If anyone wants to know why bonds have been busy going nearly straight up the last few weeks, just look at the following charts –

The first is Federal Agency Debt holdings in the New York Federal Reserve's Custodial Accounts. The second chart is US Treasuries holdings in those same accounts. The third is total holdings in the Custodial Accounts.

Foreign Central Bank holdings of US Federal Agency debt holdings hit a high water mark of $986 billion reported on July 17 of this year. This week's data shows that those same Foreign Central Banks are now down to $968 billion. In five weeks time, foreign central banks have sold $18 billion worth of US Federal Agency debt.

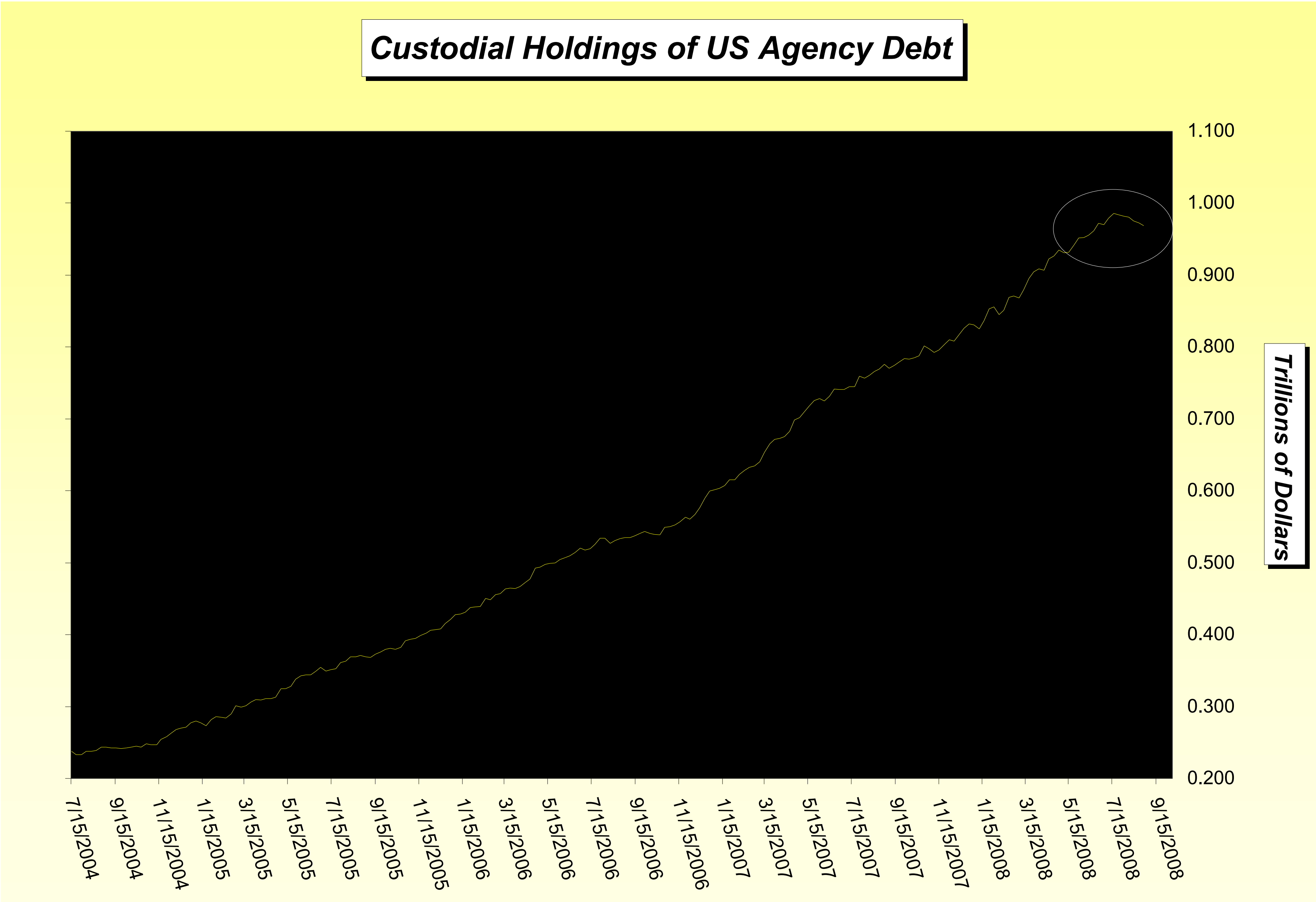
Over that same time period, they have increased their holdings of US Treasury debt from $1.363 trillion to $1.441 trillion, an increase of $77.33 billion!

