

## Foreign portfolio capital: In through the out door

By Warren Lovely

Investment flows are a bit of a touchy subject in Canada these days, as key domestic sectors/players have moved to put a considerable amount of money to work outside the country. Based on fresh data from StatCan, this trend may have accelerated. Canadians acquired \$35.6 billion of foreign assets in March alone, an unprecedented monthly tally. It means almost \$130 billion has been steered to foreign portfolio investments in the latest 12-month period. High-yielding US Treasuries, other foreign bonds, and ample American stock have been scooped up. As a financial markets theme, this is a big one for Canada, this capital 'bleed' destined to remain topical. But for the purposes of this short *Market View* note, consider the (partially) offsetting flow: The buying of Canadian portfolio securities by foreign investors. For non-residents are buying Canada... not so much our stocks, and less-so our money market paper, but certainly our bonds.

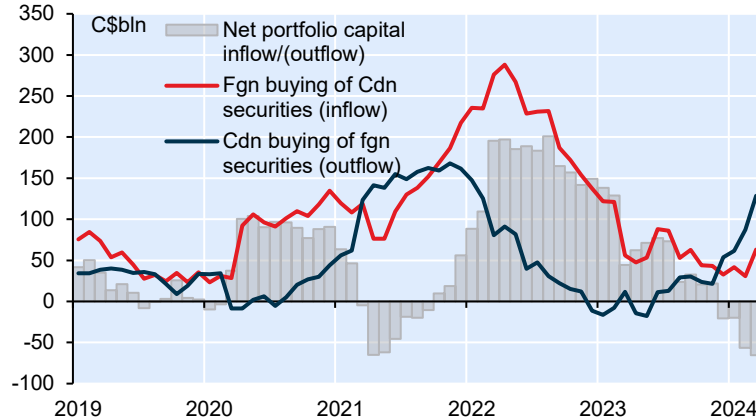
Inbound portfolio investment (i.e., net purchases of Canadian securities by non-residents), topped \$14 billion in March. That brought the Q1 sum to nearly \$24 billion. That's clearly insufficient to offset the investment dollars Canadians were putting to work outside the country, leaving a net portfolio capital outflow of \$28 billion in Q1. (Aside: That's no help when it comes to financing the current account deficit, as official data will show towards the end of the month.)

But it's not all doom and gloom in terms of foreign investor attachment to Canada. Our bonds—from various issuers/sectors and denominated in a few currencies—are of interest to international investors. Non-residents swallowed a net C\$111 billion of Canadian bonds in the last 12 months, which is nothing to snigger at. There are caveats here. For instance, the reported buying of 'Canadian' bonds includes participation in foreign currency issues. As many no doubt appreciate, certain Canadian sectors (e.g., corps, provinces, PSEs) routinely place bonds south of the border or across the pond.

All the same, non-residents are adding, not subtracting, to their holdings of domestic (i.e., CAD-denominated) bonds. That was true in March... held for Q1... or the past half-year... or the last 12-month period... or further back. Of note, international attention is most keenly focused on the sovereign. A record amount of GoC bonds are now held outside the country. And while some non-resident interest comes with leverage attached—as a fresh BoC risk assessment warned—internationals are helping to sop up the net supply of Canadas that comes from deficit financing and ongoing BoC QT. So when it comes to investment flows, there's actually a fair amount of foreign investor traffic coming in through the out door. We'll take this marginal demand and source of liquidity.

### Chart 1: A net portfolio capital outflow deepens...

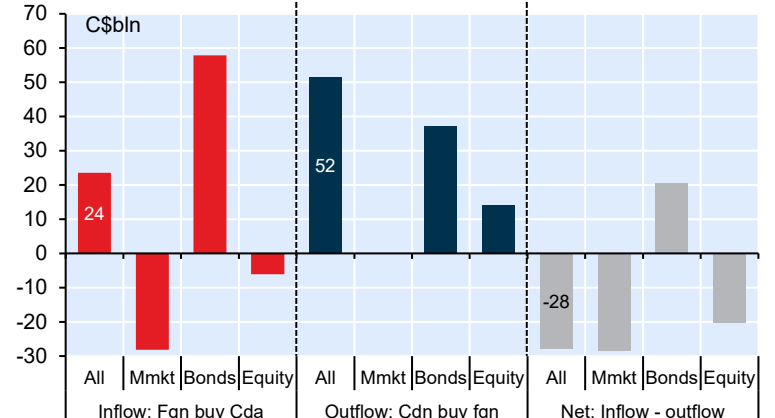
Canada international transactions in securities: Inflows vs. outflows (12M trend)



Source: NBF, StatCan | Note: New flows based on 12M moving sum

### Chart 2: ... but pockets of foreign buying evident (i.e., Cdn bonds)

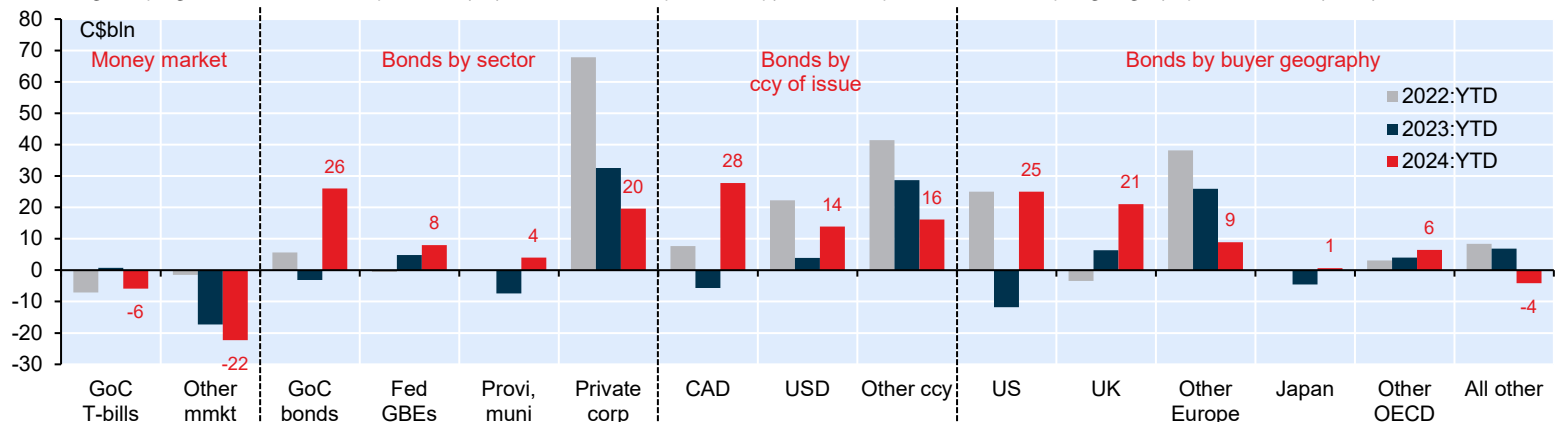
Canada international transactions in securities: Inflows vs. outflows (2024:Q1)



Source: NBF, StatCan | Note: Net flows based on Jan-Mar 2024

### Chart 3: A closer look at the nature and origin of foreign buying of Canadian fixed income assets in the first quarter

Net foreign buying of Canadian money market paper and bonds, by sector/type, currency of issue, and buyer geography: 2024:Q1 vs. prior periods



Source: NBF, StatCan | Note: Net flows based on Jan-Mar 2024



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