Who Bought the $1.6 Trillion of New US National Debt Over the Past 12 Months?

by Wolf Richter • Oct 16, 2018 • 2 Comments

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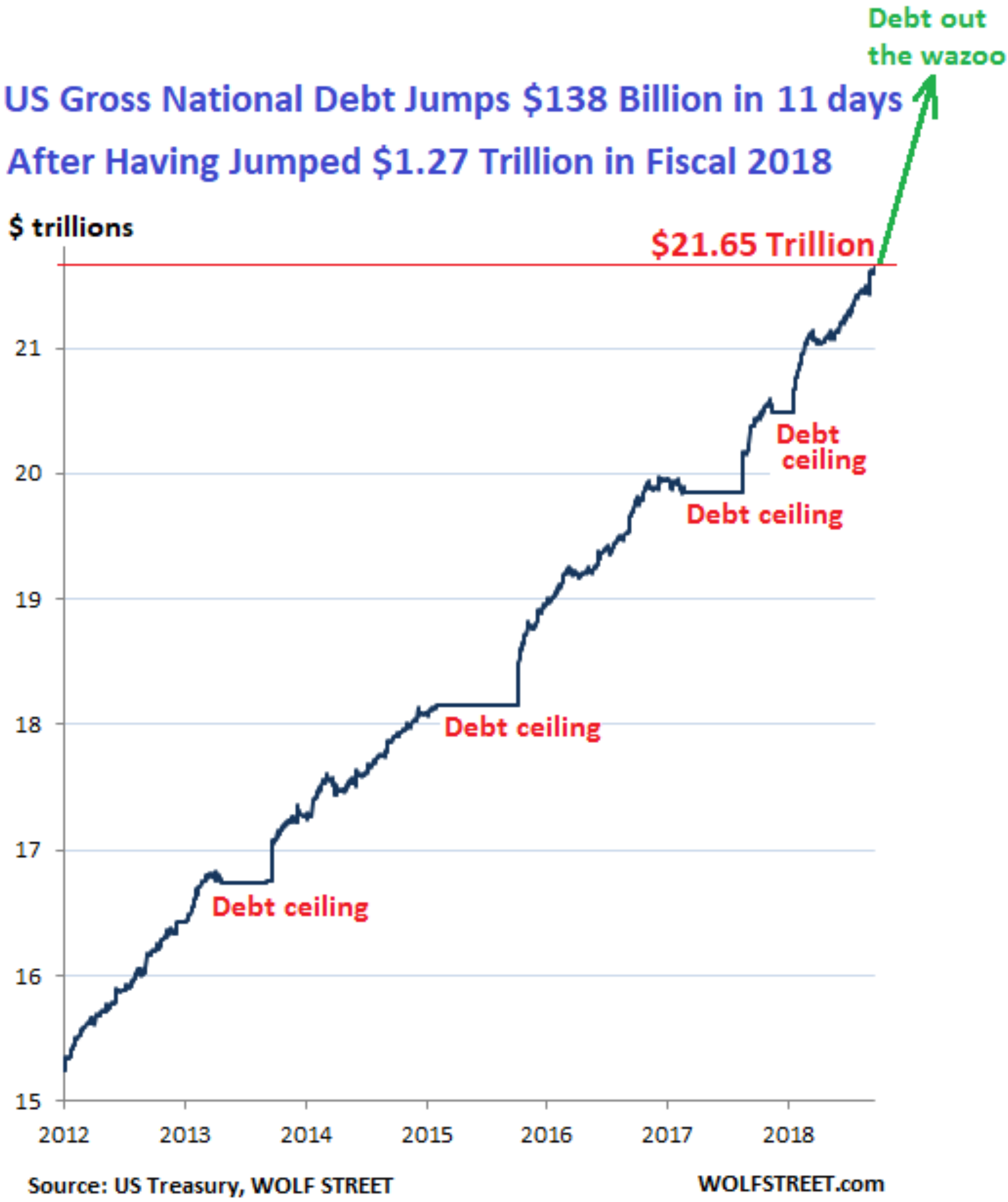
As a flood of US debt washes over the globe, someone has to buy.

So far in this fiscal year, which just started on October 1, the US gross national debt – the total debt issued by the US government – has jumped by $138 billion in just 11 business days, fueled by a stupendous spending binge and big-fat tax cuts, to a breath-taking $21.654 trillion, after having jumped $1.27 trillion in fiscal 2018. And these are the good times!



So who owns and buys all this debt? This is a critical question going forward, because the flood of new debt inundating the market is spectacular, and someone better buy it. Today we got another batch of answers from the US Treasury Department's TIC data on this increasingly edgy topic.

