

### Quick Hit – Record net portfolio investment in January

Foreign net buying of Canadian securities returned in January with a vengeance. International investors net bought \$28.4 billion of Canada securities in January (Chart 1), more than reversing December's record net selling and recording the highest January investment in the dataset's history. Factor in Canadian investors' divestment of foreign securities and portfolio investment generated a record net inflow, as foreign investors returned to the Canadian securities market in a big way.

Unsurprisingly, the significant return of net buying of Canadian securities coincided with a marked improvement in risk sentiment and the uplift was reflected in the net purchasing of *everything*: money market, bonds and equities. Undoubtedly, some international investors were also attracted by a cheaper currency setting, with the loonie starting the month off at 1.36 and appreciating against its US counterpart by 5 cents for the month.

From a fixed income lens, foreign investors added \$5.1 billion of money-market paper to their portfolios, mostly attributed to foreign acquisition of US dollar short-term provi paper. The bulk of January's record net buying was concentrated in bonds, primarily led by GoCs and, to a lesser extent, fed crowns and provi bonds (Chart 3). Net foreign holdings of GoCs rose by \$20.1 billion in January, focused in secondary buying and boosted by GoC's decision to issue a three-year US\$3.0 billion global bond to help fund the Exchange Funded Account (EFA). Note that January's bond buying bonanza comes after a record December divestment, and generally an ugly 2018, so we'd caution against getting too excited just yet.

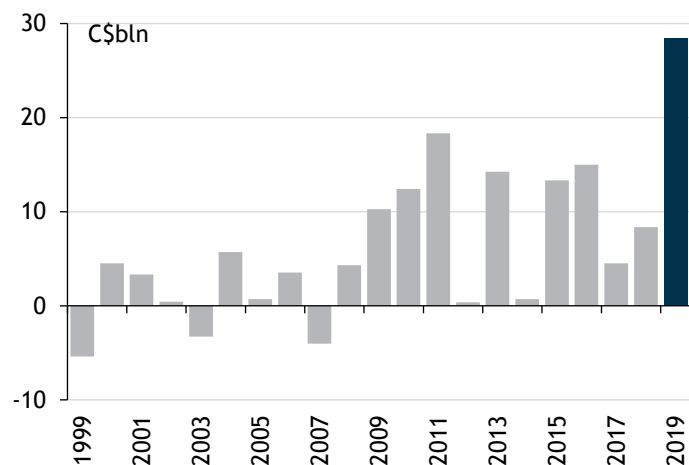
Meanwhile, non-residents reduced their holdings of Canadian corporate bonds (denominated in all currencies) for a second straight month, something we haven't seen since January 2014. But that's a maturity story with \$31 billion of retirements over the past two months, more than swamping foreign participation in new issues and secondary market buying. Again, context is important. This divestment in corps follows what had been another big year of net buying in 2018 (and 2017), so don't ring the alarm just yet.

When it comes to the finer details on the currency split, foreign investors added \$12.6 billion of C\$-bonds, the largest investment since May 2016. This coincided with a 5-cent appreciation in the loonie compared to December's large divestment, which was highlighted by a 4-cent depreciation (Chart 2).

At the same time, Canadian investors reduced their holdings/repatriated \$8.8 billion of foreign securities, driven by the sale of equities, albeit partially offset by purchases of foreign bonds. The result was a record net inflow of funds of \$37.2 billion into the Canadian economy (Chart 4). For good measure, this is sufficient to finance over 60% of what our colleagues in Economics have [projected](#) to be this year's current account deficit. Not a bad start to 2019.

**Chart 1: Highest January investment on record**

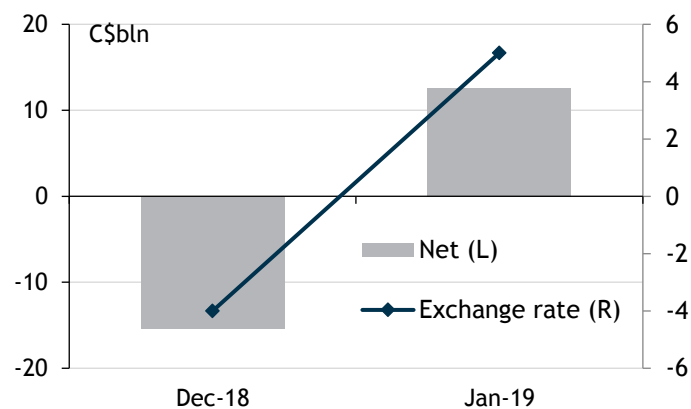
Monthly January net capital flows



Source: NBF, Statistics Canada

**Chart 2: Cheaper loonie attracts foreign buying**

Monthly net investment in C\$-bonds vs appreciation of C\$ (versus US\$)

