

## Market View – GoC Issuance: Total lower, term higher

By Taylor Schleich

Yesterday afternoon, the Bank of Canada released its Quarterly Bond Schedule (QBS) for the fourth fiscal quarter of the year. This document comes in the wake of the Government of Canada’s Fall Economic Statement (FES) which signalled a decline in bond issuance relative to earlier guidance. It’s unsurprising then that the number of GoC bond auctions to come in the January–March period looks to be a touch lighter than the outgoing quarter. Indeed, there will be two fewer auctions over the next three months (19 in total), with the decline coming at the expense of the short-end of the curve (1 fewer 2-year and 1 fewer 3-year auction). Auction frequency 5-years and out will remain unchanged, consistent with the government’s commitment to “term out” its bond stock—a trend we’ve been seeing play out over the past few quarters (Chart 1).

Unfortunately, the QBS does not provide auction sizes so pinning down the exact amount of gross issuance with 100% precision is impossible. However, we can arrive at a decent estimate using recent auctions sizes as well as the earlier-mentioned FES. Applying the latest auction amounts to the schedule released yesterday would imply gross nominal issuance of \$78 billion (plus an expected \$300 million RRB auction)—a deceleration of nearly \$20 billion from October–December. We’d note however, that the FES signalled total gross nominal issuance for the fiscal year to be \$374 billion and our estimated fiscal Q4 total would bring gross nominal issuance to just \$364.5 billion—~\$10 billion shy of the target. And given that the FES lays out targeted issuance for each tenor, we can see that it’s the 2-year and 3-year sectors where the discrepancy between our estimate and the end-of-fiscal-year target lies. This implies two potential paths from here: (1) 2-year and 3-year auction sizes need to be lifted by \$800 million and \$2.25 billion, respectively to reach target; or (2) the \$374 billion target won’t actually be achieved. While the FES was only released a few weeks ago, it seems that second option is more likely, or we wouldn’t have seen the 2-year and 3-year auctions cut from the coming quarter’s schedule.

In any event, the January–March quarter will mark a step down in total issuance (Chart 2). But don’t expect a further slowing as we move into 2021–22. [As we wrote in the aftermath of the new FES](#), we expect issuance in 2021–22 to come in north of \$300 billion again thanks to the government’s underlying financial requirements, \$100+ billion in maturing bonds to be refinanced and an expected (but not yet telegraphed) paring of the treasury bill stock. So while the federal deficit may come crashing lower next year, an elevated bond program is likely here to stay.

**Table 1: Visualizing next quarter’s QBS**

Auction dates for each of the BoC’s tenors of issuance in 2020–21: Q4

Tenor	January	February	March
2Y	13-Jan	3-Feb   17-Feb	3-Mar   15-Mar
3Y	-	24-Feb	22-Mar
5Y	14-Jan	11-Feb	9-Mar   31-Mar
10Y	7-Jan   28-Jan	-	4-Mar   25-Mar
30Y	21-Jan	25-Feb	18-Mar
RRB	-	10-Feb	-
Count	5 auctions	6 auctions	8 auctions

Source: NBF, BoC

**Table 2: Issuance this year may fall short of target**

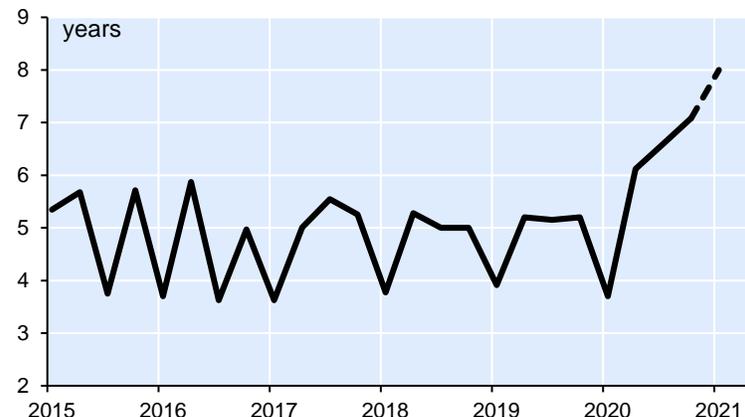
Pre COVID and 2020–21 gross nominal issuance & targets from November FES

	2010-19	2020	2020	2020	2021	2020-21	2020-21
	Average	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Full Year	From FES
2Y	11.1	24.0	42.0	34.0	25.0	125.0	129.0
3Y	4.0	13.5	15.0	16.0	8.0	52.5	57.0
5Y	6.2	27.5	20.0	18.0	16.0	81.5	82.0
10Y	3.3	13.5	20.0	20.0	20.0	73.5	74.0
30Y	1.0	5.0	9.0	9.0	9.0	32.0	32.0
Total	25.7	83.5	106.0	97.0	78.0	364.5	374.0

Source: NBF, BoC, GoC | Note: Jan-Mar estimated using QBS & most recent auction sizes

