

Investors voting 'non-confidence' in Canada?

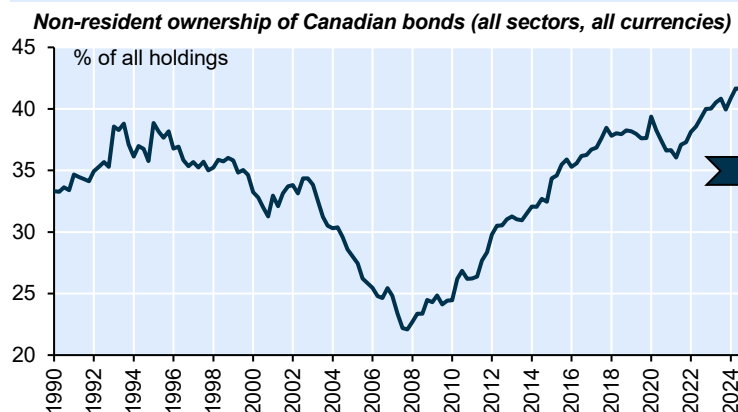
By Warren Lovely & Taylor Schleich

An unfolding political drama in Canada's capital, combined with an unflattering federal fiscal portrait, has jolted investors. This is hardly a time to project weakness/disorder. The economy is misfiring; devastating tariffs have been threatened. Strong and thoughtful leadership is needed. We're told the three major opposition parties would all vote non-confidence in the minority Liberal government. Crazy as it seems, the House of Commons isn't scheduled to resume sitting until January 27th. As it stands, Donald Trump will be in the White House *before* MPs next gather. If there was a time to reconvene early, it's now.

Investors needn't wait to express their confidence (or lack thereof) in Canada. Recent data allow us to gauge sentiment. See select highlights below, clockwise from oldest to most recent reference period. Stale(r) data paint a becalmed picture; more-timely info looks unsettling.

1 SEPTEMBER (Q3): National Balance Sheet Accounts (StatCan)

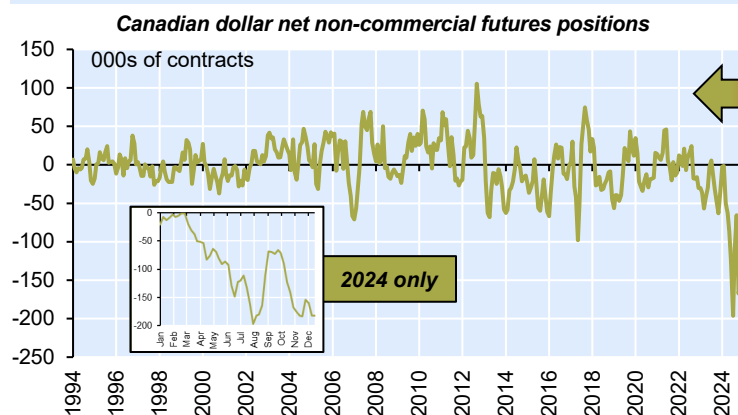
As of September, more than C\$2 trillion of 'Canadian' bonds were held by non-residents. The corresponding foreign ownership share, at 42%, hovered near a record high (with quarterly data back to 1990). So foreign investors must love Canadian bonds, right? Be careful, NBS holdings data refer to bonds denominated in all currencies, not just CAD-denominated issues.



Source: NBC, StatCan | Note: Qtrly date to Q3; based market value of bond holdings

4 DECEMBER: CAD Commitments of Traders Report (CFTC)

Canada's political noise, extra red ink and increased borrowing hasn't created much relative pressure on Canadian bonds, where differentials reflect monetary policy divergence. But premium yields are of little help to the Canadian dollar, which has been on the back foot for a while. Fresh COT data show CAD sentiment souring further, elevated political risk surely a partial culprit.

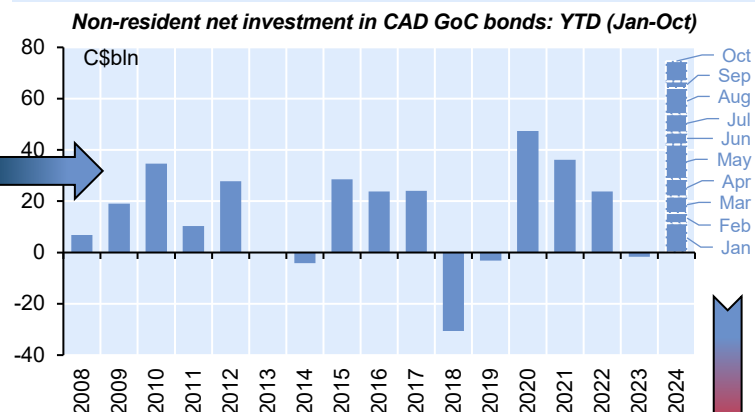


Source: NBC, BBG, CFTC | Note: Monthly closes, based on weekly data; latest is 17-Dec-24

Clearly, foreign investors discount more than political instability in Ottawa. Nevertheless, their attitudes matter (a lot). Canada has a record share of its long-term debt held outside the country. Non-residents have sopped up much GoC bond supply and have served as vital liquidity outlets for dealers. And Canada's ongoing current account deficit needs to be financed via the net importation of foreign capital. So we alienate non-resident investors at our peril. Meantime, the nation's finances need protecting, the sovereign credit rating of wide-ranging importance. Meanwhile, in FX markets, a faltering loonie not only crimps our relative standard of living but could ultimately jeopardize the ability to secure and maintain interest rate relief. We'd do well to restore confidence... of investors yes, but consumers, businesses and parliamentarians also... in as timely a manner as possible.

2 OCTOBER: International Transactions in Securities (StatCan)

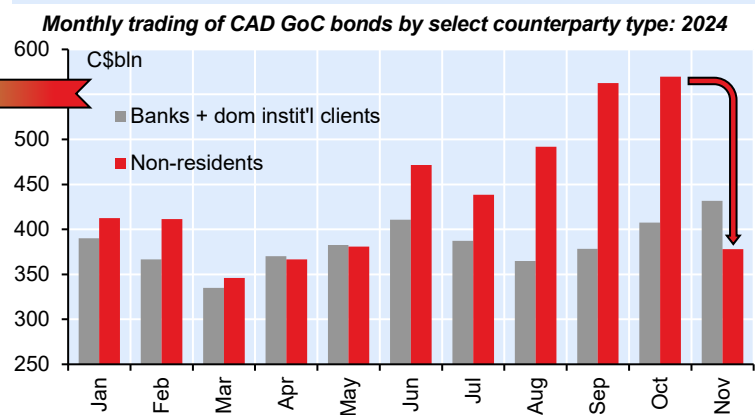
Thankfully, CIST data break out non-resident flows/holdings by currency of issue. Keying on CAD paper, foreign investors were net buyers of GoC bonds in October. Indeed, non-residents net added GoC bonds in each of the first 10 months of 2024, driving the YTD total (C\$75 billion) into unprecedented territory and absorbing ~75% of net GoC supply to end investors during that time.



Source: NBC, StatCan | Note: Individual monthly flows shown for 2024 only

3 NOVEMBER: Bond Market Secondary Trading Statistics (CIRO)

November is never the busiest month for secondary trading in Canada's domestic bond market. But the 30%-plus slump in non-resident trading of GoC bonds (across all dealers) caught our eye. This drop-off in non-resident engagement obviously pre-dates the recent political storm, but any sustained slump could crimp market depth/breadth and rob dealers of vital liquidity outlets.



Source: NBC, CIRO | Note: Select counterparty types; all dealer volumes; all GoC buckets



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