

## Issuance moving lower but term still moving higher?

By Taylor Schleich

Yesterday afternoon, the Bank of Canada released its [Quarterly Bond Schedule \(QBS\)](#) for the third fiscal quarter of the year (October to December). While last fiscal year was characterized by extreme volatility in government funding markets, issuance has been on a smooth and gradual path lower in 2021-22—a trend that largely looks to continue over the coming three months.

Firstly, the number of auctions planned next quarter has been set at 17. That's one fewer than we had in the first two quarters of the fiscal year. And while it's also down from peak supply last year when the Bank held 22 bond auctions in quarter (Jul to Sep), we're still well above the pre-COVID run rate of ~8-9 auctions per quarter (if you needed another reminder that elevated deficits/debt loads are here to stay). As for the composition of the new schedule, it's the 5-year sector that saw one of its auctions axed. Elsewhere, the number of planned auctions is unchanged from fiscal Q1 and Q2 (Table 1). When it comes to amounts, the Bank doesn't publish the size of each issuance tap this far in advance. However, the simplistic approach of applying the most recent auction sizes to the new schedule would imply a quarterly lift of \$60.4 bln. That would represent a \$7.4 billion decline from Jul-Sep, which itself saw nearly \$6 billion less issuance than the quarter before (Table 2).

In the background, Canada's fiscal outlook has been a bit of a moving target. As budgetary projections laid out in the spring proved far too pessimistic, the deficit/revenue outlook looked to be on much firmer footing, with the Parliamentary Budget Officer projecting something like \$15-20 billion in upside. The recently re-elected Liberals have pledged to convert the entirety of that fiscal windfall into new spending this year. And when parliament reconvenes, they'll undoubtedly have other parties in their ears signing demands for spending initiatives they'd like to see introduced too. All that to say, we'll be waiting for more clarity on the fiscal trajectory in a *Fall Economic Statement* that should drop in coming months. We hope that, like last year, the FES will be accompanied by a *Debt Management Strategy Update* to provide more guidance on the funding side. But should campaign pledges and other party demands materialize, the consistent trend lower in quarterly issuance could stall out. Stay tuned.

When it comes to the term-out of the GoC bond stock that's been underway for over a year now, don't expect that to stall out this quarter. While the number of auctions and auction sizes down the curve (5 years and under) have been moving lower throughout the fiscal year, we've held steady in 10s and longs. This is entirely consistent with what had been signalled in the April's *Debt Management Strategy*: "The government will closely monitor financial markets and **may issue more long-term debt** if market conditions are favourable." Although we're slightly below the pace for 5-year-and-under issuance laid out in the DMS, we're at or above target in 10s and longs. And even with yesterday's big-time sell-off, the yield on 10-year and 30-year Canada bonds are still significantly skinnier than they were back in the spring. We think we're still a ways off from returning to the high watermarks set earlier in the year, so we fully expect long-term supply to remain at or near its current pace.

As for net issuance, there will be just over \$17 billion maturing in the quarter—\$6 billion of which sits on the Bank of Canada's balance sheet. (It's also worth noting that \$5.2 billion of this is the Dec-21 RRB). Of course, that won't mean that the balance will have to go to the street. Between auction purchases (currently 13% of all nominal offerings, though [that could change soon](#)) and quantitative easing (which we do expect to be tapered again in October), the Bank of Canada might take another \$24 billion out of the market. That means the street will be on the hook for something like \$25 billion in net new bonds (slightly higher for nominals). To be sure, that's an increase from the ~\$15 billion we got over this outgoing quarter, but with liquidity still abundant in global financial markets, we don't think the marginal supply will weigh too heavily.

*One final note: The Government signalled its intention to issue a \$5 billion green bond in the April Debt Management Strategy (and this commitment was reaffirmed in the Liberal election platform). While there were no further details provided in the QBS, we have not ruled out an issue this quarter that could be announced at some point over coming months. Perhaps selling into abundant early December cash?*

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

Auction dates for each of the BoC's tenors of issuance in Q3:2021-22

Tenor	October	November	December	Count	Prior qtr (Jul-Sep)
2Y	6-Oct   20-Oct	17-Nov	13-Dec	4	4
3Y	25-Oct	22-Nov	-	2	2
5Y	13-Oct	10-Nov	-	2	3
10Y	21-Oct	1-Nov   29-Nov	20-Dec	4	4
30Y	28-Oct	24-Nov	16-Dec	3	3
Ultra	-	4-Nov	-	1	1
RRB	-	-	1-Dec	1	1
<b>Count</b>	<b>6 auctions</b>	<b>7 auctions</b>	<b>4 auctions</b>	<b>17</b>	<b>18</b>

