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For FX reserve managers, is Canada guilty by association?

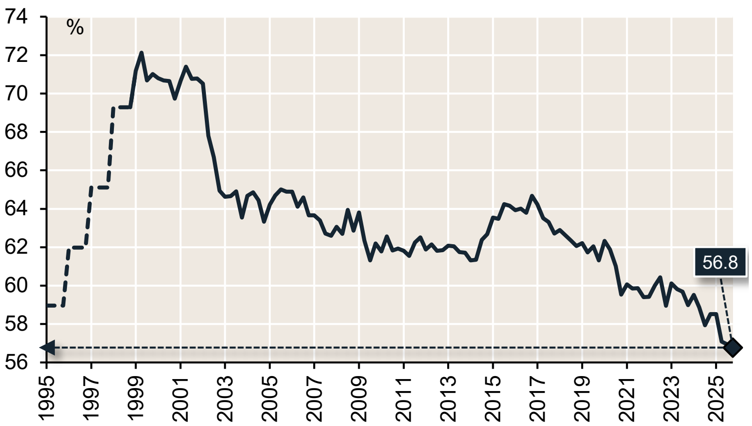
By Warren Lovely

Let's start by addressing the proverbial elephant in the room: U.S. exposure, in all its forms, is being fundamentally re-assessed. That's both appropriate and likely to persist. In markets, a common (though imperfect) way to gauge (dis)comfort with America is to track the share of official foreign exchange reserves allocated to the U.S. dollar.

Whether you subscribe to (or bristle at) the so-called 'de-dollarization' thematic, the greenback's share of official FX reserves has been in structural decline for some time. Although this trend pre-dates President Trump's second term (and his first presidency for that matter), FX reserve managers notably distanced themselves from the big dollar in 2025, leaving the USD share of total reserves plumbing fresh lows (Chart 1).

Chart 1: Dollar's share of reserves plumbing new lows

Share of official FX reserves allocated to U.S. dollars



Source: NBC, IMF | Note: Quarterly to 2025:Q4

It necessarily follows that reserve managers are leaning into alternate currencies (to say nothing of gold). Conventional wisdom (and Canadian hubris) holds that CAD is at least a *partial* substitute for USD. After all, aren't Canadian policy choices more predictable (less erratic); isn't the nation's top-rated sovereign walking a more sustainable fiscal path; does not the Bank of Canada's conduct and track record instill greater confidence in the institution (vs. some peers); aren't Canadian banks well capitalized, with financial risks tightly regulated; and doesn't an abundance of natural resource wealth imply vast untapped potential? Notwithstanding Canada's notional 'selling points', FX reserve managers aren't buying it. Or at least that's what the IMF's Currency Composition of Official Foreign Exchange Reserves (COFER) reporting suggests.

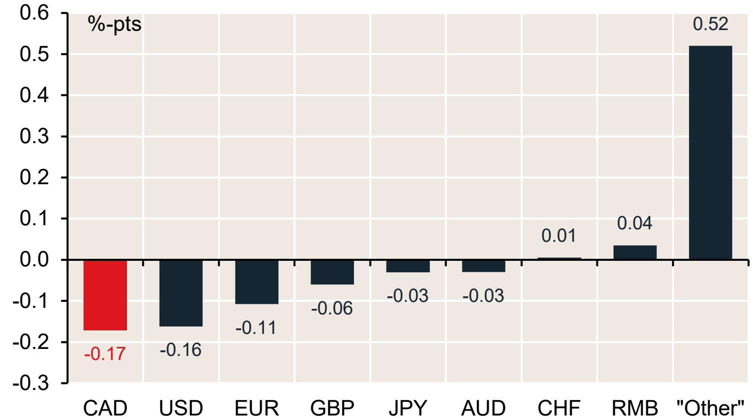
Taken at face value, the latest COFER stats (lagged one quarter to 2025:Q4) show little marginal love for the loonie. In the final quarter of 2025, no identified currency saw its share of the global FX reserve pool trimmed more than CAD… not even USD (Chart 2).

