Market View
Economics and Strategy

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Bye, bye, bye net bond supply

By Taylor Schleich, Warren Lovely & Ethan Currie

As the quarter draws to a close, it's time to dissect a new Quarterly Bond Schedule from the Bank of Canada. While the release doesn't come with planned offering amounts, relative stability from auction to auction allows us to make projections that come in plus/minus a couple billion dollars. On that note, it's time for a pop quiz: By how much will the GoC bond stock grow in the coming three months? Answer: It's a trick question–the level of outstanding bonds should actually *decline* by the end of September. At roughly $50 billion in *gross* issuance expected for Jul-Sep, we're still well above levels that would have been considered 'normal' in a pre-COVID world (quarterly gross issuance averaged ~$30 billion from 2017-19). But part of what's now baked into these still-hefty quarterly lifts are the leading edge of maturity rollovers from 2020's busy issuance calendar. Nonetheless, for the first time since 2019:Q1, outstanding GoC bonds should end the quarter no higher than they began. As we discussed yesterday, that's welcome news for a market in the early stages of an aggressive, albeit fully passive, QT episode.

Not withstanding a shrinking bond stock, there's still a requirement for end investors to absorb net new bonds. That's because bonds are now rolling off the Bank's balance sheet—and quickly. So the $5 billion reduction in outstanding GoC bonds will actually translate to $19 billion of net new bonds to end investors. Absorption shouldn't be a problem for now but with $170 billion due to roll off the BoC's balance sheet over the next 2 years, we'll be watching closely for eventual signs of indigestion. Thankfully, with government revenues surprising to the upside (2022 nominal GDP growth is tracking to beat budgetary projections by 3%-pts), net new federal borrowing won't add too much more to the pile.

As for a finer breakdown of this new schedule, there aren't all that many changes to report. Consistent with the Bank's ultra long-bond cancellation a couple of weeks ago, you won't find a 2064 offering here. The only real adjustment then was the elimination of a single 2-year auction but that's not all that unexpected given that 2-year issuance through the first quarter was well ahead of schedule. That's technically true of the overall bond program. By the halfway mark of the year, gross issuance should be at least 50% of the way towards the target signalled in April's DMS (excluding another one-off green bond issue), even with the slowdown in the issuance pace.

For completeness, it's worth touching on the bill program. After all, bills are why we haven't seen higher revenues translate to materially less bond issuance (yet). Bills have long been the government's 'shock absorber' when unexpected changes in borrowing needs arise. And not even three months into the fiscal year, bills *are* sopping up bonus revenue as outstandings have fallen $30+ billion below the end-of-year target. Barring a non-trivial ramp-up in auction sizes, it's set to fall further. We tend to view the T-bill stock as having a minimum acceptable floor and with still-elevated excess liquidity we think we're near, if not already at that point. From here out, marginal cuts may have to come from more meaningfully from bonds. The government will have a chance to provide on update on their borrowing plans later this year in a *Fall Economic Statement*. While pinpointing exact GoC borrowing needs is an imperfect science, it's safe to take the 'under' on April's guidance.

Table 1: Visualizing next quarter's auction schedule

Auction dates by tenor of issuance in 2022-23:Q2

Sector	July	August	September	Count	Apr-Jun
2Y	14-Jul	11-Aug | 29-Aug	15-Sep	4 ↓	5
3Y	21-Jul	18-Aug	-	2	2
5Y	20-Jul	-	22-Sep	2	2
10Y	7-Jul	4-Aug | 25-Aug	19-Sep	4	4
30Y	28-Jul	-	28-Sep	2	2
RRB	-	-	1-Sep	1	1
Ultra-long	-	-	-	0	0*
Count	5 Auctions	5 Auctions	5 Auctions	15	16

*Source: NBF, BoC | Note: *Apr-Jun UL auction scheduled and subsequently canceled*

