

C\$ bond issuance: Ready, set, fund!

By Warren Lovely / Taylor Schleich

You know that old expression, “it’s a marathon not a sprint”? Well, when it comes to C\$ bond issuance, it just might be both, as a relatively brisk pace of supply will likely need to be maintained throughout 2021 and beyond. Here, we offer some high-level perspective on how much bond supply to expect this calendar year (and from which issuers/sectors).

Government of Canada – Let’s get some caveats out of the way. First, Ottawa structures its bond program on a fiscal year basis, whereas our focus here is calendar year. Second, there remains tremendous uncertainty as it relates to federal finances. Third, the GoC bond program could be heavily influenced by changes in short-term outstandings, since T-bills comprise a larger share of federal debt. Last year saw just over C\$320 billion of domestic Canada bonds auctioned. Converting our earlier forward-looking analysis ([link](#)) to calendar 2021 might imply a near-steady pacing (i.e., C\$315 billion gross GoC supply for 2021). If there aren’t as many T-bills to term out (as appears likely), bond supply could be biased lower. Of course, marginal federal action tied to fresh virus restrictions could add to requirements. Notwithstanding these moving pieces, it’s almost certain more risk will be auctioned in 2021, as the average term of supply is stepping out (5.4 years in 2019, 6.4 years in 2020 and a projected 8.1 years in 2021). How meaningful is net supply to end investors? Well there’s an enormous wild card in the form of BoC QE pacing. At the current C\$4 billion weekly clip, the C\$315 billion of gross supply we’re talking about wouldn’t leave even a single bond available to end investors, net of maturities (i.e., the overall increase in BoC holdings would more than offset net bond supply). Refer to Chart 1. Thus, the BoC ownership share will continue to march higher unless (or until) the QE pace moderates, as we firmly believe it must (Chart 2). Since the GoC will auction more risk, the BoC could slow its QE pace while continuing to provide disproportionate support via a longer average term of purchases. All this to say, there’s seemingly a heaping plate of GoC bonds to be served up in 2021. But only scraps will be available to end investors after the BoC is finished. This ongoing scarcity of net product will serve to limit the back-up in yields, *ceteris paribus*. In terms of novel developments, 2021 looks to kick off Canada’s sovereign green bond program, with more details to come this spring.

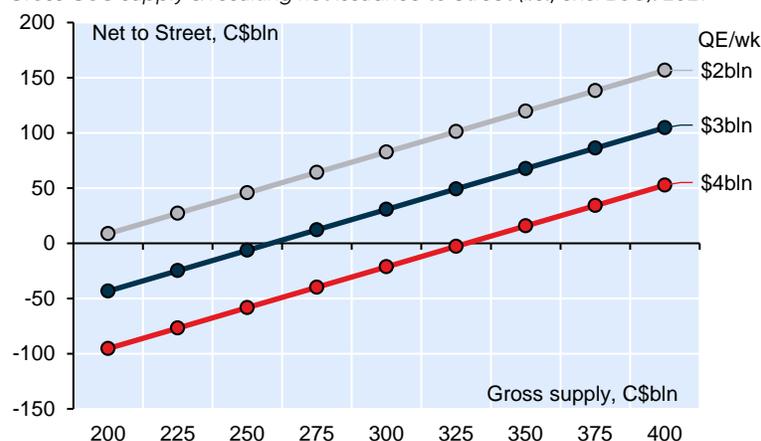
Canada Mortgage Bonds – In case you missed the official announcement over the holidays, CMHC has reverted to a C\$40 billion annual limit for new CMB guarantees. So this is one area where 2021 gross supply will be stepping down materially, relative to the C\$53 billion minted last year. The BoC may have discontinued its CMB purchase program but strip out maturities and net supply will be immaterial. Moreover, the concentrated nature of CMB maturities/cash flows will once again trigger a few key periods of outsized investor demand and related term extension trades, the first coming mid-March. Consistent with Canada’s broader ESG movement, CMHC is considering a sustainability bond.

