

Bianco Research L.L.C.

An Arbor Research & Trading Affiliated Company

Independent · Objective · Original

Volume 12, No. 11

1731 North Marcey, Chicago IL 60614

www.biancoresearch.com

U.S. Treasury's International Capital Statistics

An Analysis of Foreign Investment Flows and Positions in the U.S. Financial Markets

By Greg Blaha (847) 304-1511

and Ryan K. Malo

November 16, 2010

On November 16, 2010, the Department of Treasury released its "Treasury International Capital Movements" data. This is a monthly series and the current release is updated through September 30, 2010.

This report uses 12-month rolling sums of flows to negate the effects of seasonality and revisions. The intention is to illustrate the larger trends of foreign activity in U.S. long-term securities.

In general, information on U.S. transactions with foreigners in long-term securities is reported opposite the country in which the immediate foreign investor is located. The foreign party to a cross-border securities transaction may be an end-investor or issuer of securities, or it may be an intermediary. It is important to note that the country breakdown does not necessarily indicate the country of beneficial owner or issuer, nor does it indicate the currency in which securities are denominated.

Our analysis of the data assumes a close relationship between the country/region of each transaction and final ownership of the securities. For more information about this report, and to find background information on this data, refer to: "A Primer on Treasury International Capital" in the "Subscriber Area" of our web site under "U.S. Treasury's International Capital Statistics."

Our website (<http://www.biancoresearch.com>) has over 150 charts using this data. To view these charts, go to the "Subscriber Area," click on the "Charts" drop down box, click on the "Archive of Charts", and scroll down the page to click on the "U.S. Treasury's International Capital Statistics."

U.S. Treasury Notes and Bonds

In the 12 months ending September 30, 2010, All Foreign Countries were net **buyers** of \$795.90 billion of U.S. Treasury Notes and Bonds.

- Total Europe was a net **buyer** of \$400.46 billion
- Total Asia was a net **buyer** of \$244.74 billion, China-Mainland was a net **buyer** of \$64.47 billion and Japan was a net **buyer** of \$127.32 billion

U.S. Government Agency Securities

In the 12 months ending September 30, 2010, All Foreign Countries were net **buyers** of \$93.62 billion of U.S. Government Agency Securities.

- Total Asia was a net buyer of \$38.65 billion
- Total Europe was a net buyer of \$38.35 billion

U.S. Corporate Bonds

In the 12 months ending September 30, 2010, All Foreign Countries were net **sellers** of \$21.74 billion of U.S. Corporate Bonds.

- Total Europe was a net **seller** of \$35.93 billion while the United Kingdom was a net seller of \$2.68 billion.
- Tax Havens were net buyers of \$9.09 billion.
- Total Asia was a net buyer of \$1.96 billion while Japan was a net buyer of \$0.22 billion.

U.S. Equities

In the 12 months ending September 30, 2010, All Foreign Countries were net **buyers** of \$113.21 billion of U.S. Equities.

- Total Europe was a net buyer of \$38.67 billion, while the United Kingdom was a net buyer of \$13.22 billion.
- Total Asia was a net **buyer** of \$27.33 billion.
- Tax Havens were net buyers of \$27.07 billion.

