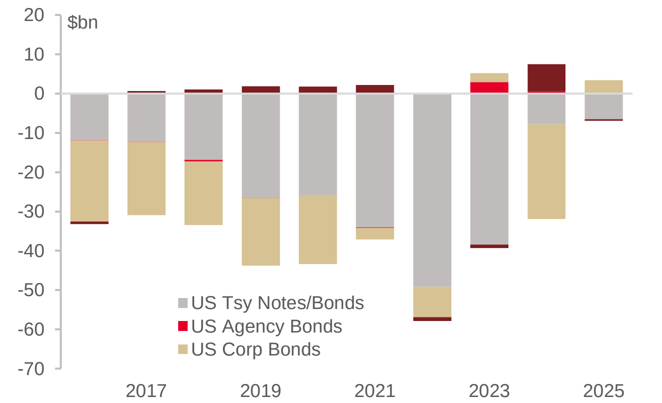
Given the current geopolitical backdrop, a sharp reversal in this trend appears unlikely. If anything, selling may even have accelerated, which we will know for certain in the coming weeks and months. During the escalation of US-China trade tensions in 2019, China offloaded about $119bn in US Treasuries (**Graph 18**) during the year, with Belgium – commonly viewed as a proxy for China's custodial holdings – selling another $27bn (**Graph 19**). However, China's $89bn in agency debt purchases during the same period helped to soften the blow.

Graph 18. China has been a net seller of US debt over the past two years, whereas in earlier years, they were significant buyers of US agency debt even while selling Treasuries



Source: SG Cross Asset Research/Rates, US Treasury, Bloomberg

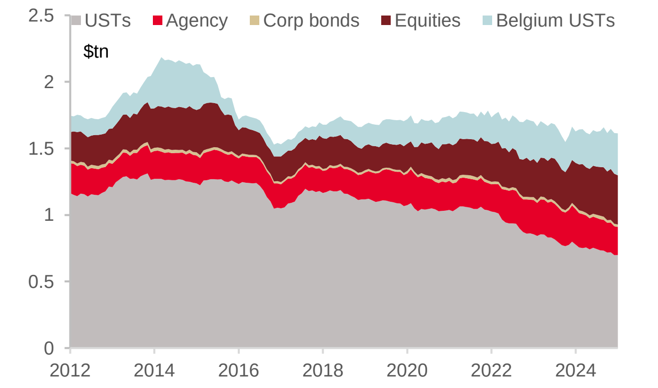
Graph 19. Belgium has been a consistent seller of Treasuries



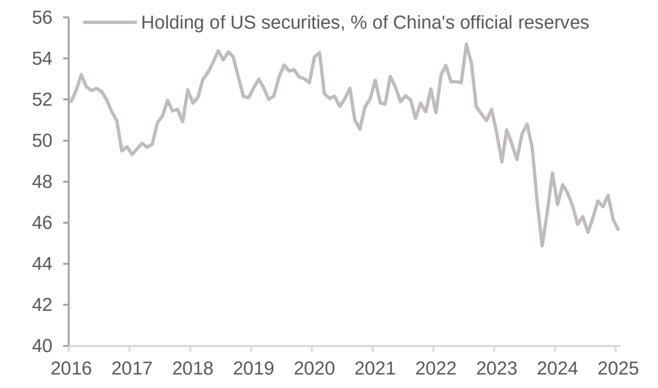
Source: SG Cross Asset Research/Rates, US Treasury, Bloomberg

In fact, China's overall holding of US securities have seen a much more accelerated decline of $150bn in the past five years (Graph 20). The declines in its explicit holding in USTs were offset partly by increases in USTs held by its proxy, US equities and agency bonds (until mid-2023). That said, the share of US securities in China's official reserves has dropped quickly in the recent years to mid-40%. Hence, China's diversification away from the dollar assets has been via a more passive approach, achieved more by increasing non-dollar assets than by selling down dollar assets.

