

Canada: Net Securities Inflows Increase in October

- Net securities inflows into the Canadian economy totalled CAD 9.3 bn in October, the largest inflow since January 2019 and greater than all of Q3.
- Non-residents purchased CAD 11.3 bn in Canadian securities in October, marking the third consecutive month of net foreign inflows.
- Canadian investors purchased net CAD 2.0 bn in foreign securities after two months of divestitures.

NET CAPITAL FLOWS INTO CANADA STAY IN THE BLACK

Foreign investment in Canadian securities increased by CAD 11.3 bn, while Canadian investors decreased their holdings of foreign securities by CAD 2.0 bn, for a total net inflow of CAD 9.3 bn into the Canadian economy for the month of October (chart 1). This marks the third consecutive month of net positive securities inflows into the Canadian economy, shifting the negative trend we saw in late summer into positive territory (chart 2).

FOREIGN INVESTMENT CENTRED IN PROVINCIAL BONDS

Foreign investors purchased 11.3 bn in Canadian securities for the month of October, the largest net inflow of funds to Canadian securities since February 2019. The investments were centred in debt securities (chart 3), driven primarily by provincial debt and private corporate bonds, with a reduction in equity holdings.

Foreign investors increased their holdings of Canadian bonds by CAD 11.8 bn with CAD 5.3 bn in government purchases (almost 70% provincial) and CAD 6.5 bn in private corporate bonds, mainly attributable to net new issuance (chart 4). Geographically, the lion's share of investments came from the EU, about CAD 10.8 bn in total, driven by a search for yield (chart 5).

Foreign investors also purchased CAD 1.7 bn in Canadian money market instruments with CAD 4.0 bn in net purchases of government instruments (almost 90% provincial) and CAD 2.3 bn of divestments in private corporate paper.

Rounding things out, foreign investors reduced their exposure to Canadian equities by CAD 2.1 bn in October, focused mainly in the finance and insurance industry. This marked the second consecutive monthly foreign divestment in this sector, and has shed CAD \$4.3 bn since January.

CANADIAN INVESTORS RESUME INVESTMENT IN FOREIGN SECURITIES

Canadian investors increased their holdings of foreign securities by CAD 2.0 bn in October, after back-to-back months of divestitures (chart 6). For the third consecutive month, Canadians continued to reduce their exposure to foreign equities, selling off CAD 1.6 bn of foreign holdings in October. The divestment was all in non-US shares, with a resumption in purchases of US equities in October of CAD 1.6 bn. However, Canadian holdings of foreign equities overall have decreased by CAD 13.5 bn in 2019 year-to-date with the majority of the decline centred in the US (chart 7).

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Chart 1

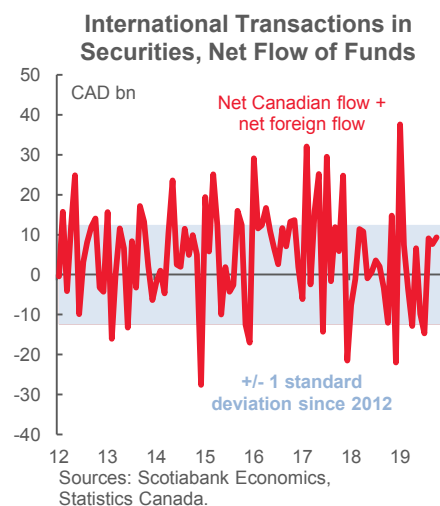
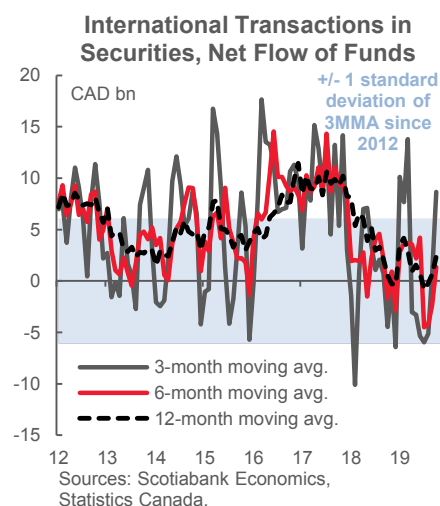


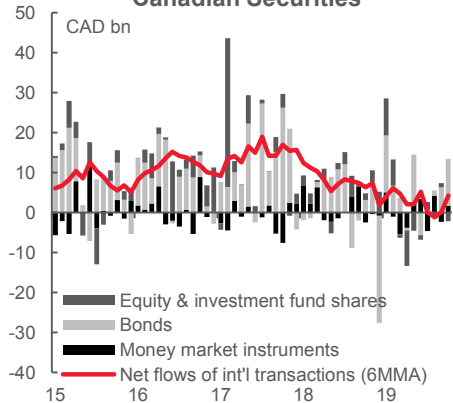
Chart 2



Canadian investors continue to shift their international portfolios toward debt securities, purchasing CAD 3.7 bn in October. In contrast to equities which have shed CAD 13.5 bn, Canadian investors' foreign debt holdings have increased by CAD 27.0 bn in 2019 year-to-date (chart 8), more than offsetting equity divestitures over the same time. Given that US consumer and business indicators are consistent with early cycle growth (charts 9 & 10), we would expect Canadian allocations to US equities to pick up further in the coming months.