Source: NBF, BoC

**Table 2: Gross issuance to continue to slow**

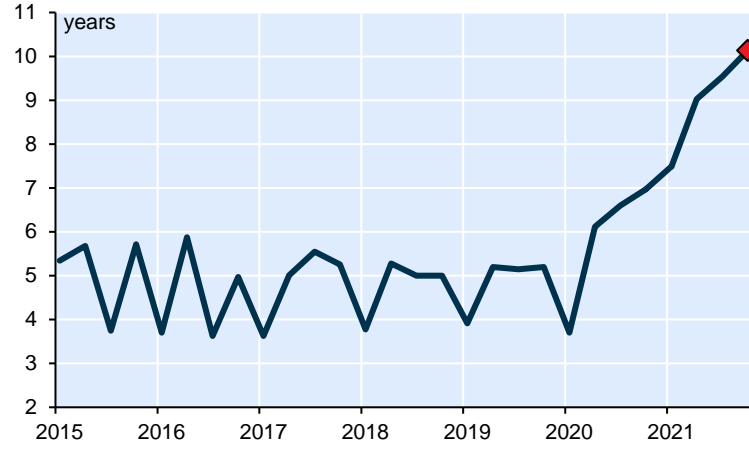
Pre-COVID/2020-21 issuance & Q3:2021-22 gross issuance projection

	2010-19	2020	2020	2020	2020	2021	2021	2021
	Average	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec
2Y	10.9	24.0	42.0	34.0	29.0	21.0	17.5	<b>16.0</b>
3Y	4.0	13.5	15.0	16.0	12.0	9.0	8.0	<b>7.0</b>
5Y	6.1	27.5	20.0	18.0	16.0	12.0	11.0	<b>7.0</b>
10Y	3.3	13.5	20.0	20.0	20.0	21.0	21.0	<b>20.0</b>
30Y	1.0	5.0	9.0	9.0	9.0	9.0	9.0	<b>9.0</b>
Ultra	0.1	0.0	0.0	0.0	0.0	1.0	1.0	<b>1.0</b>
RRB	0.6	0.4	0.3	0.4	0.3	0.4	0.3	<b>0.4</b>
<b>Total</b>	<b>26.2</b>	<b>83.9</b>	<b>106.3</b>	<b>97.4</b>	<b>86.3</b>	<b>73.4</b>	<b>67.8</b>	<b>60.4</b>

Source: NBF, BoC | Note: Oct-Dec estimated using QBS and most recent auction sizes (except for RRB). Jul-Sep includes next week's 10-year auction.

**Chart 1: Perspective on the GoC term out**

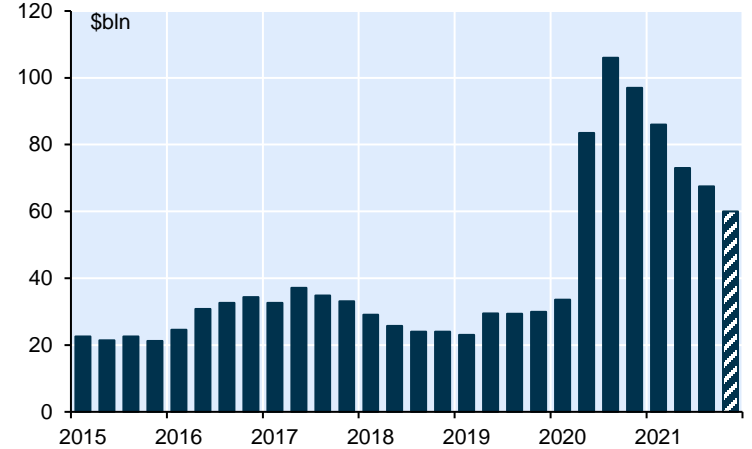
Weighted average term of issuance by quarter



Source: NBF, BoC | Note: Oct-Dec estimated using QBS and most recent auction sizes

**Chart 2: The steady decline in issuance to continue?**

Gross nominal GoC issuance by quarter



Source: NBF, BoC | Note: Jul-Sep estimated using QBS and most recent auction sizes



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