

Domestic Bond Tracker: What a difference a year makes

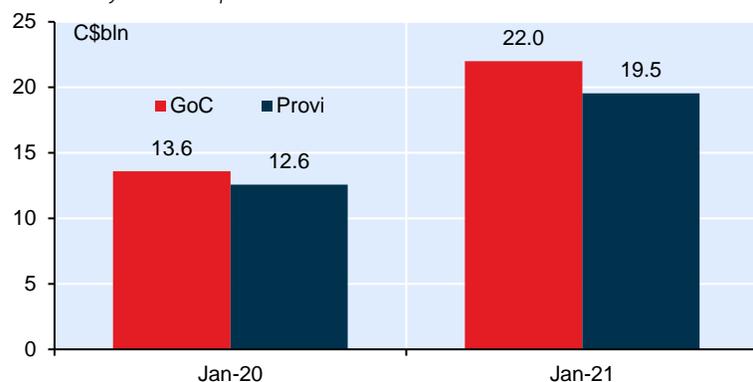
By Taylor Schleich/Warren Lovely

The world today is a drastically different place than a year ago, with radical transformation fully extending to bond markets. Last month (i.e., January 2021), Canada's federal government and its provinces collectively raised over \$40 billion from debt capital markets (Chart 1), blowing away the prior issuance records for that month. Although unprecedented, the overall volume of primary issuance shouldn't really come as a shock to anyone, as governments continue to aggressively fight and fund the nearly year-long battle versus COVID-19. What's more interesting, in our view, is the ongoing *recomposition* of government bond issuance.

The age-old tradition of the feds controlling the shorter end of the domestic bond curve and the provinces hanging out in relatively longer tenors has been upended (to a degree) in the aftermath of COVID-19. Take January as a prime example. In the domestic market, the Government of Canada weighted average term, at fully 10 years, was roughly double that recorded a year ago. Meanwhile, the average term on domestic provincial issuance stepped down to 14 years in January. This time last year, the provinces were printing 16-year debt on average. This isn't just a one-off, single-month story either. The weighted average term of 2020 issuance was a full year longer for the Government of Canada and nearly three years shorter for the provinces compared to 2019 (with shifts even more drastic in the back half of the year). Why are we seeing this shift? For one, the GoC has made a clear commitment to lock in record-low interest rates (Chart 3) by terming out its debt stock, disrupting the near-monopoly the provinces long enjoyed in terms of supplying high-grade liquid bonds to longer-term investors. Meanwhile, the BoC's Provincial Bond Purchase Program has been removing exclusively 10-year-and-under paper from the market, leaving some residual investor demand here. Then there's the worry over an inflation-fueled back-up in rates that has left some leery of duration, all else equal. Collectively, these factors have, at the margin, resulted in steeper yield and credit curves (Chart 3) and pushed provinces into relatively shorter terms of issuance than what we routinely saw pre-virus. Provinces may not be printing as large a share of their paper in the long end, but demand hasn't been a problem when you factor in a highly engaged international investor base. Indeed, January was the second largest month of international issuance for the provinces on record (Chart 4). By tapping foreign markets, provinces have rapidly accelerated funding programs, with Quebec and Ontario now both actively pre-funding against a sizeable underlying requirement for 2021-22.

Chart 1: Funding volumes surge year-on-year...

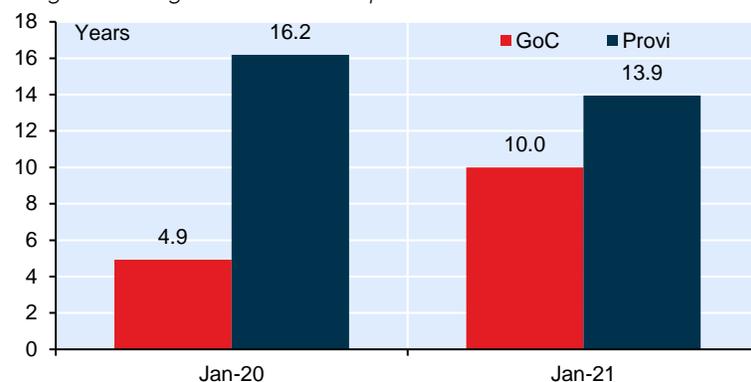
All currency GoC and provincial issuance: Jan-20 vs. Jan-21



