



Official and otherwise, foreign dollars flow into CAD (like never before)

By Warren Lovely

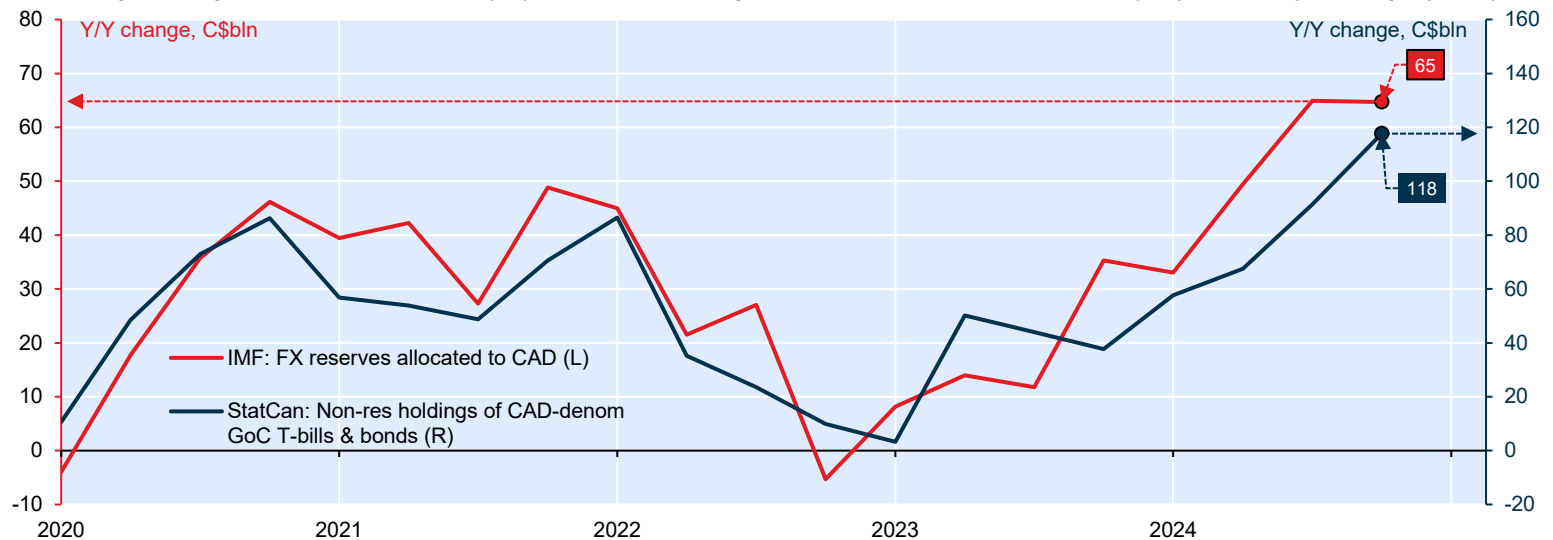
We've been examining foreign attachment to Canada via a series of *Market View* notes. There's every reason to keep close tabs on non-resident investor attitudes/flows/positioning. Having taken advantage of non-resident interest in our debt, Canada now carries record exposure to foreign investors. And no little amount of borrowing is being flagged by Canadian issuers, public sector needs increasingly elevated.

As for the non-residents buying Canadian debt, the traditional 'cast of characters' includes everything from banks to pension funds to insurers to other traditional asset managers to hedge funds. But don't forget the official sector, which has long supported (i.e., invested in) Canada.

That brings us to even-more-specific slice of the non-resident investor universe: FX reserve managers. As per fresh quarterly data from the IMF (admittedly lagged one quarter to 2024:Q4), FX reserve managers haven't exactly shied away from Canada. Rather, a relatively skinny but still-growing slice of official reserves have been allocated to the Canadian dollar. When fully converted to loonies, the marginal reserves flowing into CAD tallied to \$65 billion in 2024—the largest annual inflow since the IMF added CAD to the COFER basket. This FX reserve story dovetails with the earlier-reported surge in non-resident investment in CAD-denominated debt in 2024, with most of that interest having been expressed via the sovereign. Read on...

