

Market View – Maple [bond] dip

By Warren Lovely

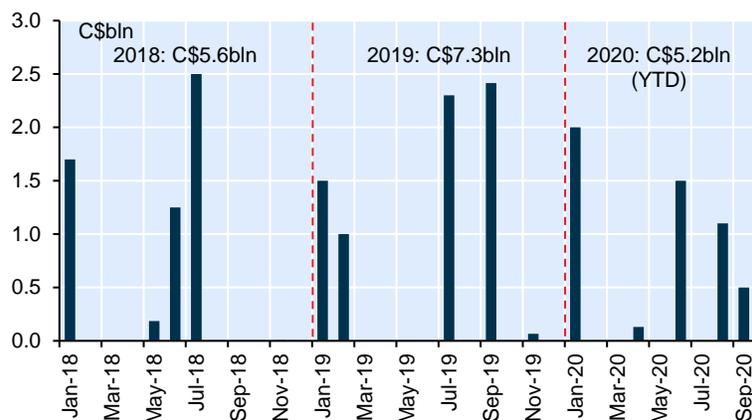
While something of a generalization, Canadians love their donuts. That’s why you’ll find purveyors of these tasty treats on virtually every corner across this fair land. Chances are, you’ve got a favourite; maybe you hanker for a Double Chocolate or a Boston Cream, perhaps it’s an Apple Fritter or a simple Old Fashion Plain. From the looks of things though, Canadian bond investors have developed an appetite for the Maple Dip, as SSA issuers sprinkle the maple bond market with issues.

Judging from reported order books and observed price action, recent maple bond deals may not have produced an outrageous feeding frenzy. Nonetheless, these deals were nicely digested by an investor base generally hungry for product, an encouraging development that might just see other SSAs pull fresh maple bonds from the oven.

Counting this week’s CAD500 million 5-year deal from International Finance Corporation (IFC 0.625% 09/2025), the SSA sector¹ has brought a total of seven benchmark maple bonds so far this calendar year (Charts 1-2). The combined issuance tally, at CAD5.23 billion, builds on what was a reasonably active 2019—where a dozen deals totaled CAD7.3 billion in SSA maple supply. Given that a good chunk of last year’s action was lumped into September, the 2020 year-to-date issuance pace (to 2-Sep) is technically a bit ahead of where things stood at this time a year ago (CAD4.8 billion) and is largely equivalent to the full-year tally registered in 2018 (CAD5.6 billion).

Chart 1: SSAs dip into maple bond market

Monthly CAD maple bond issuance from select SSA issuers*



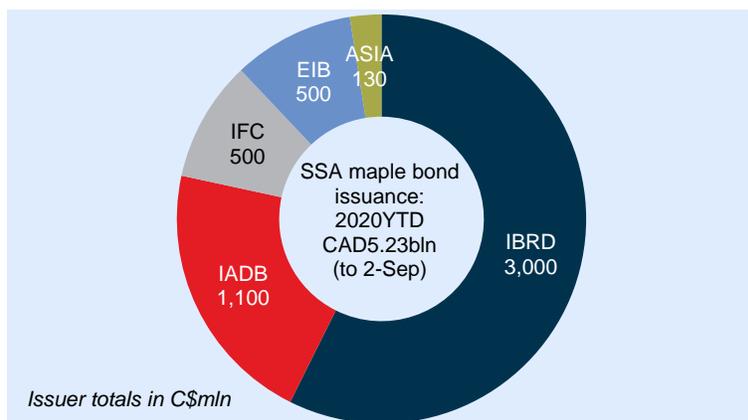
Source: NBF, Bloomberg | Note: Based on selection of non-sovereign SSA issuers; maple bond issuance totals likewise exclude foreign corporates (financial & non-financial); 2020 figure as at 2-Sep

Stripping out the Asian Development Bank’s CAD130 million long-dated deal from April (ASIA 1.33% 04/2035), the average issue size on this year’s crop of benchmark SSA maples is CAD800 million. In addition to IFC, the likes of EIB and IADB have brought deals in the CAD500-600 million range. IBRD, as is often the case, sits at the larger end of the spectrum in terms of deal size, having tapped the maple market twice this year at CAD1.5 billion a crack. As to tenor, the 5-year sector remains a favourite, where to be frank, there tends to be less direct competition from Canada’s public sector names.

Saying that, IADB’s successful 7-year trade in August was noteworthy—the first SSA to issue in 7s since 2014. (Back then, it was ADB and Rentenbank doing 7s.) We don’t want to give the impression SSAs can’t venture out the curve in Canada; IBRD has been in 10s on more than a few occasions, while ADB and AfDB (among others) have been out there too.