Source: NBF, Bloomberg, Bank of Canada

Chart 2: ...while funding durations converge

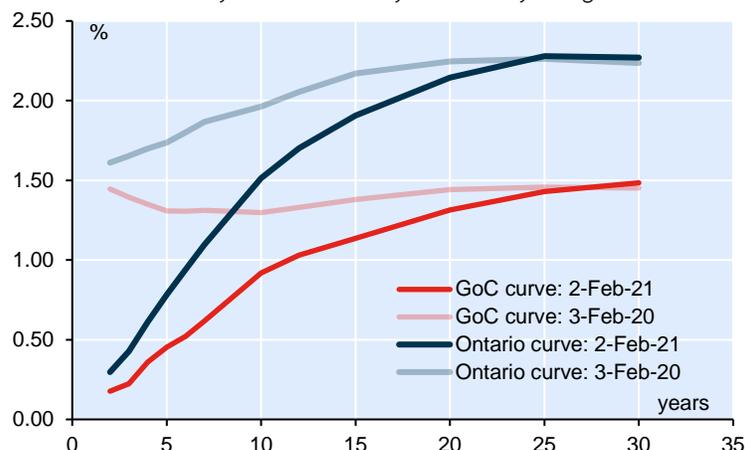
Weighted average term of GoC and provincial issuance: Jan-20 vs. Jan-21



Source: NBF, Bloomberg, Bank of Canada

Chart 3: Lower yield curves = lower borrowing costs

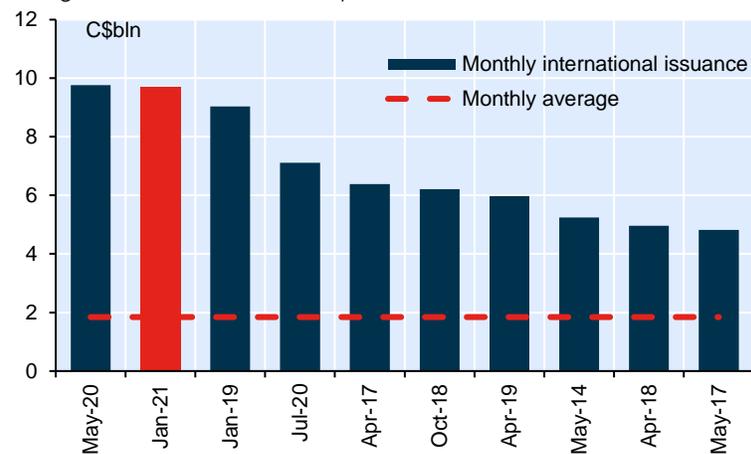
Canada and Ontario yield curves: Today versus one year ago



