

Canada: Foreign debt investors not exactly scared off

By Warren Lovely & Taylor Schleich

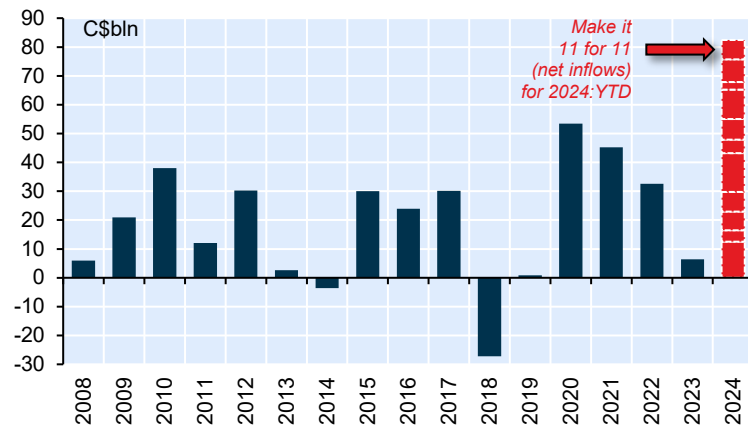
The late stages of 2024 were hardly a joyous time in Canada. Following the U.S. election, the president-elect was starting to make scary noises on tariffs. The political situation in Ottawa was anything but stable, the nation's finances weakening and cash needs stepping up. FX markets took notice, as short positions in CAD were established or added to.

But in debt markets we seemingly couldn't keep foreign investors away (at least through November). That's what fresh StatCan data tell us. Non-residents added to their holdings of GoC debt in November. For domestic GoC bonds, a \$6.7 billion net investment in November made it 11-for-11 in terms of monthly inflows for calendar 2024 (with December data still to come) (Chart 1). The corresponding YTD sum resides in unprecedented territory.

Non-residents were also acquiring GoC T-bills like never before, a record \$15½ billion (net) sucked up by foreign investors in November. So a hefty \$22 billion of GoC risk was added to non-resident portfolios in November alone, pushing the total foreign investment position in our sovereign beyond the \$500 billion threshold (Chart 2). Heady stuff.

Chart 1: Unprecedented foreign buying of GoC bonds in 2024

Net change in foreign holdings of domestic GoC bonds: YTD (Jan-Nov)



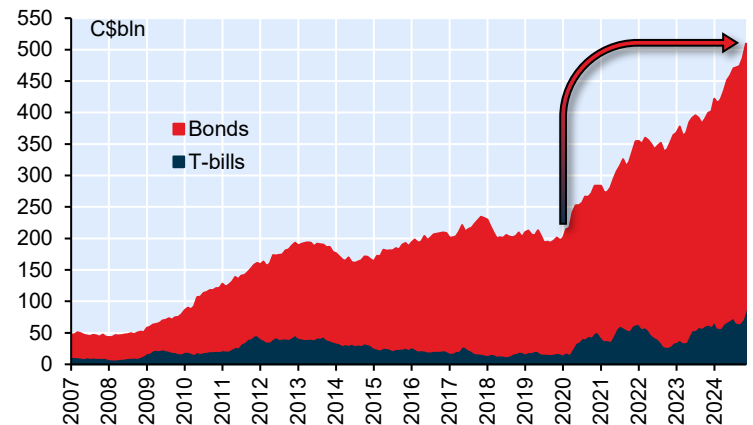
Source: NBC, StatCan | Note: Monthly net investment shown for 2024 only; book value

As we've routinely highlighted, sizeable (and sustained) foreign buying is something of a salve for GoC debt markets where outstandings are pointed higher. The math on net GoC supply and resulting investor absorption remains striking: During the first 11 months of 2024, non-resident investment neutralized (absorbed) nearly 80% of the \$138 billion surge in outstanding GoC debt (T-bills and bonds) (Chart 3). Think where we'd be in the absence of that foreign investor demand.

It leaves Canada with greater exposure to non-residents yes (Chart 4), but in a world where Canada has had a hard time gaining economic traction it's reassuring to see foreign investors lined up for our debt. After all, there will be more of it available in 2025. Ottawa's deficit may be nowhere near as ugly as Uncle Sam's, but there's non-trivial net financing to do. Meantime, as the BoC just told us, the end of QT will not usher in GoC bond buying. (Related note [here](#).) It will be some time before the Bank is ready to add GoC bonds, meaning the BoC ownership share will be back to pre-COVID lows in about a year's time. So come one, come all, we've got a (sovereign) bond or bill for you.

Chart 2: Non-res investment in GoC debt now tops \$500bln!

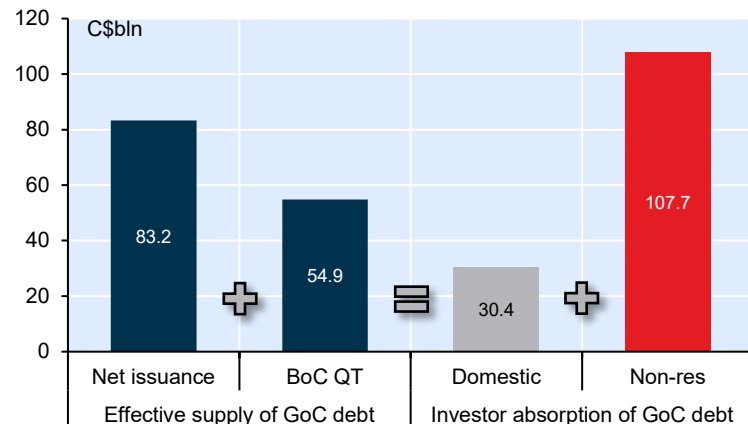
Foreign holdings of domestic GoC T-bills & GoC bonds



Source: NBC, StatCan | Note: Latest data point refers to Nov-24; book value

Chart 3: ~80% of net GoC debt absorbed by non-residents

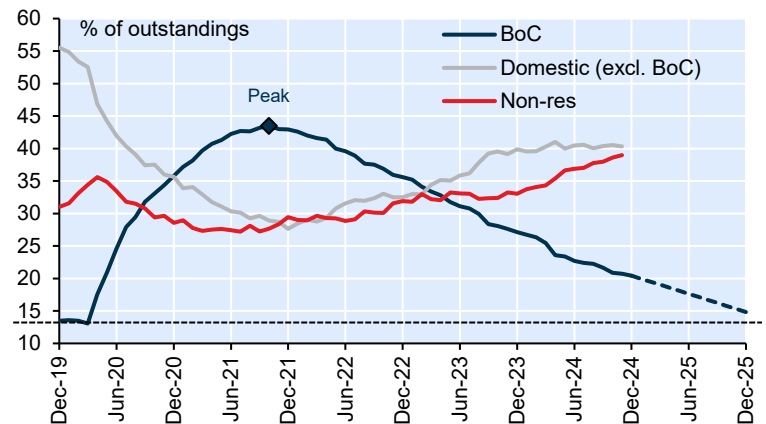
Effective net supply & absorption of domestic GoC debt: 2024YTD (Jan-Nov)



Source: NBC, StatCan, BoC | Note: Based on net change in book value of outstandings & holdings; refers to net supply & absorption of GoC T-bills & GoC bonds (combined)

Chart 4: GoC bond redistribution to continue (even as QT ends)

Ownership share of domestic GoC bonds, incl. estimate for BoC to Dec-25



Source: NBC, StatCan, BoC | Note: Domestic investor & non-res shares to Nov-24; dotted blue is NBC projection to Dec-25, based on net supply & BoC run-off; based on book value



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