

10-Year Treasury Yield
8:45 – 4.54%
9:15 – 4.53%

Economics Group Domestic

Jason Schenker, Economist
jason.schenker@wachovia.com • 704 383 3695

Net Foreign Security Purchases Hit a Record Level

November 16, 2005

Today's record level of net capital inflows was a surprise to the market place. The total inflow of capital in September was \$101.9 billion. This was 14.5 percent higher than the \$89.0 billion in August, and significantly higher than a consensus-anticipated decline to \$75.0 billion.

Net Capital Inflows

Net capital inflows were very strong in September, and came in at a record \$101.9 billion. This was 14.5 percent greater than the previous record of \$89.0 billion, which was set in August. This strong figure engendered dollar strength

Private Cash Washes Up On Shore

The increase of net capital inflows in September was the result of an increase in domestic securities purchased. Domestic sales of securities rose to a net \$118.1 billion. The lion's share of this was \$113.8 billion in private net purchases, while official net purchases remained relatively flat in September at \$4.3 billion, versus \$4.4 billion in August. Clearly, the private investors, rather than central bank intervention, are sending cash into the states. In fact, the net private security purchases in September were 36.3 percent greater than August's figure of \$83.5 billion.

In September versus October, three of the four categories of investments saw net foreign purchase increases. Private purchases of Treasuries fell by \$2.1 billion, government agencies rose by \$1.5 billion, corporate bond purchases rose by \$10.8 billion and net equity purchases rose by \$20 billion. Clearly, the attraction of domestic equities and bonds to foreign investors dominated the capital inflows.

A Detraction From Net Purchases

In August, net foreign securities purchased by domestics contributed to the net inflows, in September, they deducted \$16.2 billion from it. There were net decreases in the net purchases of foreign bonds (-\$9.1 billion) and equities (-\$7.0 billion) by domestic entities.

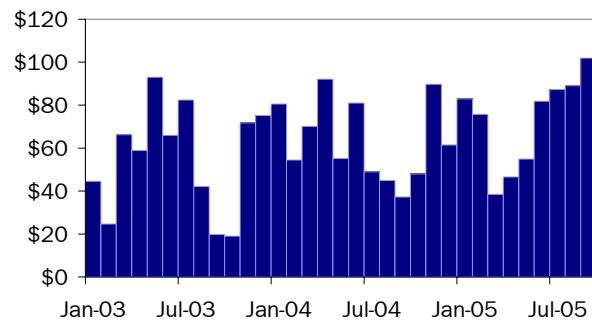
Changes in Treasury Holdings

The top holders of U.S. treasuries remain Japan, China, the U.K., the Caribbean, Taiwan and OPEC. Of the top holders, only Taiwan reduced their holdings in September, and only by a slight \$700 million. In stark contrast, the U.K. increased their holdings of Treasuries by \$14.2 billion, and China increased their holdings by \$5.9 billion. Japan remains the largest holder by far, with \$684.6 billion as of September.

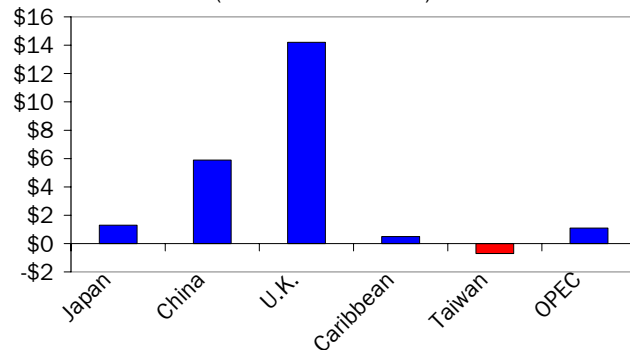
OPEC and Treasuries

With record oil prices in September, OPEC increased their Treasury holdings, but only by a slight \$1.1 billion (middle graph). This, however, has not reversed their large sell-off of Treasuries that occurred earlier in the year (bottom graph). Selling a dollar-denominated commodity may offer enough dollar exposure for their liking.

U.S. Net Capital Inflows
(in billions of dollars)



Top Holders of U.S. Treasuries
Monthly Changes in Holdings
(in Billions of Dollars)



OPEC Treasury Holdings
and The Price of Crude

