



# Economics Group

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## Less Official Demand for Treasuries Slows Long-Term Inflows

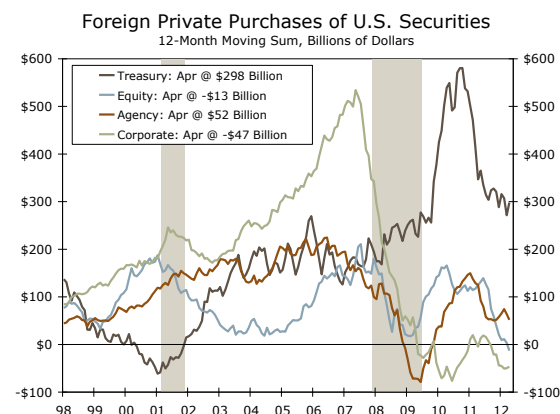
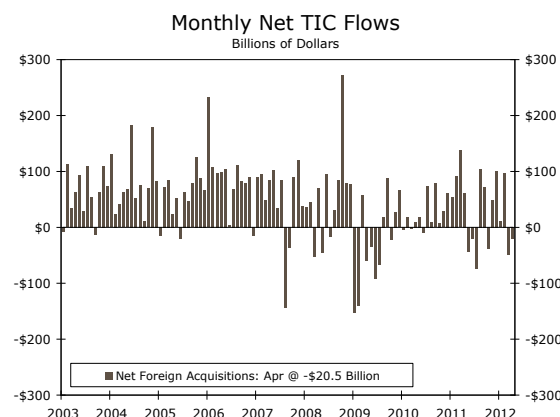
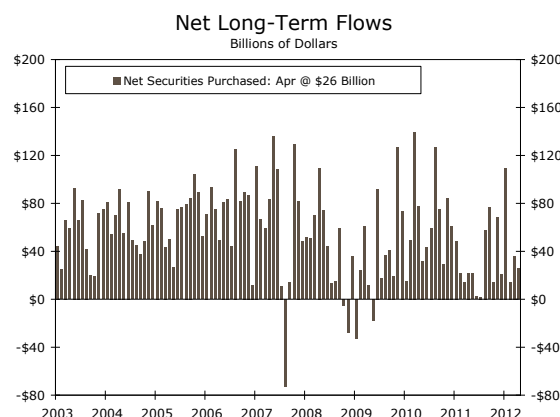
*Net long-term inflows slowed in April, as foreign official investors bought fewer Treasuries and domestic investors sold fewer foreign bonds. Overall outflows slowed on a smaller decline in bank liabilities.*

### Long-Term Inflows Slow as Official Treasury Purchases Drop

Net long-term inflows slowed in April to \$25.6 billion from \$36.0 billion in March. Foreign official investors bought just \$10.7 billion in U.S. long-term securities, down from \$28.6 billion in March. The biggest difference came from a drop in purchases of Treasury bonds and notes to \$15.1 billion from \$33.9 billion in March. Official investors also sold slightly more government agencies and bought slightly more equities. Corporate bond purchases were minimal. Private investors, on the other hand, bought \$15.4 billion in long-term U.S. securities in April, after selling \$6.7 billion worth in March. Private investors bought a net \$22.2 billion in Treasury bonds and notes, after selling \$13.8 billion worth in the prior month. They also sold a lot more government agency debt and bought a lot less in equities. We expected to see an increase in purchases of Treasury notes and bonds since the 10-year Treasury yield fell sharply in April. Indeed, total private and official purchases rose to \$37.3 billion from \$20.1 billion in March. As the Eurozone debt crisis returned to the front burner in April, private investors sought the safety of U.S. long-term debt. Foreign official investors did the same, but bought fewer Treasury securities in April than did private investors, likely due to the fact that they bought a lot of the securities in March. The light demand for equities was also expected as the stock market was little changed during the month. Both private and official investors shunned government agency debt, likely due to increased prepayment risk on mortgages due to record low mortgage rates driving another wave of refinancing. Corporate bonds also saw little favor as investors preferred safer government debt amid rising risk aversion. Also weighing on long-term inflows was the fact that domestic investors were slight net buyers of foreign securities in April, after selling a net \$14.1 billion worth in March. The fact that domestic investors were heavy sellers of such securities in March likely limited their sales of such securities in April despite growing concerns about Europe and slowing global growth.

### Short-Term Outflows Slow on Rebound in Foreign Liabilities

Short-term outflows slowed to \$5.6 billion in April from \$9.4 billion in March. The primary reason was an increase in private foreign liabilities of U.S. customers that are managed by U.S. banks or broker dealers to \$11.3 billion versus a decline of \$5.7 billion in the prior month. This helped to somewhat offset a net \$16.2 billion in sales of U.S. Treasury bills by foreigners, with private investors selling \$5.9 billion and official investors selling \$10.3 billion. Since short-term yields were little changed during the month, this suggests domestic investors were likely net buyers of bills. Rounding out the report, banks' own liabilities fell by just \$23.3 billion after falling \$59.4 billion in March. This brought total net TIC flows in April to -\$20.5 billion, less than March's -\$48.6 billion. Looking ahead, we expect to see stronger long-term inflows for May, as foreigners flocked to the safety of Treasuries as the European debt crisis intensified even further.



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