

Gimme! Gimme! Gimme! (CAD bonds in the spotlight)

By Warren Lovely

In what amounts to a 'continuing theme', StatCan's latest batch of international securities transactions data revealed a solid wave of net foreign buying of Canadian paper in July. Granted, the non-resident appetite for Canada hasn't extended to all assets equally or consistently. Despite modest foreign buying in the latest month, Canadian equities/investment funds haven't received much non-res love in recent years. But Canadian debt is another story entirely.

'Gimme, gimme, gimme' is the ongoing refrain from foreign bond investors. Non-residents grabbed \$13 billion (net) of our bonds in July, driving the year-to-date sum to a lofty \$135 billion. That eclipses by some margin the prior YTD tally, which itself was nothing to sneeze at.

Caution: The so-called 'Canadian' bonds that non-residents traffic in aren't necessarily denominated in loonies. Certain of our issuers, on the public and private side, are active in international debt capital markets (USD obviously and other currencies too). But in aiming to keep our focus tight, let's isolate for flows/trends in CAD-denominated product. So are non-residents still keen on purely domestic bonds? You bet!

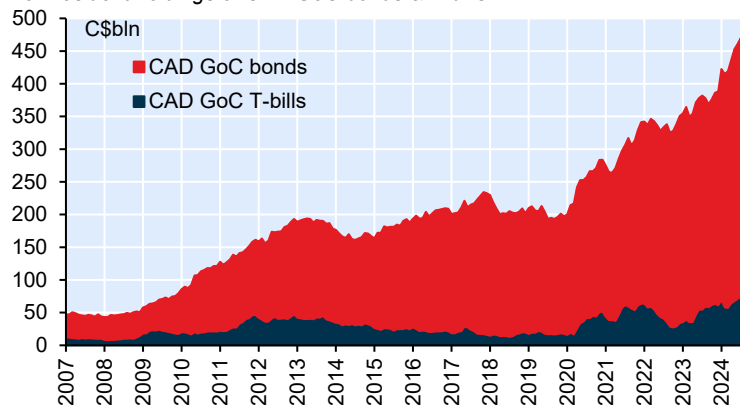
Canada's sovereign has been most in vogue. Foreign buying of GoC debt really has exploded in 2024, a finding echoed in secondary bond volume data. That's down to enhanced hedge fund activity and marginal interest from the official sector and other real money investors abroad.

Consider: The \$68 billion net increase in foreign holdings of domestic GoC bonds in the first seven months of 2024 is entirely unprecedented on a YTD basis. Apologies if you've heard this argument from us before, but the non-resident grab-fest goes a long way towards absorbing the *effective* increase in GoC bonds outstanding. (Note: The effective increase is net new GoC bond supply *plus* BoC bond runoffs via QT.)

Given robust foreign interest, domestic end investors (excl. BoC) have been asked to take down less than \$10 billion of GoC bonds so far this year (through July). Household deposits are growing many times faster than that if you're wondering, a finding drawn from a distinctly complementary data set: the national balance sheet accounts. Indeed, national balance sheet data provide useful colour on evolving investor holding patterns, be it for GoC bonds or the rest of Canada's \$5.4 trillion debt stock. A detailed ownership snapshot is presented on page 2.

Chart 1: Non-residents keep adding GoC product

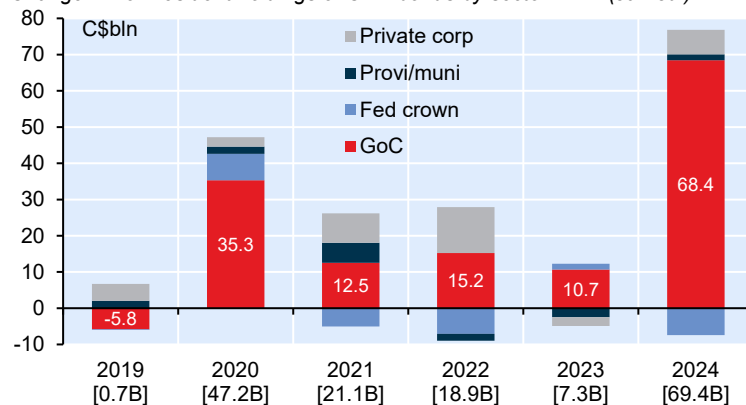
Non-resident holdings of CAD GoC bonds & T-bills



