

## This is 40 (percent ownership of GoC bond market)

By Warren Lovely/Taylor Schleich

With the settlement of its latest tranche of Government of Canada bond purchases, the Bank of Canada today (April 6<sup>th</sup>) owns precisely C\$343.8 billion of GoC bonds. At this moment, there are C\$862.1 billion of domestic Canada bonds floating around, which means the BoC ownership share is now within a hair's breadth of 40%. That psychological threshold looks to be technically breached Friday, April 9<sup>th</sup>.

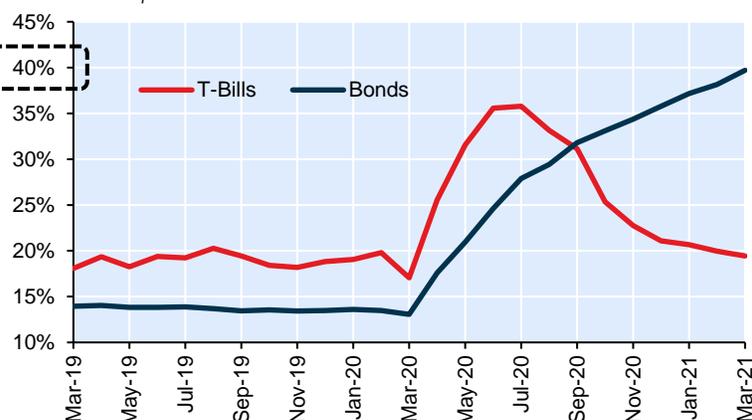
So this is 40, and we thought it appropriate to mark the milestone. We're not really celebrating mind you, but that's what tends to happen when your age (or in this case bond ownership share) gets elevated. So put the streamers and balloons away. Actually, it makes you wonder if there's a potential mid-QE life crisis taking shape in Ottawa. As in, when, where and how quickly to taper outsized bond purchases? How much unconventional support does the economy still need? How badly are bond purchases distorting the market? When and how fast will the Fed be tapering? These are but a few questions Tiff and Company are presumably pondering. We offered our own thoughts [here](#).

It's taken just one year to radically transform GoC bond ownership. Pre-COVID, the central bank held a fairly constant ~13% of outstandings (Chart 1), a position accumulated via less-than-invasive/normal course auction participation. But since setting up its GBPP, BoC ownership has all-but-raced through key ownership milestones, surpassing 20% last May, breaching 30% last September and arriving this week at 40% (Chart 2). Of note, an October 2020 QE taper (from C\$5 billion to C\$4 billion per week), slowed but did not arrest the crowding out effect in the GoC bond market. With more and more term repos now rolling off, GoC bonds account for a larger share of total BoC assets (62% and rising) (Chart 3). Looked at another way, central bank purchases offset 95% of what was overwhelmingly record net GoC bond issuance in the just completed 2020-21 fiscal year (Chart 4)—an absorption rate that's really hard to overemphasize.

Strip out RRBs, where the Bank owns <5%, and our central bank actually blew through 40% ownership of nominals some time ago. [With issuance set to moderate](#), additional tapering moves (plural) are needed to halt the increase in BoC ownership. The way we see it, steady reductions in QE could cap the BoC's share at just under 45%. The BoC has an opportunity to do what most people desire but are not physically capable of: stopping the clock. So after turning 40 on Friday, here's hoping that's the last major BoC milestone we need to recognize.

