CANADA

Net foreign purchases of Canadian securities at a 4-year low

Net foreign purchases of Canadian securities reached $8.4B in September, primarily due to major gains made by equities and investment fund shares. The increase in stock prices in September was the main driver behind this gain, given the 1.1% advance in the S&P/TSX index for the period.

The monthly results for securities purchases are subject to major jolts, however. The data for the month of June showed net foreign purchases of -$15.4B for example. In these conditions, net purchases over the last 12 months offer a better snapshot of the current trend in Canadian securities transactions.

In the past 12 months, net foreign purchases of Canadian securities totalled only $48.6B, the weakest level since April 2009. A downtrend has clearly taken hold since the start of 2013. This highlights falling interest in Canadian equities at a time when the natural resources sector is struggling to capitalize on increasing demand worldwide. As a result, Canada’s S&P/TSX index has posted the weakest performance of most industrialized countries since the start of 2013.

The ongoing battle in Canada to rein in budget deficits has tempered public debt increases. New government bond issues are no longer as necessary, at both the federal and provincial levels. This of course translates to fewer foreign purchases of this type of security. That said, the level of net foreign purchases of federal or provincial bonds is currently far too low given the scope of budget deficits still being recorded in Canada. Thus, we also have to face the fact that international investors are finding Canadian government bonds less attractive.

Implications: Weaker foreign demand for Canadian securities argues in favour of keeping the Canadian dollar at low levels—it should remain below parity for several more quarters. This is good news for Canada’s exporters.