

Quick Hit – Welcoming Ontario’s new long bond?

Here’s a hypothetical, and sufficiently gender-neutral birth announcement for you:

The Province of Ontario is pleased to announce the arrival of ONT 2.9% 2-Jun-2049, weighing in at \$600-750 million and measuring ~71 basis points vs CAN 1-Dec-2048.

Issuer and security are doing very well.

With a healthy appetite, one can expect this baby to grow briskly.

Ok full disclosure, we don’t sit on the DCM desk and are not in possession of material, non-public information. The above details are meant for illustration only and should not be confused with an official new issue announcement. Nor should this note be interpreted as a solicitation of interest. Rather, our aim here is to provide some colour on the *prospective* introduction of a new long-bond from Canada’s largest provincial government issuer.

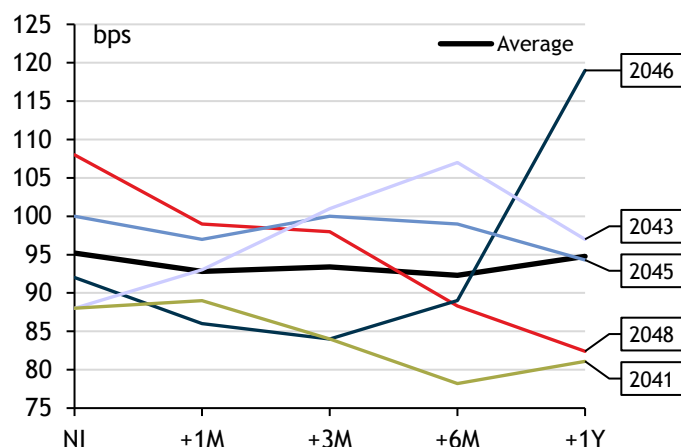
The way we look at it, Ontario is likely getting close to setting the marker down on a new 30-year bond. The province’s current long bond (ONT 2.8% 2-Jun-2048) is getting up there in size, with \$12.7 billion currently outstanding. To be fair, some older, off-the-run longs are even bulkier. For example, the Dec-2046s tip the scale at \$14.7 billion, while the Jun-2045s are north of \$16 billion. But if you’re sensitive to the size of single-day maturities—and judging from Ontario’s budget and fall economic update, this is something they’re increasingly mindful of—there’s little harm in shutting the 2048s down a bit early. So breaking from the traditional calendar, Ontario will likely get a new long bond up and running before the year is out (really any day now), timing that has the added benefit of coinciding with hefty December cash flows and index-driven demand for duration.

If empirical analysis is your thing, you might find the tables on page 2 of interest. Here, we detail the introduction of Ontario’s new 10- and 30-year bonds over the years, showing the size and frequency of issuance, the time required to reach critical mass (in terms of amount outstanding) and also some medium-term perspective on spread performance. There’s one table for 10s and another for longs. Here are a couple of highlights:

- When it comes to new issue longs, Ontario has tended to kick things off with \$600-750 million for its first trade;
- The first 30-year re-opening typically arrives fairly quickly—something like two weeks is common, and in one case (with the 2046s), Ontario tapped the new issue the very next day. It generally takes Ontario less than two months to build its new long bond up to \$2 billion, with the \$5 billion threshold often achieved in half a year;
- Indicatively, today’s spread to Canadas for a new prospective long bond, at about +71 bps vs CAN 2048s, would be notably tighter than what’s been observed in the post-crisis period. Looking back, Ontario longs have generally been launched closer to 90-95 bps vs the corresponding GoC benchmark (Chart 1);
- Performance-wise, Ontario’s new long bonds have had a reasonable track record. There are some outliers, but both the mean and median spread to the GoC benchmark was tighter 1, 3, 6 and 12 months after launch. Meantime, the new longs have tended to hold their own vs the larger (i.e., more liquid) and older 30-year issues;
- The performance record for new 10s differs somewhat from longs. While Ontario’s new 10-year bond—generally launched in early November to mid-February—has, on average, tightened 1-2 bps in the month after launch (and even more after 3 months), new 10s have fairly consistently (seven out of eight years) lagged old 10s on the credit box (Chart 2). Looking at the post-crisis average, new 10s were a full basis point wider compared to old 10s after a single month of trade.

Chart 1: Spread trajectory for past 30Y issues

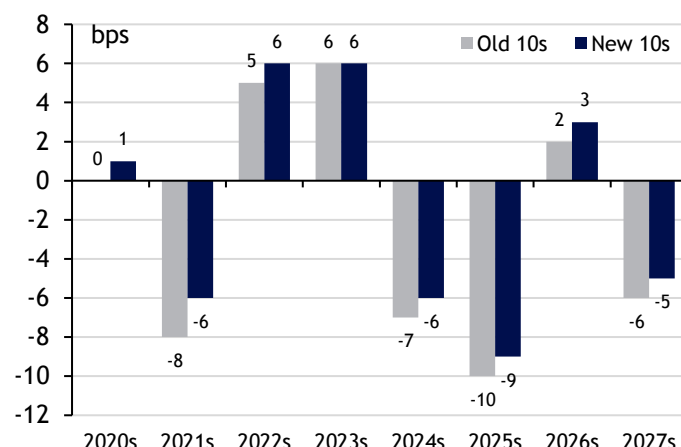
Ontario 30-year spread vs GoC benchmark relative to new issue date



Source: NBF, Bloomberg

Chart 2: ‘New’ Ontario 10s tend to lag ‘olds’