The Arms Race to Own U.S. Treasuries

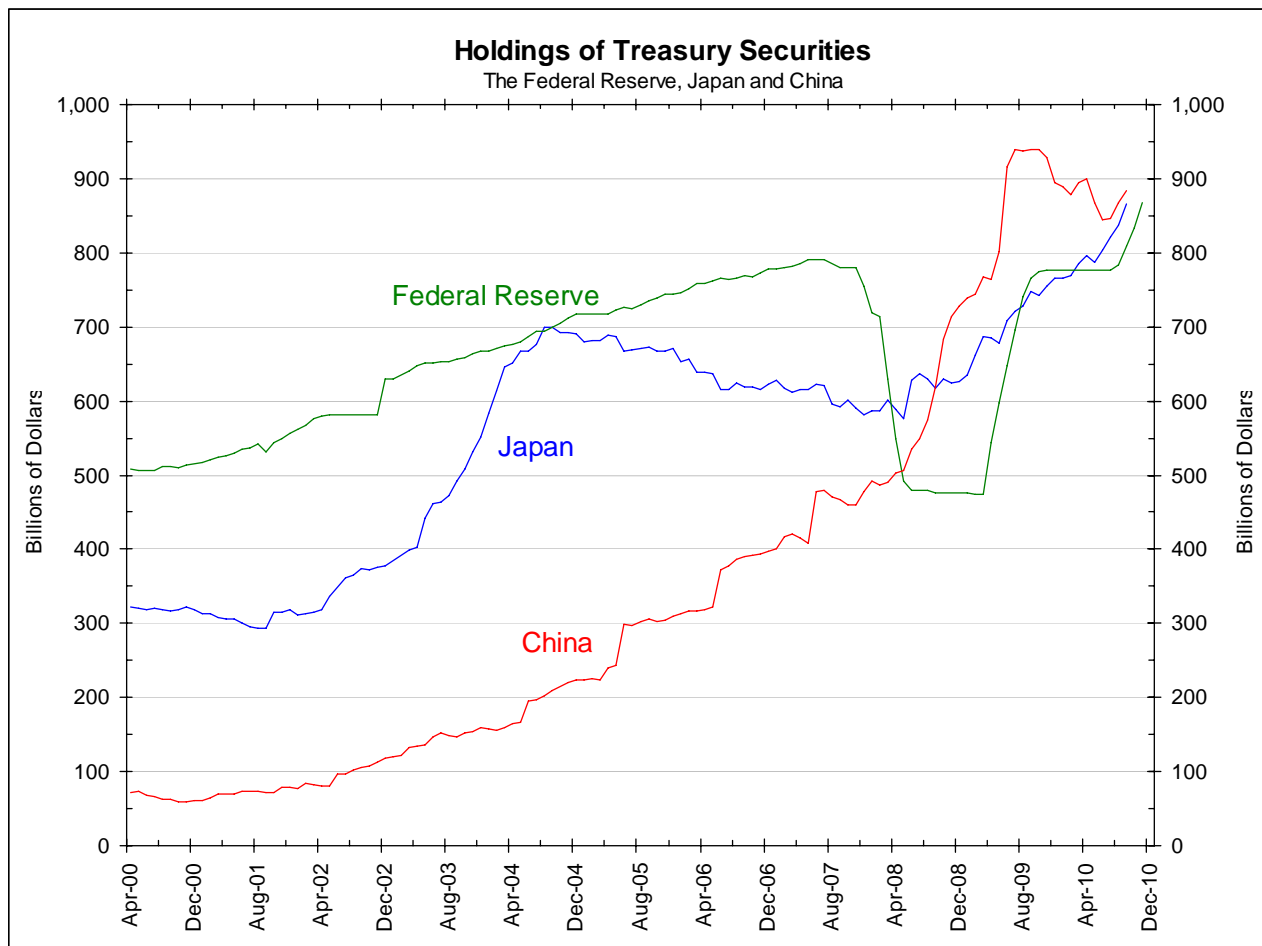
Now that QE2 has officially begun, Federal Reserve holdings of Treasury securities are once again on the rise. With this week's latest round of permanent open market operations (POMO), the Federal Reserve currently owns roughly \$868 billion of Treasuries. For comparison, at the end of September, China held \$884 billion while Japan held \$865 billion.

Assuming QE2 totals at least \$600 billion, a likelihood which became less certain with [statements from St. Louis Federal Reserve president Bullard](#) today, the Federal Reserve could easily outpace China as the largest holder of U.S. debt in the very near future.

In fact, as we detailed today in [Newsclips](#), yields have been rising since the inception of QE2. As we concluded:

If QE2 is raising inflation expectations, thus accelerating China's desire to slow their economy, the Treasury bond market is losing a major buyer. Not surprisingly, yields are going higher.

If China continues to reduce its holdings of Treasuries as it has since July 2009, will the Federal Reserve and Japan be able to soak up all the supply in this market? We aren't going to hold our breath.



Net Purchases of U.S. Treasury Notes and Bonds Broad Regions

	All Foreign Countries	Total Asia	Total Europe	Total Latin America	Asia less Japan	Europe less the U.K.	All Foreign less the U.K. & Tax Havens
Monthly Net Purchases of U.S. Treasury Notes and Bonds (billions of \$)							
9/30/2010	78.30	41.77	12.45	9.63	16.83	-4.50	67.55
8/31/2010	117.14	29.62	75.32	8.59	14.22	14.05	45.56
7/31/2010	29.98	30.68	6.56	-11.88	11.28	-3.41	32.03
5 Year High (date)	117.88 11/30/2009	59.85 6/30/2009	75.32 8/31/2010	25.46 12/31/2009	30.25 3/31/2010	21.05 10/31/2006	67.55 9/30/2010
5 Year Low (date)	-25.78 11/30/2008	-51.93 8/31/2007	-18.13 12/31/2007	-24.21 5/31/2009	-28.09 8/31/2007	-17.82 7/31/2007	-54.89 8/31/2007
Net Purchases Percentile Ranking Of Its 5 Year Range							
9/30/2010	72.5%	83.8%	32.7%	68.1%	77.0%	34.3%	100.0%
8/31/2010	99.5%	72.9%	100.0%	66.0%	72.5%	82.0%	85.4%
7/31/2010	38.8%	73.9%	28.6%	24.8%	67.5%	37.1%	73.9%
12 Month Rolling Sum of Net Purchases of U.S. Treasury Notes and Bonds (billions of \$)							
9/30/2010	795.90	244.74	400.46	65.30	117.42	48.57	421.71
8/31/2010	762.29	238.64	389.67	50.29	113.69	49.71	393.06
7/31/2010	673.21	224.01	331.02	31.92	113.31	42.74	377.51
5 Year High (date)	795.90 9/30/2010	283.09 1/31/2010	400.46 9/30/2010	92.11 1/31/2008	176.96 3/31/2010	56.63 11/30/2009	421.71 9/30/2010
5 Year Low (date)	169.88 8/31/2007	-69.27 12/31/2007	98.90 1/31/2007	-51.99 9/30/2009	-20.59 12/31/2007	-38.03 11/30/2007	-9.18 12/31/2007

