

Canada: Net Inflows Remain Steady in September, Ending Q3 in Positive Territory

- Net inflows into the Canadian economy totalled CAD 7.2 bn in September, ending Q3 as a whole in positive territory.
- Non-residents purchased CAD 4.8 bn in Canadian securities in September, focused mainly on private sector corporate debt.
- Canadian investors divested themselves of net CAD 2.4 bn in foreign securities, primarily reducing their net exposure to US equities and Treasuries.

NET CAPITAL FLOWS INTO CANADA TURN POSITIVE IN Q3

Foreign investment in Canadian securities increased by CAD 4.8 bn, while Canadian investors decreased their holdings of foreign securities by CAD 2.4 bn, for a total net inflow of CAD 7.2 bn into the Canadian economy for the month of September (chart 1). Canada closed the third quarter strongly with two consecutive months of net inflows into the economy, putting trend flows back in a positive direction (chart 2). Overall, Q3 saw net inflows of CAD 1.5 bn, equivalent to about 0.07% of GDP (chart 3). Recall that the net outflow in Q4-2018 was caused by the maturation of some provincial bonds that were not replaced by new issuance until Q1-2019, which drove that quarter's spike in net inflows.

FOREIGN INVESTMENT IN CORPORATE CREDIT LEADS NET INFLOWS

The CAD 4.8 bn net inflow of foreign investment into Canadian securities was driven primarily by the foreign acquisition of Canadian corporate debt, which saw a net inflow of CAD 6.0 bn in September (chart 4). Foreign investors rebalanced from Canadian public debt to Canadian corporate credit. The CAD 6.0 bn increase in non-resident bond purchases can be broken down into a CAD 2.8 bn net divestment from government bonds and a net CAD 8.8 bn allocation to corporate fixed-income.

Within the net foreign flows to corporate credit, the CAD 8.8 bn was split between a CAD 1.6 bn decrease in allocations to public corporations' paper and a CAD 10.4 bn increase in private corporate debt holdings—the largest increase since June 2018.

In the shorter end of the market, foreign holdings of Canadian money-market instruments fell by CAD 2.4 bn, with a CAD 3.1 bn reduction in government money-market instruments and a CAD 0.7 bn increase in corporate paper.

M&A activity occasioned a passive increase in net foreign holdings of Canadian equities by about CAD 1.1 bn in securities in September after a net decline of CAD 0.9 bn in August.

CANADIAN INVESTORS LIGHTEN THEIR US EXPOSURES

Canadian investors reduced their holdings of foreign securities by CAD 2.4 bn in September, driven primarily by moves to lighten their positions in US

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Chart 1

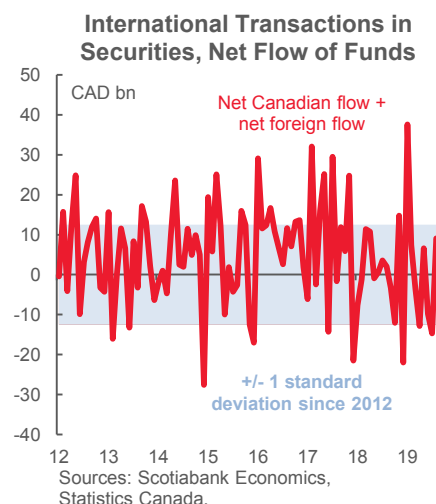
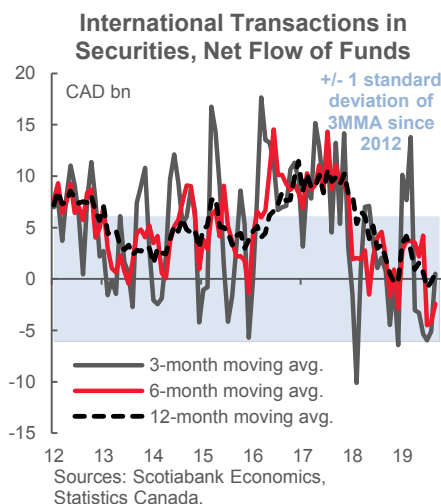


Chart 2



equities (chart 5). Almost the entire CAD 2.4 bn pullback by Canadian investors from foreign securities in September was centred in US equities, with Canadian investors selling off CAD 2.3 bn in US stocks. Canadian investors also shifted CAD 2.8 bn away from US government issued bonds, but this was almost entirely offset by new allocations to foreign money market instruments, US corporate bonds, and other foreign fixed-income instruments.

Chart 3

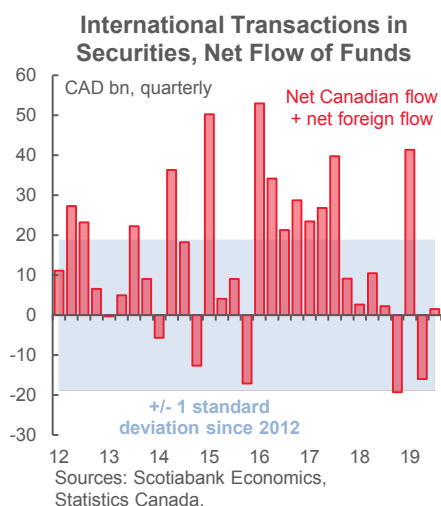


Chart 4

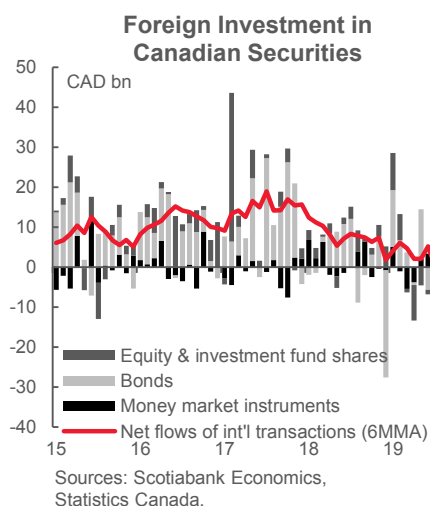
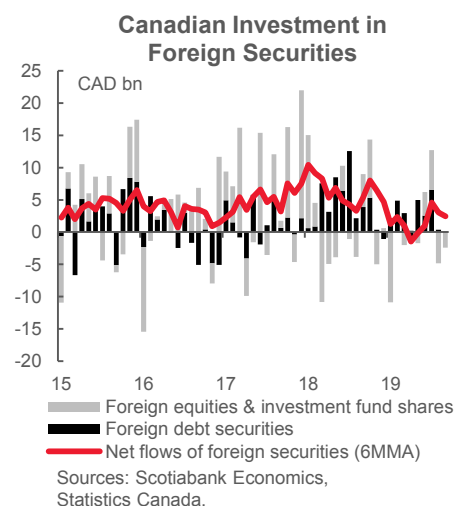


Chart 5



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