

Monthly Money Trail

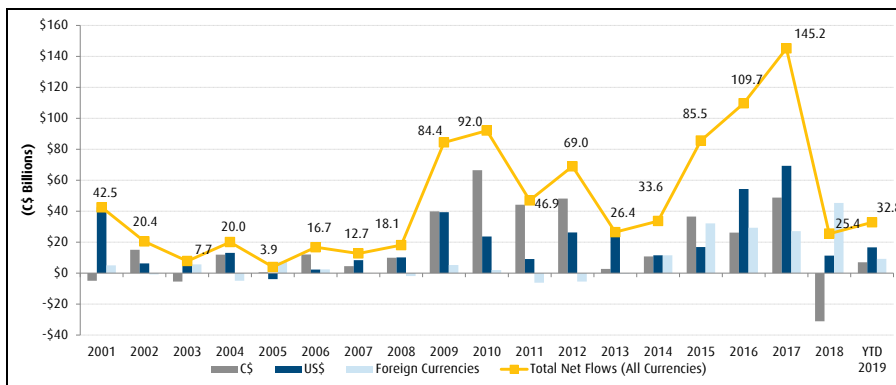
International Fund Flows

Not only did Billy Joe and Bobbie Sue take the money and run (see Steve Miller Band à la 1976 for the full story), but also international investors took at least a portion of their fixed income coupon and maturity payments in June and headed to the hills, either repatriating some funds or redirecting cash into money market instruments. At an aggregated level almost \$3 billion of foreign cash left Canadian fixed income investments during June, in part as roughly \$15 billion was invested the month before. That earlier investment provided international portfolio managers the opportunity to repatriate some money when it came due in June, without having to sell anything and trigger capital gains or losses, depending on the case. Notwithstanding, there was still some selling of GoC bonds in the secondary market during June as investors thought yields may be headed higher, a mindset that prevailed prior to the crazy days of August proved everyone wrong!

Regarding Canada's more specifically, June suffered \$5.4 billion of net selling in bonds and another \$4.2 billion of cash exiting money market product. That activity brought the year-to-date amount of net money invested in GoC bonds by international portfolio managers to a paltry \$2.8 billion, but still considerably better than the \$33 billion of net foreign cash that left Canada's in the first half of 2018. Obviously, international investors are more sanguine about GoCs in 2019 after a disappointing showing in 2018.

As we will see below, however, the tendency for international investors remains directed towards spread product from the country's issuers. Canada's AAA sovereign credit rating combined with stable domestic political and financial conditions is making foreign investors more comfortable with holding lower-rated instruments from the country's issuers. We expect the process of global portfolio managers adding to their Canadian spread exposure to accelerate as yields keep plummeting and more and more sovereign bonds enter negative territory. Issuers from Canada, especially the Big 6 and the Provinces, provide the kind of high-quality investment international managers can tuck into their portfolios and not have to worry about. We therefore remain constructive on the favourable influence international demand will have on domestic demand-supply disequilibrium in Canada's spread markets, outside of agencies, and thus expect them to outperform on a global basis, as they have done so far in 2019.

International Investment in CDN. Debt Securities



Statistics Canada data presented on a 2 months delayed basis | Source: Statistics Canada. Table 36-10-0032-01 - International transactions in securities, portfolio transactions in Canadian bonds, by currency of issue and type of transaction, monthly; BMO Capital Markets.

