

Market View – What's *another* \$100 billion between friends?

By Warren Lovely

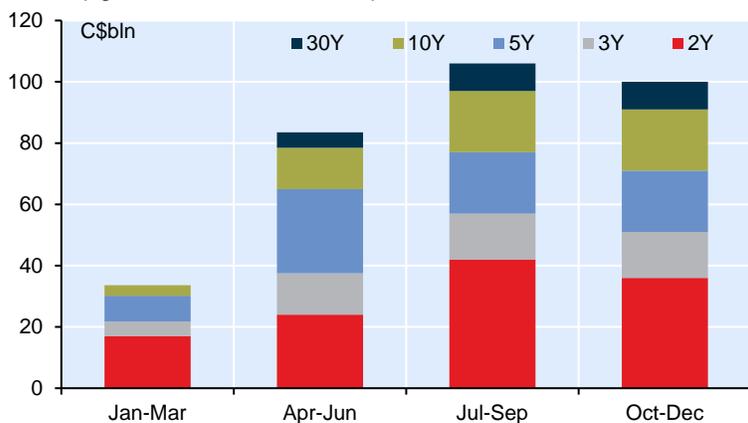
Somewhat lost in the unfolding political drama related to the *Speech from the Throne*—which, it's worth noting, triggered entirely predictable reactions from opposition parties and provincial premiers—the Government of Canada presented its *Quarterly Bond Schedule (QBS)* yesterday afternoon. It outlines when and where the feds will be issuing long-term debt. Here's what you might have missed...

First off, the coming quarter—which is the final quarter of the calendar year but is technically fiscal Q3 for the government—will be another busy one. The QBS outlined 20 regular, as in nominal, bond auctions for the three month period covering October to December, with a single real return bond auction thrown in for good measure (as per usual). Based on current auction sizes (C\$6 billion in 2s | C\$5 billion in 3s, 5s & 10s | C\$3 billion in 30s), the announced distribution of operations implies C\$100 billion of new nominal term debt for the coming quarter. That used to be enough to get Ottawa through almost a full fiscal year, but given the pandemic, now only covers the bills for a single quarter. Average term continues to extend. We'd ballpark the weighted average term at just under 7 years for the coming quarter vs. pre-COVID level of ~5 years.

We'll see what new costs the government straps on in an eventual fall update, but for the time being, gross supply is a touch below the prior quarter's peak. Note: July to September included 21 operations and total gross issuance (nominal) of C\$106 billion. Most comforting of all (in a sense) is that the BoC is absorbing the *vast majority* of the new bond supply. Consider this: the BoC takes 13% directly at auction; then there's the big-time QE effort, which at C\$5 billion a week sums to C\$65 billion for the quarter; finally, there's a single maturity in the coming quarter, which will further limit the net amount of bonds hitting the Street. Given those subtractions, the C\$100 billion of gross supply will require dealers and end investors to clean up less than C\$20 billion net (or <1% of GDP). The significance of the BoC can't be overstated. By our calcs, BoC holdings of GoC nominal bonds will be around C\$315 billion by end of December, propelling the central bank's ownership share of outstanding nominal bonds to ~40%. Such big-time BoC buying (a) eases concern over a supply-induced back-up in GoC yields and/or material steepening of the curve; (b) leaves ample space for provincial governments and other issues to feed bond investors still hungry for product. So what's another C\$100 billion when you're dealing with a crisis and when your central bank is (at least for now) covering 80 cents on the dollar!?

