



Economics Group

Jay H. Bryson, Global Economist
jay.bryson@wellsfargo.com • (704) 383-3518
 Ed Kashmarek, Economist
ed.kashmarek@wellsfargo.com • (612) 667-0479

Foreign Inflows Increase in December

Total foreign inflows increased in December. The increase was driven by larger holdings of bank debt. Meanwhile, net foreign purchases of long-term securities slowed, while short-term securities holdings fell.

Foreign Purchases of U.S. Long-term Securities Slow

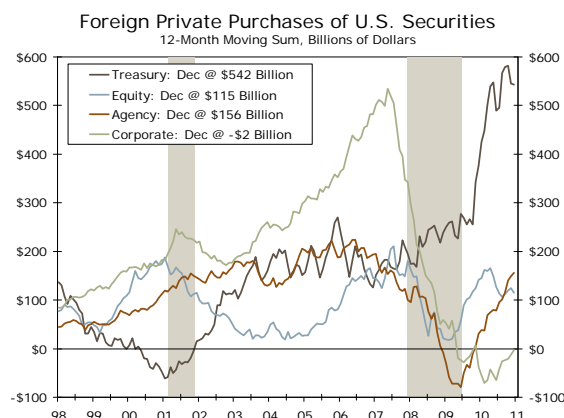
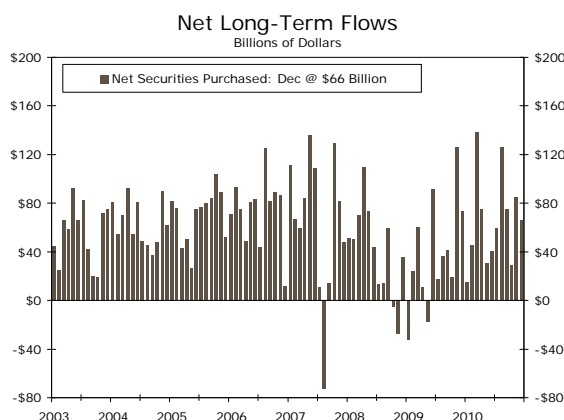
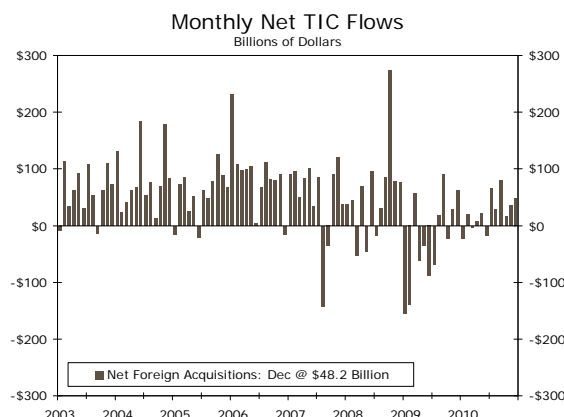
Both private and official foreign purchases of long-term U.S. securities fell in December. Within private purchases, all security types slowed, led by a \$7.8 billion decline in Treasuries. This may have contributed to the 50 basis point increase in the 10-year Treasury yield during the month. Equity purchases also slowed, but U.S. stock prices rose, suggesting more interest in U.S. stocks from private domestic investors, and more interest in foreign stocks from private foreign investors. Foreign official investors purchased slightly more Treasuries and equities, but were net sellers of government agencies and corporate bonds. The result was a decline in overall long-term purchases to \$76.8 billion from \$93.9 billion the prior month. Both sales and purchases of foreign securities by U.S. investors slowed, but net purchases rose to \$10.9 billion, bringing total net long-term purchases to \$65.9 billion, down from \$85.1 billion in November. U.S. investors bought \$8.4 billion in foreign equities, but only \$2.5 billion in foreign long-term bonds. Subtracting outflows from other acquisitions resulted in a total net long-term inflow of \$41.8 billion, down from \$64.5 billion in November. With headline inflation picking up in December on rising gas prices, fixed-income securities became less attractive to investors. On the equity side, foreign purchases of U.S. equities have slowed in recent months while purchases of foreign equities by U.S. investors has been little changed. The resulting smaller net inflow from equities suggests a more balanced global stock market environment, but also reflects stronger growth outside the U.S.