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Debt Products

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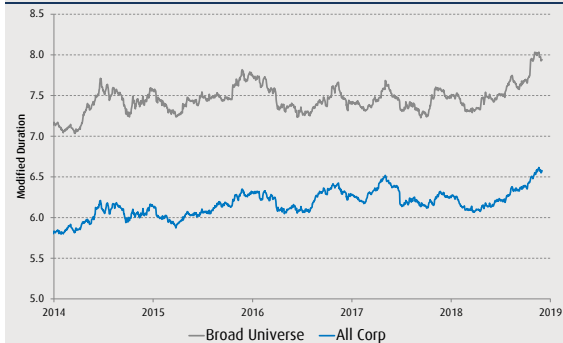
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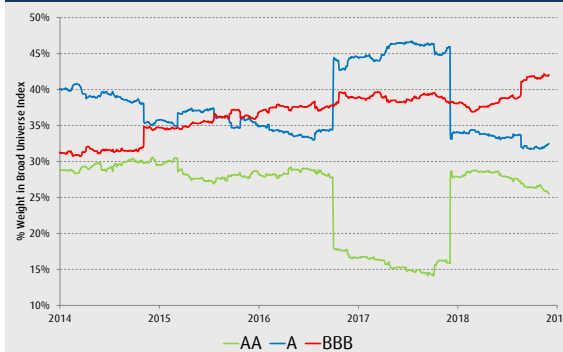
Legal Entity: BMO Nesbitt Burns Inc.

Duration - FTSE TMX Broad Universe Index



Source: FTSE TMX Debt Capital Markets Inc., BMO Capital Markets

Ratings Weight - FTSE TMX All Corporate Index



Source: FTSE TMX Debt Capital Markets Inc., BMO Capital Markets

Exhibit 1: Canada's International Transactions in Securities

(C\$ millions)	April 2019	May 2019	June 2019	January to June 2018	January to June 2019
Foreign Investment in Canadian Securities	(12,792)	10,284	(3,983)	49,417	32,528
Debt securities	(4,166)	14,868	(2,867)	42,440	31,823
Money market instruments	(3,826)	2,015	2,270	9,693	(938)
Governments	2,306	(985)	(2,820)	(340)	(5,704)
Federal government	3,268	(1,297)	(4,195)	(1,958)	(2,734)
Other governments	(962)	312	1,375	1,620	(2,970)
Corporations	(6,132)	3,000	5,090	10,031	4,766
Government business enterprises	(745)	(28)	386	4,143	(1,764)
Private corporations	(5,387)	3,029	4,704	5,889	6,531
Bonds	(340)	12,852	(5,136)	32,747	32,762
Governments	(2,774)	8,172	(5,532)	(28,359)	7,299
Federal government	(3,661)	8,828	(5,425)	(32,945)	2,834
Other governments	887	(656)	(108)	4,587	4,464
Corporations	2,434	4,680	396	61,105	25,462
Government business enterprises	(158)	3,856	(5,479)	6,077	1,905
Private corporations	2,592	824	5,875	55,028	23,556
Equity and investment fund shares	(8,626)	(4,583)	(1,116)	6,976	706
Canadian investment in foreign securities	(179)	4,122	6,607	29,430	8,384
Debt securities	(336)	5,975	3,048	27,165	19,859
Money market instruments	(846)	(1,448)	(754)	(22)	(2,680)
Bonds	510	7,423	3,801	27,188	22,537
Equity and investment fund shares	157	(1,854)	3,559	2,267	(11,476)

Source: Statistics Canada. Table 36-10-0028-01 - International transactions in securities, portfolio transactions in Canadian and foreign securities, by type of instrument and issuer, monthly; BMO Capital Markets.

