

## Canada's slow flow (of inbound foreign capital)

By Warren Lovely & Taylor Schleich

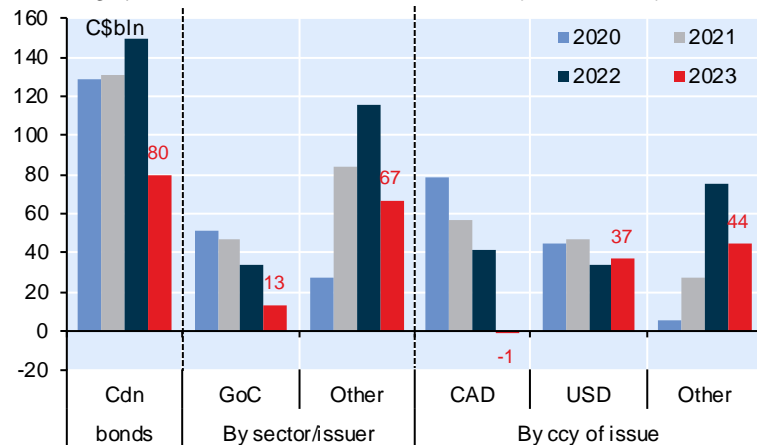
We've had plenty to say on portfolio flows into and out of Canada. Sadly, there's been more of the latter (i.e., outflows) than the former (i.e., inflows). Notwithstanding our earlier analysis (incl. [here](#)), we're offering this largely visual summary of **foreign action in Canadian bonds**. Fresh data put a bow on calendar 2023 flows; and coming Friday of a long weekend, the latest release might have been missed.

Come to think of it, as it relates purely to foreign purchases of Canadian bonds, there wasn't a whole lot to miss in 2023. Sure, non-residents technically acquired \$80 billion (CAD equivalent) of so-called 'Canadian' bonds last year, but that net buying was steered to USD, EUR and other foreign currency denominated issues. We've no interest in trivializing foreign purchases of non-CAD bond issues. For Canadian issuers, public or private, a bond issued south of the border or overseas is a bond that doesn't need to be issued in Canada. This diversion of bond supply can be no small matter.

However, non-residents cooled on CAD-denominated bonds in 2023. Last year's \$1 billion net divestment definitely threw the brakes on a long-standing source of demand for domestic bonds.

### Chart 1: Non-residents cooled on CAD bonds in 2023...

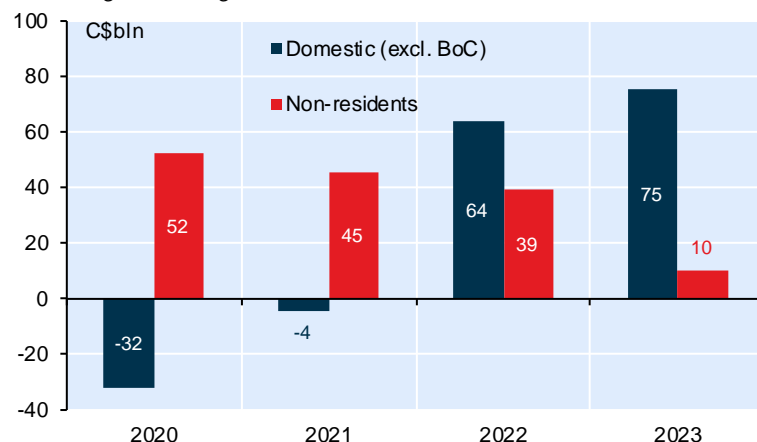
Net foreign purchases/(sales) of Canadian bonds by sector & ccy of issue



Source: NBF, StatCan

### Chart 3: ... leaving domestic investors to clear GoC market...

Net change in holdings of GoC bonds: End investors (excl. BoC)



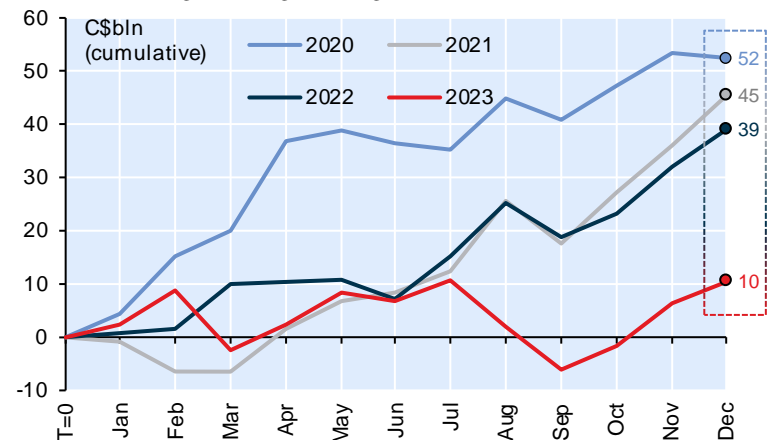
Source: NBF, StatCan, BoC | Note: CAD issues only

Sector details show non-residents reduced their holdings of federal crowns, provis, munis and corps last year. Again, without making light of these flows, we'll key on the single-biggest slice of Canada's bond market: the sovereign. Foreign investors did add \$10 billion to their holdings of GoC bonds last year (on top of \$27 billion of GoC T-bills). The volume of GoC bonds non-residents accumulated in 2023 was a fraction of the prior trend. It left domestic investors absorbing the vast majority (almost 90%) of last year's net GoC bond supply, after controlling for the extra bonds needing to find a home via BoC QT.

To be fair, there was renewed foreign buying of GoC bonds in the final stages of 2023... that as North American interest rate markets rallied on rate cut hopes. We continue to see a strong case for BoC rate cuts, [our latest forecast](#) embedding more policy rate relief than is discounted in OIS markets. If realized, prospective rate cuts could/should spur demand for Canadian bonds (from domestic and international players alike). Here's hoping because there's no shortage of GoC bonds to be served up in 2024. Echoing our earlier tongue-in-cheek call to foreign bond investors: Canada wants you!

### Chart 2: ... incl. slow(er) foreign inflow into GoC bonds...

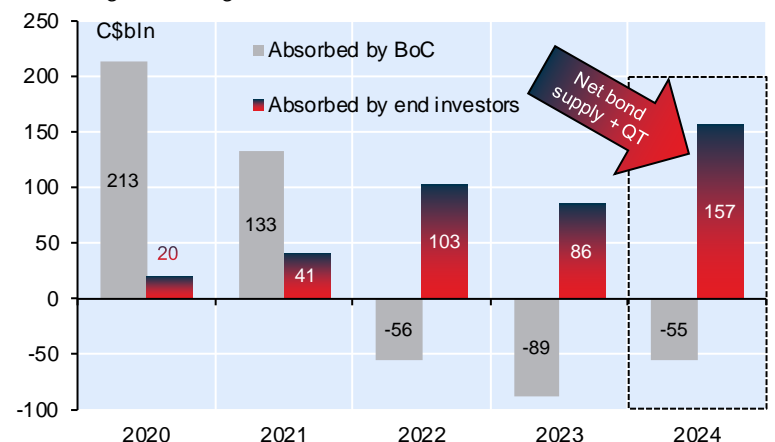
Cumulative change in foreign holdings of GoC bonds



Source: NBF, StatCan | Note: CAD issues only

### Chart 4: ... with no shortage of GoC bonds to place in 2024

Net change in holdings of GoC bonds: BoC vs. end investors (incl. 2024 est.)



Source: NBF, StatCan, BoC, GoC | Note: CAD issues only; 2024 is NBF illustration/estimate



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