Chart 1: IMF COFER data mimic earlier-reported surge in foreign buying of Government of Canada debt

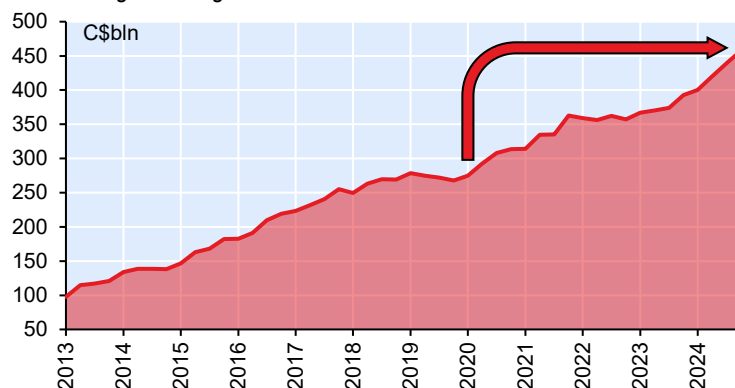
Official foreign exchange reserves allocated to CAD (red) & non-resident holdings of CAD-denominated GoC T-bills/bonds (blue): Year-over-year change, quarterly



Source: NBC, IMF, StatCan | Note: Data reflects year-over-year rate of change in quarter-end levels; IMF COFER data released quarterly (latest 2024:Q4) in USD, but here converted to CAD at prevailing FX; StatCan data on non-residents flows/holdings released monthly (latest Jan-25), but here presented on quarterly basis (to 2024:Q4) to align with IMF frequency

Chart 2: More FX reserves steered to CAD

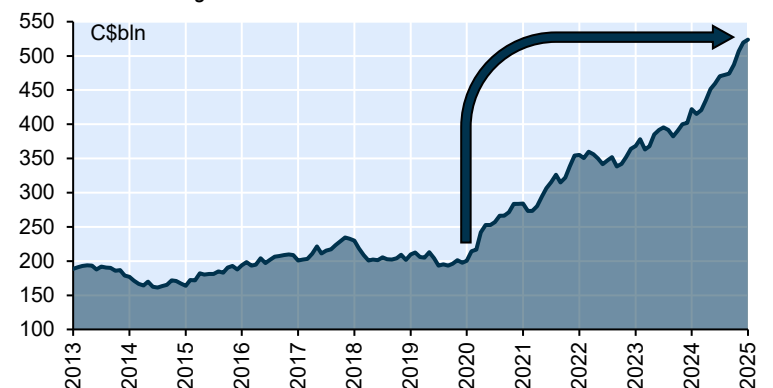
Official foreign exchange reserves allocated to CAD



Source: NBC, IMF | Note: Quarterly to 2024:Q4; USD levels converted to CAD at prevailing FX

Chart 3: Non-residents have gobbled up GoC debt

Non-resident holdings of CAD-denominated GoC T-bills/bonds

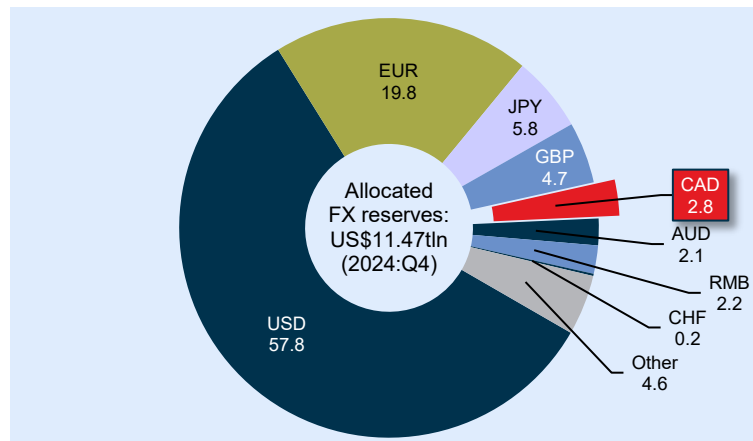


Source: NBC, StatCan | Note: Monthly (book value) to Jan-25

Official FX reserve allocations (via the IMF) are reported in USD. Converted to the local currency, the C\$457bn of official reserves allocated to CAD as at Dec-24 stood C\$65bn higher year-on-year. In CAD-equivalent terms, that represents the largest annual increase since the loonie was added to the IMF's COFER basket (with CAD allocation data starting 2012:Q4). This FX reserve story, with its growing CAD allocation, echoes the earlier-reported surge in non-resident buying of CAD-denominated debt. As a reminder, all non-residents (not just reserve managers) gobbled up C\$118bn of CAD-denominated debt in 2024. The Government of Canada accounted for all of that record net inflow, non-residents absorbing the clear majority of net new GoC issuance going to end investors.