**Chart 1: Ownership of GoC bond market now 40%**

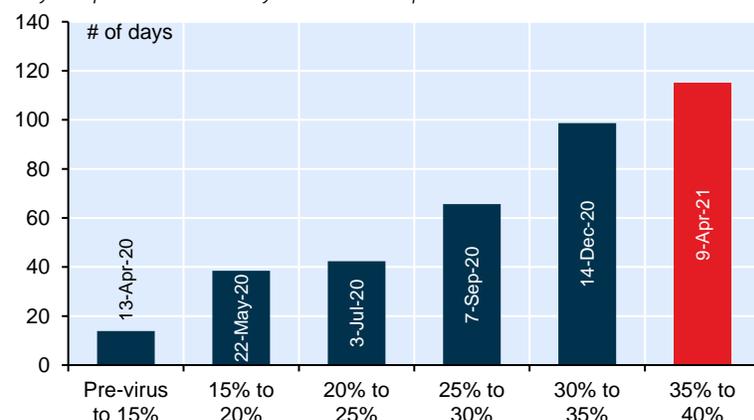
BoC ownership of GoC T-Bills & bonds



Source: NBF, BoC | Note: Based on par value of month-end outstandings

**Chart 2: QE taper needed to halt ownership increase**

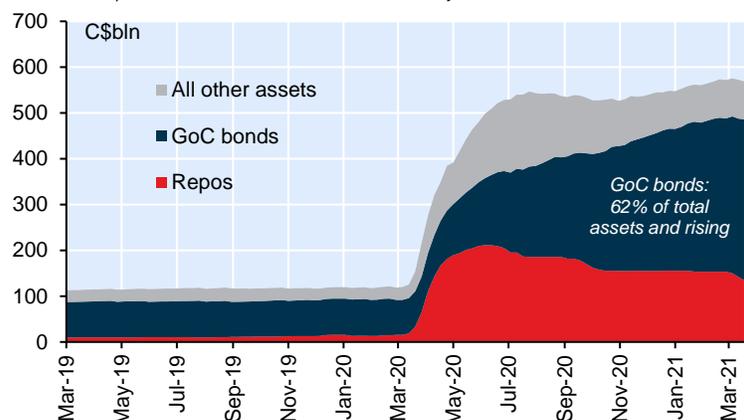
Days required to reach key BoC ownership thresholds in GoC bond market



Source: NBF, BoC | Note: Dates for hitting 15-35% are approximations; pre-virus share 13%

**Chart 3: BoC balance sheet mainly about GoC bonds now**

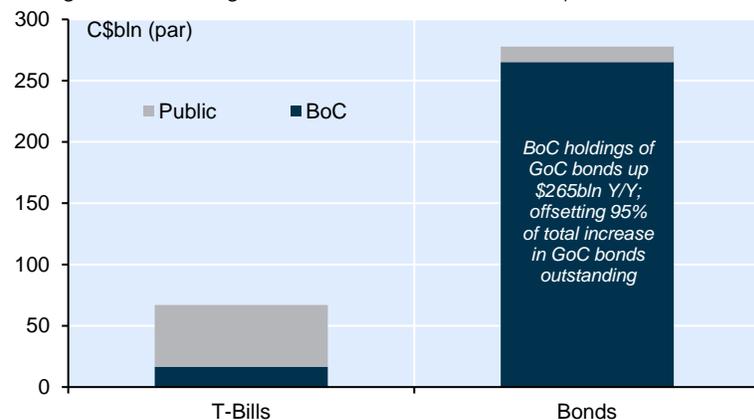
Broad composition of Bank of Canada weekly assets



Source: NBF, BoC | Note: Based on weekly at Wednesday market values

**Chart 4: BoC absorbed 95% of net GoC issuance in past year**

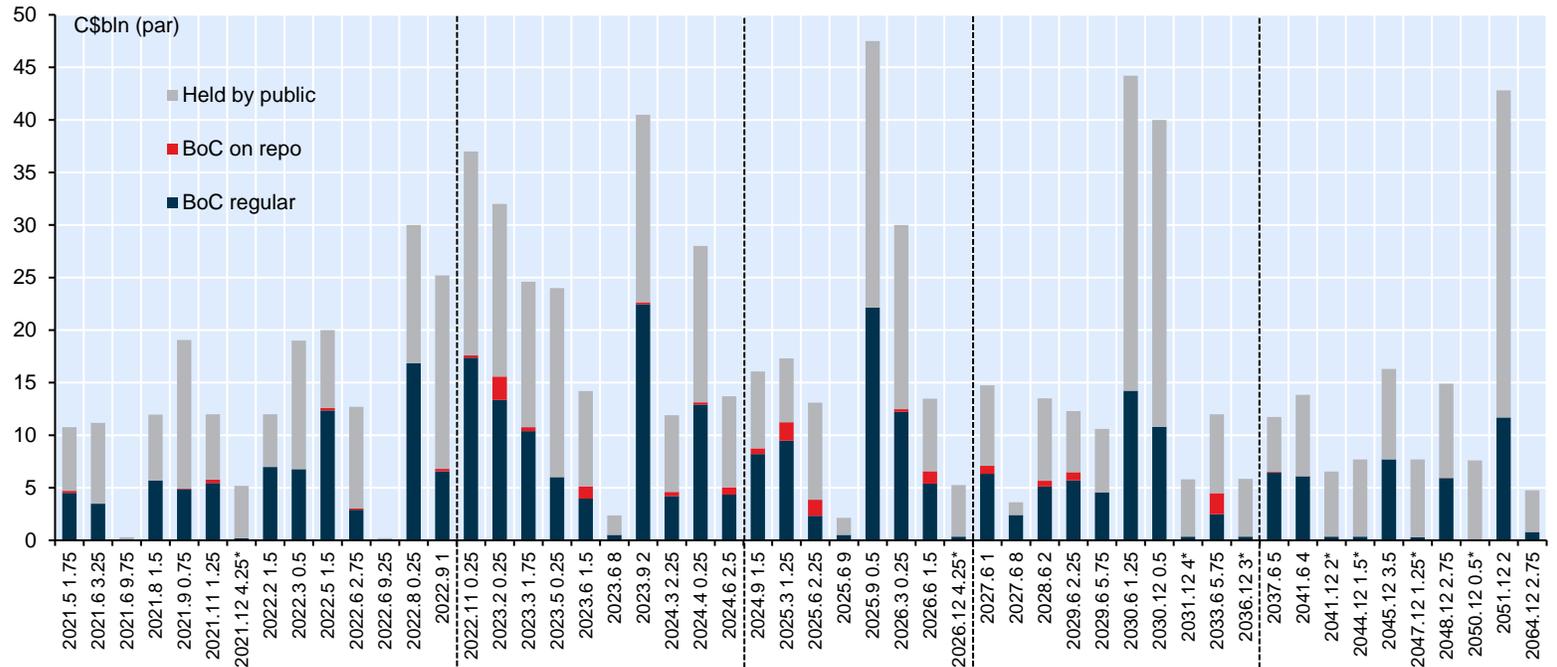
Change in total holdings of GoC T-Bills & bonds: BoC vs. public