**Chart 1: GoC’s effort to ‘term out’ clearly visible**

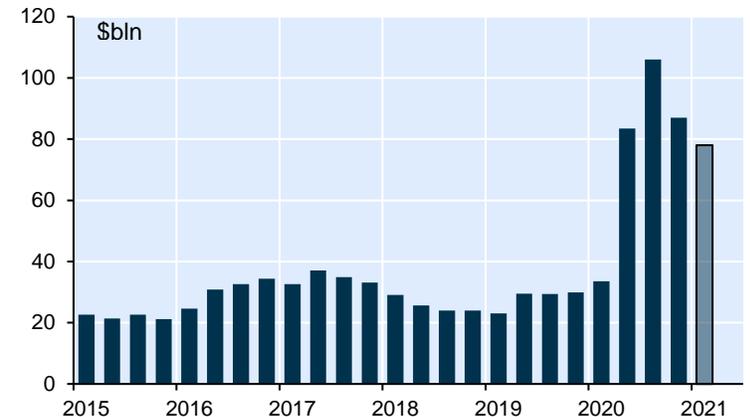
Weighted average term of issuance by fiscal quarter



Source: NBF, BoC | Note: Jan-Mar 2021 estimated using QBS & most recent auction sizes

**Chart 2: Issuance stepping down, but still elevated**

Gross nominal GoC issuance by fiscal quarter



Source: NBF, BoC | Note: Jan-Mar 2021 estimated using QBS & most recent auction sizes



## Economics and Strategy

### Montreal Office 514-879-2529

**Stéfane Marion**

*Chief Economist and Strategist*  
stefane.marion@nbc.ca

**Matthieu Arseneau**

*Deputy Chief Economist*  
matthieu.arseneau@nbc.ca

**Paul-André Pinonnault**

*Senior Economist*  
paulandre.pinonnault@nbc.ca

**Marc Pinsonneault**

*Senior Economist*  
marc.pinsonneault@nbc.ca

**Angelo Katsoras**

*Geopolitical Analyst*  
angelo.katsoras@nbc.ca

**Kyle Dahms**

*Economist*  
kyle.dahms@nbc.ca

**Jocelyn Paquet**

*Economist*  
jocelyn.paquet@nbc.ca

**Alexandra Ducharme**

*Intern Economist*  
alexandra.ducharme@nbc.ca

### Toronto Office 416-869-8598

**Warren Lovely**

*Chief Rate Strategist, Economics and Strategy*  
warren.lovely@nbc.ca

**Taylor Schleich**

*Associate, Rates Strategist, Economics and Strategy*  
taylor.schleich@nbc.ca

### General

This Report was prepared by National Bank Financial, Inc. (NBF), (a Canadian investment dealer, member of IIROC), an indirect wholly owned subsidiary of National Bank of Canada. National Bank of Canada is a public company listed on the Toronto Stock Exchange.

The particulars contained herein were obtained from sources which we believe to be reliable but are not guaranteed by us and may be incomplete and may be subject to change without notice. The information is current as of the date of this document. Neither the author nor NBF assumes any obligation to update the information or advise on further developments relating to the topics or securities discussed. The opinions expressed are based upon the author(s) analysis and interpretation of these particulars and are not to be construed as a solicitation or offer to buy or sell the securities mentioned herein, and nothing in this Report constitutes a representation that any investment strategy or recommendation contained herein is suitable or appropriate to a recipient's individual circumstances. In all cases, investors should conduct their own investigation and analysis of such information before taking or omitting to take any action in relation to securities or markets that are analyzed in this Report. The Report alone is not intended to form the basis for an investment decision, or to replace any due diligence or analytical work required by you in making an investment decision.

This Report is for distribution only under such circumstances as may be permitted by applicable law. This Report is not directed at you if NBF or any affiliate distributing this Report is prohibited or restricted by any legislation or regulation in any jurisdiction from making it available to you. You should satisfy yourself before reading it that NBF is permitted to provide this Report to you under relevant legislation and regulations.

National Bank of Canada Financial Markets is a trade name used by National Bank Financial and National Bank of Canada Financial Inc.

### Canadian Residents

NBF or its affiliates may engage in any trading strategies described herein for their own account or on a discretionary basis on behalf of certain clients and as market conditions change, may amend or change investment strategy including full and complete divestment. The trading interests of NBF and its affiliates may also be contrary to any opinions expressed in this Report.

NBF or its affiliates often act as financial advisor, agent or underwriter for certain issuers mentioned herein and may receive remuneration for its services. As well NBF and its affiliates and/or their officers, directors, representatives, associates, may have a position in the securities mentioned herein and may make purchases and/or sales of these securities from time to time in the open market or otherwise. NBF and its affiliates may make a market in securities mentioned in this Report. This Report may not be independent of the proprietary interests of NBF and its affiliates.