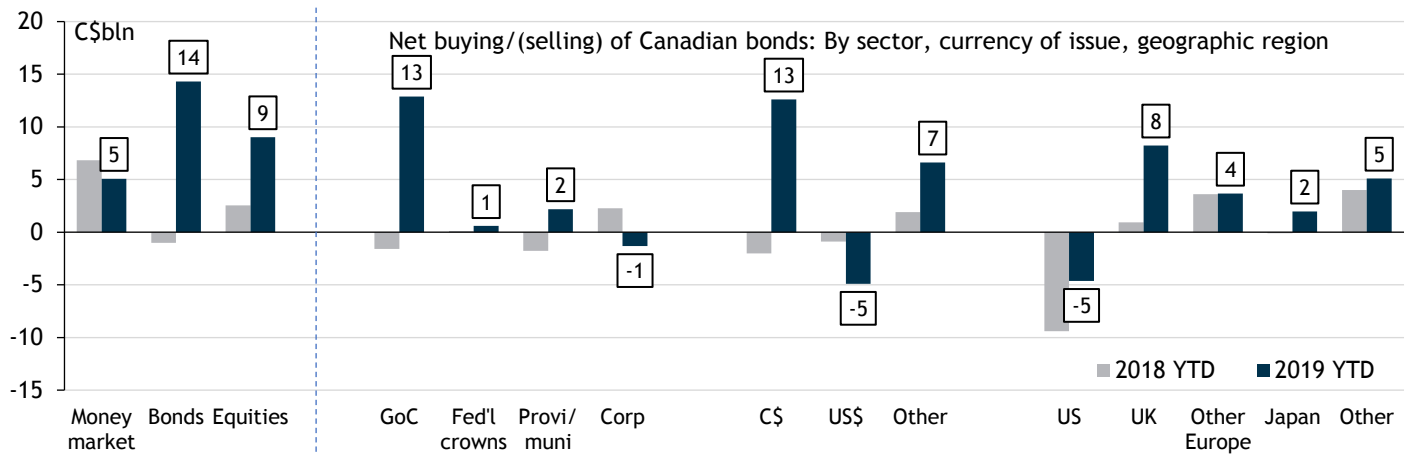


Source: NBF, Statistics Canada

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**Chart 3: A closer look at non-resident portfolio investment (divestment) in Canada**

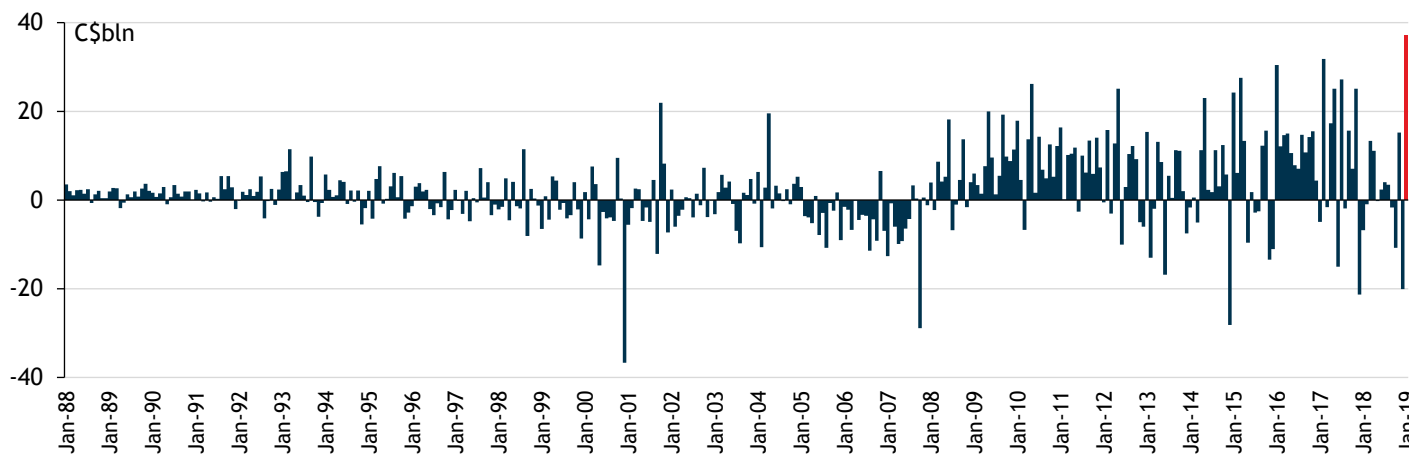
Net foreign investment in Canada portfolio securities: January 2019 vs January 2018



Source: NBF, Statistics Canada

**Chart 4: Largest net portfolio capital inflow on record**

Monthly net inflow on portfolio investment



Source: NBF, Statistics Canada

**Table: Canada's international transactions in securities, January 2019**
*International transactions in securities, portfolio transactions in Canada and foreign securities, by sector, currency of issue, and geography*

