

# The other Canadian 'export' we shouldn't take for granted

By Warren Lovely

In what is a near-daily exercise, President Trump talked up tariffs Thursday, reminding Canada (and Mexico) that border-related levies are coming March 4<sup>th</sup>. This is but one front in the America first trade offensive, but arguably the most calamitous for Canada, a de facto growth killer. Canadian goods exporters can no longer take unfettered access to the U.S. for granted. But there's another Canadian 'export' channel potentially at risk. Enter today's balance of international payments release and this quick four-pane tale (which might as well have been penned by Edgar Allan Poe or the Brothers Grimm).

We start with the financing of Canada's persistent current account (CA) deficit. Beyond a CA shortfall, a net outflow on foreign direct investment exacerbates the nation's financing need. So too does an ongoing outflow of equity market capital, even if this particular source of capital leakage has moderated. The counterbalance has been unprecedented net foreign inflows into Canadian debt instruments. At its core, this involves massive buying of Canadian bonds... issued by one sector or another, denominated in one currency or another (not just CAD), with demand originating from one foreign locale or another.

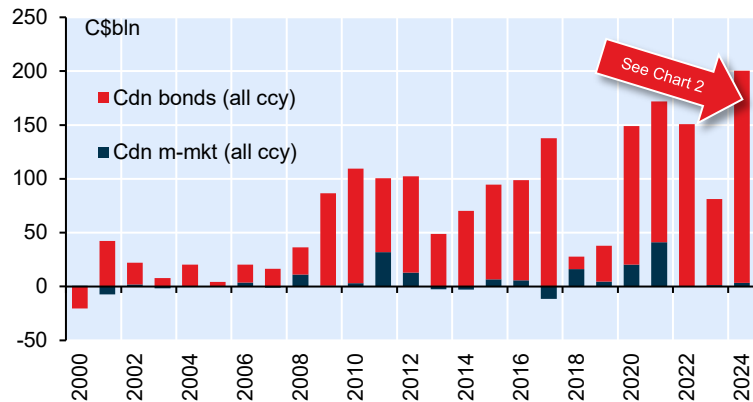
Having 'exported' almost \$200 billion of term debt to foreign investors in 2024 alone, over 40% of Canada's national bond stock is now held

outside the country. The nation has never had greater exposure to foreign bond investors. Imagine where Canadian interest rates, credit spreads and the loonie would have been in the absence of this non-resident bid. More appropriately, think where we could head if foreign investors sour on Canadian assets as real and perceived risks mount... higher, wider, cheaper is the respective direction (all else equal).

Some might call it complacency, but Canadian government debt was already piling up *before* the tariff threat arrived. Public sector indebtedness risks spiking further if U.S. tariffs go ahead and remain in place for any time. All that to say, Canada's goods trade exposure is impossible to ignore (as Trump constantly reminds us). But as explored here, Canada is likewise beholden to foreign investors (many in the U.S.) for vital debt financing lifelines. Sure, Canadian bond issuers could pivot to domestics if international investors balk. But that might soak up domestic liquidity quickly, which in turn could be a catalyst for a serious valuation re-think. As with tariffs, these financial market/valuation risks are hard to accurately pin down. They nonetheless could be increasingly top of mind (for bond investors and market strategists) if Mr. Trump follows through on the tariff threat.

### Chart 1: Record foreign buying of Cdn debt (mostly bonds)

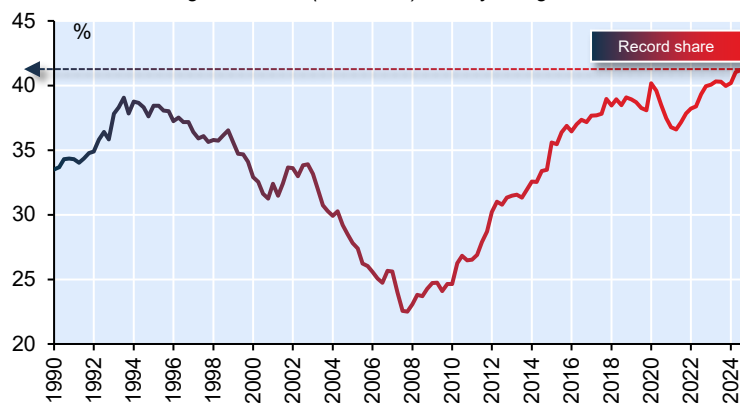
Net foreign buying of Cdn debt: All sectors, all currencies (calendar year sum)



Source: NBC, StatCan | Note on 2024: C\$196.9bn Cdn bonds (record); C\$3.5bn Cdn m-mkt

### Chart 3: Record exposure to non-resident bond investors

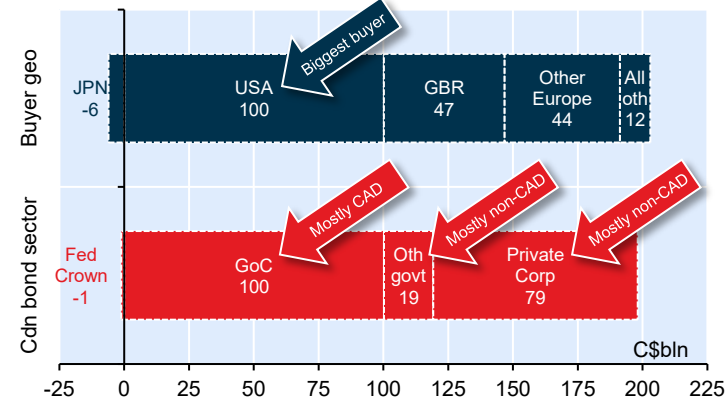
Share of outstanding Cdn bonds (all sectors) held by foreign investors



Source: NBC, StatCan | Note: Based on balance sheet accounts book value (to 2024:Q3)

### Chart 2: Non-res bond flows... where from and where to

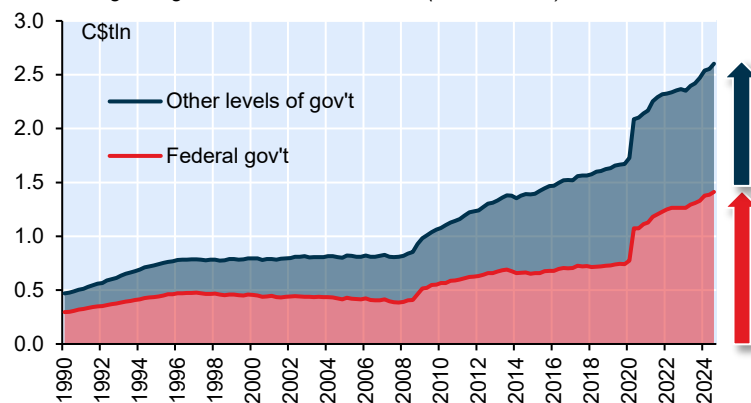
Net foreign buying of Cdn bonds: By sector of issue & buyer geography (2024)



Source: NBC, StatCan | Note: By sector & geography, net fgn buying sums to \$196.9bn

### Chart 4: More and more government debt needing a home

Outstanding Cdn government debt securities (all currencies)



Source: NBC, StatCan | Note: Based on balance sheet accounts book value (to 2024:Q3)



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