

# Bianco Research L.L.C.

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## *U.S. Treasury's International Capital Statistics*

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

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December 15, 2008

**On December 15, 2008, the Department of Treasury released its "Treasury International Capital Movements" data. This is a monthly series and the current release is updated through October 31, 2008.**

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 October 31, 2008, All Foreign Countries were net **buyers** of \$363.14 billion of U.S. Treasury Notes and Bonds.

- Total Europe was a net **buyer** of \$189.32 billion
- Total Asia was a net **buyer** of \$98.80 billion, China-Mainland was a net **buyer** of \$92.14 billion and Japan was a net **seller** of \$1.73 billion
- Total Latin America was a net **buyer** of \$66.38 billion.

### **U.S. Government Agency Securities**

In the 12 months ending October 31, 2008, All Foreign Countries were net **buyers** of \$64.82 billion of U.S. Government Agency Securities.

- Total Asia was a net buyer of \$42.02 billion
- Total Europe was a net buyer of \$76.27 billion

### **U.S. Corporate Bonds**

In the 12 months ending October 31, 2008, All Foreign Countries were net **buyers** of \$122.05 billion of U.S. Corporate Bonds.

- Total Europe was a net **seller** of \$3.92 billion despite the United Kingdom's net purchases of \$39.16 billion.
- Tax Havens net purchases totaled \$34.75 billion.
- Total Asia net purchases totaled \$89.00 billion with Japan accounting for \$31.46 billion.

### **U.S. Equities**

In the 12 months ending October 31, 2008, All Foreign Countries were net **buyers** of \$69.11 billion of U.S. Equities.

- Total Europe was a net buyer of \$14.38 billion, while the United Kingdom was a net buyer of \$33.96 billion.
- Total Asia was a net **buyer** of \$73.61 billion.
- Tax Havens were net sellers of \$21.34 billion.

