

Quick Hit – Ontario: Efficiency in motion

By all accounts, Tuesday was an exceptional day. Earlier equity carnage meant investor anxiety was through the roof, with volatility metrics all but off the charts. The closely watched VIX index had skyrocketed, reaching its highest point in at least a couple years. (A related tidbit: the XIV ETF, whose cash payment at scheduled maturity is based on the *inverse* performance of the S&P 500 VIX Short-Term Futures Index, saw its trading halted most of the morning and was down 93% as of the close.) Such was backdrop only 24 hours ago. But wild market gyrations didn't prevent Ontario from enjoying its own exceptional day, as the province tapped both the US dollar and domestic (C\$) bond markets in good size, vaulting its fiscal year borrowing program miles beyond fully funded status. If your attention was fixed on the inter-day blips in the Dow Jones Industrial Average, here's what Ontario accomplished Tuesday:

- US\$3 billion of a new 3-year benchmark SEC Registered Global (ONT 2.55% 02/12/2021). Having attracted excellent demand out of the gate (books approached US\$4 billion from reports we heard), the deal was priced a snick tighter than IPT (albeit at somewhat attractive levels to the secondary USD Ontario curve). Ontario had last been in dollars back in September, and this represented the province's largest Global since May-2012. Based on the prevailing exchange rate, CAD-equivalent proceeds amounted to roughly C\$3.75 billion. In terms of pricing, we pegged this deal some 7-8 bps "cheap" to Ontario's domestic curve (based on mid swaps). Technically, you could say that Ontario paid up a bit to access a very deep pool of liquidity south of the border. Importantly, however, the bond was not sufficiently "cheap" to entice investors to move out of short-dated C\$ Ontario bonds into the new USD security.
- Just as this new 3-year USD bond was getting firmed up, Ontario popped a new 5-year benchmark bond into the domestic market (C\$1.5 billion of the ONT 2.6% 09/08/2023). As with the dollar trade, this new domestic 5-year was on the larger side of the spectrum, having been launched in response to healthy expressions of interest. For reference, Ontario's previous domestic 5-year—ONT 1.35% 03/08/2022—was launched and re-opened (4 times) at C\$1 billion a crack, resulting in a float of C\$5 billion.

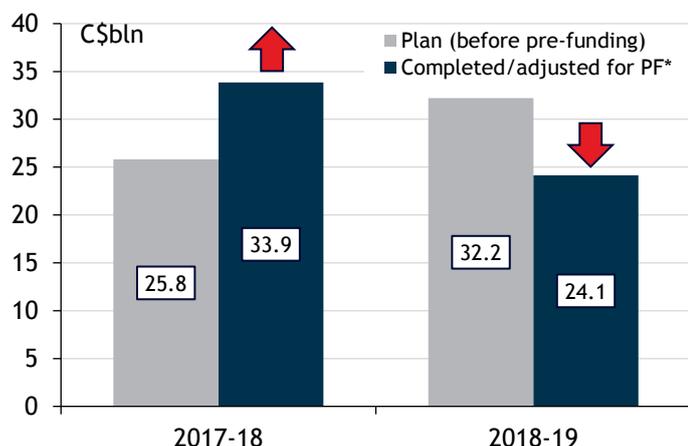
Together then, Ontario cleared some C\$5.25 billion via two trades amidst a highly unstable global financial backdrop. If those proceeds sound outsized, they are, amounting to the largest single-day lift from Ontario since at least 2010 (perhaps ever). Consider this a vote of confidence by investors on either side of the border, notwithstanding some lingering risks (housing and NAFTA to name two). More to the point, Tuesday's one-two punch demonstrates just how efficient our large provincial issuers can be. For context, Ontario's *full-year* funding requirement for the 2017-18 fiscal year has been pegged at \$25.8 billion. So the province just knocked off fully 20% of a full-year requirement in a single trading day. Here's another perspective: Ontario secured more funding on Tuesday than was raised during the entire month of January by all provinces together. Not too shabby.

And it's not like the province had been playing from its back foot. Ontario had already crossed the fully funded threshold well before Tuesday's exceptional issuance. Adding in the latest proceeds, Ontario now finds itself more than \$8 billion pre-funded towards fiscal 2018-19... with more than a month and a half still to run on the outgoing fiscal year. It's not unreasonable to expect that Ontario could have at least \$10 billion of the coming fiscal year's requirement already completed before April 1st rolls around. To us then, one the single biggest changes in the upcoming provincial budget will likely be a hefty downward adjustment in long-term funding requirements for 2018-19, relative to what had been previously telegraphed (Chart 1).

Ontario might not be able to do much about equity market anxiety, but its big-time pre-funding serves to dampen any supply anxiety attached to Canada's largest provincial borrower. [While our focus here was Ontario, we'd be remiss if we didn't mention that Québec is likewise way out in front of next fiscal year's bond program, having pre-funded roughly \$6 billion and counting (Chart 2).]

Chart 1: Ontario gets jump start on 2018-19...

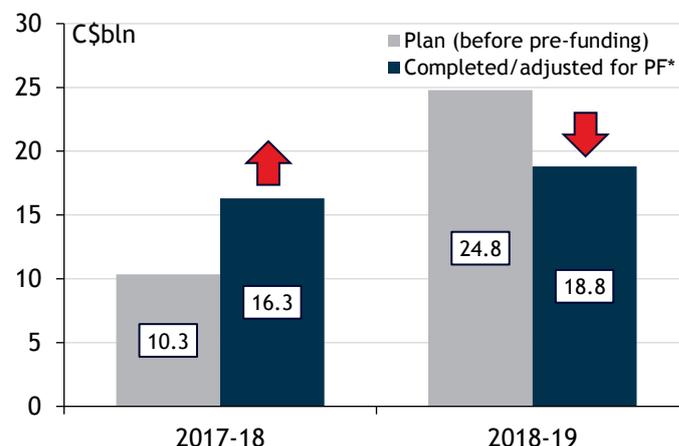
Ontario funding requirements: Official & adjusted for pre-funding



Source: NBF, Ontario | * Official requirement less current pre-funding, subject to change/adjustment in upcoming provincial budget

Chart 2: ...and it's a similar story in Québec

Québec funding requirements: Official & adjusted for pre-funding



Source: NBF, Québec | * Official requirement less current pre-funding, subject to change/adjustment in upcoming provincial budget

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