That wasn't the first re-think on Canada by the 'official' sector. Recall that reserves managers reduced CAD positioning early in 2025, when U.S. tariff threats really started to fly. So looking at 2025 as a whole, the Canadian dollar's share of official reserves dropped 0.34%-pts (Q4/Q4). That's the largest year-on-year reduction you can find since the loonie was formally added to IMF's reserve currency list (Chart 3).

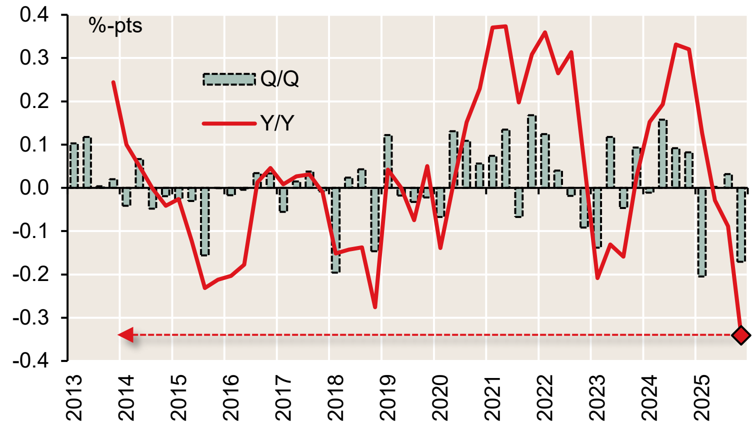
Given long-standing ties between Canada and the U.S., has an apparent aversion to America spilled north of the border? Is this most defensive investor class assigning to Canada 'guilt by association'? We continue…

Charts 2-3: Reserve managers pivoted away from CAD(?)

Quarterly change in share of official FX reserves by currency: 2025:Q4



Change in share of official FX reserves allocated to CAD: Q/Q & Y/Y



Source: NBC, IMF | Note (top): Q/Q change for 2025:Q4 | Note (bot): Quarterly to 2025:Q4

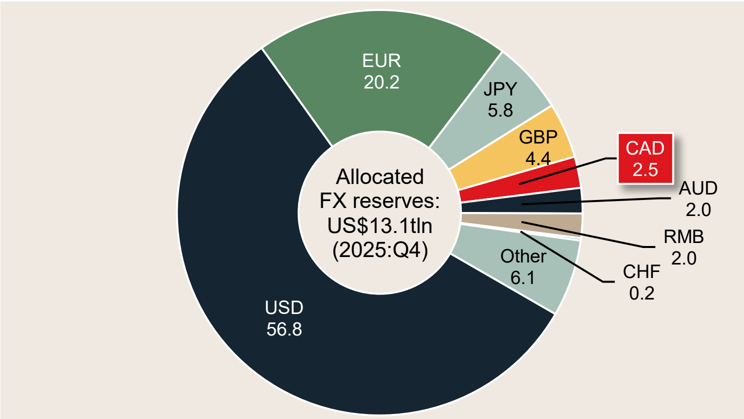
If marginal reserves aren't being allocated to the U.S. or Canadian dollars, then where are they going? The answer, increasingly, is into unidentified "other currencies" (which is a bit of a COFER catch-all).

A brief word on IMF reporting: The organization's COFER framework provides detailed allocations across eight specific currencies. There are the two biggies of course, USD and EUR, which jointly account for over three-quarters of total FX reserves. Next in importance comes JPY and GBP. Further down the developed country reserve currency list is to found CAD, AUD and CHF. The IMF also reports on Chinese renminbi allocations, consistent with the move to include RMB in the Special Drawing Rights (SDR) basket starting in 2016.