Source: NBF

Chart 4: January was a near record month for int'l issuance

10 largest months of international provincial issuance since 2010



Source: NBF, Bloomberg | Note: All currencies converted to CAD as of issue date

Table: Monitoring primary market activity in Canada's bond market

Monthly and year-to-date bond supply by sector, issuer, tenor/bucket

NBF Domestic Bond Tracker									
C\$billion	Monthly issuance			Prior yr	Calendar year-to-date		Calendar year sum		
	Jan-21	Dec-20	Nov-20	Jan-20	2021	2020	2020	2019	2018
Government of Canada	22.0	21.4	24.0	13.6	22.0	13.6	321.2	114.0	105.0
2Y	5.0	5.0	15.0	6.0	5.0	6.0	117.0	48.0	49.2
3Y	-	4.0	-	-	-	-	49.3	16.4	11.7
5Y	4.0	4.0	4.0	4.2	4.0	4.2	73.9	30.6	25.4
10Y	10.0	5.0	5.0	3.4	10.0	3.4	56.9	12.6	13.5
30Y Nominal	3.0	3.0	-	-	3.0	-	23.0	4.2	3.0
30Y RRB	-	0.4	-	-	-	-	1.1	2.2	2.2
Extra-long	-	-	-	-	-	-	-	-	-
Weighted avg term (yrs)	10.0	9.1	4.2	4.9	10.0	4.9	6.4	5.4	5.3
Canada Housing Trust	-	5.5	6.3	-	-	-	53.0	40.0	39.8
5Y Fixed	-	5.5	-	-	-	-	32.0	21.5	21.5
5Y FRN	-	-	2.0	-	-	-	6.0	9.8	9.5
10Y Fixed	-	-	4.3	-	-	-	15.0	8.8	8.8
Provincial governments	9.9	5.6	6.3	8.7	9.9	8.7	108.3	57.8	60.4
Ontario	4.7	1.6	2.0	4.5	4.7	4.5	40.7	25.3	26.7
Québec	2.3	1.7	2.7	2.0	2.3	2.0	24.2	14.4	11.5
British Columbia	0.5	1.0	-	-	0.5	-	10.3	2.9	3.5
<i>Big-3 (Ont, Qué, BC)</i>	<i>7.5</i>	<i>4.3</i>	<i>4.7</i>	<i>6.5</i>	<i>7.5</i>	<i>6.5</i>	<i>75.2</i>	<i>42.6</i>	<i>41.7</i>
Alberta	1.6	0.8	-	0.7	1.6	0.7	15.4	5.7	7.0
Saskatchewan	-	-	0.6	0.3	-	0.3	4.3	1.9	2.6
Newfoundland & Lab.	-	0.5	0.3	-	-	-	3.0	1.6	1.9
<i>Oil-levered (Alta, Sask, N&L)</i>	<i>1.6</i>	<i>1.3</i>	<i>0.9</i>	<i>1.0</i>	<i>1.6</i>	<i>1.0</i>	<i>22.6</i>	<i>9.2</i>	<i>11.4</i>
Manitoba	0.3	-	0.3	0.6	0.3	0.6	5.8	2.9	5.4
Maritimes (NB, NS, PEI)	0.5	-	0.4	0.6	0.5	0.6	4.7	3.2	2.0
Public	9.9	5.6	6.3	7.4	9.9	7.4	102.9	55.7	54.1
Private / MTN / Auctions	-	-	-	1.3	-	1.3	5.3	2.0	6.3
Fixed	9.9	5.6	6.3	8.7	9.9	8.7	107.5	57.1	55.1
Floating	-	-	-	-	-	-	0.8	0.6	5.3
1-5Y	-	-	1.0	1.0	-	1.0	23.5	7.0	11.9
6-10Y	7.9	4.0	2.8	5.1	7.9	5.1	49.8	24.9	25.5
>10Y (i.e. longs)	2.0	1.6	2.6	2.6	2.0	2.6	35.1	25.9	23.1
Weighted avg term (yrs)	13.9	15.9	19.0	16.2	13.9	16.2	16.4	19.3	17.2
<i>International issuance</i>	<i>9.7</i>	<i>0.1</i>	<i>3.9</i>	<i>3.9</i>	<i>9.7</i>	<i>3.9</i>	<i>40.9</i>	<i>27.8</i>	<i>20.4</i>
<i>Prov'l total (incl non-C\$)</i>	<i>19.5</i>	<i>5.6</i>	<i>10.2</i>	<i>12.6</i>	<i>19.5</i>	<i>12.6</i>	<i>149.2</i>	<i>85.5</i>	<i>80.9</i>
Municipal governments	0.4	0.1	-	-	0.4	-	5.4	5.3	5.1

* May-2017 also saw C\$2.9bln of federally guaranteed bonds issued in conjunction with Muskrat Falls project in N&L, primarily serials, maturities out to 2057

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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