Global Macro Research

9 July 2025

7:59 minute read

#China / #United States / #Asset prices

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Is China selling its US Treasuries?

After accounting for the use of custodians and acknowledging the role of state-owned enterprises, there seems to be limited evidence of China actively reducing its exposure to US assets. That said, holdings as a share of foreign assets may have been falling, while opportune sales could occur in an attempt to recruit 'bond vigilantes' and moderate US trade policy.

Key Takeaways

- We have seen little evidence of China selling US Treasuries in recent years, despite growing unease by Chinese policymakers.
- After adjusting for the likely use of custodian services, such as Euroclear, we believe that China's ownership of USTs is proving relatively stable.
- Banks and state-owned enterprises play an increased role in managing China's foreign assets and currency, while also helping to disguise the scale and composition of reserves.
- Ongoing current account surpluses could however suggest that the share of China's assets denominated in USD has been falling.
- While China could opt to sell USTs at opportune times in the hope of recruiting "bond vigilantes" to moderate US tariff policy, it is not clear that an abrupt and complete exit is a credible threat.
- Aside from the self-inflicted losses that China would incur and the potential for significant short-term market disruptions, 'weaponisation' can be offset by the Fed.
- That said, should China gradually reduce exposure to US assets both in absolute and relative terms, this would temper support for US bonds and the USD.

Asian savers in the spotlight

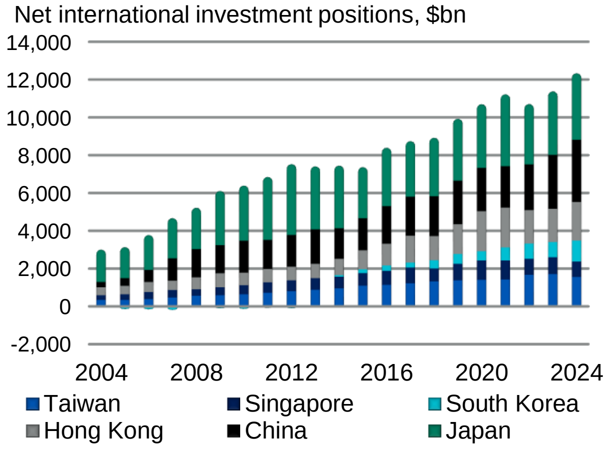
In early May both US long-dated Treasuries prices and the dollar weakened, a combination that signals an outflow of money from US assets.

Some fingers pointed the blame at Asia.

Ownership of US government debt by institutions in Asia has long been a point of focus since a "savings glut" – a term coined by former Federal Reserve (Fed) Chair Ben Bernanke in 2005 – emerged in the region.

Indeed, the net international investment positions of Asia's large exporters indicate that savings continue to be funnelled into foreign assets (see Figure 1). The larger the holdings, the greater the risk if portfolios are rebalanced away from the US.

Figure 1: Asian savings glut grows



Source: Aberdeen, Haver, July 2025

Market moves indicate that some of the pressure on US assets emanated from the region.

Some selling pressure on US Treasuries (USTs) occurred during Asian trading hours. While a sharp strengthening in the Taiwanese dollar and other Asian currencies against the greenback in early May led to speculation of a 'Mar-a-Lago' accord (i.e. an agreement between Asian and US policymakers to weaken the US dollar).

Policymakers denied that any currency agreement was made and such speculation died down. Nevertheless, the sharp move has raised concerns over US vulnerability to selling by large holders of USTs in Asia, most notably China.

Indeed, one of the oft-touted leverage points for Beijing over Washington is the threat that China could dump US assets in a dispute, creating turmoil in US financial markets and squeezing the government's fiscal capacity.

For now, there is little indication that China is considering a fire-sale, but tensions with the US could motivate a gradual sale of USTs. Reports indicate that Beijing is concerned about the US' ability to leverage the dollar and its USD reserves as a geopolitical tool, particularly considering China's significant holdings.

This unease has been exacerbated by the freezing of Russia's foreign exchange (FX) reserves held in the US and its allies as part of their sanctions against Russia following its full-scale invasion of Ukraine in 2022.

The concerns have been amplified by senior Republican figures, such as Senator Lindsey Graham, who called for the suspension of payments to China on its UST holdings. The Miran 'plan' also considered forcing UST holders to swap into perpetual bonds, effectively incurring losses.

