

China Dumps US Dollar Denominated Debt: Bank of China flees Fannie-Freddie

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Bank of China has cut its portfolio of securities issued or guaranteed by troubled US mortgage financiers [Fannie Mae](#) and [Freddie Mac](#) by a quarter since the end of June.

The sale by China's fourth largest commercial bank, which reduced its holdings of so-called agency debt by \$4.6bn, is a sign of nervousness among foreign buyers of Fannie and Freddie's bonds and guaranteed securities. over the mortgage financiers' capital positions and the timing and structure of a potential government rescue has made some investors reassess their exposures. Asian investors in particular have become net sellers of agency debt, said analysts.

Federal Reserve custody data shows that for the year to July, foreign official and private investors bought an average of \$20bn of agency debt a month, including debt issued by other government agencies such as Ginnie Mae and the Federal Home Loan Banks. Purchases of US Treasuries averaged \$9.25bn.

From July 16 to August 20, foreign investors sold \$14.7bn of agency debt, trimming their overall holdings to \$972bn. They purchased \$71.1bn of Treasuries in the same period.

The US Treasury was granted powers last month to extend its credit lines to Fannie and Freddie and invest in their debt and equity. The rescue plan came after a collapse in the companies' shares heightened concerns about their ability to raise equity capital to cushion losses and whether they could maintain their access to the debt markets.

By making a historically implicit government guarantee for the mortgage financiers' debt increasingly explicit, the Treasury sought to reassure foreign and domestic investors by providing a safety net. Fannie and Freddie have a combined \$1,500bn of debt outstanding.

This weekend, the Group of Twenty developed and advanced developing countries will be holding a preparatory meeting in Brazil. Although the crisis at Fannie Mae and Freddie Mac is not on the agenda, there is speculation that Treasury officials could informally encourage big holders of agency debt and mortgage-backed securities not to scale back their investments.

After a sharp drop in the market value of their stock last week, Fannie and Freddie have made a strong recovery after successful short-term debt sales. Fannie was 13.5 per cent

higher on Thursday and Freddie was up 12 per cent.

Bank of China's disclosure on its holdings of Fannie and Freddie securities came as the bank reported a 15 per cent increase in second-quarter profit.

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