

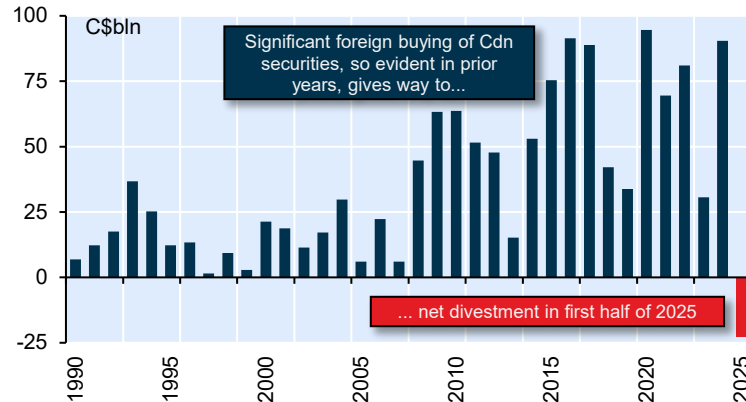
Capital flight (or is it fright?)

By Warren Lovely

StatCan's latest securities transactions data revealed foreign investors technically resumed buying Canadian portfolio assets in June. Hold the applause, as Canada's capital flow picture remains sobering (and potentially problematic for issuers with sizeable borrowing requirements). Notwithstanding the 'positive' symbol, at barely \$700 million, June's net foreign buying of Canadian assets was relatively muted, reversing but a fraction of the divestment that had piled up in the preceding four months. Since President Trump moved back into the White House and clouds formed over many an outlook, non-residents have cooled on Canadian exposure. Never has the first half of a calendar year produced such tepid foreign interest (Chart 1).

Chart 1: For Canada, foreign investors have gone MIA

Net foreign flows in Canadian portfolio securities: YTD basis (Jan-Jun)

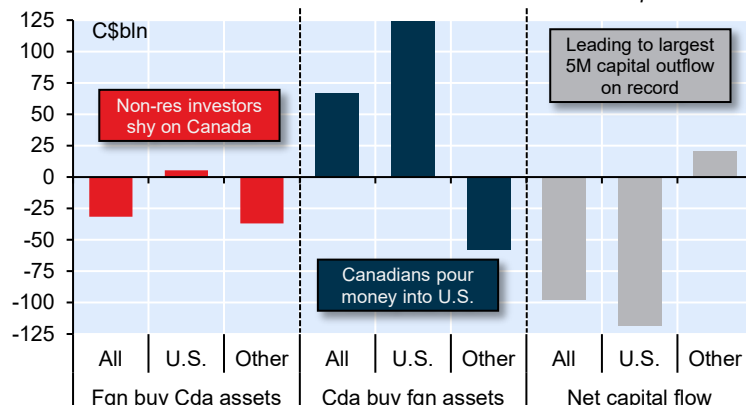


Source: NBC, StatCan | Note: Includes all Canadian debt securities & equity/IF shares

Meantime, domestic investors (in aggregate) have seemingly failed to employ a 'buy Canadian' (or 'sell American') philosophy in their own portfolio dealings. We explored this curiosity last month ([link](#)). The pattern remained intact through June, when Canadian investors steered another \$23 billion to the U.S. That means Canadians have accumulated a rather stunning \$124 billion of American securities since Mr. Trump placed this nation's economic future in doubt. With non-resident investors aloof and Canadians adding foreign assets, the country has suffered a major capital drain. The cumulative outflow over the latest five-month period is in fact unprecedented (Chart 2).

Chart 2: A record portfolio capital outflow since Trump 2.0

Canada's balance on international securities transactions: Latest 5M period

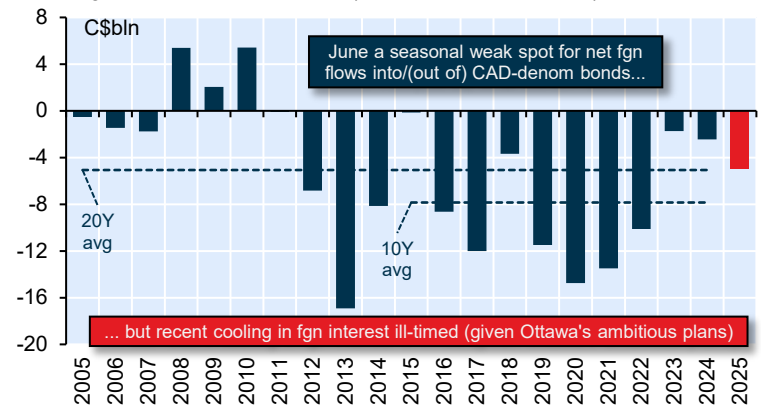


Source: NBC, StatCan | Note: Cumulative figures covering Feb-25 to Jun-25 (inclusive)

Returning to foreign investor flows, the net divestment story is concentrated in equities. Non-residents technically accumulated ~\$7 billion of 'Canadian' bonds in June. Granted, that net buying was expressed in international markets. As a reminder, June is hardly a 'normal' month for Canadian bond flows, as a heavy concentration on GoC coupon/maturities tends to trigger passive foreign divestment out of CAD-denominated product. And so it was this June (Chart 3).

Chart 3: Not unusual for June to produce CAD bond outflows

Net foreign flows in Canadian bonds (CAD-denominated issues): Month of June

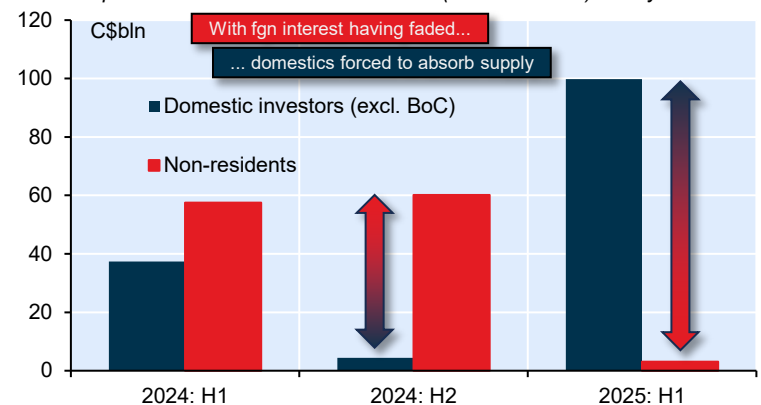


Source: NBC, StatCan | Note: Excludes foreign flows in non-domestic Canadian bonds

A seasonal lightening up of CAD-denominated bonds in June is hardly shocking. Still, the situation bears scrutiny. The federal government's ambitious plans imply meaningful net borrowing needs. Previously large-scale foreign buying succeeded in absorbing a very material share of net GoC debt issuance—almost 75% in calendar 2024 believe it or not. But with non-residents having backed away (at least temporarily), domestic investors must clean things up. Consider: In the first half of 2025, domestics sopped up \$100 billion of net GoC supply (Chart 4). That annualized ask was a very brisk 6% of GDP, beyond the net funding needs emanating from other sectors (be it non-central governments, public sector entities or private corporations). If sustained, foreign investor apathy could be problematic if not downright frightful. Timely trade deal certainty alongside needed budgetary clarity could go some way to avoiding a more adverse scenario.

Chart 4: Domestic investors asked to clean up GoC market

Net absorption of effective GoC debt issuance (T-bills & bonds): Half-year basis



Source: NBC, StatCan | Note: Controls for net reduction in BoC holdings



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