In August, foreign private-sector investors (banks, hedge funds, individuals, etc. outside the US) and "foreign official" investors (central banks, governments, etc.) owned $6.287 trillion of marketable Treasury securities. This was up $37.6 billion from August last year but was about flat going back to the beginning of 2016.

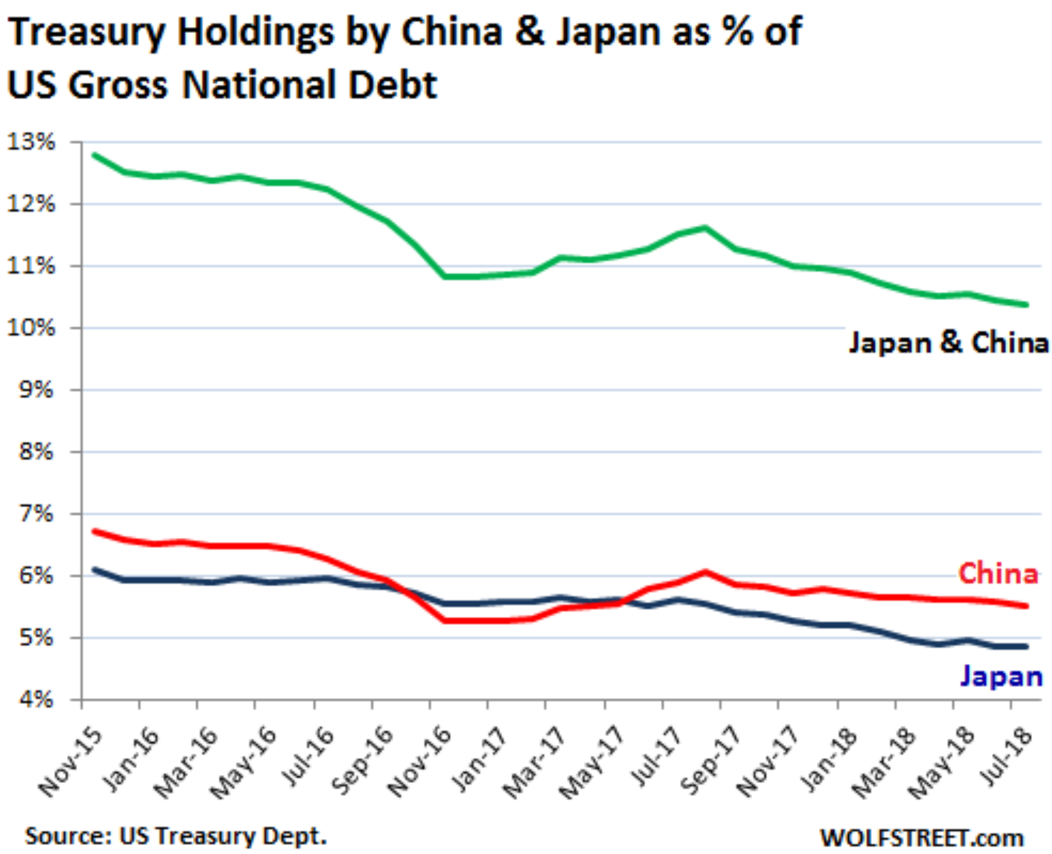
Over the same 12-month period through August 31, 2018, the US gross national debt jumped by $1.614 trillion. So who bought it?

The biggest foreign holders didn't buy; they shed.

China's holdings of Treasury securities have been inching down ever so gingerly with its holdings at the end of August at $1.165 trillion, down $37 billion from a year earlier.

Japan's holdings fell by $72 billion year-over-year to $1.03 trillion and are now down by $210 billion from the peak at the end of 2014:

China and Japan are still by far the largest foreign creditors of the US. But their role is diminishing, based on two factors: the ballooning US debt, and their declining holdings of this debt. Their combined holdings (green line in the chart below) dropped from about 13% of total US government debt at the end of 2015 to 10.2% in August, with Japan's holdings (blue line) accounting for 4.8%, and China's (red line) for 5.4%:



The next dozen.

Among countries, the next 12 largest holders of US Treasuries are far behind China and Japan. Seven are tax havens for foreign corporate and/or individual entities (marked in bold in the list below). Belgium is on the list because it is home to Euroclear, a massive outfit that serves as transit point and fiduciary for all kinds of assets owned by central banks, broker dealers, commercial and investment banks, investment managers, global custodians, and supranational organizations.