Net Purchases of U.S. Government Agency Securities Broad Regions

	All Foreign Countries	Total Asia	Total Europe	Total Latin America	Asia less Japan	Europe less the U.K.	All Foreign less the U.K. & Tax Havens
Monthly Net Purchases of U.S. Government Agency Securities (billions of \$)							
9/30/2010	-8.20	-20.32	6.21	4.98	-22.72	6.73	-13.28
8/31/2010	4.64	4.02	-1.51	0.49	-1.45	3.18	8.95
7/31/2010	17.34	7.94	6.66	5.07	0.51	0.35	8.11
5 Year High (date)	39.59 6/30/2007	22.47 5/31/2007	29.06 3/31/2008	18.71 9/30/2008	19.25 5/31/2007	6.73 9/30/2010	28.98 6/30/2007
5 Year Low (date)	-49.86 10/31/2008	-20.32 9/30/2010	-27.40 12/31/2008	-31.45 3/31/2008	-22.72 9/30/2010	-14.26 12/31/2008	-27.73 7/31/2008
Net Purchases Percentile Ranking Of Its 5 Year Range							
9/30/2010	46.6%	0.0%	59.5%	72.6%	0.0%	100.0%	25.5%
8/31/2010	60.9%	52.3%	45.9%	63.7%	38.3%	86.6%	64.7%
7/31/2010	75.1%	62.4%	60.3%	72.8%	44.2%	72.6%	63.2%
12 Month Rolling Sum of Net Purchases of U.S. Government Agency Securities (billions of \$)							
9/30/2010	93.62	38.65	38.35	17.10	-3.93	9.28	53.43
8/31/2010	100.20	55.77	31.35	12.02	15.25	0.72	61.82
7/31/2010	100.15	51.42	39.94	9.61	17.46	0.70	55.45
5 Year High (date)	294.14 6/30/2007	158.74 6/30/2007	121.54 5/31/2008	53.71 12/31/2006	133.14 11/30/2007	35.51 1/31/2007	223.80 6/30/2007
5 Year Low (date)	-181.78 6/30/2009	-69.27 6/30/2009	-51.35 5/31/2009	-86.18 1/31/2009	-40.47 6/30/2009	-69.70 3/31/2009	-129.38 6/30/2009

For more detailed version of these tables, please visit our [website](#).

Net Purchases of U.S. Corporate Bonds Broad Regions							
	All Foreign Countries	Total Asia	Total Europe	Total Latin America	Asia less Japan	Europe less the U.K.	All Foreign less the U.K. & Tax Havens
Monthly Net Purchases of U.S. Corporate Bonds (billions of \$)							
9/30/2010	0.58	2.27	-4.20	2.63	2.90	-3.26	-0.48
8/31/2010	10.00	0.38	4.65	4.97	-0.78	0.61	0.80
7/31/2010	13.94	2.45	11.14	2.11	0.83	-1.30	-0.20
5 Year High (date)	78.37 5/31/2007	19.24 10/31/2007	55.92 5/31/2007	23.40 5/31/2008	13.09 5/31/2008	14.58 9/30/2006	21.84 11/30/2006
5 Year Low (date)	-24.60 1/31/2010	-3.55 9/30/2008	-21.36 11/30/2008	-7.19 1/31/2010	-3.02 9/30/2008	-11.66 9/30/2007	-11.45 9/30/2008
Net Purchases Percentile Ranking Of Its 5 Year Range							
9/30/2010	24.5%	25.5%	22.2%	32.1%	36.8%	32.0%	33.0%
8/31/2010	33.6%	17.2%	33.7%	39.7%	13.9%	46.8%	36.8%
7/31/2010	37.4%	26.3%	42.1%	30.4%	23.9%	39.5%	33.8%
12 Month Rolling Sum of Net Purchases of U.S. Corporate Bonds (billions of \$)							
9/30/2010	-21.74	1.96	-35.93	12.70	1.75	-33.25	-28.15
8/31/2010	-24.83	-0.65	-33.25	10.16	-1.73	-34.30	-32.36
7/31/2010	-40.49	-0.86	-45.99	6.91	-0.57	-35.85	-31.59
5 Year High (date)	567.39 5/31/2007	134.73 5/31/2008	362.79 5/31/2007	103.07 5/31/2007	84.61 5/31/2008	80.29 9/30/2006	188.69 9/30/2006
5 Year Low (date)	-73.01 2/28/2010	-7.98 2/28/2010	-77.04 2/28/2010	-1.52 5/31/2009	-6.17 1/31/2010	-48.05 11/30/2008	-37.48 1/31/2010