For the entire 5 week period beginning July 17, 2008 to the present week, total custodial holdings have increased $59.71 billion.

Foreign Central Banks have been quite busy unloading US Federal Agency Debt and acquiring US Treasuries in its place and then some. One would easily get the idea that they do not feel comfortable with it any more.Even a cursory glance at the Agency Debt Holdings chart shows that the last five weeks have seen the largest drop in this category over the life of the data series that I am using.While we have seen reductions in their holdings from week to week on occasion over the data range, this is the first time we have seen a reduction in US Federal Agency debt holdings that has continued for this length of time.

As a side note – the huge amount of US Treasury purchases which has sent that chart nearly vertical helps to explain the continued rally in the US Dollar. It is a near certainty that something has been transpiring behind the scenes involving various Central Banks in regards to the US Dollar. Should any of this Foreign CB buying abate for any reason whatsoever, the Dollar will lose all of its support immediately. With yields on US Treasuries headed firmly lower only a foolish investor would see bonds or notes as a safe haven given what we all know about the real rate of inflation here in the US in contrast to the absurd and mentally insulting numbers that the knavish feds are dishing out.

I repeat my main assertion - Foreign Central Banks are behind the rally in US Treasuries and as a consequence the rally in the US Dollar. How much longer they remain willing to ply this gambit is unclear but one is not at all murky, someone is going to get stuck holding the bag.



