

Monthly Money Trail

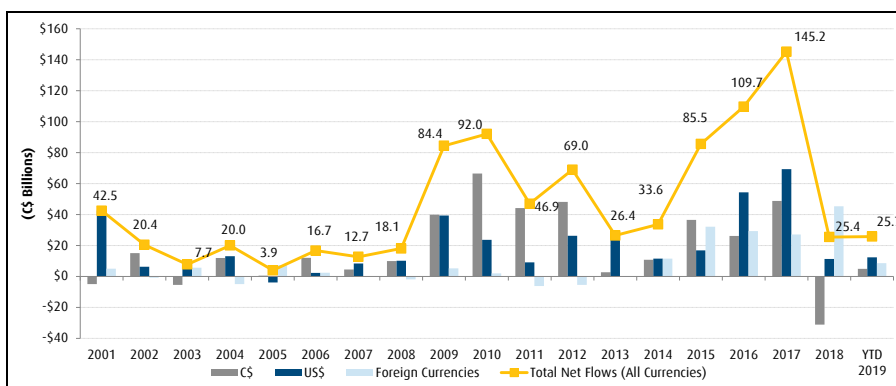
International Fund Flows

International investments in bonds from Canadian issuers remained roughly flattish in April, after showing sizeable net increases in both February and March. The trend for GoC bonds remained the same for the third month in a row, as another \$3.7 billion was divested on a net basis, finally pushing the year-to-date tally into negative territory, with a modest dip of just under \$1 billion after the hot start in January was finally fully eclipsed. The damage so far this year compares favourably to the first four months of 2018, when almost \$34 billion of GoC bonds were jettisoned by international investors on a net basis. Also of note during April, the selling of Canadas was almost completely offset by purchases of GoC money market instruments, which amounted to \$3.3 billion. That activity brought the net buying of GoC money market instruments into positive territory at \$2.3 billion, presumably as international investors look to keep some powder dry for a future date, perhaps as yields were trending higher during the first half of April.

As has been the case for a while, we believe any interest in GoC bonds will have to coincide with perpetuated improvements in the loonie. Perceptions of a relatively stronger U.S. economy and global uncertainty stirred by a somewhat mercurial U.S. administration will confound such an outcome over the near term, but it will be interesting to see how more recent movements towards a resumption of accommodative monetary policy will influence the value of the Canadian dollar over the medium term.

Unlike Canadas, which witnessed consistent divestitures since February, Provinces yet again saw net money coming in from foreign investors, to the tune of just under \$1 billion and bringing the year-to-date total to \$5.2 billion. However, like Canadas, that cash is not coming into bonds denominated in the loonie; rather, global investors are buying Provie bonds in international primary markets as they continue to demonstrate their love affair with all things Canadian, except the country's currency. We expect that trend to continue, but not without its ebbs and flows as the swaps market influences the proclivity for the regions to travel overseas for funding. Already, we are off to a record start for foreign issuance by the Provinces, although we experienced periods of zero activity, which we discuss further in our [Provincial Perspectives publication](#). We continue to believe heavy action by the Provinces in international primary markets will foster demand-supply disequilibrium at home, which partially underpins our constructive view over the near to medium term as Canadian investors bid up product in order to add it to their portfolios and keep pace with relentlessly increasing index durations.

