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FörexTrading

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NEW YORK (AFX) - With bonds and the U.S. dollar dependent on foreign central banks that buy U.S. government debt, Wall Street pores over Treasury auction data to get a feel for foreign interest in U.S. Treasuries. But while the data can be telling, a new study finds that investors should be careful when drawing conclusions.

The release of the study by the New York Federal Reserve coincided with the latest quarterly Treasury auction, in which the government sold \$16 billion in three-year notes on Tuesday, \$13 billion in 10-year notes Wednesday and \$9 billion in 30-year notes Thursday. Demand from foreign investors appeared to be steady, much to the relief of U.S. bond investors.

Investors review purchases made by what the market calls indirect bidders to try to determine whether foreign governments, particularly those in Asia, still have an appetite for U.S. debt. While this often works, the New York Fed said the findings are generally more dependable with Treasury notes than they are with Treasury bills.

Treasury notes are securities with original maturities of more than one year but not more than 10 years, while Treasury bills are securities whose original maturities are a year or

Moreover, indirect bids -- made through a broker or other representative -- remain an imperfect indicator for foreign purchases of Treasury securities because other investors also bid indirectly, the study reported. Therefore it's impossible to separate foreign bids from others.

Still, the results of this week's auctions were encouraging, analysts said.

"I think the auctions went very well and I think it's an example of the demand out there for fixed income assets, especially those that are considered relatively safe," said Sharon Stark, chief market strategist at Legg Mason Inc. She contends demand for Treasuries will increase as the U.S. deficit shrinks.

The moves of foreign investors are of enormous import to the strength of bonds and the dollar. Any sign by governments, particularly those of China and Japan, that they might want to keep some of their reserves in





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currencies other than dollars could hurt the bond market and cause a sharp decline in the dollar.

Foreign governments held about \$1.3 trillion of Treasury securities at the end of 2005 -- roughly 30 percent of all outstanding marketable Treasury securities, the Fed report noted.

"Foreigners are buying as happily as they have been," Axel Merk said of the latest auctions. His Merk Investments runs a mutual fund comprising various currencies.

"There is nothing extraordinary there. We've definitely had bonds under pressure over the last couple of weeks and there has been fear that there would be a breakdown but that breakdown isn't imminent."

Merk warned that future auctions could be weaker if inflation doesn't remain in check or if the dollar weakens. Last week, in deciding to leave short-term interest rates unchanged, the Fed said inflation appeared to be under control.

In the meantime, investors will likely keep close tabs on that indirect bid data.

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