Chart 2: This year’s SSA maple players... some familiar names

CAD maple bond issuance from select SSA issuers*: 2020YTD



Source: NBF, Bloomberg | Note: Based on selection of non-sovereign SSA issuers; maple bond issuance totals likewise exclude foreign corporates (financial & non-financial)

Who’s buying these deals? Distribution stats suggest that domestic (i.e., Canadian) accounts are responding favourably, taking down 60% (on average) of IADB’s double dip in August. Asian accounts are consistent players in these SSA maple deals.

Whereas USD fixed-rate benchmarks from many top tier SSAs will routinely be placed 40-60% with central banks and official institutions, this buyer class (while active) tends to take a back seat to both bank treasuries and asset managers in maple land. Consistent with the relatively shorter tenor of these maple deals—at least compared with what’s regularly on offer from Canada’s provinces—pension- and insurance-related investors are relatively less active (though not entirely disengaged). Charts 3-4, presented on the following page, illustrate this year’s average distribution (geographic and investor type) for both IADB and IBRD.

Notwithstanding the evident concentration by region and account type, this year’s maple deals have succeeded in attracting a good number of individual buyers. After three years of relatively healthy activity, a growing number of accounts are getting involved. Put part of that down to a growing ESG movement in Canada and the recognition that many of the SSAs active in Canada have some legit credentials when it comes to environmental sustainability and advancement of key societal goals (e.g., promoting gender and income equality). Again, look to IADB’s recent Canadian Sustainable Development Bonds (SDBs) for colour and context; the CAD500mln 7Y was aligned with SDG#3 (good health & well-being) while the more recent CAD600mln 5Y was focused on SDG#13 (climate action). IBRD’s financing activities, in every currency, are likewise aligned with

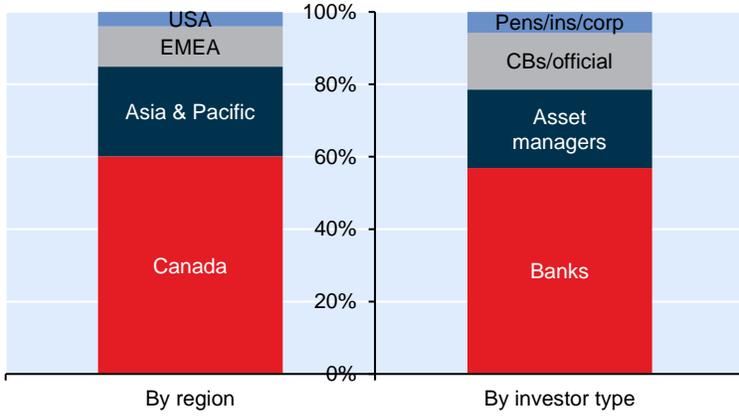
¹ For the purposes of this note, our SSA focus group encompasses roughly 50 non-sovereign, non-Canadian names, a distinct minority of which have

accessed the CAD bond market since 2010. The maple market can be defined more broadly, to include non-SSA issuers (e.g., financials and corporates).

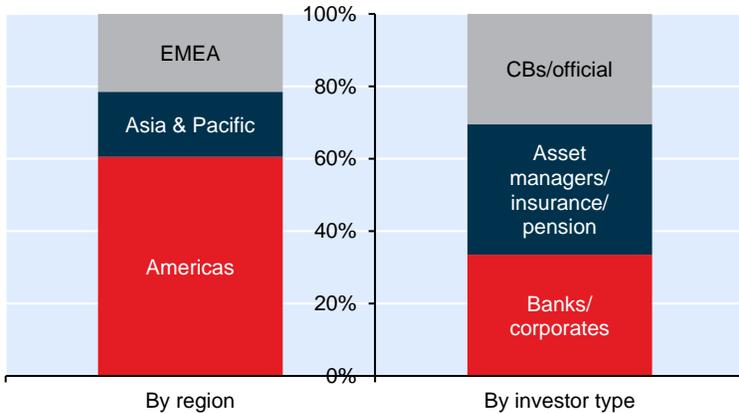
the UN's sustainability goals. Little wonder these deals attract such a steady stream of ESG investors.