Provincial governments – We’ve outlined our thinking on provincial bond supply a few times already (including [here](#)). Gross supply looks to be taking aim at C\$150 billion in 2021—not too dissimilar from what was issued in calendar 2020. Official guidance (admittedly on a fiscal year basis) showed larger requirements in Ontario and Québec, against smaller needs for Alberta. Of course, there’s quite a bit of uncertainty related to the fiscal outlook, so borrowing guidance could evolve materially in spring budgets. As it stands, our ~C\$150 billion calendar year projection refers to issuance in *all currencies*. A non-trivial slice (25-30%) looks to be diverted to international markets, a movement that kicked off last week via an Ontario sterling trade. Call it ~C\$110 billion in domestic provincial issuance for calendar 2021, or roughly C\$9 billion/month on average, remaining roughly double the pre-virus run rate. There’s only C\$33 billion of domestic provincials maturing this year, so net supply (C\$75+ billion or 3½% of GDP) would be nothing to sneeze at. Mind you, with the BoC cleaning up so much GoC supply (and also still buying provi bonds direct), we anticipate ample underlying investor demand for provis in 2021, resulting in tighter not wider spreads a year from now.

Municipal governments – In muni land, it tends to be about capital programs and (in select cases) refinancing requirements. We see C\$5.5-6.5 billion of gross municipal bond supply for 2021. That’s syndicated supply, excluding Québec muni auctions. There’s a bit less than C\$4 billion of muni bonds maturing this year. Implied net issuance, at C\$2+ billion, could land a bit north of the pre-COVID trend (which was closer to C\$1.5 billion) but would not materially pressure the muni basis in our opinion. To us, munis remain a low-risk avenue for securing marginal spread.

Chart 1: How many GoC bonds to Street? Little to none

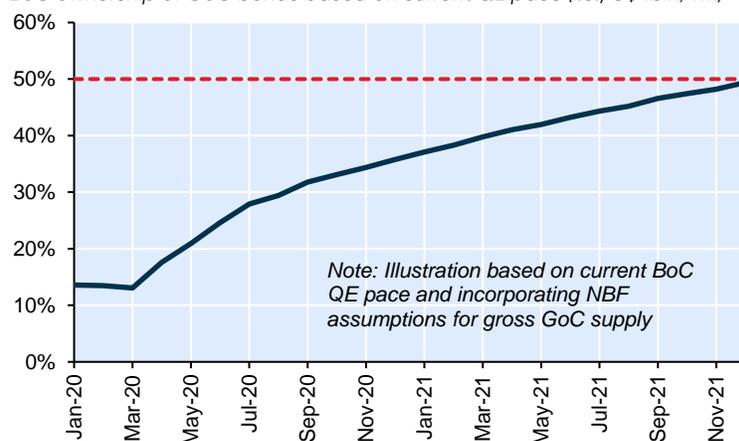
Gross GoC supply & resulting net issuance to Street (i.e., excl BoC): 2021



Source: NBF, Bank of Canada | Note: Lines refer to different QE scenarios

Chart 2: BoC’s footprint risks getting too heavy

BoC ownership of GoC bonds based on current QE pace (i.e., C\$4bn/wk)



Note: Illustration based on current BoC QE pace and incorporating NBF assumptions for gross GoC supply

Source: NBF, Bank of Canada | Note: Share of outstanding GoC domestic bonds

Table: Historical perspective on Canada's domestic bond issuance (select sectors)

Gross C\$ bond supply by sector/issuer/tenor: Latest three months to December 2020 & calendar year totals for reference