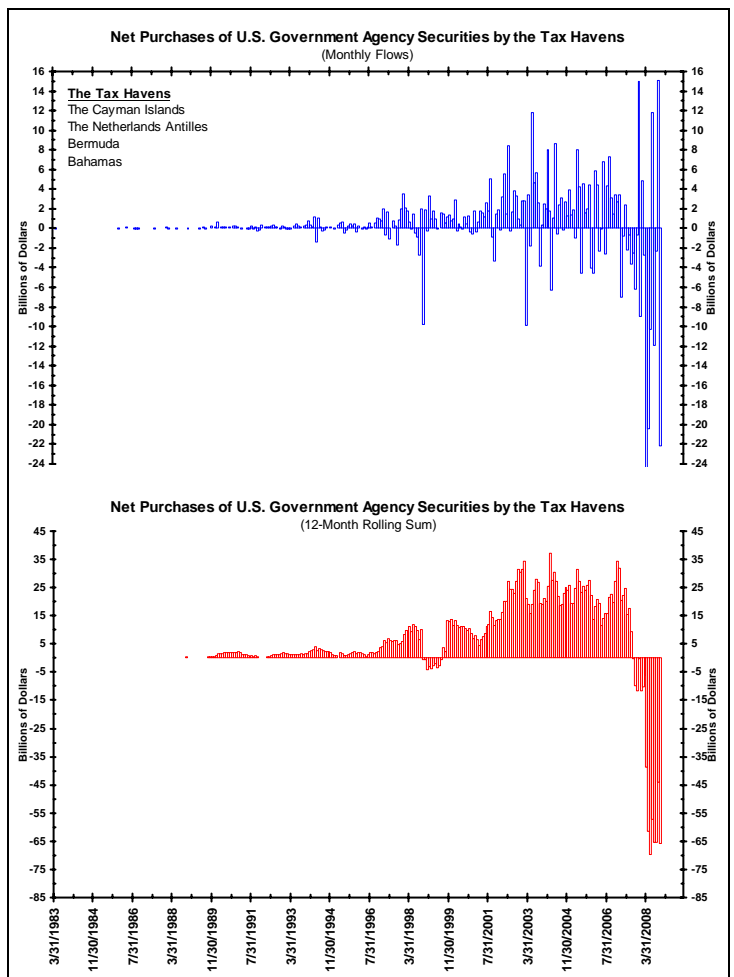
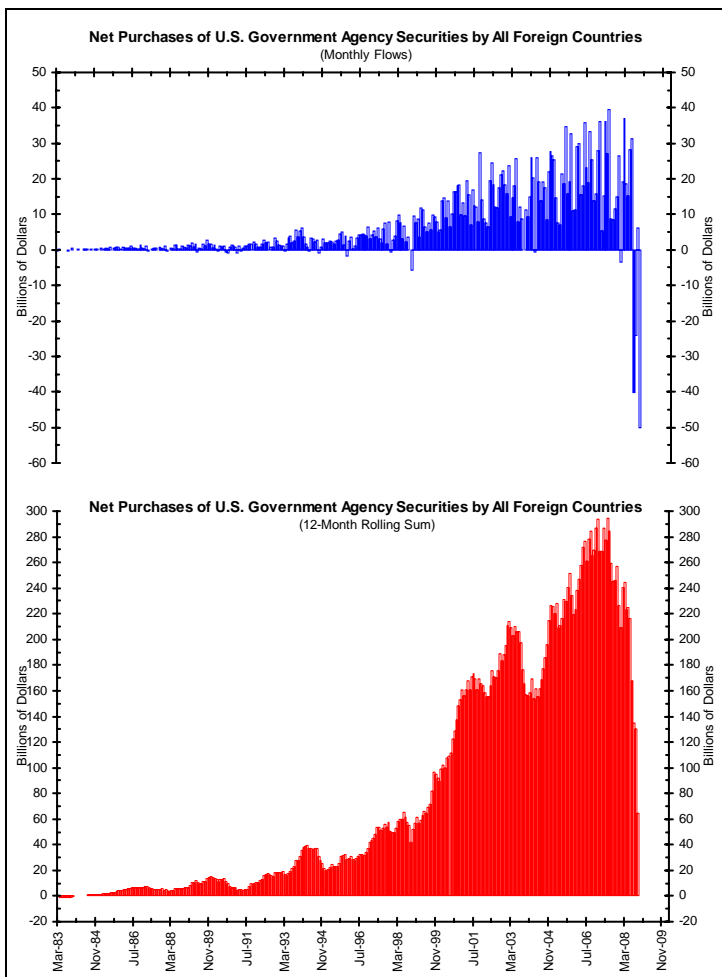
## Foreigners Continue Selling U.S. Agency Securities

Last month we viewed September's rebound in net purchases of U.S. agency securities by All Foreigners with some skepticism. Although foreigners were net purchasers of agencies in September, we noted that the large majority of individual countries were actually net sellers. In fact, the hedge funds domiciled in the Caribbean tax haven countries were the only real group of buyers. We concluded with the following:

*Apparently the tax havens, where many hedge funds operate, viewed the government conservatorship of the GSEs as an all-clear signal to jump back into the agency market. Given that this data is only current through*

*September, and knowing the pain that most hedge funds felt during October, next month's data should prove to be very interesting. If the hedge funds disappear as one of the largest buyers of agency securities, a large net selling by All Foreigners in October is a very distinct possibility.*

This morning's release of October TIC flows shows that All Foreigners were net sellers of a record \$50.22 billion for the month, as the blue bars on the left chart show. As the blue bars on the right chart illustrate, this net selling can largely be attributed to the \$22.19 billion in net sales by the Caribbean tax haven countries.