International Investment in CDN. Debt Securities



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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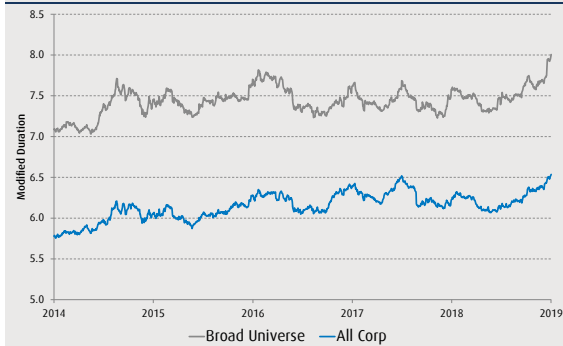
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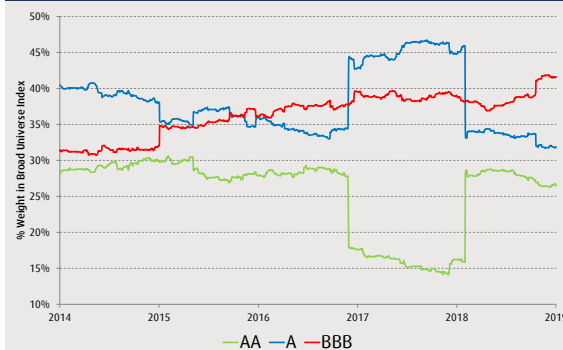
Legal Entity: BMO Nesbitt Burns Inc.

Duration - FTSE TMX Broad Universe Index



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

Ratings Weight - FTSE TMX All Corporate Index



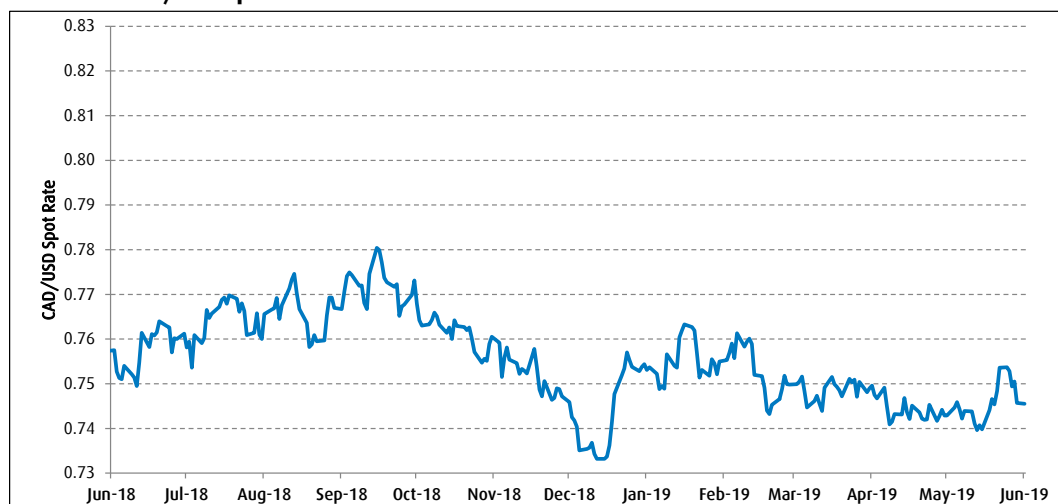
Source: FTSE TMX Debt Capital Markets Inc., BMO Capital Markets

Exhibit 1: Canada's International Transactions in Securities

<i>(C\$ millions)</i>	February 2019	March 2019	April 2019	January to April 2018	January to April 2019
Foreign Investment in Canadian Securities	12,335	(1,561)	(12,797)	32,256	26,883
Debt securities	5,726	(718)	(4,167)	23,866	20,503
Money market instruments	(1,042)	(5,425)	(3,826)	13,462	(5,226)
Governments	(1,655)	(4,895)	2,306	(129)	(1,899)
Federal government	1,932	(223)	3,268	(1,976)	2,758
Other governments	(3,587)	(4,672)	(962)	1,848	(4,657)
Corporations	613	(530)	(6,132)	13,590	(3,327)
Government business enterprises	(427)	159	(745)	5,267	(2,122)
Private corporations	1,040	(689)	(5,387)	8,323	(1,205)
Bonds	6,769	4,707	(341)	10,404	25,730
Governments	(1,681)	(5,665)	(2,775)	(27,599)	4,658
Federal government	(3,241)	(6,498)	(3,661)	(33,613)	(569)
Other governments	1,559	834	885	6,015	5,226
Corporations	8,450	10,372	2,434	38,002	21,072
Government business enterprises	1,690	1,557	(158)	6,017	3,528
Private corporations	6,760	8,815	2,592	31,986	17,544
Equity and investment fund shares	6,609	(843)	(8,630)	8,389	6,380
Canadian investment in foreign securities	5,743	1,311	(194)	14,554	(1,860)
Debt securities	5,874	3,445	(337)	12,249	11,335
Money market instruments	509	394	(846)	50	(478)
Bonds	5,365	3,051	509	12,200	11,812
Equity and investment fund shares	(131)	(2,135)	143	2,305	(13,195)

