

# US LET CHINA BUY TREASURIES DIRECTLY DURING DEBT CEILING CRISIS

Reuters has a story on how the Treasury Department allowed China to start buying US Treasuries directly last June.

The documents viewed by Reuters show the U.S. Treasury Department has given the People's Bank of China a direct computer link to its auction system, which the Chinese first used to buy two-year notes in late June 2011.

China can now participate in auctions without placing bids through primary dealers. If it wants to sell, however, it still has to go through the market.

The change was not announced publicly or in any message to primary dealers.

Now, Reuters offers a number of potential reasons why China might want to do this: it would get a better price by by-passing Wall Street, it reflected growing confidence its money managers could buy debt more efficiently than through primary dealers.

But I can't help notice the timing.

Last summer, just as it was becoming increasingly clear that Republicans were willing to crash the economy to win the debt ceiling debate, China started buying US debt directly.

I have no idea whether that would enable Treasury to exceed the debt limit without notice—assuming everything else worked the same, it presumably wouldn't. But as Reuters reported last year (almost at the same time this latest change was taking place), when China wanted to keep buying 30% or more of our treasuries at

auctions in 2009, we fudged the rules to allow them to do that. Then by letting China buy directly last year, as The Big Picture shows, Treasury gave the appearance that China was net selling debt, rather than (presumably) continuing to buy a great deal of it.

At the very least, then, the Obama Administration has twice enacted ways to hide the degree to which China has us by the balls, keeping interest rates low while gaining more and more of a threat over us. Given the timing, though, I can't help but wonder whether it also serves to hide something else about our debt.

And—as Reuters implicitly notes—this change also means we willingly gave the greatest hacking entity in the world direct access to our Treasury auctions.

To safeguard against hackers, Treasury officials upgraded the system that allows China to access the bidding process.

[snip]

The United States has, however, displayed increasing anxiety about China as a cybersecurity threat. The change Treasury officials made to their direct bidding system before allowing access to China was to limit access to the system to a specially designed private network connection controlled by the Treasury.

Oh, okay then. Because the specially designed private networks DOD runs on have proven so resistant to China's attacks.