Graph 20. China is moving away from dollar assets gradually in absolute terms …



Graph 21. … but more quickly in relative terms

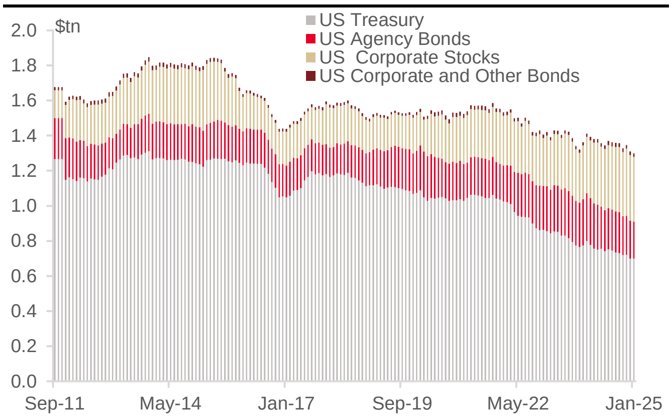


Source: SG Cross Asset Research. PBoC, US Treasury

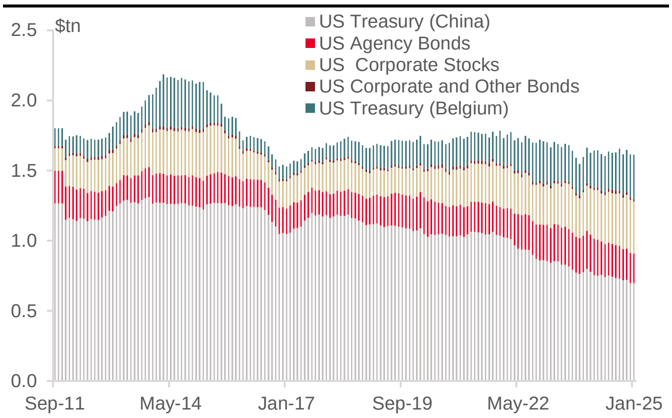
With trade tensions flaring again, the risk of foreign entities such as China selling Treasuries has returned to the spotlight again. Nonetheless, the robust demand observed at the recent 10y note auction, with bids from indirect investors (often including foreign participants) well above the recent average, has somewhat alleviated market anxiety around foreign demand for now.

While Chinese holdings of US debt has been steadily declining over the past decade, their holdings in addition to Belgian holdings of Treasuries is more stable. Although we have focused primarily on China's holdings of Treasuries, they also hold agency MBS, corporate bonds and equities. Foreigners (primarily China, Taiwan, Japan and Canada) hold $1.32 trillion of MBS or roughly 15% of the outstanding. Both China and Canada recently, have reduced their MBS holdings. Any substantive changes could have a meaningful impact on mortgage spreads.

Graph 22. While Chinese holdings of all US assets have been steadily declining over the past decade…



Graph 23. …Chinese holdings of US assets + Belgian holdings of Treasuries are more stable



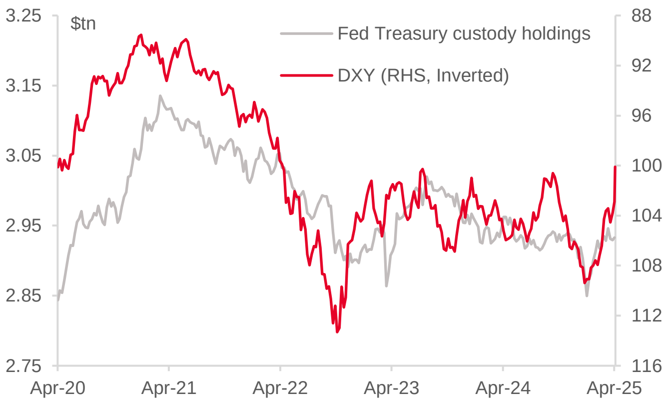
Source: SG Cross Asset Research/Rates, US Treasury, Bloomberg

