

## 2024: The year of the non-resident GoC bond investor

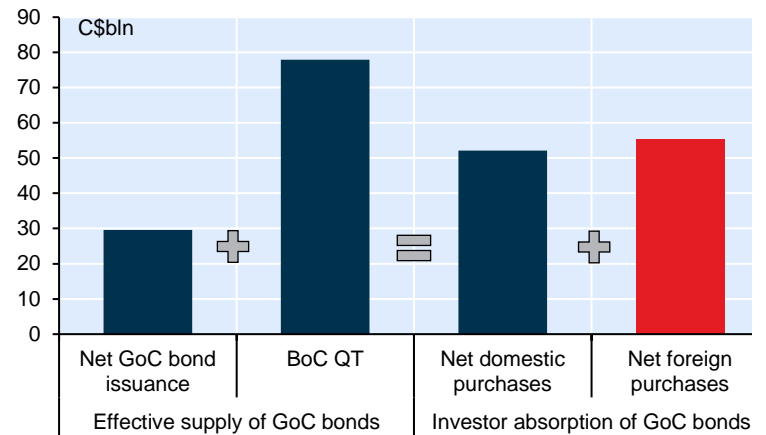
By Warren Lovely & Taylor Schleich

May data on international securities transactions showed another major net inflow of foreign funds. Non-residents bought over C\$20 billion of Canadian assets, most of which were bonds (more specifically, GoCs and provincial paper). Meanwhile, Canadians accumulated C\$3.9 billion of foreign securities, leaving a hefty net capital inflow of C\$17 billion. In first five months of 2024, foreigners acquired C\$110 billion of Canadian bonds, the second largest YTD tally on record (only trailing the once-in-a-generation debt issuance binge of 2020). Of the heady YTD bond tally, roughly half of the non-resident interest is reflected in CAD-denominated bonds. As always, a material slug of the "Canadian" bonds non-residents buy are simply issues steered to USD or other foreign currency markets (from banks and provinces most notably).

In the domestic market, foreign focus has been overwhelmingly on the sovereign, which is fortuitous given ongoing BoC QT. Fun fact: In the 12-month period to May-24, non-residents absorbed more GoCs than all domestic investors combined. This has the non-resident ownership share of GoC bonds climbing steadily, topping 36% and edging ever closer to a record ownership share. Another fun fact: The BoC's footprint in the GoC market is over two-thirds of the way back to its pre-pandemic size. Not even three years ago, the Bank owned 43% of the market. Of course, exposure to foreign investors is not without risk, but the broader and deeper non-resident interest increasingly on display seems to us a vital source of secondary bond market liquidity.

**Chart 1: Non-residents have done the 'heavy lifting' of late**

Effective net supply and net purchases of GoC bonds: Last 12 months



Source: NBF, StatCan, BoC

**Chart 2: Record year of GoC bond buying by foreigners (so far)**

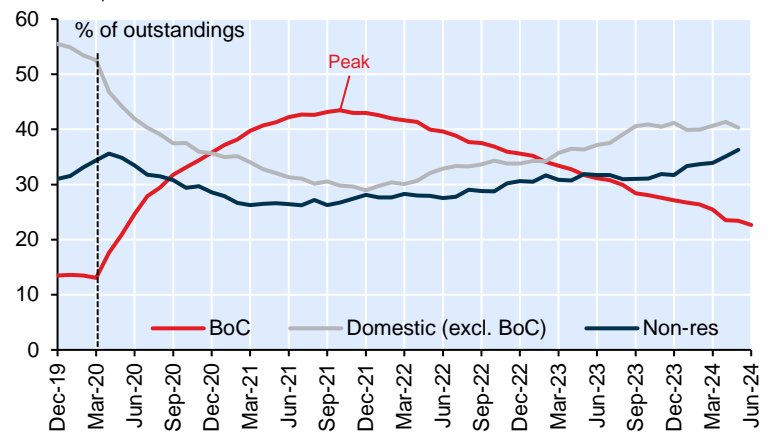
Net purchases of GoC bonds by non-resident investors: Jan-May



Source: NBF, StatCan

**Chart 3: Foreigners set a post-2020 record ownership share**

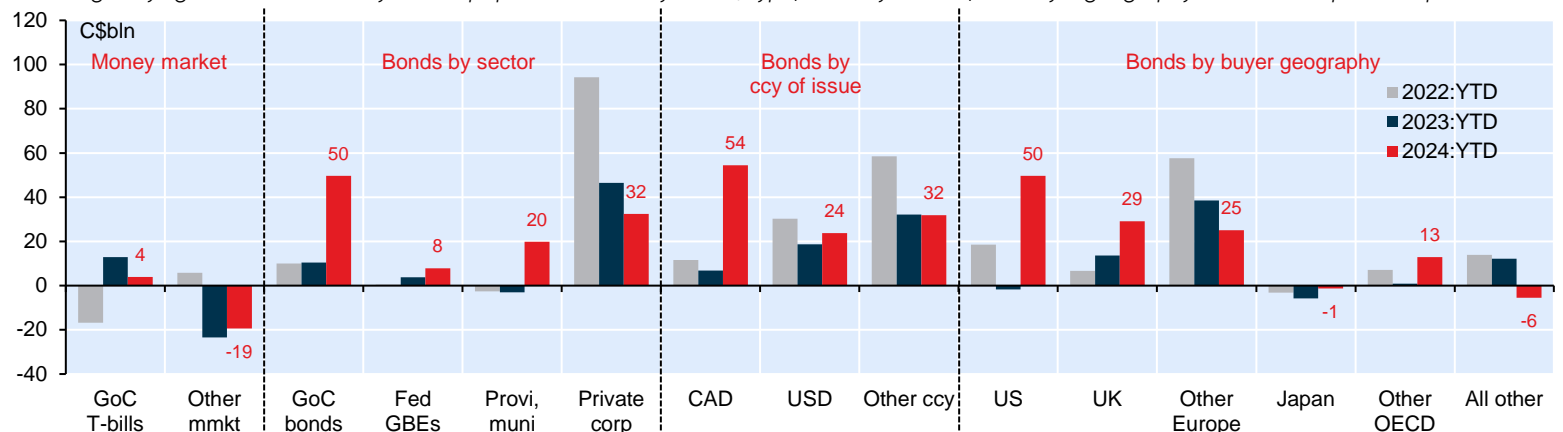
Ownership share of GoC bonds: Domestic and non-resident investors, BoC



Source: NBF, BoC, StatCan | Note: Domestic/non-res. ownership share as at May-24.

**Chart 4: A closer look at the nature and origin of foreign buying of Canadian fixed income assets in first five 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-May 2024



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