

And the Walls (of Cash) Come Tumbling In

We've heard all the reasons *why* the Canadian dollar is taking dead aim at parity in recent days. Today, we saw some of the mechanics behind *how* it's getting there. Foreign investors poured another \$11.8 billion into Canadian securities in January—the third consecutive monthly inflow of that magnitude, a level which may have come around only about every three or four years until very recently. This brings the 12-month running total net inflows to a towering \$111 billion, by far and away a record. To put this in perspective, \$111 billion is more than 7% of Canadian GDP, it's nearly three times the size of last year's current account deficit (\$41 billion), and it's larger than the budget deficits of Ottawa and all the ten provinces combined. In other words, it's big. The lion's share of the net inflows have been directed to Canadian bonds, with foreign investors snapping up a hefty \$10 billion in January alone, and \$86 billion in the past 12 months (again, easily an all-time record high). With foreign investment on its own enough to easily fund all of Canada's government deficits, it's no wonder that a) the loonie is on a tear, and b) long-term government bond yields remain modest (below 3.5% for 10-year GoCs) and below their U.S. counterparts. Foreign investors have also snapped up \$26 billion in Canadian equities in the past year—a healthy sum, but less than half prior record highs.

Meantime, the other side of the story behind the loonie's ascent is what isn't happening... Canadians are not investing abroad. Canadians sold a net \$5.8 billion of foreign securities in January, and have offloaded a net \$1.4 billion over the past 12 months. That's not a record, but it's extremely rare to have foreigners piling into Canada, while Canadians are also piling into Canada. Foreign investment? No thanks, we're Canadian.

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(\$billions)	Foreign Investment in Canada					Canadian Investment Abroad			
	Bonds	C\$-den. Bonds	Money Market	Stocks	Total	Bonds	Stocks	Money Market	Total
2006	16.9	12.0	3.7	10.8	31.4	43.8	28.1	—	78.7
2007	11.5	4.3	-1.1	-42.0	-31.6	28.9	30.9	-11.4	48.4
2008	15.2	9.9	11.1	2.7	29.1	-16.4	7.9	-5.2	-13.7
2009	82.9	39.3	0.7	26.2	109.8	-9.0	15.9	1.8	8.7
2010 ytd	10.0	7.2	2.5	-0.6	11.8	-5.6	-0.6	0.4	-5.8
Jul 2009	3.7	4.6	-3.8	0.5	0.4	-0.7	0.9	-0.7	-0.5
Aug	4.7	5.4	-1.1	1.6	5.2	-2.7	2.7	-0.1	-0.1
Sep	3.1	-3.9	-2.1	12.8	13.8	-4.1	-1.2	0.5	-4.7
Oct	6.1	6.2	-1.6	1.3	5.9	-1.8	-1.9	-0.4	-4.0
Nov	12.9	4.2	-1.9	-0.4	10.6	1.1	-0.6	1.5	2.0
Dec	9.4	7.0	0.5	1.2	11.1	0.3	1.1	-0.8	0.7
Jan 2010	10.0	7.2	2.5	-0.6	11.8	-5.6	-0.6	0.4	-5.8

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