

Foreigners still feasting on Canada? Sort of.

By Warren Lovely

Canada's international transactions in securities data offer a reminder of why perspective is everything. If you caught it, today's StatCan headline sure sounded impressive; non-residents acquired a net \$29.3 billion of Canadian portfolio securities (all types) in September alone!

[Sidebar: The impressive monthly tally—more than 2X the post-COVID average—included foreign buying of Canadian equities. Before getting too excited about non-resident interest in Canadian stocks, consider that positioning had cut the prior month. With nine months of 2024 in the books, foreign investors remain net sellers of Canadian equities.]

Beyond equities... September's buying frenzy technically included a sizeable increase in non-resident holdings of 'Canadian' bonds. Just under \$14 billion to be precise. The use of quotation marks is deliberate here, since net buying related entirely to bonds denominated in USD or other foreign currencies (Chart 1). If trying to visualize this, think of large Canadian financial institutions issuing south of the border and/or across the pond. Thus, September's meaningful buying of 'Canadian' corporate bonds really happened in international markets.

Beyond foreign currency issues... Non-residents were net sellers of CAD-denominated bonds in September. Here again, perspective is needed. A modest unwinding of CAD product by non-residents in

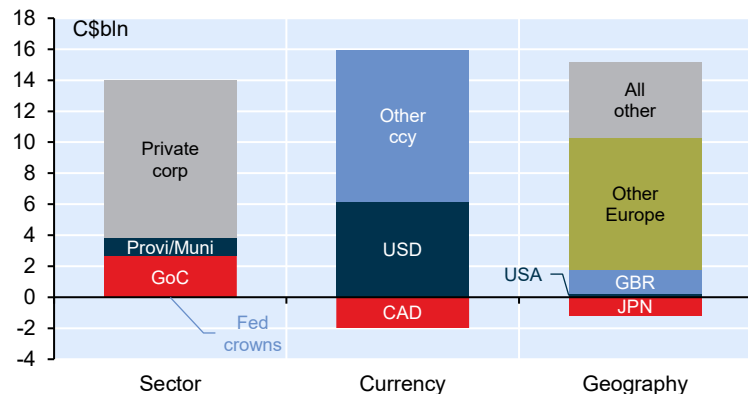
September isn't necessarily the end of the world. This month is often a seasonal soft spot when it comes non-resident bond flows, given the concentrated nature of maturities/coupons in the domestic market.

Digging deeper... Net divestment of domestic bonds in September was a credit story. Non-residents were net buyers of domestic GoC bonds for a twelfth straight month, building on their already substantial (in fact unprecedented) portfolio of Canadas (Chart 2). The \$407 billion of domestic Canadas that foreign investors held at the end of September was equivalent to 38% of the effective GoC bond stock (excluding residual BoC holdings), this ratio having increased notably (Chart 3).

As repeatedly highlighted, non-resident purchases—including by foreign hedge funds deploying leverage—have absorbed the majority of net GoC issuance this year (Chart 4). The evolving nature of sovereign bond ownership is not without risk(s). For instance, a swift/sustained/sizeable unwinding of leveraged positions by non-resident players would necessarily require domestics to pick up the slack. Foreign attitudes toward Canada thus warrant careful monitoring. Note: Separate data on secondary bond volumes revealed still-active two-way trade with internationals through October, non-residents having driven a disproportionate share of trade in 2024.

Chart 1: Three dimensions to Sep-24 buying of Cdn bonds

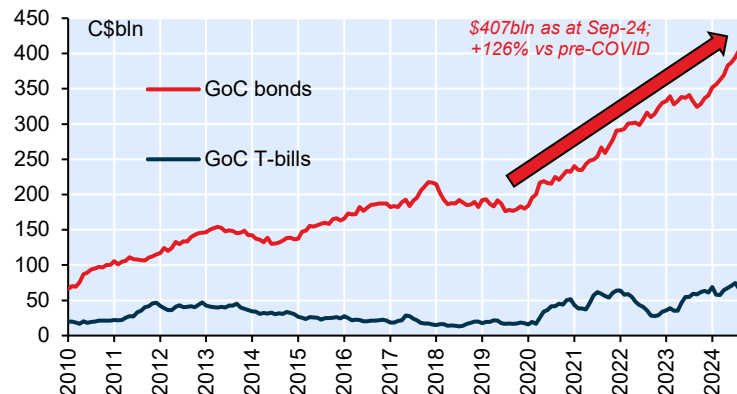
Net purchases of 'Canadian' bonds by sector, currency & geography: Sep-24



Source: NBC, StatCan | Note: Net flows for 1M; in all three cases, combined total is \$13.974bln

Chart 2: Non-residents still adding GoC bonds (thru Sep-24)

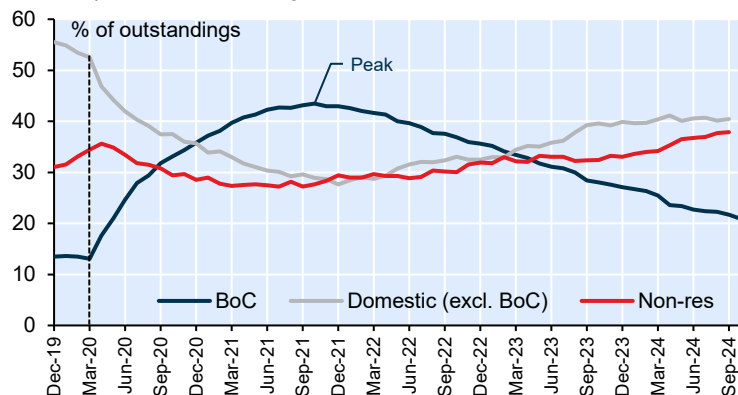
Non-resident holdings of CAD GoC bonds & T-bills



Source: NBC, StatCan | Note: Monthly par value to Sep-24

Chart 3: Evolving ownership of sovereign bond market

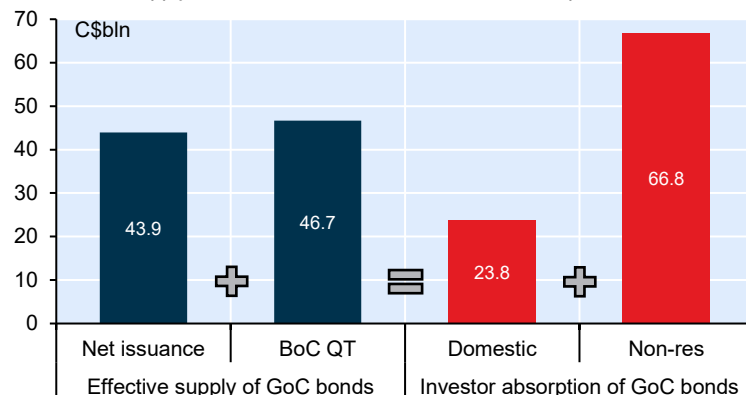
Ownership share of outstanding CAD GoC bonds



Source: NBC, StatCan | Note: BoC share to Oct-24; non-res/domestic share to Sep-24

Chart 4: The non-resident bond sponge! (Not without risks)

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



Source: NBC, StatCan | Note: Based on net chg in par value from Dec-23 to Sep-24



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