Source: NBF, StatCan | Note: Monthly book value to Jul-24

Chart 2: Non-res buying of GoC bonds surges in 2024

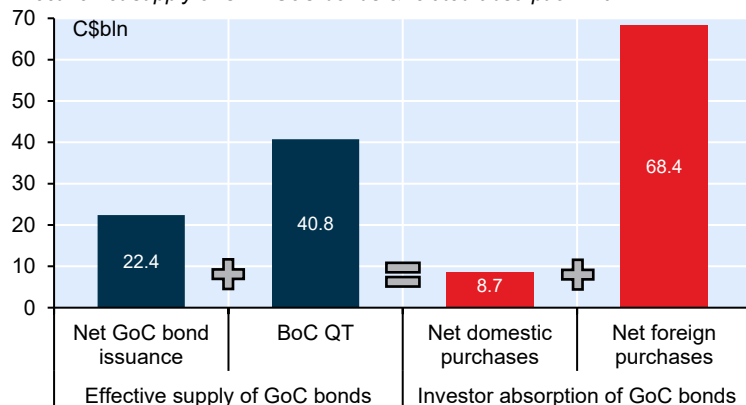
Change in non-resident holdings of CAD bonds by sector: YTD (Jan-Jul)



Source: NBF, StatCan | Note: Chg in book value; figures in [] refer to all-sector total

Chart 3: Foreign investors absorb net GoC supply...

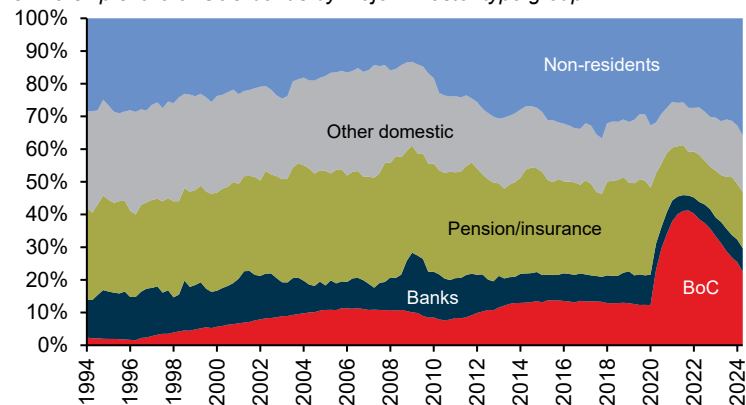
Effective net supply of CAD GoC bonds & related absorption: 2024YTD



Source: NBF, StatCan, BoC | Note: Net chg in book value from Dec-23 to Jul-24

Chart 4: ... leaving little clean up for domestic end investors

Ownership share of GoC bonds by major investor type/group



Source: NBF, StatCan | Note: Based on market value to 2024:Q2; all ccy (mainly CAD)

**Table: Detailing the ownership of C\$5.43 trillion of Canadian debt securities (denominated in all currencies)**

Market value & share of total holdings: Canadian debt securities by type of paper & holdings by detailed national balance sheet sector (as at 2024:Q2)

Holdings (C\$bln, market value)	Cdn debt securities	Canadian short-term paper			Canadian bonds				
		All Cdn ST paper	Govt of Canada	Other sectors	All Cdn bonds	Govt of Canada	Provincial govts	Local govts	Other sectors*
Total all sectors	5,427.1	715.1	280.1	435.0	4,712.0	1,036.5	971.4	64.3	2,639.8
Domestically held (incl. monetary authority)	3,287.3	515.6	205.8	309.8	2,771.8	664.7	733.5	55.0	1,318.6
Households & non-profit institutions	97.2	8.6	1.2	7.4	88.6	15.7	19.5	13.9	39.6
Corporations	2,797.5	409.4	172.7	236.7	2,388.1	587.6	617.4	35.2	1,147.9
Non-financial corporations	100.6	61.1	15.3	45.8	39.5	7.1	3.1	0.0	29.3
Financial corporations	2,696.8	348.3	157.4	190.9	2,348.5	580.5	614.3	35.2	1,118.6
Bank of Canada	246.8	0.0	0.0	0.0	246.8	232.9	8.2	0.0	5.7
Chartered banks & quasi-banks	547.7	74.5	37.7	36.8	473.2	75.0	161.5	7.5	229.3
Insurance & pension funds	940.7	101.2	60.7	40.6	839.5	177.6	335.5	23.1	303.3
Life insurance business	223.3	13.1	8.7	4.4	210.2	18.2	60.8	15.3	115.9
Segregated funds of lifecost	29.5	4.1	1.3	2.8	25.4	6.2	7.7	0.0	11.5
Trusteed pension plans	586.4	68.8	41.8	27.0	517.6	124.7	241.4	7.7	143.7
Property & casualty insurance	101.6	15.2	8.8	6.4	86.3	28.5	25.6	0.0	32.3
Total other private financial institutions	680.4	163.7	53.6	110.1	516.7	82.9	105.0	4.7	324.1
Mutual funds	517.9	102.0	33.7	68.3	415.8	60.9	83.6	4.5	266.9
Other intermediaries, excl. ins/pension	88.0	22.1	4.9	17.2	65.8	14.1	8.6	0.2	42.9
Financial auxiliaries	32.5	9.3	4.0	5.3	23.2	5.6	8.5	0.0	9.1
Captive fin'l institutions & money lenders	42.1	30.3	11.0	19.3	11.8	2.3	4.3	0.0	5.2
Financial gov't business enterprises	281.3	8.9	5.4	3.5	272.4	12.0	4.1	0.0	256.2
General governments	392.7	97.6	31.9	65.7	295.1	61.5	96.6	5.9	131.1
Federal general government	25.2	0.3	0.0	0.3	24.9	8.1	0.2	0.0	16.5
Other levels of general government	265.0	83.2	31.9	51.2	181.9	33.0	61.2	5.0	82.7
Provincial & territorial governments	216.1	71.8	31.8	39.9	144.4	28.5	50.7	0.3	64.8
Local governments	48.9	11.4	0.1	11.3	37.5	4.5	10.5	4.6	17.8
Social security funds	102.4	14.1	0.0	14.1	88.3	20.3	35.2	0.9	31.9
Non-residents	2,139.8	199.5	74.3	125.2	1,940.3	371.8	237.9	9.4	1,321.2

