

## Fed passes China in Treasury holdings

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The Federal Reserve has surpassed China as the leading holder of US Treasury securities even though it has yet to reach the halfway mark in its [latest round of quantitative easing](#), according to official figures.

Based on weekly data released on Thursday, the New York Fed's holdings of Treasuries in its System Open Market Account, known as Soma, total \$1,108bn, made up of bills, notes, bonds and Treasury Inflation Protected Securities, or Tips.

According to the most recent US Treasury data on foreign holders of US government paper, [China holds \\$896bn](#) and Japan owns \$877bn.

“By June [the Fed] will have accumulated some \$1,600bn of Treasury securities, likely to be in the vicinity of China and Japan's combined holdings,” said Richard Gilhooly, a strategist at TD Securities. “The New York Fed surpassed China in the past month as the largest holder of US Treasury securities,” he noted.

The Fed is buying Treasury debt under two programmes. The largest is QE2, which began in November and is scheduled to involve \$600bn of purchases by June.

It is also buying \$30bn of Treasuries a month as it reinvests principal payments from its large holdings of mortgage debt and debt issued by government housing agencies – a programme dubbed QE lite.

By the end of June, the Fed plans to buy \$800bn in Treasury debt under both programmes. Since November, the Fed has purchased \$284bn of Treasuries.

The Fed has devoted 67 per cent of its QE2 purchases to Treasuries with a maturity of four-and-a-half to 10 years. That has helped pull back yields in that part of the yield curve from their highs of December.

By contrast, just 5 per cent of the Fed's buying has been for Treasury debt longer than 17 years. Last Friday, the yield on [30-year bonds briefly rose to its highest level](#) since last April.

“The end of QE2 will be a big test as rates are likely to rise once the Fed stops buying large amounts of Treasuries,” said David Ader, a strategist at CRT Capital. “We don't know if that means a rise of 20, 30 or even 50 basis points for key yields.”

In total, foreign central banks hold \$2,604bn of Treasuries, according to the Fed. After rising from \$2,250bn at the end of last June, [foreign central banks](#) have stayed at about \$2,600bn since mid-November, when the Fed began QE2. This indicates

the Fed has stepped up as other central banks have scaled back their Treasuries purchases.

Before the financial crisis, the Fed held \$775bn of Treasuries in Soma. That was reduced by \$300bn during the first half of 2008, when the Fed sold Treasuries and focused on supporting the financial system. The first QE program, which began in 2009, saw the Fed buy \$300bn of Treasuries.