Data from the US Treasury department show China's holdings of long-term US assets to be declining. However, the Treasury report does note valuation changes were a significant factor in the fall. This is likely exaggerating the change in holdings, particularly between 2022 and 2023, when US yields rose notably (see Figure 2).

Figure 2: China's US asset holdings fell after Russian sanctions but valuation effects are significant

Source: Haver, US Treasury, Aberdeen, July 2025

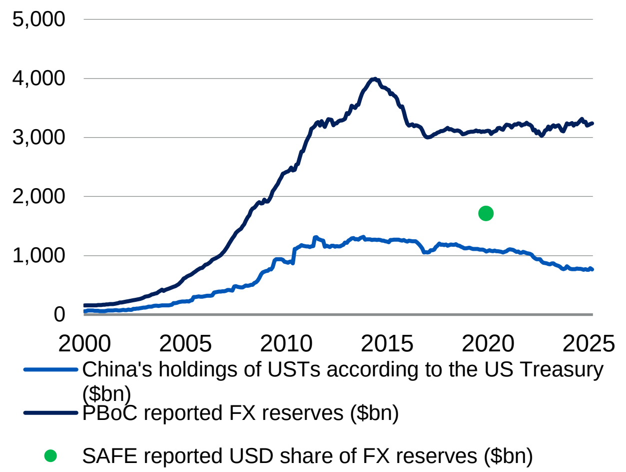
China's holdings clouded by "custodial bias"

Moreover, China's ownership of USTs is more opaque and harder to track than these data imply, and knowing exactly what China's exposure is and how that's been changing remains a challenge.

Official People's Bank of China (PBOC) data show FX reserves holding broadly stable since 2017 but do not provide a breakdown of asset ownership.

The latest official disclosure dates to 2019 and comes from China's State Administration of Foreign Exchange (SAFE), which calculated the share of FX in USD at 55%, around $600bn above that implied by US Treasury data (see Figure 3).

Figure 3: FX reserves hold steady



Source: Haver, US Treasury, Aberdeen, July 2025. Note: SAFE's last disclosure was for 2019.

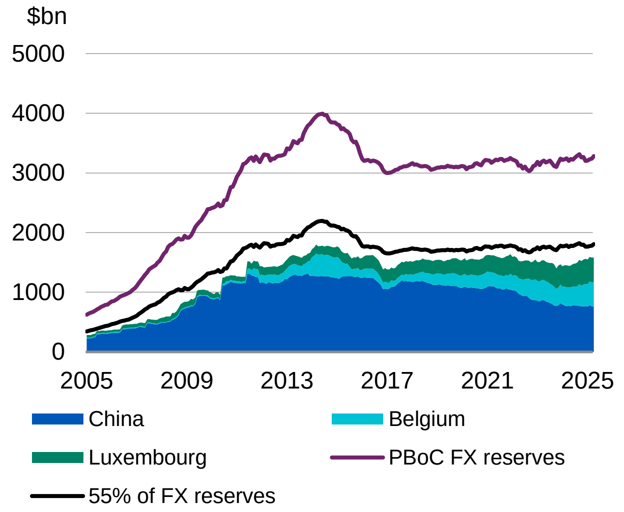
The US Treasury data could still suggest that China's share of USD reserves has been falling since 2019. However, in addition to valuation distortions to the US Treasury data, there is also a "custodial bias" that contributes to the large recorded foreign holdings in major financial centres, such as Belgium, the Caribbean banking centres, Luxembourg, Switzerland, and the UK.

Indeed, China may have pivoted towards custodians precisely to obscure its holdings of USTs.

Brad Setser of the Council on Foreign Relations concludes that by adding holdings in Luxembourg and Belgium – which reflects Euroclear deposits – we get a better proxy for China's holdings of USTs (see Figure 4).

This implies that China's UST holdings may have been stable since 2017, in contrast to the US Treasury data, which suggest a gradual reduction.

