

[Canadian] Dollarization

By Warren Lovely & Kyle Dahms

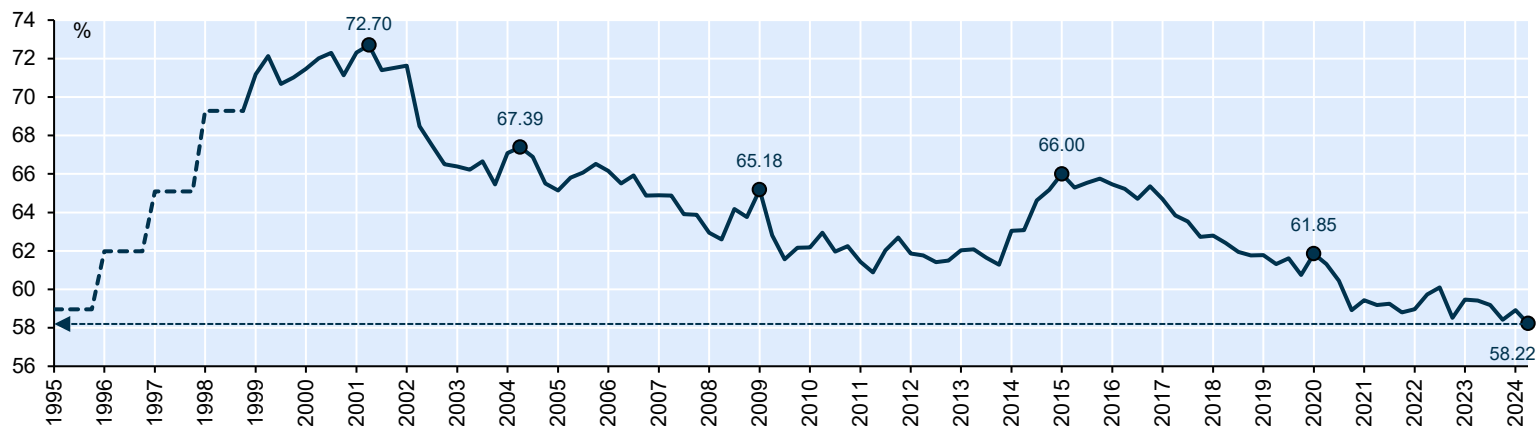
The status of the U.S. dollar as the world's reserve currency remains a hot topic. So-called 'de-dollarization' (or 'declining dollar dominance' if you really like alliteration) even features in the U.S. election debate.

That the U.S. dollar's share of global foreign exchange reserves is in structural decline isn't really in doubt. IMF data on FX reserves allow us to quantify this long-standing trend. As at the end of 2024:Q2, the share of official reserves allocated to USD was down to 58.2%—a majority position sure but the lowest share since at least 1995 (Chart 1). The U.S. dollar's weight has dropped 3.6%-pts since the initial COVID shock. Other 'super-majors' haven't really picked up the greenback's slack, the share of reserves currently allocated to EUR and JPY no higher (in fact a bit lower) vs. early 2020 (Chart 2). It perhaps follows that a larger share of reserves has been steered to less-traditional reserve currencies, including (but not limited to) the Canadian dollar.

Keying on CAD, no other so-called 'reserve' currency has seen its share of allocated reserves increase faster since early 2020 (Chart 3). If you're keeping track, CAD's share of the official FX reserve pie has grown in

Chart 1: De-dollarization... hardly a 'new' issue, but increasingly topical (and politically charged)

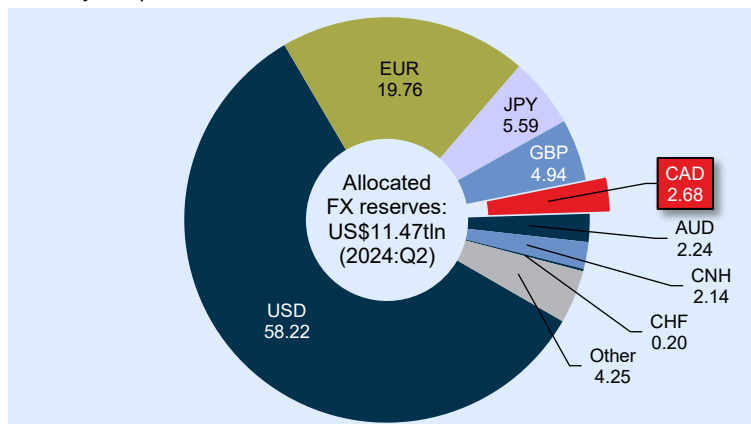
Share of official FX reserves allocated to USD



