



Ontario's wrinkle in time

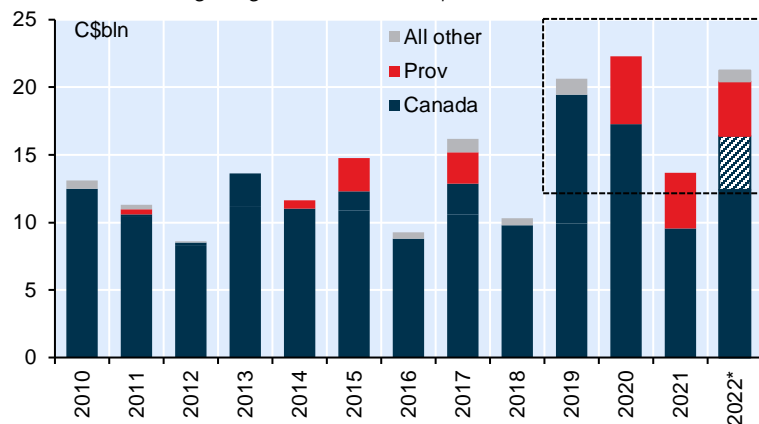
By Warren Lovely

We're just two weeks removed from the first of Canada's lumpy June cashflows. We offered a detailed preview [here](#) and were at pains to highlight special considerations that could influence this year's related portfolio positioning. One aspect that a few astute readers picked up on is the impact of having more 10-year benchmarks in both the GoC and provi market. Canada and Ontario moved to biannual 10s during the pandemic as funding needs soared, with the twice-a-year pattern thus far maintained. In theory, having more benchmarks per year (i.e., two instead of one) could lessen the concentration of traditional 10-year maturities dated June 1st (for GoC) and June 2nd (for Ontario). Note that the move to biannual 10s hasn't really blunted the June 1st rollover effect for federal bonds (Chart 1). But it's a different story in provi land.

Ontario's 2X/year 10-year benchmarks, combined with lower borrowing needs and a relatively slower start to fiscal year funding suggests the provi rollover effect this June 2nd will be much less significant than years gone by (Chart 2). Indeed, Ontario's latest 10-year benchmark (ONT 3.75% Jun-2032) is the sole bond set to roll Long to Mid this June 2nd. There's currently \$1.5 billion outstanding and we assume one more tap before rollover. Despite this relatively muted provi rollover, the coupon effect will still key a duration extension for the Long Provincial bucket on June 2nd. (Overall, the duration increase will be most significant for the Short Provincial and Mid Provincial buckets, as previously flagged.)

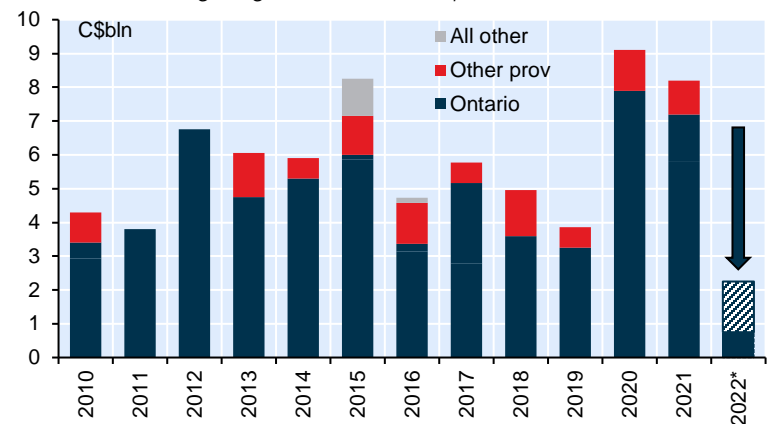
So a benchmark dating wrinkle hints at a smaller provi extension bias in the long end this year. Mind you, there will still be an outsized slug of index cash to put to work on June 2nd and perhaps residual demand from the even larger cashflows raining down on June 1st. And here's one more timing wrinkle to consider: Ontario's June 2nd election. Traditionally, Ontario moves into a funding blackout just ahead of the vote, the timing of its return in some respects dependent on how the ballots fall (Chart 4). We're not public opinion pollsters, but the latest vote and seat projections from [CBC Poll Tracker](#) and [338Canada.com](#) suggest the incumbent PCs could secure another majority. Such an outcome would presumably speed Ontario's return to the market, pursuant to necessary due diligence. In the meantime, give Ontario credit for making good progress on 2022-23's \$41.5 billion bond program, with ~15% completed since an April 28th budget. That's a good use of time.