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

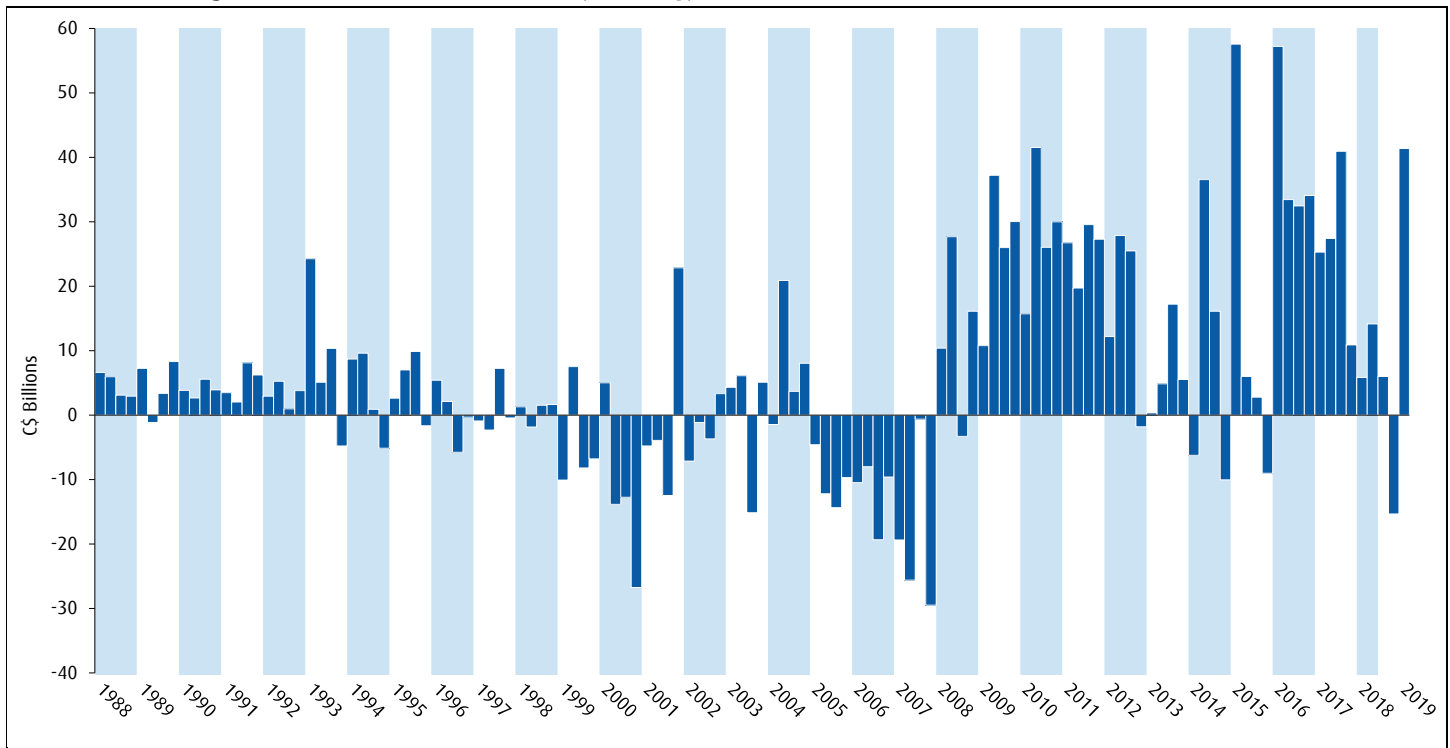


Source: BMO Capital Markets, Bloomberg.