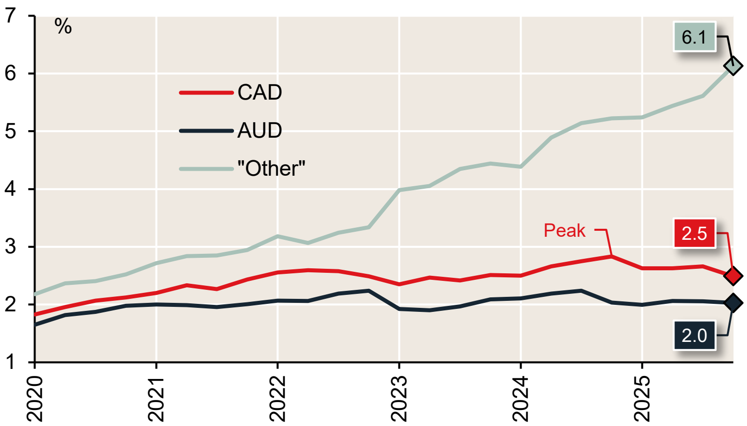
At the end of 2025, CAD's share of the pie was down to 2.49%, which ranked the loonie fifth of the currencies the IMF reports on (Chart 4). As for unidentified "other currencies" category, they are collectively growing in importance/significance. Indeed, the "others" attracted a lot of marginal attention in 2025:Q4. More than 6% of total FX reserves now reside in these "other currencies", comfortably outstripping the combined CAD-AUD allocation (Chart 5). It leaves one wondering which of the unidentified currencies are gaining most traction. Is it HKD, SGD, INR, KRW, SEK, MXN, NZD, NOK, TWD, BRL, etc. or (quite likely) some combination thereof?

Charts 4-5: CAD share down to 2.5% as "other" share grows

Share of official FX reserves by currency: 2025:Q4



Share of official FX reserves allocated to CAD, AUD & "other currencies"



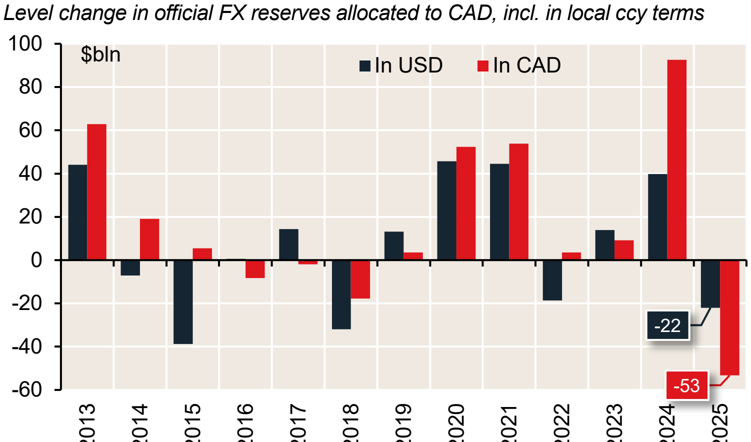
Source: NBC, IMF | Note (bot): Quarterly to 2025:Q4

Coming back to Canada… is it possible that an expanding pool of global FX reserves means the total absolute value of dollars allocated to CAD are holding steady (if not rising) despite the loonie's diminished share? Nope. At least that's what the IMF tell us.

Notwithstanding any underlying multiplier effect, the total number of dollars apportioned to CAD has outright declined. Converted to the local currency (i.e., loonies), Canadian dollar holdings slumped by C$34 billion in 2025:Q4 alone and were down C$53 billion for the year as a whole (Chart 6). This is unprecedented stuff, the 11% year-on-year reduction in local currency terms steeper/deeper than for any other reserve currency.

