

Canada's International Net Creditor Position Grows in Q3

- The value of Canada's positive net international investment position rose over the third quarter of 2019, mainly due to an increase in the value of Canadian holdings of foreign equity assets.
- The stock of Canadian investment abroad increased in 2019 Q3 mainly owing to higher foreign equity valuations in Canadians' portfolio investments.
- The value of Canada's international liabilities also increased through 2019 Q3, but to a lesser extent, driven by increased foreign direct investment into Canada.

DEEPER IN THE INTERNATIONAL BLACK

Canada saw the value of its net international investment position (IIP) increase in the third quarter of 2019 by CAD 30.6 bn, which pushed the overall total to CAD 839 bn. Canada's net IIP has been on a gradual recovery from the hit it took in the second half of 2018 when trade-related uncertainty and volatility increased. The value of Canada's net creditor position declined from CAD 949 bn in 2018 Q3 to CAD 770 bn in 2018 Q4; since then it has edged back toward Canada's 30-year high of CAD 949 bn that we reached in 2018 Q3 (chart 1). The value of net IIP is now equivalent to 36% of nominal GDP, up from 35% in the previous quarter.

Canada became a net creditor to the world in 2014 after a long history during which foreign capital flows into Canada financed its development as a land- and resource-rich economy with a relatively small population. The trend away from net debtor territory began in 2013 during a period of significant volatility in financial markets (i.e., the "taper tantrum" in response to US Federal Reserve moves to withdraw exceptional monetary stimulus). The shift was enhanced by a large and persistent decline in oil prices in 2014, which pushed down the value of the loonie and increased the value of Canadians' foreign assets that are mainly denominated in USD (charts 2 and 3).

The net increase in Canada's IIP for the quarter is mainly explained by a CAD 103 bn increase in the valuation of the stock of Canadian investment abroad that outpaced the CAD 72 bn rise in the stock of foreign investment in Canada.

ASSETS ABROAD: DRIVEN UP BY EQUITY VALUATION GAINS

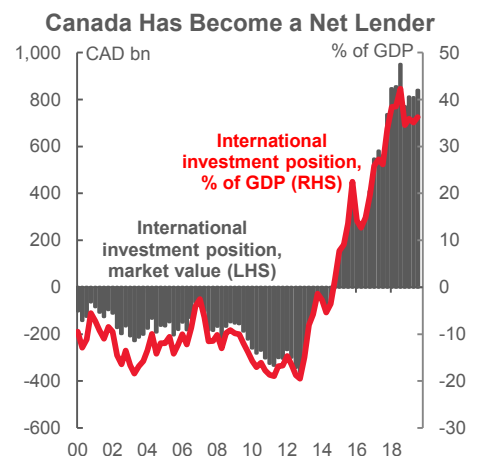
Canadian foreign assets (i.e., the stock of Canadian investment abroad) increased by CAD 103 bn in the third quarter of 2019, taking them to a total stock of CAD 5,463 bn at the end of the quarter. This pickup was largely driven by valuation gains in Canada's foreign portfolio investments owing to equity markets' strength. The total value of Canada's foreign portfolio investments tends to track the S&P 500 closely (chart 4), which may be broadly consistent with the high share of USD-denominated assets in Canada's foreign-asset mix (chart 3, again).

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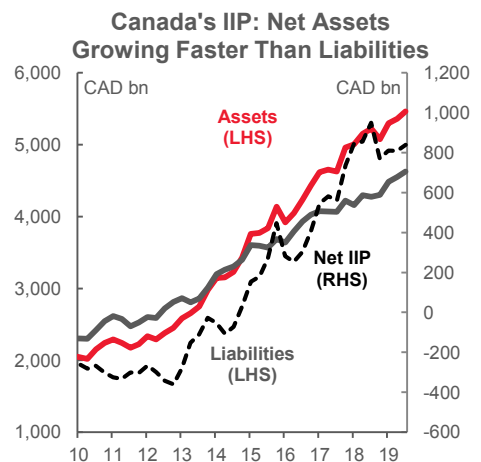
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Chart 1



Sources: Scotiabank Economics, Statistics Canada.

Chart 2



Sources: Scotiabank Economics, Statistics Canada.

Growth in the value of Canadian foreign direct investment abroad flattened out from the second half of 2018 (chart 5) when global economic policy uncertainty spiked and remained elevated (chart 6).

FOREIGN LIABILITIES

The value of Canadian liabilities increased by CAD 72 bn in the third quarter of 2019, taking the total stock to CAD 4,624 bn. This increase was driven by a pickup in the value of both portfolio and direct investments into Canada. Total portfolio investments increased negligibly by CAD 14 bn over 2019 Q3, a small increase of 0.6% q/q compared with a 1.7% rise in the S&P/TSX Composite Index during the same period (chart 7). The value of foreign direct investment into Canada tracked equity prices more closely with a CAD 12 bn rise through the third quarter, a 0.9% q/q increase (chart 8).