Table 2: Estimating the coming quarter's gross issuance

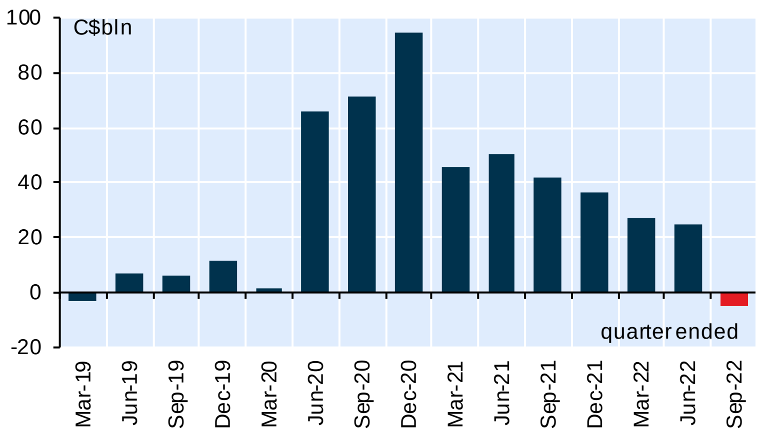
GoC issuance totals by fiscal quarter (2022-23:Q2 is a projection)

Sector	2021-22: Q2	2021-22: Q3	2021-22: Q4	2022-23: Q1	2022-23: Q2
2-year	17.5	14.5	14.0	21.5	**16.0**
3-year	8.0	6.0	6.0	6.0	**6.0**
5-year	11.0	9.0	8.0	8.0	**8.0**
10-year	21.0	17.0	20.0	16.0	**16.0**
30-year	9.0	6.0	6.0	4.0	**4.0**
RRB	0.3	0.4	0.3	0.4	**0.3**
Ultra-long	1.0	1.0	1.0	0.0	**0.0**
Green	0.0	0.0	5.0	0.0	**0.0**
Total	**67.8**	**53.9**	**60.3**	**55.9**	**50.3**

Source: NBF, BoC, GoC | Note: Amounts are based on auction, not settlement, date

Chart 1: Negative net issuance for the first time in COVID era

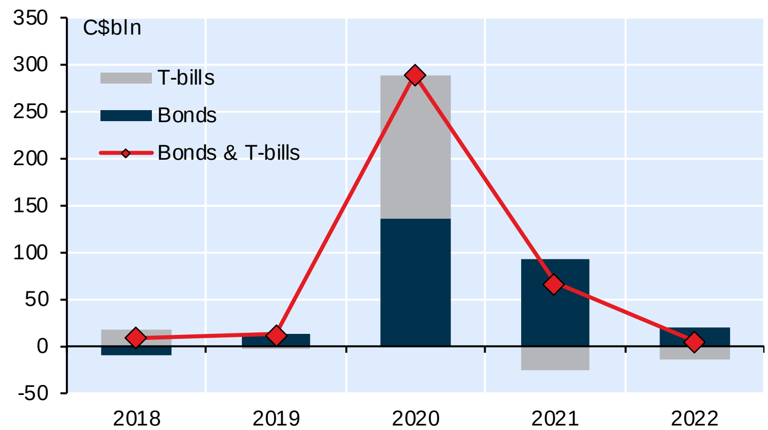
Change in outstanding GoC bonds by quarter



Source: NBF, BoC | Note: Jul-Sep assumes most recent auction sizes going forward

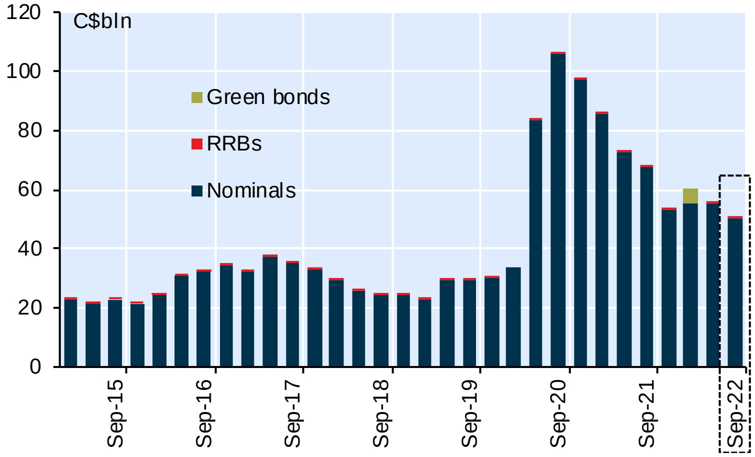
Chart 2: Through September, net debt will have barely grown