Foreigners Were Net Sellers of U.S. Short-term Securities

Foreign holdings of U.S. short-term securities declined by \$47.8 billion in December, the second straight monthly decline. However, while private investors bought \$8.0 billion in Treasury bills, official investors sold \$36.9 billion, suggesting official investors are much more concerned about rising short-term rates in the face of accelerating inflation than are private investors. Both private and official foreign investors were net sellers of other short-term U.S. securities.

Foreign Liabilities Held by U.S. Banks Rose

Offsetting weakening demand for U.S. short and long-term securities was a large increase in bank holdings of foreign liabilities to \$54.2 billion in December, up from \$11.6 billion in November. As a result, total net monthly inflows rose to \$48.2 billion from \$35.6 billion. While private inflows rose to \$93.3 billion from \$76.4 billion, official outflows rose to \$45.1 billion from \$40.8 billion, suggesting private investors have more confidence in U.S. securities than official investors. Recent news on the U.S. economy has been better, which should support the dollar.



Wells Fargo Securities, LLC Economics Group

Diane Schumaker-Krieg	Global Head of Research & Economics	(704) 715-8437 (212) 214-5070	diane.schumaker@wellsfargo.com
John E. Silvia, Ph.D.	Chief Economist	(704) 374-7034	john.silvia@wellsfargo.com
Mark Vitner	Senior Economist	(704) 383-5635	mark.vitner@wellsfargo.com
Jay Bryson, Ph.D.	Global Economist	(704) 383-3518	jay.bryson@wellsfargo.com
Scott Anderson, Ph.D.	Senior Economist	(612) 667-9281	scott.a.anderson@wellsfargo.com
Eugenio Aleman, Ph.D.	Senior Economist	(704) 715-0314	eugenio.j.aleman@wellsfargo.com
Sam Bullard	Senior Economist	(704) 383-7372	sam.bullard@wellsfargo.com
Anika Khan	Economist	(704) 715-0575	anika.khan@wellsfargo.com
Azhar Iqbal	Econometrician	(704) 383-6805	azhar.iqbal@wellsfargo.com
Ed Kashmarek	Economist	(612) 667-0479	ed.kashmarek@wellsfargo.com
Tim Quinlan	Economist	(704) 374-4407	tim.quinlan@wellsfargo.com
Michael A. Brown	Economist	(704) 715-0569	michael.brown4@wellsfargo.com
Tyler B. Kruse	Economic Analyst	(704) 715-1030	tyler.kruse@wellsfargo.com
Joe Seydl	Economic Analyst	(704) 715-1488	joseph.seydl@wellsfargo.com
Sarah Watt	Economic Analyst	(704) 374-7142	sarah.watt@wellsfargo.com

Wells Fargo Securities Economics Group publications are produced by Wells Fargo Securities, LLC, a U.S broker-dealer registered with the U.S. Securities and Exchange Commission, the Financial Industry Regulatory Authority, and the Securities Investor Protection Corp. Wells Fargo Securities, LLC, distributes these publications directly and through subsidiaries including, but not limited to, Wells Fargo & Company, Wells Fargo Bank N.A, Wells Fargo Advisors, LLC, and Wells Fargo Securities International Limited. The information and opinions herein are for general information use only. Wells Fargo Securities, LLC does not guarantee their accuracy or completeness, nor does Wells Fargo Securities, LLC assume any liability for any loss that may result from the reliance by any person upon any such information or opinions. Such information and opinions are subject to change without notice, are for general information only and are not intended as an offer or solicitation with respect to the purchase or sales of any security or as personalized investment advice. Wells Fargo Securities, LLC is a separate legal entity and distinct from affiliated banks and is a wholly owned subsidiary of Wells Fargo & Company © 2011 Wells Fargo Securities, LLC.

SECURITIES: NOT FDIC-INSURED/NOT BANK-GUARANTEED/MAY LOSE VALUE

