



## Foreign selling of Canadian securities? Must be June (or December)

By Warren Lovely

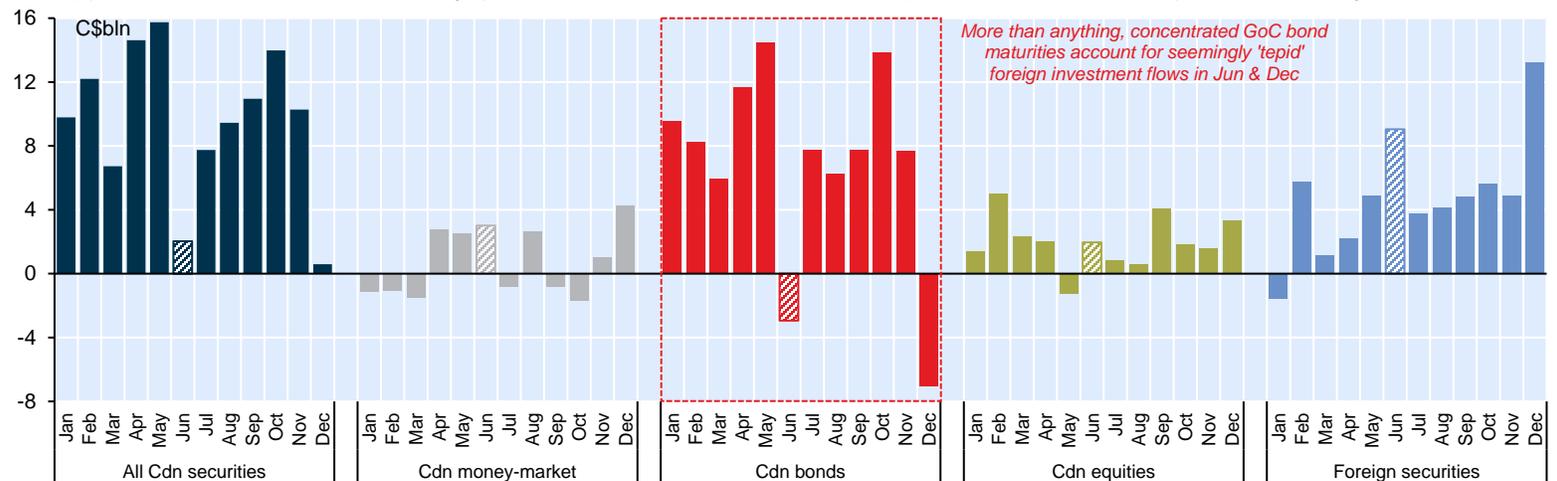
Investor attention was focused on Canadian CPI data this morning, and for good reason. Canada's latest inflation report didn't disappoint... or rather, it offered (another) distressing take on what appears to be run-away core inflation. While somewhat lost in the shuffle, StatCan also released the latest monthly tally of international securities transactions into (or more appropriately out of) Canadian portfolio assets. The headline went like this: On balance, foreign investors reduced their net holdings of Canadian securities by C\$17.5 billion in June—the first monthly divestment in nearly two years and fourth largest net outflow on record (with data back to 1988). Some perspective please.

For starters, foreign investors opted to unload a hefty slug of Canadian bank shares as financial anxiety mounted. For their part, Canadian investors were likewise heading to mattresses in June, dumping over C\$10 billion in foreign equities during the month. Beyond this net selling of equities as risk aversion reigned, deeply entrenched seasonal patterns coloured bond flows. Given the lumpy/concentrated nature of Canada's bond maturities in June and December, these two months are distinctly *special*. All else equal, outsized redemptions tend to result in technical/short-lived net foreign divestment out of Canadian bonds and Jun-22 was no different. Foreign holdings of Canadian bonds (denominated in CAD) plunged C\$15.6 billion. There's only one other month with a larger net divestment and yes, it was also during June (2013).

Accounting for June's seasonal divestment, foreign investors now hold fewer CAD-denominated bonds than at the start of the year. Meanwhile, Quantitative Tightening means the Bank of Canada is also lightening up. But this isn't the most disturbing development in our opinion, given the material downshift in net borrowing needs across Canada's government sector. And it's not like foreign investors have entirely shunned 'Canadian' bonds. Fact is, YTD net buying of Canadian bonds in *all currencies* is 3.5X what it was during the first half of 2021, as international investors have taken down plenty of product denominated in USD or other foreign currencies. So for those able to divert their eyes from the CPI report, spare a thought for June's seasonal quirks. Foreign flows aren't nearly as troubling as headlines might suggest.

### Chart 1: Be ever mindful of Canada's bond market seasonals, which generally make Jun & Dec foreign flows look anemic

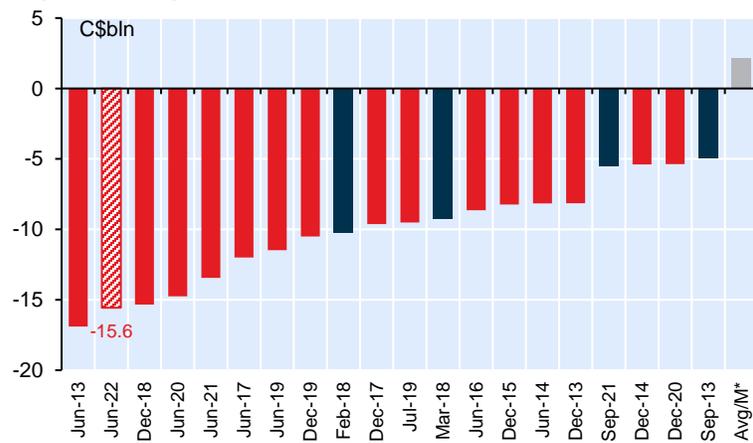
Monthly pattern of net investment flows: Foreign purchases of Canadian securities (total & by asset class) vs. Canadian purchases of foreign securities



Source: NBF, StatCan | Note: Average monthly net investment/(divestment) based on 10-year period covering 2012 to 2021; does not incorporate 2022:YTD figures

### Chart 2: Jun & Dec account for most of big outflow months

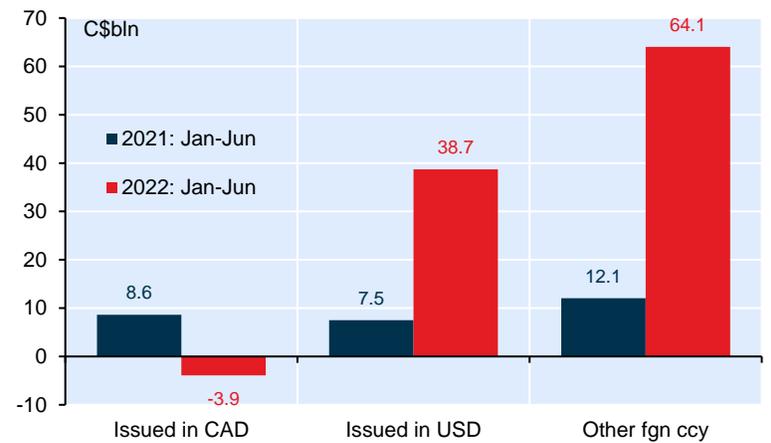
Largest net foreign divestments out of Canadian bonds (CAD issues only)



Source: NBF, StatCan | Note: Jun/Dec shaded red, all other months blue; avg/M refers to average monthly net flow into CAD bonds in 10-year period to Jun-22

### Chart 3: Plenty of 'Canadian' bonds sold to foreign investors

YTD net investment in Canadian bonds by currency of issue: 2022 vs. 2021



Source: NBF, StatCan



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