Chart 4: Slicing up the official FX reserve pie

Currency composition of official FX reserves (allocated) as at 2024:Q4

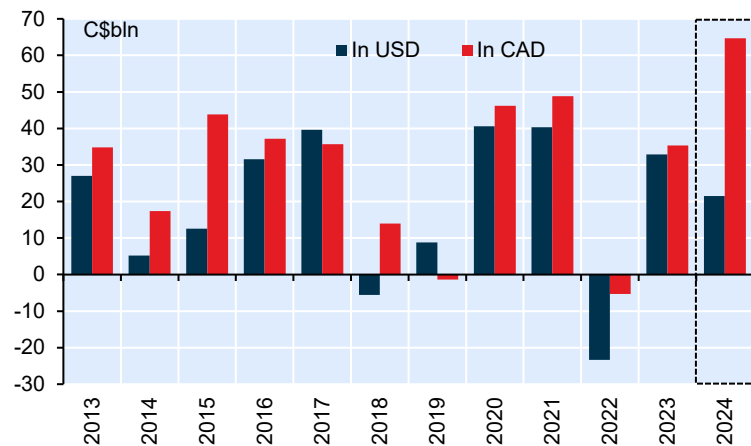


Source: NBC, IMF | Note: Excludes US\$892bln of unallocated FX reserves where ccy split N/A

At 2.8% of allocated reserves, CAD's share of the global FX pie can't compete with the major reserve currencies. But as we always note, even a narrow(ish) slice of a jumbo reserve pie can be quite meaningful for a small(ish) country like Canada. Meanwhile, controlling for loonie weakness in 2024, the extra reserves allocated to CAD surged like never before (in annual, local currency terms).

Chart 5: FX conversion a major consideration in 2024

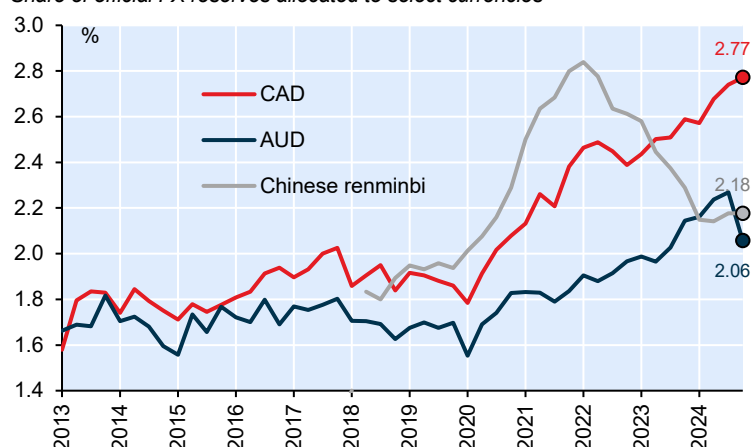
Change in value of official FX reserves allocated to CAD, incl. currency conversion



Source: NBC, IMF | Note: Based on allocated reserves to 2024:Q4

Chart 6: CAD share of FX reserves edges up...

