

A fresh take on capital flight

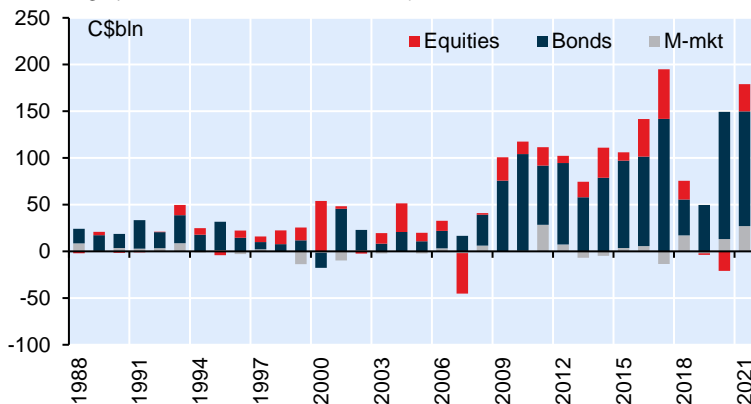
By Warren Lovely [with a nod to a Nov-2021 [Special Report](#) by Stefane Marion]

For years now—going back at least to the Global Financial Crisis—we’ve scrutinized StatCan’s monthly report on ‘Canada’s international transactions in securities’ to gauge foreign attitudes towards Canada. The detailed data in this report show precisely who, how and where non-residents invest in Canadian securities. This remains an important line of inquiry since Canadian debt issuers (governments in particular) have non-trivial funding to do in 2022 and beyond. Clearly, steering a chunk of net supply into non-resident hands lessens the ask of domestic investors, which in turn might support rates and spreads all else being equal. As it happens, the latest release (for November 2021) revealed a serious amount of foreign buying of Canadian securities. Non-residents acquired a net C\$30 billion in fact, the third largest net inflow on record. [Note: Apr-2020 takes the cake at C\$52.6 billion, while Feb-2017’s C\$39.1 billion is second all-time.] We caution that these monthly data are choppy. We’re likewise quick to point out that December’s data (when it arrives in a months’ time) could well show seasonal divestment of Canadian bonds, given the heavy concentration of maturities in that month. Regardless, 2021 will go down as a year of hearty foreign buying of Canadian securities. Welcome news to be sure. But believe it or, non-resident flows into Canada are not our sole focus here...

If anything, the other side of the international transaction ledger—i.e., Canadian flows into/out of foreign portfolio securities—is even more striking. After factoring in November’s C\$17.5 billion net investment, Canadians had acquired C\$144.4 billion of foreign portfolio securities during the first 11 months of 2021. In dollar terms, you won’t find a prior YTD tally remotely close, the next largest January to November net investment being C\$73.3 billion a decade and a half ago. As a share of GDP, Canadian purchases of foreign securities are likewise setting records (5.8% on YTD basis). The question isn’t ‘what foreign assets are Canadians buying?’ but rather ‘what AREN’T Canadians buying?’ As of November, domestic investors had scooped up C\$46.4 billion of foreign debt securities (split between U.S. credit and non-U.S. bonds), while net buying of foreign equities approached C\$100 billion (the bulk U.S. listed). At C\$81.8 billion, Canadian purchases of U.S. stock was far and away a record amount. This is a big-time capital outflow, with Canadian investors taking exposure to foreign markets like never before. To be clear, net portfolio capital flows are still positive for Canada, as foreign buying of our securities exceeds Canadian purchases of foreign assets. Moreover, an improved current account means Canada is less reliant on foreign inflows. Still, the apparent abandonment of Canada by domestic investors is part of an overall capital bleed that needs redressing. This theme was explored in a detailed [Special Report](#), which is worth a read.

Chart 1: 2021 saw material foreign engagement in Canada

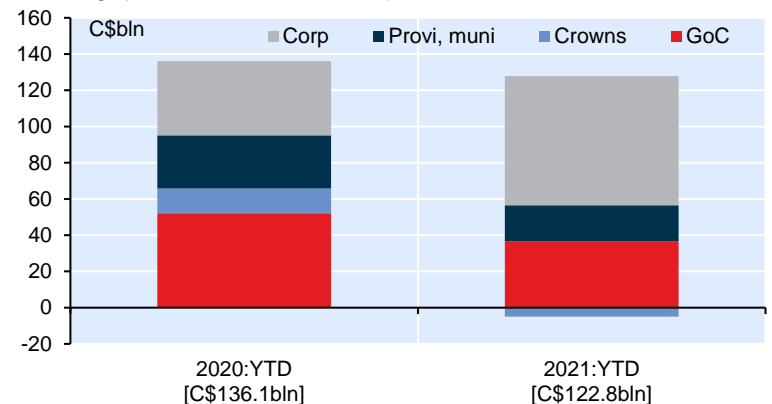
Net foreign purchases of Cdn securities by asset class: YTD basis (Jan-Nov)



Source: NBF, StatCan

Chart 2: Non-residents acquired a slug of Cdn bonds

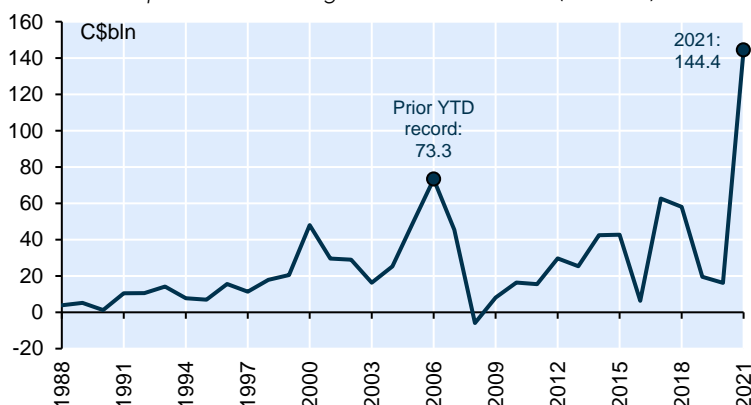
Net foreign purchases of Cdn bonds by sector: 2021 vs. 2020



Source: NBF, StatCan | Note: Includes foreign purchases of non-CAD bonds

Chart 3: But real story was Cdn buying of foreign securities

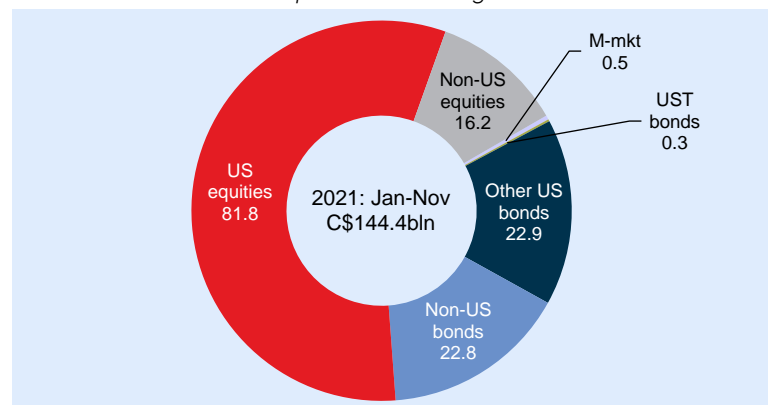
Net Canadian purchases of foreign securities: YTD basis (Jan-Nov)



Source: NBF, StatCan

Chart 4: What foreign securities are Canadians buying?

Distribution of net Canadian purchases of foreign securities: Jan-Nov 2021



Source: NBF, StatCan | Note: All figures in chart refer to C\$bln



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