Source: NBF, BoC | Note: 31-Mar-2021 vs. 31-Mar-2020

**Chart 5: A detailed look at current BoC holdings of outstanding GoC bonds**

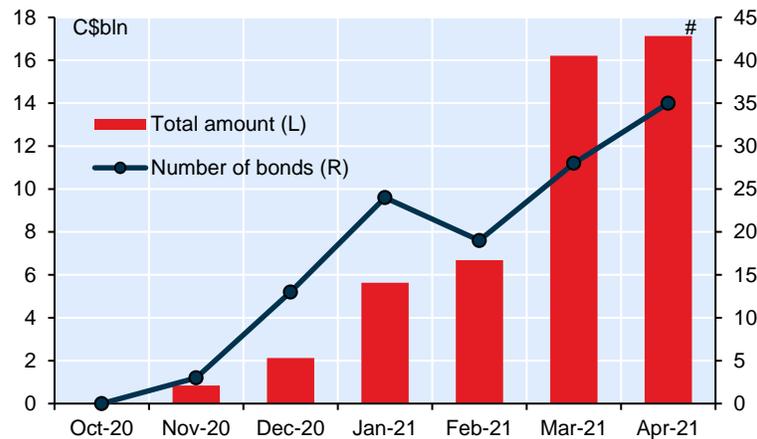
Distribution of outstanding GoC bonds: Held by BoC (regular & on repo) + held by public (as at 31-Mar-2021)



Source: NBF, BoC | Note: Labels reflect maturity (YYYY.MM) & coupon; asterisk (\*) denotes RRB; dotted lines distinguish key maturity thresholds based on most recent BoC QE purchase buckets (i.e., short-end and no longer eligible for purchase, 2-years, 5-years, 10-years, 30-years); Jun-27s are in 5-year and 10-year purchase baskets; Jun-37s are in 10-year and 30-year purchase baskets; RRBs are not part of regular purchase baskets, having their own distinct purchase operation once per quarter.

**Chart 6: Growing number of BoC-held bonds on repo**

Total amount & number of BoC-held GoC bonds on repo



Source: NBF, BoC | Note: Latest observation refers to 5-Apr-2021

**BoC holdings of GoC bonds: Fun Facts**

- Total bonds held by BoC = C\$343.8 billion (6-Apr-2021)
- Total amount outstanding = C\$862.1 billion (6-Apr-2021)
- BoC ownership share = 39.88% (6-Apr-2021)
  - Of which: Nominals ~42%; RRBs ~4%
- 40% BoC ownership to be reached Friday, 8-Apr-2021
- Pre-QE BoC ownership 13.1% on 31-Mar-2020
- Number of bonds where BoC owns >50% = 9 out of 52
- Max ownership = 67% (CAN 8% 1-Jun-2027)
- Amount of BoC holdings on repo = C\$17.1 billion (5-Apr-2021)
- Number of BoC-held bonds on repo = 35 out of 52 (5-Apr-2021)
- QE pace = C\$4 billion/week, with next decision 21-Apr-2021



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