Chart 1: C\$100bln coming in Oct-Dec quarter

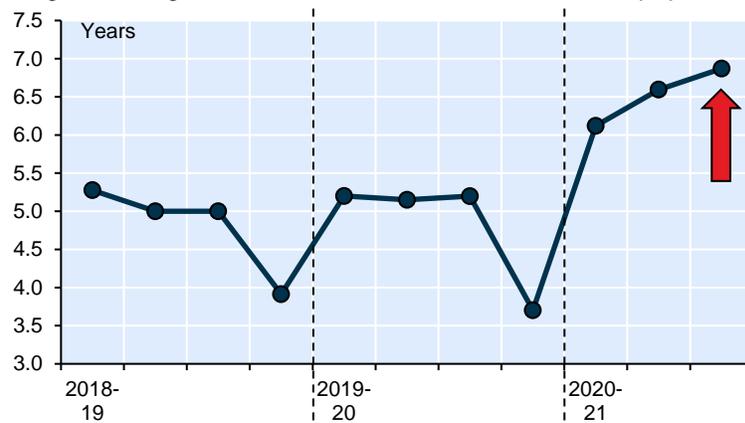
Quarterly gross GoC bond issuance by tenor (nominal auctions): 2020



Source: NBF, BoC | Note: Oct-Dec quarter is NBF estimate based on current auction sizes

Chart 2: GoC term extension continues

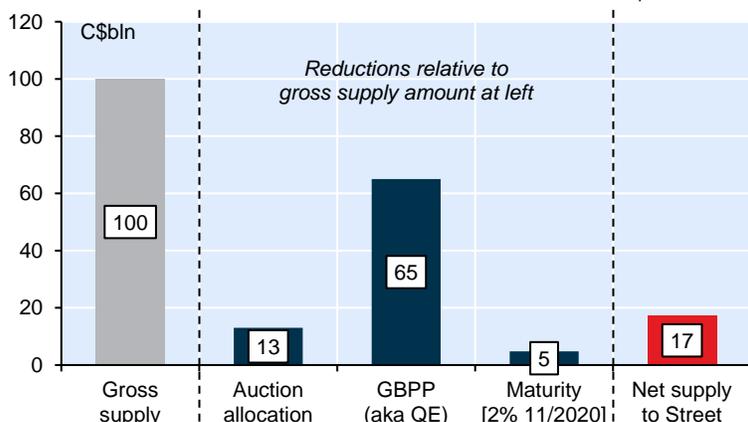
Weighted average term of nominal GoC bond auctions: Quarterly by FY



Source: NBF, BoC | Note: Final data point relates to Oct-Dec quarter & is NBF estimate

Chart 3: BIG in gross terms, but SMALL net of BoC

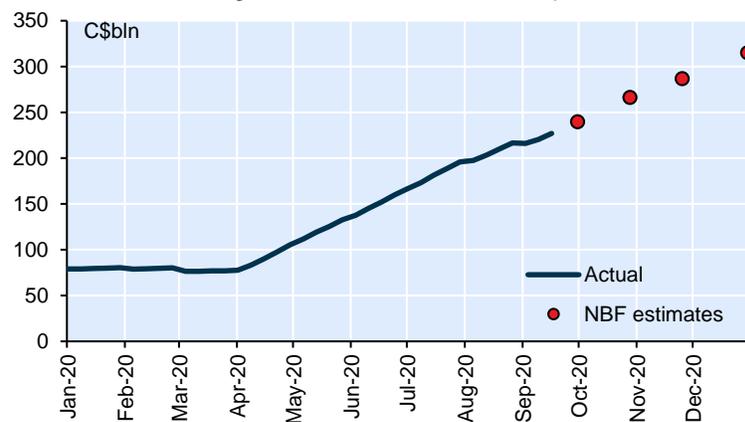
Gross & net GoC nominal bond issuance: October to December quarter



Source: NBF, BoC | Net: NBF calculations; auction allocation assumes 13%; GBPP assumes C\$5bln/week; maturing amount excludes BoC holdings (acquired at auction & via GBPP)

Chart 4: BoC holdings of GoC bonds up and up

Bank of Canada holdings of nominal GoC bonds: Weekly incl. estimates



Source: NBF, BoC | Note: Weekly data to 16-Sep; NBF estimates are at month end; assume 13% auction allocation, C\$5bln/week for GBPP & control for Nov-2020 maturity

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