Chart 3

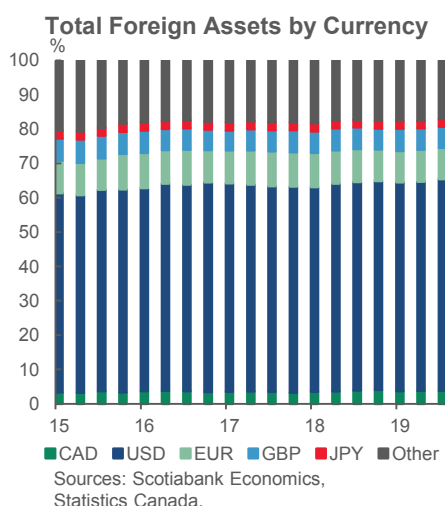


Chart 4

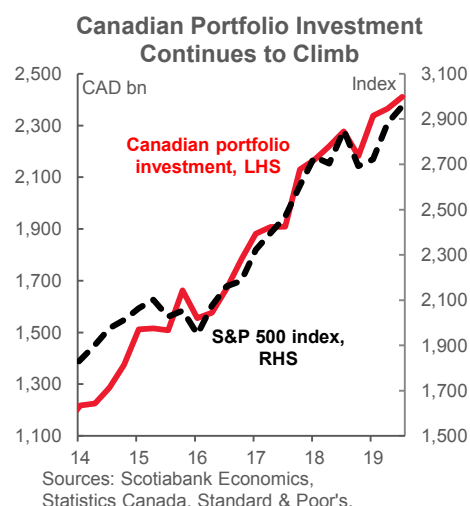


Chart 5

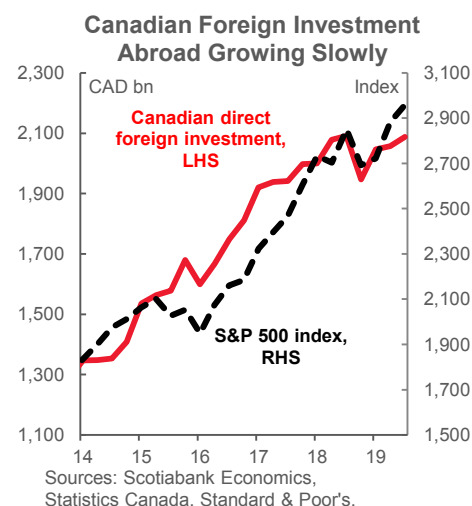


Chart 6

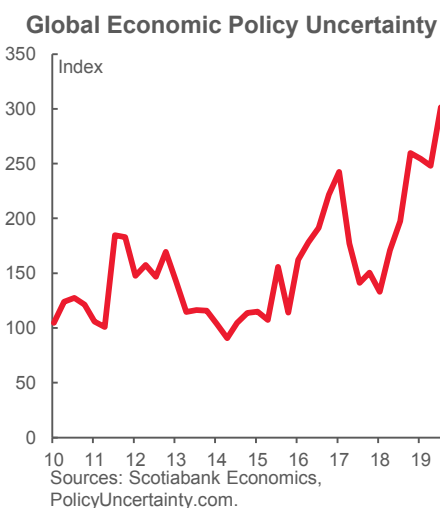


Chart 7

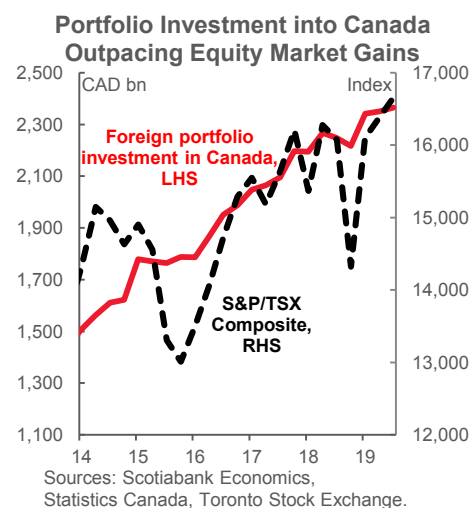
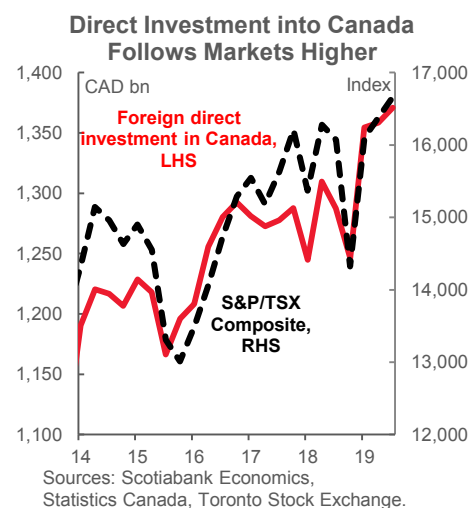


Chart 8



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