US Treasury bonds

Foreign central banks sell US Treasuries in wake of Iran war

International official holdings at New York Federal Reserve fall to lowest level since 2012

Turkey's central bank has sold $22bn of foreign government securities from its foreign currency reserves since February 27, the day before the attacks on Iran were launched © Adem Altan/AFP/Getty Images

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Foreign central banks have slashed their holdings of Treasuries at the New York Federal Reserve to the lowest level since 2012, as countries sell the US government bonds to prop up their economies and currencies in the wake of the Iran war.

The value of Treasuries held in custody at the New York Fed by official institutions — a group that is largely made up of central banks but also includes governments and international institutions — has dropped by $82bn since February 25 to $2.7tn, according to Fed data.

The decline in these holdings since the war began a month ago highlights how the surge in energy prices triggered by Iran's closure of the Strait of Hormuz, a vital waterway, has upended the finances of countries that rely on oil imports, as well as boosting the dollar across the board.

It also comes at a time when some central banks have intervened in foreign exchange markets to prop up their currencies, a move that typically involves selling US dollars.

"The foreign official sector is selling Treasuries," said Meghan Swiber, a US rates strategist at Bank of America.

Foreign central bank holdings of Treasuries at NY Fed decline

Official and international institutions ($tn)

Sources: Fred, New York Federal Reserve

Brad Setser, a senior fellow at the Council on Foreign Relations, who studies foreign holdings of Treasuries, said oil importers such as Turkey, India and Thailand are probably among those selling Treasuries as they pay higher prices for oil, which is denominated in dollars.

Turkey's central bank has sold $22bn of foreign government securities from its foreign currency reserves since February 27, the day before the attacks on Iran were launched, according to official data. Setser said a significant portion of these securities were likely to be Treasuries.

Separate data from Thai and Indian central banks show that foreign exchange reserves have been sold since the start of the war in Iran, though whether that represents sales of Treasuries or of dollar deposits is unclear.

"A number of countries . . . don't want their currencies to weaken further because it pushes up the local currency price of oil — and either means more fiscal subsidies or more pain for households. Hence the widespread decision to intervene in the currency market to try to limit depreciation and higher local currency oil prices," Setser said.

Swiber at BofA noted that Middle Eastern oil-exporting countries could also be selling those assets to make up for oil revenue, though they represent a small portion of overall Treasury holders.

Treasuries are relied upon by global central banks as the pre-eminent reserve asset, since the $30tn market for the securities is the biggest and deepest in the world.

Foreign central banks are selling US bonds at a time when the Treasury market is already under pressure as traders worry that the Middle East conflict could drive up inflation. That has pushed yields on both two- and 10-year Treasuries up this month by the most since 2024, increasing borrowing costs for the government as well as businesses and households.

Some investors said foreign central banks' Treasuries holdings often drift lower as the dollar strengthens — as they seek to rebalance their assets and defend their currencies — but others said the data could be a sign holders are drawing on funds amid the market volatility.

The data suggested foreign official holders could be "stocking the war chest" by cashing out Treasuries, according to Stephen Jones, chief investment officer at Aegon Asset Management.

"They are pulling in rainy-day money."

Analysts also noted that some Treasury holdings might have been moved to other custodians besides the New York Fed, rather than having been sold outright. But the sales recorded in the Fed data were still notable, particularly since the Treasury market had roughly tripled in size since 2012, when the Fed last recorded this level of selling, Swiber said.

Foreign official holdings of Treasuries held at the Fed have declined in recent years, as managers of foreign currency reserves have diversified away from dollars. That has made foreign private investors an increasingly important part of the market.

The recent selling “speaks to the larger story which is that foreign reserve managers and official accounts are diversifying away from Treasuries”, Swiber said.

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