	Current Month Jan-19	Previous Month Dec-18	2 Months Ago Nov-18	3 Month Sum	6 Month Sum	12 Month Sum	2019 YTD	2018 YTD	2018 Total	2017 Total
<b>(A) Foreign inv. In Canadian securities</b>	<b>28,398</b>	<b>-20,488</b>	<b>10,236</b>	<b>18,146</b>	<b>30,981</b>	<b>87,104</b>	<b>28,398</b>	<b>8,372</b>	<b>67,078</b>	<b>189,166</b>
<b>Canadian money market instruments(i)</b>	5,067	-827	-409	3,831	11,706	14,470	5,067	6,839	16,242	-12,095
Federal government	-2,219	-32	1,690	-561	4,694	3,021	-2,219	-1,338	3,902	-7,312
Federal government enterprises	-1,459	440	-1,522	-2,541	1,133	1,651	-1,459	383	3,493	-2,111
Provincial governments	4,564	7	162	4,733	8,112	9,470	4,564	223	5,129	-3,484
Provincial government enterprises	350	-121	-58	171	-1,083	-622	350	918	-54	18
Private corporations	3,831	-1,121	-681	2,029	-1,150	950	3,831	6,653	3,772	792
<b>Canadian bonds(ii)</b>	14,308	-24,870	7,709	-2,853	-6,259	39,548	14,308	-1,000	24,240	144,714
<b>Bonds: Net sector by flow</b>										
Federal government	12,868	-7,268	3,006	8,606	2,389	-23,731	12,868	-1,599	-38,198	29,173
Federal government enterprises	583	-7,125	-338	-6,880	-6,776	-2,145	583	97	-2,631	11,829
Provincial governments	2,287	-1,981	2,173	2,479	895	8,707	2,287	-1,255	5,165	24,046
Provincial government enterprises	-142	-337	-83	-562	-932	1,344	-142	-355	1,131	-562
Municipal governments	42	-119	-26	-103	251	-45	42	-165	-252	451
Private corporations	-1,331	-8,040	2,978	-6,393	-2,084	55,418	-1,331	2,277	59,026	79,778
<b>Bonds: Net Flows by Currency of Issue</b>										
Canadian bonds, issued in CAD	12,601	-15,365	2,333	-431	-2,266	-16,585	12,601	-2,008	-31,194	49,540
Canadian bonds, issued in USD	-4,915	-2,790	1,101	-6,604	-14,730	6,059	-4,915	-899	10,075	64,846
Canadian bonds, issued in other forex	6,621	-6,714	4,275	4,182	10,739	50,073	6,621	1,908	45,360	30,327
<b>Bonds: Net Flows by Geographic Area</b>										
USA	-4,639	-15,103	1,977	-17,765	-21,006	-10,761	-4,639	-9,413	-15,535	68,033
UK	8,236	-2,664	-2,771	2,801	-1,083	23,366	8,236	925	16,055	41,051
Other Euro	3,660	-2,513	3,376	4,523	8,828	23,504	3,660	3,602	23,446	17,012
Japan	1,964	-2,157	-122	-315	1,507	-1,670	1,964	-107	-3,741	-4,369
Other OECD	2,154	-5	973	3,122	7,925	10,752	2,154	1,868	10,466	3,807
All other countries	2,933	-2,428	4,275	4,780	-2,429	-5,643	2,933	2,126	-6,450	19,175
<b>Subtotal: Debt Securities (i+ii)</b>	<b>19,375</b>	<b>-25,697</b>	<b>7,301</b>	<b>979</b>	<b>5,450</b>	<b>54,020</b>	<b>19,375</b>	<b>5,839</b>	<b>40,484</b>	<b>132,617</b>
<b>Canadian equity and investment fund shares</b>	9,023	5,209	2,935	17,167	25,533	33,086	9,023	2,533	26,596	56,548
Outstanding Issues	-226	-77	3,630	3,327	13,719	21,832	-226	3,397	25,455	16,495
New issues, retirements or FDI	9,249	5,286	-694	13,841	11,816	11,257	9,249	-863	1,145	40,052
<b>(B) Canadian investment foreign securities</b>	<b>-8,799</b>	<b>-425</b>	<b>-4,983</b>	<b>-14,207</b>	<b>7,653</b>	<b>34,176</b>	<b>-8,799</b>	<b>15,168</b>	<b>58,143</b>	<b>84,656</b>
Foreign money market instruments	-535	-772	679	-628	354	1,906	-535	-151	2,290	3,766
Foreign bonds	2,076	-296	-333	1,447	11,843	49,379	2,076	784	48,087	12,262
Foreign equity and investment fund shares	-10,340	643	-5,329	-15,026	-4,544	-17,109	-10,340	14,535	7,766	68,628
<b>(A-B) Net Flow on Portfolio Investment</b>	<b>37,197</b>	<b>-20,063</b>	<b>15,219</b>	<b>32,353</b>	<b>23,328</b>	<b>52,928</b>	<b>37,197</b>	<b>-6,796</b>	<b>8,935</b>	<b>104,510</b>

*(A-B): Foreign investment in Canadian securities less Canadian investment in foreign securities*

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