# Concerns grow over China's sale of US bonds

Evidence is mounting that Chinese sales of US Treasury bonds over recent months are intended as a warning shot to Washington over escalating political disputes rather than being part of a routine portfolio shift as thought at first.

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A front-page story in the state's China Information News said the **record $34bn sale of US bonds** (http://www.telegraph.co.uk/finance/china-business/7205110/China-orders-retreat-from-risky-assets.html) in December was a "commendable" move. The article was republished by the **National Bureau of Statistics** (http://www.stats.gov.cn/english/) , giving it a stronger imprimatur.

The OECD has piled the pressure on the Chinese government to revalue their currency

It follows a piece last week in *China Daily*, the Politburo's voice, citing an official from the Chinese Academy of Sciences praising the move to "slash" holdings of US debt. This was published on the same day that US President Barack Obama received the Dalai Lama at the White House, defying protests from Beijing.

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"There are ongoing spats between the US and China on so many fronts so you have to assume that this is some sort of implicit threat," said Neil Mellor, a **currency** (http://www.telegraph.co.uk/finance/currency) expert at the Bank of New York Mellon, who cautioned that it can be hard to read the complex signals from China.

"We still think China will have to continue buying US Treasuries by the bucket load. Where else can they invest in a liquid market. The euro has become a tarnished currency," he said.

China's power is growing so fast that it now feels confident enough to raise the stakes on a string of festering conflicts with the US. It has threatened to impose sanctions on any US firm that takes part in a $6.4bn arms deal for Taiwan agreed by the White House. This is a tougher response that on any previous occasion and raises the spectre of a trade war over Boeing, the key supplier.

"Chinese leaders are deploying their reserves to try and pressure the US to stop haranguing China about its currency and trade policies, and to back off from interference in its domestic issues," said professor Eswar Prasad, ex-head of the IMF's China division.

Stephen Jen from BlueGold Capital said Chine is probably moving out of bonds from many countries as it prepares for a likely 5pc revaluation of its currency in coming weeks. Other assets might prove better protection against an immediate loss on holdings

Use of China's $2.4 trillion reserves to challenge US foreign policy is fraught with problems, not least because any damage to America will recoils immediately against China – which depends on the US market for its mercantilist growth strategy. Beijing cannot stop accumulating dollars unless it is willing to let the yuan ride, eroding the margins of its export industry. Some reserves can be parked in gold or even copper, but liquid commodity markets are not big enough to absorb the scale of Chinese surpluses.

China and America are locked together by fate. Any petulant action by either side involves a degree of `mutual assured destruction'. But sometimes in politics – as in life – emotion flies out of control.