Similar to the Provies, but even more pronounced, corporates once again enjoyed net inflows of cash from foreign buyers, albeit somewhat more subdued at \$2.6 billion in April. Overall, the \$17.5 billion transacted so far this year is down substantially from the international net investment of \$32 billion through the first four months of 2018. A rocky start to 2019 is the major culprit, along with slowed momentum. Nonetheless, we believe international buyers remain very much interested in Canadian corporates, and the Big 6 in particular, underscored by the substantial year-over-year drop in issuance by the country's banks at home. We expect that trend to persist and the Canadian corporate market to remain in disequilibrium like Provies. What's more, recent forays outside of Canada by issuers in other sectors will compound that problem and help keep corporate spreads in Canada better behaved than

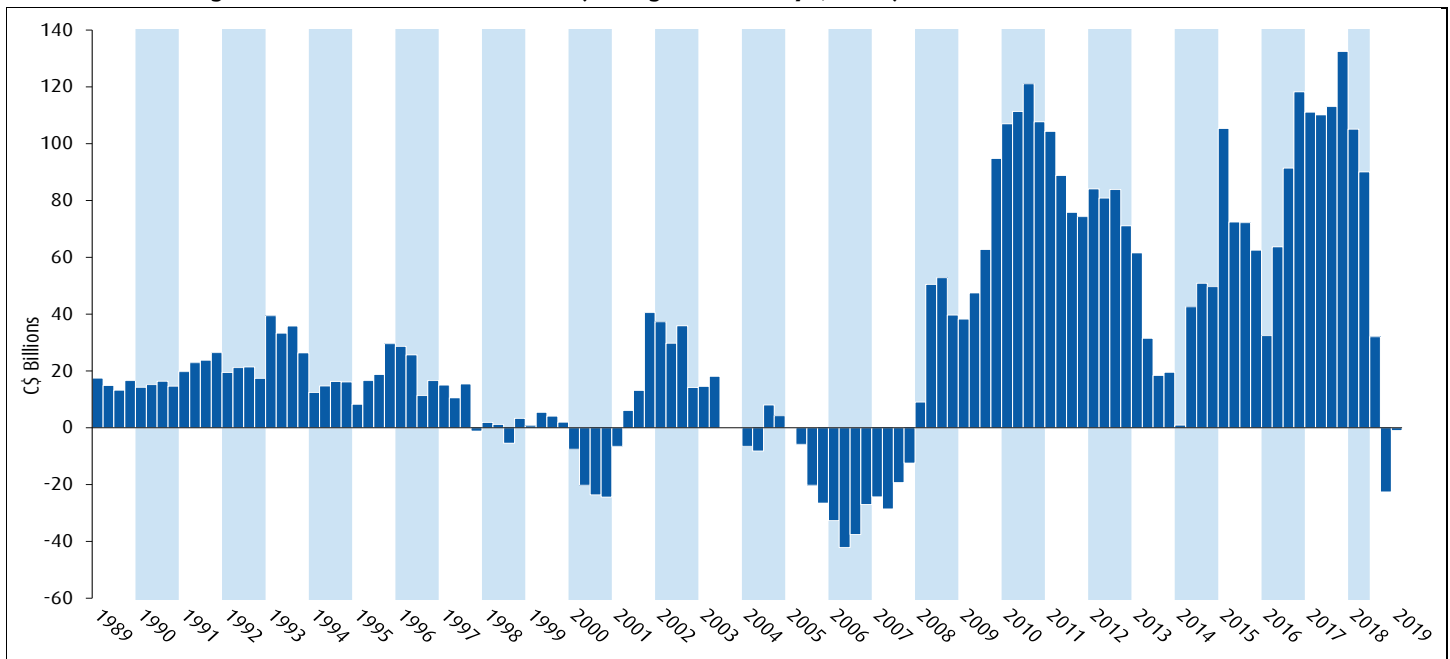
many international counterparts. Recent moves towards a resumption of more accommodative monetary policy will likely increase global demand for issuance from Canada's corporations, further ratcheting demand-supply disequilibrium in the country. We therefore remain constructive on spread product in Canada, regardless of whether yields are going up (price protection) or down (better all-ins).

