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Economics Group

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TIC Flows Negative Again in December

Although net purchases of long-term securities were negative in 2013, short-term inflows remain positive. Rising rates of return should support the dollar in 2014.

Net Purchases of Long-Term Securities Was Negative in 2013

Data released this morning showed that there was a $45.9 billion net outflow of long-term securities in December (top chart). Not only did foreigners make net sales of U.S. long-term securities that totaled $18.6 billion during the month, but American investors were net buyers of foreign securities to the tune of $27.3 billion in December. For the year, there was a $137 billion net outflow of long-term securities, the first time since 1993 in which the annual total has been negative. What is going on?

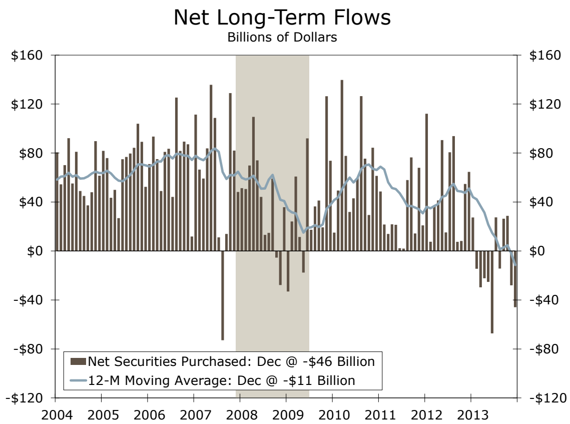
Let's start with foreign purchases of American securities. Net sales of U.S. Treasury and agency securities by the foreign "official" sector (mainly foreign central banks) accounted for most of the total net sales of American long-term securities by foreigners in December. Indeed, foreign central banks have been net sellers of Treasury securities for much of the year. Although central banks generally do not publicly disclose their foreign exchange reserve practices, there have been anecdotes that they are diversifying their reserve holdings. The $8.5 billion worth of net sales of Treasury securities that they made in 2013 would be consistent with these anecdotes of reserve diversification, at least at the margin.

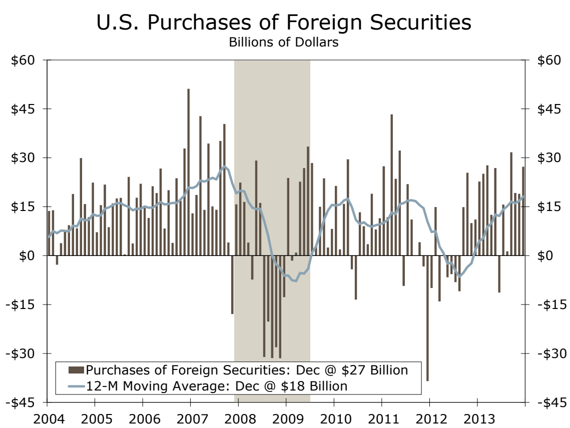
As noted above, American investors bought $27.3 billion worth of foreign securities in December. Looking at the entire year, American net purchases of foreign securities totaled $218 billion ($44 billion in bonds, $174 billion in equities), the largest total since 2007 (see middle chart). High rates of return on foreign assets, especially in some emerging markets, likely encouraged American investors to buy foreign securities in 2013.

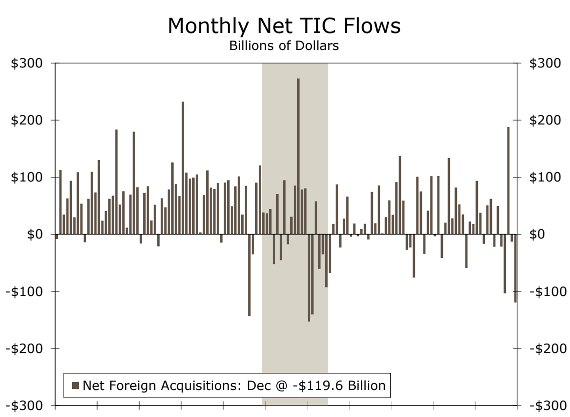
Weakness in net purchases of long-term securities in 2013 was offset by strength in short-term securities. For example, foreign deposits in American banks soared by $539 billion in 2013. Taking into account both long-term securities and short-term financial instruments, there were $185 billion worth of inflows in 2013 (bottom chart).

Implications for the Dollar

The U.S. current account deficit likely totaled roughly $380 billion last year. The combination of the $185 billion inflow noted above in combination with strong inflows of foreign direct investment (reported separately) was enough to keep the U.S. dollar broadly stable in 2013. Indeed, the Fed's Trade Weighted Broad Dollar index, which measures the value of the dollar versus the currencies of the world's most important economies, rose about 3 percent on balance over the course of 2013. Looking forward, we expect that rates of return on U.S. assets will rise as the economy continues to pick up steam. Rising rates of return and continued strong inflows of foreign direct investment capital should lead to modest dollar appreciation this year.







Source: U.S. Department of the Treasury and Wells Fargo Securities, LLC

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