1-month change in new/old Ontario 10-year spread vs GoC benchmark



Source: NBF, Bloomberg | “New 10s”=new issue, “old 10s”=prior b’mark

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Tables 1-2: Reflecting on the prior introduction of NEW Ontario 10- and 30-year domestic benchmark bonds

Province of Ontario C\$ benchmark bond issues: 10-year & 30-year

Ontario: Introduction of New 10-year Benchmark Bond																	
Maturity	Coupon	First issued	Last re-opening	Total issued	Times issued	First issue size	Average R-O size	Time to first R-O	Days to reach O/S amount:			Spread vs GoC b'mark compared to NI day:					
date	%	date	date	\$mln	#	\$mln	\$mln	days	\$2bln	\$5bln	\$7bln	NI	Bench	+1M	+3M	+6M	+1Y
									days	days	days	bps	CAN	bps	bps	bps	bps
06/02/2027	2.6	02/06/2017	11/21/2017	6,900	8	1,000	843	45	141	249	NA	78	6/27	-5	-4	-9	NA
06/02/2026	2.4	01/29/2016	11/17/2016	7,500	9	750	844	33	69	207	293	110	6/26	3	-23	-27	-30
06/02/2025	2.6	01/06/2015	12/01/2015	13,600	16	1,000	840	2	2	72	154	86	6/25	-9	-11	-8	10
06/02/2024	3.5	11/20/2013	11/21/2014	11,550	15	750	771	48	57	183	253	87	6/24	-6	-7	-2	-5
06/02/2023	2.85	11/01/2012	01/13/2015	12,100	14	1,000	854	13	25	223	229	97	6/23	6	-5	-2	-9
06/02/2022	3.15	11/03/2011	10/16/2015	12,250	14	750	885	12	46	179	217	87	6/22	6	-4	9	8
06/02/2021	4	01/07/2011	09/26/2011	9,000	12	750	750	47	83	166	237	71	6/21	-6	-1	3	14
06/02/2020	4.2	02/18/2010	09/03/2015	10,800	13	750	838	20	60	188	242	59	6/20	1	27	26	3
06/02/2019	4.4	04/14/2009	06/26/2012	7,850	12	600	659	8	66	216	917	150	6/19	-35	-64	-86	-86
Average	3.2	<i>Post crisis, Ontario's NEW 10Y has been established btw early-Nov & mid-Feb. The ONT 2.6 27s were first issued 6-Feb-2017</i>		10,463	12.6	844	828	28	60	183	232	84.4		-1.3	-3.5	-1.3	-1.3
Median	3.0			11,175	13.5	750	841	27	59	186	237	86.5		-2.0	-4.5	-2.0	3.0
Min	2.4			6,900	8	750	750	2	2	72	154	59		-9	-23	-27	-30
Max	4.2			13,600	16	1,000	885	48	141	249	293	110		6	27	26	14

Ontario: Introduction of New 30-year Benchmark Bond																	
Maturity	Coupon	First issued	Last re-opening	Total issued	Times issued	First issue size	Average R-O size	Time to first R-O	Days to reach O/S amount:			Spread vs GoC b'mark compared to NI day:					
date	%	date	date	\$mln	#	\$mln	\$mln	days	\$2bln	\$5bln	\$7bln	NI	Bench	+1M	+3M	+6M	+1Y
									days	days	days	bps	CAN	bps	bps	bps	bps
06/02/2048	2.8	06/16/2016	09/25/2017	12,700	18	600	712	13	40	176	336	108	12/45	-9	-10	-20	-26
12/02/2046	2.9	01/28/2015	05/31/2016	14,700	20	750	734	1	22	141	180	92	12/45	-6	-8	-3	27
06/02/2045	3.45	05/07/2013	12/03/2014	16,050	24	750	665	22	63	202	268	100	6/41	-3	0	-1	-6
06/02/2043	3.5	01/26/2012	04/04/2013	11,200	17	600	663	13	41	195	295	88	6/41	5	13	19	9
06/02/2041	4.65	06/10/2010	12/02/2011	11,650	18	600	650	34	109	239	335	88	6/37	1	-4	-10	-7
06/02/2039	4.6	01/10/2008	08/31/2010	9,700	22	600	433	109	168	692	840	56	6/37	3	13	9	51
06/02/2037	4.7	02/17/2006	12/04/2007	9,100	17	500	538	77	154	353	558	52	6/33	1	-4	-2	-11
Average	3.5	<i>Post crisis, NEW 30Y typically launched early in new year or spring, but timing/maturity less rigid than 10s</i>		13,260	19.4	660	685	17	55	191	283	95.2		-2.4	-1.8	-2.9	-0.4
Median	3.5			12,700	18.0	600	665	13	41	195	295	92.0		-3.0	-4.0	-3.0	-5.7
Min	2.8			11,200	17	600	650	1	22	141	180	88		-9	-10	-20	-26
Max	4.65			16,050	24	750	734	34	109	239	336	108		5	13	19	27

Notes: These tables show the evolution of NEW Ontario 10- and 30-year benchmark bonds; the dotted line in both tables separates post-crisis from prior period (on basis on new issue date);

average, median, min and max values relate to bonds first issued in post-crisis period (i.e., 2020-2027 maturities for 10s and 2041-2048 maturities for longs); in some cases, 10Y benchmarks were later re-opened at a shorter tenor;

all figures are par value; "R-O" refers to re-opening; "O/S" refers to outstanding; "NI" refers to new issue

Source: NBF, Bloomberg

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