Chart 1: June 1st rollovers from Long to Mid still a major story...
10Y maturities rolling Long to Mid on June 1st | Focus: GoC



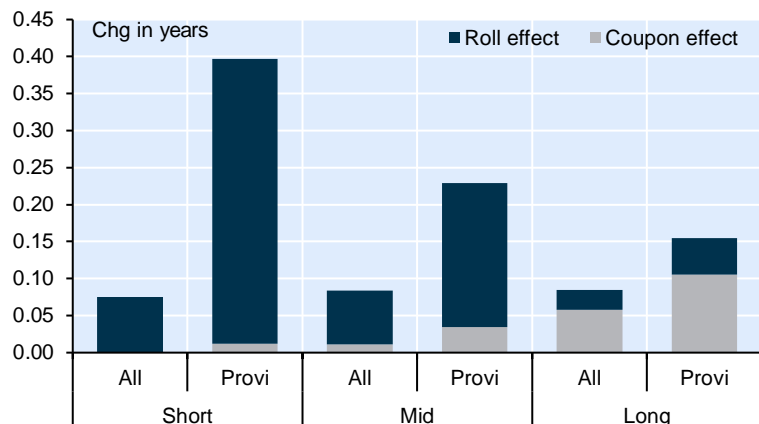
Source: NBF, FTSE Russell | Note: 2022 as at 16-May; Canada adjusted to include auction scheduled 27-May (\$4bln re-open assumed); other issuance possible

Chart 2: ... but a much more minor 10-year roll this June 2nd
10Y maturities rolling Long to Mid on June 2nd | Focus: Ontario



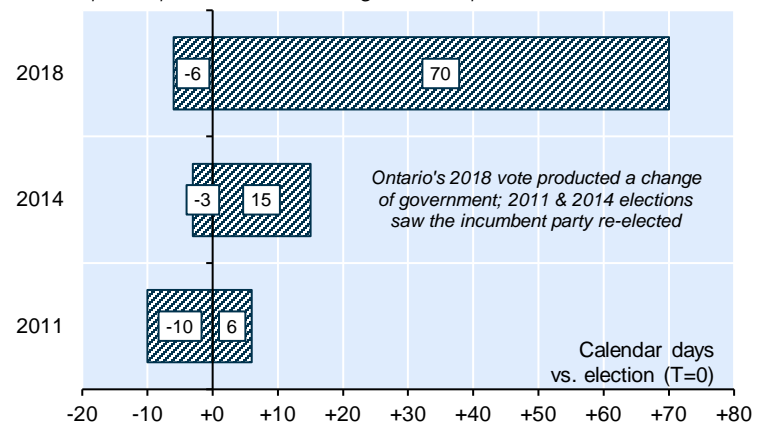
Source: NBF, FTSE Russell | Note: 2022 as at 16-May; Ontario adjusted to include \$750mln re-opening on 17-May plus one more prospective re-opening; other issuance possible

Chart 3: Provi indices still set to extend on June 2nd
Simulated increase in duration of FTSE Canada Universe Bond Index: June 2nd



Source: NBF, FTSE Russell | Note: NBF simulations based on 16-May closes/constituents; assumes no change in yield curve; ONT 2032s adjusted to include \$750mln re-opening on 17-May plus one more prospective re-opening before 2-Jun

Chart 4: Ontario election creates another timing wrinkle
Ontario pre- & post-election funding blackout period: Past 3 elections



Source: NBF, Bloomberg, Elections Ontario | Note: Blackout period refers to gap between last deal before election to first deal after vote, based on issue date; gaps refer to domestic bond deals only; international blackout periods vary (and in all cases are longer)



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