

Canadian issuers lean into international bond markets

By Warren Lovely

As we wrote last month, Canadian bonds have generally grabbed the attention of international investors. That narrative repeated loud and clear with today's release of Canada's securities transactions data for the reference month of April.

Non-residents swallowed an outsized \$32.6 billion (CAD equiv.) of Canadian bonds in April alone (Chart 1). That was the second-largest figure on record trailing the most extraordinary of all COVID months (April 2020). This monthly bond binge builds on what had already been solid international buying, propelling the 4-month/year-to-date net investment figure north of \$90 billion. Although Canadian investors have steered money to foreign bonds (mostly U.S. Treasuries), bonds account for a net portfolio capital flow that has swung back into positive territory on a YTD basis (Chart 2).

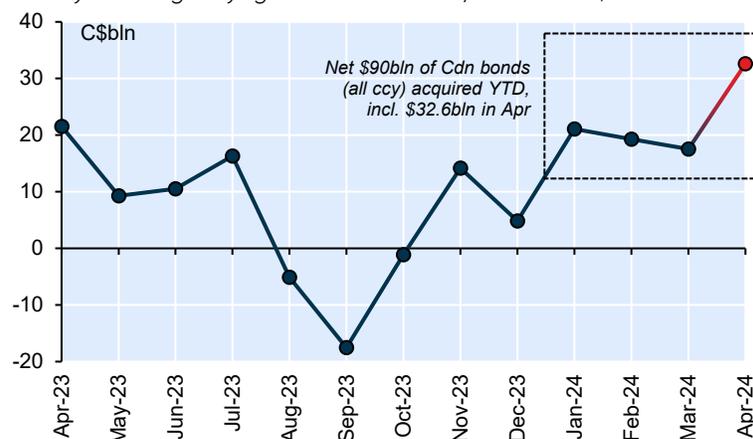
Some added nuance/colour: When it comes to non-resident buying of 'Canadian' bonds, headline figures relate not only to domestic issues but also bonds placed in foreign currency markets. That's a non-trivial distinction since some Canadian issuers/sectors have taken advantage of sturdy investor demand south of the border, across the pond and/or in other parts of the world. Top of mind, certain Canadian provinces and financial institutions have leaned

into international bond markets in size. Aside: While the latest StatCan data deal with April, provinces continued to top international markets in May and again June, with non-resident purchases of this fresh paper to be picked up in future releases.

Isolate for currency of issue and you will find that non-residents are net buyers of CAD-denominated bonds. Records may not be falling, but foreign interest helps balance the market and can bolster secondary liquidity, all else equal. Mind you, some domestic issuers attract far greater foreign investor interest than others. The sovereign (GoC) has cornered almost 85% of the net increase in foreign holdings of CAD bonds so far this year, a partial offset to ongoing federal deficit funding and BoC runoff (via QT). While not exactly surprising, international investors have accumulated domestic provincial and corporate bonds at a much slower rate. Tamer still has been net foreign interest in Canada Mortgage Bonds, this program having seemingly shed a degree of international subscription since its very existence was cast in doubt over a year ago. That's a sombre theme we [explored recently](#) and will come back to. After all, we have a fresh 5-year fixed-rate CMB offering arriving this week, where primarily distribution stats are certainly worth scrutinizing. Stay tuned...

Chart 1: Non-residents load up on Cdn bonds (mostly in fgn ccy)

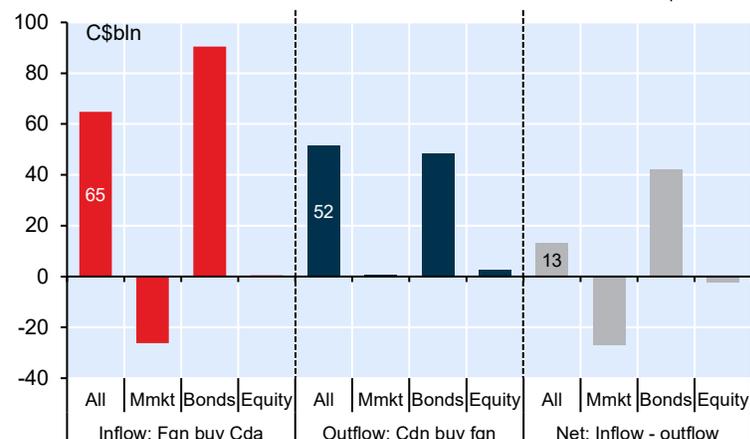
Monthly net foreign buying of Canadian bonds, all currencies/sector



Source: NBF, StatCan

Chart 2: Bonds turn YTD net portfolio capital flow positive

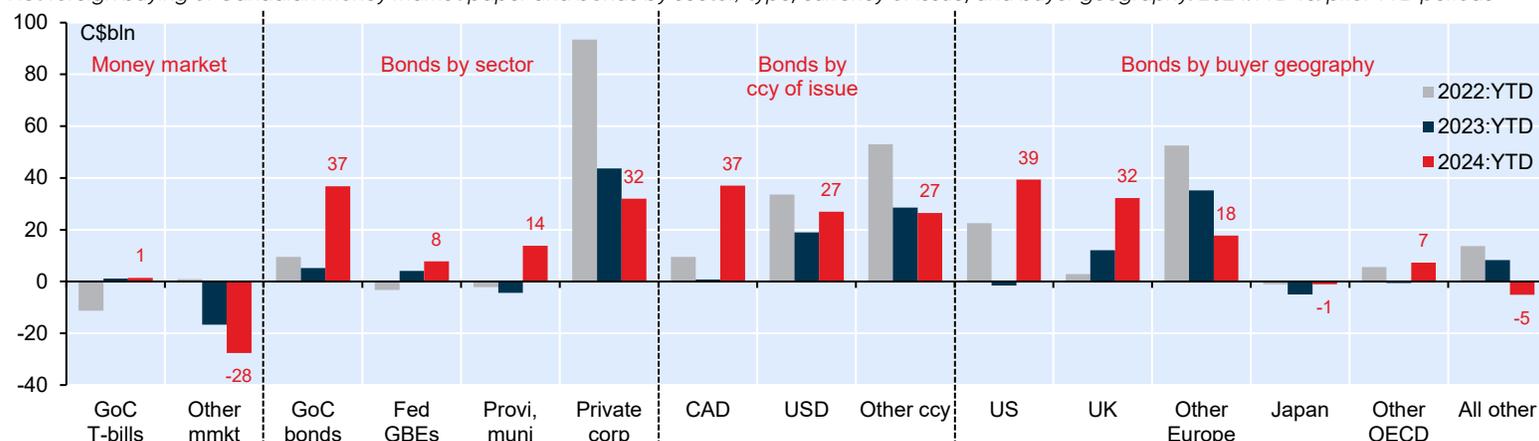
Canada international transactions in securities: Inflows vs. outflows (2024:Q1)



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

Chart 3: A closer look at the nature and origin of foreign buying of Canadian fixed income assets in first 4 months of year

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



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



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