A reminder to control for currency in securities transactions data

By Warren Lovely

Landing in between Monday’s informative Business Outlook Survey and Wednesday’s much-anticipated CPI report was StatCan’s latest tally on foreign engagement in Canadian portfolio securities. While a bit stale—in this case for the reference of month of August—these data tend to provide some interesting colour on flows emanating from an important investor base. Certainly the monthly headline was impressive enough: Non-residents acquired a net C$22 billion of Canadian paper in the month of August alone. That built on a sizeable net investment in July (+C$14.7 billion), with the two-month flurry of net purchases more than offsetting a partly technical divestment in June (-C$18.5 billion).

With little in the way of net flows in Canadian stocks, the entirety of August’s chunky net inflow was traced to debt capital markets. Although foreign investors dipped their toes into Canadian short-term paper, the real action (i.e., net buying) was in bonds. Here’s where things get not necessarily complicated but somewhat nuanced. Yes, non-residents increased their holdings of so-called ‘Canadian’ bonds in August by the equivalent of C$20 billion. And yes, that’s a seriously heady tally. Although not exactly a record, August’s net investment in ‘Canadian’ bonds was nearly double the monthly run rate since COVID hit and more than 3X the pre-pandemic average inflow.

But as we always caution, the ‘Canadian’ label doesn’t necessarily tell you what currency a bond was issued in. And the fact of the matter is the majority of the foreign buying of ‘Canadian’ bonds is happening in international markets. Whether you’re looking at August alone or updated year-to-date tallies, it’s in U.S. dollars and other foreign currencies where most of the net purchases of ‘Canadian’ bonds can be found. That in turn reflects chunky international bond issuance by Canadian private corporations, most notably our banks. Interesting fact: Private corporate bonds account for all of foreign buying of ‘Canadian’ securities so far this year, but that’s almost exclusively non-CAD paper.

Keying on CAD-denominated bonds, August did bring net foreign buying of C$8.8 billion. That’s nothing to sneeze at. Still, during the first eight months of 2022, CAD issues account for barely 10% of net foreign purchases of ‘Canadian’ bonds (i.e., less than C$14 billion out of the C$134 billion all-currency total). In both level and share, foreign purchases of CAD-denominated bonds have moderated this year. That might help explain why the apparent tidal wave of foreign buying of ‘Canadian’ assets failed to generate much traction for the loonie in August. The devil, as they say, is in the details… and when it comes to these data, controlling for a bond’s currency of issue makes all the difference.

Chart 1: What Canadian assets are non-residents buying? Mainly corporate bonds (denominated not in CAD but foreign currencies)

Net foreign purchases of Canadian portfolio securities by asset class & sector (all currencies): 2022:YTD vs. 2021:YTD

Source: NBF, StatCan | Note: Net purchases for Jan-Aug period; red dotted boxes highlight major asset classes; ‘All sec’ refers to all security types

Chart 2: Non-res big buyers of ‘Canadian’ bonds in August?

Net foreign buying of ‘Canadian’ bonds (all currencies): Aug-22 vs. prior trend

Source: NBF, StatCan

Chart 3: Fgn ccy issues account for bulk of purchases of late

Net foreign buying of ‘Canadian’ bonds by currency of issue

Source: NBF, StatCan
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