China increases its gold buying

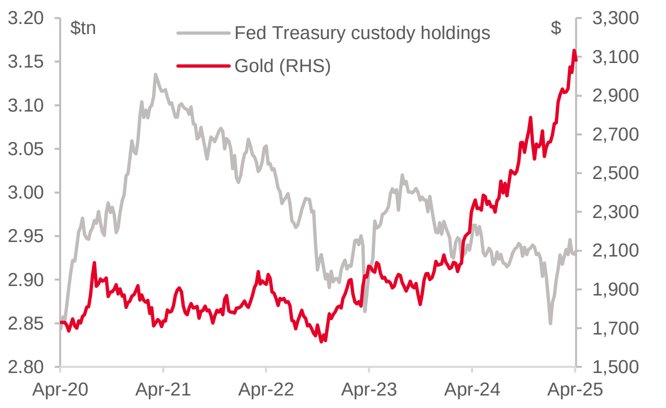
Gold has turned out to be the ultimate important beneficiary of the market turmoil, and to many the drop provided to be a buying opportunity, with spot prices reaching an all-time high at

$3,240/oz on Friday. The anticipation of interest rate cuts by the Federal Reserve due to uncertainties, a weakened dollar, but most importantly – the constant and unpredictable escalating tensions – have prompted the continued search by investors for safe havens, adding to the buying momentum in gold we have seen for many months now.

Graph 24. Foreign Treasury custody holdings at the Fed are generally correlated with the US dollar



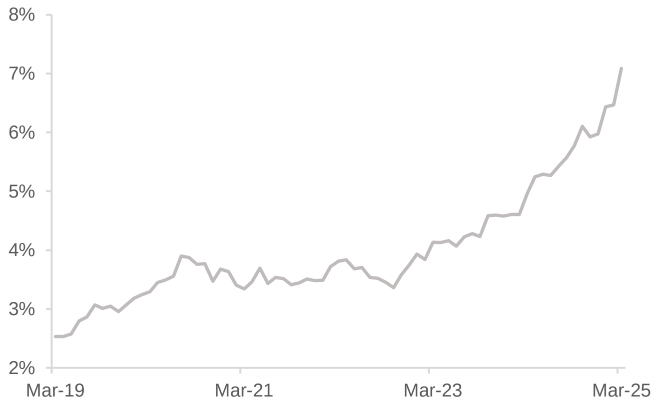
Graph 25. Custody holdings have fallen steadily since COVID as FX reserve flows into gold has led to a surge in the price



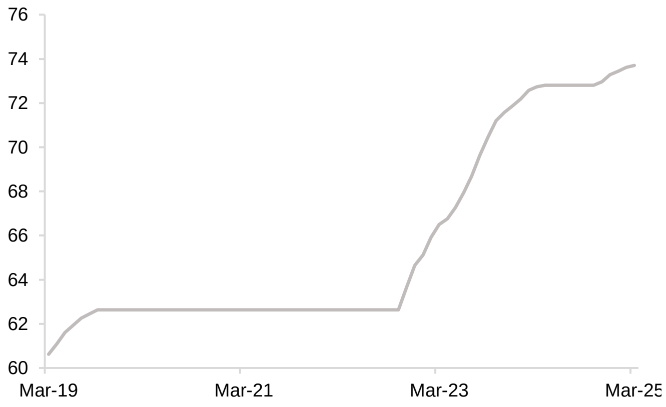
Source: SG Cross Asset Research/Rates

On Friday (April 11), the HMRC UK export data (which includes gold exports) was released for the month of February. Yes, admittedly the data comes with a slightly greater than a one-month lag, but it does provide insight into probable People's Bank of China (PBoC)transactions, whose data generally comes with an even greater lag – sometimes even as much as three months and with obvious questions about the accuracy of the central bank's official activity. Therefore, it is worth paying attention to the HMRC data given London's global dominance in bullion trading.

Graph 26. Gold as a % of China's reserves



Graph 27. China's gold reserves (million Troy ounces)



Source: SG Cross Asset Research

The HMRC data release on Friday confirms yet another month of very significant gold holdings heading to China from the UK at a (relatively) massive 50 tonnes, the third-largest export volume recorded in the past two years. Adding up all the months together, we estimate that a staggering 700 tonnes has been tracked by the HMRC into China in the past two years with an average value of $49bn per month, of which much finds its way to the central bank. The rotation from US Treasuries into gold seems like something we can loosely correlate and somewhat keep track of – and the selling of Treasuries matching that of gold exports to China is something we can't help but take notice of.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