Source: NBC, IMF | Note: Based on allocated reserves; data to 2024:Q2

Chart 2: USD still largest share of global FX reserve pie...

Currency composition of official FX reserves as at 2024:Q2



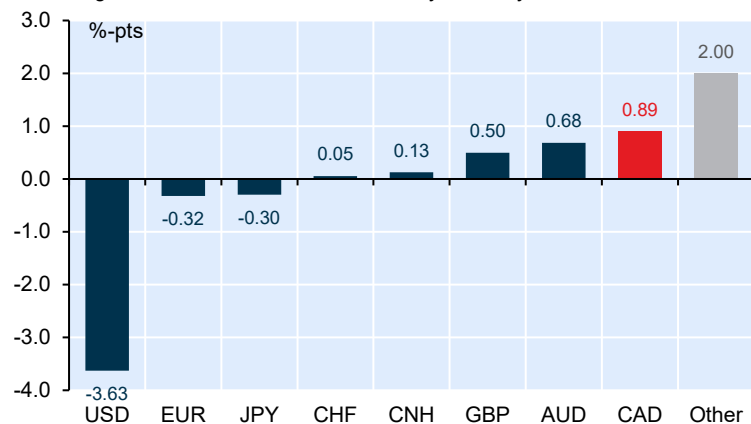
Source: NBC, IMF | Note: Excludes US\$882bln of unallocated FX reserves where ccy split N/A

13 of the past 17 quarters (Chart 4), outpacing the AUD allocation and also clear of the Chinese renminbi's current allocation (Chart 5).

At 2.68%, CAD's share of allocated FX reserves might not sound enormous. But putting our own spin on an old saying, 'almost 3% of something is better than 100% of nothing'. This is where the multiplier effect (i.e., the sheer size of official reserves) comes into play. With allocated reserves of ~US\$11½ trillion (Chart 6), even the narrow(ish) slice allocated to CAD converts to C\$420 billion (Chart 7). For a country the size of Canada that's a veritable landside of loonies. True, 'official' money can be stashed in currency/deposits (Chart 8) and/or slotted into the uber-short, ultra-safe T-bill market. But at least some of this official money looks to be finding its way into the Canadian dollar bond market, where net foreign purchases have set records so far this year (Chart 9). Maybe there's more to the non-resident bond buying bonanza than foreign hedge funds after all. Finally, all this foreign interest in Canadian dollar product—from the official sector or elsewhere—has lent the loonie support, contributing to what is arguably an overvalued CAD.

Chart 3: ... but non-core ccys, incl CAD, garner interest

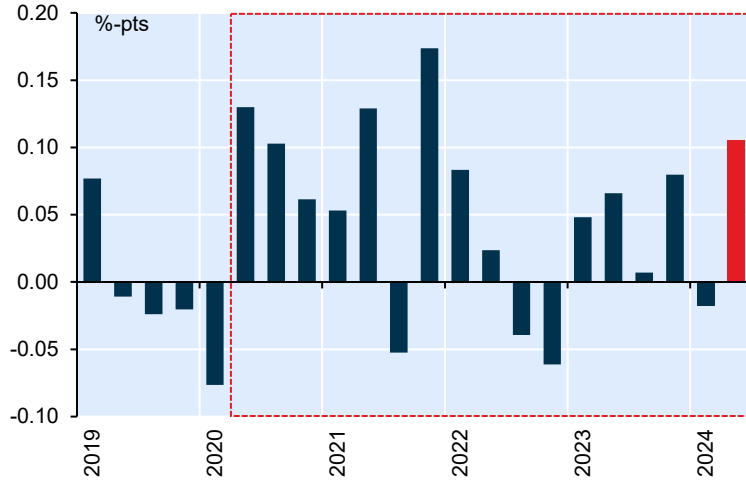
Net change in share of official FX reserves by currency: 2020:Q1 to 2024:Q2



