

Canada: Net Inflows Return to Canadian Securities in August

- August saw a net inflow of CAD 9.7 bn in Canada's balance of payments stemming from international transactions in public securities, the first new inflow of such funds since May. Foreign investors increased their holdings of Canadian securities by CAD 5.0 bn and Canadian investors reduced their exposure to foreign securities by CAD 4.7 bn.
- Foreign investors boosted their holdings of Canadian debt instruments, principally short-term money-market paper, but reduced their exposure to Canadian equities, mainly in the manufacturing sector.
- In contrast, Canadian investors pulled back from foreign equities.

BACK IN BLACK

Canada's balance of payments saw a net inflow of CAD 9.7 bn in August stemming from net purchases of Canadian equities and debt instruments by foreign and Canadian investors (chart 1). This marks the first monthly net inflow into Canada since May 2019, however, trend flows remain in net negative territory (chart 2). Non-residents increased their holdings of Canadian securities by CAD 5.0 bn in August, recouping their divestment of the previous two months. Meanwhile, Canadian investors reduced their net foreign holdings by CAD 4.7 bn worth of securities after a few months of major acquisitions abroad.

August's net CAD 5.0 bn foreign investment in Canadian securities was driven principally by net CAD 4.2 bn in purchases of Canadian money-market instruments—split between provincial government paper (CAD 2.6 bn) and corporate notes (CAD 1.6 bn). Non-resident investors bought another net CAD 1.7 bn in bonds: CAD 2.1 bn worth of government bonds were purchased while CAD 0.4 bn worth of corporate bonds were sold off. Foreign exposure to Canadian equities decreased by CAD 1.0 bn, the fifth monthly decline in the last six, led mainly by exits from Canadian manufacturing-sector holdings.

Canadian investors reduced their exposure to foreign securities by CAD 4.7 bn in August after three consecutive months of large increases totalling CAD 23.2 bn. The divestment was centred in equities, with Canadian investors reducing their exposure to foreign equities by CAD 5.1 bn and purchasing CAD 0.4 bn in foreign debt securities. Although Canadian investors reduced their equity holdings in August, the recent trend is still on a positive trajectory although not as steep as it was in 2017 (chart 3).

August's international securities flows fall broadly in the range of normal movements in Canada's balance of payments after wider swings at end-2018 and earlier this year. It's worth remembering that some recent monthly oscillations reflect one-offs rather than wholesale changes in Canada's capital account. For instance, the large net outflow from fixed-income securities at end-2018 reflected maturing government bond issues that were not rolled over until early-2019 (charts 4 and 5).

CONTACTS

Brett House, VP & Deputy Chief Economist
416.863.7463
Scotiabank Economics
brett.house@scotiabank.com
[@BrettEHouse](https://twitter.com/BrettEHouse)

Raffi Ghazarian, Senior Research Analyst
416.866.4211
Scotiabank Economics
raffi.ghazarian@scotiabank.com
[@RaffiMGhazarian](https://twitter.com/RaffiMGhazarian)

Chart 1

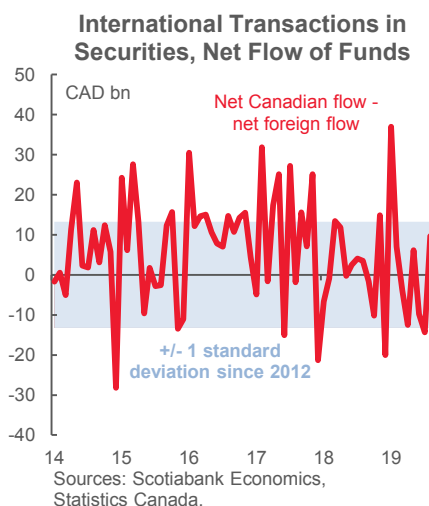


Chart 2

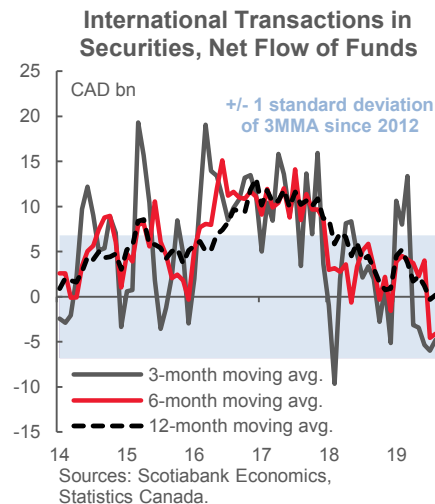


Chart 3

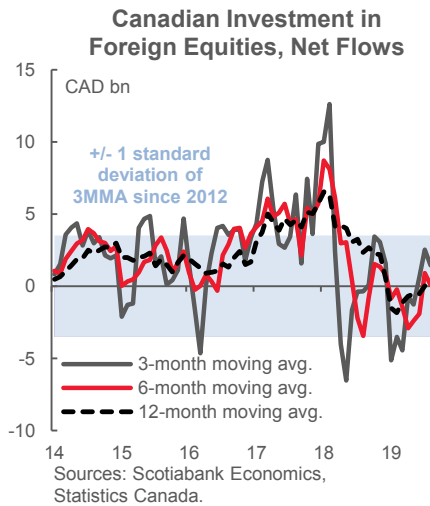


Chart 4

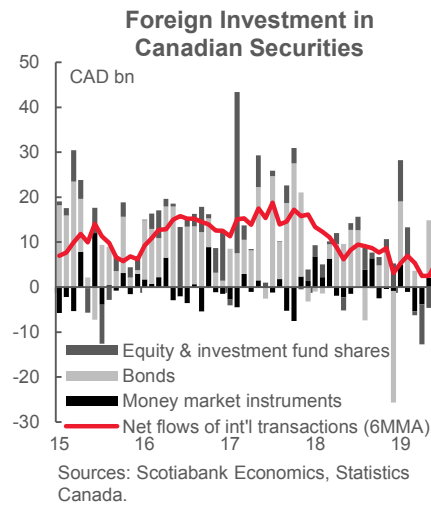
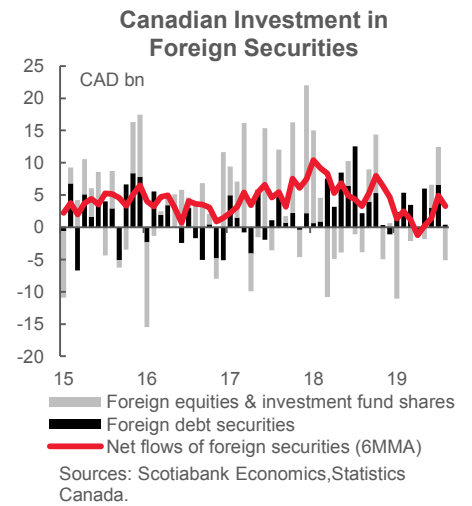


Chart 5



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