Custodial Holdings of US Agency Debt
Trillions of Dollars
1.100
1.000
0.900
0.800
0.700
0.600
0.500
0.400
0.300
0.200
7/15/2004
9/15/2004
11/15/2004
1/15/2005
3/15/2005
5/15/2005
7/15/2005
9/15/2005
11/15/2005
1/15/2006
3/15/2006
5/15/2006
7/15/2006
9/15/2006
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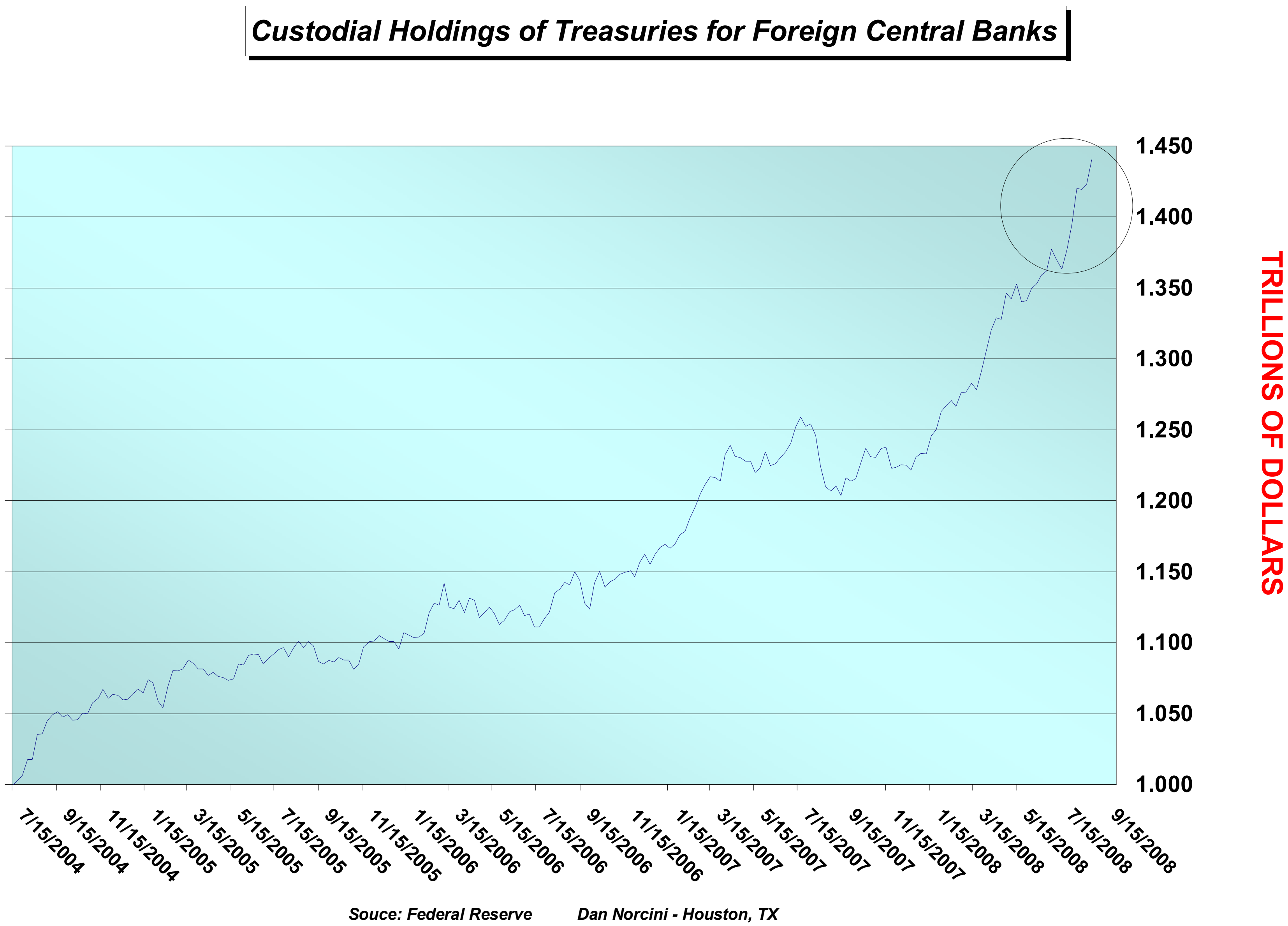
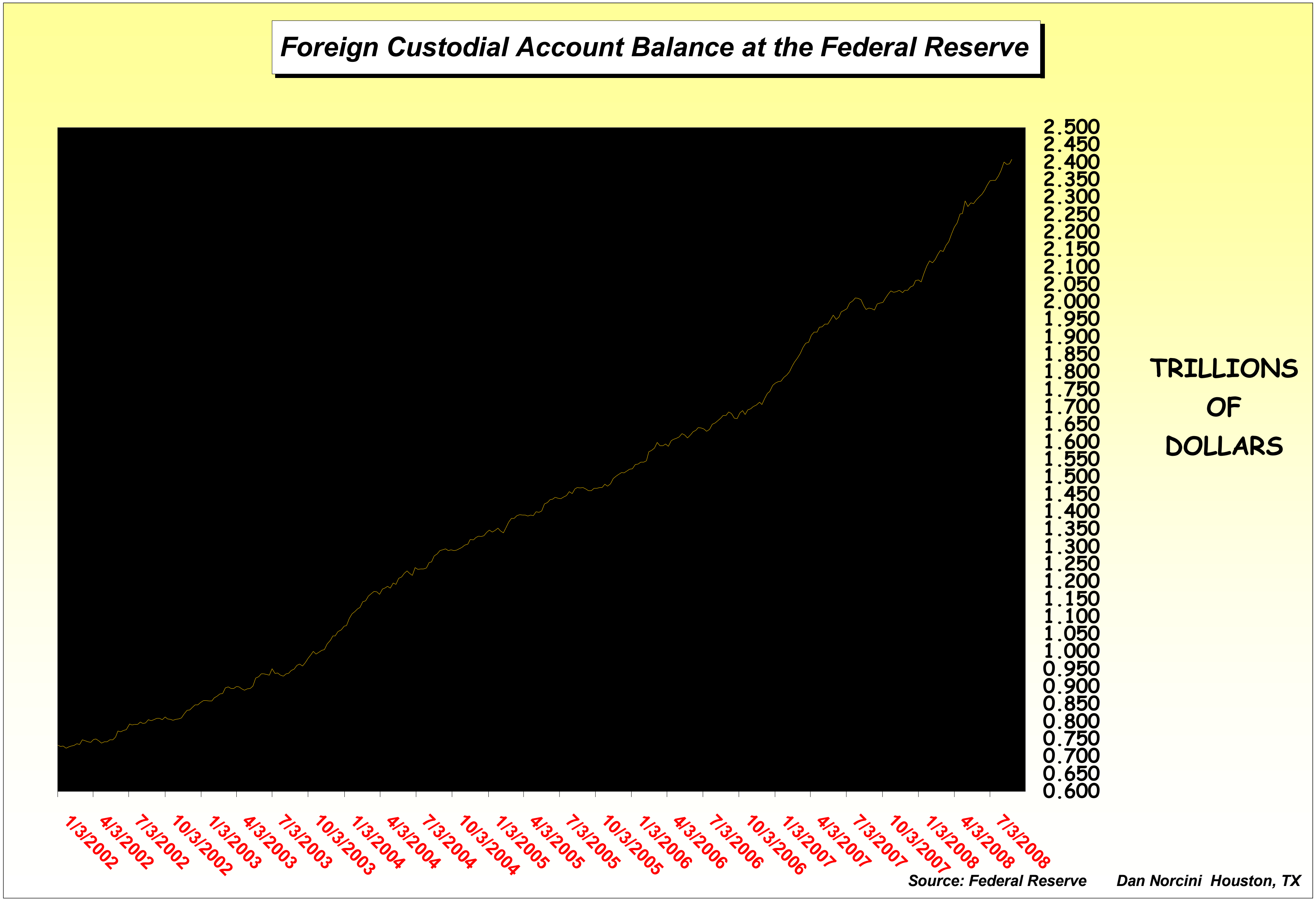
7/15/2008
9/15/2008