Exhibit 2: CAD/USD Spot Rate

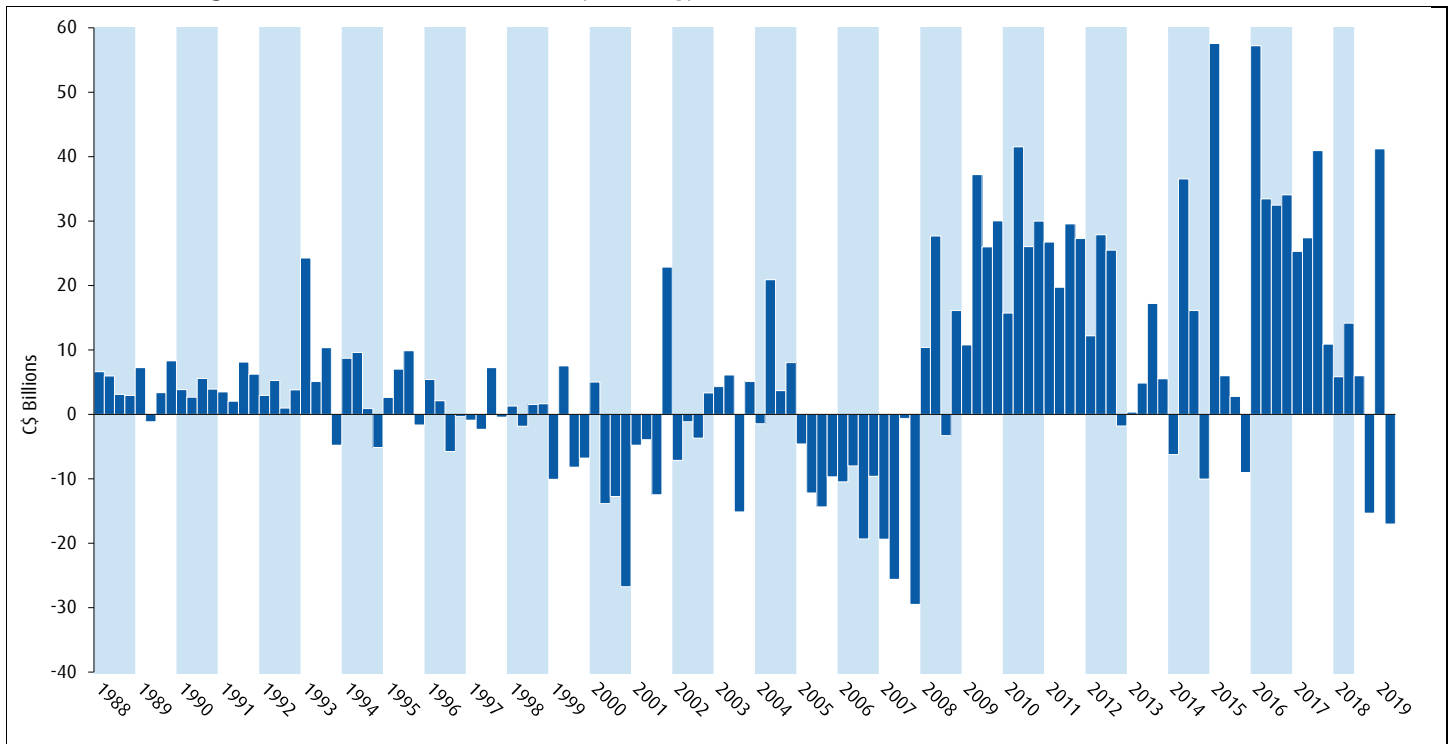


Source: BMO Capital Markets, Bloomberg.

And as we noted, the Provinces will continue to be one of the beneficiaries of global demand for their new issue bonds, which continue to be transacted outside Canada at a heady pace in 2019. During June, we witnessed global buying activity in Provie bonds to be roughly flat, but there was \$1.4 billion of international purchases for money market product issued by the regions as foreign portfolio managers parked some cash for future use. So far in 2019 international buying of Provie bonds is roughly level, at \$4.5 billion. Yet, as we noted in our latest [Provincial Perspectives](#) report, favourable current swap spreads suggest that amount may accelerate going forward.

