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Can the World Walk Away from U.S. Treasuries? Indispensable, but Not Unlimited

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Foreign Demand Still Anchors the U.S. Treasury Market — But the Map Has Quietly Changed

Amid expanding U.S. fiscal deficits, persistently elevated interest rates, and growing geopolitical scrutiny of American financial leadership, recent data on **foreign holdings of U.S. Treasury securities** reveals a more subtle and resilient landscape.

The accompanying chart demonstrates that foreign investors maintain holdings of **trillions of dollars in U.S. Treasuries**, highlighting the persistent centrality of the dollar and the U.S. government bond market in the global financial system. However, under this apparent stability, the **composition of foreign demand has changed markedly**.

This development does not reflect a withdrawal, but rather a process of **rebalancing, heightened financial intermediation, and strategic modification**.

The Four Non-Negotiable Constraints of Treasury Divestment

Constraint 1: Scale and Liquidity

Foreign investors currently hold approximately **$9.3 trillion** in U.S. Treasuries, representing **34–36% of all marketable debt outstanding**. Average daily trading volume ranges from **$600 to $750 billion, and can exceed $1 trillion** during periods of market stress. At this scale, even considerable sales constitute manageable flows rather than disruptive shocks.

Constraint 2: No Functional Substitute

U.S. Treasuries uniquely offer depth across maturities, unparalleled liquidity, global collateral utility, and legal certainty. In contrast, euro-area bonds, Japanese government bonds, gold, and digital assets each lack at least one of these attributes at scale.

Constraint 3: Financial Intermediation

Ownership has transitioned from sovereign concentration to **institutional intermediation**. Custodial and clearing hubs now absorb sales and redistribute risk, therefore maintaining overall demand.

Constraint 4: Yield Elasticity

Treasury markets clear through price adjustments. Rising yields attract pensions, insurers, banks (meeting liquidity coverage ratio and high-quality liquid asset requirements), and asset managers, thereby generating replacement demand.

Stress-Testing the Constraints of U.S. Treasuries

Scenario A – 10% foreign reduction: ~$930B over 3 years (~$1.2B/day).
Outcome: No systemic impact; marginal yield move.
Scenario B – 20% reduction: ~$1.86T over 3 years (~$2.5B/day).
Outcome: Modest yield repricing (15–30 bps); private demand absorbs supply.
Scenario C – 30% reduction (non-historical): ~$2.8T over 2 years (~$5.5B/day).
Outcome: Material repricing (40–70 bps); liquidity remains intact; stress, not failure.
With these market mechanics established, the distribution of holdings by country becomes a decisive factor.

Japan: The Anchor Creditor Remains Firm

We include a chart that at the top stands **Japan**, with approximately **$1,203 billion** in U.S. Treasury holdings. This position is neither accidental nor transitory. Japan's role reflects decades of structural alignment between its reserve-management strategy, its domestic savings surplus, and the unmatched depth and liquidity of the U.S. Treasury market.
Despite frequent speculation that Japan might significantly reduce its exposure—particularly during periods of yen volatility or shifts in Bank of Japan policy—Japanese institutions have consistently remained the **single most important foreign stabilizers of U.S. sovereign financing**. Far from amplifying stress, Japanese demand has historically acted as a counterweight to market volatility, absorbing supply during periods of dislocation rather than contributing to instability.
The chart makes this unmistakably clear: **no other foreign holder comes close to Japan's scale**, and no credible divestment narrative can be constructed without explicitly accounting for Japan's continued participation.

The United Kingdom Overtakes China: A Symbolic and Structural Shift

Perhaps the most striking development visible in the chart is the **United Kingdom's position as the second-largest foreign holder**, with roughly **$888 billion** in U.S. Treasuries—now ahead of China.
This shift is often mischaracterized as solely geopolitical. In fact, it reflects a more technical and substantial development: the emergenc**e of financial centers as custodial hubs**. The United Kingdom's holdings include not only sovereign demand but also the aggregation of institutional, asset-management, and reserve-related flows processed through London's financial system.
China, now holding about **$683 billion**, continues a multi-year trend of gradual normalization rather than rapid disengagement. Beijing has reduced Treasury exposure from prior peaks, but the chart dispels any notion of a wholesale exit. China is still a major creditor—just no longer the dominant one.
The main implication is that **U.S. financing has not become more fragile, but rather more diversified.**

Europe’s Quiet Weight: Belgium, Luxembourg, France, and Ireland

A deeper reading of the chart reveals the understated but powerful role of **continental Europe and offshore financial centers**.