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



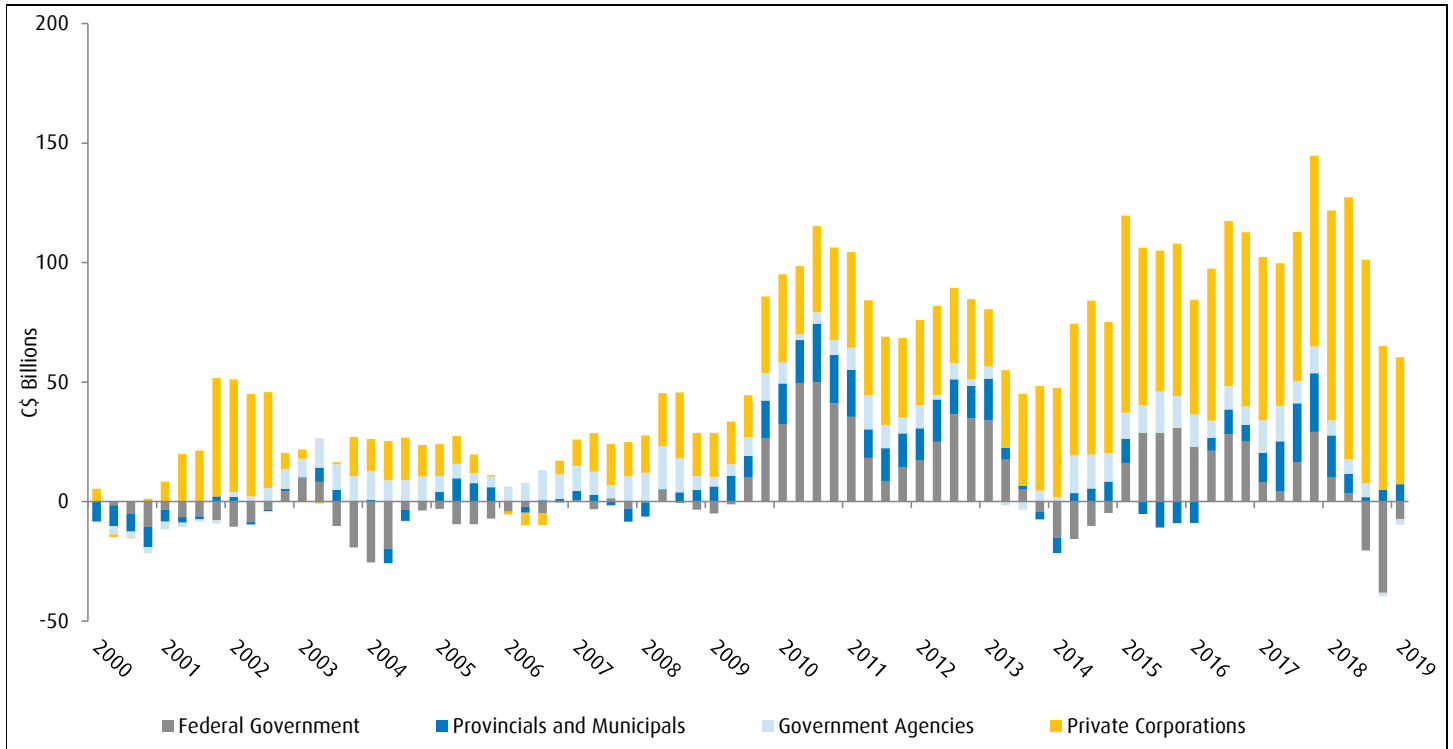
Source: Statistics Canada. Table 36-10-0029-01 - International transactions in securities, portfolio transactions in Canadian and foreign securities, by type of instrument and issuer, quarterly; BMO Capital Markets.