Net Purchases of U.S. Equities Broad Regions							
	All Foreign Countries	Total Asia	Total Europe	Total Latin America	Asia less Japan	Europe less the U.K.	All Foreign less the U.K. & Tax Havens
Monthly Net Purchases of U.S. Equities (billions of \$)							
9/30/2010	20.73	-1.33	18.32	5.06	-1.26	15.38	13.06
8/31/2010	4.84	2.06	0.88	0.43	1.48	-2.82	2.06
7/31/2010	12.55	2.49	6.08	-0.39	1.23	3.86	10.16
5 Year High (date)	42.04 5/31/2007	20.16 10/31/2007	23.44 5/31/2007	14.46 4/30/2007	17.80 1/31/2008	15.38 9/30/2010	24.63 1/31/2008
5 Year Low (date)	-40.62 8/31/2007	-4.81 7/31/2008	-15.86 10/31/2008	-24.52 8/31/2007	-5.73 7/31/2008	-12.66 9/30/2008	-13.25 8/31/2007
Net Purchases Percentile Ranking Of Its 5 Year Range							
9/30/2010	74.2%	13.9%	87.0%	75.9%	19.0%	100.0%	69.5%
8/31/2010	55.0%	27.5%	42.6%	64.0%	30.6%	37.6%	40.4%
7/31/2010	64.3%	29.2%	55.8%	61.9%	29.6%	63.1%	61.8%
12 Month Rolling Sum of Net Purchases of U.S. Equities (billions of \$)							
9/30/2010	113.21	27.33	38.67	39.01	22.12	25.46	72.92
8/31/2010	108.16	30.06	26.30	42.85	23.74	11.69	64.62
7/31/2010	115.57	30.08	35.14	40.36	24.88	19.17	70.86
5 Year High (date)	210.50 7/31/2007	88.83 6/30/2008	113.50 10/31/2006	84.90 7/31/2007	85.88 5/31/2008	39.65 2/28/2010	122.10 3/31/2008
5 Year Low (date)	23.45 2/28/2009	-3.60 4/30/2007	9.96 1/31/2009	-48.27 7/31/2008	-1.34 4/30/2007	-26.27 1/31/2009	12.61 3/31/2009

For more detailed version of these tables, please visit our [website](#).

Bianco Research L.L.C.

1731 North Marcey, Suite 510
Chicago IL 60614

Phone: (847) 304-1511

Fax (847) 304-1749

e-mail: research@biancoresearch.com

<http://www.biancoresearch.com>

For more information about the contents/ opinions contained in these reports:

President (847) 756-3599

James A. Bianco jbianco@biancoresearch.com

Strategist/Analyst (847) 304-1511

Howard L. Simons hsimons@biancoresearch.com

Greg Blaha gblaha@biancoresearch.com

Ryan Malo rmalo@biancoresearch.com

For subscription/service Information:

Arbor Research & Trading, Inc.

Director of Sales & Marketing (800) 606-1872

Fritz Handler fritz.handler@arborresearch.com

Arbor Research & Trading, Inc.

1000 Hart Road, Suite 260
Barrington IL 60010

Phone (847) 304-1560 Fax (847) 304-1595

e-mail inforequest@arborresearch.com

<http://www.arborresearch.com>

Domestic - For more information about Arbor Research & Trading and its services:

New York Sales Office

The Chrysler Building, 405 Lexington Ave
New York, NY 10174

Edward T. McElwreath ed.mcelwreath@arborresearch.com

Phone (212) 867-5326 Fax (212) 370-1218

International - For more information about Arbor Research & Trading and its services:

London Sales Office

3rd Floor 4 Broadgate

London England EC2M 2QS

Phone 44-207-100-1051 Neil Tritton

neil.tritton@arborresearch.com

Ben Gibson ben.gibson@arborresearch.com

Chicago Sales Office

James L. Perry james.perry@arborresearch.com

Phone (847) 304-1560 Fax (847) 304-1595

Geneva Sales Office

Rich Kleinbauer rich.kleinbauer@arborresearch.com

Phone (41) 22 365-1850

Far East Sales

Robert Reynolds robert.reynolds@arborresearch.com

Phone (847) 756-3680 Fax (435) 647-3073