- **Belgium ($481B)**
- **Luxembourg ($426B)**
- **France ($376B)**
- **Ireland ($340B)**

These countries are not simply passive holders. They function as **nodes in the global Treasury custody and settlement system**, hosting central banks, sovereign wealth vehicles, and international asset managers. Their growing presence highlights a key structural truth: **U.S. Treasuries are not simply held—they are intermediated.**
This intermediation strengthens market liquidity, enhances price discovery, and widens the investor base far beyond bilateral sovereign relationships.

Asia Beyond China: Strategic Consistency, Not Withdrawal

Beyond Japan and China, the chart shows sustained participation from **Taiwan ($312B)** and **Singapore ($272B)**—two economies deeply embedded in global trade, reserve accumulation, and dollar-based settlement systems.
The continued holdings of these economies reinforce a wider conclusion: **Asia has not disengaged from U.S. sovereign debt.** Rather, exposure has been redistributed across jurisdictions, maturities, and custodial frameworks designed to mitigate political concentration risk while preserving financial efficiency.

What the Chart Ultimately Tells the Markets

Taken together, the chart conveys four important insights:

1. **Foreign demand for U.S. Treasuries continues strong**, even as yields rise and deficits expand.
2. **The composition of holders has shifted**, away from concentration and toward diversification.
3. **Financial centers now matter as much as sovereign flags**, indicating the institutionalization of Treasury ownership.
4. **There is no viable substitute for U.S. Treasuries at scale**—not in liquidity, not in depth, and not in collateral utility.

5. **What the Complete Map Proves**: Taken together, these 12 holders demonstrate that foreign demand is not monolithic:

- **Anchors** (Japan, China)
- **Financial conduits** (UK, Belgium, Luxembourg, Ireland, Cayman Islands)
- **Stable institutional holders** (Canada, France)
- **Reserve-discipline economies** (Taiwan, Switzerland, Singapore)

Global Bond Yields

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This range constitutes a source of resilience rather than a vulnerability.
Consequently, repeated predictions of an imminent "Treasury buyer strike" have not materialized. The market has recalibrated rather than fractured.

Why the Exit Narrative Collapses Under Its Own Weight

When evaluated objectively and tested versus empirical data, the concept of a global exit from U.S. Treasuries fails not narrowly, but **categorically**.
The evidence indicates not an erosion of the core Treasury market, but rather an adjustment within **a system whose fundamentals continue to be robust**.
The four constraints are decisive:

- **Scale overwhelms intent.** A market that trades $600–750 billion per day cannot be destabilized by even trillion-dollar reallocations spread over years.
- **There is no functional substitute.** No other asset class combines depth, liquidity, collateral utility, and legal certainty on a global scale.
- **Intermediation absorbs exits.** Sovereign selling does not destroy demand; it redistributes ownership through financial centers, custodians, and private balance sheets.
- **Price clears the market.** Rising yields are not a failure mode — they are the mechanism through which new demand is summoned.

The stress tests confirm what the constraints imply. Even extreme, coordinated foreign divestment scenarios — including assumptions that have **no historical precedent** — produce **repricing, not rupture**. Yields adjust. Buyers emerge. Auctions clear. Liquidity remains.
The country-by-country map reinforces the same conclusion. The system is not dependent on a single creditor, ideology, or political alignment:

- **Japan anchors the system** with structural, non-discretionary demand.
- **China is still a major creditor**, even after diversification.
- **The United Kingdom, Belgium, Luxembourg, Ireland, and the Cayman Islands** demonstrate how Treasuries are intermediated through global financial plumbing.
- **Canada and France** provide steady, rules-based institutional demand.
- **Taiwan, Switzerland, and Singapore** reflect disciplined reserve management within the dollar system.

This variety is a source of toughness, not a vulnerability.