NBF Domestic Bond Tracker								
C\$billion	Monthly issuance			Prior yr	Calendar year sum			
	Dec-20	Nov-20	Oct-20	Dec-19	2020	2019	2018	2017
Government of Canada	21.4	24.0	52.0	3.0	321.2	114.0	105.0	139.9
2Y	5.0	15.0	14.0	3.0	117.0	48.0	49.2	61.5
3Y	4.0	-	12.0	-	49.3	16.4	11.7	25.7
5Y	4.0	4.0	10.0	-	73.9	30.6	25.4	30.7
10Y	5.0	5.0	10.0	-	56.9	12.6	13.5	15.0
30Y Nominal	3.0	-	6.0	-	23.0	4.2	3.0	3.5
30Y RRB	0.4	-	-	-	1.1	2.2	2.2	2.2
Weighted avg term (yrs)	9.1	4.2	7.6	2.0	6.4	5.4	5.3	5.2
Canada Housing Trust	5.5	6.3	-	5.3	53.0	40.0	39.8	40.0
5Y Fixed	5.5	-	-	5.3	32.0	21.5	21.5	21.0
5Y FRN	-	2.0	-	-	6.0	9.8	9.5	9.8
10Y Fixed	-	4.3	-	-	15.0	8.8	8.8	9.3
Provincial governments	5.6	6.3	4.1	2.1	108.3	57.8	60.4	54.6
Ontario	1.6	2.0	2.3	0.8	40.7	25.3	26.7	22.7
Québec	1.7	2.7	0.6	0.5	24.2	14.4	11.5	11.6
British Columbia	1.0	-	0.5	0.5	10.3	2.9	3.5	2.5
<i>Big-3 (Ont, Qué, BC)</i>	<i>4.3</i>	<i>4.7</i>	<i>3.4</i>	<i>1.8</i>	<i>75.2</i>	<i>42.6</i>	<i>41.7</i>	<i>36.7</i>
Alberta	0.8	-	0.7	-	15.4	5.7	7.0	8.5
Saskatchewan	-	0.6	-	-	4.3	1.9	2.6	3.0
Newfoundland & Lab.	0.5	0.3	-	-	3.0	1.6	1.9	1.1
<i>Oil-levered (Alta, Sask, N&L)</i>	<i>1.3</i>	<i>0.9</i>	<i>0.7</i>	<i>-</i>	<i>22.6</i>	<i>9.2</i>	<i>11.4</i>	<i>12.5</i>
Manitoba	-	0.3	-	0.3	5.8	2.9	5.4	3.3
Maritimes (NB, NS, PEI)	-	0.4	-	-	4.7	3.2	2.0	2.1
Public	5.6	6.3	4.1	2.1	102.9	55.7	54.1	49.2
Private / MTN / Auctions	-	-	-	-	5.3	2.0	6.3	5.5
Fixed	5.6	6.3	4.1	2.1	107.5	57.1	55.1	50.6
Floating	-	-	-	-	0.8	0.6	5.3	4.0
1-5Y	-	1.0	-	-	23.5	7.0	11.9	8.8
6-10Y	4.0	2.8	3.6	1.8	49.8	24.9	25.5	21.8
>10Y (i.e. longs)	1.6	2.6	0.5	0.3	35.1	25.9	23.1	24.0
Weighted avg term (yrs)	10.5	17.0	15.7	21.4	16.4	19.3	17.2	18.5
<i>International issuance</i>	<i>0.1</i>	<i>3.9</i>	<i>3.6</i>	<i>-</i>	<i>40.9</i>	<i>27.8</i>	<i>20.4</i>	<i>29.6</i>
<i>Prov'l total (incl non-C\$)</i>	<i>5.6</i>	<i>10.2</i>	<i>7.7</i>	<i>2.1</i>	<i>149.2</i>	<i>85.5</i>	<i>80.9</i>	<i>84.3</i>
Municipal governments	0.1	-	0.7	0.1	5.4	5.3	5.1	4.0

Notes: Figures represent gross bond supply; issuance totals based on par amount; deals recorded as per issue date; unless otherwise noted, figures refer to C\$-denominated issues only; provincial figures include issuance by guaranteed entities; provincial international issuance presented for reference purposes, converted to C\$-equivalent amounts at prevailing exchange rates; municipal government issuance refers to publically syndicated deals only
Source: NBF, Bank of Canada, provincial governments, Bloomberg



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