Chart 3

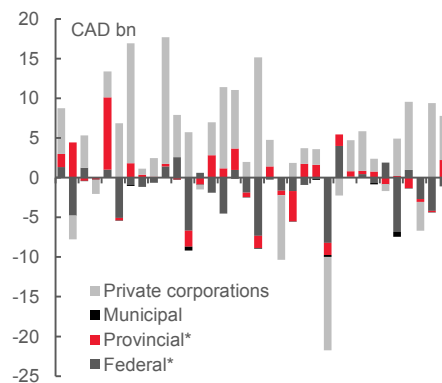
Foreign Investment in Canadian Securities



Sources: Scotiabank Economics, Statistics Canada.

Chart 4

New Bond Issues Net of Retirements

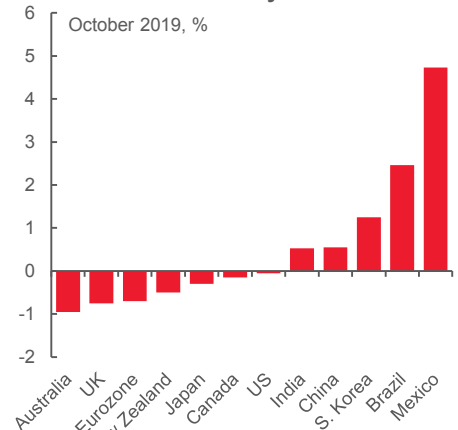


* Includes government business enterprises.

Sources: Scotiabank Economics, Statistics Canada.

Chart 5

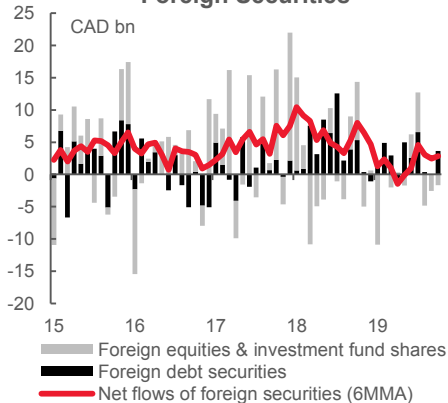
Real Policy Rates



Sources: Scotiabank Economics, Bloomberg.

Chart 6

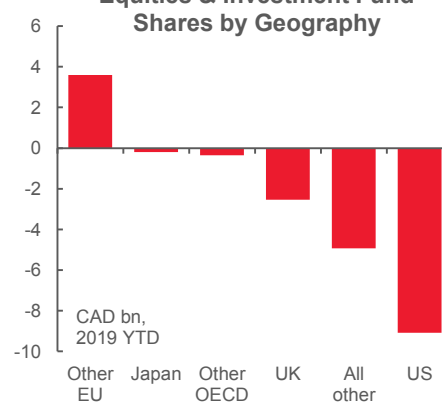
Canadian Investment in Foreign Securities



Sources: Scotiabank Economics, Statistics Canada.

Chart 7

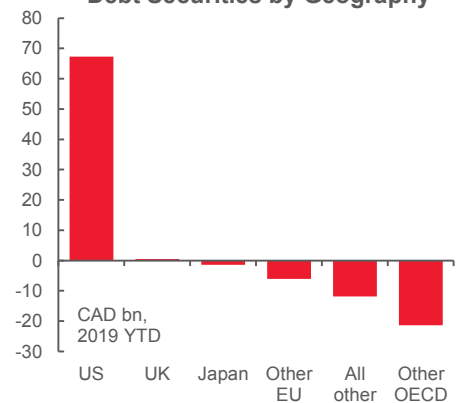
Canadian Investment in Foreign Equities & Investment Fund Shares by Geography



Sources: Scotiabank Economics, Statistics Canada.

Chart 8

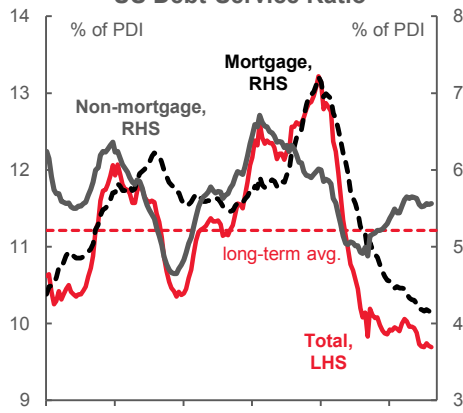
Canadian Investment in Foreign Debt Securities by Geography



Sources: Scotiabank Economics, Statistics Canada.

Chart 9

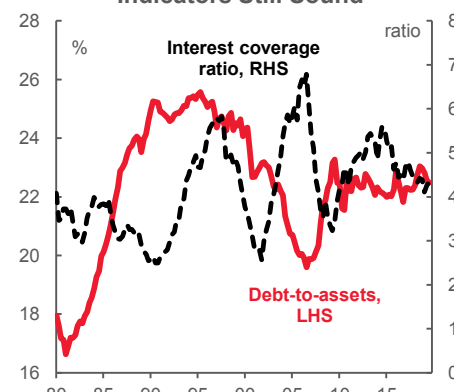
US Debt-Service Ratio



Sources: Scotiabank Economics, US Federal Reserve.

Chart 10

US Corporate Debt Indicators Still Sound



Sources: Scotiabank Economics, BEA, US Federal Reserve.

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