Change in outstanding GoC debt (bonds & bills) from 1-Apr to 30-Sep



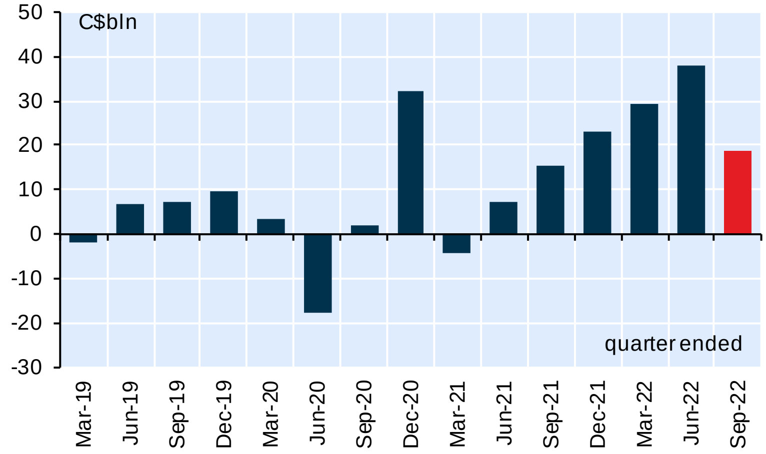
Source: NBF, BoC, GoC | Note: Jul-Sep assumes most recent auction sizes going forward

Chart 3: Gross issuance declining, but still elevated
Gross GoC bond issuance by quarter (projection for Jul-Sep 2022)



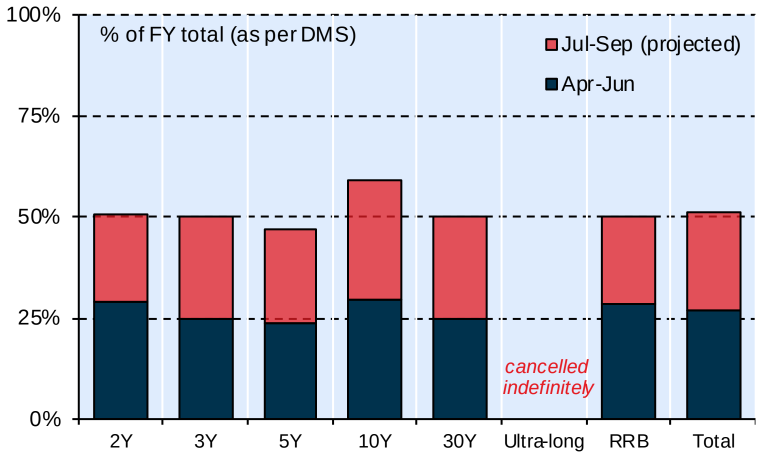
Source: NBF, BoC | Note: Jul-Sep assumes most recent auction sizes going forward

Chart 4: Thanks to QT, supply to end investors will still rise
Net change in bond holdings of non-BoC investors by quarter



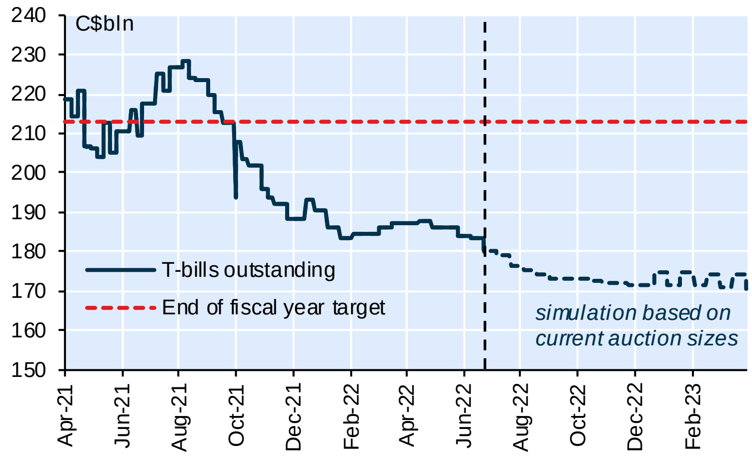
Source: NBF, BoC, GoC | Note: Jul-Sep assumes most recent auction sizes going forward

Chart 5: Through Sep, we'll be tracking the target for bonds...
Share of full-year issuance target completed by quarter, by sector



Source: NBF, BoC | Note: Jul-Sep assumes most recent auction sizes going forward. For the purposes of chart, expected $5 billion green offering excluded from full-year target.

Chart 6: ...as T-bills have been absorbing the fiscal shock
Outstanding Treasury bill stock (including projections) vs. DMS target



Source: NBF, BoC, GoC | Note: Simulation assumes $14 billion auction sizes persist

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