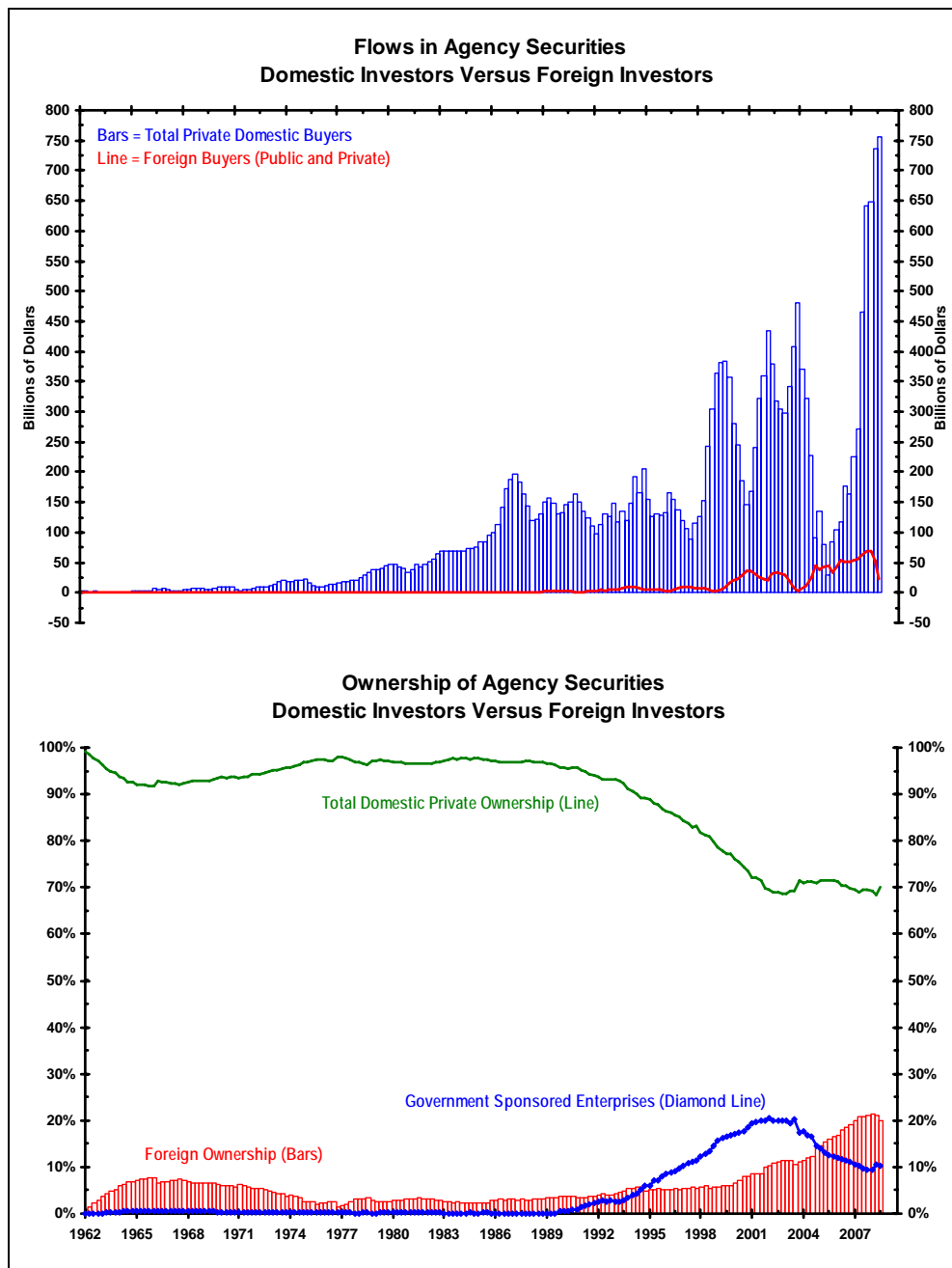
As the Federal Reserve's recently released Flow of Funds data shows, foreigners accounted for 19.82% of all agency ownership in the U.S. as of September 30, 2008. This is shown in the red bars on the bottom panel below.

When compared to the 69.95% of agency securities owned domestically, this may seem trivial. However, it is worth noting that foreign ownership of agencies when compared to domestic or GSE ownership has been growing.

If recent pains in the hedge fund world are going to drive foreigners away from agency securities,

another group will have to step up their net purchases to offset any further losses should foreign ownership continue to fall.

Luckily, with the holidays upon us, the U.S. government has been in a charitable mood. The Federal Reserve's November 25<sup>th</sup> announcement to purchase \$100 billion of agencies should help make up for any lost interest from foreigners. However, as is the case with any of the [medicated markets](#), this is at best a temporary fix.



