Canada: Flocking to Canada

Net foreign purchases of Canadian securities (Oct) robust.

Canada's international securities transactions data for the month of October reflected an international investor community apparently comfortable with Canadian risk. Over the course of the month, foreign investors digested a net C$9.5bn in Canadian securities, primarily corporate bonds and equity. A number not far off of the market median and our own forecast at C$10bn.

Facts

If there was a Canada trade in October, it was being expressed through corporate bonds and equity. Overall, a net C$7.8bn in bonds were scooped up by foreign investors with private corporations (financials and transportation related) finding favor, accounting for C$5.1bn of bonds purchased. Government issues filled out the rest with C$3.0bn alone flowing into Provincial bonds. According to Statistics Canada, YTD foreign interest in provincial issues is running at C$20bn exceeding the previous high of C$17.5bn for all of 1993. Looking at overall net transactions, the YTD running total is at C$97.8bn, well ahead of last years historical high which was running at C$88.6bn.

Filling out the rest of the report and in keeping with the apparent risk on mentality of October, money market paper was sold (-C$1.2bn) while Canadian stocks again found favor with foreign investors who snapped up C$3.0bn. No surprise chemical and potash companies were the focus of that foreign investor interest.

Implications

An attractive profile for Canada in the minds of investors helps to sweep a deteriorated current account deficit under the carpet. Although at and estimated 3.2% of GDP for 2010 the current account is readily manageable. And of course this profile is expected to improve in 2011, dropping back to just slightly less than 2.0%.

From a policy standpoint, if there is an impact on Canada coming out of the European tussle with sovereign debt issues, rather than impacting Canada through financial contagion, the impact is likely through the currency and the view to safety presented by a country where federal debt to GDP is riding at around 35% of GDP - roughly half the G7 average.

Bottom line.

Canada continues to be seen as a safe harbor of sorts. Arguably, investors see Canada as US dollars without all the baggage. That's the pull. The push is that there is also a lot of new issuance being pushed out in foreign currencies (USD) which invariably gets marketed to foreign investors. In October, the C$6.0bn new issuance dominated demand for Canadian fixed income.

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Disclosure appendix

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1 This report is dated as at 16 December 2010.

2 All market data included in this report are dated as at close 16 December 2010, unless otherwise indicated in the report.

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