Source: NBC, IMF | Note: Based on currency shares of allocated reserves

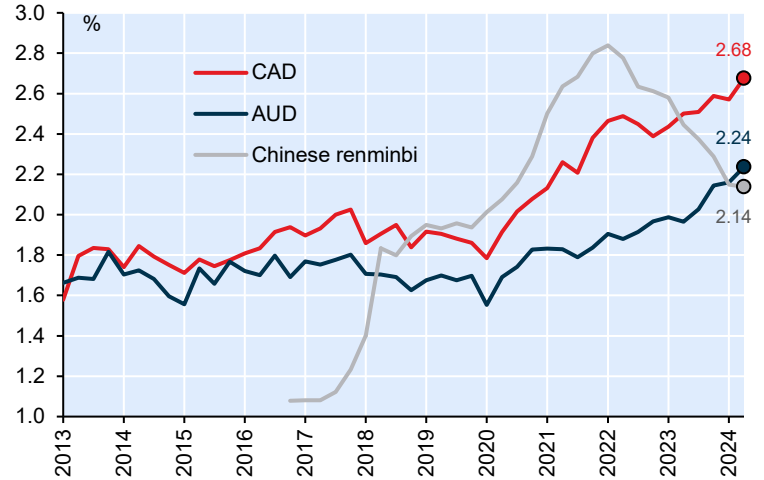


Chart 4: CAD weight up 13 of 17 qtrs since initial COVID hit
Q/Q change in share of official FX reserves allocated to CAD



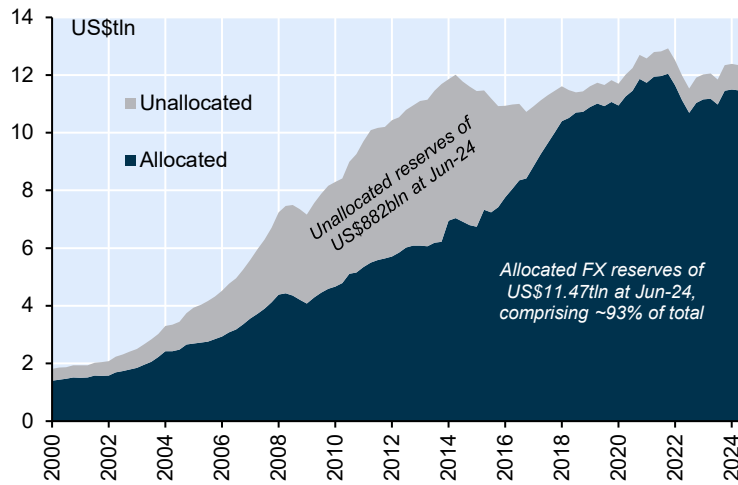
Source: NBC, IMF | Note: Dotted line area captures 2020:Q2 to 2024:Q2 (i.e., 17Q period)

Chart 5: CAD share, while not enormous, on steady ascent
Share of official FX reserves allocated to select currencies



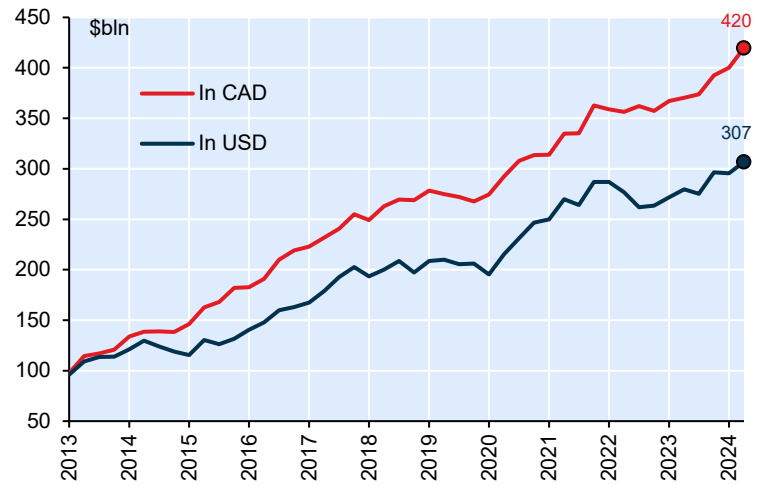
Source: NBC, IMF | Note: CAD, AUD data available from 2012:Q4; renminbi from 2016:Q4

