

The non-resident investor factor (in Canada's bond market)

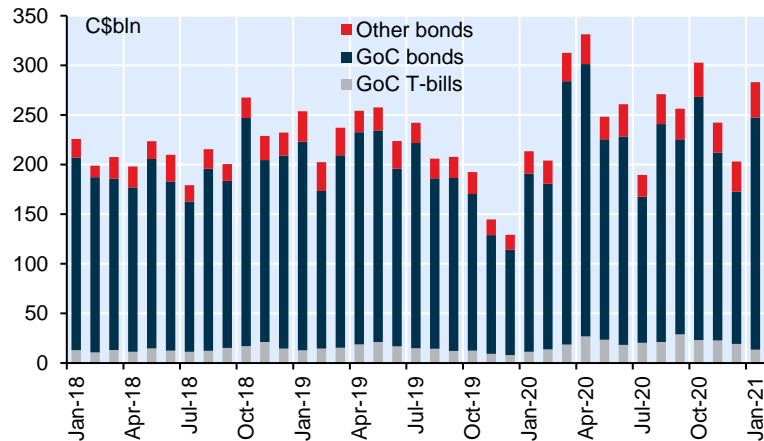
By Warren Lovely

Individually, non-resident investors don't always walk a common, consistent or predictable route, but collectively they're leaving notable footprints in Canada's fixed income market. Here in Canada, it's not uncommon to start the day with tales of foreign investor bond flows, delivered by traders robbed of deep REMs by middle-of-the-night bid- and/or offer-wanted inquiries from various corners of the globe. These non-res flows are seemingly increasing in frequency and importance. As it happens, IIROC's MTRS 2.0 secondary trading volume data allow us to retroactively test the relevance of non-residents investors across sectors and/or tenors. Having perused the January 2021 stats (out Monday), we offer a few quick remarks (and a couple of charts) focused specifically on non-res flows...

All told, non-residents traded roughly C\$270 billion of Canadian bonds in January 2021, one-third more volume than January 2020 and leaving the 12-month running total not far from C\$3 trillion. Just as the lion's share of total trading is focused on Government of Canada bonds, the bulk of non-res flows are in Canadas too (~85% last month). Here, in the GoC bond market, international investors accounted for 23% of total trading, up 5%-pts vs. a year ago. It will pay to watch foreign attitudes towards the sovereign closely, particularly as the BoC tapers its still-sizeable bond purchase program (the next tweak likely coming in two months' time). Non-res trading shares may not be as significant in most other sectors, but activity is generally on the rise. There's been long-standing international interest in CMB—which we'll test once more via an imminent dual-tranche trade—alongside a growing non-resident following for Canada's other public sector entities. The non-res share of provincial bond trading, at 11%, isn't exactly off the charts. Still, a recent tilt to net foreign buying has contributed to today's spread tension in our view. (And don't lose sight of the large-scale foreign currency trades provis continue to place south of the border or in Europe, deals that have vaulted borrowing programs forward.) Interestingly, non-residents appear to increasingly active in domestic corporates, hinting at another source of liquidity for a sector that generally turns over at a slower rate. Finally, we'd note that non-residents have become less critical in the so-called "other domestic" category, which includes maple bonds. As we argued [recently](#), domestic banks and institutional investors have developed a stronger taste for maples (SSAs in particular), a welcome development for this admittedly peripheral/less-active sector.

Chart 1: Non-res volumes up 33% Y/Y in Jan-2021

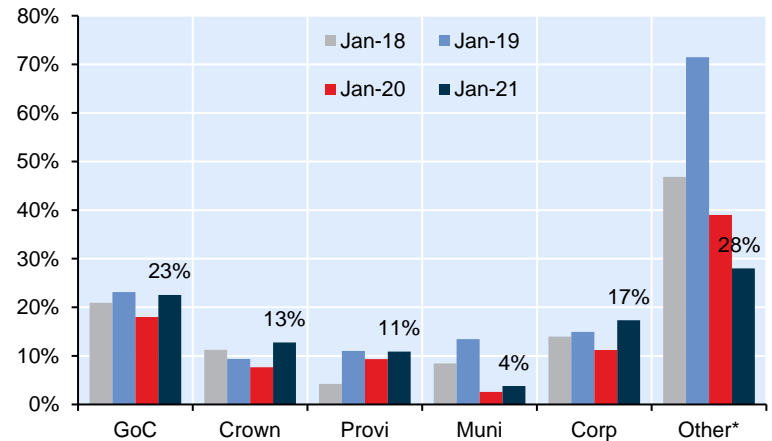
Canada domestic trading volumes with non-resident investors



Source: NBF, IIROC

Chart 2: What share of trading being done with non-res?

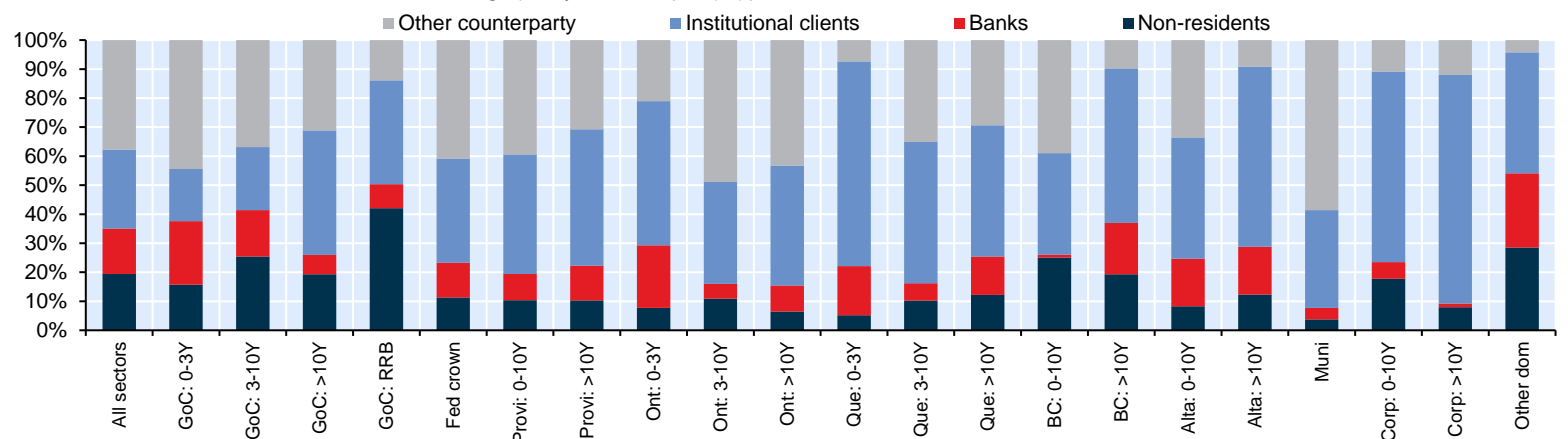
Evolution of non-resident share of domestic bond trading by major sector



Source: NBF, IIROC | Note: Other refers to other domestic, excluding strips, ABS, MBS

Chart 3: A closer look at non-res trading share vs. other major counterparty types

Share of Canadian domestic bond market trading by major counterparty type, sector & tenor (all dealers): Jan-2021



Source: NBF, IIROC | Note: Other domestic excludes strips, ABS, MBS



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