This Report is not considered a research product under Canadian law and regulation, and consequently is not governed by Canadian rules applicable to the publication and distribution of research Reports, including relevant restrictions or disclosures required to be included in research Reports.



### UK Residents

This Report is a marketing document. This Report has not been prepared in accordance with EU legal requirements designed to promote the independence of investment research and it is not subject to any prohibition on dealing ahead of the dissemination of investment research. In respect of the distribution of this Report to UK residents, NBF has approved the contents (including, where necessary, for the purposes of Section 21(1) of the Financial Services and Markets Act 2000). This Report is for information purposes only and does not constitute a personal recommendation, or investment, legal or tax advice. NBF and/or its parent and/or any companies within or affiliates of the National Bank of Canada group and/or any of their directors, officers and employees may have or may have had interests or long or short positions in, and may at any time make purchases and/or sales as principal or agent, or may act or may have acted as market maker in the relevant investments or related investments discussed in this Report, or may act or have acted as investment and/or commercial banker with respect hereto. The value of investments, and the income derived from them, can go down as well as up and you may not get back the amount invested. Past performance is not a guide to future performance. If an investment is denominated in a foreign currency, rates of exchange may have an adverse effect on the value of the investment. Investments which are illiquid may be difficult to sell or realise; it may also be difficult to obtain reliable information about their value or the extent of the risks to which they are exposed. Certain transactions, including those involving futures, swaps, and other derivatives, give rise to substantial risk and are not suitable for all investors. The investments contained in this Report are not available to retail customers and this Report is not for distribution to retail clients (within the meaning of the rules of the Financial Conduct Authority). Persons who are retail clients should not act or rely upon the information in this Report. This Report does not constitute or form part of any offer for sale or subscription of or solicitation of any offer to buy or subscribe for the securities described herein nor shall it or any part of it form the basis of or be relied on in connection with any contract or commitment whatsoever.

This information is only for distribution to Eligible Counterparties and Professional Clients in the United Kingdom within the meaning of the rules of the Financial Conduct Authority. NBF is authorised and regulated by the Financial Conduct Authority and has its registered office at 71 Fenchurch Street, London, EC3M 4HD.

NBF is not authorised by the Prudential Regulation Authority and the Financial Conduct Authority to accept deposits in the United Kingdom.

### U.S. Residents

With respect to the distribution of this report in the United States of America, National Bank of Canada Financial Inc. ("NBCFI") which is regulated by the Financial Industry Regulatory Authority (FINRA) and a member of the Securities Investor Protection Corporation (SIPC), an affiliate of NBF, accepts responsibility for its contents, subject to any terms set out above. To make further inquiry related to this report, or to effect any transaction, United States residents should contact their NBCFI registered representative.

This report is not a research report and is intended for Major U.S. Institutional Investors only.

This report is not subject to U.S. independence and disclosure standards applicable to research reports.

### HK Residents

With respect to the distribution of this report in Hong Kong by NBC Financial Markets Asia Limited ("NBCFMA") which is licensed by the Securities and Futures Commission ("SFC") to conduct Type 1 (dealing in securities) and Type 3 (leveraged foreign exchange trading) regulated activities, the contents of this report are solely for informational purposes. It has not been approved by, reviewed by, verified by or filed with any regulator in Hong Kong. Nothing herein is a recommendation, advice, offer or solicitation to buy or sell a product or service, nor an official confirmation of any transaction. None of the products issuers, NBCFMA or its affiliates or other persons or entities named herein are obliged to notify you of changes to any information and none of the foregoing assume any loss suffered by you in reliance of such information.

The content of this report may contain information about investment products which are not authorized by SFC for offering to the public in Hong Kong and such information will only be available to, those persons who are Professional Investors (as defined in the Securities and Futures Ordinance of Hong Kong ("SFO")). If you are in any doubt as to your status you should consult a financial adviser or contact us. This material is not meant to be marketing materials and is not intended for public distribution. Please note that neither this material nor the product referred to is authorized for sale by SFC. Please refer to product prospectus for full details.

There may be conflicts of interest relating to NBCFMA or its affiliates' businesses. These activities and interests include potential multiple advisory, transactional and financial and other interests in securities and instruments that may be purchased or sold by NBCFMA or its affiliates, or in other investment vehicles which are managed by NBCFMA or its affiliates that may purchase or sell such securities and instruments.

No other entity within the National Bank of Canada group, including National Bank of Canada and National Bank Financial Inc, is licensed or registered with the SFC. Accordingly, such entities and their employees are not permitted and do not intend to: (i) carry on a business in any regulated activity in Hong Kong; (ii) hold themselves out as carrying on a business in any regulated activity in Hong Kong; or (iii) actively market their services to the Hong Kong public.

### Copyright

This Report may not be reproduced in whole or in part, or further distributed or published or referred to in any manner whatsoever, nor may the information, opinions or conclusions contained in it be referred to without in each case the prior express written consent of NBF.