

We wish you a merry Christmas and a happy new QBS

By Taylor Schleich

Today, the Bank of Canada published its [Quarterly Bond Schedule](#) for the fiscal fourth quarter (i.e. January to March). This release comes after the Government of Canada's [budget update](#) last week, which signalled a decline in full-year bond issuance relative to earlier guidance. While the Omicron COVID-19 variant is ratcheting up the uncertainty in Canada and worldwide, this release was as steady and predictable as you could hope for. As expected, there's not much of a change in terms of the auction profile. The number of auctions in all sectors will remain unchanged. And while the QBS doesn't attach amounts to each planned auction, an updated fiscal year target combined with three quarters of issuance in the books allows us to project the quarterly lift with some precision. After Monday's 10-year auction (the last of the calendar year), we're exactly \$60.3 billion shy of the \$255.4 billion fiscal year guidance. With \$31 billion GoC bonds due to mature in February and March, that's nearly \$30 billion in net supply. Given that we had a lighter maturity schedule in this outgoing quarter, Jan-Mar will actually see *less* net issuance than in Oct-Dec so the coming lift should remain manageable (even with the BoC no longer growing its bond holdings).

What does the new QBS mean for each sector of the Canada curve? Unfortunately for our 2-year traders, auction sizes here look like they'll remain unchanged at \$3.5 billion which will lead to a full-quarter tally that will be the lowest of the COVID era. [As we wrote a few weeks ago](#), it will be hard for 2-year repo squeezes to permanently abate without pressing harder on the supply pedal. For the second straight quarter, we'll see two \$3 billion 3-year auctions, while the two 5-year auctions should be cut in size modestly (by \$500 million). Meanwhile, as was clear in the GoC's Debt Management Strategy update, the term-out remains in full effect. 10-year auction sizes are poised to rise by \$1 billion (versus the most recent issue) and for the first time in the BoC's published auction history (back to 1998), 10-year issuance will outpace 2-year issuance this fiscal year. Finally, the long-end auction profile will remain intact as we'll once again get three \$2 billion long bond auctions and a single \$1 billion ultra-long bond auction. As usual, there will be an RRB issue thrown in the mix, this time for \$300 million.

Then there is the long-awaited green bond. Green issuance, originally announced back in last year's *Fall Economic Statement*, is expected to come in the final fiscal quarter of 2021-22 "subject to market conditions". However, today's auction schedule didn't provide any details here as it looks like the inaugural issue will come via syndication. Over time, as the GoC green market develops, we could see the government transition green issuance to an auction format but that doesn't appear to be the case this time. As we've noted previously, the term of the upcoming green bond has not been disclosed but we expect it to come in the relatively low-risk 5-year sector.

Table 1: Visualizing next quarter's auction schedule

Auction dates by tenor of issuance in 2021-22:Q4

Tenor	January	February	March	Count	Oct-Dec
2Y	13-Jan	2-Feb 17-Feb	10-Mar	4	4
3Y	20-Jan		17-Mar	2	2
5Y	12-Jan	10-Feb		2	2
10Y	6-Jan	3-Feb 28-Feb	14-Mar	4	4
30Y	27-Jan	24-Feb	31-Mar	3	3
RRB			9-Mar	1	1
Ultra-long			23-Mar	1	1
Count	5 auctions	6 auctions	6 auctions	17*	17

Source: NBF, BoC | *Note: Confirmed auctions only (i.e. excludes expected green bond).

Table 2: Backing out Q4 issuance by tenor

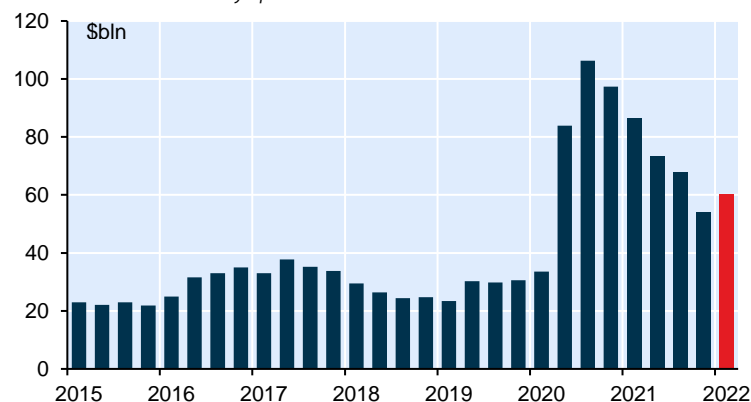
2021-22 GoC issuance totals by fiscal quarter (Q4 is a projection)

Sector	Q1	Q2	Q3	Q4	Total
2-year	21.0	17.5	14.5	14.0	67.0
3-year	9.0	8.0	6.0	6.0	29.0
5-year	12.0	11.0	9.0	8.0	40.0
10-year	21.0	21.0	17.0	20.0	79.0
30-year	9.0	9.0	6.0	6.0	30.0
RRB	0.4	0.3	0.4	0.3	1.4
Ultra-long	1.0	1.0	1.0	1.0	4.0
Green	0.0	0.0	0.0	5.0	5.0
Total	73.4	67.8	53.9	60.3	255.4

Source: NBF, BoC, GoC | Note: Green bond issue not confirmed.

Chart 1: Issuance to rise for the first time since peak COVID

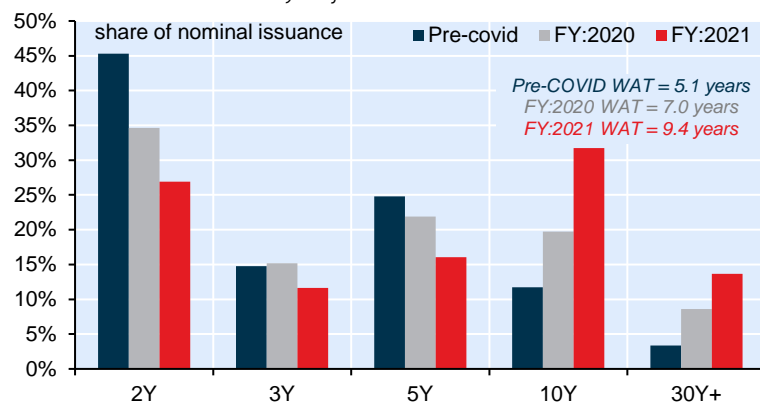
Gross bond issuance by quarter



Source: NBF, BoC, GoC | Note: Jan-Mar 2022 represents NBF estimates

Chart 2: The term out has continued in full force this year

Share of nominal issuance by major tenor: Pre-COVID vs. FY:2020 vs. FY:2021



Source: NBF, BoC, GoC | Note: Pre-COVID is 2017-18 to 2019-20. WAT is weighted avg. term



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