Chart 6: Even tiny slice of ~US\$12 trillion FX reserve pie...
Value of official FX reserves: Allocated by currency vs. unallocated reserves



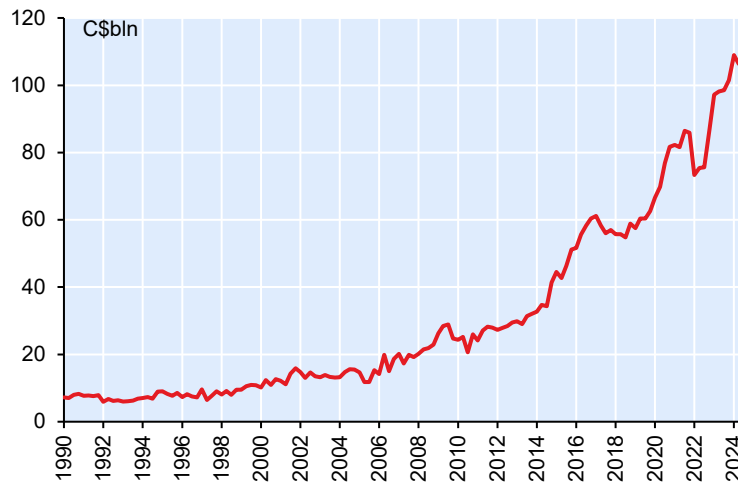
Source: NBC, IMF | Note: Data to 2024:Q2

Chart 7: ... can mean a lot of 'official' loonies put to work
Value of official FX reserves allocated to CAD, incl. currency conversion



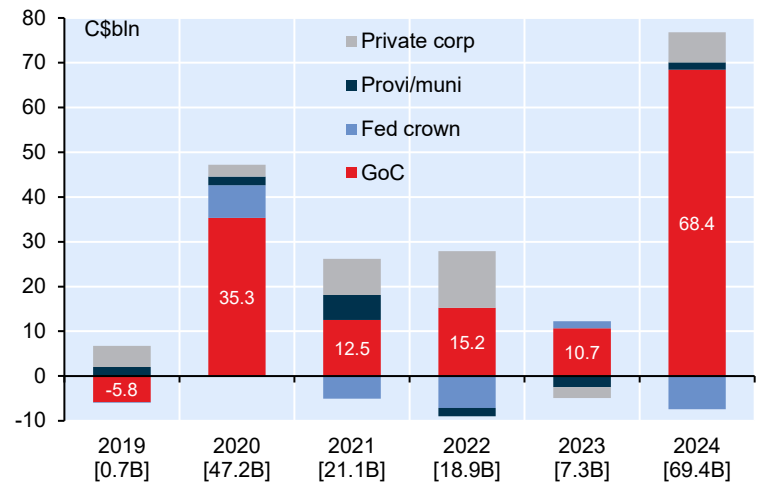
Source: NBC, IMF, BBG | Note: Converted at prevailing/qtr-end FX rates; data to 2024:Q2

Chart 8: Some foreign investors park in ccy/deposits...
Non-resident holdings of Canadian currency & deposits



Source: NBC, StatCan | Note: NBS accounts; market value; data to 2024:Q2

Chart 9: ... but non-res scoop up record amt of CAD bonds
Change in non-resident holdings of CAD bonds by sector: YTD (Jan-Jul)



Source: NBC, StatCan | Note: Book value; figures in [.] refer to all-sector total on YTD basis



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