Share of official FX reserves allocated to select currencies

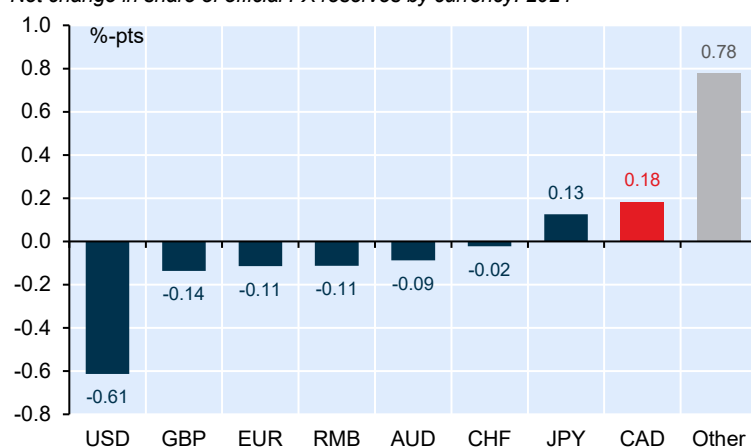


Source: NBC, IMF | Note: CAD, AUD from 2012:Q4; renminbi from 2016:Q4; latest is 2024:Q4

It's not like CAD's share of official FX reserves is in decline. Just the opposite. Of the eight major currencies where detailed allocations are available, the Canadian dollar has seen the largest net increase. That observation holds whether you are looking at the changes over the last year (i.e., during 2024, as per Chart 7) or the full period since COVID first hit (i.e., relative to 2020:Q1).

Chart 7: ...increasing faster than most 'reserve' currencies

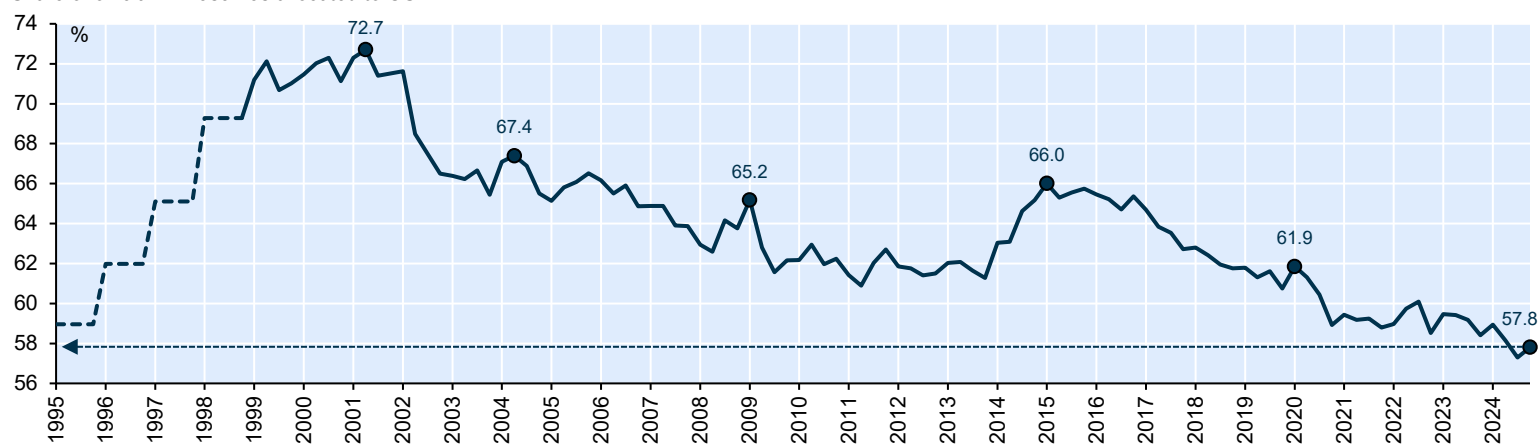
Net change in share of official FX reserves by currency: 2024



Source: NBC, IMF | Note: Based on shares of allocated reserves; 2024:Q4 vs. 2023:Q4

Chart 8: U.S. dollar's share of global foreign exchange reserves has been in structural decline (but was up a touch in 2024:Q4)

Share of official FX reserves allocated to USD



Source: NBC, IMF | Note: Based on share of allocated reserves to 2024:Q4

A so-called 'dedollarization' trend has been reflected in a generalized decline in the USD share of allocated FX reserves. In the final quarter of 2024, the greenback's share of official reserves edged up ever so slightly. Still, at 57.8%, the USD share of total allocated reserves is well off its peak and down year-on-year. As noted, CAD has taken a larger 'share-of-wallet' in recent quarters/years.



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