The list shows the year-over-year change and the total amount of Treasury securities held; the biggest year-over-year jumps were in Brazil ($80 billion) and Belgium ($57 billion), and the biggest declines in the Cayman Islands (-$45 billion) and Taiwan (-$19 billion):

- Brazil: +$80 billion to $318 billion
- **Ireland**: +$7 billion to $316 billion
- UK ("**City of London**"): +$48 billion, to $273 billion
- **Switzerland**: -$16 billion to $232 billion
- **Luxembourg**: +11 billion to $224 billion
- **Cayman Islands**: -$45 billion to $198 billion
- **Hong Kong**: -$1 billion to $193 billion
- Saudi Arabia: +$32 billion to $170 billion
- Taiwan: -$19 billion to $163 billion
- Belgium: +$57 billion to $155 billion
- India: +2 billion to $141 billion
- **Singapore**: +$11 billion to $130 billion

Russia's Treasury holdings no longer matter. It has liquidated 90% of its holdings, bringing them from $153 billion in May 2013 to just $14 billion in August.

All foreign entities combined – from central banks to individuals – owned $6.287 trillion of US Treasury securities in August, up $37.6 billion from August a year ago. This brought their ownership of US gross national debt to 29.2%.

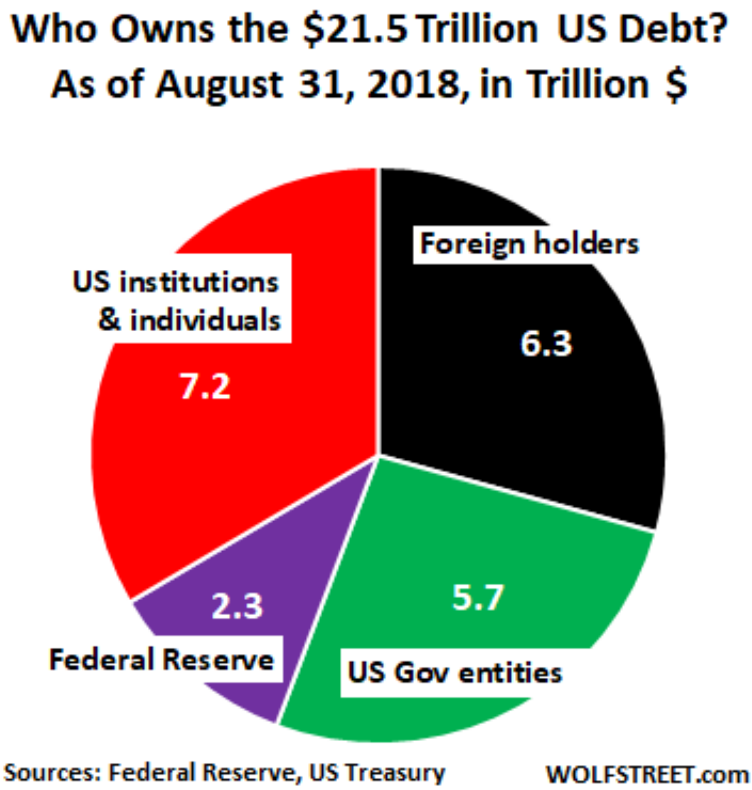
Over the same period, the US gross national debt surged by $1.613 trillion to $21.459 trillion.

This leaves US entities and individuals as owners of the remaining 70.8% of the US debt, or $15.172 trillion. It's a dirty job, but someone has to do it:

- US government holdings (USG pension funds, Social Security, etc.) **increased by $21 billion** over the 12-month period, bringing the "debt held internally" to $5.673 trillion, or 26.4% of the gross national debt.
- The Federal Reserve **shed $152 billion** through the end of August as part of its QE unwind, reducing its pile to $2.294 trillion, or 10.7% of

the total.

- American institutional and individual investors – pension funds, hedge funds, banks, insurance companies, corporations such as Apple, and regular folks like myself, directly and indirectly, **added $1.517 trillion** to their holdings over the 12-month period, and owned $7.185 trillion, or 33.5% of the gross national debt!



Why might American institutions and individuals be buying such large amounts of US Treasury securities?

Part of the answer is in yields. They're becoming attractive to investors. All yields for maturities of three months and longer are now above the rate of inflation as measured by CPI (2.27%), with the three-month yield at 2.30% today and the 10-year yield at 3.16%. By comparison, the S&P 500 dividend yield is currently only 1.86%.

For the US government, this mix of rising interest rates and ballooning debt is going to get increasingly expensive.

But yield investors – a beaten down bunch – now have options beyond the sheer “financial repression” of the past 10 years. Read… Amid Market Rout, Decade of “Financial Repression” Ends, Capital Preservation Suddenly is a Thing

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