Distribution of holdings by security type (%)	Cdn debt securities	Canadian short-term paper			Canadian bonds				
		All Cdn ST paper	Govt of Canada	Other sectors	All Cdn bonds	Govt of Canada	Provincial govts	Local govts	Other sectors*
Total all sectors	100%	100%	100%	100%	100%	100%	100%	100%	100%
Domestically held (incl. monetary authority)	61%	72%	73%	71%	59%	64%	76%	85%	50%
Households & non-profit institutions	2%	1%	0%	2%	2%	2%	2%	22%	2%
Corporations	52%	57%	62%	54%	51%	57%	64%	55%	43%
Non-financial corporations	2%	9%	5%	11%	1%	1%	0%	0%	1%
Financial corporations	50%	49%	56%	44%	50%	56%	63%	55%	42%
Bank of Canada	4.5%	0.0%	0.0%	0.0%	5.2%	22.5%	0.8%	0.0%	0.2%
Chartered banks & quasi-banks	10%	10%	13%	8%	10%	7%	17%	12%	9%
Insurance & pension funds	17%	14%	22%	9%	18%	17%	35%	36%	11%
Life insurance business	4%	2%	3%	1%	4%	2%	6%	24%	4%
Segregated funds of lifecost	1%	1%	0%	1%	1%	1%	1%	0%	0%
Trusteed pension plans	11%	10%	15%	6%	11%	12%	25%	12%	5%
Property & casualty insurance	2%	2%	3%	1%	2%	3%	3%	0%	1%
Total other private financial institutions	13%	23%	19%	25%	11%	8%	11%	7%	12%
Mutual funds	10%	14%	12%	16%	9%	6%	9%	7%	10%
Other intermediaries, excl. ins/pension	2%	3%	2%	4%	1%	1%	1%	0%	2%
Financial auxiliaries	1%	1%	1%	1%	0%	1%	1%	0%	0%
Captive fin'l institutions & money lenders	1%	4%	4%	4%	0%	0%	0%	0%	0%
Financial gov't business enterprises	5%	1%	2%	1%	6%	1%	0%	0%	10%
General governments	7%	14%	11%	15%	6%	6%	10%	9%	5%
Federal general government	0%	0%	0%	0%	1%	1%	0%	0%	1%
Other levels of general government	5%	12%	11%	12%	4%	3%	6%	8%	3%
Provincial & territorial governments	4%	10%	11%	9%	3%	3%	5%	0%	2%
Local governments	1%	2%	0%	3%	1%	0%	1%	7%	1%
Social security funds	2%	2%	0%	3%	2%	2%	4%	1%	1%
Non-residents	39%	28%	27%	29%	41%	36%	24%	15%	50%

Source: NBF, StatCan | Note: **Canadian debt securities include issues denominated in CAD as well as securities denominated in foreign currencies**; other Canadian bond sectors include corporates, CMB, GBEs, other public sector, etc.



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