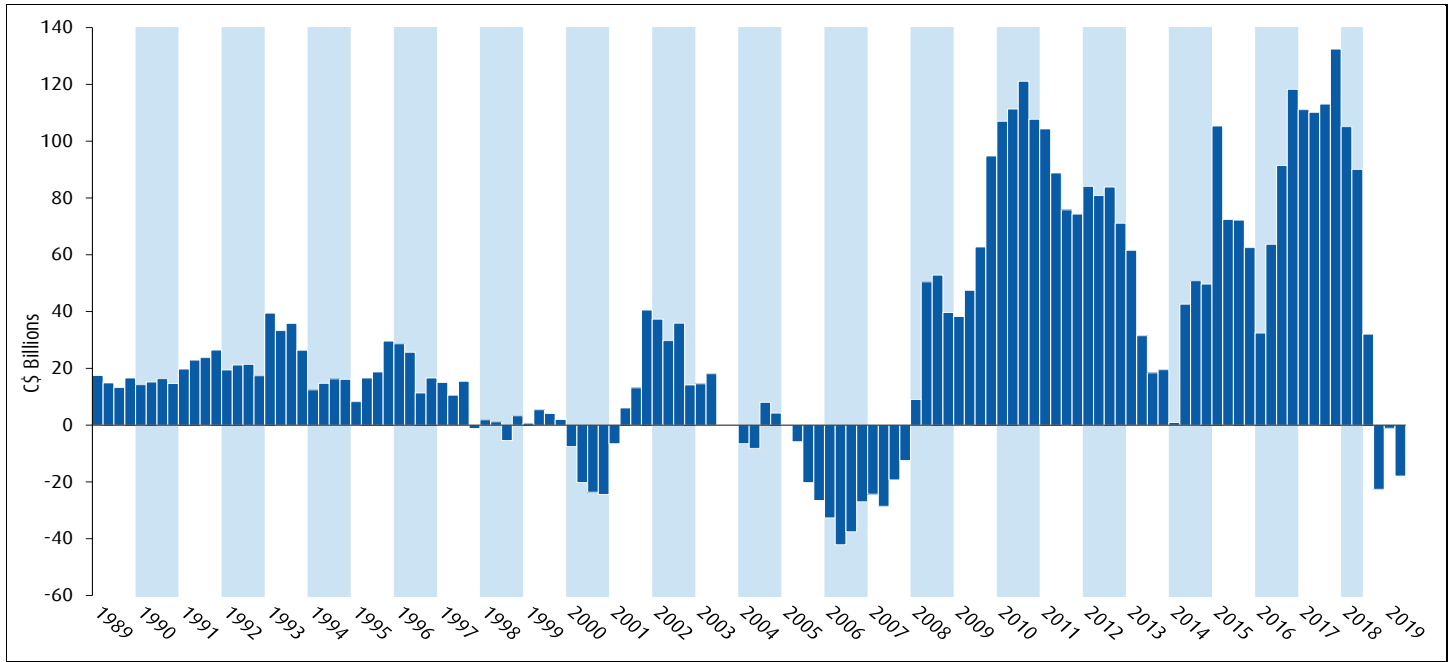
Meanwhile, agency bonds incurred their own shellacking in June as global investors exhibited a desire to head further down the credit quality spectrum in Canada since the spread on that AAA-rated product became less tantalizing. As a result, agency bonds saw net selling of \$5.5 billion in June, bringing year-to-date net investment down to about \$2 billion. By comparison, corporate bonds enjoyed net buying of \$5.9 billion from international investors in June, along with another \$4.7 billion placed in corporate money market instruments. Clearly, international investors are ramping up their interest in Canadian corporates, which is not too surprising given the relatively favourable economic prospects for the country versus many regions across the globe. What's more, as we mentioned above, the devolution of many more sovereign yields into negative territory this summer will likely trigger another upsurge in demand for Canadian corporates, as happened several years ago. Admittedly, we are at a very precarious state for sentiment in the global capital markets at present with concerns of impending recession around the world and ongoing trade and geopolitical disputes. Nonetheless, Canada possesses the kind of backdrop where global investors want to place their money, and in spread product more particularly.

Exhibit 3: Net Foreign Investment in Canadian Bonds (Quarterly)