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



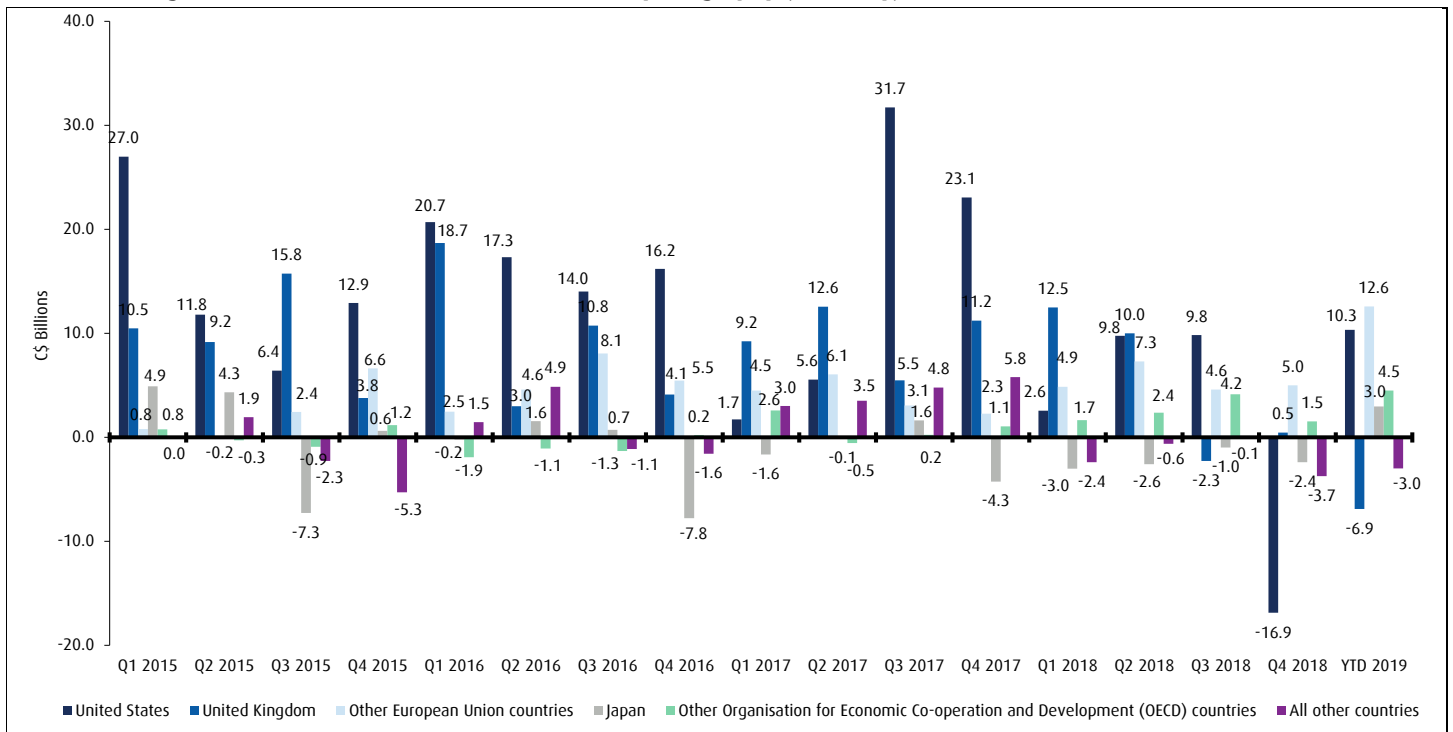
Source: Statistics Canada. Table 36-10-0029-01 - International transactions in securities, portfolio transactions in Canadian and foreign securities, by type of instrument and issuer, quarterly; BMO Capital Markets.

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 %	19.1 %
Buy	outperform	3.6 %	100.0 %	4.8 %
Hold	sector perform	75.0 %	66.7 %	66.7 %
Sell	underperform	3.6 %	100.0 %	4.8 %

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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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