Over time, the primary change concerns the identity of Treasury holders and the channels through which they hold these assets, rather than the overall level of holdings. Ownership has become broader, more institutional, and increasingly integrated into the mechanics of global finance.
This explains why repeated predictions of a "Treasury buyer strike", a "de-dollarization shock", or a "sovereign exit spiral" have not materialized. Such accounts misinterpret the system's fundamental framework.
The U.S. Treasury market does not persist because the world has nolt lasts due to the framework constraints present in the global financial system.s **constraints**.
Until an alternative emerges that can absorb trillions in savings, clear hundreds of billions daily, serve as universal collateral, and operate within a trusted legal framework, U.S. Treasuries will continue to be irreplaceable — not by choice, but by necessity.
The system operates not on confidence, but on arithmetic. This arithmetic is unambiguous.

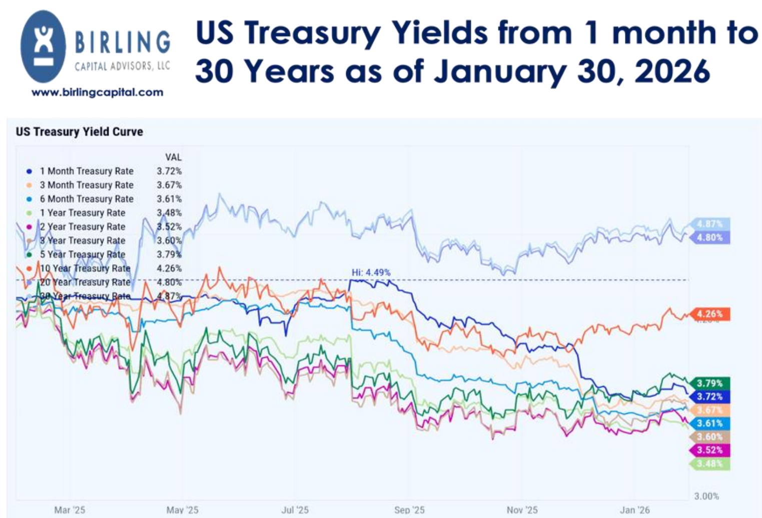
The Fiscal Reality the Market Cannot Ignore: U.S. Deficits, Debt, and the Cost of Carry.

The structural strength of the U.S. Treasury market does **not** mean the U.S. fiscal position is irrelevant. On the contrary, the durability of demand has allowed fiscal imbalances to compound quietly — and that is where the real long-term risk resides.

The Stock: Total U.S. Debt

- **Total U.S. federal debt:** approximately **$34–35 trillion**
- **Debt held by the public:** roughly **$27–28 trillion** (the portion financed in markets)
- **Debt-to-GDP ratio: ~120%**, well above pre-2008 norms and higher than at any point outside wartime

This level of indebtedness is manageable **only because** the U.S. can finance itself at scale in its own currency through the world's deepest bond market.
This privilege is significant, but not unlimited.



The Flow: Persistent Deficits

- **Annual federal deficit (recent years):** ~$1.6–2.0 trillion
- **Structural deficit (even at full employment):** >**5–6% of GDP**
- **Primary balance:** persistently negative (deficits before interest costs)

Critically, today's deficits are not driven by recession or emergency stimulus. They are occurring **at a time of low unemployment, solid nominal growth, and full economic capacity**.
This pattern is historically atypical.

The Pressure Point: Debt Service Costs

At this juncture, fiscal arithmetic becomes more constrainingetic becomes more constraining.

- **Annual net interest expense:** are now between **$900 billion to $1 trillion**
- **Interest costs exceed:**

    - Defense spending
    - Medicare outlays (net)
    - Any single discretionary budget category

- **Interest as a share of federal revenue:** rising toward **20%**

Every percentage point increase in average funding costs adds **hundreds of billions of dollars** to annual interest expense over time. In contrast to discretionary spending, **interest payments are obligatory**.