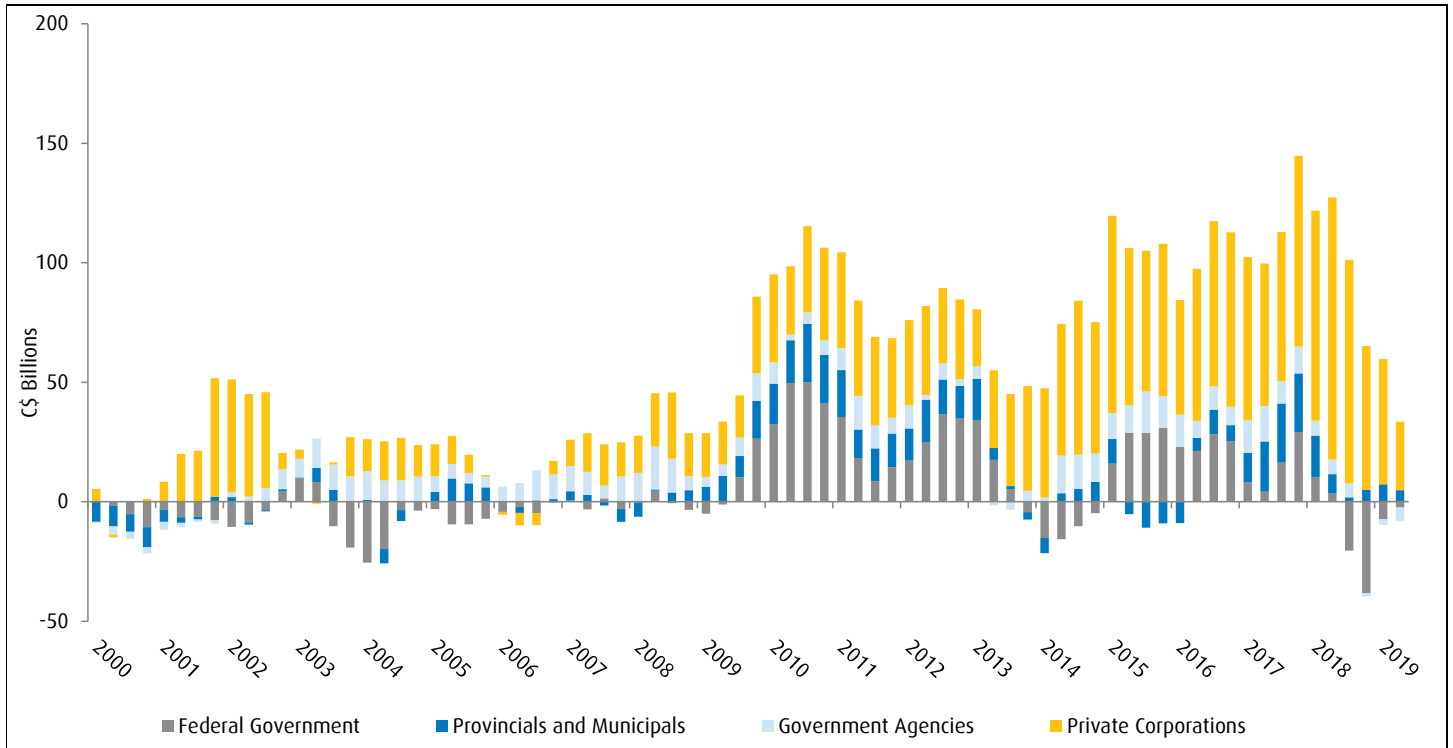
Source: Statistics Canada. Table 36-10-0029-01 - International transactions in securities, portfolio transactions in Canadian and foreign securities, by type of instrument and issuer, quarterly; BMO Capital Markets.

Exhibit 4: Net Foreign Investment in Canadian Bonds (Rolling 12-Month by Quarter)