Charts 3-4: SSA maple bond investor demographic

IADB: Distribution of 2020 maple bonds (2 deals=CAD1.1 billion total)



IBRD: Distribution of 2020 maple bonds (2 deals=CAD3.0 billion total)



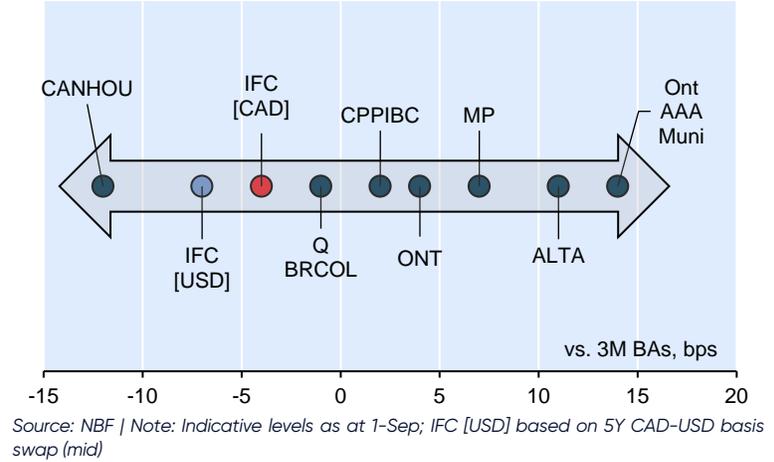
Source: NBF, IADB, IBRD | Note: Weighted average; IADB based on CAD600mln 5Y & CAD500mln 7Y both in Aug; IBRD based on two CAD1.5bn 5Y deals from Jan & Jun

What of valuation? Well, as the saying goes, everything is relative. This week's IFC 5-year, which came at mid-swaps -4 bps, priced largely in-line with last week's IADB 5-year. On the valuation spectrum, these deals effectively split the up-rights between the more-expensive CANHOU bonds (m/s -12 bps Tuesday for Canada sovereign risk) and higher-yielding Ontario debt (m/s +4 bps for this large, liquid provincial issuer, albeit one that's rated three-notches lower (on average) than top-tier SSAs). The give to the tightest provincial names (i.e., British Columbia and Quebec) would have been smaller, something like 3 bps on the IFC 5-year (Chart 5).

The ability to price demonstrably through the provincial curve could reflect (a) more stable intrinsic credit quality for SSAs vs. provincials, which is a theme we've highlighted repeatedly; (b) the willingness of ESG investors to pay up to access sustainable paper, call it a "greenium" if you like; (c) less apparent concern over maple bond liquidity, which in an earlier era might have been a more legitimate worry.

Chart 5: Placing SSA maples on valuation spectrum

Actual & indicative 5Y re-offer levels for recent IFC maple vs. comps: 1-Sep



Source: NBF | Note: Indicative levels as at 1-Sep; IFC [USD] based on 5Y CAD-USD basis swap (mid)

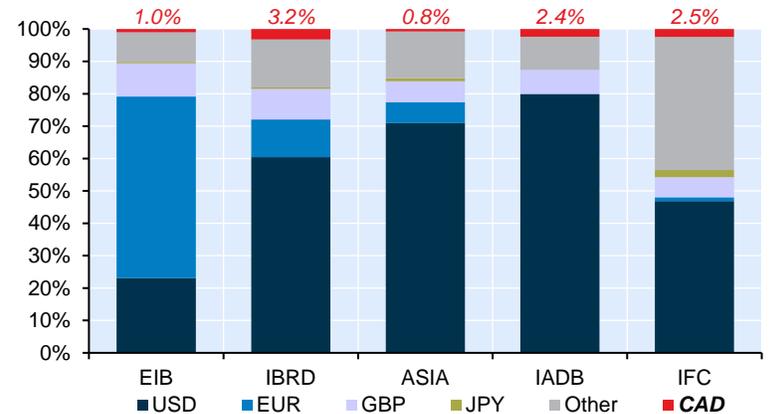
Another interesting aspect of maple pricing: recent deals have tended to come a bit back of where SSAs could indicatively fund themselves in the core USD market. In very broad strokes, and using mids on the 5-year CAD-USD basis swap, Tuesday's IFC trade might have been 3-4 bps wide of a corresponding new issue indication in the USD market. Why bother? Well, for the same reason Canadian provinces can and do pay up to access foreign currency markets, some of these SSA issuers have apparently taken the "investor diversification" argument to heart.

Look, no one's saying that ADB, IADB, IBRD, IFC, EIB or others are going to get the bulk of their funding done in CAD... it's a periphery currency for these global borrowers to be sure (Chart 6). But issuers and investors alike have placed some value on these SSA maple trades, adding growing vibrancy to this segment of the domestic bond market without legitimately cannibalizing demand for truly home-grown issuers.

Maple dip anyone? They've been going down relatively well.

Chart 6: CAD as a (limited) diversification tool

Distribution of bonds outstanding by major currency: Select SSA issuers



Source: NBF, Bloomberg | Note: Select SSA issuers ordered (left to right) by total bonds outstanding as at 2-Sep



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