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Asian central banks among winners in Fannie and Freddie shift

By Keith Bradsher
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HONG KONG: Asian central banks rank among the winners from the Bush administration's decision to transfer control of Fannie Mae and Freddie Mac to a conservator, but the move is likely to increase longer-term worries about Asian economies, regional experts said Sunday.

Asian central banks, particularly the People's Bank of China, have emerged over the past several years as increasingly important buyers of bonds from the two U.S. government-sponsored enterprises. These bonds have long sold at a slight discount to Treasuries, giving them a higher interest rate.

With the takeover of Fannie Mae and Freddie Mac, the $5.3 trillion pool of their bonds will more explicitly have the credit of the U.S. Treasury behind them.

"If it becomes like U.S. Treasuries, that is a positive for Asia," said Ifzal Ali, the chief economist of the Asian Development Bank.

But the takeover itself is likely to increase worries about the American economy, since the United States is a crucial buyer of Asian exports.

The Bush administration's move "generates a lot of new uncertainty - people don't know about the depth of the problem," Ali said from Manila, where he had been reached by telephone.

Fannie Mae and Freddie Mac have become increasingly dependent on Asian money in recent years, and particularly money from Asian central banks.

An analysis of the latest available data, released Wednesday by CreditSights, an independent research company in New York, found that while central banks had historically accounted for a quarter of purchases of Freddie Mac debt, for example, their share of purchases had risen to 37 percent for debt issued since 2006. The bulk of those purchases appears to have been by Asian central banks, who have been buying dollar-denominated securities at a record pace to slow their currencies' rise against the dollar and preserve the competitiveness of their exports.

Among Asian central banks, the People's Bank of China has been particularly aggressive in chasing higher yields on its $1.8 trillion in foreign exchange reserves by buying Fannie Mae and Freddie Mac securities.

Other central banks in the region, like the Bank of Japan, are widely believed to have stuck mostly with Treasuries while still buying significant sums of Fannie Mae and Freddie Mac debt.

The People's Bank of China seldom issues any comment regarding its foreign investments. The central bank is under pressure from other Chinese government agencies to continue buying large quantities of U.S. securities so as to prevent the yuan from rising against the dollar, even though the accumulation of foreign exchange reserves has been costly, absorbing one-seventh of China's entire economic output during the first half of this year.

Standard & Poor's, the credit rating company, estimates that the People's Bank of China held $340 billion of these agency securities at the end of June, but it has been unable to estimate overall Asian holdings.

Nicholas Lardy, a specialist in Chinese finance at the Peterson Institute for International Economics, said in an interview last week, before the Treasury had concluded its plan for a takeover, that the Chinese government had refrained from buying common or preferred shares in Fannie Mae or Freddie Mac and had stuck to purchasing their bonds. Shareholders of both institutions have faced heavy losses this year on both stocks and now face more losses with the government takeover of the companies.

Central banks across Asia have talked over the past several years about putting greater proportions of their new investments into currencies other than U.S. dollars. But many experts say that they have been slow to do so because only the U.S. fixed-income market offers them the liquidity they need to purchase tens or even hundreds of billions of dollars of securities each year.

Eswar Prasad, a former International Monetary Fund official who is now a Cornell University and Brookings Institution economist, said in an e-mail message that Asian central bank purchases had helped the United States.

"But for the inertia in the investment decisions of emerging market (especially Asian) central banks, Fannie and Freddie may have started coming apart even sooner," he wrote.

Correction:

Notes: