

## Reserve managers looking for loonies

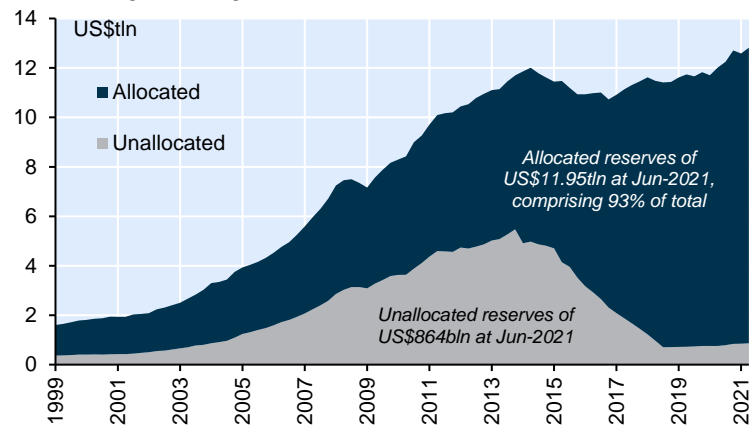
By Warren Lovely

While Canadians were observing the first-ever National Day for Truth and Reconciliation on Thursday, the IMF dutifully released the quarterly Currency Composition of Official Foreign Exchange Reserves (COFER). This is always an informative release, for while the data are a bit stale (lagged one quarter) they serve to highlight shifting sentiment among the world's reserve managers. Here's our CAD-centric take in 8 charts:

**[Charts 1-4 on page 1]** ➤ **Chart 1** – Total FX reserves were US\$12.8 trillion at mid-year, a new high-water mark and standing more than US\$1.1 trillion or 9.5% higher than 2020:Q1. With 93% of total reserves 'allocated', we have very good visibility in terms of detailed currency composition. ➤ **Chart 2** – 'Just' 2.2% of allocated reserves had been steered into CAD as of June 2021. But when the global reserve pie is so enormous, even a minor share means big bucks. ➤ **Chart 3** – Indeed, CAD's 2.2% share works out to US\$266 billion or C\$330 billion when converted into local currency terms. For a country with nominal GDP of ~C\$2.5 trillion and consolidated net government debt of C\$990 billion, the current value of official FX reserves allocated to Canada is no small matter. ➤ **Chart 4** – Moreover, the share of FX reserves allocated to CAD has been on the rise, increasing for five straight quarters as of 2021:Q2. | **[Charts 5-8 on page 2]** ➤ **Chart 5** – The cumulative increase in CAD's share is 0.44%-pts over that five-quarter period. Only the euro and Chinese renminbi saw their shares increase at a faster rate, as official exposure to USD has been cut notably (-2.6%-pts). The share of reserves in Japanese yen also declined slightly. ➤ **Chart 6** – The vote of confidence in CAD by reserve managers compares favourably with another commodity-levered currency: AUD. The gap in relative shares between these two currencies has never been larger. ➤ **Chart 7** – COFER data may be lagged, but evidence from Canada's latest international transactions in securities release showed foreign investors (not solely reserve managers) loading up on more CAD-denominated bonds in July. That was a constructive start to Q3. Ironically, Canada's broader government sector hasn't been in need of as much foreign investor support of late. A striking improvement in provincial budget balances means more cash on hand and less borrowing to do. That spells technical support for domestic bond valuations, even as Canada's central bank steps back from the market via QE tapering. ➤ **Chart 8** – All told, COFER data paint a constructive picture for CAD. The loonie is already near the top of the heap in terms of year-to-date performance, but we see scope for that relative outperformance streak to continue. Note: National Bank's fresh issue of **FOREX** will hit your inbox in the coming days. Stay tuned.

**Chart 1: Record reserves of US\$12.8tn, up ~10% vs. early 2020**

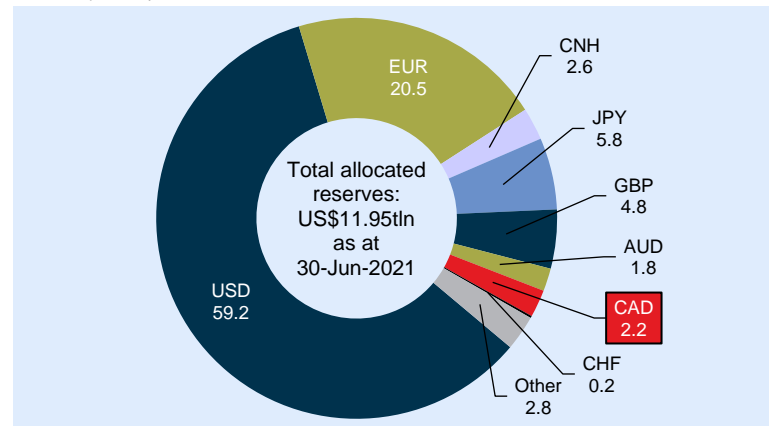
Official foreign exchange reserves: Allocated & unallocated



Source: NBF, IMF

**Chart 2: CAD comprises a minor share of a massive pie**

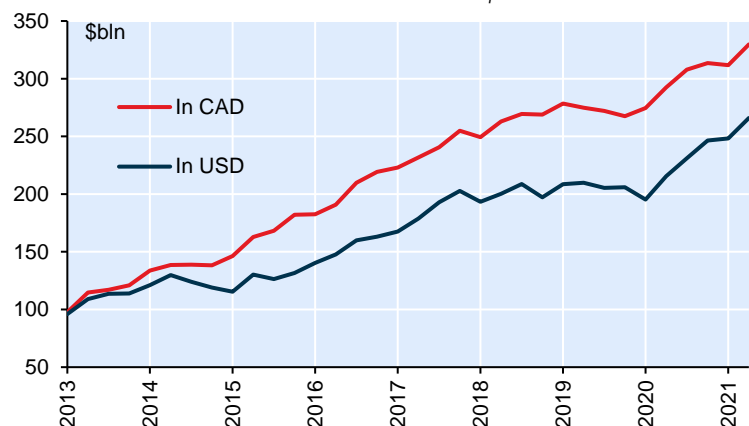
Currency composition of allocated reserves: Shares in % as at 2021:Q2



Source: NBF, IMF

**Chart 3: CAD's 2.2% share means C\$330 billion in local ccy**

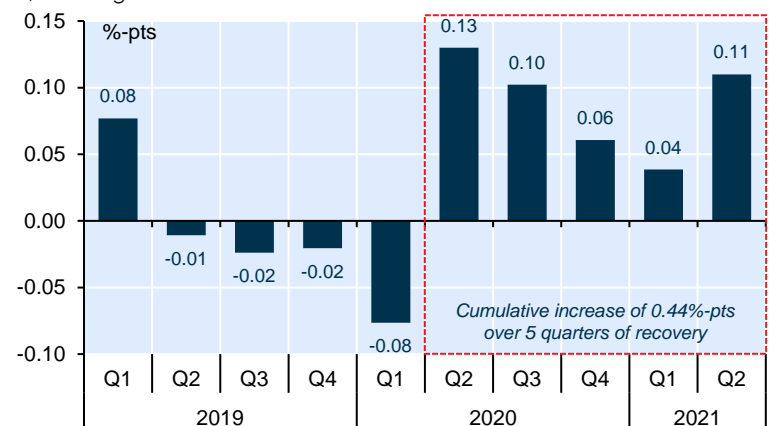
Official reserves allocated to Canadian dollar: Expressed in USD & CAD



Source: NBF, IMF, Bloomberg | Note: Converted to CAD using quarter-end FX rates

**Chart 4: CAD share of reserves rises for five straight quarters**

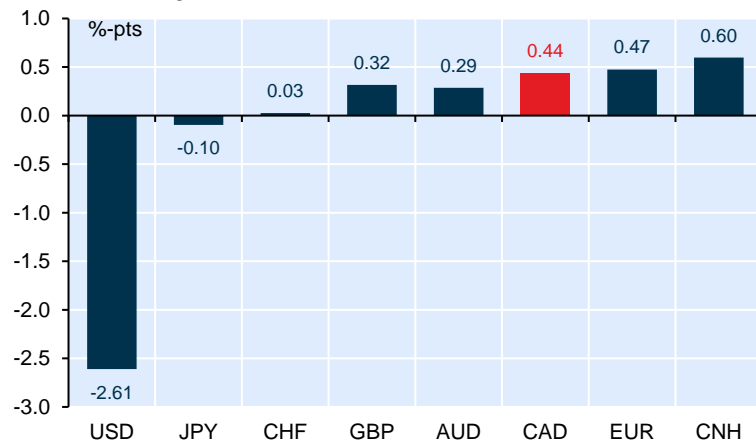
Q/Q change in share of reserves allocated to Canadian dollar



Source: NBF, IMF

**Chart 5: USD cut, with CAD, EUR, CNH seeing biggest gains**

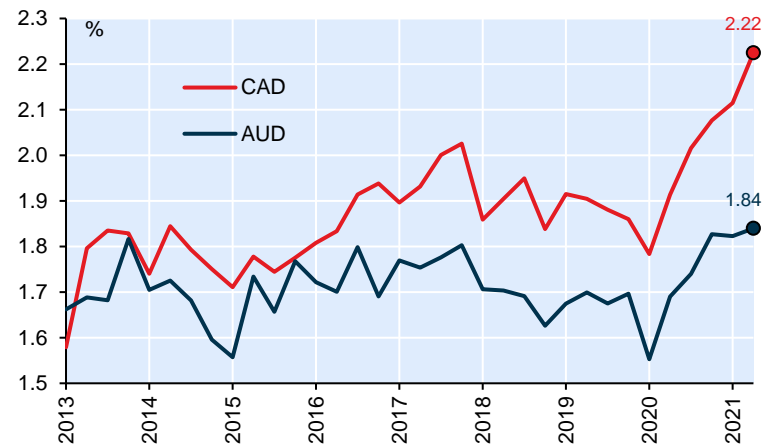
Cumulative change in share of allocated reserves: 2021:Q2 vs. 2020:Q1



Source: NBF, IMF

**Chart 6: Larger gap in reserve holdings between CAD & AUD**

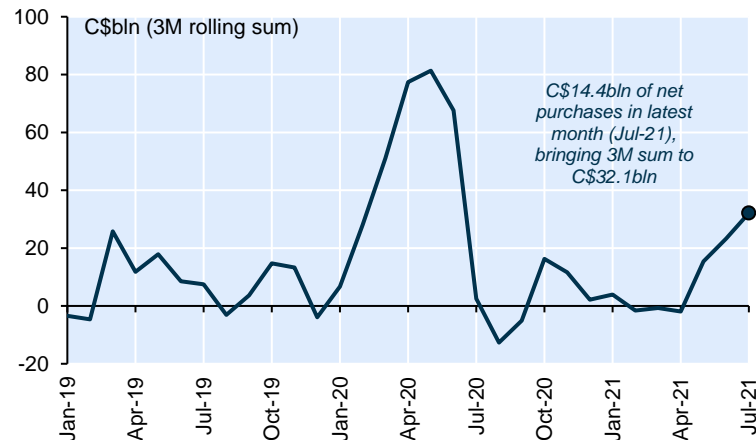
Share of allocated reserves: CAD & AUD



Source: NBF, IMF

**Chart 7: Foreign investors still buying CAD bonds**

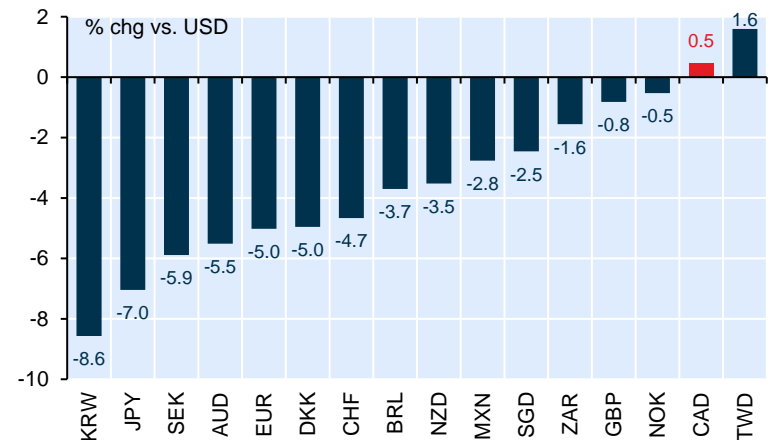
Net foreign investment in Canadian bonds: CAD-denominated issues only



Source: NBF, StatCan

**Chart 8: CAD one of strongest currencies YTD**

Year-to-date change in major currencies vs. USD: As at 1-Oct-2021



Source: NBF, Bloomberg

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