<b>Net Purchases of U.S. Treasury Notes and Bonds Broad Regions</b>							
	<b>All Foreign Countries</b>	<b>Total Asia</b>	<b>Total Europe</b>	<b>Total Latin America</b>	<b>Asia less Japan</b>	<b>Europe less the U.K.</b>	<b>All Foreign less the U.K. &amp; Tax Havens</b>
<b>Monthly Net Purchases of U.S. Treasury Notes and Bonds (billions of \$)</b>							
10/31/2008	34.67	26.43	11.76	1.75	13.49	-4.62	8.02
9/30/2008	20.74	-5.77	29.08	7.19	2.12	-0.50	-20.51
8/31/2008	32.84	9.13	16.84	6.55	19.39	1.28	4.05
5 Year High (date)	76.96 4/30/2008	32.31 3/31/2004	51.68 4/30/2008	31.27 1/31/2005	19.39 8/31/2008	21.05 10/31/2006	44.70 1/31/2008
5 Year Low (date)	-9.36 7/31/2007	-51.93 8/31/2007	-17.80 12/31/2007	-22.89 5/31/2007	-28.09 8/31/2007	-17.82 7/31/2007	-54.89 8/31/2007
<b>Net Purchases Percentile Ranking Of Its 5 Year Range</b>							
10/31/2008	51.0%	93.0%	42.5%	45.5%	87.6%	34.0%	63.2%
9/30/2008	34.9%	54.8%	67.5%	55.5%	63.6%	44.6%	34.5%
8/31/2008	48.9%	72.5%	49.9%	54.4%	100.0%	49.1%	59.2%
<b>12 Month Rolling Sum of Net Purchases of U.S. Treasury Notes and Bonds (billions of \$)</b>							
10/31/2008	363.14	98.80	189.32	66.38	100.53	-4.14	132.33
9/30/2008	383.40	72.78	220.56	77.74	77.86	8.44	138.02
8/31/2008	386.96	68.92	223.52	74.83	70.76	20.14	159.15
5 Year High (date)	403.20 4/30/2004	267.73 8/31/2004	268.03 4/30/2008	92.55 1/31/2008	103.17 4/30/2006	45.16 8/31/2005	324.75 4/30/2004
5 Year Low (date)	169.88 8/31/2007	-67.85 12/31/2007	26.26 8/31/2004	-16.46 4/30/2006	-20.47 12/31/2007	-37.36 11/30/2007	-6.51 12/31/2007

<b>Net Purchases of U.S. Government Agency Securities Broad Regions</b>							
	<b>All Foreign Countries</b>	<b>Total Asia</b>	<b>Total Europe</b>	<b>Total Latin America</b>	<b>Asia less Japan</b>	<b>Europe less the U.K.</b>	<b>All Foreign less the U.K. &amp; Tax Havens</b>
<b>Monthly Net Purchases of U.S. Government Agency Securities (billions of \$)</b>							
10/31/2008	-50.22	-16.45	-11.54	-21.85	-14.32	-5.78	-22.27
9/30/2008	6.17	-12.12	0.23	18.91	-10.84	-4.47	-13.62
8/31/2008	-24.19	-14.94	-4.83	-2.11	-12.03	-7.53	-24.54
5 Year High (date)	39.59 6/30/2007	22.47 5/31/2007	30.60 3/31/2008	18.91 9/30/2008	19.25 5/31/2007	5.62 3/31/2008	28.98 6/30/2007
5 Year Low (date)	-50.22 10/31/2008	-16.45 10/31/2008	-11.54 10/31/2008	-31.17 3/31/2008	-14.32 10/31/2008	-7.53 8/31/2008	-26.65 7/31/2008
<b>Net Purchases Percentile Ranking Of Its 5 Year Range</b>							
10/31/2008	0.0%	0.0%	0.0%	18.6%	0.0%	13.3%	7.9%
9/30/2008	58.1%	9.6%	22.5%	100.0%	3.8%	23.3%	23.4%
8/31/2008	20.0%	2.2%	9.6%	63.8%	0.0%	0.0%	3.8%
<b>12 Month Rolling Sum of Net Purchases of U.S. Government Agency Securities (billions of \$)</b>							
10/31/2008	64.82	42.02	76.27	-58.26	24.52	-25.67	28.47
9/30/2008	129.91	62.22	98.03	-36.36	39.87	-16.40	59.52
8/31/2008	135.22	85.85	103.75	-61.62	62.44	-10.32	86.53
5 Year High (date)	294.14 6/30/2007	158.74 6/30/2007	134.40 5/31/2008	53.71 12/31/2006	133.63 11/30/2007	35.51 1/31/2007	223.80 6/30/2007
5 Year Low (date)	64.82 10/31/2008	42.02 10/31/2008	33.14 3/31/2004	-63.02 7/31/2008	24.52 10/31/2008	-25.67 10/31/2008	28.47 10/31/2008