Custodial Holdings of Treasuries for Foreign Central Banks
1.450
1.400
1.350
1.300
1.250
1.200
1.150
1.100
1.050
1.000
TRILLIONS OF DOLLARS
7/15/2004
9/15/2004
11/15/2004
1/15/2005
3/15/2005
5/15/2005
7/15/2005
9/15/2005
11/15/2005
1/15/2006
3/15/2006
5/15/2006
7/15/2006
9/15/2006
11/15/2006
1/15/2007
3/15/2007
5/15/2007
7/15/2007
9/15/2007
11/15/2007
1/15/2008
3/15/2008
5/15/2008
7/15/2008
9/15/2008
Souce: Federal Reserve
Dan Norcini - Houston, TX


Foreign Custodial Account Balance at the Federal Reserve
2.500
2.450
2.400
2.350
2.300
2.250
2.200
2.150
2.100
2.050
2.000
1.950
1.900
1.850
1.800
1.750
1.700
1.650
1.600
1.550
1.500
1.450
1.400
1.350
1.300
1.250
1.200
1.150
1.100
1.050
1.000
0.950
0.900
0.850
0.800
0.750
0.700
0.650
0.600
TRILLIONS
OF
DOLLARS
1/3/2002
4/3/2002
7/3/2002
10/3/2002
1/3/2003
4/3/2003
7/3/2003
10/3/2003
1/3/2004
4/3/2004
7/3/2004
10/3/2004
1/3/2005
4/3/2005
7/3/2005
10/3/2005
1/3/2006
4/3/2006
7/3/2006
10/3/2006
1/3/2007
4/3/2007
7/3/2007
10/3/2007
1/3/2008
4/3/2008
7/3/2008
Source: Federal Reserve
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