

What FX reserve data tell us about foreign interest in Canada?

By Warren Lovely

Once a quarter (with a one-quarter lag), the IMF offers a detailed look at where official foreign exchange reserves are allocated. Behold, a few images and some brief remarks based on the latest COFER breakdown (as at March 31, 2024), with a particular focus on CAD...

The Canadian dollar is one of eight currencies included in the IMF's COFER basket. At 2.57%, the Canadian dollar's allocation ranks fifth on the list, behind USD (of course), EUR, JPY and GBP. Based on observed performance during legit episodes of volatility/stress, it might be hard to dub the Canadian dollar a true blue 'safe haven' currency. But FX reserve managers appear reasonably comfortable with their Canadian dollar exposure, a pronouncement that holds up despite a very slight and relatively rare dip in CAD's allocated share in Q1. Indeed, the loonie's share of allocated reserves is higher than one, two, five or ten years ago. (For the record, the very first CAD allocation dates back to 2012:Q4, when it was estimated at 1.43%. Back then there were fewer FX reserves allocated to CAD than AUD, although Canada has clearly gained the upper hand since.)

Now for the multiplier effect. Official FX reserves are large enough that CAD's ~2.6% share works out to 'a lot' of dollars. In greenbacks, we're

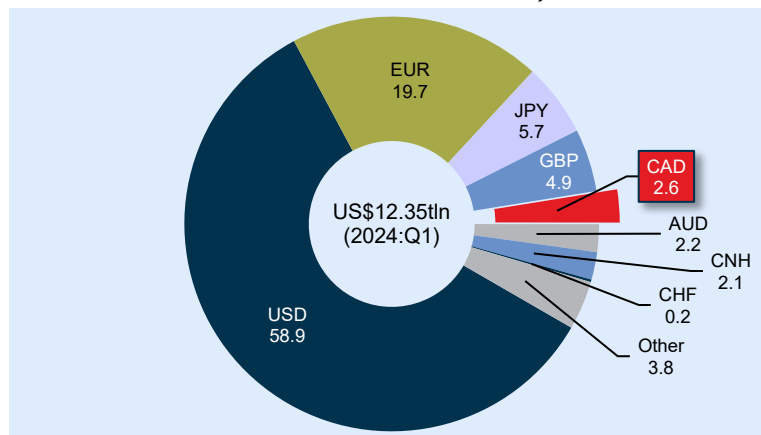
talking \$295 billion as at Mar-24. Converted to loonies, that was a cool \$400 billion, representing a four-fold increase in CAD-equivalent official reserve interest since the end of 2012. Given the relative size of the Canadian economy, the country's available financial assets and outstanding debt securities, the still-growing pool of FX reserves allocated to CAD can only be labeled 'material'.

As recently highlighted, non-residents (not just reserve managers but the full gamut of foreign investors) have built up sizeable positions in a host of Canadian assets. As per fresh National Balance Sheet data, non-residents hold more Canadian dollar deposits. They've added Canadian short-term paper. More than anything, however, non-residents have scooped up loads of CAD-denominated bonds—a particularly well-timed development given ongoing BoC QT efforts.

So look past the rare and relatively modest decline in CAD's share of the FX reserve pie in Q1. Official or otherwise, non-resident investors seem reasonably turned on to Canada, a narrative we saw extending to Q2. Really, given the evolving risk profile (geopolitical and otherwise) in some advanced nations, there could be a compelling case for steering even more portfolio investment to Canada. Let's see.

Chart 1: CAD's slice of jumbo official FX reserve pie

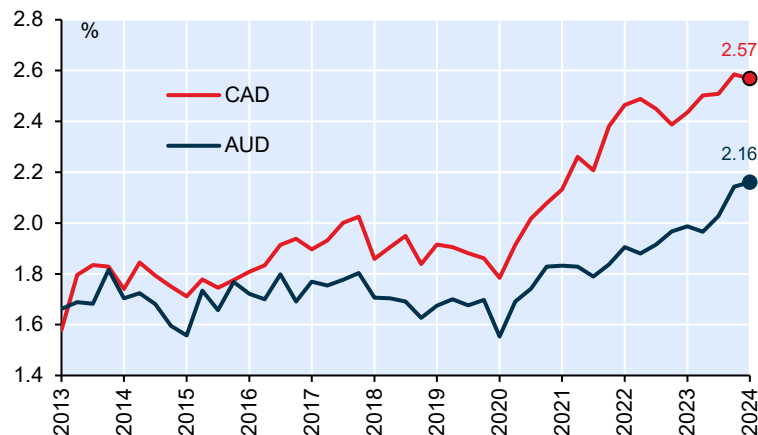
Share of allocated official FX reserves allocated to major currencies



Source: NBF, IMF | Note: Figures refer to share (%) of allocated reserves as at 2024:Q1

Chart 2: Despite Q1 pause, CAD share has been on uptrend

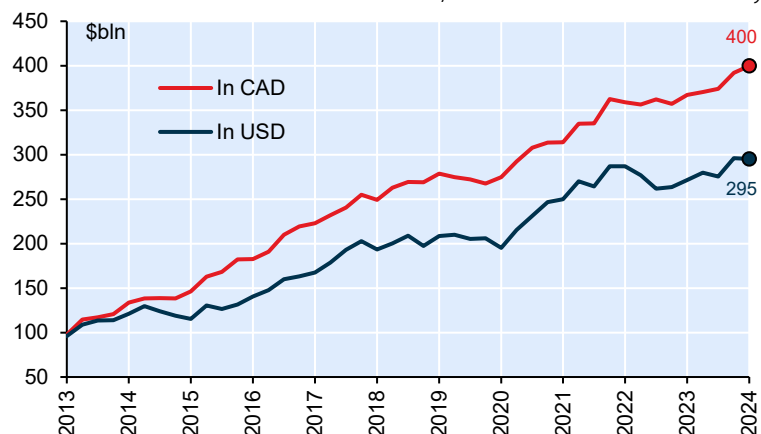
Share of official FX reserves allocated to CAD & AUD



Source: NBF, IMF

Chart 3: A cool C\$400bln (& growing) allocated to Canada

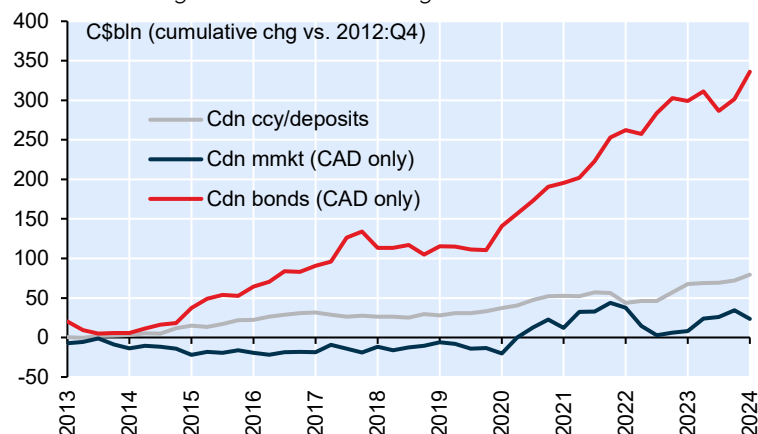
Level of official FX reserves allocated to CAD, incl. conversion to local currency



Source: NBF, IMF | Note: Holdings reported in USD; converted to CAD at prevailing FX rate

Chart 4: Consistent with reported non-resident investment

Cumulative change in non-resident holdings of select Cdn financial assets



Source: NBF, StatCan | Note: Ccy/deposits is market value; mmkt & bonds is book value



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