Chart 6: Reserves managers let go of CAD assets in 2025

Level change in official FX reserves allocated to CAD, incl. in local ccy terms



Source: NBC, IMF | Note: Annual change based on Q4/Q4

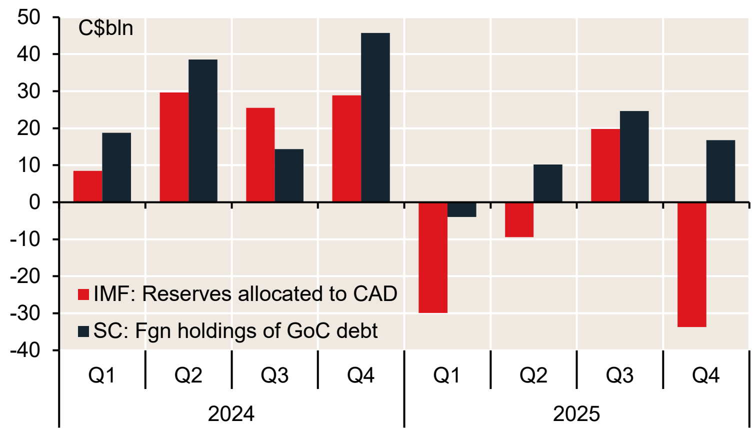
Those eschewing Canada surely had their reasons. Canada's outlook has been uncertain after all, given the nation's status as a small-open-economy dependent on a protectionist America. Still, the 'official' sector apathy evident in IMF data contrasted with how foreign investors approached Canada more broadly. Statistics Canada showed non-residents net adding CAD-denominated debt. While not the first time the IMF and StatCan data painted conflicting pictures, the Q4 gap between CAD reserves divestment (IMF) and broader foreign buying of domestic debt (StatCan) was unprecedented. Peculiar.

Without openly challenging the integrity of the IMF's COFER data, StatCan's reported buying of CAD assets by the broader international community hews more closely with our assessment of non-resident flows (monitored in primary and secondary markets). In addition to being higher frequency, StatCan data are also more timely, showing non residents continued to accumulate CAD-denominated paper early in 2026.

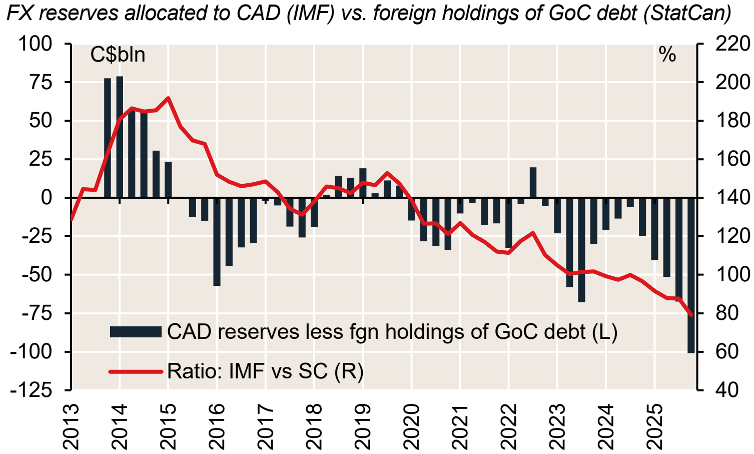
So if FX reserves managers really did get cold feet in 2025, at least alternative sources of demand for Canadian debt were located. The implication: Non-resident positioning in Canada's domestic debt market skewed towards 'unofficial' asset managers more than ever before (Chart 8), where the use of leverage creates scope for enhanced volatility. Although we'll need to wait until the end of June for the IMF's next official COFER update, it seems to us that the Iran conflict could have FX reserves managers adopting a more favourable view of Canada. All those earlier-noted Canadian advantages might count for something in the end, with a resource-intensive economy relatively better positioned than most and a fresh, pro-growth federal agenda also resonating favourably.

Charts 7-8: In Canada, 'unofficial' sector grows in importance

Change in FX reserves allocated to CAD & foreign holdings of GoC debt



FX reserves allocated to CAD (IMF) vs. foreign holdings of GoC debt (StatCan)



Source: NBC, IMF, StatCan | Note: SC refers to StatCan; fgn holdings of domestic GoC debt refers to all non-resident investor types, whereas IMF data refer to FX reserves managers only

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