Figure 4: Custodians used to manage reserves



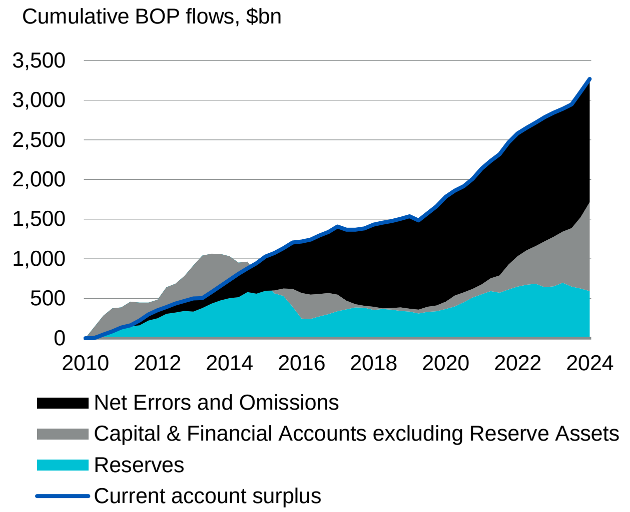
Source: Aberdeen, PBOC, US Treasury, Haver, July 2025

Balance of payments data point to further obfuscation

The stability of official FX reserves over the past 10 years, despite large current account surpluses, points to further obfuscation as well. Put simply, if official reserves are not used to mop up current account surpluses, China must find somewhere else to put them.

Since 2015 balance of payments (BoP) data show that other line items – e.g. net errors & omissions and the financial account – increasingly capture BoP dynamics, rather than official reserves (see Figure 5).

Figure 5: Continued current account surpluses not pushing up FX reserves



Source: Aberdeen, Haver, July 2025

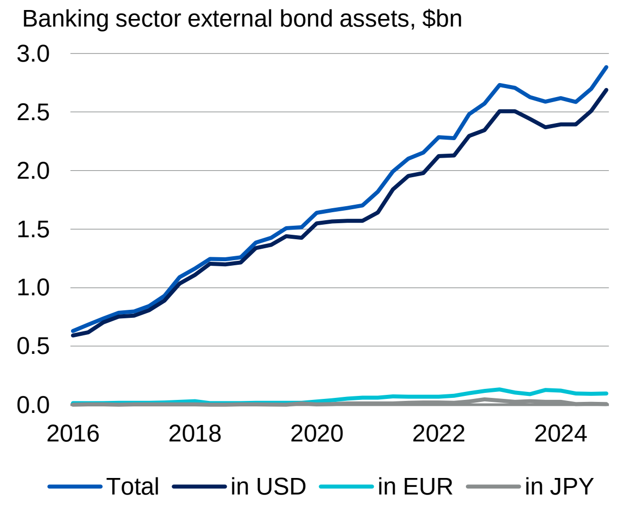
The rise in net errors & omissions – particularly over 2015-2016, which also required the PBOC to sell FX reserves to support the currency – largely reflected capital flight.

However, since 2020 the financial account ex. reserves has become increasingly important. This change likely reflects the increased role of China's state banks, exporters and other state-owned enterprises in managing FX.

One other sign of this is that since 2017 China's banks have grown their ownership of net foreign assets. This could signal that banks have become more important recently as an avenue for China to manage its ownership of USTs.

Indeed, while holdings are modest, the banking sector's ownership of foreign bonds is heavily weighted to dollar-denominated bonds (see Figure 6).

Figure 6: China's banking sector shows limited signs of USD bond aversion



Source: Aberdeen, Haver, July 2025

All this gives weight to the view that China is reluctant to divulge its true exposure to USTs, or more broadly the magnitude of its foreign assets and how it manages them.

Given this substantial obfuscation, current account dynamics combined with custodial data could suggest foreign asset accumulation has continued; hence, US assets as a share of China's total foreign asset holdings may have declined.

'Weaponising' USTs is an unlikely path

A sudden dumping of USTs – perhaps sparked by a failure to reach a trade deal and a return to near-embargo tariff levels – would not only sharply increase yields, but it could also result in significant global financial market disruptions.

That said, there are reasons to believe that, while China could engage in modest sales at opportune times in the hope of recruiting "bond vigilantes" to moderate US tariff policy, it is not clear that an abrupt and complete exit is a credible threat.

Aside from the self-inflicted losses that China would incur and the potential for significant short-term market disruptions, weaponisation can be offset. The ability of the Fed to act as a market stabiliser suggests the threat of sales and a sustained dislocation in the UST market is somewhat hollow.

That said, if China and other large asset owners gradually reduce exposure to US assets, this could still put steady downward pressure on the dollar and upward pressure on yields.

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AA-140725-196108-46

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