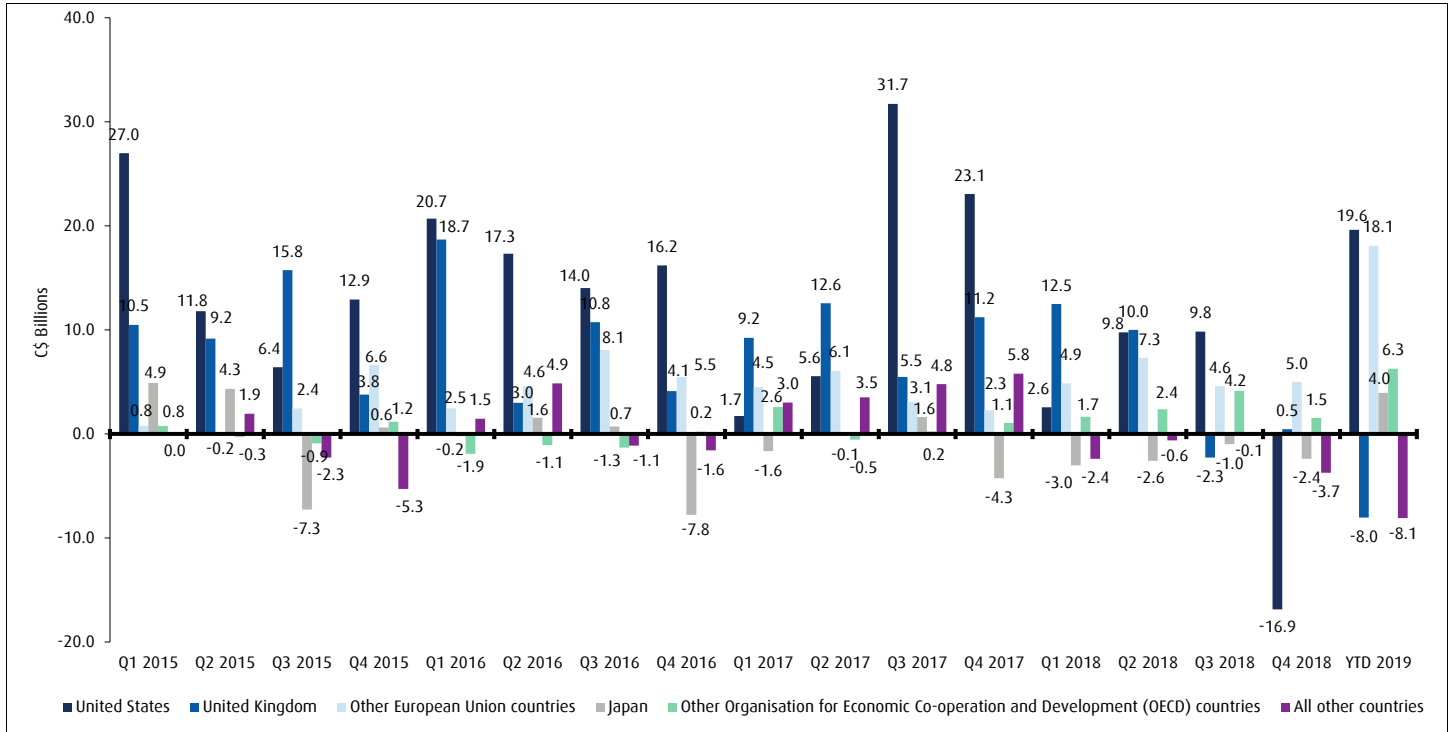
Source: Statistics Canada. Table 36-10-0029-01 - International transactions in securities, portfolio transactions in Canadian and foreign securities, by type of instrument and issuer, quarterly; BMO Capital Markets.

Exhibit 5: Foreign Investment in Canadian Government and Corporate Bonds (Rolling 12-Month by Quarter)



Source: Statistics Canada. Table 36-10-0029-01 - International transactions in securities, portfolio transactions in Canadian and foreign securities, by type of instrument and issuer, quarterly; BMO Capital Markets.

Exhibit 6: Foreign Investment in Canadian Debt Securities by Geography (Quarterly)



Source: Statistics Canada. Table 36-10-0030-01 - International transactions in securities, portfolio transactions in Canadian and foreign securities, by geographic area, monthly; BMO Capital Markets.

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Buy	top pick	14.3 %	100.0 %	20.0 %
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Hold	sector perform	67.9 %	63.2 %	60.0 %
Sell		NaN %	NaN %	NaN %

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outperform = Forecast to provide a superior risk/reward and/or total return is expected to be above the sector average

sector perform = Forecast to provide an appropriate risk/reward and/or total return is expected to be in line with the sector average

underperform = Forecast to provide an inferior risk/reward and/or total return is expected to be below the sector average

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market perform = Forecast to provide an appropriate risk/reward and/or total return is expected to be in line with the index

underperform = Forecast to provide an inferior risk/reward and/or total return is expected to be below the average of the index

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