Why This Matters for Treasuries — Even If Demand Remains Strong

The stress tests prove that foreign divestment **will not break the Treasury market**. But they do not absolve the U.S. of fiscal consequences. Instead, they point to a different adjustment mechanism:
The risk is not a failed auction. The risk is a permanently higher cost of capital.
If deficits remain elevated while debt compounds:

- Treasury issuance must remain high.
- Yield levels must remain attractive enough to clear the supply.
- Interest expense compounds faster than revenue
- Budgetary flexibility narrows over time.

In this scenario, U.S. Treasuries remain relevant, but their servicing costs increase.

The Asymmetric Outcome: Why the Market Moves, Not Revolts

Importantly, markets do not "punish" the U.S. by abandoning it. They adjust through **pricing**.
That adjustment looks like:

- Higher term premiums
- Steeper long-end yields
- Greater sensitivity to inflation and supply shocks
- Crowding out of discretionary fiscal space

This development does not constitute a crisis dynamic. Rather, it represents a gradually **compounding constraint**.

The Final Word: What the U.S. Treasury Market Represents to the World

The U.S. Treasury market is not simply the financing arm of the American government. It is the **load-bearing structure of the global financial system**.

Treasuries sit at the center of global liquidity, collateral, and risk pricing. They are the assets against which banks measure solvency, central banks manage reserves, derivatives are margined, and trillions of dollars in global funding transactions are settled every day. In practical terms, Treasuries are not just "owned" — they are **used**. They move continuously through repo markets, clearinghouses, settlement systems, and balance sheets across every major financial center worldwide.

That is why the global Treasury market is resilient. But resilience does not mean immunity.

When viewed through this lens, the analysis leads to **two conclusions that must be held simultaneously**, not as contradictions, but as complementary truths.

First, **there is no credible global exit from U.S. Treasuries**.
Scale, liquidity, financial intermediation, and yield elasticity make abandonment arithmetically impossible. A market that clears hundreds of billions of dollars daily cannot be "walked away from" without a functional replacement — and no such replacement exists.

Second, **persistent U.S. fiscal deficits will continue to be financed — but at a price**.
The market will not revolt. It will not stage a dramatic buyer strike. Instead, it will adjust quietly, mechanically, and relentlessly through **repricing**.

These distinctions matter precisely because U.S. Treasuries have not merely survived decades of fiscal expansion — they have become **more deeply embedded** in the machinery of global finance.

They remain the world's primary reserve asset, the core collateral instrument underpinning global funding markets, and the benchmark risk-free rate against which virtually all other assets are priced. This status is not symbolic or political. It is **operational**. It is reinforced daily through settlement systems, repo markets, derivatives clearing, and reserve-management decisions across continents.

For that reason, **demand for U.S. Treasuries will persist**.

Japan will continue to anchor the system — not out of loyalty, but out of structural necessity. Its financial institutions require dollar liquidity and balance-sheet stability, and Treasuries remain unmatched on both fronts. Europe will continue to intermediate flows, routing global capital through its custodial and clearing hubs, not as a political choice, but as a function of financial plumbing. Asia will continue to allocate reserves pragmatically, balancing trade exposure, currency management, and liquidity needs within the dollar system. And private capital — pension funds, insurers, banks, and asset managers — will continue to respond mechanically to yield, stepping in whenever price makes sense. This dynamic explains why the long-anticipated "exit" has never materialized.

What changes when U.S. deficits remain large and persistent is **not the country's ability to issue debt**, but **the price at which that debt must be carried**. Markets discipline the United States not through abandonment, but through **cost**.

As issuance grows and interest rates remain structurally higher, the adjustment shows up quietly but relentlessly: in higher term premiums, in rising debt-service costs, in interest consuming a growing share of federal revenue, and in a narrowing band of budgetary flexibility over time. There are no failed auctions. There is no sudden loss of confidence. There is simply a higher bill. That asymmetry is what matters.

The real risk to the United States is not that the world walks away from its debt.
The greater risk is that the world continues to finance U.S. debt — **but demands higher compensation to do so**. The system does not run on confidence. It runs on arithmetic. And that arithmetic is no longer about sustainability conferred by privilege. It is about **discipline through pricing**.

"Treasuries continue to be indispensable to the world, but fiscal indiscipline determines how expensive that indispensability becomes—because confidence keeps the system running, and arithmetic decides the price".

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