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
<b>Monthly Net Purchases of U.S. Corporate Bonds (billions of \$)</b>							
10/31/2008	-13.10	-1.48	-7.76	-4.69	-1.09	-7.70	-10.55
9/30/2008	-8.44	-3.55	-4.38	-0.41	-3.02	-7.29	-11.45
8/31/2008	-13.13	1.81	-11.57	-3.47	0.09	-8.94	-6.57
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	22.08 9/30/2004
5 Year Low (date)	-13.13 8/31/2008	-3.55 9/30/2008	-11.57 8/31/2008	-6.41 6/30/2007	-3.02 9/30/2008	-11.66 9/30/2007	-11.45 9/30/2008
<b>Net Purchases Percentile Ranking Of Its 5 Year Range</b>							
10/31/2008	0.0%	9.1%	5.7%	5.8%	12.0%	15.1%	2.7%
9/30/2008	5.1%	0.0%	10.7%	20.1%	0.0%	16.7%	0.0%
8/31/2008	0.0%	1.1%	0.0%	9.9%	0.0%	10.4%	0.0%
<b>12 Month Rolling Sum of Net Purchases of U.S. Corporate Bonds (billions of \$)</b>							
10/31/2008	122.05	89.00	-3.92	31.39	57.54	-43.08	48.14
9/30/2008	168.06	109.72	11.73	41.57	67.66	-36.08	78.44
8/31/2008	192.42	130.94	11.65	43.89	77.76	-40.45	96.95
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)	122.05 10/31/2008	27.78 12/31/2003	-3.92 10/31/2008	29.51 3/31/2008	15.56 1/31/2004	-43.08 10/31/2008	48.14 10/31/2008

### 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
<b>Monthly Net Purchases of U.S. Equities (billions of \$)</b>							
10/31/2008	-6.12	7.31	-15.79	3.58	2.69	-9.12	-6.11
9/30/2008	11.52	-0.40	-2.95	14.31	-1.12	-12.66	-8.16
8/31/2008	-0.98	-2.21	5.20	-4.52	-2.35	-0.04	-2.05
5 Year High (date)	42.04 5/31/2007	20.16 10/31/2007	23.44 5/31/2007	14.46 4/30/2007	17.79 1/31/2008	13.54 5/31/2007	24.62 1/31/2008
5 Year Low (date)	-40.62 8/31/2007	-4.81 7/31/2008	-15.79 10/31/2008	-24.52 8/31/2007	-5.73 7/31/2008	-12.66 9/30/2008	-13.25 8/31/2007
<b>Net Purchases Percentile Ranking Of Its 5 Year Range</b>							
10/31/2008	41.7%	48.5%	0.0%	72.1%	35.8%	13.5%	18.8%
9/30/2008	63.1%	17.7%	30.9%	99.6%	19.6%	0.0%	13.4%
8/31/2008	47.9%	10.4%	52.2%	51.3%	14.4%	38.3%	29.6%
<b>12 Month Rolling Sum of Net Purchases of U.S. Equities (billions of \$)</b>							
10/31/2008	69.11	73.61	14.38	-23.56	60.06	-19.58	56.50
9/30/2008	105.50	73.18	44.46	-21.34	64.22	-2.96	81.48
8/31/2008	96.59	74.39	39.89	-28.30	66.03	7.50	91.24
5 Year High (date)	210.50 7/31/2007	88.82 6/30/2008	113.50 10/31/2006	84.90 7/31/2007	85.87 5/31/2008	37.00 5/31/2006	122.09 3/31/2008
5 Year Low (date)	18.57 6/30/2004	-5.21 3/31/2004	12.54 6/30/2004	-48.30 7/31/2008	-1.34 4/30/2007	-19.58 10/31/2008	8.51 4/30/2005

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